



Australian Government



Australian
**Small Business and
Family Enterprise**
Ombudsman

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Ellis Connolly

Head of Payments Policy Department

Reserve Bank of Australia

GPO Box 3947

SYDNEY NSW 2001

via email: pysubmissions@rba.gov.au

Dear Mr Connolly

Promoting competition and lowering small business payment costs through default debit card settings and tokenisation

The Australian Small Business and Family Enterprise Ombudsman (the ASBFEO) is encouraged by the Reserve Bank of Australia's (RBA) consultation on potential changes to industry standards and default settings for dual-network debit cards (DNDCs), which seek to enhance the competitiveness, efficiency and safety of Australia's debit card market.

While we acknowledge that the RBA has been operating with limited regulatory oversight of payments system participants, it is disappointing that the Bank's expectation that the technical availability of 'least-cost routing' (LCR) would evolve into practical accessibility and take-up by merchants has not been realised.

Over the past 12 months, the ASBFEO has undertaken a research project with the objective of developing policy solutions to reduce transaction costs for small businesses and family enterprises. During this time, payment-system participants, product offerings and consumer preferences of payment method have also continued to evolve rapidly. The combination of increasing use of tokenised debit-cards within mobile wallets, growth in online spending and falling volumes of cash payments are applying upward pressure on merchant payment costs.¹

Further, our research has highlighted:

- low merchant and consumer awareness of how debit card payments are facilitated
- a large opportunity cost for small business (\$800million per annum)²
- inconsistent use of payments terminology between government and the banking sector
- poor transparency of merchant fee structures
- inconsistent application of surcharging rules, for merchants to recover the cover the cost of consumers' chosen payment method
- multiple government reviews and inquiries have recommended that the Payments System Board should take regulatory action to progress the implementation of least-cost routing.

¹ E Connolly, *The shift to electronic payments: some policy issues* [speech], Reserve Bank of Australia, 28 March 2023.

² CMSPI, 28 March 2023, *Breaking News: What Merchants Need to Know About the RBA's Latest Payments Update*



With the above in mind, we provide the following comments for consideration.

1. Prohibiting the setting of a default routing network on DNDCs at issuance

Given rapid advancements in payment technology and payment provider types, it is essential that government policies enforce merchant choice of routing or LCR for all payment-form factors so that small business merchants pay the least-cost merchant fees.

Altering the current unregulated default payment routing settings in the payments system would increase the value and volume of transactions that can be automatically routed by the least-cost, or the merchant's choice route. As a result, it would also:

- increase competition between payment system participants
- increase merchant awareness of payment service options, by virtue of the 'default' route becoming the least-cost or the merchant's preference in routing
- ensure future payment technologies are built without default routing controls.

A further action to address the Bank's concerns regarding default settings on dual-network debit cards would be to prohibit the issuance of single network debit cards (SNDCs). While SNDCs account for a minority of debit cards on issue, their limitation to a single card scheme prevents all associated transactions from being routed to the least-cost route.

2. The tokenisation of debit cards for the purpose of conducting online transactions.

Tokenisation transforms sensitive payment details into a 'token' unique to the wallet/merchant, so that when a payment is made, the token is transmitted – not the card details. The importance of addressing token portability, synchronisation and visibility cannot be overstated.

Small-business merchants should be empowered to find a better deal on their payment service arrangements, and enabling token portability, synchronisation and visibility would ensure that merchants are not impeded from switching between payment service providers once their customers' cards have been tokenised.

Any expectations the RBA holds for the storage of customer primary account numbers (PAN) should align with its expectations for the availability of LCR. That is, both requirements should come into force from the date the new form factors (i.e. means of making debit payments) are developed and made accessible to consumers.

In the interim, all existing form factors should address these issues by the end of 2024, when the Bank expects that LCR should be made available for mobile wallet transactions, in addition to online and in-store debit transactions.

Thank you for the opportunity to comment. If you would like to discuss this matter further, please contact advocacy@asbfeo.gov.au

Yours sincerely

The Hon Bruce Billson

Australian Small Business and Family Enterprise Ombudsman