ARA SUBMISSION
MERCHANT CARD PAYMENT COSTS AND SURCHARGING
DECEMBER 2024

The Australian Retailers Association (ARA) welcomes the opportunity to provide comments to the Reserve Bank of Australia (RBA)'s Merchant Card Payment Costs and Surcharging issues paper.

The ARA is the oldest, largest and most diverse national retail body, representing a $430 billion sector that employs 1.4 million Australians – making retail the largest private sector employer in the country. As Australia's peak retail body, representing more than 120,000 retail shop fronts and online stores, the ARA informs, advocates, educates, protects and unifies our independent, national and international retail community.

We represent the full spectrum of Australian retail, from our largest national and international retailers to our small and medium sized members, who make up 95% of our membership. Our members operate in all states and across all categories - from food to fashion, hairdressing to hardware, and everything in between.

The ARA welcomes the RBA's comprehensive assessment of merchant card payment costs and its investigation into the root causes of escalating electronic payment expenses faced by merchants. We support the RBA's commitment to addressing inefficiencies in card payment systems, particularly given current concerns about cost-of-living pressures and rapidly evolving consumer payment preferences. The RBA's consultation presents a crucial opportunity to strengthen the regulatory framework and ensure merchant payment costs remain both equitable and economically efficient.

Our submission has been informed by ARA members with local operations and those that operate across multiple overseas jurisdictions.

Surcharging of Debit Cards

We endorse initiatives to reduce merchant payment costs and their subsequent impact on consumer prices, particularly amid escalating cost-of-living pressures. Australian merchants pay approximately $4.3 billion annually in card acceptance fees[1], and average merchant service fees range from 0.3% to 1.8% per transaction[2]; these costs significantly impact merchant business operations. For smaller merchants, these fees can be even higher[3][4], it is crucial to preserve merchants' autonomy in managing these substantial expenses. Merchants should maintain the flexibility to implement reasonable cost recovery measures, including the ability to apply appropriate surcharges that reflect their actual payment acceptance costs.

[1] RBA Payments System Board Annual Report 2022-23

[2] RBA Statistical Tables C3: https://www.rba.gov.au/statistics/tables/ Note: The specific ranges vary by card type (debit vs credit) and scheme.

[3] These fees are usually based on factors such as transaction volume, risk profile, and the value they provide.

[4] RBA's 2023 Consumer Payments Survey

Given that debit cards account for approximately 50% of all card payments in Australia[5] and remain the preferred payment method for most Australians, any policy changes regarding surcharging on debit transactions require careful consideration. Recent RBA data shows that around 6.5 million Australians exclusively rely on debit cards for their electronic transactions, particularly among younger consumers and lower-income households.[6] This is especially critical for online purchases, where cash is not an option. Restricting merchants' ability to surcharge on debit transactions could lead to these costs being embedded in overall prices. Such an outcome could disproportionately impact financially vulnerable consumers that solely rely on debit cards and potentially hinder digital financial inclusion, particularly as e-commerce continues to grow as a share of retail spending.

Transparency and Predictability in Card Fees

We strongly support enhanced transparency in payment scheme fees and pricing decisions, particularly given the complexity and opacity of current fee structures. According to RBA data, scheme fees have become an increasingly significant component of merchant service fees, growing at a compound annual rate that exceeds interchange fees.[7] While interchange fees are regulated and capped in Australia, scheme fees remain largely unregulated, creating potential for fee displacement and cost escalation. Furthermore, the lack of transparency in the provision and pricing of scheme and processing services may mean that merchants do not have sufficient clarity about the services they are purchasing and are unable to assess the services they need or to refuse to purchase certain scheme and processing service components.

To address these challenges, we encourage the RBA to consider the following measures. First, mandatory publication of scheme fee data and standardised reporting formats would enable merchants to better understand and compare costs across payment systems. This could mirror the RBA's current interchange fee reporting requirements. Second, the RBA could consider the implementation of a formal consultation process for fee changes, requiring schemes to provide substantive documentation justifying increases, would improve accountability. The RBA should also consider how merchants can make more information decisions on transaction fees through the provision of relevant educational material, so merchants do not have to solely rely on their statements.

Blended rate pricing models can obscure the true cost of payment processing for small businesses, at times preventing them from fully benefiting from reduced interchange and scheme fees. Ensuring transparency in these pricing structures is essential to enable small businesses to assess their payment costs accurately and make informed decisions.

Least Cost Routing

In connection with reducing the cost of card payments, we consider the ability of merchants to be able to exercise choice on the routing of transactions to be critical and encourage the RBA to consider how the implementation of Least Cost Routing (LCR) across Australia's payment ecosystem can be further strengthened.

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[5] RBA Statistical Tables C1 (Payment System Statistics)

[6] RBA's 2023 Consumer Payments Survey

[7] Reserve Bank of Australia's (RBA) "Review of Retail Payments Regulation: Consultation Paper" published in May 2021

While progress has been made in implementing Least Cost Routing (LCR) for in-store transactions, albeit that digital wallet transactions are still being addressed, significant opportunities exist to enhance its adoption in the online environment. Current RBA data indicates that online transactions represent over 15% of retail spending, yet we believe that the implementation of online LCR remains limited. Key barriers include technical complexity, lack of standardisation across payment providers, and merchant uncertainty about implementation costs and benefits.

Despite the RBA's encouragement of voluntary LCR adoption, current data shows that only approximately 45% of debit card transactions are being routed through the lowest-cost network available[8]. This limited uptake suggests that market forces alone may be insufficient to drive widespread implementation. A dynamic LCR model—where transactions are automatically routed to the cheapest available network for each transaction—would promote competition between payment schemes, incentivising them to lower their fees. For LCR to be effective for larger merchants, all forms of channel and device should be enabled for LCR (i.e. 100% of Dual Network Debit Card (DNDC) traffic). This would include in store (card present), Online (card not present), and Mobile Wallet (OEM Wallets) tokenised transactions.

Complete coverage of LCR for debit transactions will enable a true comparison between payment schemes and enable acquirers and merchants to make optimal business choices about where to route transactions. Also, future initiatives should also be covered by LCR (such as other wallets [e.g. Click to Pay] and flexible token credentials should not be allowed to mask the Debit transaction). By ensuring transactions can always be routed through the lowest-cost network available, mandatory LCR would promote healthy competition, reduce costs for both merchants and consumers, and support the continued viability of domestic payment infrastructure.

To drive stronger adoption of LCR, we recommend RBA support and promote implementation of dual-message capability for EFTPOS online transactions, aligning with international scheme functionality and enabling critical features such as pre-authorisations, instalment payments, and recurring transactions. This technical enhancement would address current limitations where single-message processing restricts certain transaction types and creates reconciliation challenges for merchants. Additionally, we recommend standardising API specifications for online LCR implementation across payment gateways and processors, reducing technical integration costs for merchants. Payment Service Providers should be required to offer clear, standardised reporting on potential cost savings from online LCR, enabling merchants to make informed decisions. These technical improvements, particularly the implementation of dual-message capability, would help realise the RBA's estimated merchant savings of 10-40 basis points per transaction across all card-not-present payments.

Diversification of Payment Options for Merchants

We support the development of a diverse range of payment methods for merchants in Australia as it creates a more balanced industry environment where providers must innovate and offer attractive pricing to maintain their relevance. When merchants can access and offer multiple payment options, they gain greater flexibility to choose solutions that best suit their business needs and cost structures. This variety encourages the development of new and efficient payment solutions. Different payment methods also cater to varying transaction types and customer preferences, enabling merchants to optimise their payment acceptance strategy

[8] RBA Payments System Board Annual Report 2022/23

by directing customers to cost-efficient channels that align with both business and consumer needs. This environment of choice and innovation naturally drives down costs while improving service quality.

PayTo

PayTo offers merchants significant advantages both online and offline through real-time account-to-account payments, potentially reduced transaction costs, improved cash flow management, and enhanced payment certainty compared to traditional direct debits. However, to maximize PayTo's potential, we recommend that the RBA consider proactively promoting several key improvements. These include establishing comprehensive network rules that clearly define operational standards, fraud prevention measures, and chargeback processes. The rules should incorporate robust governance principles to ensure consistent handling of disputes and fraud incidents across all participating institutions. Additionally, requiring payment processors to support PayTo mandate portability between providers would allow customers to seamlessly transfer their PayTo arrangements when changing banks without the need to create a new mandate with a merchant, reducing friction and promoting broader adoption. These enhancements would strengthen merchant and consumer confidence in the system while fostering innovation and wider market participation.

Mobile Wallets

The Australian payments landscape has undergone a dramatic transformation with the surge in mobile wallet adoption. According to the RBA's 2022 Consumer Payments Survey, mobile wallet payments now account for approximately 35% of all in-person card transactions, up from just 10% in 2019. This shift has fundamentally altered the dynamics of physical store payments, effectively positioning mobile wallets, including device manufacturers that provide this service, as gatekeepers of payment choices.

The implications of this market structure are significant. The business model and structure of these mobile wallets are highly influential in the payment costs, as well as competition through their wallet admission policies and fee structures. This represents a new layer of costs in the payments system, beyond traditional interchange and scheme fees, and raises important questions about market competition and efficiency in Australia's payments ecosystem.

In addition, mobile wallet providers exercise significant control over the digital payments ecosystem through their selective card acceptance policies. By determining which cards can be loaded into their wallets, these providers effectively create an informal gatekeeping system that can disadvantage certain payment methods, particularly domestic debit schemes. This selective approach means that even when consumers have dual-network debit cards, they may be restricted to using only the international scheme networks within these digital wallets, preventing access to potentially more cost-effective domestic payment options. Such practices limit merchant and consumer choice.

In view of the RBA's ongoing effort to revise and update the *Payments Systems (Regulation) Act*, we encourage the RBA to consider prioritising cost transparency and enhanced interoperability between mobile wallet systems and enable LCR for Mobile Wallet (OEM) payment methods. Establishing technical standards for mobile wallet interoperability and API standardisation would reduce barriers to entry and promote innovation. Clear pathways for new entrants to access mobile wallet ecosystems would foster innovation and level the playing field, to the benefit of Australian customers and merchants.

Thank you again for the opportunity to provide feedback on the RBA's plans. The retail sector's unique position at the intersection of payment innovation and consumer experience makes our continued dialogue particularly valuable. We look forward to ongoing engagement with the RBA and other stakeholders as these important reforms are developed and implemented, ensuring that any changes serve the best interests of Australian merchants and consumers alike.

Any queries in relation to this submission can be directed to our policy team at policy@retail.org.au.