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By Email: pysubmissions@rba.gov.au

IATA Submission: Merchant Card Payment Costs and Surcharging

Dear Mr. Connolly,

The International Air Transport Association (IATA) is the trade association for the world's airlines, representing some 330 airlines and 80% of global air traffic. Our representation includes, Qantas, Virgin Australia and Link Airways, and most international airlines operating to and from Australia. We support many areas of aviation activity and help formulate industry policy on critical aviation issues.

Aviation is a vital enabler for the Australian economy. It connects Australians across its vast geographical landscape and links them to the rest of the world, facilitating trade and ensuring efficient connectivity. It is therefore important that when Australians purchase airline tickets, the process is cost effective, transparent and, most importantly, secure.

Forming part of IATA's core activities is the Billing and Settlement Plan (BSP). It is supported by applicable Settlement and Accounting Standards used by the industry to report and transact airlines ticket sales designed to facilitate and simplify financial transactions between travel agents and airlines. In 2023, the BSP facilitated over AUD 19 billion gross in airline ticket transactions from travel agents to airlines in Australia. Of these transactions, approximately 35% used card as a form of payment.

IATA therefore appreciates the opportunity in providing a response to the Reserve Bank of Australia (RBA) *Merchant Card Payment Costs and Surcharging Issues paper.* Payment cards and alternative forms of payments form a crucial role for consumers when purchasing air travel as they offer a convenient and secure method for booking flights, receiving travel benefits and enhanced financial control of the travel spend.

IATA thus believes the review of the current policy framework governing card payment cost and surcharging is important. Its goal should be to enhance and broaden the use of a greater variety of payment methods that will improve competition, increase transparency, reporting and cost allocation based on an effective and fair compliance mechanism being established.

Furthermore, with its Modern Airline Retailing programme, IATA and its member airlines have embarked on a journey of exploring how new technologies, processes and standards can facilitate a transformation to true customer centricity. By prioritising flexibility and meeting passenger payment preferences, airlines can contribute to an enhanced customer and cost-efficient experience at every touchpoint during booking and the actual journey.

IATA member airlines understand and acknowledge the importance of easy-to-use payment methods to achieve the best outcomes for airlines and customers alike. Through easier-to-use payment methods, airlines reduce cart abandonment rates, and strengthen their brand reputation, while customers enjoy ahassle-free payment experience, which enhances their overall satisfaction and loyalty in a cost-efficient manner.

Whilst we have provided our recommendations to the consultation in Annex A of this document, IATA believes that beyond this review more industry consultation is needed and encourages the RBA to engage further with airlines and other industry stakeholders before any changes to the existing regulatory framework is decided.

IATA together with its members are committed to this review and remain at the disposal of the RBA for any further support and clarification as needed.

For further queries, please do not hesitate to contact me directly at zanarinim@iata.org.

Yours sincerely,

Matteo ZANARINI
Area Manager South West Pacific

Cc: Christophe Kato, Head, Payment Services - IATA
Winnifred (Winni) Yoong, Regional Director, Distribution and Payment Financial Settlement and Distribution Service - IATA ASPAC

Annex A

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?**

IATA recommends that no artificial distinction be made between small and large businesses, and is in favor of a unique methodology that is acceptable and bearable for all merchants irrespective of their size.

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

Foreign card transactions should prioritize the enhancement of more secure practices such as chip and PIN for CP transactions or 3D Secure for online transactions. As an example, this has not been the case when card schemes offered self-capping in the European Union[1], which was set without any public explanation at five times the regulatory cap for consumer credit cards (0.3%).

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

IATA encourages the RBA to review the use of the complex matrix of interchange published by the card schemes (up to 55 lines for Mastercard[2] or 10 pages for Visa[3], and only for domestic transactions, not including the cross-border ones) as it makes it impossible to reasonably identify the deductions that merchants will incur.

In principle the interchange methodology should consider:

- Be open and transparent, and explicitly state when it is designed to encourage the continuous improvement in transaction quality and security for the 2 end users, the cardholder, and the merchant.
- Ensure that the acquirer can provide the merchant a clear and detailed breakdown of what they arecharged for.

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

IATA believes that the RBA should ensure that card scheme pricing and invoicing by acquirers to merchants is clear and that it provides a detailed breakdown of what has been charged and paid for, so that a regular person may reasonably identify the deductions that merchants will incur.

The current complexity has also been highlighted in other financial jurisdictions such as the UK Payment Systems Regulator (PSR)[4] noting in para 1.4 p 4 of its May 2024 report that *Mastercard and Visa do not always provide high-quality information-sharing services to acquirers. As a result, acquirers sometimes receive complex or incomplete information on scheme and processing services and fees, which can affect merchants.*

The same principles in providing clarity and transparency should apply equally to scheme fees and to interchange fees.

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

IATA notes that the RBA findings appear to be consistent with observations made in other jurisdictions, such as the UK PSR that states in para 1.4 p 4 that:

" The overall fee levels charged to acquirers by Mastercard and Visa over the past five years have increased by more than 30% in real terms, with evidence pointing towards fees being increased with little or no link to changes in service quality"' and

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[1] **https://ec.europa.eu/commission/presscorner/detail/el/ip_19_2311**: ***For online payments ("Card Not Present Transactions"): 1.15% of the value of the transaction for debit cards; 1.50% of the value of the transaction for credit cards.***

[2] https://www.mastercard.com.au/en-au/business/overview/support/interchange.html

[3] https://www.visa.com.au/about-visa/interchange.html#4

[4] https://www.psr.org.uk/media/pcvem3uq/interim-report-market-review-of-scheme-and-processing-fees-may-2024-publication.pdf

" The evidence we have gathered is consistent with a finding that Mastercard's and Visa's margins are higher than would be expected in competitive market"

Fees should be based on the principle of 'user pays' and clearly identify the service that the payer receives in return.

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

The RBA should consider alternate forms of payments and how to encourage faster adoption of the Pay2 model within the banking sector, to foster greater use of instant bank transfer.

Also, encourage the RBA to explore a more in-depth examination of the different dynamics at play for 'Face to Face' (F2F) transactions and online transactions, and why the Least Cost Routing (LCR) option, which depends on the existence of co-badged cards bearing the brand of two competing card schemes is not as widely proposed for remote payments as it is for in-person payments.

The RBA should consider risks associated with issuers being incentivised to stop co-badging.

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?**

In principle, LCR is not limited to F2F transactions; it should also encompass all remote transactions such as those made by call centres, via the internet and in-app. Assessing the functioning and effectiveness of LCR on such transactions would also require further in-depth analysis on acquirers and Payment Service Providers (PSPs). The analysis should demonstrate the capability to support LCR (preferably in percentage amount) for each transaction channel including in-person and remote sales channels.

A further consideration should be that it is not only the financial institution paying the merchant that must be considered in such assessments, but also the payment service providers that support merchants with gateway and routing services.

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?**

There is indeed a case for greater transparency of fees and wholesale costs in the payment services industry. However, it is important to note that the bulk of the prices paid and recharged to merchants are set by the card schemes through interchange and scheme fees, rather than by the providers of payment services.

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?**

Payment service providers should invoice their fees and then collect them from their merchant clients, similar to the practice for all other service providers, rather than making deductions upfront and settling to the merchants only the net amount of their sales.

As a general practice, the invoice should facilitate the understanding by clearly itemizing each service that is rendered so that the merchants clearly understand what they are being billed for.

IATA recommends that an invoice for payment services to merchants should not be any more complex than an invoice received from any other supplier. This would ensure transparency and help prevent the unreasonable setting of interchange levels and scheme fees.

The RBA should promote simplicity in all aspects of the fees charged to merchants, which also includes consistency in the format and the way data is presented, as this will also assist in comparing offers from different providers of payment services.

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

Yes. Publishing standardized information enhances clarity, prompting more questions about the reasons behind each fee charged to merchants. It also allows for easier comparison of offers, enabling merchants to make informed decisions.

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

No comment is offered.

12. **Is there a case for revising the RBA's surcharging framework? If so, which options or combination of options would best address the current concerns around surcharging? What other options should the RBA consider?**

Surcharging is not a perfect remedy, as it is left to the merchant to bear the burden of addressing a structural imbalance in the card industry's costs and revenue's structure, rather than addressing the root cause of the concerns.

The RBA should separately consider the different card payment markets that exist and operate independently from each other. For example, consumer debit vs. consumer credit, or corporate cards versus consumer cards. As a further illustration, corporate debit cards must not be confused with consumer debit cards but fall under the regulatory approach applying to B2B payment instruments.

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

The right to surcharge is an imperfect measure acting as a deterrent against cost increase and is a cost recovery tool only.

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

The merchant needs to be provided the tools to identify the nature of the card making a payment in order to determine an eventual surcharge that applies and to verify post transaction the fees that were charged. This requires a free and easy access to the necessary card scheme information, presented in a format that is easily understandable.

The RBA should consider measures that can foster competition through alternate forms of payments that will provide more choice to consumers.

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

IATA's recent Global Passenger Survey in 2024 recorded that 25% of respondents under the age of 25 preferred digital payments over credit cards. The RBA therefore must take into consideration the changing trends of the consumer especially for generations to come and ensure that the regulatory system keeps the payment process easy and simple, that it continues to offer payment in installments and promotes competition by attracting new forms of payments to enter the market.

Overall, the card market in Australia is highly regarded and the RBA's implementation of card regulations has allowed consumers broader access to banking and payment services.

Some additional considerations:

- We support the RBA in developing a more transparent mechanism that allows a more equitable balance between issuers and acquirers and encourages investment in safer and more efficient transaction methods, such as chip and PIN, 3D Secure, contactless payments, and biometrics. However, we observe that without restraining mechanisms in the form of regulation and the right to surcharge, this balance may be at risk.

- The possibility of a surcharge is an essential way to overcome the in-built challenge faced by cheaper-to-accept payment instruments that are less rewarding for the payment institution that equips the payer.
- We would like to also draw the attention of the RBA to the push by card schemes to promote the usage of virtual corporate cards for inter-companies' commerce, replacing relatively much more cost-effective methods such as bank transfers[5] [6] [7] [8] . This could result in more expensive card payment costs if allowed to propagate. In some jurisdictions, such virtual cards are even pushed by foreign banks, which reap in a higher profit than domestic banks, from un-regulated cross-border and inter-regional interchange, allowing them to incentivize the corporate payer even more than a domestic bank could do.
- 'End to end network tokenization' concept: whereupon a look-alike number replaces the original card number from the onset of the transaction and therefore hides the original card product conducting the transaction, thus preventing the merchant from understanding with what product it is being paid. This global change is driven by each card scheme, and it threatens to nullify the efforts towards greater transparency discussed in the present questionnaire.

[5] Visa: *Supplier payment: - A company uses virtual cards to streamline accounts payable processes*
[6] Bank of America *Virtual Payables is a global, real-time payment method that streamlines your payments using a digital, single-use card…*

[7] HSBC *Our Virtual Card solutions provide secure payment for goods and services, giving you the ability to use Virtual Card Numbers (VCNs) to settle supplier invoices*
[8] Boost *Offer B2B card payments without borders. Unlock global opportunities and revenue for your U.S.-based card program with Boost 100XB. Enable your customers to use their existing U.S.-issued cards for seamless and affordable payments worldwide.*