

Mr. Rod Sims
Chairman Australian Competition and Consumer Commission
23 Marcus Clarke Street
Canberra ACT 2601
CC: Mr. Mick Keogh – ACCC Deputy Chairman

Dear Rod,

26th March 2021

Re: Proposed amalgamation of BPAY, eftpos and NPPA

1. MGA TMA strongly believes the amalgamation of three entities into one, through the consolidation of three payment platforms in Australia, will lessen competition and place more power into the hands of the banks, large retailers and international card schemes.
2. The absence of small business having "a seat at the table" does not consider the impacts of policy and decision making that the Directors (banks and big business) will make in this new entity. This may risk a detrimental impact on MGA TMA's small business and family enterprise members.
3. The Industry Committee Administration (ICA) claims that the purpose of consolidating Australia's three domestic payment systems is to develop a strong Australian competitor to Visa and Mastercard.
4. On its face, the idea that consolidating three separate domestic payment entities into one will enhance competition defies logic:
 - a. particularly as the banks and large retailers (who are acquirers in their own right), which are motivated by their own profit-maximising financial interests, will have the decision-making power on the board of the consolidated entity.
 - b. small businesses simply cannot afford to 'take on trust', that a consolidated payments entity controlled by the banks and Australia's largest retailers (acquirers) will have MGA TMA members best interests at heart.
5. If the Industry Committee Administration (ICA) is genuine about a strong Australian competitor to Visa and Mastercard, they will agree to the one major initiative that will make a real difference to the sustainability of small businesses and family enterprises, and that is to reduce the cost of

merchant payment fees by making “least cost routing” the default option and a guaranteed condition of any payment platform consolidation.

6. MGA TMA strongly encourages the ACCC to not agree to any payment platform consolidation without an enforceable undertaking by the shareholders (Directors) of the consolidated entity, to not allow debit transaction fee offers that do not make “least cost routing” the default option across all channels.
7. Without this guaranteed safeguard, MGATMA has zero confidence that the payment platform consolidation will do anything but allow Visa and Mastercard to further entrench their debit card monopolies, both at point-of-sale and online, with small businesses and family enterprises paying the price.
8. Reliance upon card-based payments, particularly debit cards, has exploded and driven unsustainable and exponential increased merchant payment fees.
9. Over the last 12 months, family and privately owned supermarkets, liquor stores, timber and hardware businesses have collectively transacted sales revenue as follows:
 - a. \$19 billion in revenue dollars annually \$17.1 billion via card transactions (based upon 90% customer use in store)
 - b. Over 534 million card transactions - \$88 million in annual merchant payment fees
10. MGA TMA wishes to offer, if the Industry Committee is genuine about a strong Australian competitor to Visa and Mastercard that will drive down payment transaction costs for small businesses, then they must make “least cost routing” the default option for all forms of debit transactions both at the point-of-sale and online and lock this in as a guaranteed condition of the consolidation.
11. Thank you for your consideration of the points that MGA TMA has made to assist the ACCC to better understand the potential issues that family and private businesses – MGA TMA members, may face should the consolidation of payment systems be allowed to go ahead as proposed.

Yours sincerely,



Jos de Bruin
CEO MGA TMA.



Master Grocers Australia Ltd

Trading as:
MGA Independent Retailers
&
Timber Merchants Australia

Issues Paper **Review of Australian Payments System**

Submission to
Review Chair – Mr Scott Farrell
Treasury of Australia
16th December 2020

Submission by Master Grocers Australia & Timber Merchants Australia (MGA TMA) to Treasury in respect of the Review of the Australian Payments System

Introduction

MGA TMA is making this submission in respect to the Review of the Regulatory architecture of Australia's Payment System in the context of the proposed consolidation of the Australian Payments Platforms (Eftpos, Bpay & NPP) into a single entity and its effect on sustainable robust competition within the merchant payment system to deliver economical payment choices for consumers and merchants, whether it be credit or debit cards. MGA TMA believes that consumer and merchant payment choice must be optimized to drive an efficient, productive, and competitive payment system in Australia, mobile or otherwise.

About MGA Independent Retailers and Timber Merchants Australia (MGA TMA).

MGA Independent Retailers and Timber Merchants Australia (MGA TMA) is a national employer industry association representing independent grocery, liquor, timber and hardware businesses, suppliers, processors, and wholesalers, in all States and Territories of Australia.

Independently owned and operated Supermarkets, Liquor, Timber and Hardware businesses play a major role in the retail industry and make a substantial contribution to the communities in which they trade. Many MGA TMA members are small family businesses, employing 25 or fewer staff.

In Australia there are 4,000 independently owned and branded and non-branded, Supermarket, Liquor, Timber and Hardware businesses. There are 2,700 branded independent grocery stores, trading under brand names such as: Drakes, Farmer Jacks, FoodWorks, Foodland, Friendly Grocers, IGA, IGA Xpress, Supa IGA and SPAR, with a

further approximately 1,300 independent supermarkets trading under their own local brand names.

In addition, there are numerous independent liquor stores operating throughout Australia and trading under names such as: Cellarbrations, The Bottle O, Duncans, and Local Liquor, which are either single or multi-store owners.

Our members also are independent timber suppliers, processors, wholesalers and hardware stores and trade under brand names including Mitre 10, Home Timber and Hardware, Thrifty Link and True Value Hardware. These grocery, liquor, timber, and hardware businesses collectively employ more than 120,000 staff and are comparatively much smaller when compared with the large national supermarket and hardware chains of Coles, Woolworths, and Bunnings, which combined represent approximately 80 per cent of the retail supermarket and liquor industries and 65% of hardware industries.

These grocery, liquor, timber, and hardware businesses range in size from small, to medium and large, and make a significant contribution to the retail industry, accounting for approximately \$16 billion in retail sales.

Executive Summary

In any competitive environment it is essential for there to be a fair, level playing field for all participants regardless of their size or market penetration. Unfortunately, that has not been available in Australia to independently owned grocery, liquor, timber, and hardware businesses. The major chains, namely Coles, Woolworths, and Bunnings, have grown their joint share of the national grocery market from about 34 per cent in 1975 to almost 80 per cent 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 national chains which have the ability to engage in practices that can severely impact the survival rates of independent grocery, liquor, timber, and hardware businesses. MGA TMA submits that independent grocery, liquor, timber, and hardware customers are entitled share in to the benefits of genuine competition, which will deliver competitively priced grocery products, diversity in retail offers and a supply chain that makes efficient use of Australia's resources resulting in a more equitable distribution of the available profits.

MGATMA is concerned that the proposed consolidation of major domestic payments is occurring without sufficient consultation or scrutiny with regards to its commercial consequences or the real impact on the small businesses whose livelihoods are reliant upon a secure, competitive, and low-cost domestic card payments system.

MGA TMA's position

MGA TMA has grave concerns the creation of a single payments entity with greater scale and resources will destroy competition in card related payments, handing the advantage to the two large international card schemes. MGATMA considers this is the wrong approach at the wrong time and the regulatory environment needs to protect against outcomes that reduce competition and choice for merchants in terms of their preferred payments systems.

In terms of regulatory architecture, MGA TMA wishes to strongly endorse the maximization of a strong and competitive payment system that will allow merchant and consumer choice and drive independent retailer transaction cost efficiencies, rather than restricting these efficiencies to the largest dominant grocery retailers.

It is vitally important for MGA TMA members, family and private businesses, that any proposed regulatory model and any proposal to consolidate Australia's payments platforms:

- maintains and promotes least cost routing (LCR) at point-of-sale and extends it to the online environment with the major banks required to ensure that all Australian retailers and businesses can access LCR, to reduce the high cost to transact, given the increase in cashless payments.
- does not result in any loss of domestic competition to the big international card companies.
- creates a strong decision-making voice for family and private businesses and as such small businesses must have a seat at the table in all relevant regulator and industry advisory bodies.
- does not relinquish control over future pricing and investments to the major banks.

Reliance on card-based payments in independent supermarket, liquor, timber and hardware sectors, particularly debit cards, is escalating at an exponential rate. In the last 12 months, our sector has experienced:

- A total of \$16 billion in revenue annually.
- An estimated 90% were card transactions pre Covid 19 growing to 95% in recent months as a 'No cash' policy has become more common.
- \$14.4 billion via card transactions – pre Covid (based on 90% customer use in store)
- Approximately 450 million card transactions completed each year.
- With approximately \$74.25 million in annual merchant fees, via the Supermarket, Liquor, Timber and Hardware sector.

Preserving consumer and merchant choice

The regulatory architecture should formally put the interests of merchants and consumers front and centre in terms of payments policy, legislation, regulator decisions and industry self-regulation. The legislative and regulatory regimes and the regulators that are charged with administering them should be driven by core regulatory principles that will deliver the best payments outcomes for merchants (MGA TMA Independent business owners and operators) and consumers, in terms of minimising merchant payment fees and delivering enhanced functionality.

These core principles should focus on competition, innovation and investment, choice, transparency, and timely and effective action to prevent and stop behaviour that is contrary to the interests of merchants as end users.

Competition should be actively encouraged at all levels of the payments system: including competition through the maintenance of multiple payments platforms, domestic and international card schemes.

As end users who pay the merchant payment transaction costs at point of sale, merchants (MGA TMA Independent business owners and operators) should have the highest priority in choosing their preferred payments scheme to reduce their transaction costs and access the functionality that is best suited to their businesses.

To enable merchant choice or least cost routing, point of sale and digital payments systems should accept dual network debit cards and MGA TMA members should be able to rout transactions through the lowest cost scheme as a matter of course.

Considerations for the regulatory architecture

The regulatory architecture should ensure that merchants have full transparency 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, which makes it exceedingly difficult for busy small business operators to make valid comparisons between different offers in the market.

This regulatory system should actively encourage regulators to respond rapidly and decisively, in terms of proactively enabling MGA TMA members to have access to new digital payments solutions that would reduce merchant transaction costs or provide small businesses with access to enhancements in digital payments functionality.

The regulatory architecture should ensure there is a level playing field between large and small businesses relating to payment choices, terms, and functionality. An example of this not occurring is with LCR which has been made available to select larger businesses but not to their small family and private business competitors. This cannot be allowed to occur in the digital environment.

Regulatory decisions should be publicly announced and publicly available and be explained in plain English so that small, medium, and large size businesses can understand how they impact their businesses.

There also needs to be greater clarity regarding the regulatory responsibilities of the various regulators involved in the payments system, including which regulators, small family and private businesses should go to in order to get regulatory action, as well as ensuring that regulators are working together with a thorough understanding of payments technologies.

Conclusion

MGA TMA supports a competitive consumer driven payment system that allows domestic payment providers to effectively compete with the major credit card institutions. This will allow more choice for consumers and will help to significantly reduce interchange and other transaction costs for retailers, including by allowing consumers to take “cash out”, which will further assist to reduce transaction costs, and alleviate the need to handle excessive amounts of cash on premises, which is a constant security risk. A competitive consumer driven payment system will allow the independent sector to preserve already paper-thin margins and compete more effectively against the two major supermarket chains and major hardware business, which are already able to minimize their transaction and interchange costs, as they are issuers in their own right.

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

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



Jos de Bruin

CEO MGA TMA

16th December 2020.