AUSTRALIAN ASSOCIATION
OF CONVENIENCE STORES

08th September, 2025.

Head of Payments Policy Department
Reserve Bank of Australia
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By email: pysubmissions@rba.gov.au

Submission to Merchant Card Payment Costs and Surcharging – Consultation Paper

The AACS is the founding partner of the Independents Payment Forum. This submission is short & to the point, however the AACS fully support & endorse the Submission by the Independent Payments Forum.

Introduction

The Australian Association of Convenience Stores (AACS) represents a proud and diverse channel of more than 7,000 convenience and petrol-convenience outlets across the country, employing 80,000 Australians and serving almost 20 million customers every week.

Convenience retail is built on thin margins and intense competition, yet our stores continue to play an essential role in local communities — often in regional and remote areas where banks and larger retail outlets have withdrawn. These small businesses are the "Aussie battlers" of retail: open long hours, supporting local employment, and providing everyday essentials to consumers at all times of day and night.

It is in this context that merchant fees and payment system costs weigh so heavily on our members. When the cost of simply accepting payment continues to rise, without genuine transparency or competition, small businesses are left subsidising major retailers, banks, and international card schemes.

We commend the Reserve Bank for pursuing reforms to merchant fees and surcharging. But as the evidence clearly shows, **the current proposals do not go far enough**. Unless the RBA adopts stronger measures, small businesses will continue to face rising costs that erode their competitiveness and viability.

1. Blended Rates and Dynamic Least Cost Routing (LCR)

Recommendations

- Disallow the blending of debit and credit rates, which conceals true costs and removes incentives for competitive pricing.
- Mandate opt-out Dynamic LCR on all debit transactions, with a maximum 12-month implementation window.
- Strengthen obligations on dual-network debit cards to ensure customers and merchants benefit from least-cost routing.
- Commission a full and transparent review of the benefits of credit routing.

Rationale

For over a decade, banks and PSPs have promised small businesses the benefits of LCR. In reality, they have **failed to deliver**. Too often, merchants are pushed into blended rates that hide the true cost of each transaction, while routing decisions are controlled by acquirers rather than merchants.

The Government's **Strategic Plan for Australia's Payments System (2023)** was clear: lowering transaction costs for SMEs through LCR is a national priority, and direct intervention would follow if the market did not deliver. The time for that intervention is now.

Outcome Sought

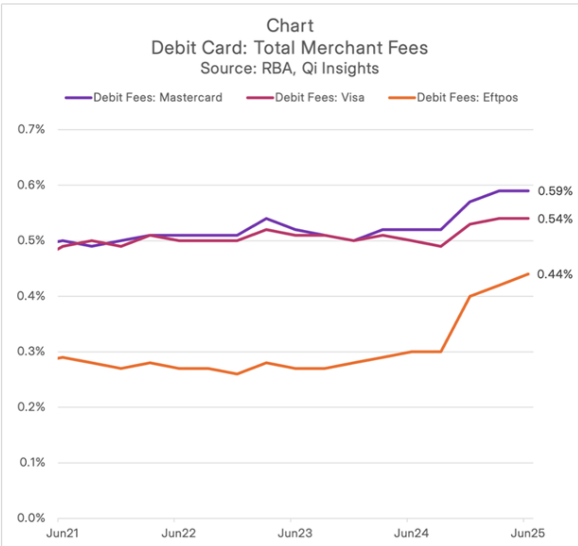
A transparent, enforceable dynamic LCR framework that ensures merchants are no longer trapped in costly blended rates, passes savings back to merchants and consumers are no longer penalised for simply choosing a convenient payment option.

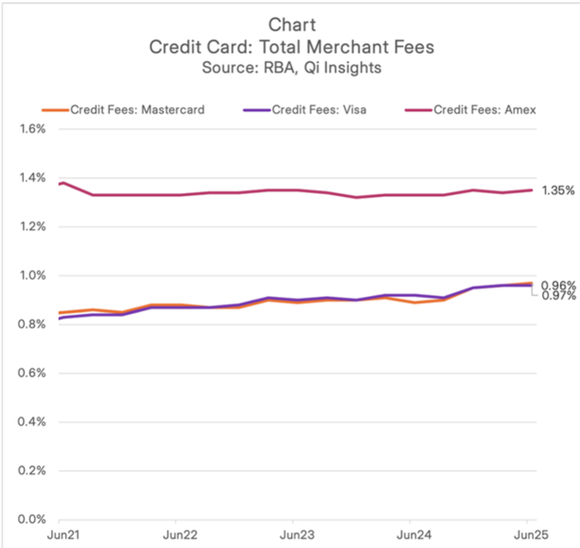
2. Rising Merchant Fees

Despite promises of reform, **merchant fees for both debit and credit continue to rise**. The most recent data shows Eftpos fees the average service fees paid by merchants still soared by 34 per cent over the past year. This represents hundreds of millions of dollars in additional costs when spread across millions transactions.

Worse still, these figures mask the reality for small businesses because they include the preferential "strategic rates" negotiated by large retailers. Small businesses — who lack that bargaining power — are paying significantly more and are forced to accept opaque fee structures that they cannot reasonably contest.

This is not a competitive or fair payments system, and we do not accept that wholesale fee reductions will be passed on to small businesses.





3. Surcharging and Implementation Timelines

Recommendations

- Delay any proposed surcharge ban for at least **12 months**.
- Allow SMEs time to:
  a) Switch providers or renegotiate contracts.
  b) Access new fintech and PSP offerings.
  c) Understand the impact of interchange reductions.
  d) Pursue collective bargaining where appropriate.

Rationale

Many small businesses do not even know whether they are locked into a contract. A rushed implementation would trap these businesses in uncompetitive arrangements and strip them of the ability to pass on true costs. A short delay would give smaller players — fintechs, challenger PSPs, and SMEs themselves — the time and space to adapt, ultimately delivering more competitive outcomes for everyone.

4. Interchange Fees

Recommendations

- Standardise interchange fees for credit and debit at a level close to zero for Australian merchants.
- Prohibit percentage-based fees unless clearly expressed as “Xc or X%, whichever is cheaper.”
- Permit higher interchange fees only for overseas or high-risk transactions where fraud exposure is demonstrably greater.

Rationale

The current system is indefensible. Large businesses pay **six times less** than the proposed debit cap, and nearly **two times less** than the credit cap. In practice, this means that small businesses are forced to subsidise banks and big retailers.

Both the **Productivity Commission** and the **Black Economy Taskforce** have previously highlighted the inequities created by interchange. A fairer, flatter system would ensure that small businesses are not treated as second-class participants in Australia’s payments system.

5. Scheme Fees

Recommendations

- Cap scheme fees at transparent, fixed levels:
    - Debit: $0.01 for transactions ≤ $50; $0.15 for transactions > $50.
    - Credit: $0.02 for transactions ≤ $50; $0.20 for transactions > $50.

Rationale

Australia should look to international precedents. In both the UK and Europe, regulators are concerned about rising schemes and are now looking for remedies.

For small businesses, scheme fee caps would represent a modest but important step toward fairness, ensuring that scheme fees reflect real costs rather than unchecked global margins.

6. Competition and Transparency for Small Business

Recommendations

- Empower the ACCC to compel Visa, Mastercard, AP+ and relevant banks/PSPs to engage in **collective bargaining** with SME representative bodies such as the Australian Association of Convenience Stores (AACS).
- Fund the development of an **independent, government-backed advisory and comparison service** to help SMEs choose PSPs.
- Actively promote non-card retail payment options, such as regulated Account-to-Account (A2A) payments and affordable access to cash.

Rationale

Currently, PSP pricing is deliberately opaque, designed to confuse and entrench uncompetitive contracts. Without government-backed transparency, SMEs will remain locked into arrangements they cannot easily contest. Comparison services are available for other financial products, insurance and electricity.

Collective bargaining and independent advice would shift the balance back toward small businesses, helping to create a more level playing field where they can secure fairer outcomes.

Conclusion

The Australian convenience industry is a critical part of the retail landscape. Our stores are open long hours, employ Australians in every community, and provide essential services to millions of customers every day. Yet our members are being crippled by a payments system that consistently advantages large retailers, global card schemes, and banks at their expense.

The Reserve Bank's reforms are a step in the right direction — but **they do not go far enough**. Unless stronger action is taken to enforce dynamic LCR, standardise interchange, cap scheme fees, and promote true competition, small businesses will continue to pay the price.

On behalf of thousands of small businesses across Australia, AACS urges the RBA to adopt these recommendations. Only then can we deliver a payments system that is fair, transparent, and competitive — one that allows small business to thrive and ensures that the cost of simply getting paid does not continue to rise unchecked.

AUSTRALIAN ASSOCIATION OF CONVENIENCE STORES

Submission to Merchant Card Payment Costs and Surcharging – Issues Paper

Dear Head of Payments Policy,

Introduction

The Australian Association of Convenience Stores (AACS) welcomes the opportunity to provide a submission to the Reserve Bank of Australia (RBA) on merchant card payment costs and surcharging. Convenience stores are at the forefront of Australia's retail industry, often representing small and medium-sized enterprises (SMEs) vital to local communities. However, SMEs are disproportionately affected by high payment processing costs, lack of transparency in fees, and limited access to cost-saving mechanisms like Least Cost Routing (LCR).

As the industry continues to move away from cash and towards digital payments, these systemic issues undermine the financial viability of SMEs and hinder their ability to compete fairly with larger businesses. AACS is an active participant in the Independent Payments Forum (IPF) and our submission provides detailed recommendations aimed at creating a fair, transparent, and efficient payments system that benefits both businesses and consumers.

About AACS

Established in 1990, the Australian Association of Convenience Stores (AACS) is the peak body for the convenience retail industry in Australia. Nationally, the industry employs over 80,000 frontline staff across 7,300 stores.

The majority of these stores operate as small, family-run businesses, often under licence or a franchise agreement, or with independent ownership. They regularly employ family members and people from the local communities in which they operate. The AACS represents the interests of these small businesses - their owners, staff, suppliers and customers.

Each year the AACS commissions an independent body to measure key metrics in the sector, which is published as the State of the Industry Report . Turnover in the convenience industry in Australia was valued at approximately $10.4 billion annually in 2023, the latest figure for which data is available.

Key Issues Affecting SMEs

1. **High Merchant Fees and Fee Disparities**
   - SMEs pay significantly higher fees than large retailers, with merchant service fees for small businesses averaging 1.6% compared to lower than 0.2% for major corporations.
   - Debit cards, often used as a cash replacement, incur fees disproportionate to their processing cost.

2. **Opacity in Pricing Structures**
   - Scheme fees, interchange fees, and PSP/acquirer margins are bundled in complex pricing structures, making it difficult for SMEs to assess true costs.
   - Bundled pricing often results in SMEs subsidising premium credit card fees through higher costs on debit transactions.

3. **Challenges with Least Cost Routing (LCR)**
   - Despite being a cost-saving mechanism, LCR has not been effectively implemented across the board.
   - Most SMEs lack access to real-time dynamic routing, limiting their ability to benefit from lower-cost transaction networks.

4. **Inconsistent Surcharging Framework**
   - Surcharging remains essential for SMEs to offset higher fees. However, inconsistent enforcement and unclear definitions of "cost of acceptance" undermine its effectiveness.

Proposed Solutions and Recommendations

1. Addressing Fee Disparities at Point of Sale (POS)

Interchange and Scheme Fees in debit at POS

Current Challenge:

- Interchange fees for SMEs can be up to 800% higher than those for large retailers.
- Scheme fees remain uncapped and are often negotiated behind closed doors, benefiting larger players.

Proposed Measures:

- Cap interchange fees for debit transactions at:
  - $0.00 for transactions under $50.
  - $0.01 for transactions over $50.
- Introduce caps on scheme fees:
  - $0.01 for debit transactions under $50.
  - $0.15 for debit transactions over $50.
- Publish transparent fee structures for all payment service providers (PSPs) to enable SMEs to make informed choices.

Interchange and Scheme Fees in credit at POS

Current Challenge:

- Interchange fees for SMEs can be up to 800% higher than those for large retailers.
- Scheme fees remain uncapped and are often negotiated behind closed doors, benefiting larger players.

Proposed Measures:

- Cap interchange fees for credit transactions at POS:
  - $0.02 for transactions on standard credit cards.
  - $0.01 for transactions premium credit cards.
- Introduce caps on scheme fees:
  - $0.02 for transactions under $50
  - $0.20 for transactions over $50.
- Publish transparent fee structures for all payment service providers (PSPs) to enable SMEs to make informed choices.

We support similar cost reductions that have been proposed by IPF for online transactions, rewarding merchants which have invested to help mitigate fraud.

AACS also recommends the RBA explore mechanisms to cap Acquirer/PSP margin at 0.2% on both credit and debit transactions, in line with the averages shown in the discussion paper.

2. Enhancing Transparency in Pricing

Current Issues:

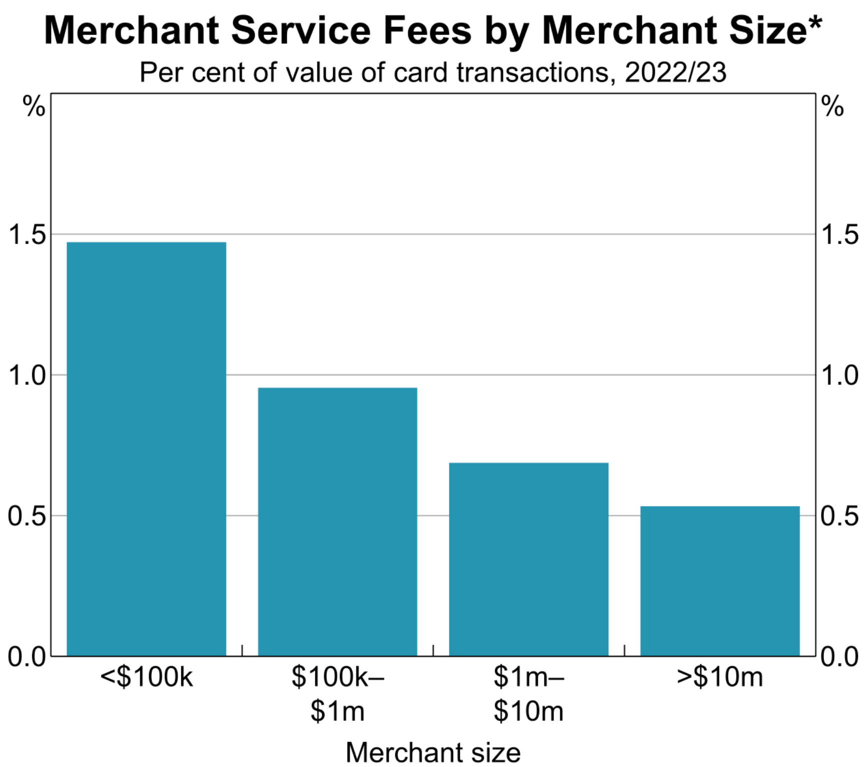
- SMEs are usually offered bundled pricing, combining debit and credit card fees, which obscures the true cost of each transaction.
- Lack of clarity around fees prevents SMEs from switching to more cost-effective providers.

Proposed Measures:

- Require PSPs to provide detailed monthly breakdowns of:
  - Interchange fees.
  - Scheme fees.
  - PSP/acquirer margins.
- Mandate that "interchange plus plus" pricing is offered to all merchants, with clear pathways for switching plans at any time.

Graph 1: Average Merchant Fees by Business Size

This graph illustrates the disparity in fees between small and large businesses.



* Weighted average. Merchant size based on annual value of eftpos, Mastercard and Visa transactions. Merchant Service Fees exclude GST.

Source: RBA.

3. Strengthening Least Cost Routing (LCR)

Current Issues:

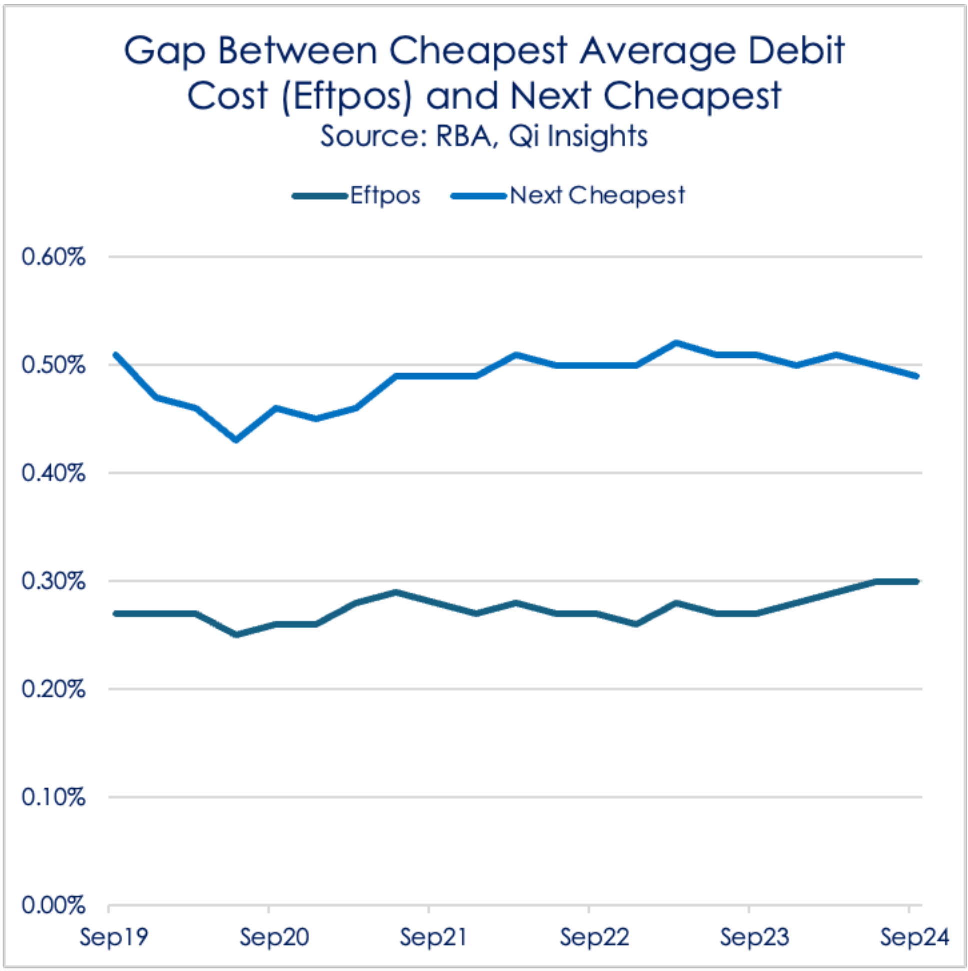
- Many PSPs and acquirers fail to implement LCR effectively, leaving SMEs unable to access the lowest-cost transaction networks and benefit from cost savings.

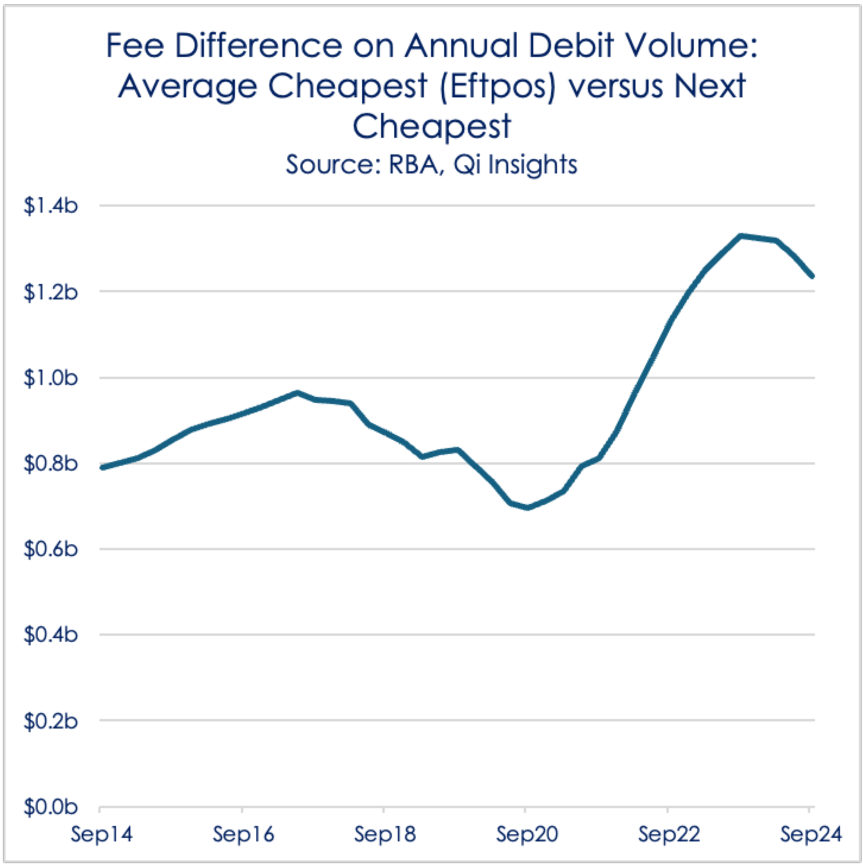
Proposed Measures:

- Mandate opt-out **dynamic** LCR across all platforms, including POS, online, and mobile transactions, by January 2026.
- Ensure multi-network debit card functionality across all form factors and revoke exemptions that undermine LCR adoption.
- Ensure merchants benefit from cost savings generated from LCR.

Graph 2: Cost Savings Potential of LCR for SMEs

This graph compares transaction costs with and without LCR implementation.





4. Improving the Surcharging Framework

Current Issues:

- Surcharging is a vital cost-recovery tool for SMEs but is undermined by unclear definitions of "cost of acceptance" and inconsistent enforcement of regulations.

Proposed Measures:

- Retain surcharging rights for SMEs, particularly where fee disparities persist.
- Define permissible "cost of acceptance" components, explicitly excluding unrelated expenses like platform fees or loyalty program costs.

Benefits of Proposed Reforms

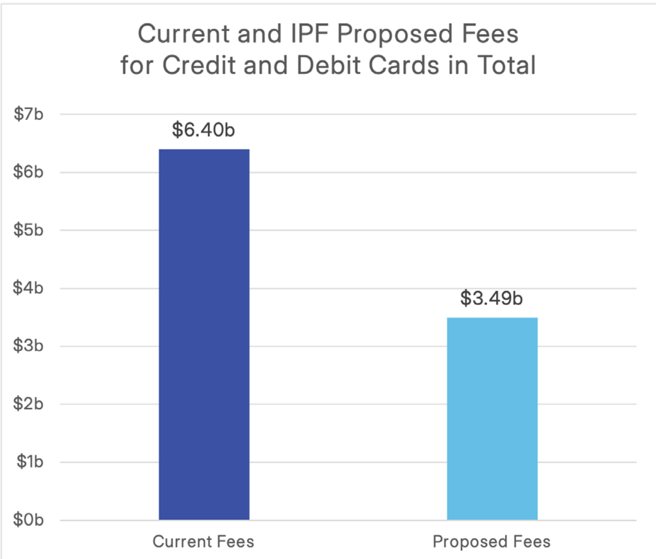
1. **Economic Fairness**
   - Reducing fee disparities ensures a level playing field, enabling SMEs to compete with larger retailers.
2. **Enhanced Transparency**
   - Simplified pricing structures and mandatory reporting empower SMEs to make cost-effective decisions.
3. **Cost Savings for Consumers**
   - Lower transaction fees for merchants translate to lower costs for consumers, fostering economic resilience.

Additional Considerations

1. **Consumer Education**
   - Educate consumers on the impact of payment fees and the benefits of supporting businesses that implement fair payment practices.
2. **Support for Innovation**
   - Encourage adoption of cost-saving technologies while ensuring transparency in associated fees.
3. **Regulatory Oversight**
   - Strengthen enforcement mechanisms to prevent anti-competitive practices, such as preferential pricing for large merchants.

Graph 3: Projected Impact of Fee Caps on Merchant Costs

This graph demonstrates potential cost reductions under proposed fee caps if the RBA adopts our proposed recommendations.



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Conclusion

The AACS strongly urges the RBA to implement these recommendations to address the inequities in card payment costs, promote transparency, and enhance competition. These measures will support SMEs, benefit consumers, and foster a more efficient and equitable payments system.

AACS stands ready to assist the RBA with further insights and to collaborate on implementing these vital reforms.

I welcome the opportunity to discuss our submission.

Yours sincerely,

Theo Foukkare

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