Visa response to the Reserve Bank of Australia's (RBA) Merchant Card Payment Costs and Surcharging Issues Paper

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VISA

Group Country Manager Letter

3 December 2024

Mr Ellis Connolly
Head of Payments Policy Department
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GPO Box 3947
Sydney NSW 2001

Via email: pysubmissions@rba.gov.au

Dear Ellis,

Visa's submission to the Reserve Bank of Australia's (RBA) Review of Retail Payments Regulation – Merchant Card Payment Costs and Surcharging – Issues Paper

Visa welcomes the opportunity to respond to the Reserve Bank of Australia (RBA) Issues Paper on Merchant Card Payment Costs and Surcharging (the Issues Paper), and we appreciate the ongoing engagement with the RBA on Australia's digital payments ecosystem.

Over several decades, Visa has played a significant role in building Australia's position as a global leader in digital payments and, as the payments landscape changes, there's more we can do to help Australian businesses grow and compete. The democratisation and rise of technology – and Artificial Intelligence in particular – has created excellent opportunities for innovation.

But that same technology is increasingly used by cybercriminals to attack Australians, young and old, and businesses, large and small. The cost of global cybercrime is expected to reach AUD21.37 trillion by 2028[1] and is one of the fastest-growing crime types in Australia, with hundreds of millions of dollars lost each year.[2] The emotional toll on victims is hard to quantify, but in a cost-of-living crisis, it's one more thing to bear.

Against this backdrop, the ongoing development of a secure, efficient, competitive and innovative digital payments ecosystem is essential to the long-term economic and sustainable growth and resilience of Australia's economy. Globally, Visa has invested billions a year in technology that helped prevent over AUD700 million in fraud-related losses in Australia in 2023

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[1] Statista Market Insights (2024), Cybercrime Expected To Skyrocket in Coming Years. All figures converted to AUD at rate of 1 USD = 1.55 AUD (November 2024)

[2] Australian Federal Police, About Cybercrime, accessed November 2024

alone.[3] That investment also helps Australia's small businesses to compete locally and internationally, giving them access to tools and innovation that assists them in protecting and growing their business.

A level playing field in the payments ecosystem is critical for fostering competition, innovation, and economic growth in Australia. A balanced regulatory environment encourages diverse market participation and gives Australian consumers and businesses greater choice, cost efficiency, and access to cutting-edge technologies. This consultation provides the starting point for the RBA to put in place a regulatory framework that fosters fairness and innovation.

Undoubtedly, interchange plays a critical role in supporting the Australian economy to provide best-in-class digital payments tailored to the current and future needs and preferences of consumers and businesses alike. The future of commerce in Australia will require new and more advanced payment solutions than those that exist today and ensuring that there are appropriate levels of investment in Australia will be critical in supporting that evolution.

We have engaged with the RBA on a wide range of reviews and consultations conducted over several years. On each occasion, we have been grateful for the opportunity to share our perspectives, and to emphasise the importance of approaching digital payments with a focus on the guiding principles of consumer choice and protection, balanced economics, and continuous innovation and security, within the framework of a level playing field.

With the current consultation, Visa remains committed to working collaboratively with the RBA and we would welcome engaging further on the Issues Paper in the spirit of continuing to build a digital payments ecosystem that supports Australia's economic ambitions and delivers secure, efficient, and inclusive outcomes for all.

Yours sincerely,

Signed

Alan Machet
Group Country Manager, Australia, New Zealand and South Pacific

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[3] Visa (2024), Visa prevents more than $700 million in fraud from disrupting Australian businesses.

Executive summary

When designing regulatory responses to any of the topics considered in the Issues Paper, Visa encourages the RBA to seek to maintain a level playing field as much as possible. This is particularly important given that this review is being undertaken at a time when the passage of the *Payment Systems (Regulation) Act 1998* (PSRA) reforms through Parliament is yet to be completed. As a result, the RBA should ensure that any regulation resulting from this review does not lead to further entrenchment of the current lack of a level playing field within Australia's digital payments ecosystem. It is against this backdrop that Visa provides its responses to the topics outlined in the Issues Paper.

Interchange Fees

- **There is no case for lowering the level of interchange benchmarks or caps**. Domestic interchange fee rates should remain at current levels, given that further compression would impact innovation, security and the resilience of the ecosystem, including smaller financial institutions. We also outline how small businesses benefit from innovation that supports the broader digital payments ecosystem and why regulatory intervention is not required to address any perceived differences between small and large merchants.
- **Interchange regulation should not be extended to foreign card transactions in Australia**, including given the differences between domestic and cross-border transactions in terms of risk profile and value proposition. Applying interchange caps to foreign card transactions will also have a low impact on overall merchant costs, given the share of total costs attributable to these fees are small.
- Visa supports transparency and competition, and provides robust disclosures in Australia. However, **we are concerned that publication of aggregate data on the average interchange fees on transactions may lead to confusion in the marketplace**. By comparison, the current data on merchant service fees published by the RBA offers a more comprehensive view of total costs and benefits for merchants.
- **Different interchange categories allow networks the necessary flexibility** to encourage the adoption of new technologies and the mitigation of risk in the digital payments ecosystem and **should not be artificially limited to a set number.**
- **Interchange caps should not be cents-based only,** as this does not properly reflect the role of interchange in the ecosystem.
- It is important to **maintain the existing interchange framework of fixed caps and weighted-average benchmarks** as both tools are required to appropriately balance the risks and value propositions of debit and credit transactions. In addition, **removing weighted averages would reduce competition in favour of unregulated three-party networks.**

Scheme Fees

- The **disclosure requirements put into place by the RBA following its 2019-2021 Review of Retail Payments Regulation remain appropriate and effective** in maintaining a balanced and competitive digital payments ecosystem.

- **Visa's current disclosure and transparency requirements are sufficient**, and while we are committed to transparency across our business, broad disclosure mandates – particularly in the area of pricing – can give rise to significant competitive concerns.
- **Further regulatory action with respect to scheme fees would also slow down investment** and innovation by decreasing the resources available to develop future-proofed technologies and fight fraud and strengthen security.
- **Scheme fees are a small component of total costs associated with digital payments relative to the significant overall value provided to issuers and acquirers** and that, in turn, support consumers, merchants and the digital payments ecosystem as a whole. In addition, merchants and consumers benefit from the rights, protections, and benefits guaranteed for every Visa transaction.

Least Cost Routing (LCR)

- The RBA's latest data indicates near-100 per cent availability of Card-Present LCR and 70 per cent uptake among merchants, as well as **recent RBA commentary reaffirming that Card-Present LCR is working well, without the need for formal regulatory intervention. Visa supports this assessment.**

Transparency of Merchant Service Fees

- **Fee structures are determined by payment service providers (PSPs) and acquirers** based on the overall value proposition. For small businesses, this is usually based on the principle of simplicity. Over time, **healthy competition has led to downward pressure on these simple pricing plans,** which generally incorporate multiple networks where merchant service fees are set based on the highest point of interchange or interchange equivalent plus associated fees paid.
- **This can create an uneven playing field where some networks are regulated and others are not, leading to regulated networks cross-subsidising more expensive, unregulated networks** within these plans. **A level playing field – with equal designation across PSPs – is critical to address this issue.**

Surcharging

- **Visa supports revising the RBA's surcharging framework**, given the increased public concern about surcharging, especially excessive surcharging, among other factors. In terms of the options the RBA considers on surcharging in the Issues Paper and the current lack of parity among regulated and unregulated payment networks, Visa is of the view that ***if* a ban on surcharging is to be introduced, then it should apply to *both* debit and credit products for regulated networks *only*.**

Other regulatory options and broader implications

- **The RBA should ensure that any regulation resulting from this review does not lead to further entrenchment of the current lack of a level playing field** within Australia's digital payments ecosystem.

Overview

The RBA has regulated four-party model card payment networks, such as Visa, since the early 2000s. Over the years, we have benefited from constructive engagement and dialogue with the RBA on payments issues, and we greatly appreciate the RBA's measured and consultative approach to policymaking, as recently described by RBA Governor Michele Bullock.[4] However, it should be noted at this stage that since regulation was first introduced on four-party card payment networks, the ambit of payments regulation has not kept pace with many innovations in the marketplace. Today, there are a plethora of new players bringing new payment products and services into the market, and many of these new entrants are not subject to oversight by the RBA or any other competent authority.

In this sense, there is now an overriding imperative for regulators to create a more level playing field first by widening the scope of market participants subject to oversight, before any additional regulation is applied to established entities. This is especially important given that reforms to the PSRA remain before Parliament, and it would be best to ensure that any regulation resulting from this review does not lead to further entrenchment of the current lack of a level playing field within Australia's digital payments ecosystem. With this in mind, Visa welcomes Governor Bullock's recent comments supporting a level playing field and competition in the ecosystem.[5]

In crafting this submission, Visa has focused on sharing our perspective on the principles that underpin a modern, secure, competitive and vibrant digital payments ecosystem. These principles are:

- **Continuous innovation and security**: Ensuring that regulation is well-balanced across the payments ecosystem and able to support innovation and continued competition. Innovation delivers new forms of payments and solutions, and must be coupled with security, interoperability and governance. This includes a policy approach that is both current and forward-looking.
- **Consumer choice and protection**: Ensuring consumers are informed about products and services and have the right to choose the products and services that best meet their needs is essential and should be the primary consideration regarding "end-users".
- **Balanced economics**: Regulation needs to maintain balanced economics. This is a level of equilibrium that enables the payments ecosystem to continue growing and evolving, while balancing the cost of payments acceptance with the investments required to maintain safety, security and innovation.

Below Visa provides our responses to specific questions in the Issues Paper as well as perspectives on related issues.

[4] Reserve Bank of Australia (2024), Fireside chat with Michele Bullock, Governor
[5] Ibid.

Issues for Consultation

Interchange Fees

The role of interchange in the evolution and future of the Australian digital payments ecosystem

Open loop, global networks like Visa connect all participants in the digital payments ecosystem through the 'four-party model' – the four parties being: (i) cardholders, (ii) merchants, (iii) issuers, and (iv) acquirers. Visa generally does not have direct relationships with consumers or merchants. Visa is a global payments network that connects all the parties in this 'four party model' to ensure the safe and secure facilitation of digital payments. For instance, we work with and support acquirers to adopt the latest acceptance solutions and technology that enable merchants to offer their customers secure and innovative ways to pay. Similarly, Visa works with issuers to support them in making innovative payments solutions available to consumers and businesses through products and services that are secure and convenient.

Interchange fees are the mechanism that a digital payments network like Visa uses to balance the investment, costs, risks, and needs of digital payments ecosystem participants, in order to support continued evolution of the ecosystem. Interchange is paid by the acquirer to the issuer. Importantly, interchange is a fee between banks. Specifically, interchange fees earned by issuers allow them to cover the costs and risks associated with issuing payment cards (whether prepaid, debit, or credit), including the administrative costs associated with maintaining a card issuing business, fraud management, funding, and bad debt costs.

Interchange also supports issuers' investment in providing best-in-class digital payments, including the adoption of secure payment solutions that benefit Australia's digital payments ecosystem, as detailed further in the sections that follow. By way of example, any additional reduction in interchange will further exacerbate the unlevel playing field between the regulated four-party and unregulated three-party models, particularly in the commercial cards space, where interchange plays a key role in driving innovation and improving the payment experience for businesses of all sizes in Australia.

In Australia, the RBA has regulated interchange since the early 2000s. Since regulation was enacted, the RBA has primarily focused on regulating digital payments through the lens of the cost of acceptance. Visa notes, however, that an approach focused primarily on cost of acceptance is not necessarily fit for purpose or fit for the future in light of the changing and growing needs of the digital payments ecosystem. Since the early 2000s, the digital payments ecosystem has changed significantly and become increasingly more dynamic and complex, with digital payments creating and delivering immense value to adapt to a rapidly changing landscape and increasing consumer demands. Today there are many more catalysts that lead to technological progress but also many more risks and challenges that risk stifling this progress.

As a result, viewing the digital payments ecosystem only through the lens of cost puts a downward and artificial pressure on the economics of the digital payments ecosystem which may result in slowing down the speed and depth of technological transformation. This is because unnecessarily compressing the economics of interchange can lead to less incentives to innovate and/or less investment to develop technologies that for example protect merchants and consumers from large-scale and sophisticated fraud attacks, originating both domestically and from overseas.

As Visa's response will outline, interchange plays a critical role in supporting the evolution and growth of digital payments which in turn supports the growth of the Australian commerce ecosystem and the broader economy. The future of commerce in Australia will require new and more advanced payment solutions than those that exist today and ensuring that there are proper levels of interchange in Australia will be critical in supporting that evolution.

Visa provides its specific responses below to the RBA's questions on interchange outlined in the Issues Paper.

Q1: Is there a case for lowering the level of interchange benchmarks or caps? Should the difference between the interchange fees paid by big and small businesses be limited in some way?

I. *Domestic interchange benchmarks and caps should remain at their current levels to support continued investment in best-in-class digital payments and promote innovation in a rapidly changing ecosystem*

In Section 2.2 of the Issues Paper, the RBA seeks stakeholder views on whether changes should be made to the current interchange rules. For the reasons detailed below, the RBA should maintain the current interchange rates in Australia for both fixed caps and weighted average caps. Reducing these rates further could cause harm to the digital payments ecosystem.

As the RBA is aware, determining the appropriate levels of interchange is a process that must strike the right balance of economics between issuers and acquirers, which, in turn, creates value for cardholders and merchants and results in a competitive marketplace. In Visa's experience, allowing interchange to be set based on specific and unique ecosystem dynamics contributes to achieving balanced economics and benefits all participants. The calibration of interchange is a detailed process which Visa takes very seriously.

Setting interchange too high discourages merchants from accepting payments. Setting it too low removes support for issuance and investment into innovation and security. In setting interchange, Visa is focused on driving simultaneous growth of issuance and acceptance, encouraging the use of digital payments, and promoting investment in innovation, which ultimately supports the growth of the digital payments ecosystem and the economy more broadly. Importantly, interchange is a fee between banks that is designed to support the ever-evolving needs of the digital payments ecosystem.

Supporting simultaneous growth of acceptance and issuance are critical considerations in setting interchange fees. Beyond that, interchange also supports issuers', acquirers' and merchants' investment in providing best-in-class digital payments and serves as a mechanism that encourages the adoption of secure and innovative payments solutions such as tokenisation and contactless that benefit the Australian digital payments ecosystem, and ensure its integrity and resilience.

When the RBA first commenced its analysis of interchange, the landscape of commerce and payments was very different. Since then, commerce has moved online and is increasingly conducted via smartphones and wearable devices. This has created a need for the digital payments ecosystem to respond and adapt in order to continue to support the growth of digital commerce. For example, interchange plays a critical role in the roll-out and adoption of tokenisation, an innovative solution that enables consumers and merchants to benefit from more secure digital wallet, wearables and e-commerce transactions. As a result, merchants benefit from higher sales and consumers have additional trusted methods with which they can pay. Interchange serves as a critical tool in encouraging tokenisation, by reducing interchange for transactions where acquirers' and merchants have implemented the technology, and having higher rates where they have not. This interchange differential creates the economic incentive to invest in the new technology. If the economic differential between high and low interchange rates continues to be regulated down, the business case for investment diminishes on both sides of the network.

Critically, once tokens have been rolled out, interchange returns to its equilibrium position and is ready to support the roll out and adoption of the next innovative payments solution that seeks to support the Australian commerce ecosystem. No one knows exactly what the future of commerce will look like, but we do know that the solutions will require support to scale and grow. Further limiting the role that interchange plays by lowering existing benchmarks and/or caps risks removing that crucial support, thereby negatively impacting innovation and growth within the digital payments and, by extension, the commerce ecosystem in Australia.

The increasing sophistication of fraudsters highlights the importance to equip participants with the resources they need to protect and enhance the digital payments ecosystem. In short, the ecosystem has become significantly more complex, not less, while interchange through regulation has become limited in its ability to play a critical role in enabling innovation and evolution. Further limiting it would likely slow innovation and technological evolution in digital payments, which in turn would limit commerce growth and the broader Australian economy.

As an example, industry analysis conducted after the implementation of the European Union (EU) Interchange Fee Regulation (IFR) in 2015 shows evidence of several unintended consequences as a result of interchange regulation:

- **Investment in product innovation has slowed since the implementation of the IFR**. Issuers reported that investment in innovation has slowed because of the reduction in interchange and the resulting challenge to generate a return on investment.[6]

- **Issuers received reduced interchange and compensated for this loss by increasing the cost of payment products and reducing payment options for consumers**. More specifically, card issuers received €5.14 billion less in interchange in 2018 than in 2014 despite an increase in card turnover of €749 billion.[7]

- **Consumer choice of card products has also diminished following the IFR's implementation**. Because issuers consolidated product offerings, the number of credit card products decreased by 14 per cent and average annual fees on consumer credit cards increased by 13 per cent.[8] Likewise, the number of debit cards decreased approximately 8 per cent.[9]

a. Reducing the debit interchange level to a lower benchmark is unsustainable and risks creating competition, security, and resilience issues for the ecosystem, especially for smaller financial institutions and fintechs

The RBA states in the Issues Paper that "the weighted-average interchange rate on debit cards has drifted noticeably below the benchmark over recent years in response to competition between the card networks. This suggests that the benchmark may now be too high."[10] Visa agrees that the incidence of lower weighted-average interchange rates indicates that competition is thriving in Australia; however, we disagree that the benchmark is therefore too high and should be reduced further. As noted above, transactions are increasingly moving to e-commerce environments or to new form factors, such as mobile payments and digital wallets, which broaden the attack surface and create new opportunities for threat actors. This will require that interchange rates remain flexible. By way of example, Australian consumers spent AUD63.6 billion online in 2023.[11] This increase in e-commerce activity is expected to continue, with projections suggesting a compound annual growth rate of 8.33 per cent in e-commerce revenues from 2024-2028.[12]

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[6] Edgar, Dunn & Company (2021), Interchange Fee Regulation Impact Assessment Study, January 2020, p.3

[7] Ibid, p.2

[8] Ibid.

[9] Ibid.

[10] Reserve Bank of Australia, (2024), Merchant Card Payment Costs and Surcharging - Issues Paper, p.11

[11] Australia Post (2024), Inside Australian Online Shopping: eCommerce Industry Report – 2024. Original data source: CommBank iQ. Consumer spend & online transactions percentage is based on banking transaction data (debits/ credit cards BPAY, direct debit) and estimation for buy now pay later payments. Online physical goods spend in CY23.

[12] Commission Factory (2024), Key eCommerce and Online Shopping Statistics in Australia in 2024.

To remain competitive, financial institutions must support new payment form factors and channels while investing in advanced technologies to mitigate fraud and facilitate safe and secure payments for merchants and consumers. If the RBA further reduces interchange, it decreases the resources available for financial institutions to invest in fraud prevention products and services, which harms the very ecosystem participants the RBA seeks to support – merchants and consumers. This is especially critical for smaller financial institutions that are striving to remain competitive and meet evolving merchant and consumer demands, while managing a complex fraud and risk environment. As a result, **the RBA should maintain the current weighted-average interchange benchmark of AUD 0.08 and a cap on individual interchange fees of AUD 0.10 or 0.2 per cent for domestic debit transactions in Australia**.

b. *Financial institutions carry significant risk supporting credit transactions. Appropriately set credit interchange rates reflect the higher value proposition and risk profile of credit instruments*

The RBA states that the current weighted-average interchange benchmark (0.5 per cent) and cap on individual fees (0.8 per cent) for credit transactions in Australia are higher than in some other jurisdictions.[13] In response, Visa would highlight that domestic debit and credit products carry different risks and value propositions. It is critical that interchange fees reflect these differences.

Importantly, debit cards have no built-in credit component and only allow consumers to spend the money they already possess. As a result, debit transactions carry lower risks for financial institutions. Furthermore, fraud on credit cards is generally more costly than on debit cards. This is primarily because credit cards, by their nature, allow for larger spending limits and deferred payments, making them attractive targets for fraudsters and resulting in higher fraud losses. Furthermore, as transaction amounts rise, the corresponding fraud-to-sales ratio (and the likelihood of higher fraud costs) increases, along with issuer operational expenses such as the cost of processing chargebacks. Consequently, the heightened risk and potential for greater losses are reasons why interchange is higher for credit cards.

In addition, both consumers and merchants benefit from the protections associated with credit products, including zero liability in the case of fraud (consumers) and guaranteed payment irrespective of whether a consumer pays their bank (merchants). Interchange for credit transactions helps to balance this higher value proposition and risk profile.

For these reasons, supporting credit transactions requires greater investment by issuers and payment networks. Appropriately set interchange rates for credit transactions support a financial institution's ability to take on the uncertainty and risk that comes with extending credit to consumers and to invest in products and services to mitigate this risk. This, in turn, benefits consumers and merchants by facilitating safe and secure transactions. Conversely, compressing domestic credit interchange rates reduces the resources available for financial institutions to

[13] Reserve Bank of Australia (2024), Merchant Card Payment Costs and Surcharging – Issues Paper – October 2024, p.11.

manage the risks associated with extending credit to consumers and may result in decreased issuer authorisation rates and other unintended consequences.

Therefore, **the RBA should maintain the current weighted-average interchange benchmark of 0.5 per cent and cap on individual fees of 0.8 per cent for domestic credit transactions in Australia to reflect the differences between domestic debit and domestic credit transactions, and to encourage the investments necessary to support safe and secure credit transactions.** Any broader reductions to the level of interchange will have direct impact on the ability of the digital payments ecosystem to continue funding innovation and initiatives to enhance security as well as to support credit availability and an array of products.

II. *Small businesses benefit from innovation that supports the broader digital payments ecosystem and no further regulatory intervention is required to address the perceived gap in interchange rates.*

In its role, interchange as a tool supports the growth and evolution of the digital payments ecosystem as a whole and benefits merchants of all sizes, large and small. Advancements across risk capabilities that reduce fraud and innovations that enable consumers to transact using their mobile devices are available to merchants of all sizes. To support that growth and innovation while simultaneously scaling issuance and acceptance, Visa deploys a range of targeted approaches, including those outlined below.

To enable small- and medium-sized businesses with the means of accepting digital payments, in 2023, Visa launched the Australia Acquirer Small and Medium Business Debit Acceptance Program. The program offers one of the lowest and most competitive debit interchange rates for Australia's smaller merchants. Beyond its specific focus on small- and medium-sized businesses, Visa from time to time deploys specific industry segment rates that target supporting digital payments growth across merchants of all sizes within that specific segment category.

Visa calibrates interchange considering a broad range of requirements, with size being one of them. There is an extensive suite of support being provided for merchants of all sizes, all of whom contribute to the progress and innovation of the digital payments ecosystem. Reducing any perceived gap between merchant sizes, or further limiting the crucial role that interchange plays in supporting the continuous evolution of digital payments, would hinder innovation and growth.

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

Visa supported the RBA's decision not to extend regulation to foreign-issued cards following both the 2015-2016 Review of Card Payments Regulation[14] and the 2019-2021 Review of Retail Payments Regulation[15] (2019-2021 Review) – an outcome based on two factors:

i. In light of the low market share of card payments using foreign-issued cards in Australia, the RBA assessed that applying the interchange caps to foreign card interchange fees would not have a significant impact on system-wide payment costs; and

ii. The RBA also held that there was no evidence of issuers attempting to circumvent the Australian interchange regime through offshore card issuance.

The RBA has not raised concerns on ii in the Issues Paper.

The RBA's decisions in both 2016 and 2021 were sensible and grounded in the economic conditions of the market. The rationale for its measured approach remains equally relevant today.

a. Cross-border transactions have a unique value proposition and risk profile in the digital payments ecosystem and are vastly different from domestic transactions.

As an overarching point, domestic and cross-border transactions are fundamentally different. **Domestic transactions** involve one jurisdiction whereby all parties in the four-party model – issuers, consumers, acquirers, and merchants – are in the same jurisdiction. As a result, the calibration of interchange levels that seek to grow and advance the digital payments ecosystem are based on various ecosystem and stakeholder considerations in that particular market. **Cross-border transactions**, on the other hand, involve two or more jurisdictions; this means a much broader set of stakeholder interests and broader ecosystem considerations need to be taken into account.

Similarly, there are multiple legal and regulatory frameworks with respect to anti-money laundering, Know-Your-Customer, and tax treatment involved, as well as currency conversions throughout the transaction flow. Furthermore, cross-border transactions generally involve higher ticket values and higher fraud rates. To cater to this broader set of considerations, Visa deploys what it calls intra- and inter-regional cross-border interchange rates. The former applies to cross border transactions that occur within a single region, for example between Australia and Singapore in the Asia Pacific region. The latter applies to transactions that occur between regions,

[14] Reserve Bank of Australia (2015 - 2016), 2015-16 Review of Card Payments Regulation
[15] Reserve Bank of Australia (2019 - 2021), 2019-2021 Review of Retail Payments Regulation

for example Australia in the Asia Pacific and Canada. The point being that a uniform structure applies to and governs the setting of cross-border interchange rates.

By their very nature, cross-border transactions support personal and business tourism, trade, and foreign investments. Specifically, inbound cross-border transactions (those involving a non-Australian-issued card being used in Australia) support personal and business travel and consumption at hotels, restaurants, retail, and other businesses, including a growing number of merchants selling online. Australian merchants are able to access a global consumer base ranging from affluent consumers with high ticket prices to online shoppers and consumers around the world. The more affluent a cardholder, the higher their expenditure, which merchants directly benefit from through increased revenue. Indeed, a significant proportion of affluent cardholder spending occurs in Australia's cross-border inbound volume.

Regardless of the specific reason for a visit to an Australian merchant in-person or online, there is a clear consumer expectation of a safe, reliable, and technology-forward payments experience wherever Visa is accepted. For these reasons, the different value proposition and risk profile as a result of the particularities of cross-border transactions requires additional investment from Visa and issuers in various technological tools to monitor and prevent fraud, and manage risk, such as zero liability for fraudulent transactions, chargeback processing, and cybersecurity capabilities.

b. The rationale previously relied on by the RBA not to regulate cross-border interchange remains well-grounded

The share of card payments made by foreign-issued cards remains low at approximately 3 per cent, the same as in 2019.[16] Based on this low percentage, the RBA determined in 2021 that the impact of foreign-issued cards on system-wide payment costs was not significant.[17]

In the current Issues Paper, the RBA suggests that the costs for foreign card transactions are high because they account for an estimated 8 per cent of total interchange fees paid by merchants in Australia. However, **applying interchange caps to foreign card transactions will have a low rate of impact on overall merchant costs** because the proportion of total costs attributable to these fees remains small.

The 2.4 per cent interchange rate for foreign card transactions, referenced in the Issues Paper[18], is an outlier. More broadly, Australia's cross-border interchange rates are comparable to those in other regions of the world. However, the effective market-level interchange rate may vary from country to country. This variation depends on the specific types of cards used by consumers, such as premium and commercial cards. Consequently, the effective cross-border inbound interchange rate in a given country is directly influenced by the card types and spending patterns

[16] Reserve Bank of Australia (2021), Review of Retail Payments Regulation – Conclusions Paper – October 2021, p.41

[17] Ibid.

[18] Reserve Bank of Australia (2024), Merchant Card Payment Costs and Surcharging - October 2024, p.12

of inbound tourists. The majority of cross-border transactions fall below the 2 per cent threshold. While the Issues Paper highlights the 2.4 per cent rate as high, it is an exception rather than the norm. The overall cross-border interchange rates in Australia are in line with global standards and are influenced by the mix of card types and spending behaviours of international travellers.

c. *Any policy decision to digress from the RBA's prior decisions not to regulate cross-border interchange would harm the digital payments ecosystem*

Issuers around the world make significant and ongoing investments that collectively contribute to a well-functioning and secure digital payments infrastructure, including safe, seamless cross-border payments. Regulation that would seek to cap cross-border interchange will reduce incentives for issuers to authorise cross-border transactions, which are riskier than domestic transactions. If issuers are required to incur the significant costs associated with maintaining cross-border transactions, they will decline more transactions because the cost of these transactions will outweigh the revenue generated by them. This will lead to a reduction in Australian merchant sales online or in-person to international consumers and a potential migration back to cash or an unregulated form of payment.

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

The RBA states in the Issues Paper that interchange fee schedules have become more complex over time, and seeks feedback on whether there is a case to reduce the complexity, and/or enhance the transparency, of interchange fees. As Visa's response outlines, we set interchange according to a wide range of factors, with the goal of advancing and growing the digital payments ecosystem. The digital payments landscape is more dynamic and competitive than ever before, and therefore significant flexibility is necessary to achieve these goals and maximise benefits for all. A more simplified process may be attractive in theory; but, in practice, it would most likely reduce the overall capacity to address the needs of ecosystem participants as quickly and efficiently as possible.

With this guiding perspective, Visa has responded in turn below to each of the four questions on which the RBA seeks feedback.

a. *Should the card networks be required to publish aggregate data on the average interchange fees on transactions to promote transparency and competition?*

Visa supports transparency and competition and provides robust disclosures in Australia. However, we are concerned that publication of aggregate data on the average interchange fees on transactions may lead to confusion in the marketplace. By comparison, the current data on merchant service fees published by the RBA offers a more comprehensive view of total costs and

benefits for merchants and is sufficient to support the Bank's goals of promoting transparency and competition.

Visa currently publishes a complete hierarchy of interchange rates, including for domestic debit interchange rates, domestic credit interchange rates, domestic prepaid interchange rates, and account funding transaction rates, in Australia on a publicly accessible website. Visa also publishes Asia Pacific intra-regional interchange rates for foreign-issued cards and inter-regional interchange rates for foreign-issued cards.

Furthermore, the RBA currently publishes average merchant service fees for debit, credit, and charge cards, broken down by card network (both aggregated and separated individually by network), product type, and form factor on the RBA website[19]. Interchange fees are just one component of merchant service fees, and are therefore already captured in this wider analysis. Moreover, merchant service fees encompass a wider range of services provided to merchants by their acquirers and as such reflect a more complete picture of merchants' total costs and benefits. Given that merchants pay merchant service fees and not interchange, **the publication of merchant service fees by the RBA already offers sufficient data to promote transparency and competition by allowing merchants to compare the overall cost of acceptance among acquirers and between card networks.** For this reason and because Visa already publishes complete interchange tables on a public-facing website, there is no additional need for networks to publish aggregated interchange rates in order to facilitate transparency and competition.

b. Should there be a limit on the number of different interchange categories that a card network can set?

Different interchange categories allow card networks the necessary flexibility to encourage the adoption of new technologies or the mitigation of risk in the digital payments ecosystem, and should not be artificially limited to a set number. As outlined in response to Question 1 above, determining the appropriate levels of interchange is a process that must strike the right balance of economics between issuers and acquirers, which, in turn, creates value for cardholders and merchants and results in a competitive marketplace.

Visa considers a multitude of factors when setting interchange rates, including but not limited to driving issuance and acceptance, supporting a broad competitive landscape of issuers which increase customer product choice, supporting innovation including leading-edge anti-fraud and security technologies, and ensuring access to credit for customers, which in turn increases their spending power and benefits merchants and the overall economy. In addition, interchange is also differentiated based on the value proposition of the product, enabling broader customer choice with customers benefiting from a range of payments products customised to their needs and segments. Targeted interchange changes are also utilised to support greater acceptance; for example, to support targeted initiatives to drive wider digital payments inclusion and acceptance

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[19] Reserve Bank of Australia, Payments Data, C3: Average Merchant Fees for Debit, Credit and Charge Cards.

in specific industry segments, or to encourage the use of technologies like tokenisation that promote a more secure ecosystem.

All these factors require flexibility for card networks to be able to set specific interchange programs. Any reduction in the range of interchange programs will constrain the breadth of product choice that benefits consumers today, as well as the benefits provided to small business and enterprise business card customers, some of which rely on digital payments for business survivability and growth. It will also restrict the potential for networks to expand digital payments inclusion and acceptance through targeted programs. Furthermore, by limiting the number of categories that a card network can set, the RBA risks creating artificial parameters that may quickly become obsolete. given the increasing speed of evolution in payments technology today.

c. *Should the interchange caps be only cents-based?*

Interchange caps should not be cents-based only, as this does not properly reflect the role of interchange in the digital payments ecosystem. The RBA proposes that "[t]he argument for a cents-based cap, rather than ad valorem, for debit transactions is that most cost of processing are unrelated to the transaction volume."[20] Interchange plays a very different role in the ecosystem than costs related to transaction processing. Interchange is not based on fixed costs such that an increase in the number or value of transactions (e.g., scale) should result in a decrease in cost per transaction.

Interchange reflects the broader costs of supporting an innovative and secure payments system. For example, costs such as fraud, and the protective measures to prevent it, rise in proportion to the size of a transaction. In addition, for credit products, the cost of provisioning the unsecured credit facility, interest-free periods, and potential default risk all rise in proportion to the value of transactions. As outlined in this response, interchange also plays a role in encouraging the scaling and adoption of new innovative solutions that supports a secure, healthy and growing digital payments ecosystem. To do so, it must be proportional to the underlying payment amount it supports, something that a cents-per-transaction model could never do.

This position aligns with the RBA's current posture on this matter. The existing interchange framework of fixed caps and weighted-average benchmarks is consistent with Visa's perspectives that setting appropriate interchange rates requires a level of flexibility that a cents-based only cap does not allow. We elaborate on these perspectives in additional detail in the section that follows in response to the RBA's question on whether interchange regulation should be simplified by just having caps, rather than both caps and benchmarks.

d. *Should the RBA's interchange regulation be simplified by just having caps, rather than both caps and benchmarks?*

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[20] Reserve Bank of Australia (2024), Merchant Card Payment Costs and Surcharging - October 2024, p.13

It is important to maintain the existing interchange framework of fixed caps and weighted-average benchmarks because *both* tools are required to appropriately balance the risks and value propositions of debit and credit transactions. In addition, removing weighted averages would reduce competition in favour of unregulated three-party networks.

The RBA notes in the Issues Paper that it "is not aware of any other jurisdiction that uses both weighted-average benchmarks and caps, which suggests that it may not be necessary to retain both for interchange to be effective."[21] While Visa agrees that the current framework is unique, it offers important flexibility to differentiate value and risk across card products and across merchant segments, while also providing such flexibility to support new payment technologies.

Among other things, this framework provides the opportunity to set different interchange rates that reflect value in the ecosystem and drive the implementation of services or behaviours that promote innovation, risk mitigation and security. For example, the adoption and scaling of token technology is a prime example of how Visa employs interchange to bring global best practice to the Australian digital payments ecosystem.

Moreover, four-party networks like Visa that are subject to regulated interchange rates are inherently unable to compete on a level playing field with three-party networks that are not subject to interchange regulation, or other unregulated ecosystem participants. With that said, we note that regulating interchange through the sole implementation of caps, rather than both caps and weighted average benchmarks, risks resulting in all product types and merchant segments being homogenous at the cap level, which will limit regulated networks from competing with unregulated networks to an even greater degree than the current regulatory framework provides and, more importantly, limit the ability for four-party networks to support ongoing innovation and acceptance growth. Thus, if the RBA seeks to encourage greater competition between networks and products, it should maintain the existing interchange framework of both caps and weighted average benchmarks.

[21] Ibid.

Scheme Fees

As the RBA states in the Issues Paper, scheme fees are paid by issuers and acquirers.[22] These fees support the development of products, services, and processing provided by Visa, as well as access to the latest and most advanced global payment solutions with regard to security and innovation. Merchants and consumers benefit from the rights, protections, and benefits guaranteed for every Visa transaction. Scheme fees are a small component of total costs associated with digital payments relative to the significant overall value provided to issuers and acquirers and that in turn support consumers, merchants and the Australian economy as a whole.

Below, we provide responses to Questions 4 through 6 of the Issues Paper, and address each of the RBA's proposals with respect to scheme fees.

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

The disclosure requirements put into place by the RBA following its 2019-2021 Review remain appropriate and effective in maintaining a balanced and competitive digital payments ecosystem. There have been no material changes in the market which would require a change in approach. This finding, following the RBA's careful analysis and research, continues to be applicable, especially as market dynamism and complexity continue to accelerate.

Visa's current practices in Australia already provide a substantial level of scheme fee transparency, given that our scheme fees are already visible to all Visa network participants, including issuers and acquirers. Visa's customers have full disclosure via Visa Online and our billing portal. In addition, in the RBA's 2021 Review of Retail Payments Regulation Conclusions Paper (2021 Conclusions Paper), the Bank required Visa to share all scheme fees and scheme rules with the RBA as well as aggregate data on the value of scheme fees charged and rebates provided to Australian scheme participants.[23] As an entity regulated by the RBA, Visa has a close relationship with the Bank and regularly shares information, including related to pricing. We are committed to a constructive relationship with the RBA.

The Issues Paper's **first proposal regarding publication of scheme fees data – *to publish the total value of collected scheme fees along with the volume and volume of transactions processed*** - is a requirement that could disrupt market dynamics by shifting competitive focus solely to costs, thereby reducing incentives for innovation and service quality improvements. Currently, networks compete on price as well as on the quality of services and innovative solutions they offer. Overemphasising cost in the delivery of complex and global electronic payments services

[22] Ibid., p.14

[23] Reserve Bank of Australia (2021), [Scheme fees | Review of Retail Payments Regulation – Conclusions Paper]

could undermine the incentive for networks to invest in improvements and innovations that ultimately benefit consumers and merchants alike.

While Visa is committed to transparency across our business, broad disclosure mandates – particularly in the area of pricing – can give rise to significant competitive concerns. As Visa highlighted in both the 2007-2008 RBA Review of Card Payment Systems Reform and the 2019-2021 Review[24] - and as the RBA itself acknowledged in both instances - information regarding the fees we charge to financial institutions that issue Visa cards and acquire Visa transactions is highly commercially sensitive.[25]

Despite the complexity and the numerous participants and fee schedules involved, the potential for reverse engineering specific scheme fee price points and the rebates received by individual issuers and acquirers remains significant. As a result, competitors and other ecosystem participants with sufficient market knowledge and analytical capabilities could deconstruct aggregate data to derive insights into our pricing strategies and rebate structures. The disclosure of such commercially sensitive information could create an uneven playing field. Unregulated schemes would be in a particularly advantageous position regarding having visibility of the fees of regulated networks (like Visa) without needing to disclose any information regarding their own fees. This disparity of publicly available price information would foster an anti-competitive environment, undermining and unfairly altering the competitive balance within the digital payments ecosystem.

The RBA's **second proposal** – ***that networks to publish all multilateral scheme fees and rules*** – is a requirement that may lead to price alignment among schemes, reducing competitive pressure and potentially increasing costs for end users. This could also add administrative burdens on merchants, especially SMBs, making it harder for them to navigate complex fee structures.

Visa supported the RBA's decision in 2021 not to introduce a requirement for designated card schemes to publish all multilateral scheme fee rates and rules – an outcome the Bank reached after detailed assessment for two reasons:

i. The RBA acknowledged that the usefulness to stakeholders of detailed scheme fee schedules is questionable, and that merchants would find it difficult to make effective use of the information; and
ii. The RBA recognised concerns raised about the commercial confidentiality of scheme fees.

The RBA's decision in 2021 against public disclosure of all scheme fee rates and rules was both prudent and based on the realities of the composition and structure of scheme fees. Its reasons for this decision remain just as valid today as they were in 2021.

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[24] Visa (2008), Submission to the RBA regarding the 2007-08 Review of the Reforms to Australia's Payments System, and Visa (2021), Submission to the RBA 2019-21 Review of Retail Payments Regulation.
[25] Reserve Bank of Australia (2021), Review of Retail Payments Regulation – Conclusions Paper – October 2021, p.45

The Issues Paper also ***proposes improved reporting to merchants***[26] *(e.g.*, requiring payment service providers (PSPs) to provide a breakdown of the total merchant service fee into interchange fees, scheme fees and their gross margin).[27] PSPs, as well as acquirers, compete both in respect of the costs of acquisition, and also on the basis of value-add services. Whether a merchant is on a particularised or single-rate plan, a merchant can obtain offers from a large variety of acquirers/PSPs and is in a position to evaluate and compare offers based on both price and services offered.

It would be unusual and possibly anti-competitive in a market where there are a large number of active competitors for a regulator to require competitive suppliers to disclose wholesale pricing and margins. The RBA should have clear evidence showing how the usual competitive processes are insufficient before reaching a conclusion that requires the disclosure of commercially sensitive information.

Visa accepts that the current regulatory information includes levels of both price regulation (i.e. in respect of interchange) and information disclosure (i.e. in respect of average aggregated scheme fee costs). This does not mean that further requirements should be introduced without detailed analysis demonstrating a clear benefit in support of a specified regulatory outcome. That said, the disclosure of the type of information contemplated by the Issues Paper would be unusual outside of industries without access regimes and/or a regulatory-required negotiate/arbitrate model.

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

Visa charges scheme fees in return for offering its best-in-class solutions, tailored to the Australian payments and commerce ecosystem. In turn, these fees support the continuous investments Visa makes into future-proofing and evolving its solutions, based on consumer and merchant needs and latest fraud prevention requirements. Regulatory action to limit scheme fees in Australia will reduce the case to invest here, relative to other markets by decreasing the resources available and return on investment. This will impact the introduction of future-proofed technologies that support security and innovation for Australia.

Under the Issues Paper's **first proposal** – ***consolidating fee categories and standardising fees*** – while Visa appreciates the appeal to the RBA of merging fee categories into more general categories and implementing a uniform fee structure across different services or networks, these actions may lead to the opposite of the RBA's intended effect. Diverse fee structures allow for

[26] Reserve Bank of Australia (2024), [Merchant Card Payment Costs and Surcharging - October 2024](), p.16
[27] Ibid., p.18

tailored services that meet the specific needs of customer segments. Rather than increasing clarity and transparency regarding the services available to clients, Visa would be required to offer bundled services to clients, reducing the availability of choice and functionality. In particular, this is likely to lead to clients being required to choose between fewer, ready-made packages of services (i.e., bundled services) that are fundamentally not tailored to their individual requirements and needs. This would result in reduced flexibility and choice for clients, all as a result of networks having to comply with increased administrative and regulatory requirements.

Consolidating and standardising fee structures not only risks the efficiency and customisation that clients currently experience; it risks increasing costs for both Visa and our clients. Clients who previously benefited from lower, tailored fees in specific categories may face varying cost increases under a uniform structure. The transition to a new fee structure would also require significant implementation costs for Visa's clients by way of extensive system updates and staff training – which may, in turn, be passed on to consumer and merchants. This complex adjustment would likely compromise the flexibility and personalisation that clients value.

With the RBA's **second proposal** - ***require substantive documentation or a formal consultation process with stakeholders to justify new fees or increases*** - it would have multiple unintended negative consequences. Implementing this requirement would impose significant burdens on both Visa and our clients. Most importantly, it would hinder our ability to innovate and respond quickly to rapidly changing market conditions, including economic or geopolitical events such as the COVID-19 pandemic. It would also necessitate substantial resourcing for conducting consultations, updating systems and training staff.

Moreover, formal consultation requirements could result in demands for detailed cost information (e.g., Visa's operational, production and security costs, overheads and research and development) to justify fee changes. In addition to distorting the overall price setting process, disclosing such cost information could lead to price softening as competitors would gain access to sensitive pricing inputs. Disclosing this information could unintentionally reveal critical details about the security measures, such as cyber security defences, fraud detection systems, encryption protocols. This level of transparency may expose technologies used to secure the network, potentially providing insights on the robustness of certain systems. Such disclosures could unintentionally provide third parties with information that might be exploited, posing a risk to the overall security and resilience of the ecosystem.

These negative consequences are amplified by the risk of geographical distortions being introduced between Australia and other countries and/or regions, given that Visa launches many of its products on a global or regional basis. Overall, these potential harms to competition and market dynamics, coupled with the significant burden on industry participants, constitute disproportionate impacts compared to the purported issues this remedy aims to address.

Further, the **third proposal** - ***implementing caps for scheme fees to limit their growth equivalent to current interchange regulations*** - is not appropriate. Implementing a cap on scheme fees could have adverse consequences for service users. As already noted, the fees collected by networks are pivotal for funding essential investments in security and resilience, in order to ensure the continuous provision of high-quality network services in the face of evolving threats. These investments are critical for maintaining service quality as well as for fostering innovations and new services that benefit stakeholders, including merchants. A cap on scheme fees would significantly constrain the ability of networks to invest in their platforms, respond to competitive market dynamics, and innovate, potentially jeopardising the positive outcomes associated with payment card usage.

Finally, while Visa is always mindful of how our fees may impact our clients and payments ecosystem, it is important to recognise that our fees are a small part of the overall cost of acceptance. This is evident in the RBA's own data – including in Graph 1 on the Average Merchant Fees of Card Payments in 2023-2024 in the Backgrounder on Interchange and Scheme Fees in the Issues Paper.[28]

In addition, Visa charges to acquirers reflect the actual use of our services based on the transactions that flow to them (e.g., differentiating by various attributes such as face-to-face versus remote, domestic versus international) and on the services utilised. Visa does not control how acquirers (and other participants in the value chain) price their services to merchants, and we do not have full visibility of the merchant pricing models that acquirers use.

Merchants also have a wide range of options available to them and can choose which payment methods to accept or not accept. The merchant's ultimate choices reflect several competitive factors, such as the security and convenience of the payment method, as well as the overall cost of acceptance. Merchants can also accept a large range of payment options, while steering consumers towards the payment methods they prefer. Analysing merchant service fees solely from a cost basis does not take into account all of the benefits merchants receive from accepting card payments. It also overlooks the savings already built in for merchants, including, among others, from not having to deal with cash flows.

Users of Visa services value innovation, which is one of the key 'non-price' factors through which we compete with other payment methods as well as a significant source of the value that we provide to clients and end users. In this respect, it is important to take account of non-price factors for Visa service users. A narrow focus on fees is not recommended given that: (a) we do not provide a commodity service and operate in a dynamic and competitive payments landscape, characterised by a range of different business models; and (b) reported fee levels associated with Visa are lower than the fees associated with popular alternative payment methods in Australia, such as American Express. Given these economics, and in the case of blended simple pricing plans - that include Visa together with other non-regulated entities with

[28] Ibid., p35

reported higher fees - there should be a level playing field so that lower-cost regulated networks, such as Visa, are not cross-subsidising networks outside of regulation, such as American Express.

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

The current regulatory framework established by the RBA has proven effective in maintaining transparency and fostering competition within the payments industry. Our scheme fees are already available to network participants, including issuers and acquirers, via Visa Online and our billing portal. In addition, in the RBA's 2021 Conclusions Paper, the Bank required Visa to share all scheme fees and scheme rules with the RBA as well as aggregate data on the value of scheme fees charged and rebates provided to Australian scheme participants.[29] These measures ensure that all network participants are well-informed about fee structures and adjustments, thus promoting a competitive environment. Given the robust mechanisms already in place, we are confident that the existing framework adequately supports the RBA's objectives, and therefore, no further regulatory intervention is necessary at this time to increase competitive pressure on scheme fees.

[29] Reserve Bank of Australia (2021), Scheme fees | Review of Retail Payments Regulation – Conclusions Paper

Least Cost Routing

> Q7: How do stakeholders assess the functioning and effectiveness to date of LCR for in-person transactions? Is further regulatory intervention needed? What might that look like?

Visa appreciates the opportunity to engage with the RBA on Least Cost Routing (LCR) for in-person transactions. As detailed below, Visa notes the RBA's latest data indicating near-100 per cent availability of LCR and 70 per cent uptake among merchants[30], as well as recent RBA commentary reaffirming that the availability and enablement of LCR are working well, without the need for formal regulatory intervention[31].

a. *The functioning and effectiveness of LCR for in-person transactions is working well without the need for formal regulation*

LCR for in-person transactions has been effective in cases where merchants have received information on LCR and have been able to make their own choice if they wish to enable it. More specifically, education about the availability and features of LCR is critical to ensure that all businesses can make their own fully informed choices about whether to enable LCR, as appropriate, to help manage costs and meet their overall business needs. By comparison, a formal regulatory requirement regarding LCR would deny merchants the opportunity for choice and lead to a one-size-fits-all outcome. More broadly, Visa is concerned that regulating a technology response to this issue does not create efficiency or productivity in the digital payments system – both of which are sought under Treasury's Plan.

The RBA's latest data on LCR has highlighted that high levels of LCR uptake have been achieved without a formal regulatory requirement being required. The RBA stated in the Issues Paper that by June 2024 the share of merchants with LCR available to merchants was approximately 99 per cent and LCR enabled for in-person transactions had increased to around 70 per cent[32]. Furthermore, PSPs had suggested that this enablement rate should be closer to 80 per cent by the end of 2024 [33]. The RBA Governor, Michele Bullock, said in August 2024 that the PSB had recently reviewed LCR and found that the implementation for merchants was at 70-75 per cent.

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[30] Reserve Bank of Australia website Update on availability and enablement of least-cost routing for merchants data as at June 2024. See Table 1: Least-cost Routing of Card-present Debit Card Transactions

[31] Australian Parliament House, Standing Committee on Economics (2024), Review of the Reserve Bank of Australia Annual Report 2023. The Hansard transcript is available here.

[32] Reserve Bank of Australia website Update on availability and enablement of least-cost routing for merchants data as at June 2024. See Table 1: Least-cost Routing of Card-present Debit Card Transactions

[33] Reserve Bank of Australia (2024), Merchant Card Payment Costs and Surcharging - October 2024, p.16

She added: "We think that's enough. We don't think we need to regulate it given the improvement that we have seen."[34]

Visa agrees with this conclusion - so that merchants can continue to have choice available to them regarding usage of LCR, rather than a formal regulatory requirement being introduced. In the Issues Paper, the RBA stated that an additional 5–10 per cent of merchants have not enabled LCR for what it described as "arguably valid reasons"[35]. In Visa's experience, these reasons are justifiable in supporting business success and include merchants selecting certain payment acceptance solutions based on factors such as system resilience, innovation, value and simplicity – and not just cost. This reflects a market trend wherein small businesses are selecting point-of-sale technologies that not only facilitate payments acceptance but which (among other things) power payroll processes and inventory management. In addition, while some merchants may see an immediate cost reduction on a per-transaction basis, this may not reflect their overall costs. This is because not all networks offer the same payment guarantee and dispute handling processes.

It is against this backdrop that it would not be beneficial for PSPs to be required to enable LCR for all merchants by default, with merchants needing to arrange to opt out if they wish. This would disrupt the seamless operation of a merchant's business – requiring merchants who do not want to use LCR to spend valuable time and resources opting out of LCR. As a result, no formal regulatory requirement and an ability for merchants to opt in to LCR – rather than out - will better serve the interests of individual merchants.

b. The benefits of LCR are not always being passed on to merchants

The market has demonstrated that LCR, at a wholesale level, does not always guarantee that merchants will receive the cost benefit provided by a network. For example, the overall take-up of LCR for in-person transactions has been lifted by PSPs offering single-rate merchant payment plans – which charge the same percentage transaction fee for all card types – with LCR implemented 'in the background'. For merchants on these single-rate plans, LCR serves to lower wholesale costs for PSPs. However, it is unclear to what extent, if any, savings are passed on to merchants by PSPs. Further, the RBA is aware of only one PSP offering a *dynamic* LCR solution[36] – which evaluates and routes each individual transaction to the lowest cost network – while most other PSPs can offer only simple 'all-or-nothing' or threshold-based routing solutions, which may limit potential savings.

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[34] Australian Parliament House, Standing Committee on Economics (2024), Review of the Reserve Bank of Australia Annual Report 2023. The Hansard transcript is available here.
[35] Reserve Bank of Australia (2024), Merchant Card Payment Costs and Surcharging - October 2024, p.17
[36] Ibid.

Transparency of merchant service fees

Q8: Is there a case for greater transparency of fees, wholesale costs and market shares for some payment services? If so, what form should this take? What benefits or drawbacks might arise from implementing any of these measures?

Following the previous RBA Review, the Bank has worked to increase the availability of pricing information for merchants with the aim to help Australian businesses of all sizes to better understand their overall payment costs[37].

As a starting point, pricing structures are determined by PSPs and acquirers based on the overall value proposition that they bring to their merchants, which include but are not limited to transaction processing. Usually, the value proposition – particularly for small businesses – is based on the principle of simplicity, with a simple headline price communicated to these merchants. Over time, healthy competition has led to downward pressure on these simple pricing plans. Generally, these plans are bundled, incorporating multiple networks where Merchant Service Fees (MSFs) would be set based on the highest point of interchange or interchange equivalent plus associated fees paid. However, this can create an uneven playing field where some networks are regulated and others are not, leading to regulated networks cross-subsidising more expensive, unregulated networks within these plans. As a result, a level playing field – with equal designation across PSPs – is critical to address this issue.

On greater transparency regarding market shares, it is unclear what value would be created as a result of such information being publicly available, especially considering the potential impact on competition. Visa looks forward to engaging the RBA further to understand its rationale of the public benefit of this option.

[37] Reserve Bank of Australia (2021), [Review of Retail Payments Regulation - Conclusions Paper](), pp57-58

Surcharging

Q12: Is there a case for revising the RBA's surcharging framework? If so, which options or combination of options would best address the current concerns around surcharging? What other options should the RBA consider?

Visa has a longstanding global position of not supporting surcharging, given its negative impact on both consumers and merchants. Specifically, surcharging reduces transparency of the costs involved in the provisioning of digital payments. In turn, it limits competition by disincentivising investment into crucial innovation that ensures digital payments keeps pace with and supports the ever-evolving commerce ecosystem to the benefit of merchants and consumers alike and society as a whole. These negative impacts have been observed in Australia and a number of other markets.

Accordingly, in terms of the options the RBA considers on surcharging in the Issues Paper and the current lack of parity among regulated and unregulated payment networks, Visa is of the view that *if* a ban on surcharging is to be introduced, then it should apply to *both* debit and credit products for regulated networks *only*.

Other regulatory options and broader implications

Q15: 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?

When designing regulatory responses to any of the topics considered in the Issues Paper, the RBA should focus on seeking to maintain a level playing field as much as possible. This should be focused on particularly closely, given that this review is being undertaken when the passage of the PSRA reforms through Parliament is yet to be completed. As a result, the RBA should ensure that any regulation resulting from this review does not lead to further entrenchment of the current lack of a level playing field within Australia's digital payments ecosystem.

About Visa

Visa is one of the world's leaders in digital payments. Our mission is to connect the world through the most secure, reliable, and innovative payment network – enabling individuals, businesses, and economies to thrive. We facilitate global commerce and money movement across more than 200 countries and territories and among consumers, financial institutions, businesses, strategic partners, and government entities through innovative technologies.

Visa is constantly investing in our network and we are honoured to enable consumers and merchants to transact securely and conveniently, supporting commerce and economic growth across our country and around the world. When consumers choose to use a Visa card and when merchants choose to accept Visa, they do so with the confidence that their transactions will be processed securely, efficiently, and reliably and that they will receive the rights, protections, and benefits guaranteed for every transaction on Visa's network. It is critical that we continue to deliver significant value to consumers and businesses as we operate in one of the most dynamic industries in the world, with robust competition from other increasingly digital payment methods.

Visa provides consumers with the opportunity to securely transact with millions of merchants around the world, with the peace of mind that they are covered under Visa's zero liability protections. Consumers and businesses also have the ability to benefit from simple processes to dispute charges or to get refunds on purchases that did not work out as planned. Visa's network is also designed to level the playing field between small and large merchants. Every merchant that accepts Visa can transact securely with billions of Visa cards across the globe and know that they will get paid because our network stands behind every Visa transaction. By connecting into our network, any city, small-town, or rural store, or any small e-commerce site, can benefit from Visa's world class security and fraud-fighting tools so they can better compete with even the largest retailers and technology platforms. Similarly, every small community bank and credit union has access through Visa to the same payment. products, processing capabilities, dispute tools, and fraud-fighting technologies as the largest financial institutions.

In Australia, Visa has offices in Sydney and Melbourne. Together with our Australian financial institutions, fintech and business clients, and our technology partners, we are committed to building a future of commerce that fosters Australia's economic growth, security, and innovation. Since 2020, Visa has worked with Global Sisters to provide business mentoring and coaching to aspiring businesswomen who recently graduated from Global Sisters' small business education program. In August 2023, Visa announced the first ever Australian recipients of its global Visa She's Next Grant Program, which supports women entrepreneurs to run, fund and grow their businesses. Together with Global Sisters and the Accelerator for Enterprising Women, Visa invited shortlisted exceptional women-owned small businesses to pitch their business growth plans for funding from the She's Next Grant Program.

More broadly, through the Visa Foundation, we are dedicated to fostering inclusive economies where individuals and communities can thrive. In 2023, the Visa Foundation provided funding to the Australian non-profit, Good Return, to support Indigenous women entrepreneurs in Australia[38]. More recently, the Visa Foundation supported the First Australians Capital Catalytic Fund, which aims to promote and support Indigenous businesses and enterprises, helping Indigenous people to achieve greater economic independence.[39]

Regarding security, over a five-year period, Visa invested billions in systems resilience, fraud management and cybersecurity, including tokenisation, Artificial Intelligence (AI) and blockchain-based solutions, to bring even more security to every transaction[40]. For example, in the 12 months ending March 2023, Visa Advanced Authorisation (VAA), Visa's AI-based real-time payment fraud monitoring solution, helped Australian financial institutions to prevent more than AUD700 million in fraud from disrupting the nation's businesses.[41]

[38] Good Return (2023), Good Return receives funding from Visa Foundation to support Indigenous women entrepreneurs in Australia

[39] StartUp, ScaleUp (2024), Visa Foundation backs Indigenous-led businesses and commits $2 million to First Australians Capital Catalytic Fund.

[40] Visa internal data on global technology and operations investments, FY15-FY19. For further detail, see Investing in the ecosystem

[41] Visa (2024), Visa prevents more than $700 million in fraud from disrupting Australian businesses.