Digital Economy Council of Australia

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Submission to Reserve Bank of Australia

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Response to the Review of Merchant Card Payment Costs and Surcharging

About the Digital Economy Council of Australia (DECA)

The Digital Economy Council of Australia (DECA) is the peak industry body representing Australian businesses and professionals driving innovation in the digital economy through the use of blockchain technology, tokenised assets, and digital assets. DECA advocates for responsible adoption and regulation of these technologies, working closely with government and industry to ensure Australia remains a global leader in innovation and economic growth.

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Consultation Responses – RBA Review of Merchant Card Payment Costs and Surcharging

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, are there additional public interest considerations that should be taken into account for each policy option?*

From DECA's perspective, removing surcharging risks reducing transparency and distorting competition. The Productivity Commission has previously emphasised that transparent pricing supports consumer choice and competitive discipline.[1] Allowing merchants to surcharge, within cost-reflective limits, ensures that cardholders are aware of the costs imposed by their chosen network. This is especially important for smaller merchants who often face higher acceptance costs and limited bargaining power.

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

Lowering interchange caps promotes efficiency by addressing distortions in payment costs. The RBA's 2016 Review of Card Payments Regulation found that tighter interchange regulation improved competition by constraining excessive fee-setting.[2] However, DECA notes that smaller issuers, including new entrants leveraging digital infrastructure, may rely on interchange to sustain viability. To balance efficiency with innovation, regulatory design should ensure proportionate compliance and encourage competition from emerging technologies such as blockchain-based settlement.[3]

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

Smaller issuers face disproportionately high compliance and technology costs. The ACCC has recognised that economies of scale create barriers to entry in payments markets.[4] DECA recommends that the RBA provide transitional arrangements or innovation support to ensure smaller issuers and fintech entrants can remain competitive. This will help sustain diversity and innovation in the payments system.

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[1] Productivity Commission, *Competition in the Australian Financial System* (2018).
[2] Reserve Bank of Australia, Review of Card Payments Regulation (2016).
[3] OECD, Blockchain Technologies as a Digital Enabler for Sustainable Infrastructure (2020).
[4] ACCC, Digital Platforms Inquiry (2019).

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?*

The changes strengthen protections against circumvention, consistent with the objectives outlined in the RBA's Payments System Board Annual Report 2023.[5] However, compliance may be more complex for issuers sponsored by overseas entities due to divergent regulatory frameworks. DECA recommends that the RBA provide clear transitional guidance and consider harmonisation with international standards such as the EU's Interchange Fee Regulation to facilitate compliance.

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?*

Publishing aggregate wholesale fee data increases transparency and supports informed decision-making, consistent with findings of the OECD's 2020 study on digital competition.[6] If published in standardised formats, this measure can support competitive neutrality without exposing commercially sensitive information.

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?*

Yes. The 2023 Treasury Strategic Plan for the Payments System noted that complexity and opacity in pricing arrangements impede merchant choice.[7] Simplified fee schedules will enhance efficiency, particularly for smaller merchants who lack the resources to negotiate bespoke arrangements.

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

Expectations on transparency are valuable, but without enforceability they may have limited effect. Past reviews, including the ACCC's Foreign Currency Conversion Services Inquiry, have shown that voluntary transparency measures often fall short in addressing

[5] Reserve Bank of Australia, Payments System Board Annual Report (2023).
[6] OECD, Digital Disruption in Financial Markets (2020).
[7] Treasury, Strategic Plan for the Payments System (2023).

entrenched market practices.[8] The RBA should therefore consider complementing expectations with published benchmarks to ensure accountability.

Q8. *Should the Payments System Board consider further regulatory measures in relation to the level of scheme fees to promote competition and efficiency in the payments system?*

Yes. While current proposals promote transparency, the PSB should retain flexibility to directly regulate scheme fees if voluntary measures fail. This is consistent with the graduated regulatory approach applied in the Consumer Data Right framework, where oversight escalates if voluntary industry alignment does not deliver public benefits.[9]

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?*

Yes. Transparency in cost of acceptance enables merchants to compare acquirers, consistent with the recommendations of the Productivity Commission on improving market contestability.[10] The proposed size thresholds and quarterly reporting frequency are proportionate. DECA recommends implementation within 12 to 18 months to balance industry readiness with timely benefits.

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?*

Yes. Greater disaggregation supports competition by helping merchants understand cross-border fee differentials. The ACCC has highlighted the importance of clear disclosure in ensuring fair treatment of small business customers.[11] Exemptions for taxi fares would undermine consistency and fairness, so DECA does not support sector-specific carve-outs.

[8] ACCC, Foreign Currency Conversion Services Inquiry (2019).
[9] Treasury, Consumer Data Right: Future Directions (2020).
[10] Productivity Commission, Competition in the Australian Financial System (2018).
[11] ACCC, Small Business in Focus Report (2021).

Q11. *Are there any changes that should be made to the RBA's existing industry expectation on least-cost routing (LCR) implementation to improve competition and efficiency in the debit card market?*

Yes. DECA supports strengthening the expectation by making LCR a default opt-out setting across all acquirers. This is consistent with Treasury's 2022 report on promoting competition in debit card routing, which highlighted that inconsistent implementation limited efficiency gains.[12]

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?*

Overall, the preferred package meets its objectives. However, DECA recommends stronger measures to address scheme fee transparency and mandatory default LCR to enhance competition. The package should also consider the role of blockchain-based payment infrastructures and tokenised settlement systems, which can deliver significant efficiency improvements in the medium term.[13]

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

A staged implementation over 18 to 24 months is appropriate. DECA recommends prioritising reforms that deliver immediate benefits, such as cost of acceptance reporting and LCR, followed by more complex changes like interchange adjustments. This aligns with RBA practice in previous regulatory reforms, which have adopted staggered timelines.[14]

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?*

The draft standards broadly achieve their objectives but would benefit from clearer definitions and reporting templates to reduce compliance ambiguity. Flexibility should be built

[12] Treasury, Promoting Competition in Debit Card Routing (2022).
[13] World Economic Forum, Digital Assets and the Future of Finance (2021).
[14] Reserve Bank of Australia, Review of Card Payments Regulation (2016).

in to account for innovations such as stablecoin-based settlement, ensuring the standards remain technology-neutral and forward-looking. This approach is consistent with the Council of Financial Regulators' emphasis on regulatory flexibility in emerging payment technologies.[15]

[15] Council of Financial Regulators, Quarterly Statement on Financial Stability Risks (2022).