ARCA

Australian Restaurant & Cafe Association Ltd. (ARCA)

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Head of Payments Policy Department
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About ARCA

The Australian Restaurant & Cafe Association Ltd. (ARCA) is a Member based not-for-profit Industry Association and is the strongest voice for the Restaurant & Cafe segment of the Accommodation & Foodservice Industry, representing a sector that employs 450,000 across over 54,000 restaurants & cafes in Australia. Our Members include many of the leading restaurants & cafes in Australia, which employ tens of thousands within the Restaurant & Cafe segment. The majority of the industry is considered small businesses with 99% of restaurants and cafes earning less than $10 million in annual revenue and 91.4% earning less than $2 million[1], according to the Australian Bureau of Statistics (ABS).

ARCA welcomes the opportunity to provide input into the Reserve Bank of Australia's (RBA) Inquiry into Merchant Card Payments Costs and Surcharging. As the peak industry body for cafes and restaurants across the country, ARCA represents businesses that are directly impacted by the rising costs of card payments and merchant fees and are the single most affected segment around surcharging. We appreciate the RBA's review, which is timely given the ongoing concerns around the cost of living and the evolving preferences of consumers in the payments landscape.

As highlighted in the RBA's Executive Summary in the Issues Paper, Australian consumers benefit from the convenience and security of card payments, and these payment methods are now integral to the way businesses like ours interact with customers. However, the increasing cost of doing business, including merchant fees, is becoming an ever-greater challenge for our members. This is particularly true for small and medium-sized businesses in the hospitality sector, which often operate on tight margins and have little leverage to negotiate better payment processing terms.

[1] ABS Counts of Australian Businesses, including Entries and Exits, June 2019 to June 2023, 18 Dec 2023

ARCA acknowledges that the RBA's current regulatory framework, including initiatives aimed at reducing interchange and scheme fees, as well as the introduction of least-cost routing (LCR), has helped address some of these concerns. However, as the RBA has noted, it has been some years since the surcharging framework was introduced, and it is now essential to assess whether this framework is still fit for purpose. In an environment where the costs associated with card payments are rising, and consumer payment preferences are shifting, it is critical that the regulatory framework evolves to ensure that both businesses and consumers can benefit from fairer and more efficient payment systems.

In our submission, informed primarily through member and industry surveys, ARCA will outline the challenges faced by cafes and restaurants in managing merchant card payment costs. We will also address the impact of potential regulatory changes, including the banning of debit card surcharges and the implications of shifting additional payment costs to businesses **which is the primary issue affecting restaurants & cafes**. Our segment of the Accommodation & Foodservice Industry is particularly sensitive to changes in the regulatory environment, and we seek to ensure that any proposed changes to card payment and surcharging regulations consider the realities faced by hospitality businesses and any unforeseen negative outcomes for consumers.

We strongly support further efforts by the RBA to foster greater competition, transparency, and efficiency in the payments system. However, we urge that any regulatory changes prioritise fairness, ensuring that small businesses are not unduly burdened by increased costs, a reduction in competition, technology and market forces, or reduced flexibility in their payment processing options. Ultimately, the goal should be to create a payments ecosystem that balances the needs of consumers, merchants, and payment service providers, while promoting sustainable business practices in the hospitality sector.

We look forward to engaging with the RBA and other stakeholders throughout this inquiry and appreciate the opportunity to contribute to shaping a more equitable and efficient payments landscape.

Q1: Is there a case for lowering the level of interchange benchmarks or caps? Should the difference between the interchange fees paid by big and small businesses be limited in some way?

There is a strong case for lowering the level of interchange benchmarks/caps, particularly to address the significant disparities in fees paid by large and small merchants in Australia. The data in the Issues Paper and provided by the Independent Payments Forum (IPF) highlights small businesses, including cafes and restaurants, are paying disproportionately high fees for card payment processing compared to larger businesses. Small merchants are often paying on average three times (3x) the per-transaction cost that large businesses face and in some cases as high as seven to nine times (7-9x)[2], likely largely due to the bargaining power of larger merchants who can negotiate more favourable fees with payment service providers (PSPs) and the small businesses' lack of capital to build complex payment processing systems.

The Case for Lowering Interchange Fees and Caps; Unjustified Disparity Between Small and Large Merchants:

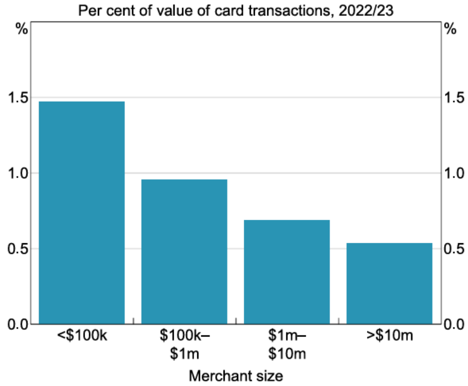
The substantial difference in fees paid by large and small merchants is a key issue for restaurants & cafes, and recent revelations of those differences has come as an unwelcome surprise to the segment, which is almost entirely made up of small businesses under $10 million in revenue. Large businesses may have the leverage to negotiate lower interchange rates due to their volume of transactions or capital availability to build complex payment infrastructures, while small businesses, such as cafes and restaurants, are stuck paying potentially higher rates with little market power. This disparity is difficult to justify for cafe and restaurant owners, as there is no evidence presented to the industry thus far to suggest that the processing costs for smaller merchants are fundamentally higher than for larger ones or that small and large transactions have fundamentality higher per transaction costs. In fact, the scale of card transactions in cafes & restaurants and the competition among card networks for merchant fees should have put downward pressure on costs, yet small businesses are still burdened with potentially higher merchant fees when compared to large business. This disparity is evidenced clearly below comparing the RBA's data from the Issues Paper showing the difference in average merchant fees and ARCA Member & Industry Data from an extensive industry wide survey showing average merchant fees paid, with nearly 60% of the sector paying over 1.25% in merchant fees per transaction;

[2] Independent Payment Forum (IPF) research, 2024

Graph 3

Merchant Service Fees by Merchant Size*

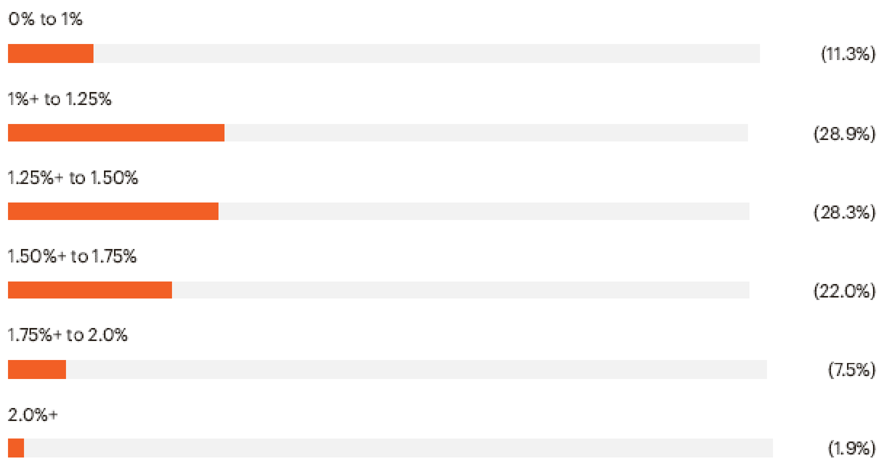
Per cent of value of card transactions, 2022/23



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

Source: RBA.

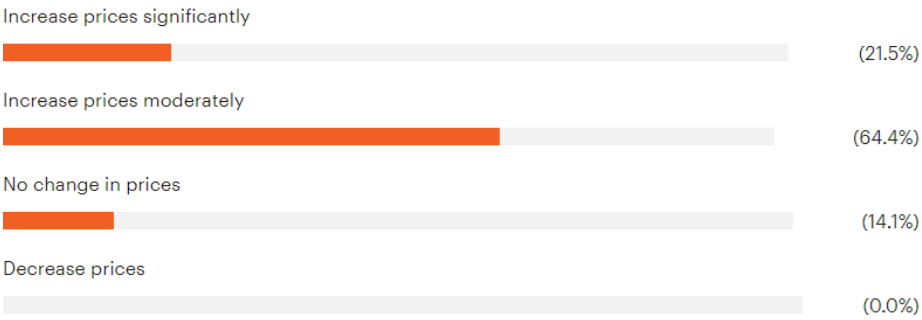
"Average Merchant Fee Rate What is your average blended merchant fee rate (total fees for accepting card payments) as a percentage of sales?"



Benefits of Lower Interchange Fees for Small Merchants:

Lowering interchange fees would directly benefit small restaurants & cafes by reducing the overall cost of card payments. As the data in the Issues Paper indicates, reducing card payment costs could also reduce the amount small businesses surcharge their customers for debit merchant fee costs, which could positively impact diner experience. In addition, this could help create a more level playing field between small and large businesses, making the cost of card payments more equitable. Note that without any changes to interchange, simply banning debit surcharges will not likely lead to the desired consumer cost reduction outcomes, with ARCA Member and Industry Data from an extensive industry wide survey showing nearly 86% restaurants & cafes would pass on merchant fees with increased menu prices if forced to absorb them.

"Impact on Pricing How would absorbing merchant fees affect your pricing strategy for menu items?"



Outdated Benchmarks and Caps:

As noted in the Issues Paper, the current interchange fee caps in Australia were set based on data from 2006 and may now be outdated. Since then, the fixed costs of card issuing are surely being spread across a much larger volume of transactions, which should have resulted in a decrease in the relative cost per transaction. Furthermore, the benchmark for credit card interchange fees in Australia (0.5%) is higher than in some other jurisdictions, such as Europe, where the cap is set at 0.3%. This suggests that Australian interchange rates are potentially too high and that lowering them could help reduce the costs faced by restaurants & cafes. Additionally, as noted in the Issues Paper, other jurisdictions have taken steps to reduce interchange fees for small businesses. In Canada, the government reached an agreement with Visa and Mastercard to implement reduced interchange rates for small businesses, so it only stands to reason the same can be negotiated in Australia, without the need to change the services provided.

Recommendations for Addressing the Disparity

Imposing a Cap on the Difference Between Large and Small Merchant Fees:

One potential intervention could be to limit the range of interchange fees that large and small businesses pay. This could involve imposing a maximum difference in fees charged to large and small businesses by each card network. Such a policy would help close the gap and make card payment costs more equitable, ensuring that small businesses are not unfairly disadvantaged. Another potential solution could be to reduce the interchange caps specifically for small businesses, as has been done in Canada. By lowering the interchange fees that small businesses must pay, the RBA would help ensure that these businesses can continue to compete with larger businesses without being burdened by disproportionate transaction costs. As 99% of restaurants and cafes earn less than $10 million in annual revenue and 91.4% earn less than $2 million[3], nearly all of the restaurant and café segment of the industry would benefit from such reforms.

Q2: Should interchange regulation be extended to foreign card transactions in Australia?

ARCA would support an extension of interchange regulations to foreign card transactions. If RBA is able to regulate the international card interchange, this will be a net positive to restaurants and cafes, and tourist consumers, as it will lower the overall cost of acceptance, and potentially reduce costs and ultimately surcharges charged to those consumers. There is no known benefit of increased interchanges fees other than revenue to the provider bank and issuer bank, without any observable benefit to local restaurants and cafes, or the consumer using the foreign card.

Q3: Is there a case for reducing the complexity, and/or enhancing the transparency, of interchange fees? If so, how?

For the restaurant and cafe segment, there is a strong case for reducing interchange fee complexity and enhancing transparency. As the restaurant & café segment typically operates on low margins under 5% net profit margin, relatively high payment processing fees can significantly impact profitability, and any reduction will dramatically improve profitability.

1. Publishing Aggregate Interchange Data for Transparency

Card networks could be required to **publish aggregate data on average interchange fees**. Currently, it is challenging for small businesses, such as cafes and restaurants, to understand and benchmark their interchange fees against market rates. Publishing average fees would promote transparency, allowing smaller merchants to gauge whether they are receiving competitive rates and to make informed decisions regarding their payment service providers.

2. Limiting the Number of Interchange Categories

The proliferation of interchange categories—due to card networks adding new product options and payment types—adds significant complexity, making it difficult for merchants to understand and compare their costs. By **capping the number of categories**, card networks

[3] ABS Counts of Australian Businesses, including Entries and Exits, June 2019 to June 2023, 18 Dec 2023

could maintain only the most essential fee structures, making it simpler for restaurant and cafe owners to predict and manage their payment costs.

4. Simplifying with Caps Alone Instead of Caps and Benchmarks

Simplifying interchange regulation to use only **caps, instead of both caps and weighted-average benchmarks**, could help the restaurant and cafe segment by reducing complexity in fee setting and compliance and moving away from weighted average benchmarks could help avoid gaming. By setting clear, fixed caps, card networks could still compete but would be limited in their ability to increase fees on specific transaction types. This would create a more predictable cost structure for merchants, reducing administrative burdens and fee volatility, which is especially valuable for small, resource-limited businesses.

These actions would support cafes and restaurants by creating a payment landscape that is more transparent, predictable, and easier to navigate. Simplified, capped, and transparent interchange fees would make it easier for these small businesses to manage their card payment costs and ensure fairer, more competitive pricing across payment service providers.

Q4: Is there a case for further transparency of scheme fees to promote efficiency and competition? If so, what additional information would be beneficial? Q5: Is there a case for regulatory action to reduce the complexity or growth of scheme fees? If so, what form should this take? Q6: What other regulatory action should the RBA consider to increase the competitive pressure on scheme fees?

There is a strong case for regulatory action to reduce the complexity and growth of scheme fees in the restaurant and cafe sector, where businesses are often burdened by high payment processing costs that can erode profitability. Since scheme fees for card transactions represent a significant portion of card payment costs according to the Issues Paper, addressing these fees could help lower transaction expenses for merchants, ultimately benefiting consumers.

1. Addressing Complexity and Opacity in Scheme Fees

<u>The opaque and intricate nature of scheme fees makes it challenging for restaurants and cafes to understand</u>. Regulatory actions focused on **improving transparency**—such as requiring the publication of more transparent and standardised scheme fee data by card networks—would empower smaller merchants with less bargaining power to make more informed decisions. This transparency could help increase competitive pressure by allowing direct fee comparisons across networks.

2. Simplifying Fee Structures

Scheme fees could also be simplified by be regulated in **consolidating fee categories** and **standardising fees**. This would make it easier for smaller establishments, which may lack the resources to analyse complex fee schedules, to understand their costs better and make cost-saving decisions. Consolidated, standardised fee structures would remove some of the guesswork, allowing merchants to better plan for card payment costs.

3. Caps on Fee Growth

The imposition of **caps on scheme fee growth** could further restrain the cost burden on merchants. Caps similar to existing interchange fee regulations could help control fee increases that might otherwise go unchecked in a less competitive market. This could be particularly effective for restaurants and cafes, which often operate with thin margins (4.2% Profit according to IBIS World) and are highly sensitive to rising operational costs.

In addition to these actions, the RBA might consider fostering competitive pressure through initiatives such as:

- **Incentivising the Mandating of Dynamic Least-Cost Routing (LCR)**: Expanding LCR functionality across all payment types, including online and mobile wallet transactions, could help reduce debit scheme fees by routing transactions to the least costly network.
- **Encouraging Alternative Payment Networks**: Support for alternative payment networks or domestic schemes could provide competition to international schemes helping to keep scheme fees lower across the market.

These regulatory actions would support the restaurant and cafe segment by promoting a fairer, more competitive, and transparent payments environment, which could lead to lower transaction costs and increased cost-efficiency in handling payments, all of which could lead to lower surcharges for consumers.

Q7: How do stakeholders assess the functioning and effectiveness to date of LCR for in-person transactions? Is further regulatory intervention needed? What might that look like?

In the restaurant and cafe sector, stakeholders generally view least-cost routing (LCR) for in-person transactions as a beneficial tool for reducing card payment costs. However, while LCR has grown significantly, barriers remain, and further regulatory intervention may be warranted to enhance its effectiveness and ensure that its benefits reach merchants.

1. Current Effectiveness and Shortcomings of LCR in the Restaurant and Cafe Sector

- **Adoption Rates and Cost Savings**: LCR adoption has reached approximately 70% of merchants for in-person transactions and is expected to rise to 80% by the end of 2024. For restaurants and cafes, LCR can significantly reduce card processing costs, as it allows them to route payments through the cheaper eftpos network instead of the more expensive Visa or Mastercard network. Lower payment costs can have a direct impact on profitability, given the slim margins in the food service sector.
- **Challenges with Single-Rate Plans**: Many PSPs offer blended rate merchant plans where LCR may be applied in the background. However, these savings may not always reach merchants, as PSPs retain control over pricing strategies. Thus, restaurant and cafe owners on these plans may not fully benefit from the cost reductions of LCR, as the savings might not be reflected in their transaction fees.

2. Potential Need for Regulatory Intervention

- **Automatic LCR Enablement**: Given the benefits of LCR and its relatively straightforward implementation for in-person transactions, the RBA could consider mandating that PSPs enable LCR by default for all merchants, with an option for merchants to opt-out. This approach would help ensure that the majority of restaurant and cafe owners can benefit from LCR without needing to navigate complex activation processes.
- **Dynamic LCR Options**: A regulatory push for dynamic LCR could help optimise transaction routing and provide maximum cost savings for restaurants and cafes, where every transaction counts.

3. Designing Effective Regulatory Measures for LCR

- **Transparent Fee Reporting and Savings Pass-Through**: Regulatory measures could require PSPs to demonstrate how LCR savings are passed on to merchants. Mandating transparent fee reporting or introducing a requirement for PSPs to disclose how much merchants save through LCR could give restaurant and cafe owners better insight into their payment costs and incentivise PSPs to pass along savings more directly.

- **Standardising LCR Across PSPs**: Ensuring that all PSPs provide LCR consistently across in-person transactions could further reduce costs in the restaurant and cafe sector, as it would prevent disparities in savings between providers and promote more competitive pricing.

In summary, while LCR is effective, its benefits are not always uniformly realised by restaurants and cafes. Regulatory intervention to make LCR the default setting, push for dynamic routing solutions, and regulating fee transparency could enhance its impact on this sector. This approach could help ensure that savings from LCR are maximised and shared with merchants, ultimately allowing restaurants and cafes to manage card payment costs more efficiently. The RBA needs to be mindful though that overregulation may have unintended adverse effects on the PSP industry-preferencing some while driving other smaller players out of the industry, reducing competition and ultimately driving up costs for merchants, all while stifling innovation.

Q8: Is there a case for greater transparency of fees, wholesale costs, and market shares for some payment services? If so, what form should this take? What benefits or drawbacks might arise from implementing any of these measures?

In the restaurant and cafe sector, there is a strong case for increased transparency of fees, wholesale costs, and market shares of payment service providers (PSPs). Given the low profit margins in the restaurant & cafe segment, cost efficiencies in payment processing could make a difference. Increased transparency could help restaurant and cafe owners to make better-informed decisions when selecting PSPs or negotiating terms, which could lead to broad savings.

- **Potential Benefits**:
  - **Enhanced Competition**: Making average fees, wholesale costs, and margins publicly available by PSPs would enable cafes and restaurants to more easily compare providers, increasing competitive pressure and potentially lowering transaction costs.
  - **Informed Negotiations**: Transparent cost breakdowns would allow merchants to negotiate better deals based on a clear understanding of the wholesale and service costs of each PSP.
- **Potential Considerations**:

- **Complexity in Fee Comparisons**: Fee structures vary significantly across PSPs, so transparency efforts may still struggle to provide apples-to-apples comparisons for small restaurants & cafes.
- **Administrative Burden for PSPs**: Requiring PSPs to disclose this information may lead to increased administrative costs, which could be indirectly passed to merchants in the form of higher fixed fees.
- **Loss of service/benefits:** An unintended consequence of legislating disclosures could be a race to the bottom and a real removal of the full suite of services currently provided to merchants-some of which have recently been threatened.

Q9: Should PSPs be required to provide individual merchants more detailed information on their regular statements (or through other channels)? How could this information be presented without creating additional complexity for merchants?

Yes, potentially requiring PSPs to provide a clearer breakdown of fees—such as interchange fees, scheme fees, and/or PSP margins—on merchant statements could benefit restaurant and cafe owners.

- **Implementation Suggestions**:
  - **Opt-In Detailed Breakdown**: If requested, merchants should potentially be able to opt in to receive detailed breakdowns of their fees. This would allow merchants interested in tracking specific costs to access this information without overwhelming those who prefer simpler statements.
  - **Standardised Cost Categories**: PSPs could adopt a standardised format with clearly defined categories (e.g., “Interchange Fees,” “Scheme Fees,” “PSP Margin”) to help merchants quickly understand and compare these charges without added complexity.
- **Benefits**:
  - **Empowered Decision-Making**: Having a detailed cost breakdown would allow cafes and restaurants to better understand where their payment fees go, making it easier to evaluate whether they are getting a good deal or should consider alternatives.
  - **Simplified Negotiations**: With a clear breakdown, restaurant & cafe owners can negotiate more effectively based on actual service costs.
- **Considerations**:

  - **Complexity**: It is critical that any disclosure requirements are not complicated for merchants to understand and are comparable amongst PSPs, especially for those businesses on blended rate plans.
  - **Loss of service/benefits:** An unintended consequence of legislating disclosures could be a race to the bottom and a real removal of the full suite of services currently provided to merchants-some of which have recently been threatened.

Q10: Should PSPs be required to publish standardised information on their pricing and services for merchants (in line with reforms introduced in the United Kingdom)?

Yes, a similar reform requiring PSPs to publish standardised information in a "summary box" could be beneficial for the restaurant and cafe sector.

- **Implementation Approach**:
  - **Summary Box for Key Fees**: PSPs could be required to publish a "summary box" that outlines their main charges, including transaction fees, any additional service fees, and cancellation terms, along with an online quotation tool for merchant comparison.
  - **Accessible Comparison Tools**: An online tool, similar to the one implemented in the UK, could make it easier for merchants to compare PSPs based on their specific transaction profiles, saving time and facilitating cost-effective decisions.
- **Benefits**:
  - **Ease of Comparison**: Standardised information would make it easier for restaurants and cafes to compare PSP options, encouraging a more competitive environment.
  - **Cost Efficiency**: Simplifying the PSP comparison process could lead to more merchants choosing lower cost options, which would reduce operating expenses.

Q11: What other regulatory measures should the RBA consider to improve competition between PSPs?

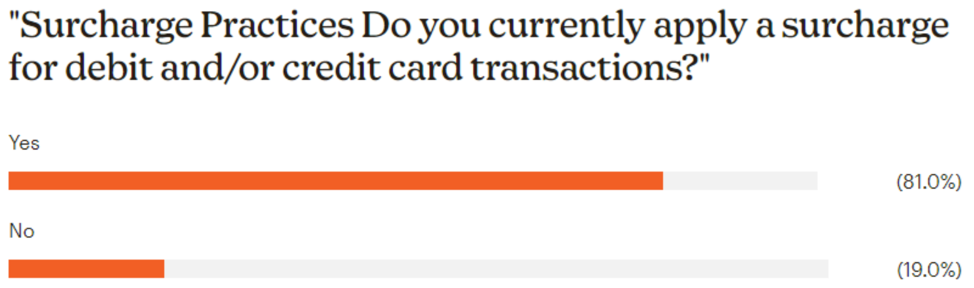
Additional regulatory measures could include:

- **Encouraging PSP Switching Support**: Similar to mobile number portability, PSPs could be required to facilitate a smooth transition for merchants who wish to switch providers, reducing barriers for cafes and restaurants to access better rates, noting contract terms may be variable.

- **Incentivising Dynamic Least-Cost Routing (LCR)**: Given not all PSPs offer dynamic LCR solutions, which automatically route each transaction to the lowest-cost network, the RBA could incentivise PSPs provide dynamic LCR, especially for high-transaction sectors like restaurants and cafes.

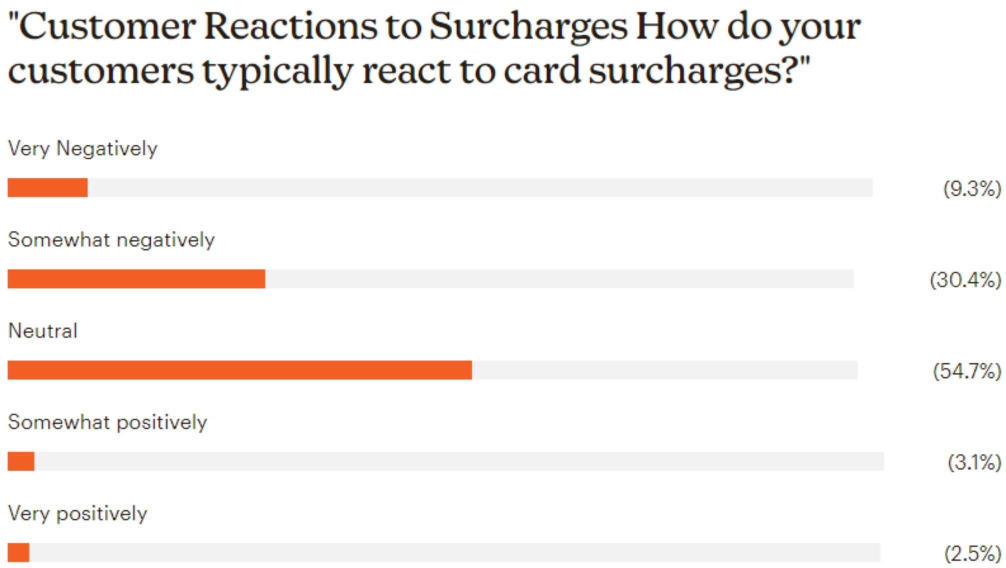
Q12: Is there a case for revising the RBA's surcharging framework? If so, which options or combination of options would best address the current concerns around surcharging? What other options should the RBA consider? Q13: What are the implications for merchant payment costs from changes to the surcharging framework? Could the RBA address these with other regulatory actions?

While the restaurant & cafe segment of the Accommodation & Foodservice Industry is mindful that surcharges are not consumers most desirable fee, they are essential for restaurants and cafes to operate, manage menu prices, recover costs, and blended rate merchant fees ensure a transparent and consistent fee for consumers. According to ARCA Member and Industry Data from an extensive industry wide survey[4], 81% of restaurants & cafes in Australia charge a surcharge to consumers for card usage.



In addition, from restaurants and cafes' point of view of diner sentiment, the same survey revealed that over 60% of diners are "Neutral or positive" about surcharges, somewhat countering assertions of such a negative view.

[4] ARCA Member and Industry Survey, November 2024



We feel there is a strong case **<u>against</u>** further regulation of surcharging in the restaurant and cafe sector. Per our survey, over 73% of operators in the restaurant & cafe segment are specifically opposed to any ban on debit surcharging of any kind.

Additionally, current RBA surcharging regulations already enable merchants to charge consumers the reasonable cost of card acceptance, providing key benefits:

Cost Recovery for Small Businesses: In the restaurant and cafe sector, margins are often tight with IBIS World[5] noting in 2024 that restaurants and cafes averaged under 5% net profit. Surcharging enables small businesses to recover some costs associated with card acceptance, allowing them to operate more sustainably. Given the sector's reliance on PSP services, and the current stagnant trading environment, allowing merchants to offset these costs is critical to their survival. According to Creditor Watch[6], 1 in 11 hospitality businesses

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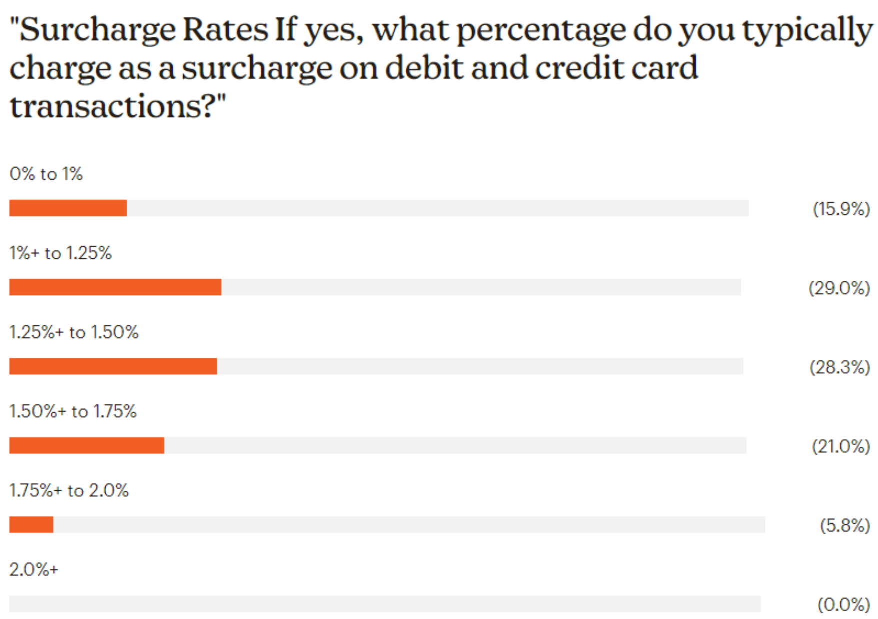
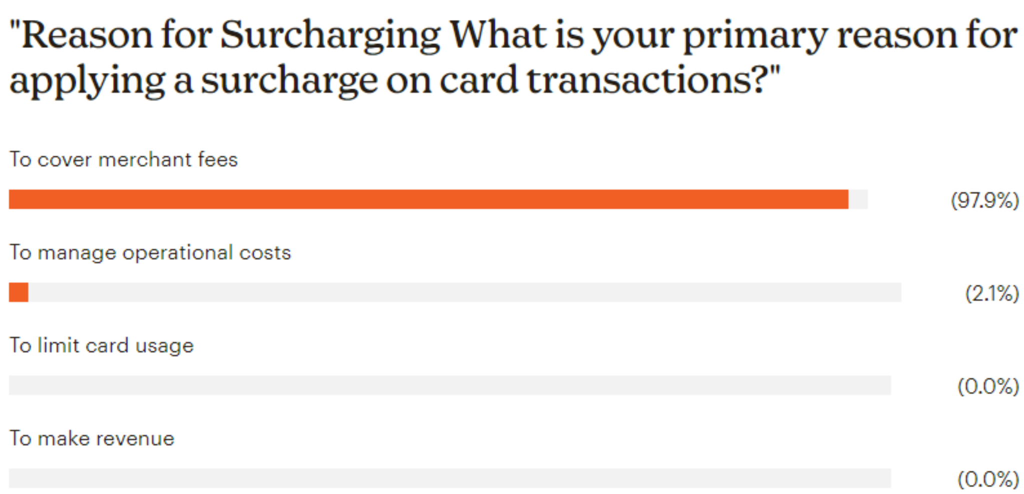
[5] IBIS World Restaurant & Cafe Industry Reports, 2024
[6] [CreditorWatch rates 16.2% of hospitality businesses as high risk or above; Forecast closure rate of 8.9% over next 12 months for the sector | CreditorWatch]

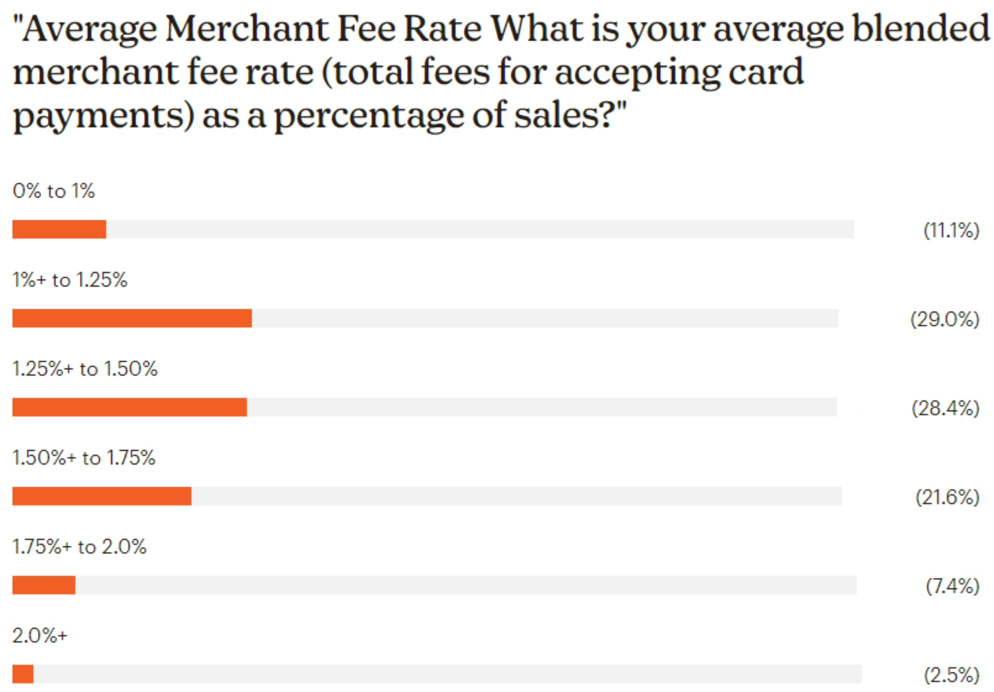
are expected to close in the next 12 months under the pressure of high interest rates and lower demand in CBDs. Without the ability to pass on merchant fees, this number could increase.



Restaurants & cafes reported they typically pass on merchant fees as a surcharge with the bulk of the fees (73.2%) being charged to consumers under 1.50%, and a large percentage (44.9%) of surcharges are passed on below 1.25% per transaction. Nearly 98% of restaurants & cafes surveyed noted their primary reason for applying a surcharge is simply to cover the merchant fees they are charged by PSPs for those transactions. Small merchants have little to no control over which card is used, this falls squarely on the consumer to determine.

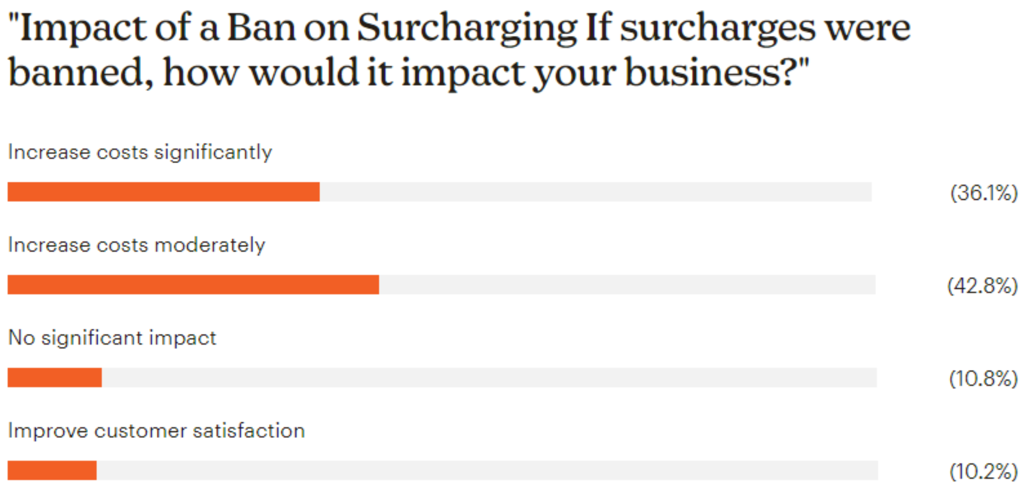


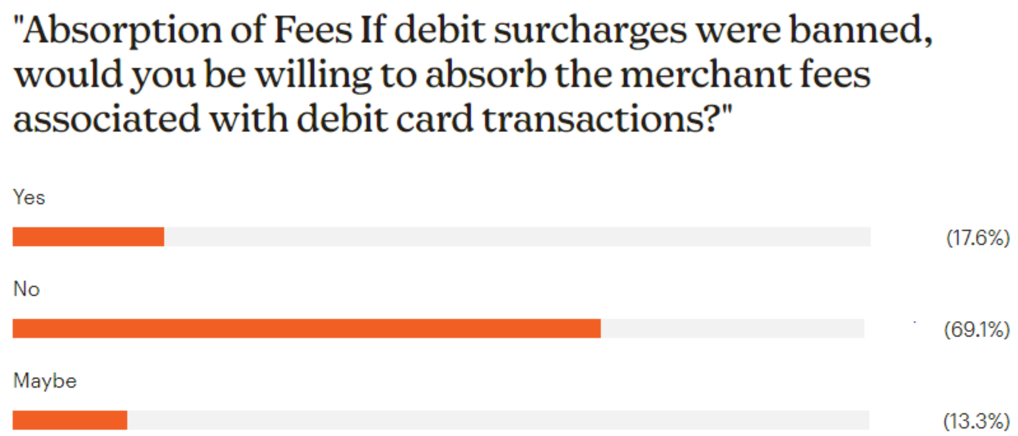
Simplicity & Predictability: Current blended rate payment merchant fee plans, popular among restaurants & cafes, create and ensure the predictability and simplicity in cost management needed in the current economic environment. Introducing further regulation could pressure merchants to adopt more complex and potentially more expensive fee structures, which could confuse both business owners and customers, especially in the sector with high transaction volumes. Currently, over 40% of restaurants & cafes around Australia report a blended rate below 1.25% and over nearly 70% noted having negotiated a blended rate below 1.50%. There is little to no appetite in the restaurant & cafe segment to “cut off their nose to spite their face” by trading the dismantling of blended rate payment merchant fee plans for ultimately any higher costs, not one cent higher.



Banning debit surcharges on transactions could lead to major unintended consequences, ultimately leading to not only higher costs but also higher menu prices and overall transaction costs for consumers:

Immediate Cost Increases: Banning debit surcharges will have a swift and negative impact on small restaurants & cafes around Australia, with nearly 80% survey respondents reporting they expect increased overall costs of doing business. Just under 18% note they would be willing to absorb debit merchant fees, which will ultimately lead to increased menu prices.

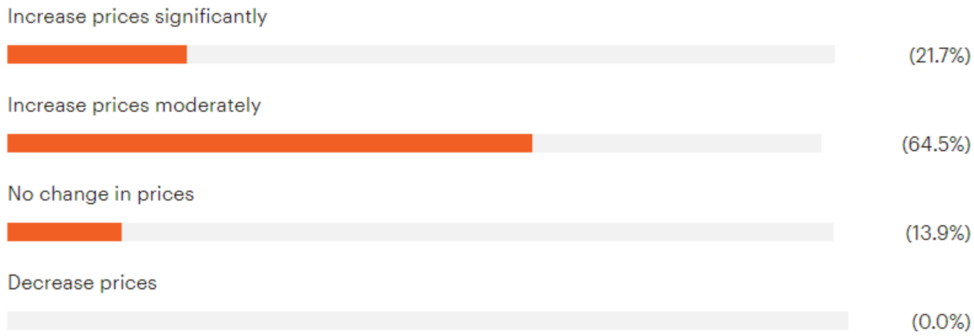




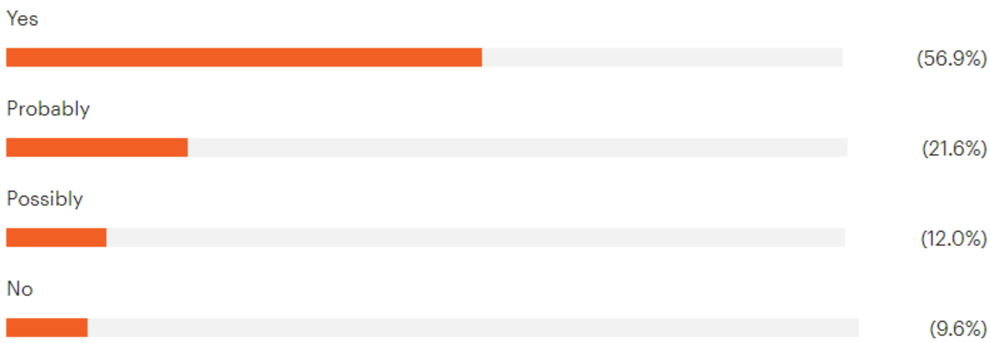
Menu Price Increases: If the RBA bans surcharging on debit transactions, over 86% of restaurants and cafes in Australia will increase their menu prices **moderately** or **significantly**, most certainly higher than the .10 cents that is often touted as the surcharge added to a cup of coffee on social media by Government[7]. And per their responses, we expect that over 90% will increase menu prices and when ARCA spoke to multiple survey respondents about their answers, the majority indicated that menu prices (for all consumers, regardless of payment type) would go up .10-.25 cents to ensure they could cover any debit merchant fees no longer able to be recovered through debit surcharges. This could lead to even higher inflation in the **Meals out and take away foods** portion of the CPI, which was already a significant contributor to the September 2024 Quarterly CPI increase[8]of 3.3% in the Food and non-alcoholic beverages group (up over September 2023).

[7] https://www.instagram.com/reel/DBe41ZKM44N/
[8] Consumer Price Index, Australia, September Quarter 2024 | Australian Bureau of Statistics

"Impact on Pricing How would absorbing merchant fees affect your pricing strategy for menu items?"

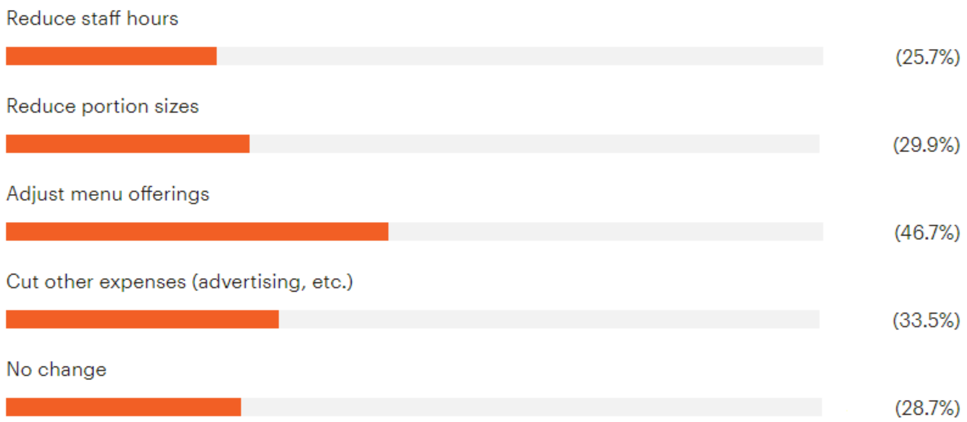


"Menu Prices If surcharges are banned on debit transactions and you are required to pay merchant fees, will you increase your menu prices?"



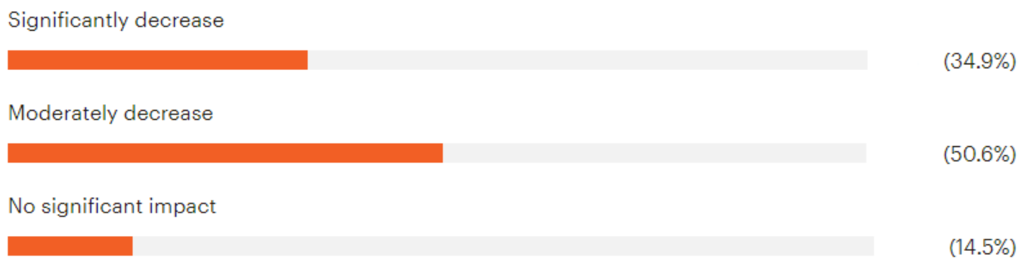
Worse consequences: Besides expected menu prices increases well above the current average debit surcharge amount, banning debit surcharges could have much more drastic negative outcomes for restaurants and cafes, with 25.7% of respondents stating they will reduce staff hours, 30% expect to reduce portion sizes, 46.7% will adjust their menus and 33.5% expect to reduce other expenses, which will be felt across the supply chain.

"Cost Management What measures would you take to manage the additional costs of absorbing merchant fees?"

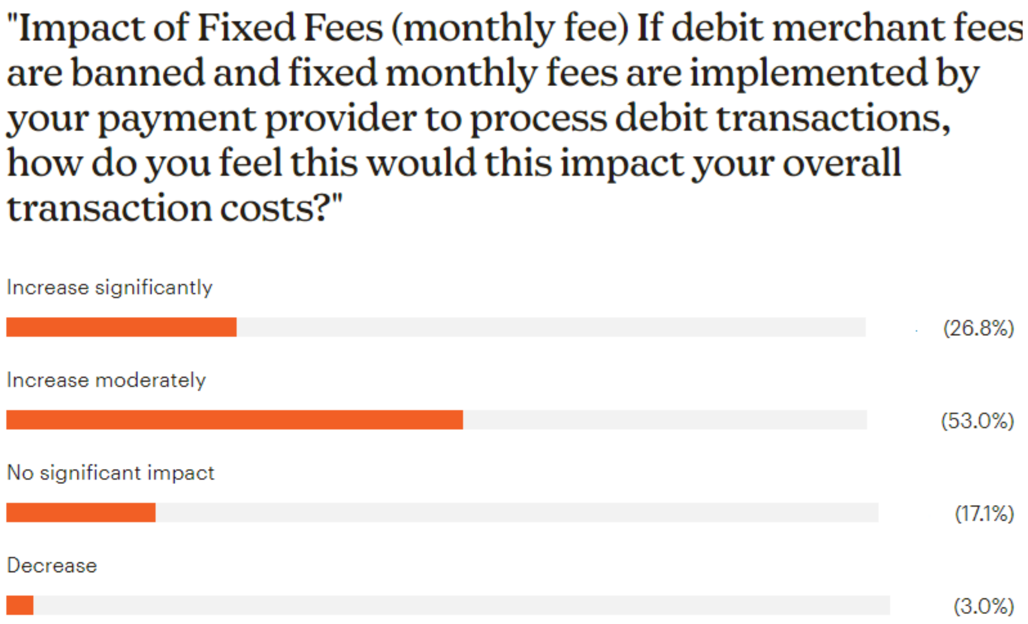


Decreased profits: If debit surcharges are banned, and restaurants & cafes are forced to absorb the merchant fees charged by PSPs, over 85% of the segment expects a moderate or significant drop in profit margins, already dangerously low due to sharp cost of doing business increases post COVID.

"Impact on Profit Margins How would absorbing Merchant fees impact your overall profit margins?"



There is also a lingering fear amongst respondents that any fee that may replace per transaction debit merchant fees may also increase over all costs, with practically 80% of restaurants and cafes indicated that any fixed fees will moderately or significantly increase transaction costs.



These outcomes are just a few of the direct collateral damages we expect from a blanket ban on debit surcharges.

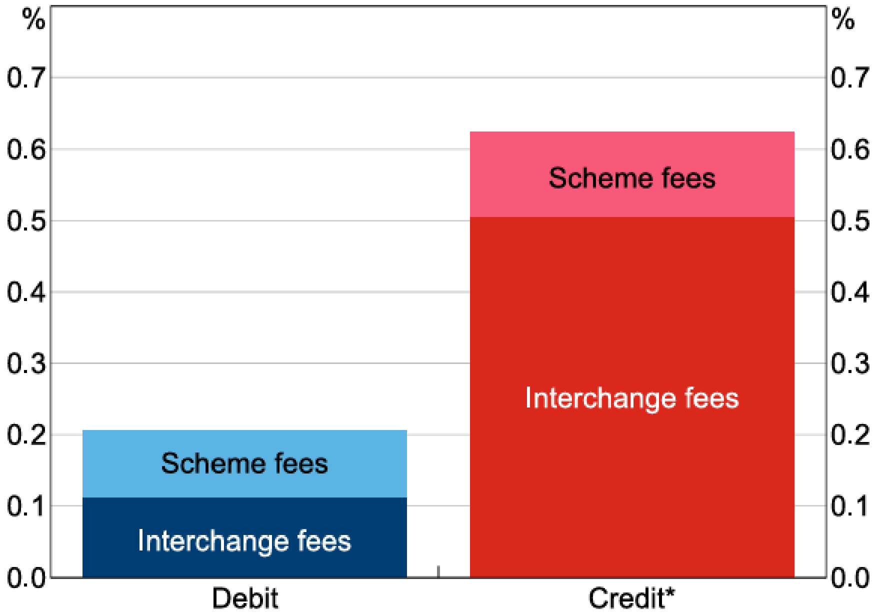
Additionally, the RBA should consider banning debit surcharges will lead to an uncoupling from credit card surcharges, and effectively end the balanced and overall lower cost blended rate merchant fee options provide to restaurants and cafes. As noted above, restaurants and cafes just cannot afford to absorb debit merchant fees costs and expect to increase menu prices. At the same time, the same restaurants and cafes will then need to pass on credit card merchant fees on to customers through a credit card surcharge. This will have even more unintended negative consequences for both small restaurants and cafes but also consumers:

Massive Credit Card Merchant Fee & Surcharge Increases: We expect that if a debit surcharge ban in introduced, and blended debit and credit merchant per transaction fee plans surely cease, that PSP's will be forced to charge restaurants and cafes actual merchant fee rates for credit card transactions, while the same small restaurants and cafes are also slugged with absorbing debit merchant fees. As is mentioned by the RBA throughout the Issues Paper and noted in Graph 7 (below), costs of processing credit, especially foreign credit cards is significantly higher than debit.

Graph 7

Wholesale Costs of Card Payments

Per cent of transaction values, 2023/24



* Calculated by taking each scheme's weighted average credit interchange rate and weighting those rates by the number of transactions for each scheme.

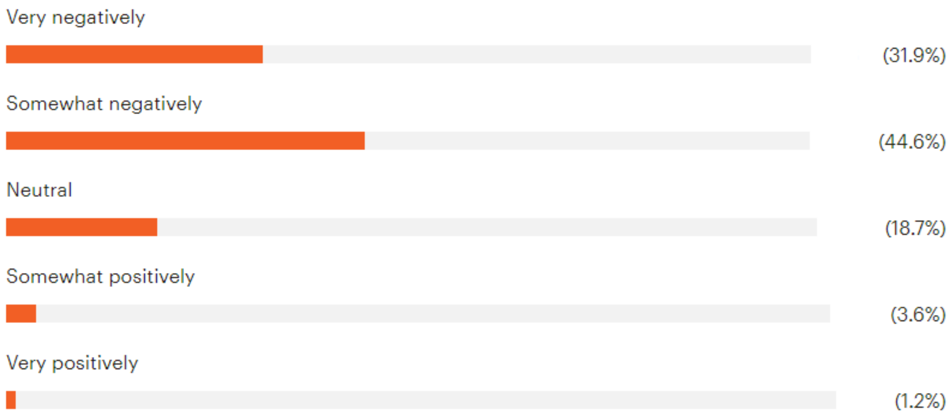
Source: RBA.

Restaurants and cafes around Australia are worried that the **38% of diners that use credit cards**[9] for payment when using a card (31% of all transactions), will be shocked when they are paying an increased menu price due to any potential debit surcharge bans, to then also see credit surcharges fees as high as 2+% added to the bill. This may be even worse for foreign issues credit cards, with the Issues Paper stating “Transactions on foreign-issued cards are particularly expensive for Australian merchants to accept.”

And restaurants and cafes around Australia expect that consumers will not react well to higher credit card merchant fees, with 76.5% of the segment expecting consumers to react negatively to expected changes to credit card surcharges.

[9] RBA Consumer Payments Survey, 2022

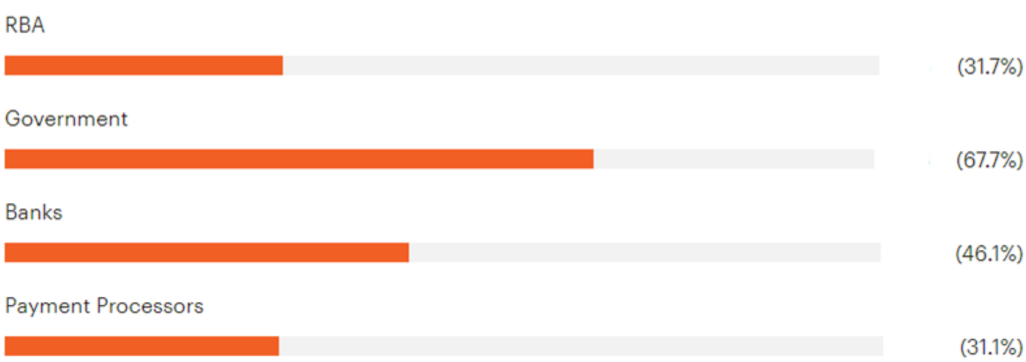
"Customer Price Sensitivity How do you expect your customers to react to potential increases to credit card merchant fees if debit merchant fees are banned?"



As highlighted earlier, restaurants and cafes have expressed concerns in survey responses that banning debit surcharges—while requiring them to absorb debit merchant fees and potentially pay higher credit merchant fees (even if these could be offset by higher credit surcharges)—would result in a significant increase in their overall payment processing costs, exceeding the current percentages paid to PSPs. This is a lose-lose outcome for businesses and consumers.

And overwhelmingly, restaurants and cafes have expressed who they will blame if the RBA makes significant changes to surcharging.

"Responsibility Who will you blame if debit card surcharges are banned, and your costs go up causing you to raise menu prices?"



There are also additional points related to allowing surcharging to continue for debit and credit transactions including:

Increased Competition Among PSPs: Allowing surcharges creates a competitive environment that pressures PSPs and card networks to remain competitive on blended rate merchant fees and overall merchant fees, keeping costs and surcharges in check both for domestic and international cardholder transactions. This incentive structure benefits small businesses in the restaurant sector, as it can reduce their operating costs over time, especially in a climate where more merchants are choosing blended rate plans.

Consumer Transparency: For consumers, surcharges enhance transparency about the cost of different payment methods. Removing per transaction surcharges on debit will lead to the exact opposite for all debit transactions, potentially increasing debit merchant fees to small restaurants and cafes and most certainly increased menu prices to diners who will be in the dark about the true cost of transactions.

Complexity of Enforcement: Increased regulation would require additional enforcement efforts to ensure compliance among the many small merchants in the restaurant and cafe sector. The variability in card acceptance costs, lack of real-time visibility for consumers on these rates, and limited data on surcharging practices complicate regulatory oversight. Further intervention could create a significant administrative burden without clear consumer benefits.

In summary, the current surcharging framework already supports transparency and competition while allowing small businesses to recover costs effectively. Additional regulation would likely impose unnecessary complexity, disrupt small business operations, and diminish competitive pressures on PSPs, potentially raising rather than reducing transaction costs to all involved in the long run.

Thank you.

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