9 September 2025

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

By email: pysubmissions@rba.gov.au

Dear Mr Connolly,

RE: Review of Merchant Card Payment Costs and Surcharging

Introduction

FinTech Australia and the Small Business Association of Australia welcome the opportunity to provide feedback on the RBA's Review of Merchant Card Payment Costs and Surcharging (**consultation paper**). We also wish to acknowledge the support and contribution of *K&L Gates* to the topics explored and developed in this submission.

About FinTech Australia

FinTech Australia is the peak industry body representing the Australian financial technology sector, with a membership of more than 400 companies and startups nationwide. Our members span the full breadth of the fintech ecosystem, including payments, consumer and business lending, artificial intelligence, wealthtech, regtech, neobanking, open banking, cryptocurrency, blockchain, DeFi, and Web3. The fintech industry delivers a wide range of business-to-business and business-to-consumer financial products and services that support the smooth operation of the Australian economy.

Our vision is to position Australia as one of the world's leading markets for fintech innovation and investment. This submission has been compiled by FinTech Australia and its members in an effort to advance public debate and drive cultural, policy and regulatory change toward realising this vision, for the benefit of the Australian public.

FinTech Australia would like to recognise the support of our policy partners, who assist in the development of our submissions:

- Allens;
- Ashurst
- DLA Piper;
- Gadens;
- King & Wood Mallesons; and
- K&L Gates.

About the Small Business Association of Australia

The Small Business Association of Australia (**SBAA**) provides the Support, Advice, Opportunity, and Advocacy that micro, small, and medium-sized businesses need to thrive—right across Australia. A true trailblazer in the sector, the SBAA leads the way by adapting to an ever-changing global economy, ensuring Australian businesses stay competitive, connected, and resilient.

As well as being the voice of micro, small and medium businesses, advocating for their rights and bringing critical issues to the attention of federal and state governments and regulators, the SBAA also offers its members access to a range of high-quality programs, services, and trade missions—giving them the best chance to grow, compete, and succeed.

Executive summary

FinTech Australia and the SBAA welcome the RBA's continued focus on ensuring that the regulatory framework for merchant card payment costs and surcharging remains effective, proportionate, and responsive to market developments. We commend the RBA's commitment to evidence-based policymaking and its stated objective of promoting a payments system that is efficient, competitive, and secure.

Our members, many of whom sit across the payments value chain, observe both opportunities and risks in the consultation paper. While we support the RBA's objectives under the *Payment Systems (Regulation) Act 1998* (**PSRA**) – to promote efficiency, competition, financial safety, and to minimise systemic risk – we are concerned that aspects of the proposed reforms, particularly the significant reductions to domestic interchange caps, may in practice undermine these very goals.

Specifically, we see three key risks:

- **Reduced competition and innovation:** Smaller issuers, including innovative fintechs, are disproportionately reliant on interchange revenues and have limited capacity to cross-subsidise losses. Without a viable interchange framework, new entrants may be deterred, and existing small issuers may be forced to exit the market or adjust their products. This would entrench the dominance of larger incumbents, diminish competitive tension and remove a key driver of innovation.
- **Barriers to entry and investment:** Interchange revenues are critical for offsetting the fixed costs of entry, including compliance, fraud prevention, and technology development. Lower caps risk creating insurmountable barriers for new entrants, stifling innovation and reducing product diversity.
- **System resilience and security:** Sustained investment in cybersecurity, fraud prevention, and operational resilience requires a stable revenue base. A sharp reduction in interchange would constrain the ability of smaller issuers to make these investments at a time when threats are escalating.

To address these concerns while supporting the Bank's objectives, we propose the introduction of a small issuer exemption. This targeted and proportionate measure would:

- Allow smaller issuers to remain subject to the existing interchange caps rather than the reduced levels proposed;
- Maintain competitive pressure in the issuing market, ensuring that new entrants and fintechs can continue to drive innovation and improve consumer outcomes;
- Be consistent with international practice, where many regulators in comparable jurisdictions have taken more nuanced approaches; and
- Align with the Government's *Statement of Expectations to the Payments System Board*, which emphasises the removal of barriers to entry and the importance of graduated regulation to support innovation.

We believe this exemption offers a pragmatic solution that balances the RBA's desire to lower merchant costs with the need to sustain competition, innovation, and resilience across the payments system.

In addition, we recommend that:

- The transition period for surcharging reforms be extended by 12 months to ease the impact on small merchants;
- More targeted transparency measures be introduced around scheme fees and acquirer pricing to ensure that competition is not eroded further upstream; and
- The RBA undertake a competition impact assessment prior to finalising reforms, particularly given the expansion of its jurisdiction by the *Treasury Laws Amendment (Payments System Modernisation) Act 2025*.

Taken together, our recommendations aim to ensure that the RBA's reforms are firmly anchored in the statutory objectives of the PSRA. By supporting small issuers, enhancing transparency, and safeguarding competition, Australia's payments system can continue to serve the public interest in a manner that is efficient, secure, and innovation-friendly.

Annexures

At Annexure A to this submission, we enclose a whitepaper prepared by *The Initiatives Group*, which explores the impact of the RBA's proposed interchange cuts on small issuers (**Whitepaper**). At Annexure B, we enclose the results of a study undertaken by Mandala, which primarily relates to acquirers as well as the impact of surcharging reforms on merchants (**Mandala Report**).

Next steps

FinTech Australia and the SBAA appreciate the opportunity to contribute to this consultation and look forward to continued engagement with the RBA. We would welcome the opportunity to meet with you or your team to discuss merchant payments in more detail and explore how we can work together to help ensure that reforms to Australia's payments system protect small issuers while also enhancing competition and efficiency across the payments system.

To arrange a meeting, please contact Jack Morgan, Director of Policy at policy@fintechaustralia.org.au.

Yours sincerely

Rehan D'Almeida
CEO
FinTech Australia

Anne Nalder
CEO
Small Business Association of Australia

Review of Merchant Card Payment Costs and Surcharging – Issues Paper

September 2025

List of recommendations

FinTech Australia and the SBAA recommend:

1. That the RBA undertake a competition impact assessment prior to proceeding with its proposed reforms.
2. That the RBA provide greater transparency and certainty regarding its likely regulatory approach now that the Treasury Laws Amendment (Payments System Modernisation) Act 2025 has been passed.
3. That the RBA extend the implementation of the surcharging ban by an additional 12 months.
4. That the RBA investigate means to ameliorate the impact of a ban on surcharging on bill payment service providers.
5. That the RBA delay the commencement of its proposed new approach to interchange rates by 12 months.
6. That the RBA investigate options to collect additional empirical evidence about the state of the issuing market.
7. That the RBA create a small issuer exemption to its proposed domestic credit and debit interchange reductions.
8. That any small issuer exemption should be simple and not susceptible to misuse.
9. That any small issuer exemption should be reviewed in the course of the next RBA review of the card payments system.
10. That the RBA reconsider the application of its proposed interchange caps to commercial cards.
11. That the RBA place clearer expectations on card schemes.
12. That the RBA revise its small business definition for acquirer transparency.
13. That in developing transparency initiatives for acquirer pricing, the RBA should ensure like-for-like comparisons and ensure the data which is released also gives insight into the value being offered by each acquirer.
14. That the RBA mandate the use of opt-out least cost routing.

Submission

Introduction

FinTech Australia and the SBAA welcome the RBA's continued focus on ensuring that the regulatory framework underpinning merchant card payment costs and surcharging remains appropriate, effective, and responsive to market developments. We also commend the RBA's commitment to evidence-based regulatory decision-making.

Our members, many of whom operate across the payments value chain – connecting merchants, consumers, and schemes through both acquiring and issuing – are well positioned to offer insights into the practical impact of current and proposed regulatory settings. From this vantage point, they observe both opportunities and risks in the approaches outlined in the consultation paper.

Members are deeply committed to fostering a payments system that is competitive, efficient, and secure. However, many fintechs in particular are concerned that some of the proposals – particularly significant reductions to domestic credit and debit card interchange fees – may unintentionally compromise these objectives. Such changes risk limiting merchant and consumer choice, dampening innovation, and ultimately affecting outcomes at the checkout for consumers and merchants alike. Over time, these impacts may also weaken the overall resilience of the payments system.

We recognise the complexity of the trade-offs involved in this debate, especially the challenge of balancing the interests of consumers, merchants, fintechs, and traditional financial institutions. In light of this, we are pleased to put forward constructive solutions – such as a model for a small issuer exemption to the proposed interchange reforms – which we believe can preserve healthy competition and innovation while supporting the RBA's policy objectives.

We also note section 18 of the PSRA requires the Bank to be satisfied that any standard it sets is in the public interest. Section 8 of the PSRA indicates that in determining what is in the public interest, the Bank should consider factors including:[1]

- financially safety;
- efficiency;
- competition; and
- not materially contributing to systemic financial risk.

[1] Payment Systems (Regulation) Act 1998, s 8.

These principles provide a helpful foundation for assessing the Bank's proposed reforms. We offer our feedback in the spirit of constructive engagement and in support of the RBA's statutory mandate. We remain committed to working collaboratively to ensure that Australia's payments system continues to serve the public interest in a way that is forward-looking, proportionate, and conducive to innovation.

The contribution of fintechs to the payments system

Since the RBA first introduced surcharging regulations over two decades ago, the payments landscape has evolved significantly – driven in large part by the rise of fintech companies. Today, financial technology plays a pivotal role in fostering innovation, increasing competition, and lowering costs in the payments system. Payment service providers (**PSPs**) are now the largest fintech segment in Australia, with the latest EY FinTech Australia Census reporting that approximately one-third of Australian fintechs operate in the payments sector.[2]

The entry of fintechs has introduced much-needed dynamism into the sector, giving rise to diverse and innovative business models. These include PayID-based solutions leveraging the New Payments Platform (**NPP**), fintechs improving access to cross-border payments, and PSPs offering differentiated pricing and service models tailored to small and medium-sized businesses. These providers are also enhancing the overall payment experience through superior technology, customer service, and product design.

As RBA Assistant Governor Brad Jones noted in remarks at the Australian Payments Network summit, Australians increasingly expect their payments to be "convenient, reliable and represent value for money." Mr Jones further articulated a vision for a payments system that is:

> "a hotbed of innovation and competitive tension, driving efficiency up and costs down. And we want to see a payments system that is safe and resilient – one that Australians can rely on."[3]

Fintech innovation is instrumental in realising this vision. By enabling a more inclusive, competitive, and agile payments ecosystem, fintechs help deliver on these expectations for both consumers and businesses.

[2] EY FinTech Australia Fintech Census 2023.
[3] Brad Jones (12 December 2024) AusPayNet Summit 2024: The Future of the Payments System.

In the card payments segment specifically, fintechs have advanced financial inclusion by enabling small and micro businesses – many previously underserved or excluded – to accept card payments. Simple, transparent, and predictable pricing models, such as blended rates offered by many PSPs, have proven especially attractive to these businesses. In addition to cost benefits, PSPs provide access to services that traditional issuer-acquirers typically do not, such as software-based acceptance (e.g. mobile ePOS) and instant digital onboarding and account setup (see Figure 1).

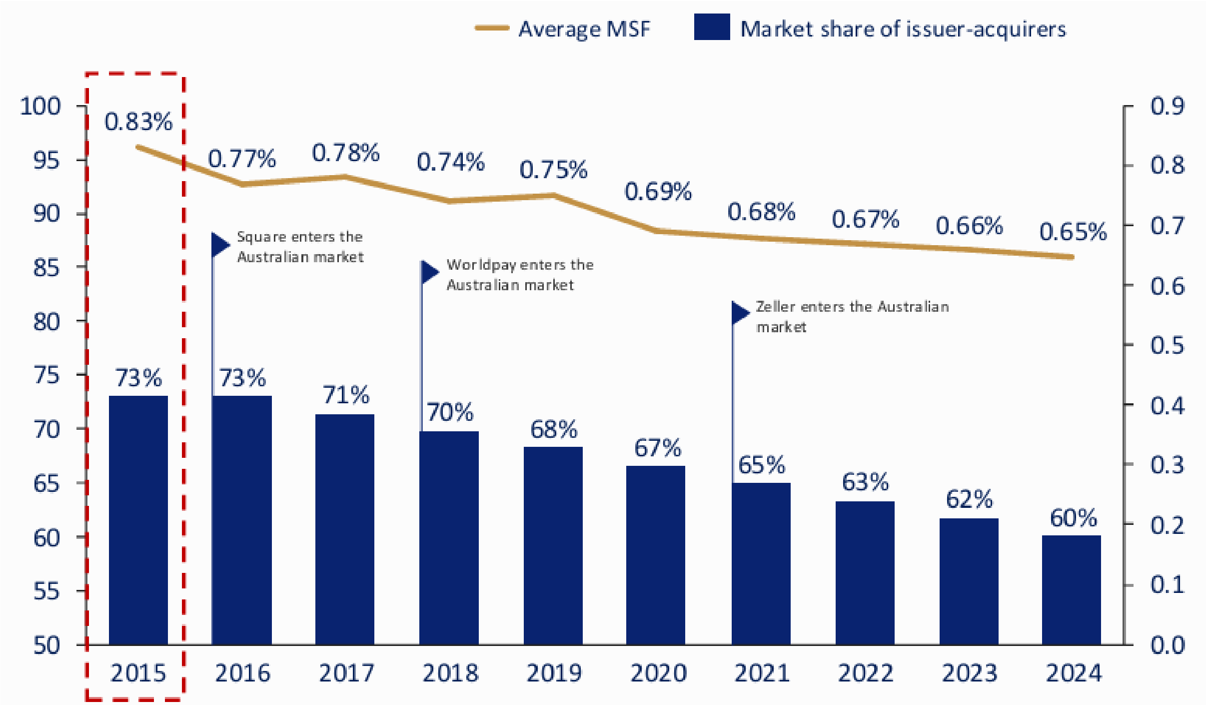
Figure 1 - Services offered by fintech PSPs that generally are not offered by issuer-acquirers.

Payment and payment-related service offerings		Fintech PSP	Acquirers
Payment services	Low, fixed cost payment model	✓	✓
	Flexible pricing model options	✓	✓
	Master merchant aggregation	✓	✗
	Cross-channel payment solutions	✓	✓
	Comprehensive payment method acceptance	✓	✓
	One-click checkout, and card-on-file services	✓	✗
Payment-related and customer services	Customer support 7 days a week	✓	✓
	Instant, free digital onboarding and account setup	✓	✗
	Software-based acceptance (e.g., mobile ePOS)	✓	✗
	Digital invoice generation and delivery	✓	✗
	Streamlined refund and dispute handling	✓	✓
	Business analytics and reporting dashboard	✓	✓
	Digital servicing	✓	✗
	Customer insights, analytics and reporting	✓	✗
	Merchant loyalty and rewards program management	✓	✗
	Business software integration capabilities	✓	✗

Source: Mandala Report at Annexure B.

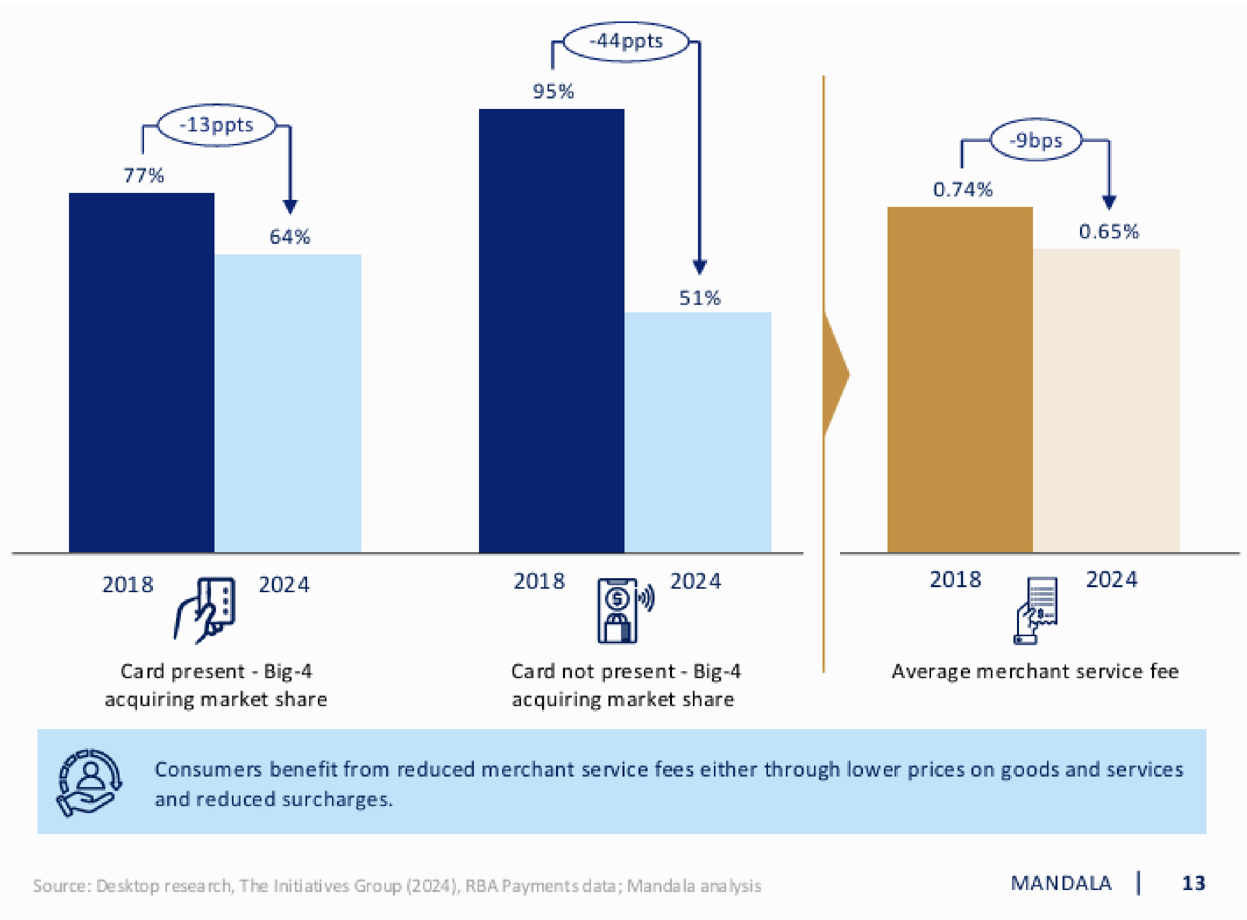
Empirical evidence shows that new fintech entrants have intensified competition in the PSP market, helping to reduce average merchant service fees and improving outcomes for both merchants and consumers. As a result, merchants have enjoyed more competitive pricing and better service offerings, while consumers have benefited from lower retail prices and reduced surcharges (see Figures 2 and 3).

Figure 2 - Changing market conditions as newer FinTech PSPs enter the market.



Mandala Report at Annexure B

Figure 3 – Market share of major banks in the acquiring market and Merchant Service Fees



Source: Mandala Report at Annexure B

The impact has been substantial. The market share of traditional issuer-acquirers has declined materially, and average merchant service fees have fallen (see Figures 2 and 3). These shifts underscore the critical role fintech PSPs play in maintaining a competitive and diverse acquiring landscape. Ensuring that this part of the market remains open, vibrant, and innovation-friendly should be a central consideration in any future regulatory reforms.

Need for certainty

FinTech Australia and the SBAA note the recent passage of the *Treasury Laws Amendment (Payments System Modernisation) Act 2025*. This significant reform to the PSRA would expand the RBA's regulatory remit to encompass previously unregulated components of the payments ecosystem, including digital wallets, buy now pay later providers, payment facilitators, and payment gateways.

As highlighted by the Australian Payments Network:

> "While this Review focuses on card payment costs and surcharging, [the reforms] could affect competition with emerging payment methods that are currently outside the regulatory perimeter. [...] This fragmented approach could undermine the RBA's statutory objectives of promoting competition and efficiency in the payments system."[4]

Some of our members have expressed concern that the RBA is consulting on potentially far-reaching reforms to areas currently within its regulatory jurisdiction, without parallel consideration of how these changes might interact with emerging segments that are soon to be included within the perimeter. This is likely to create an uneven playing field: presently regulated entities may face new constraints while their competitors operate without equivalent oversight.

In this context, some members are concerned that there is a risk some fintechs may be compelled to make strategic business decisions based on incomplete or uncertain information regarding future regulatory treatment of unregulated players. This is exacerbated by the new potential for disallowance of legislative instruments made under the PSRA Act. We respectfully submit that a more coordinated and holistic approach – especially in light of the legislative changes – would help ensure a fair, innovation-friendly and competitive payments landscape.

We therefore reiterate a proposal from FinTech Australia's previous submission that the RBA undertake a competition impact assessment prior to enacting its proposed reforms.

Recommendation 1. That the RBA undertake a competition impact assessment prior to proceeding with its proposed reforms.

Recommendation 2. That the RBA provide greater transparency and certainty regarding its likely regulatory approach now that the Treasury Laws Amendment (Payments System Modernisation) Act 2025 has been passed.

[4] Submission by the Australian Payments Network (3 December 2024) RBA Review of Merchant Card Payment Costs and Surcharging, p 2.

Overarching comments

In addition to the statutory criteria set out in the PSRA – namely that the public interest encompasses efficiency, competition, financial safety, and reducing systemic risk – FinTech Australia and the SBAA wish to highlight concerns that some of the Bank's proposed reforms (especially in relation to interchange) may, in practice, work against these objectives. Specifically, we are concerned that aspects of some reforms could increase risks to the financial system, reduce competition, and diminish both technical and dynamic efficiency in the long term.

To properly frame these concerns, it is important to recall the broader policy intent and guidance that has long shaped regulation of Australia's payments system:

- **Competition.** The Government's *Statement of Expectations* to the Payments System Board makes clear that competition is a central policy priority:

  > "In addition to payments system safety and stability, the PSB has specific statutory responsibility and powers to promote efficiency and competition in the payments system. The Government therefore expects the PSB to conduct itself and set policy in a way that demonstrates a strong commitment to the development of an efficient and competitive payments system. In that regard, **the PSB's regulatory focus should be directed towards removing barriers to entry and ensuring that all current and potential providers of payments services are able to compete on a level playing field**. […] **the Government's strong expectation is that the PSB create a regulatory environment in which the payments system is allowed, where appropriate, to self-adapt to innovation and change**."[5] (emphasis added)

- **Efficiency.** The Government's *Strategic Plan for Australia's Payments System* further underscores that efficiency is not simply about cost, but about enabling innovation and responsiveness:

  > "An efficient system is one in which competitive pressures drive down payment costs. Efficiency in payment systems is productivity enhancing as it empowers industry to allocating resources effectively to innovate, and respond to new developments and changing consumer preferences. An efficient payments system provides end-users with certainty by ensuring payments are made and received in a

[5] Statement of Expectations to the Payments System Board (June 2018), paras 9 and 13.

> timely, seamless, and predictable manner, with users appropriately informed about where their payment is going, when it will arrive and the associated costs."[6]

The RBA itself has also articulated a three-part framework for efficiency:

> "In promoting the efficiency of the payments system, the Bank focuses on three things:
> - technical efficiency – can processes be improved to reduce costs or **improve the quality of the product**?
> - allocative efficiency – are resources being allocated in the most efficient way across the payments system as a whole?
> - dynamic efficiency – **do processes, products and the allocation of resources adjust over time**?"[7] (emphasis added)

- **Safety and financial stability**. The Government's *Strategic Plan for Australia's Payments System* also highlights the importance of stability, linking it directly with competition and innovation:

> "The Government's vision is for the PSB to be a strong and transparent regulator that safeguards the stability of critical payments infrastructure whilst facilitating a highly competitive and efficient payments system, where participants operate on a level playing field and are able to rapidly adopt new technologies."[8]

- **Innovation.** Finally, the PSRA's explanatory memorandum makes clear that Parliament intended to expand market access and encourage new entrants:

> "Users of payment instruments and services will receive the benefits that competition, or the threat of competition, would bring in terms of service costs, choice and quality [...] Technology and other developments are providing a new range of participants, many from outside the financial services industry, with the capacity to play an active role in the provision of financial services. [...] Non-traditional participants will benefit from greater access to the payments system on more reasonable terms and conditions."[9]

[6] Australian Government (7 June 2023), A Strategic Plan for Australia's Payments System, p 10.
[7] RBA Approach to Regulation, accessed 26 August 2025.
[8] Statement of Expectations to the Payments System Board (June 2018), para 26.
[9] Payment Systems (Regulation) Bill 1998 Explanatory Memorandum, p 8.

Taken together, these guiding statements highlight that reforms to the payments system should not only safeguard stability and security, but also actively promote innovation and enhance competition. It is with these principles in mind that FinTech Australia and the SBAA offer this submission.

Comments on specific consultation questions

Surcharging

1. ***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.***

According to the Mandala Report at Annexure B, 36% of merchants with an annual turnover below $1 million currently engage in surcharging. Across Australia, this represents approximately 100,000 businesses. The impact of a surcharge ban would be particularly acute in service-based industries such as hospitality, hair and beauty, automotive, and food services – sectors where surcharging is common, margins are thin, and employee costs are high.

The Mandala Report further indicates that 44% of small merchants would increase prices in response to a surcharge ban. Importantly, these increases are likely to exceed the original surcharge amounts due to pricing psychology (eg a $5 coffee becoming $5.25 rather than $5.06).[10] As such, we consider that the proposal to ban surcharging may not deliver the full consumer benefits anticipated in the consultation paper.

There are a range of views across our members on the proposed surcharge ban. Many small merchants are concerned about the impact of the ban on their business models.

Many of our members have raised concerns about a blanket surcharge ban applying to all merchants, across all card types. Some members are concerned that a blanket surcharge ban across all merchants and all card types may work against the RBA's objectives by undermining competition, innovation, and merchant choice. A complete ban may disproportionately disadvantage smaller acquirers, who sometimes depend on merchants' ability to surcharge to remain competitive. Unlike smaller entrants, larger acquirers – including the major banks – are more likely to absorb losses in their acquiring business by cross-subsidising from other business lines. For example, the

[10] Mandala (December 2024) Report prepared for FinTech Australia (see Annexure B), Unit Economics, Competition and Surcharging Analysis, p 19.

Commonwealth Bank has publicly stated that its acquiring business operates at a loss.[11] Removing surcharging could therefore create higher barriers to entry in the acquiring market, limiting opportunities for new and early-stage acquirers to compete, particularly in the small business segment.

When one of FinTech Australia's acquirer members entered the Australian payments market, they incurred substantial costs, including investment in engineering and development teams for ongoing software development, system updates for scheme mandates, compliance enhancements, regulatory changes, and custom payment-related software delivered through PCI-compliant terminals. In addition, they had to invest heavily in sales and marketing to differentiate themselves from incumbent banks, and invest in significant human capital to offer high quality customer service.

We are concerned that if surcharging is banned, it will become more difficult for acquirers to enter the Australian market, since these costs will be unable to be passed through via surcharging.

At the same time, most FinTech Australia members recognise that, if a ban is to be implemented, extending it to both debit and credit transactions would be less costly to administer than a debit-only ban, while also supporting a more level competitive environment vis-à-vis major incumbents.

The broader economic context heightens the importance of preserving competition and innovation. With nearly half (49%) of small businesses currently operating at a loss and facing unprecedented cost pressures, competitive payment solutions are vital. Their value extends beyond simple cost reduction to include improvements in operational efficiency, business resilience, and growth enablement – hallmarks of fintech innovation in the Australian market.[12]

Survey evidence from Mandala and Mastercard further suggests that removing surcharging could lead some merchants, particularly micro and small businesses, to stop accepting card payments altogether if alternative fee structures prove prohibitive. This risks reversing recent gains in financial inclusion – a key priority of Government – by once again leaving small and micro merchants underserved as acquirers concentrate on mid-to-large sized businesses.

Given the potential for significant disruption, FinTech Australia and the SBAA respectfully suggest that the transition period away from surcharging be extended by an additional 12 months beyond

[11] Parliament of Australia Hansard (29 August 2024) Matt Comyn's evidence to the Standing Committee on Economics' Review of Australia's four major banks, p 13.
[12] Mandala (December 2024) Report prepared for FinTech Australia (see Annexure B), Unit Economics, Competition and Surcharging Analysis, p 16.

the current implementation date. This approach would be consistent with the Bank's decision in 2016 to provide a longer transition when revising merchant surcharging rules, allowing businesses – particularly small merchants – to adapt with minimal disruption. An extended transition would allow small acquirers to adjust their business models and provide merchants with the opportunity to adapt their operations to suit a no surcharging environment.

One FinTech Australia member noted that an outright ban on surcharging presents unique challenges for Bill Payment Service Providers (**BPSPs**), whose business models rely on passing transaction processing costs directly to end users. Unlike traditional merchants, BPSPs operate on a cost-recovery basis, making it infeasible for them to absorb such costs without compromising service delivery.

Another FinTech Australia member has suggested that rather than implementing a blanket ban, the RBA could consider allowing FinTech Australia to develop an industry-led forum (similar to BNPL) to develop a clear set of guidelines around surcharging and shifting the enforcement focus from merchants to acquirers to provide an easier compliance environment. This approach would allow regulators to quickly identify excessive surcharging patterns and enable targeted intervention against poor practices without imposing additional compliance costs on small businesses. Alternatively, this member suggests small merchants could be permitted to surcharge up to a 1.5% surcharging cap.

Recommendation 3. That the RBA extend the implementation of the surcharging ban by an additional 12 months.

Recommendation 4. That the RBA investigate means to ameliorate the impact of a ban on surcharging on bill payment service providers.

FinTech Australia members also believe that a debit surcharge ban or restrictions on surcharging would have unintended implications for Stored Value Facilities (**SVFs**), which are an increasingly important component of Australia's payments ecosystem. SVFs allow consumers to store funds for future transactions and are widely used - for example, digital wallets, prepaid cards, and other innovative payment solutions.

Restricting or banning surcharges on debit transactions could disrupt the business models of SVF providers, particularly when debit cards are used to fund these accounts.

Unlike traditional payment transactions, the process of topping up an SVF involves additional operational and compliance costs, including scheme fees, interchange fees, and technology infrastructure. A ban on surcharges would prevent providers from recouping these costs, placing undue financial pressure on SVF operators and potentially reducing their ability to offer fee-free alternatives or enhance their services.

Without the ability to apply surcharges to debit transactions, SVF providers may be forced to absorb these costs, which could result in higher fees or reduced benefits for consumers. This would limit the availability of fee-free options and other value-added services, such as cashback, rewards programs, or enhanced user experiences. For consumers, this could translate to fewer innovative payment solutions and diminished value propositions.

Tailored approaches for Stored Value Facilities

In considering regulatory options for surcharging, one FinTech Australia member suggested that surcharge-free options should be considered sufficient to meet the regulatory objectives of promoting fair and efficient payment systems. Furthermore, when a payer funds an SVF account in which they are also the payee, the act of funding the account should be viewed as part of the product being purchased. This distinction highlights the need for flexibility within the surcharging framework to account for these unique use cases. Introducing an exception to surcharging rules for such scenarios would ensure that innovation in the SVF sector is not unduly constrained and that consumers continue to benefit from a diverse and competitive payments ecosystem.

Interchange fees

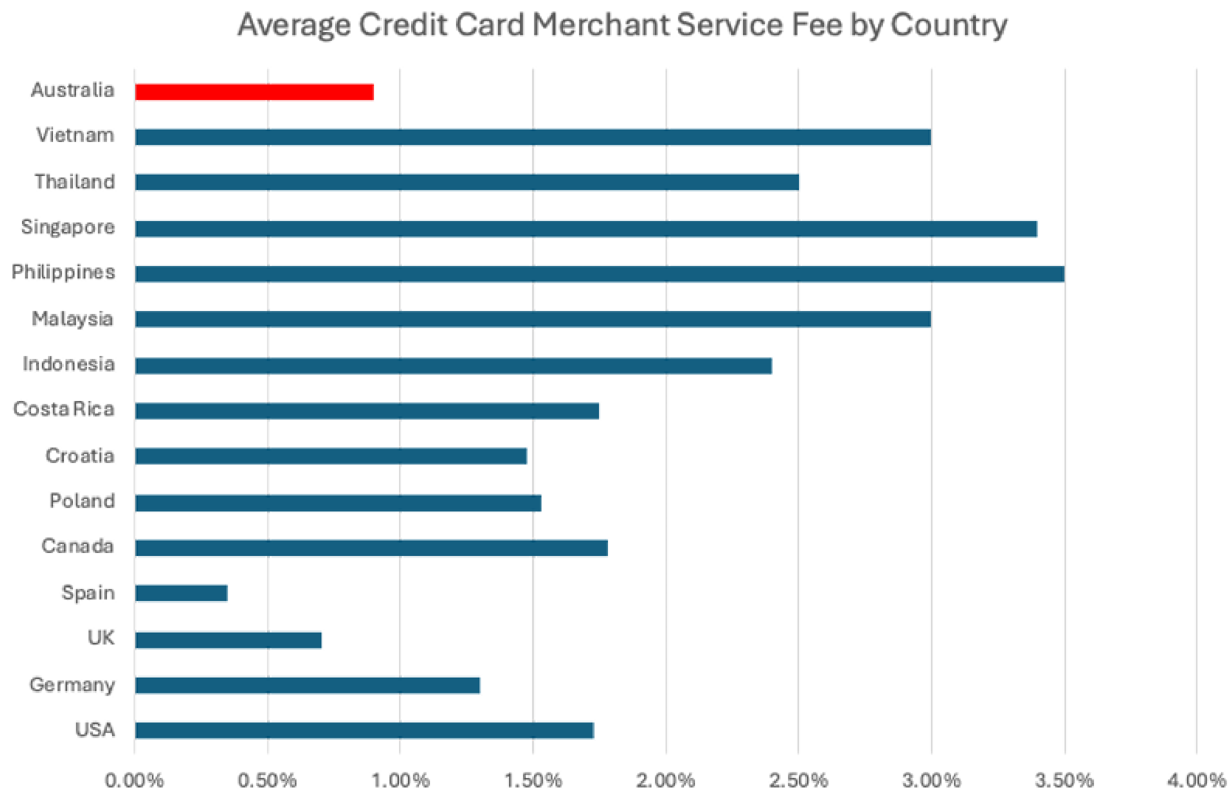
2. ***Do the proposed changes to interchange regulation promote the public interest by improving competition and efficiency in the payments system?***

The issuing market

Australia's issuing market is already highly competitive and concentrated. This is illustrated by the failure of neobanks like Volt and Xinja, and how others such as Up Bank were absorbed by incumbent banks. We contend that Australia's already low interchange rates were significant contributing factors to this market consolidation, and further cuts risk triggering the exit of additional firms from the issuing market.

Aside from the removal of surcharging, we are not aware of any basis for urgently reducing merchant services fees through large cuts to interchange fees. In fact, Australia has low merchant service fees by international standards (see Figure 4, which illustrates fees on credit transactions) and merchant service fees have been declining over a sustained period (see Figures 2 and 5).

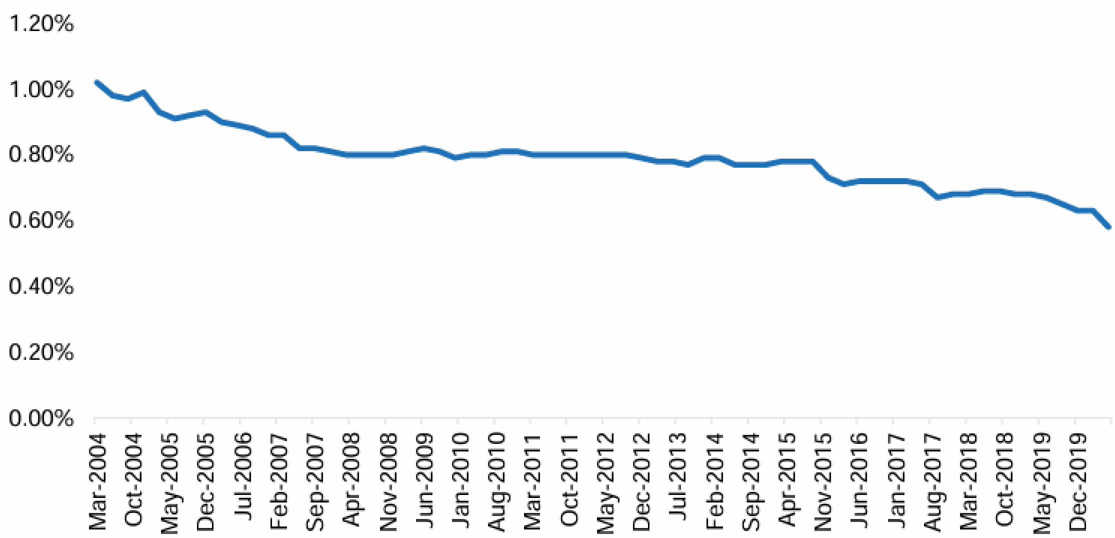
Figure 4 – Merchant Services Fees on credit cards (2004).



Source: [The Initiatives Group (2024) The exchange of payment: the most critical part of a small merchant's customer journey — a white paper on small and micro business payments acceptance](), p 9.

Figure 5 – Merchant service fees

Chart B: Merchant service fees for Mastercard and Visa (combined all cards), 2004 – 2024[77]
% of transaction value



Submission by the Australian Banking Association (17 December 2024) RBA Review of Merchant Card Payment Costs and Surcharging, p 18; based on RBA data.

We endorse the view of RBA Assistant Governor, Brad Jones, that:

> "retail merchant card payment costs have trended lower in Australia in response to increased transparency and competitive tension in the market for payments services [...] Some of this competitive tension has arisen organically, and some of it has come about as a result of intervention by the RBA."[13]

Many of FinTech Australia's members fear that the RBA's proposed cuts to interchange are at risk of undermining the organic competitive tension which has characterised the issuing market over recent decades. Later in this submission, we propose a model for a small issuer exemption with the potential to preserve this vital competitive tension.

The RBA's focus on interchange fee reduction

[13] Brad Jones (12 December 2024) The Future of the Payments System, AusPayNet Summit.

It is important to recognise the significant value that card payments deliver to merchants, consumers, and the broader economy. Deloitte has estimated that in 2022, electronic card payment systems contributed $38.7 billion of value to the Australian economy.[14]

For merchants, cards create value by:

- providing guaranteed payment, as issuers generally bear the credit risk;
- enabling higher sales volumes, as cardholders are able to purchase more goods and services;
- offering access to a broader customer base;
- reducing reliance on costly cash handling and management;[15]
- facilitating access to payment innovations;
- providing zero liability for fraud; and
- in the case of credit cards, removing the need to manage in-house credit accounts, with their associated costs, risks, and capital requirements.

For consumers, cards deliver greater payment security, access to credit, more resilient payment options, and protection from liability for fraud.

Against this backdrop, a singular regulatory focus on interchange reductions risks overlooking the broader value that card issuance generates. Overemphasis on merchant payment costs alone could, in the long term, undermine the sustainability of the payments system by eroding the very mechanisms that fund innovation, resilience, and choice. A more holistic approach is needed.

As the Government's *Strategic Plan for Australia's Payments System* notes:

> "An efficient system is one in which competitive pressures drive down payment costs. **Efficiency in payment systems is productivity enhancing as it empowers industry to allocating resources effectively to innovate, and respond to new developments and changing consumer preferences.** An efficient payments system provides end-users with certainty by ensuring payments are made and received in a timely, seamless, and predictable manner, with users appropriately informed about where their payment is going, when it will arrive and the associated costs."[16] (emphasis added)

[14] Deloitte (3 December 2024) The value of Australia's retail payments system, p 1.
[15] Boston Consulting Group (August 2024) White Paper, The Hidden Cost of Cash and the True Cost of Electronic Payments in Australia, Europe, New Zealand and the UK, pp 3 and 9.
[16] Australian Government (7 June 2023), A Strategic Plan for Australia's Payments System, p 10.

Many of our members agree that interchange plays a central role in driving innovation, and that this role should be reflected in the level of interchange caps set by the RBA.

The Australian Payments Network has cautioned against narrowing the efficiency lens to merchant costs alone:

> "A particular concern among our members relates to the Bank's primary focus on merchant payment costs as a measure of efficiency (and competition) in the payments ecosystem. While we agree that competitive pressure driving down end-user costs is an important indicator of system efficiency, it is not the only one."[17]

Interchange is a key element of the unit economics that underpin the key elements of an efficient electronic payments ecosystem. These include acceptance, innovation, security, fraud protection, and guaranteed payments to merchants. Interchange needs to be high enough for new players to be incentivised to enter the space and low enough that merchants are encouraged to adopt digital payments. Interchange should not be viewed simply as a cost to an acquirer/merchant which needs to be managed or regulated to the lowest possible level. While this may be a large part of what animates the RBA's payments policy agenda, the cost to competition – and thus payments system health and customer-centric product innovations – needs serious reflection. While the RBA's efforts to reduce interchange rates have had their desired effect, one second order impact is that this agenda has likely served to increase the concentration of Australia's card issuing market.

FinTech Australia and SBAA members, however, generally support efforts to narrow the disparity between the amount of interchange fees paid by small businesses and the lower 'strategic' rates paid by large merchants for consumer cards. Consumer card issuer costs are the same regardless of the size of the merchant, so it is difficult to see why there should be such a large discrepancy, other than the practical realities of asymmetries in bargaining power which we do not consider should justify maintaining the status quo.

We respectfully urge the RBA to ensure that any reform to interchange fees strikes an appropriate balance – one that continues to safeguard competition and innovation by issuers, while advancing the broader public interest in ensuring Australia has a payments regulation framework which does not entrench market power and market share in the hands of incumbent banks, which have a long history of under-serving or ignoring the exact customers which many of our members are serving

[17] Submission by the Australian Payments Network (3 December 2024) RBA Review of Merchant Card Payment Costs and Surcharging, p 6.

today. Later in this submission, we propose a small issuer exemption which we believe will strike an appropriate and efficient balance by safeguarding competition in the issuing market.

Interchange proposal

We have not seen sufficient evidence to demonstrate that there is a need for a reduction to average interchange rates, or data to suggest that it would be beneficial to the payments system. Given the reduction in interchange and overall MSFs evidenced over the past decade, we do not believe there is a market failure warranting such significant intervention in merchant acquiring, which is widely noted to be a very efficient part of the payments system. We do not believe that in its present form this proposal will improve competition and efficiency in the payments system, and we are concerned about its potential impact on the long-term resilience of the payments system.

We share the view expressed by RBA Assistant Governor Brad Jones, who recently observed:

> "Australia has a payments system that we can be proud of. By global standards, it is fast, efficient and reliable. This is evident not only in the data, but from the discussions that I and my colleagues at the RBA and on the Payments System Board regularly have with our international counterparts."[18]

It is against this backdrop that FinTech Australia and many of our members express concern over the proposed changes to interchange rates for credit and debit cards. In particular, we note the potential challenges associated with proposals to:

- set a 6-cent interchange cap for domestic debit transactions and lower the ad valorem cap to 0.12% of transaction value;
- set a 0.3% interchange cap for domestic credit transactions and remove the weighted-average benchmark; and
- exclude the funding of interest-free periods from the costs used to calculate domestic credit interchange fees (despite the Bank previously allowing them to be incorporated).

We are deeply concerned by these developments because the RBA has itself acknowledged that "evidence from the Issuer Cost Study suggests that smaller issuers do face materially higher costs than larger issuers",[19] and recognised that:

[18] Brad Jones (12 December 2024) The Future of the Payments System, AusPayNet Summit.
[19] RBA (July 2025) Consultation Paper: Review of Merchant Card Payment Costs and Surcharging, p 34.

> "the Board generally expects there will be some correlation between payment cost and transaction size".[20]

This supports retaining the weighted-average benchmark for credit cards, given that credit cards are generally more susceptible to fraud than debit cards, with higher balances at risk of fraudulent activity.

We emphasise that while some costs factored into interchange are fixed, others – such as fraud-related costs – vary in proportion to the size of transactions. It is therefore critical that interchange structures accurately reflect this balance, rather than being driven solely by cent-based per transaction caps.

Indeed, the consultation paper notes that the proposed domestic credit interchange caps are only "above small issuers' costs once the cost of funding interest-free periods is removed".[21]

Importantly, the RBA's own data in the consultation paper indicates that its proposed domestic debit caps of 6 cents or 0.12% per transaction will be **below** the eligible costs of small issuers – which are listed as 10 cents or 0.24% per transaction.[22] Since the RBA's own data clearly indicates small issuers would be operating unprofitably under the proposed interchange reforms, we consider there is a strong case for a small issuers exemption.

Our members are deeply concerned that, taken together, these measures are likely to make it significantly more difficult for smaller issuers to compete on a level playing field with larger institutions. Reduced competitiveness at the issuer level ultimately risks narrowing card choices available to consumers, reducing efficiency and competition, and slowing the pace of innovation in Australia's payments system.

Some members also suggest that the RBA should target real cost drivers as opposed to capping credit interchange fees. This could be done for example by capping scheme fee increases so that they do not exceed inflation. Another opportunity exists is potentially regulating mobile wallet payment fees, which are growing proportionate to increasing transaction volume. The RBA is well placed to implement impactful transparency requirements which, coupled with enforcement mechanisms, can serve to manage the increasing costs which interchange is being stretched to cover.

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[20] RBA (October 2021) Review of Retail Payments Regulation – Conclusions Paper, p 40.
[21] RBA (July 2025) Consultation Paper: Review of Merchant Card Payment Costs and Surcharging, p 34.
[22] RBA (July 2025) Consultation Paper: Review of Merchant Card Payment Costs and Surcharging, p 34.

Eligible cost inclusions

Some of our members also believe that cardholders, merchants and issuers benefit from interest free periods. FinTech Australia is concerned that by removing the costs of interest free periods from these calculations, merchants would no longer bear any portion of this cost. This does not recognise the benefit to merchants of interest free periods.

There has been much debate around which costs should be deemed eligible in the RBA's cost study, particularly whether interest-free periods for credit should be considered "eligible." While the RBA may suggest costs should or could be ineligible for interchange purposes, in practice funding costs represent a genuine and unavoidable cost of issuing a credit product. For large incumbents, these costs are almost invisible: major banks fund their card portfolios at or close to the RBA cash rate, effectively internalising the cost of providing interest-free periods to customers.

For smaller issuers, the picture is entirely different. Fintechs and specialist providers do not have access to cheap retail deposits or the balance sheet advantages of an ADI. Their cost of funds is instead determined by wholesale facilities and capital markets, with inaugural wholesale facilities typically running at 11–14% above the bank rate depending on portfolio performance, scale, and cost base. These costs will reduce with maturity and growth, but they remain structurally higher and more volatile than those faced by the majors.

Fintechs rely on wholesale facilities and capital markets, with inaugural facilities often pricing 11-14% above the bank rate. On a $1,000 transaction with a 45-day interest-free period, this can mean a cost of $20–25 for a small issuer, versus ~$5.50 for a major bank. Treating funding costs as irrelevant or ineligible when setting interchange policy risks designing a framework around the economics of the majors alone, while making it impossible for challengers to operate sustainably (or at all) at a smaller scale.

Additionally, despite RBA describing these costs as eligible or ineligible, these costs are all very real and unavoidable for issuers, fundamental to a credit card product design.

Treating funding costs as irrelevant when setting interchange policy risks designing a framework around the economics of the majors alone, and acknowledging that it's impossible for challengers to operate sustainably (or at all) at a smaller scale.

The role of interchange

Before outlining further member concerns with the proposed interchange cap reductions, it is important to place small issuers' reliance on interchange revenue in context.

The RBA itself has acknowledged the important role interchange plays in balancing incentives across the payments ecosystem:

> "Interchange fees can help to rebalance costs between each side of the market and ensure that both sides of the market have an incentive to participate. For example:
> - Revenue from interchange gives card issuers more motivation to issue payment cards/accounts on the new network to their customers.
> - Revenue from interchange can be used to fund consumer rewards programs that incentivise usage.
> - Revenue from interchange helps pay for building infrastructure, operations and new features, such as additional security."[23]

Importantly, the views expressed by the RBA in its consultation paper appear to represent a departure from the above quoted previous position that costs associated with rewards programs and interest free periods are an acceptable cost to incorporate into the calculation of interchange fees.[24]

The RBA's previously expansive approach to recognising costs is replicated internationally. The New Zealand Commerce Commission notes that:

> "Interchange can help fund issuing credentials and physical cards, anti-fraud measures, fraud losses, scheme fees, rewards and digital wallet fees."[25]

Similarly, *The Initiatives Group* highlights that:

> "Interchange is intended to cover critical costs incurred by the card issuer, like transaction authorisation and processing, fraud and fraud prevention, mobile wallet payment fees, dispute resolution, chargeback rights, card issuing costs and, for credit cards, funding the interest-free period."[26]

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[23] RBA, Backgrounder on Interchange and Scheme Fees, accessed on 28 August 2025.
[24] RBA (July 2025) Consultation Paper: Review of Merchant Card Payment Costs and Surcharging, p 30.
[25] NZ Commerce Commission (17 July 2025) Retail payment system Interchange Fee Regulation for Mastercard and Visa Networks – Final Decision and Reasons Paper, p 11.
[26] The Initiatives Group (2024) The exchange of payment: the most critical part of a small merchant's customer journey — a white paper on small and micro business payments acceptance, p 6.

Taken together, these perspectives make clear that interchange revenue is not incidental – it underwrites essential infrastructure, security, and innovation in card payments. For smaller issuers in particular, interchange is a critical mechanism that enables them to participate competitively and sustainably in the payments system. Indeed, the current rates of debit and credit interchange enable small issuers the chance to successfully develop the significant scale that is required for interchange revenue to shrink in importance.

Additionally, we respectfully submit that if the RBA is to revise its view of what costs are eligible to be used to calculate interchange fees, for example excluding rewards/loyalty costs and interest free period expenses, then consistent with recommendation 1, additional time should be provided for issuers to transition.

We note that issuers have built their portfolios, debt facilities, commercial agreements, and secured investment on the basis of the current regulatory settings. To alter these rules with only six months' notice does not provide sufficient time to make the necessary adjustments, particularly for smaller issuers and new entrants without the structural advantages and negotiating leverage of the major banks.

A compressed timeline will create undue pressure on issuers to re-price, renegotiate contracts, adapt business models at speed, etc, with real risk on impact to customers and employees.

Recommendation 5. That the RBA delay the commencement of its proposed new approach to interchange rates by 12 months.

Issuers cost study

We acknowledge the RBA's commitment to evidence-based policymaking and recognise the significant effort that has gone into preparing the Bank's issuer cost study.

However, many industry participants have expressed concern that the study's methodology may limit its utility and reliability. By including only 11 issuers – representing 90% of the issuing market – the sample may overrepresent large institutions with substantial economies of scale, thereby producing cost estimates that are not reflective of the broader market. Given the materially higher unit costs faced by small issuers, we note our concern that the costs for small issuers have not been established, given that these are the market participants which are most exposed to the impacts of the RBA's interchange proposal and have the least ability to cross-subsidise the loss of interchange revenue.

We note there are fixed costs and minimum fees which fall exponentially when scale a small issuer achieves scale. We note the importance of looking at the actual issuer costs of the issuers in the 10% of market share that are not included in the Bank's issuer cost study, and ensuring interchange caps can help these smaller businesses push innovation and grow.

Several members are also concerned that important categories of cost appear to have been excluded from the analysis. These include expenses associated with authorisation systems, compliance infrastructure, dispute resolution, customer service, and the maintenance and development of technology platforms.

We also understand that FinTech Australia members will be submitting in their own private submissions data about their cost structures to clearly articulate the reality of costs for smaller and growing issuers that aren't near the scale of the 90% of the market included in the RBA's study.

Recommendation 6. That the RBA investigate options to collect additional empirical evidence about the state of the issuing market.

The impact of the proposed interchange cap reductions

Many of our members are concerned that the consultation paper proposes to set domestic debit and credit interchange rates at levels which are uneconomical for many small issuers. This creates a significant risk that some small issuers may be forced to exit the Australian market.

The Whitepaper at Annexure A sets out a representative case study of a real small issuer that already incurs losses under current interchange rates.[27] Its position would worsen materially under the proposed reforms. The whitepaper also gives the following example:

> "Anecdotal evidence, which further demonstrates the challenges for small issuers, is that of an example where a small issuer's debit card being used for a $200 transaction via Apple Pay attracted an Apple Pay fee of 8 cents and a scheme fee of 6 cents, meaning that a 6 cents per

[27] The Initiatives Group (September 2025) Survival Of The ~~Fittest~~ Biggest – The Possible Demise of Small Issuers of Payment Cards, p 8.

transaction interchange fee (the RBA's proposed cap) would not even cover the charges levied by Apple – forcing the issuer to incur a significant loss on the transaction."[28]

Our members consider that the proposed interchange rates are set at unsustainably low levels for many issuers. Indeed, as mentioned above, the economics are already under pressure at current interchange rates.

Cross-subsidisation

Many members are concerned that the reforms would entrench the dominance of larger issuers – particularly the four major banks – by reducing the ability of smaller players to compete. Larger institutions benefit from economies of scale, diversified revenue streams, and the capacity to cross-subsidise card issuance from other business lines. Smaller issuers and fintechs, however, are typically far more reliant on interchange revenue, especially in the early stages of operation.

If large incumbents choose to offset reduced interchange revenues, this could result in higher acquirer fees, higher interest rates or annual fees on credit cards, fewer card products in market, or other unintended shifts in cost structures. While the proposed cap is partly intended to address cross-subsidisation of large merchants by small merchants via strategic rates, in practice it may instead lead to cross-subsidisation occurring in other areas, such as across business lines – for example, debit cardholders effectively being subsidised by credit card customers, or other unintended consequences.

International experience underscores this risk. In Brazil, ambitious cost-reduction reforms reshaped the payments system and led to a market where merchants now wait 27 days to receive funds from credit card transactions, effectively providing interest-free loans to payment service providers. There is no clear reason why a similar outcome could not occur in Australia.

Barriers to market entry

Reduced interchange revenue also risks raising barriers to entry for new issuers. Establishing an issuing business requires significant upfront investment in fraud management, scheme certification, regulatory compliance, technology platforms, and customer support. Today, new entrants must process substantial volumes to reach breakeven under existing interchange settings. The proposed

[28] The Initiatives Group (September 2025) Survival Of The ~~Fittest~~ Biggest – The Possible Demise of Small Issuers of Payment Cards, p 8.

reductions would significantly increase this threshold, making entry uneconomic for many prospective players.

One FinTech Australia member described the barrier as "insurmountable." This concern is supported by international precedent: in the United Kingdom, interchange fee caps were followed by rising credit card interest rates, the exit of smaller issuers, and increased concentration in the banking sector. Such outcomes run counter to the objectives of promoting competition and maintaining a level playing field, respectively set out in the PSRA and both the Government's *Statement of Expectations* to the Payments System Board and its *Strategic Plan for Australia's Payments System.*

International experience

According to the Whitepaper at Annexure A:

> "In both the UK & EU, where interchange fees were capped on consumer debit cards at 0.2% and consumer credit cards at 0.3% (Interchange Fee Regulation on debit and credit cards, 2015) and the USA where debit card interchange was capped for cards issued by financial institutions with net assets in excess of US$10 billion (Durbin Amendment, debit cards only, 2010), it is reported that reduced interchange revenue for card issuing banks has led to increased fees for transaction accounts, increased fees/fewer benefits on cards and, in some cases, card products being withdrawn from the market."[29]

A study of reforms in the European Union – which included interchange cuts – found that:

> "… some intended consequences of the regulation changes have not fed through to the market. Surcharging regulated products was still being experienced by consumers. **The reduction of interchange has made the business case for entry into the issuing side of the market more difficult. Innovation has suffered from the reduced revenue potential, especially on the issuing side with the most recent major innovative step being the development of contactless technology for which the investments were incurred well in advance of the IFR**."[30] (emphasis added)

[29] The Initiatives Group (September 2025) Survival Of The ~~Fittest~~ Biggest – The Possible Demise of Small Issuers of Payment Cards, p 9.
[30] Edgar, Dunn & Company (January 2020) Interchange Fee Regulation (IFR) Impact Assessment Study Report, p 4.

Indeed, the range of card products fell by 14% while average annual consumer credit card fees increased 13%,[31] and overall merchant service fees in the EU rose after the changes.[32]

These international examples demonstrate that, without a small issuer exemption, the proposed interchange reforms risk similar outcomes. Indeed, a feared detrimental impact on small issuers was a major factor in why the New Zealand Commerce Commission recently decided not to mandate significant interchange reductions.

Reductions in investment

As Visa has observed:

> "No one knows exactly what the future of commerce will look like, but we do know that the solutions will require support to scale and grow. Further limiting the role that interchange plays by lowering existing benchmarks and/or caps risks removing that crucial support, thereby negatively impacting innovation and growth within the digital payments and, by extension, the commerce ecosystem in Australia."[33]

Our members share this concern. Reducing interchange revenues would limit the capacity of issuers – especially smaller players – to invest in:

- research and development;
- building resilience;
- cybersecurity protections;
- artificial intelligence tools to combat new fraud vectors; and
- international expansion.[34]

As the Whitepaper notes at Annexure A:

> "if [interchange] revenue does not cover processing costs, then there are certainly no excess funds for new product development".[35]

[31] Edgar, Dunn & Company (January 2020) Interchange Fee Regulation (IFR) Impact Assessment Study Report, p 2.
[32] Submission by the Australian Banking Association (17 December 2024) RBA Review of Merchant Card Payment Costs and Surcharging, p 35; Eurocommerce CMPSI Study.
[33] Submission by Visa (3 December 2024) RBA Review of Merchant Card Payment Costs and Surcharging, p 10.
[34] The Initiatives Group (September 2025) Survival Of The ~~Fittest~~ Biggest – The Possible Demise of Small Issuers of Payment Cards, p 9.
[35] The Initiatives Group (September 2025) Survival Of The ~~Fittest~~ Biggest – The Possible Demise of Small Issuers of Payment Cards, p 8.

This risk is particularly acute in an environment where operational threats are increasing. As RBA Assistant Governor Brad Jones has emphasised:

> "we are entering a new era for operational risk – a result of rising geopolitical tension and other sources of potential disruption that include third-party vendors. For these reasons, strengthening resilience in our payment system and our financial market infrastructure is a key area of focus for the RBA in its work with other member agencies on the Council of Financial Regulators."[36]

Our members strongly support this focus, but some FinTech Australia members are concerned that reduced interchange revenues may compromise their ability to fund the necessary long-term investments in resilience and security. These costs are substantial: for example, Visa and Mastercard have collectively invested around US$17 billion globally over the past five years to combat fraud; Australian banks have committed $100 million to a new industry confirmation-of-payee system; and one major bank alone invested $800 million in security measures in FY2024.[37] Fintechs are also making significant contributions, but with narrower margins and fewer business lines, they are far more vulnerable to regulatory disruption by materially lower interchange rates.

Additionally, as acknowledged by the Bank's submission to Treasury's Payments System Review, uncertainty around the RBA's jurisdiction "can actually discourage innovation and the entry of new players."[38] This is why we consider that greater certainty around the status of the PSRA reforms is a necessary precondition for fintechs to make informed decisions in response to the RBA's proposed reforms to card payments.

Supporting innovation and competition

The RBA has recognised that:

> "Inertia and coordination problems can hold back systemic innovation in networks such as payments. Overcoming this relies on a combination of factors: having private incentives to innovate, a regulatory environment that promotes competition and access, effective industry self-governance mechanisms, widely accepted strategic objectives that act as a focal point

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[36] Brad Jones (12 December 2024) The Future of the Payments System, AusPayNet Summit.
[37] Submission by the Australian Payments Network (3 December 2024) RBA Review of Merchant Card Payment Costs and Surcharging, pp 4 to 5.
[38] RBA (January 2021) Submission to Treasury's Payments System Review, p 15.

for collective action, and pressure on the payments industry from regulators and the government to cooperate in the public interest."[39]

To achieve this innovation, we emphasise the need for there to be private incentives to innovate and a market in which there is potential for meaningful competition to occur and for new market entrants to enter the market. This is the objective of our proposed small issuer exemption.

We emphasise that private incentives to innovate depend on the ability of issuers – large and small – to generate sufficient revenue to invest in new technologies and services. A competitive market, open to new entrants, is essential to sustaining this innovation.

We are encouraged by the vision set out by Assistant Governor Brad Jones:

> "We want to see a payments system that is a hotbed of innovation and competitive tension, driving efficiency up and costs down. And we want to see a payments system that is safe and resilient – one that Australians can rely on."[40]

It is essential to ensure the economics of the payments system remain balanced, where an equilibrium is reached that enables continued innovation, competition and safety.

In the next two sections, we set out a proposed model designed to preserve this competitive tension – allowing large issuers to reduce their interchange rates in line with the RBA's proposals, while safeguarding the viability of smaller issuers.

The need for a small issuer exemption

The issuing sector is "highly concentrated".[41] As the Council of Financial Regulators has observed:

> "[t]he 74 smallest banks make up 6% of the banking system and are mostly mutual institutions; the number of mutual institutions has fallen from over 200 in the year 2000 as credit unions and building societies (CUBS) have consolidated."[42]

[39] RBA (January 2021) Submission to Treasury's Payments System Review, p 1.
[40] Brad Jones (12 December 2024) The Future of the Payments System, AusPayNet Summit.
[41] The Initiatives Group (September 2025) Survival Of The ~~Fittest~~ Biggest – The Possible Demise of Small Issuers of Payment Cards, p 5.
[42] Council of Financial Regulators (December 2024) Review into Small and Medium-sized Banks An Issues Paper by the Council of Financial Regulators, in consultation with the Australian Competition and Consumer Commission, p 7.

Unsurprisingly, this concentration is also evident in payments. According to the Mandala Report (Annexure B), the four major banks issue 71% of credit cards issued and 74% of debit cards in Australia.[43]

Despite their small market share, smaller issuers – particularly fintechs – play a disproportionately significant role in driving innovation in payments. These participants were the first to introduce features that later became standard across the sector, raising consumer expectations and forcing larger banks to compete on service and product differentiation. As Treasury has noted:

> "The provision of innovative payment services has been increasingly driven by new entrants, alongside more traditional participants such as banks. These new providers are often technology-focused businesses (fintechs) that provide a variety of add-on services, driven by shifts in consumer preferences towards online commerce and digital payments."[44]

The RBA itself has acknowledged that fintechs have led innovation in areas such as online payments, point-of-sale technologies, cross-border retail payments, and BNPL. Without sustainable interchange economics, however, this competitive pressure is at risk – threatening innovation, product diversity, and consumer choice.[45]

Disproportionate Impact on Small Issuers

Many FinTech Australia members who are small issuers believe the proposed interchange caps will affect them more severely than larger players. This concern is consistent with the RBA's own observation in 2021:

> "Lower interchange on debit transactions could make it harder for new debit issuers to enter the market and could disproportionately disadvantage smaller issuers, which may have fewer other sources of revenue to offset any interchange reduction."[46]

As *The Initiatives Group* states in the Whitepaper (Annexure A):

> "Whilst providing solutions needed by their target customers, small issuers already struggle today to compete with large issuers. Further restriction of their ability to compete (or indeed

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[43] Mandala (December 2024) Report prepared for FinTech Australia (see Annexure B), Unit Economics, Competition and Surcharging Analysis, p 14.
[44] [Treasury (June 2021) Payments System Review: From system to ecosystem](), p 4.
[45] [RBA (January 2021) Submission to Treasury's Payments System Review](), p 12.
[46] [RBA (May 2021) Review of Retail Payments Regulation – Consultation Paper](), p 24.

enter a market) through regulatory reduced income threatens their sustainability and appears counter-productive."[47]

Furthermore, as noted above, **the RBA's own data in the consultation paper indicates that its proposed domestic debit caps of 6 cents or 0.12% per transaction will be below the eligible costs of small issuers – which are listed as 10 cents or 0.24% per transaction**.[48] Since the RBA's own data clearly indicates small issuers' domestic debit businesses will be forced to operate unprofitably as a result of the proposed interchange reforms, we consider there is a strong case for a small issuers exemption.

While much of the current debate has focused on debit, the same principle applies to credit. Credit portfolios carry additional structural costs that debit does not, including funding interest-free periods, higher fraud and chargeback exposure, etc. Large banks absorb these costs cheaply through deposits and balance sheet advantages, but smaller issuers must rely on wholesale facilities at significantly higher rates. Without a small-issuer exemption for credit, these players cannot viably participate in the market, leaving SMEs with fewer choices and less innovation.

Cost pressures

All issuers face significant fixed costs that compress margins, including scheme fees, compliance burdens (eg AML/KYC), card issuance and replacement, customer support, dispute resolution, fraud prevention, cybersecurity, resilience requirements, and ongoing investment in innovation. For credit cards, issuers also bear non-payment risk. Small issuers are usually also expected to pay high minimums which reduce their competitiveness with large issuers.

Fintechs and smaller issuers are particularly exposed because they:
- are indirectly impacted when merchants cannot surcharge because that risks lowering acceptance incentives and transaction volumes;
- face proportionately higher operational and compliance costs;
- have limited ability to cross-subsidise from other business lines (unlike the major banks); and
- operate on thinner margins, making them less able to absorb shocks from reduced interchange revenue.

[47] The Initiatives Group (September 2025) Survival Of The Fittest Biggest – The Possible Demise of Small Issuers of Payment Cards, p 9.
[48] RBA (July 2025) Consultation Paper: Review of Merchant Card Payment Costs and Surcharging, p 34.

In short, small issuers earn less interchange revenue overall but face proportionately higher compliance and operating costs. As noted in industry commentary:

> "Most of the payments-related fintech business start with granting consumers access to a zero-commission debit or a credit card. These zero-commission or no-minimum-balance accounts are possible primarily due to the interchange fee".[49]

Interchange revenue is also critical in the early years, when fintechs need a reliable base to fund product expansion beyond card issuance:

> "During the first years of operations, interchange revenue is essential for fintechs. Having a reliable income from cards' issuing, allows them to then focus on growing their product portfolio into other non-card products like lending and competing with traditional banks."[50]

Schemes have indicated in previous submissions to the RBA that under existing interchange settings:

> "numerous international fintech competitors [...] have decided not to enter the Australian market due to the current regulatory settings".[51]

International Evidence

Evidence from abroad underscores these risks. The New Zealand Commerce Commission recently moderated its proposed interchange reductions after acknowledging that:

> "If issuers cannot recover their costs, this also reduces the ability of fintechs and small issuers to enter and compete against other card issuers on the Mastercard and Visa platforms. While interchange fee revenue is not the only way issuers can recover relevant costs, it is an important part of an issuer's revenue and their ability to recover costs, particularly for new or smaller issuers and potential market entrants."[52]

The Commission erred on the side of caution by placing more weight on promoting competition between issuers and did not reduce caps as much as initially proposed in its draft decision. The

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[49] Submission by Mastercard (15 January 2025) RBA Review of Merchant Card Payment Costs and Surcharging, p 10.
[50] Submission by Mastercard (15 January 2025) RBA Review of Merchant Card Payment Costs and Surcharging, p 11.
[51] Submission by Mastercard (15 January 2025) RBA Review of Merchant Card Payment Costs and Surcharging, p 9.
[52] NZ Commerce Commission (17 July 2025) Retail payment system Interchange Fee Regulation for Mastercard and Visa Networks – Final Decision and Reasons Paper, p 43.

Commission also gave weight to the positive impact provided by firms developing innovative payment methods, such as fintechs, and their incentive and ability to compete with larger established networks.

In the United Kingdom, interchange caps contributed to higher credit card interest rates, the exit of smaller issuers, and greater market concentration.

Consistency with Government Expectations

A small issuer exemption would be entirely consistent with the Government's *Statement of Expectations* to the Payments System Board, which indicates:

> "**the PSB's regulatory focus should be directed towards removing barriers to entry and ensuring that all current and potential providers of payments services are able to compete on a level playing field**. […] the Government's strong expectation is that the PSB create a regulatory environment in which the payments system is allowed, where appropriate, to self-adapt to innovation and change."[53] (emphasis added)

The Government's Statement of Expectations to the Payments System Board also states:

> "**The Government wants to support and foster a culture of innovation and is committed to developing and administering policy settings that facilitate, rather than impede, new market entrants. Excessive regulatory and compliance costs can act as a barrier to new entrants, which can deny competition and the adoption of new technologies**."[54] (emphasis added)

This is followed by the observation:

> "In that regard, the Government believes that clearer graduated regulation will support innovation in the payments system."[55]

We respectfully submit that the creation of a small issuer exemption would be a form of "graduated regulation" which is entirely consistent with these expectations and the public interest test set out in the PSRA, since it would:

- help to set a level playing field between large and small issuers;

[53] Statement of Expectations to the Payments System Board (June 2018), paras 9 and 13.
[54] Statement of Expectations to the Payments System Board (June 2018), para 15.
[55] Statement of Expectations to the Payments System Board (June 2018), para 16.

- facilitate competition between issuers; and
- drive more efficient pricing behaviours, since small issuers will need to compete with large issuers whose pricing is significantly lower.

Given the important role that fintechs have played in the Australian market as drivers of innovation, we consider there is a strong case for a targeted dispensation from the interchange cuts for small issuers and fintechs. This would enable small issuers to continue to compete and innovate, in the same way that they have driven falling merchant service fees over recent decades.

Recommendation 7. That the RBA create a small issuer exemption to its proposed domestic credit and debit interchange reductions.

How should a small issuer exemption work?

Our members believe that a small issuer exemption should not be a subsidy. Nor should it be a source of unnecessary regulatory complexity, nor should it be susceptible to being gamed.

We suggest that issuers captured by the exemption should simply be subject to the existing interchange caps, which – having regard to the difficulty of some issuers to subsist on current interchange levels – strikes an appropriate balance while keeping the exemption as simple as possible to implement.

Our members also suggest that the model used in the United States should not be adopted, as we do not consider that an assets-based threshold is the best metric to use in relation to the payments system. We prefer alternatives which are more difficult to game, while also being more predictable and less complex.

In the Whitepaper at Annexure A, it is proposed

> "The Initiatives Group **would suggest that an issuer with fewer than 250,000 credit cards on issue or 1,000,000 debit cards on issue would be considered a small issuer**. A volume-based measurement of "small" might also be considered – the RBA has already regulated a volume-based threshold of 1%, under which, an issuer is considered small and can choose to issue single network debit cards (SNDC). Considering the level of market concentration for debit cards set out above, a threshold of 5%, which is significantly less than

> the volume share of any of the large banks, might be more reasonable."[56] (emphasis in original)

We consider that a volume-based measurement may cause some uncertainty for issuers who in a given year are on the cusp of exceeding the threshold, due either to their own growth or to due to year-to-year fluctuations in market-wide transaction volumes. This would also create pricing uncertainty for cardholders and other stakeholders. Such a model would also create complexity in how there would need to be a mechanism for determining when lower interchange rates would need to commence.

For this reason, we prefer a definition of small issuer which focuses on the number of cards on issue (focusing on those "on issue" at any one time accommodates firms which issue single-use digital card numbers or pre-paid cards). While we acknowledge that under such a model it is possible that an issuer who is near a given threshold might take steps to ensure it is never reached, we believe this possibility could be offset by RBA supervision of card numbers. If an issuer's number of cards was to remain just below a threshold for a sustained period, this would rightly attract regulatory scrutiny.

We suggest that the number of cards nominated by *The Initiatives Group* (250,000 credit cards or 1,000,000 debit cards) is, based on the data available to us, an appropriate threshold. We understand these volumes exclude the big four banks as well as potentially several other large banks.

Although we do not have a settled view on its desirability, we also acknowledge that debit and credit card thresholds of this nature could be applied two ways:

1. if an issuer exceeds either threshold, then it ceases to be eligible for any exemption; or
2. if an issuer exceeds one threshold, then it ceases to be eligible for an exemption in relation to that type of card only. That is, the exemption would be applied separately to debit and credit cards. For example, if an issuer has more than 250,000 credit cards but fewer than 1,000,000 debit cards, then the issuer is not eligible for relief on credit cards (because it exceeds the threshold) but remains eligible for the exemption on debit cards (because it does not exceed the threshold).

[56] The Initiatives Group (September 2025) Survival Of The Fittest Biggest – The Possible Demise of Small Issuers of Payment Cards, p 6.

We acknowledge the latter approach may introduce additional complexity, but it may also help ensure any exemption operates more efficiently, avoiding situations where a large issuer of one type of card is deterred from establishing a business line issuing the other type of card.

Irrespective, we do not consider it necessary to impose a time limitation on the exemption. This is because the Bank routinely reviews the card payments system every five years. If an exemption is implemented, by the next review it is anticipated the Bank would have sufficient data to assess its merits.

We understand the Bank is concerned that a small issuer exemption may not generate sustainable business models. To address this concern, we note that according to 2023 Federal Reserve statistics, after a small issuer exemption was legislated in the United State in 2010, exempted small issuers consistently outperformed large issuers during the available dataset of transaction volume growth (2011 to 2021).[57] This data suggests that an exemption is unlikely to operate as a subsidy which protects small issuers from robust competition. We believe it will instead allow small issuers and fintechs to achieve the scale they need to compete with large issuers.

Recommendation 8. That any small issuer exemption should be simple and not susceptible to misuse.

Recommendation 9. That any small issuer exemption should be reviewed in the course of the next RBA review of the card payments system.

Commercial credit cards

Many FinTech Australia and SBAA members strongly believe that interchange fee caps should not apply to commercial credit cards. In many jurisdictions – including the United States, Europe, and New Zealand – commercial cards are exempt from such regulation. The New Zealand Commerce Commission, for example, chose not to cap commercial interchange fees, explicitly recognising that new market entrants often rely on commercial card issuance as part of their entry strategy.[58]

[57] Board of Governors of the Federal Reserve System (October 2023) 2021 Interchange Fee Revenue, Covered Issuer Costs, and Covered Issuer and Merchant Fraud Losses Related to Debit Card Transactions, p 11.
[58] NZ Commerce Commission (17 July 2025) Retail payment system Interchange Fee Regulation for Mastercard and Visa Networks – Final Decision and Reasons Paper, pp 65 to 66.

Members emphasise that commercial and consumer credit cards serve very different purposes and should not be regulated identically. Commercial cards typically involve higher-value transactions, where interchange revenue is used to fund the features most valued by businesses – such as fraud protection and guaranteed settlement. Transaction volumes in this segment are also relatively small, meaning that capping interchange would have little impact on the RBA's stated policy objectives of reducing merchant acceptance costs and consumer surcharges.

Importantly, commercial cards provide far more than just a payment mechanism. They are a vital source of working capital for SMEs, many of whom struggle to access traditional finance. Around 42% of SME loan applications are rejected, and even successful applicants often face extensive documentation requirements, demands for property collateral, and approval times exceeding six weeks.[59] By contrast, commercial credit cards offer SMEs immediate, flexible financing to:

- bridge invoice payment gaps of 30–60 days;
- purchase inventory during peak demand periods;
- manage seasonal cash-flow fluctuations; and
- respond quickly to growth opportunities without risking personal assets.

For many SMEs, a commercial credit card with a $20,000–$50,000 limit is their only readily available source of flexible finance. These cards are used to cover unexpected costs (eg urgent repairs), smooth operations during quieter trading periods, and invest in business growth. They also facilitate B2B transactions, reducing the need for suppliers to build their own payments infrastructure.

Members also question the RBA's issuer cost study finding that commercial cards are less costly to issue than consumer cards, reiterating concerns that the study's methodology may not fully capture the costs borne by smaller issuers. We note that some FinTech Australia members are sharing their cost economics in their private submissions to show the difference in reality from the aggregated costs in the RBA cost study on commercial v consumer costs.

On this basis, our members stress that removing the economic viability of commercial card issuance would eliminate a critical financing tool for SMEs, with broader negative implications for business resilience and competition. We therefore submit that additional evidence is required before applying interchange caps to commercial credit cards. This approach would be consistent with the caution shown by the New Zealand Commerce Commission in its recent decision.[60]

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[59] OnDeck Australia (12 November 2020) 42% of SMEs rejected by banks turn to family or friends for funding, accessed 1 September 2025.
[60] NZ Commerce Commission (17 July 2025) Retail payment system Interchange Fee Regulation for Mastercard and Visa Networks – Final Decision and Reasons Paper, p 65.

Recommendation 10. That the RBA reconsider the application of its proposed interchange caps to commercial cards.

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

We refer to our response to Question 2.

4. ***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 a settled view on this proposal, however we note that we support any changes which may mitigate the impact of the Bank's interchange reforms on small issuers.

We also note with respect to the issuer cost study, small issuers typically do not have the scale necessary to be receiving discounts or incentives from the schemes to render the net compensation rules relevant for their cost economics.

Transparency of Wholesale Fees

5. ***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 efforts to put downward pressure on wholesale fees.

However, members consider that the proposed transparency measures will only provide modest benefits to merchants. Members agree that it may be useful for merchants to have more data, however it is considered to only have a limited effect in driving competition amongst card schemes. The 'must-take' nature of the fees of card networks means that most merchants and issuers will continue to be price takers.

There is also a danger of overreliance on strictly price-focused data. PSPs face different costs depending on the size of the merchant they are servicing. This reflects a mix of fixed and variable costs, with smaller merchants wearing a greater percentage of the fixed costs (relative to their lower transaction volumes) that are critical to ensuring a stable and secure payment system, such as KYC checks, provision of hardware and fraud protection. This makes comparisons using a percentage cost per transaction challenging and does not give a clear picture of the unit economics of serving different merchants. A like-for-like comparison of costs and fees is also difficult when accounting for bundled pricing plans, where merchants may choose to receive acquiring services bundled with other related or ancillary services.

Given these challenges, members are concerned that cost and fee comparisons could dissuade PSPs from competing on this type of product differentiation, and in turn remove choice from merchants. Any disclosure, therefore, would need to be consolidated at a high-level while accounting for this variance across merchant profile, product type and pricing plan.

Some members have suggested that there would benefit in the RBA publishing aggregate market share information for PSPs (as it does for card schemes) to inform policy responses to further stoke competition in the market and assess their effectiveness.

Members support making the information on merchant statements as simple as possible. Some PSPs already publish additional resources on their websites for merchants seeking further information. These help break down some of the key concepts relating to merchant service fees and surcharging, such as calculating cost of acceptance, and direct merchants to RBA and ACCC resources.

It is unclear, however, whether most merchants would find more detailed, prescriptive information helpful as opposed to simplifying the existing information available to merchants on their statements. If further prescriptive fee information were required, non-standard pricing models (such as blended fees and bundled pricing) would need to be taken into account.

6. ***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?***

Members are supportive of this proposal. Greater transparency should assist acquirers and merchants to make more informed decisions and negotiate more favourable acquiring solutions. However, clearer expectations on what is expected from card networks under this proposal is needed.

Fintech's experience with scheme fee complexity demonstrates why the proposed transparency measures require stronger enforcement mechanisms to be effective. The current tiered fee structures make cost forecasting extremely difficult for payment facilitators offering blended pricing models to merchants, while frequent fee changes require ongoing system updates and compliance costs. The volume-based advantages enjoyed by larger acquirers create structural disadvantages for new entrants that simple transparency alone will not address.

Scheme Fees

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

Many members support a stronger focus on scheme fee transparency, recognising its potential to promote competition across the payments value chain. Transparency in both interchange and scheme fees would help level the playing field for smaller acquirers and merchants, enabling them to make more informed choices and negotiate fairer acquiring arrangements.

Members support placing expectations on card networks to work collaboratively with industry to improve the visibility and accessibility of scheme fee schedules. Given the limited competition between card schemes and the "must-take" nature of scheme participation, there is currently a structural imbalance in bargaining power. Larger merchants are often able to negotiate preferential terms, while smaller businesses face comparatively higher fees and, if also unable to surcharge, are effectively forced to accept scheme fees as price-takers.

Members also welcome the Bank's ongoing efforts to reduce the growth and complexity of scheme fees, including measures to improve least-cost routing adoption. As the RBA's October 2024 Issues Paper notes, the decline in overall merchant service fees has thus far been driven largely by reductions in interchange and PSP margins. However, without greater transparency, it is difficult to determine whether the growth in scheme fees simply reflects broader business cost pressures or exceeds them. Clearer disclosure of scheme cost components would enable more accurate assessment of whether further regulatory or policy action is warranted.

That said, some members remain concerned that the current proposals may not exert sufficient downward pressure on scheme fees. While requiring schemes to justify fee increases is a step forward, there is scepticism about whether such requirements will meaningfully constrain pricing power. For this reason, some members favour stronger measures – such as fee caps, limiting fee increases to CPI, or introducing industry standards requiring scheme fees to remain "locked" for a defined period to provide greater certainty and predictability for PSPs.

We therefore recommend that clearer expectations be set for card networks, including the development of industry standards governing fee increases, notice periods, and transparency obligations. Such measures would provide smaller acquirers and merchants with the tools they need to compete more effectively, aligning with the RBA's objectives of efficiency and competition in the payments system.

In addition, we note that some members have indicated they would value having greater visibility over scheme fee rebates, for example through improved transparency over net scheme fees.

Recommendation 11. That the RBA place clearer expectations on card schemes.

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

We refer to our responses to Questions 5, 6 and 7.

Transparency of Merchant Fees

9. ***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***

Many members are not convinced that this information will be useful for merchants, particularly when weighed against the cost of producing and publishing this information. Some members are also concerned that requiring the disclosure of commercially sensitive information, such as on wholesale costs, margins and transaction volumes may reduce competition by deterring acquirers from entering the Australian market.

Size threshold and category breakdowns

Members consider that the thresholds for acquirers are not appropriate as they do not adequately reflect what a small or medium sized business is. Members suggest it would be more appropriate to refer to the Australian Tax Office definitions to define small, medium and large merchants, for example a small business is a business with an annual turnover of less than $10 million. The current thresholds and categories may therefore be misleading for merchants, since PSPs also face different costs depending on the size of the merchant they are servicing.

Frequency of publication & implementation timeline

Members note that publishing data will be costly for fintechs to administer and share publicly. It is suggested that the publication requirements should only apply to large acquirers initially in order to determine whether the publications fulfil their intended purpose before applying to smaller acquirers. Members question the benefit of sharing the data and query who is capable of analysing it. Concerns are raised over whether merchants would find more detailed information helpful as opposed to simplifying existing fee information.

Recommendation 12. That the RBA revise its small business definition for acquirer transparency.

10. **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?**

We refer to our response to Question 9. As noted in our previous submission, it is unclear whether merchants would find more detailed and prescriptive information helpful as opposed to simplified information. Many PSPs already publish clear pricing information on their websites.

Members also suggest that the proposal is unlikely to promote switching to other acquirers. As the RBA's paper states, 40% of merchants are on simple blended rates. These merchants will benefit from greater transparency, however those on interchange plus and plus plus arrangements will not benefit. A 'like-for-like' comparison of costs and fees is difficult when considering bundled pricing plans as merchants may choose to receive acquiring services bundled with other related or ancillary services. It is therefore considered that the majority of merchants would be unlikely to analyse the proposed data. The transparency measures should therefore be limited to simple blended rates only and kept at a high-level.

Some members consider that the disclosure of acquirer information is only beneficial if the reporting involves the disclosure of standardised pricing information. The diversity of market offerings by acquirers may lead to misleading comparisons being made. We consider that it is important to ensure comparisons actually enable merchants to make informed choices, and part of this entails a meaningful comparison of value.

These members note that the RBA already publishes average merchant service fees on its website, broken down by scheme and product type for debit, credit and charge cards. They suggest that is not clear whether additional information would provide meaningful information. Some members therefore suggest that price comparisons should be limited to blended plans, since this is where merchants would benefit the most from comparative data and it is also where these comparisons are easiest to develop.

We are also concerned that publishing the proposed data may risk potential convergence on pricing and reduced incentives to innovate.

Recommendation 13. That in developing transparency initiatives for acquirer pricing, the RBA should ensure like-for-like comparisons and ensure the data which is released also gives insight into the value being offered by each acquirer.

Least-cost Routing (LCR) of Debit Card Transactions

11. 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?

Members consider that the RBA should focus further on accelerating the uptake of LCR to create further competitive pressure between card networks. It is also suggested that the RBA could place further pressure on banks by requiring that LCR be enabled by default for all merchants for in-person transactions (and merchants could opt out if they choose).

LCR has been a valuable lever in directly reducing card payment costs for merchants and dialling up competitive pressure between card networks. We have been encouraged to see non-bank PSPs spearhead innovations in this area by developing solutions that enable routing based on transaction size as well as payment network, and dynamic LCR routing. However, given that only a proportion of transactions are able to access LCR, its effectiveness has a ceiling. Accelerating the uptake of LCR would help to further catalyse the benefits outlined above. Some members believe this would be best achieved by potentially requiring that LCR be enabled by default for all merchants for in-person transactions (with merchants able to opt out if they choose).

Recommendation 14. That the RBA mandate the use of opt-out least cost routing.

Policy Options for Consultation

12. 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?

We refer to the responses made to Questions 1 to 12.

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

Our members recommend that the Bank delay the commencement of the ban on surcharging and the reforms to interchange by 12 months.

We note that an extended transition period to benefit small merchants and issuers would be consistent with the Government's *Statement of Expectations to the Payments System Board*, which state that:

> "**Where the PSB has powers to make orders or rules and the exercise of that power would have significant implications for the market or regulated population, the Government expects the PSB will** consult with stakeholders in a way that affords sufficient opportunity for any proposed changes to be responded to and to **provide appropriate time to implement any resulting regulatory change**."[61] (emphasis added)

14. 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?

We refer to the responses provided in Questions 1 to 12 insofar as they relate to the draft standards proposed.

[61] Statement of Expectations to the Payments System Board (June 2018), para 26.

Annexure A

Survival Of The ~~Fittest~~ Biggest – The Possible Demise of Small Issuers of Payment Cards

Proposed interchange reforms and what they mean for small issuers in Australia

Written by:

The Initiatives Group

On behalf of:

FinTech Australia

Why we are having this discussion now…

Every five years the Reserve Bank of Australia (RBA) undertakes a review of payments system regulation in Australia. **The aim of the review is to ensure that the RBA's objectives of competition, efficiency and safety in the payments system are being met.**

The review allows for multiple rounds of public consultation in the form of written submissions.

The current review commenced with the Merchant Card Payment Costs and Surcharging Issues Paper released in October 2024, with submissions providing feedback from industry stakeholders due in December 2024.[1]

In July 2025, the RBA released its detailed Consultation Paper that took into consideration the earlier submissions, and outlined its reasoning and intent with respect to changes in card-based payments, for implementation in mid-2026. Further public submissions on these proposed RBA regulatory amendments, due 26 August 2025, were invited.

Potential changes to the RBA's purview of the payments system should be recognised…

The Payment Services (Regulation) Act 1998 (PSRA) provides the RBA with the power to regulate payment systems when it is deemed in the public interest. The RBA can "designate" payment systems to ensure they are safe and efficient for participants. As an example, the card-based payment systems of Visa, Mastercard and eftpos are all designated.

The PSRA is currently undergoing reform to expand its scope to include all payment system participants, including Buy Now Pay Later (BNPL) providers and mobile/digital wallets, such as Apple Pay, Google Pay and PayPal. In their current format the reforms have passed the House of Representatives and, at the date of this Whitepaper, are with the Senate.

We raise this here as BNPL and digital wallets introduce new processes, pricing and costs into the payments system that were not contemplated when the PSRA was enacted in 1998 – we presume that, when the reforms are legislated, the RBA will commence consideration of investigations, controls and regulations for these payment systems that may influence the impact of decisions being made within the current review.

But, specifically back to cards…

Yes, cards are used to make payments. However, there are less obvious roles for cards in customer acquisition, retention and providing funding for financial institutions – banks and fintechs alike.

1. **Customer acquisition**: cards have traditionally been a way to attract a new customer.

    - Applying for a credit card is relatively low commitment and does not require the customer to have any other accounts with a financial institution. By often attracting higher value customers, they provide a good platform for cross selling other more profitable products;
    - Debit cards help drive transaction account signup, particularly amongst younger, more risk averse customers – indeed the issuance of a debit card associated with a transaction account would be considered "table stakes" today, along with being able to load it into a digital wallet. Like credit cards, transaction accounts are a good platform to cross sell and build more profitable relationships.

2. **Customer retention** – at their most basic, cards are an advertisement for the bank brand that sits in the customer's wallet. In turn, every time the card is used (and that is a lot), they are a reminder of which financial institution you are using – this is evidenced by statistics published by the RBA that indicate there are over 26 transactions per month for each credit card account[2] and over 40 transactions each month[3] for each debit card holder in Australia.

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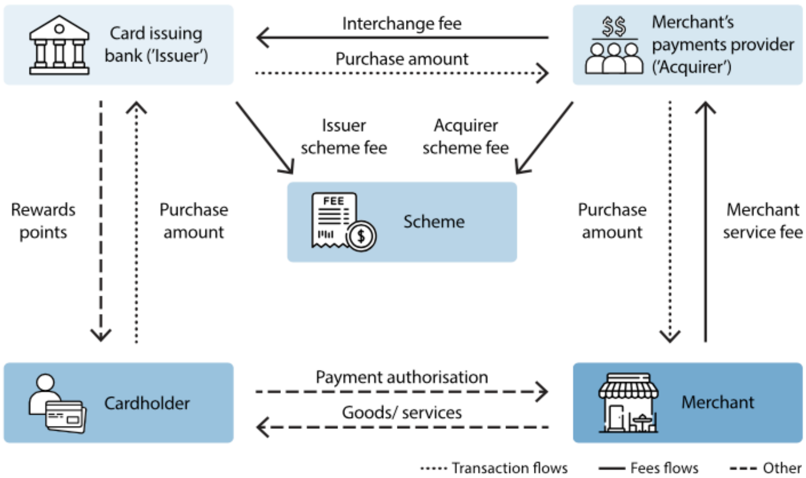
[1] Public submissions can be accessed at https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/2025-01/ . Stakeholders were also permitted to make private submissions for the RBA to consider.
[2] MWE Consulting Australian Payment Cards Report, June 2025
[3] RBA Debit Card – seasonally adjusted series to May 2025, ABS 2021 Census Statistics showing 22.6million Australians over 10 years old, The Initiatives Group proprietary data showing approximately 50 million debit cards on issue (i.e. 50m cards making 997 million transactions per month = 19.9 transactions per card per month, with Australians over 10y.o. holding 2.2 cards each = 44 transactions per person)

3. **Funding** – card transactions earn "interchange" income (more about that shortly) for their issuers. This income is to cover to the basic costs of issuing and maintaining cards, and provides an incentive for the financial institutions to issue cards, which for the economy are (given the transactions they are typically used for) the most cost-effective payment methods. Reductions in interchange reduce the ability and incentive for institutions to issue cards.

   For fintechs, interchange is a contributor to their being able to enter a market offering innovative solutions and then to invest in further innovative customer solutions. For banks, it is a "ticket to play" in banking services, and the transaction accounts to which these cards are linked provide the lowest cost funding for lending activities – more of a challenge for small banks than large.

Interchange – back to the basics…

Interchange is a wholesale fee paid by a merchant's acquirer[4] to the issuer of the cardholder's debit and/or credit card. When a cardholder makes a purchase, the merchant service fee (MSF) paid by the merchant includes the interchange fee (as well as a payment scheme fee, a transaction processing fee and a margin for the merchant's payments acquirer). As such, the total MSF, which includes the interchange fee, is ultimately borne by the cardholder within the merchant's price of goods:



Source: RBA.

The level of interchange in Australia **has been regulated by the RBA since 2003**, and is currently set for credit cards at a weighted average value ("benchmark") of 0.50% of purchase value (with a cap of 0.80%), and for debit cards a weighted average value of 8 cents per transaction (with a cap of 10 cents, or 0.20% of value if the interchange rate is specified in percentage terms).

It is not a fee paid to, or income for, card schemes such as Visa, Mastercard or eftpos, although the card schemes are instrumental in setting the value of interchange that is paid. The schemes do this in the interests of:

- Encouraging the issuing and promotion of certain types of cards (e.g. premium and commercial credit cards, which have a range of additional benefits funded by a higher interchange rate than standard no-frills cards); and
- Encouraging the acceptance and promotion of more secure forms of card payments at merchants (e.g. the use of 2-factor authentication and of the tokenisation of card numbers).

Over the past two decades, this has led to a proliferation of interchange categories – one card scheme has 68 different categories for credit cards, whilst another card scheme has 18 interchange categories for debit and prepaid cards.

[4] The merchant acquirer facilitates the merchant/retailer/company to accept card-based payments.

How interchange may benefit all…

One scheme describes interchange as helping "maximising the value delivered to all stakeholders"[5] of electronic payments:

- Merchants can benefit from reducing the cost of payments (e.g. versus the costs of accepting cash), increased sales, and improved security & fraud protection;
- The economy can benefit from an overall lower costs of payments, and reductions in the "black" & "grey" economies (e.g. avoidance of GST); and
- Consumers receive convenient, secure, efficient and safe access to their money to make purchases.

Card issuers, such as banks and fintechs, can offer payment cards with features that suit the needs of their target consumers that, in turn, allows them to more effectively compete to attract and retain customers – from interest free periods on credit cards, to more convenient transaction accounts, to transaction/accounting-integrated commercial cards. Indeed, within the benchmark and cap regime, commercial cards often have maximum rates of interchange but, in return, can provide merchants with lower payment acceptance cost (compared to issuing invoices, particularly for smaller values), administration cost savings, and potentially lower fraud rates.

What interchange is designed to fund…

For the initial determination in 2003, the RBA specified what costs could be covered by interchange fees. Aside from the cost of funding interest-free period offered by issuers of credit cards[6], the table below summarises the domestic transaction costs that interchange was designed to cover in Australia:

Transaction processing & authorisation costs include:	Fraud & fraud prevention costs include:
Receiving, clearing, posting & other processing to cardholder accounts	Account recruitment – fraud risk, 100pt check, etc
Receiving & processing retrieval requests	Replacement of lost & stolen cards
Settlement with acquirers/Schemes	Card blocking
Chargeback processing	Fraud related card delivery and activation
Scheme fees (net of rebates from card schemes)	Fraud prevention systems, software etc.
Cardholder servicing	Fraud related cardholder servicing
Card divisional management costs – direct staff, direct systems and premises	Fraud losses/write-offs

Interchange was **not intended to cover value added benefits, such as credit card rewards programs, travel insurance, business spend reporting, etc.** which have always been considered by the RBA as costs for which a user-pays approach is to be utilised by issuers.

Notwithstanding, when designing card products to meet customer needs, issuers will consider interchange revenue, as well as the value-added costs, when determining what products to develop and support to compete effectively - as well as how they will be priced. In short, less interchange will mean customers having to be charged more, or less investment to be made in product development or even withdrawal of a product from market.

The relationship between interchange fees and scheme fees…

As noted above, interchange is a fee that is earned by card issuers to cover the legitimate costs of issuing a card and is not a revenue for the card schemes.

[5] https://www.mastercard.com.au/en-au/business/overview/support/interchange.html
[6] Necessary to cover the funding cost of the credit card outstanding balances that do not accrue interest, due to the cardholders paying off the account in full by the "payment due" date.

A scheme fee, which is included amongst the costs allowed when setting interchange fees, is a charge that is paid to card schemes by both card acquirers and card issuers. The RBA describes scheme fees[7] as:

- Assessment fees – used to cover the costs of operating and maintaining the card network's infrastructure;
- Processing fees – charged for processing and authorising transactions;
- Licensing and access fees – charged for use of the network and its brand; and
- Other Fees – charged for discrete services such as chargeback processing, security features, new technologies, compliance and currency conversion.

Scheme fees have been developed over nearly 70 years - as long as card networks have been in existence. They have become complex and are set based on commercial considerations. There are many different scheme fees which are levied based on the type of transaction – in one study[8] The Initiatives Group observed individual online transactions where 14 different scheme fees were applied.

The amount for each applicable scheme fee tends to be a flat rate either in cents per transaction, a percentage of the value of the transaction or both, with many fees being the same for credit and debit card transactions.

However, even with each fee in theory being the same for every issuer, the net cost of scheme fees differs between issuers due to the use of rebates based on their size and/or investment activities and/or importance to the network … larger issuers will typically receive a larger "rebate" on scheme fees than smaller issuers. Indeed, in another study[9] The Initiatives Group **calculated small issuers' net scheme fees as being 2.5 times the net scheme fees paid by large issuers.** This is why the RBA allowable cost of scheme fees is described as "net". The consequence can be that large issuers have a competitive advantage of being more able to invest in products and/or charge their customers lower or no transaction or account fees.

Distinguishing a "small" issuer from a "large" issuer…

The Australian banking sector is **highly concentrated**. No surprises. The Australian card issuing sector is also highly concentrated, dominated by the major banks. Still no surprises.

Whilst definitive market shares are difficult to pinpoint, we can take a look at some proxy data that is of interest:

1. **Credit cards** – Monthly data for the share of personal credit card balances measures share of 40 APRA reporting credit card issuers in $ value. In June 2025 the report[10] indicated that the combined market share of CBA, NAB, Westpac and ANZ account for 78.3% of balances. The lowest amongst these was ANZ at 13.2%. The next biggest issuer after the major banks had a market share of 1.5%.

2. **Debit cards** – The ACCC Retail Research Report, 2023[11] asked a sample of 1,729 consumers, who held a transaction account (the account which debit cards are linked to / issued from), with which banks they held accounts. 91% held an account with the Big 4 banks (allowing for Suncorp having been acquired by ANZ), and 67% indicated that their "main" account was with a Big 4 bank. It would not be unreasonable to suggest that the debit card attached to a "main" account would be the one most used, and thus earn the greatest amount of interchange revenue for the issuer. Similar to the situation with credit cards, the "main" account market shares fall off dramatically with the next 4 banks having 9%, 2%,2% and 1% respectively.

Admittedly, this data is only about "established" banks rather than the fintechs who have more recently entered the cards market. However, few new entrants are card issuers in their own right, and they are more likely to access card products via an aggregator or BIN sponsor (for example, Cuscal or EML Payments), who could be considered "small issuers" when compared with the large banks.

[7] https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/backgrounders/backgrounder-on-interchange-and-scheme-fees.html#:~:text=What%20is%20a%20scheme%20fee,maintaining%20the%20card%20network's%20infrastructure.
[8] The Initiatives Group 2022 (proprietary investigation)
[9] The Initiatives Group 2020 (proprietary investigation)
[10] MWE Consulting Australian Payment Cards Report, June 2025
[11] https://www.accc.gov.au/system/files/SEC%20Newgate%20Research%20retail%20deposits%20research%20-%20final%20summary%20report.pdf

Notwithstanding, small fintech issuers (such as Revolut and Wise) have reduced complexity and costs for cross border transactions, Zeller provides a card payment solution tailored for its merchant customers, and Archa delivers a corporate credit card solution targeted at an under-served market.

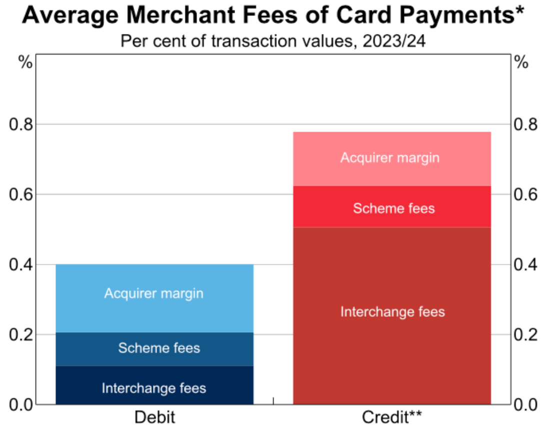
With respect to some metrics, card issuing relies on scale and gradually falling margins in the past have increased the number of cards required to achieve economies of scale. The Initiatives Group **would suggest that an issuer with fewer than 250,000 credit cards on issue or 1,000,000 debit cards on issue would be considered a small issuer.** A volume-based measurement of "small" might also be considered – the RBA has already regulated a volume-based threshold of 1%, under which, an issuer is considered small and can choose to issue single network debit cards (SNDC). Considering the level of market concentration for debit cards set out above, a threshold of 5%, which is significantly less than the volume share of any of the large banks, might be more reasonable.

Whilst many small issuers would be well below these suggested thresholds, the thresholds provide incentive for investment and innovation for growth, and remain significantly lower than the volumes of cards issued by the large banks.

Back to the RBA consultation...

In the consultation paper released in July 2025, amongst other things, the RBA states that "*the interchange rates paid by businesses to card providers are too high, especially for small businesses*".

The RBA is advocating removing the ability for merchants to surcharge[12], by allowing card schemes to reintroduce their "no surcharge rules" that existed in their regulations for Australia prior to 2003. The following table shows the components within MSFs that merchants (albeit a small minority of merchants) have been able to surcharge:



* Domestic card transactions. The acquirer margin component is estimated as the difference between average merchant fees and wholesale costs (the sum of average interchange and scheme fees).
** Mastercard and Visa Credit only. Interchange fee component is calculated by taking each scheme's weighted average credit interchange rate and weighting those rates by the number of transactions for each scheme.
Source: RBA.

In preventing merchants from recouping these payment acceptance costs, the RBA estimates that the total cost to those merchants who currently surcharge will be $1.2 billion. To compensate for this lost revenue to merchants, **it is proposed that interchange rates be lowered in order to save the same $1.2 billion** across the total, broader merchant community.

More specifically, the consultation paper proposes the following changes to interchange regulations:

- For Australian issued **credit card** domestic transactions, removing the current weighted average benchmark (currently 0.5%) and cap (currently 0.8%), and moving to a simple, hard cap of 0.3% of transaction value. We would note that 0.3% is also the cap that was introduced in the UK and Europe in 2015. With the new lower cap,

[12] Removing surcharging on both debit and credit card transactions accepted by Australian merchants.

it is not unreasonable to suggest that all domestic transaction interchange fees will migrate to a single rate of 0.3% in order to secure revenue for card issuers;

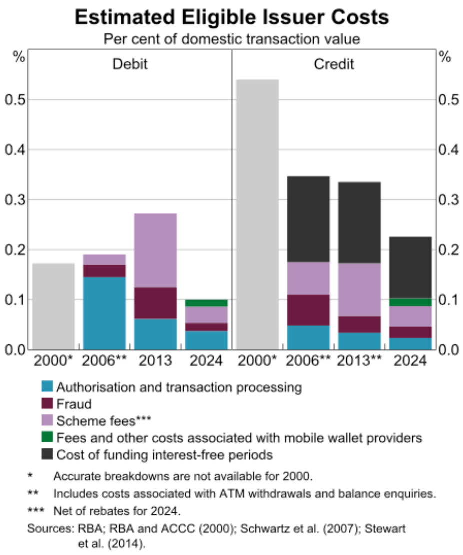
- For Australian issued **debit and prepaid card** domestic transactions, removing the current weighted average benchmark of 8 cents per transaction and a cap of 10 cents, and moving to a simple, hard cap of 6 cents or 0.12% of transaction value if expressed as a percentage (previously capped at 0.20%);

- For **foreign issued card transactions at merchants in Australia,** introducing a cap of 0.20% of transaction value for debit cards and 0.4% of transaction value for credit cards for "card present" transactions. For "card not present" transactions the proposed caps are 1.15% for debit card and 1.5% for credit card transactions.

Recalling that earlier we described interchange as revenue paid to card issuers to cover eligible costs, the table below shows the estimated eligible issuer costs, based on the 2024 data recently collected by the RBA. It is important however to note that –

(a) due to industry concern re interpretation of eligible costs and the accuracy of data provided, the 2024 cost data is under discussion between stakeholders and the RBA as part of the consultation; and

(b) the data displayed **is an average across the whole issuer community,** with no differentiation between large and small issuers.



In the RBA consultation paper it is noted that the underlying data of 2024 costs showed:

"*Evidence from the Issuer Cost Study suggests that smaller issuers* ***do*** *face materially higher costs than larger issuers*"

Further, the RBA's table entitled "Estimated Eligible Issuer Costs related to Card Issuing and Processing, excluding the Major Banks" suggested that the small issuers are currently incurring eligible interchange costs of 10 cents per debit card transaction, significantly above the proposed hard cap of 6 cents.

How the eligible costs may differ between large and small issuers…

Small issuers do not have the economies of scale to deliver the cost efficiencies that large issuers enjoy. Nor do they have the same ability to cross-subsidise[13] the provision of card services and/or investing in the development of their card portfolios compared to their larger brethren. Small issuers are therefore disproportionately reliant on income earned through interchange fees, especially early-stage fintechs which have not yet diversified their income sources.

[13] E.g. utilising surpluses from other financial products offered by the financial institution.

This means that small issuers typically have to charge customers more for using their card products. Indeed, many large issuers provide transaction accounts and debit card transactions for free, putting smaller issuers at a competitive disadvantage if they charge monthly account-keeping fees and/or debit card transaction fees.

Analysis from a recent project undertaken by The Initiatives Group (focussing on a debit card portfolio of fewer than 150,000 cards issued by a Credit Union) showed that, despite the issuer charging transaction account and debit card usage fees in the vicinity of $2.5 million, the debit card portfolio still operated at a loss of approximately $500,000. This loss result was after charging these member fees and earning interchange revenue at over 6 cents per transaction, as shown below.

Credit Union X	**Debit Card Transactions**
Annual data	
Transaction Volume FY22-23	26,731,793
Transaction Value FY22-23	$ 1,540,655,200
Average Transaction Value	$ 57.63
Revenues	
Interbank/interchange/CRF/etc income	$ 1,715,234
Interchange per transaction	$ 0.064
Transaction Fee income paid by Members	$ 1,017,302
Service Fee income paid by Members	$ 906,094
Allocation of part of monthly Account Keeping Fee paid by Members	$ 681,604
Payment Scheme rebates/etc	$ 211,317
Total Revenue	$ 4,531,550
Revenue per Transaction	$ 0.170
Costs	
Payment Scheme Fees on transactions	$ 2,790,886
Switching / Processing Fees on transactions	$ 1,007,910
Fixed costs external (including Scheme membership)	$ 423,862
Fixed costs internal	$ 386,692
Other costs	$ 420,586
Total Cost	$ 5,029,936
Cost per Transaction	$ 0.188
Margin	
Total	$ (498,386)
Margin per Transaction	$ (0.019)

Anecdotal evidence, which further demonstrates the challenges for small issuers, is that of an example where a small issuer's debit card being used for a $200 transaction via Apple Pay attracted an Apple Pay fee of 8 cents and a scheme fee of 6 cents, meaning that a 6 cents per transaction interchange fee (the RBA's proposed cap) would not even cover the charges levied by Apple - forcing the issuer to incur a significant loss on the transaction.

So the pressure is already on small card issuers to charge for transactions, in order to try and make their cards an economic proposition, and the RBA's proposed reductions to the interchange regime will only increase this burden.

Consequences of charging more and/or being able to invest less …

For small issuers, who already struggle to compete with the resources (and customer inertia to change) of large issuers, the consequences are relatively straightforward:

- higher priced products are less competitive >> particularly when others are offering them for free;
- there is likely a "speed bump" for innovation >> if revenue does not cover processing costs, then there are certainly no excess funds for new product development;

- payment products may be withdrawn >> loss-making products may have to be dropped from the range of offerings;
- customers may choose to go elsewhere >> particularly to the major banks, who are generally offering fee-free transaction accounts with debit cards attached;
- indeed at the extreme small issuers may fail (many of Australia's neo-banks, such as Volt and Xinja, with restricted or full ADI licencing have failed – in part because they were losing money on every transaction) and potential new market entrants may be discouraged from launching in Australia;
- for small banks, the cost of funds can increase as customer deposits in transaction accounts (the least expensive form of funding) decrease; and
- the sum of above, particularly for fintechs, can potentially undermine their ability to export Australian innovation to overseas markets.

Indeed, the RBA consultation paper noted that:

- "*International card networks, major banks, groups representing large merchants, and some PSPs opposed lower interchange benchmarks, arguing that . . . competition in the issuing market might weaken, because lower interchange fees could threaten the viability of smaller issuers or new entrants, which tend to rely heavily on interchange revenue*";

So there is a serious risk that the dominant players in the card issuing market in Australia will become even more dominant, and the limited market share serviced by small issuers will reduce even further. The big get bigger and the small disappear into obscurity.

Consequences of interchange regulation elsewhere suggest that the challenges for small issuers in Australia will be real ...

In both the UK & EU, where interchange fees were capped on consumer debit cards at 0.2% and consumer credit cards at 0.3% (Interchange Fee Regulation on debit and credit cards, 2015) and the USA where debit card interchange was capped for cards issued by financial institutions with net assets in excess of US$10 billion (Durbin Amendment, debit cards only, 2010), it is reported that reduced interchange revenue for card issuing banks has led to increased fees for transaction accounts, increased fees/fewer benefits on cards and, in some cases, card products being withdrawn from the market[14].

The University of Chicago, referenced in footnote 14 below, also reports that whilst fees have been increased, the net result has been an overall reduced level of revenue for issuers.

Potential solutions that may promote competition and public interest, without changing the macro impact of regulatory reform...

As covered earlier in this paper, small issuers are very small by comparison to the major card issuers. Separate to fintech card issuers, in its December 2024 issues paper "Review into Small and Medium-sized Banks" the Council of Financial Regulators' indicated that the 74 smallest banks accounted for only 6% of the banking system – another proxy to their presence in the payments market.
Whilst providing solutions needed by their target customers, small issuers already struggle today to compete with large issuers. Further restriction of their ability to compete (or indeed enter a market) through regulatory reduced income threatens their sustainability and appears counter-productive.

This would suggest that to "carve out" small issuers from the proposed interchange amendments, for example those who have fewer than 1 million debit cards on issue or fewer than 250,000 credit cards on issue (data that is accessible by the RBA), would both provide innovation & investment growth "headroom" and make little difference to the macro market impact of the RBA's proposed regulatory changes. Similarly a volume-based measure of, say, 5% market share might be an alternative.

[14] University of Chicago Law School 2013 https://chicagounbound.uchicago.edu/law_and_economics/652/

Potential actions, which would be subject to review at the next RBA PSB Consultation in 5 years' time, to protect small issuers could include:

- Allowing higher interchange rates for both debit and credit card transactions, consumer and commercial cards, that better reflect their costs of issuing cards – even just keeping the existing interchange regime for these issuers would help;
- Capping scheme fees paid by small issuers. As noted earlier, The Initiatives Group is aware of instances where net scheme fees for small issuers have been 2.5 times those of large issuers; and
- Increasing the threshold under which Single Network Debit Cards can be issued (currently 1% market share), in a market where the large issuers have market shares between 15%-27% - lowering the costs associated with issuing debit cards (only one scheme to support and one set of mandates with which to comply), helping to avoid disincentivising fintechs and small banks from investing in innovation and growing their debit card portfolios.

And in conclusion…

Whilst the RBA's mandate to promote efficiency, safety and competition is supported by all participants in the payments economy, payments regulation is complex and has to cope with a non-homogeneous payments landscape.

Whilst simplification is an attractive concept, regulation can and has been shown to have unintended consequences … some of which have been identified and discussed within the multi-stage consultation process that the RBA undertakes every 5 years.

The focus of this paper has been consequences, both intended and unintended, for small issuers from lower payment card interchange rates. It is these players who often offer both innovation (e.g. bringing new technologies and platforms into the market) and targeted services (e.g. to better serve niche customer segments).

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Annexure B

MANDALA

Unit Economics, Competition and Surcharging Analysis

Prepared for FinTech Australia

DECEMBER 2024

Contents

MANDALA

This document is intended for general informational purposes only. The analysis in this document was commissioned by FinTech Australia and prepared by Mandala.

Mandala is an economics research and advisory firm. Mandala specialises in combining cutting-edge data and advanced analytical techniques to generate new insights and fresh perspectives on the challenges facing businesses and governments.

Note: All dollar figures are Australian dollars unless indicated otherwise.

Contents

Key points

1. **Fintech PSPs operate with lower unit economics than acquirer-issuers. Restricting their pricing models could make their operations unsustainable.**
    - Smaller merchants bear a higher percentage of fixed payment processing costs, which are essential to maintaining a stable and secure payments system.
    - Large acquirer-issuers use merchant acquiring services to retain SMBs and generate indirect revenue through lending, transaction accounts and interchange.
2. **Fintech PSPs have increased competition in the merchant acquiring market. If Fintech PSPs exit the market, merchants would lose access to a broad range of payment and payment-related services, and long-term MSF may rise.**
    - Merchant acquiring has the lowest market concentration in the payments value chain, resulting in greater transparency, improved quality, and better user experience.
    - The entry of new Fintech PSPs has reduced market concentration in PSP/acquiring, leading to a decline in average merchant service fees. This ultimately benefits consumers through lower prices and reduced surcharges.
    - 77% of merchants report satisfaction with their Fintech PSPs, compared to only 44% with acquirer-issuers (e.g., big banks).
    - If differentiated pricing becomes incentivised or mandated, some Fintech PSPs may face increased cost pressures, potentially leading to market exit.
    - With reduced competition in the market, average MSF may rise to pre-2016 levels (15-20bps higher than today), costing small businesses ~$400M in additional payment processing fees.
3. **Small and micro businesses are surcharging to help offset rising costs. There are viable payment alternatives to a surchargeban that are surcharge-free for consumers.**
    - Small businesses face broad-based cost increases, with approximately 50% operating at a loss.
    - A surcharge ban, whether debit-only or total, would disproportionately impact small businesses with turnovers between $100K and $1M.
    - A survey shows that 36% of small merchants surcharge on card transactions, with the highest adoption among those earning $100K–$250K annually.
    - In response to a total or debit card surcharge ban, merchants are most likely to raise prices or encourage customers to pay with cash.
    - Surcharge-free payment models provide an alternative to banning surcharges, potentially saving consumers up to $500 million in fees.
4. **Micro-merchants are reliant on PSPs with fixed pricing models for their payment processing needs.**
    - Approximately 300K small merchants are on simple pricing plans, with 68% of micro-merchants adopting fixed pricing.
    - ~80% of small merchants adopt fixed pricing because it is simple, easy to understand, and straightforward to compare.
5. **LCR enablement is driving costs savings for merchants, even for those on simple plans.**
    - 70% of merchants have LCR enabled for in-store debit card transactions, with the highest enablement among those on fixed plans (95%).
    - Acquirers with the highest LCR enablement have started reducing simple plan rates, demonstrating that wholesale cost savings for PSPs are indeed being passed on to merchants.

Glossary – definitions of terms used throughout this document

Term	Definition in context of this document
Blended pricing	A pricing structure for payment processing services where certain transaction types are combined into a single price. For example, one price applies to all Visa and Mastercard transactions (including debit and credit), while a different rate applies to eftpos transactions.
Unblended pricing	Pricing structure for payment processing services where merchants pay different % rates for each transaction based on which payment method was used (synonymous with differentiated pricing).
Fixed pricing	Pricing structure for payment processing services where merchants pay a flat % per transaction across all networks, transactions, and card types.
Simple pricing	Synonymous with fixed pricing.
Differentiated pricing	Synonymous with differentiated pricing.
PSP	Payment Service Provider who provides any payments processing services to any customer type (merchant or Payfac).
Fintech PSP	New Fintech entrants to the payment facilitator market, generally used to describe non-bank providers of payments processing services, synonymous with Payfacs, often not an acquirer themselves.
Large Acquirer	Acquirer that primarily serves large merchants and Fintech PSPs with acquiring services.
Issuer-Acquirer	Acquirer that also is a significant card issuer – primarily referring to the big 4 Australian banks.
Payfac	Payments Facilitator, synonymous with Fintech PSP.
LCR	Refers to least-cost routing, a functionality that routes payments through the least expensive payments rail.

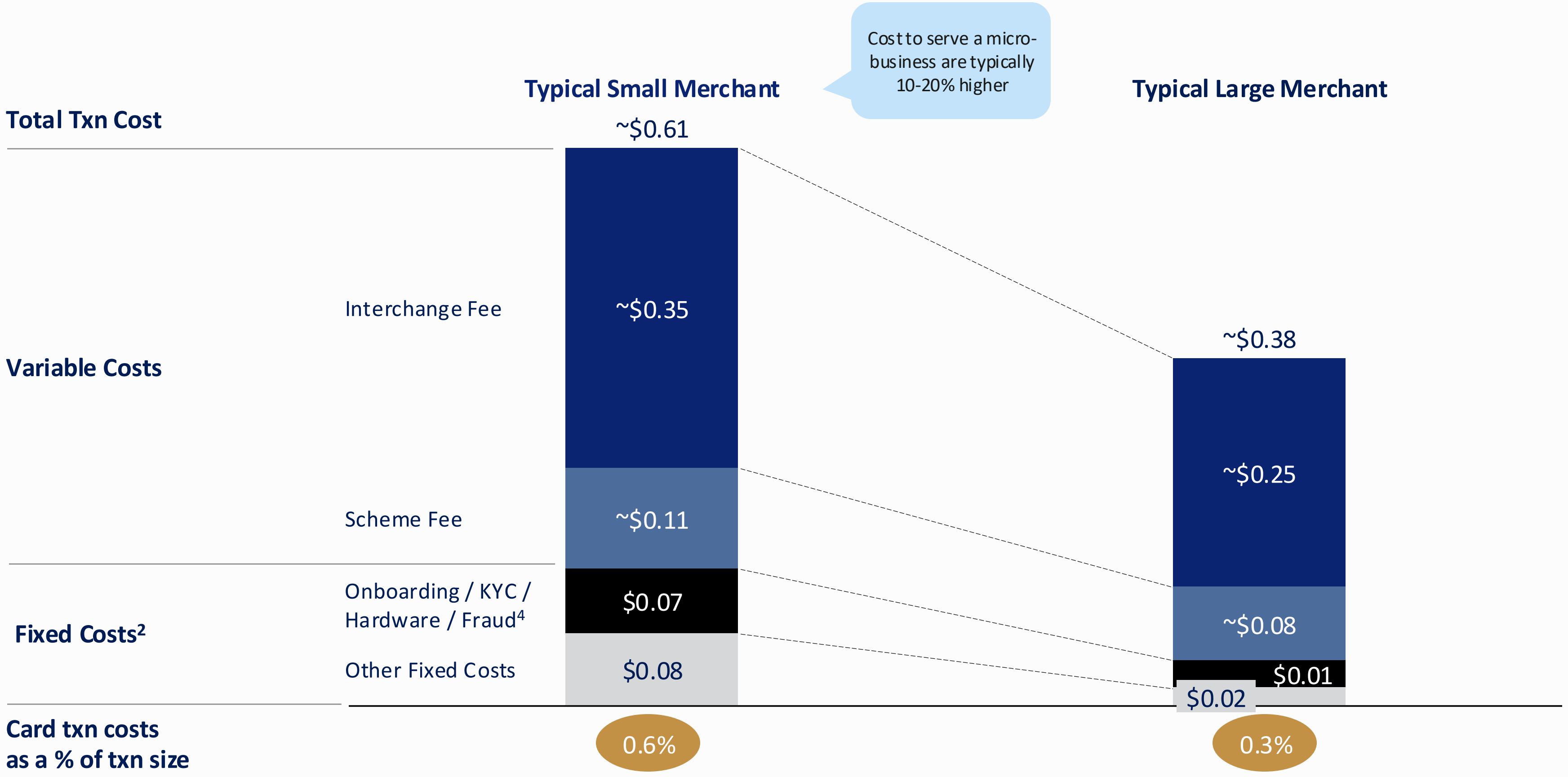
Contents

Smaller merchants wear a larger % of fixed payment processing costs. These costs are an unavoidable part of ensuring a stable and secure payment system

Indicative numbers

Typical acquirer cost to serve small merchant vs. large merchant[3]

Typical merchant transaction costs[1], $, 2024



Key findings

- Small merchants incur approximately **0.6%** of the total transaction value as direct transaction costs, compared to **0.3%** for large merchants.
- Fixed costs represent approximately **25%** of total transaction costs for small merchants, compared to approximately **15%** for large merchants and include **necessary components for providing a stable and secure payment system.**
- Core variable fees (interchange + scheme fees) are **~30%** cheaper for large merchants due to scale, allowing for significant negotiating power over fee structure.

Notes: 1) Assumes $100 transaction, does not factor additional fees a PSP would incur including switching fees and operational costs associated with provision of broader services 2) Other Fixed Costs include other direct costs including marketing, customer support related costs 3) Margin of error of ~5% either way 4) Necessary payment components for secure payments system.
Source: Expert interviews, RBA

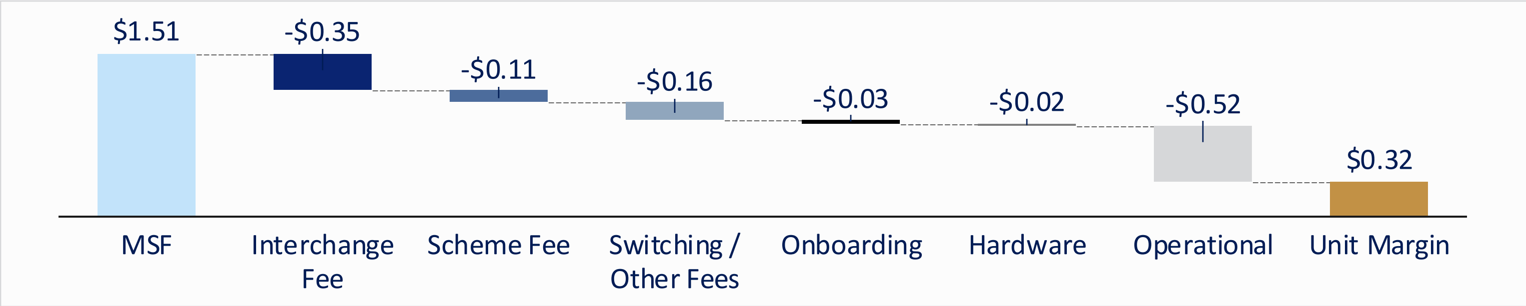
Large acquirers use merchant acquiring services to retain SMBs and drive indirect revenue (e.g. via lending, transaction accounts)

Indicative numbers

Transaction unit economics for Fintech PSPs vs. Large Acquirers when serving small merchants[2]

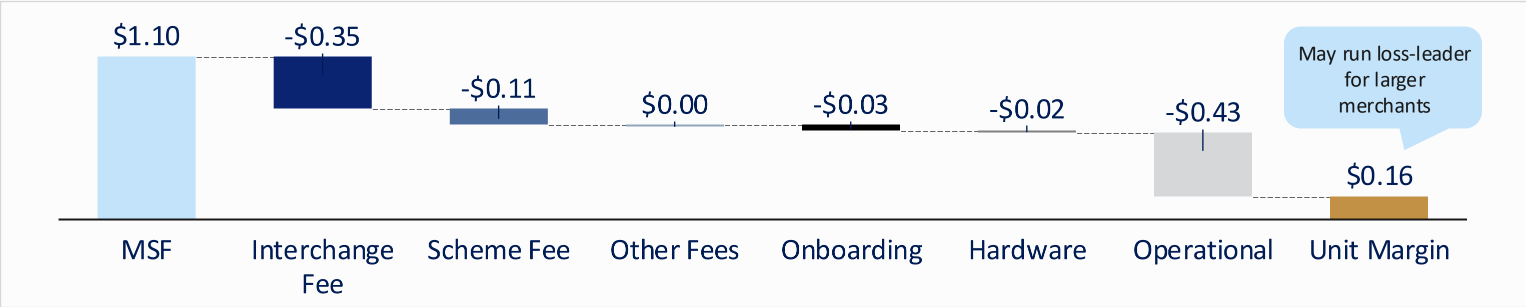
Typical small merchant card transaction[1], $, 2024

Fintech PSP



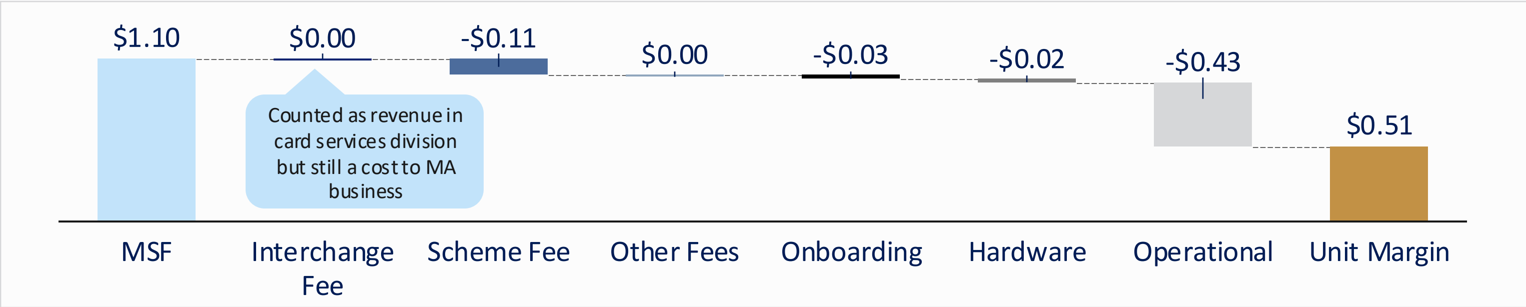
- Fintech PSPs **provide a higher level of service to merchants** compared to large acquirers (e.g. 24/7 support, simplified onboarding) as well as additional business tools and resources, and this **value is included in the MSF.**

Large Acquirers



- Large acquirers **can operate with smaller merchant acquiring margins** (when not relying on issuing revenue) because these services allow them to generate **larger revenue streams through lending and transaction account offerings.**

Large Acquirers + Issuer[3]



- Large acquirers who are also issuers **are able to cross-subsidise acquiring** as they **earn the interchange fee** when a card they issue is used at a merchant utilising their acquiring services.

Notes: 1) Assumes $100 transaction for a small merchant 2) Margin of error of ~5% either way. 3) For an 'On Us' transaction where the card is from the same bank as the merchant acquiring solution (e.g. CBA card, CBA terminal).
Source: Expert interviews, RBA

If differentiated pricing becomes incentivised, some Fintech PSPs may face increased cost pressures, potentially leading to market exit

Indicative numbers

Short-term impacts of RBA options on Fintech PSPs

The RBA is considering various adjustments to rules around surcharging in Australia, including:

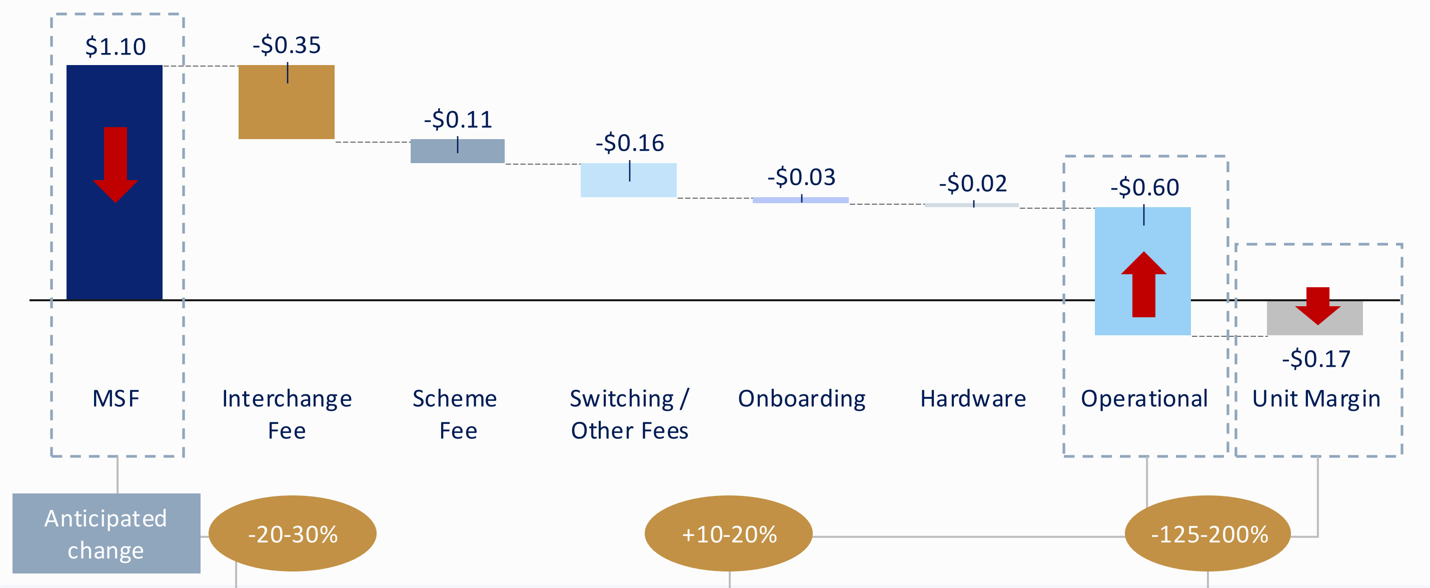
1) **Outright ban on surcharging**
2) **Ban on debit surcharging only**
3) **Mandating 'differentiated' pricing (unblended)**

Under any of the above options, **fixed or simple pricing models may become less competitively viable**, as cost-sensitive merchants (no longer able to surcharge some or all transactions) will look to switch to other providers that offer **differentiated pricing and basic services.**

In the short term, this may create **downward pressure on average MSF** in the market (**which has already been falling**), and may cause **some Fintech PSPs to become unprofitable, and exit the market.**

Fintech PSP unit economics if differentiated pricing is incentivised

Typical small merchant card transaction[1], $, 2024



The MSF could fall to ~1.1%, in line with the rates charged by some acquirer-issuers, reflecting current card type mix, and an unblended cost structure.

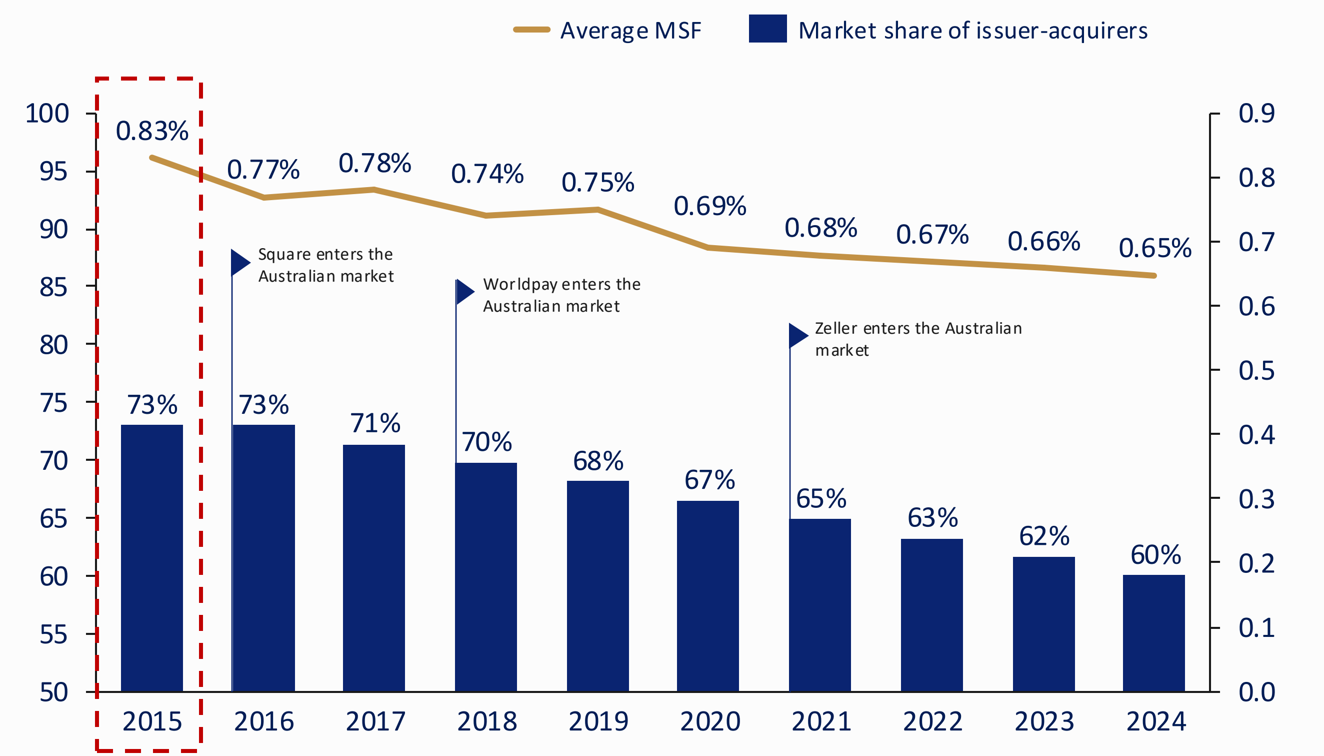
Operational costs are anticipated to rise 10-20% as a result of additional costs including systems integration and software updates, and merchant support.

Profitability may fall significantly as a result of a potential decline in the MSF and rising operational costs.

Notes: 1) Assumes $100 transaction for a small merchant.
Source: Expert interviews

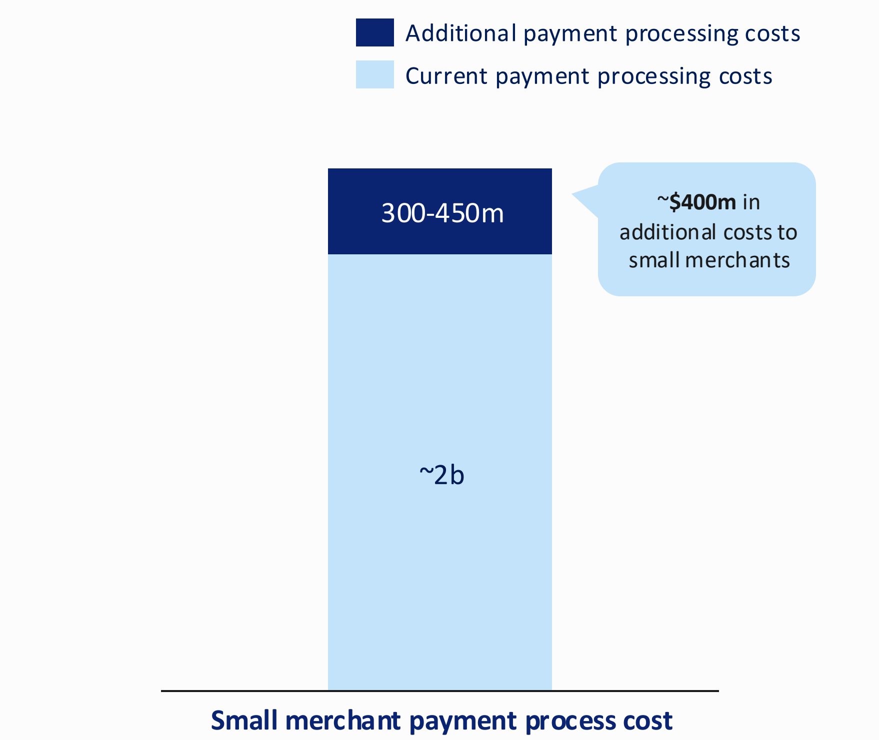
If Fintech PSPs exit the market, small merchants could face ~$400M in additional payment processing costs as issuer-acquirers regain market share

Changing market conditions as newer Fintech PSPs enter market



Should Fintech PSPs exit the market, and issuer-acquirer share returns to 2015 levels, it is possible that average MSF may return to 2015 levels (**15-20bps higher**).

Small merchant cost impact under 2015 market conditions[1]



Increase in payment processing costs (%) 15%-25%

Notes: 1) Small merchants represent those <1m, payment processing costs calculated as total value of transactions for businesses under 1m multiplied by the average txn cost.
Source: RBA (2017); AFR (2024); Mandala analysis

If Fintech PSPs exit, merchants would lose access to a wide range of payment and payment-related services

Fintech PSPs provide services that generally aren’t provided by issuer-acquirers

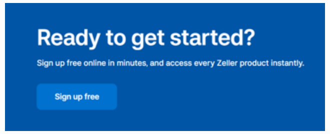
Non-exhaustive list of payment and payment-related services generally offered by Fintech PSPs and issuer-acquirers

	Payment and payment-related service offerings	Fintech PSP	Acquirers
Payment services	Low, fixed cost payment model	✓	✓
	Flexible pricing model options	✓	✓
	Master merchant aggregation	✓	✗
	Cross-channel payment solutions	✓	✓
	Comprehensive payment method acceptance	✓	✓
	One-click checkout, and card-on-file services	✓	✗
Payment-related and customer services	Customer support 7 days a week	✓	✓
	Instant, free digital onboarding and account setup	✓	✗
	Software-based acceptance (e.g., mobile ePOS)	✓	✗
	Digital invoice generation and delivery	✓	✗
	Streamlined refund and dispute handling	✓	✓
	Business analytics and reporting dashboard	✓	✓
	Digital servicing	✓	✗
	Customer insights, analytics and reporting	✓	✗
	Merchant loyalty and rewards program management	✓	✗
	Business software integration capabilities	✓	✗

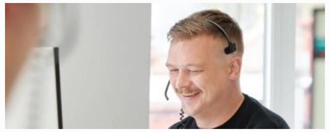
Source: Expert interviews; Mandala analysis

Zeller provides services that specifically support small businesses

Zeller case study



Zeller accounts take about **5 minutes to set up** → Issuer-acquirer accounts can take weeks to set up



Zeller **average service wait time is less than a minute** → Issuer-acquirer average service wait time is about 90 minutes

Zeller **provides an integrated dashboard** with item-level reports → This provides businesses with insights that support growth

Zeller’s **app allows merchants to take payments and manage their businesses remotely** → This allows businesses flexibility and security in their payments and business management

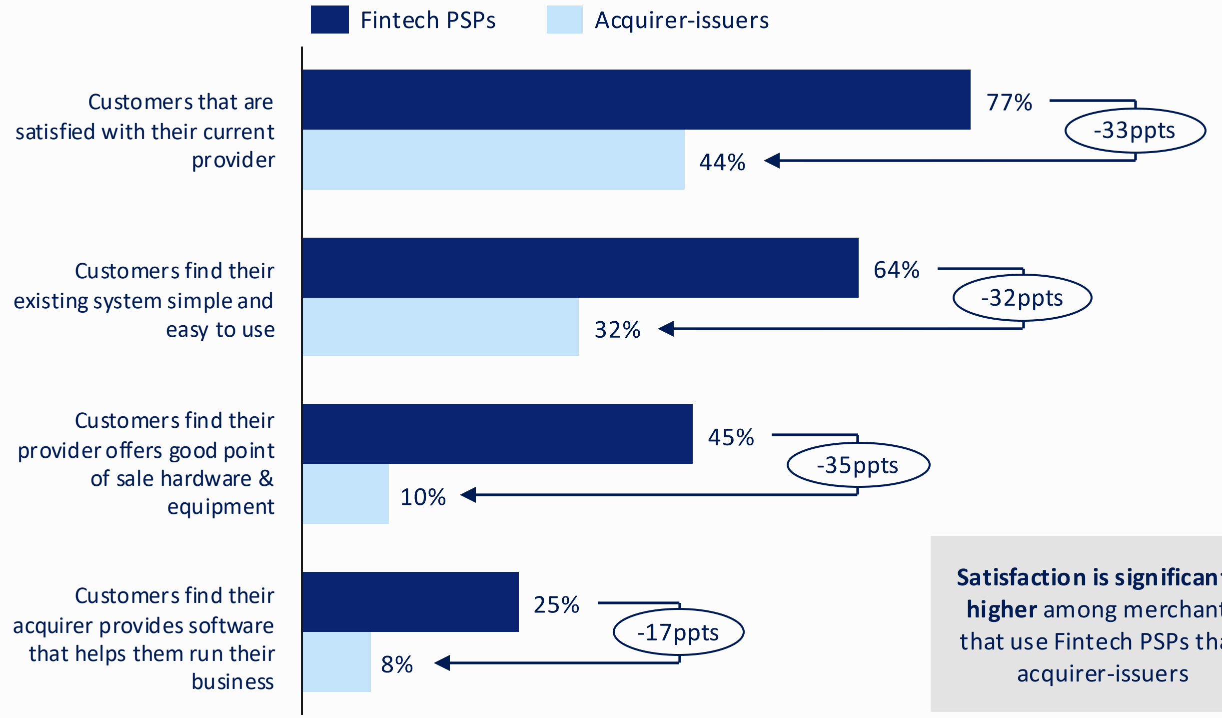
Part of Zeller’s value proposition is fast and simplified onboarding, leading user experience and a simple pricing structure for merchants and their customers.

Source: Expert interviews; Mandala analysis

Merchants are far more satisfied with Fintech PSPs than alternative acquirer-issuers, and they save thousands each year using Fintech PSP bundled POS software

Fintech PSP offerings are more likely to retain merchants

Why have you not bothered to look at other card acceptance providers?

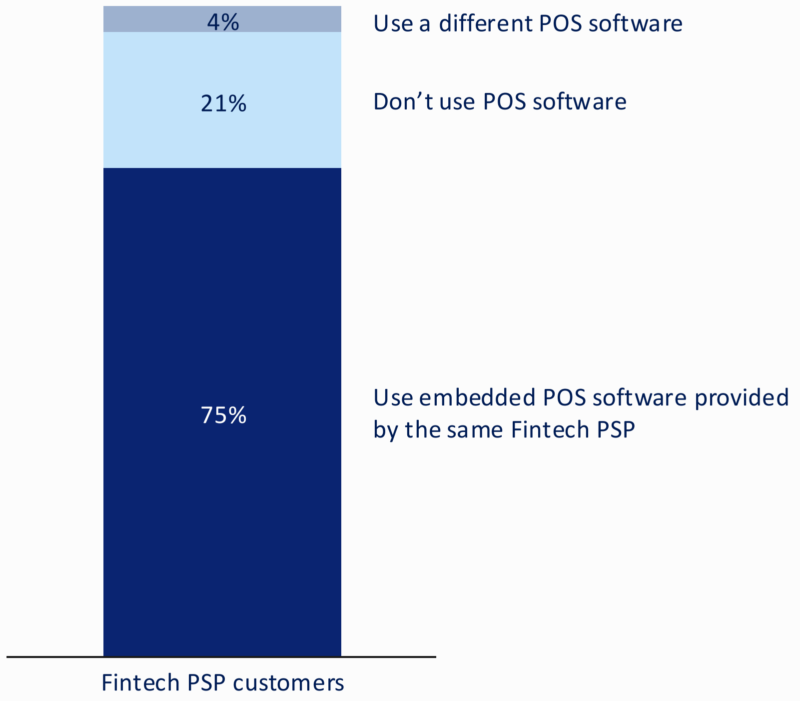


Satisfaction is significantly higher among merchants that use Fintech PSPs than acquirer-issuers

Fintech PSP customers report high satisfaction and place significantly greater value on key offerings such as simplicity, hardware, and software compared to customers of acquirer-issuers.

Merchants overwhelmingly use Fintech PSPs' embedded POS software

What point of sale software does your business use?



Fintech PSP customers overwhelmingly use the embedded software provided by their PSP, further indicating a high level of satisfaction with their service.

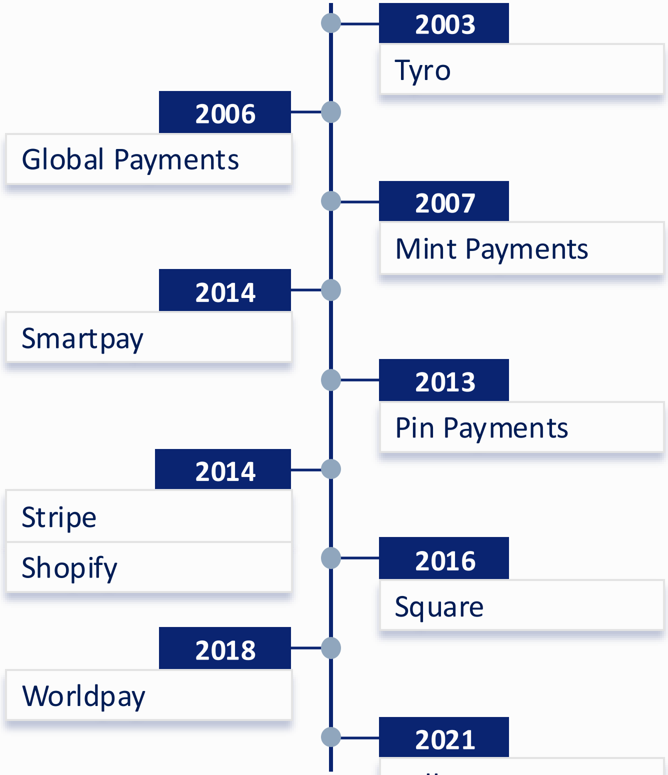
Source: Results from survey of Fintech PSP customers; Mandala analysis

Source: Results from survey of Fintech PSP customers; Mandala analysis

Fintech PSPs have increased competition and driven down acquiring fees, benefiting consumers through lower prices on products and reduced surcharges

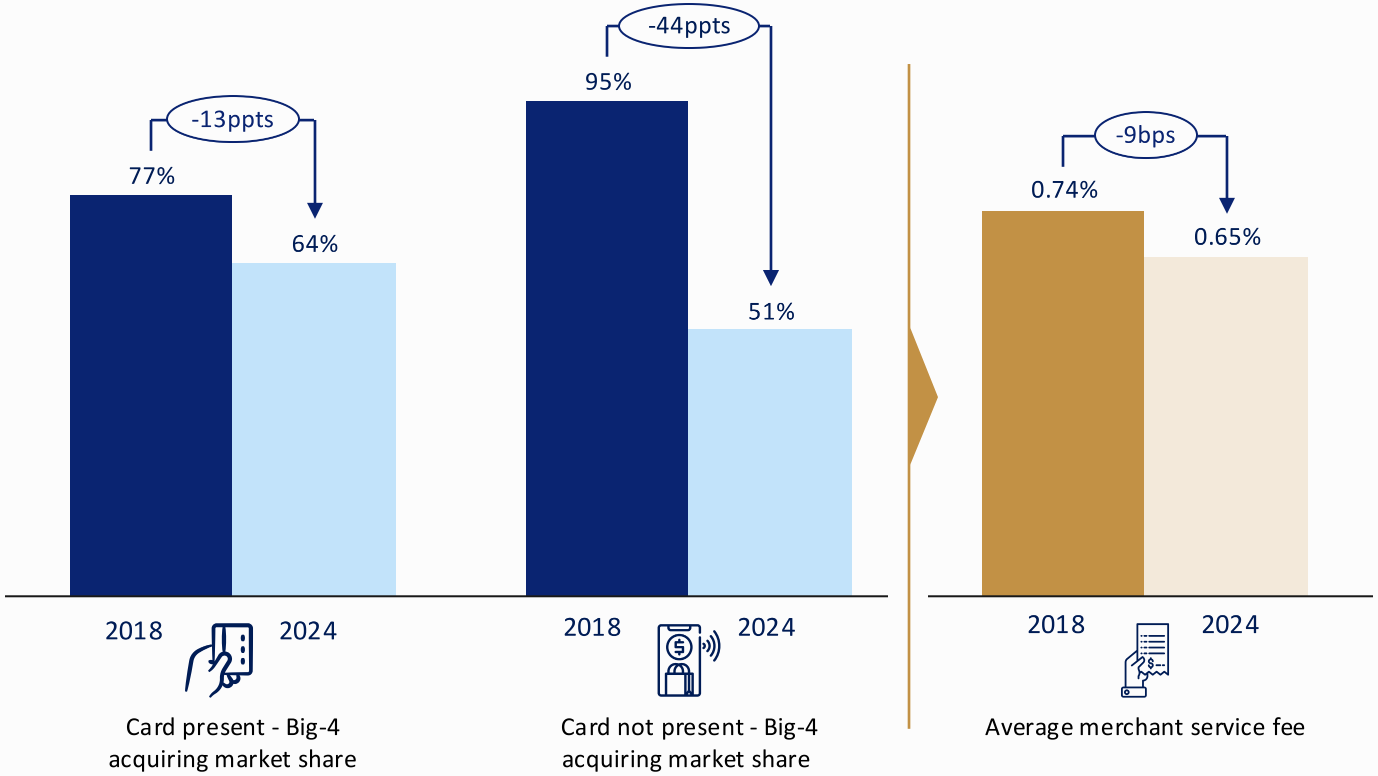
New entrants to the acquiring and PSP market

Timeline of market entry of acquirers and fintech PSPs, Australia, 2003-2023



As market concentration in PSP/acquiring has declined, so too have average merchant service fees

Market share of major banks in the acquiring market compared with average merchant service fees, 2018-2024



Consumers benefit from reduced merchant service fees either through lower prices on goods and services and reduced surcharges.

Source: Desktop research, The Initiatives Group (2024), RBA Payments data; Mandala analysis

Overall, merchant acquiring has the lowest market concentration in the payments value chain, leading to higher levels of transparency, quality and user experience

Overview of current performance in Australia's payments system

Segment	Market concentration, % of segment[1-5]		Incumbents	Market and consumer outcomes
Card issuing	% of credit cards issued	71%	**Big 4 banks**	**Higher fees and lower rewards for consumers.**[6]
	% of debit cards issued	74%		
Consumer credit	% number of transactions	91%; 3%	**Big 4 banks** **BNPL**	**High innovation in convenience and lower costs to consumers.**[7]
Digital wallets	% mobile device POS transactions	99%	Pay G Pay	**High prices,** especially for in app and tap device payments. **Constrained innovation** through lack of openness.[8]
Card schemes	% of credit card transactions	91%	VISA	**Mastercard and Visa scheme fees for debit and credit cards have increased.**[9]
	% of debit card transactions	60%		
	% of total transaction	67%		
Merchant acquiring	% card present transactions	64%	**Big 4 banks**	**Merchants have more transparent costs, higher quality and a better user experience** thanks to new entrants.[10]
	% card not present transactions	51%		

Sources: 1) 93% of household credit card loans are held by the big 4 banks. APRA (2023), 2) 3% of payments made through consumer credit options are through BNPL, while credit cards have 97%. RBA (2023), IBIS (2022), 3) 99% of mobile device POS transactions are facilitated by Apple/Google. APH (2021), 4) 90.6% of credit and charge card purchases are made with Mastercard and Visa. RBA (2024), 5) Source: The Initiatives Group (2024), 6) The Australian (2024), 7) The Treasury (2022), 8) ACCC (2021), 9) RBA (2024), 10) Results from Survey of fintech PSPs.

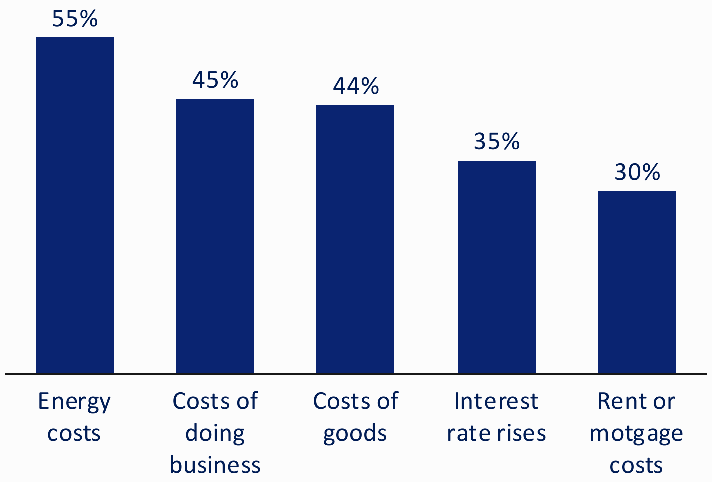
Contents

Small businesses are experiencing broad-based cost increases, resulting in approximately 50% operating at a loss

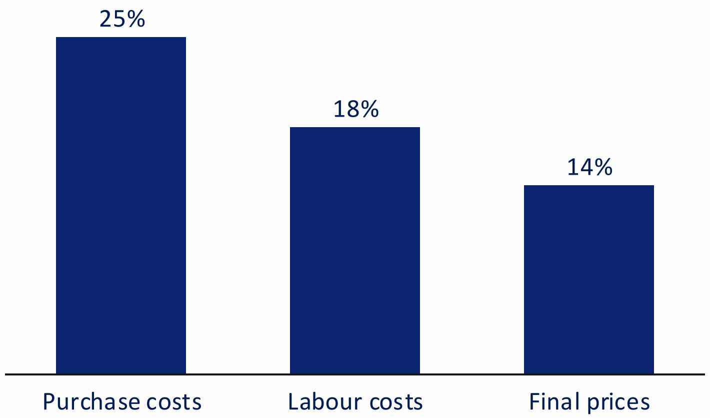
Factors impacting small businesses' financial situation

Small businesses facing each type of cost pressure, %, 2024; Cost pressures and final prices, % increase, 2020-2024; Small businesses facing negative margins, %, 2020 and 2024

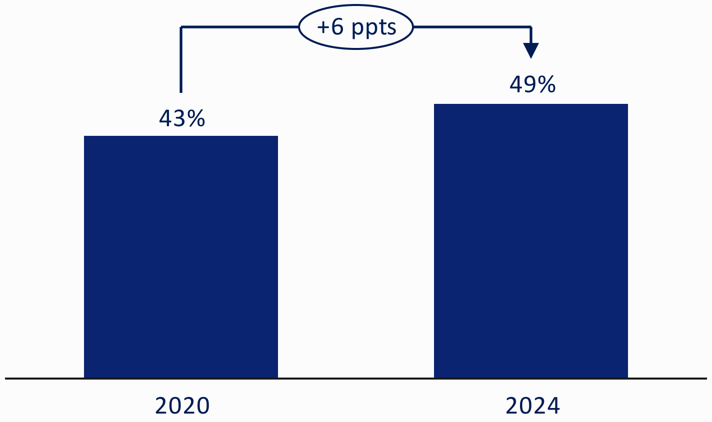
Cost increases are broad-based…



…and rising faster than final prices…



…leading 49% of small businesses to make a loss



Cost increases are broad-based, driven by rising international energy prices, higher input costs, increasing interest rates, and rising property prices and rents.

Since 2020, the cost of goods for small businesses has risen by 25%, and labour costs have increased by 18%, while their prices have only increased by 14%.

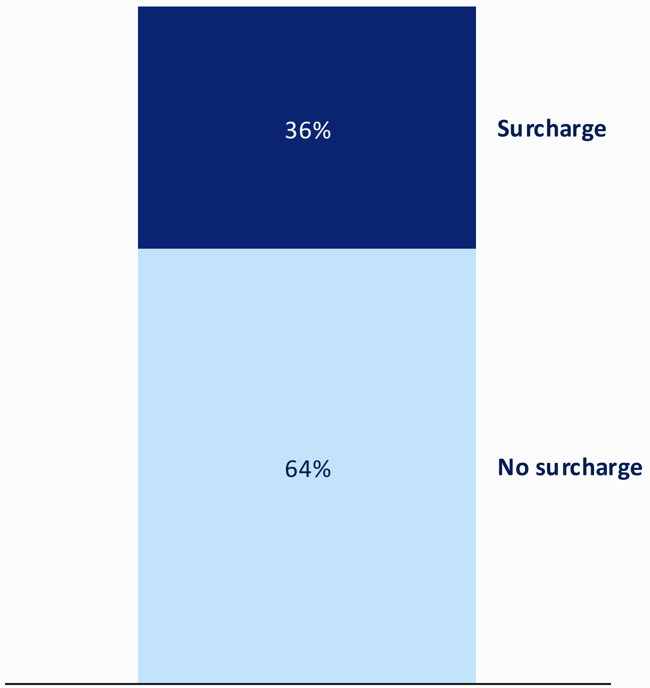
The broad-based nature of cost pressures, and the extent to which costs are rising faster than prices, has led to a 6 ppt increase in the share of small businesses making a loss since 2020.

Source: Council of Small Business Organisations of Australia (2024), Council of Small Business Organisations (2024), Export Finance Australia (2024), NAB (2024); Mandala analysis.

36% of small merchants surcharge on card transactions, with the highest prevalence among market stalls and those with a revenue range of $100K - $250K

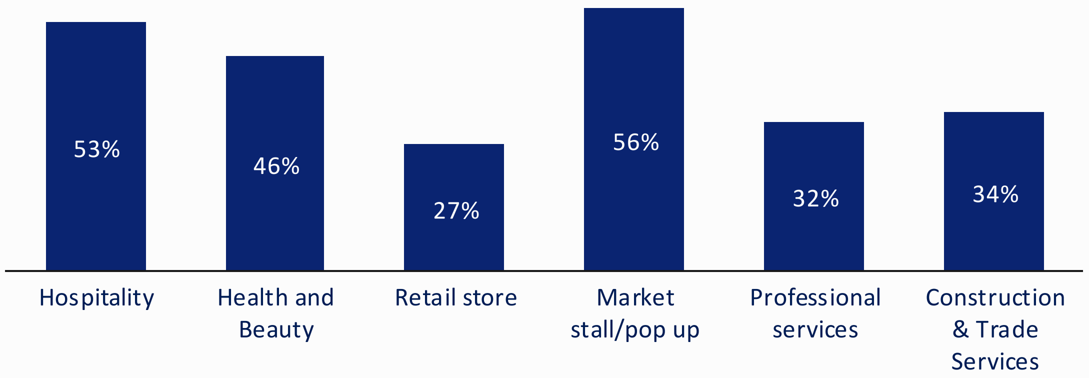
Prevalence of surcharging amongst small merchants[1]

%, 2024



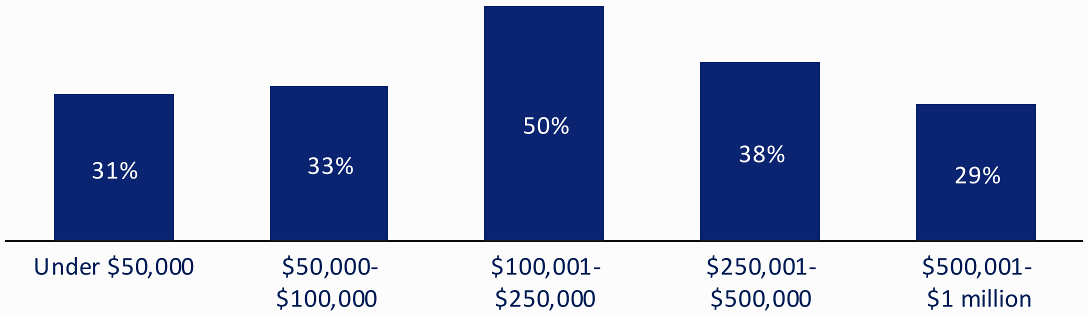
Prevalence of surcharging by industry

%, 2024



Prevalence of surcharging by merchant turnover per year

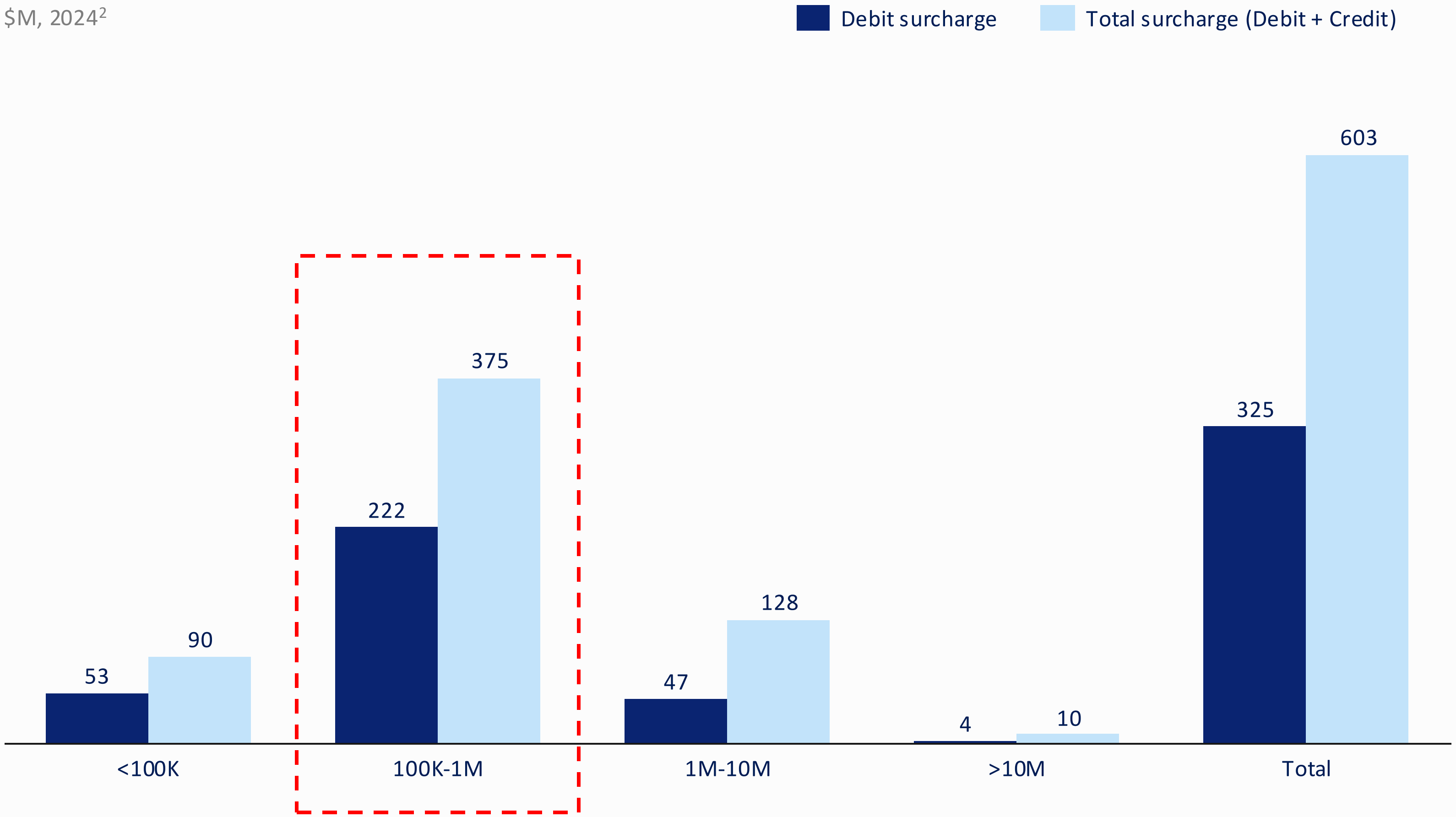
%, 2024



Notes: 1) Small merchants are defined as those with a turnover of less than $1,000,000 per year.
Source: Results from survey of Fintech PSP customers (n = 402); Mandala analysis

A surcharge ban, whether debit-only or total, would disproportionately impact small businesses with turnovers between $100K and $1M

Payment costs saved due to surcharging by merchant size[1]



Key findings:

- Small businesses with card transaction turnovers between $100K and $1M recoup $222M in costs by surcharging debit card transactions and $375M by surcharging all transactions.
- If surcharging is prohibited, small merchants who surcharge in this turnover range ($100K to $1M) would need to absorb $1,900 in debit card fees and $3,100 in total card fees (debit + credit) per year.

Notes: 1) Merchant size is defined by card transaction turnover. 2) 2024 represents data from Sept 2023 - Sept 2024.
Sources: RBA, Desktop Research, Expert Interviews

In response to a total surcharge ban, 44% of small merchants would increase prices

A survey of merchants found that:

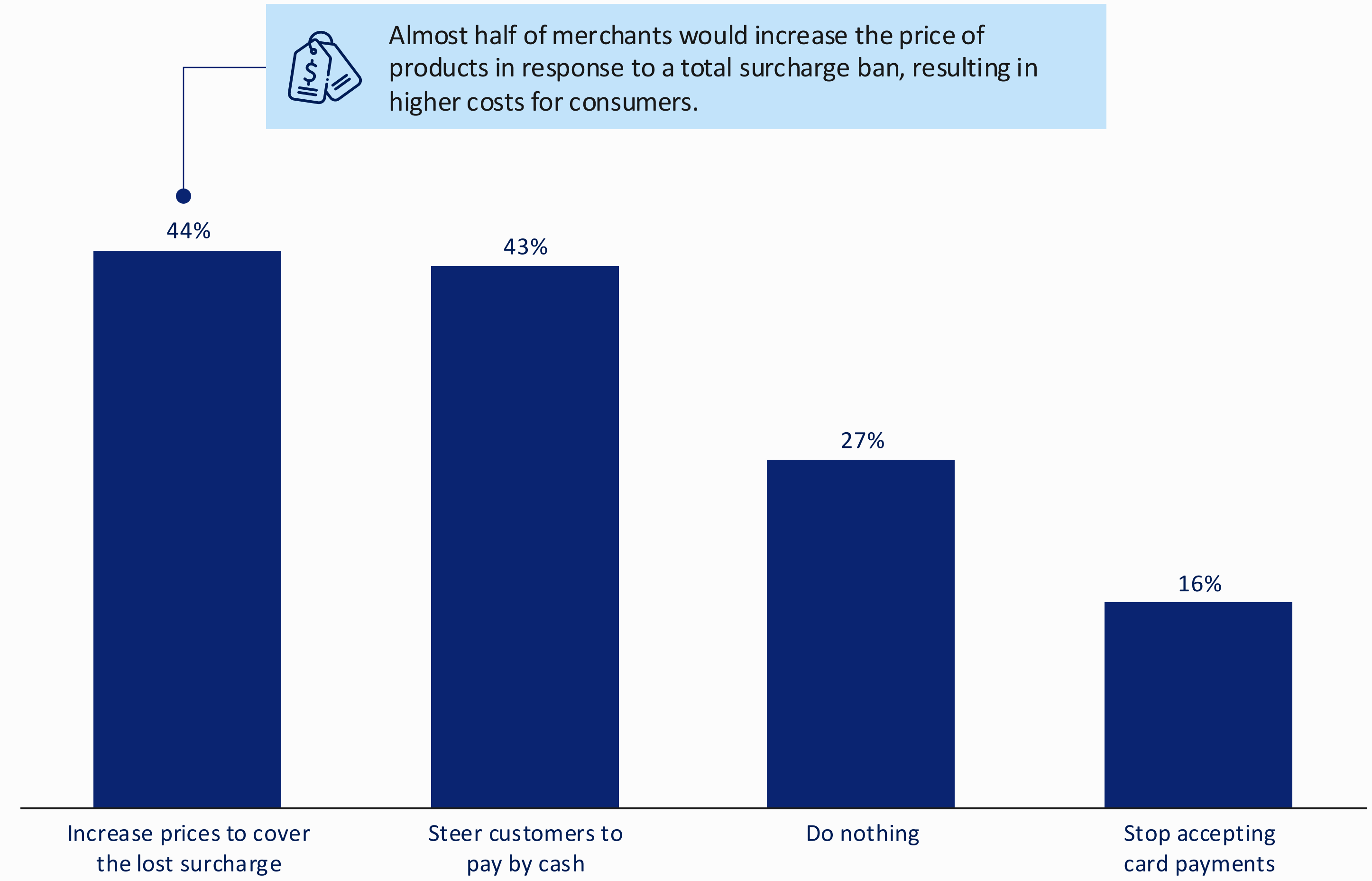
- 44% would increase prices to over the lost surcharge.
- 43% would steer customers to pay by cash.
- 27% would do nothing.
- 16% would stop accepting card payments.

Merchants that raise prices are likely to increase them by more than the surcharge cost, as small businesses tend to adjust prices in fixed monetary increments rather than precise percentage changes.[1] For instance, a $5 coffee is more likely to increase to $5.25 instead of $5.06 to account for a 1.1% surcharge.

Also, steering customers toward cash payments introduces additional costs for merchants, including cash handling and reconciliation expenses. Accepting more cash will lead to higher costs for merchants, as the average cost of cash acceptance is 3.9% of the transaction value, compared to 1.5% for card payments for small merchants.[2,3]

Merchant response to a potential total surcharge ban[4]

%, 2024



Source: 1) Şen, A. (2012). A Comparison of Fixed and Dynamic Pricing Policies in Revenue Management. SSRN. 2) Boston Consulting Group (2024). 3) RBA (2024).

Notes: 4) Totals do not add to 100% as merchants can choose multiple responses.
Source: Results from survey of Fintech PSP customers (n = 121); Mandala analysis.

In response to a debit surcharge ban, 31% of small merchants would increase prices

The primary responses from merchants to a potential debit card surcharge ban are:

1. Increase prices:

- 31% of respondents indicated that they would raise prices in response to a debit card surcharge ban, compared to 44% for a total card surcharge ban.
- The smaller proportion of merchants planning price increases for a debit card surcharge ban is largely due to their ability to continue applying surcharges to credit card transactions.

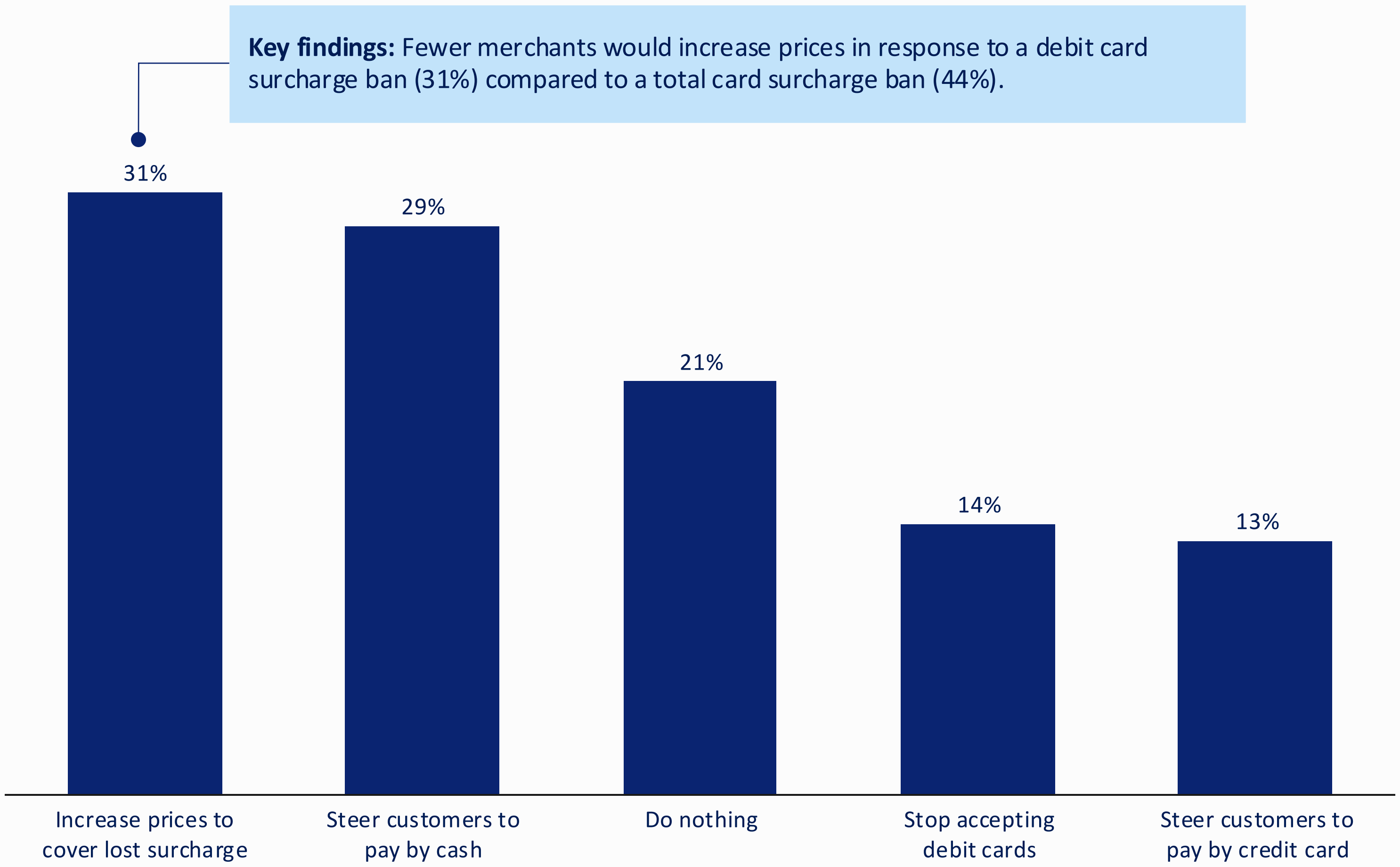
2. Encourage cash payments

- 29% of respondents reported they would steer customers toward cash payments in response to a debit card surcharge ban, compared to 43% for a total card surcharge ban. As mentioned in the previous slide, accepting more cash will lead to higher costs for merchants, as the average cost of cash acceptance is 3.9% of the transaction value, compared to 1.5% for card payments for small merchants.[2,3]

Source: 1) Boston Consulting Group (2024). 2) RBA (2024)

Merchant response to a potential debit card surcharge ban[1]

%, 2024

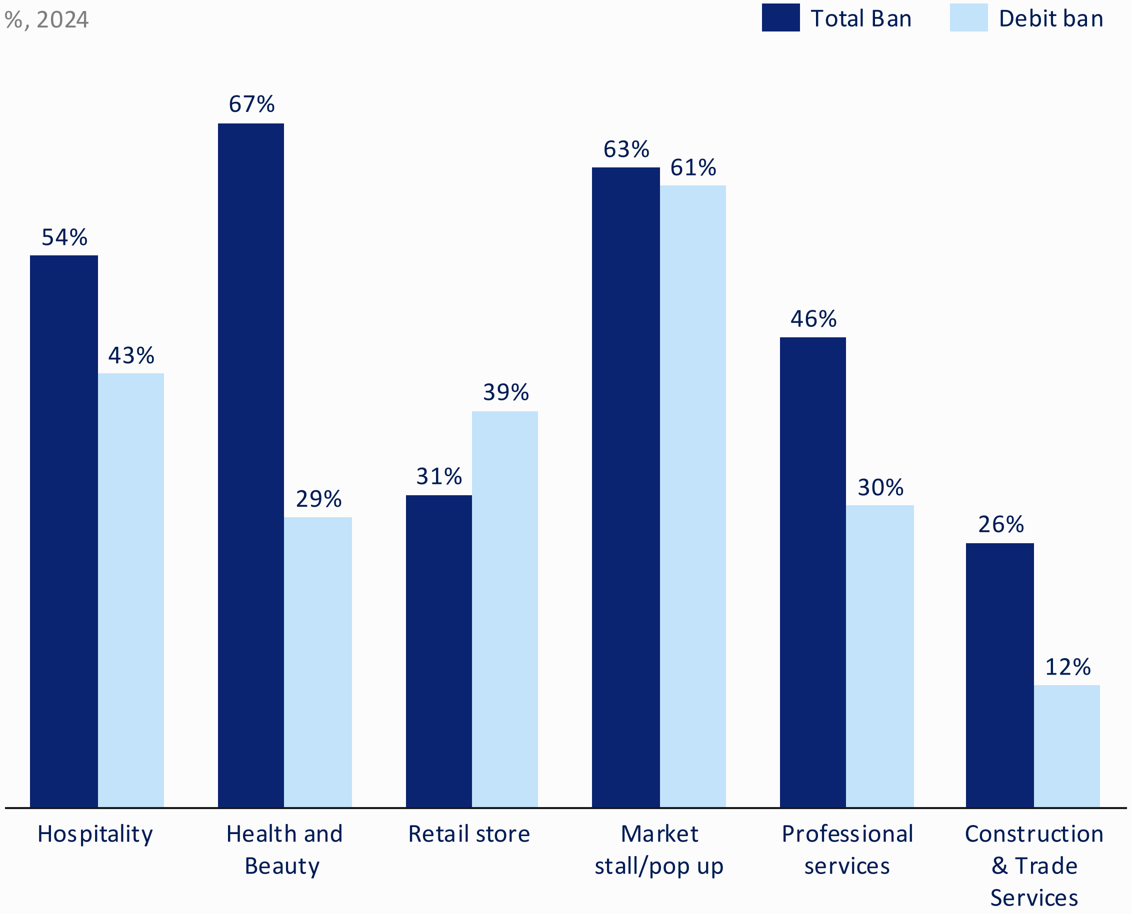


Notes: 3) Totals do not add to 100% as merchants can choose multiple responses.
Source: Merchant survey (n = 121); Mandala analysis.

Market stall and health & beauty merchants are the most likely to raise prices or encourage cash payments in response to a total or debit card surcharge ban

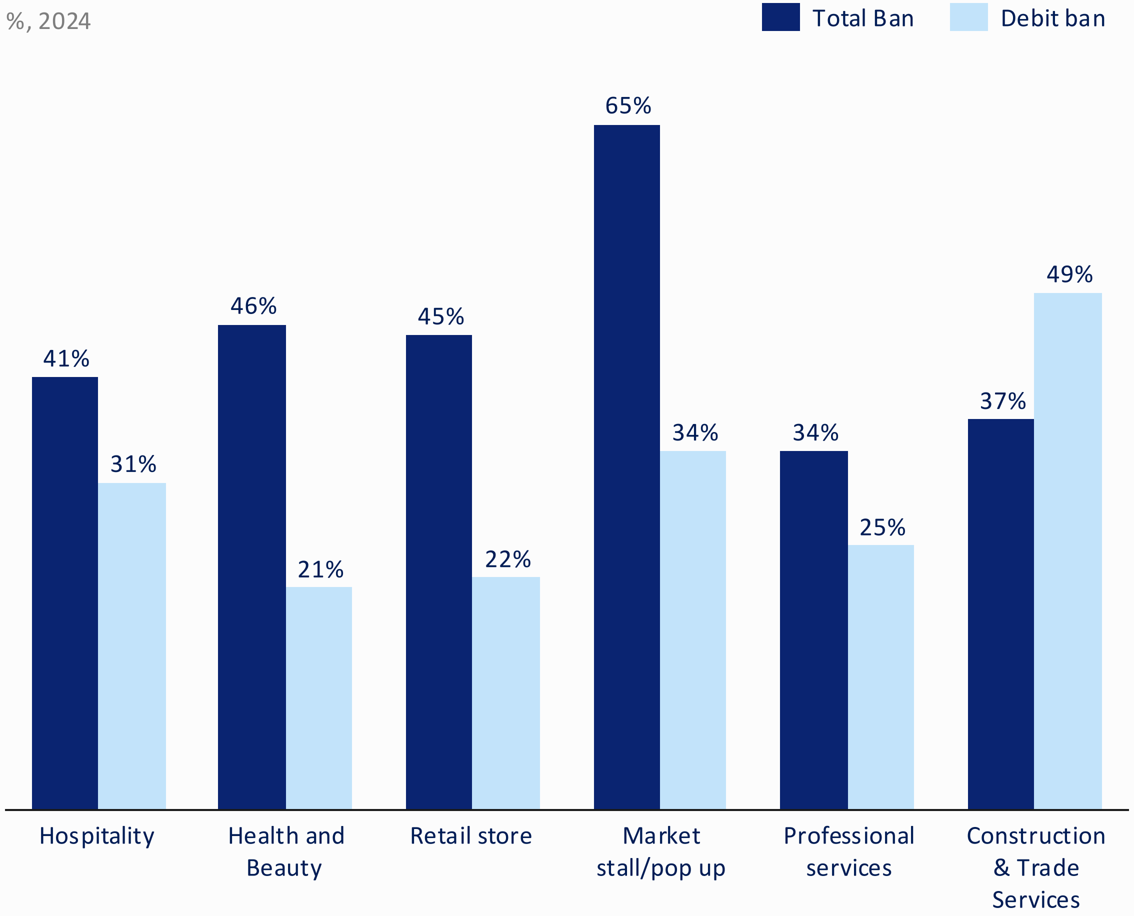
Industry breakdown: Increase prices to cover lost surcharge

%, 2024



Industry breakdown: Steer customers to pay by cash

%, 2024



Source: Results from survey of Fintech PSP customers (n = 121); Mandala analysis.

Banning surcharging may lead to higher merchant fees in the long run

Potential scenario if surcharging is banned, either entirely, or a debit-only ban

Surcharging banned

- Price signal transfers from consumer to merchant. Merchants may be more price sensitive and opt for cheaper merchant acquirers.

MSF falls

- This in turn causes innovative merchant acquirers and Fintech PSPs to exit the market.
- Only providers which are loss-leading or can cross-subsidise with other revenue streams can afford to stay in the market.

Competition falls

- As a result, market concentration increases. Card usage will also increase because customers don't pay a surcharge, leading to higher interchange revenue for issuers.

MSF rises

- Due to decreased competition, a new equilibrium is reached where prices are higher than before the ban was implemented.

Case study: The UK experience

Higher market concentration and debit card fees

Context
In 2018, the UK banned surcharging under the EU's Payment Services Directive 2 (PSD2). The UK extend the prohibition to all retail payment methods. The UK Treasury estimated the value of surcharges to be around £166 million in 2015.[1]

Higher market concentration in the UK
The merchant acquiring sector remains substantially more concentrated than in Australia, with the two largest merchant acquirers, Worldpay and Barclaycard processing about 70%-80% of card transactions by volume.[2] By contrast, the big-4 banks process 63% of card transactions by volume.[3]

Increase in debit card fees for merchants in the UK
In Australia, total fees as a percentage of transaction value for debit card purchases have decreased from 0.63% (combined for both schemes) in Mar-17 to 0.50% for Visa and 0.51% for MasterCard in Dec-22.[4] By contrast, debit card fees in the UK have increased from ~0.25% in 2017 to ~0.28% in 2022.[5]

Source: 1) HMRC (2018). 2)Merchant Savy (2024). 3) The Initiatives Group. 4)RBA Payments Data (C3). 5) British Retail Consortium (2023); Mandala analysis.

Surcharge-free payment models offer a potential solution to eliminate consumer surcharges

	Surcharge-free for consumers, merchants pays fee[1]	Fee-free for merchants, consumers pay surcharge
Merchant fee?	✓	✗
Customer fee?	✗	✓
How it works	• **Merchants pay a fee per transaction**, but the **consumer is not charged.** • The **payment provider utilises low-cost/ subsidised infrastructure**, often using "**account-to-account**" rails for cost efficiency.	• **Merchants pay the acquiring fee** (full transaction fee) but **pass this on to customers in the form of a surcharge.**
Infrastructure requirements	• Utilises low-cost payment rails that allow for **direct payments from one bank account to another** (e.g., UPI in India, PayTo in Australia). • The system **doesn't rely on traditional card networks or bank interchange.**	• **Utilises standard acquiring infrastructure**, which means relying on traditional card networks or payment gateways • The system works with **typical card schemes** (Visa, MasterCard) and **acquiring bank partnerships**
Revenue model	• The merchant pays a transaction fee. **Payment providers generate revenue through the fee paid by the merchant.**	• Fees to utilise these payment methods **are passed directly onto the consumer as a surcharge**, which means the **merchant does not pay any fees**.
Examples	PayTo, UPI UNIFIED PAYMENTS INTERFACE	zeller, smartpay

How we define 'surcharge-free' models in the context of the Australian market, for the purpose of this analysis

Notes: 1) 'Surcharge free' in practice, but surcharging still possible under the PayTo A2A model.
Source: Desktop research

Australia's PayTo infrastructure focuses on efficiency in recurring and direct payments, setting it apart from the app-based, consumer-driven models of UPI and WeChat Pay

	PayTo	UPI – UNIFIED PAYMENTS INTERFACE	微信支付 WeChat Pay
	Real-time, secure, and cost-efficient payments directly from bank accounts, enabling businesses to streamline operations and improve cash flow	**Interoperable, real-time payments via an open platform**, fostering app development and financial inclusion for consumers and merchants	**Wallet-driven payments within closed, ecosystem-driven environment**, integrating seamlessly with messaging, e-commerce, and services.
Infrastructure	**Centralised real-time payment system** using NPP, reliant on banking infrastructure and use of QR codes	**Real-time, interoperable system** leveraging the Immediate Payment Service (IMPS) platform	**Wallet-to-wallet system** within WeChat ecosystem; banks for onboarding/offboarding
Payment Flow	Consumer → NPP → Merchant	Consumer → Bank → Merchant (via UPI apps)	Consumer → WeChat Wallet → Merchant (within ecosystem)
Merchant Costs	**Potentially higher processing costs** if A2A payments replace a surcharge-able payment method	**Zero Merchant Service Fees**, subsidised by government	**Minimal or no fees**; WeChat earns through ecosystem monetisation (e.g., ads, services). Fee to offboard money to bank account
Third-Party Innovation	**Closed system**: no direct third-party app development	**Open ecosystem** allows apps and fintechs to enhance services	**Closed loop**; innovation centralised within WeChat ecosystem
Use-Case	Well-suited for business with recurring payments e.g. subscription payments, eInvoices, payroll	Facilitates a wide variety of payments e.g. P2P transfers, merchant payments, utility bills	Everyday transactions like retail purchases, dining, and transportation, integrated with the broader ecosystem
Implications for Merchant Acquiring	**Merchants integrate directly with NPP**, bypassing traditional intermediaries (e.g. card networks)	**Intermediary apps** like Google Pay and PhonePe **provide value-add services**, reducing control for banks	**Fully integrated into the WeChat ecosystem**, limiting merchant independence
Control Over Data	**Direct control for merchants and banks**; data centralised within NPP, Fraud recovery limited	**Shared between banks, apps, and UPI**	**Fully controlled by WeChat**, limiting merchant independence
Scalability	Scales well, but high costs for Fintech PSPs to build and maintaining infrastructure	High, includes unbanked populations	Scales well within the WeChat ecosystem, limited globally

Source: Desktop research

For consumers, introducing a surcharge-free model could save ~$500M

Total acquiring fees incurred by card type

Card transactions, $M, 2024 YTD

If **5-10%** of all transactions across card types were shifted toward a **surcharge-free payment option**, approximately **$500M in fees would be saved by consumers**

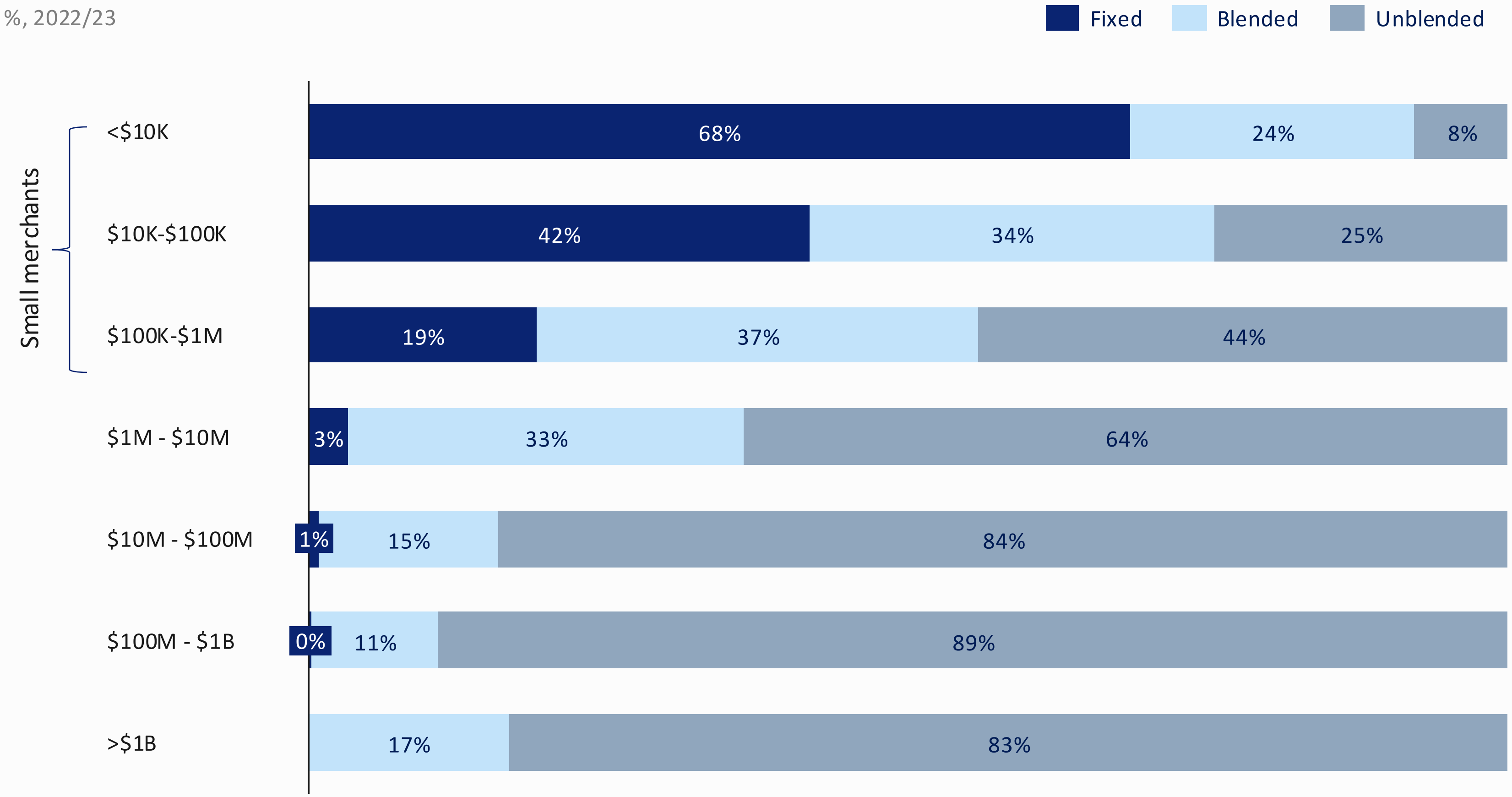
Sources: RBA, Desktop Research, Expert Interviews

Contents

68% of micro-merchants adopt fixed pricing. Merchants adopt fixed pricing because it is simple, easy to understand and straightforward to compare

Breakdown of merchant plans by size

%, 2022/23



Key findings:

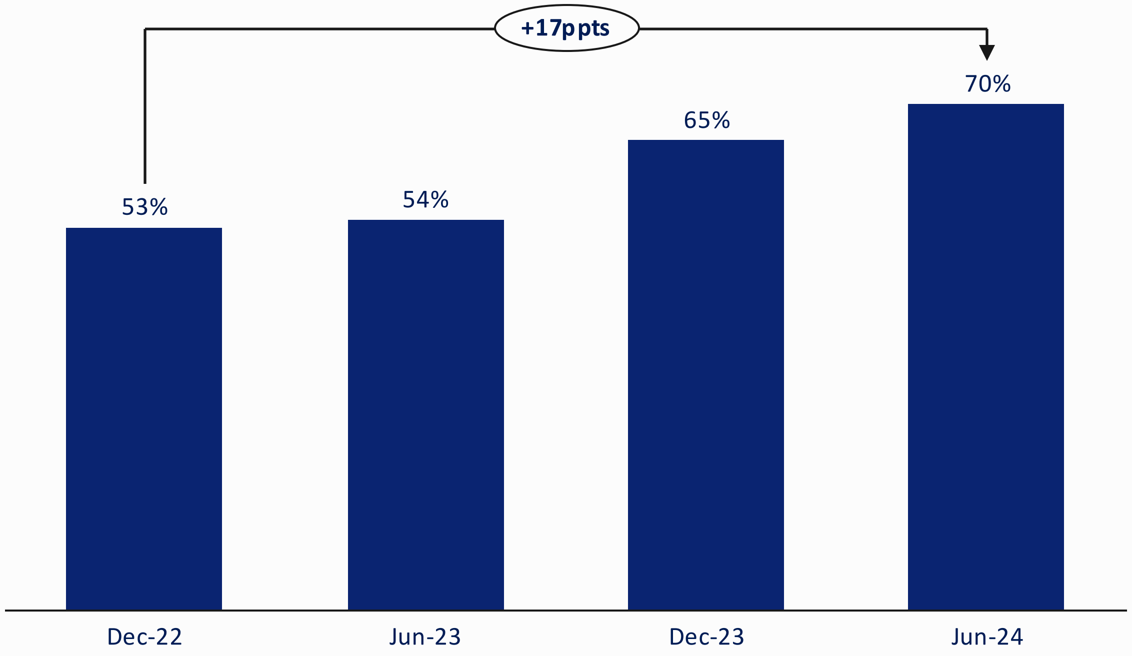
- Approximately 300K small merchants (turnover less than $10M) adopt fixed pricing.
- ~80% of small merchants adopt fixed pricing because it is simple, easy to understand, and straightforward to compare.
- An additional ~280K small merchants adopt blended pricing.

Notes: 1) Size is defined as the annual value of eftpos, Visa and Mastercard transactions.
Source: Expert Interviews, RBA (2024); Mandala analysis

70% of merchants have LCR enabled for in-store debit card transactions, with the highest enablement among those on fixed plans

Enablement of LCR for card-present debit card transactions

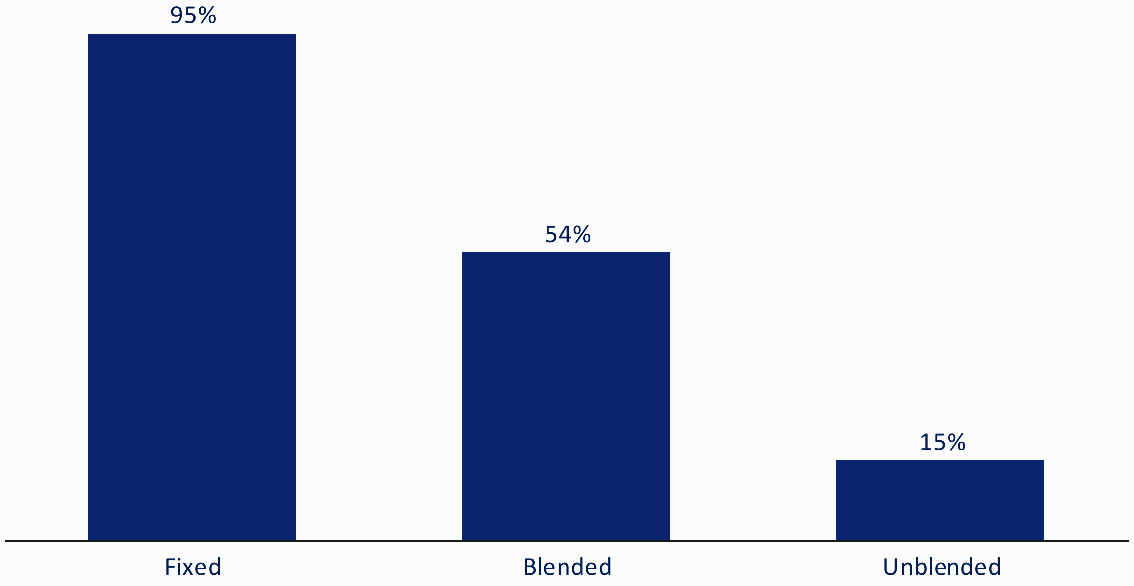
% of merchants



- In 2021, in response to slow industry progress, the RBA established a clear expectation for PSPs to offer and promote LCR.
- While LCR has been made available to over 90% of merchants since Dec-22, actual enablement remains at 70%, up from 53% in Dec-22.

LCR enablement rate by pricing plans

% of merchants, 2022/23



- Merchants on fixed plans have the highest LCR enablement, driven by automatic enablement, reaching 95% in 2022/23 (latest data).
- RBA regression analysis on LCR benefits for merchants on fixed plans was limited in accuracy due to the small comparison group, consisting of only 5% of fixed-plan merchants who were not LCR-enabled.

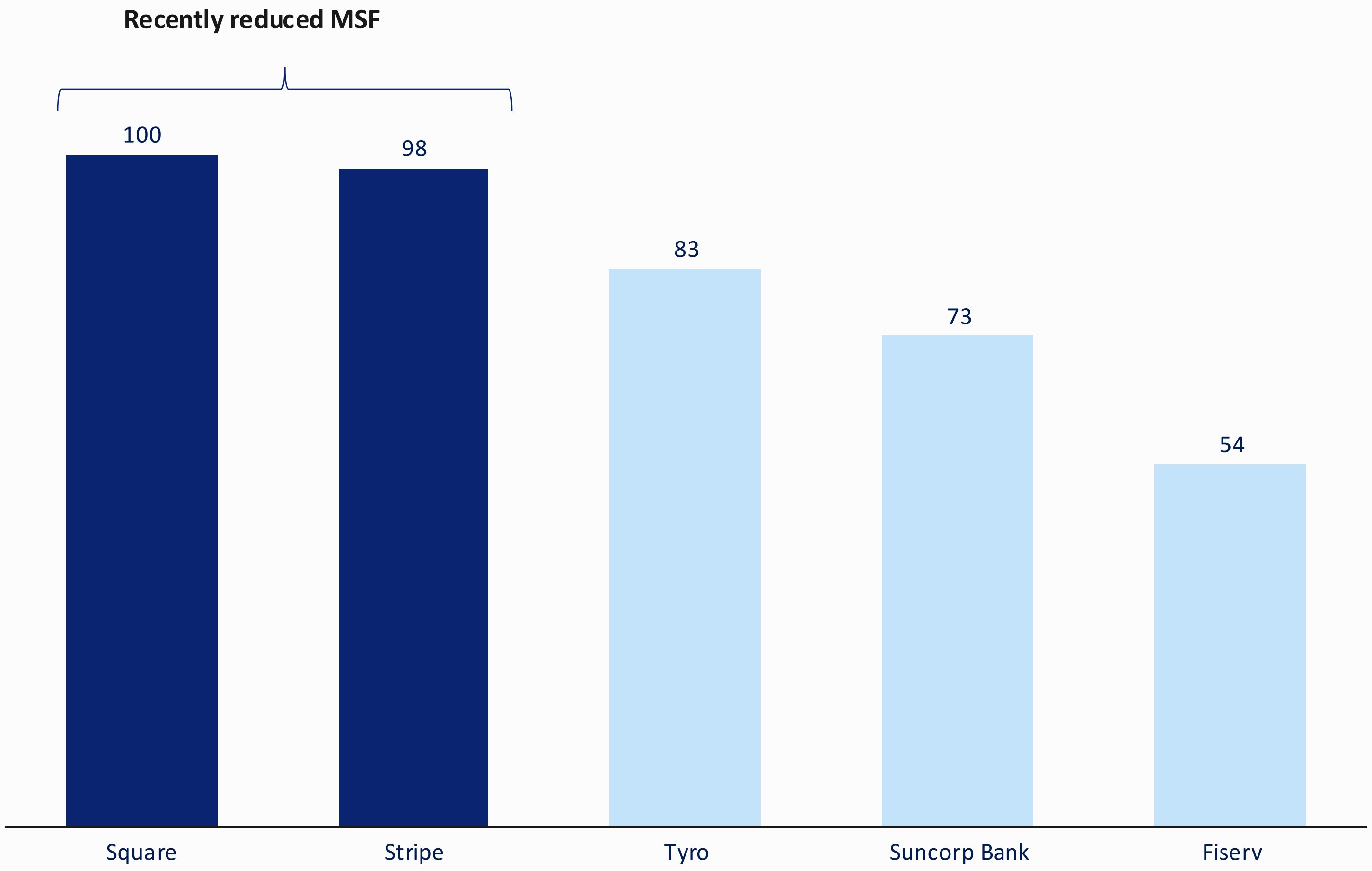
Source: RBA (April 2024, June 2024); Mandala analysis

Acquirers with the highest LCR enablement have started reducing simple plan rates

- LCR allows payment service providers (PSPs) to route debit card transactions through the lowest cost rail (e.g., Mastercard/Visa or EFTPOS).
- The resulting lower wholesale costs for PSPs can be passed on to merchants on fixed plans, depending on the level of competition.
- Recent evidence highlights that PSPs with the highest LCR enablement are passing on these benefits to merchants by lowering fees:
    - **Stripe – April 2024:** Reduced fees for card-present transactions from 1.75% + A$0.10 to 1.70% + A$0.10, explicitly citing LCR as the reason for the fee reduction.
    - **Square – May 2024:** Reduced fees from 1.9% to 1.6% for new Square sellers.

Enablement of LCR for card-present debit card transactions by acquirer

% of merchants, top-5 acquirers by LCR enablement, Jun-24



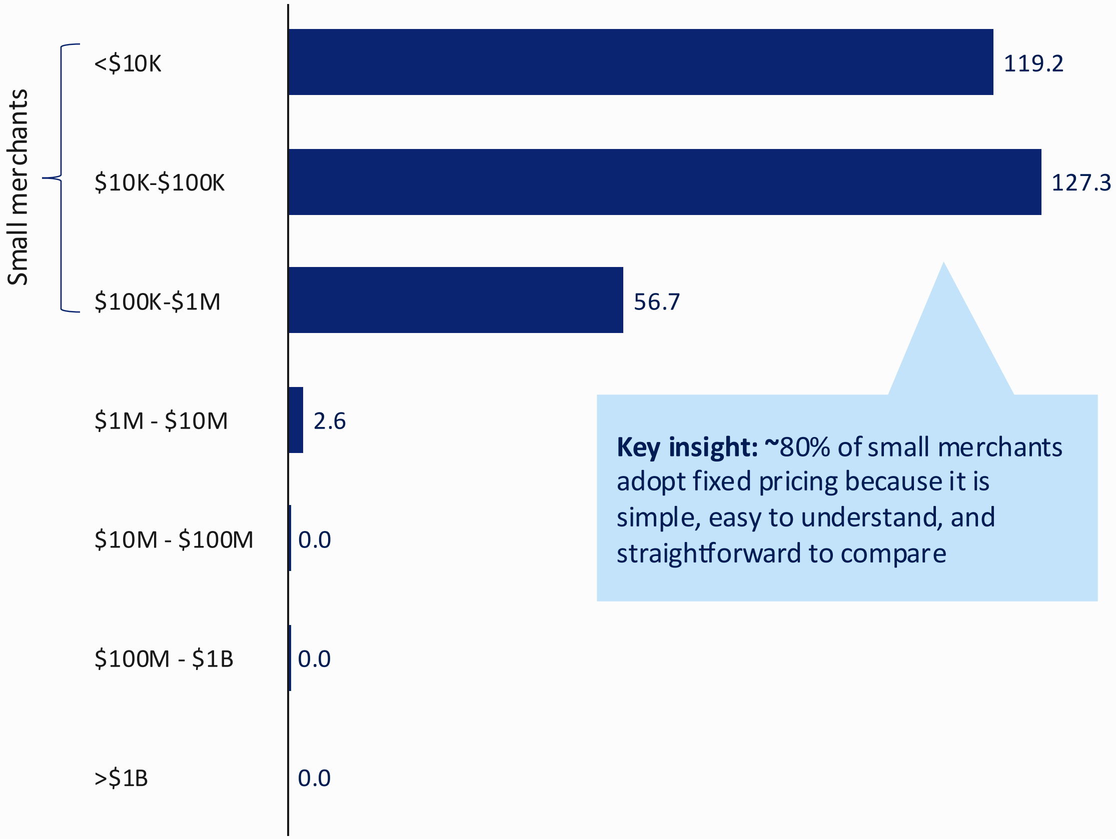
Source: RBA (June 2024); Mandala analysis

Contents

~300K small merchants are on simple pricing plans, with 68% of micro-merchants adopting fixed pricing

Number of merchants on simple pricing plans by size[1]

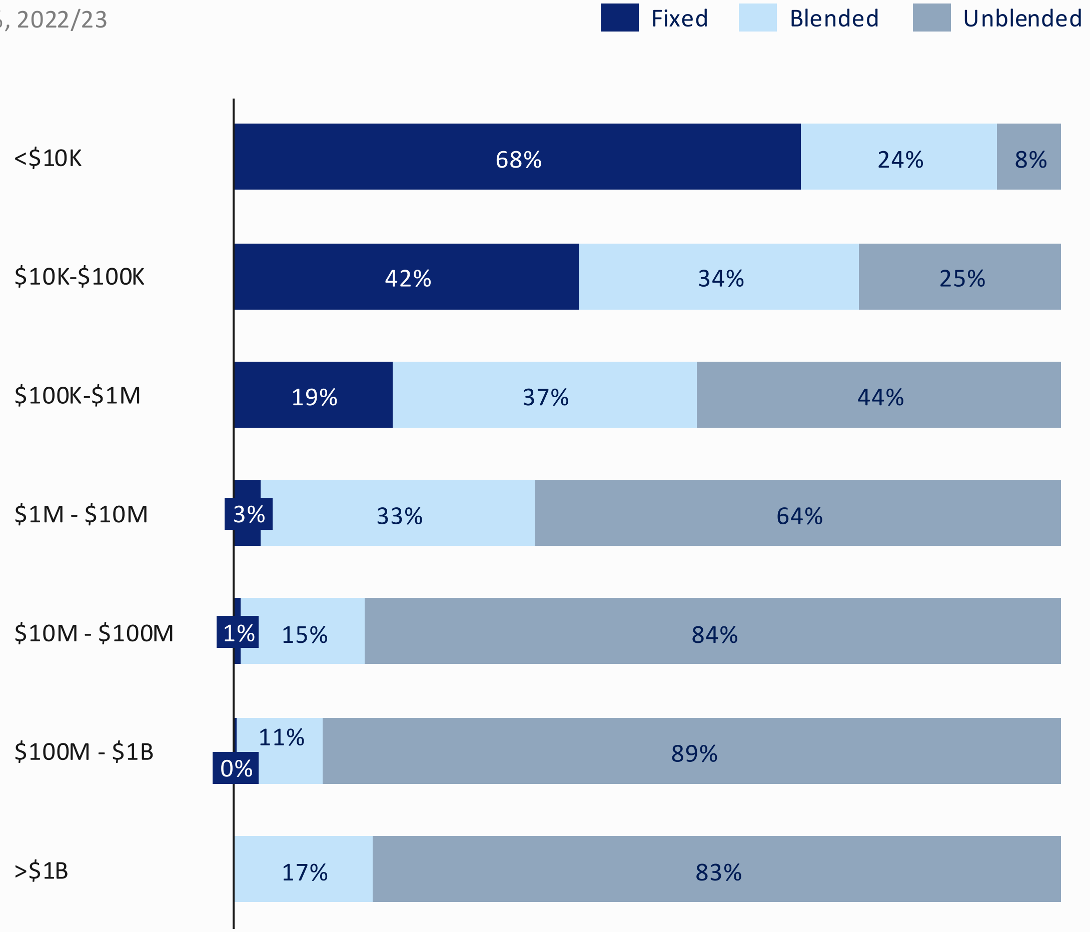
Thousands, 2022/23



Key insight: ~80% of small merchants adopt fixed pricing because it is simple, easy to understand, and straightforward to compare

Breakdown of merchant plans by size

%, 2022/23



Notes: 1) Size is defined as the annual value of eftpos, Visa and Mastercard transactions.
Source: RBA (2024); Mandala analysis

MANDALA