



# Australian Travel Industry Association (ATIA)

Submission to the RBA Review of  
Merchant Card Payment Costs and  
Surcharging

December 2024

# 1. Introduction

The Australian Travel Industry Association (ATIA) welcomes the opportunity to make a submission in relation to the RBA's Review of Merchant Card Payment Costs and Surcharging. The RBA's examination focuses on whether regulatory settings could be adjusted to put further downward pressure on merchant card payment costs and whether the RBA's surcharging framework remains fit for purpose.

In responding to the Issues Paper, ATIA has focused on areas of major concern to affecting the Australian travel industry. Overall, ATIA supports greater transparency for merchants and consumers regarding fees and costs incurred from both PSPs and card networks. Greater transparency will enable merchants to assess preferred arrangements and will introduce more competitive pressure into the market to drive down costs related to the payments system for both merchants and consumers.

A particular area of focus is around proposals to further regulate a business's ability to recover the true cost of electronic transaction through surcharging. Throughout the submission we have highlighted the unique circumstances of the travel industry, in particular agents who act as intermediaries, which were accepted by the RBA in previous reviews. The unique circumstances that apply to the travel industry mean that any changes to the surcharging framework will leave the industry disproportionately impacted and are not an appropriate outcome in the context of this review.

## About ATIA

ATIA is the trusted source for advice and best practice in the travel industry. Our mission is to highlight the integrity of our members through effective approaches in advocacy, industry recognition and awards and ultimately boost the confidence of the travelling public.

ATIA administers the Australian Travel Accreditation Scheme (ATAS), which is the largest and most representative accreditation scheme for travel businesses in Australia. All ATIA members must be accredited through this scheme and they are recognised for their highest operational standards including yearly assessment of finances, minimum levels of training, and procedures for dealing with consumer grievances. For 2023 ATIA rejected 25% of applications to join the Scheme.

Our membership base includes the full spectrum of travel intermediary businesses across Australia including retail, corporate and online travel agents, tour operators, wholesalers and consolidators. Our members range in size from the largest listed organisations such as Flight Centre, Helloworld, Corporate Travel Management and Webjet, through to small independently owned and operated travel businesses.

A large proportion of travel agent members are small to medium businesses, many of whom operate under networks such as Helloworld, Flight Centre Independent, My Travel Group, itravel, Express Travel Group, Travellers Choice and CT Partners. ATIA's membership also includes consolidators, tour operators and wholesalers such as Scenic, APT and The Travel Corporation who are reliant on a reliable and competitive aviation sector to maximize ground expenditure.

ATIA has a total of 1,750 ATIA-accredited member locations throughout Australia.

## 1. Surcharging

*Q12: 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?*

*Q13: What are the implications for merchant payment costs from changes to the surcharging framework? Could the RBA address these with other regulatory actions?*

The RBA's surcharging regulations allow merchants to surcharge consumers for the reasonable cost of accepting card payments. The Issues Paper outlines the recognised benefits of surcharging however notes there are concerns around the current operation of some elements of the payment surcharge system. The RBA is seeking feedback on a number of possible changes to the RBA's surcharging framework, including banning surcharges on debit transactions, banning surcharges more broadly, capping surcharges, and tightening the definition of 'cost of acceptance'.

The travel industry is a highly competitive industry which generally operates on low margins. In changing the surcharging system, particularly through banning surcharging or narrowing the definition of cost of acceptance, businesses would be asked to cover costs incurred through a consumer's choice to use a particular payment method, which are significantly higher in relation to credit cards. This will significantly impact small businesses in particular, noting 92% of ATIA members are small businesses. It is vitally important that merchants maintain the ability to surcharge to cover costs of acceptance.

In addition, it has previously been established that the travel industry faces a unique set of circumstances when it comes to the payments system and this remains unchanged. It therefore follows that unique solution is required, and the continuation of appropriate surcharging must be permitted for the travel industry, with no narrowing of the definition of 'cost of acceptance'.

There is a different risk profile borne in the travel industry more so than any other segment, given the higher transaction value and increased chargeback risk resulting from 'forward delivery risk' (FDR). In a previous submission to the RBA, ATIA referenced a finding that the FDR and therefore subsequent no fault third party chargeback exposure for the Australian travel agent sector was a rolling \$5.4 billion for a period of 70-120 days.<sup>1</sup> With some travel booked up to 36 months in advance, which is particularly common in relation to cruise, the chargeback exposure can be even greater. This is in contrast to industries such as retail or cafés, where the transaction size is typically smaller and with a shorter window for chargeback risks, which would generally be at a maximum of 30 days.

This impacts an agency's cost of acceptance, because FDR is viewed as an unsecured debt by potential acquirers. The cost associated for FDR and no fault third party supplier failure varies dependant on a merchant's transaction value, industry systems and macro-economic events. While rigorous due diligence is conducted by merchants to establish and maintain the credentials of a supplier, agents do not have oversight of all aspects of a supplier's business or economic events.

The scheme rules that provide card holders with an unlimited and in some instances an unchallengeable right means the costs borne by acquirers and third party payment companies is significantly higher which is ultimately paid for by the merchant. It has therefore been the responsibility of the merchants to implement risk management strategies to mitigate this risk at the request of the acquirer.

While techniques have varied, larger merchants can demonstrate mitigation strategies using their balance sheet, but smaller merchants are extremely vulnerable to excessive bonds charged by the acquirers. In previous ATIA submissions it was noted that some travel agents have had requests for bonds of greater than \$1 million to maintain a merchant terminal over the past five years. If a bond is unable to be paid the merchant terminal has been removed limiting the business' opportunity for

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<sup>1</sup> See submission by Australian Federation of Travel Agents (as ATIA was then known) to the RBA, [AFTA's response to the Review of card payments regulation Consultation Paper December 2015](#), filed February 2016.

growth. While travel agents have been used as an example to illustrate this, it is an issue that impacts all travel businesses regardless of if they are a principle or agent.

The RBA's Conclusions Paper of May 2016 expanded on this, where it recognised in relation to both travel agents and event ticketing companies:<sup>2</sup>

*Both are subject to potentially large chargeback risk on cards: this is where a card transaction is reversed, with the cost falling on the merchant, following a complaint to the issuer by the cardholder. Chargeback risk is of particular concern to firms in these two industries because the firm is acting as an agent for the principal (for example, a promoter or venue in the case of the event ticketing industry or an airline or hotel in the case of travel agents). In the event of a chargeback due to fraud by the purchaser or some failure by the principal, the agent may have to refund the total amount of the purchase, even though the booking fee that accrues to the agent is only a small fraction of the total purchase amount.*

Accordingly, the RBA previously deemed there to be merit in arguments put forward by the travel industry in relation to forward delivery risk, and found as follows:<sup>3</sup>

*...the cost of forward delivery risk to travel agents applies only when payments are made via scheme cards and results from scheme rules that require the provision of chargeback protection. The agent would not face this risk if customers paid with a bank transfer or BPAY, for example; in the event of supplier failure, those customers would become unsecured creditors of the supplier. In turn, acquirers typically require agents to post some form of bond or other protection to ensure that cardholders are protected in the event that the agent is unable to repay cardholders. **This would suggest that where agents face the risk of supplier failure on a particular payment method and take out insurance against that risk, the cost of that insurance should form part of the permitted surcharge.***

While there are costs of acceptance for all payment methods, a consumers' choice to pay using a high cost credit card should not be allocated to the merchant to fund. The reasoning that applied when determining what matters form part of the cost of acceptance remains, and the definition must not be narrowed. These limited permissible items that may form part of the cost of acceptance are easily identifiable and enforceable.

We also note that the ACCC has powers to take action against merchant surcharging that exceeds the merchant's cost of card acceptance, and this acts as a measure to protect against unreasonable surcharges.

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<sup>2</sup> Reserve Bank of Australia, Review of Card Payments Regulation, Conclusions Paper, May 2016, p. 32.

<sup>3</sup> Reserve Bank of Australia, Review of Card Payments Regulation, Conclusions Paper, May 2016, p. 35.

## 2. Interchange fees

*Q1: 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?*

The RBA notes in its Issues Paper that caps and weighted-average benchmarks for interchange fees have helped reduce card payment costs and limit the dispersion of fees paid by merchants of different sizes. It also notes that however, interchange fee schedules have grown in complexity and the cost of card payments remain substantial for some businesses.

Interchange plays an important role in supporting security, competition, productivity, innovation and consumer choice in the Australian payments market. It enables safe and efficient electronic payments by ensuring merchants and consumers receive value for making and accepting electronic payments at the lowest possible cost and drives the development of new products and technologies.

It follows that interchange fees are an important element in ensuring the payments system remains effective and that ongoing investment in innovation is encouraged. However, these should not be excessive, and the continuation of the current policy framework in relation to interchange fee caps is an important principle in keeping costs for merchants fair.

In relation to the RBA's consideration of implementing additional regulation on interchange fees for different sized businesses, ATIA submits that additional regulation should not be applied to scenarios that do not take into account individual business circumstances, such as investment in fraud prevention and credit monitoring. For example, some businesses spend more on their fraud prevention than others, meaning that the acquirer can allocate less funds and effort in relation those businesses compared with those who do not. The pricing of interchange fees should be set in accordance with what the merchant and the acquirer agree is a fair return on investment (in line with the current caps).

ATIA is supportive of measures to ensure Least-Cost-Routing (LCR) can be fully utilised, which can reduce interchange fees and card payment fees by increasing competition among card schemes.

*Q2: Should interchange regulation be extended to foreign card transactions in Australia?*

ATIA recognises that the cost of foreign card transactions is higher for acquirers and merchants in Australia than for equivalent domestic card transactions. Given this, there may be justification for the regulation of interchange on foreign cards in Australia.

However, there may be challenges in regulating foreign issuers, and the potential for unintended consequences must be properly considered. For example, ATIA understands that issuers incur great cost to issue and operate cards particularly for international transactions and in particular for remote (i.e. card not present) transactions where fraud risks are higher specifically in the 4 party models.

Extending interchange regulation to foreign card transactions in Australia may cause issuers to consider limiting the transactions they authorise from merchants/acquirers in other country/ies. This could have a detrimental impact on remote transactions in particular, where issuers may opt to stop authorising such transactions because fraud levels on these transactions may be too onerous relative to the interchange received.

Any reform in relation to interchange regulation extending to foreign card transactions in Australia must be balanced and take into consideration the full potential impacts of any changes.

*Q3: Is there a case for reducing the complexity, and/or enhancing the transparency, of interchange fees? If so, how?*

The Issues Paper recognises that interchange fee schedules have become more complex over time, and this complexity makes it hard for merchants on unblended plans to understand and check their costs, and compare service fees across PSPs, which may hamper competition.



Feedback from members indicates that the quality of data that is available from different PSPs varies. However, overall, members reported they do receive detailed information on interchange fees, and acknowledged that interchange tables are published.

### 3. Scheme fees

*Q4: Is there a case for further transparency of scheme fees to promote efficiency and competition? If so, what additional information would be beneficial?*

*Q5: Is there a case for regulatory action to reduce the complexity or growth of scheme fees? If so, what form should this take?*

*Q6: What other regulatory action should the RBA consider to increase the competitive pressure on scheme fees?*

The Issues Paper highlights that scheme fees have risen over time, putting upward pressure on card payment costs for merchants. There is also considerable variation in scheme fees between different card networks. Unlike interchange fees, there are no regulations restricting the level of scheme fees, and scheme fees can also be very complex and opaque.

ATIA agrees there is a case for increased transparency in relation to scheme fees, which will enable merchants to be fully informed about the actual costs incurred by the acquirer and ensure merchants can leverage efficiencies and pass the benefits on to consumers.

Member feedback has indicated that given the complexity of the scheme fee structure, it may be beneficial if schemes were required to categorise these feeds into key categories, for example security, fraud, network and other costs, and report on overall movements of costs within these categories. It was noted that this information would be helpful to enable comparison of different scheme providers, as well as historical performance and services and track changes over time.

The RBA also notes that LCR functionality acts as a source of competitive pressure on scheme fees for acquirers in the debit market and the ongoing rollout should help to put downward pressure on these scheme fees. For this reason, ATIA submits that measures to ensure LCR is available and enabled for merchants who wish to utilise it should be prioritised.

## 4. Least-cost routing

*Q7: 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?*

As noted in the Issues Paper, LCR gives merchants the ability to override the default network and route 'dual-network' debit card (DNDC) transactions via whichever of the two networks on the card costs them less to accept. This can directly reduce card payment costs for merchants while also increasing the competitive pressure on debit networks to lower their wholesale fees, thereby putting downward pressure on payment costs across the economy.

However, some PSPs have not gone on to enable LCR for their merchants. As at June 2024, LCR was only enabled for card-present debit card transactions for around 70 per cent of merchants. Further to this, according to RBA data, at least three PSPs have merchants – up to 26 per cent – that have chosen to not enable LCR because it is either not cost effective for them to do so or for non-price considerations. This highlights the need to ensure that as part of making LCR available to merchants, any cost savings incurred by the PSPs are passed onto merchants.

In addition, feedback from industry is that LCR for in-person transactions has been hampered by issues such as transaction limits on eftpos from certain banks. This impact is particularly felt in the travel industry, where the average amount spent on a trip may exceed typical eftpos limits. For example, Flight Centre in May 2024 reported that on average, in-store customers spent about \$5,500 on a trip.

Mandating PSPs to support dynamic LCR solutions at a transaction level (i.e. which evaluates and routes each individual transaction to the lowest cost network) would also support the functioning and effectiveness of LCR in person transactions.

ATIA notes that improvements in relation to LCR for online transactions and mobile wallet transactions are also of vital importance and we look forward to providing feedback when this is considered at a future stage of the Review.



## 5. Transparency of merchant service fees

*Q8: 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?*

*Q9: 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?*

*Q10: Should PSPs be required to publish standardised information on their pricing and services for merchants (in line with reforms introduced in the United Kingdom)?*

*Q11: What other regulatory measures should the RBA consider to improve competition between PSPs?*

The Issues Paper notes that in Australia, there is a distinct lack of publicly available information on the merchant service fees, wholesale costs, margins and size of PSPs providing card services to merchants, which may be hampering competition and efficiency in the payments system.

### Transparency of MSF

ATIA is supportive of measures to increase transparency of merchant service fees, which should increase competition and allow merchants to engage in more informed negotiations with PSPs and help them identify better suited pricing opportunities. As part of this, PSPs should publish standardised information on their pricing and services for merchants.

We note the RBA is considering whether, as in some overseas jurisdictions, PSPs should be required to separately price transactions processed across different networks to reduce cross-subsidisation and to provide more efficient price signals to consumers via surcharging.

There is some support for the suggestion that PSPs should be required to separately price debit and credit transactions to reflect the very different underlying cost structures of each (i.e. rather than having a single blended rate).

By making this information available by PSPs to particularly larger merchants, PSPs may be encouraged to compete on a greater granularity of price. This would also ensure the benefits are passed on to the merchant, and ultimately the consumer.

There are however benefits of having a less complex pricing scheme that uses blended rates for small or medium sized businesses.

### Transparency of risk frameworks and determinations of merchant bonds

Transparency of risk management frameworks and regulatory standards is essential and will put downward pressure on the cost incurred by small and medium sized merchants whose business model is an intermediary. Our members have experienced significant requests for bonds with no context or appeal process.

As has been detailed in this submission, there is significant cardholder benefit of chargeback rights where a good or service has not been delivered, and this is being borne by the merchant.

Following consultations with our members, we have seen what appears to be an unbalanced and uncompromising approach to remove merchant facilities through the application of significant collateral requests. ATIA and our members have been advised that these requests are a direct result of APRA regulatory requirements. However neither our members nor ATIA have been informed which APRA standards are driving this behaviour.

This process is being conducted via acquirers advising that they are conducting a Merchant Pre-Payment (PPE). We have been advised that the PPE examines the following:

- Prepayment risk is a contingent liability. If the merchant transacts the card payment, they assume responsibility for providing the goods/services.
- However, if the merchant does not provide the goods/services, then liability initially falls on the acquirer to refund monies to the cardholder, generally via a chargeback.
- In the event that the merchant business collapses or is unable to honour the provision of goods/services because of a material event, the acquirer has to honour all chargebacks.
- Therefore, it is essential that we assess PPE to quantify the underlying value at risk and determine whether security is required to cover the prepayment exposure.

The above PPE process does not take into account for the probability of the ultimate suppliers creating this risk event. The lack of a clearly defined and transparent process that examines risk at an industry level which can be used to examine risk at merchant level appears to be a result of outdated internal and external regulatory frameworks.