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**Victorian  
Chamber of Commerce  
and Industry**

Mr. Scott Farrell  
Payments System Review Chair  
The Treasury  
Langton Crescent  
**PARKES ACT 2600**

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Dear Mr. Farrell

Thank you for the opportunity to contribute to the Australian Government's Payments System Review. The Victorian Chamber of Commerce and Industry (VCCI) is the largest and most influential industry association in Victoria, representing and advocating for over 47,000 businesses across the state. As our economy begins to stabilise and recover following the COVID-19 outbreaks and associated economic restrictions imposed; innovation, digital adoption, and cost minimisation by businesses of all sizes will be critical for survival. An Australian payments system that cultivates this will be essential for our nation and state's future prosperity.

Following extensive member engagement, feedback shows that the current regulatory architecture's focus on security and privacy is valuable and any changes must retain this at its core. However, like with any regulatory system, as technology and consumer preferences change, so to must the regulatory architecture. VCCI would like to see a payments system regulatory architecture that more clearly supports and protects the interests of the Australian business community, particularly small and medium sized merchants. The regulatory architecture should formally put the interests of merchants and consumers at the center of payments policy, legislation, regulator decisions and industry self-regulation.

Based on member feedback, this submission argues that changes to the regulatory architecture of the Australian payments system should concentrate on the following areas.

1. Lowering business costs, particularly for smaller businesses through implementation of new technologies such as least cost routing and ensuring permanent representation on regulatory oversight committees.
2. Promoting innovation creation and adoption.
3. Enabling and encouraging competition to ensure that consumers also get the greatest benefit.

### **Victorian economic context**

As a result of the COVID-19 pandemic and bushfires, businesses in Victoria have endured some of the worst economic pain over the past 12 months. There have been widespread job losses, decimated revenues, and countless business closures. While recovery has started, some businesses are still

unable to operate, while others are operating at significantly reduced levels. As a result, businesses are looking to reduce operating costs wherever possible.

Many businesses have been compelled to adopt digital technologies and offer their products and services online. In addition, many businesses have been encouraged to move away from cash transactions to help reduce virus transmission. Both scenarios have resulted in an increase in digital payments system. Payments systems are increasingly an area of focus for cost savings.

### **Lowering business costs and maintaining user choice**

Reducing business costs for merchants should be a core principle of the regulatory architecture of the Australian payments system. In countries that do not take this approach, we observe very high merchant payment costs. For example, in the UK credit card transactions currently incur an average cost of 18.4p (up 15% from 2016)<sup>1</sup>.

Currently there is limited diversity in stakeholder representation in the operation and development of the regulatory architecture of the Australian payments system. It is important that all segments of the payments system market (including smaller merchants and fintechs) have a permanent seat at the table in all relevant regulator and industry advisory bodies.

As end users who pay the transaction costs at point of sale, merchants should have the highest priority in terms of choosing their preferred payments scheme to reduce their transaction costs and access the functionality that best suits their business.

To enable merchant choice, point of sale and digital payments systems should accept dual network debit cards and merchants should be able to route transactions through the lowest cost scheme. Least cost routing schemes should be available to merchants of all sizes, not just larger merchants. While improvements have been made over recent years, with many banks now offering this service, it is not universally available for all small business merchants. XXXX The regulatory architecture must support an even playing field for merchants, allowing smaller merchants to understand and take advantage of existing and emerging cost saving opportunities.

### **Innovation**

The importance of innovation in Australia's economic recovery cannot be overstated. One of the barriers to quicker innovation adoption is a rigid regulatory framework and instruments. Australia's payments system needs a more flexible regulatory framework that facilitates the growth of new entrants and assists small merchants to adopt new technologies cheaply, securely and quickly.

The regulatory architecture should actively encourage regulators to respond rapidly and decisively to changing technologies. It needs to proactively enable merchants to have access to new digital payments solutions. However, it also needs to prevent any attempts by incumbents to obstruct or delay the introduction of competitive payment offerings that would reduce merchant transaction costs or provide small businesses with access to enhancements in digital payments functionality.

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<sup>1</sup> British Retail Consortium Payments Survey, October 2020

It is important to acknowledge the significant upfront investment innovation requires before a return on that investment is realised (and a reduction in merchant costs can also be realised). As a result, it is essential that incentives remain and or bolstered for both new entrants and incumbents to innovate as the payments industry evolves.

## **Competition**

To drive innovation and ensure small business merchants have the most cost effective and efficient system available, competition needs to be actively encouraged at all levels of the payments system, this includes;

- competition through the maintenance of multiple payments platforms (e.g. domestic and international card schemes)
- competition between payment networks (e.g. between cards and accounts), and
- competition in products, services and applications on top of the payments networks (e.g. by fintechs as well as incumbents).

The proposed creation of a single domestic payment platform provider with the merger of eftpos, BPay and NPP is concerning. While the merger has the potential of improving innovation and reduce costs for end-users, international experiences show this isn't necessarily the case. For example, when a similar model was implemented in the UK, the British Retail Consortium highlighted the abuse of market power and rise in costs for retailers resulted in businesses and consumers being worse off.

We understand that the merger is currently being considered by the ACCC. It is essential that the creation of a monopoly is not the byproduct of a search for efficiency. Consideration should be given to collaboration on core infrastructure assets, while competing on transactions and continuing to drive competition. Outcomes must be in the public interest and should not have the effect of substantially lessening competition in the Australian payments system.

The regulatory architecture should also ensure that fintechs who want to introduce smart payments apps for merchants that integrate with existing payments platforms are able to access those platforms on fair commercial terms and are not deterred by unreasonable rules or technical constraints.

As new players enter the marketplace, it is important that an even regulatory playing field is maintained. Incumbent organisations have invested significant resources in building the foundations of Australia's payments system and can be bound by regulations (and costs) their new competitors do not need to comply with. For example, the 'buy now pay later' products that have recently entered the Australian market can prevent merchants imposing a surcharge when customers use their service, however, traditional payment platforms cannot prevent merchants from adding a surcharge to cover payment costs.

## **Transparency**

When speaking to members, it is clear many do not understand the pricing structure of payments platforms. The cause of this appears to be two-fold. Firstly, there is a lack of transparency surrounding many financial products, with many transaction costs being opaque and complex. Secondly, many small businesses find it difficult to understand the pricing structure and products available. This makes it

difficult for small businesses to adjust their operating practices and services used to best leverage cost saving opportunities.

The payments system regulatory architecture should ensure that merchants have full transparency in terms of their payment costs, with pricing information provided in a way that is understandable and enables merchants to make informed decisions about the choices available to them. This contrasts with the current complex and opaque disclosure of transaction costs. Furthermore, regulatory decisions should be publicly announced and explained in plain English so that small business merchants can understand how they impact their businesses.

The Victorian Chamber looks forward to working with the Australian government and the payments system regulators to ensure there remains a healthy balance in the regulatory architecture, encouraging innovation and investment driving a more efficient and productive system while still protecting privacy and security.

Should there be anything the Victorian Chamber can assist you with, please do not hesitate to contact me directly.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Paul Guerra', with a long horizontal flourish extending to the right.

**Paul Guerra**  
Chief Executive