



Jerome Laxale MP

MEMBER FOR BENNELONG

Mr Ellis Connolly
Head of Payments Policy Department
Reserve Bank of Australia

Via email: pysubmissions@rba.gov.au
CC: connollye@rba.gov.au

Dear Mr Connolly,

We welcome the opportunity to write a submission on Merchant Card Payment Costs and Surcharging Issues Paper.

We write this submission together as the Members representing the electorates of Bennelong, Cunningham and Reid in New South Wales, Hasluck in Western Australia, Boothby in South Australia and Higgins in Victoria.

We also write this submission on behalf of the over 5000 people who signed our *Fee Free Digital* Petition listed at www.feefreedigital.com

As we will outline in detail, we believe that the case for high costs to merchants on digital payments doesn't stack up in a modern payments ecosystem.

Under the current rules and regulations, the cheapest form of payment is costing businesses exorbitant amounts and consumers more. At its core, our submission will challenge that reality and provide commentary on a path towards fee free digital payments.

We believe that no debit-style payment method should cost consumers more when using digital payments, than they would with the non-digital alternative. Debit-style payments are the new cash, and should be treated accordingly.

The world has shown innovation in the payments system to provide zero or near-zero cost fees for merchants, leading to fee-free solutions for consumers. The same should be true for Australians.

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We call on the RBA to significantly reduce digital payment costs to businesses, and mandate debit style payments as fee free for every Australian consumer.

Kind Regards



Jerome Laxale MP
Member for Bennelong

On behalf of:

Sally Sitou MP, Member for Reid

Alison Byrnes MP, Member for Cunningham

Michelle Ananda-Rajah MP, Member for Higgins

Louise Miller-Frost MP, Member for Boothby

Tania Lawrence MP, Member for Hasluck

16 December 2024

Submission to the Reserve Bank of Australia review into Merchant Card Payment Costs and Surcharging

Submission Date: 16 December 2024

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Current Costs are unfair and can no-longer be justified

As identified in the RBA issues paper, card payments account for three-quarters of all consumer payments, while the average merchant card payment cost has virtually stayed the same. The sheer growth of digital payments, particularly in the past decade, has meant that businesses have incurred increasing costs.

It is not uncommon for small businesses to pay thousands of dollars a month in merchant fees just to accept digital payments. Small businesses have reported to Members of Parliament that they're paying tens of thousands of dollars a year to accept digital payments with these growing amounts eating into profit margins.

Lower margins and increased costs for small businesses, and advances in point of sale and terminal technology have left many businesses with no choice but to pass on costs through existing surcharging rules. However, the advent of blended rate offerings, coupled with no mandated Least Cost Routing directive from the RBA, has driven up small business and consumer costs.

Blended rates, as identified by the RBA, are at odds with the current payment and surcharging intent as they hide the true cost of lower cost digital payment types. Those costs are being, in many cases, borne by the consumer through surcharging at rates higher than costs incurred.

All this has happened with a backdrop of advances in digital payment technology. As was given in evidence by Mr Matt Comyn, CEO of the Commonwealth Bank, at a recent Parliamentary Enquiry, transacting via digital payment methods are cheaper than non-digital payment methods. This makes complete sense - digitisation of methods leads to decreased costs across the board - think of mail vs email, digital storage of documents vs storage of hard-copy documents and, in this very relevant example, digital payments vs cash.

Yet inexplicably, the cheapest form of payment is costing consumers more than the most expensive form of payment. To us, this points to a system that is unfair and broken and one that is ripe for reform.

Debit is the new Cash

As noted in the RBA Issues Paper, in 2022 debit is used in over half of all transactions. From being the most dominant payment method in the mid 2000s, cash use has plummeted to 13%. Debit has effectively replaced cash.

For a number of reasons specific to the Australian Payments ecosystem, Debit style payments are the most likely path to free digital payments for consumers, and free or near zero cost for businesses. When we refer to Debit-Style payments, we mean digital payments that are near-immediately debited from the consumers bank account, agnostic of payment technology type.

With the EFTPOS debit network owned by the big banks and retailers, and with the under-utilised national New Payments Platform (NPP) also owned by the big banks, the case for debit costs falling further can easily be made. Both these payment networks are mature and have capacity for more transactions. Incentivised for consumers with zero cost, and zero or near zero cost for businesses, usage of debit style transactions would increase - thereby reducing cost per transaction.

This approach is one that has been a constant in overseas examples. Near exclusive use of cheap, safe debit style digital payments have led to zero cost of merchants and zero cost for consumers in many countries. Hong Kong uses its Fastpay system, India has UPI and China has both Alipay and WeChat pay. These payment systems involve fast, debit style transactions either through account to account, or a local card network.

With EFTPOS debit and the NPP, Australia has the payment infrastructure needed to support a fee free debit-style payment systems.

Costs need to be addressed

Surcharge reform cannot be the only reform conducted through this process. Costs also need to be addressed as we believe that the cost gap between big business and small businesses are unjustified and anti-competitive.

For instance, in Rawson Street Epping sit both Coles and an independent Indian Supermarket. Both Coles and the independent supermarket have specialised Indian produce for sale - yet both have widely different costs when it comes to processing payments.

The Independent supermarket gets charged a 1.5% merchant fee when a card is used at the checkout. It is known that Coles get charged a strategic rate. On a \$100 transaction, the Independent supermarket would pay \$1.50, and Coles could pay as low as 2c. There is no evidence to suggest that the cost of transferring funds differs between big and small businesses, nor is there evidence to suggest that large amounts of money cost more to transfer than small amounts. As such, cost disparity and the use of ad-valorem rates are again ripe for reform.

A simple surcharge ban would do little to address the cost inequity that unjustly exists in our payments system. Both costs and surcharges need reform.

Conclusion

Based on international examples, evidence given at Parliamentary Enquiries, issues identified in the RBA's paper and the way our payments system has evolved over the last decade - the case for high cost digital payments no longer stack up.

No arguments stand up when you compare them with the high costs involved with the non-digital alternative. In fact, the increased use of digital payments, incentivised by payments system reform, would ultimately reduce costs for banks, businesses and consumers.

Cash should always be part of our payments system, but it no longer makes sense for consumers to be charged less for cash payment than a surcharged digital payment. Debit style payments, be they through card, mobile wallet, or account to account, should be fee free at the checkout.

Our recommendation is therefore simple and achievable;

- Debit-style payments, that is where funds are available and immediately debited from the consumers account, regardless of digital payment method, should be fee free to consumers.
- Debit style payments should be at no cost, or an extremely low fixed cost for all businesses.

Both these reforms should occur concurrently.

We believe that you should not be charged to access your own money. Mandating fee-free debit-style payments, be they through card, mobile wallet, online or account to account, or any future technology, would satisfy this objective.

ENDS