16 December 2024

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

By email: pysubmissions@rba.gov.au

Submission to Merchant Card Payment Costs and Surcharging – Issues Paper

Dear Head of Payments Policy,

Thank you for the opportunity to make a submission to the Merchant Card Payment Costs and Surcharging – Issues Paper.

The Independent Payments Forum (IPF) represents a growing number of businesses operating in what we call the 'real economy'. We represent more than 100,000 retail shop fronts, newsagents, restaurants, cafes, service stations, convenience stores, gift shops and independent supermarkets, hardware stores and liquor outlets across Australia.

These small retail businesses operate in highly competitive sectors, reflected in low profit margins. For example, fuel retailing has a profit margin of 3%, food retailing 4%, and overall retail industry 6%.

Whilst payments policy is thick with economic concepts like 'network economics', our members face a daily practical struggle to sell products, which means they must set attractive prices against their competitors, including large competitors which usually enjoy economies-of-scale and market power.

The approach we take to assessing public policy proposals reflects the practical realities of our membership. Will reforms increase costs or reduce them? In this respect, we see cost/benefit analysis as critical to policy reform, such as that mandated by the Regulatory Impact Statements (RISs).

Our main request of the RBA Payments Policy Department is that rigorous attention is given to RISs. We want small and medium businesses explicitly identified as a stakeholder group whereby the benefits of any proposed reforms are set against the identified and measured costs. Only through this process can elected officials, the media and wider public understand the significance of reforms on our membership.

We need to be crystal clear on what is happening with this review. A political objective has been set to remove the practice of surcharging. This is an existential risk to many small businesses because surcharging is used to defray operating costs, namely payments acceptance costs.

Our baseline objective is to ensure that when the RIS is undertaken on any recommendations flowing from this Review, analysis demonstrates that the lost small business revenue from surcharging is offset by savings from lower payments costs. That is our clear request of the RBA's review. This should be seen as an equivalent to concepts used in other fields like industrial relations, such as the Better Off Overall Test (BOOT). In other words, changes needed to be positive, and not negative.

While efficient, low-cost distribution of personal funds via electronic payments networks is viewed by most Australians as a basic requirement of ADIs operating in this market, the payment system is very costly to operate and the distribution of those costs is contentious. There are six main stakeholder groups: (a) Banks, (b) Payment Service Providers (c) Small Business; (d) Large Business, (e) Payment Schemes; (f) Consumers.

Abolishing surcharging will notionally benefit consumers to the detriment of small business, although potential impacts including price increases or job losses could also be detrimental to consumers. This submission will argue – consistent with our BOOT test – that the lost revenue must be absorbed by large businesses, PSPs, card schemes and banks.

Banks have privileged position in our economy, essentially supported by taxpayers through subsidies such as fee-free deposit insurance and restricted entry. Large retailers have scale and market power. Card schemes typically have massive scale and oligopoly power exercised on a global scale. Because of these reasons and the sheer complexity of payments systems which undermines informed choice and efficient markets, the payments industry is vulnerable to market failure.

Because of this failure, we need and rely on the RBA to step in an ensure those with the least market and bargaining power get a fair deal. Please don't hesitate to make contact with us, or our membership.

Best Regards,

Warwick Ponder	Brad Kelly
Cofounder, IPF	Cofounder, IPF

Merchant Card Payment Costs and Surcharging – Issues Paper

INDEPENDENT PAYMENTS FORUM AUSTRALIA

Submission to the Reserve Bank of Australia

December 2024

Forum Participants:

IPF Australia - About Us

Independent Payments Forum (Australia) (IPF) has recently been formed by a group of current and former payments professionals, who are passionate about providing an alternative view about the health and wellbeing of the Australian payments system.

IPF represents a growing number of payments participants who currently have little power to individually influence payments policy and pricing outcomes that significantly impact their members, businesses and customers.

Our small business participants alone represent more than 100,000 retail shop fronts, newsagents, restaurants, cafes, service stations, convenience stores, gift shops and independent supermarkets, hardware stores and liquor outlets across Australia. We have also proactively engaged with many others in the payments ecosystem to canvas their views and insights.

According to the Australian Bureau of Statistics data (2022/23), small business retail sectors have among the lowest profit margins in Australia, such as fuel retailing at 3%, food retailing at 4%, with the retail industry overall at 6%.[1] They are therefore particularly vulnerable to unavoidable costs inputs for basic services like card payment acceptance.

Currently, the payments eco-system is dominated by a few major retailers, big banks, aggregators, Payments Services Providers (PSPs), two large US domiciled payments companies (Visa and MasterCard) and Australian Payments Plus.

Global platforms, PSPs and technology companies (including Apple, Google, Square and American Express) have also made significant headway into the Australian market with premium cards, bundled plans, digital wallets and other form factors.

Collectively, these well-resourced organisations have a stranglehold on the payments market and policy discussion in Australia and dominate industry forums that make recommendations to Government on payments issues, while also exerting influence on other policy and advocacy organisations via lucrative sponsorships and partnerships.

This has caused lopsided policy debate which has resulted in further upward pressure on fees to merchants and their customers, especially those smaller merchants without appropriate representation in regulatory forums, or a depth of understanding around payments economics and technology.

[1] https://www.abs.gov.au/statistics/industry/industry-overview/australian-industry/latest-release

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Introduction – the opportunity

Cost of living pressure is a priority focus for Australian consumers and small businesses. More needs to be done to reduce the $6.4 billion[2] in card fees charged by Australia's banks, payments platforms and card companies for providing simple card payment services to retailers and merchants.

Australians make 15.3 billion card payments worth $1.02 trillion a year, as we quickly move away from cash. The vast majority of these are on debit cards - 76% of total purchases and 77% at Point of Sale (POS)[3].

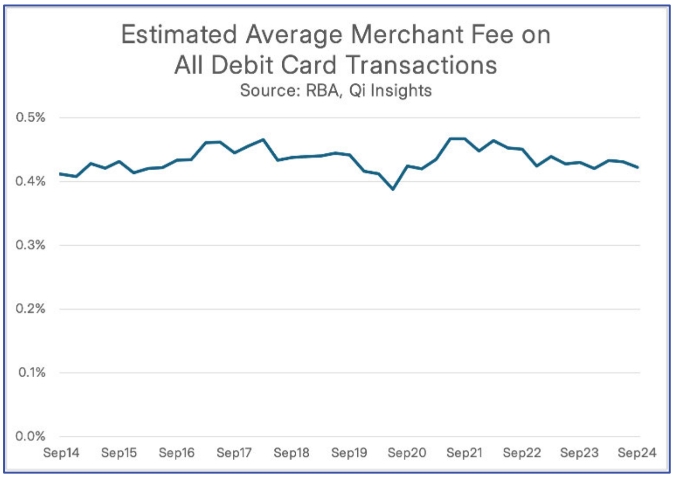
The move to electronic payments in Australia has been led by "cash replacement" positioning from the payments industry which has been allowed to continue without adoption of appropriate mechanisms to reduce costs and improve efficiencies.

Due to deliberate marketing strategies by the industry to move away from cash, Australians now carry 48 million debit cards, 17 million credit cards and over 20 million smart phones[4] capable of making payments at over one million terminals[5] across the country, and at almost 100,000 stores online.[6]

As such, Australia is a world-leader in the take up of electronic payments, but massive increases in the volume of card transactions have not resulted in the fee reductions you would expect to see with this critical mass, despite previous regulatory intervention on interchange.

Despite rapid growth in debit card transactions, debit card fees have defied network economics and remained stubbornly high over the past decade, even with standard regulatory intervention on interchange rates.

Figure 1 - Estimated Average Merchant Fee on all Debit Card Transactions



[2] Reserve Bank of Australia, 2024, *Merchant Card Payment Costs and Surcharging – Issues Paper – October 2024*.
[3] Reserve Bank of Australia Retail Payments Data, September 2024: https://www.rba.gov.au/statistics/frequency/retail-payments/2024/retail-payments-0924.html
[4] Statistica: https://www.statista.com/statistics/467753/forecast-of-smartphone-users-in-australia/#:~:text=In%202017%2C%20the%20number%20of,87%20percent%20in%20the%20country
[5] Australian Payments Network, Device Statistics: https://www.auspaynet.com.au/resources/device-statistics
[6] https://www.ibisworld.com/au/number-of-businesses/online-shopping/1837/

Bank to learn the lessons of the past and continue to be a world-leader in payments regulation whilst meeting the challenges of a new age where ubiquitous digital payments have become a basic service requirement for doing business in this country by:

- Taking the necessary steps to reign in the loopholes that have plagued electronic payment fees both here, and around the world;
- Significantly increase transparency of card fees and charges; and
- Create a level playing field for small business and their customers who often pay five times more for card payments than the big businesses they compete with.

The lion's share of this fee burden for card payments in Australia is currently shouldered by small businesses and their customers due to unfair pricing constructs, particularly for debit cards, which are marketed by banks to consumers as an alternative to cash to access their own money.

It is estimated that Australian small businesses currently pay $1.7 billion[7] more in payments fees compared to big businesses like major supermarkets, and subsequently need to recoup these significant costs through surcharging or increasing prices. The RBA should also consider the fact that big businesses are receiving additional fee benefits not available to small businesses, including significant reverse interchange on cash out and scheme fee rebates. When these additional big business benefits are taken into account, the inequity of the current system is even more stark and extreme.

Small business also lacks funds for expensive legal processes, such as collective bargaining applications, which might otherwise be used to address the inequity.

Card fees charged to merchants, particularly small merchants, are not transparent or well understood, and vary wildly between businesses. There is no obligation on PSPs or acquirers to properly explain these fees, or their make-up, with many providing technology to simply pass them through to customers as surcharges.

In some cases, intense competition or regulated pricing on items such as PBS medications and lottery tickets precludes businesses from surcharging or recouping costs through higher prices, placing them at a significant commercial disadvantage to their larger competitors.

Small and medium businesses with direct competition from big players in areas such as food, cafes, groceries, liquor, hardware and fuel are often forced to absorb these additional costs in order to remain competitive. As such, it is not an option for merchants to simply not accept card payments or newer form factors.

While the actual cost of a routed debit card transaction today is less than 20c, fees for small businesses can look like[8]:

- 64c for $40 worth of fish and chips at the local shop.
- $1.28 for an $80 haircut and shave.
- $1.60 for a $100 shop at a small business.
- $3.20 on a $200 family restaurant meal.
- $6.40 on a $400 car service.

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[7] Calculated by Qi Insights based on RBA data on Merchant Accounts / Value by Size, Cost of Acceptance by Merchant Size, and current values of annual card purchases

[8] Numbers based on a 1.6% blended/bundled rate.

- $12 for a $750 gaming console or school laptop.

The cost of these card fees impacts all Australian families and small businesses every single day. They result in higher prices, reduced margins, less competition and surcharges.

We submit that these issues should be paramount throughout this inquiry, in line with the RBA's role in promoting the efficiency of the payments system and promoting competition.

Executive summary

In this Executive Summary IPF sets out a proposed set of regulatory reforms that could reduce the cost of card payments in Australia by $3 billion and level the playing field for small businesses and their customers.

This would require regulatory intervention on scheme fees, interchange and acquirer margins, as well as rules around Least Cost Routing, transparency and pricing constructs such as bundling. These reforms are summarised below and detailed in the following chapters.

Importantly, all merchants should be offered interchange plus plus pricing, and the opportunity to move to interchange plus plus at any time during a contract.

Debit

As a cash replacement, debit pricing must be set as low as possible. Debit card interchange is already available at $0.01 to Australia's biggest retailers under Strategic Rate 1 pricing for Visa, Mastercard and eftpos.[9]

We propose that interchange is capped at $0.01 for all businesses and all transactions above $50, while transactions under and equal to $50 are capped at $0 to enable small value transactions to occur in the economy as efficiently as possible. This would reflect the ubiquitous nature of debit card payments and the scale that is now being achieved.

Limits and caps should also be applied to scheme fees and acquirer margins, and all debit pricing should be separated or unbundled from credit.

In an e-commerce environment, merchants in lower risk merchant categories (with lower risk profiles), or who invest in risk mitigation such as two factor authentication, should benefit from lower merchant fees/rates. Despite rhetoric from the payments industry, e-commerce merchants already carry the liability and cost of the majority of fraud and chargebacks and should not be forced to pay additional unfair fees and charges.

[9] eftpos: https://www.auspayplus.com.au/brands/eftpos-interchange-fees, Visa: https://www.visa.com.au/about-visa/interchange.html, Mastercard: https://www.mastercard.com.au/en-au/business/overview/support/interchange.html

E-commerce merchants with low risk profiles and who have invested in fraud mitigation measures should not have to bear the fee burdens of the card schemes who were lazy in designing their debit payment flows and simply applied a credit payment flow to less risky debit transactions. eftpos has proven it is possible to see whether there are sufficient funds in a debit account before approving a debit transaction.

Mandate dynamic, opt out Least Cost Routing from 1 January 2026.

Surcharging should be allowed for small business if prices continue to be higher, compared to big business. Simply banning surcharging is punishing merchants further for attempting to recoup their cost of acceptance and stay afloat.

Current Regulation - DEBIT (no current regulation on margin or scheme fees)
Average weighted $0.08 (ceiling of $0.10 or 0.2%)

↓

Figure 2 – Debit policy plan

Principle
Low cost – ubiquity and utility new 'cash'
POS Interchange
Capped at $0 for transactions less or equal to $50 $0.01 for transactions above $50 All form factors, including mobile
Online Interchange (MCC & fraud mitigation)
Standard: $0.01 **Risky**: $0.10
Scheme Fee
Capped at $0.01 for transactions less or equal to $50, $0.15 for transactions above $50
Margin
0.2% (capped at a transaction size of $200)
Surcharging
NO, unless SMEs have 200%+ interchange cost
Bundling
Interchange plus plus offered Separate from credit Bundling 2 buckets: Domestic/international
Least Cost Routing
Dynamic LCR mandated opt out - all form factors & platforms, 1 January 2026

Credit

The high cost of credit card transactions must also be addressed, particularly on standard credit cards that are often used by families and individuals in times of need and often do not include many rewards or points benefits.

Credit card interchange is already available at 0.18% for Mastercard and 0.21% for Visa to Australia's biggest retailers under Strategic Rate 1,[10] while other categories of merchants are set much higher rates up to 0.8%.

Consumers already pay high interest rates and other fees on these cards and IPF sees no reason why merchants should also be penalised for accepting these cards with unnecessarily high fees.

IPF and its participants are concerned that any ban on debit card surcharging may result in unchecked fees on debit and a price explosion on credit, as banks and PSPs move to protect profits and cross subsidise premium cards that offer more rewards and points. The only way to effectively mitigate these serious risks is to regulate caps on scheme fees and margins as well as interchange. Merchants that participate in rewards programs already pay for that privilege and should not also have to pay higher interchange, scheme fees and margins as this is double dipping.

As such, we propose separating bundled pricing on credit into three buckets:

1. Domestic credit
2. Premium
3. International cards– to avoid cross subsidisation of premium cards, loyalty and rewards.

As pointed out in the RBA Issues Paper, there is a question mark about the proposition that the additional costs associated with interest-free periods and rewards should not be borne by the merchant through interchange fees. Consumers already pay high fees and interest rates for these services.

In an e-commerce environment, merchants in lower risk merchant categories (with lower risk profiles), or who invest in risk mitigation such as two factor authentication, should benefit from lower merchant fees/rates.

RBA may consider the possibility of dynamic LCR on domestic credit to further reduce costs in the future.

Current Regulation - CREDIT (no current regulation on margin or scheme fees)
Average weighted 0.50% - ceiling 0.80%

[10] Visa: https://www.visa.com.au/about-visa/interchange.html, Mastercard: https://www.mastercard.com.au/en-au/business/overview/support/interchange.html

Figure 3 – Credit policy plan

Principle
Price signal – no cross subsidisation via: • Blended surcharging, or • Increased price of goods/services
POS Interchange
Domestic: $0.02c Domestic premium: $0.05c International: 1.5%
Online Interchange (MCC & fraud mitigation)
Standard: Domestic: $0.03, Premium: $0.10, International: 1.5% **Risky:** $0.15, International: 1.5%
Scheme Fee
Capped at $0.02 for transactions less or equal to $50, $0.20 for transactions above $50
Margin
0.2% (capped at a transaction size of $200)
Surcharging
Yes
Bundling
Interchange plus plus offered Separate from debit Bundling 3 buckets: Domestic/ Premium/ International
Least Cost Routing
RBA may consider the possibility of dynamic LCR on domestic credit to further reduce costs in the future.

Transparency and future proofing

Card fees charged to merchants, particularly small merchants, are not transparent or well understood, and vary wildly between businesses.

Given the significant impact that payment fees have on our economy and individual businesses, all fees should be transparent and published. This includes scheme fees.

Detailed information about plan rates from acquirers and PSPs should be available on their websites, and links provided on statements, including the option of moving to interchange plus plus plans at any time.

IPF submits that in addition to current economy-wide reporting, RBA reports monthly on a number of additional data points in Figure 4 below:

Figure 4 – Transparency considerations

Transparency

- Strategic rates vs standard volumes/value
- Scheme fees and categories
- MSF by merchant size
- Bank margin, including LCR
- Volume and value of transactions by scheme
- Data on breaches

IPF makes a number of additional recommendations in areas such as technology lockout, new debit replacement products and collective bargaining which will go some way to reduce loopholes and ensure a level playing field is maintained.

Figure 5 – Future proofing considerations

Future proofing

- **No technology lockout**
  - Click to pay
  - Transit
  - Offline deals
- **New retail debit replacements regulated**
- **Debit recognised as new cash**
- **Collective bargaining for SMEs ensured**

Bundled, blended and fixed rate pricing

Bundled, Blended and Fixed Rate pricing artificially inflates costs, particularly for small businesses, and entrenches cross subsidisation of premium and credit cards to the detriment of debit card users and small businesses.

Since its introduction into the market, these pricing plans have become the go to small business solution for acquirers in Australia to increase profits.

IPF has long argued that debit should be separated from credit in all Bundled, Blended and Fixed Rate pricing plans, and that credit bundling should be separated into three buckets – domestic/premium/international.

IPF notes that one major bank has now adopted IPF's position that debit should be separated from credit in bundled plans, while the country's largest bank continues to actively promote cross subsidisation of premium credit cards on social media platforms (see page 24).

Social licence to operate

The move to electronic payments in Australia has been led by "cash replacement" positioning from the payments industry, without adoption of appropriate mechanisms to reduce costs and improve efficiencies.

Due to deliberate marketing strategies by the industry to move away from cash, Australians now carry 48 million debit cards, 17 million credit cards and over 20 million smart phones[11] capable of making payments at around a million terminals[12] across the country, and at almost 100,000 stores online.[13]

Around 39% of payments are now made with digital wallets such as Apple Pay[14] which rely on underlying card technology to make payments.

Issuing banks have been providing debit cards to customers since the 1980s, and aggressively marketing their benefits over cash for four decades.[15]

[11] Statistica: https://www.statista.com/statistics/467753/forecast-of-smartphone-users-in-australia/#:~:text=In%202017%2C%20the%20number%20of,87%20percent%20in%20the%20country
[12] Australian Payments Network, Device Statistics: https://www.auspaynet.com.au/resources/device-statistics
[13] https://www.ibisworld.com/au/number-of-businesses/online-shopping/1837/
[14] Payments System Board, 2024: https://www.rba.gov.au/publications/annual-reports/psb/2024
[15] Commonwealth Bank: https://www.commbank.com.au/banking/everyday-account-smart-access.html?gad_source=1&gclid=Cj0KCQiApNW6BhD5ARIsACmEbkVIZ5EyivLXklCimCxGF8GXhsd8gTR1RJ_FS16rjplNvNvBSoFO6M8aAmcVEALw_wcB&gclsrc=aw.ds, NAB: https://www.commbank.com.au/banking/everyday-account-smart-access.html?gad_source=1&gclid=Cj0KCQiApNW6BhD5ARIsACmEbkVIZ5EyivLXklCimCxGF8GXhsd8gTR1RJ_FS16rjplNvNvBSoFO6M8aAmcVEALw_wcB&gclsrc=aw.ds, https://www.nab.com.au/personal/bank-accounts/debit-cards/nab-visa-debit-card?cid=sem:p81119534242&psk=nab%20debit%20card&psc=71700000075821170&psea=700000001196868&psm=e&psn=g&psd=c&psa=&&gad_source=1&gclid=Cj0KCQiApNW6BhD5ARIsACmEbkXw7f_fFanJln5CWvRmC4h4d0LH3DxgAigsGkZW4WXo6lwrl0ibe8caAio5EALw_wcB&gclsrc=aw.ds, Westpac: https://www.westpac.com.au/personal-banking/bank-accounts/transaction/debit-mastercard/ retrieved 4 December 2024.

Figure 6 – Marketing Methods

Redacted by RBA

Redacted by RBA

Redacted by RBA

Discussion around the benefits of a cashless or "less cash" society has been led by the bank-dominated industry groups and card schemes which have a vested interest in generating scale and volume using payment methods that are cheaper to provide and maintain higher margins.

Figure 7 – Commentary

7.1 Australian Payments Network[16]

> ***"Debit cards and credit cards are the most common payment method used by Australians today. Most in-person payments are 'contactless', online shopping is increasingly popular and mobile payments are gaining traction."***

7.2 Australian Banking Association[17]

> ***"Debit cards continue to be the number one choice when Australians purchase something in person or online, and that means the majority of us are paying with our savings instead of credit. This trend hasn't always been the case. In 2006, Australians used credit and debit cards equally. Twelve years later in 2018, Australians used debit cards at almost double the rate of credit cards and just three years later, it's almost triple."***

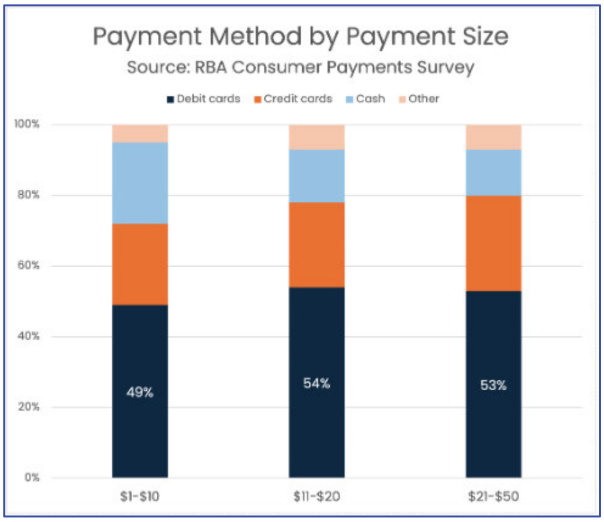
With such high consumer adoption, their strategy has been very successful and is recognised by the banks as a more cost-effective way to provide their customers with access to their own money than cash. CBA CEO Matt Comyn told the Standing Committee on Economics recently that

[16] Australian Payments Network: https://www.auspaynet.com.au/network/cards#:~:text=Payment%20cards%20have%20overtaken%20cash,mobile%20payments%20are%20gaining%20traction, retrieved 4 December 2024.

[17] Australian Banking Association, 2021, *Annual Report,* https://www.ausbanking.org.au/wp-content/uploads/2021/12/ABA-Ltd-Annual-Report-2021.pdf

electronic payments were a far more cost-effective way for banks to distribute customer funds by saying, "It would be cheaper in digital. It's also a scale-economy effect."[18]

Figure 8 – Payment Method by Payment Size



IPF submits that low debit card fees should be seen as part of the payments industry's social license to operate in Australia and provide their customers access to their hard-earned money.

The use of cards has become more acute in younger generations of Australians, with consumers aged between 18-29 using cards for 85% of payments.

In 2022, consumers in the lowest income quartile were making 55% of their transactions on debit cards[19] and we expect that number to have grown significantly when the next survey is published in 2025.

Australia's four large oligopolistic retail banks, which trace their roots back to the 19th century, have sustained their longevity primarily due to the indispensable nature of the products and services they provide. Over time, these banks have become integral to the nation's financial infrastructure.

Throughout their history, society has not only shielded them from genuine competition by erecting barriers to entry but has also allowed their shareholders to achieve exceptionally strong returns. Before the Global Financial Crisis (GFC), retail banks consistently generated average returns exceeding 15% return on equity (ROE). Even today, these banks continue to deliver ROEs of approximately 12%.

The willingness of Australian society and policymakers to grant these privileges creates an implicit quid pro quo arrangement, best described as a SLO.

This social contract comes with an expectation that banks uphold ethical standards and deliver reliable services. When they breach this licence, such as during the 2007–2018 period marked by declining service standards across the industry, society has proven swift to intervene.

The establishment of the Hayne Royal Commission in 2018 exemplifies this, as it was tasked with investigating ethical failings and resulted in widespread reforms to enhance probity and service quality.

A pressing issue relating to the SLO is the ongoing transition from cash to digital payment systems in Australia. Banks have been eager to phase out cash in favour of card payment alternatives, but sections of society remain committed to preserving a robust cash system.

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[18] Comyn, M, 2024, *Standing Committee on Economics,* retrieved from: https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;db=COMMITTEES;id=committees%2Fcommrep%2F28347%2F0001;query=Id%3A%22committees%2Fcommrep%2F28347%2F0000%22

[19] RBA, Consumer Payments Survey 2022.

As cash becomes less accessible due to declines in ATMs and branch services, banks have a significant obligation to ensure that the transition is equitable and uphold the payments industry's SLO.

Ensuring consumers and businesses have affordable access to their deposit funds is a fundamental aspect of this social contract.

Replacing cash is a significant economic and societal shift, and imposing explicit charges for accessing funds in an environment where cash is scarce risks alienating customers.

To maintain public trust and fulfil their social obligations, banks must provide equitable and cost-effective payment solutions, demonstrating their commitment to serving all members of society.

Interchange

Australia's current interchange caps allow for a broad range of interchange fee outcomes that invariably lead to bad outcomes for small and medium businesses. Currently, interchange is usually set to the lowest possible rate for big businesses like Coles and Woolworths, while the small businesses they compete with get much higher rates, of up to 800% more.

Debit

To recognise debit's role as the new cash in the Australian economy, IPF submits that Interchange on debit card transactions less than or equal to $50 should be capped at $0, while greater than $50 should be capped at 0.01c to ensure a level playing field for small business.

IPF also submits that there should be no ad valorum on debit interchange. As the RBA points out in its issues paper, the messaging cost for a $1 payment is arguably no different to that of a $100 payment,[20] and therefore fees should not be charged at a much higher rate based on the size of transaction to improve efficiency.

A $0 interchange on low value transactions is not a new concept, as the schemes have previously offered this rate for transactions lees than $15 in Australia. This enables business and consumers to buy and sell everyday items such as bread, milk and coffee, with no interchange fees.

The Black Economy Taskforce in Recommendation 3.3 of its 2017 report considered that there was little justification for the imposition of significant interchange fees in mature card systems.[21] More recently, in its 2018 Inquiry into Competition in the Australian Financial System, the Productivity Commission's recommendation 17.1 was that the Payments System Board ban card payment interchange fees.[22]

In fact, if you dial back to 2010, eftpos debit interchange in Australia was set at -$0.05 in favour of merchants to encourage the rollout of this technology.

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[20] Reserve Bank of Australia, 2024, *Merchant Card Payment Costs and Surcharging – Issues Paper – October 2024*, p.13.
[21] The Australian Government the Treasury, 2017, *Black Economy Taskforce – Final Report,* pp.61-62.
[22] Productivity Commission, *Competition in the Australian Financial System, Inquiry Report*, p.48

The industry has deliberately moved Australian merchants and consumers to electronic payments to access their own money as a substitute for cash and the cost should be as low as possible.

IPF submits, the $0 interchange cap limit of $50 should be reviewed regularly against inflation.

Clarity is needed on what is cost of acceptance vs value-added services to ensure that small businesses and their customers understand exactly what is being paid for and/or surcharged to enable merchants to meet surcharging regulations.

Lastly, all POS debit card transaction fees should be harmonised, no matter what form factor or platform. For example, paying from a mobile phone using the same card, from the same bank, accessing the same account should not cost more.

Over a short period of time, efforts should be made to align online debit fees as well, as more Australians continue to buy goods and services at online businesses.

Figure 9 – International examples of debit interchange caps[23]

In **Malaysia**, the interchange fee ceiling for domestic brand debit cards is **0.10% of the transaction value, or RM0.37 plus 0.001%, whichever is lower.** The interchange fee ceiling for **international brand debit cards is 0.27% of the transaction value, or RM0.63 plus 0.001%, whichever is lower.** The interchange for international branded prepaid cards is 0.39% of the value of the transaction; or RM1.28 plus 0.001% of the value of the transaction, whichever is lower.

The **Switzerland** Competition Commission (COMCO) settled with Mastercard on an interchange fee of **0.12% with a cap of 30 cents for transactions amounts of CHF 300** or more for domestic card-present transactions which cannot be terminated before 2033. As of November 1, 2025, Mastercard will lower the interchange fee for payments **made via the web or mobile devices to 0.28%**.

Despite EU regulation, Banco De Espana in **Spain** has set additional interchange caps. For a **€20 or less transaction, the cap is set at 0.1% for debit**. For a debit transaction **greater than €20, the cap is set at 0.2% or €0.07, whichever is less**.

Credit

The high cost of credit card transactions must also be addressed, particularly on standard credit cards that are often used by families and individuals in times of need and often do not include many rewards or points benefits.

[23] Malaysia: Bank Negara Malaysia's (BNM) Payment Cards Framework – Interchange Fee: https://www.bankrakyat.com.my/portal-main/article/bnm-interchange-fee, Switzerland: Competition Commission, 2024, 'COMCO obtains low interchange fees for Mastercard debit cards', https://www.admin.ch/gov/en/start/documentation/media-releases.msg-id-101037.html, Banco De Espana, Interchange fees and merchant service charges: https://www.bde.es/wbe/en/entidades-profesionales/supervisadas/informacion-publica-entidades-supervisadas/tasas-intercambio-descuento/

Credit card interchange is already available at 0.18% for Mastercard and 0.21% for Visa to Australia's biggest retailers under Strategic Rate 1, while other categories of merchants are set much higher rates up to 0.8%.

Consumers already pay high interest rates and other fees on these cards and IPF sees no reason why merchants should also be penalised for accepting these cards with unnecessarily high fees.

Merchants already pay for reward schemes through provision of goods and services and margins, and for their own fraud mitigation and disputes liabilities. Interchange should not be used as an excuse to double or triple dip on these items.

Figure 10 – International examples of credit interchange caps[24]

In the European Union, the Regulation on Interchange Fees for card-based payments entered into force in June 2015. It caps interchange fees for consumer credit cards to 0.30 % of the value of the transaction. Spain have gone further in their regulation with credit card payments under €20 having an upper limit of 0.2%.

RBA Questions:

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

Yes, as set out above.

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

Yes.

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

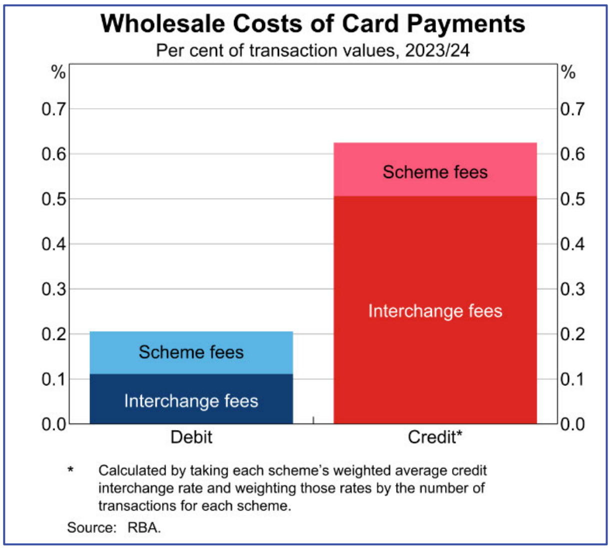
If so, how?

Yes, as set out above.

[24] European Commission, *Antitrust: Regulation on Interchange Fees,* https://ec.europa.eu/commission/presscorner/detail/en/memo_16_2162
Banco De Espana, *Interchange fees and merchant service charges* - https://www.bde.es/wbe/en/entidades-profesionales/supervisadas/informacion-publica-entidades-supervisadas/tasas-intercambio-descuento/

Scheme Fees

Figure 11 – Wholesale Costs of Card Payments



Scheme fees continue to be largely unregulated in Australia, despite the fact they make up a large percentage of card fees[25] and are often rebated to banks and merchants as a bargaining chip in commercial negotiations - rarely, if ever, offered to SME businesses.

The opaque nature and deliberate complexity of scheme fees is a running joke in many parts of the payments industry which is forced to pay in advance for these fees. CBA CEO Matt Comyn recently told the Standing Committee on Economics that “If you ever want to while away some hours looking at the way the international card schemes work—it's not a simple thing to summarise”.[26]

The RBA’s Merchant Card Payment Costs and Surcharging issues paper only makes reference to the $1.8 billion paid by Australian merchants in “net” fees largely to US based corporations, presumably after rebates. No gross number has been published.

It is estimated that eftpos scheme fees are a little over $100 million, while the dominant players Visa and Mastercard make up the bulk of the remainder, followed by others including American Express.

Capping scheme fees

IPF submits that scheme should be capped at $0.01 for debit transactions less than or equal to $50, and $0.15 for debit transactions greater than $50.

On credit, IPF submits that scheme fees should be capped at $0.02 for transactions less than or equal to $50, and $0.20 for transactions greater than $20.

RBA questions:

Q4: Is there a case for further transparency of scheme fees to promote efficiency and competition? If so, what additional information would be beneficial?
Yes, scheme fees should be published in full, simplified and summarised.

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[25] Reserve Bank of Australia, 2024, *Merchant Card Payment Costs and Surcharging – Issues Paper – October 2024*, p.10.
[26] Comyn, M, 2024, *Standing Committee on Economics* - https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;db=COMMITTEES;id=committees%2Fcommrep%2F28347%2F0001;query=Id%3A%22committees%2Fcommrep%2F28347%2F0000%22

Q5: Is there a case for regulatory action to reduce the complexity or growth of scheme fees? If so, what form should this take?
Yes, as above.

Q6: What other regulatory action should the RBA consider to increase the competitive pressure on scheme fees?
The RBA should publish monthly scheme fees and fee (volume and actual) categories. Scheme fees should be simplified and explained to ensure they can be understood by all merchants.

Margin

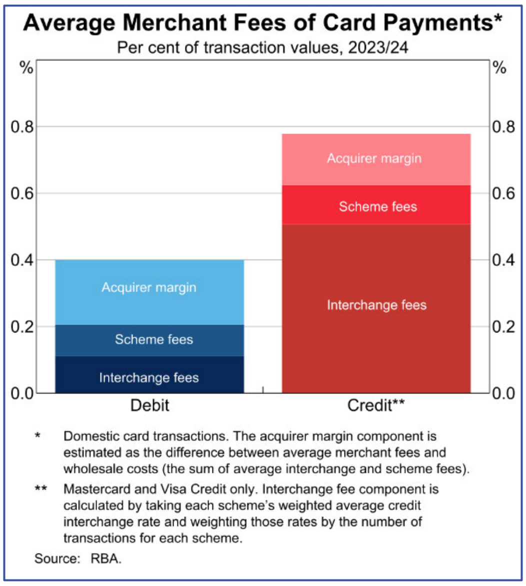
IPF submits the RBA should consider mechanisms to cap margins for PSPs and acquirers.

Margin is one of the three components of merchant service fees and must be considered when moving to reduce fees for card payments, particularly for small businesses.

Margins, like interchange, vary wildly in the Australian market. IPF understand some PSPs are charging as much as 0.6% compared to an average of 0.2% or less.

Capping margins at the average margin of 0.2% quoted in the RBA discussion paper should be considered.

Figure 12 – Average Merchant Fees of Card Payments



Loopholes

It is a key component of any payments regulation or legislation to ensure that it closes any loopholes that may be exploited to the detriment of businesses or consumers, or both. There are a number of examples across the payments industry where we have seen gaps in rules that have been exploited through calculated strategies by industry participants which have led to unintended negative consequences for both merchants and consumers.

Three examples of these behaviours, and where industry self-regulation has clearly failed are:

1. Surcharging of blended pricing – which sees merchants and consumers paying much higher rates for debit card transactions
2. Least Cost Routing – which has been implemented by some industry participants in ways that benefit PSPs and acquirers, rather than merchants and their customers

3. Broad interchange fee ranges – which see small merchants paying much higher rates than big merchants

One concerning example of industry loopholes is currently being investigated United Kingdom which, like Australia, has to date only regulated interchange fees.

Since the introduction of new interchange caps in December 2015, acquirer transparency rules, and a ban on surcharges in the United Kingdom in January 2018, the Payment System Regulator (PSR) has found that both Visa and Mastercard have increased their scheme and processing fees by more than 30% in real terms, despite 'little evidence' of improvement in the quality of service.[27] Their interim report, published in May 2024 states that the "market is not working well, and that intervention may be appropriate."[28]

Due to the opaque nature of the pricing, it is not clear whether the price increases are being passed onto banks in the form of rebates, or whether it is added directly to the schemes' profit margins.

The UK's Competition Appeal Tribunal has also certified a case against Visa and Mastercard, with legal representatives estimating that merchants in the UK have suffered losses of at least $4 billion by the unlawfully high multilateral interchange fees imposed by Mastercard and Visa.[29]

The US Justice Department filed a civil antitrust lawsuit in September against Visa for monopolization and other unlawful conduct in debit network markets.[30]

In November the European Commission launched an enquiry into whether the fees charged by Visa and Mastercard have a negative impact on retailers.[31]

Mastercard is currently in court in Australia after the ACCC alleged that Mastercard engaged in conduct for the purpose of substantially lessening competition in the supply of debit card acceptance services.[32]

Unintended consequences of loopholes in regulation and legislation are also being felt here in Australia via the surcharging rules.

The lack of specificity and enforcement of the rules regarding what acquirers and payment facilitators are able to charge merchants as part of their cost of acceptance have led to consumers paying large surcharges for using their own money, with circumstances where no price signalling is apparent for the use of expensive rewards-based cards.

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[27] Quinio, A. 2024, 'Mastercard and Visa face crackdown by UK watchdog on merchant fees', *Financial Times*, https://www.ft.com/content/e3e6a1d6-f412-4ee7-95af-be95db2c0c37
[28] Payment System Regulator, 2024, *Market review of card scheme and processing fees – Interim Report*.
[29] Finextra, 2024, 'Mastercard and Visa to face multi-billion pound lawsuit over interchange fees on UK businesses', https://www.finextra.com/newsarticle/44673/mastercard-and-visa-to-face-multi-billion-pound-lawsuit-over-interchange-fees-on-uk-businesses#:~:text=to%20our%20community.-,Mastercard%20and%20Visa%20to%20face%20multi%2Dbillion%20pound%20lawsuit%20over,and%20Visa%20multilateral%20interchange%20fees.
[30] US Department of Justice, 'Justice Department Sues Visa for Monopolizing Debit Markets,' https://www.justice.gov/opa/pr/justice-department-sues-visa-monopolizing-debit-markets
[31] Yun Chee, Foo, 'Exclusive: EU regulators investigate if Visa, Mastercard fees harm retailers, document shows', https://www.reuters.com/business/retail-consumer/eu-regulators-investigate-if-visa-mastercard-fees-harm-retailers-document-shows-2024-11-06/
[32] Australia Competition Law, *ACCC v Mastercard,* https://www.australiancompetitionlaw.info/cases/accc-v-mastercard

Acquiring subsidises Issuing inside banks

Banks as both card issuers and merchant acquirers have deliberately split their business in two (acquiring and issuing). This is standard industry practice and mirrors how the card schemes operate. These separate businesses often have competing agendas. The narrative then becomes: "We don't make money out of merchant acquiring", as if it is a separate entity. This fails to take into account how the two business interoperate. For instance, when card transactions are "on us" (the issuer and the acquirer are the same), the transaction is ostensibly free as there is no bank margin or interchange, thus rendering one side of the business potentially more successful than the other by loading up the costs into that business. In this case, acquiring is subsidising issuing.

With around a 30% market share of both acquiring and issuing, the largest bank in the country would have around 1/3 of their transaction on-us and therefore ostensibly free.

Banks do not disclose the performance of the overall cards payment business in their financial reporting. What is known is that when reported as a combined payments business, the business is profitable.

Acquirers like Square, Tyro and Smartpay disclose their performance and are profitable but have no issuing business to cross subsidise.

Strategic rates and sweetheart deals with big merchants

Small business currently subsidise special pricing deals offered to large retailers, most of which are not transparent. These deals advantage big business through unfair pricing including:

- Much lower interchange rates
- Scheme fee rebates
- Lower margins

Figure 13 –
Merchant Service Fees by Merchant Size

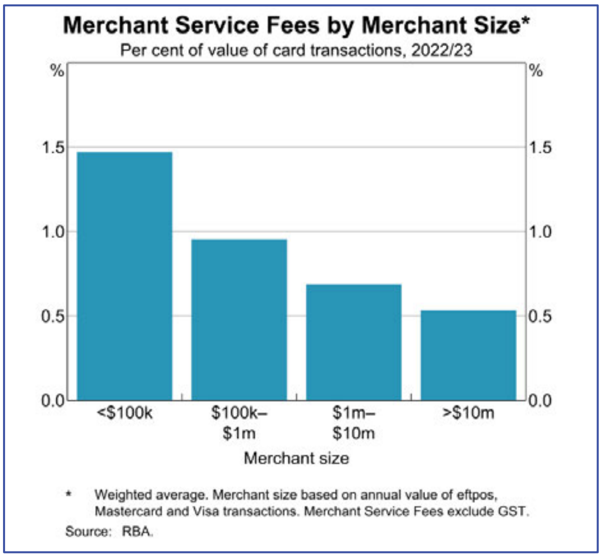
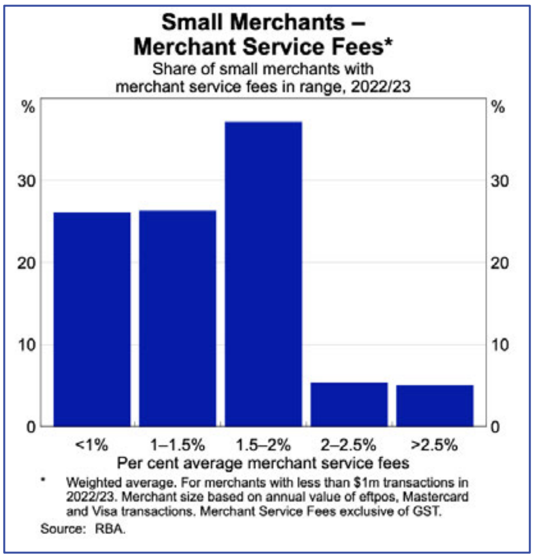


Figure 14 –
Small Merchants – Merchant Service Fees



If this situation does not change dramatically, small merchants must be allowed to recoup transactions costs through surcharging to remain competitive.

Currently, big businesses that compete directly with small businesses in areas such as pharmacy, groceries, fuel, hardware and liquor get sweetheart deals and therefore do not need to surcharge customers to recoup costs.

Under current surcharging rules, surcharges need to be disclosed by the merchant at the point of sale. If a strategic merchant such as a supermarket was to start surcharging, this true cost would be revealed to be embarrassingly small.

Cash out transactions for strategic merchants offer reverse interchange which would mean that the merchant would need to pay the customer the fee that they earn for that transactions and disclose that.

Some argue that big business deserves better rates due to their scale, but in payments there is currently an extreme disparity that sees several of the bigger players getting deals at close to zero.

Transparency

Given the significant impact that payment fees have on our economy and individual businesses, all fees should be transparent and published. This includes scheme fees.

Clarity on what is cost of acceptance vs value-added services would also assist the RBA in meeting this requirement. This would enable merchants to make simple comparisons instead of being presented with complex pricing structures that are very difficult to interpret.

Strategic rates should be explained and published in terms of eligibility – both interchange and scheme fees.

Detailed information about plan rates from acquirers and PSPs should be available on their websites, and links provided on statements, including the option of moving to interchange plus plus plans at any time.

Making the availability of such information a regulatory or legislative requirement of all payment services providers would enable the development of Comparison Rate information currently available for financial lending products in Australia.

IPF submits that in addition to current economy-wide reporting, RBA reports monthly on:

- Granular data on strategic rates vs standard volumes/value
- Strategic rate merchants
- Scheme fees and fee (volume and actual) categories
- MSF by merchant size
- Breaches re weighted interchange and scheme rebates, and fines

- Average bank margin for SMEs (under $10 million trans volume) vs strategic merchant, including LCR category for SMEs vs strategic.
- LCR data (Online and PoS) including margin and SME vs strategic
- Volume and value of transactions by scheme

One of IPF's participants, ACAPMA, has suggested the "introduction of a legislative requirement requiring all payment services providers to provide a simplified summary of the *total costs* of debit and credit merchant fee charges on all new merchant fee contracts (and renewals). This information should be in a simplified form that is easy to understand, possibly developed along similar lines to the *Comparison Rate* used for ease of comparison of financial lending products in Australia."[33]

IPF submits that interchange plus plus pricing should also be offered to all businesses. Those on bundled plan should be able to move to interchange plus plus plans at any time.

Defining the elements of cost of acceptance
IPF also submits that the RBA clearly outlines exactly what can be included in transaction fees, and what cannot.

Inclusions:

- Interchange
- Bank margin
- Scheme fees
- Transaction fee for online merchants

Exclusions:

- Platform fees
- Fees for additional services such as analytics, data, marketing, stationery such as paper rolls for PoS terminals
- Products or services not directly requested by the merchant
- Loyalty programs
- Gift card programs
- Interest on loans (Cashflow lending)
- Rostering and staff management services
- Buy Now Pay Later and consumer finance fees and charges

<u>RBA Questions</u>

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

[33] ACAPMA, Submission to RBA Review of Merchant Card Costs & Surcharging (October 2024), p.2

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

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

Q11: What other regulatory measures should the RBA consider to improve competition between PSPs?
Monthly reporting on key competition elements as above. Consideration of availability of standardised comparison rates, along similar lines to financial lending products in Australia.

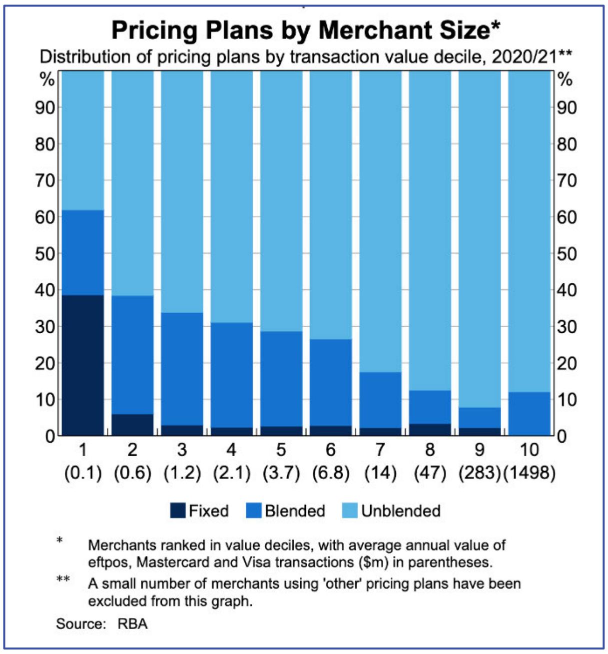
Bundled pricing

The widespread use of blended, fixed rate and bundled pricing in Australia results in:

- higher prices for small businesses and their customers, and
- cross subsidisation of high-cost credit cards being paid for by people who choose to use cheaper forms of payment such as debit cards.

Since this practice was first introduced in 2016, it has been adopted by large sections of the PSP and acquiring industry for their small business customers. These pricing plans are usually coupled with the ability for merchants to easily surcharge these costs back to consumers. Meanwhile, big business is offered far more cost-effective interchange plus plus plans at much lower rates.[34]

Figure 15 - Pricing Plans by Merchant Size



Fees range from about 0.95% to over 2% per transaction, regardless of whether the transaction is made on a simple debit card or a premium credit card.

Introduction of these pricing plans by big banks coincided with debit overtaking credit in terms of total transaction value, and may have been seen as a way of recouping lost credit card revenue.

Small and medium merchants have been targeted by banks and PSPs for these high fee pricing constructs which are sometimes marketed as “free eftpos” or similar as enticements.

[34] Reserve Bank of Australia, 2022, ‘The Cost of Card Payments for Merchants’, https://www.rba.gov.au/publications/bulletin/2022/sep/the-cost-of-card-payments-for-merchants.html

Figure 16 – Examples of bundled pricing[35]

Redacted by RBA

While the concept of surcharging 2% for a debit card transaction appears to fly in the face of current surcharging rules regarding "cost of acceptance", no action has been taken to stop this practice to date.

Figure 17 – Commonwealth Bank promoting cross subsidisation[36]

Redacted by RBA

There is no doubt that blended/bundled pricing of debit and credit card payments artificially inflates prices and enables cross subsidisation of costly premium credit cards and other fees.

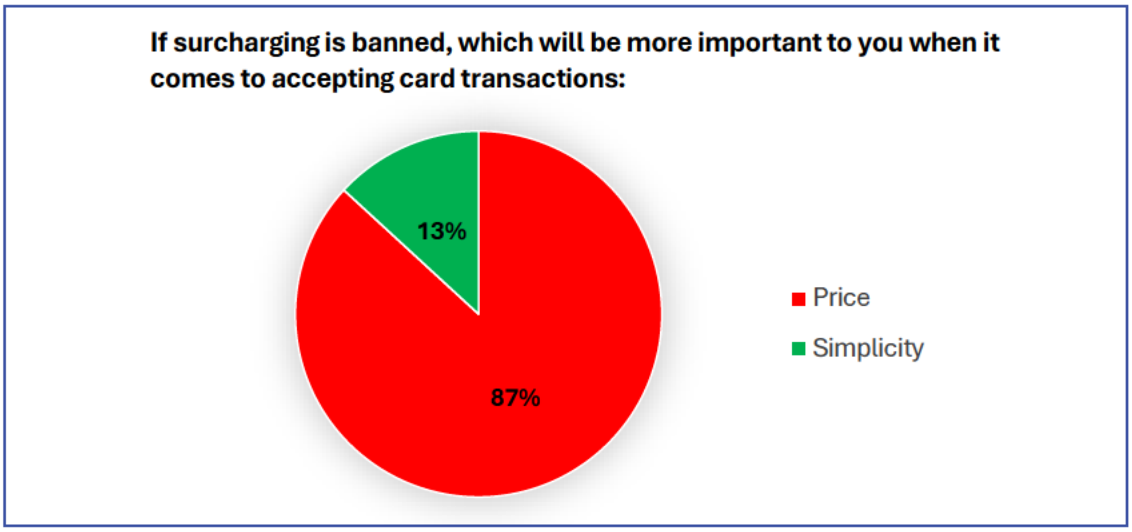
[35] Zeller: https://www.myzeller.com/eftpos-terminal-machines, Smartpay: https://www.smartpay.com.au/eftpos-solutions/zero-cost-eftpos/ retrieved 4 December.
[36] CommBank Business and Institutional, LinkedIn promotion, retrieved November 2024.

These extra costs are paid in the form of higher prices or surcharges by people who can least afford it, including pensioners and welfare recipients who often make a conscious decision to choose cheaper forms of payment such as debit card and cash.

PSP and Bank claims about simplicity don't stack up

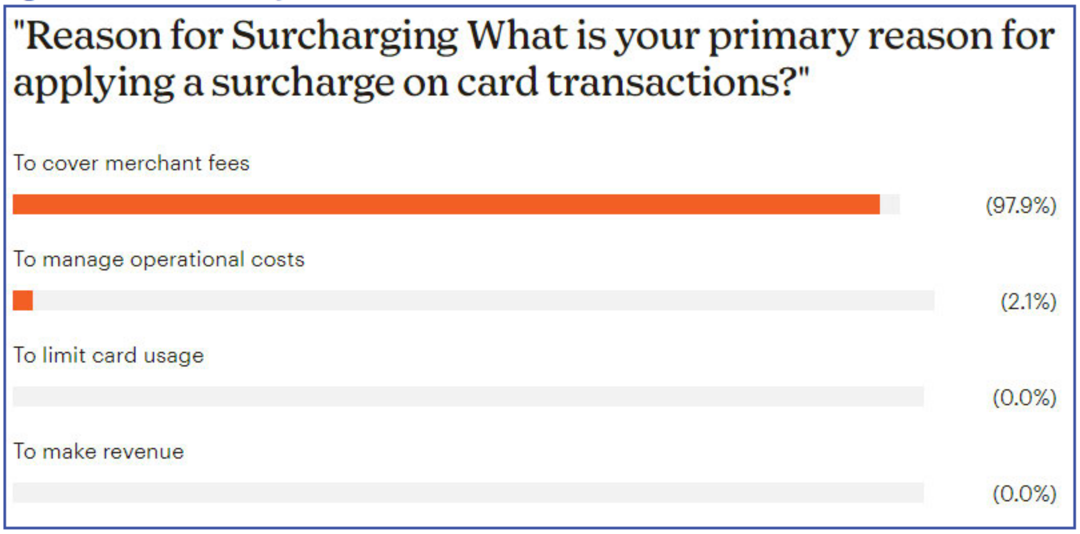
An IPF survey this month[37], clearly showed that small businesses are more concerned about cost than simplicity.

Figure 18 – IPF Merchant Survey



This was reinforced by an Australian Restaurant & Café Association (ARCA) member survey[38], showing that covering merchant fees was the overwhelmingly the reason merchants are surcharging.

Figure 19 – ARCA Survey



[37] The IPF Merchant Fees & Surcharging Survey was completed by 176 IPF Participant Association's members in November and December of 2024. See Appendix 1.
[38] Australian Restaurant & Café Association Ltd, 2024, Submission to the RBA: Merchant Card Payment Costs and Surcharging – Issues Paper, p. 15.

IPF recommendation on bundled pricing

IPF submits interchange plus plus pricing should be offered to all businesses. Those on bundled plan should be able to move to interchange plus plus plans at any time.

Where bundling exists, credit must be separated from debit, and credit should be separated into three buckets:

- Standard credit
- Premium credit
- International

This separation will help deter and reduce surcharging for debit (79% of transactions at POS), while retaining price signals for credit card users, ensuring all consumers do not have to pay unnecessary fees.

Premium credit cards have higher cost structures. The costs should not be borne by debit card users accessing their own money.

Enhanced merchant education is needed about surcharges in addition to the current Q&As on the RBA and ACCC websites.

Least Cost Routing (LCR)

IPF supports mandating of opt out, dynamic Least Cost Routing (LCR) on debit cards in Australia by 1 January 2026 at POS and in online.

This form of LCR should provide functionality to facilitate the real time cost comparison of each transaction and the subsequent selection of the least cost network.

LCR technology has been available in the Australian market for many years but has not been well implemented by the industry in what can only be described as a complete failure of self-regulation.

The meaning of LCR and whether or not it is 'available', has been left open to broad interpretation by the industry. Some have gone as far as renaming LCR "Merchant Choice Routing", while others appear not to be passing cost savings on to small merchants and are doing so for big merchants.

Some industry participants have made it the problem of merchants to select thresholds for routing, rather than a simple real time dynamic solution.

The RBA has only encouraged the industry to adopt LCR but to date has not made it mandatory. In its recent review, RBA has expressed disappointment with progress on this issue.[39] Regulation is now needed to address this industry failing to deliver appropriate outcomes.

[39] Payments System Board, August 2024 Meeting: https://www.rba.gov.au/media-releases/2024/mr-24-16.html

In 2017, The Black Economy Taskforce acknowledged the opposition of banks and international schemes to LCR and warned that they could seek to respond in ways that might be anti-competitive.[40]

Other markets including France, USA and Malaysia have experienced far greater success with LCR, with regulatory intervention, applying simple principles such as:

- Merchant choice given they bear the cost of transactions,
- Opt out – providing the merchant with a choice to opt out of routing if desired, and
- Transparency of pricing so merchants can make properly informed decisions.

To ensure efficiency and the future success of LCR, it is important to continue to mandate multi-network debit (MND) functionality of debit, on all form factors and in all channels.

IPF submits the RBA should also revisit exemptions to MND card issuance where Issuers have grown market share.

IPF also submits that the RBA should consider mandating LCR on standard credit cards.

RBA Questions

Q7: How do stakeholders assess the functioning and effectiveness to date of LCR for in-person transactions? Is further regulatory intervention needed? What might that look like?
Mandate opt out, dynamic Least Cost Routing (LCR) on debit cards in Australia by 1 January 2026 at POS and in online, and include a requirement that LCR savings by acquirers must be passed onto merchants.

Surcharging

The majority of this massive cost burden associated with card fees is currently borne by small businesses and their customers who are often forced to pay three to five times more than big retailers. Any move to ban surcharging without addressing this imbalance will likely result in increased prices and job losses.

Community concern about surcharging extends to many businesses including large online merchants, airlines, utility bill payments and government agencies.

Every Australian family currently pays $150[41] in surcharges every year based on the RBA's consumer payments survey, but this could be as high $595 a year according to Canstar, which estimates Australians pay $4 billion in surcharges annually.[42]

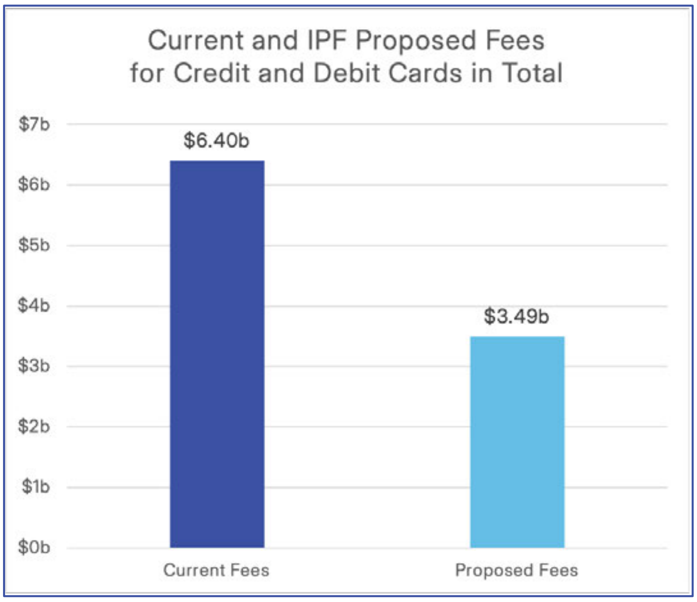
[40] The Australian Government the Treasury, 2017, *Black Economy Taskforce – Final Report,* pp.67-68.
[41] Calculated by Qi Insights, Based on RBA Consumer Payments Survey 2022 rate of surcharging, RBA retail payments card purchase volumes and ABS family population statistics
[42] Sky News, 'Australians spending up to $4 billion a year in hidden tap-and-go surcharges', https://www.skynews.com.au/business/australians-spending-up-to-4-billion-a-year-in-hidden-tapandgo-surcharges/video/aec2b321a74787c167da7695a5400738

Current surcharging regulation has not been strictly enforced for merchants, so it is difficult to judge if it is fit for purpose. There have only been a handful of prosecutions since the framework was introduced, and none for several years.

Simultaneously, acquirers and PSPs have not been challenged by regulators on their liberal interpretations of the term "cost of acceptance" which has resulted in higher fees and blended pricing. On debit cards, these higher fees are, in turn, passed on to consumers as surcharges at higher-than-expected rates.

The fee reduction policy changes proposed by IPF would significantly reduce surcharging on card transactions and help level the playing field with big business to reduce the need for surcharging in the market. Many small businesses may choose to absorb a smaller cost. If the acquirer builds surcharging into the transaction flow, merchants must be given the choice to switch it on.

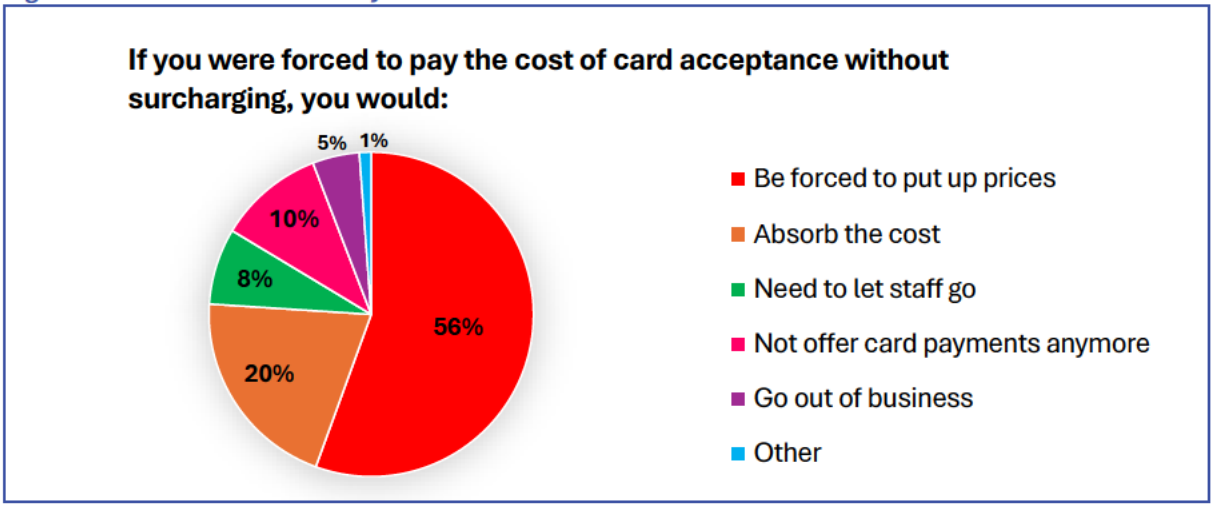
Figure 20 - Current and IPF Proposed Fees for Credit and Debit Cards in Total



A recent survey of IPF merchant participants[43] showed that if surcharging was eliminated small businesses would be forced to make difficult choices, with majority feeling forced to put up prices, which would make them less competitive against larger merchants on better pricing deals from acquirers and card schemes.

[43] The IPF Merchant Fees & Surcharging Survey was completed by 176 IPF Participant Association's members in November and December of 2024.

Figure 21 – IPF Merchant Survey



Similar results were shown in a recent survey by the Australian Restaurant & Café Association (ARCA).[44]

Figure 22 – ARCA Survey

We believe that if small business continue to pay 200% or more than big business, like we are currently seeing, that surcharging should be allowed. This could be done in a number of ways, linked to terminal coding, such as strategic rates.

A surcharge ban should not be extended to non-payments related issues such as weekend rates at restaurants.

[44] Australian Restaurant & Café Association Ltd, 2024, Submission to the RBA: Merchant Card Payment Costs and Surcharging – Issues Paper, p. 17.

Carve out for true innovations requested by consumers

If the RBA was to move forward with a ban on surcharging, IPF submits that this ban should not include service fees levied to consumers for true innovation they have specifically requested such as:

- A consumer has specifically selected a service to be performed that is not usually available on a standard card transaction
- A consumer has downloaded an app to perform a service or services not usually available on a standard card transaction

For example, Sniip is an app that provides consumers with an opportunity to use any card, including American Express, to make bill payments that would not otherwise be possible using that card. A service fee for this innovation is appropriate in this circumstance.

Such an exemption should not be extended to new form factors or platforms that simply offer new ways to make a standard card transaction.

RBA Questions

Q12: Is there a case for revising the RBA's surcharging framework? If so, which options or combination of options would best address the current concerns around surcharging? What other options should the RBA consider?
A surcharge ban should not be considered for small business until they have a level playing field with big business in terms of card fees. Current surcharging rules have not been properly enforced.

Q13: What are the implications for merchant payment costs from changes to the surcharging framework? Could the RBA address these with other regulatory actions?
Unless costs are addressed, merchants will be forced to put up prices and/or reduce staff. In some cases, intense competition or regulated pricing on items such as PBS medications and lottery tickets precludes them from surcharging or recouping costs through higher prices, placing these businesses at a significant commercial disadvantage to their competitors. Small and medium businesses with direct competition from big players in areas such as food, cafes, groceries, liquor, hardware and fuel will be forced to absorb these additional costs in order to remain competitive.

Yes, as above.

Other Issues

RBA Questions

Q14: Are there any other regulatory actions that the RBA should consider taking in response to the issues raised in this paper?
Yes, see below.

Q15: 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?
Yes, see below.

Innovation

IPF expects to see a lot of noise over the coming months as players in the payments industry moved to protect their card fee profits, often referred to as "rivers of gold".

Some players will even claim pricing constructs such as blended rates are a payments "innovation", while others will demand all Australians should be footing big bills for copycat products, standard maintenance and global investments, much of which were made decades ago.

High prices for basic card payments on networks that have existed for many decades should not be mistaken for innovation. True innovation solves real problems for consumers and merchants for which they are willing to pay separately.

Currently, much recent innovation in card payments in Australia has only occurred at one end of the merchant acquiring value chain, namely flat rate pricing which has led to higher fees and surcharging.

Innovation at a wholesale level (such as dynamic least cost routing) has been deliberately ignored in order to maintain higher merchant fees which are passed on to consumers. Even when LCR was introduced, it was implemented by some acquirers and PSPs in a way that retained the savings for them rather than pass them onto the merchants which were meant to benefit from LCR.

Technology lockout

As a policy principle, payments regulation should ensure no technical lockout and no commercial lockout in the interests of efficiency in the payments system

In card payments, technical changes masked as innovation can have the unexpected consequence of significantly reducing competition and increasing prices.

For example, failing to have all industry participants adhere to AusPayNet requirements for acceptance devices and fraud management, or not having all new acceptance devices support MND functionality will negatively impact competition.

Use of closed specifications or "standards", as opposed to standards developed by the International Standards Organisation or Standards Australia can lead to technology lockout.

Similarly, contractual arrangements that deliberately limit competition should not be allowed. Long-term commercial agreements between banks and card schemes, for example, can have a negative competition impacts if linked to volume targets and technology releases.

One potential issue that exists in the market today that could see a significant reduction to competition unless all parties cooperate on Click To Pay implementation. The RBA should ensure that this functionality supports MND functionality and does not negatively impact competition in online card payments.

High cost of cash does not make debit cheap

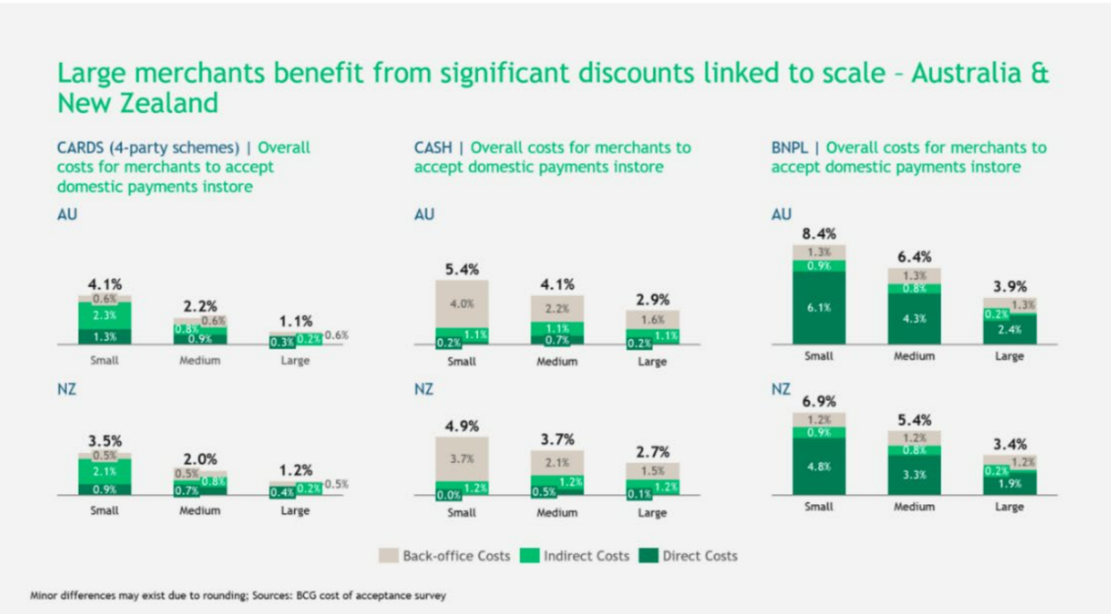
The high cost of cash has become a hot political issue in 2024 and is the direct result of deliberate strategies by banks and other players in the payments industry to:

- Create a cashless or less cash society
- Reduce the number of ATMs
- Close bank branches
- Promote the use of debit cards
- Reduce cash out limits
- Reduce cashout interchange to merchants
- Increase the cost of cash handling

In this context, it is disingenuous of these same industry participants to now use statistics about the cost of cash in 2024 to defend their high card fees.

In a Mastercard funded paper by Boston Consultant Group earlier this year, they argue that electronic payments are relatively inexpensive for merchants and their customers. The same paper showed that the cost of card payments for small business was four times that of big business.[45]

Figure 23 – BCG, Cost of acceptance by merchant size (in-store use case) – Australia & New Zealand.



[45] Boston Consulting Group, 2024, *The Hidden Cost of Cash and the True Cost of Electronic Payments in Australia, Europe, New Zealand and the UK,* p.10: https://www.linkedin.com/posts/jean-dobbeni-bb03259_hidden-cost-of-cash-and-true-cost-of-electronic-activity-7234557841657786369-lSCl/

Banks have for many years sought to penalise and disincentivise customers from accessing their own cash by imposing fees at ATMs and bank branches.

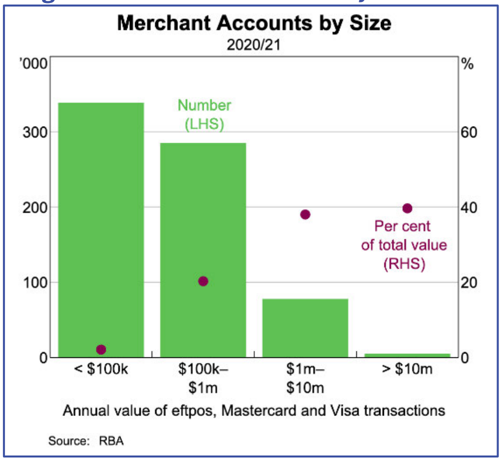
In December 2024, CBA paused a decision to charge its customers a $3 fee for cash withdrawals at branches, post offices and over the phone,[46] but paused the decision following public outcry.

Collective bargaining

Around 60% of card transactions in Australia are made at small businesses but they currently have little ability to compel schemes or banks to the table for collective bargaining to achieve better rates.

The disparity between the cost of card payments for small business compared to a select few large businesses is significant. The average cost for small business is three times higher.

Figure 24 – Merchant Accounts by Size 2020/21



Under these circumstances and the ubiquity of card payments as an essential utility service to run a business, small business should have the ability to collectively bargain for better rates.

The disparity in pricing between small and large businesses is largely a consequence of three issues:

1. Too much room within current regulation to allow for significant price fluctuations based on market power
2. The ability of schemes to set the rules on strategic rate pricing, largely based on volume
3. No mechanism to compel banks or schemes to the bargaining table

Although the ACCC with their approval allows for collective bargaining for small business under the small business collective bargaining guidelines, there are currently no provisions in which targets can be compelled to negotiate.[47] Given the current payments landscape, we believe there is a need for a provision to compel the schemes and banks to meet with bargaining groups if the disparity in pricing is to be reduced.

New debit card replacements

In a rapidly changing payments market, we will continue to see new technologies and business models emerge that provide potential replacements to cash and debit cards over time.

In the case of debit payments, regulations must ensure these emerging payment types are fit for purpose, secure, and low cost for both merchants and consumers.

[46] https://www.abc.net.au/news/2024-12-04/commonwealth-bank-cash-withdrawal-fee-decision-changes/104683232

[47] https://www.accc.gov.au/about-us/publications/small-business-collective-bargaining-guidelines

The RBA should consistently regulate all electronic retail and consumer payment systems and participants to ensure a level playing field and the best outcomes for competition.

For example, some industry participants are developing various iterations of retail account-to-account (A2A) payments. While this is still a long way off at any scale, regulators should ensure that appropriate regulation is put in place to control costs. The same policy principles must apply to any payment method through any channel using any platform.

It is worth noting that PayTo was not designed to be a PoS solution for one off payments. Rather it is a solution to replace BECS specifically direct debit.

While A2A payments are being heralded by some as a "free" alternative to debit cards at point of sale, there are several issues with this proposition:

- Form factor. There are 47 million debit cards in Australia which will need to be dislodged in order for A2A payments at PoS via NPP to be viable alternative
- Digital wallets make up around 39% of PoS payments but do not currently use A2A payments
- QR codes are the only available alternative to cards for A2A and do not have consumer take up as a payment method in Australia.
- A2A via NPP is not free. According to AP+ website, NPP transactions are made on a cost recovery basis. This will move to a cost per transaction basis with the simplest of payments (Osko SCT) having a 2-cent interchange for both payer and payee. Unless merchants or PSP's choose to absorb this fee and other processing fees then A2A will not be able to be a free service.[48]
- Speed of transactions. eftpos can run at speeds in excess of 1000 transactions per second (TPS) however it is usually quoted at numbers well below this (400TPS). NPP has a network-based infrastructure and can only run as fast as its slowest member. All participants would need to considerably upgrade their capability in order to be a viable alternative to eftpos.
- Unlike cards, A2A via NPP is currently a "no chargeback" payment solution effectively removing consumer protections by way of disputes and chargeback processes offered by card schemes and passing risk directly back to the consumer.

Recognise debit as the new cash

For most Australians, debit cards are the new cash and fees should be low.

According to the Reserve Bank,[49] cash is only used for 13% of transactions in Australia. Cash payments represent just 6% of the value of point-of-sale (POS) transactions in Australia, according to a global report by the US-based financial technology company FIS.[50]

As such, debit card payments have become the new cash for the vast majority of Australians as a means of accessing their own money at small businesses.
This is the only reality that Millennials and Gen Z have ever known, and with high cost of living,

[48] Australian Payments Plus, 'NPP Wholesale Pricing,' https://www.auspayplus.com.au/brands/nppa-fees-and-pricing
[49] RBA, Consumer Payment Behaviour in Australia, June 2023.
[50] Worldpay, *The Global Payments Report*, https://www.worldpay.com/en/global-payments-report

they are already struggling to buy a house or pay the rent. These generations should not be forced to cross subsidise other payment types, such as premium credit.

Phenomenal growth in debit usage has come about as a direct result of deliberate strategies by the payments industry to make debit payments ubiquitous and move towards a cashless society.

Banks now have an obligation to provide these services at the lowest possible price as an important part of their social licence – the cost of doing business.

Recent statements by the industry about the high cost of cash and the relatively low cost of providing electronic payments supports this position.

The case for stronger, enforceable, published regulation

Regulation is essential for the proper functioning of society and the economy. When effective, it provides clarity for participants in any industry and avoids misinterpretation of regulatory intent.

The payment industry's poor performance over Least Cost Routing and debit pricing, are just two examples that demonstrate market failures in payments, and failures in industry self-regulation.

IPF submit that if formal regulation that supports efficiency of the payments system and helps business understand its obligations, should be implemented and enforced.

Prepare to regulate more systems and players in retail payments - A2A, mobile wallets, BNPL and AMEX

The RBA recognises that there are other payments issues that have implications for the safety, efficiency and competitiveness of the payments system, and has flagged that subsequent phases of the payments Review will focus on a range of issues in the

broader payments ecosystem, including issues that would be better addressed after the passage of proposed amendments to the *Payment Systems (Regulation) Act 1998* currently before the Australian Parliament.

We urge the RBA to do everything it can to prepare to swiftly establish rules to apply to all players in retail payments including mobile wallet providers, buy now, pay later products, ‘three-party’ card schemes, such as American Express, Diners Club and Account-to-Account payments.

Conclusion

Australians make 15.3 billion card payments a year, as we quickly move away from cash.

The rapid shift to electronic payments in Australia has been led by "cash replacement" positioning from the payments industry which has been allowed to continue without adoption of appropriate mechanisms to reduce costs and improve efficiencies.

As such, Australia is a world-leader in the take up of electronic payments, but massive increases in the volume of card transactions have not resulted in the fee reductions you would expect to see with this critical mass, particularly for small businesses, despite previous regulatory intervention on interchange.

Australians urgently need a regulatory response that:

- Dramatically reduces the $6.4 billion we currently pay annually in card fees,
- Levels the playing field by reducing the massive gap between fees paid by small business compared to big business, and
- Provides true transparency to merchants about the fees they are being charged.

The massive fee disparity between big and small business becomes even more extreme when you consider big businesses are receiving additional fee benefits such as significant reverse interchange on cash out and scheme fee rebates that simply are not available to small business.

These issues must be addressed in full before any move to ban surcharging on debit cards can be considered for small businesses.

In our submission, IPF provides recommendations that support efficiency and competition to combat continuing market failures in areas such as least cost routing and debit pricing.

World-leading regulation to support world-leading electronic payments usage in Australia will support competition, efficiency of the payments system and help business understand its obligations.

Replacing cash with electronic payments is a significant economic and societal shift. To maintain public trust and fulfil their social obligations, the payments industry must provide equitable and cost-effective payment solutions, demonstrating their commitment to serving all members of society.

For further information about IPF's submission please contact Warwick Ponder, 0408 410 593, warwick@IPForum.com.au, or Bradford Kelly brad@IPForum.com.au, 0411 816 150.

Sincerely,

Warwick Ponder   Brad Kelly

Warwick Ponder
Cofounder, IPF

Bradford Kelly
Cofounder, IPF

Appendix 1

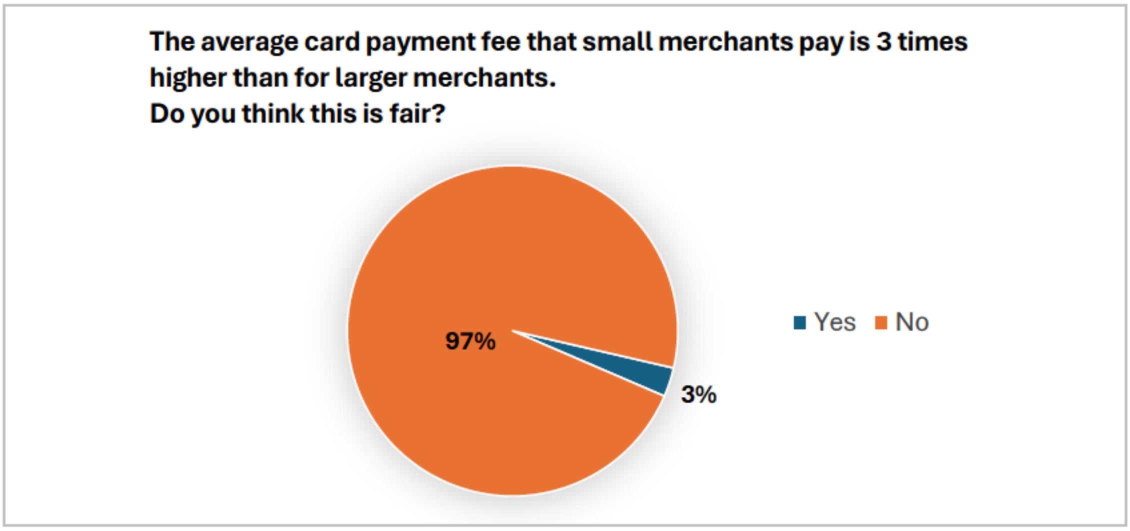
Findings from the Independent Payments Forum Merchant Fees & Surcharging Survey

Conducted November & December 2024 via Google Forms

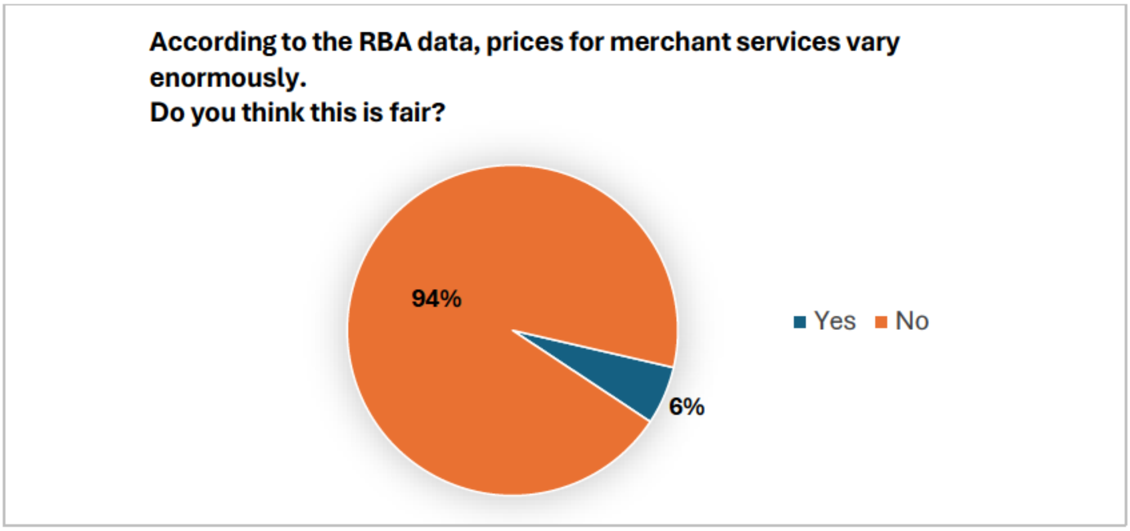
Sample size: 176 respondents from forum participants memberships
Merchant types: retail, newsagency/lotteries, post office, hospitality

Survey summary

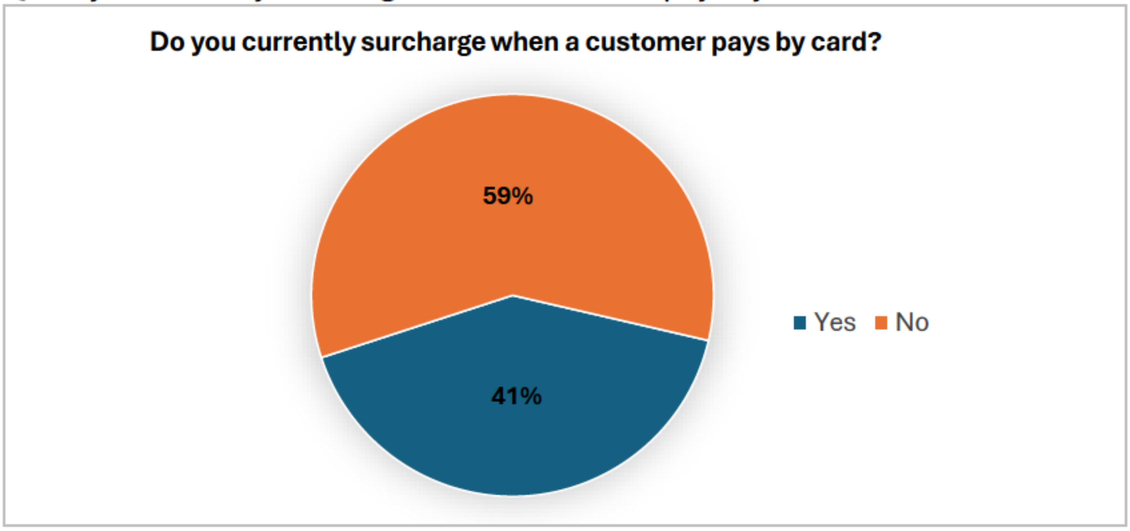
Q: The average card payment fee that small merchants pay is 3 times higher than for larger merchants. Do you think this is fair? Yes/No



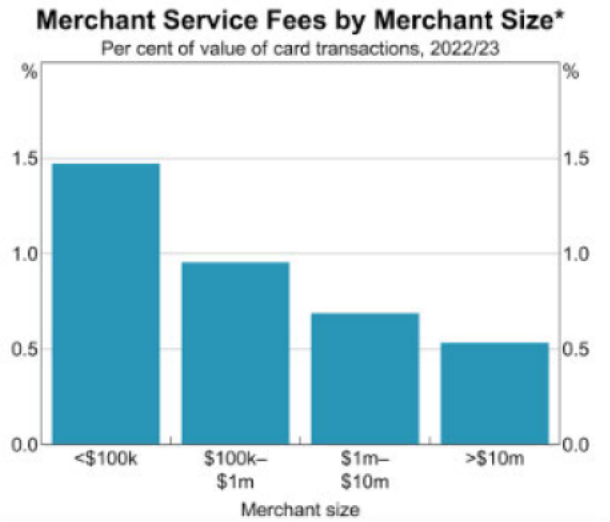
Q: According to the RBA data, prices for merchant services vary enormously. Do you think this is fair? Yes/No

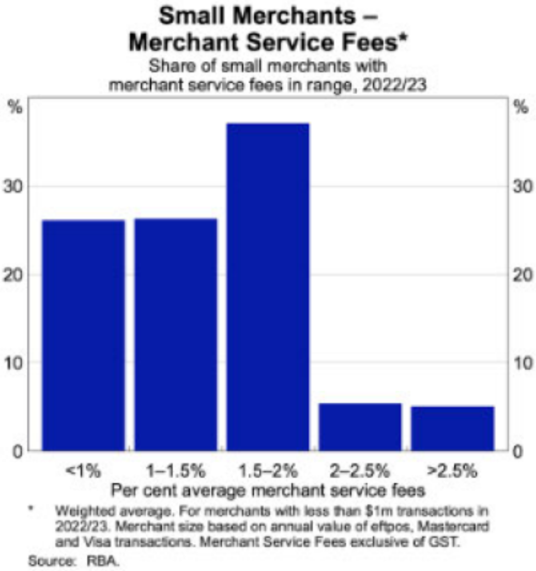


Q: Do you currently surcharge when a customer pays by card? Yes/No

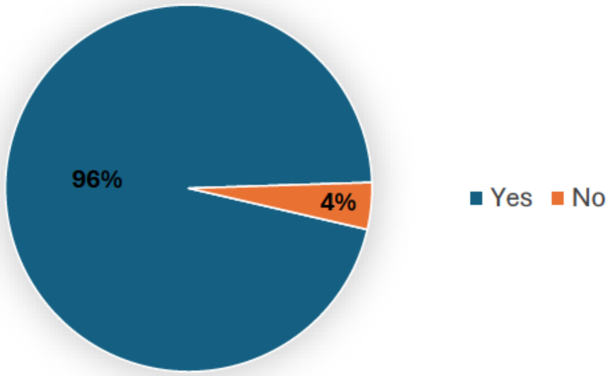


Q: Given the price disparity shown in the graphs below, do you think small businesses should have the right to surcharge the cost of acceptance? Yes/No



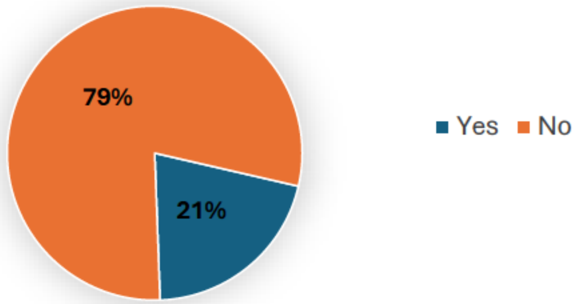


Given the price disparity shown in the graphs below, do you think small businesses should have the right to surcharge the cost of acceptance?

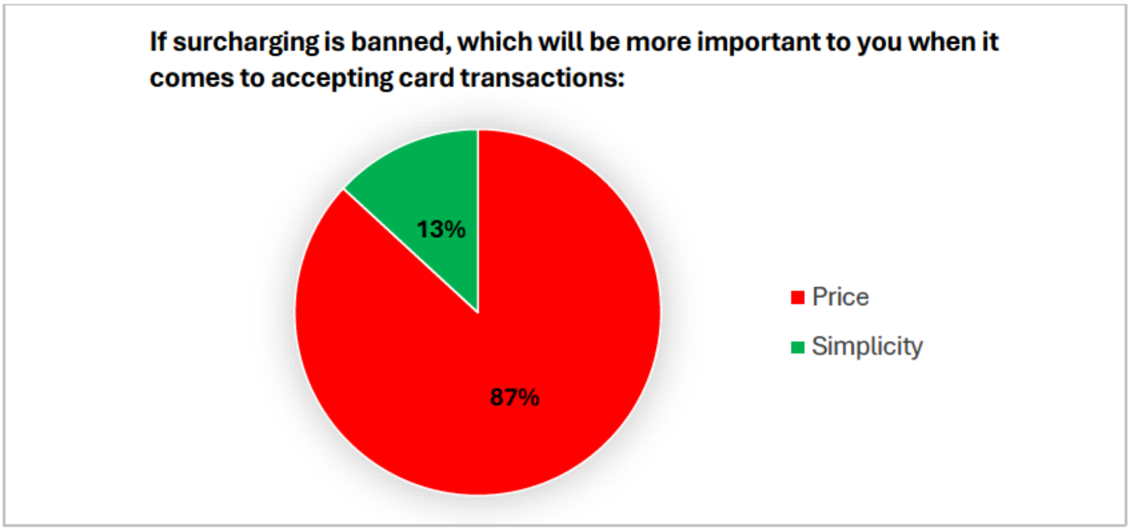


Q: Many banks and terminal providers blend card fees in a simple rate for both debit and credit cards, making it simpler but more expensive to accept debit cards which make up the majority of card transactions in Australia. Do you agree with this? Yes/No

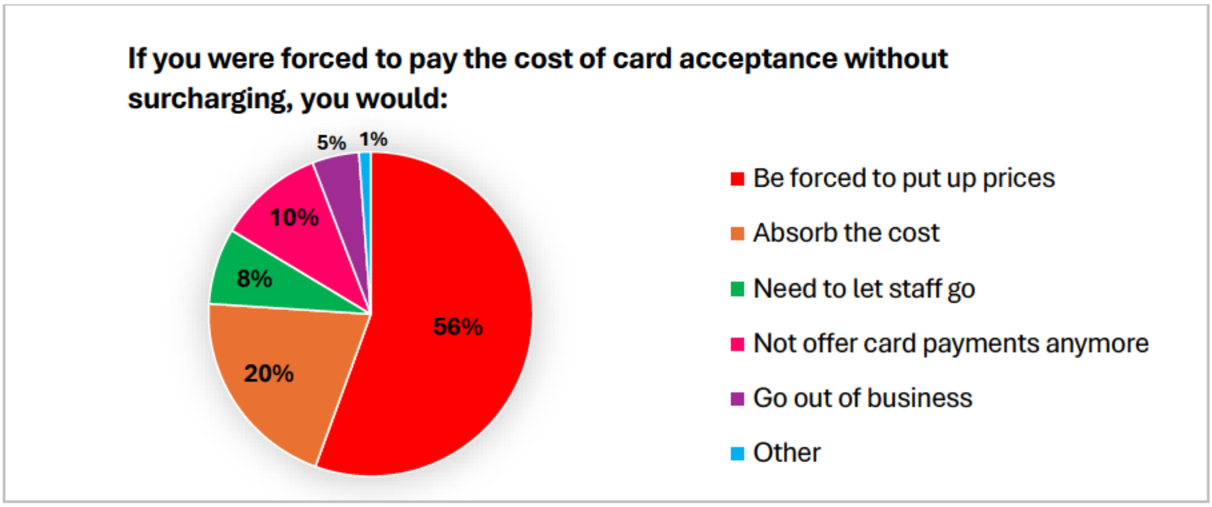
Many banks and terminal providers blend card fees in a simple rate for both debit and credit cards, making it simpler but more expensive to accept debit cards which make up the majority of card transactions in Australia. Do you agree with this?



Q: If surcharging is banned, which will be more important to you when it comes to accepting card transactions price or simplicity?



Q: If you were forced to pay the cost of card acceptance without surcharging, you would:



Responses in the other category included: Look into PayID and have a minimum spend before allowing card payments.

Q: What are your thoughts on the impact of the possible ban on surcharges to your business? Some responses included:

"Being a newsagent it would be very difficult as we would have to absorb the cost. It will become an expense to the business."

"Bank card charges have a large impact on my business . The banks should not be allowed to charge business for customers choosing to pay in the way banks want them to pay."

"Small businesses will slowly disappear, so hard to survive with all the fees and charges."

"Banks should let us know if it is a debit card or credit card on our eftpos screen so we can choose to charge a fee or not. Just looking at the type of card be swiped is not always correct as credit cards can be linked to debit cards and also we are getting a lot of payment by phone and watches so we can't see what type of card is being debited until after the transaction is processed. Banks need to be more forthright with us."

“Banks are reducing staff and cutting cost by using retailers to do their work. If everyone withdrew their savings from the banks, the banks would be in trouble because they need those savings to lend against. Banks are getting too greedy and we are being made to pay for it. Retailers have been blindsided by the banks.”

“Very angry and disheartened, it is penalising small business even more.”

“Having to absorb the cost. Charges vary according to the bank, the service provider (Visa or MC) and which account the customer chooses to use. Why should we have to bear the cost of those choices? The only benefit to the retailer is the fact that payment received by card go[es] straight into our bank, we don't have to count it nor service the provision of change. However, if we are no longer allowed to pass these costs on, the charge to small businesses should be the same as for large retailers.”

“Banks should not charge card fees to retailers. the banks are saving on staff etc for customers not dealing in cash and are making $ from interest on credit cards. Banks don’t charge a customer to withdraw cash at the bank why should they charge the retailer for the customer using a debit card. Banks make obscene profits partially at the expense of small business owners.”

“It is unfair to small business as we are most vulnerable as we do not have scale and cost advantage competing with corporation likes Coles or Woolworths. Our profit margin is very thin to be able to absorb cost of card acceptance.”

“If the exorbitant merchant charges aren’t banned concurrently, public customers lose transparency on why retailers charge what they do! Prices would have to be raised on everything. This penalises everyone – unfairly.”

“Detrimental to our business just as competition from large stores is monopolising everything.”

“Surcharging is frowned upon by customers to the point where they boycott small businesses for charging them. However merchant fees are heavily impacting our cost of business. We need an answer that is acceptable and implemented by all parties everywhere, not just small businesses.”

“Small business is once again made to accept and be punished for trying to survive. Without small business, all the larger companies/businesses would become even more greedy and would have a monopoly on all things related in business and the consumer would be the one that would lose out.”