September 8th, 2025

Head of Payments Policy Department
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Via email: pysubmissions@rba.gov.au

RE: Australian Lottery and Newsagents Association (ALNA) Submission to RBA Consultation on Merchant Card Payment Costs and Surcharging

Executive Summary

DEBIT MUST BE THE NEW CASH - Achieving the RBA's efficiency and competition objectives

The Australian Lottery and Newsagents Association (ALNA) represents 1,400+ small lottery/newsagent retailers within a sector of 4,450 businesses serving 2.5 million customer visits daily.

Our Position: We support reforms that lower total acceptance costs and strengthen competition. However, we oppose removing merchants' surcharging rights unless a genuine cash-equivalent framework is established first. We also desperately need an RBA-endorsed, cash-equivalent debit pathway for in-store lottery prize payments as cash access declines.

To achieve the RBA's statutory objectives of promoting efficiency and competition in the payments system, genuine structural reforms are required. Current market failures—including routing inefficiencies, opaque pricing, and cross-subsidisation, prevent these objectives from being met under the proposed package alone.

What "Cash-Equivalent" Means

For debit to replace cash effectively, and deliver the efficiency gains the RBA seeks, policy must deliver:

- **Default-on Dynamic Least-Cost Routing** across all channels
- **No blended pricing** that masks true costs and distorts competition
- **Scheme fee caps** with audited pass-through to ensure efficiency gains reach merchants
- **Sub-1 cent interchange** for small-ticket retail to achieve cash-equivalent economics

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Why This Matters for Small Business

Our members face unique constraints:

- **Government-regulated pricing:** Lottery prices are fixed (Instant Scratch-Its at whole-dollar price points, commissions 8-12.3%)
- **Printed pricing:** Greeting cards, newspapers, and magazines have manufacturer-set retail prices
- **High-volume, low-margin operations** with no pricing discretion on core products

Credit surcharging must remain, so costs follow customer choice, particularly for premium/overseas cards, rather than being hidden in base prices where cash and debit users subsidise rewards.

Market Context: Key Evidence

The following evidence demonstrates critical market failures that prevent the RBA's efficiency and competition objectives from being achieved under current arrangements, supporting the need for structural reforms before any surcharging restrictions are considered.

Surcharging Prevalence Understated

The RBA's baseline assumes low merchant surcharging use, significantly underestimating the impact of removal. However, new 2025 survey evidence from the Independent Payments Forum (IPF) (*ALNA is a member and our members participated in the survey*) shows **45-46% of merchants surcharge at least some transactions**.

This means the RBA's impact analysis fails to account for the concentrated harm to small merchants who would lose surcharging rights, while assumed consumer savings would be diffuse. The policy would effectively concentrate losses on the 45-46% of merchants who currently use surcharging to manage payment costs - predominantly small, price-constrained businesses who lack the pricing flexibility to absorb them.

Small Merchants Face Disproportionate Costs

- Payment costs consistently rank in our members' **top three concerns** in their businesses
- Some members report **up to $25,000 annually** in processing fees
- Small businesses can pay **4x per transaction** what large retailers pay
- Unlike large retailers, small merchants lack bargaining power for bespoke rates

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Voluntary LCR Has Not Delivered Consistently

While some of our members with banking relationships that embrace LCR have benefited, outcomes remain uneven across acquirers and channels (contact/contactless, in-app, CNP). Routing should be mandated default-on Dynamic LCR with merchant priority and explicit prohibitions on technical or contractual throttling.

This uneven delivery demonstrates why voluntary approaches to LCR have failed to achieve the efficiency gains the RBA seeks, supporting the case for mandated default-on Dynamic LCR with explicit prohibitions on technical or contractual throttling.

Implications for RBA Policy

This evidence confirms that current market structures prevent efficient outcomes and competitive discipline, reinforcing the need for the structural reforms outlined in our key positions before any restriction on merchant surcharging rights.

Our Key Positions

1. Oppose Removing Surcharging

For Credit Cards: Keep surcharging so costs follow customer choice, especially premium/overseas cards. Transparent, cost-based, dynamic surcharging prevents hidden costs in shelf prices and maintains competitive discipline on card networks.

For Debit Cards: Only consider removal after a cash-equivalent model is implemented and operating. This requires:

- Default-on Dynamic LCR with merchant primacy across all channels
- Ban on blended/single-rate plans that mask true costs
- Caps on scheme fees with granular, audited pass-through
- For low-value transactions, sub-1 cent debit interchange

The proposed 6 cents interchange reform remains well above cash-equivalent economics for small-ticket retail.

2. Why Credit Surcharging Must Remain

Cost Reflectivity & Consumer Choice: Premium/rewards and overseas credit cards impose higher acceptance costs outside merchant control. Surcharging ensures customers pay for their choice rather than cross-subsidising other users.

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Avoiding Regressive Cross-Subsidies: Without surcharging, higher costs flow into shelf prices. Cash and low-cost debit users, often price-sensitive households, end up subsidising premium credit rewards.

Competitive Discipline: Surcharging is one of few tools small merchants have to discipline fees. When costs are visible to end users, issuers/schemes face pressure to reduce them.

Illustrative Example: On a $20 purchase (typical for newsagents and lottery retailers), low-cost debit might total $0.06–$0.10, while premium/overseas credit can be 2-4x higher. Banning surcharging spreads this gap across all products, eroding thin margins.

3. Regulatory and Printed-Price Constraints

Our sector faces unique challenges that must be considered in any surcharging reform:

- **Lottery tickets:** Regulator-approved prices with fixed commissions
- **Instant Scratch-Its:** Regulator-approved fixed dollar pricing
- **Newspapers/magazines/cards:** Manufacturer set printed retail prices
- **Limited ability to absorb sudden cost increases:** due to regulatory approval processes and long lead times for repricing

Price changes require negotiations and long lead times. When card costs rise or surcharging is removed, merchants cannot "reprice next week" to absorb costs.

4. Cash-Replacement Infrastructure for Essential Community Services

As cash usage declines, the RBA's efficiency objectives require ensuring continuity of essential payment flows that currently rely on cash. Lottery prize payouts represent a critical use case requiring immediate attention.

The Challenge: Roughly 60% of lottery sales (over $3 billion annually) are returned to players as prizes. Historically the most significant portion of this is paid in cash through retailers; declining cash access threatens this essential community service. Current electronic payment methods are unsuitable for small prize payouts ($2-$50, representing 70% of prize volume), with existing card transaction structures designed for sales rather than cash-equivalent prize distributions, forcing continued reliance on cash at a time when cash access is declining.

Efficiency Case: To achieve the RBA's objective of facilitating efficient transition from cash to electronic payments, lottery prize payouts require immediate innovation with a dedicated cash-replacement framework with:

- Cents-per-transaction debit pricing (similar to ATM withdrawal economics)
- Mandatory Dynamic LCR routing to lowest-cost networks

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- Scheme-fee caps with explicit prohibition on throttling
- Recognition as essential infrastructure supporting payment system transition

This aligns with the RBA's mandate to promote efficiency by ensuring no critical payment flows are stranded as the system evolves away from cash. This infrastructure is essential for maintaining the viability of 4,450 small business lottery retailers who serve as critical community access points.

5. Why Current Pricing Structures Fail Small Merchants

Blended Pricing Distorts Competition: Single-rate plans obscure real cost differences, cross-subsidise higher-cost products (credit, premium rewards) with lower-cost debit, and dull incentives to route via cheapest networks.

Scheme-Fee Complexity Impedes Transparency: The proliferation of scheme fees with extensive categories and documentation enables supra-competitive outcomes that small businesses cannot negotiate away.

Illustrative Caps for Consultation:

- Debit scheme fees: $0.01 for ≤$50; $0.15 for >$50
- Credit scheme fees: $0.02 for ≤$50; $0.20 for >$50

6. Responses to Key Consultation Questions

Q1. Would removing surcharging best support the objectives?

For credit: No. Keep merchant surcharging rights. Credit costs should not be hidden in shelf prices, masking cost drivers. This should not be considered until wholesale fees are fully regulated, capped and transparently passed through.

For debit: No. Only consider removal after a cash-like model is implemented with default-on Dynamic LCR, no blending, capped scheme fees, and audited pass-through.

Q2–Q4. Interchange changes (e.g., 6c debit; 0.3% credit):

This helps if paired with scheme-fee caps, anti-blending rules, mandated Dynamic LCR, and enforceable pass-through. Interchange cuts without these safeguards risk being re-captured elsewhere in the fee stack.

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Q12. Does the preferred package meet the objectives?

Not yet. Without structural reforms to routing, blending and scheme fees, the package risks entrenching higher costs for small business and reducing competition.

7. Evidence from Small Business Operations

IPF July–August 2025 survey results:

- **68%** believe card fees are more expensive than cash
- Only **32%** trust PSPs to pass on interchange savings
- **56%** would be forced to increase prices if surcharging were removed
- **45-46%** already surcharge at least some transactions

These results indicate the proposed removal would have broader and more regressive effects than assumed.

8. Alternative Framework (If Surcharging Must Be Restricted Against Our Advice)

While we maintain that removing surcharging is premature and harmful to small business, if the RBA proceeds despite these concerns, the following framework would be essential to minimise damage:

1. **Prohibit blended plans** for small merchants; require line-item disclosure and audited pass-through
2. **Mandate opt-out Dynamic LCR** across all channels; publish acquirer compliance metrics
3. **Cap scheme fees** with machine-readable schedules and regulator audits
4. **Reduce debit interchange** to cash-like levels (sub-1 cent) before any restriction
5. **Exempt regulated/printed-price sectors** until cash-equivalent debit model is verified
6. **Minimum 18-month transition** with clear sequencing and enforcement

These measures are not optional add-ons but fundamental requirements for any surcharging restriction to achieve the RBA's efficiency and competition objectives rather than undermining them.

9. Member Experiences

"These fees are significant (about 7% of profit for high-volume, low-margin businesses such as lotto agencies) and they will only increase as access to cash continues to decline."

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"For a newsagent who sells lotteries, my non-lottery customers end up funding the merchant fee for lottery players. Why should I increase other product prices to fund losses on lottery purchases?"

"Lottery ticket prices are fixed and so without surcharges the retailer won't be able to recover the bank costs from the customer."

Conclusion

ALNA supports reforms that advance the RBA's objectives of efficiency and competition in the payments system. However, the current proposals risk entrenching market failures that prevent these objectives from being achieved. Without addressing routing inefficiencies, pricing opacity, and cross-subsidization, removing surcharging would shift costs to price-constrained merchants while failing to deliver the competitive benefits the RBA seeks.

We strongly oppose removing credit card surcharging, which would undermine competition by hiding cost signals and creating regressive cross-subsidies that contradict efficiency principles.

We also need a cash-replacement debit category for lottery prize payouts to protect community services as cash declines. Time is critical - as cash access points continue to close, lottery retailers need electronic prize payout solutions now to maintain community services. This longstanding issue, raised repeatedly in previous RBA consultations, has become increasingly urgent as the cash infrastructure continues to deteriorate.

For debit to become the new cash, **it must first BE the new cash**: cash-equivalent pricing with default-on Dynamic LCR, no blended pricing, capped scheme fees, and audited pass-through. Anything less risks shifting unrecoverable costs onto price-regulated, low-margin small businesses and raising prices for consumers.

We appreciate the opportunity to contribute to this important consultation and welcome further discussions on these proposals.

Yours sincerely,

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