Review of Merchant Card Payment Costs and Surcharging – Consultation Paper

Submission to the Reserve Bank of Australia

September 2025

SUMMARY

1. ANZ thanks the Reserve Bank of Australia **(RBA)** for the opportunity to provide feedback on the Review of Merchant Card Payment Costs and Surcharging – Consultation Paper dated July 2025. ANZ is providing this feedback in its capacity as a card issuer and does not incorporate the views of ANZ Worldline Payment Solutions. We divested our merchant acquiring business in 2022, noting we retain a 49% shareholding in ANZ Worldline Payment Solutions. This submission incorporates the views of Suncorp Bank.

2. We support the RBA's objective of promoting efficiency, competition and safety in the payments system and acknowledge the Payment Systems Board **(PSB)**'s preliminary view that these objectives would be enhanced by removing surcharging, lowering wholesale card payment costs and increasing transparency of card payment costs.

3. We support the proposed removal of the 'no surcharging' ban. We also agree with increasing the transparency of card payment costs to merchants.

4. Our submission is focussed on the PSB's proposal to lower wholesale card payment costs, an outcome that we believe is best achieved through market forces and assisted by increased simplicity and transparency of wholesale costs.

5. We are concerned that the preferred package of policy options may not be the most effective way to achieve the objective of lowering or reducing disparity in card payment costs for merchants, and will risk undermining the desired safety, competition and efficiency outcomes. This is because:

    a. The significant reduction to interchange caps impacts the ability of four-party card issuers to maintain trust in the card system and deliver innovative solutions to market, particularly for commercial cards, that support ease of payment and ubiquity of acceptance. The conclusions drawn from the Issuer Cost Study do not fully reflect the essential costs incurred by the card issuing business that should be shared or borne by merchants. We recommend expanding the definition of eligible costs to include all costs associated with the effective functioning of a trusted payments system that benefits end users.

    b. Other jurisdictions that have implemented similar reforms did not see benefits of reduced interchange flow consistently to small businesses as intended. One study[1] following the 2015 European reforms identified that that in many cases, acquirers increased their margins and that other fees, such as card scheme fees, partially offset merchant savings and eroded some of the intended cost reductions.

    c. The exclusion of unregulated Participants such as three-party card schemes and buy-now-pay-later providers (BNPL) creates an uneven playing field for competition, as there is no oversight of payment costs for these providers.

6. For these reasons, ANZ recommends that the RBA:

    a. **Retain the current interchange settings** for credit, debit and prepaid cards to ensure the sustainability of these propositions and continued innovation in the interest of both payers and merchants.

[1] EY / Copenhagen Economics, Study on the application of the Interchange Fee Regulation, Final Report, 2020

b. **Consider alternative options to achieve the PSB's objectives** of lowering merchant card payment costs and reducing disparity in card costs between small and large merchants.

c. **Implement the proposed policy changes to surcharging and increased transparency** to all Participants that provide services to merchants and acquirers, highlighting that this will include a broader range of Participants following the recent changes to the *Payment Systems (Regulation) Act 1998* (PSRA). These changes would be best done in conjunction with a full review of payments regulation and opportunities for additional oversight measures to promote an even playing field for all Participants in the payments system.

Efficiency and Competition

1. The current interchange settings are appropriate for the Australian market.
2. While lower wholesale card payment costs is one measure of efficiency, other measures like ease of payment, trust and ubiquity of acceptance are equally, if not more, important.
3. The proposed reduction to interchange fees impact the ability of four-party card issuers to deliver on these measures and increases the risk of card issuers exiting the market. The revised economics may also deter new entrants from participating.

7. We support the Australian Banking Association's (ABA) position that the current interchange settings are appropriate for the Australian market. Since the RBA first introduced interchange fee regulation in 2003, the framework has delivered sustained reductions in merchant costs and contributed to a more efficient payments ecosystem.

8. The PSB's analysis[2] confirms that Australia's interchange fees are among the lowest globally, with domestic debit card weighted average interchange benchmarked at 8 cents and credit card weighted average interchange benchmarked at 0.5%, compared to significantly higher rates in markets such as the United States, Europe and Canada. These markets would be expected to have lower costs than Australian issuers, as they are far larger markets with higher transaction volumes.

9. The current rates have supported merchant acceptance while preserving the financial sustainability of card issuing, enabling continued investment in fraud prevention, payment and digital innovation and consumer protection. The revised dataset for the Issuer Cost Study provided with this submission demonstrates that the proposed reduced interchange income would be insufficient to cover essential issuer costs.

Commercial cards

10. We are particularly concerned about the potential for adverse competitive outcomes in the commercial card segment.

    a. The financial sustainability of existing four-party commercial card issuers is increasingly under pressure and the proposed reduction to interchange income increases the risk of card issuers exiting the market or not entering to begin with. We expect that fewer issuers in the market will ultimately constrain competition, stifle innovation, and limit access to credit. An imbalance in the regulatory framework, even

[2] Merchant Card Payment Costs and Surcharging - Consultation Paper - July 2025 - Appendix B International Comparison

a temporary one, can lead to lasting shifts in competitive dynamics, resulting in long-term distortions in the payments ecosystem that are difficult to reverse.

b. This is especially concerning for small to medium businesses that rely on commercial cards for liquidity and operational flexibility. Commercial cards are a key working capital management tool for these businesses who often lack access to alternative forms of short-term credit. Reduced access to short-term credit will have far reaching impacts across the economy and will disproportionally impact small to medium businesses, including those merchants who rely on cards for payment acceptance. Business-to-Business (**B2B**) payees often prefer to accept credit card over other payment methods with the assurance that funds will be provided without delay. Innovative embedded payment solutions that leverage credit card products also provide an added reconciliation benefit to merchants and allow multinational businesses leveraging card scheme innovation for B2B ecosystems to integrate easily into the Australian market.

c. The RBA's user-pays principle does not fully account for B2B ecosystems, where costs and benefits of innovation are shared across both sides of the transaction. A substantial reduction to interchange will remove the appetite for innovation and 3rd party platform development to a point that new investment will no longer be viable.

Eligible Issuer Costs

The conclusions drawn from the Issuer Cost Study do not fully reflect the essential costs incurred by the card issuing business that should be shared or borne by merchants. We recommend expanding the definition of eligible costs to include all costs associated with the effective functioning of a trusted payments system for end users.

11. The limited definition of eligible costs underestimates the value to merchants of an attractive and trusted card proposition for consumers. The ease with which consumers can pay for goods and services without cash in hand or even funds in their account increases cashflow across the economy and ensures businesses are paid more quickly and in full.

Cost Study

12. As outlined in paragraph 7, we maintain that the current interchange settings are appropriately calibrated for the Australian market. We challenge the PSB's conclusion that the revised credit card interchange cap of 0.3% exceeds issuer 'eligible costs' and cost of funds due to the methodology applied in the Issuer Cost Study. In particular:

    a. Cost of funds was calculated based on the RBA's prescribed cash rate rather than actual cost of funds. In ANZ's case, our actual cost is significantly higher than the prescribed rate. Additionally, the Cost Study asked for non-interest bearing cost of funds only, and excluded interest-bearing costs on the assumption that issuers can recover these costs directly from cardholders through higher interest rates, cardholder fees or shortening interest-free periods. We disagree that higher interest rates or cardholder fees cover the cost of funds. The cost of funds to the issuer is the same whether or not the customer repays on time. Interest and increased cardholder fees for interest-bearing balances cover the cost of delayed re-payment, for example the cost of debt and collection, rather than the cost of funds.

b. Scheme fees were required to be reported net of all scheme incentives, rather than only those that directly reduced overall scheme fees without offsetting costs in other categories. This approach distorts the true cost to the card issuing business, as it includes incentives that are tied to "ineligible costs", which are excluded from the Issuer Cost Study. As a result, the net reporting approach fails to accurately reflect the true scheme fee burden borne by issuers.

c. We note that scheme fees are denominated in US dollars, and the data used to determine the revised interchange cap is based on reporting for the most recent financial reporting period. This approach does not account for the impact of foreign exchange fluctuations that card issuers are exposed to. Setting an interchange cap based on data from a single financial reporting period fails to account for foreign exchange rate volatility and may undermine the sustainability of commercial card programs. Furthermore, issuers do not have control over scheme fees, which we expect to continue on an upward trajectory over time.

d. The limited timeframe provided for card issuers to respond to the Issuer Cost Study data request did not allow for sufficiently thorough analysis. As a result, some costs may have been inaccurately allocated across cost categories, potentially affecting the conclusions drawn from the study.

13. Substituting ANZ's actual cost of funds with the RBA-prescribed rate and reporting of net scheme fee as per the reporting guidelines for the Issuer Cost Study distorts the true financial impact on the business. When ANZ's actual cost of funds and net scheme fees, excluding incentives that are tied to "ineligible costs" are applied, it becomes evident that a 0.3% cap is insufficient to cover essential issuer costs. This is evidenced in the revised dataset for the Issuer Cost Study provided with this submission. (Refer Confidential attachment)

Additional eligible costs

14. We note that creating a trusted payments ecosystem delivers benefits to all parties - consumers, merchants, card issuers and card acquirers. Accordingly, we suggest the PSB considers expanding the definition of eligible cost to also include costs which are inherent to maintaining a secure and efficient service that supports the trusted acceptance of card payments by merchants.

a. **The cost of managing disputes and chargebacks.** The card disputes and chargeback process are foundational elements of card payments, offering cardholders protection against unauthorised or erroneous transactions. This safeguard fosters trust and encourages card usage, benefiting merchants through increased cardholder willingness to transact at businesses. The costs associated with managing card disputes and chargebacks should therefore be considered an eligible cost for the calculation of an interchange benchmark in recognition of the shared value this brings to cardholders and merchants.

b. System and IT costs relating to card issuer systems. Systems and IT costs relating to card issuer systems are essential for resolving transaction issues, supporting ongoing card usage and maintaining customer trust. These costs are incurred across both debit card and credit card portfolios and play a direct role in fostering cardholder confidence when making payments. Excluding these costs from the eligible cost definition fails to recognise the role they play in enabling trust in the system that benefits both cardholders and merchants.

c. **Interest free credit.** We disagree that interest free credit primarily benefits the cardholder, recognising the benefits to merchants of timely and full payment. This is particularly true for B2B transactions on commercial cards.

15. An interchange cap that does not recognise these costs risks limiting the financial capacity of card issuers to invest in initiatives that continue to foster safety and trust in the system. This risks undermining the industry's ability to respond effectively to emerging threats and maintaining the high standards of security expected by Australian consumers and businesses, ultimately eroding confidence in the system.

Alternative considerations to lower merchant costs

If further intervention is deemed required to meet the RBA's objectives of lowering merchant card payment costs and reducing disparity in card costs between small and large merchants, alternative options should be considered to ensure continued efficiency and competition in the payments system.

16. There is currently no regulatory requirement for acquirers to pass through the benefits of reduced interchange to merchants, nor are merchants obligated to pass on any resulting cost savings to consumers. As a result, merchants and consumers may continue to bear elevated costs, even when underlying payment acceptance costs decline. As observed in the EU and UK, when interchange reforms were implemented, evidence showed that the benefits of reduced interchange did not consistently flow to small businesses as intended, but to multinational card schemes who can optimise their operations within the regulatory constraints.

17. Australian consumers have long benefited from low or no cost accounts and payments services. These services have been funded via cross subsidisation with other products or other revenue streams such as interchange. A significant reduction in interchange revenue may result in alternative recovery methods for issuers which are likely to have negative consequences for account and card holders. For example, following interchange reforms in the UK, the market saw fewer rewards and higher account related charges.

18. As outlined in this submission, the proposed interchange reforms will substantially alter the dynamics of the Australian market. Such a change warrants further review of the impacts outlined above and by the ABA, and broader consultation with Australian businesses and consumers is required. In addition, the PSB can now consider the regulatory changes available following the reforms to the PSRA, including potential for additional oversight measures to promote an even playing field for all Participants in the payment system. This review can occur in parallel to monitoring the impacts of removal of surcharging and increased price transparency, combined with embedding of dual-network debit cards and least cost routing. If these activities have not addressed the RBA's objectives, we recommend that the PSB consider:

    a. Removing the weighted interchange benchmark, to address the disparity in card costs across the system.

    b. Setting lower credit interchange caps for small merchant transactions, similar to the model adopted in Canada from 2024[3], to lower card payment costs for small merchants.

[3] Government of Canada announces finalized agreements with Visa and Mastercard to lower credit card transaction fees for small businesses

c. Setting separate credit interchange caps for card present and card not-present transactions[4], to lower card payment costs for merchants at physical point of sale, commensurate with lower cost and risk to issuers.

19. The New Zealand Commerce Commission released their final decision to introduce a new pricing standard to further regulate interchange fees on the Mastercard and Visa credit and debit networks in July 2025. This is effective 1 December 2025 for products which are currently regulated (personal credit cards), and 1 May 2026 for those which are not (foreign-issued cards). Given these recent developments, we suggest the PSB adopts a measured approach in Australia by observing the implementation outcomes and market impacts in New Zealand ahead of proceeding with reforms in Australia.

20. Should the PSB continue with the preferred policy package, we recommend that the reduction in interchange benchmarks and caps is introduced in an iterative manner, starting with a modest reduction then monitoring impacts to reduce the potential for unintended consequences that may be difficult to wind back.

Implementation

4. If the RBA proceeds with reforms to interchange, a minimum lead time of 18 months from the formal notification of finalised changes is required to adequately prepare for the changes.

21. We note the RBA's intent to publish the Conclusion Paper with the PSB's final decisions by the end of 2025 and to implement the reforms on 1 July 2026.

22. The proposed reforms will materially alter the economics of the card issuing business, likely necessitating adjustments to cardholder services, benefits and fee structures. A minimum lead time of 18 months from the formal notification of the finalised changes will be essential to ensure that ANZ can adequately prepare for the changes to:

a. Ensure timely and transparent communication with cardholders regarding any changes to their card benefits or terms of use while allowing for sufficient notice periods for these cardholders to accommodate changes.

b. Design new customer propositions and implement relevant technical changes. The nature and size of change is likely to be substantial which will require a significant review to our impacted propositions.

23. We welcome further dialogue on these issues and remain committed to supporting the RBA's objectives of promoting efficiency, competition and safety in the payments system.

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[4] NZ Commerce Commission Retail Payment System Interchange Fee Regulation for Mastercard and Visa networks - Final decision and reasons paper - 17 July 2025