6 December 2024

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

By email only: pysubmissions@rba.gov.au

Dear Sir / Madam,

Re: Review of Retail Payments Regulation
Merchant Card Payment Costs and Surcharging

I am writing to you on behalf of Payments Europe, the association of card-based payment solutions providers. Payments Europe members are active in Europe as well as globally, representing card issuers, card acquirers, and card schemes. Our mission is to promote the value that card-based payments bring to the economy and society. We strive for a vibrant, competitive, safe, and consumer-centric payments market, supported by a balanced regulatory framework.

Our members include card issuers whose scheme cards are used internationally and can be used to pay merchants in Australia. Some of our members also issue domestic scheme cards in Australia. The proposals on which the Reserve Bank of Australia (RBA) is consulting would have a direct impact on our members and we thank you for the opportunity to provide input on such an important matter and contribute to improving efficiency and competitiveness of Australia's payment system.

We are open to further engaging with the RBA and other stakeholders to inform your work and to ensure any review of card fees is based on evidence from the whole spectrum of stakeholders, including the cards industry.

Generally, interchange fees are a crucial component of our modern payment system. They incentivize innovation, enhance security, and ensure reliable payment processing. By striking the right balance, we can foster a thriving ecosystem where new players can enter the market, and merchants can confidently adopt digital payments. This equilibrium will ultimately benefit consumers and businesses by offering more choices, greater convenience, and enhanced protection.

More specifically, we believe:

- In relation to further regulatory intervention in interchange:-
    - Australia already imposes an interchange cap on credit cards and debit cards and in the absence of any market failure, no further regulatory intervention is necessary.
    - Interchange fees are essential to a healthy payment ecosystem. They should not be seen as a mere cost to be minimized to the lowest possible rate, but rather as a mechanism that balances the interests of all participants in the payment ecosystem. These fees enable issuers to provide valuable services to cardholders as well as investment in innovative technologies requested by the cardholders, e.g. tokenization and digital wallets. This in turn benefits merchants by stimulating sales. Without them, merchants might face fewer sales or have to resort to more expensive payment options (such as international bank transfers) or accept more payment options (which increases reconciliation costs and efforts). Additionally,

    interchange fees drive innovation and support crucial services like fraud prevention.
  - Interchange is also essential for the Fintech industry to compete with Banks, and therefore greater gaps risks stifling innovation.
  - You may be interested to read this report commissioned by Payments Europe on "The True Value of Cards" which we published in 2023. Carrying out a similar market review of merchants in Australia may be beneficial in informing any regulatory proposals you consider making following feedback received under this consultation process.
- It is important to distinguish between commercial cards and consumer cards, which are currently treated the same under Australian interchange requirements, whereas these card types offer vastly different value propositions:-
  - We note that the interchange caps of 0.2% for debit cards and 0.3% for credit cards referred to in the Issues Paper for Europe and the UK only apply to consumer cards and not commercial cards. Commercial cards are not subject to interchange caps in Europe and the UK.
- In relation to any further regulatory intervention on commercial credit cards (an area which would particularly impact our members):-
  - Commercial credit cards offer unique advantages to businesses, including credit access, risk management tools, and purchasing power. While many countries, particularly within the European Union, have capped interchange fees for consumer debit and consumer credit cards (an historic intervention that is increasingly questioned due to the evolution of the market), commercial cards have been excluded due to their distinct nature. Imposing caps on commercial card interchange fees could have negative consequences, such as reduced investment in card products, decreased competition among issuers, and limited business choice. Moreover, commercial cards often involve higher transaction values and complex risk profiles, justifying higher interchange fees.
  - Commercial card pricing structures, including higher interchange fees, are also justified by the value added services provided to both cardholders and merchants. This includes services like expense management, fraud protection and reconciliation/reporting benefits.
  - Commercial credit cards are particularly beneficial for small and medium-sized enterprises (SMEs) as they can provide a cost-effective financing solution. Higher interchange fees can incentivize issuers to offer cards to underserved SMEs.
  - Further caps on the interchange fees for commercial cards would also benefit the closed loop/3 party schemes. The closed loop/3-party model does not involve interchange fees, but are more expensive to accept and are already growing in market share compared to the 4-party business model the interchange fees apply to. The competition between the two commercial card models is essential for the vibrancy of the payments market as other alternatives to commercial cards- e.g. invoice processes and bank transfers are more onerous and costly and inefficient.
- In relation to your considerations around capping international card payments (another area that would particularly impact our members):-
  - Foreign-issued card interchange rates should not be capped at the same levels as domestic transactions (as per the EU approach). This is because foreign-issued cards carry increased risk for issuers in relation to cross-border payments, as well as higher transaction processing costs. Such characteristics provide compelling rationale for permitting higher interchange on foreign-issued cards.
  - It is worth noting the widespread criticism of the UK's proposed approach to cap EU online consumer card payments to domestic rates. Importantly, non-EU foreign-issued cards and both EU and non-EU foreign-issued commercial cards are not subject to any cap under this proposal.
  - European Inter-regional interchange caps referenced by the Issues Paper for Europe apply to consumer cards and not commercial cards and are based on scheme commitments rather than regulation.
  - Payments have become a key enabler of the digital economy and can help boost productivity

that is crucial for resolving the current cost of living crisis. Merchants and consumers are increasingly adopting digital payments, a trend which has accelerated in recent years and is contributing to the growth in physical and e-commerce and beyond. Making cross-border and remote payments is a necessity for businesses and consumers as digitalisation and e-commerce growth continue. Specifically, our members note that ease of acceptance of foreign issued cards help the tourism industry.
    - In specific markets, international card Schemes promote card acceptance and usage by collecting funds across the payment ecosystem which will be reinvested to promote targeted innovations to the benefit of all players in the payments ecosystem. Example initiatives include marketing, incentives to install POS terminals, and subsidising hardware installation in public transportation.
- In relation to your considerations around a cents-based interchange cap:-
    - Interchange fees for commercial credit cards should be ad valorem, not fixed. This is because higher-value transactions pose greater risks to card issuers. A flat fee for all transactions, regardless of amount, is disproportionate, as a $100 transaction is inherently riskier than a $1 transaction. A percentage-based fee aligns better with the varying levels of risk associated with different transaction values.

Given the potential negative impacts on issuers (in Australia and internationally), it will be prudent to do a detailed impact assessment before considering any regulatory actions. Legislative intervention must also be carefully considered to prevent unintended consequences to the payments value chains generally, including consumers, merchants and the wider economy. For example, the European Commission's impact assessment of the EU Interchange Fee Regulation in 2020 identified several unintended consequences, including slowing of investment in payment product innovation since interchange was capped. This is especially important in times like this, when the Australian government is in the middle of wholesale changes to the Payment Systems Regulation Act and extending the RBA's authority to cover digital wallets. We recommend refraining from introducing further legislative intervention, such as changes to the interchange fee caps, until assessment of market development and competition after these regulatory changes is possible. Otherwise, we risk having unintended consequences, in particular stifling competition, preventing payments firms having enough revenue to pay for the other regulatory compliance – such consequences could drive firms, especially smaller players, out of the market.

The payments landscape is highly competitive and rapidly evolving. New digital solutions are emerging constantly, offering consumers and merchants a wide range of payment options beyond traditional cards. When assessing competition, pricing, and consumer choice, it is essential to consider the broader payment ecosystem rather than focusing solely on card payments.

The RBA's goals of financial stability, efficient payment systems, and fair competition are commendable. However, capping interchange fees could inadvertently stifle innovation, reduce consumer choice and harm the overall health of the payment ecosystem. A more effective approach would be to prioritize fostering competition and transparency, allowing market forces to drive innovation and efficiency.

By fostering a balanced approach to interchange fees, Australia can ensure a thriving, innovative payment ecosystem that benefits both businesses and consumers. This approach will empower businesses to grow and adapt to changing market conditions, while providing consumers and businesses with a diverse range of payment options and greater convenience.

Yours sincerely,

PAYMENTS EUROPE