



Helping Australian Business Grow

**A Submission to The House of Representatives' Standing
Committee on Economics, Finance and Public
Administration**

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THE NATIONAL RETAIL ASSOCIATION

The National Retail Association ('NRA') is a not-for-profit industry organisation that has been serving the retail industry for over 75 years. It is the pre-eminent Australia-wide voice of the retail sector, which employs more Australians than any other, accounting for one-in-six jobs in the workforce.

There are now over 4000 retail businesses serviced by the National Retail Association. Members range from sole operator enterprises to national, chain, and franchise stores of all types and sizes throughout Australia.

The National Retail Association is headquartered in Brisbane but also operates a Melbourne office. The establishment of the Melbourne office enhances NRA's ability to service members' needs throughout Australia.

The NRA has five key operating divisions which provide retail specific professional services to its client base:

- Employment Law
- Training and Education
- Events and Marketing
- Tenancy and Leasing
- Industry Promotion, Communications and Lobbying
- Policy Development

INTRODUCTION

Before the RBA's card reforms, retailers only had two options in dealing with any brand of credit card

- do not accept at all; or
- accept without surcharging.

As a result of the credit card reforms of the RBA, retailers now have a wider range of competitive options in dealing with credit card acquirers eg

- do not accept these cards
- accept these cards and surcharge [Note: there is an unlimited range of surcharge possibilities. A retailer can surcharge particular good/services or particular transaction sizes or at particular times such as sales.]
- threaten to surcharge in rate discussions with these acquirers with a view to negotiating lower merchant service fees
- accept these cards without surcharge
- accept these cards without surcharge and try to persuade cardholders to use different cards

Different options offer particular benefits to the individual retailer, depending on their particular product/service sector.

Due to the relatively small market share of American Express and Diners, some retailers may conclude that accepting these cards is not a business necessity. This decision has been influenced by the particular goods/services sector, and factors such as geographical location.

NRA accepts that as a general proposition the changes introduced as a result of the reforms are beneficial to the retail industry. NRA is however not able to quantify the benefit or to assess the extent to which benefits have been realised across the full spectrum of the retail sector. It is probable that only a minority of retailers would have recorded a significant benefit.

SUMMARY OF NRA POSITION

NRA asks the Committee to note the following matters:

- Competition within the retail industry in most sectors is intense. It is inevitable that successful retailers will rank consumers needs and preferences highly in the decision making process. Consequently consumer choice and flexibility in payment methods is a matter of considerable importance to retailers.
- Whether or not consumers are using credit cards in lieu of cash and debit, and what reasons might motivate such a choice is not a matter that should be the subject of regulation. Further, retailer feedback does not suggest that consumers make uninformed choices in determining their preferred method of payment.
- NRA does not believe that retailers want to intervene in a consumer's choice of payment method. While retailers can intervene in the choice by refusing to accept some methods of payment or encouraging customers to select one method over another, it is retailer preference to leave this decision to the consumer.
- NRA support the discretionary or optional imposition by retailers of credit card surcharges.
- NRA supports the rights of retailers to make their own decisions in the settlement of agreements with credit card providers. NRA does not support the regulation of these agreements or the processes that give rise to these agreements.
- NRA has no evidence about whether the RBA reforms have acted in the consumers interest.
- NRA does not believe that any further reforms of credit card payments systems is necessary

AREAS FOR ELABORATION

Credit card transactions are an important contributor to retailer sales volumes. Retailers are opposed to any restriction, direct or indirect, on the use of credit cards by consumers, and opposed to restrictions on the promotion of credit cards.

A paper presented by Simes, Lancy and Harper at the Payments System Conference 2006 included the following:

Table 4 reports responses to a series of questions for the Cannex survey directed at ascertaining merchants' motivation for accepting credit cards. Three-quarters of merchants surveyed felt that accepting credit cards contributed positively to the growth in their businesses. While only merchants who accept credit cards are included in the surveys, the reasons given for their acceptance are instructive.

TABLE 4: ROLE OF CREDIT CARDS (PER CENT)

| Statement | Strongly agree | Agree | Disagree | Strongly disagree | Net positive effect |
|---|----------------|-------|----------|-------------------|---------------------|
| Convenience of credit cards makes it easier for customers to shop with me | 4 | 62 | 6 | 1 | 59 |
| Credit cards provide a lower risk payment method | 8 | 58 | 10 | 2 | 54 |
| Accepting credit cards has a positive impact on business growth | 11 | 55 | 15 | 1 | 50 |
| Customers increase total spend because of access to credit | 16 | 43 | 27 | 2 | 30 |
| Customers would spend the same amount regardless of whether I accept credit cards | 8 | 33 | 40 | 11 | -10 |
| Accepting credit cards is an unnecessary expense | 11 | 20 | 55 | 9 | -33 |
| Accepting credit cards does not have a positive impact on business growth | 8 | 17 | 57 | 16 | -48 |

Source: Cannex 2004, *Card Reforms in Australia: Monitoring of Market Effects*, November, p.33.

The above provides *prima facie* evidence to support the efficiency of card payments, including both credit and debit cards. This evidence, however, is only partial and more detailed analysis is needed to establish whether particular inequities have emerged or whether adjustments to regulation and/or market structures could produce further efficiency benefits.

NRA is opposed to any outcomes which inhibit or discourage consumers from exercising freedom of choice in terms of payment methods.

In this regard NRA endorses the following conclusions of Simes, Lancy and Harper:

For any consumer who may otherwise be credit constrained, the line of credit associated with a credit card provides two related benefits:

- access to credit which, *inter alia*, will allow the consumer to manage consumption patterns in a more advantageous manner; and
- greater flexibility in purchasing. For example, the line of credit provides a convenient means of buying goods and services without having to orchestrate the precise timing and scale of purchases ahead of time.

Flexible access to credit clearly provides substantial net benefits to consumers. Indeed, one of the main benefits from the reforms to Australia's financial system beginning in the 1980s has been the improved access to credit for middle-and low-income earners. Among other things, this has allowed consumers to better manage short-term fluctuations in income and consumption and to conveniently finance unexpected financing needs. Credit cards are one of the main means by which many individuals access short-term credit at modest levels.

This credit option is of value to consumers whether or not the credit line is actually used. It is akin to providing insurance against unexpected mismatches between expenditure and income, including over quite short periods of time and varying amounts.

[Page 26 Section 4.2.1 NET SOCIAL COSTS INCLUDING THE BENEFITS OF THE CREDIT OPTION]

In addition, the roll-out of the credit and signature debit card networks has assisted innovation and competition in the retail sector throughout the economy. For example:

- Large retail chains offered customers their own store cards which helped strengthen store loyalty. The card networks have helped smaller outlets compete with the larger chains by effectively providing a substitute for in-store credit cards.
- Credit and signature debit cards have been instrumental in the growth in 'not present' purchases over the Internet or phone. While other solutions to transact such purchases are possible, the card networks have proved to be the most reliable and effective means of supporting on-line retail activity to date, a fact that is unlikely to change in the next wave of growth in on-line retailing.

The fact that the various payments instruments are not close substitutes across their full range of uses underlines the need for circumspection in designing the appropriate regulatory framework. The credit and signature debit card companies employ different business models and technological platforms than those provided to support transactions accounts at financial institutions so as to be able to provide services across a wider range of outlets. In these circumstances, it is hardly surprising that the card companies adopt different pricing and promotional strategies than financial institutions do for their transactions accounts.

[Page 28 Section 5 – OTHER CONSIDERATIONS]