

9 July 2021

Payments System Board  
Reserve Bank of Australia  
GPO Box 3947  
Sydney NSW 2001

*via email: [rbainfo@rba.gov.au](mailto:rbainfo@rba.gov.au)*

Dear Sir/Madam

### **Review of Retail Payments Regulation**

This Office supports a safe and robust retail payments system that provides access to affordable and efficient means for merchants accepting payment. As the Australian economy continues to navigate the effects of COVID-19, consumers and merchants are discovering the benefits of the adaptability and flexibility they demonstrated throughout 2020. The use of cash for transactions has been substantially impacted, particularly through the move to contactless payments for low value transactions and the increase in online shopping.

#### **1. Least Cost Routing**

Least cost routing should be the default option for all small businesses on all payment methods. The continued and accelerated move away from cash transactions makes a strong public policy case for this change. While LCR is asserted as the current default, there is a clear need to ensure proper and reliable implementation and enforcement of this commitment, and to incorporate an option to route transactions based on the total value of charges, in instances where a flat fee is more cost effective to the percentage fee. This will increase competition between payment systems and place downward pressure on card transaction fees as they become an increasing share of low value transactions. The review should also turn its attention to the use of smart devices as touchless payment tools and how these technologies are configured to support enhanced less cost routing.

#### **2. 'No surcharge' rule**

Unlike credit card surcharges, small businesses are currently required to absorb the cost of BNPL offerings. Many retail businesses have slim margins and absorbing these charges places additional pressure on the business' bottom line. The BNPL industry has experienced rapid growth over the last 12 months, with millennials currently representing only 10 per cent of the credit card market, while controlling 53 per cent of the growing BNPL system.<sup>1</sup> This trend is likely to continue as younger Australians enter adulthood. Consequently, offering BNPL solutions will cease to be an 'optional extra' and instead become a requirement for many small businesses who will be significantly disadvantaged unless they are able to pass on the surcharges. Further, the inability to pass on surcharges provides little incentive for the more popular BNPL providers to deliver competitive pricing models as their 'end customer' has no visibility of the costs involved. We recommend a stepped approach to address the 'no surcharge' rule by initially allowing merchants to pass on up to 50% of the surcharge to consumers.

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<sup>1</sup> [https://www.illion.com.au/wp-content/uploads/2020/05/Credit\\_Card\\_Nation.pdf](https://www.illion.com.au/wp-content/uploads/2020/05/Credit_Card_Nation.pdf)

### **3. Dual Network Debit Card Issuance (DNDC)**

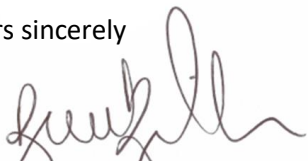
We support mandating DNDC issuance, including for smart devices, for the major banks and medium-sized issuers. Small business do not always have access to strategic rates and should have the option of routing the payment through the most affordable payment network. We further encourage the adoption of a threshold to ensure ADI's of a specific size continue to issue DNDCs. A threshold for ADI's that have a market share of more than 1% of total household deposits would be an appropriate balance to cover a significant portion of the debit market (covering large and medium issuers) while enabling smaller issuers and new entrants to compete with incumbents. Aligning DNDC issuance to the percentage of household deposits held by an ADI will ensure that those smaller entrants who may gain greater market share in the future will continue to promote DNDC issuance and stimulate efficiency and competition in the payment system.

### **4. Improving transparency of payment costs for merchants**

Transparency is key to promote competition and efficiency in the payment system ecosystem. We suggest further measures be taken to promote transparency of payment costs to merchants in the payment system. We recommend a regtech solution be implemented to create comparable information for smaller merchants to truly understand the implication of interchange fees, scheme fees and acquiring fees on their cost to accept card payments.

Thank you for the opportunity to comment. If you would like to discuss this matter further, please contact Miss Kit O'George on 02 6243 7244 or at [kit.o'george@asbfeo.gov.au](mailto:kit.o'george@asbfeo.gov.au).

Yours sincerely



**The Hon. Bruce Billson**  
Australian Small Business and Family Enterprise Ombudsman