3 December 2024

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

By e-mail: pysubmissions@rba.gov.au

Dear Sir / Madam

Ingenico Submission to RBA - Review of Merchant Card Payment Costs and Surcharging

Executive Summary

As a leading provider of payment technology solutions, Ingenico welcomes the opportunity to share our technical expertise and implementation insights to help inform the RBA's review. Our response draws on our extensive experience providing POS infrastructure, payment terminals, software solutions, and integrated payment systems across Australia and globally.

Our submission focusses on technical implementation considerations, infrastructure requirements, and industry trends that may help inform policy development.

Question 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?

From a technical implementation perspective, any changes to interchange structures would require:

- Terminal software updates to handle new fee calculations.
- Enhanced processing capabilities for real-time fee reporting.
- Modified reconciliation processes.
- Updated certification requirements.
- Implementation timeframe of 12-18 months.

It is important to recognise that merchant service fees (including interchange fees) are a cost of doing business. All costs of doing business are passed onto the end customer one way or another. A business will either increase the price of goods or services to cover their costs or pass the costs directly on the customer as a surcharge. Surcharging allows businesses to pass the cost of accepting payments directly to the consumer. Merchants with greater transaction volumes will have greater bargaining power with transaction fees than the merchants with lesser transaction volumes.

Additionally, the difference between fees paid by small and large businesses is not just an effect of size. It is also an effect of convenient payment product and packing products such as hardware into the payment price. Many PSPs offer Small to Medium Businesses (SMBs) a bundled price. This price is a per transaction fee but also includes terminal rental, hardware services, support solutions and even Point of Sale (POS) software licence fees. Small merchants traditionally look for an off-the-shelf product and larger merchants want to have every cost broken down, compared, analysed and forecasted into the future.

We observe that merchants of different sizes typically have varying technical needs and integration requirements. Small merchants generally prefer bundled solutions that combine hardware, software and support services in a single package. This allows them to avoid complex integration work and receive streamlined support. In contrast, larger merchants often require detailed cost breakdowns and customised integrations with their existing business systems. These different needs drive natural variation in technical implementation costs.

Question 2: Should interchange regulation be extended to foreign card transactions in Australia?

Technical considerations for foreign card transaction processing include:

- Additional processing requirements for currency conversion.
- Enhanced security protocols for international transactions.
- Modified reconciliation processes.
- Integration with Dynamic Currency Conversion (DCC) systems.
- Customised reporting requirements.

The reconciliation process for foreign transactions is also more complex, as it must account for currency conversion rates and multiple settlement timeframes. Any changes to foreign transaction regulation would need to consider these technical requirements and allow sufficient time for system modifications.

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

The RBA Consultation Paper at page 7 provides "*The cost of card payments is often opaque and difficult to understand.*" This is entirely accurate, however surcharging is not the only factor. There is a myriad of ways PSPs price merchant services.

There are many pricing options available in the market. We provide examples below:

1. **Interchange plus** = Interchange + Margin (Acquirer Margin and Scheme Fees). Generally seen as a percentage.
2. **Interchange plus plus** = Interchange + Scheme Fees + Acquirer Margin. Generally seen as a percentage.
3. **Blended fee percentage of transaction** = Margin % (Interchange + Scheme Fee + Acquirer Margin)
4. **Blended fee flat** = Margin $ (Interchange + Scheme Fee + Acquirer Margin)
5. **Percentage and flat fee** = Margin % + Margin $ = (Interchange + Scheme Fee + Acquirer Margin)
6. **Pricing per card type** = Margin % or Margin $ based on card type presented
7. **Pricing per transaction value** = Margin % or Margin $ based on transaction value

It means that the merchants can choose the one that best fits their needs. Larger merchants generally want each line item broken down and transparent and smaller merchants don't want the same level of detail.

Enhancing fee transparency would require significant changes to how payment information is captured, processed and displayed. Current terminal systems are designed around existing fee structures. Making fees more transparent would necessitate updates to terminal displays, receipt formatting, and reporting systems. This would need to be done while maintaining system performance and reliability.

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

No comment.

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

It is important to remember that scheme fees are charged to the PSP. Scheme fees are not charged directly to the merchant.

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

No comment.

Question 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?

The current payment ecosystem supports several routing approaches, each with distinct technical requirements and implications. These include:

1. **Customer Choice Routing -** default setting for the majority of merchants. It is based on the consumer presenting a dual scheme card (Visa and eftpos Australia or MasterCard and eftpos Australia) and deciding to insert the card and choose credit or eftpos Australia or deciding to tap the card which then defaults to the merchant settings (generally credit).
2. **Digital wallet** – plays a role in Customer Choice Routing. Most consumers are not aware that they can choose to default the card saved in their digital wallet to credit or eftpos Australia. We observe that consumer cards are generally defaulted to credit. As such, most digital wallet transactions are hardcoded with customer choice routing to credit.
3. **Merchant Choice Routing -** where the merchant makes a choice as to the default network for dual scheme cards. Which one the merchant decides to use should depend on their card mix, transaction amounts and average transaction value. If a merchant makes this choice without analysis, they may end up paying more per transaction.
4. **Strategic Merchant Rates** – where a scheme (Visa, Mastercard, etc.) have entered into commercial arrangements with merchants for transactions rates. As a result, the merchant's decision where to send most of their transactions is already fixed. For example, if a merchant has a favourable rate from eftpos Australia, then the merchant will route the majority of transactions to eftpos Australia. Likewise, if the merchant has entered into a commercial arrangement with either Visa or MasterCard, then the merchant will route most transactions to these schemes respectively.
5. **Least Cost Routing (fixed) -** a merchant may be working with an acquirer which allows that merchant to attribute a cost per transaction per card type. For example, MasterCard Credit, MasterCard Debit, Visa Credit, Visa Debit and eftpos Australia transactions all have a different fee applied to them. This could be driven by the merchant, particularly if the merchant decides to apply surcharging or it may be driven by the acquirer.
6. **Least Cost Routing (dynamic) -** this is determined by the card type presented and the transaction value. Expressed a different way, dynamic LCR ensures a transaction is routed to credit or debit based on the (actual) least cost route of the transaction.

Based on our implementation experience, any significant changes to routing requirements would need a comprehensive approach to:

- Technical specification development to ensure consistent implementation across the ecosystem.
- Terminal software modifications to support new routing rules.
- Enhanced processing capabilities to handle routing decisions.
- Updated certification requirements to maintain system integrity.
- Modified reconciliation processes to support accurate settlement.

Question 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?

No comment.

Question 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?

No comment.

Question 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)?

No comment.

Question 11: What other regulatory measures should the RBA consider to improve competition between PSPs?

No comment.

Question 12: Is there a case for revising the RBA' 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?

From a technical perspective, surcharging implementation involves multiple interconnected systems and processes. Current terminal infrastructure supports various surcharging models, from simple flat-rate approaches to more complex percentage-based calculations. Any modifications to surcharging rules would require careful consideration of how these systems interact.

The technical complexity of surcharge calculation and display varies significantly across merchant segments. For example, hospitality merchants often require integration with table management and ordering systems, while retail merchants need integration with inventory and point-of-sale systems. These varying requirements influence how surcharging changes could be implemented effectively.

Question 13: What are the implications for merchant payment cost from changes to the surcharging framework? Could the RBA address these with other regulatory actions?

No comment.

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

No comment.

Question 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 the paper?

The payments ecosystem is experiencing several important technological shifts that warrant careful consideration:

<u>Terminal technology evolution</u>

The industry is seeing increasing adoption of software-based payment solutions running on standard mobile devices (BYOD and SoftPOS). While these solutions offer convenience and cost benefits, they introduce new security considerations. Traditional payment terminals incorporate specialised security hardware and software that may not be fully replicated in software-only solutions. This has implications for transaction security, fraud prevention, and PCI DSS compliance.

Integration trends

We observe growing demand for tight integration between payment systems and business management software, particularly in retail and hospitality sectors. This integration allows for improved reconciliation and business insights but increases technical complexity and security considerations. Any regulatory changes should consider the impact on these integrated systems.

Industry-specific requirements

Different industry sectors have distinct technical needs, for example:

- Hospitality requires rapid transaction processing and integration with ordering systems.
- Retail needs high-volume processing capability and inventory system integration.
- Travel industry requires sophisticated refund handling and third-party booking integration.

These varying requirements influence how regulatory changes might be implemented across different sectors.

Security considerations

As payment technology evolves, maintaining security becomes increasingly complex. Traditional terminals provide a controlled environment with industry best practice security features. As the industry moves toward more diverse payment solutions, ensuring consistent security standards becomes more challenging. This includes considerations around transaction encryption, card data protection, and fraud prevention.

Conclusion

Ingenico is committed to supporting the evolution of Australia's payments ecosystem through technical expertise and implementation support. As the industry considers potential regulatory changes, careful attention to technical implementation requirements and security considerations will be crucial for successful outcomes.

We welcome the opportunity to provide additional technical input or clarification on any aspects of this submission. Please contact me (Jonathan.VONHAGEN@ingenico.com) if you have any questions related to this submission.

Yours sincerely

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