Survival Of The ~~Fittest~~ Biggest –
The Possible Demise of Small Issuers of Payment Cards

Proposed interchange reforms and what they mean for small issuers in Australia

Written by:

The Initiatives Group

On behalf of:

FinTech Australia

Why we are having this discussion now…

Every five years the Reserve Bank of Australia (RBA) undertakes a review of payments system regulation in Australia. **The aim of the review is to ensure that the RBA's objectives of competition, efficiency and safety in the payments system are being met.**

The review allows for multiple rounds of public consultation in the form of written submissions.

The current review commenced with the Merchant Card Payment Costs and Surcharging Issues Paper released in October 2024, with submissions providing feedback from industry stakeholders due in December 2024.[1]

In July 2025, the RBA released its detailed Consultation Paper that took into consideration the earlier submissions, and outlined its reasoning and intent with respect to changes in card-based payments, for implementation in mid-2026. Further public submissions on these proposed RBA regulatory amendments, due 26 August 2025, were invited.

Potential changes to the RBA's purview of the payments system should be recognised…

The Payment Services (Regulation) Act 1998 (PSRA) provides the RBA with the power to regulate payment systems when it is deemed in the public interest. The RBA can "designate" payment systems to ensure they are safe and efficient for participants. As an example, the card-based payment systems of Visa, Mastercard and eftpos are all designated.

The PSRA is currently undergoing reform to expand its scope to include all payment system participants, including Buy Now Pay Later (BNPL) providers and mobile/digital wallets, such as Apple Pay, Google Pay and PayPal. In their current format the reforms have passed the House of Representatives and, at the date of this Whitepaper, are with the Senate.

We raise this here as BNPL and digital wallets introduce new processes, pricing and costs into the payments system that were not contemplated when the PSRA was enacted in 1998 – we presume that, when the reforms are legislated, the RBA will commence consideration of investigations, controls and regulations for these payment systems that may influence the impact of decisions being made within the current review.

But, specifically back to cards…

Yes, cards are used to make payments. However, there are less obvious roles for cards in customer acquisition, retention and providing funding for financial institutions – banks and fintechs alike.

1. **Customer acquisition**: cards have traditionally been a way to attract a new customer.

    - Applying for a credit card is relatively low commitment and does not require the customer to have any other accounts with a financial institution. By often attracting higher value customers, they provide a good platform for cross selling other more profitable products;
    - Debit cards help drive transaction account signup, particularly amongst younger, more risk averse customers – indeed the issuance of a debit card associated with a transaction account would be considered "table stakes" today, along with being able to load it into a digital wallet. Like credit cards, transaction accounts are a good platform to cross sell and build more profitable relationships.

2. **Customer retention** – at their most basic, cards are an advertisement for the bank brand that sits in the customer's wallet. In turn, every time the card is used (and that is a lot), they are a reminder of which financial institution you are using – this is evidenced by statistics published by the RBA that indicate there are over 26 transactions per month for each credit card account[2] and over 40 transactions each month[3] for each debit card holder in Australia.

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[1] Public submissions can be accessed at https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/2025-01/ . Stakeholders were also permitted to make private submissions for the RBA to consider.

[2] MWE Consulting Australian Payment Cards Report, June 2025

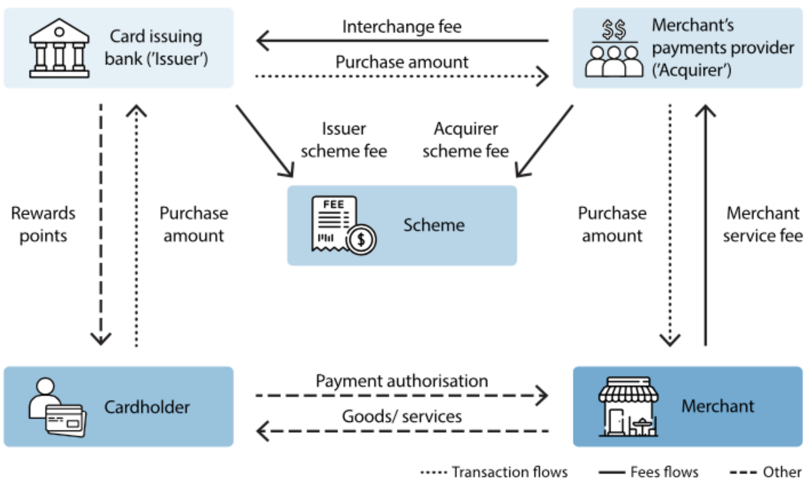
[3] RBA Debit Card – seasonally adjusted series to May 2025, ABS 2021 Census Statistics showing 22.6million Australians over 10 years old, The Initiatives Group proprietary data showing approximately 50 million debit cards on issue (i.e. 50m cards making 997 million transactions per month = 19.9 transactions per card per month, with Australians over 10y.o. holding 2.2 cards each = 44 transactions per person)

3. **Funding** – card transactions earn "interchange" income (more about that shortly) for their issuers. This income is to cover to the basic costs of issuing and maintaining cards, and provides an incentive for the financial institutions to issue cards, which for the economy are (given the transactions they are typically used for) the most cost-effective payment methods. Reductions in interchange reduce the ability and incentive for institutions to issue cards.

   For fintechs, interchange is a contributor to their being able to enter a market offering innovative solutions and then to invest in further innovative customer solutions. For banks, it is a "ticket to play" in banking services, and the transaction accounts to which these cards are linked provide the lowest cost funding for lending activities – more of a challenge for small banks than large.

Interchange – back to the basics...

Interchange is a wholesale fee paid by a merchant's acquirer[4] to the issuer of the cardholder's debit and/or credit card. When a cardholder makes a purchase, the merchant service fee (MSF) paid by the merchant includes the interchange fee (as well as a payment scheme fee, a transaction processing fee and a margin for the merchant's payments acquirer). As such, the total MSF, which includes the interchange fee, is ultimately borne by the cardholder within the merchant's price of goods:



Source: RBA.

The level of interchange in Australia **has been regulated by the RBA since 2003**, and is currently set for credit cards at a weighted average value ("benchmark") of 0.50% of purchase value (with a cap of 0.80%), and for debit cards a weighted average value of 8 cents per transaction (with a cap of 10 cents, or 0.20% of value if the interchange rate is specified in percentage terms).

It is not a fee paid to, or income for, card schemes such as Visa, Mastercard or eftpos, although the card schemes are instrumental in setting the value of interchange that is paid. The schemes do this in the interests of:

- Encouraging the issuing and promotion of certain types of cards (e.g. premium and commercial credit cards, which have a range of additional benefits funded by a higher interchange rate than standard no-frills cards); and
- Encouraging the acceptance and promotion of more secure forms of card payments at merchants (e.g. the use of 2-factor authentication and of the tokenisation of card numbers).

Over the past two decades, this has led to a proliferation of interchange categories – one card scheme has 68 different categories for credit cards, whilst another card scheme has 18 interchange categories for debit and prepaid cards.

[4] The merchant acquirer facilitates the merchant/retailer/company to accept card-based payments.

How interchange may benefit all…

One scheme describes interchange as helping "maximising the value delivered to all stakeholders"[5] of electronic payments:

- Merchants can benefit from reducing the cost of payments (e.g. versus the costs of accepting cash), increased sales, and improved security & fraud protection;
- The economy can benefit from an overall lower costs of payments, and reductions in the "black" & "grey" economies (e.g. avoidance of GST); and
- Consumers receive convenient, secure, efficient and safe access to their money to make purchases.

Card issuers, such as banks and fintechs, can offer payment cards with features that suit the needs of their target consumers that, in turn, allows them to more effectively compete to attract and retain customers – from interest free periods on credit cards, to more convenient transaction accounts, to transaction/accounting-integrated commercial cards. Indeed, within the benchmark and cap regime, commercial cards often have maximum rates of interchange but, in return, can provide merchants with lower payment acceptance cost (compared to issuing invoices, particularly for smaller values), administration cost savings, and potentially lower fraud rates.

What interchange is designed to fund…

For the initial determination in 2003, the RBA specified what costs could be covered by interchange fees. Aside from the cost of funding interest-free period offered by issuers of credit cards[6], the table below summarises the domestic transaction costs that interchange was designed to cover in Australia:

Transaction processing & authorisation costs include:	Fraud & fraud prevention costs include:
Receiving, clearing, posting & other processing to cardholder accounts	Account recruitment – fraud risk, 100pt check, etc
Receiving & processing retrieval requests	Replacement of lost & stolen cards
Settlement with acquirers/Schemes	Card blocking
Chargeback processing	Fraud related card delivery and activation
Scheme fees (net of rebates from card schemes)	Fraud prevention systems, software etc.
Cardholder servicing	Fraud related cardholder servicing
Card divisional management costs – direct staff, direct systems and premises	Fraud losses/write-offs

Interchange was **not intended to cover value added benefits, such as credit card rewards programs, travel insurance, business spend reporting, etc.** which have always been considered by the RBA as costs for which a user-pays approach is to be utilised by issuers.

Notwithstanding, when designing card products to meet customer needs, issuers will consider interchange revenue, as well as the value-added costs, when determining what products to develop and support to compete effectively - as well as how they will be priced. In short, less interchange will mean customers having to be charged more, or less investment to be made in product development or even withdrawal of a product from market.

The relationship between interchange fees and scheme fees…

As noted above, interchange is a fee that is earned by card issuers to cover the legitimate costs of issuing a card and is not a revenue for the card schemes.

[5] https://www.mastercard.com.au/en-au/business/overview/support/interchange.html
[6] Necessary to cover the funding cost of the credit card outstanding balances that do not accrue interest, due to the cardholders paying off the account in full by the "payment due" date.

A scheme fee, which is included amongst the costs allowed when setting interchange fees, is a charge that is paid to card schemes by both card acquirers and card issuers. The RBA describes scheme fees[7] as:

- Assessment fees – used to cover the costs of operating and maintaining the card network's infrastructure;
- Processing fees – charged for processing and authorising transactions;
- Licensing and access fees – charged for use of the network and its brand; and
- Other Fees – charged for discrete services such as chargeback processing, security features, new technologies, compliance and currency conversion.

Scheme fees have been developed over nearly 70 years - as long as card networks have been in existence. They have become complex and are set based on commercial considerations. There are many different scheme fees which are levied based on the type of transaction – in one study[8] The Initiatives Group observed individual online transactions where 14 different scheme fees were applied.

The amount for each applicable scheme fee tends to be a flat rate either in cents per transaction, a percentage of the value of the transaction or both, with many fees being the same for credit and debit card transactions.

However, even with each fee in theory being the same for every issuer, the net cost of scheme fees differs between issuers due to the use of rebates based on their size and/or investment activities and/or importance to the network ... larger issuers will typically receive a larger "rebate" on scheme fees than smaller issuers. Indeed, in another study[9] The Initiatives Group **calculated small issuers' net scheme fees as being 2.5 times the net scheme fees paid by large issuers.** This is why the RBA allowable cost of scheme fees is described as "net". The consequence can be that large issuers have a competitive advantage of being more able to invest in products and/or charge their customers lower or no transaction or account fees.

Distinguishing a "small" issuer from a "large" issuer…

The Australian banking sector is **highly concentrated**. No surprises. The Australian card issuing sector is also highly concentrated, dominated by the major banks. Still no surprises.

Whilst definitive market shares are difficult to pinpoint, we can take a look at some proxy data that is of interest:

1. **Credit cards** – Monthly data for the share of personal credit card balances measures share of 40 APRA reporting credit card issuers in $ value. In June 2025 the report[10] indicated that the combined market share of CBA, NAB, Westpac and ANZ account for 78.3% of balances. The lowest amongst these was ANZ at 13.2%. The next biggest issuer after the major banks had a market share of 1.5%.

2. **Debit cards** – The ACCC Retail Research Report, 2023[11] asked a sample of 1,729 consumers, who held a transaction account (the account which debit cards are linked to / issued from), with which banks they held accounts. 91% held an account with the Big 4 banks (allowing for Suncorp having been acquired by ANZ), and 67% indicated that their "main" account was with a Big 4 bank. It would not be unreasonable to suggest that the debit card attached to a "main" account would be the one most used, and thus earn the greatest amount of interchange revenue for the issuer. Similar to the situation with credit cards, the "main" account market shares fall off dramatically with the next 4 banks having 9%, 2%,2% and 1% respectively.

Admittedly, this data is only about "established" banks rather than the fintechs who have more recently entered the cards market. However, few new entrants are card issuers in their own right, and they are more likely to access card products via an aggregator or BIN sponsor (for example, Cuscal or EML Payments), who could be considered "small issuers" when compared with the large banks.

[7] https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/backgrounders/backgrounder-on-interchange-and-scheme-fees.html#:~:text=What%20is%20a%20scheme%20fee,maintaining%20the%20card%20network's%20infrastructure.
[8] The Initiatives Group 2022 (proprietary investigation)
[9] The Initiatives Group 2020 (proprietary investigation)
[10] MWE Consulting Australian Payment Cards Report, June 2025
[11] https://www.accc.gov.au/system/files/SEC%20Newgate%20Research%20retail%20deposits%20research%20-%20final%20summary%20report.pdf

Notwithstanding, small fintech issuers (such as Revolut and Wise) have reduced complexity and costs for cross border transactions, Zeller provides a card payment solution tailored for its merchant customers, and Archa delivers a corporate credit card solution targeted at an under-served market.

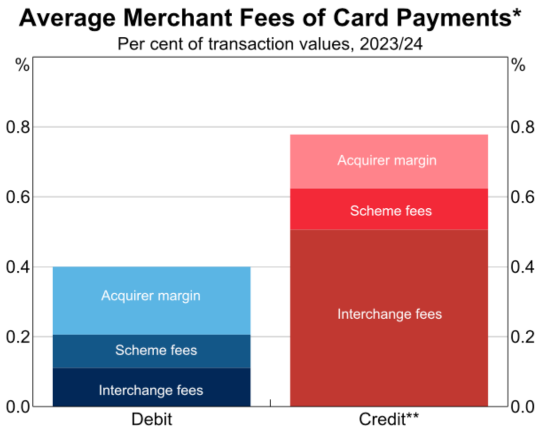
With respect to some metrics, card issuing relies on scale and gradually falling margins in the past have increased the number of cards required to achieve economies of scale. The Initiatives Group **would suggest that an issuer with fewer than 250,000 credit cards on issue or 1,000,000 debit cards on issue would be considered a small issuer.** A volume-based measurement of "small" might also be considered – the RBA has already regulated a volume-based threshold of 1%, under which, an issuer is considered small and can choose to issue single network debit cards (SNDC). Considering the level of market concentration for debit cards set out above, a threshold of 5%, which is significantly less than the volume share of any of the large banks, might be more reasonable.

Whilst many small issuers would be well below these suggested thresholds, the thresholds provide incentive for investment and innovation for growth, and remain significantly lower than the volumes of cards issued by the large banks.

Back to the RBA consultation...

In the consultation paper released in July 2025, amongst other things, the RBA states that "*the interchange rates paid by businesses to card providers are too high, especially for small businesses*".

The RBA is advocating removing the ability for merchants to surcharge[12], by allowing card schemes to reintroduce their "no surcharge rules" that existed in their regulations for Australia prior to 2003. The following table shows the components within MSFs that merchants (albeit a small minority of merchants) have been able to surcharge:



* Domestic card transactions. The acquirer margin component is estimated as the difference between average merchant fees and wholesale costs (the sum of average interchange and scheme fees).
** Mastercard and Visa Credit only. Interchange fee component is calculated by taking each scheme's weighted average credit interchange rate and weighting those rates by the number of transactions for each scheme.
Source: RBA.

In preventing merchants from recouping these payment acceptance costs, the RBA estimates that the total cost to those merchants who currently surcharge will be $1.2 billion. To compensate for this lost revenue to merchants, **it is proposed that interchange rates be lowered in order to save the same $1.2 billion** across the total, broader merchant community.

More specifically, the consultation paper proposes the following changes to interchange regulations:

- For Australian issued **credit card** domestic transactions, removing the current weighted average benchmark (currently 0.5%) and cap (currently 0.8%), and moving to a simple, hard cap of 0.3% of transaction value. We would note that 0.3% is also the cap that was introduced in the UK and Europe in 2015. With the new lower cap,

[12] Removing surcharging on both debit and credit card transactions accepted by Australian merchants.

it is not unreasonable to suggest that all domestic transaction interchange fees will migrate to a single rate of 0.3% in order to secure revenue for card issuers;

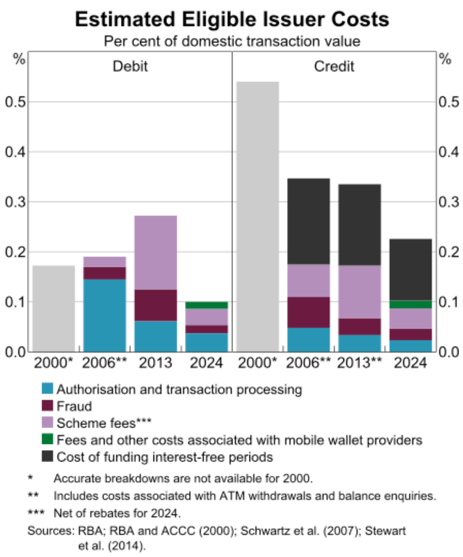
- For Australian issued **debit and prepaid card** domestic transactions, removing the current weighted average benchmark of 8 cents per transaction and a cap of 10 cents, and moving to a simple, hard cap of 6 cents or 0.12% of transaction value if expressed as a percentage (previously capped at 0.20%);

- For **foreign issued card transactions at merchants in Australia,** introducing a cap of 0.20% of transaction value for debit cards and 0.4% of transaction value for credit cards for "card present" transactions. For "card not present" transactions the proposed caps are 1.15% for debit card and 1.5% for credit card transactions.

Recalling that earlier we described interchange as revenue paid to card issuers to cover eligible costs, the table below shows the estimated eligible issuer costs, based on the 2024 data recently collected by the RBA. It is important however to note that –

(a) due to industry concern re interpretation of eligible costs and the accuracy of data provided, the 2024 cost data is under discussion between stakeholders and the RBA as part of the consultation; and

(b) the data displayed **is an average across the whole issuer community,** with no differentiation between large and small issuers.



In the RBA consultation paper it is noted that the underlying data of 2024 costs showed:

"*Evidence from the Issuer Cost Study suggests that smaller issuers **do** face materially higher costs than larger issuers*"

Further, the RBA's table entitled "Estimated Eligible Issuer Costs related to Card Issuing and Processing, excluding the Major Banks" suggested that the small issuers are currently incurring eligible interchange costs of 10 cents per debit card transaction, significantly above the proposed hard cap of 6 cents.

How the eligible costs may differ between large and small issuers…

Small issuers do not have the economies of scale to deliver the cost efficiencies that large issuers enjoy. Nor do they have the same ability to cross-subsidise[13] the provision of card services and/or investing in the development of their card portfolios compared to their larger brethren. Small issuers are therefore disproportionately reliant on income earned through interchange fees, especially early-stage fintechs which have not yet diversified their income sources.

[13] E.g. utilising surpluses from other financial products offered by the financial institution.

This means that small issuers typically have to charge customers more for using their card products. Indeed, many large issuers provide transaction accounts and debit card transactions for free, putting smaller issuers at a competitive disadvantage if they charge monthly account-keeping fees and/or debit card transaction fees.

Analysis from a recent project undertaken by The Initiatives Group (focussing on a debit card portfolio of fewer than 150,000 cards issued by a Credit Union) showed that, despite the issuer charging transaction account and debit card usage fees in the vicinity of $2.5 million, the debit card portfolio still operated at a loss of approximately $500,000. This loss result was after charging these member fees and earning interchange revenue at over 6 cents per transaction, as shown below.

Credit Union X		Debit Card Transactions
Annual data		
Transaction Volume FY22-23		26,731,793
Transaction Value FY22-23	$	1,540,655,200
Average Transaction Value	$	57.63
Revenues		
Interbank/interchange/CRF/etc income	$	1,715,234
Interchange per transaction	$	0.064
Transaction Fee income paid by Members	$	1,017,302
Service Fee income paid by Members	$	906,094
Allocation of part of monthly Account Keeping Fee paid by Members	$	681,604
Payment Scheme rebates/etc	$	211,317
Total Revenue	$	4,531,550
Revenue per Transaction	$	0.170
Costs		
Payment Scheme Fees on transactions	$	2,790,886
Switching / Processing Fees on transactions	$	1,007,910
Fixed costs external (including Scheme membership)	$	423,862
Fixed costs internal	$	386,692
Other costs	$	420,586
Total Cost	$	5,029,936
Cost per Transaction	$	0.188
Margin		
Total	$	(498,386)
Margin per Transaction	$	(0.019)

Anecdotal evidence, which further demonstrates the challenges for small issuers, is that of an example where a small issuer's debit card being used for a $200 transaction via Apple Pay attracted an Apple Pay fee of 8 cents and a scheme fee of 6 cents, meaning that a 6 cents per transaction interchange fee (the RBA's proposed cap) would not even cover the charges levied by Apple - forcing the issuer to incur a significant loss on the transaction.

So the pressure is already on small card issuers to charge for transactions, in order to try and make their cards an economic proposition, and the RBA's proposed reductions to the interchange regime will only increase this burden.

Consequences of charging more and/or being able to invest less ...

For small issuers, who already struggle to compete with the resources (and customer inertia to change) of large issuers, the consequences are relatively straightforward:

- higher priced products are less competitive >> particularly when others are offering them for free;
- there is likely a "speed bump" for innovation >> if revenue does not cover processing costs, then there are certainly no excess funds for new product development;

- payment products may be withdrawn >> loss-making products may have to be dropped from the range of offerings;
- customers may choose to go elsewhere >> particularly to the major banks, who are generally offering fee-free transaction accounts with debit cards attached;
- indeed at the extreme small issuers may fail (many of Australia's neo-banks, such as Volt and Xinja, with restricted or full ADI licencing have failed – in part because they were losing money on every transaction) and potential new market entrants may be discouraged from launching in Australia;
- for small banks, the cost of funds can increase as customer deposits in transaction accounts (the least expensive form of funding) decrease; and
- the sum of above, particularly for fintechs, can potentially undermine their ability to export Australian innovation to overseas markets.

Indeed, the RBA consultation paper noted that:

- "*International card networks, major banks, groups representing large merchants, and some PSPs opposed lower interchange benchmarks, arguing that . . . competition in the issuing market might weaken, because lower interchange fees could threaten the viability of smaller issuers or new entrants, which tend to rely heavily on interchange revenue*";

So there is a serious risk that the dominant players in the card issuing market in Australia will become even more dominant, and the limited market share serviced by small issuers will reduce even further. The big get bigger and the small disappear into obscurity.

Consequences of interchange regulation elsewhere suggest that the challenges for small issuers in Australia will be real …

In both the UK & EU, where interchange fees were capped on consumer debit cards at 0.2% and consumer credit cards at 0.3% (Interchange Fee Regulation on debit and credit cards, 2015) and the USA where debit card interchange was capped for cards issued by financial institutions with net assets in excess of US$10 billion (Durbin Amendment, debit cards only, 2010), it is reported that reduced interchange revenue for card issuing banks has led to increased fees for transaction accounts, increased fees/fewer benefits on cards and, in some cases, card products being withdrawn from the market[14].

The University of Chicago, referenced in footnote 14 below, also reports that whilst fees have been increased, the net result has been an overall reduced level of revenue for issuers.

Potential solutions that may promote competition and public interest, without changing the macro impact of regulatory reform…

As covered earlier in this paper, small issuers are very small by comparison to the major card issuers. Separate to fintech card issuers, in its December 2024 issues paper "Review into Small and Medium-sized Banks" the Council of Financial Regulators' indicated that the 74 smallest banks accounted for only 6% of the banking system – another proxy to their presence in the payments market.
Whilst providing solutions needed by their target customers, small issuers already struggle today to compete with large issuers. Further restriction of their ability to compete (or indeed enter a market) through regulatory reduced income threatens their sustainability and appears counter-productive.

This would suggest that to "carve out" small issuers from the proposed interchange amendments, for example those who have fewer than 1 million debit cards on issue or fewer than 250,000 credit cards on issue (data that is accessible by the RBA), would both provide innovation & investment growth "headroom" and make little difference to the macro market impact of the RBA's proposed regulatory changes. Similarly a volume-based measure of, say, 5% market share might be an alternative.

[14] University of Chicago Law School 2013 https://chicagounbound.uchicago.edu/law_and_economics/652/

Potential actions, which would be subject to review at the next RBA PSB Consultation in 5 years' time, to protect small issuers could include:

- Allowing higher interchange rates for both debit and credit card transactions, consumer and commercial cards, that better reflect their costs of issuing cards – even just keeping the existing interchange regime for these issuers would help;
- Capping scheme fees paid by small issuers. As noted earlier, The Initiatives Group is aware of instances where net scheme fees for small issuers have been 2.5 times those of large issuers; and
- Increasing the threshold under which Single Network Debit Cards can be issued (currently 1% market share), in a market where the large issuers have market shares between 15%-27% - lowering the costs associated with issuing debit cards (only one scheme to support and one set of mandates with which to comply), helping to avoid disincentivising fintechs and small banks from investing in innovation and growing their debit card portfolios.

And in conclusion…

Whilst the RBA's mandate to promote efficiency, safety and competition is supported by all participants in the payments economy, payments regulation is complex and has to cope with a non-homogeneous payments landscape.

Whilst simplification is an attractive concept, regulation can and has been shown to have unintended consequences … some of which have been identified and discussed within the multi-stage consultation process that the RBA undertakes every 5 years.

The focus of this paper has been consequences, both intended and unintended, for small issuers from lower payment card interchange rates. It is these players who often offer both innovation (e.g. bringing new technologies and platforms into the market) and targeted services (e.g. to better serve niche customer segments).

The Initiatives Group

The Initiatives Group - we help participants across the payments sector to generate more value from their markets and customers.

The consulting team at The Initiatives Group has advised participants in the payments market since the 1990's - including issuers, acquirers, third-party processors, technology providers and associations. We help solve many of the financial industry's most significant issues, such as payments strategies, customer profitability and retention, credit and fraud risk, leveraging new technologies, and assessing new market and product opportunities.

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