

Mr Ellis Connolly
Head of Payments Policy Department
Reserve Bank of Australia
GPO Box 3947
SYDNEY NSW 2001

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Via email: pysubmissions@rba.gov.au

Merchant Card Payment Costs and Surcharging – Consultation Paper

Dear Ellis,

Australian Payments Plus (**AP+**) supports the Reserve Bank of Australia's (**The Bank**) focus on Merchant Card Payment Costs and Surcharging (**The Consultation Paper**). We agree that a review of the surcharging framework is appropriate as it has been some years since the framework was introduced and Australia's payment system is now vastly different and continues to evolve at a pace. AP+ supports the Bank's vision of a world-class payments ecosystem that serves the needs of its users and participants and Australia's economy.

In response to the October 2024 issues paper, AP+ put forward the view that competition in the Australian debit card market was functioning well and that competitive forces would continue to achieve some of the outcomes the Bank sought for merchant card payment costs - were the Bank to continue to pursue its expectations¹ for least-cost routing (**LCR**) to be made fully available to merchants for all in-person, online and mobile-wallet transactions.

In regard to surcharging, AP+ saw merit in the unbundling of debit and credit card blended surcharging with the setting of a maximum allowable surcharge for debit transactions (in cents per transaction) or the banning of surcharges on debit transactions.

The Australian Payment System

The proposals in the consultation paper impact each part of the Australian payment system and the changes go further than AP+ had recommended in our initial response² to that October issues paper. Our analysis of the current proposals and their possible consequences has highlighted a number of issues therefore in addition to our response to the consultation questions relevant to AP+, we make two recommendations to ensure the Australian payment ecosystem remains safe, resilient, efficient, and open to competition.

Debit card benchmarks and caps

In regard to the proposal to reduce the cent-based *debit* benchmark to 6 cents and the ad-valorem cap to 0.12 per cent; the Bank's view is that lowering the benchmark to 6 cents and the ad-valorem cap to 0.12 per cent is to ensure that interchange fees do not increase in future were the competitive dynamics between debit card schemes to change.

Our strong view is that the benchmark and cap will nullify the existing primary competitive tension that currently exists in the Australian debit card market, namely price competition.

¹ The RBA has been strongly encouraging LCR since 2017. In 2021, the RBA set an explicit expectation that PSPs offer and promote LCR in both the in-person and online environments. In 2022, the RBA set a further expectation that the industry makes LCR functionality available for mobile wallet transactions by the end of 2024.

² <https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/2025-01/>



Should the reforms proceed, then it is our view that competition will move to add-on or complementary services (e.g. data) being offered by the different debit card schemes which operate in Australia. The Bank will be well versed on research that shows the positive competitive and public interest outcomes that a strong domestic debit card scheme offers for their home countries. There are numerous examples of larger, but comparable markets in the northern hemisphere (i.e. UK, EU³) where there have been poor economic outcomes when competitive tension is limited.

eftpos is a robust, secure, cost efficient and modern Australian-owned debit card scheme that invests to deliver the functionality, services and competitive tension required in the public interest of Australia. The efforts of *eftpos*, when combined with a supportive regulatory environment, has had an overwhelming positive impact for Australia⁴. The competitors to the *eftpos* debit card scheme are global entities, each being very well-resourced technology companies, which have the economies of scale to fund, underwrite and subsidise the rapid and continuous offering of multiple new payment products (e.g. Click to Pay, passkeys, payment card linked services) and non-payment services (data), in order to preserve or grow market share, which *eftpos* will need to respond to. These entities also have the economic capacity to cross subsidise one market through activities in other markets (which may not be regulated in the same way as Australia), or the ability to cross-subsidise the operation of one product with others.

For the public interest reasons which also guide the Bank, the Australian regulatory environment should seek to ensure competitive tension is preserved for merchants' ability to route debit card transactions.

Recommendation One:

That the Bank ensure that all products or enabling agents (i.e. Agentic AI, Click-To-Pay) related to debit card payments that are brought to market in Australia can support least-cost routing (LCR) or do not interrupt LCR⁵ from the day of launch. This would ensure the lessons of the past are learnt and importantly ensures that merchants and acquirers are not restricted on how they process transactions.

Dual-network debit cards (DNDCs)

Debit cards are now the most frequently used payment method in Australia. Around 90 per cent of debit cards issued in Australia are dual-network debit cards (**DNDCs**)⁶, which allow domestic payments to be processed via either *eftpos* or one of the international debit schemes (Mastercard Debit or Visa Debit).

The Bank has explicitly stated⁷ that it expects large and medium-sized card issuers to issue DNDCs, which allow domestic debit payments to be processed via either the domestic scheme (*eftpos*) or one of the international debit networks. The Bank favours⁸ an explicit expectation for DNDC issuance, rather than imposing a formal regulatory requirement through a standard.

³ Card payments are the main electronic payment method in the EU. International card schemes accounted for approximately 61% of euro area card transactions in 2022. There are currently only nine national card schemes active in the EU, these schemes are all facing a broader trend of declining domestic market shares. The Single Euro Payments Area (SEPA) aims to harmonise euro payments, including card payments, but has faced challenges in creating a fully unified European card scheme. The European Central Bank is exploring ways to further integrate the card payments market, potentially through increased interoperability between national schemes or the development of new European-level solutions. [ECB Report](#).

⁴ The Merchant Services Fees data contained in the October 2024 Issues [Paper](#) (Graph 5, pg. 7) demonstrates the significant positive impact for Australia, of a strong domestic payment system operator.

⁵ In 2021, the RBA set an explicit expectation that PSPs offer and promote LCR in both the in-person and online environments. In 2022, the RBA set a further expectation that the industry makes LCR functionality available for mobile wallet transactions by the end of 2024.

⁶ RBA Review of Retail Payments Regulation – Conclusions [Paper](#), October 2021. <https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/conclusions-paper-202110/dual-network-debit-cards-and-least-cost-routing.html>

⁷ Debit and Prepaid Cards RBA Regulatory [Framework](#).

⁸ Section 3.4.2, RBA Review of Retail Payments Regulation – Conclusions, October 2021. <https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/conclusions-paper-202110/dual-network-debit-cards-and-least-cost-routing.html>



Recommendation Two:

The weighted-average interchange rate on debit cards has declined noticeably below the current benchmark over recent years in direct response to competition between the debit card networks⁹. It would not be in the public interest if the cost of payments were to rise because merchants were unable to route transactions to a lower cost network.

AP+ would strongly recommend that the Bank does not alter, in any aspect, its long-standing expectation that large and medium-sized card issuers issue DNDCs, including the operation of the 1% DNDC issuance threshold requirement.

For the smaller issuers that use aggregators, it is our understanding that the difference in the cost of processing a Single Network Debit Card (SNDC) versus a DNDC is not materially different for the issuer, as the aggregator has all the necessary infrastructure already in place and the benefits to the Australian economy and merchants would outweigh the costs incurred - yielding the higher net public benefits the Bank seeks.

The Bank will need to carefully monitor and respond to how the market evolves under this significant market reform, as ongoing equitable regulation and supporting the sustainability of critical domestic payment infrastructure is in Australia's interest.

We urge Parliament to progress the passage of the Bill¹⁰ dealing with reforms to the Payments Systems (Regulation) Act 1998 (**PSRA**) which is a critical step to ensure the Bank has the appropriate tools to ensure a modern, safe, efficient and competitive payments system in Australia.

We look forward to discussing our submission with the Bank.

Yours sincerely,

Aidan O'Shaughnessy.
Public Policy, Government & Regulatory Affairs, AP+
Encl.



Australian
Payments
Plus



⁹ Page 11, RBA Merchant Card Payment Costs and Surcharging – Issues [Paper](#), October 2024.

¹⁰ Treasury Laws Amendment (Payments System Modernisation) Bill 2025.



Attachment: AP+ response to consultation questions

Q1: Would removing surcharging on designated card networks best support the RBA's objectives to promote the public interest through improving competition, efficiency and safety in the payments system? In particular, the RBA welcomes feedback on whether there are additional public interest considerations that should be taken into account for each policy option.

As per our response to the October 2024 issues paper - AP+ saw merit in the unbundling of debit and credit card blended rates with the setting of a maximum allowable surcharge for debit transactions, with the setting of a debit card cap of cents per transaction (not an ad-valorem cap) or the banning of surcharges on debit transactions. AP+ agrees with the RBA view that on balance, removing surcharging will make card payments simpler, more transparent and more efficient for consumers and merchants.

If permitted by the Bank, *eftpos* will seek to implement a ban on surcharging via our scheme rules, although we note the Bank's view that further legislative action may need to be taken to ban surcharging.

In prohibiting surcharges across all designated debit, prepaid and credit card systems (*eftpos*, Mastercard and Visa) there is a risk that this will dull the price signals between payment methods and could drive a shift from cheaper debit transactions towards more expensive credit and charge card transactions. The RBA will need to carefully monitor how the market evolves under this significant policy change.

AP+ has announced¹¹ new *eftpos* interchange rates for small business merchants, as part of its ongoing commitment to lower the cost of payments. Effective from 1 December 2024, the interchange for all card present transactions, including mobile wallets, will reduce to 2 cents per transaction for eligible small business merchants. Online transaction interchange has also been reduced to 3 cents per transaction for eligible small businesses. Transactions must meet specified criteria (for example, maximum volume of transactions) to qualify for these Strategic Interchange Rates, but we expect them to be broadly available to smaller merchants. These *eftpos* interchange rates for small businesses are the same as *eftpos* currently publishes for DIFR 2 (Differential Rate Category 2) which are available for some of the largest merchants in Australia.

In addition to these new strategic interchange rates for small business merchants, *eftpos* previously announced a reduction of issuer scheme fees and acquirer scheme fees, these changes took place on 1 May 2025.

Interchange Fees

Q2: Do the proposed changes to interchange regulation promote the public interest by improving competition and efficiency in the payments system?

The weighted-average interchange rate on debit cards has declined noticeably below the current benchmark over recent years in direct response to competition between the card networks.

In response to the October 2024 issues paper, AP+ put forward the view that competition in the Australian debit card market was functioning well and that competitive forces (e.g. LCR) would continue to achieve some of the outcomes the Bank sought for merchant card payment costs as the Bank continued to pursue its expectations¹² for least-cost routing (LCR) to be made fully available to merchants for all in-person, online and mobile-wallet transactions.

¹¹ AP+ Media [Release](#): Rollout of Merchant Choice Routing for mobile devices plus lower *eftpos* debit charges will lower the cost of payments in Australia

¹² The RBA has been strongly encouraging LCR since 2017. In 2021, the RBA set an explicit expectation that PSPs offer and promote LCR in both the in-person and online environments. In 2022, the RBA set a further expectation that the industry makes LCR functionality available for mobile wallet transactions by the end of 2024.



AP+ accepts the need for caps on a Single Network Debit Cards (SNDC) as the merchant must take the card but is unable to route the transaction to the lowest network. We believe the proposed changes to the benchmarks and caps for Dual Network Debit Card (DNDC) is not necessary to drive the market outcomes that the Bank seeks.

Q3: Are there further considerations for smaller issuers that the RBA should take into account to enhance competition and efficiency in the payments system?

The weighted-average interchange rate on debit cards has declined noticeably below the current benchmark over recent years in direct response to competition between the debit card networks¹³. It would not be in the public interest if the cost of payments were to rise because merchants were unable to route transactions to a lower cost network.

AP+ supports the Bank in its long-standing expectation that large and medium-sized card issuers issue Dual Network Debit Card (DNDC) and supports the 1% issuance threshold requirement.

For the smaller issuers that use aggregators, it is our understanding that the difference in the cost of processing a Single Network Debit Cards (SNDC) versus a DNDC is not materially different for the issuer, as the aggregator has all the necessary infrastructure already in place and the benefits to the Australian economy and merchants would outweigh the costs incurred - yielding the higher net public benefits the Bank seeks.

Transparency of Wholesale Fees

Q5: Does the proposal for card networks to publish aggregate wholesale fee data achieve the RBA's objectives of improving competition and efficiency among the card networks? Does the proposal adequately balance the information needs of the market with commercial concerns?

As a scheme operator, AP+ has been and remains fully supportive of greater transparency.

Q6: Does the proposal for card networks to work with industry to reduce the complexity and improve the transparency of their scheme fee schedules enhance the competitiveness and efficiency of the card payments system?

eftpos already supports simplicity and transparency. The schedule of scheme fees for *eftpos* contains two fees, one fee for an issuer, one fee for an acquirer.

Scheme Fees

Q7: Does the proposed expectation on scheme fees achieve the RBA's objectives of competition and efficiency in the payments system?

AP+ supports the PSB proposal that the Bank set an expectation that scheme fees should not rise without a clear explanation being provided by the scheme to PSPs and issuers, as appropriate.

Q8: Should the PSB consider further regulatory measures in relation to the level of scheme fees to promote competition and efficiency in the payments system?

AP+ considers that the Bank can promptly respond to market changes in the future if deemed appropriate. Should the Bank continue to pursue its expectations for LCR, AP+ does not believe further regulatory measures in relation to scheme fees (other than the regulatory options proposed – i.e. transparency and reporting) to support a competitive and efficient debit card market are warranted at this time. AP+ is of the view that competitive forces will achieve some of the outcomes the RBA seeks for

¹³ Page 11, RBA Merchant Card Payment Costs and Surcharging – Issues Paper, October 2024.



merchants' card payment costs. The ubiquitous availability of LCR for merchants for their in-person, online and mobile-wallet transactions, are a competitive force in the market, as is the presence of *eftpos* – an Australian-owned debit card scheme.

Least-cost Routing of Debit Card Transactions

Q11: Are there any changes that should be made to the RBA's existing industry expectation on LCR implementation to improve competition and efficiency in the debit card market?

AP+ considers that the Bank can promptly respond to market changes in the future if deemed appropriate. Therefore, should the Bank continue to pursue its expectations for LCR to be made available to merchants for in-person, online and mobile-wallet transactions, AP+ then agrees with the Bank's view that the specific regulatory measures proposed in the consultation paper intended to further support LCR a competitive and efficient debit card market are not warranted at this time.

However, as per our Recommendation One, the Australian payment system is evolving at a pace, as new entrants and products emerge, the Bank must ensure that all debit card payment products brought to market in Australia are LCR capable¹⁴ from the day of launch. This would ensure the lessons of the past are learnt and ensures that merchants and acquirers are not inhibited on how they process transactions, thereby preserving the benefits achieved by LCR.

Q12: Does the PSB's preferred package meet its objectives of competition, efficiency and safety in the payments system? Are there any variations to the package that the PSB should consider that would yield higher net public benefits? Is there any additional evidence that the Bank should consider before finalising its decision?

Our analysis of the proposals and their possible consequences has highlighted a number of issues therefore AP+ has made two recommendations to ensure the Australian payment ecosystem remains safe, resilient, efficient, and open to competition, whilst yielding higher net public benefits.

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¹⁴ The RBA has been strongly encouraging LCR since 2017. In 2021, the RBA set an explicit expectation that PSPs offer and promote LCR in both the in-person and online environments. In 2022, the RBA set a further expectation that the industry makes LCR functionality available for mobile wallet transactions by the end of 2024.