

**16 December 2024**

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## **Submission to Merchant Card Payment Costs and Surcharging – Issues Paper**

Dear Head of Payments Policy,

### **Introduction**

The Australian Association of Convenience Stores (AACCS) welcomes the opportunity to provide a submission to the Reserve Bank of Australia (RBA) on merchant card payment costs and surcharging. Convenience stores are at the forefront of Australia's retail industry, often representing small and medium-sized enterprises (SMEs) vital to local communities. However, SMEs are disproportionately affected by high payment processing costs, lack of transparency in fees, and limited access to cost-saving mechanisms like Least Cost Routing (LCR).

As the industry continues to move away from cash and towards digital payments, these systemic issues undermine the financial viability of SMEs and hinder their ability to compete fairly with larger businesses. AACCS is an active participant in the Independent Payments Forum (IPF) and our submission provides detailed recommendations aimed at creating a fair, transparent, and efficient payments system that benefits both businesses and consumers.

### **About AACCS**

Established in 1990, the Australian Association of Convenience Stores (AACCS) is the peak body for the convenience retail industry in Australia. Nationally, the industry employs over 80,000 frontline staff across 7,300 stores.

The majority of these stores operate as small, family-run businesses, often under licence or a franchise agreement, or with independent ownership. They regularly employ family members and people from the local communities in which they operate. The AACCS represents the interests of these small businesses - their owners, staff, suppliers and customers.

Each year the AACCS commissions an independent body to measure key metrics in the sector, which is published as the State of the Industry Report . Turnover in the convenience industry in Australia was valued at approximately \$10.4 billion annually in 2023, the latest figure for which data is available.

## Key Issues Affecting SMEs

### 1. High Merchant Fees and Fee Disparities

- SMEs pay significantly higher fees than large retailers, with merchant service fees for small businesses averaging 1.6% compared to lower than 0.2% for major corporations.
- Debit cards, often used as a cash replacement, incur fees disproportionate to their processing cost.

### 2. Opacity in Pricing Structures

- Scheme fees, interchange fees, and PSP/acquirer margins are bundled in complex pricing structures, making it difficult for SMEs to assess true costs.
- Bundled pricing often results in SMEs subsidising premium credit card fees through higher costs on debit transactions.

### 3. Challenges with Least Cost Routing (LCR)

- Despite being a cost-saving mechanism, LCR has not been effectively implemented across the board.
- Most SMEs lack access to real-time dynamic routing, limiting their ability to benefit from lower-cost transaction networks.

### 4. Inconsistent Surcharging Framework

- Surcharging remains essential for SMEs to offset higher fees. However, inconsistent enforcement and unclear definitions of "cost of acceptance" undermine its effectiveness.

## **Proposed Solutions and Recommendations**

### **1. Addressing Fee Disparities at Point of Sale (POS)**

#### **Interchange and Scheme Fees in debit at POS**

##### **Current Challenge:**

- Interchange fees for SMEs can be up to 800% higher than those for large retailers.
- Scheme fees remain uncapped and are often negotiated behind closed doors, benefiting larger players.

##### **Proposed Measures:**

- Cap interchange fees for debit transactions at:
  - \$0.00 for transactions under \$50.
  - \$0.01 for transactions over \$50.
- Introduce caps on scheme fees:
  - \$0.01 for debit transactions under \$50.
  - \$0.15 for debit transactions over \$50.
- Publish transparent fee structures for all payment service providers (PSPs) to enable SMEs to make informed choices.

#### **Interchange and Scheme Fees in credit at POS**

##### **Current Challenge:**

- Interchange fees for SMEs can be up to 800% higher than those for large retailers.
- Scheme fees remain uncapped and are often negotiated behind closed doors, benefiting larger players.

##### **Proposed Measures:**

- Cap interchange fees for credit transactions at POS:
  - \$0.02 for transactions on standard credit cards.
  - \$0.01 for transactions premium credit cards.
- Introduce caps on scheme fees:
  - \$0.02 for transactions under \$50
  - \$0.20 for transactions over \$50.
- Publish transparent fee structures for all payment service providers (PSPs) to enable SMEs to make informed choices.

We support similar cost reductions that have been proposed by IPF for online transactions, rewarding merchants which have invested to help mitigate fraud.

AACS also recommends the RBA explore mechanisms to cap Acquirer/PSP margin at 0.2% on both credit and debit transactions, in line with the averages shown in the discussion paper.

## 2. Enhancing Transparency in Pricing

### Current Issues:

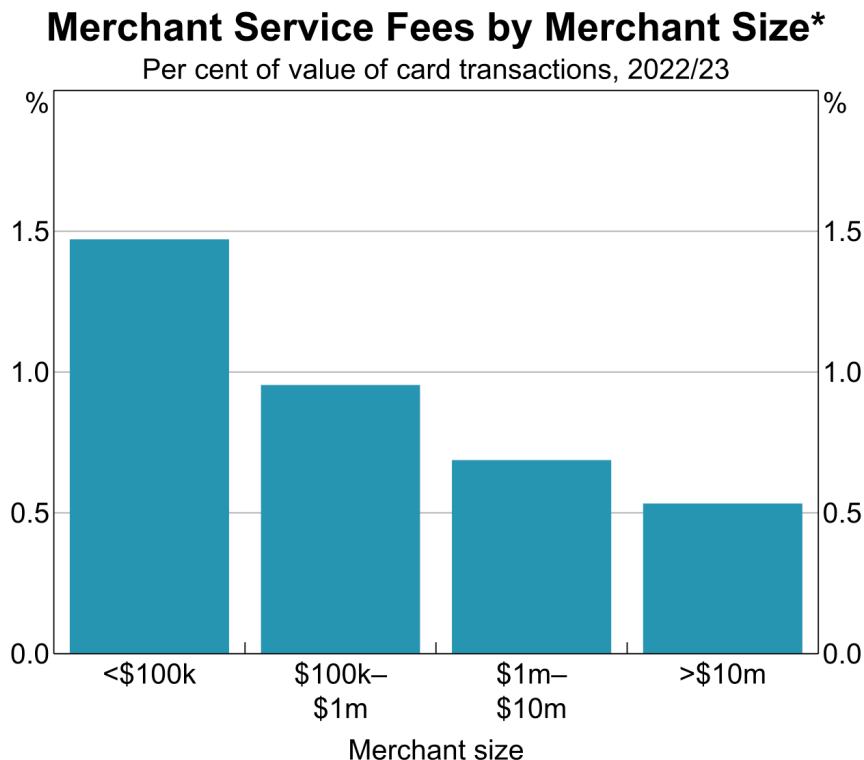
- SMEs are usually offered bundled pricing, combining debit and credit card fees, which obscures the true cost of each transaction.
- Lack of clarity around fees prevents SMEs from switching to more cost-effective providers.

### Proposed Measures:

- Require PSPs to provide detailed monthly breakdowns of:
  - Interchange fees.
  - Scheme fees.
  - PSP/acquirer margins.
- Mandate that "interchange plus plus" pricing is offered to all merchants, with clear pathways for switching plans at any time.

### Graph 1: Average Merchant Fees by Business Size

*This graph illustrates the disparity in fees between small and large businesses.*



\* Weighted average. Merchant size based on annual value of eftpos, Mastercard and Visa transactions. Merchant Service Fees exclude GST.

Source: RBA.

### 3. Strengthening Least Cost Routing (LCR)

#### Current Issues:

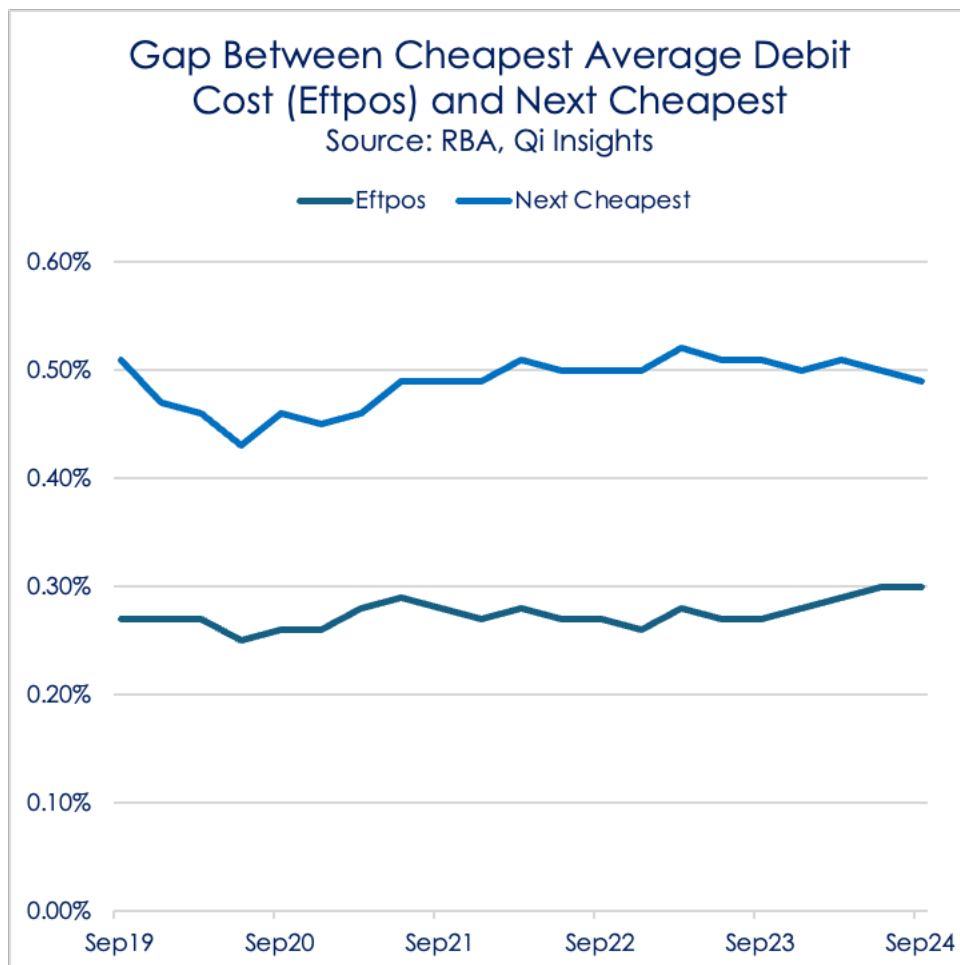
- Many PSPs and acquirers fail to implement LCR effectively, leaving SMEs unable to access the lowest-cost transaction networks and benefit from cost savings.

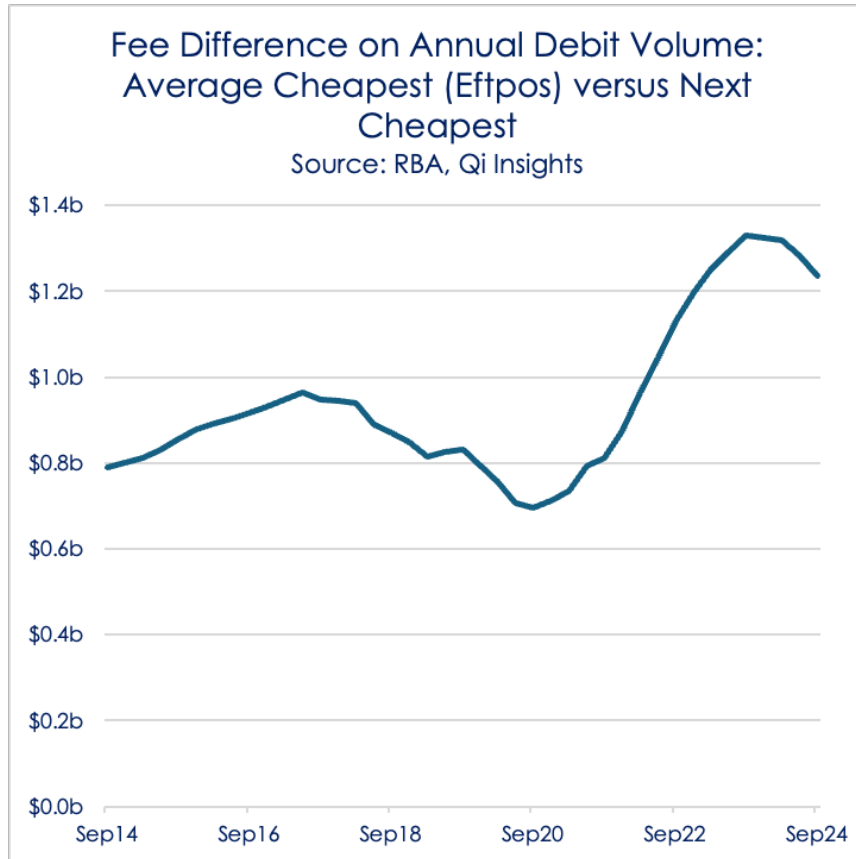
#### Proposed Measures:

- Mandate opt-out **dynamic** LCR across all platforms, including POS, online, and mobile transactions, by January 2026.
- Ensure multi-network debit card functionality across all form factors and revoke exemptions that undermine LCR adoption.
- Ensure merchants benefit from cost savings generated from LCR.

#### Graph 2: Cost Savings Potential of LCR for SMEs

*This graph compares transaction costs with and without LCR implementation.*





#### 4. Improving the Surcharging Framework

##### Current Issues:

- Surcharging is a vital cost-recovery tool for SMEs but is undermined by unclear definitions of "cost of acceptance" and inconsistent enforcement of regulations.

##### Proposed Measures:

- Retain surcharging rights for SMEs, particularly where fee disparities persist.
- Define permissible "cost of acceptance" components, explicitly excluding unrelated expenses like platform fees or loyalty program costs.

## **Benefits of Proposed Reforms**

### **1. Economic Fairness**

- Reducing fee disparities ensures a level playing field, enabling SMEs to compete with larger retailers.

### **2. Enhanced Transparency**

- Simplified pricing structures and mandatory reporting empower SMEs to make cost-effective decisions.

### **3. Cost Savings for Consumers**

- Lower transaction fees for merchants translate to lower costs for consumers, fostering economic resilience.

## **Additional Considerations**

### **1. Consumer Education**

- Educate consumers on the impact of payment fees and the benefits of supporting businesses that implement fair payment practices.

### **2. Support for Innovation**

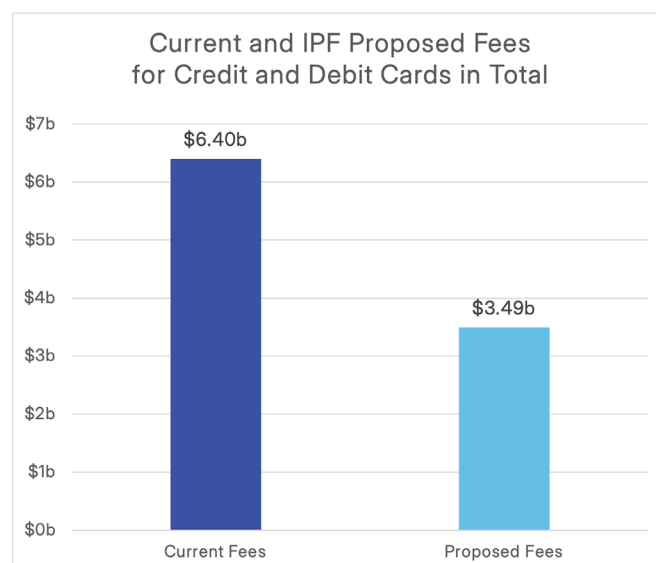
- Encourage adoption of cost-saving technologies while ensuring transparency in associated fees.

### **3. Regulatory Oversight**

- Strengthen enforcement mechanisms to prevent anti-competitive practices, such as preferential pricing for large merchants.

## **Graph 3: Projected Impact of Fee Caps on Merchant Costs**

*This graph demonstrates potential cost reductions under proposed fee caps if the RBA adopts our proposed recommendations.*



## Conclusion

The AACS strongly urges the RBA to implement these recommendations to address the inequities in card payment costs, promote transparency, and enhance competition. These measures will support SMEs, benefit consumers, and foster a more efficient and equitable payments system.

AACS stands ready to assist the RBA with further insights and to collaborate on implementing these vital reforms.

I welcome the opportunity to discuss our submission.

Yours sincerely,

Theo Foukkare



CEO

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