Australian
Finance
Industry
Association

6 December 2024

Mr Ellis Connolly
Head of Payments Policy
Reserve Bank of Australia
8 Chifley Square
SYDNEY NSW 2000
By email: connollye@rba.gov.au

Dear Mr Connolly

RESERVE BANK OF AUSTRALIA: Review of Merchant Card Payment Costs and Surcharging

The Australian Finance Industry Association (AFIA) appreciates the opportunity to respond to the Reserve Bank of Australia (RBA) Review of ***Merchant Card Payment Costs and Surcharging*** **(RBA Issues Paper)**.[1]

AFIA is the only peak body representing the entire finance industry in Australia[2].

We represent over 150 members, including bank and non-bank lenders, finance companies, fintechs, providers of vehicle and equipment finance, car rental and fleet providers, and service providers in the finance industry. We are the voice for advancing a world-class finance industry and our members are at the forefront of innovation in consumer and business finance in Australia. Our members finance Australia's future.

We collaborate with our members, governments, regulators and customer representatives to promote competition and innovation, deliver better customer outcomes and create a resilient, inclusive and sustainable future. We provide new policy, data and insights to support our advocacy in building a more prosperous Australia.

[1] Reserve Bank of Australia, '*Merchant Card Payment Costs and Surcharging – Issues Paper*' (October 2024)
[2] Australian Finance Industry Association (afia.asn.au)

COMMENTS

Consumers' use of payment methods in Australia has shifted substantially since previous major reviews of the payments system.[3] [4] A recent report by Deloitte found by 2022, only 13 per cent of transactions, representing 8 per cent of total value, used cash.[5]

Our members are uniquely placed to provide valuable insights into this review because of their experience in offering payments products and services.

We support measures that facilitate the growth of the financial services industry through the promotion of efficient, competitive and innovative markets, with enhanced consumer outcomes through proportionate and scalable regulatory frameworks.

AFIA has provided detailed comments and recommendations in **Attachment A.**

Our comments build upon AFIA's previous submissions to Treasury on reforms to the payments system.[6][7][8] In particular, AFIA continues to support reforms to the payments system insofar as it is fit for purpose now and in the future and can support continued innovation for the benefit of consumers, businesses and the broader economy.

AFIA's position regarding the regulation of payments is that it should adopt the following principles:

1. Be targeted and right sized – proportionate, scalable, functions-based, and tech-neutral where possible.
2. Support competition and innovation, noting these dynamics are thriving and have delivered better choice, greater value and lower costs for merchants and consumers alike.
3. Balance financial stability and consumer protection, which is particularly important to ensure vulnerable customers are not disadvantaged with this next evolution and we avoid a new 'digital divide' in Australia.
4. Exist alongside self-regulation, which should continue to play an important role in setting high standards, getting ahead of change and customer expectations, and adapting existing frameworks to drive better customer outcomes.

[3] Reserve Bank of Australia, '*Strategic Review of Innovation in the Payments System*' (n.d.)
[4] Australian Government, '*Payments System Review: From System to Ecosystem*' (June 2021)
[5] Deloitte, *The Value of Australia's Retail Payments System* (November 2024). p. 4. Note: Can be provided upon request
[6] AFIA, '*Payments System Modernisation (Regulation of Payment Service Providers)*' (9 February 2024)
[7] AFIA, '*Draft PSRA 1998 Exposure Legislation*' (28 November 2023)
[8] AFIA, '*Reforms to the Payment Systems (Regulation) Act 1998 – Consultation Paper*' (26 July 2023)

5. Be efficient and effective – supportive of Australia retaining its global position as a financial centre and an incubator for ideas and responsive to this dynamic environment.
6. Aim for international interoperability to ensure Australia is an attractive market for investment with regard to payment service provision. AFIA members operate within other jurisdictions, and we support global regulatory alignment to facilitate compliance.

SUMMARY OF RECOMMENDATIONS

With these principles in mind, AFIA recommends:

- The RBA should only consider banning surcharging following a holistic review of the payments ecosystem. While the evidence to support a ban on surcharging is compelling[9], and consumer sentiment is increasingly in favour of such an approach, we are concerned that an adhoc or piecemeal approach may have unintended consequences for efficiency, competition and innovation.
- The RBA work with the payments industry on the introduction of principles and disclosure standards relating to interchange and scheme fees so that costs can be appropriately embedded, without transferring benefits across different participants and user types. For example, customers should not be required to pay for benefits that are merchant benefits.
- That any amendments to current regulatory settings and principles regarding payments strongly consider the needs of emerging market participants in striking the right balance between regulation and the promotion of efficiency, competition and innovation.
- That merchant rights be preserved to enable them to choose pricing models and products that work best for them and absorb business operating costs appropriately based on their preferred operating and distribution models.

CONCLUSION

Thank you for providing the opportunity to respond to this consultation. Our members look forward to providing comments and feedback as the review develops and we welcome the opportunity to discuss further.

[9] Reserve Bank of Australia, *'Issues for Consultation | Merchant Card Payment Costs and Surcharging – Issues Paper'* (October 2024)

If you would like to discuss any of these topics further, please contact me at diane.tate@afia.asn.au or 0421 441 777 or Roza Lozusic, Executive Director, Policy and Public Affairs, at roza.lozusic@afia.asn.au or 0431 261 201.

Yours sincerely

Diane Tate
Chief Executive Officer

INTRODUCTORY COMMENTS

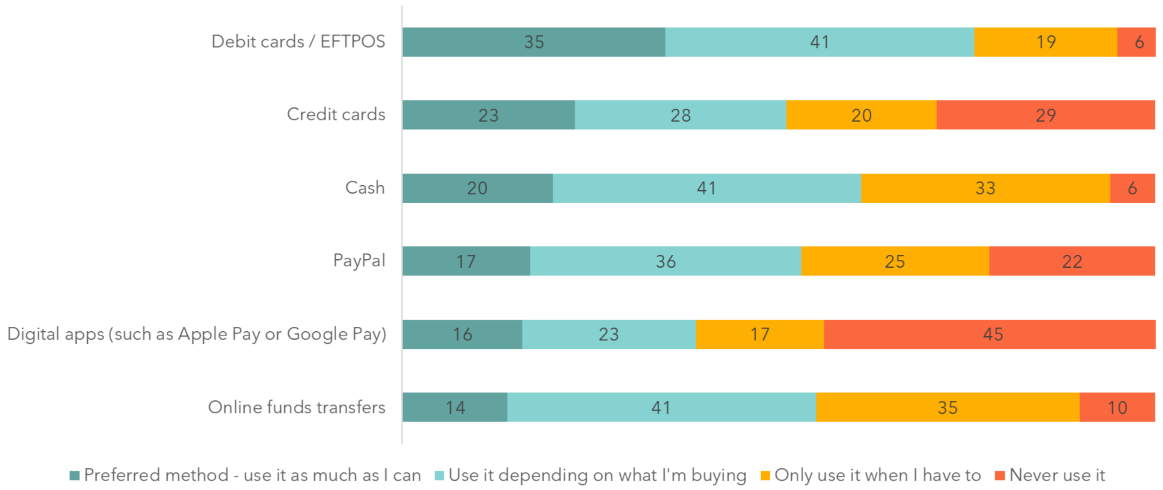
The Australian payments landscape

Consumer payment patterns in Australia have shifted substantially since previous major reviews of the Australian financial system, including the rise of newer digital electronic payments as preferred methods of payment for consumers.

Technological innovation, such as the use of internet banking, digital wallets and Buy Now Pay Later (BNPL) products have driven efficiency, competition and innovation in the payments market, leading to simpler, faster and more accessible and integrated payments.[10]

This shift was accelerated by the COVID-19 global pandemic, with consumers rapidly adopting increased digital behaviours leading to the expansion of the digital payments landscape.[11]

AFIA has conducted consumer research, which highlights the popularity of card and digital payment methods.



Source: AFIA, '*Australian's Attitudes to Finance and the Finance Industry*' (27 June 2024) *Note: Can be provided upon request*

Analysis conducted by the Reserve Bank of Australia (RBA), as part of its 2022 Consumer Payments Survey (CPS), showed that the number of cash payments as a share of total

[10] Australian Government, '*Payments System Review: From System to Ecosystem*', (2021).
[11] Ibid.

payments has declined in every subsequent year since the survey was first conducted in 2007.[12]

This report found that cash made up to 70 per cent of total payments in 2007, compared to a significantly smaller amount of only 13 per cent in 2022.[13]

The use of cheques, while only comprising a comparatively small percentage of payments in 2007 at one per cent, has still similarly experienced a sharp decline in popularity, comprising just 0.1 per cent of all payments made in 2022.[14]

AFIA believes the ongoing digitisation of physical transactions, underscored by declining use of cash and the upgrading of existing payments systems, affords unique opportunities for businesses to innovate and compete in Australia's payments ecosystem. Furthermore, the payments market is providing opportunities more broadly for Australia to achieve greater productivity, growth and wellbeing across our economy and society.

Market efficiency, competition and innovation

Innovation from the private sector over the past decade has seen the emergence of technological developments that have transformed the payments landscape for both consumers and businesses alike.

These developments have included the innovative use of data, analytics, and biometric systems to streamline the customer journey and enable faster, easier and more integrated access to payments.

It has also included the acceleration of cross-border and cross-currency instant payments, the ongoing integration of security measures to help reduce digital payments fraud, and the popularisation of digital products (including digital wallets, mobile payment apps, and BNPL).

The 2021 Department of Treasury review into Australia's payments systems noted that newer entrants into Australia's payments landscape – often financial technology firms or 'fintechs' – have been the principal drivers of payments innovation, which have developed in concert with the evolution of modern consumer preferences.[15]

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[12] The Reserve Bank of Australia, '*Consumer Payment Behaviour in Australia | Bulletin – June 2023*' (June 2023).
[13] The Reserve Bank of Australia, '*Consumer Payment Behaviour in Australia | Bulletin – June 2023*' (June 2023).
[14] Ibid.
[15] Australian Government, '*Payments System Review: From System to Ecosystem*', (2021), p.4.

Australia’s fintech sector has grown significantly over the past decade, with payments, wallets, and supply chain-focused fintechs being the most common category of fintech operating in the country, representing 33 per cent of the entire sector in 2023, the single largest sector category.[16]

For example, the BNPL sector has not only been a platform for innovation in Australia’s payments ecosystem, but has also been a significant driver of competition, creating a notably diverse sector of Australia’s finance industry. We are now seeing its expansion into the traditional banking and finance sector, with some banks now offering their own respective BNPL or BNPL-like products[17] and other financial firms embedding technology into data-driven decision-making systems using the lessons learned from the BNPL sector.

This sentiment has been reflected in comments made by the Hon Stephen Jones MP Assistant Treasurer and Minister for Financial Services in an address to the Responsible Lending & Borrowing Summit in May 2023, Minister Jones said,[18]

> *“Buy Now, Pay Later (BNPL) products have created many opportunities across the Australian economy. They have brought benefits to both consumers and businesses. In many ways, BNPL is a fintech success story; a financial innovation which has been exported around the world.*
>
> *And, through its relatively low-cost offering, BNPL has also provided a valuable source of competitive pressure on traditional credit products, such as credit cards or payday loans.”*

The entry of fintechs and domestic payments start-ups have ultimately improved competition, and put downward pressure on payment processing fees for merchants. In fact, local and global fintech companies, including Payment Service Providers (PSPs) have increased the size of the market by offering products and services, which serve the needs of small and micro businesses, complementing offerings by traditional market participants.

RBA data shows that the PSP market is the most competitive and diverse in the retail payments chain, with market concentration well below that of card issuing, mobile device operating systems or card schemes.

[16] Malia Forner, ‘*How Government Can Keep Australian Fintechs Powering the Economy*’, (29 November 2023).

[17] Australian Finance Industry Association, ‘*Submission on Regulating Buy Now, Pay Later in Australia - Options Paper’*, (22 December 2022), p.2.

[18] Jones, Stephen, ‘*Address to the Responsible Lending & Borrowing Summit | Treasury Ministers’* (22 May 2023)

RBA data also shows that the cost of electronic payments has come down significantly in the last 8-10 years, and Australia is now one of the lowest-cost markets globally for the acceptance of payments.[19]

AFIA believes it is important that further regulation in the payments landscape does not reduce or inadvertently limit the scope of competition and innovation in payments. Additionally, it is crucial that it does not reduce consumer choice or seek to direct consumers away from their preferred method of payment.

Enhancing financial inclusion

The global Committee on Payments and Market Infrastructure (CPMI) – of which the RBA is a member[20] – describes payments as the fundamental cornerstone of financial inclusion as it provides a gateway to other financial services including savings, credit and insurance products, and that transaction accounts provided by payment service providers rest at the heart of retail payment services.[21]

The CPMI also notes that emerging fintechs, particularly those which a focus on the delivery of payments services, have leveraged significant technological advancements to improve the design and overall quality of payment services, making them increasingly accessible, while also enhancing user experience and lowering market-entry barriers.[22]

Globally, there has been an ongoing and significant decline in the number of adults without access to a payments account, from 2.5 billion in 2011 to 1.7 billion in 2017 and down to 1.4 billion in 2021.[23]

Within an Australian context, a survey conducted in April 2023 by the University of Sydney found that nearly half of Australian business had plans to invest over the following 12 months in digital payments, including digital/mobile wallets, tap to pay services, and BNPL.[24] This further underscores the critical role of digital payment products and services in facilitating financial inclusion.

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[19] Reserve Bank of Australia, '*The Cost of Card Payments for Merchants | Bulletin – September 2022*' (15 September 2022)
[20] Reserve Bank of Australia, '*Payments System Board Annual Report – 2023*' (2023)
[21] World Bank Group and Bank of International Settlements, *Committee on Payments and Market Infrastructures: Payment Aspects of Financial Inclusion in the Fintech Era* (2020), p.2.
[22] Ibid.
[23] World Bank, '*Financial Inclusion*', (13 September 2022).
[24] The University of Sydney, '*Half of Australian Businesses Plan to Invest in Digital Payments*', (23 August 2023).

The same survey also found that 46 per cent of Australian businesses are now accepting four or more different payment methods, while 45 per cent of businesses signalled their desire to improve their current payment methods.[25]

As access to the payments system is a fundamental aspect of financial inclusion, it is important that the regulation of the payments system puts consumers' needs at the forefront and does not inadvertently exclude individuals from accessing finance. Consumers need affordable, reliable, and convenient payment methods through which they can effectively participate in the economy.

<u>AFIA notes that the ongoing expansion of digital payments platforms, predominantly led by emerging fintechs, and the increasing acceptance of digital payments by retail businesses, will continue to be a fundamental driving force of financial inclusion in Australia's domestic economy.</u>

INTERNATIONAL COMPARISONS

For regulators in comparable jurisdictions, the pace of the global digital transformation in retail payments means that innovation and competition have emerged as two of the most crucial elements in enhancing the efficiency of and access to the payments system.[26]

United Kingdom

In the United Kingdom, the Bank of England has found that consumer attitudes towards payments have shifted, with cash comprising only 23 per cent of total payments in 2019, a reduction of almost 60 per cent from a decade ago.

Cards still remain the preferred payment method in the United Kingdom, accounting for over 85 per cent of all retail transactions in 2022. 75 per cent of all card transactions in the United Kingdom in 2022 were from traditional debit cards, while the remaining 25 per cent were from credit cards. [27]

BNPL is now one of the fastest growth opportunities in the UK payments landscape, growing at double the rate of bank transfers and triple the rate of digital wallets.[28]

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[25] Ibid.
[26] World Bank Group, '*Governance of Retail Payment Systems: Keeping Pace with Changing Markets*', (June 2021).
[27] British Retail Consortium, '*Payments Survey*', (2023), p.11.
[28] Experian UK, '*How Has Consumer Behaviour Changed and What Does This Mean for the Credit Market?*', (27 January 2021).

Payments System Regulator (PSR) in the United Kingdom is currently in the process of undertaking its own work programme in examining regulatory settings relevant to the payments system in the United Kingdom.[29] In its regulatory approach, the PSR emphasises the importance of proportionality, competition and innovation. [30]

While the PSR's 2024-25 Work Plan includes a market review of cross-border interchange fees and a review of scheme and processing fees relating specifically to Visa and Mastercard – similar to what has already been proposed by the RBA – it notably does not include any plans to examine surcharging practises of newer market entrants such as BNPL providers.[31]

The European Union (EU)

Similar shifts in consumer behaviour and preferences in the payments landscape have also been found in Europe. The European Central Bank (ECB) conducted a consumer survey which was published in 2022, titled "Study on the payment attitudes of consumers in the euro area (SPACE)", which highlighted the ongoing shift in consumer preferences towards digital and online payment methods in the EU payments landscape.[32]
The ECB's SPACE 2022 questionnaire revealed 55 per cent of consumers in the EU preferred to use cards and other cashless payment methods when paying in-store, with one of the perceived key advantages for consumers being the convenience of contactless payment methods.[33]

The same ECB research showed that for those consumers who reported using cash less often, the most frequently cited reason was that paying electronically had become comparatively more convenient.[34]

European markets are also seeing an upwards growth trajectory in relation to consumer engagement with BNPL, with BNPL payment adoption expected to record a compound annual growth rate of 10.1 per cent between 2024-29.[35]

The ECB is undertaking a similar body of work across Europe's retail payments space, developing a Eurosystem retail payments strategy which places considerable emphasis on

[29] UK Payment Systems Regulator, '*Work Plan*', (April 2024).
[30] UK Payment Systems Regulator, '*PSR Regulatory Framework*', (n.d.).
[31] Payment Systems Regulator, '*Work Plan*', (April 2024).
[32] European Central Bank, '*Study on the Payment Attitudes of Consumers in the Euro Area (SPACE) – 2022*', (2022).
[33] Ibid.
[34] Ibid.
[35] Research and Markets, '*Europe Buy Now Pay Later Business and Investment Opportunities Databook - 75+ KPIs on BNPL Market Size, End-Use Sectors, Market Share, Product Analysis, Business Model, Demographics - Q1 2024 Update*', (February 2024).

'opening up the banking system and fuelling the development of innovative payment services by fintech companies.'[36]

Canada

Canadian markets have seen similar trends in terms of consumer uptake of digital and electronic payment methods. In 2022, debit cards and credit cards represented a 31 per cent and 33 per cent share of total payments (volume) respectively.[37]

Cash use by Canadians has declined significantly, representing only 10 percent of total payment transaction volume in 2022, and experiencing a considerable 59 per cent decline in use over the preceding five years.[38]

As noted by Payments Canada, consumers increasingly recognise the benefits of digital payments such as speed, ease of use, and low cost.

BNPL is also expanding its presence in Canadian markets. In 2022, 23 per cent of businesses in Canada offered BNPL options to customers, with this pathway accounting for 38 per cent of their respective payments. 55 per cent of businesses that weren't yet offering BNPL options in 2022 indicated they were considering doing so in the subsequent 12 months.[39]

The most significant reason Canadian businesses are seeking to add BNPL to their payment offerings is it increases consumer satisfaction, allows them to compete more effectively, and leads to an increase in order sizes.[40]

AFIA supports the RBA's position of enhancing Australia's regulatory framework to ensure all payment providers are able to be appropriately regulated. In considering these trends in comparative international regulation of payments, we also emphasise the need for competition and innovation to remain central considerations of any future regulatory directions.

[36] European Central Bank, '*The Eurosystem's Retail Payments Strategy*', (2023).
[37] Payments Canada, '*The Future of Digital Payments Is Here: Canadian Payment Methods and Trends Report 2023*', (2023), p.8.
[38] Ibid.
[39] Payments Canada, '*The Future of Digital Payments Is Here: Canadian Payment Methods and Trends Report 2023*', (2023), p.50-51.
[40] Payments Canada, '*The Future of Digital Payments Is Here: Canadian Payment Methods and Trends Report 2023*', (2023), p.51.

SURCHARGING

The RBA first implemented rules in 2003 that required card schemes to remove their 'no-surcharge rules', allowing merchants to surcharge consumers for card payments.[41]

Through the removal of the no surcharge rules, the RBA aimed to support the payments system by introducing a price signal – thereby encouraging consumers to use the lowest cost payment instrument available to them.[42]

In relation to what makes up the cost of a surcharge for businesses (also referred to as the 'cost of acceptance'), as outlined by the Australian Competition & Consumer Commission (ACCC), this will generally include merchant service fees, rental and maintenance fees for payment card terminal, and other related fees which may include cross-border transaction fees, fraud-related chargeback fees, and switching fees.[43]

Businesses are also allowed to pass on additional costs in the form of a surcharge, including gateway fees, the costs of insuring against forward delivery risk, and the costs of fraud prevention services paid to an external provider.[44]

Consumer sentiment on surcharging

Consumers have previously demonstrated their preference for lowest cost options, with around half of consumers stating they would opt for a non-surcharged payment method as opposed to accepting a surcharge, and approximately 20 per cent of consumers would avoid shopping at a retail store which levies a surcharge.[45]

Consumer sentiment towards surcharging means that for merchants, any increase in surcharges levied on payments by consumers could result in a considerable reduction of transactions at the point of sale (POS).

Recent AFIA consumer research has shown while most Australians believe that the payments system works well and offers good value for money for both consumers and merchants, they overwhelmingly reject the justification for surcharging. [46]

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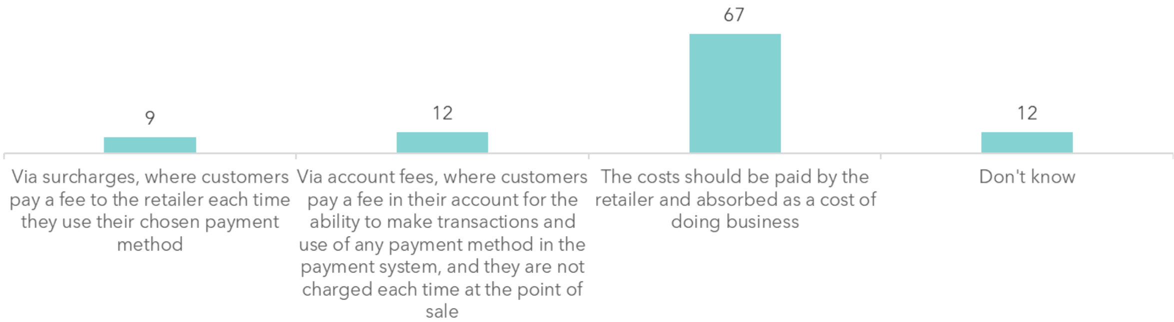
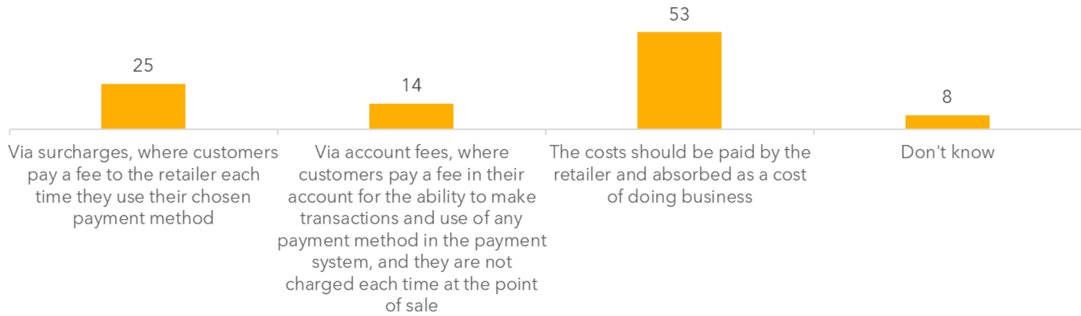
[41] Reserve Bank of Australia, '*Card Payments | RDP 2023-08: The Evolution of Consumer Payments in Australia: Results from the 2022 Consumer Payments Survey*', (November 2023).
[42] Ibid.
[43] Australian Competition & Consumer Commission, '*Payment surcharges – only charge what it costs you*', (January 2018).
[44] Ibid.
[45] Ibid.
[46] AFIA, '*Australian's Attitudes to Finance and the Finance Industry*' (27 June 2024) *Note: Can be provided upon request*

When asked how costs for developing new payments systems should be covered, 67 per cent of the general public say that the costs should be absorbed by the retailer as the cost of doing business.



Source: AFIA, '*Australian's Attitudes to Finance and the Finance Industry*' (27 June 2024) *Note: Can be provided upon request*

Perhaps more significantly, 53 per cent of SME representatives say that the costs should be absorbed.



Source: AFIA, '*Australian's Attitudes to Finance and the Finance Industry*' (27 June 2024) *Note: Can be provided upon request*

Similarly, when asked if outlets and retailers should be able to include wider costs in their surcharges, 54 per cent of the public and 62 per cent of SME representatives say that outlets and retailers should only be able to pass on the actual amount they are charged by their financial institution for that specific transaction.
It is understood the main drivers behind public views about surcharging are efficiency, simplification and fairness.

In addition, according to the CHOICE Consumer Pulse September 2024, 66 per cent of people reported that businesses often apply card surcharges without telling them. The research also shows that 88 per cent of people think that businesses should be required to tell customers the amount of a surcharge, and that only 15 per cent of people think that applying a surcharge for paying by card is fair.[47]

Overseas regulation of surcharging

AFIA notes that other comparable jurisdictions have implemented bans on card payment surcharges. For example, the United Kingdom introduced a ban against surcharges for payments via Visa, Mastercard, American Express, and PayPal in 2018.[48]

The EU also introduced the Payment Services Directive 2 (PSD2) in January 2018, which effectively banned merchants across the EU from surcharging consumers in most instances.[49][50]

As noted in the RBA Issues Paper, with the advent of single-rate payment plans[51], debit and credit card transactions are often surcharged by merchants at the same rate, meaning there is no longer an effective price signal to encourage consumers to use lower-cost payment methods.[52]

The emergence of blended pricing models, which have been embraced by incumbent and fintech merchant acquirers alike in the last decade, have altered the original vision of how this price signal should operate.

However, we note simple pricing does not eliminate price signals, but transfers them across the system in various ways, such as from the consumer to the PSP or the merchant to the PSP, etc.

PSPs have a direct incentive to use lower cost payment networks to process transactions and have greater negotiating power with the card schemes than individual merchants alone. The subsequent savings from this can then be used to lower overall costs and improve service offerings. Blended pricing products are favoured by merchants for their transparency, simplicity and predictability. Merchants should continue to have the choice to select between

[47] CHOICE, '*Two in Three People Say They've Incurred a Card Surcharge without Knowing: CHOICE*' (25 November 2024)
[48] UK Government, '*Consumer Rights: Payment Surcharges*' (13 August 2015)
[49] Ecommerce Europe, *'EU's Revised Payment Services Directive to Enter into Force on 13 January - Ecommerce Europe'* (11 January 2018).
[50] *The EU's surcharge ban applies where the consumer's bank or card issuer and the payment service provider of the merchant are both located in the European Economic Area (EEA) and the consumer makes a payment either using a debit or credit card, or by direct debit or credit transfer.*
[51] *A single-rate payment plan refers to a merchant payment product where costs for accepting different payment methods are 'blended' into a single, flat-rate price.*
[52] Reserve Bank of Australia, *'Issues for Consultation | Merchant Card Payment Costs and Surcharging – Issues Paper'* (October 2024)

blended and non-blended pricing models, and AFIA would not support a regressive move to limit the pricing models in the Australian market.

RBA questions on surcharging

The RBA Issues Paper is seeking feedback on how issues with surcharging should be addressed including (but not limited to):

- Banning surcharges on debit transactions
- Banning card surcharges more broadly
- Capping surcharges.

Also noted in the RBA Issues Paper is the distinct lack of transparency on surcharging practices among the breadth of merchants operating in Australia, which has not only led to a lack of readily available information for consumers but has also made monitoring and enforcement difficult [53].

As major comparable jurisdictions have already implemented bans on surcharging, and consumer sentiment is moving away from surcharging practises in Australia, there is a case for the RBA to consider a ban on surcharging.

<u>However, AFIA believes that further consideration of surcharging should not be considered in isolation and a holistic review of payments system is required to ensure there is not a reduction in competition, innovation and efficiency.</u>

INTERCHANGE AND SCHEME FEES

AFIA acknowledges the RBA's view that interchange regulation has contributed to a more efficient payments system. However, we also note that interchange fee schedules have continued to grow in complexity, making it increasingly difficult for some merchants to understand and check their costs, and compare service fees across PSPs.

AFIA also notes the considerable discrepancy in the bargaining power of small and large merchants, with larger merchants able to directly negotiate much lower 'strategic' interchange rates from the card networks.

Similarly, we note the lack of transparency with scheme fees payable by acquirers and issuers. As noted in the Issues Paper, while merchant fees have reduced over time, the scheme fees component has increased in parallel.[54]

[53] Ibid.
[54] Ibid.

In addition, scheme fees have also become increasingly complex and opaque, with some card networks having hundreds of fees, with their respective fee schedules not typically being publicly available.

In considering the above, AFIA supports the RBA working with the payments industry on the introduction of principles and disclosure standards relating to interchange and scheme fees.

LEAST COST ROUTING

AFIA acknowledges the RBA's explicit industry expectations around the enabling of Least-Cost Routing (LCR), and particularly within the scope of the current Review, for in-person transactions.

We note that, as set out in the issues paper, LCR functionality is becoming more widely available among merchants for in-person transactions, with the share of merchants with LCR enabled for in-person transactions increasing to approximately 70 per cent as of June 2024.[55]

It is also worth noting that, as highlighted by the RBA, take-up of LCR for in-person transactions has been lifted by PSPs offering single-rate payment plans, with LCR implemented 'in the background' and resulting in lower wholesale costs for PSPs.[56]

While progress on LCR has been encouraging, AFIA submits that a formal mandate warrants further consideration in ensuring broad-spectrum coverage among Australian merchants.

TRANSPARENCY OF MERCHANT SERVICE FEES

Hundreds of thousands of small and micro businesses have chosen simple/blended pricing products offered by Acquirers/Payment Service Providers (PSPs), where merchants pay a flat fee for any card — meaning that low-cost debit cards cost the same to accept as high-cost international cards.

By extension, this flat-fee service model has allowed merchants to offer consumers the ability to choose from a variety of payment methods.

[55] Reserve Bank of Australia, *'Issues for Consultation | Merchant Card Payment Costs and Surcharging – Issues Paper'* (October 2024)
[56] Ibid.

As noted above, these products have been embraced for their simplicity, predictability and value for money. Some merchants actively choose to use these products, while others choose to use non-blended pricing products.

Since simple pricing models have been available in Australia, market concentration has reduced, and average total Merchant Service Fees have consistently declined over the last decade.

While the RBA has concerns about the dampening effect they have on price signals, we note that there is no discernible benefit in banning simple/blended pricing products.

In fact, such a ban would potentially have four negative impacts on competition, complexity, financial inclusion and economic productivity:

1. It will reduce competition between PSPs leading to increased costs.
2. Consumers will be confronted by complex card type/scheme rates tables, which are meant to be a price signal but instead serve to confuse, likely increasing the time to complete a transaction.
3. Some small and micro businesses will lose access to card acceptance altogether, as PSPs (particularly local fintechs) are driven out of the market.
4. Access to PSP's value-added services available (POS, business software integrations, etc) will be reduced, harming productivity and increasing operational costs.

AFIA acknowledges the RBA's desire to increase transparency around blended pricing products by making data publicly available. However, we highlight the need to carefully consider potential issues arising from forcing PSPs and other related service providers to disclose commercially sensitive data and information.

For example, there is the risk that such a measure would work in favour of larger, more dominant service providers leading to further market concentration and putting at risk product innovation seen from smaller providers.