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Reserve Bank of Australia (RBA)
Review of Merchant Card Payment Costs and Surcharging - August 2025

Thank you for the opportunity to provide a submission to the Reserve Bank of Australia's Review of Merchant Card Payment Costs and Surcharging ('the consultation'). Block, Inc. (ASX: SQ2) is a financial services and digital payments company that provides payment and software solutions to merchants through our brand Square, and buy now pay later services through our brand Afterpay.

Square's arrival in Australia in 2016 provided access to card payments to a whole new category of small and micro businesses. Many of these businesses had previously been underserved or entirely ignored by the incumbent banks which historically dominated the merchant acquiring market. Square's market entry has fundamentally expanded the total addressable market for digital payments and helped make the Australian acquiring market more competitive and diverse.

In this submission, we have responded to the specific questions raised by the RBA. However, it is critically important that these questions are considered in light of an overarching threshold matter: will any proposed policy changes adversely impact innovation, choice and competition in the payment system? Consistent with this, our recommendations below are framed towards:

- Reducing costs for small businesses
- Maintaining choice of payment providers for small businesses
- Promoting competition

Block appreciates the opportunity to contribute to this important consultation and looks forward to continued engagement with the RBA on these critical payment system reforms.

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.

Refer to our response to question 2 below.

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

Block supports the RBA's intent to simplify and improve the payments system by removing surcharging for both debit and credit cards. A full prohibition on surcharging (via the card schemes' mandates or legislation) is a significantly better policy outcome than a debit-only surcharge ban for all of the reasons outlined in the RBA's consultation paper. It will deliver clearer pricing for consumers, reduce the compliance burden for merchants, and lower costs for Australia's small business sector - provided it is implemented alongside meaningful wholesale cost reductions and transparency measures.

International precedent shows this approach can be effective. In the United Kingdom and across the European Union, surcharging on regulated card networks was prohibited in 2018 under the EU's Payment Services Directive 2 (PSD2). This reform was paired with strict interchange caps - 0.2% for consumer debit and 0.3% for consumer credit.

The UK and EU experience demonstrates that:

- The combination of capped interchange and competitive acquiring markets has kept merchant service fees low. The European Commission's evaluation of the Interchange Fee Regulation (IFR), effective from 2015, confirmed that the regulation achieved its main goals: consumer interchange fees fell, merchant charges declined, services improved, and consumer prices dropped.[1]
- Security and innovation were not compromised - the UK Payment Systems Regulator's review of interchange fees found no evidence that changes to fees impacted fraud prevention, efficiency, or service quality for merchants, indicating that the level of security and service was maintained under capped fee environments.[2] Similarly, the European Commission's evaluation of the IFR reported that the reforms achieved their main objectives - reducing fees and integrating markets - without identifying any adverse impact on the functioning or safety of the card payments system.[3]
- Competition can be maintained or strengthened in the acquiring market - the European Commission's 2020 evaluation of the Interchange Fee Regulation concluded that the reforms did not reduce the number of acquiring service providers and that cross-border acquiring increased, improving competitive conditions for merchants.[4] In the UK, Payments Systems Regulator data shows that the merchant acquiring market remains unconcentrated, with continued entry and growth of non-bank and fintech providers in the years following the surcharge ban.[5]

As the RBA notes, around 90% of small merchants do not surcharge today, instead

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[1] European Commission. (2021). *Interchange fees in the EU card payment market: Report card*. https://competition-policy.ec.europa.eu/system/files/2021-10/IFR_report_card_payment.pdf
[2] Payment Systems Regulator, MR22/2.7 Market Review of UK-EEA Consumer Cross-Border Interchange Fees: Final Report, published December 13, 2024, updated December 27, 2024 https://www.psr.org.uk/mr22-2-7-cross-border-interchange-fees-final-report/
[3] European Commission. (2021). *Interchange fees in the EU card payment market: Report card*. https://competition-policy.ec.europa.eu/system/files/2021-10/IFR_report_card_payment.pdf
[4] European Commission. (2021). *Interchange fees in the EU card payment market: Report card*. https://competition-policy.ec.europa.eu/system/files/2021-10/IFR_report_card_payment.pdf
[5] Payment Systems Regulator. *Market review into the supply of card-acquiring services: Final report.* Chapter 4 (3 November 2021). https://www.psr.org.uk/publications/market-reviews/mr18-1-8-card-acquiring-report-final/

absorbing card acceptance costs in their prices. These merchants - who already face higher average payment costs than large corporates - stand to benefit most from lower wholesale fees, clearer acquirer pricing, and the removal of the competitive disadvantage they face when larger merchants can negotiate strategic interchange rates. By removing surcharging in tandem with wholesale cost reductions, the RBA's package would help small businesses reduce their overall payment acceptance costs, improve price certainty, and avoid the compliance burden of complex surcharging rules.

Square's international experience is that there is limited correlation between low interchange caps and high fraud

Square operates acquiring/PSP services in the United Kingdom, Canada, the United States, Japan and Australia. These jurisdictions vary greatly in terms of interchange caps; from no regulated caps (Japan), to caps significantly lower than Australia's current caps (UK). In Square's experience the prevalence of fraud on a per transaction basis or per dollar basis has little or no correlation with interchange caps or average fees - some jurisdictions with higher interchange levels experience higher fraud rates. This suggests that the RBA's recommended cap could be achieved with limited increase in fraud risk.

Importance of blended pricing for small merchants

Block supports the RBA's recommendation to maintain simple pricing products and recognition that this innovation is both favoured by many merchants and has boosted competition between PSPs. Our experience in Australia, supported by research from The Initiatives Group (TIG), shows that simple or blended pricing models are the preferred choice for the majority of small businesses. TIG's 2024 survey of Square merchants found that 84% preferred flat-rate or bundled pricing because it provides predictability and ease of understanding - allowing merchants to focus on running their businesses rather than managing complex fee schedules. Merchants cited "easy to use", "quick to set up", "no monthly fees" and "no terminal contracts" as key reasons for choosing such models. Among non-Square small merchants, 70% also reported a preference for simple, all-inclusive fee structures. This reinforces what we have consistently observed: small merchants value knowing exactly what they will pay per transaction, without needing to manage complex fee schedules.[6]

This preference is mirrored in Europe. A 2024 EU study examining developments in card-based payment markets under the Interchange Fee Regulation found that smaller merchants often favour bundled, all-inclusive pricing structures over unblended models. Blended rates allow small businesses to more easily monitor and anticipate costs.[7]

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[6] The Initiatives Group, Australian Payments Acceptance Landscape – Market Research with Small Merchants, commissioned by Block, December 2024. Data from survey of 402 small and micro merchants in Australia (2024).

[7] European Commission: Directorate-General for Competition, Global Data Collection Company, Valdani Vicari & Associati, Hausemer, P., Patroclou, N. et al., *Study on new developments in card-based payment markets, including as regards relevant aspects of the application of the Interchange Fee Regulation – Final report*, Publications Office of the European Union, 2024, https://data.europa.eu/doi/10.2763/03803

Availability of credit
We do not agree that the proposed interchange reductions will materially impact the availability of credit. Although the value of credit card rewards is likely to reduce, this is an intended outcome, not an unintended one. This is particularly relevant for credit card products which are only sustainable because a significant portion of customers 'revolving' in credit card debt, often at very high rates of interest.

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

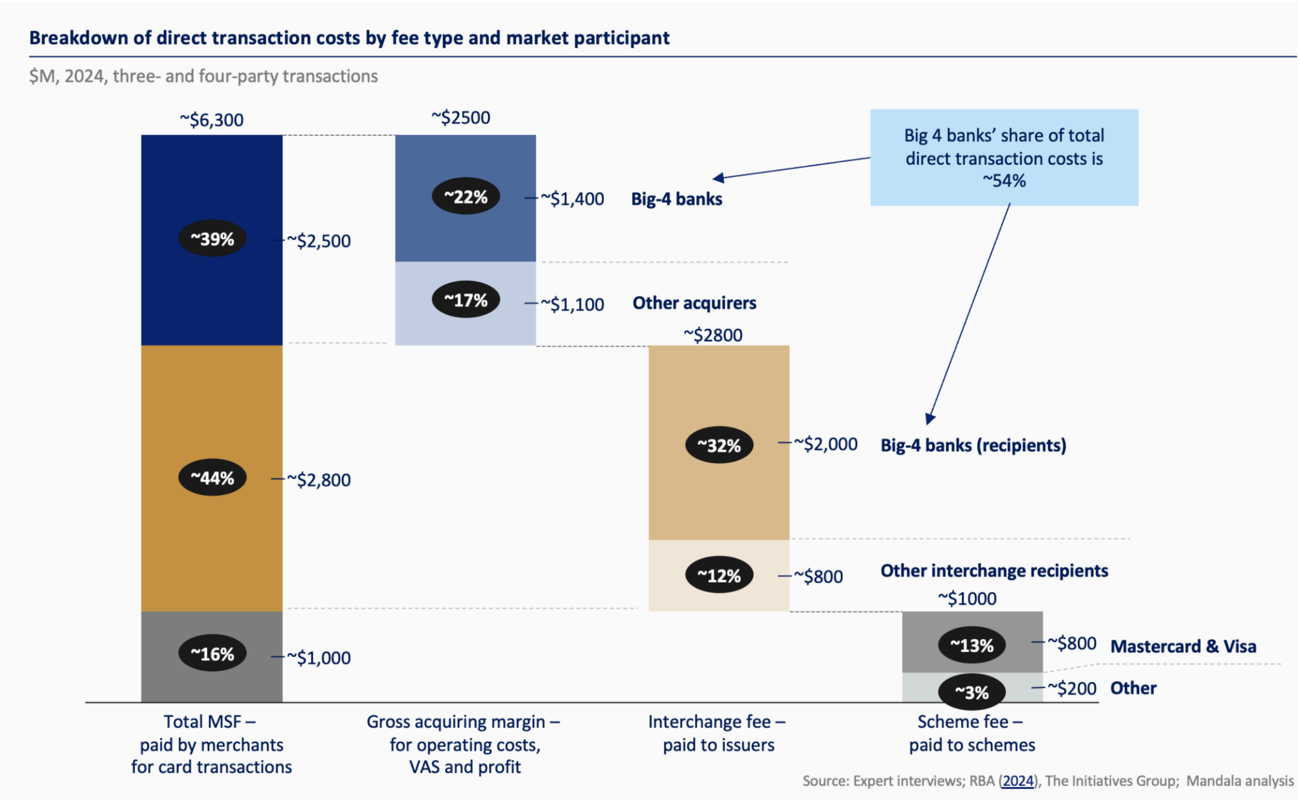
The Australian card issuing market is highly concentrated. The four largest banks hold nearly four-fifths of credit card balances[8] and more than ninety per cent of main debit accounts. The next largest issuer outside this group accounts for just over one per cent of balances, with the remainder of the market shared between credit unions, mutuals, and a handful of smaller fintech issuers[9]. A market dominated by a few incumbents limits the scope for innovation in card product design, pricing, and integration with new payment technologies.

Smaller issuers face significant disadvantages when compared with their larger peers. They incur higher effective scheme fees because rebates and discounts flow disproportionately to large incumbents, they cannot offset card issuing costs against large pools of mortgage or lending income, and they lack "on-us" transactions that can help reduce processing costs. In this context, further reductions in interchange caps would place even greater strain on small issuers. Interchange revenue is often the difference between viability and exit for these players. Reducing interchange revenue further would make standalone card issuing models commercially unsustainable, forcing consolidation into the largest banks and weakening competition at the issuing level.

Figure 1: Estimated market share of Australia's card issuing market (Cuscal, 2024[10])

[8] Based on APRA published data, which excludes American Express and other non-reporting credit card issuers.
[9] SEC Newgate Research (2023), *Retail Deposits Research – Final Summary Report*, prepared for the Australian Competition and Consumer Commission, December. Available at: https://www.accc.gov.au/system/files/SEC%20Newgate%20Research%20retail%20deposits%20research%20-%20final%20summary%20report.pdf
[10] Cuscal, 'Prospectus Initial Public Offering of Shares', 2024

Figure 2: Estimated breakdown of market share and revenue in issuing, acquiring and card schemes (Mandala, 2024[11])



Card issuing consists of fixed and variable costs with significant economies of scale and cross-subsidies. Caps for small issuers should reflect this.

The economics of card issuing are not linear. Issuers face substantial fixed costs in scheme membership, compliance, fraud prevention, technology infrastructure, marketing, and operations. These costs must be met regardless of the size of an issuer's portfolio. Variable costs, including dispute resolution, chargebacks, and scheme transaction fees, add another layer of expense. For large banks, their scale enables these costs to be spread across millions of accounts, while profits from mortgages, deposits and lending can be used to cross-subsidise card portfolios. Smaller issuers, by contrast, must rely almost entirely on interchange to cover their expenses.

Evidence from the RBA's own issuer cost study, conducted as part of this review, demonstrates that this imbalance is material. Non-major bank issuers were shown to incur debit card costs of around ten cents per transaction, significantly above the proposed six cent cap and double that of larger issues. A case study of a credit union portfolio with fewer than 150,000 debit cards illustrates the challenge. Despite charging more than $2.5 million in account-keeping and usage fees, the portfolio still ran at an annual loss of approximately half a million dollars. This loss occurred even when interchange rates were

[11] Expert Interviews; RBA (2024), The Initiatives Group, Mandala Analysis

above six cents, suggesting that under the proposed regime the portfolio would be even less viable[12].

By contrast, the Big 4 banks have access to significantly lower net scheme fees, with some estimates suggesting that smaller issuers pay up to 2.5 times more. They are therefore able to sustain card portfolios profitably even under lower interchange caps. Without a tailored exemption, small issuers would be placed at a structural disadvantage in a way that undermines the RBA's competition mandate.

A small issuer exemption could preserve competition in card issuing while significantly reducing merchant fees.

The RBA has already recognised the importance of exemptions in policy design. In the Dual Network Debit Card (DNDC) rules, smaller issuers are exempt from the requirement to issue dual-network cards, acknowledging that the compliance burden would be disproportionate for them. This has preserved competitive tension by allowing smaller issuers to continue participating in the market without bearing unsustainable costs.

A similar approach should apply to interchange regulation. A small issuer exemption would allow issuers below a defined scale threshold. This could use an expanded version of the DNDC exemption where issuers with less than 5% market share of transaction volumes would have existing interchange caps applied (rather than the new proposed caps). Other industry participants have also indicated that a number of cards on issue could be used as another, alternative threshold. To enable a fair and timely transition, a tapering of the cap could be provided to phase in the standard cap.

As outlined above, the overwhelming majority of interchange volume is generated by the major banks. This means a small issuer exemption would not materially alter the expected savings for merchants while helping smaller issuers to remain in the market, fostering innovation, consumer choice, and competitive tension against the incumbents. By pairing issuer exemptions with merchant protections, the RBA can simultaneously achieve efficiency gains and preserve competition - both of which fall squarely within its statutory mandate.

While we are aware that the RBA is concerned that current interchange levels have not resulted in a vigorously competitive issuer market in Australia, there is real benefit in maintaining current interchange levels for small issuers.

[12] The Initiatives Group, Survival of the Biggest - The Possible Demise of Small Issuers of Payment Cards, 2025

Q4: Do the proposed changes to the net compensation provisions effectively achieve the RBA's objectives and promote the public interest? Will Australian issuers sponsored by overseas entities be able to comply with the changes?

We do not have any comments to provide on the proposed changes to the net compensation provisions.

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?

We support the principle of greater transparency in the wholesale fees (i.e., scheme and processing fees) charged by card networks, as increased information flow can bolster competitive outcomes by enabling merchants and acquirers to benchmark and negotiate more effectively.

Publishing aggregate data on interchange and scheme fees can help reveal fee trends and fee-setting behaviours, particularly in markets where competitive constraints are limited. This approach has been explored in the United Kingdom, where the Payment Systems Regulator concluded that Mastercard and Visa face insufficient competition in setting scheme and processing fees, contributing to rising merchant costs without a corresponding improvement in service quality.[13]

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?

Block agrees that reducing the complexity of scheme fee schedules and improving their transparency would enhance both competitiveness and efficiency in the card payments system. Simplifying scheme fees would allow merchants and acquirers to make more informed decisions, compare offers more easily, and reduce the resources spent on negotiating and reconciling charges.

The experience of many PSPs and industry participants with the card schemes is that there is a high level of complexity and cost in relation to scheme fees. This includes:

- Scheme fees are complicated and difficult to understand. This is the case for acquirers, despite their expertise in navigating such features.
- Schemes have introduced numerous new fees in response to interchange limits and debit routing initiatives. This includes:

[13] Payment Systems Regulator (2024). *Market review of scheme and processing fees: Interim report.* May 2024.
https://www.psr.org.uk/media/pcvem3uq/interim-report-market-review-of-scheme-and-processing-fees-may-2024-publication.pdf

    - **Network location fees** (a flat fee payable for each merchant regardless of the number of payments they accept each quarter), which disproportionately impacts small merchants.
    - **Primary acquirer model**: Schemes have pressured participants to adopt a primary acquirer model to reduce acquirer processing fees. These fees, negotiated between the scheme and acquirer, remain opaque to the participant, with costs apportioned across the acquirer's merchant base.
    - **Excessive Reattempt Mandates:** Major issuers introduced mandates to curb scheme fee increases caused by merchants' multiple payment attempts.
- Schemes often offer rebates on assessment/scheme fees that are tied to spend on their own 'value added services' such as consulting and data analytics. These services are generally of less value to small merchants and often cannot directly be passed along in the form of lower merchant fees or service improvements.

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

Refer to our response to question 6 above.

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?

Refer to our response to question 6 above.

Q9: Does the proposed requirement for acquirers to publish their merchants' cost of acceptance enhance competition and efficiency by helping merchants search for a better plan? In particular, the RBA welcomes feedback on:

- **whether the size threshold for acquirers is appropriate**
- **whether the category breakdowns (merchant size and card type) are likely to be useful to merchants without compromising commercial sensitivity**
- **whether the quarterly frequency of publication is appropriate what an appropriate implementation timeline would be.**

We support the principle of greater transparency in merchant service fees where it genuinely enhances competition and efficiency. However, the proposed framework should be refined to ensure it is proportionate, meaningful to merchants, and does not create unintended consequences.

1. Size threshold for acquirers

The proposed $10 billion annual transaction threshold (~1% market share) is too low. At this level, a large number of smaller, highly competitive acquirers would be drawn into the reporting net, adding compliance costs without material market benefit. We recommend the threshold be lifted substantially - e.g. 5% market share - to focus on the more dominant incumbents, consistent with the RBA's stated concern about the "big four" acquirers' market power. This would reduce administrative burden for smaller providers.

If the transparency measures prove effective in driving merchant switching and competitive pricing in the market, the framework could then be rolled out more broadly. However, there is little justification for applying it to small, low-market-share providers before the effectiveness of the measure has been tested in practice given the resource constraints of these smaller market participants.

This staged approach reduces administrative burden for smaller providers, while still targeting the segment of the market where transparency is most likely to produce competitive pressure.

2. Definition of cost of acceptance

The "average cost of acceptance" must be clearly and consistently defined, including all applicable fees - interchange, scheme fees and acquirer margin - so that published figures reflect the true cost to merchants. This avoids the risk of selective disclosure and ensures merchants can make apples-to-apples comparisons.

3. Merchant size categories

We recommend aligning the merchant size definitions with the Australian Tax Office (ATO) thresholds. The ATO defines a small business entity as one that has turnover of less than $10 million, a medium business entity as one that has a turnover between $10 million and $250 million and a large business entity as one that has turnover over $250 million. This will:

- Avoid skewing averages with outlier cost structures.
- Reduce privacy risks for very small cohorts.
- Better reflect how merchants segment the market commercially.
- Not introduce another regulatory definition of a small business.

We also recommend adding a "large merchant" category to align with ATO definitions - omitting this group makes it harder to see the full market cost distribution and masks the scale of discounts obtained by major retailers.

4. Frequency of publication

Quarterly publication is excessive and adds cost without materially improving market function. Annual reporting, supplemented by ad-hoc updates where significant changes occur, would be sufficient for merchants to benchmark and compare acquirers. This aligns with the slow pace of most acquiring contract changes.

5. Square's Simple Pricing Model

Square's business model differs materially from many incumbents. We offer micro and small businesses a single transparent price per transaction, with no hidden fees, terminal rental charges, or complex bundles.

- Transparency is already built in: Merchants know exactly what they pay, and this is a key part of Square's value proposition.

- Limited additional benefit: Requiring Square to publish average cost of acceptance rates adds little incremental transparency for merchants, who already receive simple, all-inclusive pricing.
- Risk of confusion: For acquirers offering simple pricing, publishing "average" cost of acceptance data could obscure rather than illuminate, since Square's published fee would already reflect the maximum price merchants face.

6. Behavioural Economics Considerations
Research in behavioural economics consistently shows that disclosure alone rarely delivers meaningful consumer (or small merchant) benefit:

- Complexity discourages use: Small merchants often lack the time, resources, or expertise to interpret cost disclosures, particularly when pricing models vary significantly across providers.
- Information overload: Rather than enabling switching, too much technical information risks increasing inertia.
- Value of simplicity: Evidence from payments and other markets shows that simple, predictable pricing is more effective at driving competitive outcomes than complex disclosure regimes.

In practice, requiring publication of average cost of acceptance data may not significantly increase merchant switching – especially for micro-merchants who prioritise certainty and ease over marginal fee differences.

Q10: Does the proposal to amend the cost of acceptance reporting on merchant statements to include a breakdown for domestic and international cards promote competition by helping merchants receive more information about the fees they pay? Is there a public interest case to exempt taxi fares from this requirement?

Square's pricing model is designed to provide small businesses with simplicity and transparency. All merchants can access real-time, transaction-level data and detailed cost reporting through their Square dashboard. For the majority of small merchants Square serves, simplicity and certainty in pricing is valued over additional complexity in statements.

We are not convinced that mandating further breakdowns of domestic versus international card fees on merchant statements will materially improve competition. Merchants that require detailed reporting already have access to these insights through existing PSP tools, while most small businesses prefer clarity over complexity.

We have no specific view on whether taxi fares should be exempted from this requirement.

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?

Square has enabled Least Cost Routing (LCR) for 100% of our merchants. As such, we do not have specific recommendations for changes to the RBA's existing industry expectations, which we consider are working effectively.

As the Consultation Paper and previous RBA papers note, in a competitive PSP market the benefits of LCR are passed on to merchants regardless of what pricing plan they choose. PSPs offering simple or blended pricing models negotiate directly with the card schemes to route payments via the lowest cost rails. While this may not be evident to the merchant on a per transaction basis, it reduces overall costs and delivers greater competition between card schemes - the key objectives of LCR policy. This dynamic, combined with broader competition reforms being proposed, supports the RBA's recommendation of maintaining existing LCR expectations.

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 RBA should consider before finalising its decision?

Block recommends the following in relation to the PSB's preferred package:

1. That the RBA proceed with allowing a full prohibition on surcharging, delivered in tandem with the proposed changes to interchange regulation.
2. That the existing interchange regime be maintained for smaller issuers to preserve competition in card issuing. We recommend the development of a threshold definition for small issuers that considers metrics such as market share of transaction volume, card numbers or asset base.
3. Specifically on the proposed requirements relating to merchant service fee transparency:
    a. the acquirer size threshold should be lifted;
    b. the definition of 'cost of acceptance' should encompass all costs;
    c. merchant size categories should be aligned with ATO definitions (or other existing definitions) I;
    d. the proposed reporting frequency should be reduced to reflect market conditions and the risk of a disproportionate compliance burden;
    e. testing of whether disclosure is achieving its intended effect should be performed before expanding requirements to smaller entities.

Q13: What is your feedback on the proposed implementation timeline for these reforms?

Block has no concerns with the proposed implementation timeline.

Q14: Do the draft standards in Appendix D achieve the intended policy objectives? Are there factors that have not been properly addressed or considered in the drafting of the proposed standards?

Block supports the principle of greater transparency in merchant service fees where it improves competition and efficiency. However, we are concerned that Section 5 of the draft Standard No. 3 may inadvertently impose disclosure requirements that are not fit-for-purpose for acquirers offering simple or blended pricing models. The requirement to report and publish average cost of acceptance across multiple categories (domestic debit, domestic credit, international debit, international credit, and scheme totals) does not appear to reflect alternative pricing models, such as blended pricing.

Requiring acquirers that offer simple or blended pricing plans to publish disaggregated averages could create confusion for small business merchants, who have deliberately chosen simple, transparent pricing in preference to complex breakdowns. It would also create a divergence between the "average COA" reported under the Standard and the actual simple rates that these merchants pay, particularly where custom pricing applies. We recommend that the RBA explicitly recognise blended pricing models within the final Standards and provide a mechanism for PSPs to disclose their simple rate in lieu of complex average breakdowns, ensuring transparency requirements do not undermine the clarity and simplicity that small merchants value most.