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AusPayNet is the industry association and self-regulatory body for the Australian payments industry. We manage and develop standards and guidelines governing payments in Australia. Our purpose is to create confidence in payments by: setting enforceable industry standards for a safe, reliable and effective payments system; leading transformation in payments to drive efficiency, innovation and choice; and being the home for ecosystem collaboration and strategic insight. AusPayNet currently has more than 150 members including financial institutions, payment system operators, major retailers and financial technology companies.

This submission has been prepared by AusPayNet in consultation with its members. In developing this submission, interested members participated in a consultation process to discuss key issues and provide feedback to inform AusPayNet's response. References to 'AusPayNet's view' reflect the feedback agreed with these members, with the submission highlighting any key differences in views across our membership base.

Executive Summary

Australian Payments Network (AusPayNet) welcomes the opportunity to respond to the Issues Paper for the Reserve Bank of Australia's (RBA) Review of Merchant Card Payment Costs and Surcharging (the Review).

The Australian payments ecosystem provides the critical infrastructure that underpins the smooth functioning of the economy, enabling the safe and efficient transfer of funds between individuals, businesses and institutions. This infrastructure delivers significant value to both consumers and merchants, as evidenced by recent analysis showing that the card payment systems alone added $38.7 billion to the Australian economy in 2022.[1] This value is underpinned by substantial and ongoing industry investment in security, reliability, and innovation – including fraud prevention capabilities that protect consumers and merchants from growing economic crime threats, infrastructure that maintains consistently high service availability, and continuous enhancement of payment services to meet evolving user needs.

While we understand that merchant payment costs and surcharging have received increased public attention over the past year, much of the evidence presented in the Issues Paper suggests that Australia's payments system is generally functioning well: merchant service fees have declined consistently over the past decade, despite rising investment in security and reliability; operational

1 Deloitte Access Economic (2024), The Value of Australia's Retail Payments System. (Available to the RBA on request)

reliability has remained at very high levels; and innovation continues to enhance payment services and provide both consumers and merchants with access to a growing range of payment options

In this context, our submission highlights several key considerations from an industry perspective that we hope will inform the RBA's assessment of the policy issues outlined in the Review. These include:

- The importance of considering the payments ecosystem holistically, rather than making changes that would only apply to certain payments systems or participants in isolation and potentially create competitive distortions.
- The need for the regulatory responses being considered to be supported by detailed quantitative research that considers the distribution of both costs and benefits across the payments ecosystem and its end-users.
- The importance of taking a broader view of efficiency that considers not just costs, but also quality, security, innovation, and the long-term sustainability of the payments ecosystem.
- The risk that certain regulatory measures and increased regulatory complexity could undermine policy effectiveness through unintended behavioural responses.
- The value of maintaining flexibility in pricing and business models to enable continued innovation and competition across the payments ecosystem, and to better meet the needs of merchants.
- The importance of better stakeholder understanding about how the payments system operates and the value it provides

Given the breadth of AusPayNet's membership base and the nature of the policy issues and options being considered in this Review, we note that different member cohorts are likely to have some differences in views that reflect their diverse roles in the payments ecosystem. These perspectives will be detailed in their individual submissions to the RBA. AusPayNet's submission will focus on key considerations from an industry-wide perspective that should inform the evaluation of potential regulatory responses.

Scope of the Review

We understand the RBA's desire to expedite its review of card payment costs and surcharging, given the growing public and regulatory focus on these issues. However, we have concerns about conducting this work ahead of the passage of the *Payment Systems (Regulation) Act 1998* (PSRA) reforms. The current legislative framework means that the Review can only consider a subset of payments service providers (PSPs), and must exclude important industry participants that are currently not captured under the legislation, such as digital wallet providers, buy-now-pay-later (BNPL) firms, payment facilitators, and payment gateways.[2] There is a risk that policy changes made for specific segments of the payments industry in isolation could lead to unintended distortions in competition and efficiency across the broader payments ecosystem.

The RBA has long maintained that regulation should be competitively neutral, and we strongly support the principle that similar activities presenting similar risks should be subject to similar rules. However, these principles are difficult to uphold when regulatory changes can only be applied to some

[2] For the purposes of this submission, 'PSPs' will refer to all providers of payments services, including payment system operators, financial institutions, and financial technology firms.

participants in the market. While this Review focuses on card payment costs and surcharging, any resulting changes could affect competition with emerging payment methods that are currently outside the regulatory perimeter. For example, changes to surcharging rules that only apply to card payments could create an unlevel playing field with BNPL services, potentially biasing consumer payment choices based on inaccurate price signals. Similarly, digital wallet providers and payment gateways can significantly influence payment costs and routing decisions, yet would remain outside the scope of any new regulatory requirements. This fragmented approach could undermine the RBA's statutory objectives of promoting competition and efficiency in the payments system.

We therefore reiterate our support for the passage of the PSRA reforms and encourage the RBA to consider postponing any major regulatory changes until a comprehensive review can be conducted. This review should assess competition and efficiency across the entire payments ecosystem to ensure a consistent and fully informed regulatory framework.

The Value of Australia's Retail Payments System

In its inaugural *Strategic Plan for Australia's Payments System*, the Government set out its vision for a "modern, world-class and efficient payments system that is safe, trusted and accessible, and enables greater competition, innovation and productivity across the economy."[3]

The Australian payments ecosystem is already delivering on this vision. This includes playing a vital role in supporting economic growth and productivity by enabling secure and efficient commerce across all sectors of the economy. Collectively, the card and bank transfer payment networks in Australia process around 20 billion transactions worth around $20 trillion annually, including everyday retail purchases, salary and welfare disbursements, peer-to-peer transfers, cross-border remittances, and critical business payments.[4]

The Australian payments ecosystem has continuously evolved as consumer preferences and business needs have changed over time. For example, the rapid growth in e-commerce over the past decade has been underpinned by secure digital payment capabilities that give consumers the confidence to transact online. More broadly, ongoing innovations in digital payments have provided safer and more convenient payment mechanisms for both consumers and merchants, and enabled businesses to meet changing customer preferences and expectations while maintaining security and reliability. Continued improvements in payment services have also helped drive productivity by improving checkout efficiency, enabling faster payments settlement, and providing businesses with better data and insights about their operations. We also note that all of the innovation in payments products and services over the past decade has generally occurred on the existing payment rails, and much of this would not have been possible without the safe and reliable underlying infrastructure provided by the card schemes and the New Payments Platform (NPP).

Underpinning all of this, the security and reliability of Australia's payments ecosystem has been crucial to maintaining confidence in digital commerce and the broader financial system. As acknowledged by the RBA, any disruption to the provision of digital payments services could have "serious impacts on customers, businesses and the broader economy", with a single outage having the potential to cause economic harm for affected end-users and transmit systemic issues across the payments system and

[3] Australian Government (2023), A Strategic Plan for Australia's Payments System, 7 June, p.2.
[4] RBA Retail Payments Statistics, Tables C1.1, C2.1, C2.2, and C6.1.

economy. However, the Bank's analysis has shown that payment services in Australia have maintained "high aggregate levels of reliability", with card payments having the highest service availability.[5]

PSPs have also been developing increasingly sophisticated capabilities to protect customers and merchants through fraud and chargeback protection. In 2023, the value of payment card fraud in Australia had increased to $762 million, and the value of reported scams to over $2.7 billion.[6] As the scale and complexity of economic crime have increased, PSPs have been continuously enhancing their fraud detection and risk management tools to keep pace with the emerging threats. For example, many PSPs now employ advanced machine learning systems to detect and prevent fraud across their networks in real-time, protecting customers and merchants from losses while maintaining fast transaction processing for legitimate payments. These investments are making a significant difference to customers and merchants. One of the major international card networks, for example, helped prevent over US$40 billion in fraudulent transactions globally in the year to September 2023, almost twice as much as in the previous year.[7] In Australia, the same card scheme helped financial institutions prevent over $700 million of fraud.[8] Similarly, one of the Australian major banks recently announced that it blocks over 20,000 suspicious payments each day, and its investments in upgraded security measures had decreased customer scam losses by over 50 per cent in FY2024.[9] Card networks – unlike cash and account-to-account payments – also provide customers with chargeback and forward delivery risk protections, in the event that anything does go wrong with the purchase.

The value of all of these benefits arising from Australia's safe, reliable and efficient digital payments infrastructure should not be overlooked. Recent analysis by Deloitte found that the electronic card payment systems added $38.7 billion of value to the Australian economy in 2022 (1.8 per cent of GDP), with $16 billion in extra revenue for businesses from a larger and more productive economy.[10]

The cost of providing payments services

All of the benefits provided by the payments ecosystem have only been possible through substantial and ongoing investment by PSPs. Regardless of the 'maturity' of the payment network, these costs continue to be incurred by all participants in these networks. The high levels of operational reliability of Australia's payment networks, for example, are only possible as a result of continued investment in infrastructure, cybersecurity, business continuity arrangements, and other risk management capabilities. Similarly, innovating and developing new products and services to meet changing customer and business needs, integrating new technologies and payment methods, operating customer service and dispute resolution functions, and providing chargeback protections to shield consumers from losses, all necessarily generate significant ongoing costs for PSPs.

In terms of security and fraud protection alone, just some examples of industry investment include: Visa and Mastercard investing around US$17 billion over the past five years to help reduce fraud and increase network security globally; Australian banks collectively investing $100 million in a new

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5 Griffiths, J and Joyce, M (2024), The Reliability of Retail Payment Services, RBA Bulletin, 17 October.

6 Australian Payments Network (2024), *Australian Payment Fraud 2024*, 25 September; Australian Competition and Consumer Commission (ACCC) (2024), *Targeting scams: Report of the ACCC on scams activity 2023*, 28 April.

7 Visa (2024), Visa's Growing Services Business Infused with New AI-Powered Products, 28 March.

8 Visa (2024), Visa prevents more than $700 million in fraud from disrupting Australian businesses, 12 March.

9 Commonwealth Bank of Australia (2024), CommBank's strong financial position provides extended support to customers, 14 August.

10 Deloitte Access Economic (2024), The Value of Australia's Retail Payments System. (Available to the RBA on request)

industry confirmation of payee system; and one of the major banks alone investing $800 million in greater security measures to combat fraud, scams, cyber and financial crime in FY2024.[11] Extrapolating such examples across the many players in the payments ecosystem gives a sense of the magnitude of ongoing investment required to ensure the resilience and reliability of Australian payments.

This is further compounded by the growing regulatory compliance costs faced by the industry, reflecting both increasing regulatory requirements and mandatory industry transformation initiatives. These include the recent migration to the ISO 20022 messaging standard, the migration to the Advanced Encryption Standard, tokenisation-related upgrades, the transition away from BECS and cheques, the establishment of the PSP licensing and scams prevention frameworks, and the reforms to the AML/CTF regime. While our members recognise the benefits that such changes will deliver, their implementation costs should not be underestimated. The estimated cost of financial crime compliance alone, for example, amounted to around $5.3 billion for Australian financial institutions in 2023 (and $200 billion for financial institutions globally).[12]

When considering the 'reasonable' costs faced by end-users of the payments system (including both merchants and consumers), it is therefore also important to consider the value received by those users, and the costs of providing this value. Our members are concerned that this is not being adequately considered by the RBA in evaluating its regulatory policy options. For example, PSPs' ongoing investments in fraud prevention capabilities directly benefit merchants through reduced fraud losses and enhanced consumer trust. Similarly, the investments being made to ensure high levels of system availability help to mitigate the potential costs that would be faced by merchants through lost sales and customer frustration as a result of system outages or degraded performance. It would therefore appear to be reasonable for merchants to contribute to these costs through merchant service fees.

As part of this, the distribution of these costs across participants *within* the payments ecosystem is an important yet complex consideration. As the RBA is aware, in card payment networks, the costs and risks of providing payment services are not evenly distributed between the parties that enable a transaction. Card issuers, for example, typically bear a significant portion of the costs – including fraud prevention, consumer protection measures, dispute handling, and technology investment – while also taking on most of the credit and fraud risk. Interchange fees recognises that merchants receive significant value from these services, including guaranteed payment, fraud protection, and access to their customers' lines of credit (which can increase sales). Interchange fees can also affect incentives for investment in payment system improvements and innovation – if interchange fees are set too low, this could reduce the ability and incentive for issuers to invest in enhanced security measures, fraud prevention capabilities, and new payment technologies that ultimately benefit all participants in the ecosystem. Conversely, maintaining appropriate interchange levels helps ensure continued investment in payment system capabilities that enhance efficiency, security and innovation.

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11 Visa (2024), Visa's Growing Services Business Infused with New AI-Powered Products, 28 March; Bloomberg Intelligence, Visa, Mastercard spur gen-AI adoption among payment companies, 4 October; Australian Banking Association (2023), Banks unite to declare war on scammers, 24 November; Commonwealth Bank of Australia (2024), CommBank's strong financial position provides extended support to customers, 14 August.

12 Forrester Consulting (2023), *True Cost of Financial Crime Compliance Study, Asia Pacific*, November; Forrester Consulting (2023), *True Cost of Financial Crime Compliance Study 2023*, 26 September.

Balancing the costs and benefits

We appreciate the RBA's commitment to broad industry consultation. However, in order to adequately inform the policy issues being considered in this Review, we would also encourage the Bank to strengthen the foundation for its policy decisions through more detailed quantitative research and analysis. The most recent comprehensive study of payment costs was conducted in 2014. Given the significant changes in payment technologies, volumes, and market structure since then, an updated comprehensive study of the costs associated with different payment methods, and how these costs should be distributed among the many different participants and users of the payments system, will help ensure that the policy responses are appropriately calibrated. This should include consideration of security, compliance, and infrastructure costs, and consider the numerous upcoming changes that will affect the industry over the coming years, as set out in the Government's Strategic Plan.

Regulatory Principles & Approach

In a speech delivered earlier this year, the RBA noted that the upcoming Review of Retail Payments Regulation would seek feedback on whether the key principles it uses to determine when regulatory intervention may be justified remain appropriate and are being applied effectively.[13] While this question was not explicitly raised in the Issues Paper, we consider that reviewing – and, if appropriate, revising – these key principles and the RBA's broader approach to payments regulation is critical prior to making any further changes to the regulatory framework. This section outlines several important considerations about the RBA's regulatory framework and approach that should inform its assessment of potential policy responses.

Competition and Efficiency

A particular concern among our members relates to the Bank's primary focus on merchant payment costs as a measure of efficiency (and competition) in the payments ecosystem. While we agree that competitive pressure driving down end-user costs is an important indicator of system efficiency, it is not the only one. This is acknowledged in both the Strategic Plan and the RBA's own explanation of its approach to regulation (emphasis added):

> *An efficient system is one in which competitive pressures drive down payment costs. Efficiency in payment systems is productivity enhancing as it* ***empowers industry to allocating resources effectively to innovate, and respond to new developments*** *and changing consumer preferences.* ***An efficient payments system provides end-users with certainty*** *by ensuring payments are made and received in a timely, seamless, and predictable manner, with users appropriately informed about where their payment is going, when it will arrive and the associated costs.*
>
> *– A Strategic Plan for Australia's Payments System*[14]

[13] Connolly, E (2024), Online Retail Payments – Some Policy Issues, Speech at the Merchant Risk Council Conference, 18 June.
[14] Australian Government (2023), A Strategic Plan for Australia's Payments System, 7 June, p.10.

In promoting the efficiency of the payments system, the Bank focuses on three things:

- *technical efficiency – can processes be improved to reduce costs or* ***improve the quality of the product****?*
- *allocative efficiency – are resources being allocated in the most efficient way across the payments system as a whole?*
- *dynamic efficiency –* ***do processes, products and the allocation of resources adjust over time?***

– RBA Payments System Regulation: Approach to Regulation[15]

These broader aspects of efficiency are clearly evident in the Australian payments ecosystem today. Technical efficiency, for example, is reflected in the high operational reliability of payment services and sophisticated fraud prevention capabilities that enhance the quality and security of transactions. The continuous development of these capabilities has created a payment system that users can depend on, while protecting them from growing threats of fraud and other forms of economic crime.

Dynamic efficiency can be seen in how the system has continued to evolve to meet changing needs and adopt new technologies. The growth in e-commerce has been enabled by innovations in digital payments, while new threats have been met with increasingly sophisticated fraud detection systems. Maintaining this adaptability requires ongoing investment in new technologies and capabilities. While such investments may increase certain costs, they are essential for maintaining an efficient, secure and innovative payments system.

From this perspective, regulatory interventions focused primarily on reducing merchant fees need to be carefully evaluated against their potential impact on these broader aspects of efficiency. For instance, while lower interchange fees might reduce immediate costs for merchants, they could affect investment incentives in ways that ultimately reduce technical or dynamic efficiency. This underscores the importance of taking a holistic view of efficiency that considers not just costs, but also quality, security, innovation and the long-term sustainability of the payments system.

Effectiveness of Transparency Measures

While transparency and disclosure requirements are commonly used regulatory tools aimed at promoting competition and efficiency, the potential effectiveness of different transparency measures needs to be carefully evaluated in the context of the payments ecosystem. The Issues Paper proposes several transparency measures, including requiring card schemes to publish aggregate interchange and scheme fee data, reporting scheme fees to merchants, and requiring PSPs to publish price information. While our members generally support greater transparency, there are important practical considerations about whether such measures would achieve their intended outcomes.

The complexity of current scheme fee structures in particular presents a challenge for both industry participants and stakeholders. As acknowledged in the Issues Paper, even larger PSPs struggle to fully understand scheme fee schedules. In this context, publishing additional fee information may not meaningfully enhance market competition or efficiency if the target audience – particularly smaller merchants and PSPs – cannot effectively interpret or act on this information. Over the past few years, we have seen many smaller merchants actively choosing to move to 'simple' or blended pricing plans,

15 RBA, Payments System Regulation: Approach to Regulation, accessed November 2024.

in part because they prefer not to manage the complexity of detailed fee structures. Adding more granular fee information to merchant statements is unlikely to influence their decision-making if they lack the resources or expertise to meaningfully use this information to make decisions or negotiate better rates. We also question which merchant and PSP decisions such information would be intended to influence in the first place, and how this information would improve their bargaining power.

This highlights the broader importance of considering behavioural factors when designing regulatory interventions. Traditional economic approaches often assume that market participants will act 'rationally' on all available information. However, behavioural economics research indicates that factors like complexity, cognitive constraints, and implementation costs can limit the practical impact of disclosure requirements and other transparency measures, or lead to unintended consequences.[16]

There are also questions about whether meaningful comparisons could be made from published aggregate fee data. In terms of publishing merchant service fee information, for example, each PSP offers varied features and service levels that affect their fee structures. Different merchants will place a different value on each of these features and services, depending on what is most important to them in their business. Without proper context about these service differences, raw fee comparisons could be, at best, unhelpful, or worse, misleading for merchants' decision-making. Similarly, international comparisons of fee levels need to consider differences in operating costs, regulatory requirements, system features, and levels of network innovation, security and reliability across jurisdictions.

This is not to say that our members do not support greater transparency within the payments ecosystem. Rather, we encourage the RBA to carefully evaluate the practical effectiveness of different transparency measures, to ensure that they would actually achieve their intended objective. This is particularly the case for smaller merchants and PSPs, who may have limited capacity to understand and use any additional information. The evaluation should consider both the direct costs of implementing new reporting requirements, and whether they would meaningfully influence user behaviour and market competition. In some cases, alternative or complementary measures may be more effective in achieving the policy objectives (such as the Bank's recent expectation relating to a standard on tokenisation, which was aimed at reducing some of the common barriers to switching PSPs faced by merchants). Such measures could include:

- Promoting the simplification of fee structures, where appropriate.
- Supporting the development of independent comparison tools that could help merchants evaluate payment services based on their specific needs (beyond just pricing).
- Enhancing merchant education about payments products, services and costs.
- Ensuring any proposed disclosure requirements are tested with target audiences to confirm their practical effectiveness.

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16 See, for example: Australian Securities and Investments Commission (ASIC) & Dutch Authority for the Financial Markets (2019), Disclosure: Why it shouldn't be the default, Report 632,14 October; Kell, P (2016), ASIC and behavioural economics: Regulating for real people, Speech at The Impacts of Behavioural Economics on Financial Markets and Regulations Symposium, 18 October; and Ben-Shahar, O and Schneider, C E (2011), The Failure of Mandated Disclosure, *University of Pennsylvania Law Review*, Vol. 159(3), pp. 674-749.

Surcharging Framework

There is a wide range of views among our members in relation to whether the current surcharging framework should be maintained, modified or completely removed. These views will be detailed further in individual members' submissions to the Review. However, there are some important overarching considerations to highlight that should inform the evaluation of potential policy options on this matter; these are outlined below, and in the following two sections.

The surcharging framework was introduced with the objective of promoting competition and efficiency by providing price signals to consumers about the relative costs of different payment methods. However, as noted in the Issues Paper, there have been significant changes in the payments landscape since then, which raise questions about the framework's continued effectiveness in meeting its policy objectives. Most notably, the increasing adoption of blended pricing plans by merchants – particularly among smaller businesses who, anecdotally, appear to have the highest prevalence of surcharging – commonly results in a uniform surcharge level across all card types. In these cases, consumers no longer receive actionable price signals about the different card payment options, meaning that the practice of surcharging no longer achieves its policy objective.

The competitive dynamics in payments have also shifted considerably. The significant decline in cash usage (and acceptance) over the past few years has meant that consumers often have limited practical alternatives when faced with card payment surcharges at many physical points of sale. At the same time, there is now a growing variety of newer digital payment methods not subject to the surcharging framework (such as buy-now-pay-later and account-to-account payments), which could lead to distortions in competition between payment types as these methods become more commonly used and accepted (highlighting again the need for a more holistic Review whose scope extends beyond just the card payments system).

There are also practical challenges with the current framework that warrant attention. Anecdotally, the enforcement of surcharging rules has proven difficult, particularly given the large number of merchants, limited regulatory capacity, and varying interpretations of what constitutes a reasonable cost of acceptance under the regulation. We expect that where smaller merchants are responsible for updating the surcharge rates for different card payment types (rather than having this automatically calculated and applied in the backend by their PSP), the complexity and frequent changes required could lead to input errors, confusion about the correct rates to apply, and simple administrative procrastination or forgetfulness. These issues become even more pertinent when considering some of the policy options outlined in the Issues Paper. For instance, implementing different rules for debit versus credit cards would add significant complexity to surcharge calculations and compliance monitoring. This could make the framework even more challenging to enforce effectively, potentially leading to uneven application of the rules and reduced confidence in the system. While the Issues Paper suggests that PSPs could play a greater role in enforcing surcharging rules on their merchant customers, some of our members have expressed significant concerns about this approach, in part due to the potential negative impact on their relationships with those merchants. If the surcharging framework is retained in some form, we urge the RBA to consider how the enforcement model could be made more effective, to ensure fair and consistent application of surcharging practices across all merchants that adopt them.

Finally, there appears to be a potential inherent tension in the RBA's current regulatory approach. Through its interchange regulation, the RBA effectively determines what it considers to be efficient price levels for different payment methods – for example, the RBA has accepted that credit card payments can justifiably have higher interchange fees than debit cards due to the different costs and risks involved in providing these services. We expect that the Bank could extend similar price regulation to scheme fees, if it believed that scheme fee levels were inefficient. This raises a question about the role of surcharging as a price signalling mechanism. If the RBA is satisfied that its price regulation has achieved efficient pricing for each type of card payment method, there would seem to be limited benefit in requiring merchants to send additional price signals to consumers about these regulated costs (generally in an attempt to shift their payment choice from one method to another). Indeed, doing so could actually distort efficient payment choices by suggesting to consumers that some regulated price levels are 'too high', even though the regulator has determined that they are appropriate. This tension becomes particularly apparent when considering proposals to ban surcharging on debit cards while maintaining it for credit cards. Such a proposal implicitly suggests that regulated debit card fees are 'reasonable' while equally regulated credit card fees are not. This contradicts the logic of having different regulated price levels for different payment methods based on their distinct features and costs.

Complexity of the Regulatory Framework

Building on the comments above, AusPayNet is concerned that some of the policy options being considered could introduce unnecessary complexity into the payments system, potentially undermining their effectiveness and creating unintended consequences.

As a starting point, behavioural economics research has consistently shown that when faced with complexity, individuals often have difficulty in making a fully rational choice due to cognitive biases.[17] This could result in the individual choosing the simpler or default option, even if it may not be optimal. This creates a risk that adding complexity to payment arrangements could actually reduce competition and efficiency, rather than enhance it. Such behavioural biases are likely to have been a key driving factor behind the slower than expected take-up of Merchant Choice Routing over the past few years, even after the functionality had been made available and offered by acquirers.

A key concern is that implementing different surcharging rules for debit and credit cards would likely require the unbundling of merchant pricing plans and create new complexity in surcharging calculations.[18] While such differentiation would be intended to promote more efficient payment choices, smaller merchants may struggle to implement these more complex arrangements effectively. This could result in some smaller merchants either choosing to no longer surcharge at all, where they would have done so previously, or being more likely to implement it incorrectly and breach regulation. Overall, the cognitive and administrative burden of managing different pricing rules, updating point-

[17] For further information on the behavioural economics concepts discussed in this section, see for example: Lunn, P (2014), Regulatory Policy and Behavioural Economics, OECD Publishing, 10 January; Productivity Commission (2008), Behavioural Economics and Public Policy, Roundtable Proceedings, April; and Erta, K, Hunt, S, Iscenko, Z and Brambley, W (2013), Applying behavioural economics at the Financial Conduct Authority (FCA), FCA Occasional Paper No. 1, April.

[18] Under the proposed policy option of banning surcharges on debit cards only: in order for a credit card surcharge to send an effective price signal to consumers, the merchant would only be able to surcharge the *difference* between the cost of that credit card and the cost of the debit cards accepted by the merchant. If the prices of all cards are unbundled, determining the 'cost of debit' for that merchant would also need to be determined – for example, it could be either the most expensive debit card for that merchant, or a weighted average of all debit card payment costs incurred by the merchant over a given period.

of-sale systems, training staff on new procedures, and explaining changes to customers could outweigh any potential benefits from more granular cost structures.

Relatedly, the surcharging framework has always assumed that any customer faced with a surcharge at a point-of-sale can quickly make an optimal payment choice based on the various surcharge rates presented (noting that the rates at each merchant visited by that customer would likely vary). The level of mental arithmetic required to make a truly rational choice, by considering the relative costs and benefits of all the different payment methods available to that consumer, is incredibly high. When faced with differential surcharging, we therefore expect that most customers would struggle with making optimal payment choices and simply default to the option with the lowest surcharge – even if the additional cost of a different payment method would actually be outweighed by the benefit to that consumer. This reduces the effectiveness of price signals in influencing efficient choices, and again highlights the importance of considering behavioural factors in assessing regulatory options.

This understanding of behavioural factors and market responses to complexity is reflected in the evolution of merchant pricing arrangements over the past decade. The market has naturally moved toward offering simpler pricing arrangements that reduce cognitive burden and offer predictability and operational simplicity for merchants, while still enabling competition and efficiency through other mechanisms. The value of such pricing plans for merchants has been recognised by the RBA, which noted that "for some smaller merchants, the benefits of fixed plans in terms of simplicity, convenience and functionality could outweigh their higher cost".[19] Furthermore, these arrangements allow smaller PSPs to negotiate collectively with card networks on behalf of their small business merchants, providing them access to more competitive rates than they could achieve individually.

Some of the proposed regulatory changes could work against this market evolution by mandating more complex pricing arrangements. This, in turn, may prove counterproductive to achieving the desired policy outcomes, potentially reducing competition in acquiring services and creating new barriers for smaller PSPs. While such pricing differentiation should theoretically promote more efficient payment choices, the cognitive and administrative burden of implementing and managing these complex arrangements, and the potential behavioural impacts of the increased complexity, could outweigh at least some of the potential benefits. This risk is particularly acute for smaller merchants, who have the most to lose if regulatory complexity forces them away from pricing arrangements that currently serve their needs effectively.

Finally, it is important to consider that increased regulatory complexity inevitably generates higher compliance costs across the industry. Depending on the policy options ultimately selected by the Bank, PSPs may need to upgrade systems and processes to implement and monitor more complex pricing and surcharging arrangements, retrain staff, and invest in compliance monitoring capabilities. These costs could potentially end up flowing through to merchants in the form of higher fees, at least partly offsetting any benefits that might be achieved through the adopted policy measures.

Education and Communication

A key challenge evident in current policy discussions is the need for better understanding among stakeholders about how the payments system operates and the value it provides to the Australian

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[19] Gill, T, Holland C and Wiley G (2022), The Cost of Card Payments for Merchants, RBA Bulletin, 15 September.

economy. Recent public and political discourse around payment surcharges, for instance, has largely focused on their perceived contribution to cost-of-living pressures. This narrative oversimplifies a complex issue and risks driving policy responses that may not achieve their intended outcomes.

The reality is that payments is a critical service, and that payment costs are therefore a necessary business expense for merchants. It is also a cost that merchants will seek to recover in some way – either through surcharges, or through higher overall prices for goods and services (or both). It is important to note that even merchants that only accept cash will incur significant operational costs of doing so, and these costs will be directly reflected in the prices they charge to all customers. Indeed, while cash is often considered 'free' because it cannot be surcharged, one recent analysis suggests that the average cost to a merchant of accepting a cash payment could be as high as 3.9 per cent.[20]

Changes to surcharging rules are therefore unlikely to meaningfully impact the overall purchase prices faced by consumers. More importantly, this narrow focus on costs overlooks the significant value that the payments ecosystem provides in enabling commerce and supporting economic growth. As outlined above, the ecosystem's reliability, safety, and continuous innovation have been crucial in enabling the growth of both offline and online commerce, supporting business development, and protecting consumers and merchants from fraud. These benefits extend well beyond individual transactions to support broader economic opportunities and growth.

There also appears to be widespread public misunderstanding about the purpose of the surcharging framework. The framework was never intended as a mechanism for merchants to recover their payment costs. Rather, the objective was to promote competition and efficiency in the payments system by providing price signals to consumers about the relative costs of different payment methods, and in doing so, create competitive pressure on PSPs to reduce their fees. The suggestion in the Issues Paper that high merchant service fees are driving surcharging behaviour is therefore somewhat contradictory, as the ability to surcharge was meant to help drive those fees down in the first place. This misconception risks focusing policy discussions on the wrong issues and could lead to changes that actually reduce the framework's effectiveness in promoting competition and efficiency.

We therefore see an important role for regulators in enhancing understanding of the payments system among all stakeholders, including the Government and end-users. This includes better communication about how the system operates, the costs involved in maintaining secure and reliable payment services, and the value these services provide to the economy. Such education efforts would help support more informed and constructive policy discussions focused on maintaining an efficient, innovative and sustainable payments system that continues to meet the evolving needs of Australian businesses and consumers.

AusPayNet welcomes the RBA's commitment to reviewing its retail payments regulation settings to ensure that they remain fit for purpose. We believe that with careful consideration of the issues raised in our submission – particularly around taking a holistic view of efficiency, ensuring that regulatory changes apply consistently across the ecosystem, and considering the practical effectiveness and potential unintended consequences of any regulatory options – any regulatory changes can enhance rather than inhibit competition and efficiency in the Australian payments ecosystem. AusPayNet and

[20] Boston Consulting Group study referenced in: Eyers (2024), Mastercard argues cash costs more than card in bid to stymie fee limit, Australian Financial Review, 29 August.

our members are eager to continue engaging with the RBA as it progresses this Review, to ensure that the regulatory framework achieves its policy objectives while maintaining the payments system's ability to support economic activity through secure, reliable and innovative payment services.

Please contact Kateryna Occhiutto, Head of Policy & Insights (kocchiutto@auspaynet.com.au) or me if you have any questions related to this submission.

Yours sincerely,

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