Commonwealth Bank of Australia

# Merchant Card Payment Costs and Surcharging

Response to the Reserve Bank of Australia's Issues Paper

3 December 2024

Public

The Commonwealth Bank of Australia (CBA) welcomes the opportunity to respond to the RBA's *Review into Merchant Card Payment Costs and Surcharging*.

As the issues paper notes, payments are an important topic impacting all consumers and businesses in the economy. Safety, reliability, efficiency and convenience of the payments ecosystem is paramount. Making constant progress against these dimensions with a sustainable commercial model for all contributors is important in terms of driving economic productivity and growth.

CBA supports the spirit of the Review but respectfully suggests that the RBA not formulate policy responses to some of the matters raised without consideration of the broader payments ecosystem. This will only be possible when the amendments to the Payment System Regulation Act (PSRA) are enacted.

Over the past few years, we have seen a range of significant changes in the payments landscape, including substantial shifts in customer behaviour as the economy continues to digitise. There has been a continued shift in payment preferences towards contactless payments and ecommerce. There has also been material growth in payments solutions that sit outside the RBA's mandate and existing regulation – most notably digital wallets (39% of card payment volume), three-party schemes (20% of card payment value), and BNPL (2% of card payment volume). The business models underpinning these examples have benefitted from operating outside of the regulatory envelope.

The RBA's 2021 *Review of Retail Payments Regulation* considered many of the same issues and the interdependence. By way of example, it noted that unilaterally changing credit interchange would simply advantage higher cost three-party schemes and BNPL – "*lower interchange rates on credit card transactions might therefore be offset by a longer-term shift towards more costly three-party systems.* "[1].

Accordingly, it will be critical that some issues are dealt with together from a whole of system perspective under a modernised PSRA, so as not to amplify significant distortions that exist in and that are reshaping the payments system. Specifically, interchange and scheme fees are heavily interconnected with other costs drivers, and market distortions have arisen as a result of the RBA's limited ability to regulate all parties. Regulation to date has been ineffective at controlling digital wallet fees or three-party fees, which are substantially relevant to interchange and scheme fees in the market more broadly. Therefore, we believe it would materially amplify market distortions if regulation were enacted in these areas before an updated PSRA is in place.

The remaining issues for consultation – surcharging, least cost routing, and transparency of merchant fees – can be addressed without the PSRA changes being in place. We believe the most impactful initiative would be to address surcharging on debit and credit. A debit only ban would lead to operational inefficiency and unintended consequences. We suggest that there are only two reasonable courses of action: a) significantly uplift disclosure and enforcement mechanisms; or b) ban surcharging for both debit and credit cards to minimise complexity for consumers and merchants, subject to additional support for small business.

In addition to a broadened remit under an updated PSRA, insights around the end-to-end costs would help inform policy direction. While it is broadly recognised that payments are not free, payment costs for issuers and acquirers have not been comprehensively studied since 2014.

Finally, it is worth noting that Australia already has one of the lowest cost payments systems in the world.[2] By way of example, the Commonwealth Bank's merchant acquiring business is loss making, and our domestic card issuing business is approaching zero and under incredible pressure. It is imperative that there is a sustainable commercial model to support continued service and innovation to promote safety,

[1] Review of Retail Payments Regulation Conclusions Paper (2021) Page 39
[2] BCG White Paper, 'The Hidden Cost of Cash and the True Cost of Electronic Payments in Europe and the UK', Stefan Dab, Jean Dobbeni, Alvaro Vaca, Enrique Velaco-Castillo, March 2022

reliability and convenience of the payments system. CBA is committed to working with the RBA and industry to ensure policy interventions create positive outcomes for Australia, businesses and consumers.

CBA respectfully recommends:

1. Further interventions to interchange are contemplated only when the RBA is able to address all participants and relevant cost drivers of card payment fees under an amended PSRA.
2. LCR is reviewed to assess where benefits are accruing, and the risks of denying customer choice of scheme, in contrast to the EU where customers can override merchant choice.
3. Additional transparency is provided regarding the underlying cost of card payments in light of the shift towards eCommerce, the growth of digital wallets, growth in scheme fees and the evolving fraud and scam context – this analysis can form the basis for additional interventions.
4. Surcharging regulation is consistent for credit and debit card transactions to simplify the system for all.

### Interchange regulation

CBA supports the RBA's conclusions from the 2021 *Review of Retail Payments Regulation* which remain relevant today:

> *"Lower interchange on debit transactions could make it harder for new debit issuers to enter the market and could disproportionately disadvantage smaller issuers, which may have fewer other sources of revenue to offset any interchange reduction. There is also a risk that a further reduction in the debit benchmark could incentivise issuers to promote greater issuance and use of (higher cost) credit cards. In relation to the credit card benchmark, a further reduction could provide an advantage to both the three-party card schemes and other three-party systems such as BNPL arrangements; this is because these arrangements are not subject to the Bank's interchange regulations, which allows them to fund more benefits for consumers through higher merchant fees. The benefits from lower interchange rates on credit card transactions might therefore be offset by a longer-term shift towards more costly three-party systems. "*[3]

It is notable that American Express, the sole remaining three-party scheme in Australia is now accepted at 90% of merchant outlets (up from 85% at end 2021) and has increased market share by 7.9 percentage points from January 2002 to August 2024. Total value spent on all cards grew 297% over the same period, while Amex spend grew 513%.

CBA considers that it is not possible for the RBA to accurately evaluate the case for lowering interchange levels without an assessment of all relevant and interdependent issues in the payments ecosystem.

Further, as interchange fees support a range of benefits that are valued by customers and merchants alike, further intervention must be supported by robust and comprehensive analysis of relevant cost drivers in the cards ecosystem. These benefits come at a cost, and hence are not available with lower cost payment options such as account-to-account payments. Differences in customer onboarding, risk-sharing, dispute resolution, chargebacks and fraud protections available with cards compared to NPP/direct entry has become increasingly important with the growth in scams activity in recent years.

[3] Review of Retail Payments Regulation Conclusions Paper (2021) Page 39 https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/conclusions-paper-202110/pdf/review-of-retail-payments-regulation-conclusions-paper-202110.pdf

### Least cost routing (LCR)

The intention of LCR was to bring down payment costs by giving merchants the ability to route dual-network debit card transactions to the lowest-cost network, and therefore increase the competitive pressure between the debit card payment schemes to lower fees. While well intended, LCR enablement of 70% for in person transactions has not led to the anticipated cost savings for smaller merchants across the ecosystem.

While all four majors have reduced the pricing of simple merchant plans, some participants have developed business models that capture the lower interchange while maintaining higher costs for small business. Under the current reporting regime, a merchant acquirer with 100% LCR compliance as currently measured can cost merchants more on average (1.6% for in person payments) than the lowest published rate in the market of 1.1%. The RBA has acknowledged that:

> *"those institutions with the highest rates of LCR enablement do not necessarily provide merchants with the lowest overall payment costs"*.[4]

We encourage further review of LCR reporting measures and other potential enhancements to LCR enablement to ensure that the policy objectives of LCR are achieved. Industry is in the process of enabling LCR for digital wallets and online purchases, which has the potential to reduce interchange and deliver significant savings for merchants provided the appropriate framework is in place.

CBA has concerns about not preserving informed customer choice with LCR, including for digital wallets and eCommerce settings, where choice of scheme may lead to a differentiated experience or different protections. We note that the EU's interchange regulation promotes choice for both merchants and consumers. Merchants are allowed to make a priority selection of the payment brand or application, which consumers can override. CBA is committed to working with the RBA to ensure positive outcomes are achieved for both merchants and consumers through the enablement of LCR.

### Transparency of fees

Given significant changes in payment technology, volumes, and market structure since the last comprehensive study of payments costs in 2014, an updated study of the costs associated with different payment methods, and how these costs should be distributed among participants and users of the payments system is warranted to guide policy responses. This should include consideration of security and infrastructure costs, and large-scale industry projects that benefit the entire cards ecosystem.

As the RBA has acknowledged, some systems and participants are increasingly prominent in retail payments, such as payment gateways, token service providers, payment facilitators, digital wallet providers and BNPL services. Some of these schemes and participants have growing market share and introduce material costs for card payments. This must be considered as part of any effort to increase downward pressure on merchant card payment costs.

Key participants that sit outside of the PSRA:

*Mobile wallets (>39% of card payments by volume)*

[4] https://www.rba.gov.au/payments-and-infrastructure/debit-cards/least-cost-routing/updates/lcr-update-on-implementation-0624.html

The Payments System Board (PSB) has acknowledged that mobile wallet fees to issuers could have an impact on competition, efficiency and safety in the payments system.[5] The *RBA Review of Retail Payments Regulation* in 2021 noted: "There are important issues to be addressed here, but the *Payment Systems (Regulation) Act 1998* (the PSRA) as currently drafted limits the scope for the Bank to address these issues."[6]

*Three party cards schemes (>20% of card payments by value)*

The RBA has noted cards such as American Express cost merchants an average transaction cost of 1.3%, compared to 0.4% for debit cards and 0.8% for credit cards.[7] American Express share of all card transactions has grown from 14.7% (by value) in January 2002 to 21.9% in June 2024.[8]

*BNPL (2% of card payments by volume, $20bn in value)*

The average BNPL transaction costs the merchant around 3.5% of the value of the purchase, which is well above the cost of card transactions and BNPL providers generally prevent merchants from passing on these costs with surcharging.[9] While the overall share of BNPL is low, in key categories BNPL is a 'must have' payment option to offer.[10]

### Surcharging

Surcharging regulation was introduced in 2003 to promote competition and efficiency by providing price signals to consumers about the relative costs of different payment methods. Interchange and surcharging regulation during the transition to card payments over the past 20 years have achieved its objectives of putting downward pressure on fees. Critically, in a number of other countries, interchange regulation was accompanied by a ban on surcharging. New business models dampen price signals by promoting surcharging as a means to achieve 'free' payment acceptance by merchants, in some cases using the surcharge to cover software costs and even rewards provided to the business owner. There may be opportunities for the RBA and ACCC to examine payment service provider business practices and models that could be contributing to a rise in excessive surcharging.

Beyond the levels of surcharging, there are complexities in the disclosure, customer experience, and enforcement of surcharging under the current framework. While surcharge disclosure is required, it is inconsistently executed and difficult to monitor. There are no standards for customer experience that feature an acceptance of the surcharge before the payment is cleared – many customers have experienced a surcharge being revealed after they tap and pay. Given the complexity and growth in both electronic payments and surcharging, enforcement is expensive. The Government has announced $2.1 million of new funding for the ACCC to tackle excessive card surcharging. This level of funding will not be sufficient to effectively enforce across the ecosystem. It would be costly to outsource regulator responsibilities to the private sector by mandating monitoring of surcharging by networks and acquirers.

A ban on debit surcharging while maintain credit surcharging arrangements has been proposed. Implementing such a policy is inappropriate in the current context. It would not provide relief for the above

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[5] https://www.rba.gov.au/publications/annual-reports/psb/2024/payments-system-regulation-and-policy-issues.html
[6] https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/conclusions-paper-202110/pdf/review-of-retail-payments-regulation-conclusions-paper-202110.pdf
[7] https://www.rba.gov.au/speeches/2024/sp-so-2024-06-18.html
[8] https://www.rba.gov.au/statistics/tables/xls-disc/c01-3-hist.xlsx (American Express and Diners Club)
[9] https://www.rba.gov.au/speeches/2024/sp-so-2024-06-18.html
[10] The Worldpay 2024 Global Payments Report states the BNPL payment option in Australia is "at an all-time high, representing 15% of ecommerce transaction value in 2023 and projected to maintain a 15% share of ecommerce spend through to 2027, when it will account for approximately USD10.1 bn [AUD15.2 bn]".

complexity in managing disclosure, customer experience, or enforcement. Moreover, it is very likely to encourage business models that further distort the market at the expense of consumers.

In view of the reduced efficacy of surcharging in the current payments landscape, a ban on surcharging is a simple solution for both merchants and consumers. It removes the need to monitor and enforce surcharging practices that are unlawful. As noted earlier, the current review of the surcharging framework raises issues of competitive neutrality under a limited scope review that does not cover all payments providers. Ironically, businesses are free to surcharge for low-cost four party card payments - yet can be contractually banned from surcharging on expensive three-party scheme and BNPL payments. We note the RBA concluded in 2021 that merchants should be allowed to surcharge BNPL services but has been unable to intervene under the PSRA.[11]

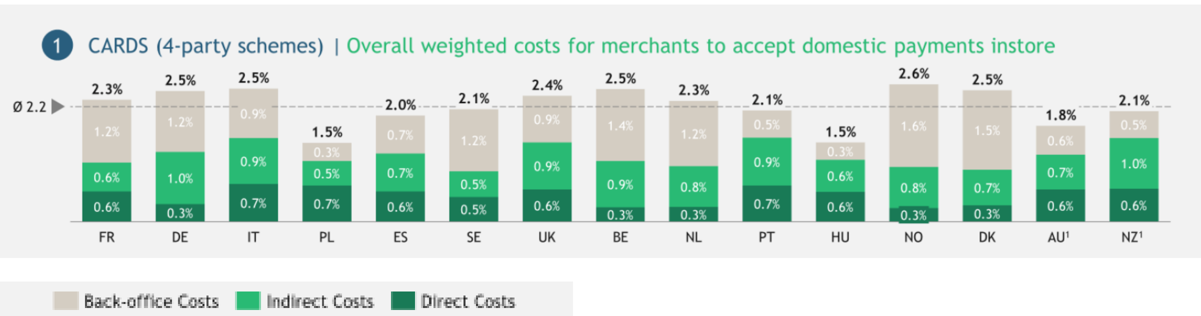
### Answers to consultation questions

**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?**

As outlined above, CBA considers that it is not possible for the RBA to accurately evaluate the case for lowering interchange levels without an assessment of all relevant and interdependent issues in the payments ecosystem.

At such time that the RBA is able to complete a comprehensive review, it would be useful to consider the overarching trends and implications of further lowering of interchange levels as outlined below.

The RBA notes that average merchant fees have declined over the past two decades. A 2024 Boston Consulting Group (BCG) study shows that the total cost of accepting card payments in Australia is one of the lowest in the world.[12] In addition, it would be premature to further regulate while policy measures such as LCR for online and mobile are already in train and set to deliver significant savings for merchants.




**Source:** Boston Consulting Group (2024) The Hidden Cost of Cash and the True Cost of Electronic Payments in Australia, Europe, New Zealand and the UK – Addendum

Since the 2021 Review issuers and acquirers face a range of new and growing costs to meet customer demand and maintain the safety and reliability of card payments:

[11] https://www.rba.gov.au/speeches/2024/sp-so-2024-06-18.html
[12] BCG White Paper, 'The Hidden Cost of Cash and the True Cost of Electronic Payments in Europe and the UK', Stefan Dab, Jean Dobbeni, Alvaro Vaca, Enrique Velaco-Castillo, March 2022

- **Increased Mobile wallet fees** given the use of mobile wallets increased substantially, up from 10.4% in March 2020 to 39.5% in June 2024 as a share of all card transactions.[13]
- **Growth in card fraud**, which was up 32% over the year to 2023, with fraud as a share of transaction value at 77.6 cents per $1,000 as at June 2024, well above the rates for the period 2019 to 2022 of around 57 cents.[14]
- **Growth in online card use** which grew from 1.3% of consumer payments in 2007 to 10% in 2022 which has higher costs for issuers due to higher rates of fraud.
- **Costs of innovations and upgrades.** For example, implementation of Advanced Encryption Standards (AES) will require upgrade of an estimated 970,000 point-of-sale (POS) terminals, 25,200 ATMs across 55 issuers and 25 acquirers, along with service providers, gateways, and technology partners.[15]

A reduction in the interchange benchmarks or caps will result in a reduction of benefits that are valued by consumers, and limit investment in maintaining and modernising payments infrastructure. Interchange is used by card issuers to fund important consumer benefits and protections including security, fraud prevention, innovation, chargebacks and disputes, interest free periods, protection for Forward Delivery Risk, and extended warranties. Both consumers and merchants receive value from these features which should not be put at risk. As the Council of Small Business Organisations Australia (COSBOA) has noted that "There are mutual benefits available when payment providers invest in small businesses through software programs, rewards, support systems and other add-ons to help merchants grow and succeed".[16] Merchants receive significant value from offering card payments including:

- Protection from merchant fraud, including the availability of security programs offered by some schemes to authenticate a card holder at point of purchase
- Reliability and resilience
- Faster transaction times that increase sales and enhance customer experience.
- In the case of credit cards, increased purchasing power of their customers.
- Opportunities to expand their customer base to ecommerce and online
- Detailed transaction information
- Streamlined operations with more efficient business processes
- Eliminated need for handling cash. BCG analysis found that the costs of accepting cash by merchants is twice as expensive as card payments when fraud, theft and back office costs are accounted for.[17]

As noted above, it is not possible for the RBA to evaluate the need for further interchange reductions without examining the overall costs to merchants under an amended PSRA, and premature to alter domestic debit interchange until the reductions from mobile and online LCR are known.

Additionally, further regulation of credit and debit cards that leads to a decrease in innovation and fraud investment and resulting reduction in consumer and merchant benefits may perversely drive a shift to more expensive payment solutions such as BNPL and unregulated cards.

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

[13] See https://www.afr.com/policy/economy/money-mystery-australians-hoarding-cash-despite-the-move-to-digital-20241024-p5kl55
[14] Australian Payments Network (2024) Australian Payment Fraud 2024.
[15] See: https://www.auspaynet.com.au/insights/blog/standards0722
[16] Bank on it: How to keep cash king By Luke Achterstraat, Scott Etherington, The Canberra Times Wednesday 27 November 2024
[17] Boston Consulting Group (2024) The Hidden Cost of Cash and the True Cost of Electronic Payments in Australia, Europe, New Zealand and the UK – Addendum

Once the amended PSRA is enacted this may be considered under a holistic review to promote competitive neutrality between domestic and foreign issued cards.

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

While any further regulation of fees levels should wait for a full review under an amended PSRA, CBA supports the principle of simplicity and transparency for existing interchange fees.

### Interchange categories

While some consolidation of fees may be beneficial to reduce administrative burden on acquirers, issuers and merchants, CBA considers that different interchange categories are appropriate to:

a) Reflect the higher risk to issuers of certain transactions e.g. online transactions have higher cost and frequency of disputes, fraud and chargebacks
b) Reflect the higher cost to issuers for certain transactions e.g. mobile wallet transactions have additional fees for issuers

We also support some scheme discretion around interchange levels to incentivise scheme improvements. As the RBA notes 'varying interchange fees could be useful for incentivising certain behaviour from acquirers and merchants, such as encouraging tokenised transactions online', which improves the overall security of card payments.

### Cents based interchange caps

CBA does not support the proposal for a cents-based cap only, rather than ad valorem. CBA disagrees with the RBA's statement that the costs for processing debit transactions are unrelated to the transaction value. Costs associated with scams and fraud, chargebacks, disputes and Forward Delivery Risk are directly related to the value of the transaction. CBA notes that there are already cents-based caps for debit in some cases, but schemes retain the option to have ad valorem interchange if that is appropriate for the network. This flexibility should be retained to ensure that interchange can continue to be used to protect high value transactions in an evolving scams and fraud environment.

### Removing the interchange benchmark

CBA prefers the retention of the interchange benchmark as it provides flexibility to the system that may not be available with a 'hard' cap on individual interchange fees. The range provided with an interchange benchmark allows schemes to appropriately price transaction types based on the risk profile.

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

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

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

As for interchange fees, scheme fees are impacted by costs that currently sit outside of the RBA's remit. Until a full review after the PSRA changes are passed, reduced complexity of scheme fee categories and publishing aggregated data may reduce red tape and support price comparison.

**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?**

As noted above, LCR is not working as intended and further refinement of compliance measures would support achievement of the intended objectives. CBA agrees with the RBA Governor's observations that there is no need to regulate given the progress to date with in person LCR enablement.[18] CBA is prepared to work with industry and the RBA on developing interventions to enhance the effectiveness of LCR for merchants.

The RBA has recently refined LCR compliance measures to capture when merchants make an active choice not to enable LCR. An active choice to not enable LCR may be based on (i) price considerations (i.e. routing to the default scheme is already the lowest-cost option, or the cost savings from enabling LCR do not outweigh the implementation costs for the merchant) or (ii) non-price considerations (e.g. differences in payment authorisation rates, chargeback processes, participation in value-added programmes). While this adjustment to the framework is welcome, acquirers have not historically gathered this information at a quality that would support regulatory reporting. Time is needed for acquirers to establish processes and capture this information from their merchant customers.

The Issues paper notes that LCR is in its infancy for online transactions and for mobile wallets. Further progress of LCR enablement for digital wallets and online may lead to potentially substantial reductions in debit interchange. The RBA should assess the extent of savings for merchants that flow from these changes to determine whether further intervention is needed.

**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?**

**9. 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?**

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

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

CBA in principle supports measures to improve transparency of merchant fees, and information to enable merchant price comparisons. The practical effectiveness of proposals to increase disclosure should be carefully evaluated to ensure they achieve the intended outcome, including looking at the experience of the UK with requiring enhanced disclosure to merchants. Our small business customers are extremely time poor and behavioural economics research indicates that consumers find it difficult to understand complex price structures.[19]

Fee transparency and merchant information is less likely to influence merchant behaviour for merchants using acquiring solutions that offer automated surcharging promoted as 'zero cost' and 'no cost' – these pricing plans effectively remove any incentive for merchants to shop around for the best deal.

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[18] House of Representatives Economics Committee Hansard 16 August 2024 Source: p14. https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;db=COMMITTEES;id=committees%2Fcommrep%2F28340%2F0001;query=Id%3A%22committees%2Fcommrep%2F28340%2F0000%22

[19] Productivity Commission (2007) Behavioural Economics and Public Policy - Roundtable proceedings

Requiring PSPs to provide detail on the component of MSF that can be surcharged under existing regulations will support compliance and may limit surcharging of services that do not form part of the cost of acceptance, particularly for acquirers that offer a range of merchant services.

CBA does not support the mandatory disclosure of individual acquirer margins as it will be hard to define allowable costs consistently across the industry, and it would treat the covered card schemes differently from other payment products such as Amex and BNPL.

**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?**

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

CBA considers that both merchants and consumers would benefit from greater certainty, consistency and transparency of surcharges. As noted by the ACCC Chair, there is a balance to be achieved to deliver a better outcome for both consumers and small businesses with surcharging.[20] A number of options proposed may negatively impact smaller merchants by reducing the availability of simpler plans and increasing the complexity of compliance.

### Ban surcharging

CBA considers that changes in the payments mix and pricing make the current surcharging framework no longer fit for purpose. Consistent with many other countries, a complete ban on surcharging would be the simplest outcome for consumers, addressing concerns with excessive surcharging and eliminating the difficulty of enforcement. A ban on surcharging would allow merchants to consider all options on a like for like basis, including BNPL offerings, where contractual terms already preclude surcharging. This would likely see further positive competitive effects for merchants and the end customer.

### Ban surcharging on debit only

CBA recognises that surcharging involves a balancing of merchant and consumer interests. We note the Government's statements on a potential ban of debit surcharging. If this occurs, CBA considers it should be accompanied by a cap on credit surcharging to minimise the risk of excessive surcharging on credit – and any attempts by merchants to replace debit surcharging with an increase in credit surcharging.

However, a partial ban on surcharging will be complex to implement and enforce and may not alleviate customer concerns. It also has implications for popular, simple and blended pricing plans that are strongly preferred by smaller merchants.

### Capping surcharges

A simple cap could improve compliance, reduce excessive surcharging, and increase consumer understanding of permissible surcharges, however risks normalising and encouraging surcharging at the maximum cap.

### Tightening the definition of the cost of acceptance

[20] https://www.accc.gov.au/about-us/news/speeches/framing-the-future-of-financial-services-strengthening-competition-and-consumer-engagement

CBA supports a clearer definition of the costs that can be surcharged. Many new acquirers offer a range of services unrelated to payments that are bundled and passed on as a surcharge, inflating costs for consumers. Advertised services offered as part of a standard merchant fee include invoicing, financial and sales reporting and website services.

**Mandating differentiated pricing for transactions processed across different networks**

This proposal is unlikely to significantly address consumer concerns and will face similar challenges as a debit-only ban. Further, it would also effectively ban fixed or blended pricing plans, making it more complicated for small businesses that have chosen these simpler plans.

**Mandating monitoring of surcharging by networks and acquirers**

CBA is strongly opposed to this option. Like most acquirers, CBA does not have visibility of surcharging. From our initial assessment, it appears that collection of surcharging data would involve significant cost and complexity to modify our systems and point of sale (POS) terminals. We note also that not all acquirers provide POS terminals. Further, monitoring of compliance with surcharging regulation is the responsibility of regulators.

**Disclosure**

CBA considers any surcharge – to the extent surcharges remain permitted – should be disclosed upfront, before a payment is processed, and not bundled into the total after a customer pays. With changes to in-person payments experience driven by digital wallets, surcharging can result in the customer paying a different amount to what is displayed on the terminal when they tap. The *Strategic Plan for the Australian Payments System* states an efficient payment system provides end-users with certainty – including the associated costs.[21]

**14. Are there any other regulatory actions that the RBA should consider taking in response to the issues raised in this paper?**

**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?**

Appropriate pricing and economics are essential foundations for a modern, world-class and efficient payments system. As noted by the RBA, 'making and accepting card payments have the highest service availability, while fast transfers, next-day transfers and online banking are more likely to experience service disruptions'.[22] The UK's Payment System Regulator review of card scheme and processing fees found that account-to-account payments using Open Banking has had low adoption by merchants due to functional and performance gaps compared to card payments, despite being a lower cost alternative.[23]

Australian card payment rails have enabled fintechs and global technology companies to offer services such as BNPL and digital wallets without any contribution to the underlying infrastructure. The fee structure of card schemes, including Australia's domestic card scheme eftpos, has funded a range of innovations to meet changing customer demand such as contactless and mobile wallet payments, and is an important revenue stream for many fintechs.

[21] https://treasury.gov.au/sites/default/files/2023-06/p2023-404960.pdf
[22] https://www.rba.gov.au/publications/bulletin/2024/oct/the-reliability-of-retail-payment-services.html
[23] https://www.psr.org.uk/media/pcvem3uq/interim-report-market-review-of-scheme-and-processing-fees-may-2024-publication.pdf

International experience shows the need to strike a balance between affordability and sustainability. The Reserve Bank of India has suggested that India's Unified Payments Interface (UPI) should have a fee structure that reflects its operational costs.[24] Similarly, the UK's National Payments Vision states "The provision of payment-related services should be underpinned by sustainable commercial arrangements, incentivising ongoing investment in these services and the sector more widely."[25] The UK's Financial Conduct Authority and Payment Systems Regulator have argued that fees for use of Open Banking premium services should reflect long run costs, and incentivise investment and innovation.[26]

A case in point is Australia's competitive domestic eftpos scheme which is funded by interchange and scheme fees. This is in contrast to New Zealand's rapidly declining 'fee free' EFTPOS scheme which lacks contactless or online capability. The lack of interchange has meant limited if any incentives for issuers or customers to use the NZ EFTPOS scheme. A report for the NZ Commerce Commission argued that the reduced security of NZ's EFTPOS, the limited customer incentives to use EFTPOS, and the reduced issuer incentives has led to its market share of in-person transactions declining by 20 percentage points from 2017 to 2022.[27]

In conclusion, CBA reiterates the need for a holistic review of card payments that considers the impacts of prominent and growing services such as digital wallets, BNPL and three-party card schemes on merchant costs.

[24] RBI discussion paper https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/DPSSDISCUSSIONPAPER5E016622B2D3444A9F294D07234059AA.PDF; https://inc42.com/resources/the-upi-fee-debate-striking-a-balance-between-affordability-and-sustainability/
[25] See: https://www.gov.uk/government/publications/national-payments-vision
[26] Principles 1 & 2 of Joint Regulatory Oversight Committee (2023) Principles for commercial frameworks for premium APIs.
[27] Bolt (2023) The Retail Payment System in New Zealand: Efficiency, Pricing and Competition – Expert Report to NZ Commerce Commission.