

ARA/NRA SUBMISSION

RBA REVIEW OF MERCHANT CARD PAYMENT COSTS AND SURCHARGING

AUGUST 2025

The Australian Retailers Association (ARA) and National Retail Association (NRA), welcome the opportunity to respond to the Reserve Bank of Australia's (RBA) Consultation Paper on Merchant Card Payment Costs and Surcharging.

The ARA and NRA, which propose to amalgamate into the Australian Retail Council (ARC), represent a \$430 billion sector, and employs 1.4 million Australians – making retail the largest private sector employer in the country and a significant contributor to the Australian economy.

Our membership spans the full spectrum of Australian retail, from family-owned small and independent retailers that make up 95% of our membership, through to our largest national and international retailers that employ thousands of Australians and support both metropolitan and regional communities every day. Our industry operates more than 155,000 retail outlets nationwide, with the majority of those also represented by an online or e-commerce presence. As a result of operating multi-state outlets, our sector is exposed to jurisdictional inefficiency more so than any other industry.

With a significant portion of every dollar spent in retail flowing back to employees, suppliers, super funds, and local communities, a thriving retail sector benefits all Australians. After a uniquely challenging five-year period, which has had significant impacts on the sector, we are united in advocating for policies, reform and collaboration that will drive growth, resilience, and prosperity for the retail sector and all Australians.

EXECUTIVE SUMMARY

Retailers are key participants in Australia's payment ecosystem. We support reform that delivers fairer, simpler and more efficient outcomes, for all businesses and consumers. We acknowledge the intent of the RBA's proposed changes, including the goals of improving competition, reducing costs, and enhancing transparency.

This submission outlines our feedback on the three core proposals: surcharge removal, interchange fee reductions, and transparency measures. We also raise questions about implementation, timing, and the need for flexibility to support small and medium businesses (SMBs) as the system evolves.

All retailers, regardless of size, must manage their cost base to remain competitive and deliver the best value to consumers. If the right to surcharge is removed, merchants currently surcharging will seek to recover some or all of these costs through higher prices on goods and services. This will directly affect consumer pricing. In addition, medium to large retailers selling everyday goods and services, many of whom do not surcharge, will nonetheless lose bargaining power with large multinational card schemes. The ability to surcharge also provides leverage in commercial negotiations. Removing that lever weakens retailers' negotiating position and increases the risk of higher acceptance costs being imposed, which over time would flow through to consumers.

Any reform must also be practical, proportionate and commercially sustainable for all merchant sizes. We are concerned that the proposed blanket ban on card surcharges, without a clear and equitable transition plan, may disadvantage the smaller merchants who rely on surcharging as a cost-recovery mechanism to protect narrow operating margins and business viability.

While smaller merchants face unique challenges around cost recovery and negotiating power, larger merchants who commonly do not surcharge today are likely to be exposed to sizeable commercial impacts under the proposed reforms, including increased cost burdens that will ultimately flow through to higher consumer pricing, including for essential goods. Policymaking should therefore take account of the different impacts across merchant sizes to ensure reforms do not simply shift costs between segments of the industry, but instead deliver fair and sustainable outcomes for all.

While we acknowledge the intent to reduce friction at the point of sale, we are concerned that prohibiting surcharging, without guaranteed cost reductions, will result in payment costs being embedded in overall pricing structures, ultimately leading to higher prices for consumers.

Transparency reforms must also go beyond publishing data alone. To deliver meaningful outcomes, they should be designed in a way that motivates and enables retailers to act on the information, rather than becoming a “publish and forget” exercise.

REMOVAL OF SURCHARGING ON EFTPOS, MASTERCARD AND VISA

The ARA and NRA note the RBA’s proposal to specifically prohibit surcharging on eftpos, Mastercard and Visa transactions. While many retailers have already chosen to absorb these costs, surcharging remains an important tool for many smaller businesses to recover the true cost of acceptance, particularly for higher-cost card types or acquirer arrangements.

There are also categories of small businesses, such as newsagents, that sell products with a fixed cover price (e.g. magazines, cards, lottery tickets) which prohibit any form of cost recovery through price adjustment. For these retailers, the ability to apply a surcharge is the only practical mechanism to recover card acceptance costs.

Many retailers, including those who do not currently impose surcharges, wish to retain the option to do so in future as a matter of commercial flexibility to assist them in running sustainable business operations. We also encourage the RBA to examine the surcharging practices of non-designated payment schemes whose rules may limit merchants’ ability to recover acceptance costs. These payment types are increasingly regarded as “must-take” by retailers, yet often involve materially higher acceptance costs. In this context, the RBA’s view that merchants can steer customers toward lower-cost methods of payment does not fully account for the operational and competitive realities faced by retailers.

Furthermore, the reforms will, in our view, incentivise non-designated payment schemes to promote high value rewards products (given issuers of designated schemes are likely to reduce the value of their propositions) and drive higher utilisation of those products, ultimately increasing costs to all merchants and, indirectly, consumers.

While we acknowledge the RBA’s concerns regarding the diminishing behavioural impact of surcharges and the prevalence of flat-rate pricing across card types, the proposed reforms risk creating new cost pressures for merchants, especially those lacking bargaining power or access to low-cost acquiring arrangements. This concern persists despite the expectation that lower interchange fees should reduce acceptance costs, as there is no certainty that acquirers will pass through these savings in full.

We recognise that the RBA has considered whether the surcharging framework continues to meet its policy objectives and determined that it no longer does. If the RBA proceeds with removal, it will be critical that the broader policy framework delivers genuine cost reductions. At the same time, the reforms must avoid increasing the cost base of larger merchants. Otherwise, the intended economy-wide benefits could be undermined, with unintended consequences such as price increases for food and essential consumer goods.

In the absence of a clear mechanism for cost recovery, there is a significant risk that payment costs previously covered through surcharges will instead be embedded into the price of goods and services, reducing pricing transparency and increasing costs for those consumers not paying by card.

This loss of a cost-recovery lever would also reduce the negotiating power of medium-to-large retailers in discussions with payment schemes, particularly for everyday-spend categories where margins are tight and volumes are large. The majority of larger merchants are committed to absorbing costs where possible. However, should sustained increases in interchange fees be experienced this may necessitate pricing adjustments that could disproportionately affect vulnerable consumers. This risk is heightened in the current cost-of-living environment.

In line with our previously stated concerns around cost pass-through and the disproportionate impact on smaller retailers, we recommend that the RBA consider whether a transitional or permanent exemption may be appropriate for smaller merchants. We acknowledge that defining and administering such thresholds would create complexity, but believe the principle of proportional treatment remains important for protecting SMBs if such a proposal is to proceed.

We also recommend that the RBA:

- Clearly model and publish the net effect on average merchant cost of acceptance across different categories, as surcharging activity tends to be concentrated in specific retail categories, whereas the interchange reforms are across the whole market;
- Monitor and report on the pass-through of fee reductions to merchants by card schemes and acquirers.

REDUCTION IN INTERCHANGE FEES

The ARA and NRA support continued efforts to reduce interchange and scheme fees, which represent a significant cost to all merchants. We welcome the RBA's intent to deliver lower acceptance costs and note that retailers would benefit from a reduced fee burden.

We also note the shrinking cash infrastructure available to consumers, with bank branch closures and rising third-party cash handling costs making it increasingly difficult to use cash. As consumers are pushed further toward card payments, retailers are left with little practical choice but to accept them. In this context, removing surcharging and forcing merchants to absorb costs risks unfairly shifting the burden while banks reduce alternatives and continue to profit from card fees.

We also caution that:

- Interchange fee reductions must be fully passed through by acquiring institutions, particularly those providing blended rate pricing to small merchants;
- Card schemes and financial institutions should not restructure other fees or remove merchant benefits to offset lost revenue;
- There should be transparency and enforcement mechanisms to ensure retailers experience the promised savings.

- Cost savings for small merchants should not come at the expense of larger retailers, whose investments in infrastructure, security, and innovation help sustain the overall health and accessibility of the payments system. These contributions reduce risk, enhance resilience, and deliver secure and convenient payment options that ultimately benefit all merchants and consumers.

Small Card Issuer Concerns

The ARA and NRA urges some caution with significant reductions to domestic credit interchange caps. Australia's credit card issuing market is heavily dominated by the four major banks, which control nearly 80% of balances. This high level of concentration limits innovation in product design, pricing, and the adoption of new payment technologies. Smaller issuers struggle to compete, they face substantial fixed costs in compliance and technology infrastructure, higher scheme costs due to limited access to volume-based discounts, lack the broader lending portfolios to cross-subsidise costs, and miss out on processing efficiencies from "on-us" transactions. In this environment, further lowering interchange caps would put additional pressure on these smaller players, potentially making their business models unviable. The result could be further consolidation of card issuance into the major banks, reducing competition and consumer choice.

Even based on the RBA's own cost study, which we believe underestimates true issuer costs, the average cost faced by small issuers already sits above the proposed interchange cap. This is highly problematic and risks being a significant anti-competitive element of the package.

The effect of imposing a cap that sits below the cost base of at least half of smaller issuers, and almost certainly all new entrants, is to render them uncompetitive. This will not only deter new market entry but could also threaten the viability of existing small issuers.

To address this, the RBA should:

- increase the overall interchange cap across the industry, and/or
- provide a small issuer exemption, for example for issuers with fewer than 250,000 credit cards or fewer than 1,000,000 debit cards, to ensure that smaller and newer players are not forced out of the market.

Without such an adjustment, the reforms risk entrenching the dominance of the large issuers and eliminating the prospect of meaningful competition in card issuing. Most interchange volume comes from the major banks, so exempting smaller issuers would have minimal impact on overall merchant savings. However, it would support the viability of smaller players, helping to preserve innovation, consumer choice, and competitive pressure.

Large retailers also make significant contributions to the efficiency and resilience of the payments ecosystem. Through sustained investment in infrastructure, fraud prevention and payments innovation, they lower costs, enhance security, and improve customer experience across the system. These benefits flow well beyond their own operations, supporting smaller merchants and consumers more broadly. It is important that the regulatory framework recognises these contributions and does not inadvertently undermine the ability of large merchants to continue investing in system-wide improvements.

We also acknowledge that changes to interchange fee structures may impact co-branded cards, rewards programs and loyalty schemes, particularly for larger merchants. While we understand the RBA does not accept these reward costs as justification for higher interchange, these effects should nonetheless be monitored to avoid market distortion or unintended consumer impacts.

We would also caution that strict domestic caps on interchange fees for regulated 4-party schemes may inadvertently hasten the migration of credit card market share to higher-cost payment methods which are not currently subject to regulation.

We strongly support the introduction of caps on excessive interchange fees from foreign-issued cards, which exceed domestic rates by a considerable margin. While the acceptance of these cards brings important benefits to merchants and the broader Australian economy, supporting tourism, international education, and global commerce, the interchange fees attached are significantly higher than domestic rates. These elevated costs place a disproportionate cost burden on Australian merchants relative to the benefits delivered, and reform is needed to ensure charges are more appropriately balanced. However, it should not be assumed that savings from these cross-border reforms will fully offset increases in some domestic interchange rates for affected merchants. For some, particularly high-volume retailers, the net effect may still be an increase in overall costs, with flow-on impacts for consumer pricing in a constrained cost-of-living environment.

INTERCHANGE REFORMS MUST BE IMPLEMENTED ALONGSIDE PAYMENT SYSTEMS (REGULATION) ACT (PSRA) CHANGES

The proposed interchange fee reductions cannot be viewed in isolation from broader regulatory payments reforms. Without concurrent passage of the PSRA amendments currently before Parliament and subsequent action by the RBA, there is a high risk that any merchant cost savings in credit cards from lower Visa and Mastercard interchange rates will be offset by increased costs from other schemes.

This risk is particularly acute for larger merchants, as the proposed reforms would remove the ability to negotiate effective outcomes given unregulated providers are free to adjust their fee structures at will given they are a 'must accept' form of payment for many of these merchants. In the absence of PSRA reforms that provide the Reserve Bank with regulatory oversight across all significant payment systems, these providers could capture market share and pricing power, eroding competitive neutrality and undermine the stated policy intent.

To avoid this unintended outcome, we would recommend that the implementation of interchange reforms should be sequenced in parallel with, or be contingent upon, the passage of PSRA changes and subsequent actions. This would ensure that any cost savings are preserved for both large and small merchants, and ultimately passed through to consumers, rather than being neutralised or more likely reversed by shifts in the mix of other parts of the payments ecosystem.

While the proposed changes adequately address the debit market, there remains a material gap in the credit market. Based upon the RBA's own data, more than 20 per cent of credit transactions are processed through unregulated schemes or payment types and would not be captured by the proposed framework. This market share has seen continued growth with the proposed reforms escalating this growth. This creates a non-standard offering for consumers and adds complexity for merchants managing acceptance costs across multiple payment types, undermining the intended competitive neutrality of the reforms.

While the ARA and NRA support a level of reduction in interchange fees to the market, we urge the RBA to acknowledge that this may increase cost and margin pressure for some larger retailers, particularly those offering everyday goods and services, which will inevitably result in higher costs for consumers. A reduction in interchange revenues passed on to card issuers may also result in diminished consumer rewards programs, and a likely risk of issuers increasing fees and interest rates, predominately impacting vulnerable Australians' revolving credit debt. Where exemptions remain for certain unregulated schemes or payment types, this may drive volume towards higher-reward products, shifting cost burdens back to merchants. These higher cost payment methods

now represent more than 20 per cent of the credit market and due to this scale, are effectively unavoidable as a “must take” form of payment for retailers seeking to remain competitive.

TRANSPARENCY MEASURES FOR CARD SCHEME AND ACQUIRER FEES

The ARA and NRA strongly support the RBA’s proposals to improve transparency and comparability of merchant fees. The requirement for large acquirers to publish average acceptance costs by merchant category, and for all acquirers to provide itemised fee statements, will support competition and informed decision-making, especially among SMBs.

We believe these changes should:

- Be accompanied by a standardised fee disclosure format, to ensure clarity;
- Be monitored to ensure compliance and accuracy of reporting;
- Lead to more consistent pricing and increased switching where merchant benefit can be demonstrated.
- Excluding large merchants, as defined by the RBA in the Paper as above \$10m p.a. in card spend. This could be achieved by excluding Large Merchant data from the Direct Merchant definition within the changes proposed in Standard No.3.

This is a welcome and practical reform that aligns with long-standing retail advocacy for fairer access to payment data and more competitive service offerings.

However, publishing this data alone will have limited impact unless it is paired with measures that help merchants act on the information. For many SMBs, the challenge is not just knowing what they pay, but being made aware when their costs are higher than average, finding it easy to compare alternatives, and having switching options that are straightforward enough to justify the effort. While we agree that it is ultimately up to each merchant to decide their appetite to move, the regulatory framework should reflect the operating realities and practical constraints facing smaller retailers and ensure that transparency translates into practical, usable insights rather than a “publish and forget” exercise. Conversely, large merchants who are often on bespoke multi-service pricing (e.g. Payments, Commercial Deposits, Lending) will be very difficult to accurately compare rates, given payments are offered at below cost to attract a large banking relationship.

We also encourage the RBA to maintain its advocacy for Least-Cost Routing (LCR) as a mechanism to promote competition and merchant choice, particularly in the online environment. While we do not believe additional regulation is required at this time, stronger enforcement of existing LCR objectives would help ensure that cost savings are realised by merchants, especially smaller businesses on blended pricing plans.

CONCLUSION

The ARA and NRA support a card payments system that is efficient, competitive and equitable across the merchant base. We recognise the RBA’s intention to reduce costs and complexity in card acceptance, and we support reforms that deliver tangible savings and improved transparency.

However, we urge the RBA to carefully consider the practical impact of a surcharge ban, particularly for small and medium retailers, and to ensure that cost of acceptance reductions are real, sustained and equitably distributed.

Given the imminent passage of the PSRA reforms, we urge the RBA to ensure that changes to surcharging and interchange regulation are implemented in alignment with the broader regulatory framework. Coordinating these

reforms in parallel would help ensure consistency across the market and avoid regulatory gaps or confusion for merchants and consumers.

Delivering genuine cost savings to merchants will depend on the implementation of complementary regulatory changes, including under the PSRA, to ensure that reduced interchange fees are not offset by increases in other payment scheme costs.

Particular care should also be taken to avoid outcomes that render small issuers uncompetitive or that provide transparency without practical means for merchants to act on it. At the same time, larger merchants also face risks under the proposed reforms, including increased cost burdens that may ultimately flow through to consumers. It is therefore important that the RBA considers the impacts across merchant sizes to ensure the reforms deliver fair and sustainable outcomes for all.

We would welcome the opportunity to discuss these matters further and remain committed to working with the RBA to achieve an improved outcome for both merchants and consumers.

Any queries in relation to this submission can be directed to our policy team at policy@retail.org.au