

3 December 2024

Mr Ellis Connolly
Head of Payments Policy Department
Reserve Bank of Australia

Via email: pysubmissions@rba.gov.au

Dear Mr Connolly

Merchant Card Payment Costs and Surcharging – Issues Paper – October 2024

COBA welcomes the opportunity to respond to the Reserve Bank of Australia's (RBA) consultation on merchant card payment costs and surcharging.

COBA is the industry association for Australia's customer owned banks (mutual banks, credit unions and building societies). Collectively, our sector has over \$179 billion in assets and is the fifth largest holder of household deposits. Our members range in size from less than \$200 million in assets to around \$25 billion in assets – all significantly smaller than our ASX-listed peers. Customer-owned banks (i.e. mutual banks) account for around two thirds of the total number of domestic Authorised Deposit-taking Institutions (ADIs) and deliver competition and market leading levels of customer satisfaction in the retail banking market.

Key points

Mutual ADIs play an important role in the payments system, primarily as debit and credit card issuers.

A simplification of scheme fees would benefit payments system participants, however actions which lower scheme fees should consider the impact on a card scheme's ability to invest in further functionality or security benefits into the future.

Bringing foreign cards under interchange fee caps could offer an effective way of reducing costs in the payments system.

Any changes to interchange fees should consider the impact on small card issuers, including mutual ADIs, in being able to offer a competitive payment solution to their customers in the marketplace.

Banning card payment surcharges may not necessarily achieve better outcomes for consumers as card payments are not cost-less for merchants – ultimately the costs will still likely be borne by customers.

The prevalence of single rate pricing for merchants is distorting consumer's incentives. Merchants that surcharge should be offered cost reflective pricing by acquirers which differentiates between the different types of card payment methods based on cost.

The imposition of least cost routing should balance consumer choice with merchant needs, noting that different card schemes offer differing levels of consumer benefits.

Mutual ADIs are one part of a complex ecosystem which enables consumers to make secure, reliable and fast card payments for goods and services across the economy. Mutual ADIs are card issuers, in collaboration with third party payment service providers, however do not offer payment acquiring services to merchants.

The Australian payments ecosystem offers significant economic benefits and should be supported by regulators to be efficient, innovative, reliable and secure. This functionality comes at a cost, and it is imperative that the users of the system contribute fairly to its upkeep and development.

In determining changes to Australia's card payment system, the RBA should also consider the use of cash transactions, and the interaction with the Government's recently announced intention to implement a cash acceptance mandate for certain businesses.¹

Scheme fees

Scheme fees are an important aspect of the payments system, and a simplification of these fees would be beneficial for payments system participants.

It is important to note that differences in scheme fees can be driven by the level of investment and functionality which a particular card scheme offers. Actions which lower scheme fees should consider the impact on the card scheme's ability to invest in further functionality or security benefits into the future.

If further transparency in scheme fees is mandated by the RBA, it would be valuable to identify what portion of those fees are used to enhance protection for end customers. For example, providing a percentage breakdown of how much is spent on financial crime enhancement, detection, controls and prevention, compared to costs associated with regulatory compliance requirements across regions, could offer valuable insights.

¹ <https://ministers.treasury.gov.au/ministers/stephen-jones-2022/media-releases/ensuring-future-cash-and-next-steps-phasing-out-cheques>

Interchange fees

It is likely that the high interchange fees levied on foreign card transactions are increasing card payment costs for consumers, given the incidence of single rate plans which do not differentiate between low-cost domestic cards and foreign issued ones.

Bringing foreign cards under interchange fee caps could be an effective way of reducing these costs and placing some downward pressure on merchant acceptance costs.

Interchange fees provide valuable income to issuing banks which offset the costs incurred in offering card payment functionality to customers. This includes, but is not limited to, managing risks, ensuring payment guarantees, and providing services such as 24/7 fraud monitoring, customer support, and account maintenance to meet consumer needs. Card issuers also invest in compliance, R&D, and innovative features, focusing on accessibility, sustainability, and protecting vulnerable customers.

Mutual ADIs, given their small size, are less able to respond to lower revenues or increased costs than their larger, listed peers so any changes to interchange fees should particularly consider the impact on small card issuers in being able to offer a competitive payment solution to their customers in the marketplace.

Surcharging

Surcharges are an important tool in signalling to consumers that there is a cost to using a certain payment method. The banning of card payment surcharges may not necessarily achieve better outcomes for consumers as card payments are not cost-less for merchants – ultimately the costs will still likely be borne by customers, potentially seen in the increase in the price of goods and services for all consumers.

Cost reflective card payment surcharging offers a fair and reasonable way of ensuring that consumers pay the actual cost of using the payments system, as consumers receive the benefits of the safe and convenient card payment method which they have chosen. However, the prevalence of single rate pricing for merchants is distorting consumer's incentives, leading to inefficient pricing outcomes and should be addressed by the RBA.

Merchants that surcharge should be offered cost reflective pricing by acquirers which differentiates between the various card payment methods based on cost. This will lead to more effective price signals to consumers to use the payment method which offers them the best value (being a trade-off between the cost of payment and benefit gained from the use of a particular type of card) and will reduce cross-subsidisation.

Greater transparency in card payment processing costs for both consumers and merchants is key to an efficient card payment system, as it gives consumers and merchants as much information possible to make a decision which best suits their individual circumstances.

The provision of standardised information on pricing for merchants would be valuable in achieving the above aims as this approach would enable merchants to compare offerings more easily across providers, promoting efficiency and competition in the marketplace.

Least Cost Routing (LCR)

LCR offers merchants the ability to choose the card scheme which reduces their cost of acceptance, however in doing so it has the effect of taking away consumer choice in paying with their preferred card scheme provider. Although eftpos is usually the preferred lower cost provider under LCR, the

international card schemes typically offer greater consumer benefits (such as chargeback rights, fraud protection, rewards etc) and superior processing capabilities for which a higher cost of card acceptance is usually charged. This pricing differential is, at least in part, driven by the differing features and functionality offered by each scheme.

Although cost of acceptance is an important factor in decision making, consideration should be given to the potential benefits that each card scheme provides a consumer and whether consumers are readily able to express their preference for a scheme which offers greater benefits under a least cost routing payment solution.

Other considerations

In order to allow consumers to make more informed choices on payment methods, the RBA could consider supporting a consumer education campaign on the costs and benefits associated with different payment methods, emphasising the value and security protection offered by debit card technology which is generally a cheaper payment method for consumers than credit or charge cards.

Thank you for taking the time to consider our submission. We encourage the RBA to take a balanced approach to surcharges, interchange and scheme fee regulation which protects consumers from excessive costs while allowing all payment system participants to recover legitimate costs, recognising the substantial investment required to maintain secure, convenient card payment services into the future.

We look forward to continuing our engagement with the RBA on these important issues. If you wish to discuss any aspect of this submission, please contact Alexander Woloszyn, Policy Manager (awoloszyn@coba.asn.au).

Yours sincerely



MICHAEL LAWRENCE
Chief Executive Officer