Mr Ellis Connolly
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Reserve Bank of Australia
GPO Box 3947
SYDNEY NSW 2001

3 December 2024

Via email: pysubmissions@rba.gov.au

Merchant Card Payment Costs and Surcharging – Issues Paper

Dear Ellis,

Australian Payments Plus (**AP+**) supports the Reserve Bank of Australia's (**RBA**) focus on Merchant Card Payment Costs and Surcharging (**The Issues Paper**) to ensure our regulatory framework is fit-for-purpose now and into the future. AP+ supports the vision of a world-class payments ecosystem that serves the needs of its users and participants and supports Australia's economy. The Australian payment ecosystem always needs to be safe, resilient, efficient, and open to competition.

In the attachment to this letter AP+ has provided a response to the consultation questions relevant to AP+. We make the following observations:

Competition

AP+ is of the firm view that competitive forces will achieve some of the outcomes the RBA seeks for merchant card payment costs - should the RBA continue to pursue its expectations[1] for Least-cost routing (**LCR**) to be made fully available to merchants for all in-person, online and mobile-wallet transactions. The Merchant Services Fees data contained in the Issues Paper (Graph 5, pg. 7) starkly demonstrates the significant positive impact for Australia, of a strong domestic payment system operator.

Surcharging

We agree that a review of the surcharging framework is now appropriate as it has been some years since the framework was introduced and today's Australian payment system is vastly different and continues to evolve at a pace. In reviewing the potential changes flagged by the RBA, AP+ sees merit in:

The unbundling of debit and credit card blended rates with the setting of a maximum allowable surcharge for debit transactions, with the setting of a debit card cap of cents per transaction (not an ad-valorem cap).

and/or

The banning of surcharges on debit transactions.

There is merit on each of the proposals put forward in the Issues Paper (Section 2.6 Surcharging), however we agree with the RBA view that the banning of card surcharges more broadly (across all card networks) may not yield the benefits sought and will likely lead to an overall increase in merchant card payment costs.

[1] The RBA has been strongly encouraging LCR since 2017. In 2021, the RBA set an explicit expectation that PSPs offer and promote LCR in both the in-person and online environments. In 2022, the RBA set a further expectation that the industry makes LCR functionality available for mobile wallet transactions by the end of 2024.

Scheme & Interchange Fees

Publication of scheme fee data.

As a scheme operator, AP+ remains supportive of greater transparency of fees and wholesale costs. The RBA publishing aggregated data of each designated network may be more effective for promoting competition than requiring networks to publish their own aggregated data or their multilateral scheme fees and rules.

Interchange Fees

We agree that the weighted-average interchange rate on debit cards has declined noticeably below the current benchmark over recent years in direct response to competition between the card networks.

Whilst AP+ is not opposed to amendments to the Interchange benchmarks and caps, we believe the market is functioning efficiently. If the RBA does decide on changes, we would strongly recommend that the RBA keep the caps on individual interchange items, which will preserve competitive tension in the market.

On another view raised in the Issues Paper, we do not agree with the cited finding of the New Zealand's Commerce Commission which considers there to be no reason for a difference in interchange fee rates between transactions where the physical card is present and transactions where it is not. Changing consumer behaviours and the growth of online transactions has meant that schemes, issuers and particularly acquirers have additional costs to deliver the security, fraud and consumer protections for transactions in the online environment. These security, fraud and consumer protections costs are over and above in-person transactions.

It is also perhaps inaccurate for card schemes to be characterised as 'mature' as there is a roadmap of new technology and security uplifts (tokenisation, 3DES to AES encryption, etc.) which need to be funded by participants to ensure the safety, efficiency and competitiveness of the payments system. This is in addition to a significant number of government reforms (Open Banking Action Initiation, Scam Prevention Framework, etc.) which will need to be operationalised by the Australian payment industry.

We are available to answer any questions regarding this submission and can be reached at: aidan.oshaughnessy@auspayplus.com.au.

Yours sincerely,

Aidan O'Shaughnessy.
Public Policy, Government & Regulatory Affairs, AP+

Encl.

Attachment: AP+ response to consultation questions

Section 2.2. Interchange fees

Q 1. 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?

We agree that the weighted-average interchange rate on debit cards has declined noticeably below the current benchmark over recent years in direct response to competition between the card networks. This is a result of the RBA introducing a suite of reforms (e.g. Benchmarks, Caps and LCR) that have put downward pressure on merchant card payment costs.

AP+ is of the firm view that competitive forces will achieve some of the outcomes the RBA seeks for merchants' card payment costs. Ongoing movement towards the ubiquitous availability of LCR for merchants for their in-person, online and mobile-wallet transactions, both front-book and back-book, will be a further competitive force in the market. We expect to see further declines in interchange for all merchant types if LCR is broadly available and is effectively supporting competition between card schemes. Therefore, a change to benchmarks or caps would not be necessary to drive the market.

AP+ has announced[2] new *eftpos* interchange rates for small business merchants, as part of its ongoing commitment to lower the cost of payments. Effective from 1 December 2024, the interchange for all card present transactions, including mobile wallets, will reduce to 2 cents per transaction for eligible small business merchants. Online transaction interchange has also been reduced to 3 cents per transaction for eligible small businesses. Transactions must meet specified criteria (for example, minimum volume of transactions) to qualify for these Strategic Interchange Rates, but we expect them to be broadly available to smaller merchants. These *eftpos* interchange rates for small businesses are the same as *eftpos* currently publishes for DIFR 2 (Differential Rate Category 2) which are available for some of the largest merchants in Australia.

In addition to these new strategic interchange rates for small business merchants, *eftpos* previously announced an estimated reduction of issuer scheme fees by 22% and acquirer scheme fees by 5%, commencing from 1 May 2025.

Q 2. Should interchange regulation be extended to foreign card transactions in Australia?

AP+ agrees with the RBA analysis that shows transactions on foreign-issued cards are particularly expensive for Australian merchants to accept. Consumers using these higher cost payments methods are being cross subsidised by those using lower cost methods (such as debit cards).

The removal of cross-subsidisation could provide efficient price signals to merchants and consumers.

[2] Rollout of Merchant Choice Routing for mobile devices plus lower eftpos debit charges will lower the cost of payments in Australia https://www.auspayplus.com.au/rollout-of-merchant-choice-routing-for-mobile-devices-plus-lower-eftpos-debit-charges-will-lower-the-cost-of-payments-in-australia

Q 3. Is there a case for reducing the complexity, and/or enhancing the transparency, of interchange fees? If so, how?

AP+ does support measures to enhance transparency of interchange fees (and scheme fees). We do note some of the complexity is a necessary requirement to allow schemes to incentivise scheme members towards specific products with particular features. For example, for *eftpos*, the migration of payments to more secure transactions (tokenised v non-tokenised) were incentivised by a new, lower interchange fee.

Section 2.3. Scheme fees

Q 4. Is there a case for further transparency of scheme fees to promote efficiency and competition? If so, what additional information would be beneficial?

The schedule of scheme fees for *eftpos* contains two fees. One fee for an issuer, one fee for an acquirer. We support simplicity in our scheme fee approach.

Q 5. Is there a case for regulatory action to reduce the complexity or growth of scheme fees? If so, what form should this take?

We support reducing complexity of scheme fees because it makes it harder for merchants to understand the fees that they are paying and how to reduce these. We have already adopted that approach in practice.

Eftpos has agreed to additional disclosure of scheme fees at the scheme level if a consistent approach is taken across all schemes. This information would need to be published in a form that enables scheme fees to be easily compared across schemes on a like-for-like basis.

Q 6. What other regulatory action should the RBA consider to increase the competitive pressure on scheme fees?

The RBA could consider developing comparative analysis of scheme fee data that end-users could utilise to compare fees across networks.

Section 2.4. Least-cost routing

Q 7. 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?

The RBA should continue[3] to pursue its expectations for LCR to be made available to merchants for in-person, online and mobile-wallet transactions.

Given that mobile wallets are used for around 40% of in-person transactions, the key barrier to the effectiveness of LCR is the currently limited availability of least cost routing for transactions conducted via a mobile wallet. Enablement of both the front and back book of mobile wallet transactions at a timely pace is a priority.

From 2023, the RBA has started to publish a table on LCR availability and take-up across the major acquirers. This provides valuable insights that support merchants in choosing between different offerings.

[3] The RBA has been strongly encouraging LCR since 2017. In 2021, the RBA set an explicit expectation that PSPs offer and promote LCR in both the in-person and online environments. In 2022, the RBA set a further expectation that the industry makes LCR functionality available for mobile wallet transactions by the end of 2024.

However, we agree that it is unclear whether the benefits of LCR are being passed on to merchants. In particular, the use of blended plans means that merchants pay the same cost of acceptance for all cards, with LCR serving to lower the wholesale costs for PSPs. In some cases, the costs of these blended plans are passed on in full to cardholders, thereby making the cost of payments acceptance "free" for these merchants and reducing their incentive to seek out a better arrangement from a PSP.

Section 2.5 Transparency of merchant service fees

Q 8. 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?

As a scheme operator, *eftpos* remains supportive of greater transparency of our fees, and wholesale costs. We would support increased transparency of scheme level data, in a way that is consistently applied and competitively neutral.

Eftpos would generally support increased transparency provided to merchants from acquirers and other PSPs that would enable merchants to better understand how much they are paying for payment acceptance and to compare that against other providers. We agree that caution needs to be taken to ensure this information supports comparison without unduly increasing complexity.

We agree that a potential issue with single-rate pricing plans is that they obscure the different economic models between lower cost debit transactions (generally priced at a scheme level in a fixed number of cents) and more expensive credit / charge transactions (generally priced at a scheme level on an ad valorem basis). We agree that there is merit in exploring whether PSPs should be required to unbundle pricing for these different transaction types to reduce cross-subsidisation and to provide more efficient price signals to consumers via surcharging.

We recognise that single rate pricing plans are popular with merchants because of their perceived simplicity, but there is a trade-off in terms of increased cross-subsidisation between lower cost and more expensive payment instruments. Further, where the cost of these single rate plans is surcharged to all cardholders, this also removes any price signalling to consumers to use a lower cost card.

However, it is possible that the following measures in combination are sufficient to create a more competitive and vibrant market for merchant card payment acceptance without further requiring intervention into pricing models:

a) greater transparency of fees and wholesale costs at a network level;
b) ability to use a lower cost network for all transaction types including mobile wallets;
c) increased ability for merchants to more easily compare the cost of different PSPs; and
d) changes to current surcharging practices whereby 1) merchants do not pay anything to accept payments and therefore have no incentive to seek out lower cost payment acceptance and 2) consumers receive no efficient price signal to use lower cost payments.

Q 11. What other regulatory measures should the RBA consider to improve competition between PSPs?

While not in the remit of this consultation - we strongly urge Government to progress the finalisation of the payments licensing framework. Implementation of the payments licensing framework will provide greater regulatory certainty for payments licensees and infrastructure providers and address some of the challenges faced by PSPs seeking partners to operate in Australia, thereby supporting competition, innovation, and greater protections for consumers.

Section 2.6. Surcharging

Q 12. 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?

We agree that a review of the surcharging framework is now appropriate as it has been some years since the framework was introduced and today's Australian payment system is vastly different and continues to evolve at a pace. In reviewing the potential changes flagged by the RBA, AP+ have provided our view as below:

At a minimum, we advocate the unbundling of debit and credit card blended surcharging rates, with the setting of a maximum allowable surcharge for debit transactions, at "cents per transaction" (not an ad-valorem cap).

- This would be easier to communicate that consumers should pay no more than a fixed fee for debit card use.
- This would send a clear signal to consumers to use debit cards which are much cheaper to use.

There is a case for going further and banning surcharges on debit transactions.

- This would reflect that "debit is the new cash", that debit cards are much cheaper, ubiquitous, and that consumers should have access to a broadly available surcharge-free option.
- This would likely encourage merchants to seek out card acceptance providers which are lower cost.

We would not support banning of card surcharges more broadly (across all card networks).

- This would be an unreasonable impost on merchants.
- This would remove any price signals for consumers to use a lower cost payment instrument.
- We agree with the RBA view that this may not yield the benefits sought and will lead to an overall increase in merchant card payment costs.

Q 13. What are the implications for merchant payment costs from changes to the surcharging framework? Could the RBA address these with other regulatory actions?

The Issues Paper has identified that a potential issue with single-rate plans is that merchants that accept a higher share of debit card transactions effectively cross-subsidise merchants that accept relatively more credit card transactions. These single-rate payment plans can be attractive to merchants for their simplicity but can also hinder a merchant seeking to manage their costs.

We agree with the RBA that separately priced transactions processed across different networks would reduce such cross-subsidisation and allow more efficient price signals to consumers via surcharging. Visibility of surcharges can incentivise consumers to switch away from using payment methods with high costs. It could also give merchants stronger incentives to search for better value payment services.

However, we are inclined to the view that there are a range of actions that in combination could achieve a more competitive and vibrant market for payment card acceptance without requiring further intervention in merchant pricing models (i.e. prohibiting single rate plans).

Section 2.7. Other regulatory options and broader implications

Q 15. Are there any issues in, or implications for, the broader payments ecosystem that the RBA should be aware of when designing a regulatory response to any of the issues discussed in this paper?

While not in the remit of the RBA - we strongly urge Parliament to progress the passage of the Bill dealing with reforms to the Payments Systems (Regulation) Act 1998 (**PSRA**) which is a critical step to ensure the RBA has the appropriate reach ensure the ongoing investment required to provide a modern, safe, efficient and competitive payments system in Australia. The intended effectiveness of LCR for in-person transactions will only be achieved when there is parity for debit card transactions, such that there is capability for LCR across every transaction (in-person, online and mobile-wallet transactions), which includes enablement of both the front-book and back-book for mobile-wallet transactions.

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