



Master Grocers Australia Ltd

Trading as:
MGA Independent Retailers

Issues Paper
Review of Retail Payments Regulation

Submission to
Head of Payments Policy Department
Reserve Bank of Australia

31st January 2020

Submission by Master Grocers Australia (MGA) to the Reserve Bank of Australia in respect of Review of Retail Payments Regulation

Introduction

MGA is making this submission in response to the release of the Issues paper by the Reserve Bank of Australia in respect of Review of Retail Payments Regulation and its effect on sustainable robust competition within the mobile payment system to deliver economical payment choices to consumers and merchants, whether it be credit or debit cards. MGA believes that consumer and merchant choice must be optimized to drive an efficient and productive payment system in Australia, mobile or otherwise.

About MGA

Master Grocers Australia (MGA) is a National Employer Industry Association representing the owners and operators of Independently owned Grocery and Liquor Supermarkets in all States and Territories of Australia trading under brand names, such as, Farmer Jacks (WA), Foodland (SA), FoodWorks, Friendly Grocers, IGA, SPAR, Cellarbrations, Bottle-O, IGA Liquor, Local Liquor and Bottlemart. They range in size from small, to medium and large businesses.

Independently owned and operated Supermarkets play a major role in the retail industry and make a substantial contribution to the communities in which they trade. Independent supermarkets and liquor stores (independent supermarkets) comprise a significant subsector of the retail industry in Australia. In Australia there are 4,000 independently owned branded and non-branded supermarkets employing over 115,000 full time, part time and casual staff, representing \$14 billion in retail sales. Many MGA members are small family businesses, employing 25 or fewer staff.

Although many of the medium sized businesses would not be categorised as such from a legal perspective, they are in fact relatively “small” in comparison to the large supermarkets in the retail industry and therefore they struggle for survival against the power of the major retail chains. Through their membership of MGA, they are regularly provided with information on any proposed legislative or regulatory changes and how they may be affected by such changes.

Executive Summary

In any competitive environment it is essential for there to be a level playing field in order for there to be healthy competitive environment. Unfortunately, that has not been available in Australia to all the supermarket retail industry participants. The major chains, namely Coles and Woolworths, have grown their joint share of the national grocery market from about 34 per cent in 1975 to almost 80% and in some regions, their joint market share is closer to 90 per cent. It has been difficult for smaller retailers to combat the power of the larger supermarket chains because they have the ability to engage in practices that can severely impact the survival rates of independent supermarkets. MGA submits that supermarket customers are entitled to the benefits of genuine competition, which will deliver cheaper grocery products, diversity in retail offers and a supply chain that makes efficient use of Australia's resources but also one which results in a more equitable distribution of the available profits. MGA as such wishes to strongly endorse the maximization of a strong and competitive mobile payment system that includes the eftpos system that will allow consumer choice and drive independent retailer transaction cost efficiencies.

Preserving consumer and merchant choice

Dual Network Cards enable consumer account selection and access to differentiated payment products such as cash out at Point of Sale, as well as routing choice for merchants. Maintaining consumer and merchant choice across all payment channels and environments is critical as we move to new form factors such as Mobile.

Contactless transactions on Dual Network Cards currently take this choice away from consumers and merchants because POS terminals only read the first contactless application on the chip, and automatically route the transaction according to this priority, which may be at a higher cost. This is effectively a technology lockout that removes choice for consumers and merchants and makes it more difficult to manage the costs associated with different payment products and networks.

Lockout is also a risk for Mobile. Mobile payments will significantly impact the ability of merchants to choose the payment network that best suits their needs. In a mobile world, only one scheme application will be observable to the consumer or merchant/acquirer for any given transaction, eliminating any existing network choice that they may have.

Without open competition in consumer payments and a viable domestic payment network freely able to compete on a level playing field with its contactless and mobile products, interchange rates, merchant fees and consumer costs are likely to rise.

In addition to contactless, current examples where technology lockout includes tokenisation (Mobile, In-App, Online), closed loop payments (Transit) and Primary Account Reference (PAR) values.

Our consumer research also indicates that consumers expect to see eftpos as an available choice in mobile payments.

How can choice be maintained on mobile?

MGA believes that unless Dual Network Card provisioning is made simple to understand, unbiased and easy for the consumer to execute, the only networks represented within consumer wallets will be the more expensive networks.

MGA's preference is for the provisioning of eftpos tokens to occur at the same time as the provisioning of any other payment network token. In addition, either separate card art bearing the eftpos brand should be displayed within the mobile wallet, or card art with equivalence of eftpos branding alongside other payment network branding.

International experience

Creating rules or regulation promote choice and avoid technology lock out is not unprecedented and already exists in Canada, Denmark, the European Union and France. An additional relevant jurisdiction is Malaysia, where the regulator is actively ensuring choice of the lowest cost debit network. Also, regulators in the USA have recently taken action against technology lockout activity that confuses consumers at the point of sale.

Contractual constraints and undertakings

MGA has been advised that one international payment system has a rule that prohibits Issuers from generating a token from a competitive payment network on cards having a BIN allocated by that international payment system, and contractual restraints that either prohibit or impose

additional costs to Issuers if they elect to tokenise a competing payment network on those cards. These provisions apply even if another payment system is currently available on physical cards currently issued under those BINs in a market.

These payment network rules, and contract obligations prevent or delay Issuer implementation of competing payment networks within Mobile Wallet and deliberately remove the existing choice available to consumers today, as well as add significant costs of the provisioning of payment services to consumers and merchants.

Visa and MasterCard have also announced a co-operation agreement to allow each other's tokens to be provisioned and shared for online, in-app and in-store payments. This recent agreement indicates that there is little commercial justification for a prohibition on tokens from competing domestic networks.

MGA does not believe the current undertakings are effective, as they are not public documents and the entities providing these undertakings are not publicly accountable for compliance. Having no regulation or ineffective undertakings will have a far greater impact on the long-term competitive environment for retail payments in Australia.

Any extension to the current undertakings before regulations come into effect should cover the following:

- no prohibition/restriction/fettering of issuers provisioning all payment networks within a mobile wallet,
- co-residency of available payment functionality on cards in mobile wallets and devices,
- parity of representation of card images for all available networks (including brand) in mobile wallets, and
- consumer control of default settings and choice of payment network within the mobile wallet.
- eftpos does not consider that the compliance costs would exponentially increase from compliance with the undertakings if standards were introduced.

Conclusion

MGA supports a competitive consumer driven mobile payment system. Allowing a payment such as eftpos to effectively compete with the major credit card institutions. This will allow more choice for consumers and help to significantly reduce interchange costs to retailers and allow consumers to take “cash out”, further assisting to reduce transaction costs. This will allow the independent sector to preserve already paper-thin margins and compete more effectively against the 2 major supermarkets which are already able to minimise their transaction and interchange costs, as they are issuers in their own right.

MGA welcomes any initiative or regulations that enable a fair and level competitive playing field that will foster a robust and healthy competitive environment.

MGA would be pleased to discuss any aspect of this submission further.

Jos de Bruin

CEO, Master Grocers Australia

1st February 2017