AUSTRALIAN HOTELS ASSOCIATION
27 Murray Crescent, Griffith ACT 2603
PO Box 4286, Manuka ACT 2603
T 02 6273 4007
E aha@aha.org.au
W aha.org.au

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

RBA Review of Merchant Card Payment Costs and Surcharging

Response to the RBA consultation paper released on 15 July 2025
Prepared by Stephen Ferguson, AHA National CEO
9 September 2025

Contents

1 INTRODUCTION

"WHAT WE HAVE UNCOVERED TODAY IS THAT THE PAYMENT PROVIDERS HAVE CARTE BLANCHE TO DO WHAT THEY WANT. IT IS COWBOY COUNTRY OUT THERE. THERE IS NO MECHANISM FOR ANYONE TO BE ABLE TO ADDRESS THE EXCESSIVE COSTS, WHICH I FIND REALLY CONCERNING. IT IS INFURIATING."
JEROME LAXALE MP, MEMBER FOR BENNELONG NSW[1]

2 ONCE UPON A TIME ...

One Friday afternoon, on the way home from work, Jill pops into her local pub for a drink. Jack, the friendly publican pours Jill's drink. "That's 10 dollars thanks Jill." Jill pays with her debit card, and notices the final bill says "$10.16."

Confused, and a little annoyed, Jill speaks up. "Hey Jack, if the drink's 10 bucks like it says on the menu why is the total cost $10.16?" Jack shrugs. "Beats me – I don't really get it either. All I know is it somehow costs me 1.6% to process your transaction and I have to add it on as a surcharge."

What both Jill and Jack cannot see is that in the middle of millions of simple transactions such as this one, sits a range of invisible "middlemen" all clipping the ticket. These invisible middlemen (or women) include banks, credit card companies, payment terminal providers, airlines, insurance companies, and others.

The middlemen hide behind nearly incomprehensible language that no one without a degree in banking really gets. Terms such as "interchange fee", "scheme fee", "issuers", "acquirers", "least cost routing", "cost of acceptance", "dynamic least cost routing", "acquirer margin, "cost of acceptance", "designated systems", "blended plans", "unblended plans", drip pricing", "dual network cards", and "drip pricing".

All these invisible middlemen make billions and billions of dollars out of transactions like the one made every day between people like Jill and Jack. Day in day out, millions and millions of small barely noticeable surcharges are added to everyday transactions.

Nearly every time Jill or Jack (when he's out from behind the bar) buys a coffee, a magazine, purchase a lotto ticket, visits a pharmacy, watches a movie at the cinema, or buys a chocolate at the service station, the unseen invisible middlemen are there clipping the ticket.

The system needs to change so it works for customers like Jill – who are in the middle of a cost-of-living crisis and business people like Jack – who faces spiralling costs and is trying to make ends meet. Unfortunately, the solutions proposed so far by the RBA do not go far enough.

Australia's electronic payments system is an essential service – basically every Australian uses it in their day-to-day life. The businesses that operate it deserve to get paid for the service. Fair's fair. But there are two key questions here - "How much is too much?" and "Who should pay for what?"

Our solutions outlined in this paper answer both these questions and ensure it is everyday Aussies like Jill and small business people like Jack who win out of any changes, and not the invisible middlemen.

[1] https://www.afr.com/companies/financial-services/accc-lacks-power-to-break-up-blended-payment-plans-20250214-p5lc6y

3 Background

On 15 October 2024, the Prime Minister and Treasurer announced:

> *"The Government is prepared to ban debit card surcharges, subject to further work by the Reserve Bank of Australia (RBA) and safeguards to ensure both small businesses and consumers can benefit from lower costs."*

The Treasurer Hon Jim Chalmers MP added:

> *"This is all about getting a better deal for consumers, reducing costs for small businesses, and promoting a more competitive payments system."*

4 AHA proposed solutions

If card surcharges are to be banned, the RBA proposals need to do more to ensure that cash users, debit card users, and small businesses are not saddled with unfair costs.

4.1 Ban blended (or single) rates

- **Action:** Enforce separation of debit from credit card merchant service fees (e.g. no blended rates for debit and credit), unless the business wants to opt out to a blended rate
- **Benefit:** This will ensure lower cost debit transactions are processed at a cheaper rate than the more expensive credit card transactions
- It also removes the cross subsidisation by users of debit cards for credit card users and their additional credit related costs for airline rewards points, airport lounge passes, insurance benefits, higher fraud risk, and higher default risk
- **Proviso:** If blended rates are not banned, then the RBA should continue to permit credit card surcharges to be surcharged directly back to the customer

4.2 Mandate Dynamic Least Cost Routing

- **Action:** Mandate Dynamic Least Cost Routing on debit card transactions, unless the business wants to opt out
- **Benefit:** This will ensure that every debit card transaction is processed at the lowest possible rate and ensure the benefit is passed to consumers and small businesses

4.3 Cap scheme fees

- **Action:** Cap Scheme Fees (not just interchange) at:
  - Debit - $0.01 for transactions under $50.00, and at $0.15 above $50.00
  - Credit - $0.02 for transactions under $50.00 and at $0.20 above $50.00
- **Benefit:** This will reduce the overall costs for consumers and small businesses

4.4 Reduce debit interchange fees

- **Action:** Reduce debit interchange close to zero as recommended by the Black Economy Taskforce and Productivity Commission[2]
- **Benefit:** This will reduce the overall costs for consumers and small businesses

4.5 Delay implementation of surcharge ban for 12 months

- **Action:** Delay implementation of any proposed surcharge ban for 12 months.
- **Benefit:** This will allow time for the RBA to build its proposed comparison tool, and enable merchants to search for the best plan, collectively bargain with Payment Service Providers, revise contracts, and switch providers.

5 Issues and Observations

The principal issues and observations associated with banning card surcharges in hotels (and other small businesses) are set out below.

5.1 RBA proposed solutions don't go far enough

Unfortunately, the solutions proposed so far by the RBA do not go far enough in addressing the issues raised by the Government. The RBA proposal allows many of the existing problems to remain hidden. Problems not properly addressed include:

- Failing to ensure debit card providers are not cross subsiding credit card users
- Failure to encourage new technology
- Insufficient reduction in costs for card users and businesses
- Unnecessarily high profit margins on small business compared to big business

5.2 Survey

The AHA is a member of the Independent Payments Forum along with other business groups including newsagents, clubs, convenience stores, pharmacies, and independent cinemas. The IPF conducted a survey of members of all the groups, which is set out in the IPF submission[3]. The extracted data for hoteliers is set out below.

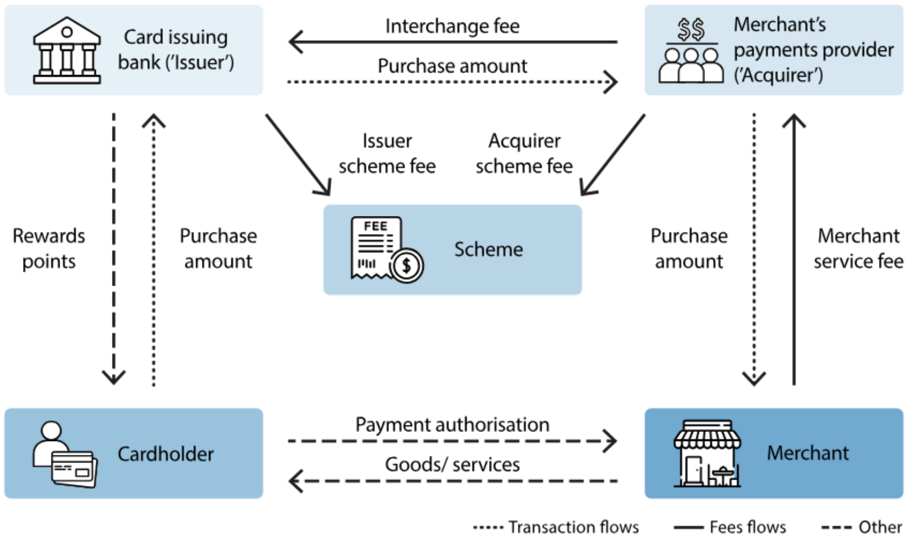
- 97% charge surcharge customers for some or all items
- 47% cite backlash from customers as the reason they don't surcharge
- 58% are charging a single (blended) rate
- 97% think that paying small paying three times more than big businesses is unfair
- 88% don't trust, or are unsure, that interchange fee savings will be passed on to them
- 82% are unsure, or don't know, what Least Cost routing is
- 65% were unsure or no if they were offered Least Cost routing by their provider
- 78% would find a comparison tool helpful to assist choosing a payments provider

[2] Interchange fees | Review of Retail Payments Regulation – Conclusions Paper | RBA
[3] https://ipforum.com.au/submissions/

5.3 Complexity of the System

The RBA acknowledges the cost of card payments is "opaque and difficult to understand".[4] If anyone has doubt as to the complexity of the electronic payments scheme, here it is as drawn by the RBA.[5]

Figure 1



Source: RBA.

From the opening fable above, remember that Jill just wants to pay Jack ten dollars for her drink, (and that's what he asked for). However, the transaction must go through the convoluted process above filled with invisible middlemen clipping the ticket on service fees, issuer scheme fees, acquirer scheme fees, interchange fees, and rewards points.

5.4 The consequences of banning surcharges

At present, to process a retail transaction:

- the small business bears the cost of processing cash, and
- consumers bear the cost of processing a card transaction (via a surcharge being added to the bill).

If or when the RBA prohibits card surcharges, small businesses will:

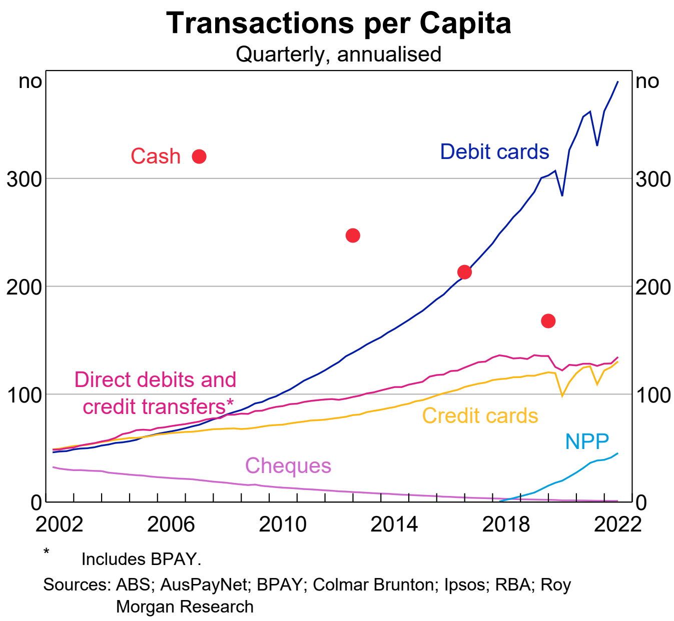
- bear all the costs of processing a transaction, and
- will have to pass this additional cost onto consumers to balance their additional cost.

Another consequence of banning surcharges is that the biggest loser in this equation will be cash users. Cash users will now have to pay higher prices to accommodate the higher prices caused by the card surcharge ban.

[4] Merchant Card Payment Costs and Surcharging - October 2024 p7
[5] Backgrounder on Interchange and Scheme Fees | Explainer | RBA

5.5 Debit versus credit

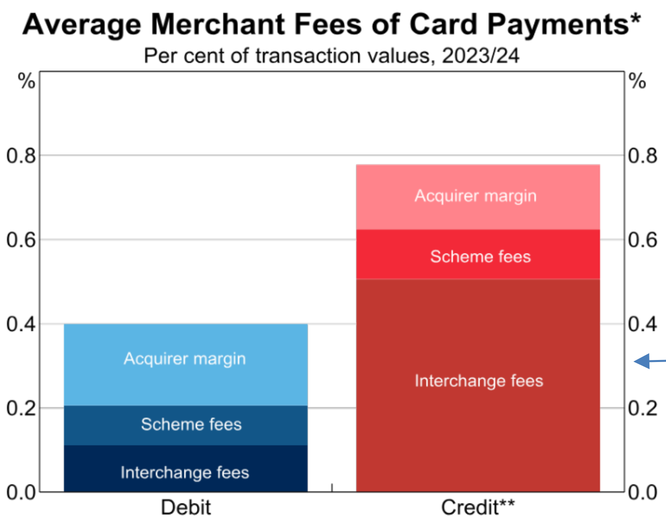
In 2021/22, Australians made around 650 electronic transactions per person on average. Debit transactions outnumber credit transactions by about 3 to 1.[6]



When paying for a transaction:

- cash users and debit card users use their own money, and
- credit card user uses money borrowed from someone else.

The additional benefits and costs of servicing credit cards mean the average merchant fees of credit card payments are about twice that of debit card fees.[7] See the table below.



90% of credit interchange fees are used by banks to fund their rewards schemes and is the main reason credit is more expensive than debit.

[6] Graph 2.1 [The Evolving Retail Payments Landscape | Payments System Board Annual Report – September 2022 | RBA]

[7] https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/backgrounders/backgrounder-on-interchange-and-scheme-fees.html

Credit card users get something for nothing

Nothing comes for free – but under the current RBA proposal, credit card users will be getting something for nothing – and cash users and debit card users will be paying for it. Credit cards come at more cost than cash and debit cards due to factors such as higher susceptibility to fraud risk and default risk. Other factors that make credit transactions more expensive are set out below.

Item	Cash	CBA Debit Mastercard[8]	CBA Ultimate Awards credit card[9]
Sign on bonus	No	No	100,000 Award points
Monthly rewards points	No	No	3 points per $1 spent
Monthly fee	No	No	$35 per month - waived if meets minimum spend
International Travel Insurance	No	No	Yes
Airport lounge passes	No	No	2 per annum
Interest free period	No	No	44 days

Credit interchange fees prop up frequent flyer points

Banks recoup the cost of paying for the risks and benefits of credit cards via higher interchange fees. Remember, nothing comes for free. The RBA recognises cards that provide rewards to the cardholder (such as 'gold' or 'platinum' credit cards) have higher interchange fees, and:

- "Revenue from interchange can be used to fund consumer rewards programs that incentivise usage.
- A network that increases the interchange fee paid by the merchant's payments provider to the card issuer enables the latter to pay more generous rewards to cardholders and increase use of its cards.
- With rewards programs, the cardholder may receive more in benefits through rewards than what it costs them to use the card." [10]

On 24 August 2024, to the House of Representatives Economics Committee, Comm Bank CEO Matt Comyn expanded upon how credit card interchange fees prop up rewards programs:

> *"… it's more than 90 per cent of the economics that we're receiving on the interchange side—we basically give back to the customer in the context of points, often through the purchase of frequent flyer points; it could be Qantas, or it could be others."*

From the table above and Mr Comyn's statement to the Economics Committee, it can be deduced that cardholder rewards programs such as Frequent Flyers could make up about 50% of the cost or processing a credit card transaction. None of these costs are present when using cash or a debit card.[11]

---

[8] Debit cards | Compare debit card options

[9] Our Ultimate Awards Credit Card - CommBank

[10] https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/backgrounders/backgrounder-on-interchange-and-scheme-fees.html

[11] It is also worth noting that the RBA defines "Cardholder Rewards Programs" as a "non-eligible cost" related to card issuing and processing for domestic transactions.[11] If the quote above from Mr Comyn is correct, it

5.6 Blended (or single) rate plans

'Blended' plans are often the default option offered to small businesses seeking a payment terminal.[12] The RBA notes around 39 per cent of merchants were on 'single (blended) rate' plans in 2024.[13]

Why does it matter that credit is more expensive than debit?

Blended plans 'blend together' the cost of (cheaper) debit and (more expensive) credit transactions for a single price.[14] For debit card users, that single 'blended' price is higher than what it would be if debit transactions had their own price and credit was carved out.

Debit cross subsidises credit

Cross subsidisation is a strategy where profits from one product are used to cover losses from another product. The RBA acknowledges that with a blended rate, debit card users cross subsidise credit card users.[15] The RBA notes:

> *"Since the wholesale cost of credit transactions is on average much higher than for debit transactions, these blended rates are higher than those that would apply if debit transactions were priced separately."*[16]

Separate debit from credit

At present, 97% of survey respondent hotels pass the cost of some or all items directly to their customers as a surcharge. When or if card surcharges are banned, those businesses will very likely pass the cost on indirectly to their customers by raising prices to accommodate the increased costs they will bear.

Businesses using a blended rate will not be able to separate a cheaper debit transaction from a more expensive credit transaction. So, in effect, all patrons will share the same transaction processing cost – with cash users and debit card users cross subsidising credit card users. That situation should be unacceptable to the RBA and Government.

Hence the need to separate cash and debit from credit, and continue allowing businesses to surcharge on credit transactions – as they the RBA will allow for cards "outside the system" such as American Express, Union Pay, and Diners Club.

---

suggests that interchange fee revenue is being used to fund loyalty programs such as frequent flyers, which they shouldn't be as a "non-eligible" cost.

[12] https://www.commbank.com.au/business/payments/smart.html?ei=bhp_sixpack_smart

[13] RBA Consultation Paper 15 July 2025, p12

[14] Merchant Card Payment Costs and Surcharging - October 2024 p17

[15] RBA Consultation Paper 15 July 2025, p21-23

[16] https://www.rba.gov.au/publications/bulletin/2022/sep/the-cost-of-card-payments-for-merchants.html

5.7 Least Cost Routing

Debit and credit cards are processed via either EFTPOS or one of the international debit networks (Visa or Mastercard).[17] Least Cost Routing gives merchants the ability to route transactions via whichever of the networks costs them less.[18] The RBA claims:

> *"As at the end of June 2025, over 80 per cent of merchants had LCR enabled for in-person transactions."*[19]

The RBA claims this result has been built on the back of "strong encouragement" and "expectation". On the surface, this may appear to be a good result – but scratch a bit deeper and all is not as rosy as it seems.

Consumers and small business not getting the savings from Least Cost Routing

The RBA confirms Least Cost Routing is set by the Payment Service Provider (PSP) at the merchant level, rather than at the transaction level.[20] The extent, if any, to which the Payment Service Providers pass on savings to merchants are dependent on the pricing plan offered by the Provider. The RBA notes:

> *"It is unclear whether the savings from LCR are being fully passed on to merchants, particularly to those on 'single rate' payment plans."*[21]

The reality is whilst Payment Service Providers may have enabled Least Cost Routing, the merchants and their customers are not the ones receiving the benefit of the least cost. This is because the Payment Service Providers are pocketing the margin.

For example, a consumer being charged a blended rate of 1.6%, when the Least Cost Route is 0.5%, could be sacrificing as much as 1.0% in savings due to the margin being retained by the Payment Service Provider.

'Dynamic' Least Cost Routing

'Dynamic' Least Cost Routing maximises savings for consumers and businesses by routing every individual transaction to the cheapest network for that particular transaction. Dynamic Least Cost Routing is what the AHA believes should be mandated as the new standard at the transaction level. Unfortunately, the RBA says:

> *"Most acquirers argued their current systems do not support dynamic least cost routing and that significant investment would be required to do so."*[22]

A cynic would suggest that of course the invisible middlemen would say that. Dynamic Least cost Routing would erode their margins.

---

[17] Merchant Card Payment Costs and Surcharging - October 2024 p16
[18] Merchant Card Payment Costs and Surcharging - October 2024 p16
[19] Update on availability and enablement of least-cost routing for merchants - Data as at June 2025 (published August 2025) | RBA
[20] RBA email received 5 September 2025
[21] RBA Consultation Paper 15 July 2025, p61
[22] Review of Merchant Card Payment Costs and Surcharging p63

Fortunately, companies such as Adyen and IPSI have indicated they can implement Dynamic Least Cost Routing and deliver savings of 45-70% compared to current blended rates.[23] The table below shows a comparison of the benefits of Dynamic Least Cost Routing.[24]

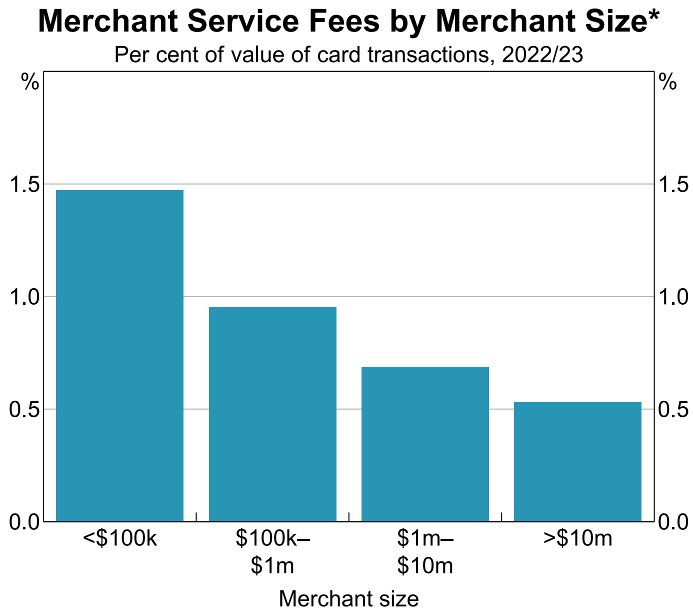
Amount per annum	**Cost at blended rate 1.4%**	**Cost at Dynamic Least Cost Routing**	**Saving**
$1M in debit transactions	$14,000	$4,160	$9,840
$2M in debit transactions	$28,000	$8,320	$19,680
$5M in debit transactions	$70,000	$20,800	$49,200
$10M in debit transactions	$140,000	$41,600	$98,400

Just because the incumbent Payment Service Providers current systems may not support Dynamic Least Cost Routing, that is no reason for the RBA not to mandate a new system lowering the costs for consumers and small businesses.

If the RBA mandates Dynamic Least Cost Routing, prices will not be forced to rise by as much as they will otherwise. The RBA is relying on competition to drive the price down[25] – but competition has not worked so far.

5.8 Will small business be better off ?

The average per-transaction fee paid by small merchants is around three times that paid by large merchants.[26]



[23] Adyen halves merchant costs with AI-enabled dynamic routing
[24] Independent Payments Forum, submission to RBA September 2025, p18
[25] Review of Merchant Card Payment Costs and Surcharging p63
[26] https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/2024-10/issues-for-consultation.html

The RBA notes:

> *"The cost of card payments is substantial for small businesses, which pay much higher fees per transaction than large businesses. Large merchants have the bargaining power to directly negotiate much lower 'strategic' interchange rates from the networks."*[27]

Small business will be out of pocket

The RBA consultation paper claims:

- lowering the interchange fees paid by businesses to card providers could save businesses around $1.2 billion a year
- only 10% of businesses surcharge[28]

However, Nick Hossack from Benchmark Analytics estimates the expected savings accruing to those businesses losing surcharging revenue would be just $120 million (i.e. 10 per cent of $1.2 billion).

> *"While the adverse impact falls on this 10 per cent, the benefit of lower interchange fees is distributed across all businesses. Assuming an even distribution of lower merchant costs from reduced interchange fees, the expected savings accruing to those businesses losing surcharging revenue would be just $120 million (i.e. 10 per cent of $1.2 billion).*
>
> *In other words, in net terms, <u>those businesses currently surcharging will be out of pocket by more than $1 billion.</u> This represents an unfair burden, particularly as the businesses that surcharge are typically in industries where competition is strongest and margins are thinnest."*[29]

6 CONCLUSION

I note that the AHA is a member of the Independent Payments Forum (IPF) and supports its submission. Thank you for the opportunity to have made this submission.

Yours faithfully,

STEPHEN FERGUSON
NATIONAL CEO

[27] https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/backgrounders/backgrounder-on-interchange-and-scheme-fees.html
[28] https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/2025-07/consultation-paper/ p 9-10
[29] Nick Hossack, Benchmark Analytics, Response to RBA Consultation Paper