



Australian Government



Australian
**Small Business and
Family Enterprise**
Ombudsman

9 September 2025

Head of Payments Policy Department

Reserve Bank of Australia

GPO Box 3947

Sydney NSW 2001

via email: pysubmissions@rba.gov.au

Dear consultation team,

Review of Merchant Card Payment Costs and Surcharging

The Australian Small Business and Family Enterprise Ombudsman (ASBFEO) welcomes the opportunity to comment on the RBA Review of Merchant Card Payment Costs and Surcharging Consultation Paper.

Small and family businesses are the backbone of the Australian economy, yet they continue to shoulder a disproportionate share of card payment processing costs. Unlike large businesses, small businesses lack the bargaining power to negotiate competitive rates and are often pushed onto more expensive bundled or blended plans for “simplicity and convenience”.

The ASBFEO supports the Government’s intention to reduce card surcharges for Australians and small businesses, however, we have concerns that the RBA’s proposed recommendations will not achieve the government’s policy objectives and that small businesses will pay the price.

Surcharging

Recommendation 1: The RBA should adopt Option 2 in the consultation paper and only remove the ability of merchants to surcharge *debit* card transactions. The Government should amend the *Competition and Consumer Act 2010* or other relevant legislation to prohibit blended payment plans.

Recommendation 2: Delay implementation of any proposed surcharge ban for at least 12 months to allow time for small businesses to take advantage of greater transparency of fee structures and competition in the PSP market, to try and secure a better payment plan arrangement.

The ASBFEO does not support the RBA’s preferred Option 3 to remove the ability of merchants to surcharge on all card transactions. Small businesses often incur merchant card payment fees that are more than three times higher than larger businesses pay. As small businesses have limited capacity to absorb these costs many are forced to pass them on to customers through surcharging, which has become a necessary mechanism for cost recovery. Removing the option to surcharge for non-debit card transactions would lead to small businesses absorbing the costs to their financial detriment or passing them on to consumers through higher prices.



The RBA's proposal to ban surcharging on all cards is not consistent with the Government's announcement to ban surcharging on debit card payments, which it made in October 2024.¹ The policy rationale for this announcement, which was reiterated by different ministers in media interviews, was to stop customers getting slugged with surcharges *when using their own money*.² The RBA's proposal to ban surcharging on all card payment types would subvert the Government's policy rationale and in fact incentivise consumers to continue to use credit cards which are more expensive to process and will continue to incur higher fees.

The Government promised the crackdown on card surcharges wouldn't lead to higher costs for small businesses. On 23 November 2024, then Assistant Treasurer Stephen Jones said the government had charged the RBA with finding the most effective way of banning surcharging on debit cards to ensure the costs aren't passed onto small businesses.³ The RBA has not achieved that through the proposals in the paper, in fact small businesses are likely to be more heavily impacted than other, more well-resourced, participants in the payment process.

While the RBA asserts that removing the ability to surcharge would incentivise merchants to seek lower cost payment service providers (PSPs) or plans and promote competition among PSPs, this assumes they have sufficient bargaining power and underestimates the difficulties of switching providers. Many small businesses are on blended plans which may include hardware, software or other services which the business needs and changing plans would likely cause business disruption.

Rather than distinguishing between credit and debit card transactions, blended plans charge a flat fee for all transactions – sometimes as high as 2% per transaction – well above the cost of processing. Passing this fee onto customers through a surcharge is the only way small businesses can recover costs.

Removing the ability of merchants to surcharge for all cards will not address the issue of blended plans. This “regulatory gap” has been raised with the RBA, the ACCC and the Government, yet the consultation paper does not address this issue. ACCC chair Gina Cass-Gottlieb has said there are no legal grounds to stop payment providers blending the cost of credit and debit card transactions incurred by merchants into a single fee.⁴ The RBA's proposals won't stop the practice of payment service providers (PSPs) pushing small businesses onto blended plans.

If the RBA proceeds with a ban on surcharging, we recommend Option 2 – removing the ability of merchants to surcharge debit card transactions – bolstered by a commitment to address the issue of blended plans through legislative amendment. There are strong policy reasons to continue to surcharge customers who use credit cards to have the ability to choose the lower-cost debit card option. To remove surcharging on all cards would not achieve this goal and would only punish

¹ Prime Minister Anthony Albanese, Reducing card surcharges for Australians and small businesses, Media Release, 15 October 2024

² Treasurer Jim Chalmers, then Assistant Treasurer Stephen Jones and Assistant Minister for Competition, Charities and Treasury Andrew Leigh, all spoke to the media in support of banning surcharging on *debit* cards in October and November 2024

³ Assistant Treasurer Stephen Jones, Doorstop interview, Parliament House, Canberra, 23 November 2024

⁴ James Eysers, ACCC lacks power to break up blended payment plans, *Australian Financial Review*, 17 February 2024; Prime Minister Anthony Albanese, Reducing card surcharges for Australians and small businesses.



merchants, particularly small businesses, who lack the bargaining power of larger businesses to negotiate better deals with PSPs and acquirers.

While a ban on debit card surcharging may still lead to fees being imposed on merchants, limiting the ban to debit card payments, together with the proposed transparency requirements, may force PSPs to offer a wider range of plans and potentially drive competition in the payment platforms market.

Interchange fees

Recommendation 3: The RBA should monitor fee arrangements, including scheme fees and acquirer margins, to ensure merchants and consumers are receiving the full benefit of lower interchange fees.

The RBA expects the proposed reduction to the cap and weighted-average benchmark on interchange fees will lead to lower fees for merchants, however the overseas evidence suggests that PSPs do not pass on the savings, particularly to smaller merchants. There is also evidence that issuers respond to reductions in interchange fees by increasing other fees and charges.⁵

The EU's Interchange Fee Regulation (IFR), or Regulation 2015/751, capped debit card interchange at no more than 0.2% and credit card interchange at no more than 0.3%. The European Commission (2020) Report on the application of Regulation 2015/751 on interchange fees for card-based payment transactions found that while interchange fees declined, only about 45% of that reduction was passed on to merchants. The study found the decline in merchant fee was more substantial for businesses on unblended fee plans, which are less likely to be smaller merchants.⁶

A second study, the Interchange Fee Regulation Impact Assessment Study Report, commissioned by MasterCard, found that a substantial part of the benefits of lower interchange was retained by acquirers. It similarly found that larger merchants were more likely to benefit from fee reductions.⁷

These studies back up the concerns ASBFEO has heard from stakeholders that removing small merchants' ability to surcharge will impact them significantly. The RBA assumes that acquirers would pass on interchange fee reductions in full but provides no basis for that assumption. The ASBFEO strongly recommends the RBA monitor PSP and acquirer fees to gauge whether interchange reductions are being passed on.

Transparency of wholesale fees and scheme fees

Recommendation 4: If the RBA's regulatory expectation is not effective in reducing scheme fees, the RBA should adopt Option 3 and set a cap on scheme fees

The consultation paper acknowledges that interchange fee schedules have become more complex over time and that scheme fees sent by the international card networks are opaque and complex. The RBA proposes to require networks to publish quarterly data on interchange and scheme fees and to set a regulatory expectation for the card networks to improve the quality of their scheme fee information to reduce complexity.

While the proposed transparency requirements may lead to reduced fees and increased competition in the PSP market, the power imbalance between small business and payment

5 https://ec.europa.eu/commission/presscorner/detail/en/ip_20_1217

6 https://ec.europa.eu/commission/presscorner/detail/en/ip_20_1217

7 <https://www.edgardunn.com/reports/interchange-fee-regulation-ifr-impact-assessment-study-report>



system providers will inhibit this. The risk remains that fee reductions will not be passed on in full and that small businesses in particular will bear the brunt of ongoing card fees with no ability to cost recover through surcharges. As other stakeholders have warned, if their ability to surcharge is removed, merchants will have no choice but to increase prices, which will impact consumers, or absorb these costs placing further cost pressures on the business. This is a particularly high risk in the hospitality and food services industry which operates with tight margins and relies heavily on surcharging revenue.

The RBA acknowledges its proposed requirement for PSPs to publish merchants' average cost of acceptance is anticipated to cost PSPs and acquirers around \$25 million. It seems likely that PSPs would seek to recoup these losses through higher fees.

The ASBFEO is concerned that the RBA's proposal to set an expectation that scheme fees should not rise without clear explanation, will not have any impact without the threat of regulatory intervention. The ASBFEO recommends if the RBA's proposed approach is ineffective, it move to adopt Option 3 and set a cap on scheme fees.

Least-cost routing of debit card transactions

Recommendation 5: The RBA should adopt Option 2 and introduce a formal requirement for dynamic least-cost routing for all in-person transactions with the ability for merchants to opt out if they wish.

The RBA recommends retaining the status quo in relation to least-cost routing (LCR) whereby the RBA would continue to set expectations that providers enable LCR and pass the savings on to merchants. The ASBFEO does not consider this to be sufficient and we continue to advocate strongly for mandatory LCR as the default setting for in-person card transactions.

Despite years of encouragement for voluntary adoption, uptake remains incomplete, and many merchants still pay more than necessary simply because the lowest-cost routing option is not enabled by default.⁸ Mandating LCR with a straightforward opt-out for merchants who prefer alternative arrangements, would deliver immediate savings and help narrow the persistent fee cost gap between small and large businesses.

If you require any further information, or have any questions regarding our submission, please email the ASBFEO Policy and Advocacy team at advocacy@asbfeo.gov.au

Yours sincerely

The Hon Bruce Billson

Australian Small Business and Family Enterprise Ombudsman

⁸ Reserve Bank of Australia, *Review of merchant card payment costs and surcharging – Consultation Paper*, Reserve Bank of Australia, 2025.