

3 December 2024

Head of Payments Policy Department
Reserve Bank of Australia
GPO Box 3947
Sydney NSW 2001

By email: pysubmissions@rba.gov.au

Dear Sir/Madam,

Merchant Card Payment Costs and Surcharging – Issues Paper (October 2024).

Attached please find ACAPMA's submission to the Reserve Bank of Australia's *Merchant Card Payment Costs and Surcharging – Issues Paper (October 2024)*. As the national peak body representing the Australian Fuel Retail Industry – an industry that processes around 600M transactions per year- the *Australasian Convenience and Petroleum Marketers Association* (ACAPMA) has a strong interest in the operation of Australia's Retail payment System.

A general discussion on the significance of retail payments to the Australian fuel retail industry is presented in Section 3 of our submission. Section 5 provides a narrative that responds to the key themes contained in the Issues Paper and Section 6 provides a summary of the actions that would likely put downward pressure on merchant card fees in the future.

ACAPMA does not support any proposal to ban surcharging by retailers in Australia as the current differential in unit costs of these transactions levied between big and small businesses would disadvantage the competitive position of small businesses in deeply competitive markets such as fuel retail.

ACAPMA believes that the current issues surrounding the ballooning costs of merchant card payment costs (particularly debit card transactions) would be better managed by the joint pursuit of three actions, namely:

- a) **Legislation of a new price transparency requirement in a revision of the Retail Payments Regulation.** Such a requirement would require all acquiring banks and payment services providers to furnish the RBA with a breakdown of their direct merchant costs (i.e. separated by interchange fees, acquirer fees, and scheme fees) and indirect costs (i.e. Payment Gateway fees and Fraud prevention/risk management fees) for their merchant fee offerings. It is suggested that this information could be compiled by the RBA (or ACCC) and published to the market in the same way that the ACCC publishes quarterly information on wholesale and retail fuel prices in Australia, thereby allowing merchants to readily compare the price they are paying for their merchant fees.

- b) **Introduction of a legislative requirement requiring all payment services providers to provide a simplified summary of the *total costs of debit and credit merchant fee charges on all new merchant fee contracts (and renewals)*.** This information should be in a simplified form that is easy to understand, possibly developed along similar lines to the *Comparison Rate* used for ease of comparison of financial lending products in Australia.
- c) **Mandating of *Dynamic Least Cost Routing (LCR) on debit cards in Australia by 1 January 2026*.** This form of LCR should provide functionality at the point of sale (POS) to facilitate the *real time* cost comparison of each transaction via the Card and EFTPOS gateways – and the subsequent selection of the least cost gateway. This form of LCR is different to the current form of *Static* LCR that requires the merchant to make a binary choice of one gateway, despite the fact that the least cost merchant fees will vary dependent on the value of the transaction and the architecture of the merchant fee offering used by the business. The Bank should also consider the benefits of Least Cost Routing domestic credit transactions.

ACAPMA believes that the mandatory transparency and information disclosure obligations cited above would greatly enhance the competition dynamic in the merchant card services market which, in turn, would likely create downward pressure on merchant fee costs for Australian businesses (and their customers).

The additional mandation of *Dynamic* LCR would provide Australian Consumers with a ‘guarantee’ that they are paying the least cost for their purchase based upon the card they are using – instead of incurring a ‘penalty’ as a result of the merchant not having selected the merchant fee offering that provides the least cost for electronic transactions.

Thank you for the opportunity to provide feedback on this Consultation.

Should you require clarification of any aspect of our submission, please contact me via email (markm@acapma.com.au) or by mobile (0447 444 011).

Yours sincerely,



Mark McKenzie
Chief Executive Officer

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Submission to the Reserve Bank of Australia (RBA)
Merchant Card Payment Costs & Surcharging
(Issues Paper – October 2024)

3 December 2024

1. Introduction

This paper constitutes a submission by the *Australasian Convenience and Petroleum Marketers Association (ACAPMA)* to the Reserve Bank of Australia's Issues Paper entitled: Merchant Card payment Costs and Surcharging (October 2024). This Issues Paper discusses the conduct of an RBA review of merchants' card payment costs and surcharging in the face of:

- a) An environment of heightened community concern around the cost of living, and
- b) Ongoing changes in payment preferences with the majority of Australian retail consumers switching from cash payments to electronic payments (i.e. debit and credit)

ACAPMA argues that the issues to be considered by this latest Review are not new. In fact, concerns about the cost of electronic transactions have been the subject of considerable political discussion since early 1997 (including an RBA Review of the Retail Payments in Regulation in 2021) - as a result of the rising cost of electronic payments being borne by Australian retail businesses as a result of a dramatic escalation in electronic debit payments.

In preparing this submission, ACAPMA notes that many of the issues to be considered in this latest review are very similar to the issues canvassed in the RBA's 2021 Review. Accordingly, the issues identified in ACAPMA's *2021 Submission to the Review of Retail payments Regulation (July 2021)* should be considered together with the narrative presented in this latest submission.

This latest submission provides a narrative on the preliminary conclusions of the Payment Systems Board, as considered from the perspective of Australia's more than 2500 fuel retailing businesses –the majority of which are small to medium businesses operating under varying commercial relationships with the Nation's major fuel supply companies.

Further, the discussion presented in this paper is informed by over eight (8) years of advocacy about the need for urgent reform to the Australian Payments Regulation to reduce the rising cost of merchant fee transactions in the fiercely competitive Australian retail fuels market – a market that provides products (i.e. transport fuel) that constitute a significant input cost for Australian households and businesses.

2. About ACAPMA

The Australasian Convenience and Petroleum Marketers Association (ACAPMA) is the national peak body representing the interests of the petroleum distribution, wholesaling, and petrol-convenience retail industries. Together, these sectors generated annual revenues of approximately \$101 billion in 2023 and employed an estimated 61,000 Australians across around 4,500 businesses.

ACAPMA is primarily an employer organization, formally recognized under Australian law as the industrial advocate for fuel marketing and fuel distribution businesses. Established in 1976 as the Australian Petroleum Agents and Distributors Association (APADA), the organization rebranded as ACAPMA in 2007, reflecting an expanded remit to include national representation of fuel retailers.

Today, ACAPMA directly represents 95% of fuel distributors and wholesalers in Australia and approximately 76% of the nation's service stations (around 5,400 of the 7,100 sites) through direct representation and indirect links via franchisees and distributor-owned retailers.

The Association's membership spans the entire fuel supply chain, from the refinery gate to the forecourts of Australia's service stations and petrol-convenience outlets. This includes fuel importers, wholesalers, distributors, and retailers, as well as petroleum equipment suppliers and service providers.

ACAPMA's members range from Australian subsidiaries of international corporations and large Australian-owned enterprises to mid-sized independent companies and small, single-site, family-owned businesses. This diversity underscores the Association's commitment to presenting an aggregate, whole-of-industry perspective on key public policy and regulatory issues.

ACAPMA aims to provide policymakers and regulators with meaningful industry insights that reflect the interests and experiences of its broad membership base. However, the diversity of market propositions and presence among individual members means that the industry-wide perspective presented by ACAPMA may not always align with the positions of specific businesses.

It is therefore acknowledged that one or more of ACAPMA's members may hold enterprise-specific views that differ from those expressed in this submission.

3. Significance of retail payments to the fuel retail industry

The Australian Fuel retail industry comprises more than 2500 businesses operating an estimated 7080 retail sites across Australia, with the vast majority of these businesses being small to medium business.

These businesses sold an estimated 31 billion litres of fuel (i.e. petrol and diesel) to private households and businesses in FY20. An approximation of the profile of these transactions is provided in the table below:

Market descriptor	Petrol	Diesel
Annual volume sold through retail outlets in Australia	16.5B litres	15.2B litres
Average volume per transaction	47 litres	85 litres
Total no. of transactions per year	340M	176M
Estimated transaction value	\$59	\$116
Estimated number of electronic transactions per year (excludes cash and accounts)	204.3M	105.9M

Note: Data utilised in this table has been extracted from the Australian Petroleum Statistics data sets produced by the Australian Federal Government ([Australian Petroleum Statistics 2024 | energy.gov.au](https://www.energy.gov.au)) and information derived from ACAPMA's Monitor of Fuel Consumer Attitudes research series.

As evidenced by the above, Australian fuel retailers are large users of electronic payment services with an estimated 310M transactions processed each year – approximately 70% of which are debit transactions. As a consequence, fuel retail businesses (and their customers) are heavily exposed to the Australian electronic payments market and are vulnerable to deficiencies in market competition.

During 2017, fuel retailers reported a significant escalation in merchant fee costs and sought assistance from ACAPMA in seeking to better understand the drivers of this increase. ACAPMA's investigations revealed that the costs had 'quietly' increased as a result of 'tap and go' technology (see [The silent debit transaction rort - ACAPMAg - The voice of downstream petroleum](#)).

Further investigations revealed that debit transactions costs had increased markedly for processing these transactions via the international credit card gateways – and Australia's major banks had been complicit in routing payments via these gateways instead of the cheaper Eftpos network (which, at the time, did not have 'tap and go' functionality).

Individual investigations of the cost increases amongst a select number of retailers revealed that the cost of debit transactions increased three-fold as a result of: (a) Eftpos's inability to provide a competitive offering to 'tap and go' technology at the time and (b) the opaque nature of merchant fee offerings provided by banks to retailers.

Had these costs been replicated across all electronic payments, the cost to fuel retailers – and ultimately passed through to motorists in the form of higher fuel costs – could have been in the vicinity of \$69M per year.

ACAPMA's 2017 investigation prompted the Association to join forces with the Master Grocers Association of Australia (MGAA) and the Council of Small Business Organisations of Australia (COSBOA), to advocate for greater transparency in merchant fee arrangements and the introduction of Least Cost Routing (or LCR).

Over the next 3 years, ACAPMA (and its' partners) were successful in raising awareness of the concerns surrounding merchant fees and securing the support of Eftpos to encourage the banks to introduce a simplified form of LCR. Of most relevance to this merger, ACAPMA learned that the temporary 'loss' of Eftpos in the marketplace (due to a technology barrier) resulted in reduction in the intensity of market competition that, coupled with the opaque nature of merchant fee services, significantly increased the costs of processing card payments in Australia.

ACAPMA has continued to advocate for the lowering of the costs of electronic transactions in Australia in recent times, working with the various members of the Independent Payments Forum (IPF) and the Australian Chamber of Commerce and Industry (ACCI) to devise and champion improvement measures.

4. Guiding insights

ACAPMA's specific commentary on the RBA Issues Paper is guided by insights into the opaque and oligopolistic nature of the current merchant service market in Australia. The current operation of the merchant card services market presents significant risks for all Australian businesses (and their consumers), underlined by the need for reform in light of:

- a) Heightened community concern around the cost of living; and
- b) Ongoing changes in payment preferences, with most Australian consumers shifting from cash to electronic payments (debit and credit) post-COVID-19.

4.1. Complexity and Opacity in the Merchant Service Market

The Australian merchant service market's complexity and opacity create significant vulnerabilities for businesses and their customers, exposing them to escalating merchant fees.

The most challenging aspect of this market is the varied architecture of merchant service offerings. These offerings often involve complex, tiered cost structures that hinder meaningful comparisons of competing services. They are frequently bundled with other financial services, further obscuring true costs.

This lack of transparency in charges and interchange costs (levied between the card provider and issuing bank) makes it nearly impossible for merchants to compare offerings or accurately calculate the true cost of electronic transactions.

4.2. Composition of Merchant Fees

Merchant fees in Australia include both direct and indirect costs, yet the national conversation has disproportionately focused on direct costs.

- **Direct Costs:** *Interchange fees, scheme fees, and acquiring margins* are directly tied to transactions and are a significant component of the total merchant fee.
- **Indirect Costs:** *Terminal rental, technology, and fraud prevention costs* are fixed or semi-variable and influence overall profitability.
- **Total Costs:** The total merchant fee reflects the sum of these components, varying by merchant size, industry, and transaction volume.

4.2.1 Interchange Fees

- **Definition:** Fees paid by the acquiring bank to the issuing bank for processing a card transaction.
- **Purpose:** Covers the costs of providing the card, risk management, and fraud prevention.
- **Regulation:** Capped by the RBA, with variations by card type (e.g., debit vs. premium credit).
- **Contribution to Merchant Fee:** Interchange fees constitute a substantial part of the fee structure, with higher fees for premium cards.

4.2.2 Scheme Fees

- Definition: Fees charged by card networks (e.g., Visa, Mastercard) for processing payments.
- Purpose: Funds operational costs of the payment network, including technology and security.
- Structure: Passed to merchants via acquiring banks.
- Contribution to Merchant Fee: Proportional to transaction value, varying by card scheme.

4.2.3 Acquirer Margin (Acquiring Bank Fee)

- Definition: Charged by the acquiring bank for facilitating transactions and settling funds.
- Purpose: Covers operational costs and provides bank profits.
- Structure: A percentage of the transaction or a flat fee.
- Contribution to Merchant Fee: Adds a markup on interchange and scheme fees.

4.2.4 Cross-Border or Currency Conversion Fees

- Definition: Fees for foreign card transactions or currency conversions.
- Purpose: Compensates for additional risk and complexity.
- Contribution to Merchant Fee: Higher for international transactions.

4.2.5 Payment Gateway Fees (Online Transactions)

- Definition: Fees for transmitting payment data securely online.
- Purpose: Facilitates online payments between merchants, acquiring banks, and networks.
- Contribution to Merchant Fee: Applies to e-commerce.

4.2.6 Fraud Prevention and Risk Management Fees

- Definition: Costs for tools and services to mitigate fraud and chargebacks.
- Contribution to Merchant Fee: Often bundled into other fees.

4.3. Competitive Tension in the Merchant Services Market

Current competitive tension is insufficient to ensure fair pricing, particularly for small businesses.

Smaller businesses face merchant fees up to five times higher than large national merchants. This disparity penalizes small operators in low-margin sectors like fuel retail. Abolishing surcharging without addressing this inequity would force small businesses to raise prices, undermining their competitiveness.

4.4. Apparent failure of Voluntary LCR Implementation

The RBA's voluntary approach to promoting Least Cost Routing (LCR) has failed due to inherent conflicts of interest within Australia's banking sector.

As of June 2024, only 54% of merchants across major acquirers had enabled LCR for in-person transactions. This low uptake suggests significant barriers, including banks discouraging LCR adoption through concerns about potential increases in other fees.

Major banks have little incentive to promote LCR, as widespread adoption would reduce revenue from high-cost international card gateways.

4.5. Mandating LCR as Default for Debit Transactions

Mandating LCR as the default for all debit transactions—across physical, online, and digital wallet payments—is necessary to create competitive tension and protect businesses from escalating fees.

The current market complexity and opacity preclude the development of a meaningful benchmark for comparison. Expecting banks to voluntarily direct merchants toward LCR is unrealistic due to inherent conflicts of interest.

Regulating LCR as the default would shift the burden to high-cost gateways to justify their value to merchants, ensuring fairer pricing without introducing harmful cost-fixing mechanisms.

5. Specific comments

The following specific comments are provided in response to the RBA Issues Paper on **Merchant Card Payment Costs and Surcharging** (October 2024).

5.1. Opposition to Banning Card Surcharges: Fairness and Competitive Neutrality

ACAPMA strongly opposes any proposal to ban card surcharges, as such a prohibition would undermine fairness and competitive neutrality within the payments ecosystem. Businesses incur varying costs to accept different payment methods, with credit cards typically attracting higher fees due to interchange and scheme costs.

Banning surcharges would force businesses to absorb these higher costs, likely driving up prices for all customers, regardless of their payment method. This approach is particularly inequitable to customers using low-cost payment options, such as debit cards or cash, as they would effectively subsidize higher-cost credit card transactions.

Retaining the ability for businesses to surcharge represents a transparent and equitable approach that aligns with free-market principles. It ensures that all stakeholders operate on a level playing field, with costs allocated fairly based on the chosen payment method.

5.2. Enhancing Transparency Through Mandatory Reporting of Merchant Fees

ACAPMA advocates for stronger transparency in Australia's retail payments system by amending Retail Payments Legislation to mandate the reporting of merchant fee cost elements by payment service providers. Inspired by the ACCC's reporting framework for fuel wholesale and retail prices, ACAPMA recommends a similar requirement for payment service providers to disclose interchange fees, scheme fees, acquirer margins, and other relevant costs on a quarterly basis.

This measure would empower businesses by providing clear and comparable data, enabling them to make informed decisions about payment processing options and negotiate better terms. It would also equip policymakers with robust data to identify inefficiencies or anti-competitive practices in the payments ecosystem.

5.3. Prescribed Cost Architecture for Merchant Fee Contracts

ACAPMA supports legislative requirements for explicit disclosure of merchant fees in accordance with a prescribed cost architecture. This framework should include interchange fees, scheme fees, and acquiring margins for all merchant fee contracts.

Standardizing fee disclosures would promote consistency across the industry, simplify comparisons of service offerings, and help businesses identify opportunities for cost savings. This approach aligns with broader goals of transparency and accountability among payment

service providers, empowering merchants—the customers of these services—with the knowledge needed to navigate the complex fee structures of different offerings.

5.4. Mandating Dynamic Least Cost Routing by 1 January 2026

ACAPMA supports the introduction of a legislative mandate requiring all merchant service providers to implement dynamic least-cost routing (LCR) by 1 January 2026.

Dynamic LCR automatically routes transactions through the lowest-cost network, reducing costs for merchants and ultimately benefiting consumers. While some banks and payment processors have implemented LCR, adoption remains inconsistent.

Mandating a uniform deadline would ensure widespread implementation and prevent merchants from being disadvantaged by providers delaying or resisting this critical cost-saving measure. Additionally, the introduction of this mandate should include safeguards to prevent merchant service providers from exploiting "blended rates" that obscure the benefits of LCR by pocketing the difference between the actual route cost and the blended unit cost.

6 Summary

Australian fuel retailers are significant users of electronic payment services, processing an estimated 310 million transactions annually – approximately 70% of which are debit transactions. The cost of processing debit card transactions alone was estimated at around \$116 million per year in 2020 (pre-COVID market).

As a result, Australia's fuel retail businesses (and their customers) are highly exposed to the dynamics of the Australian electronic payments market and are vulnerable to deficiencies in market competition. The widespread availability of Dual Network Debit Cards (DNDCs) and Least Cost Routing (LCR) is critical to maintaining competitive pressure on merchant fees in the future.

The Reserve Bank of Australia's (RBA) latest Issues Paper (October 2024), like its predecessor in 2021, openly acknowledges the vital importance of LCR in maintaining positive competitive tension in the merchant card services market.

ACAPMA believes there is a significant opportunity to enhance competition within the merchant card services market by implementing measures to improve transparency of cost structures and elemental charges, along with steps to enhance the efficacy of Least Cost Routing in Australia.

ACAPMA's position in respect of the key issues canvassed in the Issues Paper around the need to lower merchant card costs for merchants and possibly ban card surcharging for Australian consumers, can be summarised as follows:

- a) **Significant opportunity to increase the level of competition in the merchant card service market.** It is suggested that a combination of increased transparency of merchant fee cost structures and new disclosure requirements on merchant fee contracts would likely create a competition dynamic too put downward pressure on merchant card costs.
- b) **Opposition to a Ban on Surcharging**
ACAPMA does not support any proposal to ban surcharging by retailers. The current differential in unit costs of these transactions, particularly between large and small businesses, would disadvantage smaller operators in competitive markets such as fuel retail.

ACAPMA believes that the ballooning costs of merchant card payments (particularly debit card transactions) could be addressed via the simultaneous pursuit of the following actions:

1. Legislation of Price Transparency Requirements

A revised Retail Payments Regulation should mandate that all card providers furnish the RBA with a detailed breakdown of merchant costs. These costs should be separated into direct charges (e.g., interchange fees, acquirer fees, and scheme fees) and indirect charges (e.g., payment gateway fees and fraud prevention costs). The RBA (or ACCC)

could compile and publish this data, similar to how the ACCC reports on wholesale and retail fuel prices, enabling merchants to easily compare merchant fee offerings.

2. Legislation of mandatory Cost Disclosure Requirement on all merchant fee contracts

Introduce a legislative requirement for card providers to include a simplified summary of total debit and credit merchant fee charges in all new and renewed contracts. This summary should be easy to understand and modelled on the Comparison Rate framework used in financial lending products.

3. Mandating Dynamic Least Cost Routing (LCR)

Require the implementation of Dynamic LCR by 1 January 2026. Unlike *Static* LCR, *Dynamic* LCR would allow real-time cost comparisons at the point of sale (POS) for each transaction via Card and EFTPOS gateways, ensuring the least-cost gateway is selected. This approach accommodates variations in transaction value and merchant fee structures, providing superior cost savings for merchants.

4. Addressing Fee Caps and Transparency Gaps

ACAPMA calls for stronger regulations to prevent merchant service providers from exploiting fee caps to the detriment of merchants and consumers. Legislating limits for key components of merchant fees (e.g., interchange fees) and improving transparency of fee structures would foster a competitive dynamic, empowering merchants to compare offerings and driving down costs.

5. Guaranteeing Cost Efficiency for Consumers

Dynamic LCR would ensure Australian consumers pay the lowest possible cost for their transactions based on their chosen card. This safeguard prevents consumers from being penalized by a merchant's inability to select the most cost-effective merchant fee structure.

7 Further information

Further information about this submission can be obtained by contacting the Chief Executive Officer, **Mark McKenzie**, using any of the below details:

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