Unit Economics, Competition and Surcharging Analysis

Prepared for FinTech Australia

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Contents

MANDALA

Note: All dollar figures are Australian dollars unless indicated otherwise.

Contents

Key points

1. **Fintech PSPs operate with lower unit economics than acquirer-issuers. Restricting their pricing models could make their operations unsustainable.**
    - Smaller merchants bear a higher percentage of fixed payment processing costs, which are essential to maintaining a stable and secure payments system.
    - Large acquirer-issuers use merchant acquiring services to retain SMBs and generate indirect revenue through lending, transaction accounts and interchange.
2. **Fintech PSPs have increased competition in the merchant acquiring market. If Fintech PSPs exit the market, merchants would lose access to a broad range of payment and payment-related services, and long-term MSF may rise.**
    - Merchant acquiring has the lowest market concentration in the payments value chain, resulting in greater transparency, improved quality, and better user experience.
    - The entry of new Fintech PSPs has reduced market concentration in PSP/acquiring, leading to a decline in average merchant service fees. This ultimately benefits consumers through lower prices and reduced surcharges.
    - 77% of merchants report satisfaction with their Fintech PSPs, compared to only 44% with acquirer-issuers (e.g., big banks).
    - If differentiated pricing becomes incentivised or mandated, some Fintech PSPs may face increased cost pressures, potentially leading to market exit.
    - With reduced competition in the market, average MSF may rise to pre-2016 levels (15-20bps higher than today), costing small businesses ~$400M in additional payment processing fees.
3. **Small and micro businesses are surcharging to help offset rising costs. There are viable payment alternatives to a surchargeban that are surcharge-free for consumers.**
    - Small businesses face broad-based cost increases, with approximately 50% operating at a loss.
    - A surcharge ban, whether debit-only or total, would disproportionately impact small businesses with turnovers between $100K and $1M.
    - A survey shows that 36% of small merchants surcharge on card transactions, with the highest adoption among those earning $100K–$250K annually.
    - In response to a total or debit card surcharge ban, merchants are most likely to raise prices or encourage customers to pay with cash.
    - Surcharge-free payment models provide an alternative to banning surcharges, potentially saving consumers up to $500 million in fees.
4. **Micro-merchants are reliant on PSPs with fixed pricing models for their payment processing needs.**
    - Approximately 300K small merchants are on simple pricing plans, with 68% of micro-merchants adopting fixed pricing.
    - ~80% of small merchants adopt fixed pricing because it is simple, easy to understand, and straightforward to compare.
5. **LCR enablement is driving costs savings for merchants, even for those on simple plans.**
    - 70% of merchants have LCR enabled for in-store debit card transactions, with the highest enablement among those on fixed plans (95%).
    - Acquirers with the highest LCR enablement have started reducing simple plan rates, demonstrating that wholesale cost savings for PSPs are indeed being passed on to merchants.

Glossary – definitions of terms used throughout this document

Term	Definition in context of this document
Blended pricing	A pricing structure for payment processing services where certain transaction types are combined into a single price. For example, one price applies to all Visa and Mastercard transactions (including debit and credit), while a different rate applies to eftpos transactions.
Unblended pricing	Pricing structure for payment processing services where merchants pay different % rates for each transaction based on which payment method was used (synonymous with differentiated pricing).
Fixed pricing	Pricing structure for payment processing services where merchants pay a flat % per transaction across all networks, transactions, and card types.
Simple pricing	Synonymous with fixed pricing.
Differentiated pricing	Synonymous with differentiated pricing.
PSP	Payment Service Provider who provides any payments processing services to any customer type (merchant or Payfac).
Fintech PSP	New Fintech entrants to the payment facilitator market, generally used to describe non-bank providers of payments processing services, synonymous with Payfacs, often not an acquirer themselves.
Large Acquirer	Acquirer that primarily serves large merchants and Fintech PSPs with acquiring services.
Issuer-Acquirer	Acquirer that also is a significant card issuer – primarily referring to the big 4 Australian banks.
Payfac	Payments Facilitator, synonymous with Fintech PSP.
LCR	Refers to least-cost routing, a functionality that routes payments through the least expensive payments rail.

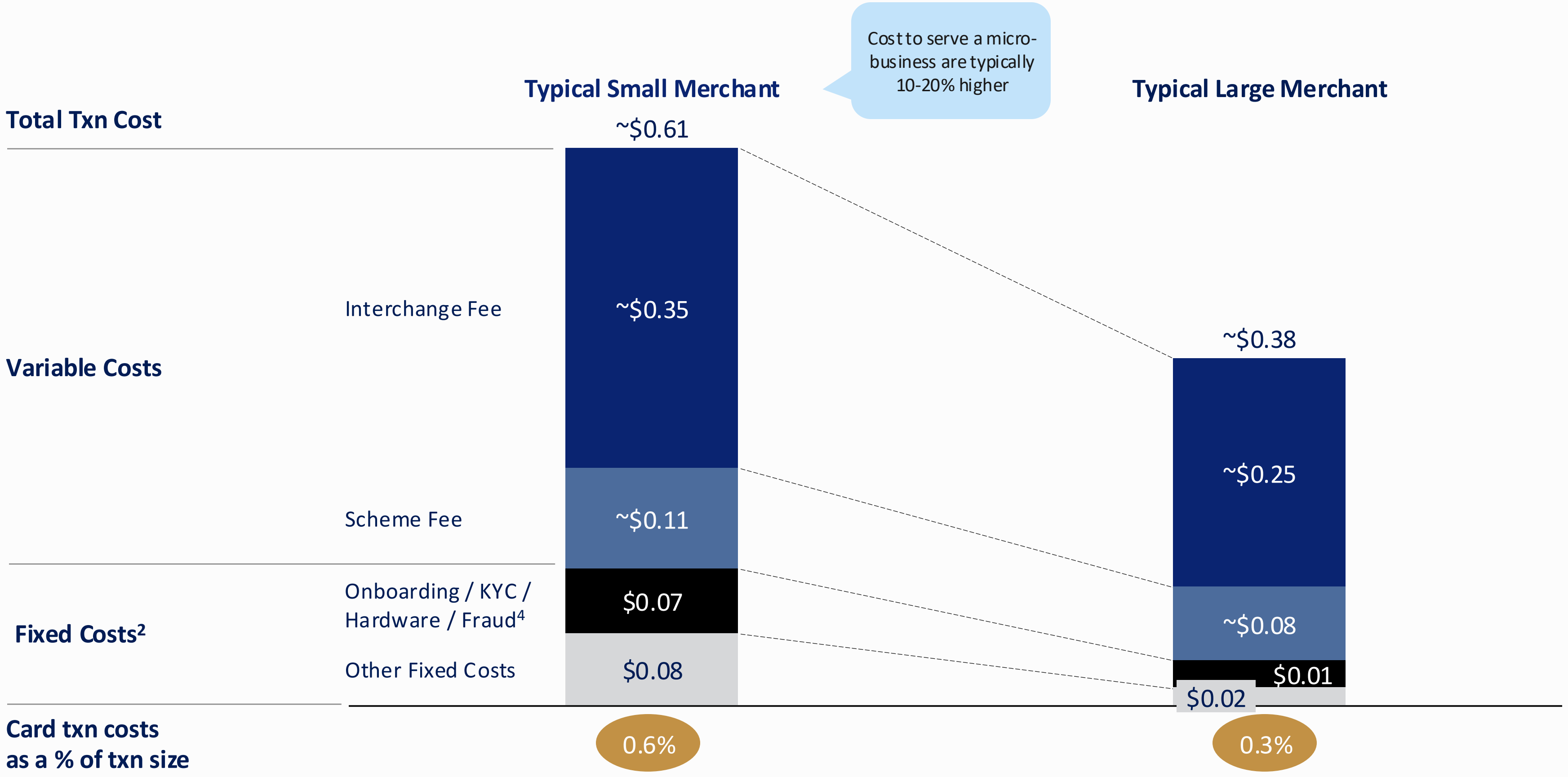
Contents

Smaller merchants wear a larger % of fixed payment processing costs. These costs are an unavoidable part of ensuring a stable and secure payment system

Indicative numbers

Typical acquirer cost to serve small merchant vs. large merchant[3]

Typical merchant transaction costs[1], $, 2024



Key findings

- Small merchants incur approximately **0.6%** of the total transaction value as direct transaction costs, compared to **0.3%** for large merchants.
- Fixed costs represent approximately **25%** of total transaction costs for small merchants, compared to approximately **15%** for large merchants and include **necessary components for providing a stable and secure payment system.**
- Core variable fees (interchange + scheme fees) are **~30%** cheaper for large merchants due to scale, allowing for significant negotiating power over fee structure.

Notes: 1) Assumes $100 transaction, does not factor additional fees a PSP would incur including switching fees and operational costs associated with provision of broader services 2) Other Fixed Costs include other direct costs including marketing, customer support related costs 3) Margin of error of ~5% either way 4) Necessary payment components for secure payments system.
Source: Expert interviews, RBA

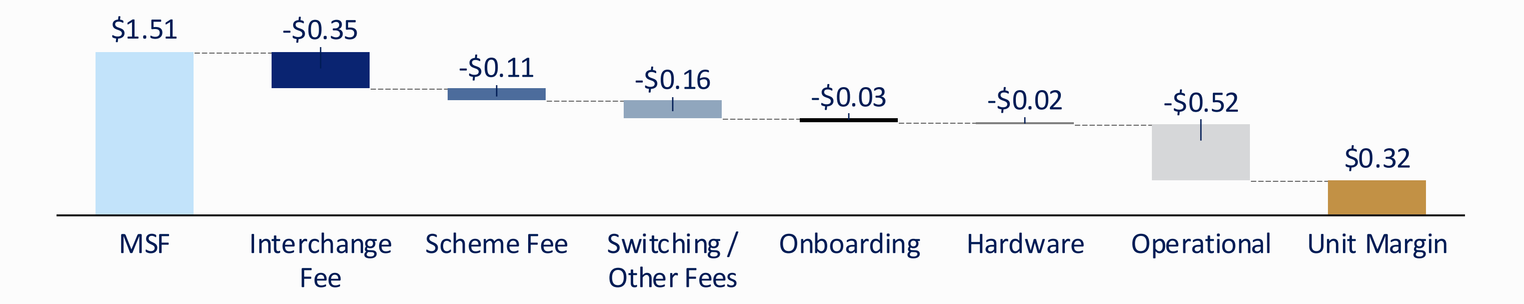
Large acquirers use merchant acquiring services to retain SMBs and drive indirect revenue (e.g. via lending, transaction accounts)

Indicative numbers

Transaction unit economics for Fintech PSPs vs. Large Acquirers when serving small merchants[2]

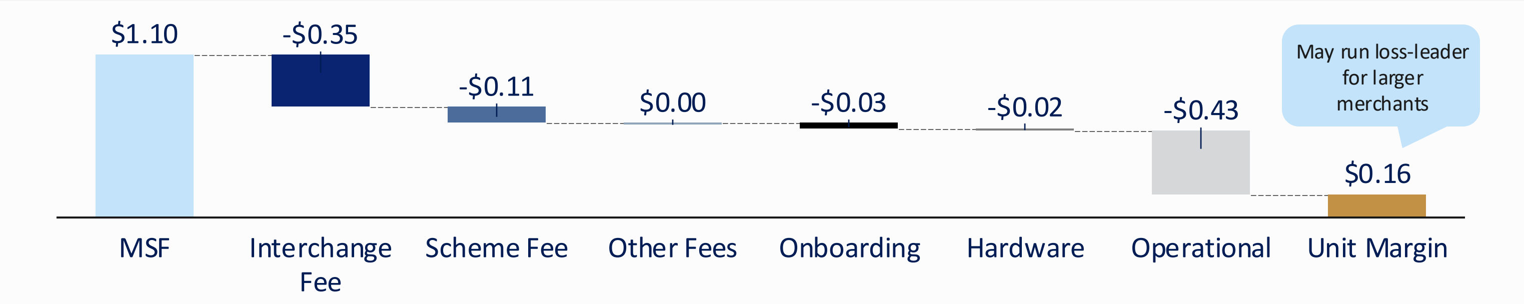
Typical small merchant card transaction[1], $, 2024

Fintech PSP



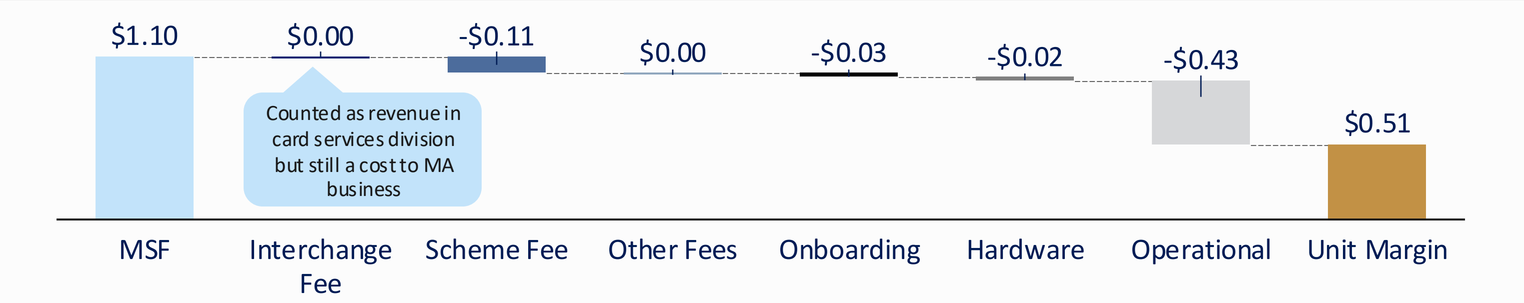
- Fintech PSPs **provide a higher level of service to merchants** compared to large acquirers (e.g. 24/7 support, simplified onboarding) as well as additional business tools and resources, and this **value is included in the MSF.**

Large Acquirers



- Large acquirers **can operate with smaller merchant acquiring margins** (when not relying on issuing revenue) because these services allow them to generate **larger revenue streams through lending and transaction account offerings.**

Large Acquirers + Issuer[3]



- Large acquirers who are also issuers **are able to cross-subsidise acquiring** as they **earn the interchange fee** when a card they issue is used at a merchant utilising their acquiring services.

Notes: 1) Assumes $100 transaction for a small merchant 2) Margin of error of ~5% either way. 3) For an 'On Us' transaction where the card is from the same bank as the merchant acquiring solution (e.g. CBA card, CBA terminal).

Source: Expert interviews, RBA

If differentiated pricing becomes incentivised, some Fintech PSPs may face increased cost pressures, potentially leading to market exit

Indicative numbers

Short-term impacts of RBA options on Fintech PSPs

The RBA is considering various adjustments to rules around surcharging in Australia, including:

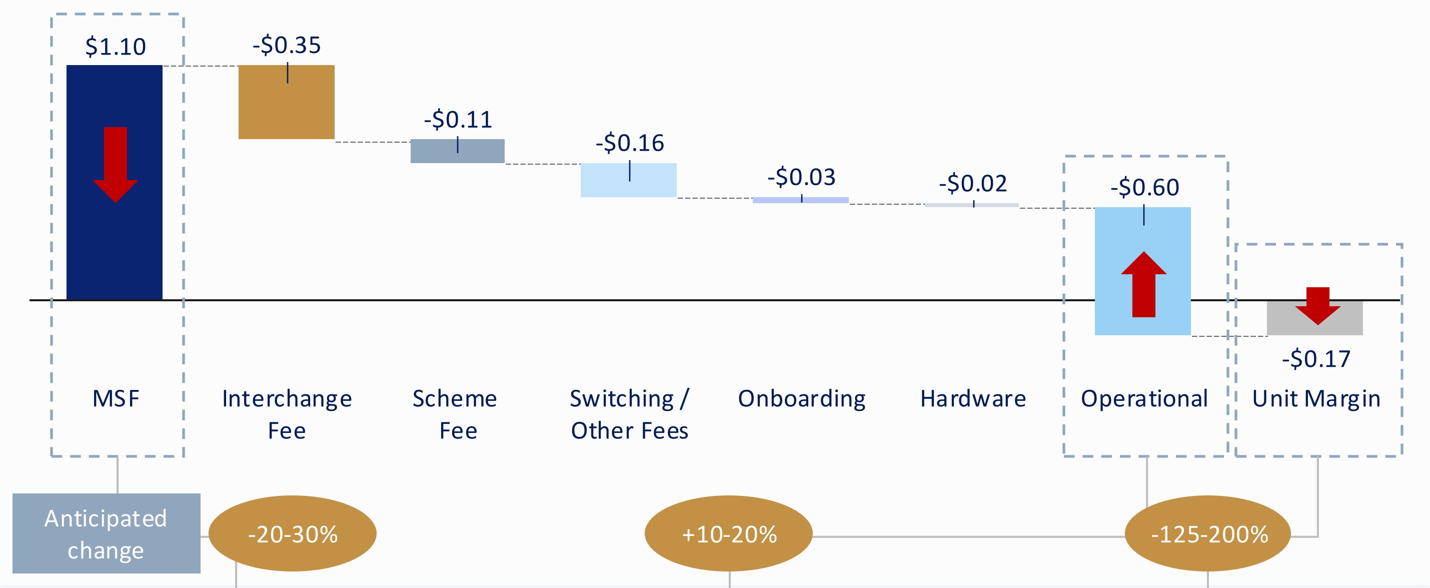
1) **Outright ban on surcharging**
2) **Ban on debit surcharging only**
3) **Mandating 'differentiated' pricing (unblended)**

Under any of the above options, **fixed or simple pricing models may become less competitively viable**, as cost-sensitive merchants (no longer able to surcharge some or all transactions) will look to switch to other providers that offer **differentiated pricing and basic services.**

In the short term, this may create **downward pressure on average MSF** in the market (**which has already been falling**), and may cause **some Fintech PSPs to become unprofitable, and exit the market.**

Fintech PSP unit economics if differentiated pricing is incentivised

Typical small merchant card transaction[1], $, 2024



The MSF could fall to ~1.1%, in line with the rates charged by some acquirer-issuers, reflecting current card type mix, and an unblended cost structure.

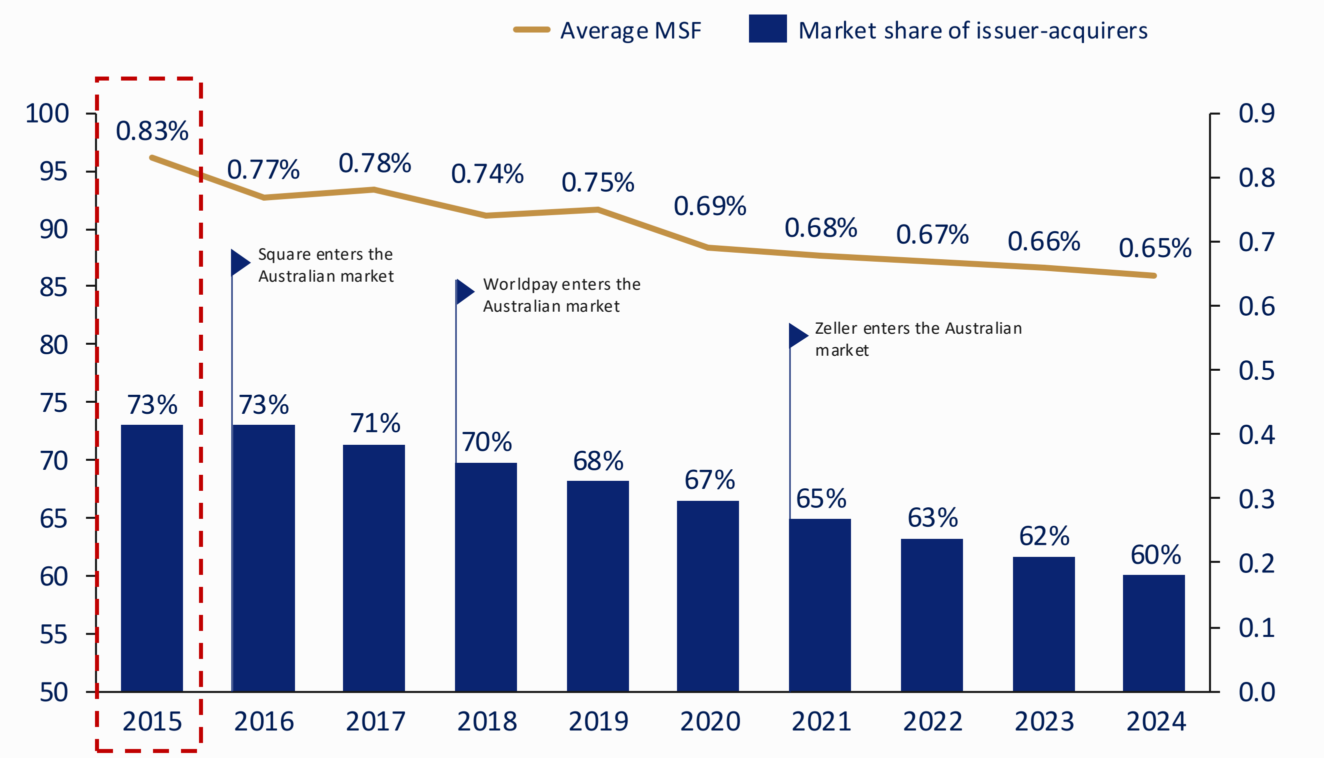
Operational costs are anticipated to rise 10-20% as a result of additional costs including systems integration and software updates, and merchant support.

Profitability may fall significantly as a result of a potential decline in the MSF and rising operational costs.

Notes: 1) Assumes $100 transaction for a small merchant.
Source: Expert interviews

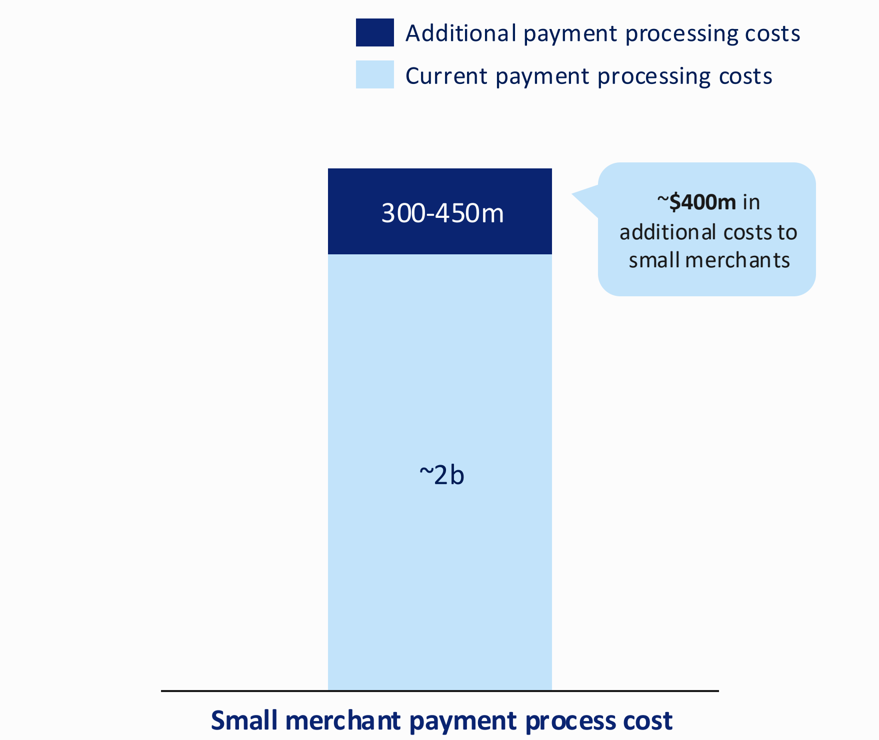
If Fintech PSPs exit the market, small merchants could face ~$400M in additional payment processing costs as issuer-acquirers regain market share

Changing market conditions as newer Fintech PSPs enter market



Should Fintech PSPs exit the market, and issuer-acquirer share returns to 2015 levels, it is possible that average MSF may return to 2015 levels (**15-20bps higher**).

Small merchant cost impact under 2015 market conditions[1]



Increase in payment processing costs (%) 15%-25%

Notes: 1) Small merchants represent those <1m, payment processing costs calculated as total value of transactions for businesses under 1m multiplied by the average txn cost.
Source: RBA (2017); AFR (2024); Mandala analysis

If Fintech PSPs exit, merchants would lose access to a wide range of payment and payment-related services

Fintech PSPs provide services that generally aren't provided by issuer-acquirers

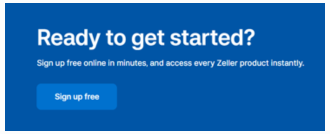
Non-exhaustive list of payment and payment-related service offerings generally offered by Fintech PSPs and issuer-acquirers

Payment and payment-related service offerings		Fintech PSP	Acquirers
Payment services	Low, fixed cost payment model	✓	✓
	Flexible pricing model options	✓	✓
	Master merchant aggregation	✓	✗
	Cross-channel payment solutions	✓	✓
	Comprehensive payment method acceptance	✓	✓
	One-click checkout, and card-on-file services	✓	✗
Payment-related and customer services	Customer support 7 days a week	✓	✓
	Instant, free digital onboarding and account setup	✓	✗
	Software-based acceptance (e.g., mobile ePOS)	✓	✗
	Digital invoice generation and delivery	✓	✗
	Streamlined refund and dispute handling	✓	✓
	Business analytics and reporting dashboard	✓	✓
	Digital servicing	✓	✗
	Customer insights, analytics and reporting	✓	✗
	Merchant loyalty and rewards program management	✓	✗
	Business software integration capabilities	✓	✗

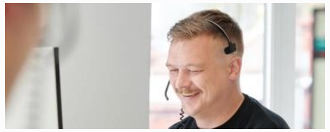
Source: Expert interviews; Mandala analysis

Zeller provides services that specifically support small businesses

Zeller case study



Zeller accounts take about **5 minutes to set up** → Issuer-acquirer accounts can take weeks to set up



Zeller **average service wait time is less than a minute** → Issuer-acquirer average service wait time is about 90 minutes

Zeller **provides an integrated dashboard** with item-level reports → This provides businesses with insights that support growth

Zeller's **app allows merchants to take payments and manage their businesses remotely** → This allows businesses flexibility and security in their payments and business management

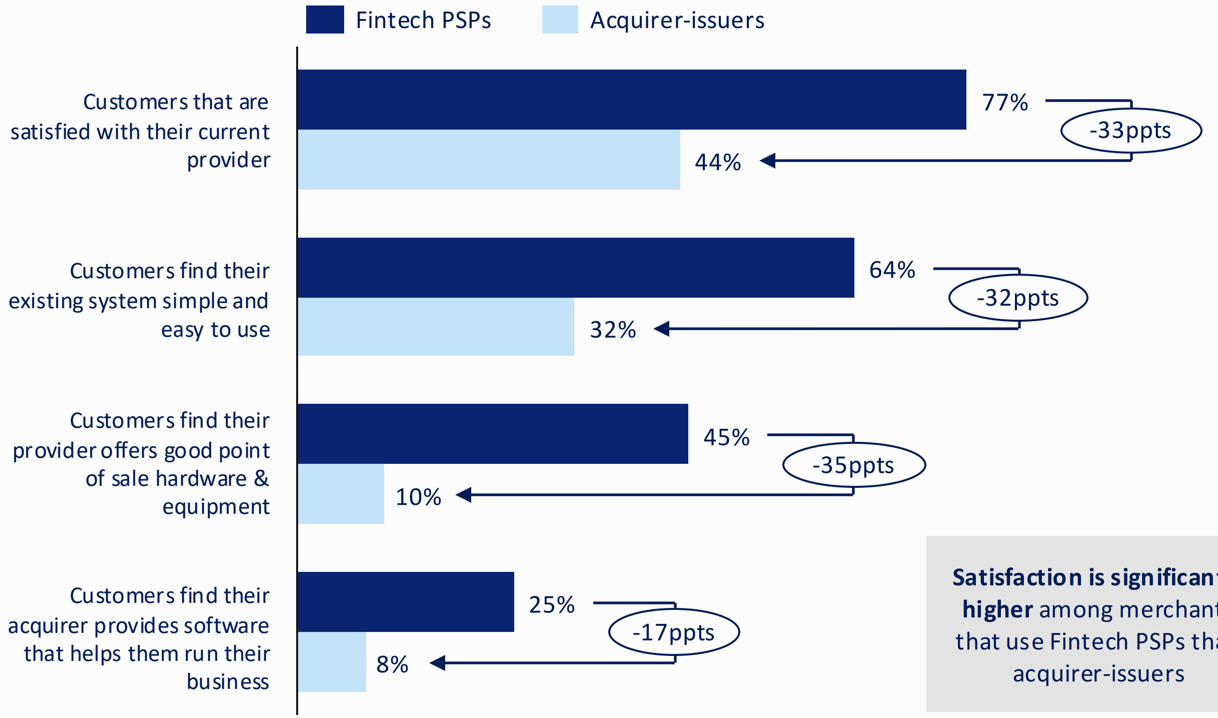
Part of Zeller's value proposition is fast and simplified onboarding, leading user experience and a simple pricing structure for merchants and their customers.

Source: Expert interviews; Mandala analysis

Merchants are far more satisfied with Fintech PSPs than alternative acquirer-issuers, and they save thousands each year using Fintech PSP bundled POS software

Fintech PSP offerings are more likely to retain merchants

Why have you not bothered to look at other card acceptance providers?

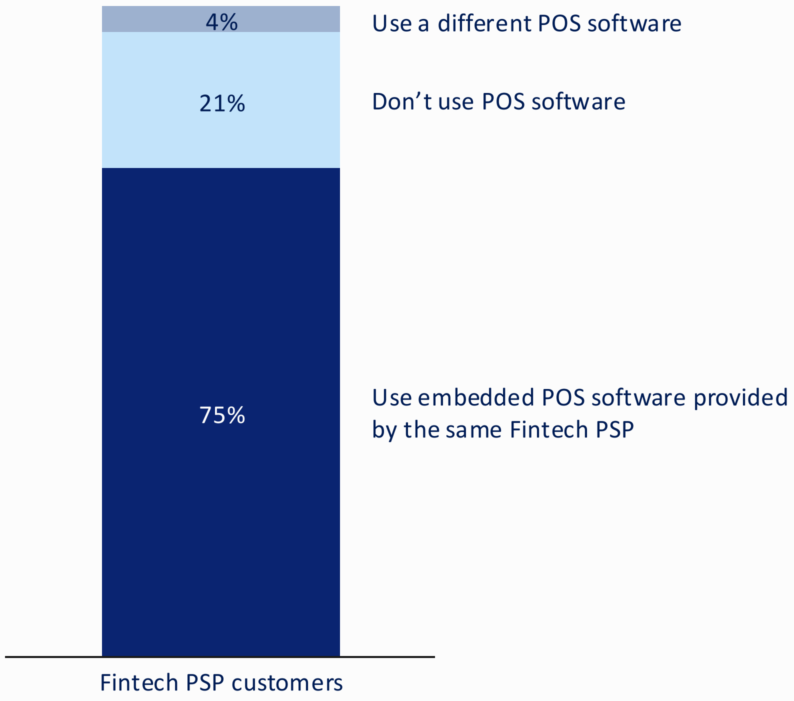


Satisfaction is significantly higher among merchants that use Fintech PSPs than acquirer-issuers

Fintech PSP customers report high satisfaction and place significantly greater value on key offerings such as simplicity, hardware, and software compared to customers of acquirer-issuers.

Merchants overwhelmingly use Fintech PSPs' embedded POS software

What point of sale software does your business use?



Fintech PSP customers overwhelmingly use the embedded software provided by their PSP, further indicating a high level of satisfaction with their service.

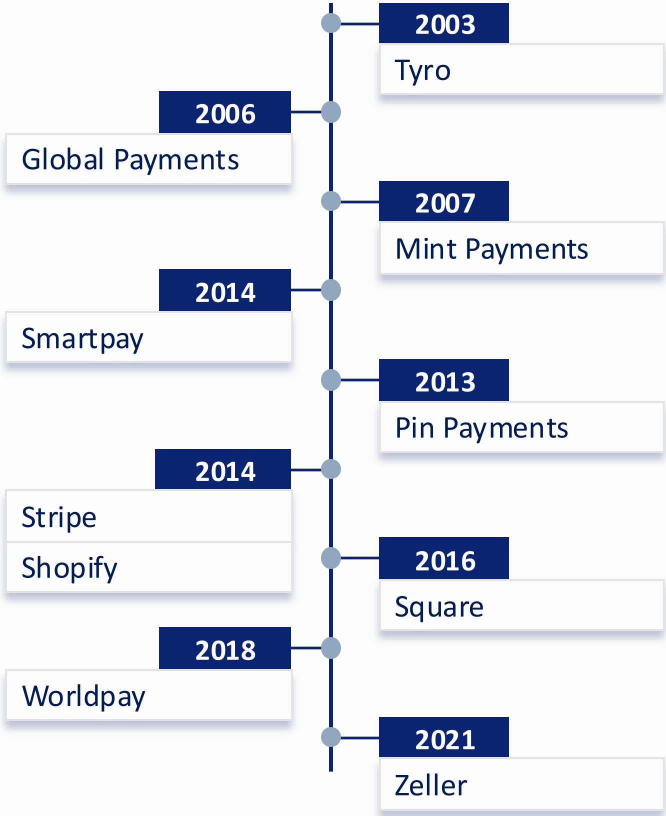
Source: Results from survey of Fintech PSP customers; Mandala analysis

Source: Results from survey of Fintech PSP customers; Mandala analysis

Fintech PSPs have increased competition and driven down acquiring fees, benefiting consumers through lower prices on products and reduced surcharges

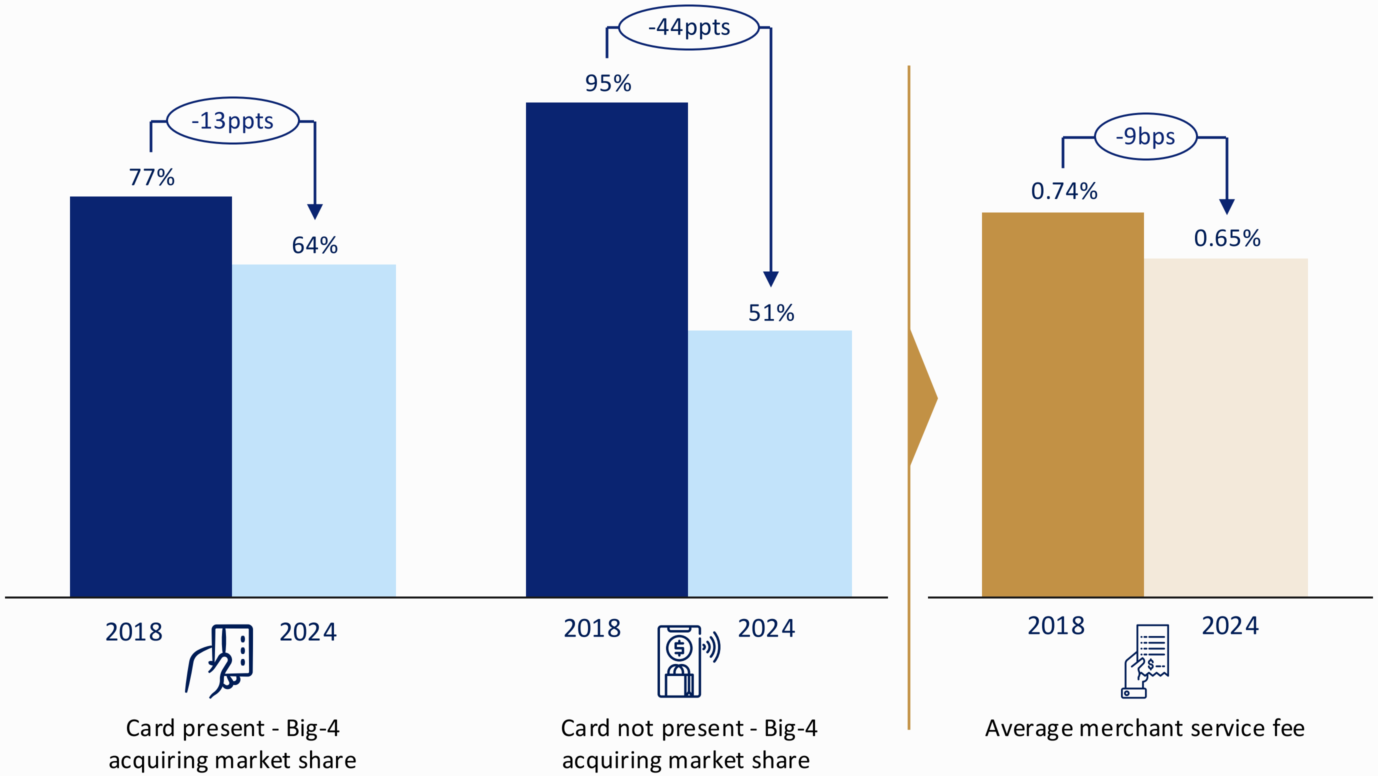
New entrants to the acquiring and PSP market

Timeline of market entry of acquirers and fintech PSPs, Australia, 2003-2023



As market concentration in PSP/acquiring has declined, so too have average merchant service fees

Market share of major banks in the acquiring market compared with average merchant service fees, 2018-2024



Consumers benefit from reduced merchant service fees either through lower prices on goods and services and reduced surcharges.

Source: Desktop research, The Initiatives Group (2024), RBA Payments data; Mandala analysis

Overall, merchant acquiring has the lowest market concentration in the payments value chain, leading to higher levels of transparency, quality and user experience

Overview of current performance in Australia's payments system

Segment	Market concentration, % of segment[1-5]	Incumbents	Market and consumer outcomes
Card issuing	% of credit cards issued: 71% % of debit cards issued: 74%	**Big 4 banks**	**Higher fees and lower rewards for consumers.**[6]
Consumer credit	% number of transactions: 91%; 3%	**Big 4 banks** **BNPL**	**High innovation in convenience and lower costs to consumers.**[7]
Digital wallets	% mobile device POS transactions: 99%	Apple Pay, Google Pay	**High prices,** especially for in app and tap device payments. **Constrained innovation** through lack of openness.[8]
Card schemes	% of credit card transactions: 91% % of debit card transactions: 60% % of total transaction: 67%	Mastercard, VISA	**Mastercard and Visa scheme fees for debit and credit cards have increased.**[9]
Merchant acquiring	% card present transactions: 64% % card not present transactions: 51%	**Big 4 banks**	**Merchants have more transparent costs, higher quality and a better user experience** thanks to new entrants.[10]

Sources: 1) 93% of household credit card loans are held by the big 4 banks. APRA (2023), 2) 3% of payments made through consumer credit options are through BNPL, while credit cards have 97%. RBA (2023), IBIS (2022), 3) 99% of mobile device POS transactions are facilitated by Apple/Google. APH (2021), 4) 90.6% of credit and charge card purchases are made with Mastercard and Visa. RBA (2024), 5) Source: The Initiatives Group (2024), 6) The Australian (2024), 7) The Treasury (2022), 8) ACCC (2021), 9) RBA (2024), 10) Results from Survey of fintech PSPs.

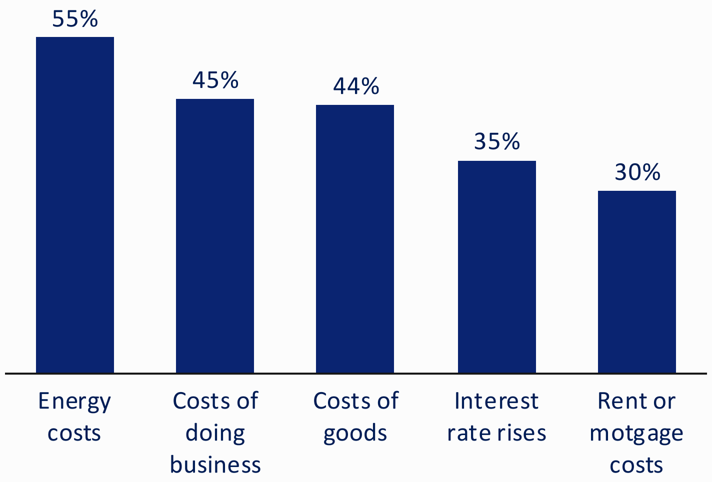
Contents

Small businesses are experiencing broad-based cost increases, resulting in approximately 50% operating at a loss

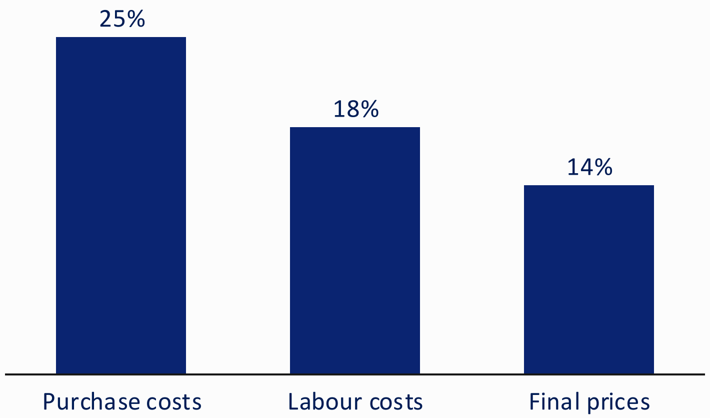
Factors impacting small businesses' financial situation

Small businesses facing each type of cost pressure, %, 2024; Cost pressures and final prices, % increase, 2020-2024; Small businesses facing negative margins, %, 2020 and 2024

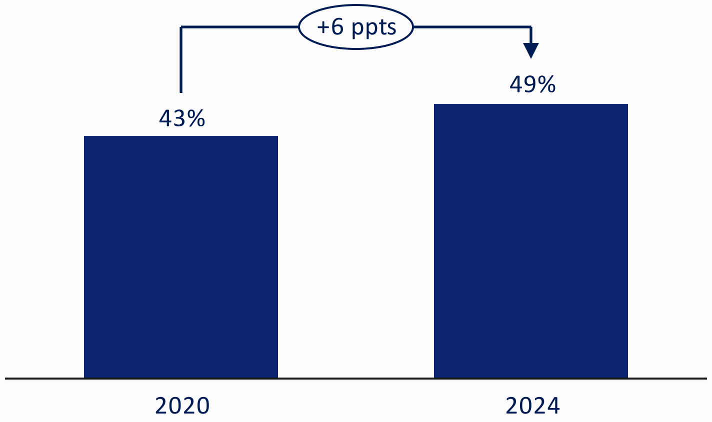
Cost increases are broad-based…



…and rising faster than final prices…



…leading 49% of small businesses to make a loss



Cost increases are broad-based, driven by rising international energy prices, higher input costs, increasing interest rates, and rising property prices and rents.

Since 2020, the cost of goods for small businesses has risen by 25%, and labour costs have increased by 18%, while their prices have only increased by 14%.

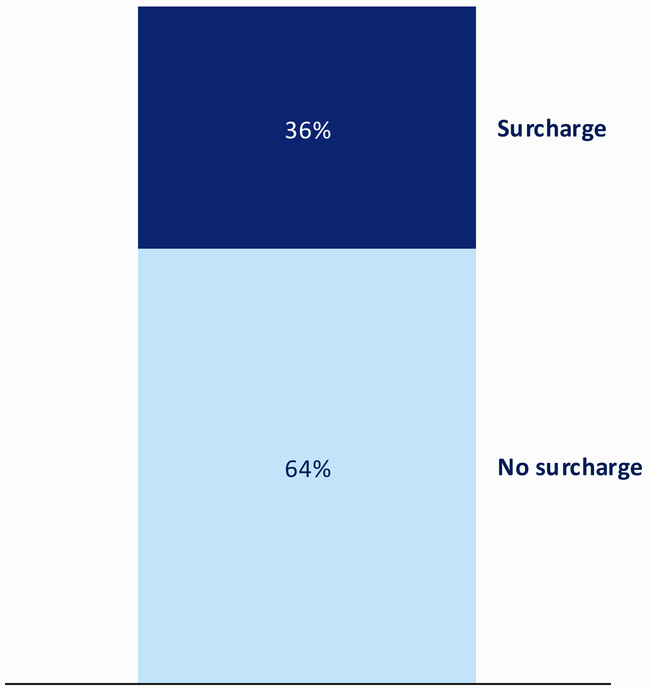
The broad-based nature of cost pressures, and the extent to which costs are rising faster than prices, has led to a 6 ppt increase in the share of small businesses making a loss since 2020.

Source: Council of Small Business Organisations of Australia (2024), Council of Small Business Organisations (2024), Export Finance Australia (2024), NAB (2024); Mandala analysis.

36% of small merchants surcharge on card transactions, with the highest prevalence among market stalls and those with a revenue range of $100K - $250K

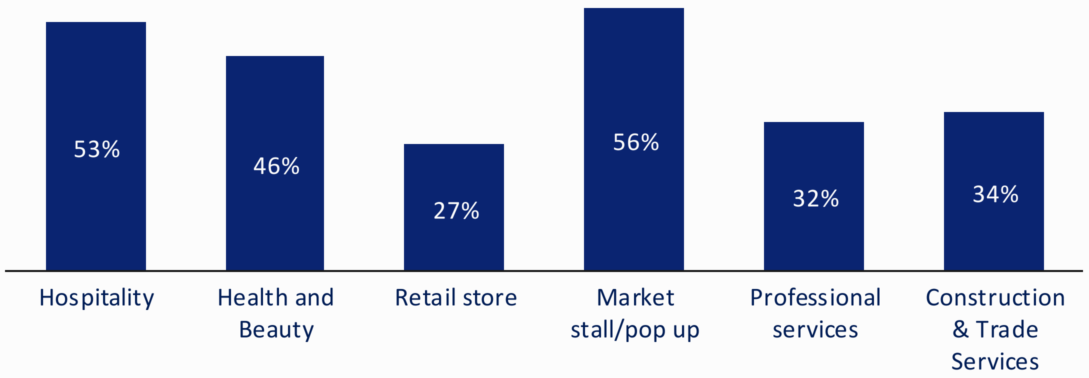
Prevalence of surcharging amongst small merchants[1]

%, 2024



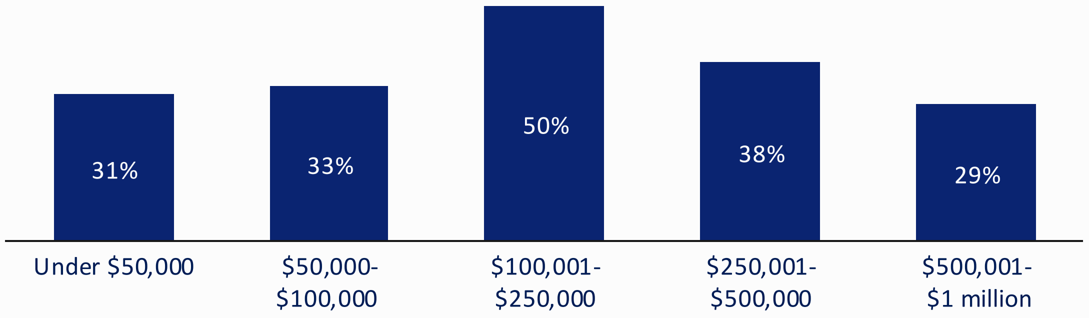
Prevalence of surcharging by industry

%, 2024



Prevalence of surcharging by merchant turnover per year

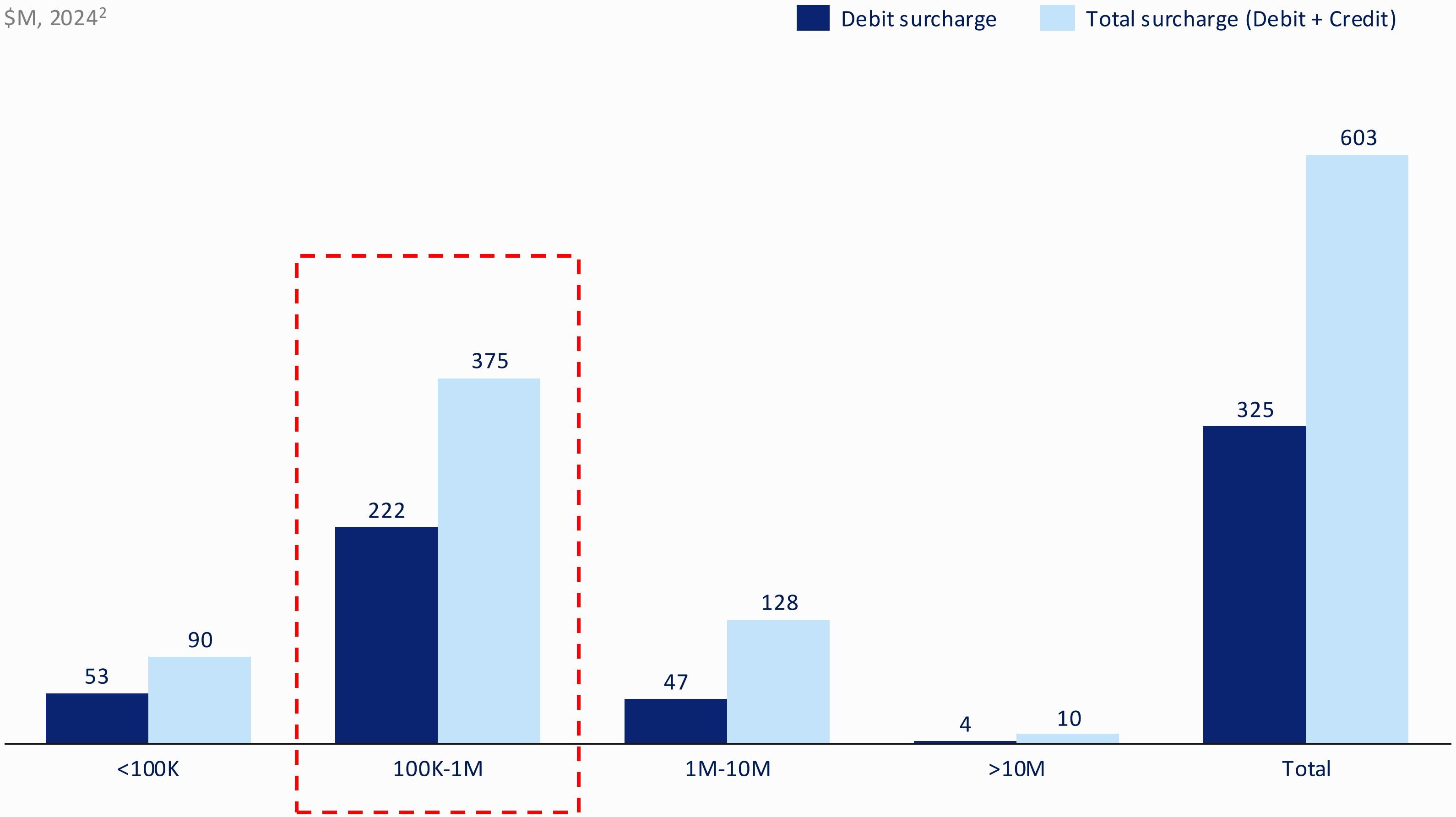
%, 2024



Notes: 1) Small merchants are defined as those with a turnover of less than $1,000,000 per year.
Source: Results from survey of Fintech PSP customers (n = 402); Mandala analysis

A surcharge ban, whether debit-only or total, would disproportionately impact small businesses with turnovers between $100K and $1M

Payment costs saved due to surcharging by merchant size[1]



Key findings:

- Small businesses with card transaction turnovers between $100K and $1M recoup $222M in costs by surcharging debit card transactions and $375M by surcharging all transactions.
- If surcharging is prohibited, small merchants who surcharge in this turnover range ($100K to $1M) would need to absorb $1,900 in debit card fees and $3,100 in total card fees (debit + credit) per year.

Notes: 1) Merchant size is defined by card transaction turnover. 2) 2024 represents data from Sept 2023 - Sept 2024.
Sources: RBA, Desktop Research, Expert Interviews

In response to a total surcharge ban, 44% of small merchants would increase prices

A survey of merchants found that:

- 44% would increase prices to over the lost surcharge.
- 43% would steer customers to pay by cash.
- 27% would do nothing.
- 16% would stop accepting card payments.

Merchants that raise prices are likely to increase them by more than the surcharge cost, as small businesses tend to adjust prices in fixed monetary increments rather than precise percentage changes.[1] For instance, a $5 coffee is more likely to increase to $5.25 instead of $5.06 to account for a 1.1% surcharge.

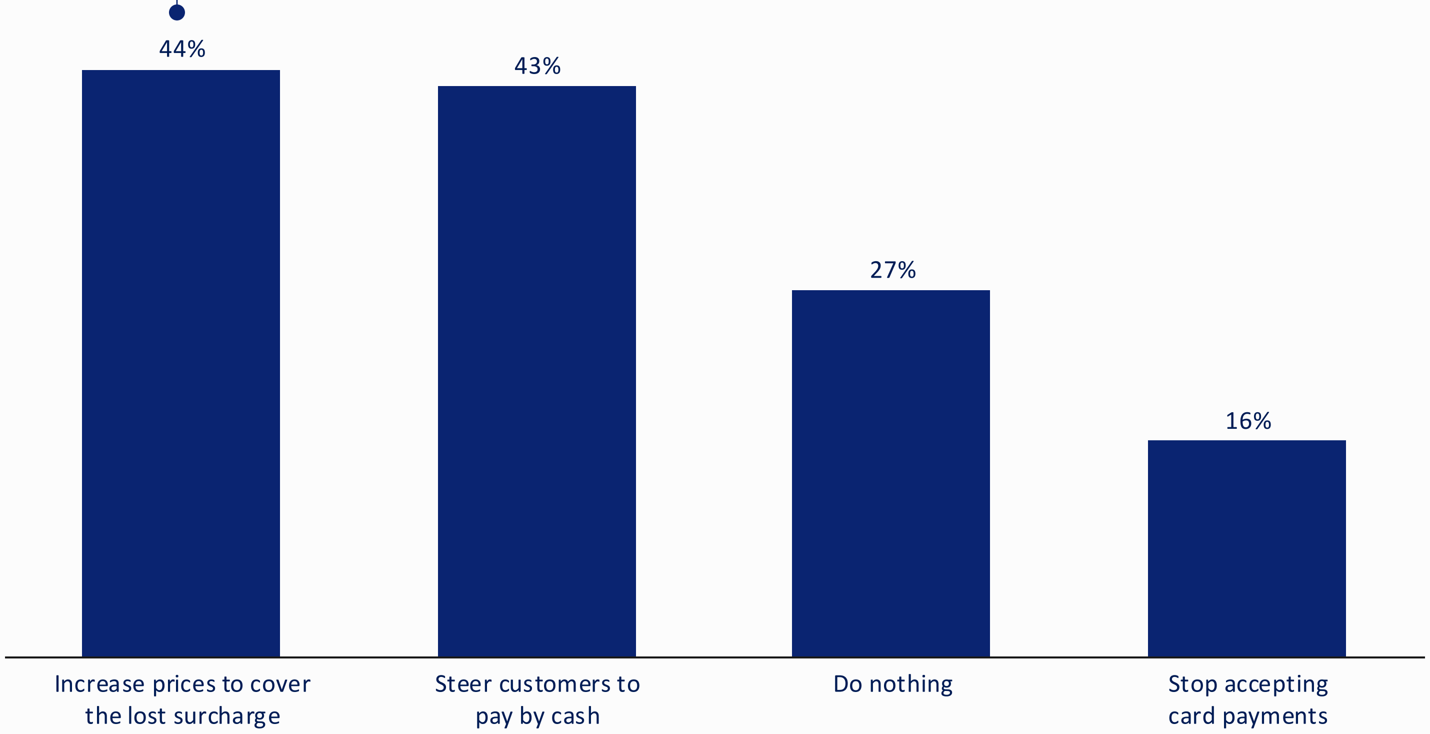
Also, steering customers toward cash payments introduces additional costs for merchants, including cash handling and reconciliation expenses. Accepting more cash will lead to higher costs for merchants, as the average cost of cash acceptance is 3.9% of the transaction value, compared to 1.5% for card payments for small merchants.[2,3]

Source: 1) Şen, A. (2012). A Comparison of Fixed and Dynamic Pricing Policies in Revenue Management. SSRN. 2) Boston Consulting Group (2024). 3) RBA (2024).

Merchant response to a potential total surcharge ban[4]

%, 2024

Almost half of merchants would increase the price of products in response to a total surcharge ban, resulting in higher costs for consumers.



Notes: 4) Totals do not add to 100% as merchants can choose multiple responses.
Source: Results from survey of Fintech PSP customers (n = 121); Mandala analysis.

In response to a debit surcharge ban, 31% of small merchants would increase prices

The primary responses from merchants to a potential debit card surcharge ban are:

1. Increase prices:

- 31% of respondents indicated that they would raise prices in response to a debit card surcharge ban, compared to 44% for a total card surcharge ban.
- The smaller proportion of merchants planning price increases for a debit card surcharge ban is largely due to their ability to continue applying surcharges to credit card transactions.

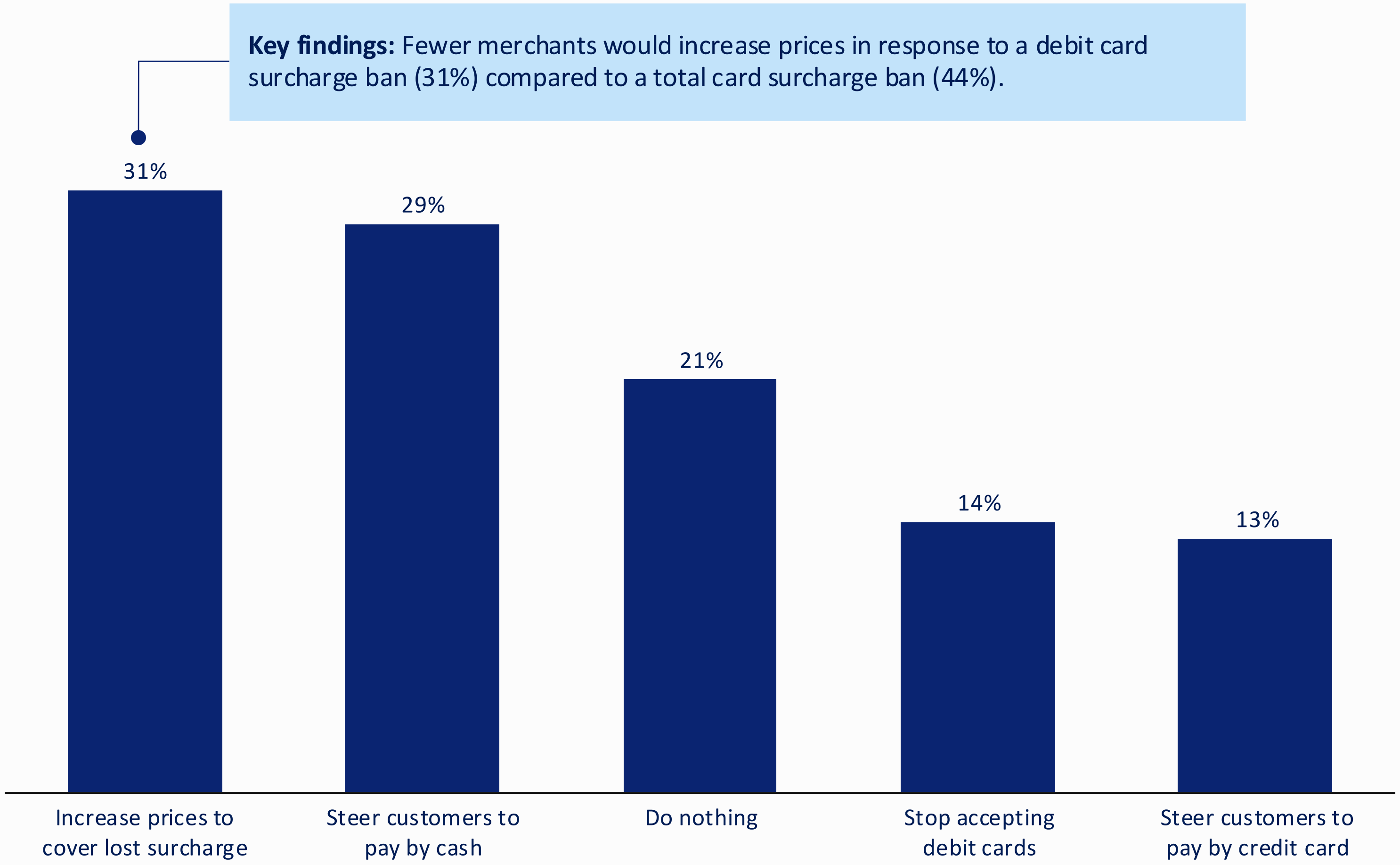
2. Encourage cash payments

- 29% of respondents reported they would steer customers toward cash payments in response to a debit card surcharge ban, compared to 43% for a total card surcharge ban. As mentioned in the previous slide, accepting more cash will lead to higher costs for merchants, as the average cost of cash acceptance is 3.9% of the transaction value, compared to 1.5% for card payments for small merchants.[2,3]

Source: 1) Boston Consulting Group (2024). 2) RBA (2024)

Merchant response to a potential debit card surcharge ban[1]

%, 2024

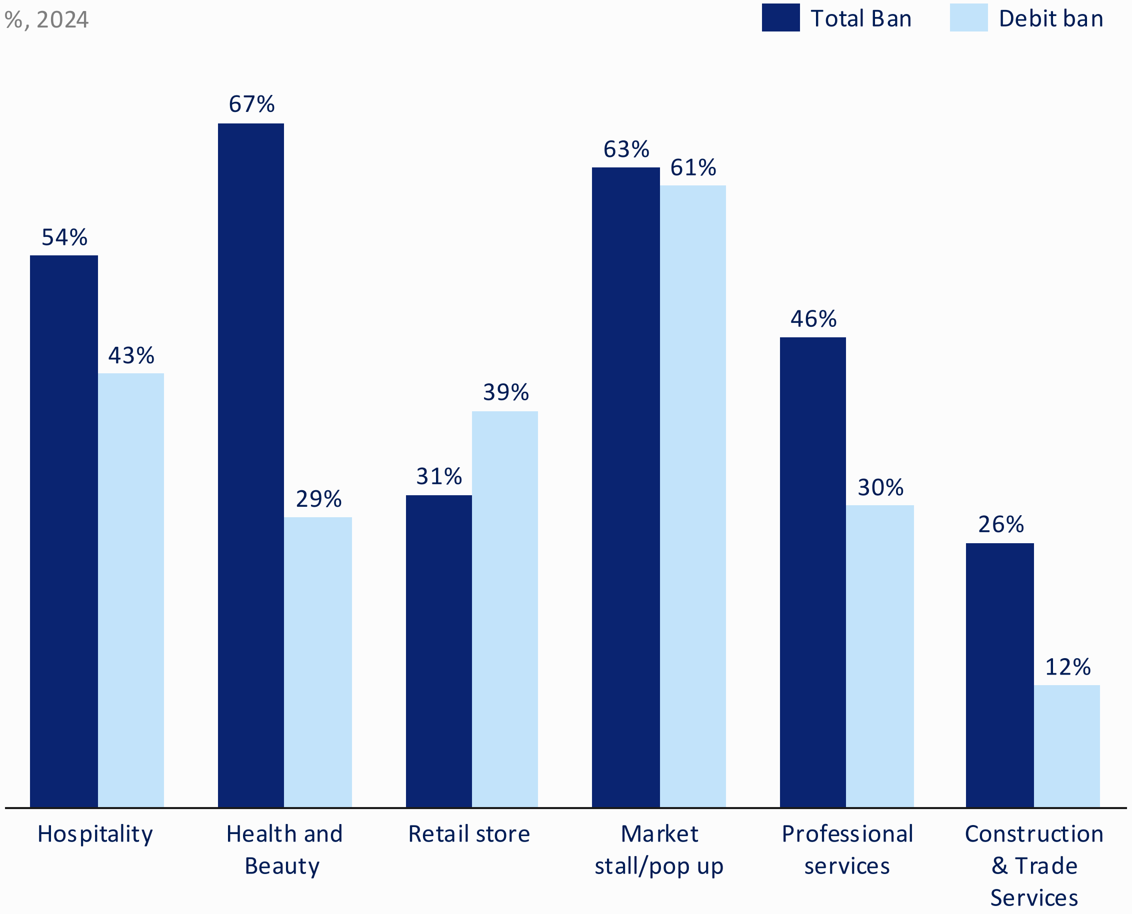


Notes: 3) Totals do not add to 100% as merchants can choose multiple responses.
Source: Merchant survey (n = 121); Mandala analysis.

Market stall and health & beauty merchants are the most likely to raise prices or encourage cash payments in response to a total or debit card surcharge ban

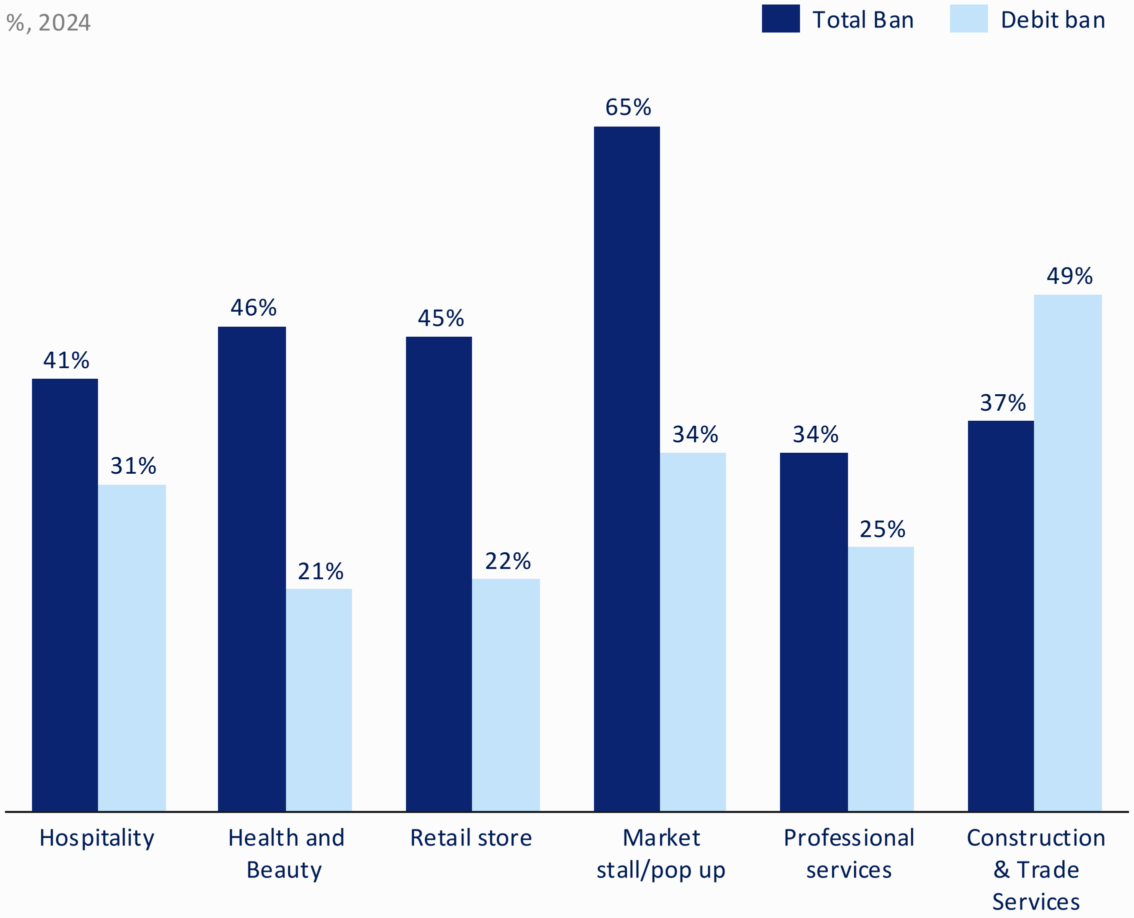
Industry breakdown: Increase prices to cover lost surcharge

%, 2024



Industry breakdown: Steer customers to pay by cash

%, 2024



Source: Results from survey of Fintech PSP customers (n = 121); Mandala analysis.

Banning surcharging may lead to higher merchant fees in the long run

Potential scenario if surcharging is banned, either entirely, or a debit-only ban

Surcharging banned

- Price signal transfers from consumer to merchant. Merchants may be more price sensitive and opt for cheaper merchant acquirers.

MSF falls

- This in turn causes innovative merchant acquirers and Fintech PSPs to exit the market.
- Only providers which are loss-leading or can cross-subsidise with other revenue streams can afford to stay in the market.

Competition falls

- As a result, market concentration increases. Card usage will also increase because customers don't pay a surcharge, leading to higher interchange revenue for issuers.

MSF rises

- Due to decreased competition, a new equilibrium is reached where prices are higher than before the ban was implemented.

Case study: The UK experience

Higher market concentration and debit card fees

Context
In 2018, the UK banned surcharging under the EU's Payment Services Directive 2 (PSD2). The UK extend the prohibition to all retail payment methods. The UK Treasury estimated the value of surcharges to be around £166 million in 2015.[1]

Higher market concentration in the UK
The merchant acquiring sector remains substantially more concentrated than in Australia, with the two largest merchant acquirers, Worldpay and Barclaycard processing about 70%-80% of card transactions by volume.[2] By contrast, the big-4 banks process 63% of card transactions by volume.[3]

Increase in debit card fees for merchants in the UK
In Australia, total fees as a percentage of transaction value for debit card purchases have decreased from 0.63% (combined for both schemes) in Mar-17 to 0.50% for Visa and 0.51% for MasterCard in Dec-22.[4] By contrast, debit card fees in the UK have increased from ~0.25% in 2017 to ~0.28% in 2022.[5]

Source: 1) HMRC (2018). 2)Merchant Savy (2024). 3) The Initiatives Group. 4)RBA Payments Data (C3). 5) British Retail Consortium (2023); Mandala analysis.

Surcharge-free payment models offer a potential solution to eliminate consumer surcharges

	Surcharge-free for consumers, merchants pays fee[1]	Fee-free for merchants, consumers pay surcharge
Merchant fee?	✓	✗
Customer fee?	✗	✓
How it works	• **Merchants pay a fee per transaction**, but the **consumer is not charged.** • The **payment provider utilises low-cost/ subsidised infrastructure**, often using "**account-to-account**" rails for cost efficiency.	• **Merchants pay the acquiring fee** (full transaction fee) but **pass this on to customers in the form of a surcharge.**
Infrastructure requirements	• Utilises low-cost payment rails that allow for **direct payments from one bank account to another** (e.g., UPI in India, PayTo in Australia). • The system **doesn't rely on traditional card networks or bank interchange.**	• **Utilises standard acquiring infrastructure**, which means relying on traditional card networks or payment gateways • The system works with **typical card schemes** (Visa, MasterCard) and **acquiring bank partnerships**
Revenue model	• The merchant pays a transaction fee. **Payment providers generate revenue through the fee paid by the merchant.**	• Fees to utilise these payment methods **are passed directly onto the consumer as a surcharge**, which means the **merchant does not pay any fees**.
Examples	PayTo, UPI (Unified Payments Interface)	zeller, smartpay

How we define 'surcharge-free' models in the context of the Australian market, for the purpose of this analysis

Notes: 1) 'Surcharge free' in practice, but surcharging still possible under thePayTo A2A model.
Source: Desktop research

Australia's PayTo infrastructure focuses on efficiency in recurring and direct payments, setting it apart from the app-based, consumer-driven models of UPI and WeChat Pay

	PayTo	UPI – UNIFIED PAYMENTS INTERFACE	微信支付 WeChat Pay
	Real-time, secure, and cost-efficient payments directly from bank accounts, enabling businesses to streamline operations and improve cash flow	**Interoperable, real-time payments via an open platform**, fostering app development and financial inclusion for consumers and merchants	**Wallet-driven payments within closed, ecosystem-driven environment**, integrating seamlessly with messaging, e-commerce, and services.
Infrastructure	**Centralised real-time payment system** using NPP, reliant on banking infrastructure and use of QR codes	**Real-time, interoperable system** leveraging the Immediate Payment Service (IMPS) platform	**Wallet-to-wallet system** within WeChat ecosystem; banks for onboarding/offboarding
Payment Flow	Consumer → NPP → Merchant	Consumer → Bank → Merchant (via UPI apps)	Consumer → WeChat Wallet → Merchant (within ecosystem)
Merchant Costs	**Potentially higher processing costs** if A2A payments replace a surcharge-able payment method	**Zero Merchant Service Fees**, subsidised by government	**Minimal or no fees**; WeChat earns through ecosystem monetisation (e.g., ads, services). Fee to offboard money to bank account
Third-Party Innovation	**Closed system**: no direct third-party app development	**Open ecosystem** allows apps and fintechs to enhance services	**Closed loop**; innovation centralised within WeChat ecosystem
Use-Case	Well-suited for business with recurring payments e.g. subscription payments, eInvoices, payroll	Facilitates a wide variety of payments e.g. P2P transfers, merchant payments, utility bills	Everyday transactions like retail purchases, dining, and transportation, integrated with the broader ecosystem
Implications for Merchant Acquiring	**Merchants integrate directly with NPP**, bypassing traditional intermediaries (e.g. card networks)	**Intermediary apps** like Google Pay and PhonePe **provide value-add services**, reducing control for banks	**Fully integrated into the WeChat ecosystem**, limiting merchant independence
Control Over Data	**Direct control for merchants and banks**; data centralised within NPP, Fraud recovery limited	**Shared between banks, apps, and UPI**	**Fully controlled by WeChat**, limiting merchant independence
Scalability	Scales well, but high costs for Fintech PSPs to build and maintaining infrastructure	High, includes unbanked populations	Scales well within the WeChat ecosystem, limited globally

Source: Desktop research

For consumers, introducing a surcharge-free model could save ~$500M

Total acquiring fees incurred by card type

Card transactions, $M, 2024 YTD

If **5-10%** of all transactions across card types were shifted toward a **surcharge-free payment option**, approximately **$500M in fees would be saved by consumers**

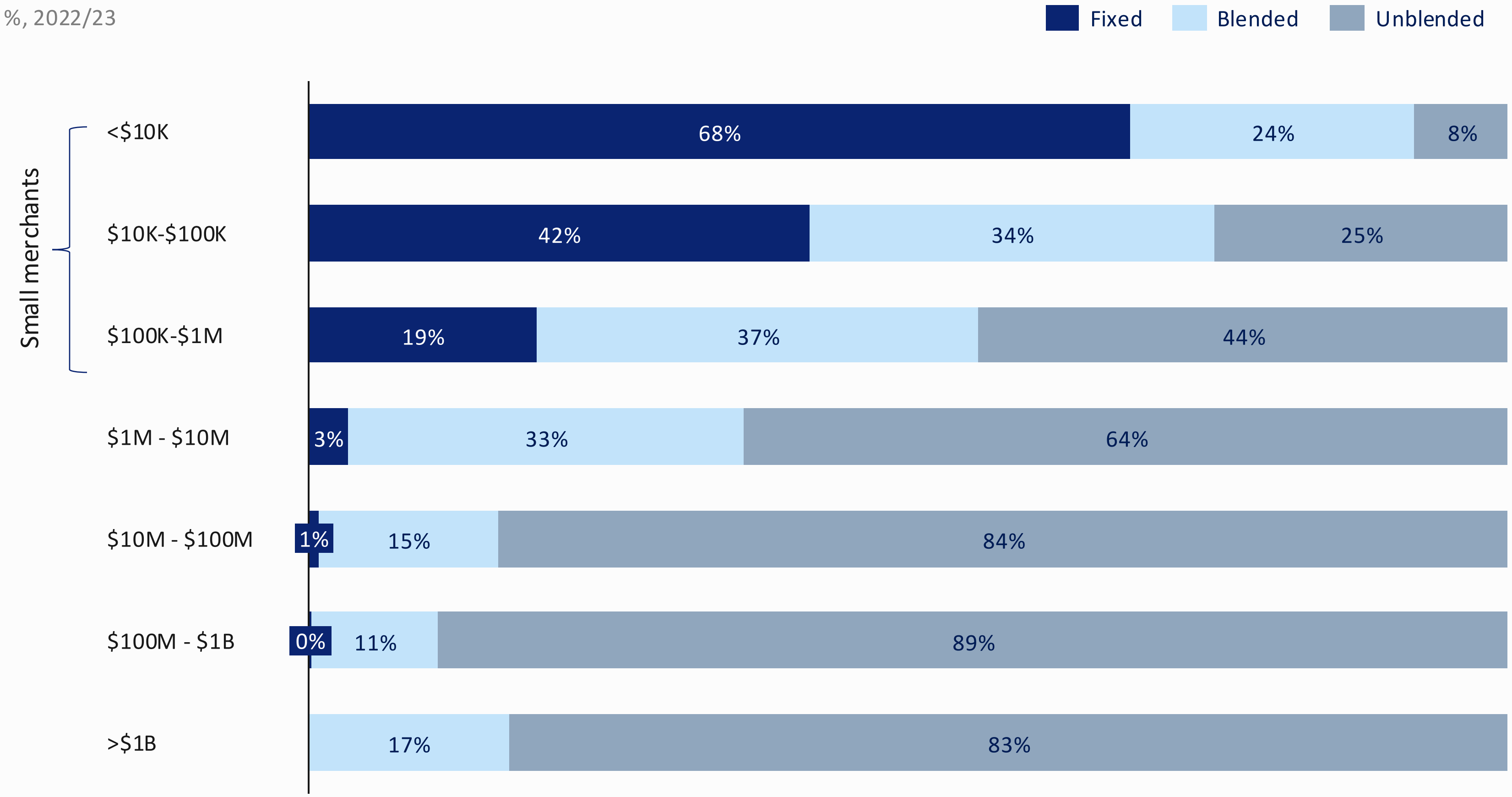
Sources: RBA, Desktop Research, Expert Interviews

Contents

68% of micro-merchants adopt fixed pricing. Merchants adopt fixed pricing because it is simple, easy to understand and straightforward to compare

Breakdown of merchant plans by size

%, 2022/23



Key findings:

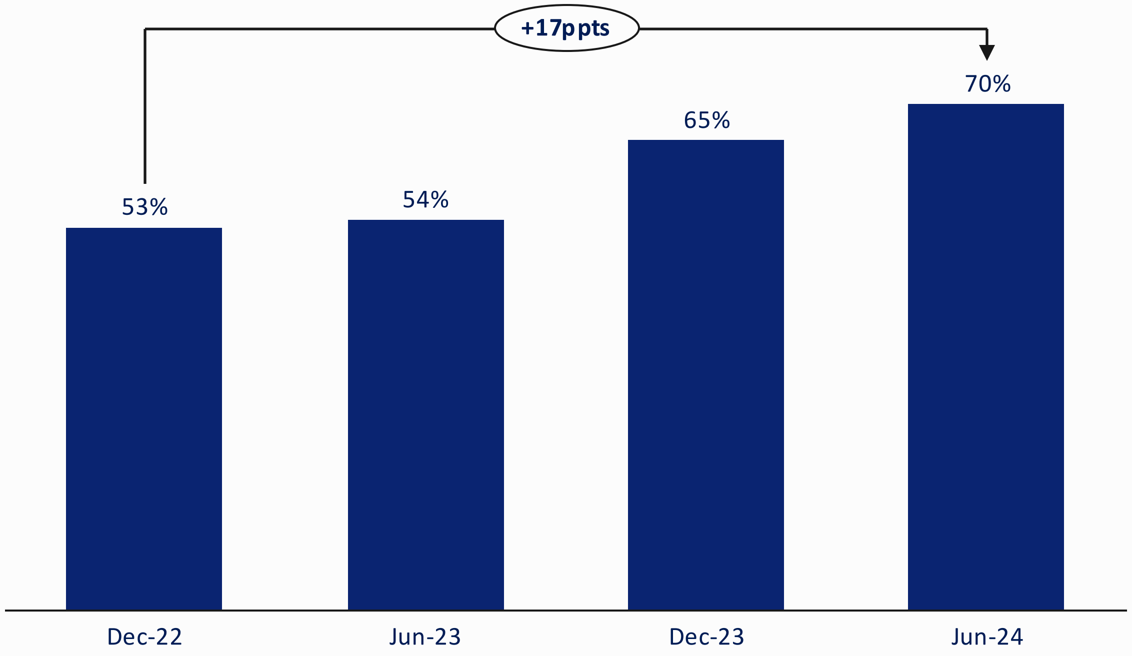
- Approximately 300K small merchants (turnover less than $10M) adopt fixed pricing.
- ~80% of small merchants adopt fixed pricing because it is simple, easy to understand, and straightforward to compare.
- An additional ~280K small merchants adopt blended pricing.

Notes: 1) Size is defined as the annual value of eftpos, Visa and Mastercard transactions.
Source: Expert Interviews, RBA (2024); Mandala analysis

70% of merchants have LCR enabled for in-store debit card transactions, with the highest enablement among those on fixed plans

Enablement of LCR for card-present debit card transactions

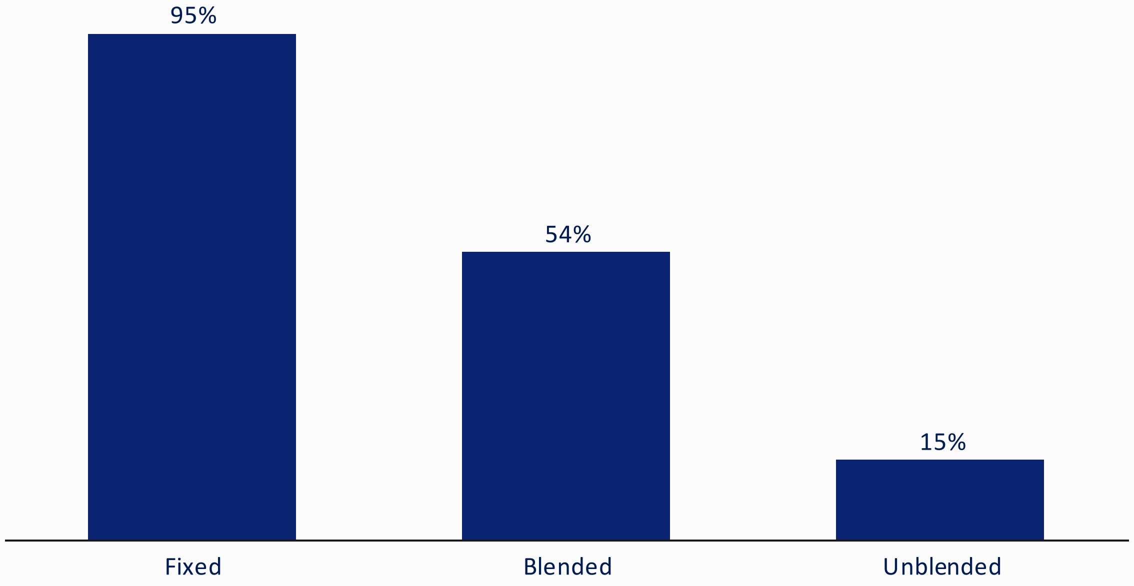
% of merchants



- In 2021, in response to slow industry progress, the RBA established a clear expectation for PSPs to offer and promote LCR.
- While LCR has been made available to over 90% of merchants since Dec-22, actual enablement remains at 70%, up from 53% in Dec-22.

LCR enablement rate by pricing plans

% of merchants, 2022/23



- Merchants on fixed plans have the highest LCR enablement, driven by automatic enablement, reaching 95% in 2022/23 (latest data).
- RBA regression analysis on LCR benefits for merchants on fixed plans was limited in accuracy due to the small comparison group, consisting of only 5% of fixed-plan merchants who were not LCR-enabled.

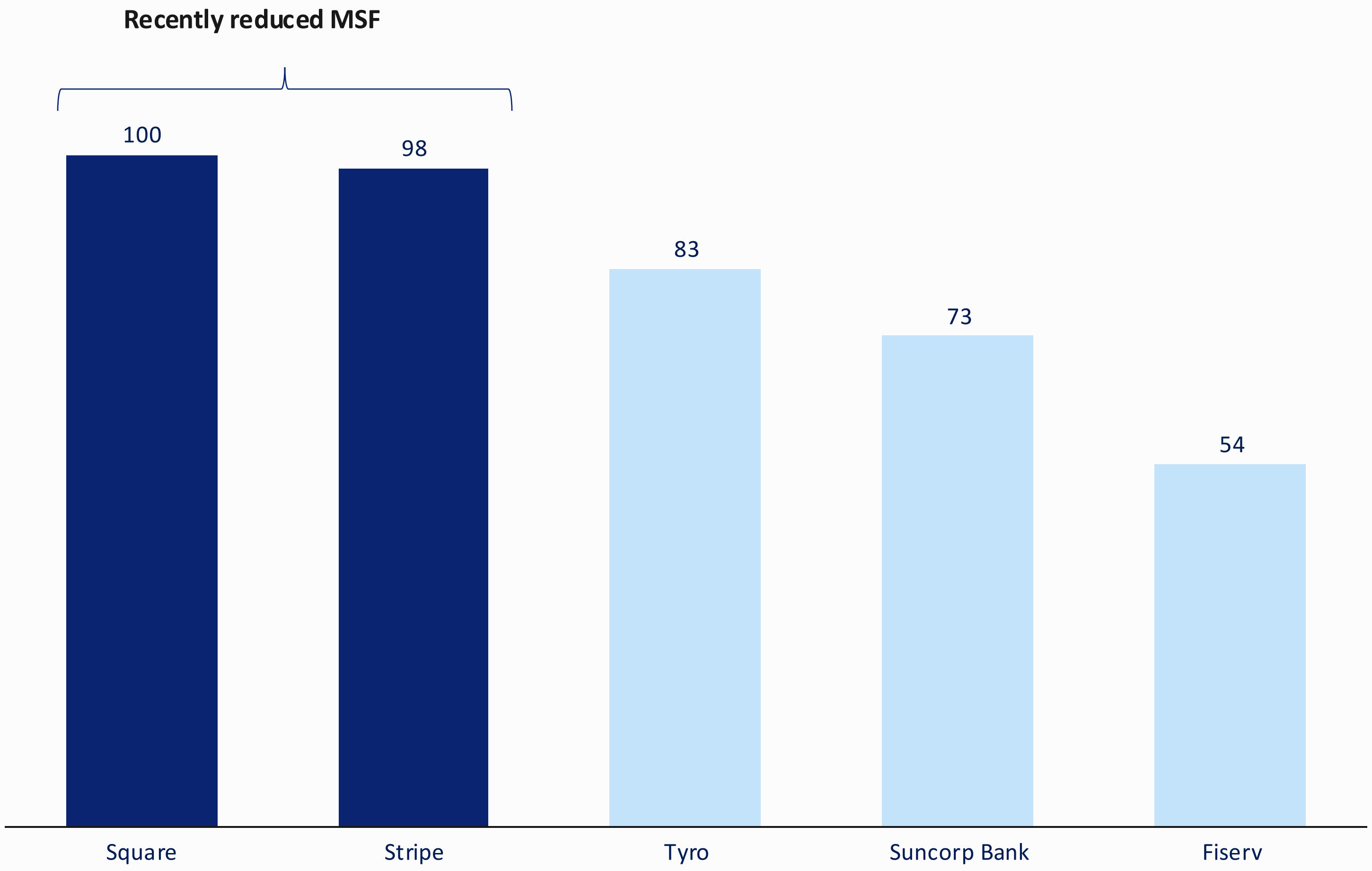
Source: RBA (April 2024, June 2024); Mandala analysis

Acquirers with the highest LCR enablement have started reducing simple plan rates

- LCR allows payment service providers (PSPs) to route debit card transactions through the lowest cost rail (e.g., Mastercard/Visa or EFTPOS).
- The resulting lower wholesale costs for PSPs can be passed on to merchants on fixed plans, depending on the level of competition.
- Recent evidence highlights that PSPs with the highest LCR enablement are passing on these benefits to merchants by lowering fees:
  - **Stripe – April 2024:** Reduced fees for card-present transactions from 1.75% + A$0.10 to 1.70% + A$0.10, explicitly citing LCR as the reason for the fee reduction.
  - **Square – May 2024:** Reduced fees from 1.9% to 1.6% for new Square sellers.

Enablement of LCR for card-present debit card transactions by acquirer

% of merchants, top-5 acquirers by LCR enablement, Jun-24



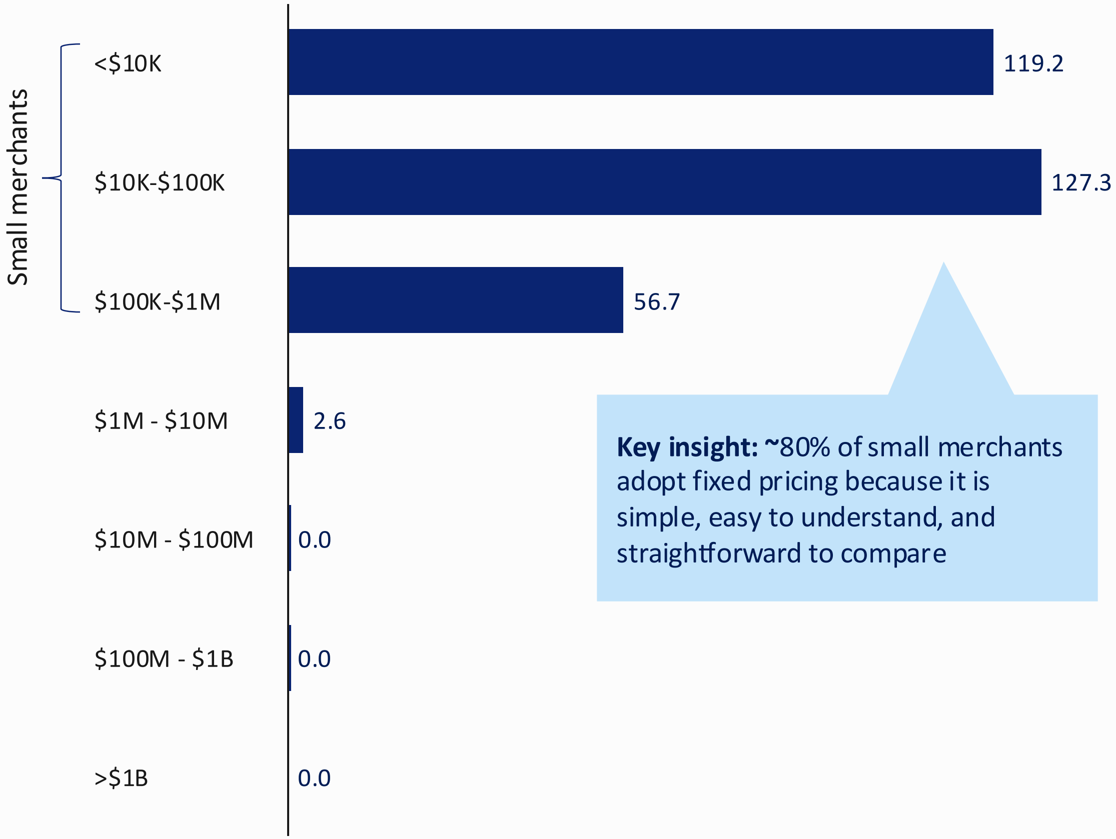
Source: RBA (June 2024); Mandala analysis

Contents

~300K small merchants are on simple pricing plans, with 68% of micro-merchants adopting fixed pricing

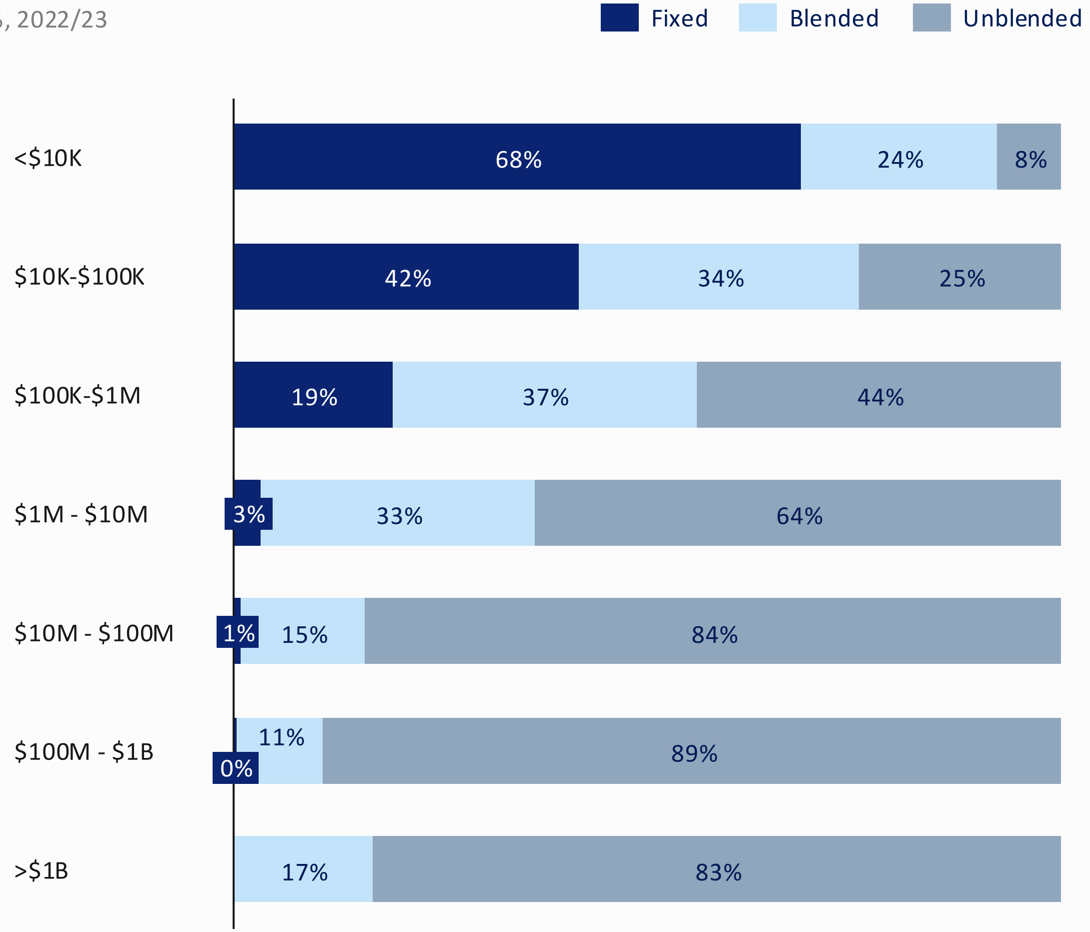
Number of merchants on simple pricing plans by size[1]

Thousands, 2022/23



Breakdown of merchant plans by size

%, 2022/23



Notes: 1) Size is defined as the annual value of eftpos, Visa and Mastercard transactions.
Source: RBA (2024); Mandala analysis

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