3 December 2024

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

By email: pysubmissions@rba.gov.au

Dear Sir/Madam,

Merchant Card Payment Costs and Surcharging – Tyro Submission

Tyro Payments Limited (**Tyro**) appreciates the opportunity to provide a submission in response to the *Merchant Card Payment Costs and Surcharging Issues Paper* as released by the Reserve Bank of Australia (**RBA**) on 15 October 2024 (**Issues Paper**).

About Tyro

Tyro was established in 2003, following the RBA's request for increased competition in the payments industry. In 2005, Tyro became the first technology company to receive a special credit card institution licence, which was subsequently replaced with an Authorised Deposit-taking Institution licence in 2015 – making Tyro the first new domestic banking licensee in over a decade.

Today, Tyro is the fifth largest merchant acquiring bank in Australia, serving over 73,000 merchants. With a particular focus on the acquiring market for small to medium-sized businesses, we have played a pivotal role in offering an alternative and competitive proposition for this category.

As strong proponents of a robust and secure electronic payments system, we believe that a transparent and fair payment system is vital for the prosperity of Australian businesses. Our response to the Issues Paper balances the needs of merchants with those of Australian consumers and the economy overall.

Our key positions are as follows:

- We support the ability for a merchant to apply a surcharge on transactions where the cardholder benefits from additional protections (such as fraud and chargeback safeguards) or other advantages such as loyalty rewards.
- We propose that the definition of cost of acceptance be refined to exclude all non-payment acceptance services (e.g., Point of Sale software, terminal rental, bundled merchant loyalty).
- We support mandating Least Cost Routing **(LCR)** for all transactions, including those made using mobile wallets.

2.2 INTERCHANGE FEES

QUESTION ONE - 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?

Lowering interchange benchmarks or caps could reduce costs for merchants, benefiting consumers through lower prices. High fees can distort competition by disproportionately benefiting card issuers, and aligning with global trends, such as the EU's lower caps, could enhance fairness and market efficiency.

Large businesses often pay lower interchange fees due to their negotiation power and scale, whilst small businesses bear disproportionately higher costs. Interchange fees are set in a market dominated by a few large players and this limited competition reduces market pressures to keep fees low and equitable. Regulation to equalise interchange fees is reasonable as it would help counterbalance the lack of competition, ensuring fairer outcomes for all businesses.

QUESTION TWO - Should interchange regulation be extended to foreign card transactions in Australia?

We believe that interchange regulation should be extended across foreign card transactions. Foreign card transactions incur far higher acceptance costs than domestic cards. As international card usage continues to recover to pre-pandemic levels, the lack of regulatory action to address the cost disparity could result in further increases in interchange fees, placing additional financial pressure on merchants.

QUESTION THREE - Is there a case for reducing the complexity, and/or enhancing transparency, of interchange fees? If so, how?

We believe there is a strong case for reducing the complexity of interchange fees. The current landscape, which includes numerous categories and intricate rules determining the hierarchy of overlapping interchange categories, leads to confusion for all parties. This complexity creates challenges for both payment service providers and merchants in understanding and managing interchange fees.

A more streamlined approach could be achieved by creating a smaller number of categories, each with its own specific interchange cap. This simplification would enhance the transparency of interchange fees, making it easier for payment service providers and merchants to understand the costs involved.

2.3 SCHEME FEES

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

We believe that there is a case for further transparency of scheme fees. Scheme fees are subject to confidentiality arrangements required by the schemes that prevent disclosure.

Transparency of pricing assists merchants and payment service providers alike, and the publication of fees could provide additional competitive pressure. Providing further information on the services that scheme fees provide could also go some way to increasing overall consumer knowledge of card transactions and therefore the costs involved.

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

Tyro has no comment.

QUESTION SIX - What other regulatory action should the RBA consider to increase the competitive pressure on scheme fees?

Tyro has no comment.

2.4 LEAST COST ROUTING

QUESTION SEVEN - 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?

Tyro was the first Australian bank to implement Least Cost Routing **(LCR)**, achieving this ahead of the House of Representatives Standing Committee on Economics' recommended deadline of 1 April 2018.

We support increased regulatory intervention in this area and recommend that LCR be mandated for all transactions, including those conducted via mobile wallets. We value the RBA's commitment to conducting a further review on this matter and look forward to the opportunity to present our perspectives.

However, the benefits of LCR have not been uniformly experienced by all merchants, particularly those on simple pricing plans. While merchants on cost-plus pricing plans have directly benefited from the cost reductions associated with LCR, those on simple pricing plans have not enjoyed the same advantages.

Tyro has concerns about the impact of transaction routing choices on consumer protections. When merchants and payment service providers make cost-based decisions about transaction routing, the level of consumer protection afforded to individual transactions may vary. As such, there may be a need for enhanced consumer education to ensure that consumers are fully informed about the level of protection associated with different card types.

2.5 TRANSPARENCY OF MERCHANT SERVICE FEES

QUESTION EIGHT - 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?

Tyro is a strong advocate for fee transparency. We believe that merchants should have the ability to easily compare fees across a range of providers. The provision of standardised, templated information would enable merchants to make more informed comparisons of pricing structures and services offered by payment service providers.

While some merchants appreciate the simplicity of a straightforward pricing model, there are numerous single-rate payment plans that include bundled software fees, which are unrelated to the actual cost of payment acceptance. This practice obscures the true cost of payment services. Therefore, greater transparency regarding the underlying costs and services associated with each payment model is essential. Such transparency would allow merchants to make more accurate comparisons of both costs and services, fostering a clearer understanding of the value they are receiving from their payment service providers.

QUESTION NINE - 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?

We believe cost of acceptance, and further detail of transactional and cost per unit information should be provided to merchants to align with billing cycles, via online portals and platforms.

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

Tyro has no comment.

QUESTION ELEVEN - What other regulatory measures should the RBA consider to improve competition between PSPs?

Tyro has no comment.

2.6 SURCHARGING

QUESTION TWELVE - 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?

In circumstances where the cardholder benefits from additional protections (such as fraud and chargeback safeguards) or other advantages such as loyalty rewards, Tyro supports the ability for merchants to determine whether to apply a surcharge. The surcharge amount should be capped at the cost of acceptance.

In this context, we believe that the definition of the cost of acceptance should be restricted solely to the cost of payment processing. The current broad construct of cost of acceptance allows merchants to incorporate additional, loosely defined costs, creating opportunities for exploitation. A more straightforward approach, where the cost of acceptance is limited to payment processing fees, would provide greater clarity and consistency across the industry.

By adopting this view, all Australian merchants would have clear guidelines on the amount they can surcharge if they choose to do so. This simplified definition would reduce the compliance burden on both merchants and the regulators tasked with enforcing these requirements.

QUESTION THIRTEEN - What are the implications for merchant payment costs from changes to the surcharging framework? Could the RBA address these with other regulatory actions?

It is possible that merchants who surcharge are less concerned about the fees charged by the payment service provider, given they can recover these from card holders. Should a ban or cap on surcharging be applied, this may drive increased switching between payment service providers, and further price competition across payment service providers as merchants look to reduce direct costs.

2.7 OTHER REGULATORY OPTIONS AND BROADER IMPLICATIONS

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

Some fully integrated software and payment companies actively penalise merchants by charging an additional transaction fee to merchants who choose not to use a bundled payments service. This practice forces merchants to absorb significant additional cost if they choose to remain with their existing payment service provider and opt not to use the full range of bundled services.

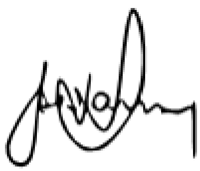
We believe that this behaviour, including the imposition of such egregious penalties, should be prohibited. Merchants should have the flexibility to choose only the services they require without being unfairly penalised or forced into unnecessary cost structures. Banning these practices would help create a more competitive and transparent market, where merchants are not subject to unfair financial pressures when selecting their payment services.

QUESTION FIFTEEN - 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?

Tyro has no comment.

Tyro would welcome the opportunity to participate in further consultations if considered of assistance by the RBA.

Yours sincerely,



Jonathan Davey

CEO | Managing Director