The exchange of payment: the most critical part of a small merchant's customer journey

A white paper on small and micro business payments acceptance

authored by

The Initiatives Group

Author note: This white paper was prepared by The Initiatives Group (TIG). It is based on TIG's expert insights of the payments sector and quantitative research on payments acceptance conducted in November 2024 with 402 Australian small and micro businesses.

This white paper was commissioned by Square to independently evaluate their role in the merchant acquiring market, in order to support their submission to the Reserve Bank of Australia's Review of Merchant Card Payment Costs and Surcharging.

Australia's 2.5 million small businesses are vital to the country's prosperity. They drive innovation and productivity. Small businesses contribute more than $500 billion to the economy and employ around 5.2 million people. They are also an integral part of their local communities, providing jobs, revenue, services and more, adding to the strength of these communities.

<u>Their success relies upon getting paid.</u>

Catalyst for this white paper

Every 5 years the Reserve Bank of Australia (RBA) conducts a review of retail payments regulation, and in late 2024 the latest review commenced.

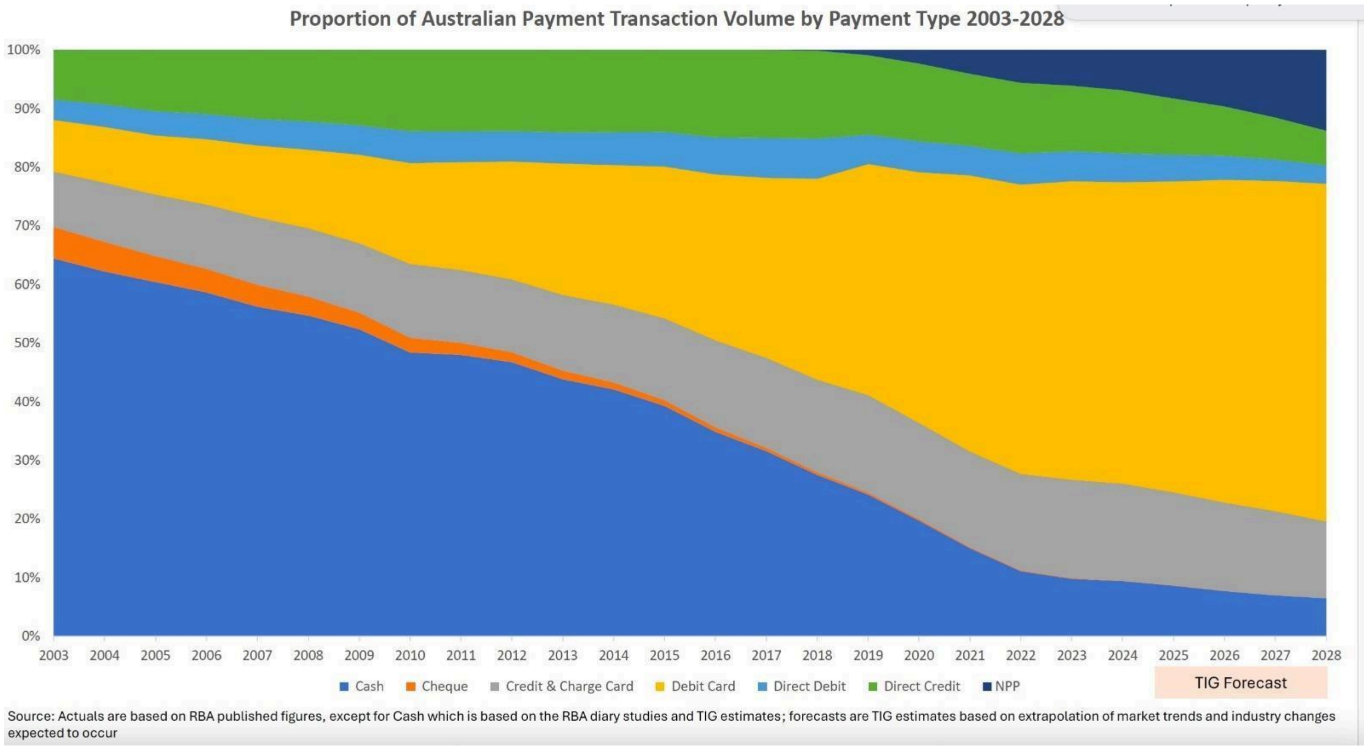
However, there is a difference for this review. It has been recognised by the Australian Federal Government that the payments landscape has evolved to the point where the RBA's legislated oversight of the industry is no longer a match for the range of participants in the market, driven by the application of technology in recent decades. For example, the RBA does not have oversight over digital wallets (which now account for a significant proportion of retail payments) or Buy Now Pay Later providers (which are growing their share of payments, but remain at around 2% of total payments). Indeed, whilst the RBA does have oversight of Visa, Mastercard and eftpos ("4-party schemes"), it does not have direct purview over American Express or other 3-party schemes. Notwithstanding that, past regulation of 4-party schemes has influenced the actions of 3-party scheme providers.

This deficiency is being dealt with through amendments to the Payments System Regulation Act (PSRA), which are currently being considered by the Australian Senate. Should these amendments be passed, the RBA will have the ability to conduct a more comprehensive review than ever before, where all current aspects of the payments ecosystem can be considered. But rather than delay until the PSRA is amended, the RBA has chosen to commence with a review of Merchant Card Payment Costs and Surcharging — a subject on which a number of members of the Federal Parliament have recently been vocal.

> *"Australians use cards extensively to pay for goods and services and benefit from the convenience and security provided by card payments. However, in an environment of heightened concern around the cost of living and ongoing changes in payment preferences, merchants and consumers are increasingly focused on card payment costs and surcharging. These two issues are linked as merchants would be less likely to surcharge consumers if card payment costs were lower. Accordingly, it is timely to review whether the RBA could do more to put downward pressure on merchant card payment costs by promoting competition and efficiency and whether the RBA's surcharging framework remains fit for purpose. This review also recognises that some years have now passed since the surcharging framework was introduced." (RBA Merchant Card Payment Costs and Surcharging – Issues Paper – October 2024)*

The ways people pay in Australia takes time to change

Australians do not change their payment habits overnight, but over a longer period of time imperceptible daily changes become more obvious. The chart below looks at the payment mix in Australia in terms of the number, or volume, of transactions and the proportion undertaken by the different payment methods[1].



The volume of transactions — rather than the value — is most relevant to retailers in many small business categories, where individual transaction values are smaller. This is as opposed to, for example, "billers", such as utilities and insurance businesses, where the transaction values are larger, less frequent and with a significant proportion going through "Direct Entry" payments such as BPAY and Direct Debit. Indeed, 68% of all payment transactions in Australia are on cards, but this only represents 5% of the total value[2].

As shown in the chart, card payments, particularly debit, comprise the vast majority of transactions. Also clear is the dramatic decline in the use of cash and the near-disappearance of cheques.

[1] The figures through to end-June 2024 are based on RBA published data, with The Initiatives Group's (TIG) estimates for cash being based on the RBA's 3-yearly diary studies. The figures beyond 2024 to end-June 2028 are TIG estimates, based on the extrapolation of market trends and industry changes that we expect to occur.

[2] The Initiatives Group "Payments Acceptance Report November 2024"

Interestingly, the decline of cash has occurred even though cash is still widely accepted. In an independent research study conducted in November 2024[3] of 402 small businesses (each with under $1 million in total revenue), we found that cash was still accepted by 84% of small businesses. Amongst these small merchants, more than half receive over 75% of their revenue through card payments (which they noted as being the easiest way to accept payments) – for merchants using Square, this was even more pronounced with over two-thirds receiving over 76% of their revenue through card payments. Hence although cash is widely accepted, customers are preferring to use cards.

But payments do change

Whilst we have already seen that the proportion of payment types has changed over the last 20 years, there are also significantly more payments being made across this period. Looking at electronic payments in particular, in 2003 there were almost 11 billion epayments, while there were 33 billion for the year ended June 2024[4] — a threefold increase in 20 years.

In addition, there has been a change in how we refer to our payments with what seems like new ways to pay. We now pay by “Afterpay”, with Buy Now Pay Later now accounting for 14% of ecommerce spending[5], or by “Apple Pay” & “Google Pay”, with mobile wallets now representing 39% of transactions in the June 2024 quarter[6].

These innovations make for great media headlines which give a sense that payments are changing all the time. However, the truth is that in the vast majority of these transactions, the payments are actually made using a debit or credit card. That is not to say that these “veneers” are not a good thing – they are innovations welcomed by consumers that can make purchases more convenient, secure and in some cases affordable, whilst revolutionising the user interface – but we should not lose sight of the underlying technology on top of which they were built.

It should be noted that the New Payments Platform has more recently emerged as an alternative payment method that does not rely on card networks. In a domestic retail context, this would take the form of account-to-account (A2A) transfers that would move funds between bank accounts, bypassing card networks and being generally accepted via a QR code. However, take-up to date of retail NPP-based payments as a proportion of overall payments remains relatively small in Australia.[7]

[3] “Market Research with Small Merchants in Australia on Payments Acceptance” sponsored by Square and undertaken by The Initiatives Group and eDentify.
[4] RBA published data for the year ended June 2024
[5] Cmspi ‘Payments Regulation in Asia’ 2022 report
[6] RBA. Page 20. https://www.rba.gov.au/publications/annual-reports/psb/2024/pdf/psb-annual-report-2024.pdf
[7] Productivity Commission, National Competition Policy, Modelling proposed reforms, 2024

At this point, let's just note that the innovation, convenience, security and affordability referred to above do come at a cost.

Anatomy of card payment costs for merchants

Whilst invisible to the consumer at the checkout, there is a lot of "plumbing" that makes the payment move from the customer's card account to the merchant's bank account quickly, accurately and securely. Indeed, the infrastructure has been evolving to meet emerging opportunities and challenges for over 60 years – the first Visa credit cards were launched in 1958 and debit cards will have their 50th birthday in 2025.

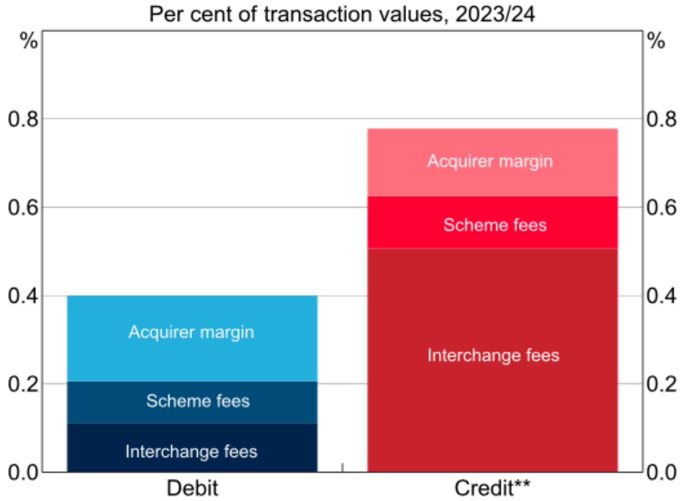
At the same time, it is tempting to suggest that, with the processes being invisible and instant, electronic payments have no cost and therefore should be free. The perception by consumers that surcharging by merchants of card payments is becoming more prevalent may also lead consumers to believe that a previously "free" card payment is no longer "free". As industry participants well know, this is not the case.

There is a lot going on behind the scenes in a card payment, with substantial variation across the different types of transaction. But, to keep things simple, a high-level summary of the costs which comprise the Merchant Services Fee that a merchant pays to accept 4-party scheme cards is shown below:

"Interchange fees and scheme fees explain around half of the debit card costs for merchants and most of their credit card costs. The remainder is the gross margin that acquirers and other PSPs charge merchants" (RBA Backgrounder on Interchange and Scheme Fees)

Average Merchant Fees of Card Payments*

Per cent of transaction values, 2023/24



* Domestic card transactions. The acquirer margin component is estimated as the difference between average merchant fees and wholesale costs (the sum of average interchange and scheme fees).

** Mastercard and Visa Credit only. Interchange fee component is 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.

1. **Interchange fees** – these are the fees that the merchant's Payment Service Provider ("PSP" or "Acquirer") pays to the institution that issues the card that a customer uses to make the payment. For example, if the merchant's PSP is Commonwealth Bank (CBA) and the customer's card is issued by Westpac, CBA will pay the interchange fee to Westpac. The merchant's PSP does not keep the interchange even though it collects it from the merchant.

   Interchange is intended to cover critical costs incurred by the card issuer, like transaction authorisation and processing, fraud and fraud prevention, mobile wallet payment fees, dispute resolution, chargeback rights, card issuing costs and, for credit cards, funding the interest-free period.

   The RBA started regulating interchange fees in 2003. As a result, Australia has relatively low interchange fees today compared with many other countries. For debit cards, the interchange fee across all of the transactions in the market must not exceed a weighted average of 8c per transaction. For credit cards, the similar fee is an average of 0.50% of total transaction value. If the card is issued by an institution overseas, then the interchange fee is not currently regulated and is much higher (up to 2.4% according to the RBA's consultation paper).

   Further, following requests from the RBA, most PSPs have introduced "Least Cost Routing" (LCR), where a payment using a debit card that is "dual network" (i.e. both Visa/eftpos or Mastercard/eftpos) can be routed via the scheme incurring the lowest cost for the merchant.

   LCR is continuing to become more available, but it is fair to say that fewer merchants than expected have made the choice to use least cost routing. However, this does not necessarily mean that merchants are not benefitting from the lower cost routing. Large merchants (that can have staff devoted to payments) are actively choosing LCR, as they have a detailed understanding of the savings on offer. Small merchants may be benefitting too, even though they may not have explicitly chosen LCR – as their PSP could be using LCR in the background, in order to reduce the overall fees that the merchant pays, particularly relevant where the merchant is paying a blended/bundled flat fee to accept cards.

2. **Scheme fees** – these are the fees that a merchant's PSP pays to Visa, Mastercard or eftpos for these schemes to maintain, operate and develop their payment networks. Whilst scheme fee data is collected, aggregated and reported by the RBA, these fees are not currently regulated. Scheme fees for credit cards and debit cards are typically the same, but will differ by the type of transaction. For example, the scheme fees applied to an in-person transaction where a physical card is used

will be different to the fees if Apple Pay (plus fees charged by Apple must be allowed for) or Google Pay are used (with digital wallets now estimated at 39% of transactions[8]), and different again when the payment is made online. Again, the merchant's PSP does not keep the scheme fees even though it collects them from the merchant.

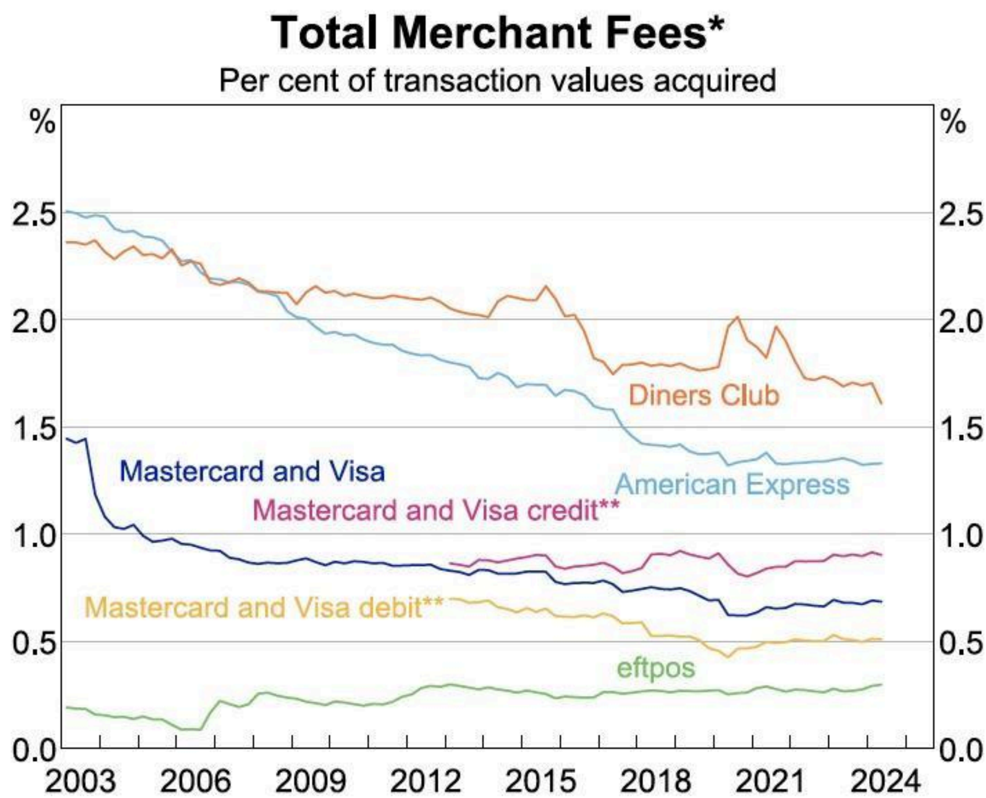
> *Scheme fees matter because they are an important component of the overall costs faced by merchants to accept card payments, as well as the costs borne by issuers for providing card services to their customers. These costs are ultimately passed on to consumers. Scheme fee schedules are often complex with fees being set based on commercial considerations. and are currently not directly regulated in Australia. The RBA is not aware of scheme fees being directly regulated in other countries. However, following the RBA's Review of Retail Payments Regulation in 2021, the RBA has been collecting information and data on scheme fees and exploring possible scheme fee disclosure requirements to provide greater transparency of scheme fees to participants in the payment system." (RBA Backgrounder on Interchange and Scheme Fees)*

3. **PSP / Acquirer processing fees and margin** – these are the fees the merchant's PSP collects from the merchant and, unlike interchange and scheme fees, are kept by the PSP. This is to cover the PSP's own transaction processing costs, the provision of payment terminals (sometimes merchants have the option to pay for these separately), additional services of value to the merchant (such as business operations software with which the payment is integrated into the merchant's operations), fraud and risk, settlement, compliance, etc - as well as hopefully a profit margin for the PSP.

[8] RBA "Merchant Card Payment Costs and Surcharging – Issues Paper – October 2024"

What has happened to the cost of payment acceptance over time?

The merchant service fees (MSF) on Visa and Mastercard (& American Express) have been in decline since the original RBA interventions in 2003, with the lowering of MSFs mostly due to reductions in interchange and PSP margins. The following chart shows the trend of average MSF (includes all merchants, large & small) over the past 20 years:



* Series break in September 2020 due to change in reporting forms and in December 2022 due to change in collection coverage.

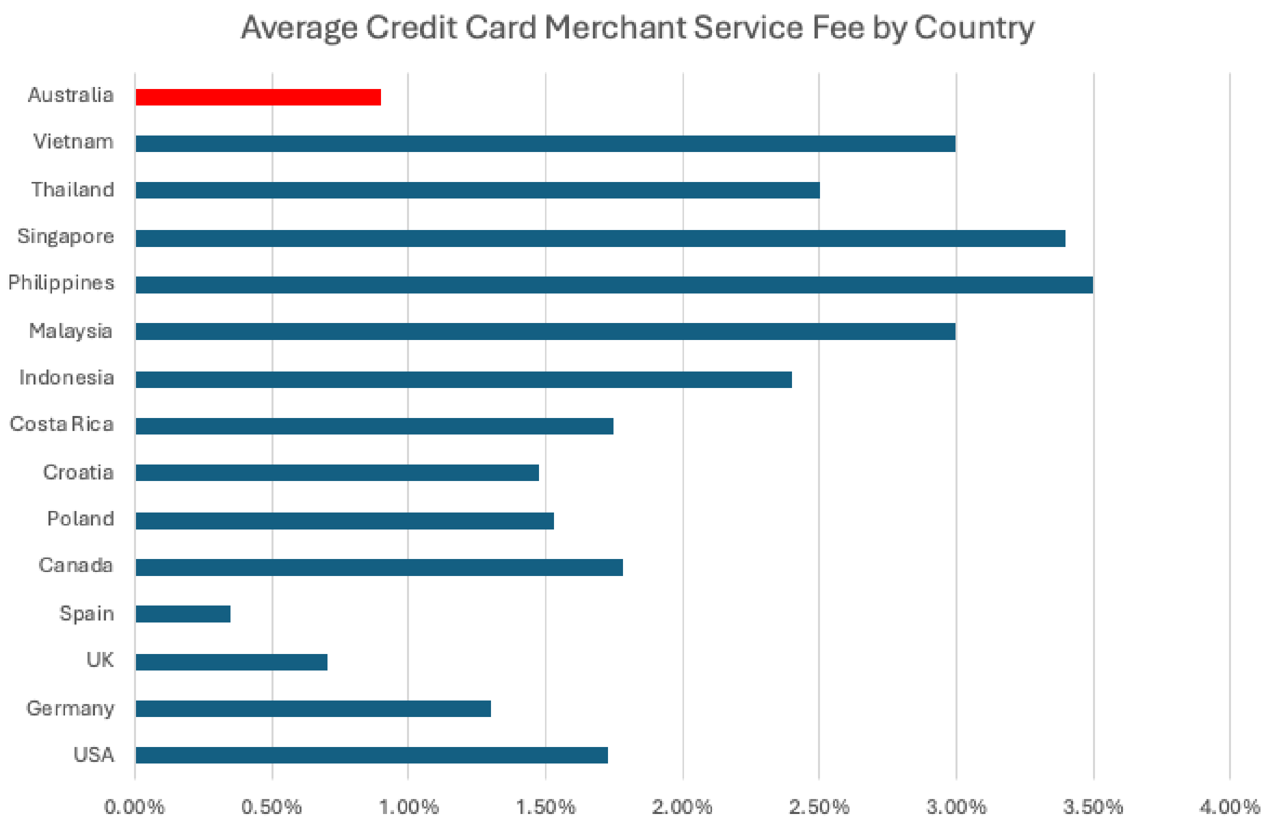
** Prior to changes in reporting methodology in June 2018, the average fee reported for Visa and Mastercard debit cards was slightly overstated and the average fee reported for Visa and Mastercard credit cards was slightly understated; the overall average fee for Visa and Mastercard was unaffected by the reporting change.

Source: RBA.

Australian merchants fare well on this measure — research by the RBA shows that the MSFs paid by merchants in Australia, whilst not the lowest in the world, are significantly less than those paid in the US. Further investigation by TIG suggests that Australian merchant fees are also favourable when compared with Canada and many countries in South-East Asia and South America.[9]

[9] RBA "Merchant Card Payment Costs and Surcharging – Issues Paper – October 2024", The Initiatives Group "Payments Acceptance Report November 2024"

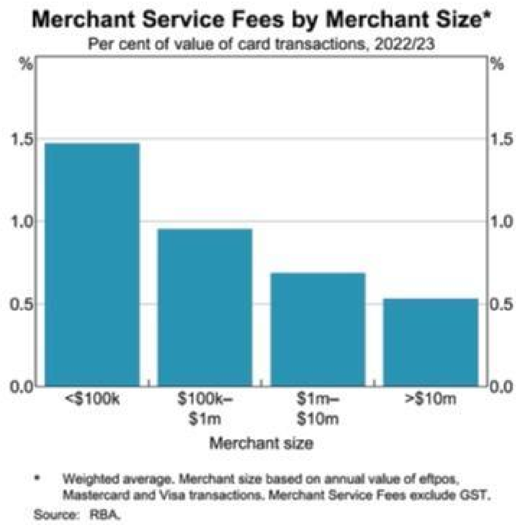
As an example we refer to the following table for reported credit card Merchant Service Fees across a range of countries[10]:



Whilst not having the bargaining power of large merchants (and often preferring blended pricing that may include bundled POS software[11]), small merchants have also benefited significantly from the reductions in Merchant Services Fees over time:

[10] https://www.lendingtree.com/credit-cards/articles/na-vs-eu-interchangefees/, https://laweconcenter.org/resources/the-effects-of-payment-fee-price-controls-on-competition-and-consumers/, https://paymentscmi.com/insights/payment-method-transaction-fees-across-southeast-asia/

[11] "Market Research with Small Merchants in Australia on Payments Acceptance" sponsored by Square and undertaken by The Initiatives Group and eDentify.



Although it is the RBA's chosen approach, we would note that expressing merchant service fees as a percentage figure for small merchants can be misleading, and ignores the fixed costs involved in servicing these accounts (particularly meeting the AML/CTF regulations during the onboarding process, which can exceed $500 per merchant — or more if Family Trusts are involved, a favoured structure of small business). Why is using a percentage misleading? Because 1.6% of $100,000 (the annual turnover a a small/micro merchant) is a relatively modest $1,600 per year revenue for the PSP, from which $600 may go in interchange and scheme fees - leaving $1,000 for the costs of PSP operations[12], as noted above. Many PSPs servicing this sector do not have "lock in" contracts, so, if the merchant leaves within a short time after onboarding, a loss can occur - making it important to provide good service and a compelling value proposition to aid merchant retention.

Competition for Australian merchants' payments business

Competition in the Australian market in card acquiring has intensified over the last decade, as evidenced by the decline in the cost of payments for merchants, which in turn has put pressure on the margins available to PSPs.

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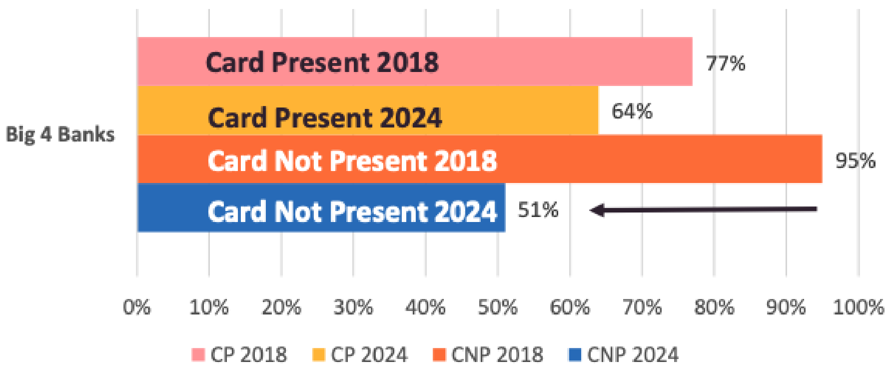
[12] PSP needs to pay for:

- processing the transactions
- providing customer service
- providing a payments terminal
- delivering any value-added services (e.g. software)
- allowing for merchant risk
- covering the cost of merchant onboarding, including KYC/AML/CTF requirements (which for small businesses may be complicated by Family Trust structures), and
- hopefully generate a profit.

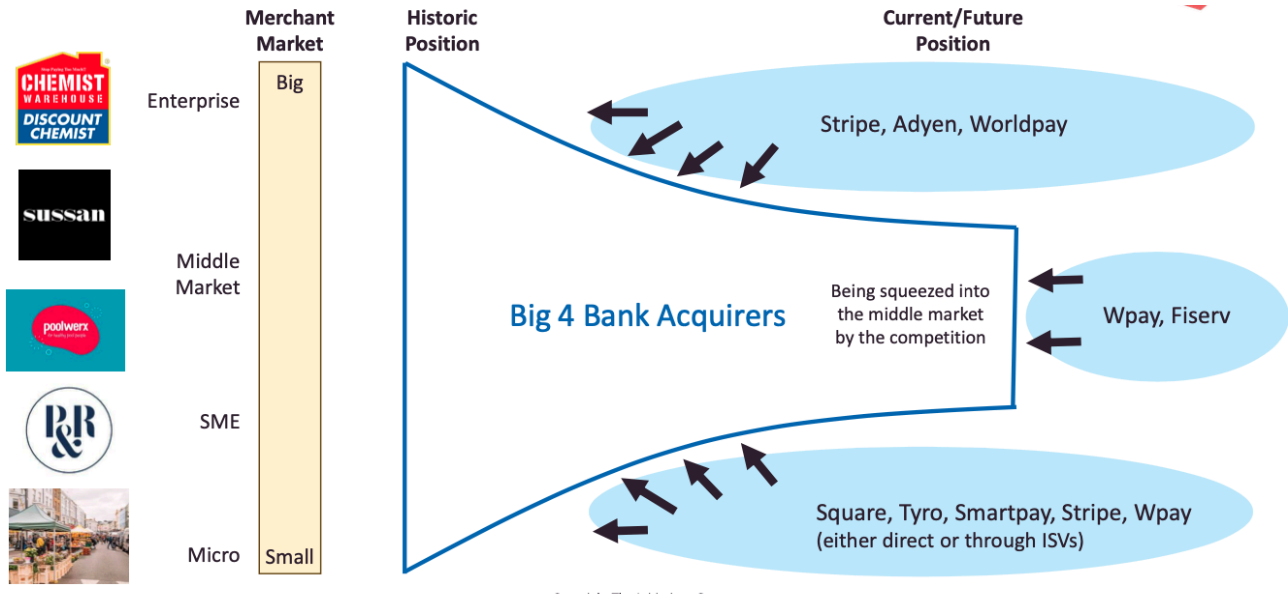
Traditionally, small merchants have turned to their bank for payments acceptance services. This made perfect sense for these businesses – it was simpler to deal with an organisation that already knew them and had already onboarded them, coupled with the payments acceptance landscape being historically somewhat less complex than it is today. It was good for the banks too: as low (or even no) margin payments services have been used as a business banking retention tool, and it was the suite of business banking products (e.g. loans) where banks made the margin from their relationship with a business.

But this landscape has undergone a transformation with the entry of specialist local and global PSPs. TIG has estimated that, in a period where card payments have increased by 41%, the "card present" (e.g. payments in person) market share of the 4 major banks has declined from 77% to 64% between 2018 and 2024. More strikingly, their share of the faster growing "card not present" (e.g. eCommerce) sector has been estimated to have declined from 95% to 51%.[13]



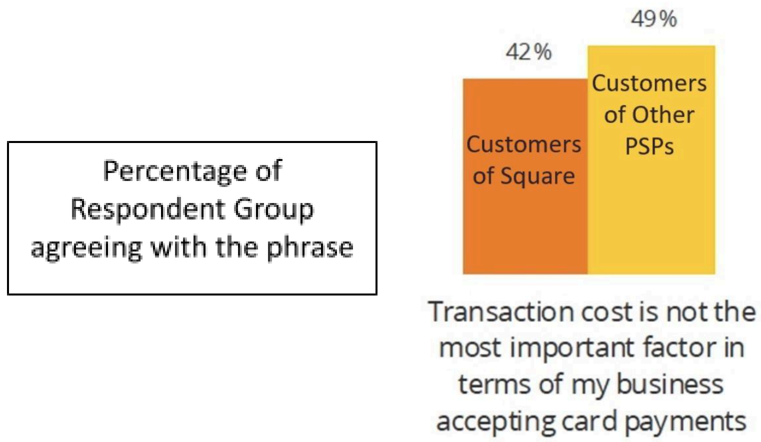
An emerging trend is that some newer PSP entrants are operating in discrete categories where they can specialise in meeting the specific needs of certain sectors. However overall competition for the bank's payments business has not been limited to any particular size of merchant either, as illustrated below:

[13] The Initiatives Group "Payments Acceptance Report November 2024"



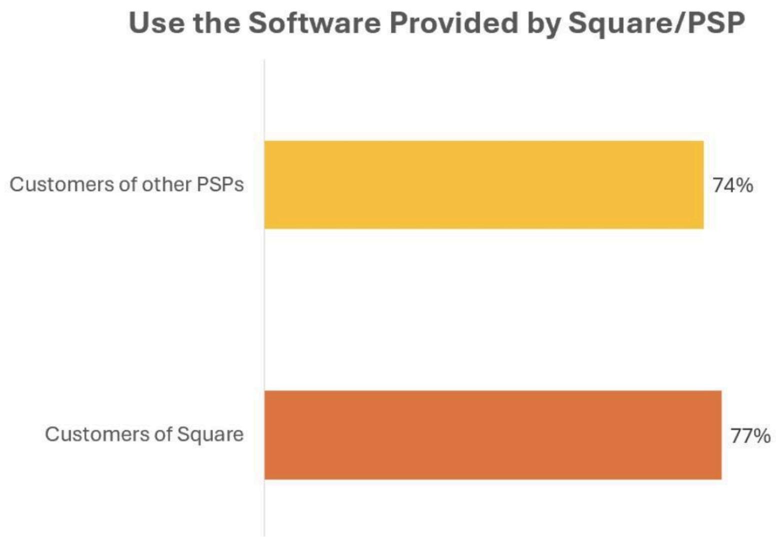
At the same time as price competition amongst PSPs has contributed to the reduction in merchant service fees, there has also been a significant focus on delivering improved, merchant relevant, value-added services. Traditional PSPs have continued to provide only payments services, whilst a number of the new entrants have extended their services beyond the payment and into the software necessary to operate the business (e.g. POS software). As such, “payments only” providers can offer a lower cost of acceptance, but their small business customers must pay for and integrate the third party POS software of their choice. PSPs offering enhanced payments services do charge a higher price, but offer POS software “out of the box” (e.g. Zeller, Square, SumUp, Lightspeed).

The value of enhanced services was borne out in the recent small merchant research study quoted above, almost half of the respondents said cost was NOT the most important factor when accepting card payments:



Across all merchant categories, the value-added services have included items such as fraud monitoring and management, “self-serve” payments dashboards where real time data can be accessed and payment methods are easily added, omni-channel payment capabilities, and POS software (as above) - to help merchants run their business and understand how it is performing thanks to data analytics tools.

In the small business merchant category, there have also been significant improvements in hardware and software that is included in their arrangements with the PSP – from “Android” payment terminals on which business management apps can be loaded, to the ability to take contactless payments on a mobile phone, to the provision of a suite of industry specific business software that links payment acceptance with small business operations. Overall this has delivered a better, more easy to set-up and use, more convenient and more integrated service for small merchants. In fact, amongst the Square customers in our research study we found that a) over 75% choose to use the free business software that is provided[14] and b) the best thing about the service was how easy it is to set up and use.[15]



In summary, for all types and sizes of merchants there is clearly now a lot more choice to ensure they get the services best suited to their needs.

[14] N.B. The Non-Square merchants surveyed who do not receive bundled POS from their PSP on average paid $1,400 per year for their POS software solution

[15] “Market Research with Small Merchants in Australia on Payments Acceptance” sponsored by Square and undertaken by The Initiatives Group and eDentify.

How merchants choose to pay for accepting cards

It is generally accepted that the larger and more sophisticated a merchant is, the more cost breakdown they demand. For large merchants some reasons for this include:

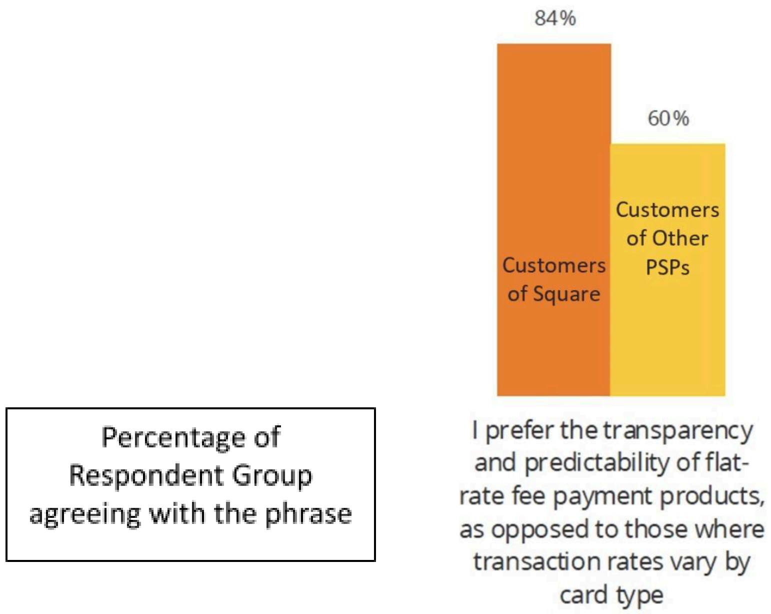
- They do not need the full suite of services provided by a PSP, sometimes preferring to select specialist providers within the payment acceptance ecosystem. For example, they may want to own their own payment terminals, or choose a specialist fraud monitoring and management provider;
- They have more complex requirements than simply accepting payments at the counter, such as multiple channels, pay at shelf, pay in-app, loyalty member recognition, complicated returns policies;
- They can afford the internal resources and expertise to manage this complexity; and
- They have greater buying power and will wish to negotiate individual cost components.

As such, large merchants prefer to have what is called “Interchange ++” pricing, which itemises interchange, scheme fees and the PSP fee for each type of transaction, with the ability to drill down to the fees attracted by individual transactions if required.

Mid-sized merchants have typically received “Interchange +” pricing, which itemises interchange and the aggregate of the scheme and PSP fees for each type of transaction; however, there is a trend towards PSPs offering Interchange ++ pricing to this group of merchants also. Regardless, whilst mid-sized businesses may prefer this transparency and appreciate the ability to drill down into each transaction (as a way of “ensuring” that they are getting the deal they signed up for), in reality they rarely take advantage of this capability[16].

The landscape looks somewhat different for small/micro merchants, who often prefer a commercial arrangement offering bundled services and a blended rate. It can be more important for them to have a flexible set up, while knowing how much they will pay for each transaction: for example, 1.6% of the value for every transaction with Square includes access to POS software, no locked-in terminal contracts and no monthly fees. Or, they may want to pay a lower flat rate and pay separate monthly fees for the payment terminal and the POS software of their choice (although, for the majority, our research suggests otherwise[17]):

[16] TIG market intelligence
[17] “Market Research with Small Merchants in Australia on Payments Acceptance” sponsored by Square and undertaken by The Initiatives Group and eDentify.



As noted above, although some flat fee rates in percentage terms may look like "premium pricing" is being imposed on a small merchant, when viewed in dollar terms the numbers become rather small.

It's not all about price, particularly for small merchants

It is unlikely that any business (or consumer) would say that they would not like a better price. However, a "better" price is not the same as the "lowest" price. "Better" is linked to value – the trade-off between price and performance that provides the greatest overall benefit against a specified selection criteria.

$$\text{Value} = \frac{\text{Benefits}}{\text{Cost}}$$

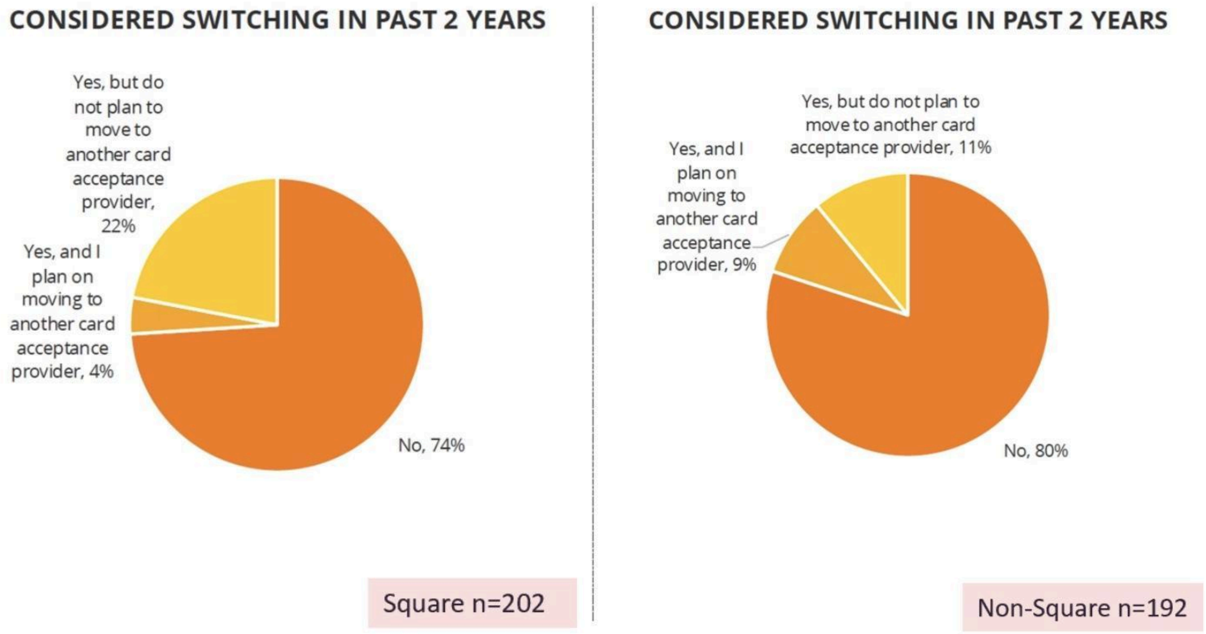
"Lowest" is linked to the most basic service offering — the cheapest option available for a required product or service. Therefore the better price will be the best you can get for the full suite of valued services (benefits) and is this likely to be more than the lowest price to simply process a payment.

We investigated this in our research study of small merchants. Of particular interest were the top 5 reasons for switching to a new main provider of payment services, listed below together with some implications for PSPs[18]:

1. High cost (44%) – ongoing pressure for the PSP to keep price down;
2. Did not want to pay a separate payment terminal fee (37%) – preference for pricing simplicity and a desire to pay for the terminal upfront;
3. Did not want to be locked into a contract (25%) – freedom to make a choice, whenever they want, with incentive for the PSP to provide best service to discourage more switching (and losing the investment made in onboarding the merchant);
4. Complicated pricing (21%) – preference for pricing simplicity (at the best price for what they receive). Indeed, 56% of Square customers researched said they would consider switching providers if Square made its pricing more complicated;
5. Had to have an account with a specific bank (21%) – a preference to deal with a specialist rather than be locked into a banking relationship.

However, we need to reflect that, whilst important, payments acceptance is not the core of the merchant's business. Indeed, our research suggests that as long as the fees are perceived as fair, the payments system is reliable, and merchants are satisfied with the service they receive. Even with a trend towards the freedom of "no lock-in" contracts, and increasing competition between PSPs, most merchants do not feel that they need to consider switching – indeed, over 75% of respondents have not considered switching to a new provider in the last 2 years[19].

[18] "Market Research with Small Merchants in Australia on Payments Acceptance" sponsored by Square and undertaken by The Initiatives Group and eDentify.
[19] ibid.



The surcharging clamour

The RBA first introduced regulation to allow surcharging on card payments in 2003. This was included as part of the package to encourage reduction in merchant service fees. These fees have reduced over the past 20 years, at the same time as the share of card payments have increased significantly.

While the costs of accepting cash have increased as consumer preferences have changed, the perception that 'the cost of accepting cash is zero' still lingers amongst small merchants. This is untrue and, with the decrease in the use of cash, the real per dollar costs of accepting cash have increased. Whilst an end-to-end economy wide study into the true cost of accepting cash has not been completed in recent times, it is argued that the cost of accepting cash is at least equivalent to the cost of accepting debit cards.

In its current review, the RBA is considering whether or not surcharging regulation remains fit for purpose, and whether or not it should be banned or the regulations modified.

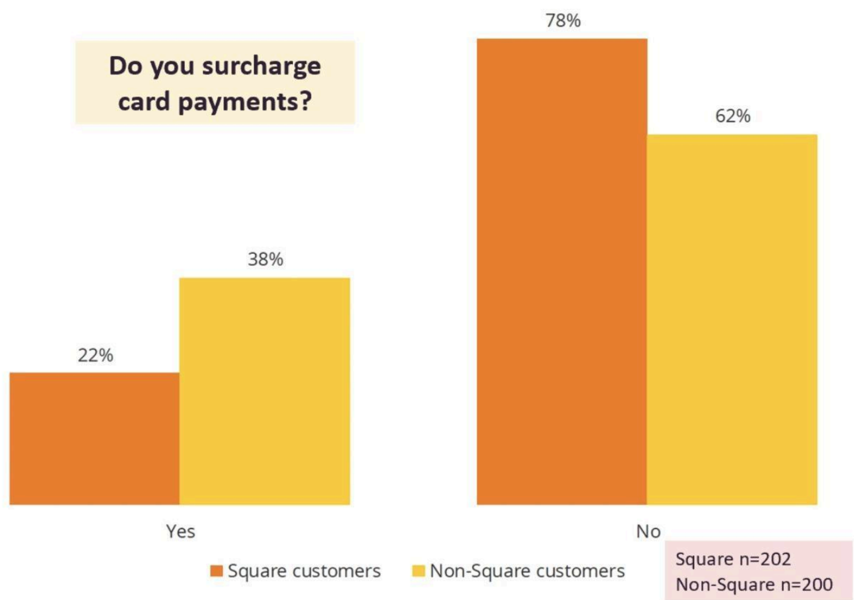
Indeed, the media attention on surcharging of card payments has been significant, possibly driven by consumers' experiences of "constantly" being surcharged on small daily purchases at small businesses, such as the morning coffee and a sandwich at lunchtime. This does of course ignore that less frequent and higher value purchases at, for example, supermarkets, department stores and other major retailers are not surcharged.

It seems somewhat paradoxical that over 85% of the small merchants we researched accept cash (without a surcharge), and yet consumers still choose to use cards — to the extent that more than half of surveyed merchants receive over 75% of their revenue through card payments.

First, the value of surcharging may not be as high across the economy as the media portray. TIG has estimated that of the roughly $6 billion in merchant fees paid each year, only 10% or $600 million is being recovered through surcharging (and this includes large merchant categories such as travel and utilities)[20]. Separately, in CBA's view, industry estimates that the cost of surcharging being up to $4 billion is "grossly exaggerated… at least overstated by three times".[21]

Second, if surcharging is so prevalent (and by extension the cost of acceptance is fully recovered), why are merchants so concerned about ensuring they receive the best price for accepting payments? If the merchant can and is willing to surcharge then the cost of card acceptance would not matter - but it does, as merchants say that cost is important (but perhaps value is more paramount). The fact is that merchants know that their customers dislike card surcharges, and therefore try to avoid imposing them if they can.

Third, we included surcharging in our small merchant payments acceptance research and found that, amongst our sample, 70% of merchants – a significant majority - chose NOT to surcharge.



[20] The Initiatives Group "Backlash to Surcharging on Card Payments" (March 2024)
[21] Yahoo Finance "CBA boss hits back $4 billion cashless 'rort': 'Grossly exaggerated'" (August 2024)

Given the RBA review, it is possible that the right to surcharge could be removed, so we also asked the sub-set of merchants that do surcharge today what they would do, and found that there was little consensus[22]:

- 44% thought they would steer customers to pay by cash (with cost to merchant for handling, and cost to customers having to use ATMs and carry cash);
- 49% said they would increase prices to cover the cost of the lost surcharge (customers using cards would still pay the same as today, but will now know the full price before they pay); and
- 26% said they would do nothing.

All suggesting that banning surcharging may not change the total amount spent by consumers, who have proven their preference to pay by card.

Whilst there may be a case to remove the right to surcharge, as has already happened in the UK, EU and some states in the US, if surcharging continues to be permitted in Australia (either for all merchants or just small merchants), it needs to be done in a more transparent way to avoid consumer dissatisfaction - as well as the surcharge truly reflecting the additional cost (if any) of accepting a card over cash.

Conclusion

Amongst small merchants, accepting payment by card is critical to success – they want card acceptance to be easy, desire simplicity in how they pay for the service (e.g. a fair blended price for bundled card acceptance services), and have a preference to use a PSP that takes a holistic approach to meeting their needs. This underlines the importance of the RBA adopting a nuanced view and proportionate & fit-for-purpose regulatory interventions, which hinges on considering the perceived value of PSP products versus their costs, the distinct interests of small and micro-businesses, and the highly competitive nature of merchant acquiring.

[22] "Market Research with Small Merchants in Australia on Payments Acceptance" sponsored by Square and undertaken by The Initiatives Group and eDentify.

The Initiatives Group - we help participants across the payments sector to generate more value from their markets and customers.

The consulting team at The Initiatives Group has advised participants in the payments market since the 1990's - including issuers, acquirers, third-party processors, technology providers and associations. We help solve many of the financial industry's most significant issues, such as payments strategies, customer profitability and retention, credit and fraud risk, leveraging new technologies, and assessing new market and product opportunities.

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