Secretariat
Payments System Review
The Treasury
Langton Crescent
PARKES ACT 2600

**By email:** paymentsreview@treasury.gov.au

29 January 2021

Dear Mr Scott Farrell

**REVIEW OF THE AUSTRALIAN PAYMENTS SYSTEM**

Thank you for the opportunity to provide a submission to the Treasury Review into the Australian Payments System.

The Australian Retailers Association (ARA) represents around 7,500 independent, national and international members and, since 1903, has been the trusted voice for Australia's $340 billion retail sector, which employs more than 1.2 million people.

The ARA believes that the payments system should facilitate competition, innovation, efficiency, and merchant choice. A review of the regulatory architecture should be directed towards enhancing productivity and reducing the costs of payments.

The COVID-19 pandemic has triggered a reinvigoration of the retail sector, accelerating consumer and business trends and generating a decade's worth of transformation in less than twelve months. A significant aspect of this change has been new modes of shopping, which has seen the use of different payment methods increase, including a significant increase in digital payments.

We believe the Treasury's review and any changes to the regulatory architecture of the Australian payments system will have a profound long-term impact on competition and innovation over the coming years. The implications for retailers and consumers are significant, with an opportunity to see productivity-enhancing innovations in new payment options, and crucial cost-savings to the retail sector and Australian consumers to support the nation's economic recovery.

***The current structure of the governance and regulation of the payments system***

The ARA believes there are large efficiency gains to be made through strong competition and innovation in the payments system, which will support the recovery of one of Australia's most competitive industries. Reducing the cost of doing business is an imperative part of this review, and a central focus for regulators now and in future.

A significant issue affecting retailers has been the slow rollout of least-cost routing on debit card transactions, which has been pursued passively by the RBA for several years. With the growth in debit cards in the past decade, and the acceleration of tap-and-go payments since the beginning of the pandemic, least-cost routing would represent large savings on transaction costs for merchants – particularly for small retailers. While eCommerce has grown at a rapid pace in recent months, almost 90% of retail payments are made in person at the point-of-sale, the vast majority made by cards. The

RBA have chosen not to regulate this issue despite the need for clarity and the need to keep pace with growth and innovation in this space.

The present review provides an opportunity to consider whether the payments regulation architecture is sufficiently focused on cost-effectiveness and whether it is suited to the role. The Treasury's discussion paper raises alternative regulatory models seen overseas, namely in the UK, Singapore, and New Zealand. Under the UK's regulatory architecture, which is most comparable to the Australian system, the central focus is on increasing competition to lower costs and the lowest-cost routing issue does not exist. In the UK, the regulator reports to parliament to demonstrate that competition is increasing and that costs are subsequently being driven down. If the RBA is retained as the regulator, we believe a similar role would be suitable.

Ultimately, the regulator of the payments system must actively support an efficient, secure, and competitive payments system, which would ensure retailers have access to simple and affordable payments solutions.

***New entrants to the payments environment***

The acceleration of trends in the retail sector during the pandemic, particularly the growth of eCommerce, has been associated by the continued growth of the nascent BNPL sector. Entrants in the BNPL and other "non-standard" players in the payments demonstrate the potential for innovation within the payment system.

BNPL purchases currently account for no more than 1-2% of the total value of retail transactions, however BNPL providers are increasingly considered a "must have" offering by retailers. For some retailers with an online presence, BNPL represents 25% of their online sales – a critical source of business, particularly during forced physical shutdowns. The view of many retailers is that if their competitors offer customers a BNPL scheme, they too must also provide a similar option or risk the loss of customers.

While the RBA Governor Philip Lowe has noted that premature regulatory intervention may stymie innovation, a wide-reaching review of payments regulation should nevertheless consider the way that BNPL and other future entrants are to be treated, to provide a degree of certainty and facilitate competition. Clarification over the role of regulators, and the thresholds for intervention would be welcome where this facilitates deeper competition and greater innovation.

***Innovation, Competition, and the NPP***

Australia is the 15th largest online commerce market in the world and is comparatively small compared to other developed nations – major international eCommerce players (such as Amazon or AliPay) which drive efficiency are not yet established as deeply as in other overseas markets. At the outset, this leaves Australian retailers with higher transaction costs as there is less competition in the payments market.

There is great uncertainty around the future of the New Payments Platform (NPP), both as a platform for deeper innovation, and as a potential competitor in the payments market. We believe the NPP should develop to be in full competition with other payments schemes to continue placing downward pressure on the cost of doing business and drive greater innovation that meets the future needs of retailers and consumers for fast and secure shopping experience. As such, it is imperative that competition be part of the NPP's charter.

The ARA also notes its concerns over the progress made on the merger between the NPP, BPay and eftpos, particularly due to the current Australian regulatory vacuum, with the Treasury review recently underway and the RBA's Review of Retail Payments previously placed on hold. The merger could have significant repercussions for the future of Australia's payments system, but the lack of transparency or oversight raises potential unknowns.

The future of eftpos – which provides retailers with a low-cost transaction method – is unknown, and a merger could undermine competition in the payments system. Should eftpos cease to exist as an independent payments system, some innovations seen in the market (which occur on the card network) could be in jeopardy, potentially undermining competition elsewhere in the payments system.

In the absence of more information about the process, it is impossible to consider the viability and impact of the merger and the future of the NPP in a merged entity, and other implications on the rest of the sector. As a shareholder of the NPP, it is worth considering whether the RBA could effectively regulate a payments system where it has a stake in one of the entities.

The ARA's main concern here is that rules or major decisions will be made that set parameters for future of the payments system which will hamper retailers. While we do not have a position on whether the consolidation of the three entities is desirable, the process of consolidation must occur with sufficient oversight to ensure that competition and cost-efficiency remain primary concerns to enhance economic productivity.

Thank you for the opportunity to provide a submission in response to your paper. If you would like to discuss any of the content of this submission further, please do not hesitate to contact me on [redacted]

Yours sincerely

**Paul Zahra**
**Chief Executive Officer**