FinTech Australia

Review of Merchant Card Payment Costs and Surcharging – Issues Paper

Submission to the Reserve Bank of Australia

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fintechaustralia.org.au

By email: pysubmissions@rba.gov.au

Head of Payments Policy Department
Reserve Bank of Australia
GPO Box 3947
Sydney NSW 2001

FinTech Australia's Submission to the Reserve Bank of Australia (RBA) Review of Merchant Card Payment Costs and Surcharging: Issues Paper

Dear Mr. Connolly

Thank you for the opportunity to provide a submission (**Submission**) to the RBA's above Issues Paper.

This Submission was created by FinTech Australia in consultation with its members. In developing this Submission, interested members participated in a series of roundtables to discuss key issues and provided feedback to inform our response to the Issues Paper.

About FinTech Australia

FinTech Australia is the peak industry body for financial technology businesses and represents over 400 fintech companies and startups across Australia. As part of this, we advocate on behalf of a range of fintechs spanning payments, consumer and SME lending, crypto and blockchain, wealthtech and neobanking, regtech, insurtech and participants in the Consumer Data Right regime. Our vision is to make Australia one of the world's leading markets for financial technology innovation and investment.

Our vision is to make Australia one of the world's leading markets for fintech innovation and investment. This Submission has been compiled by FinTech Australia and its members in an effort to advance public debate and drive cultural, policy and regulatory change toward realising this vision, for the benefit of the Australian public. FinTech Australia and its members particularly acknowledge the support and contribution of our Policy Partner K&L Gates to the development of this submission.

FinTech Australia would also like to recognise the support of our Policy Partners, who assist in the development of our other submissions:

- Allens
- Cornwalls
- DLA Piper
- Gadens
- Hamilton Locke
- King & Wood Mallesons

Executive summary

FinTech Australia welcomes the RBA's continued focus on ensuring that the regulatory framework underpinning merchant card payment costs and surcharging remains fit-for-purpose. Our members are well placed to offer insights on the current regulatory settings for card payments, with many sitting along the payments value chain between merchants and consumers on one side and schemes on the other: in acquiring and issuing. From this vantage point, FinTech Australia members see opportunities to improve the current regulatory settings for card payments, set out further below.

We recognise that the debate around surcharging is an important one, involving challenging trade-offs between consumers, merchants and payments providers. While members are committed to fostering a transparent and fair retail payment ecosystem, they also remain concerned that some of the options in the Issues Paper – such as banning debit surcharging or mandating differentiated pricing – could unintentionally undermine competition, merchant choice and fintech innovation, with flow-on effects for merchants and consumers at checkout. After two decades of businesses shaping their pricing strategies around existing rules, we are mindful that a wholesale surcharging ban risks disproportionately affecting small merchants who rely on surcharges to manage rising costs and may not achieve the consumer outcomes hoped for. We offer solutions to mitigate these risks while ensuring consumers have access to a surcharge-free method of digital payment.

Knowing that the issues canvassed in the Issues Paper are closely intertwined with other aspects of the payments ecosystem, we urge the RBA to take an expansive view of the landscape and its remit - taking account of the broader competition impacts across the financial services sector in general, and the proposed reforms to the *Payment System (Regulation) Act 1998* (**PSRA**) and the PSP licensing framework in particular. This would give any reforms the best chance at levelling the playing field for smaller players and new entrants while helping maintain downward pressure on card payment costs for the benefit of consumers and merchants.

Overarching comments

Fintech has made the retail payments system more competitive, fair and efficient

Since the RBA's surcharging regulations were introduced over two decades ago, fintech has emerged as a critical catalyst for innovation, competition and lower costs in payments. Payment service providers (**PSPs**) are the largest fintech segment, with the 2023 EY FinTech Australia Census finding that around one third of Australian fintechs are in payments[1].

The entrance of fintechs has injected much-needed competition and dynamism into the payment system, with the emergence of new business models ranging from PayID models leveraging the New Payments Platform (**NPP**), businesses making cross-border payments more

[1] Ernest and Young, *EY FinTech Australia Census 2023* (2023) <https://www.ey.com/content/dam/ey-unified-site/ey-com/en-au/insights/economics/documents/ey-fintech-aus-census-2023.pdf>.

accessible, and PSPs with diverse pricing and service offerings for SMBs, including improved customer experience, technology and product offerings. As RBA Assistant Governor, Brad Jones mentioned in his recent speech *The Future of the Payments System*[2], "Australians expect their payments to be convenient, reliable and represent value for money. . . We want to see a payments system that is a hotbed of innovation and competitive tension, driving efficiency up and costs down. And we want to see a payments system that is safe and resilient – one that Australians can rely on.". As such, we believe that fintech innovation in the retail payments system plays an important role in realising this vision - to enable a payments ecosystem that delivers convenience, reliability, safety and value for consumers and businesses alike.

Fintech PSPs are driving financial inclusion in card payments

In card payments specifically, we have seen fintechs drive financial inclusion, placing card acceptance within reach of a whole new cohort of small and micro businesses – many of which were previously underserved or unable to accept payments at all. For example, the advent of simple and blended pricing models offered by PSPs has been adopted by a significant proportion of small and micro businesses,[3] providing these merchants with predictable, transparent and competitive card acceptance costs. Merchants can now access a far wider range of valuable services and innovations. Many businesses, for instance, choose PSPs that offer vital services that issuer-acquirers generally do not – such as software-based acceptance (e.g. mobile ePOS) and instant digital onboarding and account setup (Figure 1).

<u>Fig. 1: Service offering - Fintech PSPs and Issuer-acquirers side by side</u>

Fintech PSPs provide services that generally aren't provided by issuer-acquirers

Non-exhaustive list of payment and payment-related services generally offered by Fintech PSPs and issuer-acquirers

Payment and payment-related service offerings		Fintech PSP	Acquirers
Payment services	Low, fixed cost payment model	✓	✓
	Flexible pricing model options	✓	✓
	Master merchant aggregation	✓	✗
	Cross-channel payment solutions	✓	✓
	Comprehensive payment method acceptance	✓	✓
	One-click checkout, and card-on-file services	✓	✗
Payment-related and customer services	Customer support 7 days a week	✓	✓
	Instant, free digital onboarding and account setup	✓	✗
	Software-based acceptance (e.g., mobile ePOS)	✓	✗
	Digital invoice generation and delivery	✓	✗
	Streamlined refund and dispute handling	✓	✓
	Business analytics and reporting dashboard	✓	✓
	Digital servicing	✓	✗
	Customer insights, analytics and reporting	✓	✗
	Merchant loyalty and rewards program management	✓	✗
	Business software integration capabilities	✓	✗

Source: Expert interviews; Mandala analysis

Source: (Mandala, 2024, p.11)

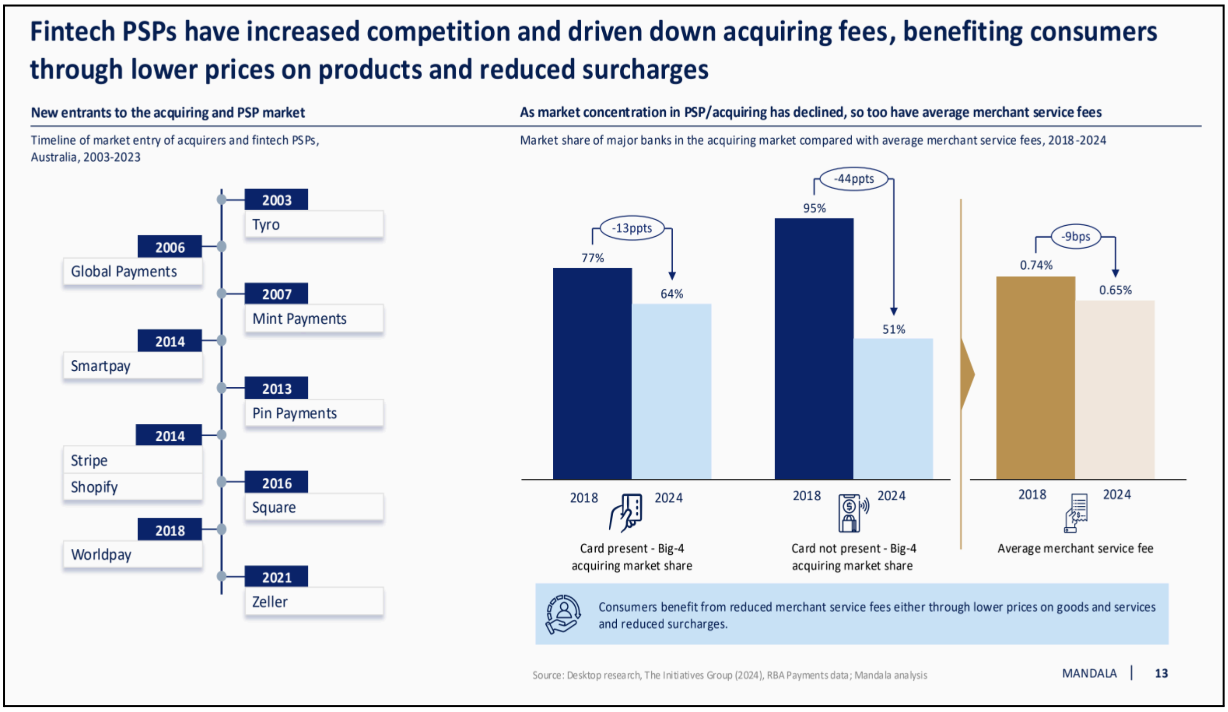
[2] Brad Jones, 'The Future of the Payments System' (Speech at the AusPayNet Summit 2024, 12 December 2024) <https://www.rba.gov.au/speeches/2024/sp-ag-2024-12-12.html>.

[3] 68% of micro merchants adopt fixed pricing. Source: Mandala, *Unit Economics, Competition and Surcharging Analysis* (December 2024). Note, this is attached as an exhibit to this Submission.

Fintech PSPs have stoked competition and reduced acquiring fees, benefiting merchants and consumers

Evidence shows new fintech entrants in the PSP market have intensified competition and lowered average merchant service fees (see Figure 3). Not only has this resulted in significant advantages for merchants, but also consumers who have benefited from lower prices on goods and services and reduced surcharges (Figure 2).

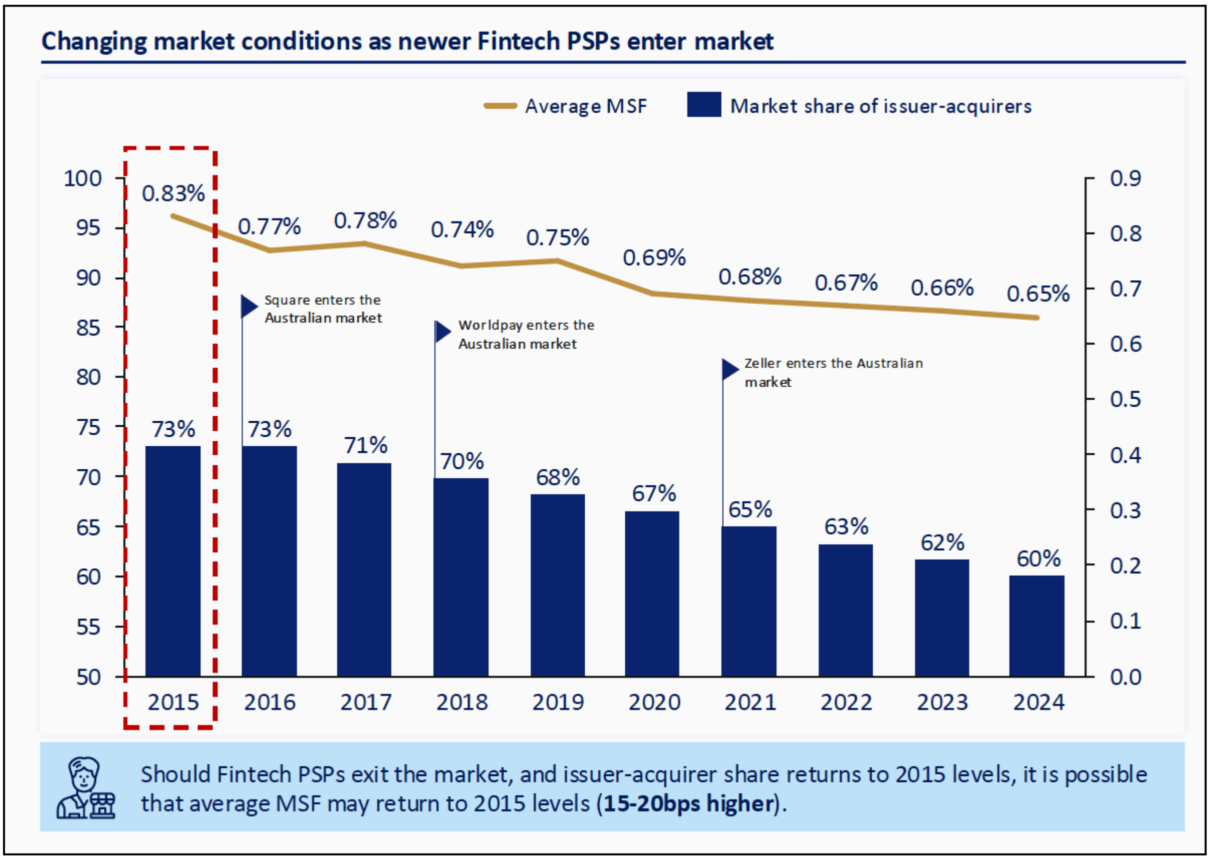
Fig. 2: Competition from Fintech PSPs has benefited consumers through lower prices and reduced surcharges



Source: (Mandala, 2024, p.13)

The entry of fintech PSPs has driven issuer-acquirer market share down from 73% to 60% and reduced average merchant service fees (MSF) from 0.83% to 0.65% (Figure 3). Ensuring the PSP market remains competitive and diverse is therefore crucial to the success of any proposed reforms in this area.

Fig. 3: Correlation Between Merchant Service Fees and Issuer-Acquirer Market Share



Source: (Mandala, 2024, p.10)

Ensuring a holistic policy response to payments reform

To ensure Australia continues building on this success, we support the principles espoused by the Federal Government for the future direction of the payments system – namely that it be safe, trusted, accessible and enable greater competition, innovation and productivity across the economy.[4]

With this in mind, and in addition to the principles articulated by the RBA to assess when regulatory intervention may be justified,[5] FinTech Australia makes 3 overarching recommendations:

1. **Undertake a Competition Impact Assessment**: Any regulatory response should be sensitive to the current and historical competitive dynamics of both the retail payments and consumer credit sectors. This includes the entrenched market dominance of major banks in credit issuing, but also the recent improvements in competition in the merchant acquiring sector, which is now the most competitive link in the payments value chain.[6]

[4] Australian Government, The Treasury, *A Strategic Plan for Australia's Payments System Building a Modern and Resilient Payments System* (June 2023) <https://treasury.gov.au/sites/default/files/2023-06/p2023-404960.pdf>.
[5] Namely, businesses' freedom of choice, fair access and innovation, transparency, and the safety and efficiency of the retail payment system. Source: Ellis Connolly, 'Online Retail Payments – Some Policy Issues ' (Speech at the Merchant Risk Council Conference, 18 June 2024) <https://www.rba.gov.au/speeches/2024/sp-so-2024-06-18.html>.
[6] See, for example, Figure 4. Source: Mandala, *Unit Economics, Competition and Surcharging Analysis* (December 2024).

For this reason, we recommend that the RBA undertake a comprehensive competition impact assessment before pursuing any reforms, to ensure new and smaller payment providers can continue to fairly compete.

2. **Prioritise Ongoing Reforms Before Broader Interventions**: Given these competitive dynamics, the RBA should give ongoing reforms that would improve card payment costs the chance to take full effect before intervening in other, more competitive aspects of the retail payments sector. This will allow the RBA to isolate the impacts of these changes and measure their relative success. For example, equalising access to the NPP[7] and increasing uptake of LCR across all channels, should be prioritised before pursuing wider surcharging reforms.

3. **Ensure Reforms Deliver a Net Public Benefit:** Any regulatory response should be of a net public benefit that is greater than the status quo or other policy responses. This should be assessed on a data-informed cost/benefit analysis, including careful assessment of the impacts on consumers, businesses, and competition, as well as the broader public interest in enabling card payments to remain a key contributor to GDP and domestic productivity.

Based on these principles, we set out responses to specific consultation questions below.

Comments on specific consultation questions

We set out below comments on behalf of FinTech Australia members in relation to questions in the Issues Paper.

Interchange Fees

1. ***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?***

FinTech Australia members have not seen sufficient data indicating that further reductions in average interchange rates are required or would be beneficial. Rather, members generally consider that interchange fees in Australia[8] are not excessive when compared with equivalent economies. In particular, Canada, USA and New Zealand all have higher four-party scheme interchange rates for both debit and credit consumer card transactions.[9]

Interchange provides the economics that underpin the key elements of an efficient electronic payment ecosystem. These include acceptance, innovation, security, fraud protection, and

[7] See our response to Question 15 in this Submission.

[8] In Australia, where interchange fees are already among the most heavily regulated globally—capped at 0.8% with a portfolio average requirement of 0.5%—further reductions would require strong evidence to ensure the issuing market remains viable and capable of delivering these consumer benefits.

[9] Reserve Bank of Australia, 'Review of Retail Payments Regulation: Conclusions Paper', Graph 3 (October 2021) <https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/conclusions-paper-202110/interchange-fees.html>.

guaranteed payments to merchants. It should be high enough for new players to be incentivised to enter the space and low enough that merchants are encouraged to adopt digital payments. Interchange should not be viewed simply as a cost to an acquirer/merchant which, therefore, needs to be managed or regulated to the lowest possible level. In fact, the relatively low interchange rates in Australia are likely a key factor in why Australia's card issuing market is highly concentrated, with recent RBA estimates indicating the 'big four' banks have over 70% market share.[10]

One of our members emphasised that capping debit interchange fees could remove financial factors that currently influence merchants' routing preferences. This change could encourage greater use of international schemes over scaling domestic payment rails and products, such as EQR and NPP (account-to-account payments), thereby impacting the competitive landscape and development of domestic payment options.

FinTech Australia members, however, generally support efforts to narrow the disparity between the amount of interchange fees paid by small businesses and the lower 'strategic' rates paid by large merchants for consumer cards. Consumer card issuer costs are the same regardless of the size of the merchant, so it is difficult to see why there should be such a large discrepancy, other than the practical realities of asymmetries in bargaining power which we do not consider should justify maintaining the status quo.

Higher interchange fees often enable benefits such as lounge access, extended warranties, concierge services, and discounts, which are particularly attractive to higher-value consumers. Members have observed that while capped interchange fees have had the effect of reducing these types of high-value credit cards on offer (with reduced frequent flyer points or other benefits being offered) there are still many instances where a PSP will lose money on a transaction (for example, international, corporate or premium card transactions) in the same scenario when a bank processing that same transaction would not.

In addition, members raised the importance of any changes in interchange not further reducing competition in the card issuing market. Card issuing in Australia is highly concentrated and unilateral reductions in interchange would likely reduce it further as the unit economics for smaller issuers become unviable. To address this, incentives or differential interchange for small issuers could be considered (similar to the approach taken by the US when it introduced the Durbin Amendment to cap interchange on issuers with more than $10b in assets only). This would support the RBA's rules regarding Dual Network Debit Cards as a lever to encourage competition while maintaining overall efficiency in the issuing market.

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[10] Reserve Bank of Australia, Submission to the Productivity Commission, *Inquiry into Competition in the Financial System*, Chapter 3 - Assessing Competition in the Financial System, Table 1, Concentration in Australian banking products, (September 2017)<https://www.rba.gov.au/publications/submissions/financial-sector/competition-in-the-financial-system/assessing-competition-in-the-financial-system.html>.

Commercial credit cards

Finally, members have remarked on the clear distinction that should be drawn between interchange fee regulation of consumer versus commercial credit cards. The value proposition of commercial credit cards to business users is different from consumer credit cards. With much higher aggregate transaction amounts, a higher interchange is used to address business users' primary concerns of fraud protection and guarantee of payment. Further, as per the EU Interchange Fee Regulation review, transaction volumes with commercial cards are too insignificant to warrant capping.[11] The RBA's policy imperative of reducing the cost of card acceptance to merchants (particularly small businesses) and reducing the cost of surcharges being passed on to consumers is therefore unlikely to be achieved via changes to commercial interchange.

2. ***Should interchange regulation be extended to foreign card transactions in Australia?***

Some FinTech Australia members support foreign-issued card transactions being subject to an equivalent regulatory framework as domestic transactions. They have pointed out that PSPs with competitive blended pricing models (with a merchant service fee in the range of 1% - 1.5%) will generally lose money on international card transactions, with the cost to the PSP exceeding their merchant service fee (though merchants are shielded from this additional cost). They recognise the important role PSPs play in supporting tourism and international card acceptance in Australia and believe a cap on foreign card interchange rates would make international card acceptance more sustainable.

However, members believe that any cap on foreign card interchange rates should not be at the same levels as domestic transactions (as per the EU approach). This is because foreign-issued cards carry increased risk for issuers in relation to cross-border payments, as well as higher transaction processing costs. These characteristics alone provide a clear rationale for permitting higher interchange on foreign-issued cards, and have contributed to widespread criticism of the UK's proposed approach to cap EU online consumer card payments in the UK to domestic rates.

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

FinTech Australia supports measures that would help merchants compare different acquiring solutions and relative pricing. However, this should not occur at the expense of providing flexibility to merchants (particularly small and medium businesses). This could be achieved by requiring PSPs to share standardised worked examples of acquiring costs at a high level[12], rather than mandating a particular charging model. Our members are concerned that any moves to force a reduction in complexity may limit the options available to SMBs to select acquiring

[11] Reserve Bank of Australia, *Review of Card Payments Regulation Conclusions Paper* (2016) <https://www.rba.gov.au/payments-and-infrastructure/review-of-card-payments-regulation/pdf/review-of-card-payments-regulation-conclusions-paper-2016-05.pdf>.

[12] There is an opportunity to develop a standardised pricing or a feature matrix to simplify vendor comparisons. The Loan Comparison Rate framework could be an example, providing businesses with a straightforward way to evaluate the relative value of different offerings. Exposing rates for specific transaction types—such as e-commerce, recurring payments, and cross-border transactions—would provide a strong starting point for improving merchant choice and cost efficiency.

solutions that suit their needs and may limit the ability of smaller, innovative PSPs to compete with established players.

Members can see the need for ad valorem fees, even for debit card transactions, given the role these fees play in supporting the ecosystem (including supporting refunds for disputed transactions). Members also support greater transparency of interchange fees through the publishing of aggregated data.

One member noted that while not specifically focused on interchange, blended pricing models provide SMBs with a straightforward and accessible means to compare offerings across incumbent banks and PSPs. These models allow businesses to access additional value-added services offered by PSPs such as technology, service or ecosystem-related benefits. In contrast, interchange-plus pricing can create challenges for merchants attempting to make meaningful comparisons between providers.

Scheme Fees

4. ***Is there a case for further transparency of scheme fees to promote efficiency and competition? If so, what additional information would be beneficial?***

FinTech Australia members broadly support a greater focus on fee transparency and highlight its ability to promote competition among payment system participants both upstream and downstream. Focusing on both interchange and scheme fee transparency should help to level the playing field for smaller acquirers and merchants, enabling them to make informed decisions and negotiate more favourable acquiring solutions.

Members have also noted that there would be difficulty in prescribing particular models for scheme fees, as this may limit flexibility and the ability of SMBs to find acquiring solutions that suit their needs. Any attempt to require fee schedules to adhere to a particular fixed model could constrain the ability of service providers in this space to innovate and provide competitive service offerings. However, greater transparency and comparability through standardised worked examples and consolidated fee categories would assist.

5. ***Is there a case for regulatory action to reduce the complexity or growth of scheme fees? If so, what form should this take?***

FinTech Australia members generally agree with efforts taken to reduce the growth and complexity of scheme fees, for example, by continuing to improve uptake of LCR. As the Issue Paper notes, the decline in Merchant Service Fees has been mostly due to reductions in interchange and PSP margins at this stage. However, without further information, it is difficult to assess the extent to which growth in scheme fees is attributable to, or exceeds, the cost increases which are generally facing businesses, including those in other sectors. Greater transparency on some of the costs that factor into scheme fees (as outlined in our response to Question 4) above would better inform an assessment of whether further regulatory action or other policy responses are needed.

For example, some members have indicated that the merits of introducing industry standards for scheme fees should be considered, as well as a longer notice period before the card schemes change their pricing. Some members have also indicated that enabling the simplifying and 'locking' of scheme pricing for a fixed period would allow greater consistency and predictability for PSPs who could then offer better and more accurate pricing to their SMB merchants.

6. ***What other regulatory action should the RBA consider to increase the competitive pressure on scheme fees?***

FinTech Australia refers to our responses to Questions 5, 7 and 11. A competitive PSP market, greater uptake of LCR and enabling merchants to continue accessing a diverse range of PSP pricing models will each help to maintain competitive pressure on card networks and their scheme fees.

Least-Cost Routing

7. ***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?***

LCR has been a valuable lever in directly reducing card payment costs for merchants and dialling up competitive pressure between card networks. We have been encouraged to see non-bank PSPs spearhead innovations in this area by developing solutions that enable routing based on transaction size as well as payment network, and dynamic LCR routing. However, given that only a proportion of transactions are able to access LCR, its effectiveness has a ceiling. Accelerating the uptake of LCR would help to further catalyse the benefits outlined above. Some members believe this would be best achieved by potentially requiring that LCR be enabled by default for all merchants for in-person transactions (with merchants able to opt out if they choose).

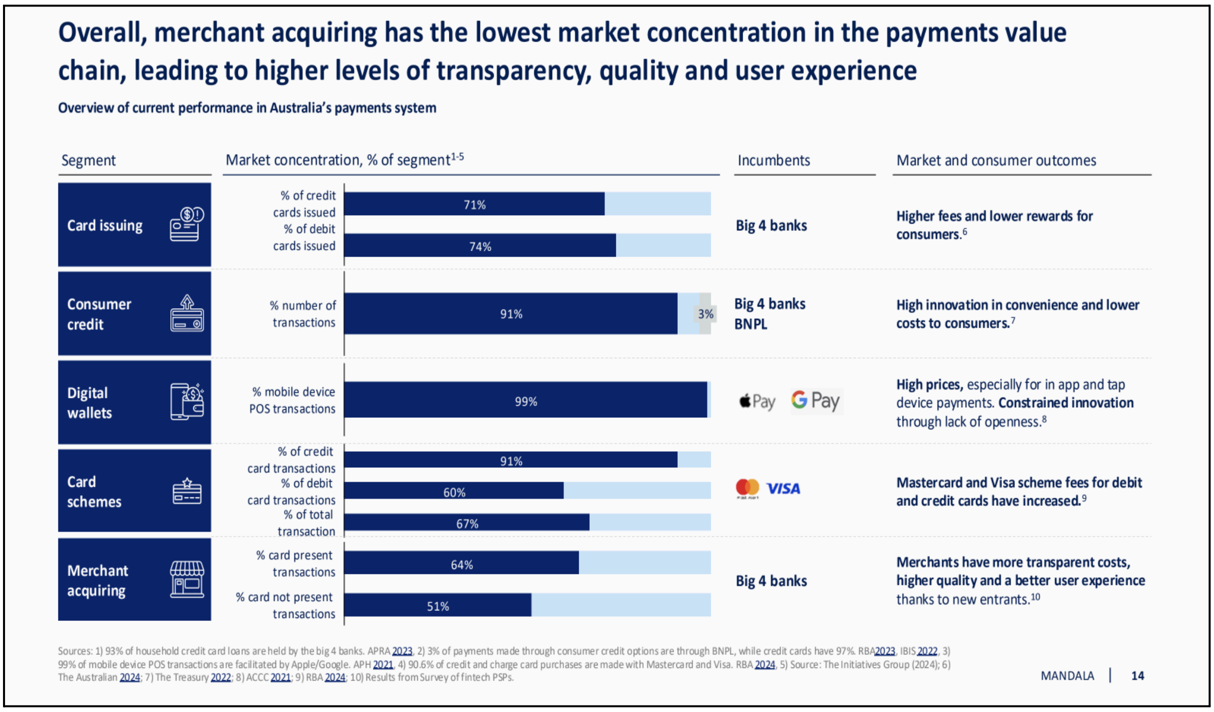
The RBA has questioned in the Issues Paper whether the benefits of LCR are being passed on by PSPs to merchants who use simple pricing plans, given that their PSP routes transactions to the lowest cost scheme on their behalf. This preserves the price signal, but shifts it upstream to the PSP, who can then use this signal to negotiate lower interchange and scheme rates - often more effectively than a small merchant would be able to do on their own. In a competitive market like PSPs operate in, recent data and economic theory say these savings are in fact being passed on to the merchant. The PSP market has a lower market concentration than other key elements of retail payments (i.e. card issuing, networks, mobile wallets) with relatively low switching costs for merchants to change PSP providers. As a result, the PSP market is working efficiently and we can see lower cost inputs delivered by LCR lower overall prices for merchants. For example, merchant service fees have declined since simple pricing plans were introduced into Australia even as other cost inputs (including scheme fees) have increased over the same period while service quality has also improved. Similarly, data shows acquirers with the highest rates of LCR enablement among merchants are passing on wholesale cost savings to merchants via simple price plan rate cuts.[13] However, some members have acknowledged the need for greater transparency to demonstrate that the benefits of LCR are in fact passed on to consumers and to incentivise greater LCR enablement across the board.

Merchant Service Fees

8. ***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?***

FinTech Australia members believe that the true benefits of further changes in this area are likely to be modest given that the PSP market is already the most diverse and competitive in the retail payment system (Figure 4),[14] many PSPs already publish clear pricing information on their websites, merchant services fees are continuing to decline and merchants benefit from low PSP switching costs.

<u>Fig 4: Merchant acquiring has the lowest market concentration of the payments value chain</u>



Source: (Mandala, 2024, p.14)

They also warned of drawbacks, depending on the form of disclosure. For example, information on wholesale costs, margins and transaction volumes is commercially sensitive and its required disclosure could act as a disincentive to new entrants, rather than serve to promote competition among PSPs. Equally, given the high degree of variability in the costs of PSPs serving merchants, high levels of product differentiation and diversity of business models in the PSP market, fee comparisons may quickly become irrelevant or misleading.

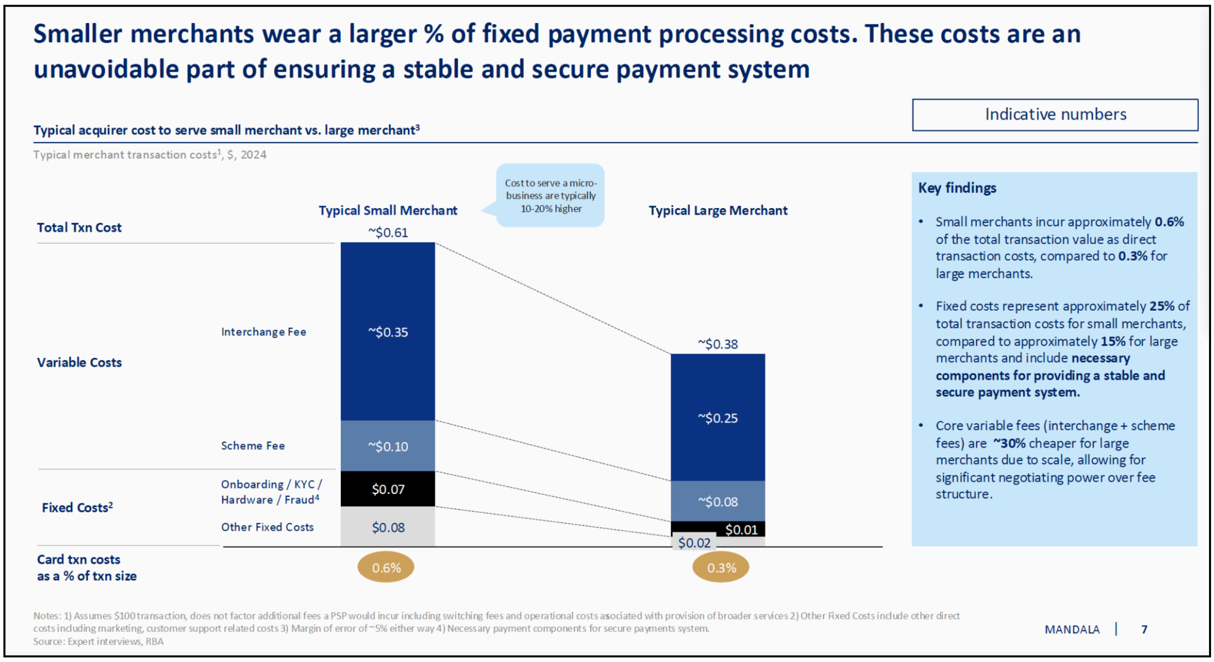
[13] Mandala, *Unit Economics, Competition and Surcharging Analysis* (December 2024).
[14] Mandala, *Unit Economics, Competition and Surcharging Analysis* (December 2024).

For example, PSPs face different costs depending on the size of the merchant they are servicing (Figure 5). This reflects a mix of fixed and variable costs, with smaller merchants wearing a greater percentage of the fixed costs (relative to their lower transaction volumes) that are critical to ensuring a stable and secure payment system, such as KYC checks, provision of hardware and fraud protection. This makes comparisons using a percentage cost per transaction challenging and does not give a clear picture of the unit economics of serving different merchants. A like-for-like comparison of costs and fees is also difficult when accounting for bundled pricing plans, where merchants may choose to receive acquiring services bundled with other related or ancillary services.

Given these challenges, members are concerned that cost and fee comparisons could dissuade PSPs from competing on this type of product differentiation, and in turn remove choice from merchants. Any disclosure, therefore, would need to be consolidated at a high-level while accounting for this variance across merchant profile, product type and pricing plan.

Some members have suggested that there would benefit in the RBA publishing aggregate market share information for PSPs (as it does for card schemes) to inform policy responses to further stoke competition in the market and assess their effectiveness.

<u>Fig.5: The economics of PSPs servicing merchants varies based on their size, and reflects a mix of fixed and variable costs:</u>



Source: (Mandala, 2024, p.7)

9. ***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?***

FinTech Australia members support means of making the information on merchant statements as simple as possible. Some PSPs already publish additional resources on their websites for merchants seeking further information. These help break down some of the key concepts relating to merchant service fees and surcharging, such as calculating cost of acceptance, and direct merchants to RBA and ACCC resources.

It is unclear, however, whether most merchants would find more detailed, prescriptive information helpful as opposed to simplifying the existing information available to merchants on their statements. If further prescriptive fee information were required, the concerns expressed in our responses to Question 8 and 9 above in relation to non-standard pricing models (such as blended fees and bundled pricing) would need to be taken into account. Alternative pricing models are currently being preferred by some merchants and care must be taken not to disadvantage these models. Members consider that greater transparency around card issuing is also required in order to promote competition among issuers.

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

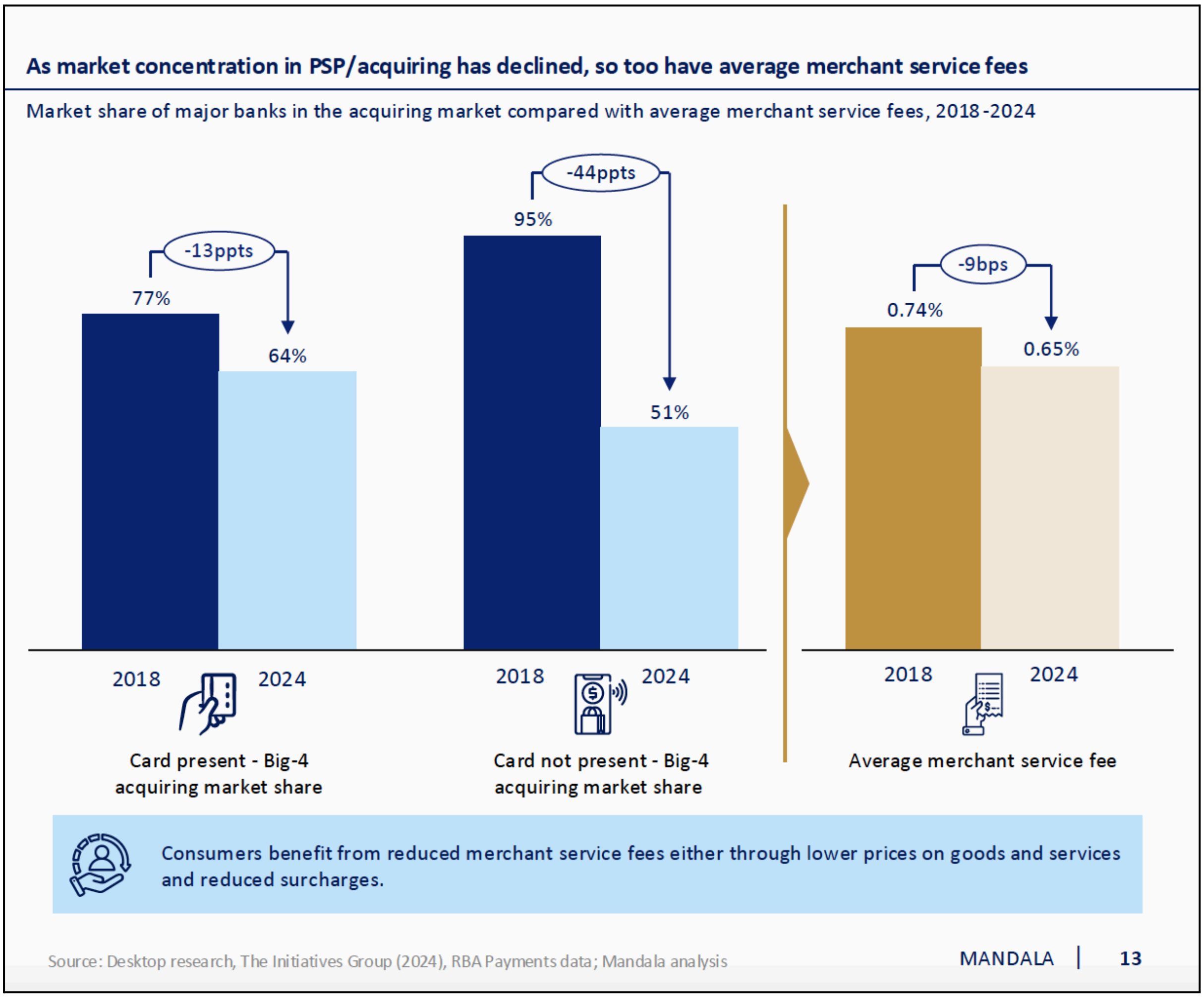
FinTech Australia members generally support greater simplicity and uniformity in the presentation of merchant fees, as this would enable businesses—particularly small and medium merchants —to make more informed decisions when selecting PSPs. Drawing on international best practices, such as the UK's framework for standardising fee disclosures, could help Australian merchants better understand the total cost of acceptance and promote fair competition among providers.

11. ***What other regulatory measures should the RBA consider to improve competition between PSPs?***

The PSP market is more diverse and less concentrated than other aspects of the retail payments ecosystem. This trend has continued in recent years as more innovative and new entrants have entered the market and provided card acceptance services to a range of merchants for whom they were previously out of reach. As a result, overall merchant service fees (and the proportion attributable to PSPs in particular) have declined. This is supported by research indicating that the decline in market share of issuer-acquirers has coincided with a downward trend in average merchant acquiring fees. This development aligns with a simultaneous increase in the number of new entrants into the acquirer and PSP market during the same period.[15]

[15] Mandala, Unit Economics, Competition and Surcharging Analysis (December 2024).

Fig. 6: Declining Issuer-Acquirers' Market Share and Its Impact on Merchant Acquiring Fees (2018–2024)



Source: (Mandala, 2024, p.13)

Members have highlighted the positive impact which increased competition could have on the options available to small businesses, which may in turn put downward pressure on interchange fees. FinTech Australia stresses the need to ensure any proposed changes being contemplated by the RBA would not have a chilling effect on competition (for example, by favouring major retail banks and other large acquirers), as any changes which reduce the options available to small businesses are likely to result in increased margins and, hence, increased costs of acceptance (even if individual components which may up the costs of acceptance are reduced).

While FinTech Australia members acknowledge the impact that the RBA's reforms have had on merchant costs over time, they also highlight the role which increased competition has played, largely through the recent entry of non-banks into the acquiring services market.[16] This increased competition has not only driven down merchant service fees but also fostered innovation and efficiency across the payments ecosystem.

[16] As Brad Jones, RBA's Assistant Governer noted in his recent speech, "*Some of this competitive tension has arisen organically, and some of it has come about as a result of intervention by the RBA*." Brad Jones, 'The Future of the Payments System' (Speech at the AusPayNet Summit 2024, 12 December 2024) <https://www.rba.gov.au/speeches/2024/sp-ag-2024-12-12.html>.

This underscores the delicate interplay between market-driven dynamics and targeted regulatory actions, both of which are critical in shaping an efficient, competitive, and consumer-friendly payments landscape.

Assessing the competition impact of reform options

Given this dynamic, an impact assessment which includes a thorough analysis of competition impacts, should be undertaken before progressing any proposed reforms in this area. As outlined throughout our submission, FinTech Australia is concerned that some options for reform canvassed in the Issues Paper, such as a ban on (debit or total) surcharging or mandating differentiated pricing, would have the effect of reducing competition among PSPs and further entrench the market dominance of ADIs involved in providing these functions. We propose alternatives (including requirements for surcharge-free digital payment methods and greater transparency and simplicity of payment-related information) which would only further stoke market rivalry among PSPs, as well as card networks.

FinTech Australia also recommends that the impact of the PSRA reforms before Parliament and upcoming PSP licensing framework reforms (both on their own, and cumulatively alongside any reforms progressed within the scope of the Issues Paper) be thoroughly assessed through a competition lens, to ensure that the increased regulatory and compliance burden for fintechs will not have a deleterious effect on competition in the sector. For example, proposed financial / capital requirements could disproportionately affect smaller PSPs as they seek to compete with major banks.

Levelling the playing field among large and small acquirers

One member notes that creating a level playing field with incumbent banks would also enable PSPs to further advance technological, service, and ecosystem-related innovations. This could include the development of specific interchange and scheme fee structures tailored for SMBs, as well as investment in technology to support the build of new products, such as those leveraging the NPP. Such measures, they suggest, would foster greater innovation within the payments market and enhance competition, ultimately benefiting both merchants and consumers.

Enabling merchants to continue accessing a diversity of PSP pricing models

Finally, enabling merchants the choice to continue accessing simple and blended pricing models offered by PSPs will not only preserve competition and support innovation but also foster greater transparency and operational efficiency in the payments market. Simple pricing models provide merchants with predictable, straightforward cost structures that reduce administrative burden and simplify financial planning, particularly for smaller businesses with limited resources. Blended pricing models, on the other hand, offer an alternative approach, combining various cost components into a single, consistent fee that facilitates easier cost comparison and management.

Allowing merchants access to a diversity of pricing models empowers them to tailor payment solutions to their unique business needs, whether they prioritise cost efficiency, service quality, or operational simplicity. This, in turn, drives healthy rivalry among PSPs, incentivising them to innovate and differentiate their offerings while keeping costs competitive for merchants. Maintaining a range of pricing options also ensures that businesses of all sizes, from micro-merchants to larger enterprises, can find solutions that work for their specific contexts.

FinTech Australia is of the view that restricting or discouraging these models risks diminishing the competitive forces that have driven significant advancements in the payments ecosystem. It could also disproportionately affect smaller businesses, which often rely on these models to manage cash flow and provide affordable payment options to their customers.

Surcharging

12. ***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?***

FinTech Australia members see surcharging as a symptom of the underlying costs of card acceptance (including interchange and scheme fees), providing consumers with transparency and a price signal in relation to their payment choices. Although surcharging is an imperfect attempt to allocate some of these costs, members are concerned that some options for revising the framework would leave stakeholders, and the payments ecosystem, worse off. We set out our views on these options below, and suggest alternatives to help reduce costs for consumers and merchants while minimising the potential downsides.

The lack of uniform data on the true prevalence of surcharging, and excessive surcharging, in the market, makes it challenging to assess with confidence the benefits (as opposed to risks) of changes to the surcharging framework. We do know, however, that critical to the success of any reform option will be continuing to enable robust competition in the PSP market, which has already contributed to reducing merchant payment costs.

Surcharging bans

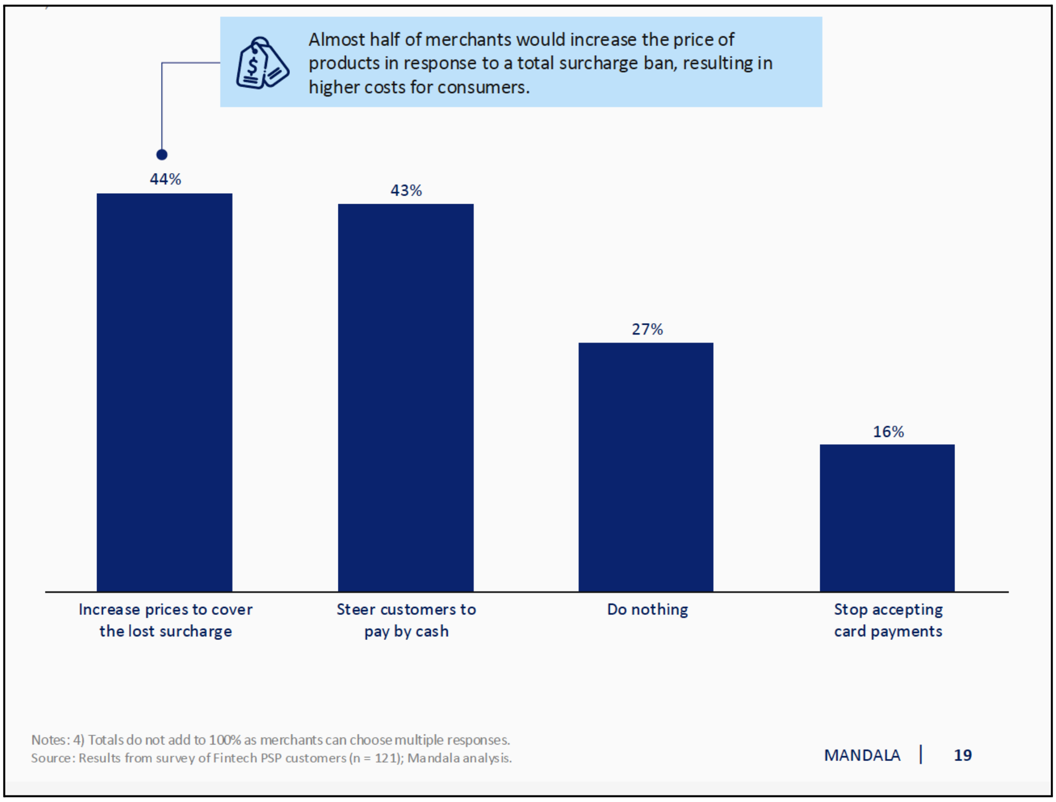
Since the RBA's 2003 reforms permitted surcharging, merchants have integrated these rules into their business models and pricing strategies. Removing this ability—especially during challenging economic conditions—could unfairly impact merchants, particularly smaller businesses that are more likely to use surcharging to offset rising costs.[17] Although surcharging is not without its flaws, members are concerned that a blanket ban on surcharging would create even greater challenges. It would eliminate price signals that encourage the use of lower-cost payment methods and force merchants, especially smaller ones, to either absorb higher costs through reduced margins or pass them on to all consumers at the counter. This approach risks unfairly burdening all consumers, not just card users, by driving up the overall prices of goods and services.

One member noted that an outright ban on surcharging presents unique challenges for Bill Payment Service Providers (**BPSP**s), whose business models rely on passing transaction

[17] Mandala, *Unit Economics, Competition and Surcharging Analysis* (December 2024).

processing costs directly to end users. Unlike traditional merchants, BPSPs operate on a cost-recovery basis, making it infeasible for them to absorb such costs without compromising service delivery. While sector-specific initiatives, such as zero-fee debit card processing offered by government agencies like the State Revenue Office or Australian Taxation Office, may be appropriate in certain contexts, a blanket ban risks disproportionately impacting third-party providers. Such an approach could undermine their ability to sustain operations and disrupt the broader payments ecosystem, as merchants may be forced to adopt strategies detrimental to both consumers and market efficiencies. For instance, looking at Figure 7 of this Submission, 44% of merchants in the research indicate they would increase prices to compensate for the lost surcharge revenue, which means directly raising costs for consumers. Others may steer customers toward cash payments, limiting payment choice, or even cease accepting card payments altogether, which could restrict access to seamless and secure payment methods.

Fig.7: Merchant response to a potential total surcharge ban (%, 2024)



Source: (Mandala, 2024, p.19)

FinTech Australia members believe a debit-only surcharge ban poses similar issues, and some consider it more likely to stifle competition in the payments ecosystem than a total surcharge ban. This is because such a ban would effectively make blended pricing models unviable and hinder bundling models. This, in turn, would limit product differentiation and competition between PSPs as well as reduce the choice available to merchants, undoing the benefits that have accrued over the last decade since challenger fintechs began participating in the card payments ecosystem.

For small businesses in particular, the negative impacts would be considerable. A surcharge ban – whether total or debit-only – would impact small businesses with turnovers between $100K and $1M, the largest merchant group in Australia[18]. Small businesses no longer being able to surcharge debit transactions would see an immediate drop in their revenue of around 0.5%-1.5% on all debit card transactions processed (constituting 58% of card transaction volume in May 2024).[19] Consistent with this, research shows that in response to a ban on debit surcharging:[20]

- 31% of small merchants will increase their prices in response;
- small merchants who increase their prices are likely to increase these greater than the cost of the surcharge given that they adjust their prices in fixed monetary amounts rather than direct percentage increases;[21] and
- 14% of small merchants will stop accepting debit card payments.

This could reduce competition in the PSP market as merchants do not have access to value added services and do not have choice in which pricing models work best for them. Without the ability of smaller PSPs to compete on product differentiation in addition to price, major banks would be able to undercut smaller providers and further entrench their market power. Longer term, this reduction in competition would then likely see merchant service fees increase.

Given the outsized and immediate impacts on small businesses, members have suggested exempting them from any prospective ban if ultimately pursued. We set out further details of this proposal, and the likely implications of a surcharging ban, in our response to Question 13 below.

Capping surcharges

FinTech Australia members believe that if surcharging is to be further restricted, a cap on surcharging is likely a more effective and reasonable means of protecting consumers from excessive fees than a total surcharge ban. However, if pursued, it would need to be carefully calibrated to the right level so as not to undermine merchants' ability to recover legitimate payment costs or dampen competition and innovation among PSPs.

Any such cap should be informed by industry-level data on merchant service fees so as not to create an arbitrary ceiling that distorts price signals or disadvantages small merchants who incur relatively higher fixed payment costs. The cap must strike a delicate balance: set it too high, and the downward pressure on merchant service fees diminishes; set it too low, and merchants struggle to recover even close to their true costs.

The current framework encourages PSPs to differentiate themselves by offering competitive pricing and value-added services to merchants. A cap set artificially low could discourage PSPs from investing in these innovations, as merchants might focus solely on meeting the cap rather than exploring the best solutions to meet their needs. Additionally, larger acquirers, with their

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[18] Mandala, *Unit Economics, Competition and Surcharging Analysis (*December 2024).
[19] Reserve Bank of Australia, 'Retail Payments Statistic May 2024', *Reserve Bank of Australia* (8 July 2024) <https://www.rba.gov.au/statistics/frequency/retail-payments/2024/retail-payments-0524.html>.
[20] Mandala, *Unit Economics, Competition and Surcharging Analysis* (December 2024).
[21] For example, a $5 coffee will not increase to $5.05 (assuming a 1.1% surcharge) but rather more likely to $5.25.

ability to cross-subsidise payment costs, would be better positioned to adapt to an unduly low surcharge cap, further entrenching their market dominance at the expense of smaller, innovative PSPs. Although there is some complexity in arriving at the appropriate surcharging cap, members generally view implementing the cap as a more straightforward exercise for merchants. Some members have stressed that the benefit of simplicity for merchants should not be overlooked in an environment where calculating the cost of acceptance has become increasingly complex and time-consuming for merchants.

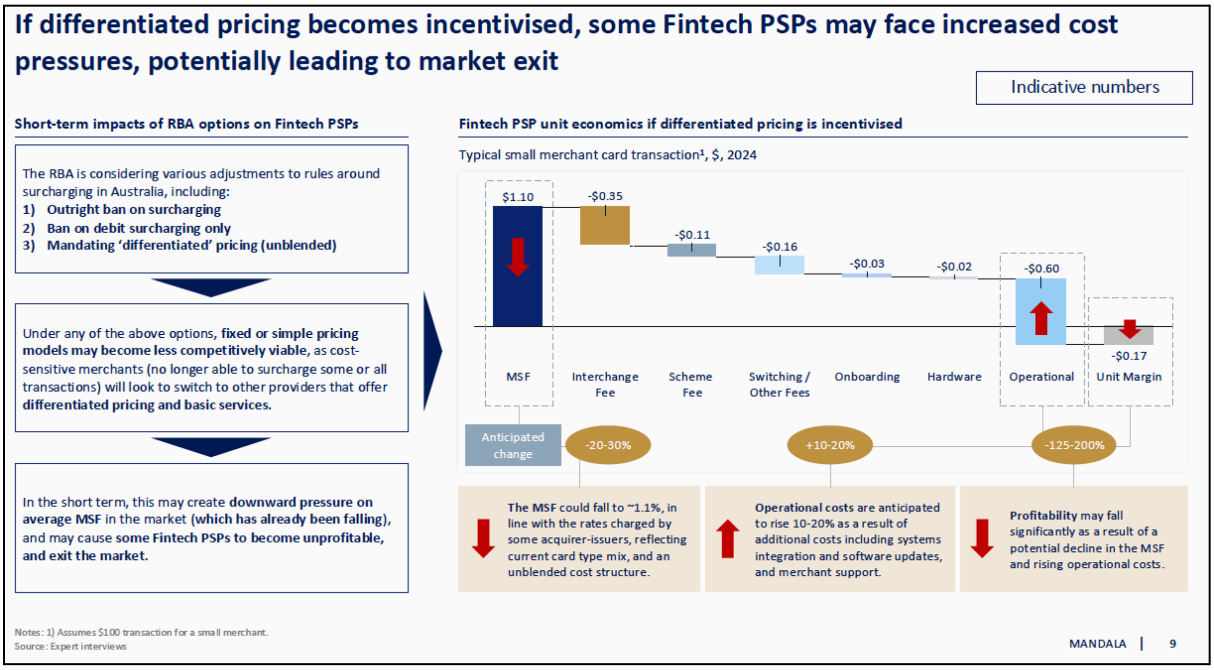
If a cap is pursued, one member suggested considering introducing a data-informed cap specifically on debit surcharging. Such a targeted cap may provide a balanced regulatory solution by addressing excessive fees while fostering competition within the payments ecosystem. A debit surcharge cap may also incentivise merchants to explore and adopt alternative payment rails, such as Account-to-Account options (e.g., NPP payments) or EFTPOS, which are generally lower-cost and real-time.

Mandating differentiated pricing

FinTech Australia's members generally do not support mandating differentiated pricing for transactions processed across different networks. Many find the potential first and second-order effects of such a change concerning.

First, it would be very challenging, if not infeasible, for PSPs to continue offering single-rate plans and blended pricing. This may cause some fintechs to become unprofitable and exit the market (Figure 8). Mandating differentiated pricing could increase operational costs for PSPs by 10% - 20% and reduce their unit profitability by as much as 200%, potentially forcing market exits and diminishing competition in the payments ecosystem.

Fig 8: Potential Impacts of differentiated Pricing on PSPs



Source: (Mandala, 2024, p.9)

Second, merchants (particularly small businesses that adopt simple and blended pricing models in large numbers)[22] would lose freedom of choice in their payment services (and for some, their provider), as well as access to some payment-related services altogether.[23] Simplified pricing models are easy to understand and provide predictability for merchants by removing volatility in their month-to-month costs. Continuing to allow businesses the freedom of choice to access these models is therefore essential, particularly given the absence of data indicating removing this choice would help lower merchant costs.

Merchant experience is also a key competitive advantage of simplified pricing models and PSPs should be allowed to compete to attract merchants via product differentiation. We believe a more effective means of achieving the intended policy outcome would be to prioritise further uptake of LCR, or help merchants better understand and adhere to the current surcharging rules.

Narrowing the definition of the cost of acceptance

FinTech Australia members generally do not support further narrowing the cost of acceptance beyond the current definition of what is reasonable. This would exclude in-demand, highly valuable services and software provided by PSPs and go against the clear preferences of many businesses, who have adopted bundled services models in large numbers. It also risks increasing compliance costs and complexity for merchants, particularly small and medium-sized businesses.

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[22] Smaller merchants that process less than $100,000 in card transactions each year on average are more likely to choose fixed pricing plans. Source: https://www.rba.gov.au/publications/bulletin/2022/sep/the-cost-of-card-payments-for-merchants.html

[23] See Figure 1 for a list of payment and payment-related services that are provided by fintechs PSPs but generally aren't provided by issuer-acquirers.

A member remarked that restricting the scope of surcharging to exclude software services would have profound and far-reaching implications for the payments landscape. Such a measure could effectively remove third-party BPSP providers from the market, limiting consumer choice and forcing bill-payers to rely exclusively on traditional banking platforms or navigate individual billers' web portals. This would not only diminish competition but also reverse significant advancements in fintech innovation.

PSPs have invested significant amounts in developing secure, fast payment methods that also offer merchants easy-to-understand pricing and critical services that go beyond basic processing functions. This includes fraud prevention such as AML/KYC processing, real-time reporting, integration with business remittance software, onboarding cost and customer support (see Figure 1). PSPs foster differentiation and enhance business choice, as they do not compete on bare processing cost alone, but also on the security, convenience and simplicity of these offerings.

Other regulatory options and broader implications

13. ***What are the implications for merchant payment costs from changes to the surcharging framework? Could the RBA address these with other regulatory actions?***

Implications of changing the surcharging framework

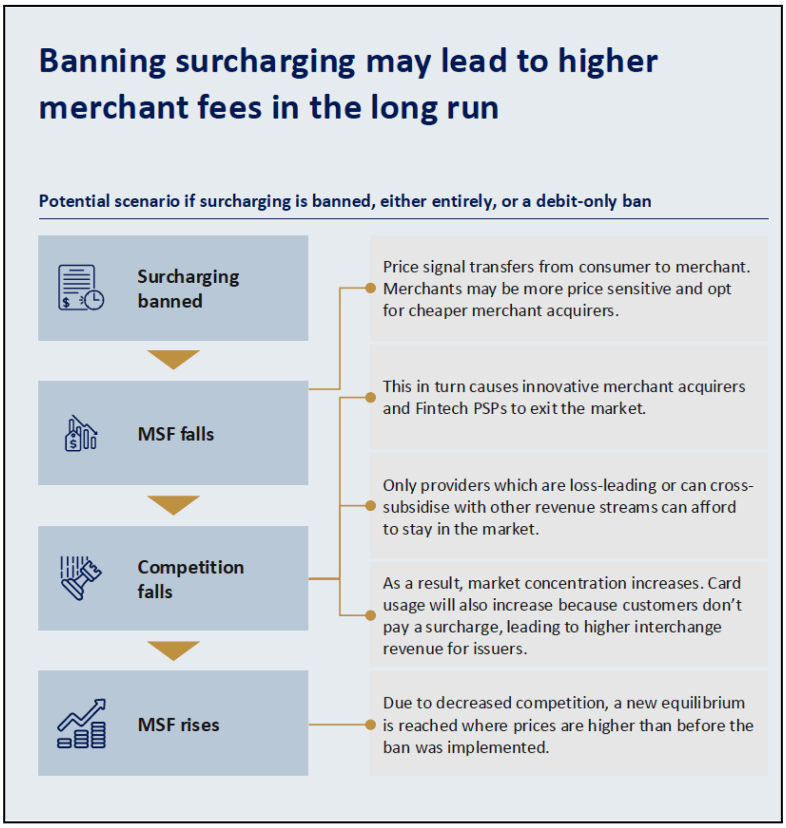
Merchant payment costs may increase over time

FinTech Australia members are of the view that banning surcharging or making simple pricing models non-viable (e.g. via mandating differentiated pricing) is likely to lead to higher merchant payment costs over time. This is because:[24]

1. under a ban, the price signal transfers from consumers to merchants who are likely to be more price sensitive and opt for cheaper acquirers. Similarly, if differentiated pricing is mandated, it may be uneconomical for smaller acquirers/PSPs to continue their business model and/or providing value-added services;
2. in turn, innovative PSPs exit the market and only large, loss-leading, acquirers can afford to stay in the market;
3. as a result, market concentration increases and competition drops;
4. with reduced competition, there is a less downward pressure on prices, and a new equilibrium is reached where merchant service fees are higher than before surcharging was banned or simple pricing limited.

[24] Mandala, Unit Economics, Competition and Surcharging Analysis (December 2024).

Fig. 9: Potential Long-Term Impact of Surcharging Bans on Merchant Fees and Market Competition



Source: (Mandala, 2024, p.22)

The UK experience is cautionary in this regard. Since introducing a ban on surcharging in 2018, the UK has seen greater concentration in the merchant acquiring sector (with the two largest merchant acquirers processing approximately 70-80% of card transactions by volume) and increases in debit card fees (from ~0.25% of transaction value for debit card purchases in 2017 to ~0.28% in 2022).[25] In contrast, in Australia, the major 4 banks process 63% of card transactions by volume and debit card fees have decreased from 0.63% (combined for both schemes) in March 2017 to 0.50% for Visa and 0.51% for Mastercard in December 2022.

Competition among PSPs is likely to fall, with some PSPs exiting the market

There has been broad acknowledgement that it is highly challenging to turn a profit from payment processing alone given the very narrow margins involved. For non-bank PSPs, it is generally not possible to cross-subsidise the cost of payment processing across vast product lines or other considerable profit streams, as major banks do.[26] Research shows that large acquirers use their merchant acquiring service to retain SMB customers and drive indirect revenue (for example, via lending and transactions accounts), rather than as a profitable enterprise in its own right.[27] PSPs, on the other hand, operate with lower unit economics than

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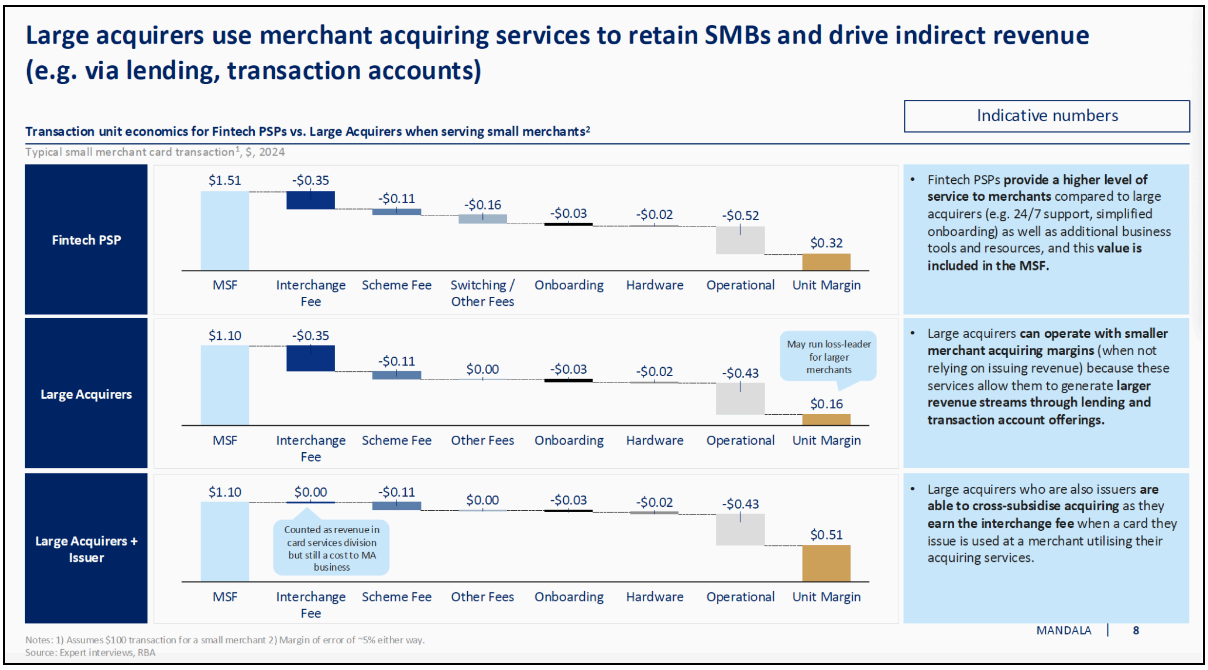
[25] Mandala, *Unit Economics, Competition and Surcharging Analysis* (December 2024).
[26] Evidence to House Standing Committee on Economics, Parliament of Australia, Canberra, 29 August 2024, 16 (Matt Comyn, Commonwealth Bank of Australia).
[27] Mandala, *Unit Economics, Competition and Surcharging Analysis* (December 2024).

acquirer-issuers such as banks when serving small merchants, making them particularly vulnerable to restrictions on pricing models, which could render their operations unsustainable.

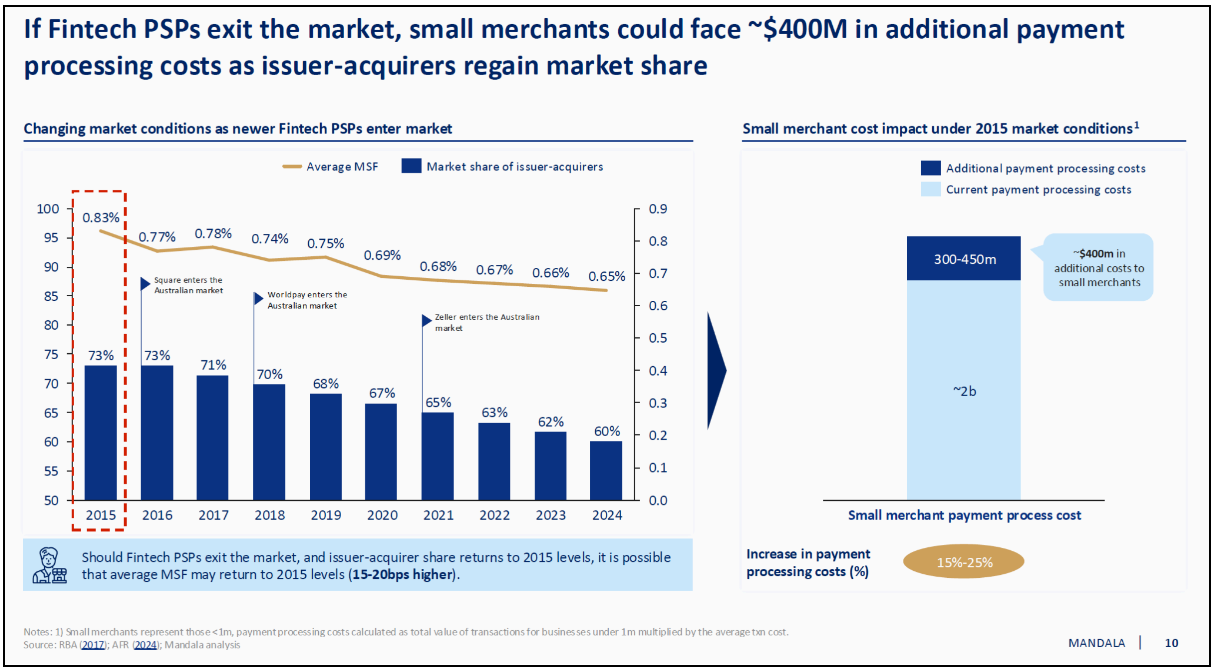
Fig.10: Comparison of Transaction Unit Economics for Fintech PSPs vs. Large Acquirers in Serving Small Merchants



Source: (Mandala, 2024, p.8)

Further, there are non-issuing fintech PSPs (such as payment facilitators) for whom merchant service fees are the *only* stream of revenue and pay for *all* costs in the business, not just the cost of specific transactions. As a result, any regulatory intervention that results in a reduction of these already slim margins, or makes some PSP business models (such as flat or blended pricing) untenable is likely to make payment processing uneconomical for smaller players. In particular, a ban on debit surcharges or mandating differentiated pricing would disadvantage smaller PSPs, who have fewer alternate sources of revenue to offset such changes. This risks a reduction in the number of PSPs and acquirers who can continue to operate, and with it, the level of competition and dynamism in the payments system. This is likely to result in higher merchant payment costs in the long run (Figure 11).

Fig.11: Correlation Between Merchant Service Fees and Issuer-Acquirer Market Share & Small Merchant Cost Impact under 2015 conditions



Source: (Mandala, 2024, p.10)

The potential exit of more innovative, smaller PSPs is even more concerning when we consider the data showing that 77% of merchants report satisfaction with their fintech PSPs, compared to only 44% with acquirer-issuers. Merchants' clear preference for PSPs shows that fintech PSPs overwhelmingly cater to small and micro businesses[28], who are reliant on them for critical services beyond pure payment processing, including fraud prevention services, chargebacks, AML/KYC checks and onboarding, and renting and maintaining terminals.[29]

Negative Impacts on Stored Value Facilities

FinTech Australia members believe that a debit surcharge ban or restrictions on surcharging would have unintended implications for Stored Value Facilities (**SVFs**), which are an increasingly important component of Australia's payments ecosystem. SVFs allow consumers to store funds for future transactions and are widely used - for example, digital wallets, prepaid cards, and other innovative payment solutions.

Restricting or banning surcharges on debit transactions could disrupt the business models of SVF providers, particularly when debit cards are used to fund these accounts. Unlike traditional payment transactions, the process of topping up an SVF involves additional operational and compliance costs, including scheme fees, interchange fees, and technology infrastructure. A ban on surcharges would prevent providers from recouping these costs, placing undue financial pressure on SVF operators and potentially reducing their ability to offer fee-free alternatives or enhance their services.

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[28] Small and micro businesses include hospitality, health & beauty, retail store, market stall/pop up, professional services and construction & trade Services.
[29] Mandala, *Unit Economics, Competition and Surcharging Analysis* (December 2024).

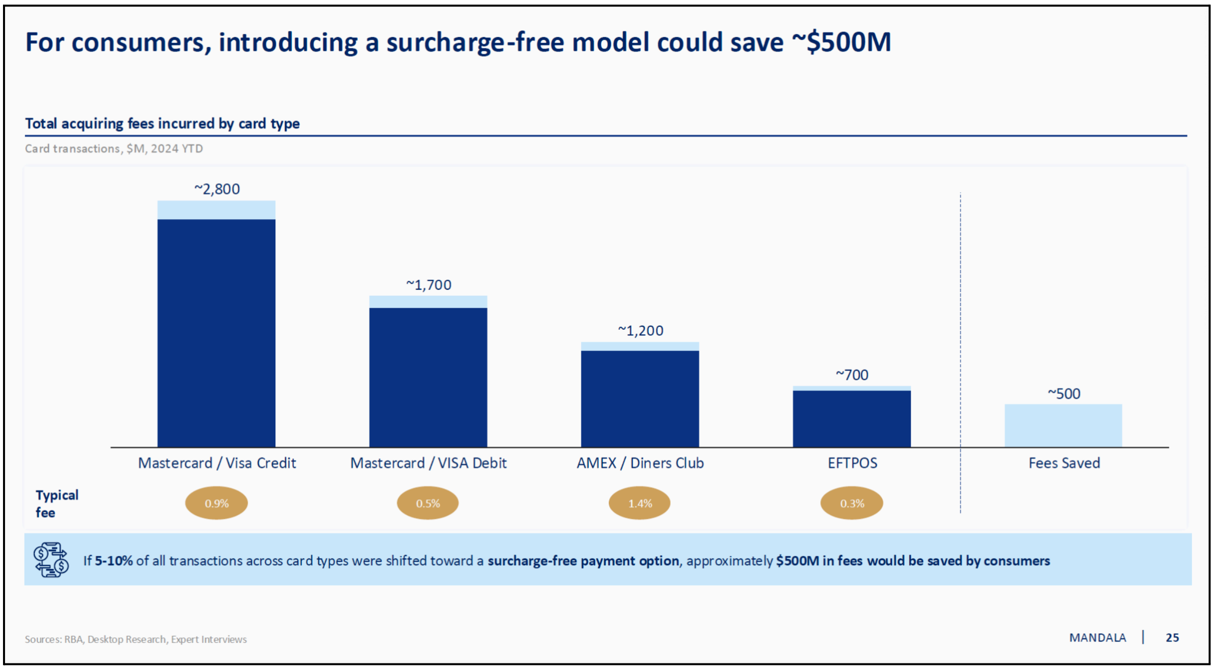
Without the ability to apply surcharges to debit transactions, SVF providers may be forced to absorb these costs, which could result in higher fees or reduced benefits for consumers. This would limit the availability of fee-free options and other value-added services, such as cashback, rewards programs, or enhanced user experiences. For consumers, this could translate to fewer innovative payment solutions and diminished value propositions.

Alternative solutions

Ensuring consumer access to surcharge-free digital payment options

To address heightened concerns around consumer cost of living, while maintaining a competitive and efficient payments system, businesses could be required to transition to making available a surcharge-free digital payment method to consumers.

Fig 12: Potential Consumer Savings Through a Surcharge-Free Payment Model



Source: (Mandala, 2024, p.25)

These surcharge-free digital payment options would be the decision for a merchant and could include debit but not limited to other payment methods. For example, this could include real-time account-to-account payments that leverage the New Payments Platform (NPP) and involve consumers paying using a PayID credential or QR Code. This would be an appropriate alternative solution to a (total or debit-only) surcharging ban, as it would:

- ensure consumers benefit from being able to avoid surcharges if they choose and preserves the price-signal for consumers to use a low-cost payment solution[30] (which is also relatively low cost for businesses);

[30] For example, consumers could collectively save approximately $500 million in fees, if 5-10% of transactions across all card types shifted to surcharge-free payment options.

- provide freedom of choice for businesses, who could elect to continue accessing the benefits of value-added services from a diverse range of PSPs;
- maintain competitive pressure on parties across the payments ecosystem, including card networks and PSPs, who would be incentivised to keep fees low in the knowledge that consumers can switch to an alternate, non-card solution; and
- provide a technology-neutral means of driving further innovation by encouraging new models of leveraging the NPP and future potential payment methods not currently commonplace.

A tech-neutral approach to surcharging would also complement the Federal Government's recently announced proposal to mandate that businesses must accept cash when selling essential items, and together, ensure that consumers continue to have meaningful access to surcharge-free payment methods into the future regardless of changes in consumer trends and technology.[31]

FinTech Australia also recommends that, if a ban on surcharging were to be implemented in some form, it not apply to merchants or SVF providers who offer a surcharge-free method of digital payment to consumers, given they are meeting the policy objectives of such a ban, and more. Some members have pointed out that they lose money on each surcharge-free transaction (via bank account transfer), to the extent that a ban on surcharging would undermine their ability to continue to offer consumers this choice of a surcharge-free payment method.

Reducing excessive surcharging and enhancing compliance with surcharging rules

Enhancing merchant awareness of excessive surcharging rules should improve adherence with the surcharging framework. Although potentially beyond the RBA's remit, providing merchants (particularly smaller businesses) with resources on surcharging obligations and greater transparency on payment-related information could help them get the best deal on their payment services and give them back time to invest into their businesses.

Tailored approaches for Stored Value Facilities (SVFs)

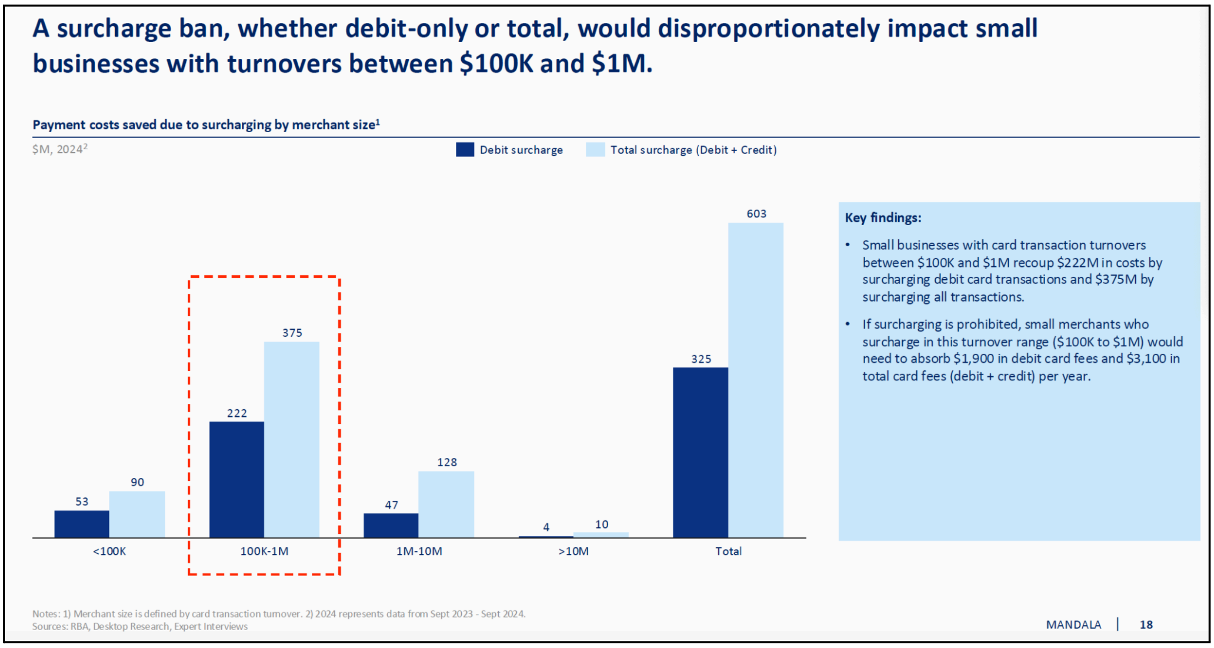
In considering regulatory options for surcharging, one member suggested that surcharge-free options should be considered sufficient to meet the regulatory objectives of promoting fair and efficient payment systems. Furthermore, when a payer funds an SVF account in which they are also the payee, the act of funding the account should be viewed as part of the product being purchased. This distinction highlights the need for flexibility within the surcharging framework to account for these unique use cases. Introducing an exception to surcharging rules for such scenarios would ensure that innovation in the SVF sector is not unduly constrained and that consumers continue to benefit from a diverse and competitive payments ecosystem.

Surcharge ban exemption for small businesses

[31] The Treasury (Cth), ' Ensuring the future of cash and next steps in phasing out cheques' (Media Release, 18 November 2024).

If a surcharging ban (in any form) is ultimately pursued, some members believe the RBA should consider exempting small businesses from such a ban, at least until other ongoing reforms that would likely reduce their card acceptance costs (such as greater adoption of LCR) take full effect. This would help ensure a more equitable outcome for this cohort, as data shows that either type of ban would have an immediate outsized impact on smaller merchants (Figure 11). For these smaller merchants, absorbing the costs currently offset through surcharges could result in immediate and significant financial strain, particularly as many already operate on narrow margins and research shows 50% are already operating at a loss.[32]

Fig. 13: Small businesses would be disproportionately impacted by a surcharging ban



Source: (Mandala, 2024, p.18)

Equalising costs for consumers

One member, though not directly impacted by any moves to ban surcharging, has advocated for the regulation of interchange fees, merchant surcharges and any fees which are charged for the making of payments to be directed at equalising (to the extent possible) the costs to the customer of different payment methods. Such an approach, they argue, ensures that, as far as possible, no participants are disadvantaged and that the consumer is provided with the greatest level of choice when it comes to means of payment.

14. Are there any other regulatory actions that the RBA should consider taking in response to the issues raised in this paper?

See our response to Question 13 above regarding alternative solutions to those proposed in the Issues Paper.

[32] Mandala, Unit Economics, Competition and Surcharging Analysis (December 2024).

15. Are there any issues in, or implications for, the broader payments ecosystem that the RBA should be aware of when designing a regulatory response to any of the issues discussed in this paper?

Competition and productivity implications

As well as ensuring any reforms in this area help meet the objectives of the Government's Strategic Plan for Australia's Payments System, the RBA should have regard to their potential impact on competition. With a revitalisation of National Competition Policy underway, there is broad acknowledgement that more can be done to promote the competitiveness of our economy, and the issues canvassed in the Issues Paper are an important piece of this puzzle. Card payments are also a critical spur of business productivity, with an estimated productivity boost saving around 46 million labour hours in the retail, hospitality and leisure industries[33], and contributed an estimated $38.7 billion to the domestic economy in 2022, or 1.8% of GDP.[34] Any regulatory response should therefore consider the potential implications for card payments remaining a key driver of productivity.

Consumer alternatives

Promoting greater uptake of account-to-account payments will help maintain competitive pressure on card networks and PSPs, to the ultimate benefit of consumers. For instance, Australia's PayTo system shows the potential of account-to-account payment infrastructure to deliver streamlined, efficient and secure payment solutions. By facilitating direct payments from bank accounts, PayTo could enhance competition in the payments market while addressing key challenges associated with traditional card payment systems. A comparison with India's UPI and China's WeChat Pay demonstrates the advantages of PayTo's approach, particularly in supporting recurring and direct payments for businesses and consumers (Figure 14).

[33] Deloitte, The Value of Australia's Retail Payments System (Report, American Express, 2024).
[34] Ibid, p4.

Fig. 14: Comparison of Australia's PayTo with India's UPI and China's WeChat Pay system

Australia's PayTo infrastructure focuses on efficiency in recurring and direct payments, setting it apart from the app-based, consumer-driven models of UPI and WeChat Pay

	PayTo	UPI (Unified Payments Interface)	微信支付 WeChat Pay
	Real-time, secure, and cost-efficient payments directly from bank accounts, enabling businesses to streamline operations and improve cash flow	**Interoperable, real-time payments via an open platform**, fostering app development and financial inclusion for consumers and merchants	**Wallet-driven payments within closed, ecosystem-driven environment**, integrating seamlessly with messaging, e-commerce, and services.
Infrastructure	**Centralised real-time payment system** using NPP, reliant on banking infrastructure and use of QR codes	**Real-time, interoperable system** leveraging the Immediate Payment Service (IMPS) platform	**Wallet-to-wallet system** within WeChat ecosystem; banks for onboarding/offboarding
Payment Flow	Consumer → NPP → Merchant	Consumer → Bank → Merchant (via UPI apps)	Consumer → WeChat Wallet → Merchant (within ecosystem)
Merchant Costs	**Potentially higher processing costs** if A2A payments replace a surcharge-able payment method	**Zero Merchant Service Fees**, subsidised by government	**Minimal or no fees**; WeChat earns through ecosystem monetisation (e.g., ads, services). Fee to offboard money to bank account
Third-Party Innovation	**Closed system**: no direct third-party app development	**Open ecosystem** allows apps and fintechs to enhance services	**Closed loop**; innovation centralised within WeChat ecosystem
Use-Case	Well-suited for business with recurring payments e.g. subscription payments, eInvoices, payroll	Facilitates a wide variety of payments e.g. P2P transfers, merchant payments, utility bills	Everyday transactions like retail purchases, dining, and transportation, integrated with the broader ecosystem
Implications for Merchant Acquiring	**Merchants integrate directly with NPP**, bypassing traditional intermediaries (e.g. card networks)	**Intermediary apps** like Google Pay and PhonePe **provide value-add services**, reducing control for banks	**Fully integrated into the WeChat ecosystem**, limiting merchant independence
Control Over Data	**Direct control for merchants and banks**; data centralised within NPP, Fraud recovery limited	**Shared between banks, apps, and UPI**	**Fully controlled by WeChat**, limiting merchant independence
Scalability	Scales well, but high costs for Fintech PSPs to build and maintaining infrastructure	High, includes unbanked populations	Scales well within the WeChat ecosystem, limited globally

Source: Desktop research

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Source: (Mandala, 2024, p.24)

To achieve this, equalising access to the NPP by non-ADIs should be prioritised, addressing barriers that limit competition and innovation. The Productivity Commission's recent Revitalising National Competition Policy Report highlighted that greater uptake of real-time account-to-account payments via the New Payment Platform (NPP) could reduce transaction fees for payments; resulting in a 0.02% increase in real GDP ($445 million) and a reduction in consumer prices of 0.06%[35]. The report also mentioned that a wider uptake of NPP transactions could reduce average debit card merchant fees by between 0.1 and 0.3% and 0.05% percentage point reduction in average credit card merchant fees.As such, enabling non-ADIs to access payment systems directly would create a more level playing field, stimulating market rivalry and driving innovation in payment solutions. [36]

Finally, the RBA should also consider the implications of the Government's recent announcement that it intends to mandate cash acceptance for essential items. Although card transactions, and related surcharging, have become more common, this would mean many consumers have greater access to a surcharge-free method of payment into the future - whether via cash or digital methods such as real-time account-to-account transactions.

[35] Productivity Commission, National Competition Policy: Modelling Proposed Reforms Study Report, (November 2024) <https://www.pc.gov.au/inquiries/completed/competition-analysis/report/competition-analysis-with-appendices.pdf>.
[36] Ibid.

Final remarks

FinTech Australia welcomes the ongoing discussion on how to improve the card payments regulatory landscape and recognises that solutions in this area do not come easily, quickly or without trade-offs.

Given these complexities, we urge the RBA to conduct a thorough competition analysis of any proposed reforms to ensure that they do not further entrench the market dominance of traditional incumbents in this area. Fintechs have made the retail payment system more diverse, competitive and helped drive down costs for merchants and consumers. It is imperative that any reforms allow them to continue to fairly compete.

Together with our members, we greatly appreciate the RBA's efforts in consulting with the fintech ecosystem and look forward to continuing to engage as the Review evolves.

Exhibit - Unit Economics, Competition and Surcharging Analysis (2024)

MANDALA

Unit Economics, Competition and Surcharging Analysis

Prepared for FinTech Australia

DECEMBER 2024

Contents

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Note: All dollar figures are Australian dollars unless indicated otherwise.

Contents

Key points

1. **Fintech PSPs operate with lower unit economics than acquirer-issuers. Restricting their pricing models could make their operations unsustainable.**
   - Smaller merchants bear a higher percentage of fixed payment processing costs, which are essential to maintaining a stable and secure payments system.
   - Large acquirer-issuers use merchant acquiring services to retain SMBs and generate indirect revenue through lending, transaction accounts and interchange.
2. **Fintech PSPs have increased competition in the merchant acquiring market. If Fintech PSPs exit the market, merchants would lose access to a broad range of payment and payment-related services, and long-term MSF may rise.**
   - Merchant acquiring has the lowest market concentration in the payments value chain, resulting in greater transparency, improved quality, and better user experience.
   - The entry of new Fintech PSPs has reduced market concentration in PSP/acquiring, leading to a decline in average merchant service fees. This ultimately benefits consumers through lower prices and reduced surcharges.
   - 77% of merchants report satisfaction with their Fintech PSPs, compared to only 44% with acquirer-issuers (e.g., big banks).
   - If differentiated pricing becomes incentivised or mandated, some Fintech PSPs may face increased cost pressures, potentially leading to market exit.
   - With reduced competition in the market, average MSF may rise to pre-2016 levels (15-20bps higher than today), costing small businesses ~$400M in additional payment processing fees.
3. **Small and micro businesses are surcharging to help offset rising costs. There are viable payment alternatives to a surchargeban that are surcharge-free for consumers.**
   - Small businesses face broad-based cost increases, with approximately 50% operating at a loss.
   - A surcharge ban, whether debit-only or total, would disproportionately impact small businesses with turnovers between $100K and $1M.
   - A survey shows that 36% of small merchants surcharge on card transactions, with the highest adoption among those earning $100K–$250K annually.
   - In response to a total or debit card surcharge ban, merchants are most likely to raise prices or encourage customers to pay with cash.
   - Surcharge-free payment models provide an alternative to banning surcharges, potentially saving consumers up to $500 million in fees.
4. **Micro-merchants are reliant on PSPs with fixed pricing models for their payment processing needs.**
   - Approximately 300K small merchants are on simple pricing plans, with 68% of micro-merchants adopting fixed pricing.
   - ~80% of small merchants adopt fixed pricing because it is simple, easy to understand, and straightforward to compare.
5. **LCR enablement is driving costs savings for merchants, even for those on simple plans.**
   - 70% of merchants have LCR enabled for in-store debit card transactions, with the highest enablement among those on fixed plans (95%).
   - Acquirers with the highest LCR enablement have started reducing simple plan rates, demonstrating that wholesale cost savings for PSPs are indeed being passed on to merchants.

Glossary – definitions of terms used throughout this document

Term	Definition in context of this document
Blended pricing	A pricing structure for payment processing services where certain transaction types are combined into a single price. For example, one price applies to all Visa and Mastercard transactions (including debit and credit), while a different rate applies to eftpos transactions.
Unblended pricing	Pricing structure for payment processing services where merchants pay different % rates for each transaction based on which payment method was used (synonymous with differentiated pricing).
Fixed pricing	Pricing structure for payment processing services where merchants pay a flat % per transaction across all networks, transactions, and card types.
Simple pricing	Synonymous with fixed pricing.
Differentiated pricing	Synonymous with differentiated pricing.
PSP	Payment Service Provider who provides any payments processing services to any customer type (merchant or Payfac).
Fintech PSP	New Fintech entrants to the payment facilitator market, generally used to describe non-bank providers of payments processing services, synonymous with Payfacs, often not an acquirer themselves.
Large Acquirer	Acquirer that primarily serves large merchants and Fintech PSPs with acquiring services.
Issuer-Acquirer	Acquirer that also is a significant card issuer – primarily referring to the big 4 Australian banks.
Payfac	Payments Facilitator, synonymous with Fintech PSP.
LCR	Refers to least-cost routing, a functionality that routes payments through the least expensive payments rail.

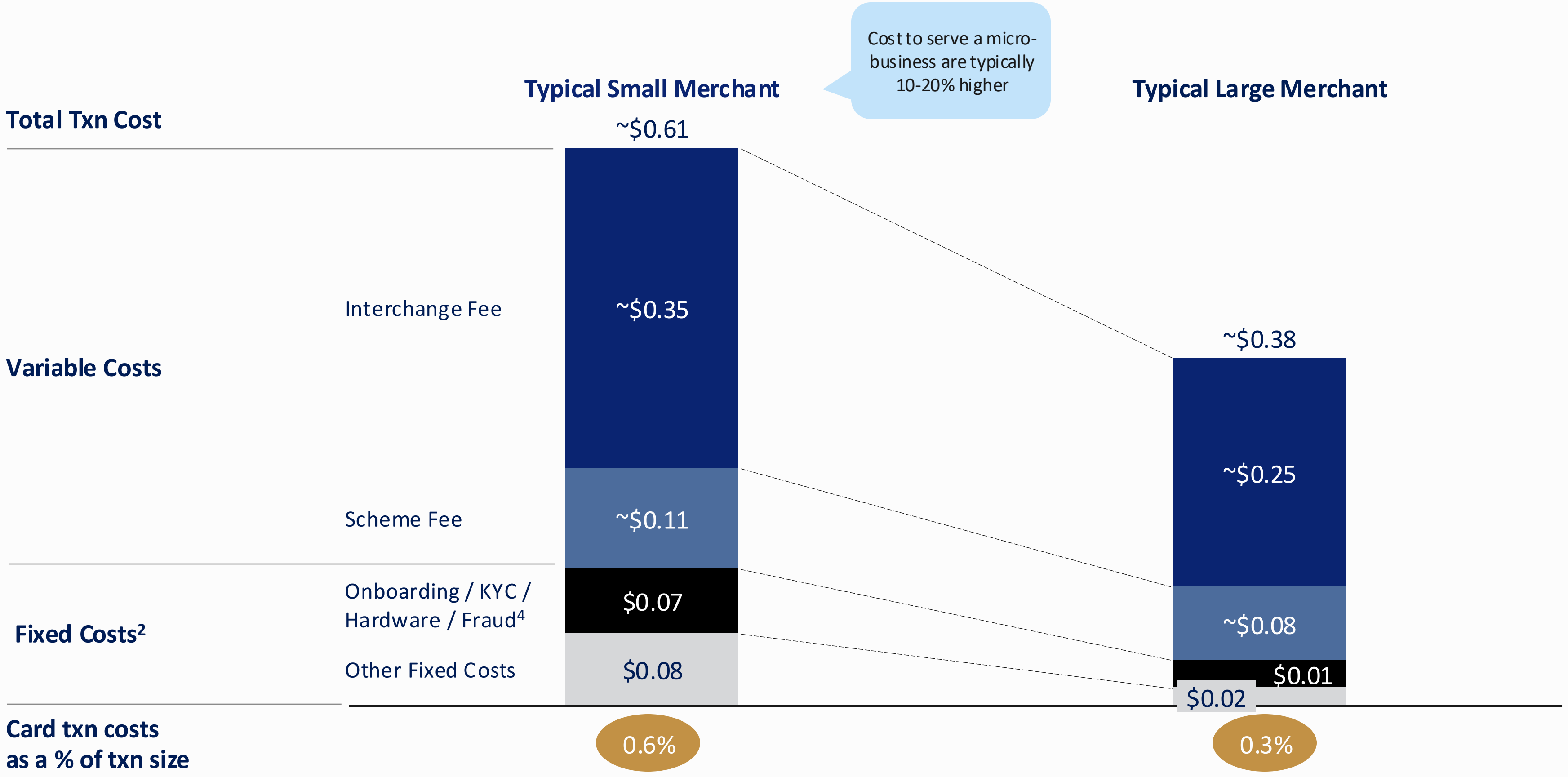
Contents

Smaller merchants wear a larger % of fixed payment processing costs. These costs are an unavoidable part of ensuring a stable and secure payment system

Indicative numbers

Typical acquirer cost to serve small merchant vs. large merchant[3]

Typical merchant transaction costs[1], $, 2024



Key findings

- Small merchants incur approximately **0.6%** of the total transaction value as direct transaction costs, compared to **0.3%** for large merchants.
- Fixed costs represent approximately **25%** of total transaction costs for small merchants, compared to approximately **15%** for large merchants and include **necessary components for providing a stable and secure payment system.**
- Core variable fees (interchange + scheme fees) are **~30%** cheaper for large merchants due to scale, allowing for significant negotiating power over fee structure.

Notes: 1) Assumes $100 transaction, does not factor additional fees a PSP would incur including switching fees and operational costs associated with provision of broader services 2) Other Fixed Costs include other direct costs including marketing, customer support related costs 3) Margin of error of ~5% either way 4) Necessary payment components for secure payments system.
Source: Expert interviews, RBA

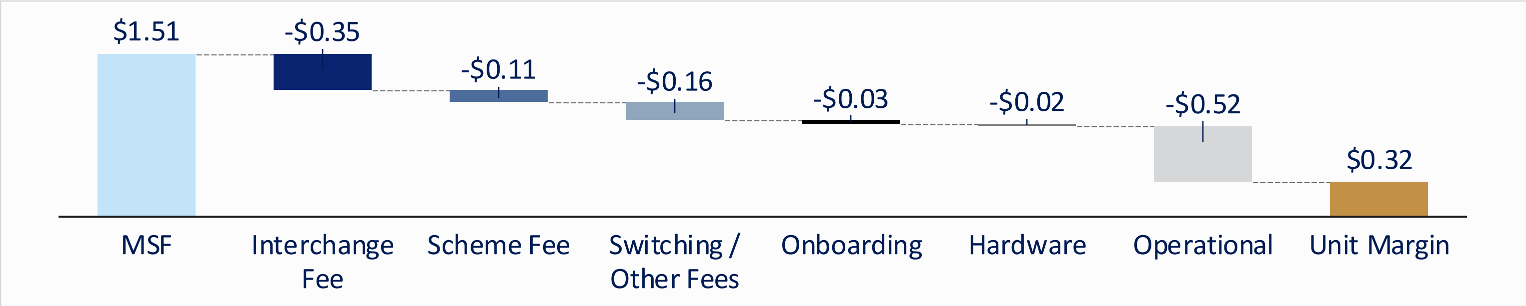
Large acquirers use merchant acquiring services to retain SMBs and drive indirect revenue (e.g. via lending, transaction accounts)

Indicative numbers

Transaction unit economics for Fintech PSPs vs. Large Acquirers when serving small merchants[2]

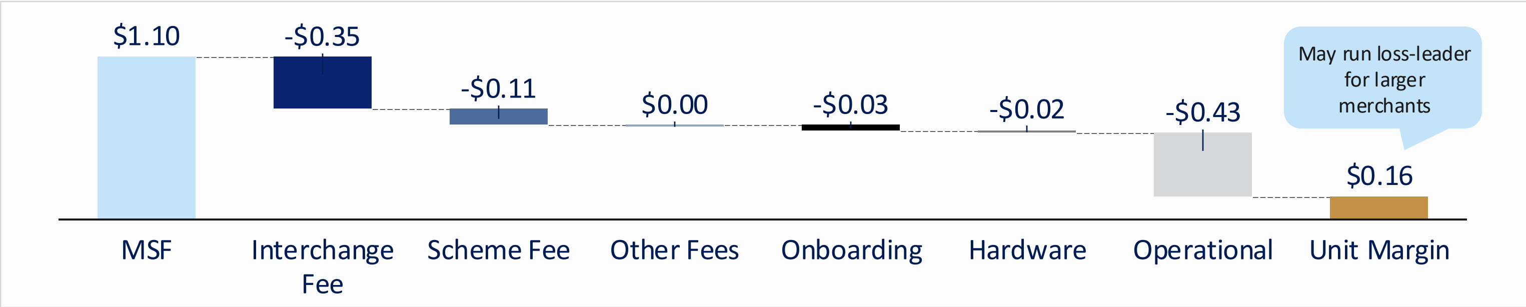
Typical small merchant card transaction[1], $, 2024

Fintech PSP



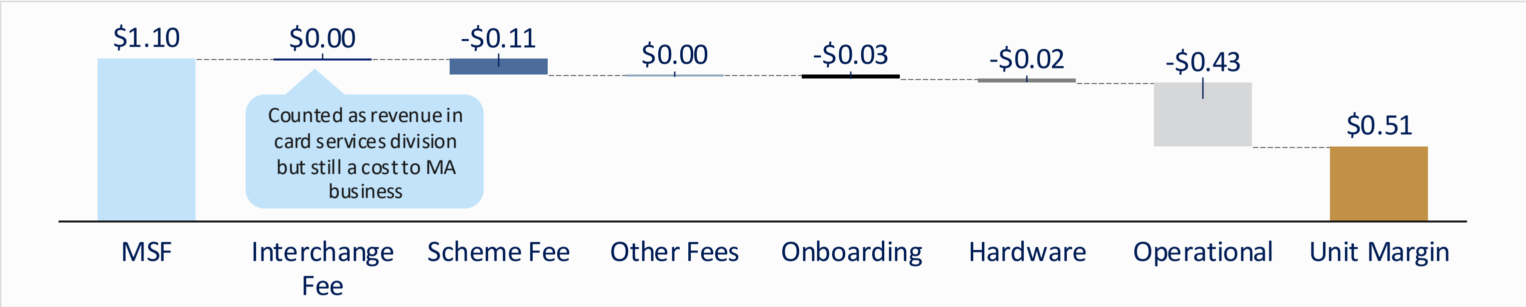
- Fintech PSPs **provide a higher level of service to merchants** compared to large acquirers (e.g. 24/7 support, simplified onboarding) as well as additional business tools and resources, and this **value is included in the MSF.**

Large Acquirers



- Large acquirers **can operate with smaller merchant acquiring margins** (when not relying on issuing revenue) because these services allow them to generate **larger revenue streams through lending and transaction account offerings.**

Large Acquirers + Issuer[3]



- Large acquirers who are also issuers **are able to cross-subsidise acquiring** as they **earn the interchange fee** when a card they issue is used at a merchant utilising their acquiring services.

Notes: 1) Assumes $100 transaction for a small merchant 2) Margin of error of ~5% either way. 3) For an 'On Us' transaction where the card is from the same bank as the merchant acquiring solution (e.g. CBA card, CBA terminal).
Source: Expert interviews, RBA

If differentiated pricing becomes incentivised, some Fintech PSPs may face increased cost pressures, potentially leading to market exit

Indicative numbers

Short-term impacts of RBA options on Fintech PSPs

The RBA is considering various adjustments to rules around surcharging in Australia, including:

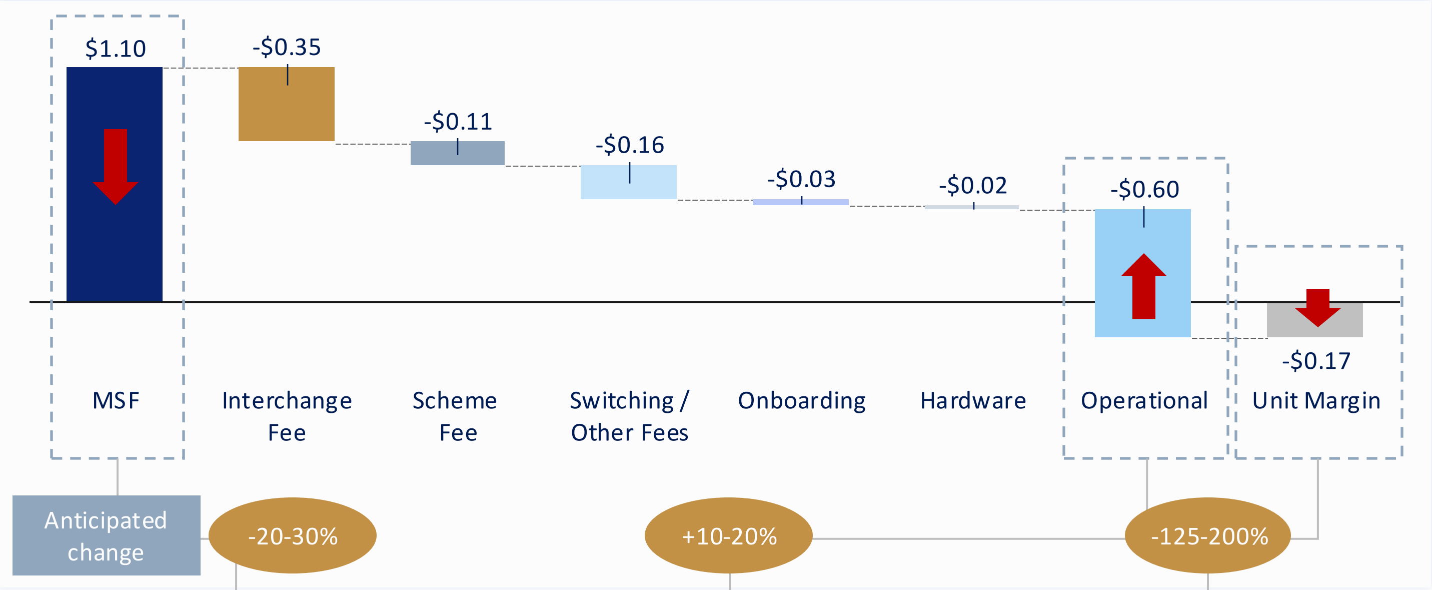
1) **Outright ban on surcharging**
2) **Ban on debit surcharging only**
3) **Mandating 'differentiated' pricing (unblended)**

Under any of the above options, **fixed or simple pricing models may become less competitively viable**, as cost-sensitive merchants (no longer able to surcharge some or all transactions) will look to switch to other providers that offer **differentiated pricing and basic services.**

In the short term, this may create **downward pressure on average MSF** in the market (**which has already been falling**), and may cause **some Fintech PSPs to become unprofitable, and exit the market.**

Fintech PSP unit economics if differentiated pricing is incentivised

Typical small merchant card transaction[1], $, 2024



The MSF could fall to ~1.1%, in line with the rates charged by some acquirer-issuers, reflecting current card type mix, and an unblended cost structure.

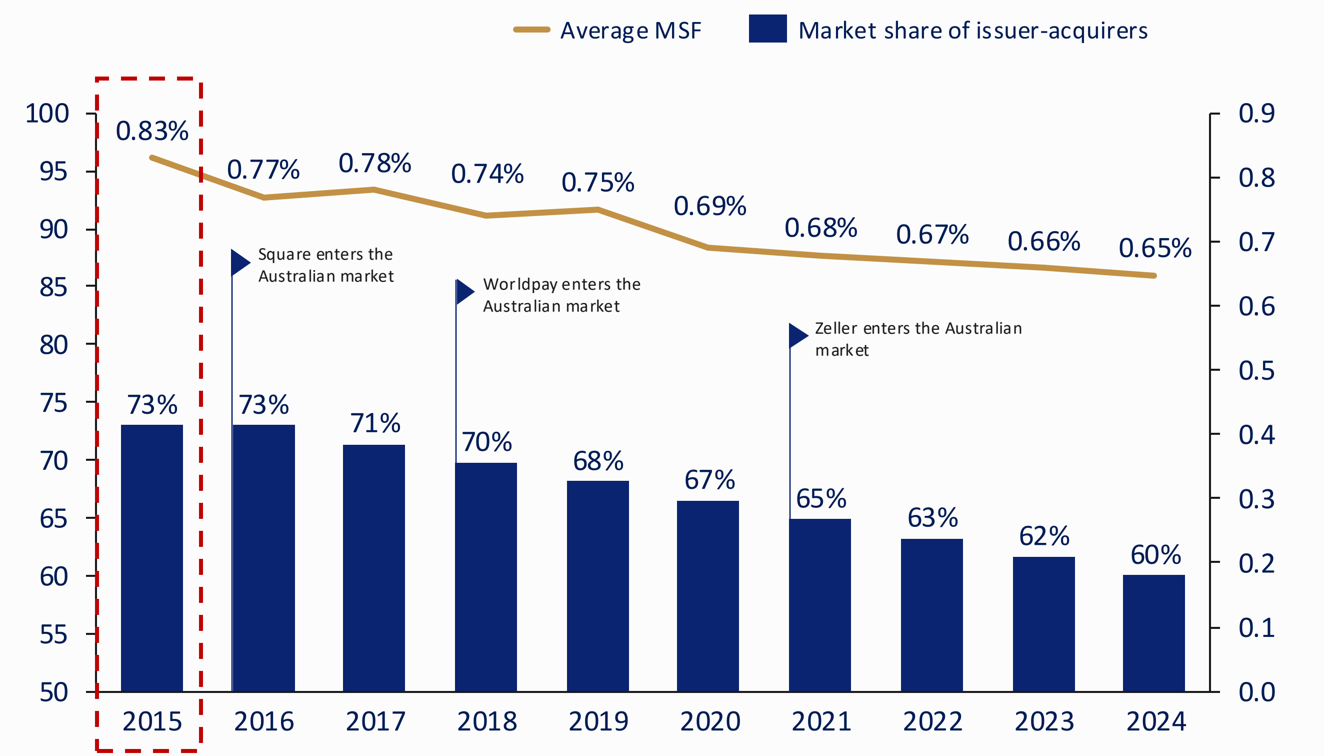
Operational costs are anticipated to rise 10-20% as a result of additional costs including systems integration and software updates, and merchant support.

Profitability may fall significantly as a result of a potential decline in the MSF and rising operational costs.

Notes: 1) Assumes $100 transaction for a small merchant.
Source: Expert interviews

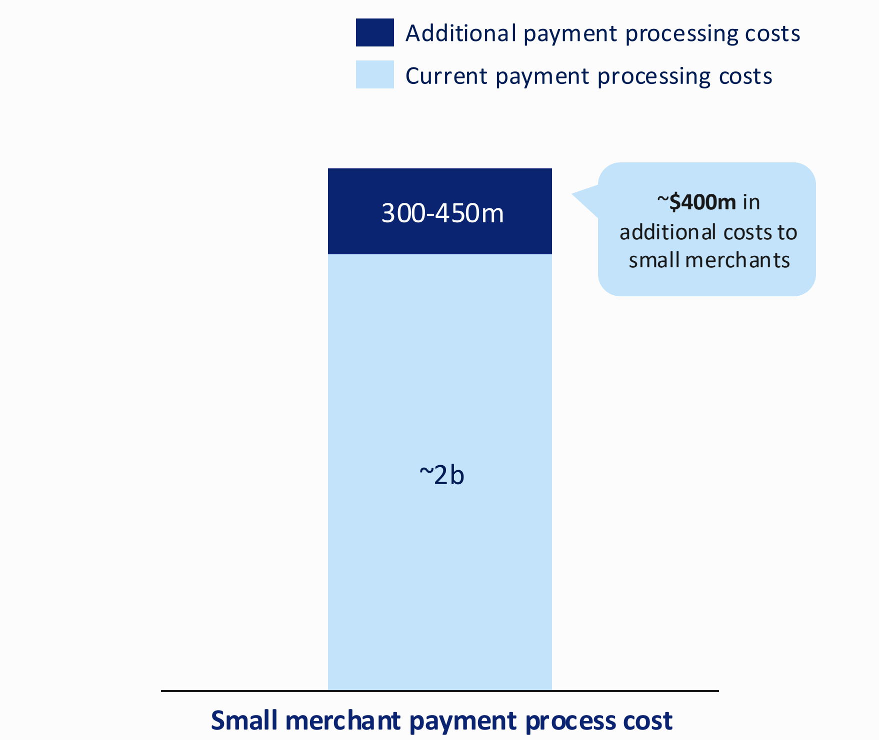
If Fintech PSPs exit the market, small merchants could face ~$400M in additional payment processing costs as issuer-acquirers regain market share

Changing market conditions as newer Fintech PSPs enter market



Should Fintech PSPs exit the market, and issuer-acquirer share returns to 2015 levels, it is possible that average MSF may return to 2015 levels (**15-20bps higher**).

Small merchant cost impact under 2015 market conditions[1]



Increase in payment processing costs (%) 15%-25%

Notes: 1) Small merchants represent those <1m, payment processing costs calculated as total value of transactions for businesses under 1m multiplied by the average txn cost.
Source: RBA (2017); AFR (2024); Mandala analysis

If Fintech PSPs exit, merchants would lose access to a wide range of payment and payment-related services

Fintech PSPs provide services that generally aren't provided by issuer-acquirers

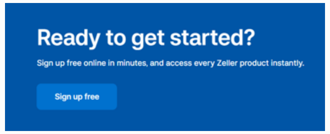
Non-exhaustive list of payment and payment-related services generally offered by Fintech PSPs and issuer-acquirers

Payment and payment-related service offerings		Fintech PSP	Acquirers
Payment services	Low, fixed cost payment model	✓	✓
	Flexible pricing model options	✓	✓
	Master merchant aggregation	✓	✗
	Cross-channel payment solutions	✓	✓
	Comprehensive payment method acceptance	✓	✓
	One-click checkout, and card-on-file services	✓	✗
Payment-related and customer services	Customer support 7 days a week	✓	✓
	Instant, free digital onboarding and account setup	✓	✗
	Software-based acceptance (e.g., mobile ePOS)	✓	✗
	Digital invoice generation and delivery	✓	✗
	Streamlined refund and dispute handling	✓	✓
	Business analytics and reporting dashboard	✓	✓
	Digital servicing	✓	✗
	Customer insights, analytics and reporting	✓	✗
	Merchant loyalty and rewards program management	✓	✗
	Business software integration capabilities	✓	✗

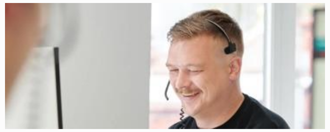
Source: Expert interviews; Mandala analysis

Zeller provides services that specifically support small businesses

Zeller case study



Zeller accounts take about **5 minutes to set up** → Issuer-acquirer accounts can take weeks to set up



Zeller **average service wait time is less than a minute** → Issuer-acquirer average service wait time is about 90 minutes

Zeller **provides an integrated dashboard** with item-level reports → This provides businesses with insights that support growth

Zeller's **app allows merchants to take payments and manage their businesses remotely** → This allows businesses flexibility and security in their payments and business management

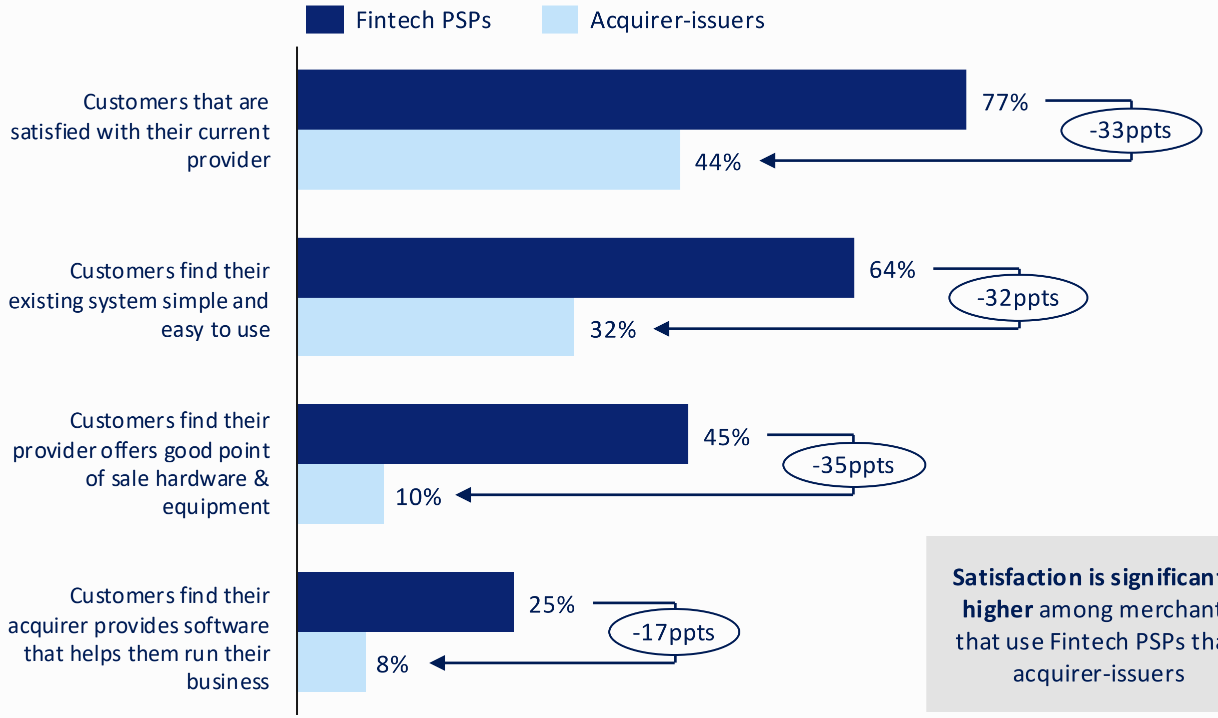
Part of Zeller's value proposition is fast and simplified onboarding, leading user experience and a simple pricing structure for merchants and their customers.

Source: Expert interviews; Mandala analysis

Merchants are far more satisfied with Fintech PSPs than alternative acquirer-issuers, and they save thousands each year using Fintech PSP bundled POS software

Fintech PSP offerings are more likely to retain merchants

Why have you not bothered to look at other card acceptance providers?

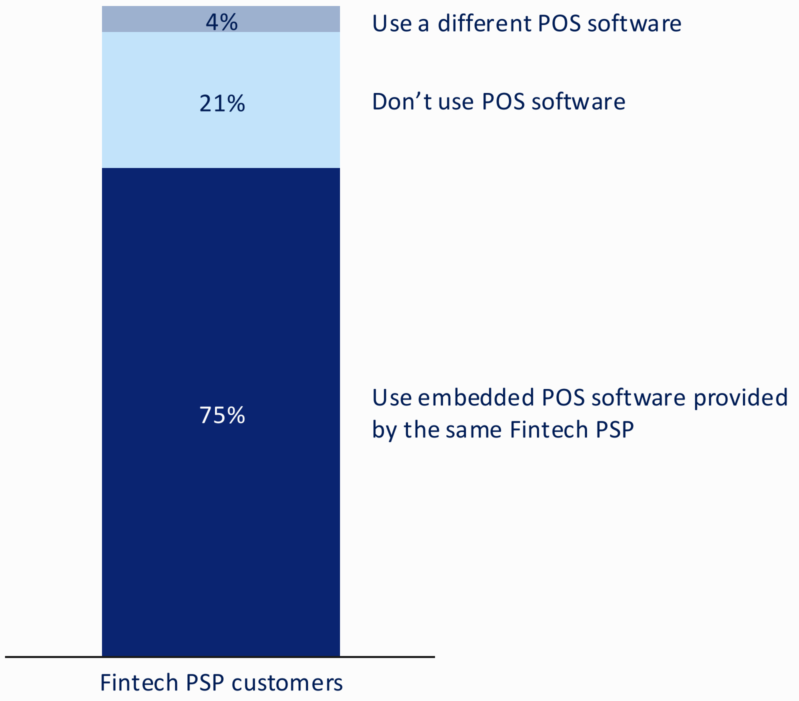


Satisfaction is significantly higher among merchants that use Fintech PSPs than acquirer-issuers

Fintech PSP customers report high satisfaction and place significantly greater value on key offerings such as simplicity, hardware, and software compared to customers of acquirer-issuers.

Merchants overwhelmingly use Fintech PSPs' embedded POS software

What point of sale software does your business use?



Fintech PSP customers overwhelmingly use the embedded software provided by their PSP, further indicating a high level of satisfaction with their service.

Fintech PSPs have increased competition and driven down acquiring fees, benefiting consumers through lower prices on products and reduced surcharges

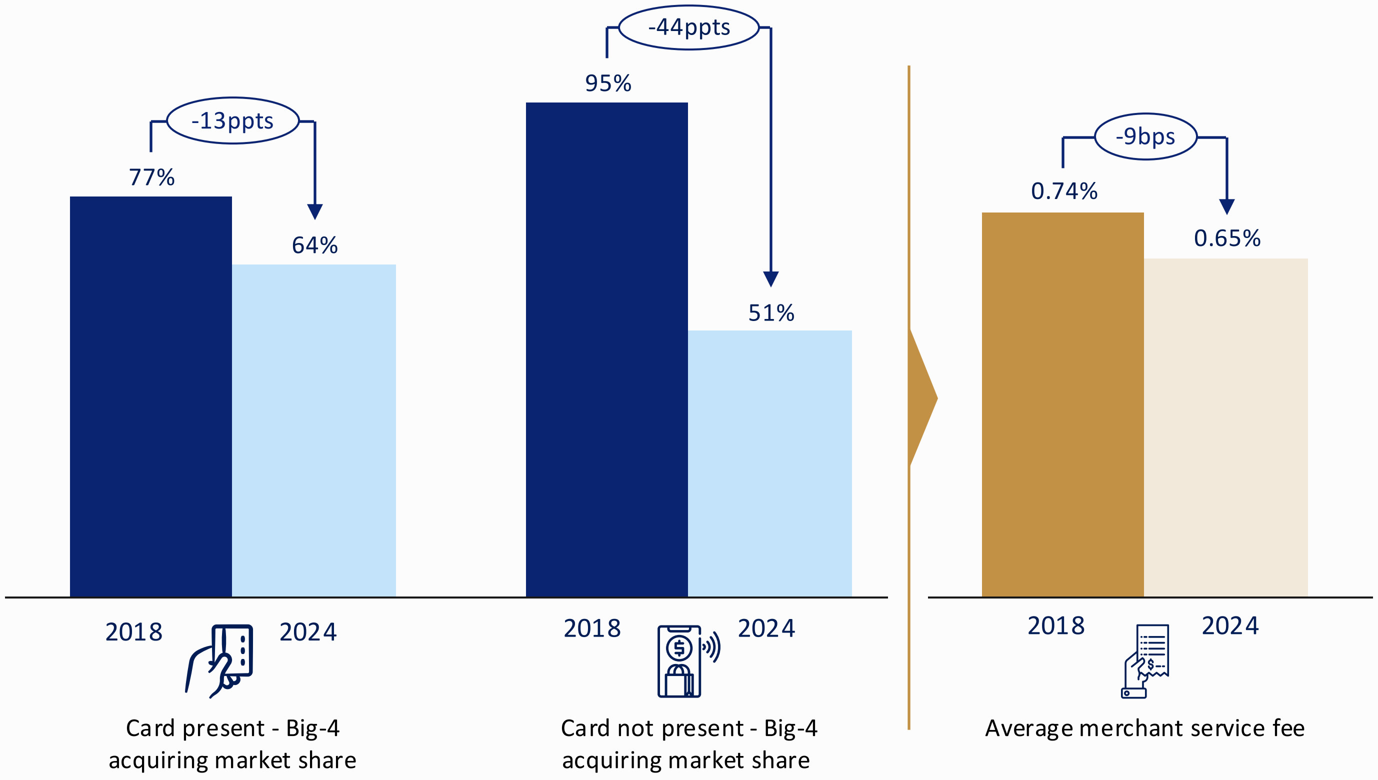
New entrants to the acquiring and PSP market

Timeline of market entry of acquirers and fintech PSPs, Australia, 2003-2023

- 2003 – Tyro
- 2006 – Global Payments
- 2007 – Mint Payments
- 2014 – Smartpay
- 2013 – Pin Payments
- 2014 – Stripe, Shopify
- 2016 – Square
- 2018 – Worldpay
- 2021 – Zeller

As market concentration in PSP/acquiring has declined, so too have average merchant service fees

Market share of major banks in the acquiring market compared with average merchant service fees, 2018-2024



Consumers benefit from reduced merchant service fees either through lower prices on goods and services and reduced surcharges.

Source: Desktop research, The Initiatives Group (2024), RBA Payments data; Mandala analysis

Overall, merchant acquiring has the lowest market concentration in the payments value chain, leading to higher levels of transparency, quality and user experience

Overview of current performance in Australia's payments system

Segment	Market concentration, % of segment[1-5]		Incumbents	Market and consumer outcomes
Card issuing	% of credit cards issued	71%	**Big 4 banks**	**Higher fees and lower rewards for consumers.**[6]
	% of debit cards issued	74%		
Consumer credit	% number of transactions	91%; 3%	**Big 4 banks** **BNPL**	**High innovation in convenience and lower costs to consumers.**[7]
Digital wallets	% mobile device POS transactions	99%	Apple Pay, G Pay	**High prices,** especially for in app and tap device payments. **Constrained innovation** through lack of openness.[8]
Card schemes	% of credit card transactions	91%	Mastercard, VISA	**Mastercard and Visa scheme fees for debit and credit cards have increased.**[9]
	% of debit card transactions	60%		
	% of total transaction	67%		
Merchant acquiring	% card present transactions	64%	**Big 4 banks**	**Merchants have more transparent costs, higher quality and a better user experience** thanks to new entrants.[10]
	% card not present transactions	51%		

Sources: 1) 93% of household credit card loans are held by the big 4 banks. APRA (2023), 2) 3% of payments made through consumer credit options are through BNPL, while credit cards have 97%. RBA (2023), IBIS (2022), 3) 99% of mobile device POS transactions are facilitated by Apple/Google. APH (2021), 4) 90.6% of credit and charge card purchases are made with Mastercard and Visa. RBA (2024), 5) Source: The Initiatives Group (2024), 6) The Australian (2024), 7) The Treasury (2022), 8) ACCC (2021), 9) RBA (2024), 10) Results from Survey of fintech PSPs.

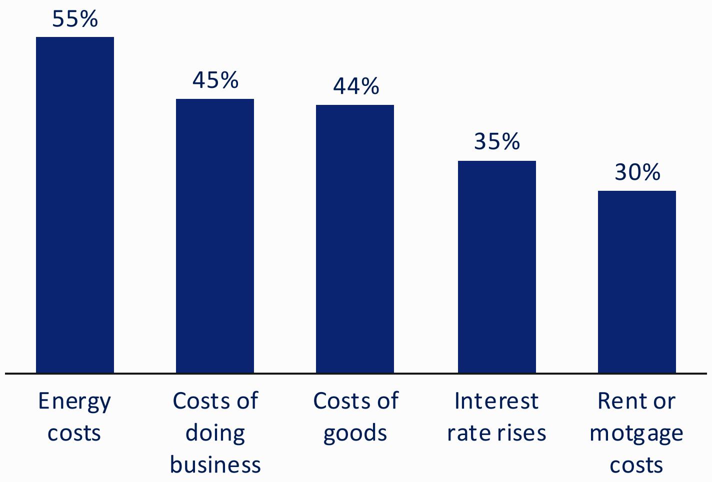
Contents

Small businesses are experiencing broad-based cost increases, resulting in approximately 50% operating at a loss

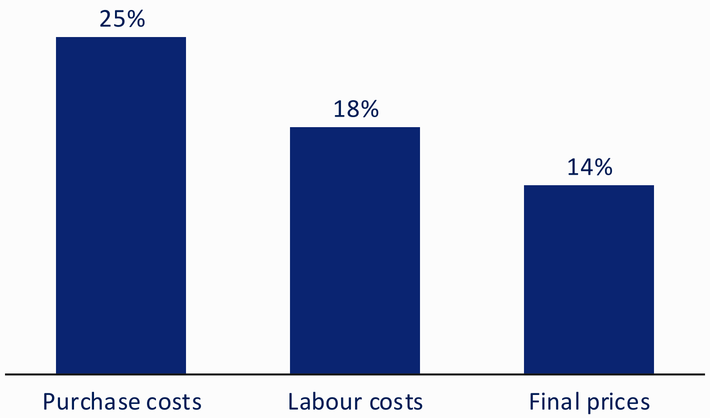
Factors impacting small businesses’ financial situation

Small businesses facing each type of cost pressure, %, 2024; Cost pressures and final prices, % increase, 2020-2024; Small businesses facing negative margins, %, 2020 and 2024

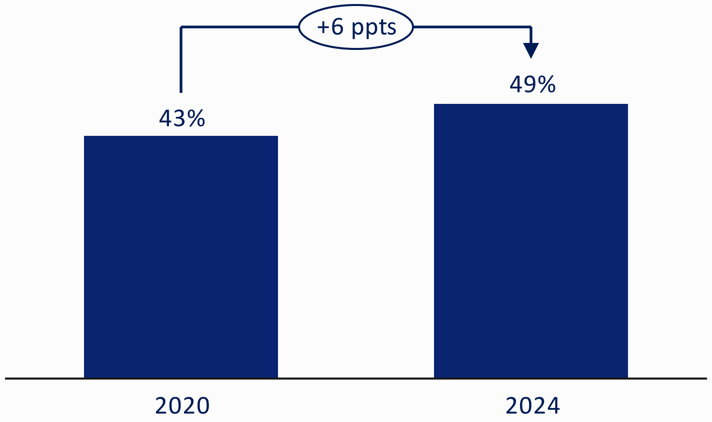
Cost increases are broad-based…



…and rising faster than final prices…



…leading 49% of small businesses to make a loss



Cost increases are broad-based, driven by rising international energy prices, higher input costs, increasing interest rates, and rising property prices and rents.

Since 2020, the cost of goods for small businesses has risen by 25%, and labour costs have increased by 18%, while their prices have only increased by 14%.

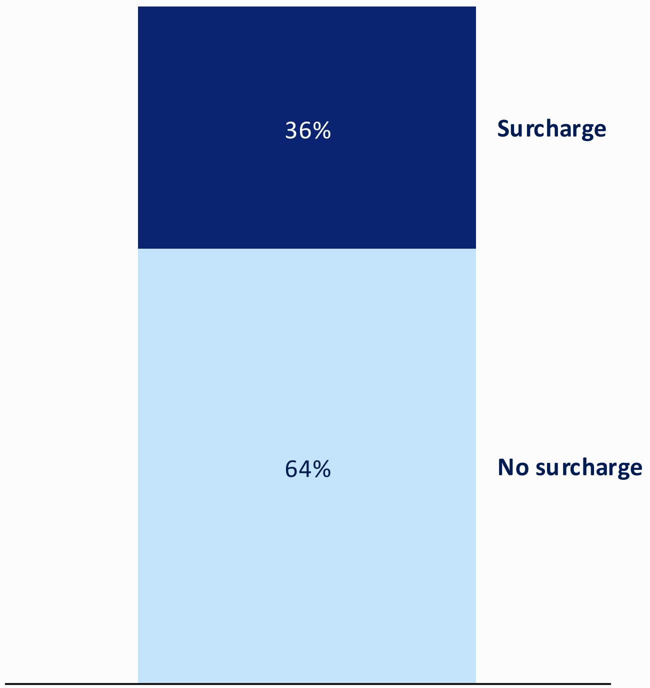
The broad-based nature of cost pressures, and the extent to which costs are rising faster than prices, has led to a 6 ppt increase in the share of small businesses making a loss since 2020.

Source: Council of Small Business Organisations of Australia (2024), Council of Small Business Organisations (2024), Export Finance Australia (2024), NAB (2024); Mandala analysis.

36% of small merchants surcharge on card transactions, with the highest prevalence among market stalls and those with a revenue range of $100K - $250K

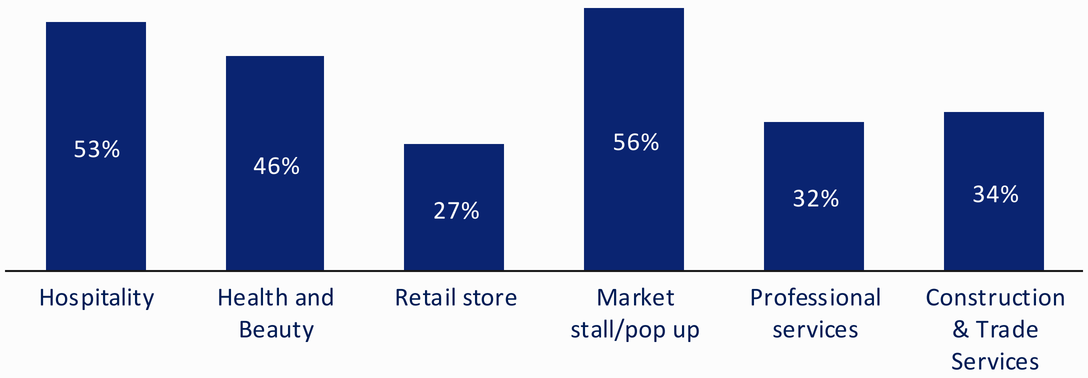
Prevalence of surcharging amongst small merchants[1]

%, 2024



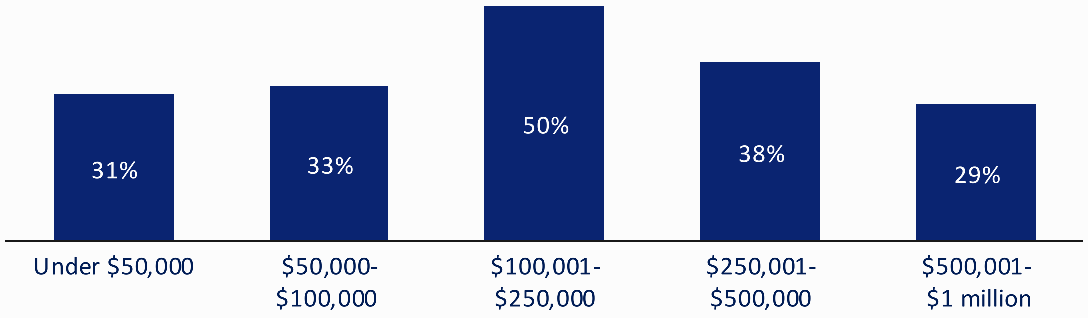
Prevalence of surcharging by industry

%, 2024



Prevalence of surcharging by merchant turnover per year

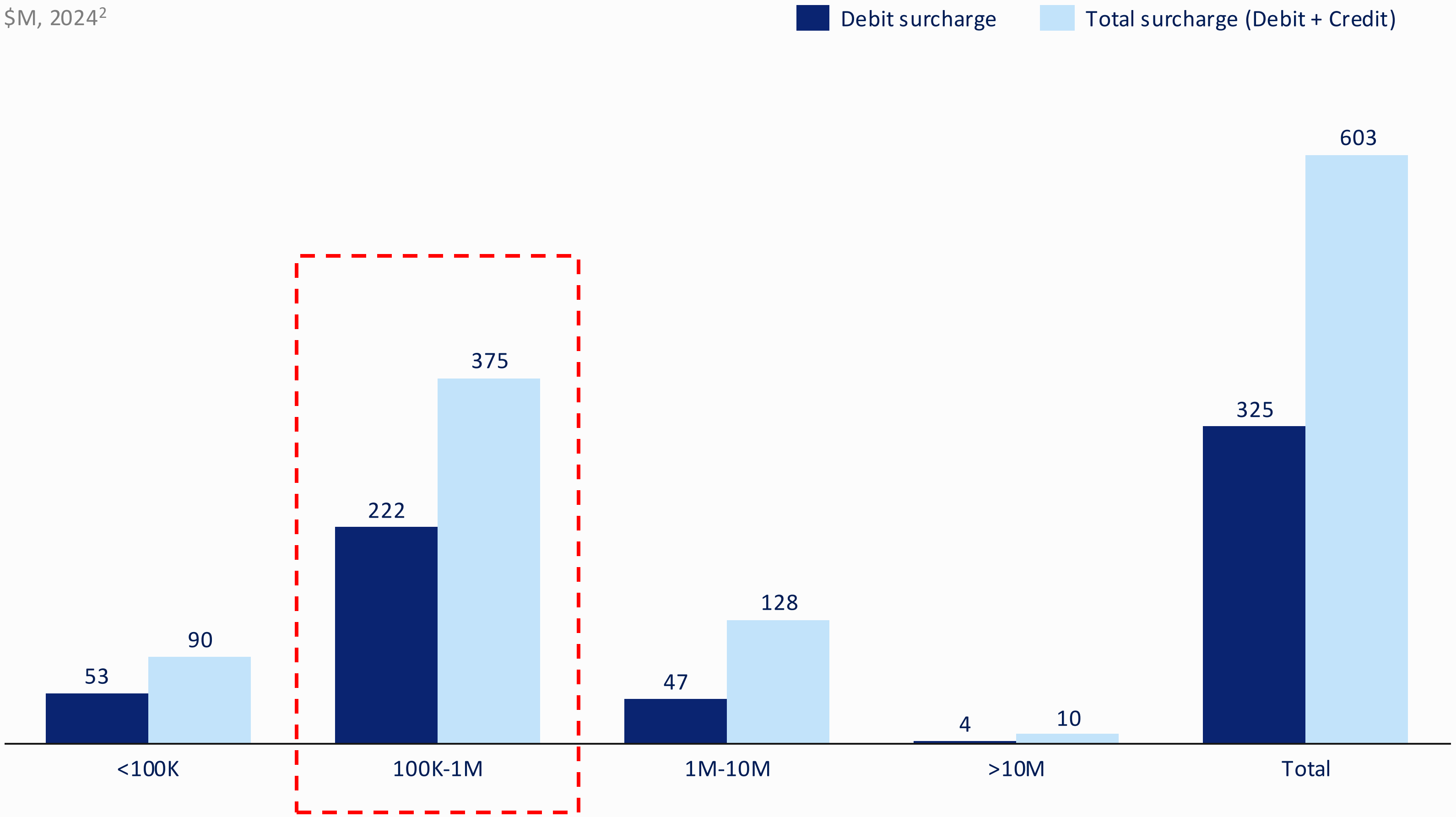
%, 2024



Notes: 1) Small merchants are defined as those with a turnover of less than $1,000,000 per year.
Source: Results from survey of Fintech PSP customers (n = 402); Mandala analysis

A surcharge ban, whether debit-only or total, would disproportionately impact small businesses with turnovers between $100K and $1M

Payment costs saved due to surcharging by merchant size[1]



Key findings:

- Small businesses with card transaction turnovers between $100K and $1M recoup $222M in costs by surcharging debit card transactions and $375M by surcharging all transactions.
- If surcharging is prohibited, small merchants who surcharge in this turnover range ($100K to $1M) would need to absorb $1,900 in debit card fees and $3,100 in total card fees (debit + credit) per year.

Notes: 1) Merchant size is defined by card transaction turnover. 2) 2024 represents data from Sept 2023 - Sept 2024.
Sources: RBA, Desktop Research, Expert Interviews

In response to a total surcharge ban, 44% of small merchants would increase prices

A survey of merchants found that:

- 44% would increase prices to over the lost surcharge.
- 43% would steer customers to pay by cash.
- 27% would do nothing.
- 16% would stop accepting card payments.

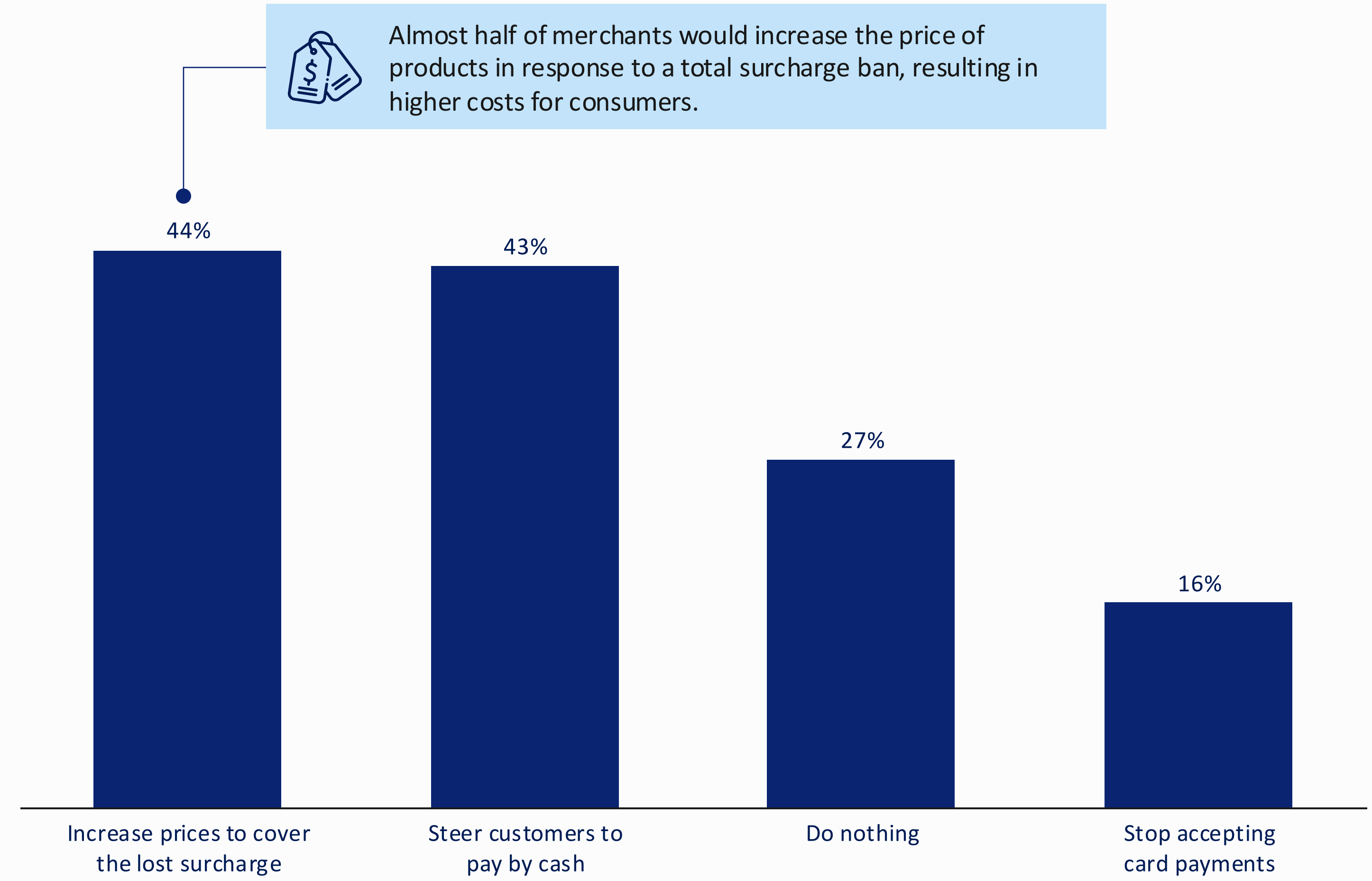
Merchants that raise prices are likely to increase them by more than the surcharge cost, as small businesses tend to adjust prices in fixed monetary increments rather than precise percentage changes.[1] For instance, a $5 coffee is more likely to increase to $5.25 instead of $5.06 to account for a 1.1% surcharge.

Also, steering customers toward cash payments introduces additional costs for merchants, including cash handling and reconciliation expenses. Accepting more cash will lead to higher costs for merchants, as the average cost of cash acceptance is 3.9% of the transaction value, compared to 1.5% for card payments for small merchants.[2,3]

Source: 1) Şen, A. (2012). A Comparison of Fixed and Dynamic Pricing Policies in Revenue Management. SSRN. 2) Boston Consulting Group (2024). 3) RBA (2024).

Merchant response to a potential total surcharge ban[4]

%, 2024



Notes: 4) Totals do not add to 100% as merchants can choose multiple responses.
Source: Results from survey of Fintech PSP customers (n = 121); Mandala analysis.

In response to a debit surcharge ban, 31% of small merchants would increase prices

The primary responses from merchants to a potential debit card surcharge ban are:

1. Increase prices:

- 31% of respondents indicated that they would raise prices in response to a debit card surcharge ban, compared to 44% for a total card surcharge ban.
- The smaller proportion of merchants planning price increases for a debit card surcharge ban is largely due to their ability to continue applying surcharges to credit card transactions.

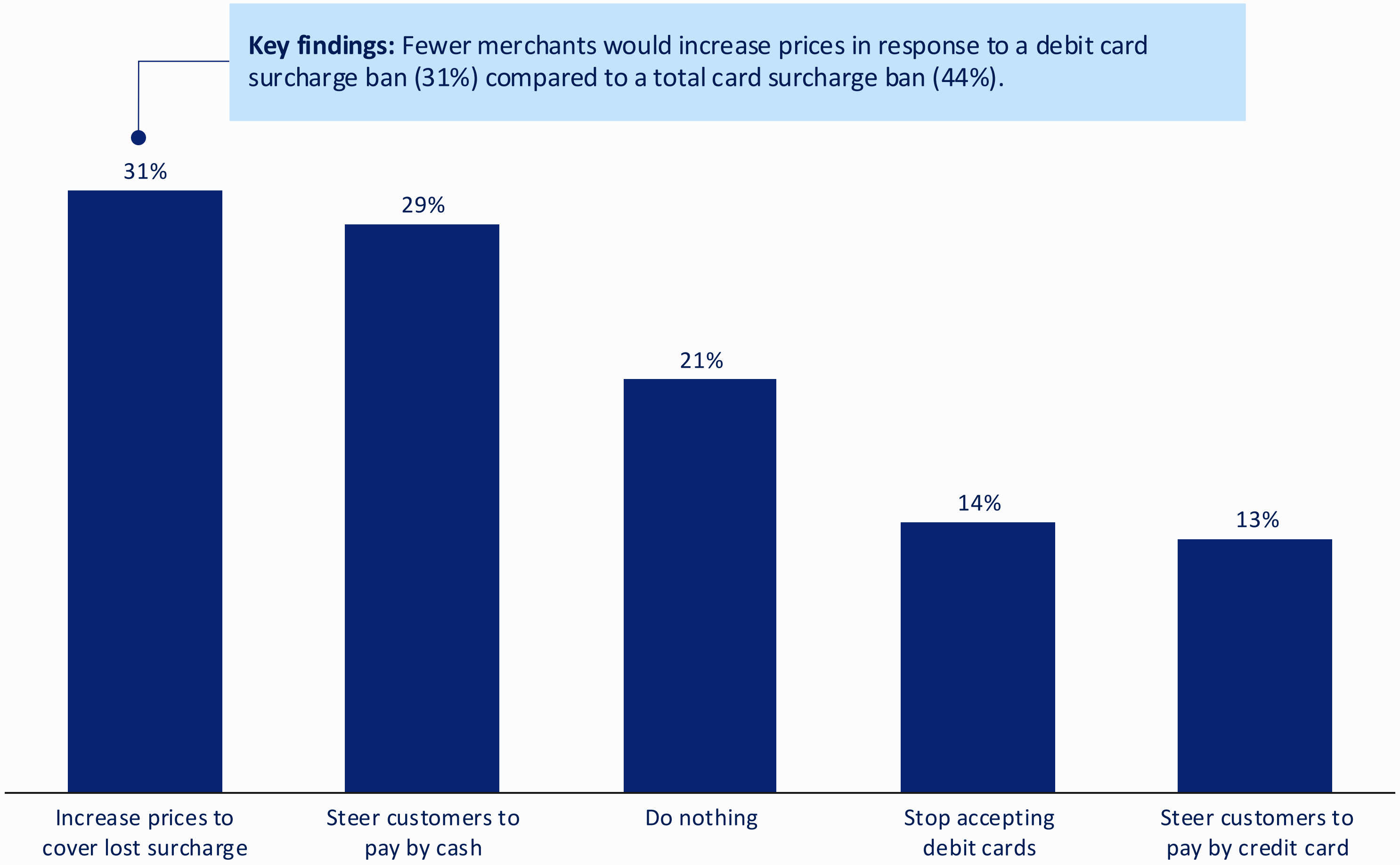
2. Encourage cash payments

- 29% of respondents reported they would steer customers toward cash payments in response to a debit card surcharge ban, compared to 43% for a total card surcharge ban. As mentioned in the previous slide, accepting more cash will lead to higher costs for merchants, as the average cost of cash acceptance is 3.9% of the transaction value, compared to 1.5% for card payments for small merchants.[2,3]

Source: 1) Boston Consulting Group (2024). 2) RBA (2024)

Merchant response to a potential debit card surcharge ban[1]

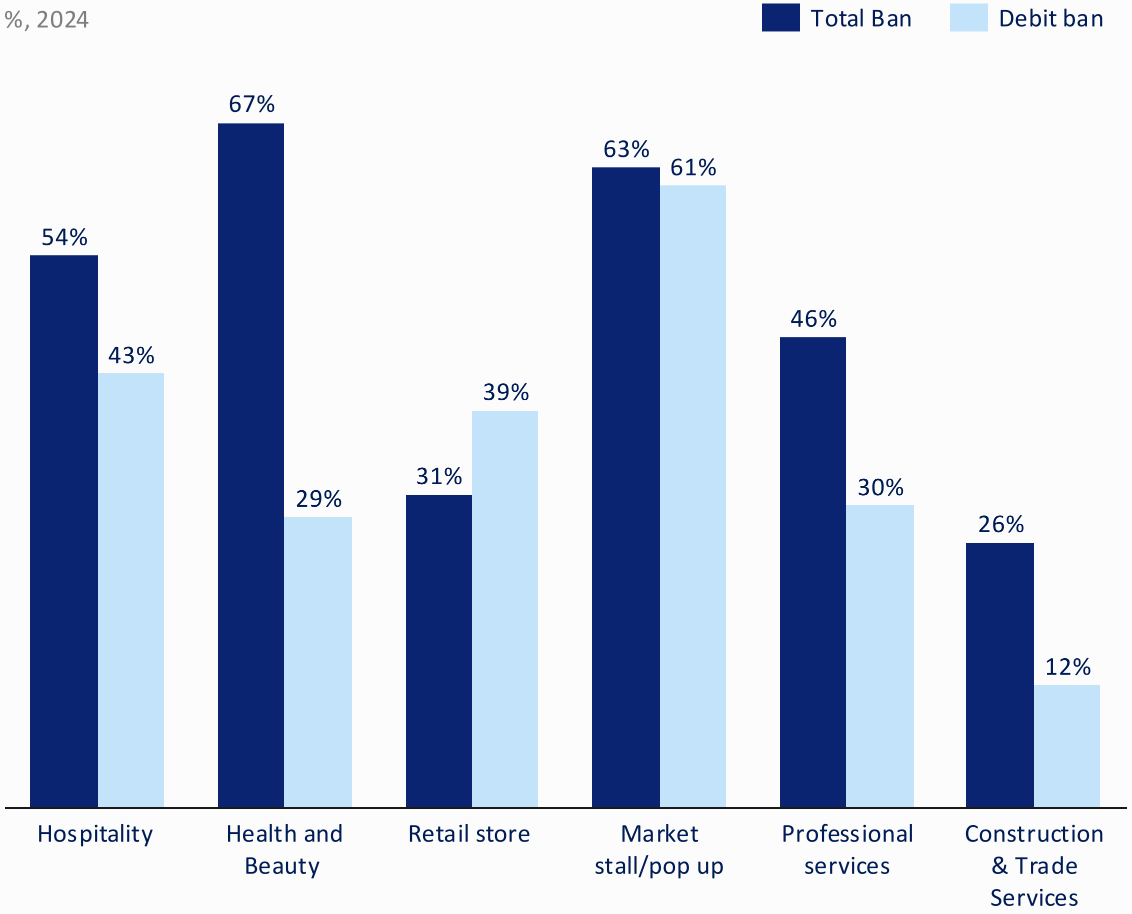
%, 2024



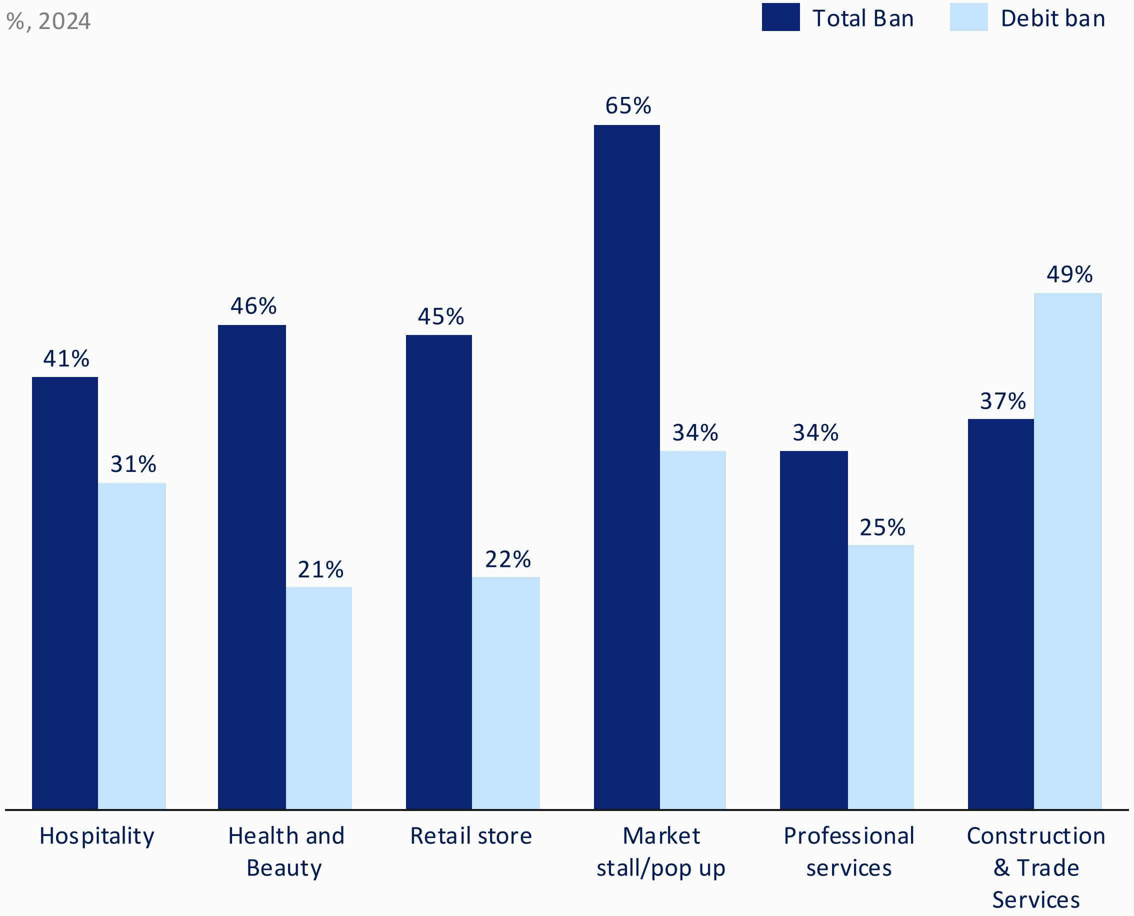
Notes: 3) Totals do not add to 100% as merchants can choose multiple responses.
Source: Merchant survey (n = 121); Mandala analysis.

Market stall and health & beauty merchants are the most likely to raise prices or encourage cash payments in response to a total or debit card surcharge ban

Industry breakdown: Increase prices to cover lost surcharge



Industry breakdown: Steer customers to pay by cash



Source: Results from survey of Fintech PSP customers (n = 121); Mandala analysis.

Banning surcharging may lead to higher merchant fees in the long run

Potential scenario if surcharging is banned, either entirely, or a debit-only ban

Surcharging banned

- Price signal transfers from consumer to merchant. Merchants may be more price sensitive and opt for cheaper merchant acquirers.

MSF falls

- This in turn causes innovative merchant acquirers and Fintech PSPs to exit the market.
- Only providers which are loss-leading or can cross-subsidise with other revenue streams can afford to stay in the market.

Competition falls

- As a result, market concentration increases. Card usage will also increase because customers don't pay a surcharge, leading to higher interchange revenue for issuers.

MSF rises

- Due to decreased competition, a new equilibrium is reached where prices are higher than before the ban was implemented.

Case study: The UK experience

Higher market concentration and debit card fees

Context
In 2018, the UK banned surcharging under the EU's Payment Services Directive 2 (PSD2). The UK extend the prohibition to all retail payment methods. The UK Treasury estimated the value of surcharges to be around £166 million in 2015.[1]

Higher market concentration in the UK
The merchant acquiring sector remains substantially more concentrated than in Australia, with the two largest merchant acquirers, Worldpay and Barclaycard processing about 70%-80% of card transactions by volume.[2] By contrast, the big-4 banks process 63% of card transactions by volume.[3]

Increase in debit card fees for merchants in the UK
In Australia, total fees as a percentage of transaction value for debit card purchases have decreased from 0.63% (combined for both schemes) in Mar-17 to 0.50% for Visa and 0.51% for MasterCard in Dec-22.[4] By contrast, debit card fees in the UK have increased from ~0.25% in 2017 to ~0.28% in 2022.[5]

Source: 1) HMRC (2018). 2)Merchant Savy (2024). 3) The Initiatives Group. 4)RBA Payments Data (C3). 5) British Retail Consortium (2023); Mandala analysis.

Surcharge-free payment models offer a potential solution to eliminate consumer surcharges

	Surcharge-free for consumers, merchants pays fee[1]	Fee-free for merchants, consumers pay surcharge
Merchant fee?	✓	✗
Customer fee?	✗	✓
How it works	• **Merchants pay a fee per transaction**, but the **consumer is not charged.** • The **payment provider utilises low-cost/ subsidised infrastructure**, often using "**account-to-account**" rails for cost efficiency.	• **Merchants pay the acquiring fee** (full transaction fee) but **pass this on to customers in the form of a surcharge.**
Infrastructure requirements	• Utilises low-cost payment rails that allow for **direct payments from one bank account to another** (e.g., UPI in India, PayTo in Australia). • The system **doesn't rely on traditional card networks or bank interchange.**	• **Utilises standard acquiring infrastructure**, which means relying on traditional card networks or payment gateways • The system works with **typical card schemes** (Visa, MasterCard) and **acquiring bank partnerships**
Revenue model	• The merchant pays a transaction fee. **Payment providers generate revenue through the fee paid by the merchant.**	• Fees to utilise these payment methods **are passed directly onto the consumer as a surcharge**, which means the **merchant does not pay any fees**.
Examples	PayTo, UPI (Unified Payments Interface)	zeller, smartpay

How we define 'surcharge-free' models in the context of the Australian market, for the purpose of this analysis

Notes: 1) 'Surcharge free' in practice, but surcharging still possible under thePayTo A2A model.
Source: Desktop research

Australia's PayTo infrastructure focuses on efficiency in recurring and direct payments, setting it apart from the app-based, consumer-driven models of UPI and WeChat Pay

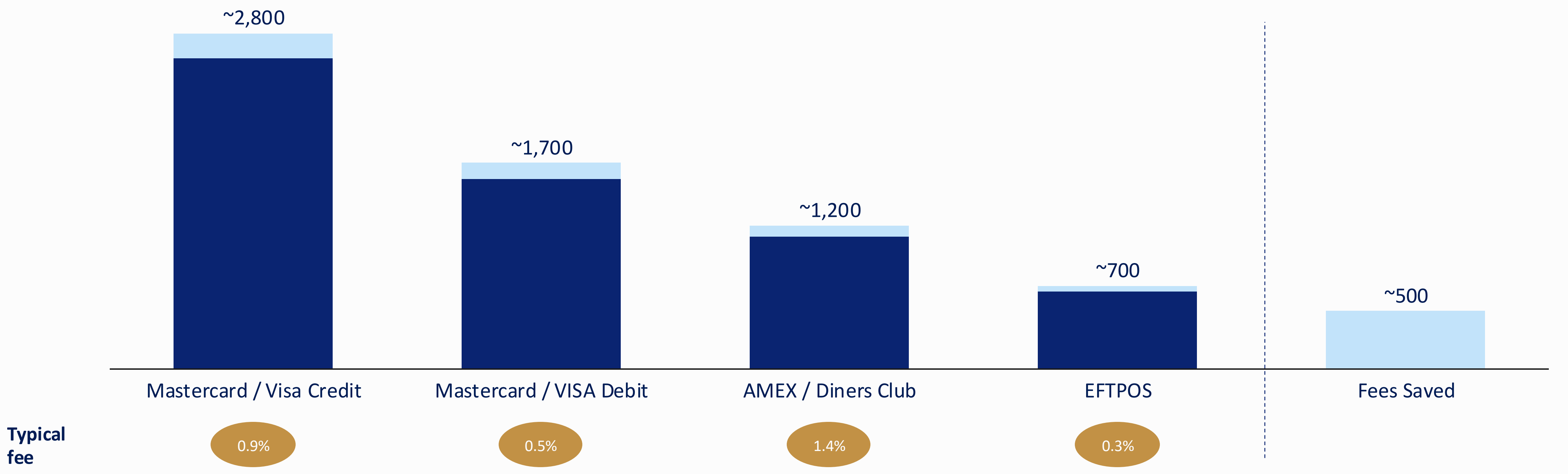
	PayTo	UPI – Unified Payments Interface	微信支付 WeChat Pay
	Real-time, secure, and cost-efficient payments directly from bank accounts, enabling businesses to streamline operations and improve cash flow	**Interoperable, real-time payments via an open platform**, fostering app development and financial inclusion for consumers and merchants	**Wallet-driven payments within closed, ecosystem-driven environment**, integrating seamlessly with messaging, e-commerce, and services.
Infrastructure	**Centralised real-time payment system** using NPP, reliant on banking infrastructure and use of QR codes	**Real-time, interoperable system** leveraging the Immediate Payment Service (IMPS) platform	**Wallet-to-wallet system** within WeChat ecosystem; banks for onboarding/offboarding
Payment Flow	Consumer → NPP → Merchant	Consumer → Bank → Merchant (via UPI apps)	Consumer → WeChat Wallet → Merchant (within ecosystem)
Merchant Costs	**Potentially higher processing costs** if A2A payments replace a surcharge-able payment method	**Zero Merchant Service Fees**, subsidised by government	**Minimal or no fees**; WeChat earns through ecosystem monetisation (e.g., ads, services). Fee to offboard money to bank account
Third-Party Innovation	**Closed system**: no direct third-party app development	**Open ecosystem** allows apps and fintechs to enhance services	**Closed loop**; innovation centralised within WeChat ecosystem
Use-Case	Well-suited for business with recurring payments e.g. subscription payments, eInvoices, payroll	Facilitates a wide variety of payments e.g. P2P transfers, merchant payments, utility bills	Everyday transactions like retail purchases, dining, and transportation, integrated with the broader ecosystem
Implications for Merchant Acquiring	**Merchants integrate directly with NPP**, bypassing traditional intermediaries (e.g. card networks)	**Intermediary apps** like Google Pay and PhonePe **provide value-add services**, reducing control for banks	**Fully integrated into the WeChat ecosystem**, limiting merchant independence
Control Over Data	**Direct control for merchants and banks**; data centralised within NPP, Fraud recovery limited	**Shared between banks, apps, and UPI**	**Fully controlled by WeChat**, limiting merchant independence
Scalability	Scales well, but high costs for Fintech PSPs to build and maintaining infrastructure	High, includes unbanked populations	Scales well within the WeChat ecosystem, limited globally

Source: Desktop research

For consumers, introducing a surcharge-free model could save ~$500M

Total acquiring fees incurred by card type

Card transactions, $M, 2024 YTD



If **5-10%** of all transactions across card types were shifted toward a **surcharge-free payment option**, approximately **$500M in fees would be saved by consumers**

Sources: RBA, Desktop Research, Expert Interviews

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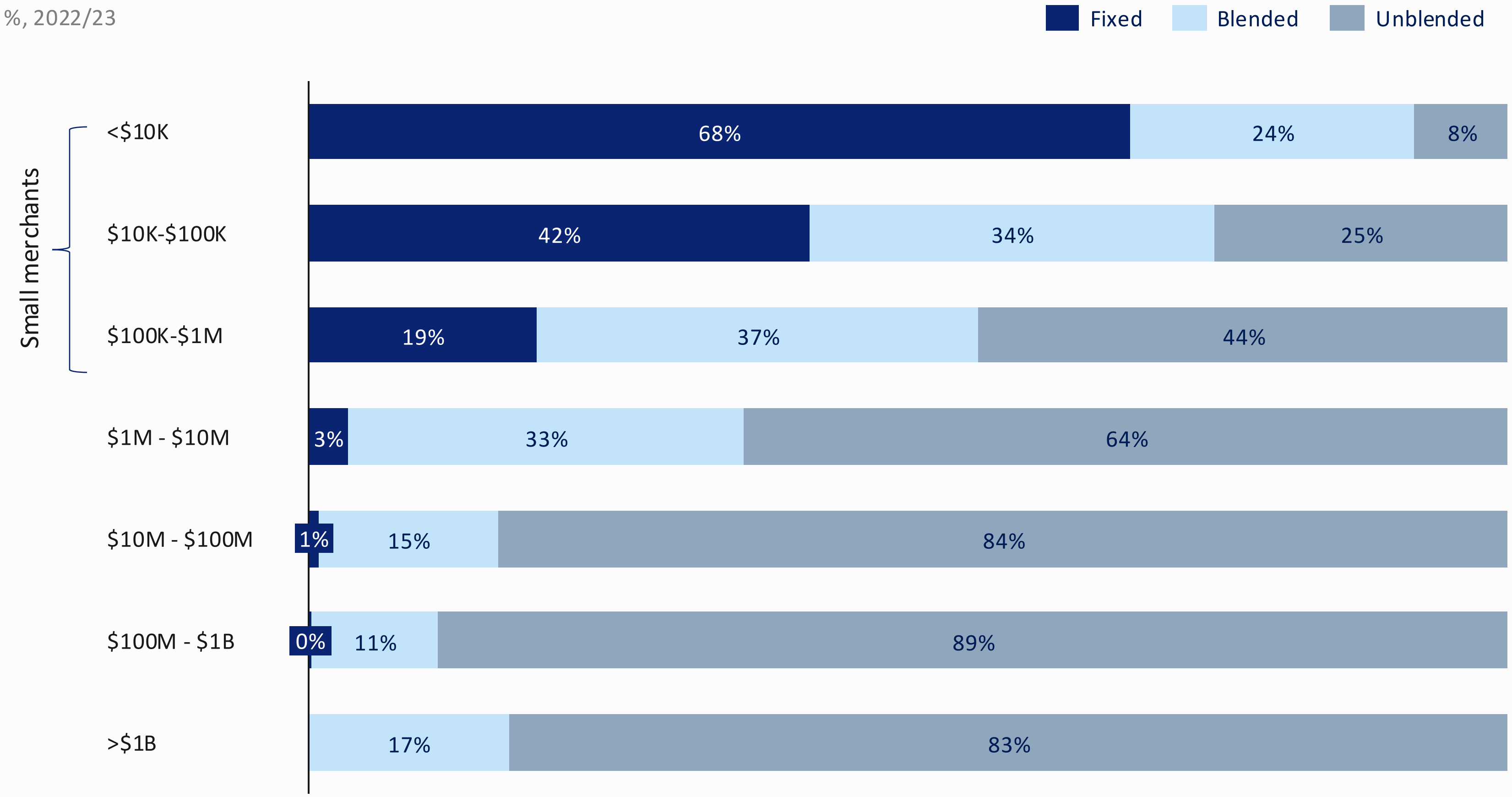
68% of micro-merchants adopt fixed pricing. Merchants adopt fixed pricing because it is simple, easy to understand and straightforward to compare

Breakdown of merchant plans by size

%, 2022/23



Key findings:

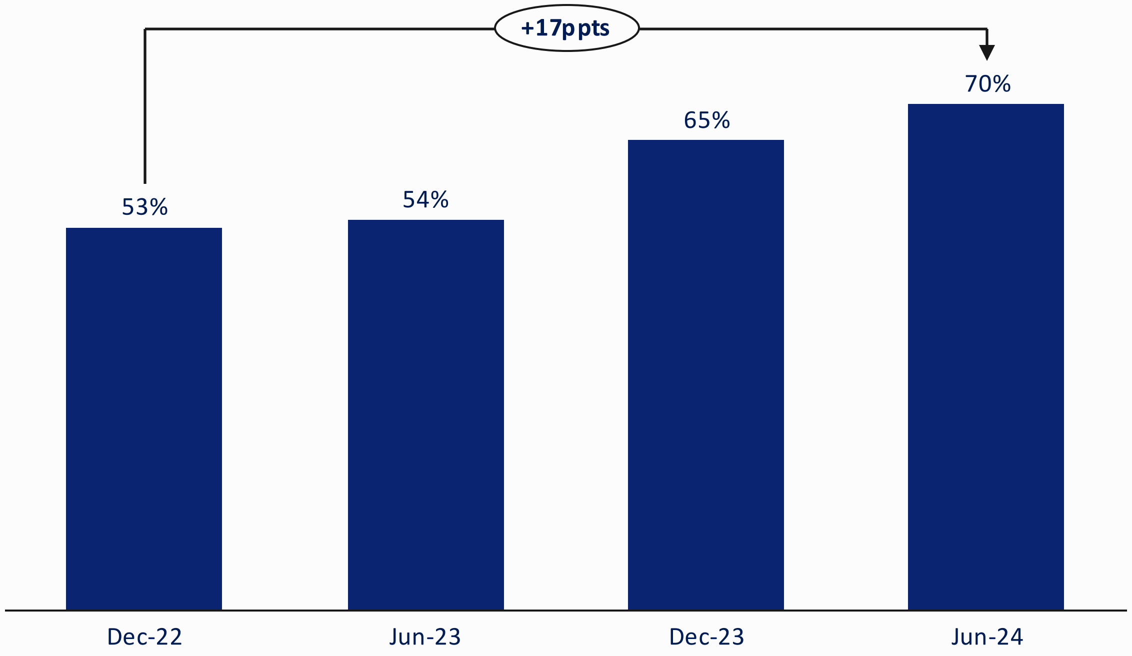
- Approximately 300K small merchants (turnover less than $10M) adopt fixed pricing.
- ~80% of small merchants adopt fixed pricing because it is simple, easy to understand, and straightforward to compare.
- An additional ~280K small merchants adopt blended pricing.

Notes: 1) Size is defined as the annual value of eftpos, Visa and Mastercard transactions.
Source: Expert Interviews, RBA (2024); Mandala analysis

70% of merchants have LCR enabled for in-store debit card transactions, with the highest enablement among those on fixed plans

Enablement of LCR for card-present debit card transactions

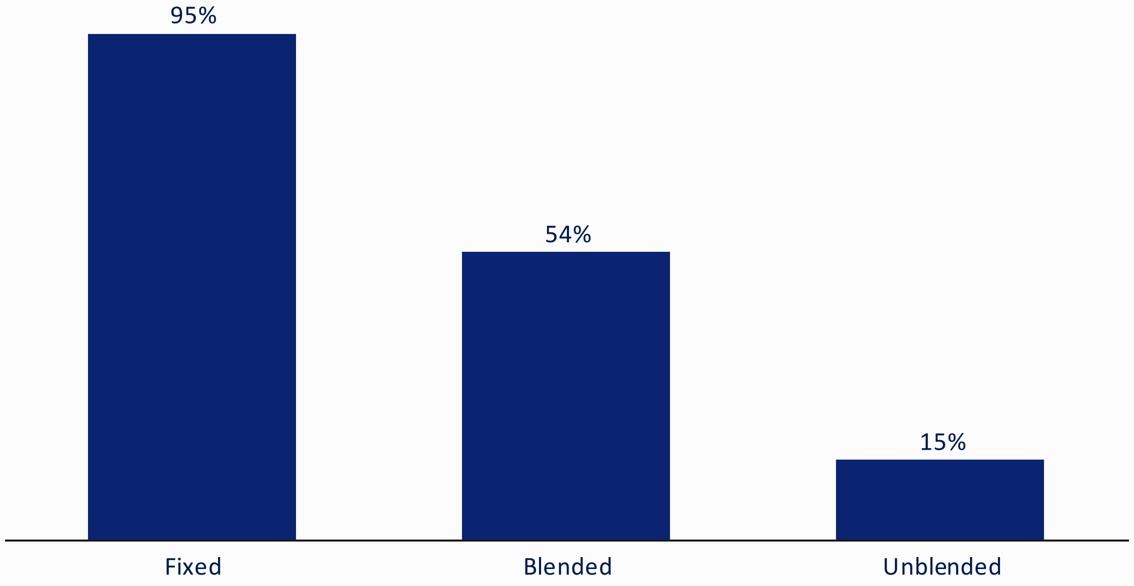
% of merchants



- In 2021, in response to slow industry progress, the RBA established a clear expectation for PSPs to offer and promote LCR.
- While LCR has been made available to over 90% of merchants since Dec-22, actual enablement remains at 70%, up from 53% in Dec-22.

LCR enablement rate by pricing plans

% of merchants, 2022/23



- Merchants on fixed plans have the highest LCR enablement, driven by automatic enablement, reaching 95% in 2022/23 (latest data).
- RBA regression analysis on LCR benefits for merchants on fixed plans was limited in accuracy due to the small comparison group, consisting of only 5% of fixed-plan merchants who were not LCR-enabled.

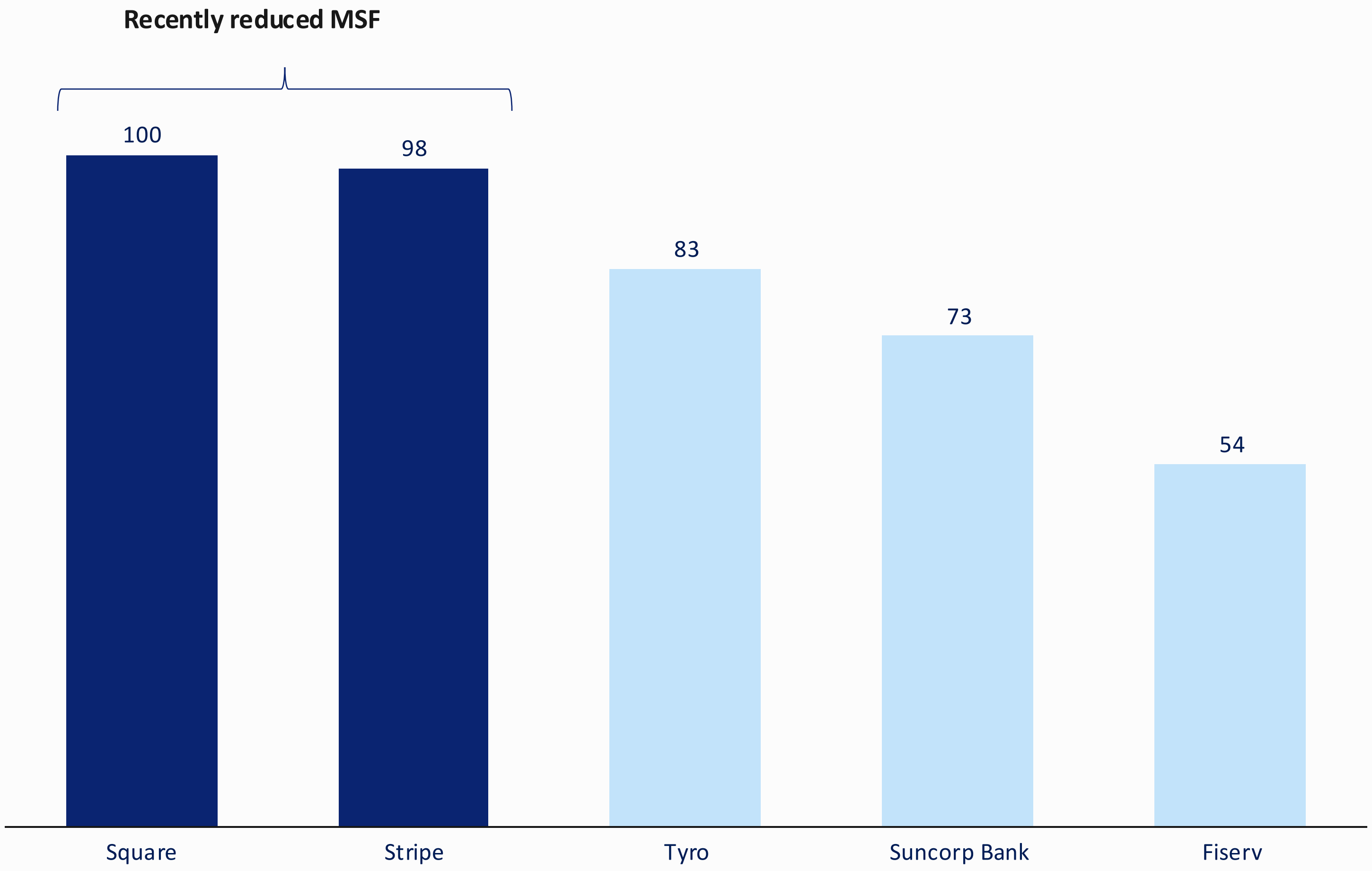
Source: RBA (April 2024, June 2024); Mandala analysis

Acquirers with the highest LCR enablement have started reducing simple plan rates

- LCR allows payment service providers (PSPs) to route debit card transactions through the lowest cost rail (e.g., Mastercard/Visa or EFTPOS).
- The resulting lower wholesale costs for PSPs can be passed on to merchants on fixed plans, depending on the level of competition.
- Recent evidence highlights that PSPs with the highest LCR enablement are passing on these benefits to merchants by lowering fees:
  - **Stripe – April 2024:** Reduced fees for card-present transactions from 1.75% + A$0.10 to 1.70% + A$0.10, explicitly citing LCR as the reason for the fee reduction.
  - **Square – May 2024:** Reduced fees from 1.9% to 1.6% for new Square sellers.

Enablement of LCR for card-present debit card transactions by acquirer

% of merchants, top-5 acquirers by LCR enablement, Jun-24



Source: RBA (June 2024); Mandala analysis

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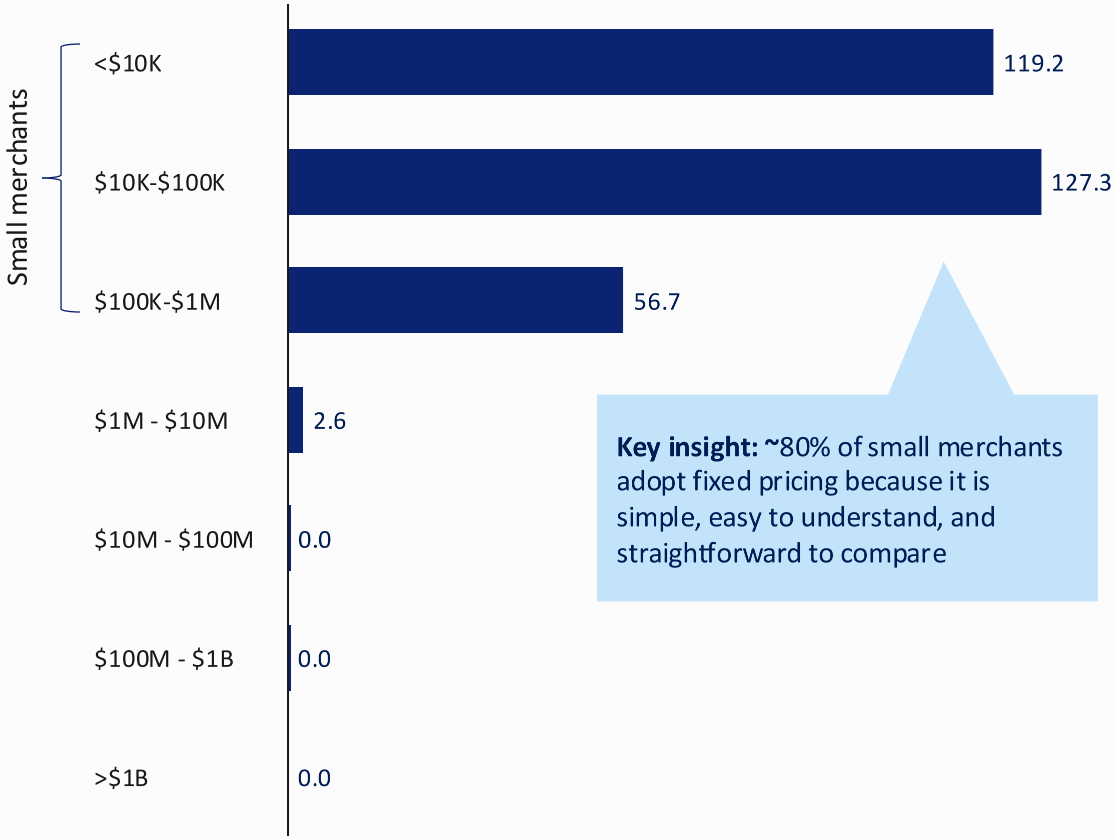
~300K small merchants are on simple pricing plans, with 68% of micro-merchants adopting fixed pricing

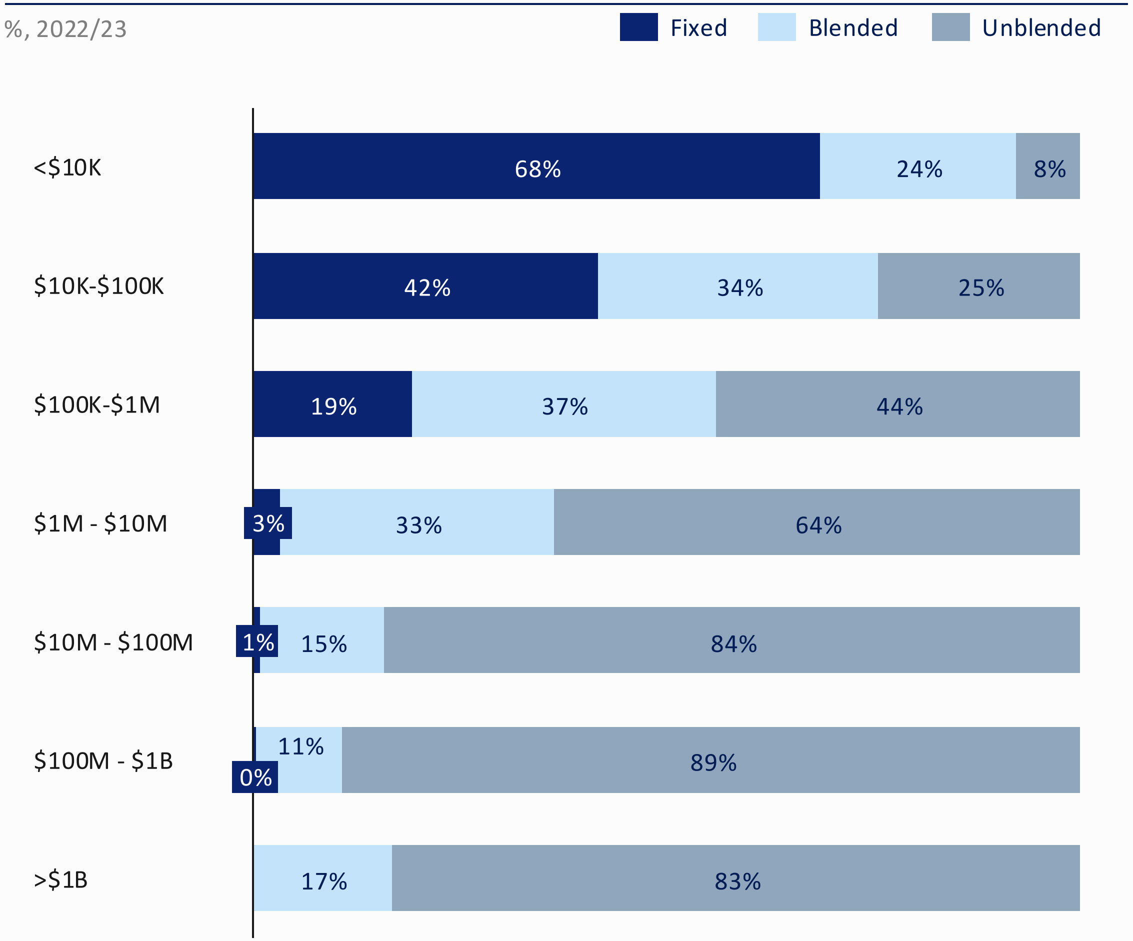
Number of merchants on simple pricing plans by size[1]

Thousands, 2022/23



Breakdown of merchant plans by size

%, 2022/23



Notes: 1) Size is defined as the annual value of eftpos, Visa and Mastercard transactions.
Source: RBA (2024); Mandala analysis

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