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ARA SUBMISSION TO TREASURY REGARDING A STRATEGIC PLAN FOR THE PAYMENTS SYSTEM

INTRODUCTION

The Australian Retailers Association (ARA) welcomes the opportunity to provide a submission to Treasury regarding the development of a strategic plan for Australia's payments system.

The ARA is the oldest, largest and most diverse national retail body, representing a \$400 billion sector that employs 1.3 million Australians and is the largest private sector employer in the country. As Australia's peak retail body, representing more than 120,000 retail shop fronts and online stores, the ARA informs, advocates, educates, protects and unifies our independent, national and international retail community.

We represent the full spectrum of Australian retail, from our largest national and international retailers to our small and medium sized members, who make up 95% of our membership. Our members operate across all categories - from food to fashion, hairdressing to hardware, and everything in between.

To inform this submission, the ARA consulted with members of its advisory committee on payments and conducted a survey of its broader membership. The key findings from the survey noted that:

- 54% of retailers said their business has benefited from innovations in payments and 63% said they were satisfied with payments solutions available.
- 86% of retailers agreed it is important for customers to continue to have the option to pay in cash.
- 34% of respondents had been impacted by a payment fraud or scam in their business at least twice in a year, with 6% of respondents impacted by payments fraud/scam weekly.
- 65% agree there is adequate transparency in terms of the costs they are charged for when using the payments system but 57% said the fees they pay are not fair or reasonable.

Retail transactions are the coal face of Australia's payments system and retailers continue to adapt to rapid changes in technology, the roll-out of new business models and changing customer behaviour. However, the payments ecosystem has become increasingly complex for consumers and retailers to navigate to ensure efficiency, reliability and cost management as the number of payment options continues to increase.

The market has experienced a strong trend away from cheques and cash to the use of electronic payment methods, including cards, mobile wallets and other digital applications. It is therefore timely to consider whether the regulatory architecture remains fit-for-purpose for the current market and in anticipation of future developments.

RESPONSES TO QUESTIONS FROM THE CONSULTATION PAPER

Key principles

1. *What are your views on the proposed key principles? Are there other principles that should be included? Please provide an explanation.*

The ARA agrees with the proposed principles based around Efficiency, Innovation, Accessibility and Trustworthiness.

However, there is also a need to consider transparency and choice (particularly in relation to costs) to ensure that the principles of Accessibility and Trustworthiness are achieved.

- Retailers require transparency about costs and should be empowered to make choices to minimise costs associated with various payment methods. Merchant choice needs to include the ability to choose least-cost routing.
- Similarly, merchants should have the option to pass on costs associated with a payment method to consumers, in a transparent manner.
- Consumers need transparency around any costs passed through to them to make an informed choice around their payment options.

We also suggest that simplicity is an important factor in relation to the principle of accessibility. The customer experience should be as efficient and frictionless as possible. This should include settlement and refund processes that need improved transparency and timeliness to meet customer expectations.

We note that the principles may sometimes conflict, for example:

- Innovation can bring in new payment methods that may cause Trustworthiness issues for some retailers and consumers.
- Efficiency can be impacted by new aspects of payments processing that aim to increase Accessibility, as has been the case with Buy Now Pay Later services disintermediating card payments.

The regulatory framework needs mechanisms to deal with such conflicts and any unintended consequences that may be caused by them.

We also note that efficiency does not always equate to lower costs, and it is important that retailers are not expected to bear an extra cost burden as new payment methods are introduced to market, as cash transactions continue to decline.

Key priorities

2. *What are your views on the proposed key priorities? Do they provide enough certainty on what the key priorities are for the Government? Are there other matters that should be included? Please provide an explanation.*

The ARA agrees with the priorities outlined in the paper. We specifically support the need to ensure the framework promotes competition and encourage technology that is competitively neutral in its approach to achieving this outcome. For example, an in-store customer experience should be equivalent to an online experience in terms of the regulations and protections that apply.

Likewise, various payment platforms or methods should not be regulated inconsistently or in a way that confers a competitive advantage. We look forward to understanding more about how a tiered payments licencing framework for payment service providers would achieve a pro-competitive outcome.

In respect of the principles of accessibility, transparency and choice outlined above, the ARA also submits that a review of the surcharging framework is required to ensure it remains fit-for-purpose, promotes sustainable business models and is consistent with consumer expectations. We submit that this would align with the priorities around promoting competition and ensuring a fit-for-purpose regulatory framework. This position is consistent with the ARA's submission to Treasury's consultation on the regulatory framework governing Buy Now, Pay Later payments,

While we support the priority to modernise the payments infrastructure, we note that security, safety and reliability are key to ensuring the payments system remains trusted and is sustainable. Specifically, we note that the proposed licensing framework should not compromise on the security and trustworthiness of the payments system. Risks and fraud mitigation need to be balanced appropriately in the licensing framework.

Key initiatives

3. *What are your views on the proposed key supporting initiatives? Are there other initiatives that could be included in the Plan? Please provide an explanation.*

The ARA supports the proposed initiatives to reduce small business transactions costs and promote competition by facilitating transparent access to payment systems. We also support enabling greater collaboration between payment system regulators.

Likewise, we support the strengthening of Australia's defences against cyber-attacks and further initiatives to combat fraud and scams, noting that both of these outcomes still need to be balanced with efficiency. As noted above, it is imperative that security is not compromised to support innovation or competition but balanced appropriately with these priorities.

We support the proposed changes to legislation that would allow the RBA and the Payments System Board the ability to oversee, monitor and regulate the range of new payment service providers and payments market participants that have and will continue to enter the Australian market as technology advances occur.

We believe that government needs to play a key role in managing the process of declining cash transactions and ensure that the cash distribution and access systems remains resilient and reliable for as long as is necessary. We note the initiative to explore a central bank digital currency (CBDC) and suggest that this project must incorporate the need for the community to be kept well informed about the process, to ensure that no sectors of the community are disadvantaged.

We also note that as banks and financial institutions close branches and ATMs, costs associated with cash handling are increasing and being shifted to retailers. As stated above, retailers should not be expected to bear the burden of extra costs associated with the handling and management of cash due to the changing business model of banks and financial institutions.

The ARA recommends that government works with industry and stakeholders to develop a policy approach that supports consumers, retailers and other small businesses that will bear increasing cost burdens as the use and management of cash changes across the economy. Further, so long as cash remains in use, we consider it to be a policy priority that reasonable and secure access to cash is maintained for the community.

We also support Australia's involvement in international efforts to enhance cross-border payments. While we understand the complexities involved and the long timelines associated with such international efforts, if existing systems could be further modernised and simplified that would be of substantial benefit to the retail sector and consumer alike. We note currently there are higher costs involved in international card payments for both merchants and consumers.

Similarly, until cheques are completely phased out, retailers should be able to recover the costs associated with handling and processing cheques from the customer.

4. *Do you have any feedback on the proposed approach for any of the initiatives? Please provide an explanation.*

We note that the proposed initiatives are described at a relatively high level and are generally aspirational in nature. We assume the full version of the Strategic Plan will provide more detail on the activities that are planned to occur.

5. *What are the key milestones for particular key initiatives that you would like to see included in the Plan? Are there any conflicts between milestones or pressure points that need to be taken into account in revising the roadmap?*

We believe the proposal to provide a roadmap for the payments ecosystem, with key milestones noted, will be beneficial to our members as it will allow retailers to plan appropriately for future changes. Such forward planning will support improved engagement on development as well as implementation of initiatives and changes to the payments system.

Process for reviewing the Plan

6. *What are your views on the proposed review process and engagement arrangements? Please provide an explanation.*

The ARA supports an annual review of the Plan with associated consultation on these updates.

We also support the consultation approach and would request the opportunity to be involved, including in any industry roundtables and bilateral stakeholder meetings. As the Plan is comprehensive and includes several initiatives that are substantial projects on their own, we suggest that brief updates on each initiative could also be provided via a website or otherwise in writing prior to the roundtables which follow nine months after the publication of the Plan.

We note that the Plan will, by its nature, require significant contribution from industry, relevant regulators and stakeholders and recommend that a single body (potentially an inter-agency, cross-department, project taskforce with industry representation) is appointed to manage and oversee the implementation of the Plan and its associated projects.

7. *Are there any other sections or topics that you would like to see added to the Plan? Please provide an explanation.*

Noting that it is hard to predict future disruptions and innovations, the ARA does not have any suggestions for further topics but suggests that there is a mechanism for incorporating any future developments into the framework.

ARA CONSULTATION PROCESS

This submission is substantially informed through consultation with members and the ARA Payments Advisory Committee and a survey of the broader membership.

It is worth noting that the ARA has some strategic partners involved in the payments sector and maintains consultative relationships with other stakeholders in the payments space as relevant.

The following principles guide this engagement with members, stakeholders and strategic partners in developing policy positions and submissions:

1. ARA policy positions and submissions are primarily developed through engagement and with input from ARA members and advisory committees.

2. The ARA is cognisant of the perspective of other external experts and strategic third parties when developing policy positions; noting that many of ARA's strategic partners are retail experts and share and support the ARA's values.

Thank you again for the opportunity to provide a submission to Treasury on its strategic plan for the payments system. We look forward to further engagement as discussions progress on this important initiative.

Any queries in relation to this submission can be directed to our policy team at policy@retail.org.au.

Yours sincerely,



Paul Zahra
Chief Executive Officer