INDEPENDENT PAYMENTS FORUM AUSTRALIA

# Review of Merchant Card Payment Costs and Surcharging - Consultation Paper

## Time to address four decades of market failure

Submission to the Reserve Bank of Australia

September 2025

**Forum Participants:**

ACAPMA Australasian Convenience and Petroleum Marketers Association

Australian Lottery & Newsagents Association

The Pharmacy Guild of Australia

ARCA

AACS Australasian Association of Convenience Stores

NRA National Retail Association

Independent Cinemas Australia

FusionPay making payments feel good

MGA Independent Businesses Australia

Clubs Australia

newsXpress

next PAYMENTS

AHA

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

By email: pysubmissions@rba.gov.au

9 September 2025

Dear Head of Payments Policy,

**RE: Submission to Merchant Card Payment Costs and Surcharging – Consultation Paper**

Thank you for the opportunity to make a submission to the Merchant Card Payment Costs and Surcharging – Consultation Paper and to express our very serious concerns about the inadequate measures that have been proposed to reduce the fees levied on small businesses and their customers.

The current proposals will **reduce competition**, **stifle productivity** and **create upward pressure on inflation** because they fail to adequately address the inequitable, high fees paid by small businesses to accept card payments, while also removing their ability to surcharge those costs for both debit and credit cards.

Australians currently spend $1.1 trillion on credit and debit cards annually over 15 billion payments, resulting in around $7.3 billion in card fees, largely paid by small businesses. **Under the RBA's proposal about $6 billion in fees will remain and will continue to be disproportionally paid by small businesses** due to unfair "strategic" discounts provided to big businesses under rules set by card schemes.

The RBA's current proposals fail to address:

1. The excessive gap between fees charged to big and small businesses, leading to serious competition issues
2. Market distortions and inequities caused by regulatory failure on blended rates – leading to fee prices increases of up to 70%
3. Systemic market failure and industry arbitrage in the adoption of so called "Least-Cost Routing" due to a lack of regulation.

The consultation paper also contains **flawed economic assumptions** that rely on inadequate, dated and inaccurate information provided by banks and Payments Service Providers (PSPs) about the activities of small business, particularly in relation to surcharging.

Independent Payments Forum (IPF) submits the impacts of the current proposals will be far more serious than the RBA modelling suggests for both the economic viability of small business, and inflationary pressure on the economy.

**Evidence collected by IPF indicates the number of businesses currently surcharging card fees in high street businesses is closer to 45%, rather than the 10% quoted in the RBA's consultation** paper. This large discrepancy throws serious doubt on the RBA's associated economic impact assumptions.

**To assist the RBA, IPF has provided in this submission up to date information, based on surveys of small businesses** operating in what we call the ‘real economy’ throughout Australia today – including newsagents, community pharmacies, restaurants, cafes, clubs, pubs, service stations, convenience stores, gift shops, and independent cinemas, supermarkets, hardware stores and liquor outlets.

Broader implications for small businesses and the economy are discussed in a Benchmark Analytics report in Appendix 2 that emphasises the $1.2 billion reduction in surcharging revenue is not a one-off. It is an on-going, year after year, revenue hit to businesses that surcharge. Using a present value concept with a discount rate of 5%, the revenue hit to surcharging businesses over a ten-year period is calculated at $7.7 billion, almost eight times the annual estimate.

We also ask the RBA to look at the mounting evidence published in the RBA’s own data that **payments costs for these businesses are increasing, despite alleged increases in industry Least-Cost Routing (LCR)** and decreases in eftpos’ wholesale fees. This evidence clearly demonstrates market failure to pass on wholesale fee reductions to small businesses, and the need for additional regulatory controls to achieve the RBA’s objectives.

**To assist the RBA and the industry to a workable outcome, IPF has suggested policy alternatives that would enable issuers to maintain interchange revenues in areas where those funds could be used to tackle serious issues in the payments system, such as fraud on overseas merchants, and share the impact of fee reductions with the international card schemes.**

**We also maintain our position expressed in letters** to **the RBA and Government in May 2025 (Attachment 1), that the conclusions of this review should be delayed until the full benefits of the Treasury Laws Amendment (Payments System Modernisation) Bill 2025 are available to the RBA** later this year to make more robust change across the entire payments ecosystem.

Please don’t hesitate to contact us to discuss these issues further.

Best Regards,

| | |
|---|---|
| *Warwick Ponder* | *Brad Kelly* |
| Warwick Ponder | Brad Kelly |
| Cofounder, IPF | Cofounder, IPF |

## Contents:

## About Independent Payments Forum Australia

Independent Payments Forum Australia (IPF) was formed in 2023 by a group of payments professionals who are passionate about providing an alternative view on the health and wellbeing of the Australian payments system.

IPF represents a growing number of payments participants who currently have little power to individually influence payments policy and pricing outcomes that significantly impact their members, businesses and customers.

Our small business participants alone represent more than 120,000 retail shop fronts, newsagents, community pharmacies, restaurants, cafes, pubs, clubs, service stations, convenience stores, gift shops, independent cinemas, supermarkets, hardware stores and liquor outlets across Australia. We also represent some smaller industry participants and fintechs, and we are proactively engaged with many others in the payments ecosystem to canvas their views.

Currently, the payments eco-system in Australia is dominated by a few major retailers, big banks, aggregators, Payments Services Providers (PSPs), two large US domiciled payments companies (Visa and MasterCard) and Australian Payments Plus (AP+).

Global platforms, PSPs and technology companies (including Apple, Google, Square and American Express) have also made significant headway into the Australian market with premium cards, bundled plans, digital wallets and other form factors.

Collectively, these well-resourced organisations have a stranglehold on the payments market and policy discussion in Australia and dominate industry forums that make recommendations to Government on payments issues, while also exerting influence on other policy and advocacy organisations via lucrative sponsorships and partnerships.

This has caused a lopsided policy debate which has resulted in further upward pressure on payment fees to merchants and their customers, especially those smaller merchants without appropriate representation in regulatory forums, or a depth of understanding around payments economics and technology.

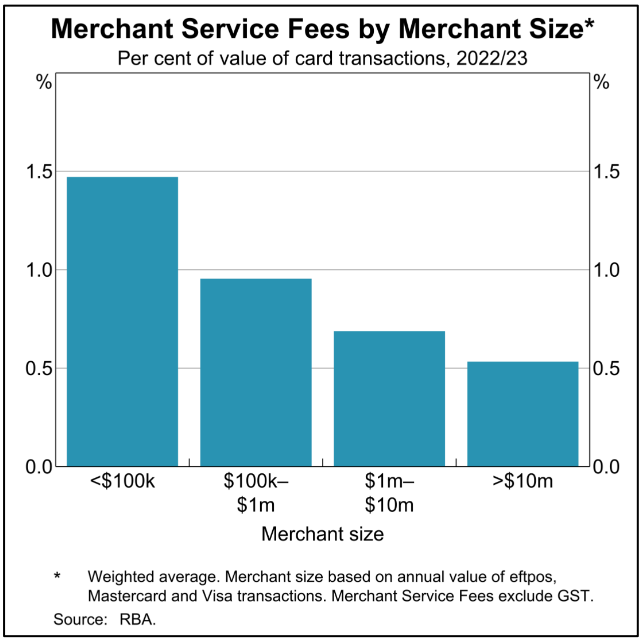
## Executive summary

### Time to address four decades of market failure

While efficient, low-cost distribution of personal funds via electronic payments networks is viewed by most Australians as a basic community service obligation of ADIs operating in this market, four decades of soft touch regulation on card payments has failed to produce equitable outcomes for small businesses and their customers.

Small businesses unfairly carry the burden of high card payment fees in the market, and this will continue under the proposals contained in the Merchant Card Payment Costs and Surcharging – Consultation Paper, while also removing their ability to surcharge those costs.

***Figure 1*** *– Data from 2022/23 on Merchant Service Fees**




* Since this data was produced, we have seen merchant service fees continue to grow. See ***Figure 2***.

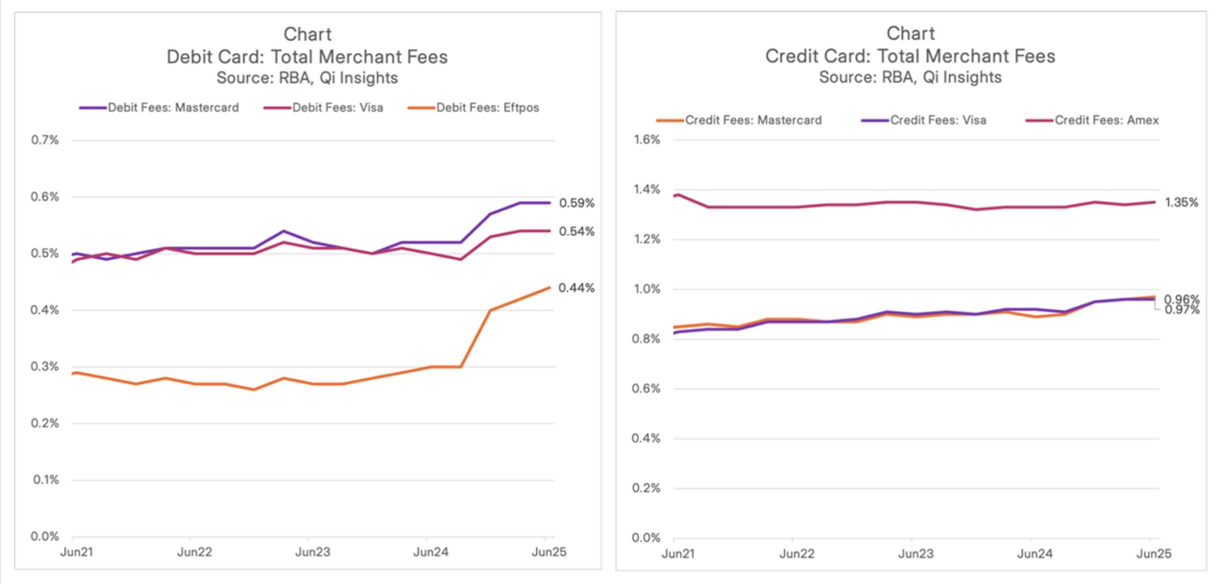
IPF submits that the impact of the proposed surcharge ban without adequately addressing underlying fees, is far greater than considered in the consultation paper, as it appears to rely on flawed and out of date data provided by third parties about the activities of small business.

Data collected by IPF indicates the number of businesses currently surcharging card fees in high street businesses is closer to 45%, rather than the 10% quoted in the RBA's consultation paper. This large discrepancy throws serious doubt on the RBA's associated economic impact assumptions, including inflationary impacts.

IPF submits that without additional measures to reduce fees for small business, the RBA's current proposal will further reduce competition, stifle productivity, create upward pressure on inflation and force some businesses to shed jobs.

Left to their own devices and without firm direction and mandates from the RBA, banks and PSPs will continue to fail to pass onto merchants the price reductions gained through least-cost routing. As such, card acceptance costs for small business continue to rise, largely due to the introduction of blended debit and credit flat rate pricing, and lack of policy intervention.

***Figure 2*** *– Merchant fee totals for credit and debit 2021-2025*




Importantly, IPF argues that **measures to reduce the fee impost on small business should be shared by card schemes and not unfairly left to Australian ADIs with interchange reductions**.

IPF calls for urgent policy reform in four key areas:

**Reduce fees for small business**

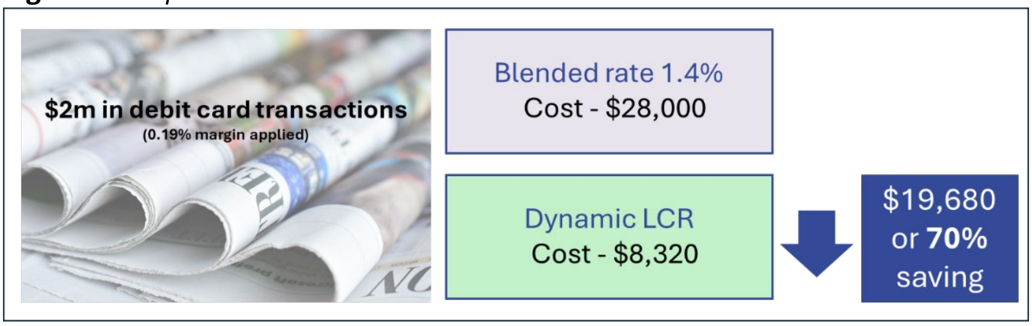
- Ban blending of debit and credit card fees paid by small business
- Mandate opt-out Dynamic Least-Cost Routing on debit card transactions.

**Reduce impact of fee reductions on Australian banks**

- Cap scheme fees
- Allow higher interchange caps on international transactions to address systemic fraud.

By making the bold policy decisions to remove blended rates and mandate least-cost routing, the RBA could reduce fees for some small business by up to 50% on debit transactions, while maintaining bank and PSP margins:

***Figure 3*** *– Impact of DLCR on small business merchant fees**




*Allowing for RBA average 0.19% acquiring bank/PSP margin

To ensure the smooth transition to the removal of surcharges and new fee regulations, IPF also recommends:

- Delaying implementation of any proposed surcharge ban for 12 months to allow time for SMEs to switch providers, revise contracts and collectively bargain for better outcomes. A 12-month delay will also allow fintechs and PSPs time to re-evaluate their service models.
- The ACCC compel Visa, Mastercard, AP+ (and relevant bank/PSPs) to the table on collective bargaining with SME representative bodies such as IPF.
- Funding an independent advisory and comparison service, and a small business focussed education campaign on merchant acquiring.

To future-proof retail payments in Australia and encourage competition, IPF submits the RBA should also actively promote non-card retail payments options at scale, such as regulated A2A and cheap access to cash.

**What do small businesses say?**[1]

- *"Absolutely, small to medium businesses can't keep absorbing the costs. Why don't the banks absorb the fees? Why do businesses have to? If you are making a cashless society then we businesses and guests, clients etc shouldn't have to pay if cash is considered inconvenient for travel etc"*
- *"Surcharging not permitted under government regulations - approximate annual cost $60k."*
- *"Where big multi-national retail giants such as Woolworths and Coles Group are gifted significant volume discounts by these institutions, a method that further erodes a bigger gap between small business and those organisations."*

**RBA CONSULTATION QUESTION:**

Q12: Does the PSB's preferred package meet its objectives of competition, efficiency and safety in the payments system? Are there any variations to the package that the PSB should consider that would yield higher net public benefits? Is there any additional evidence that the RBA should consider before finalising its decision?

*No, the package does not meet its objectives. Without action on blended rates, Dynamic Least-Cost Routing and scheme fees, the current package will entrench higher fees for small businesses and their customers, reduce competition, stifle productivity, create upward pressure on inflation and force some businesses to shed jobs or even close.*

[1] Quotes collected from small businesses who undertook the Independent Payments Forum RBA consultation on cards and merchant fees survey, undertaken in July/August 2025, see Appendix 1

## Surcharging assumptions and economic impacts are flawed

The consultation paper also contains flawed economic assumptions that rely on inadequate, inaccurate and out of date information provided by banks and Payments Service Providers (PSPs) about the activities of small business, particularly in relation to surcharging.

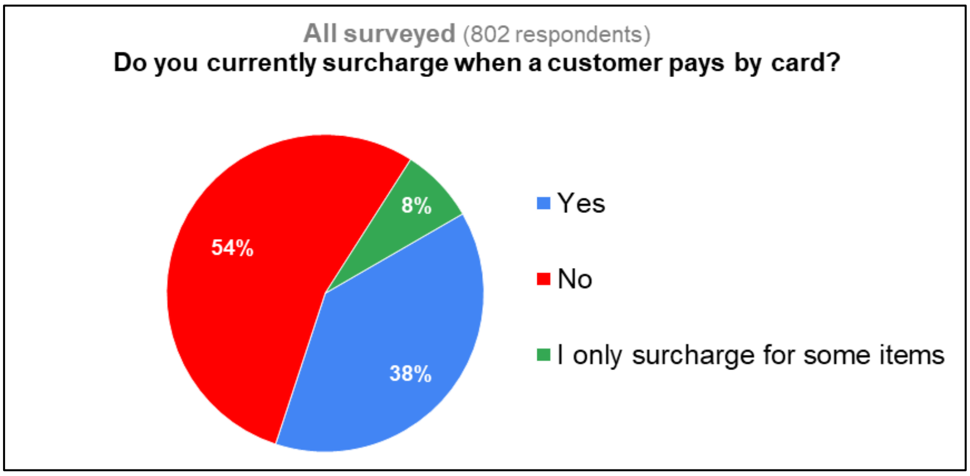
IPF submits the impacts of the current proposals will be far more serious than the RBA modelling suggests for both the economic viability of small business, and inflationary pressure on the economy.

Evidence collected by IPF indicates the number of businesses currently surcharging card fees in high street businesses is closer to 45%, rather than the 10% quoted in the RBA's consultation paper. This large discrepancy throws serious doubt on the RBA's associated economic impact assumptions.

To assist the RBA, Independent Payments Forum (IPF) has provided in this submission up to date information based on surveys of small businesses operating in what we call the 'real economy' throughout Australia today – including newsagents, community pharmacies, restaurants, cafes, clubs, pubs, service stations, convenience stores, gift shops and independent cinemas, supermarkets, hardware stores and liquor outlets.

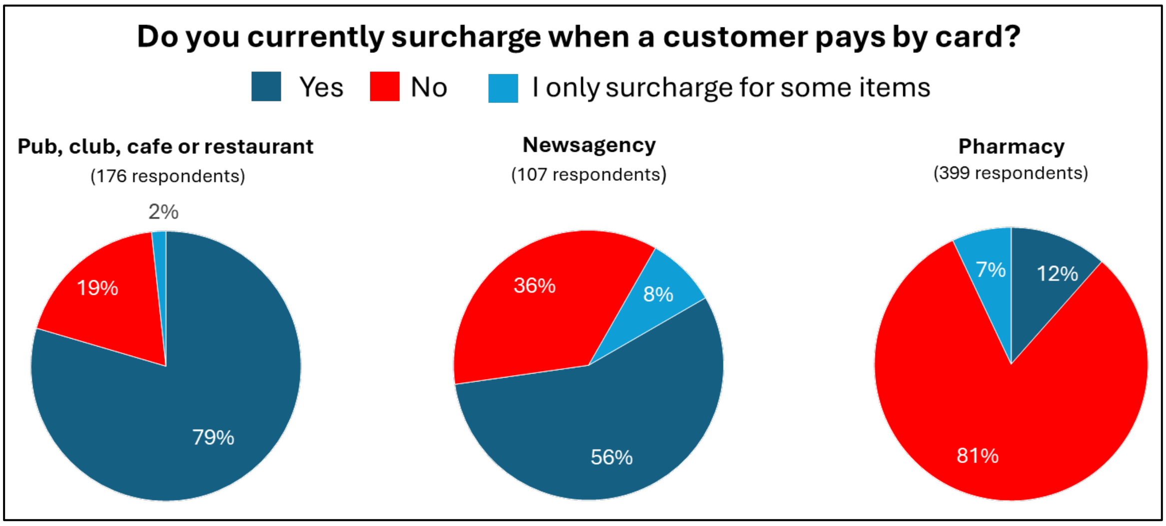
The data clearly shows that of the 800 merchants surveyed across multiple segments, 46% were surcharging card fees on at least some purchases. In some segments this number was as high as 80%.

***Figure 4*** *- Survey result - merchant numbers (overall) – surcharging**




*The results above are reflective the following industries: café/restaurant, pub/club, newsagency/gift store, retail, general store/post office, liquor, convenience store/fuel, cinema, pharmacy, other (hardware). The results are somewhat skewed, given that over 50% of respondents identified as pharmacy, an industry in which surcharging is not allowed for PBS medicines.

***Figure 5*** *- Survey result - card surcharging based on industry*[2]




## Inflationary pressure

IPF data indicates that small businesses are likely to pass on the full costs of card fees (1-2%), to consumers who currently make an active choice to avoid fees by paying with cash or other alternatives such as A2A payments.

Large companies have also indicated they will pass on the cost to customers in higher prices.

At its results announcement, Qantas said: "The RBA's position is predicated on the fact that prices will not go up off the back of surcharging ... regardless of the changes that the RBA make, there is still a net cost of acceptance, ultimately ... that will likely be passed on to our consumers and our passengers through higher ticket prices".[3] The move could see some fares rise by as much as $120 based on current Qantas surcharges.[4]

Similarly, IPF members have indicated, the removal of surcharging without significant fee reductions could see the prices increases in commonly purchased items. Price increases will not be uniform, as some items have fixed pricing or more intense competition. For this reason, price increases on some items may go beyond 2%.

For example, a $200 family meal at a pub could rise by 2.85% or $5.70 and a $5 cup of coffee could rise by 4% to $5.20 for all consumers.

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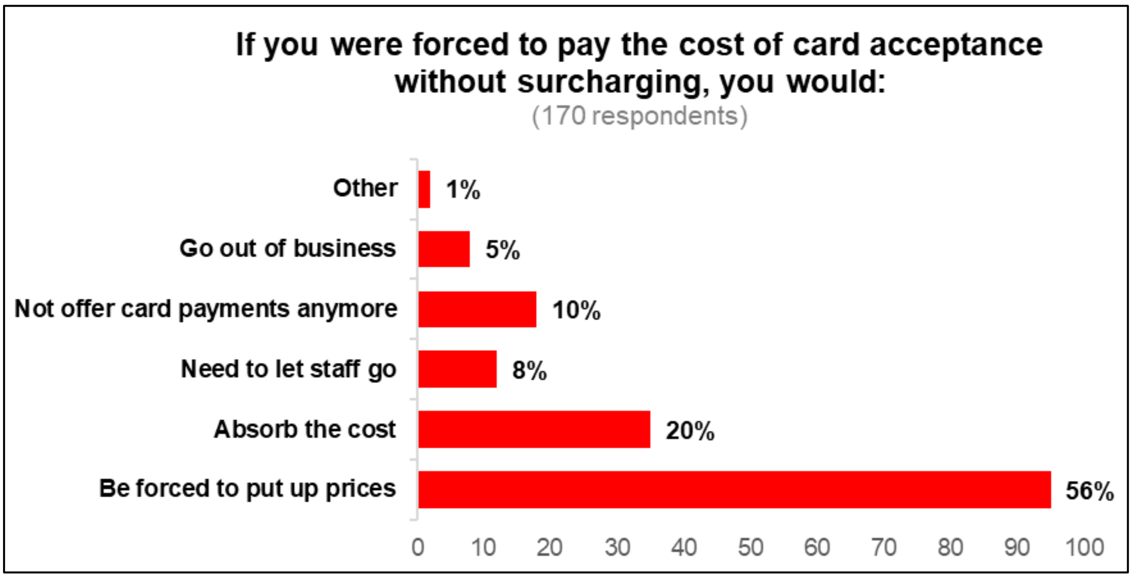
[2] Independent Payments Forum, 2025, 'RBA consultation on cards and merchant fees' – Merchant survey conducted via Google Forms. See Appendix 1.
[3] Sainsbury, M, 2025, 'Airline ticket price hikes ahead, as Qantas promises to pass on surcharge costs' *PayDay News,* Retrieved from: https://paydaynews.com.au/p/airline-ticket-price-hikes-ahead-as-qantas-promises-to-pass-on-surcharge-costs
[4] Ibid.

***Figure 6*** *– IPF Merchant Fees & Surcharging Survey (187 respondents)*




## <u>Margin squeeze in tough economic times and rounding up prices</u>

Many small businesses operate on low profit margins. Costs have grown for a number of business expenses, including insurance and electricity, whilst operating on already low profit margins.

Merchant service fees do not operate like other business expenses. These fees are a percentage of a business' sales. ***Figure 7*** shows the impact of merchant service fees on the profits of a coffee shop.

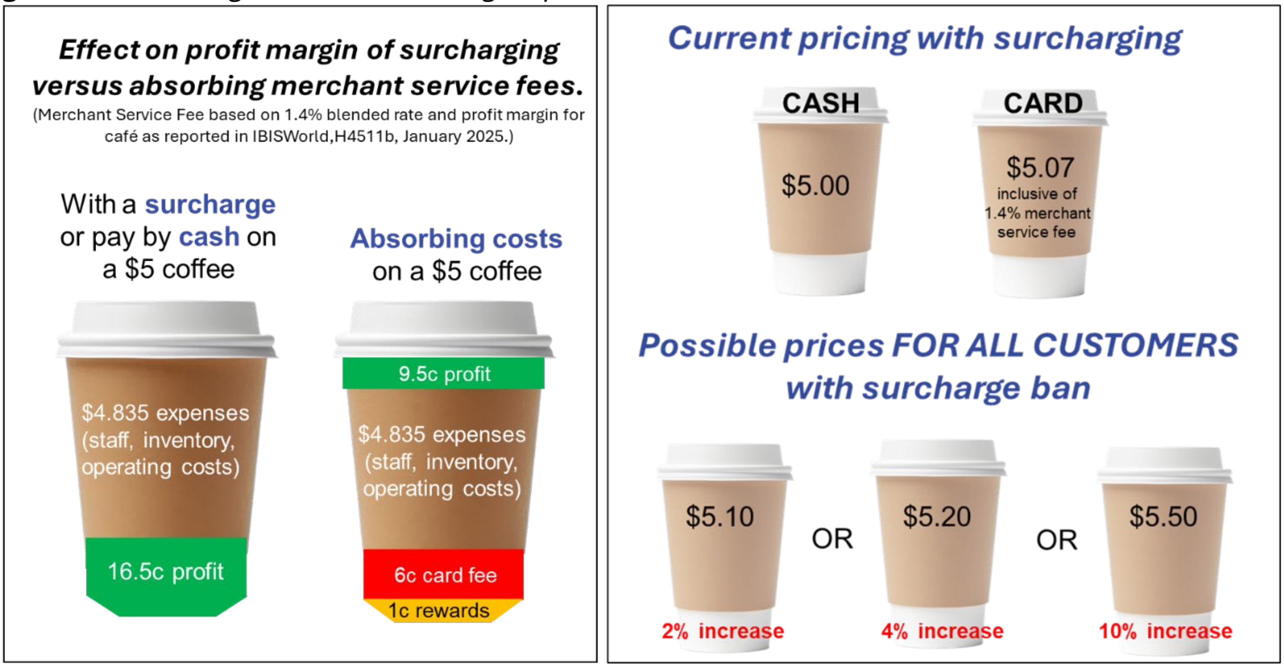
For example, IBIS World states that cafés and coffee shops in Australia are operating on a 3.3% profit margin. A 1.4% blended merchant fee that is absorbed by a small business reduces their profit margin on a cup of coffee by 42%.

Based on current flat rate pricing and the high merchant service fees paid by small businesses it is not realistic to believe that they can absorb merchant fees and not pass on these costs to consumers. A slight reduction in interchange fees is not guaranteed to reduce their merchant services fees at all.

If surcharges are banned without a significant and mandated lowering of merchant service fees, small businesses will be forced to increase their prices to cover their costs - leading to increased prices for all consumers, including those paying with cash, who may have already been subject to an ATM withdrawal fee.

Due to coin denominations, cost in obtaining change and counting cash, small businesses may preference coin denominations that are easier to count. This could lead to even higher price increases.

***Figure 7** – A surcharge ban will lead to higher prices*




## Fixed price items and competition

Many small businesses are already suffering the burden of high merchant service fees without the ability to surcharge on some items. For example, the government mandates that pharmacies cannot surcharge on PBS medications. As a result, many of these pharmacies do not surcharge any items. Instead, they are forced to absorb these costs or add them to the retail price of other items they stock, impacting their ability to compete and profit.

In the case of community pharmacies, independent supermarkets, hardware, liquor and fuel outlets, they are competing directly with large corporations who have the buying power and the benefit of strategic merchant service fees, subsidised by these smaller businesses who are trying to compete with them.

Newsagents and convenience stores also provide products that have fixed prices such as newspapers, lottery tickets and travel cards. Banning surcharging without significant cost reductions in merchant service fees means many of these businesses will need to significantly raise prices on other items to keep their business viable.

In the case of independent cinemas, removing the ability to surcharge has additional unexpected consequences. Ticket prices are subject to percentage-based fees from film distributors which can be as high as 55% of ticket sales. Without the ability to surcharge, cinemas will need to increase ticket prices. The higher price (compensating for the card fees) would then be subject to further film distribution fees, amplifying the cost to customers and making it difficult for the business to compete with larger cinemas.

Independent fuel retailers are also under extreme pressure to keep prices low, given they compete with bigger corporations and their pricing is visibly advertised, monitored and reported to consumers. Competing in a market like this is already difficult for small businesses who are not offered the strategic rates of many large fuel retailers. Inability for these outlets to offer highly competitive rates may result in a less competitive industry, and higher prices for all consumers.

## Sweetheart deals and volume bonuses

IPF submits the RBA's assumptions in relation to industry impacts may not take into account the benefits of volume bonuses and other incentives that are believed to be included in long-term contracts with card schemes.

Without understanding these contractual arrangements with card schemes, it is difficult for the RBA to estimate true costs or impacts to Issuers and Acquirers.

**What do small businesses say about fixed pricing and competition?**

- *Many customers buy a newspaper in the morning for $2.50 and pay by eftpos. The gross profit is $0.25. When the banks takes $0.08 for the eftpos fee, that means there is not much left for net profit. It is almost not worth selling the newspapers. When we implemented surcharging, there were a few customers that queried why. When I explain and tell the fees that I have to pay on a monthly all of them didn't have a problem with the surcharge.*
- *Our margins are set by lotteries, newspapers and magazine companies which make up over 80% of our business.*
- *Yes, significant increases in proportion of EFT sales compared to cash have significantly increased the cost of doing business. With PBS rules we are restricted from charging the surcharge which makes it difficult to implement if we were to do so.*
- *It is becoming increasingly difficult to absorb these fees. As we are a pharmacy we are unable to add a surcharge to PBS prescriptions, so we do not pass on any surcharges at all. We asked the bank if the charges could be negotiated, as we can't pass them on and they said no.*
- *For a Newsagent who sells Lotteries, the concern is my non-Lotteries customer is having to fund the merchant fee for the Lotteries playing customer. Why should I have to increase my other product lines to fund the loss I take on the Lottery purchaser who uses a credit card to pay.*
- *If small businesses are forced to raise prices to cover merchant fees, consumers will naturally seek cheaper alternatives—often at major chains that can afford to absorb these costs.*

## Wholesale "savings" won't be passed on to small business

The RBA assumes that "lower interchange fees would reduce the need for merchants to raise their consumer prices to compensate for no longer being able to surcharge."[5]

[5] Reserve Bank of Australia, 2025, Review of Merchant Card Payment Costs and Surcharging – Consultation Paper

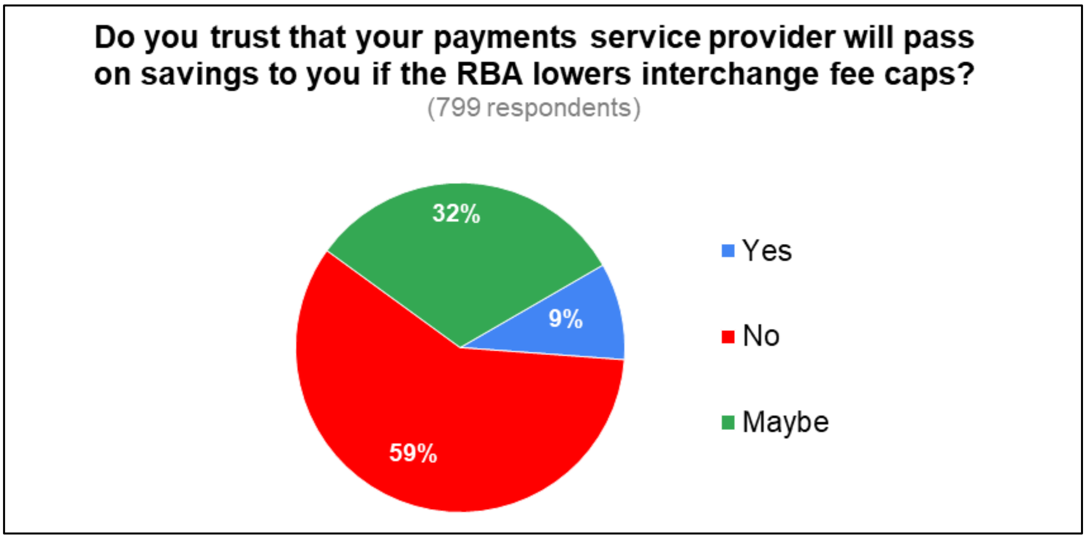
The RBA's summary of the proposals says: "Our proposals could save businesses around $1.2 billion in interchange fees a year and make 90 per cent of businesses better off."[6]

This claim is extremely difficult to justify given:

- Merchant Service Fees are increasing, despite reductions in eftpos wholesale pricing in September 2024 and May 2025
- The country's largest merchants are already paying significantly less than the proposed cuts
- Blended rates inflate pricing to small business, no matter what changes are made to wholesale prices
- The industry's self-regulated interpretation of Least-Cost Routing has failed to deliver savings to small businesses as intended by the RBA.

IPF data demonstrates that small business merchants are sceptical that they will see any reduction in their merchant service fees.

***Figure 8*** *- RBA consultation on cards and merchant fees survey*




**What do small businesses say about cost reductions?**

- *Most customers using credit/debit card even for $1 transactions. Even with reduced interchange fee, there will be significant cost to business. Currently my eftpos provider charged approx $600/month as transaction fee.*
- *It costs us anywhere between $7000-9000 per month in fees. We simply cannot absorb that cost to our business hence the surcharge. We don't want to make it a profit centre by surcharging we simply want to stay afloat.*

[6] Ibid.

**RBA CONSULTATION QUESTION:**
Q1: Would removing surcharging on designated card networks best support the RBA's objectives to promote the public interest through improving competition, efficiency and safety in the payments system? In particular, the RBA welcomes feedback on whether there are additional public interest considerations that should be taken into account for each policy option.

*No. Without regulatory action on blended rates, Dynamic Least-Cost Routing and scheme fees, the current package will entrench higher fees for small businesses , reduce competition, stifle productivity, create upward pressure on inflation and force some businesses to shed jobs or even close.*

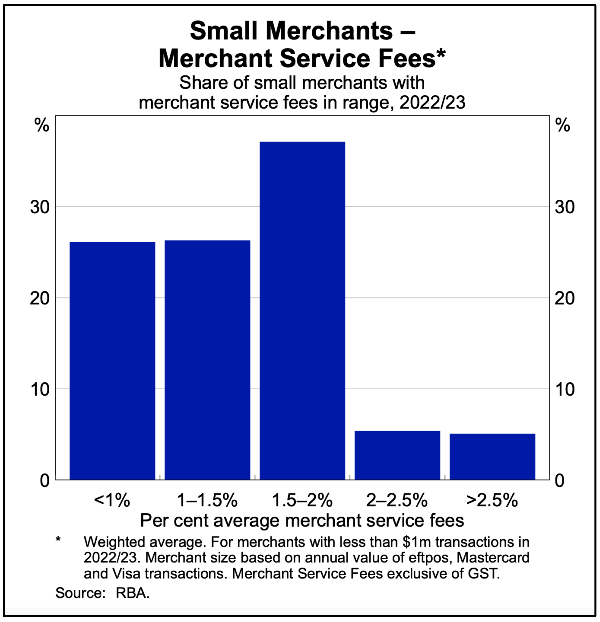
## Blended rates must go

The widespread use of blended, fixed rate and bundled pricing of both debit and credit transactions in Australia results in:

- higher prices for small businesses and their customers, and
- cross subsidisation of credit cards being paid for by people who choose to use cheaper debit cards.

Since this practice was first introduced in 2016, it has been adopted by most of the PSP and acquiring industry for their small business customers.

***Figure 9*** *– 2022/23 Small Merchants – Merchant Service Fees*




Meanwhile, big business is offered interchange++ plans at much lower rates [7] which provides complete transparency as well as a significant lower end cost to the merchant.

[7] Reserve Bank of Australia, 2022, 'The Cost of Card Payments for Merchants', https://www.rba.gov.au/publications/bulletin/2022/sep/the-cost-of-card-payments-for-merchants.html

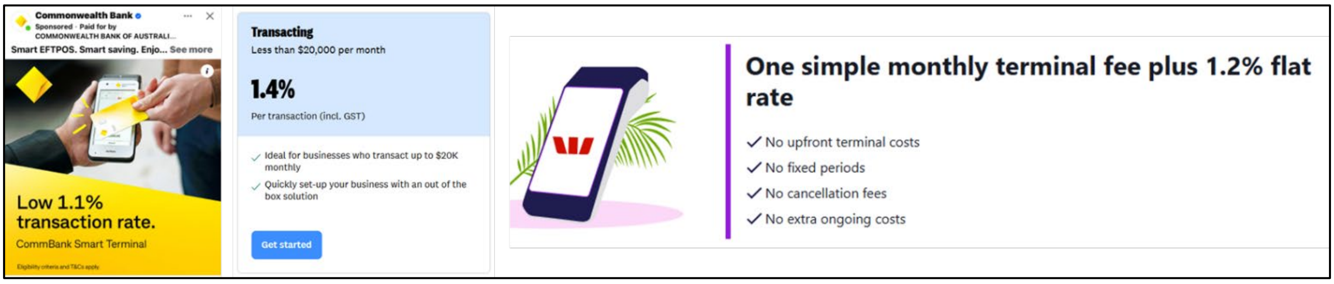
Fees paid by small businesses range from about 0.95% to over 2% and make a mockery of RBA regulations aimed at reducing fees via interchange caps without addressing scheme fees.

Introduction of these pricing plans by big banks coincided with debit overtaking credit in terms of total transaction value and may have been seen as a way of recouping lost credit card revenue.

Small and medium merchants have been targeted by banks and PSPs with these high fee pricing constructs.

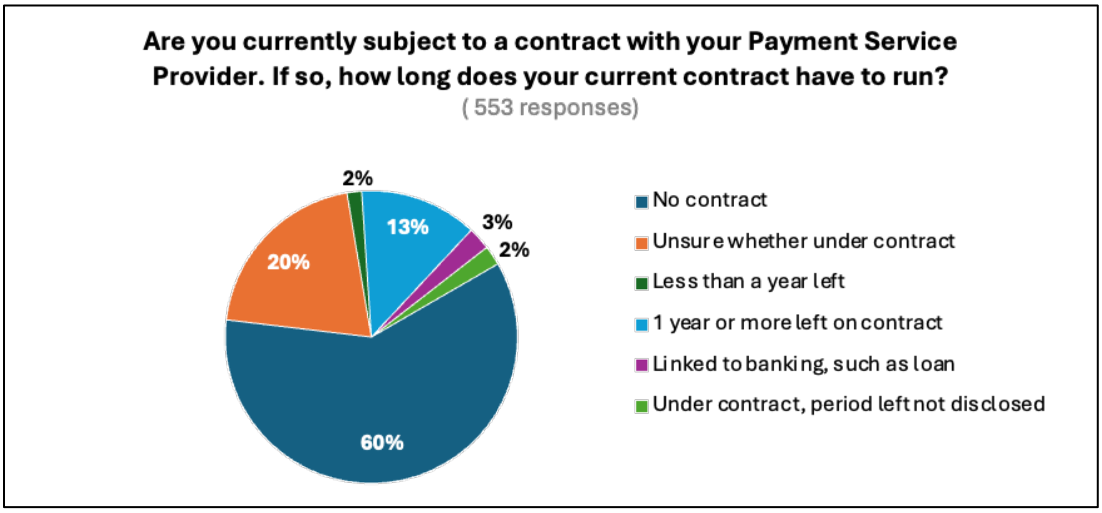
Since the RBA's consultation paper was released, marketing of these plans has continued including by some of the nation's largest banks who now offering blended pricing with no other option available to small business.

***Figure 10*** *– Advertised flat rate pricing*[8]




IPF research indicates that a significant number of merchants are tied to contracts which will inhibit them from churning to new providers. Before any surcharge ban is introduced these businesses will need time to understand cost savings from the interchange reduction and to renegotiate contracts.

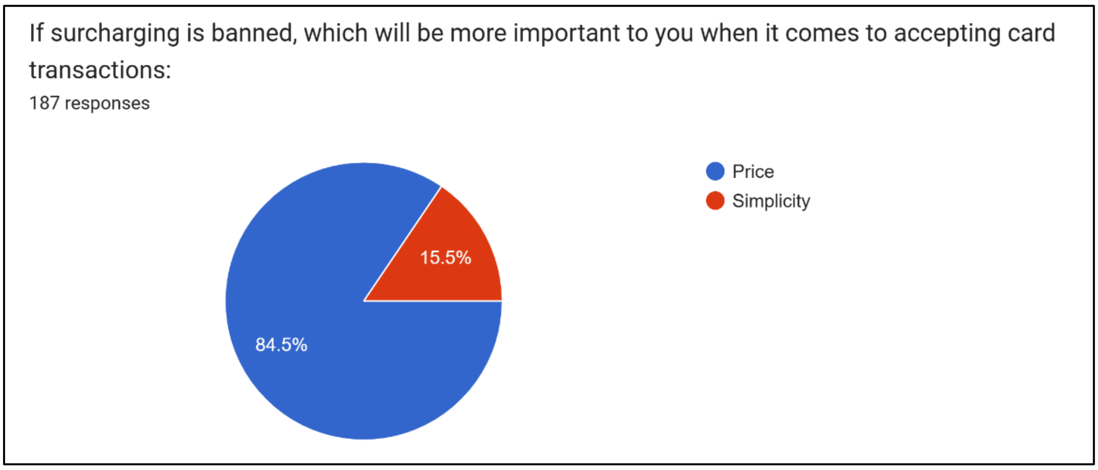
***Figure 11*** *– RBA consultation on cards and merchant fees survey*




The tired argument that small business prefers "simple" pricing, simply doesn't stack up when merchants are offered a choice of saving money on fees.

[8] Commonwealth Bank advertisement retrieved from LinkedIn, https://www.tyro.com/products/eftpos/tyro-pro/, https://www.westpac.com.au/business-banking/merchants-and-payments/eftpos/

***Figure 12*** *- Merchant Fees & Surcharging Survey*




**What do small businesses say?**

- *If we can't on charge the fees then the banks shouldn't be charging them to us, maybe the bank charges the user more in the so called "annual fee". If not make it a standard cents per transaction rather than a % fee, as it shouldn't cost more depending on the amount per through the terminal.*
- *The fees charged by some card providers are exorbitant - it is time to end the rewards systems that end up costing users more.*
- *It is unfair if surcharges are banned but the cost of a transaction by the provider is based on volume. Smaller players are paying high rates for the same service. If merchant fees are to be banned, then the charge to business should also at a minimum be capped and one flat fee for all business regardless of size.*
- *They are a rip off for small business especially for low priced items where a large proportion of the profit is taken in card fees for example when we sell jelly beans.*

**Recommendations**

- Ban blending of debit and credit card fees charged to small businesses.
- Delay implementation of any proposed surcharge ban for 12 months to allow time for SMEs to switch providers, revise contracts and collectively bargain for better outcomes, and allow fintechs and PSPs time to re-evaluate their service models.
- The ACCC compel Visa, Mastercard, AP+ (and relevant bank/PSPs) to the table on collective bargaining with SME representative bodies such as IPF.
- To future-proof retail payments in Australia and encourage competition, IPF submits the RBA should also actively promote non-card retail payments options at scale, such as regulated A2A and cheap access to cash.

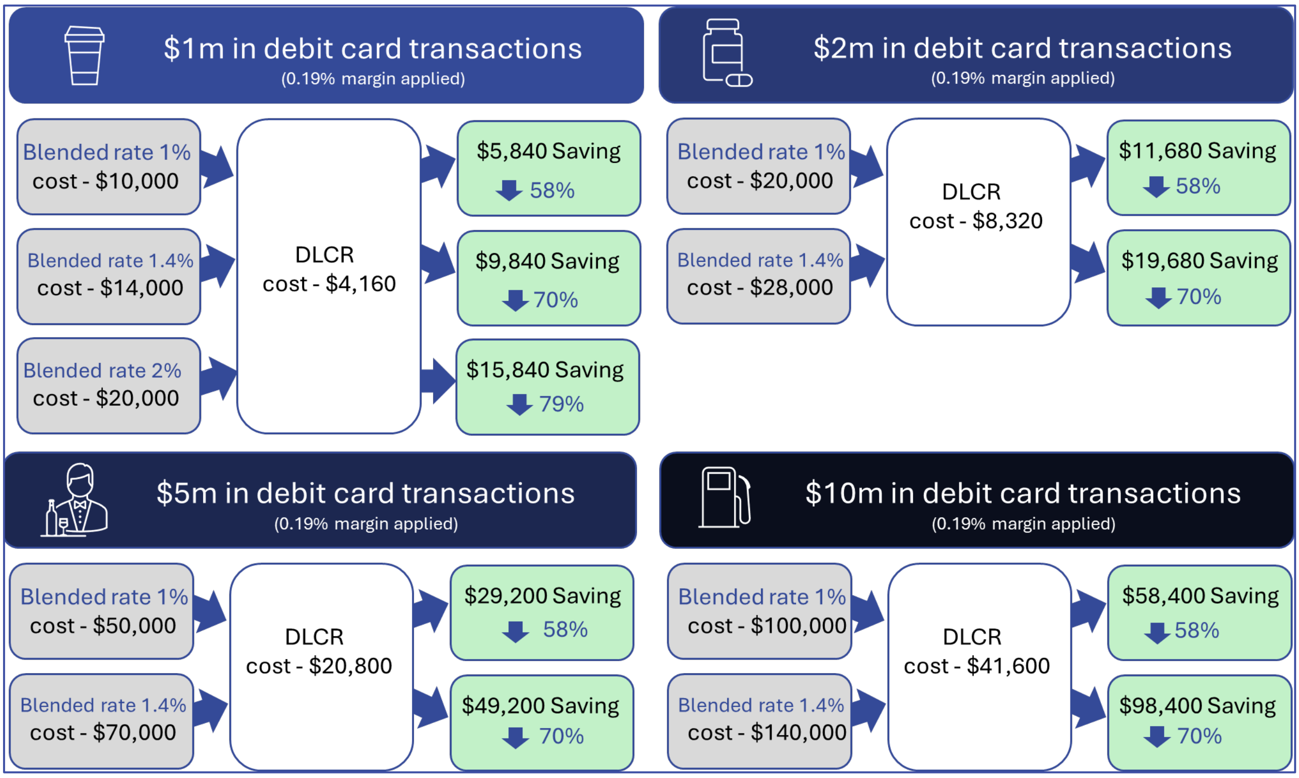
## Mandate opt-out Dynamic Least-Cost Routing

IPF supports the mandating of opt-out, dynamic Least-Cost Routing (LCR) on debit cards to improve the efficiency of the payments system, as well as improve resilience.

This innovative form of LCR should provide functionality to facilitate the real time cost comparison of each transaction and the subsequent selection of the least-cost network, while also diverting payments to viable networks during times of service disruptions.

Recent figures from companies that have adopted DLCR in this market such as Adyen and IPSI, indicated it can deliver savings of 45-70% compared to blended rates options common in the market today.[9]

***Figure 13*** *- Dynamic Least-Cost Routing delivers significant savings**

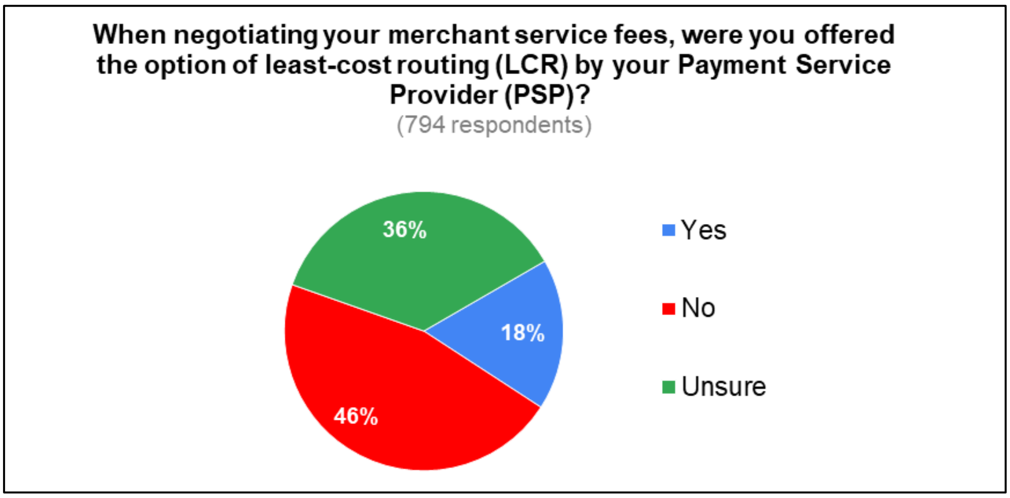



*Allowing for RBA average 0.19% acquiring bank/PSP margin

LCR technology has been available in the Australian market for many years but has not been properly implemented or promoted by the payments industry in what can only be described as a complete failure of self- regulation.

[9] Lekakis, G, 2025, 'Adyen halves merchant costs with AI-enabled dynamic routing', *PayDay News,* Retrieved from: https://paydaynews.com.au/p/adyen-halves-merchant-costs-with-ai-enabled-dynamic-routing

***Figure 14*** *- RBA consultation on cards and merchant fees survey*



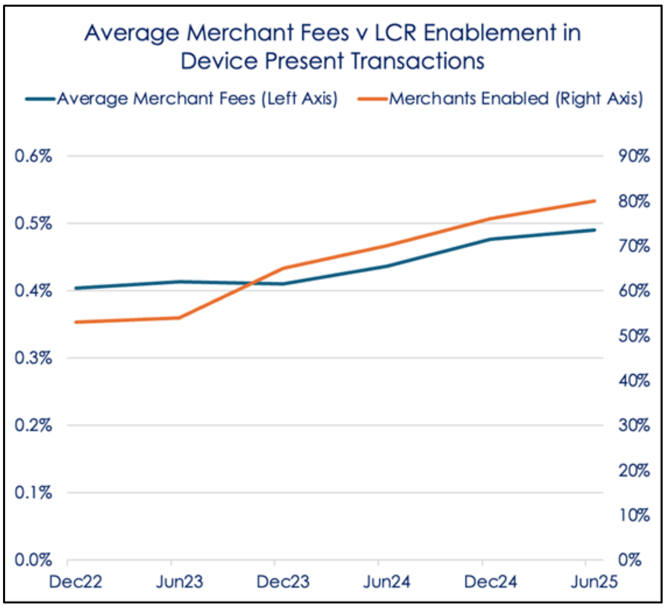

It is ironic that sections of the industry spend much time talking about innovation but have been unable to properly deliver innovative DLCR technology despite consistent calls from the SME business customers for almost a decade.

Recent figures from the RBA clearly demonstrate this issue. While LCR implementations are increasing, merchant service fees for small business are also increasing meaning that any cost savings gained by least-cost routing are mostly flowing to the PSP's and banks and not to merchants.

Alarmingly, some PSPs that report 100% LCR implementation are also charging their merchant customers blended rates of over 1.4% for a transaction that may cost the PSP just a couple of cents.

Other PSP's have switched off LCR in order to take advantage of promotions offered by card schemes based on volume of transactions processed with others increasing overall fees to fill the vacuum left when LCR is implemented and a reduction of fees has occurred.

***Figure 15*** *- Despite more merchants being enabled, average merchant fees continue to rise*



It is worth noting that the ACCC in its previous submission, supported consideration of the RBA facilitating the implementation and uptake of Dynamic LCR, where the lowest cost network is assessed and chosen for each individual transaction, across all transactions whether via in-person card, online or digital wallets.[10]

The Australian Small Business and Family Enterprise Ombudsman also recommended the RBA mandate least-cost routing for transactions across all form factors, including in-person, online, buy now pay later and digital wallets.[11]

In 2017, The Black Economy Taskforce recommended that:

> *Where debit cards provide access to a customer's transaction account via two different networks, banks providing card acquiring services to merchants enable merchants to ensure that their contactless transactions use the lower-cost network.*[12]

The Taskforce also acknowledged the opposition of banks and international schemes to LCR and warned that they could seek to respond in ways that might be anti- competitive.[13]

The Productivity Commission in 2018 also stated that, "The technology is readily available to offer dual payment choice in Australia, and we consider this must now be mandated."[14]

**What do small businesses say?**

- *We switched to LCR. ANZ increased the merchant fees which completely offset any savings.*
- *LCR should always be available by every provider.*
- *Credit card and Tap & Go costs are excessive: Especially when routing defaults to high-cost networks like Visa/Mastercard.*
- *Banks are making ongoing record profits with fewer and fewer services to customers and communities. I have no trust at all that they will support small business or even just do the ethical thing re LCR. I fully support small businesses passing that surcharge on to the customer in a clear, transparent way and would if I could legally. For me this is a significant cost and for small businesses with thinner margins it is a very significant cost.*
- *Even without a contract, we've found:*
    - *Transparency around fees and routing options is still lacking, and LCR is not proactively offered or explained, even when renegotiating. So while we're technically free to move, the lack of competitive and clear alternatives makes it difficult to ensure we're getting the best deal — especially as many providers still operate with opaque fee structures and bundled pricing models.*

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[10] Australian Competition and Consumer Commission, 2024, *ACCC submission: Merchant card payment costs and surcharging review – Issues Paper,* p.12.
[11] Australian Small Business and Family Enterprise Ombudsman, 2024, *Submission on Merchant Card Payment Costs and Surcharging Issues Paper.*
[12] Treasury, 2017, Black Economy Taskforce – Final Report, Retrieved from: https://treasury.gov.au/sites/default/files/2019-03/Black-Economy-Taskforce_Final-Report.pdf, p.63.
[13] Ibid, p.68.
[14] Productivity Commission, 2018, Competition in the Australian Financial System, Productivity Commission Inquiry Report, No. 89, Retrieved from: https://www.pc.gov.au/inquiries/completed/financial-system/report/financial-system.pdf, p.31.

**Recommendation**

- Mandate opt-out Dynamic Least-Cost Routing on debit, including mechanisms to ensure savings are returned to merchants
    - To ensure efficiency and the future success of LCR, it is important to continue to mandate multi- network debit (MND) functionality of debit, on all form factors and in all channels. IPF submits the RBA should not provide exemptions to MND card issuance as this will undermine the efficiency of the payments system and LCR.
- Consider mandating LCR on credit cards.

**RBA CONSULTATION QUESTION:**
Q11: Are there any changes that should be made to the RBA's existing industry expectation on LCR implementation to improve competition and efficiency in the debit card market?

*Mandate opt-out Dynamic Least Cost Routing on debit, including mechanisms to ensure savings are returned to merchants.*

## Increase interchange for overseas merchants to combat fraud

The proposed interchange caps in the consultation paper continue to enshrine unfair pricing for small business, where small business subsidises bank margins and big retailer profits.

The RBA's proposal would see big business paying up to six times less than small business under the proposed debit cap, and almost two times less than small business under the proposed credit cap.

This is clearly unacceptable and unfair to small businesses, bad for competition and a poor productivity outcome.

The RBA outlines three reasons as to why interchange fees exist[15]:

1. *Revenue from interchange gives card issuers more motivation to issue payment cards/accounts on the new network to their customers.*
2. *Revenue from interchange can be used to fund consumer rewards programs that incentivise usage.*
3. *Revenue from interchange helps pay for building infrastructure, operations and new features, such as additional security.*

These reasons no longer justify the existence of interchange fees in the Australia's domestic payments landscape, given the maturity of the market, especially at point of sale (around 60% of transactions) and at the level of the RBA's proposed caps.

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[15] https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/backgrounders/backgrounder-on-interchange-and-scheme-fees.html

There is no need to motivate issuing banks to issue cards, consumers are already incentivised to use cards and additional security is not needed for point of sale card present transactions, given that fraud levels at point of sale are practically negligible.

In fact, the Productivity Commission recommended back in 2018 that: “The Payments System Board of the RBA should ban, by end-2019, all card interchange fees as a way to reduce distortions in payment choices and the flow-on costs of these distortions to merchants.”[16]

Furthermore, the RBA has now made it clear that interchange should not be used to subsidise rewards programs. IPF applauds this clarification from the RBA and notes that CBA CEO Matt Comyn said last year when he addressed the Standing Committee on Economics in Canberra on interchange fees, that 90% of interchange “economics” current went towards funding rewards.

“Just like in many other markets, some proportion—it's more than 90 per cent of the economics that we're receiving on the interchange side—we basically give back to the customer in the context of points, often through the purchase of frequent flyer points; it could be Qantas, or it could be others,” Mr Comyn told the Committee in August 2024.[17]

Similarly, any proposals by the payments industry to manipulate interchange pricing (and political sentiment) by applying a tight and inaccurate definition to “small business” (e.g. < $250k per annum in card transactions) would fail to assist large numbers of small business merchants operating in the real economy, and should be rejected out of hand.

However, recent fraud statistics released by AusPayNet do indicate there may be some justification to increase interchange to assist the industry combat extreme fraud rates occuring at overseas merchants.

Overseas online fraud increased by 25 per cent to $454 million in 2024 and occurred at a rate of $12.08 for every $1,000 spent, revealing that **Australian face-to-face businesses are cross-subsidising the cost of fraud that is being committed overseas on purchases from companies that are not only taking profits from Australian businesses, but that may also be involved in unethical business practices**.

AusPayNet’s Australia Payment Fraud data shows that 60% of all card transactions in Australia are card present. Card spend increased to $1.16T in transaction value and yet fraud associated with card present transactions in Australia makes up only 5% of fraud, declining to a record low of 97 cents per $1,000 spent in 2024, most of which is linked to lost or stolen cards and not transactions themselves.

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[16] Productivity Commission, 2018, *Competition in the Australian Financial System, Productivity Commission Inquiry Report, No. 89, 29 June 2018*, Retrieved from: https://www.pc.gov.au/inquiries/completed/financial-system/report/financial-system.pdf
[17] Ponder, W. 2025, ‘CBA axes rewards partners as door closes on fee holiday’, *PayDay News,* Retrieved from: https://paydaynews.com.au/p/commbank-axes-rewards-partners-as-door-closes-on-fee-cross-subsidisation-holiday

***Figure 16*** *- Card Spend and Card Fraud*[18]


Fraud costs are accounted for in both interchange and scheme fees, however the evidence above shows that in card present transactions in Australia we see very few incidents of fraud.

Even with the lowering of interchange fees, Australian in-person small business merchants are still expected to pay for fraud on every transaction both in interchange and scheme fees, subsidising online businesses, where the actual fraud is occurring.

The RBA in their recently released Issuer Cost Study[19] has broken down the estimated eligible issuer costs and has allocated a cost of 0.8c or 0.02% per transaction as a fraud charge.

***Figure 17 -*** *Estimated Issuer Costs Related to Card Issuing and Processing for Domestic Card Transactions*[20]

| | Aggregate costs | | | Costs excluding the Major Banks | | |
|---|---|---|---|---|---|---|
| | | Debit(a) | Credit | | Debit(a) | Credit |
| | Cents | %(b) | %(b) | Cents | %(b) | %(b) |
| **Eligible costs** | | | | | | |
| Authorisation and transaction processing | 1.9 | 0.04 | 0.02 | 3.8 | 0.09 | 0.12 |
| Fees and other costs associated with mobile wallet providers | 0.7 | 0.01 | 0.02 | 0.7 | 0.02 | 0.02 |
| Fraud | 0.8 | 0.02 | 0.02 | 1.3 | 0.03 | 0.04 |
| Net scheme fees | 1.6 | 0.03 | 0.04 | 4.2 | 0.10 | 0.07 |
| Cost of funding interest-free periods | | | 0.12 | | | 0.29 |
| **Non-eligible costs** | | | | | | |
| Account set-up, overheads and maintenance | 15.8 | 0.32 | 0.54 | 14.7 | 0.35 | 0.25 |
| Card production and delivery | 0.8 | 0.02 | 0.02 | 0.8 | 0.02 | 0.03 |
| Product development | 1.7 | 0.03 | 0.07 | 0.5 | 0.01 | 0.00 |
| Cardholder reward programs | 0.1 | 0.00 | 0.47 | 0.1 | 0.00 | 0.30 |
| Disputes, chargebacks and collections and write-offs | 0.7 | 0.01 | 0.17 | 0.6 | 0.02 | 0.05 |
| Cost of capital | 0.7 | 0.01 | 0.12 | 1.2 | 0.03 | 0.15 |
| Other | 3.0 | 0.06 | 0.06 | 0.00 | 0.00 | 0.00 |
| **Total costs**(c) | | | | | | |
| Eligible costs excl. the cost of funding interest-free periods | 5.00 | 0.10 | 0.10 | 10.0 | 0.24 | 0.25 |
| Eligible costs incl. the cost of funding interest free periods | | | 0.22 | | | 0.54 |
| All costs | 27.8 | 0.57 | 1.67 | 28.0 | 0.66 | 1.31 |

(a) Consumer cards only.
(b) Per cent of transaction value.
(c) Totals may not be equal to the sum of their components due to rounding.
Source: RBA.

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[18] Australian Payment Fraud, 2025, Australian Payment Fraud 2025, Retrieved from: https://auspaynet.com.au/sites/default/files/2025-08/2025_Australian_Payment_Fraud_Report.pdf

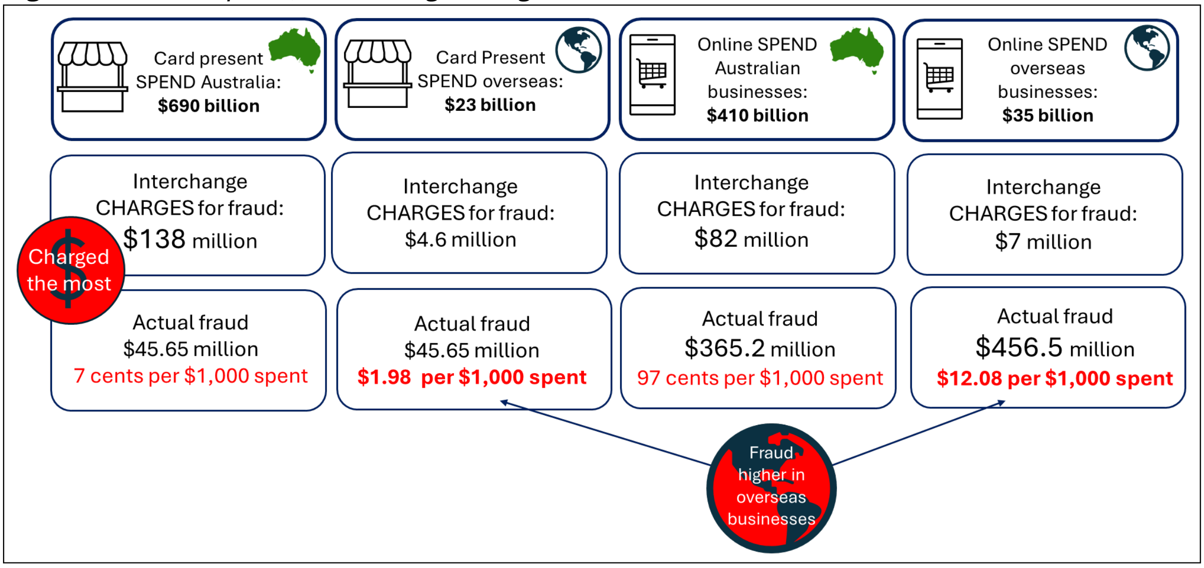
[19] Reserve Bank of Australia, 2025, *Review of Merchant Card Payment Costs and Surcharging – Issuer Cost Study,* Retrieved from: https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/issuer-cost-study/2025-08/pdf/issuer-cost-study.pdf

[20] Reserve Bank of Australia, 2025, *Review of Merchant Card Payment Costs and Surcharging – Issuer Cost Study,* Retrieved from: https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/issuer-cost-study/2025-08/pdf/issuer-cost-study.pdf

This shows that Australian businesses who conduct their business via card present transactions are paying fees that subsidise the fraud linked to unprotected online merchants who are often based overseas and take away potential earnings for Australian businesses.

This is particularly true for a local café, corner store, or community pharmacy where fraud is basically non-existent.

***Figure 18*** *- Card spend, interchange charges for fraud and actual fraud in 2024.*[21]




In contrast to the RBA recommendations, the Commerce Commission New Zealand have recognised not only the need for a zero-interchange option for merchants and consumers but have included a tiered approach to interchange fees which recognises the greater costs and risks of fraud associated with online transactions versus card present in-store transactions.

***Figure 19*** *– Interchange fees caps in New Zealand*[22]

**Table X1 New interchange fee caps**[4]

| | Payment method | Current caps/ rates | Draft decision | New caps (Final decision) |
|---|---|---|---|---|
| **Domestic cards** | | | | |
| Debit (personal and commercial) | In-person - contacted | 0.00% | 0.00% | **0.00%** |
| | In-person - contactless | 0.20% | 0.20% | **0.20%** |
| | Online | 0.60% | 0.40% | **0.60%** |
| Personal credit | In-person | 0.80% | 0.20% | **0.30%** |
| | Online | 0.80% | 0.40% | **0.70%** |
| Commercial credit | In-person | 0.45-2.20%* | 0.20% | **Uncapped** |
| | Online | 0.45-2.20%* | 0.40% | **Uncapped** |
| Prepaid | All | 0.20-2.00%* | Uncapped | **Uncapped** |
| **Foreign-issued cards** | | | | |
| Debit (personal, commercial and prepaid) | In-person | 0.60-2.40%* | 0.60% | **0.60%** |
| | Online | 0.90-2.40%* | 1.15% | **1.40%** |
| Personal credit | In-person | 1.10%-2.40%* | 0.60% | **0.70%** |
| | Online | 1.10%-2.40%* | 1.15% | **1.50%** |
| Commercial credit | In-person | 1.85%-2.35%* | 0.60% | **Uncapped** |
| | Online | 1.85%-2.35%* | 1.15% | **Uncapped** |

[21] Compiled from information retrieved from: https://auspaynet.com.au/sites/default/files/2025-08/2025_Australian_Payment_Fraud_Report.pdf and https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/issuer-cost-study/2025-08/pdf/issuer-cost-study.pdf

[22] Commerce Commission New Zealand, 2025, Retail Payment System Interchange fee regulation for Mastercard and Visa networks – Final Decision and Reasons Paper, Retrieved: https://comcom.govt.nz/__data/assets/pdf_file/0032/367457/Retail-Payment-System-Interchange-fee-regulation-for-Mastercard-and-Visa-networks-Final-Decision-and-Reasons-Paper-17-July-2025.pdf, p.7

The RBA consultation paper offers a single cap on interchange fees across all transaction types, despite their enormously different risk profiles.

The RBA's proposal is to:

> *Reduce interchange on domestic debit (and prepaid) card transactions to a weighted-average benchmark of 6 cents per transaction with a cap of 6 cents or 0.12 per cent of transaction value on individual interchange fees.*[23]

These caps exceed the estimated costs that issuers are incurring, therefore allowing them to profit from their own customers to access their own money when going about their everyday shopping at Australian small businesses.

Under the current proposal, if surcharging is banned, small businesses would be forced to pay for their customers to access their own money from the bank, while also subsidising fraud costs for foreign merchants.

**Recommendations**

1. Impose higher interchange caps where they are needed - overseas and risky merchants with significant fraud
2. Set interchange close to zero for Australian merchants for both debit and credit
3. Any % based fees should only be applied if they are cheaper than the fixed cost option

**RBA CONSULTATION QUESTIONS:**

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

*No, the proposed caps continue to enshrine unfair pricing for small business, where small business subsidises bank margins and big retailer profits.*

*The RBA's proposal would see big business paying up to six times less than small business under the proposed debit cap, and almost two times less than small business under the proposed credit cap.*

*This is clearly unacceptable and unfair to small businesses, bad for competition and a poor productivity outcome.*

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

*Impose higher interchange caps where they are needed - overseas and risky merchants with significant fraud.*

[23] Reserve Bank of Australia, 2025, Review of Merchant Card Payment Costs and Surcharging – Consultation Paper, p.43.

## Scheme fees must be regulated and capped

To reduce fee cost burdens across the payments ecosystem – including merchants, banks and PSPs – scheme fees should be regulated and capped.

IPF does not accept that “setting an expectation” that average scheme fees per transaction should not increase without clear explanation, will go far enough to deter further increases, or reduce the current fee burden on small business.

IPF agrees with the RBA’s statements in the consultation paper:[24]

- *“Scheme fees have risen over time, putting upward pressure on card payment costs for merchants.”*
- *“Limits on scheme fees may also be more appropriate in an environment without card payment surcharging to act as a restraint on costs.”*
- *“The PSB is concerned by the current level of scheme fees in the Australian market and the pace of their growth over recent years.”*

Scheme fees continue to be unregulated in Australia, despite the fact they make up a large percentage of card fees[25] and are often rebated to banks and merchants as a bargaining chip in commercial negotiations.

The opacity and deliberate complexity of scheme fees is a running joke in many parts of the payments industry where acquirers are forced to pay scheme fees quarterly, in advance in US dollars making it impossible to accurately determine the true cost. This results in an overestimation of scheme fees which are then on charged to merchants.

As a result of this deliberate over complication of scheme fees by card schemes, an entire industry has emerged to try and mitigate the damage caused by auditing enterprise merchants’ monthly statements with a view to claw back overcharges resulting in millions of dollars being recoupled.

CBA CEO Matt Comyn recently told the Standing Committee on Economics that “If you ever want to while away some hours looking at the way the international card schemes work—it's not a simple thing to summarise”.[26]

The RBA’s Merchant Card Payment Costs and Surcharging issues paper only refers to the $1.8 billion paid by Australian merchants in “net” scheme fees, presumably after rebates. No gross number has been published.

More recently, CBA’s annual results announcements contained a warning about “lower merchant revenue due to higher scheme fees” — a blunt admission repeated across its investor commentary.[27]

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[24] Reserve Bank of Australia, 2025, Review of Merchant Card Payment Costs and Surcharging – Consultation Paper
[25] Reserve Bank of Australia, 2024, *Merchant Card Payment Costs and Surcharging – Issues Paper – October 2024*, p.10.
[26] Comyn, M, 2024, *Standing Committee on Economics* - https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;db=COMMITTEES;id=committees%2Fcommrep%2F28347%2F0001;query=Id%3A%22committees%2Fcommrep%2F28347%2F0000%22
[27] Sainsbury, M. 2025, ‘CBA scheme fees warning piles pressure on RBA’, *PayDay News,* Retrieved from: https://paydaynews.com.au/p/cba-scheme-fees-warning-piles-pressure-on-rba

In their issues paper submission to the RBA, Westpac stated there are now 400 categories of scheme fees and some have no clear value or purpose: "Westpac recommends a cap on scheme fee increases to limit their growth over time. This will manage the level of cost in the system," it said. "Over time, card scheme billing structures have become much more complex, and each international card scheme now charges more than 400 categories of scheme fees.[28]

"It's unclear what purpose or value many of these billing items and new fees provide and they are adding unnecessary cost into Australia's payments system. There needs to be a clear justification when new fee categories are added."[29]

It is estimated that eftpos scheme fees are a little over $100 million, while the dominant players Visa and Mastercard make up the remainder.

Given the volume of these fees, IPF believes fee caps are needed, The PSB could also explore mandating dual-network credit cards and extending LCR to credit card transactions should scheme fee growth be excessive in the credit market. This would likely increase competitive pressures on scheme fees and would be a potential alternative to imposing a cap on scheme fees.

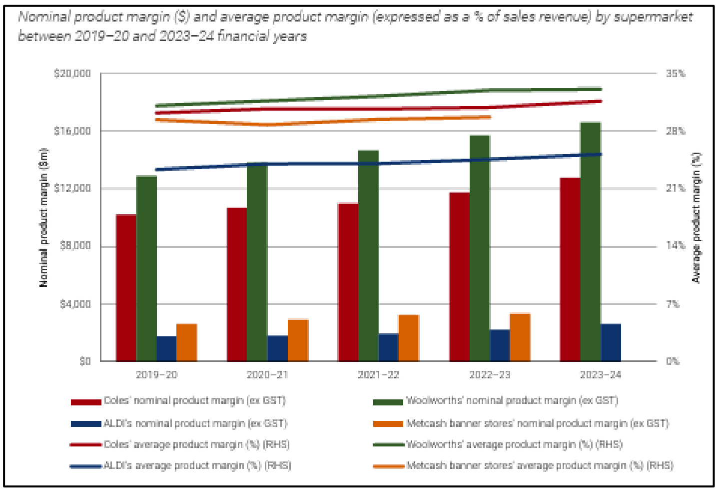
Without alternatives to card payments offered by Visa and Mastercard at point of sale, Australia is allowing the creation of an oligopolistic market which will see merchant fees continue to rise.

The ACCC Supermarkets inquiry final report highlights the dangers of oligopolistic market structures, stating: "In an oligopoly, firms are likely to maximise their profits based on expectations of how other firms are likely to react. This may limit incentives to compete vigorously on price..."[30]

Without competition or strict regulation there is nothing stopping businesses in oligopolistic markets from raising prices or increasing profits without justification.

Data from the ACCC's report has shown the growing product margins in an oligopolistic market:

***Figure 20*** - *Increased supermarket product margins since 2019-2020*[31]

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[28] Westpac Banking Corporation, 2024, *Review of merchants' card payments costs and surcharging, submission to the Reserve Bank of Australia,* p.6.
[29] Ibid.
[30] Australian Competition and Consumer Commission, 2025, *Supermarkets inquiry – Final report*, Retrieved from: https://www.accc.gov.au/about-us/publications/supermarkets-inquiry-final-report, p.96.
[31] Ibid, p.5.

There are already numerous examples where card schemes have been accused and fined for cartel-like behaviours, such as the £31.5m fine faced by 5 firms in the UK in 2022, including Mastercard for operating illegal cartels when providing prepaid cards for local authorities to distribute to vulnerable people.[32]

In May 2022, the ACCC launched proceedings against Mastercard for the misuse of market power.[33] ACCC Chairperson, Gina Cass-Gottlieb said: "Reducing costs for businesses enables them to offer their customers better prices. Making sure the major card schemes, Mastercard, Visa and eftpos, compete vigorously is important for both those businesses and their customers."[34]

Without tighter regulation and any incentive to compete, better pricing will not happen.

**What do small businesses say?**

- *I would like to see more transparency on what profits the merchant fees are generating for the respective providers. Is it Visa and Mastercard making money or is it the banks? I am not sure where all this money goes, because it isn't to the business.*
- *Competition from Eftpos was supposed to reduce costs for merchants but it hasn't, we have just been charged more fees by Eftpos and VISA and MC scheme cards have just continued to thrive.*
- *Visa and Mastercard operate as effective duopolies, with little competition and enormous pricing power. Their fees are largely non-negotiable and non-transparent. If consumers never see the costs, these companies face no public pressure to reduce or justify their charges.*

**Recommendations**

- Scheme should be capped at $0.01 for debit transactions less than or equal to $50, and $0.15 for debit transactions greater than $50.
- On credit, scheme fees should be capped at $0.02 for transactions less than or equal to $50, and $0.20 for transactions greater than $20.
- The PSB explore mandating dual-network credit cards and extending LCR to credit card transactions.

**RBA CONSULTATION QUESTIONS:**

Q6: Does the proposal for card networks to work with industry to reduce the complexity and improve the transparency of their scheme fee schedules enhance the competitiveness and efficiency of the card payments system?

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[32] Osborne, H. 2022, 'Mastercard fined £31.5m over illegal UK prepaid cards cartel, *The Guardian,* Retrieved from: https://www.theguardian.com/business/2022/jan/18/mastercard-fined-315m-for-uk-prepaid-cards-cartel

[33] Wilson, G & Atkinson, J, 2025, 'Cartel and anti-competitive conduct', *Maddocks,* Retrieved from: https://www.maddocks.com.au/insights/watchdog-recap-2024-accc-in-review-cartel-and-anti-competitive-conduct

[34] Ibid

*No, to reduce fee cost burdens across the payments ecosystem – including merchants, banks and PSPs – scheme fees should be regulated and capped.*

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

*No, expectations have proven to be ineffective in Australia and other jurisdictions. To reduce fee cost burdens across the payments ecosystem – including merchants, banks and PSPs – scheme fees should be regulated and capped.*

Q8: Should the PSB consider further regulatory measures in relation to the level of scheme fees to promote competition and efficiency in the payments system?

*Yes, to reduce fee cost burdens across the payments ecosystem – including merchants, banks and PSPs – scheme fees should be regulated and capped. IPF submits:*

- *Scheme should be capped at $0.01 for debit transactions less than or equal to $50, and $0.15 for debit transactions greater than $50.*
- *On credit, scheme fees should be capped at $0.02 f*or transactions less than or equal to $50, and $0.20 for transactions greater than $20.

## Cash is not more expensive than cards for small business

IPF's previous submission to the RBA highlights that debit has been marketed and used as a replacement for cash. Banks are incentivised to promote debit card use as it attracts interchange fees and keep deposits high, especially on transaction accounts.

This marketing has seen businesses forced to accept card payments to remain competitive.

The RBA bases recommendations to remove surcharging based on statements such as "The cost of accepting card payments may now be lower than the cost of accepting cash,"[35] quoting data commissioned by Mastercard, which has a clear vested interest in promoting card payments.

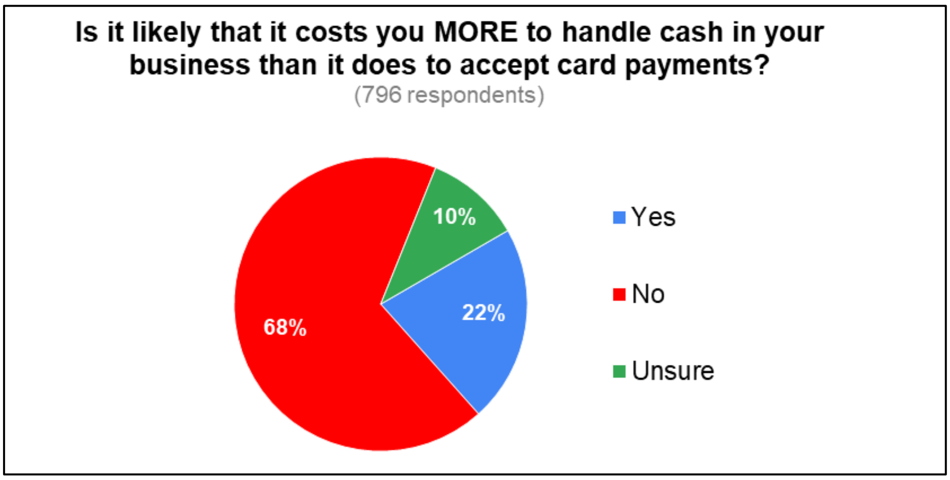
The RBA then states that: "Submissions from consumers generally argued that, as with cash, merchants should absorb card payment costs as a general cost of doing business."[36]

IPF submits that the cost of handling cash is far less problematic for small business than it is for banks, other than the fees imposed by banks for cash handling services, or travelling to banks in areas where they have closed branches.

In fact, IPF data shows 68% of merchants believe card fees are more expensive than cash.

[35] Reserve Bank of Australia, 2025, Review of Merchant Card Payment Costs and Surcharging – Consultation Paper, p.12.
[36] Ibid.

***Figure 21*** *- RBA consultation on cards and merchant fees survey*




When asked about the costs associated with cash, many respondents acknowledged that if they had any costs, they involved:

- Visiting the bank: Some respondents mentioned bank closures and additional travel time
- Wage costs of visiting the bank and preparing deposits
- Bank fees on cash handling and deposits

It is important to acknowledge recent comments made by the RBA's Governor Michele Bullock regarding the Community Service Obligations of banks in relation to cash: "We also expect them [banks] to meet some community service obligations. Cash is one of those"[37].

If debit is a replacement for cash, is it not the responsibility of banks to provide their customers, the Australian people with the ability to access their own money?

It seems illogical that merchants need to pay excessive fees for their customers to access their own money via debit when this is not the case when they pay with cash.

**What do small businesses say?**

- *Cost about $250 a month (in time to process & bank). Merchant fees cost over $1,100 per month.*
- *In our regional hospitality business, cash handling does come with notable costs, particularly due to our location and security requirements. While still often cheaper than card fees, the logistical and operational costs of managing cash are real and increasing.*
- *Cash is KING, we must keep cash at all cost, otherwise we are under control and at the mercy of the banks, and more open to scammers. Cash cost me nothing to handle, however, up to $600 per month charges on card fees.*

[37] PayDay News, 2025, 'Bullock says cash and bank branches are community service obligations but suggests the RBA may sweeten the deal', Retrieved from: https://paydaynews.com.au/p/bullock-says-cash-and-bank-branches-are-community-service-obligations-but-suggests-the-rba-may-sweet

## Transparency

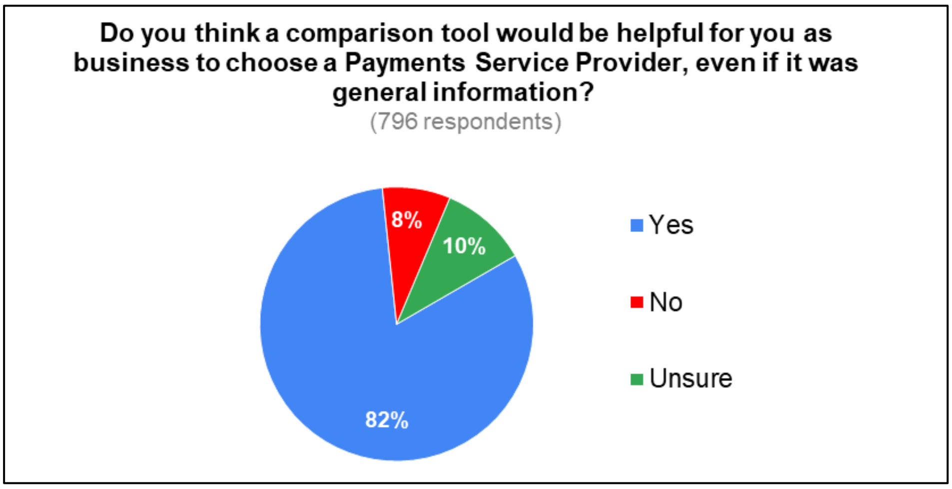
IPF agrees with the RBA's statement in the consultation paper:

"The lack of consistent publicly available information on merchants' card payment fees charged by acquirers makes it more difficult for merchants to compare pricing across providers and for providers to assess their competitors' offerings."[38]

We support the RBA's proposal to require acquirers to publish their merchants' average costs of acceptance, broken down by merchant size and card type on a quarterly basis on their website, but this should include all acquirers and PSPs who choose to participate in the market.

However, we continue to argue that an online comparison tool is essential to help small merchants better compare pricing plans to ensure better outcomes for small businesses in a non-surcharge environment.

***Figure 22*** *- RBA consultation on cards and merchant fees survey*




Digital payments are a necessary tool in today's economy and small businesses should not have to search the internet for information about costs, which may be presented in various ways by different providers. In addition, many of the smaller PSPs servicing this market will not be covered by the proposal above.

Given the significant impact that payment fees have on our economy and individual businesses, all fees should be transparent and published in one place. This includes scheme fees.

Making the availability of such information a regulatory or legislative requirement of all PSPs would enable the development of Comparison Rate information currently available for financial lending products in Australia.

IPF believes the market would benefit for addition transparency in RBA reporting across the payments industry as listed in the recommendations below.

[38] Reserve Bank of Australia, 2025, Review of Merchant Card Payment Costs and Surcharging – Consultation Paper, p.52.

**Recommendations**

IPF support the RBA's proposal with the following amendments:

1. Require acquirers **and PSPs** ~~that process more than $10 billion in card payments annually~~ to publish their merchants' average costs of acceptance, broken down by merchant size and card type on a quarterly basis on their website.

2. Amend requirements for acquirers' cost of acceptance reporting on merchant statements to include (in addition to a breakdown of fees by card network) a breakdown of domestic and international transactions

- Fund and develop an online comparison tool to help small merchants better compare pricing plans in a non-surcharge environment, similar to those currently available for financial lending products in Australia.
- In addition to current economy-wide reporting, RBA reports monthly on:
    - Granular data on strategic rates vs standard volumes/value
    - Strategic rate merchants
    - Scheme fees and fee (volume and actual) categories
    - MSF by merchant size
    - Breaches re weighted interchange and scheme rebates, and fines
    - Average bank margin for SMEs (under $10 million trans volume) vs strategic merchant, including LCR category for SMEs vs strategic.
    - LCR data (Online and PoS) including margin and SME vs strategic
    - Volume and value of transactions by scheme

**RBA CONSULTATION QUESTIONS**

Q5: Does the proposal for card networks to publish aggregate wholesale fee data achieve the RBA's objectives of improving competition and efficiency among the card networks? Does the proposal adequately balance the information needs of the market with commercial concerns?

*No, this should include all acquirers and PSPs, not just acquirers processing more than $10 billion in card payments.*

*The RBA should also support and develop an online comparison tool to help small merchants better compare pricing plans in a non-surcharge environment, similar to those currently available for financial lending products in Australia.*

*In addition, IPF recommends additional monthly reporting to assist competition and transparency objectives.*

Q6: Does the proposal for card networks to work with industry to reduce the complexity and improve the transparency of their scheme fee schedules enhance the competitiveness and efficiency of the card payments system?

*No. To reduce fee cost burdens across the payments ecosystem – including merchants, banks and PSPs – scheme fees should be regulated and capped.*

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

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

*No, this should include all acquirers and PSPs, not just acquirers processing more than $10 billion in card payments.*

*The RBA should also support and develop an online comparison tool to help small merchants better compare pricing plans in a non-surcharge environment, similar to those currently available for financial lending products in Australia.*

*In addition, IPF recommends additional monthly reporting to assist competition and transparency objectives.*

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

*Yes, in addition to measures recommended by IPF above.*

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

*Delay implementation of any proposed surcharge ban for 12 months to allow time for SMEs to switch providers, revise contracts and collectively bargain for better outcomes, and allow fintechs and PSPs time to re-evaluate their service models.*

# Appendix 1

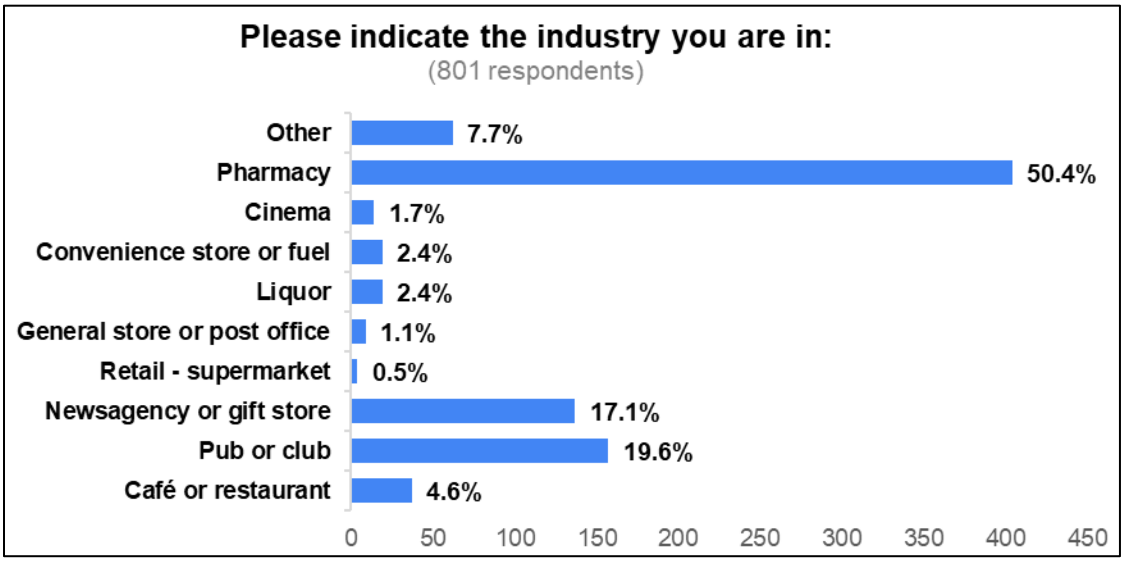
## Findings from the Independent Payments Forum RBA consultation on cards and merchant fees survey

*Conducted July & August 2025 via Google Forms*

**Sample size:** 801 respondents from forum participants memberships
**Merchant types:** Cafés, restaurants, pubs, clubs, newsagencies, gift stores, supermarkets, general stores, post offices, liquor outlets, convenience stores, service stations, cinema, pharmacies, other (mostly hardware).

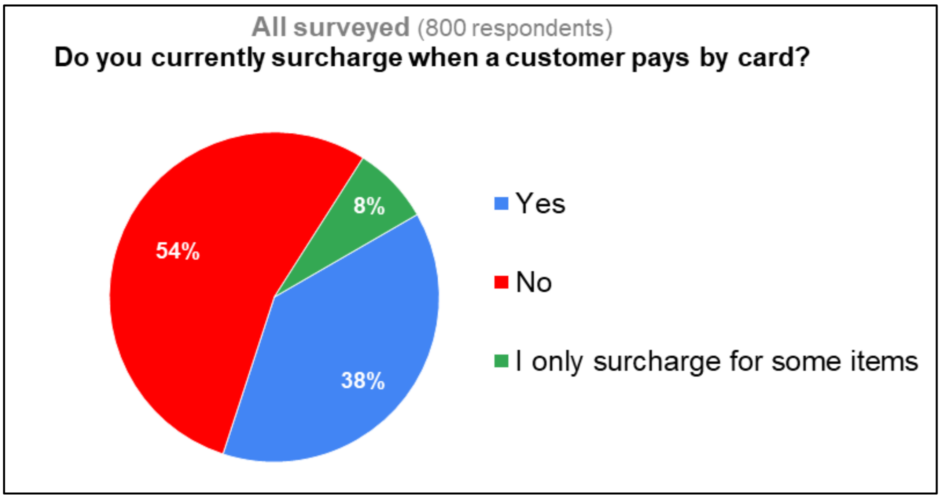
Over 50% of the respondents were from community pharmacies. Pharmacies are not permitted to surcharge patients for electronic payments. They are subject to the Fees, Patient Contribution and Safety Net Thresholds set by the Australian Government.[39]

### Q: Please indicate the industry you are in:

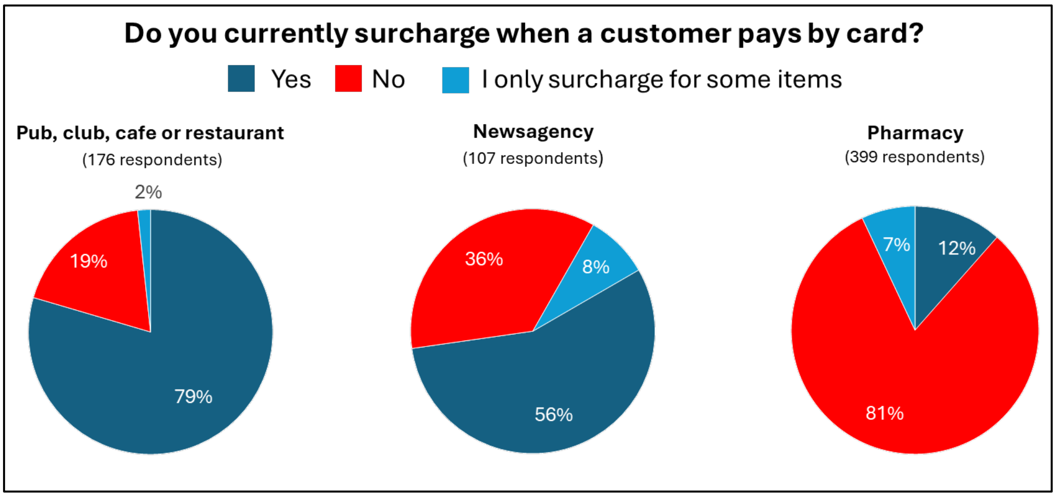



[39] Australian Government, Department of Health, Disability and Ageing, 'Fees, Patient Contributions and Safety Net Thresholds', *The Pharmaceutical Benefits Scheme,* Retrieved from: https://www.pbs.gov.au/info/healthpro/explanatory-notes/front/fee#:~:text=From%201%20January%202025%20for,contribution%20that%20may%20be%20applicable.

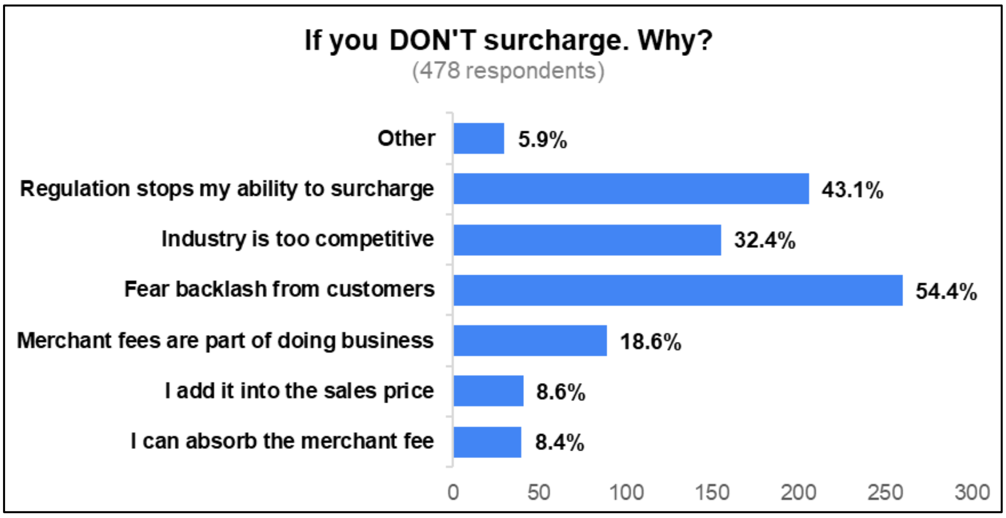
### Q: Do you currently surcharge when a customer pays by card?



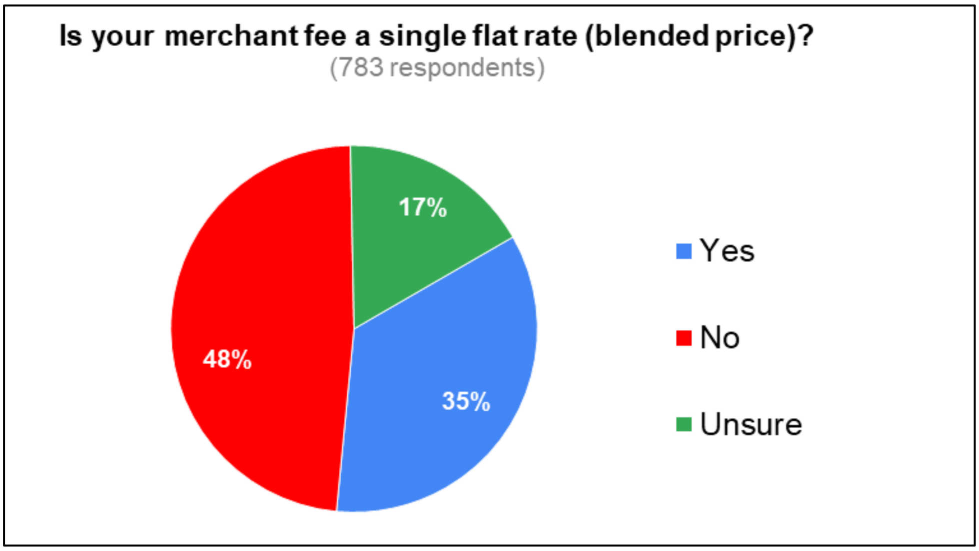

Results by industry:




### Q: If you DON'T surcharge. Why?

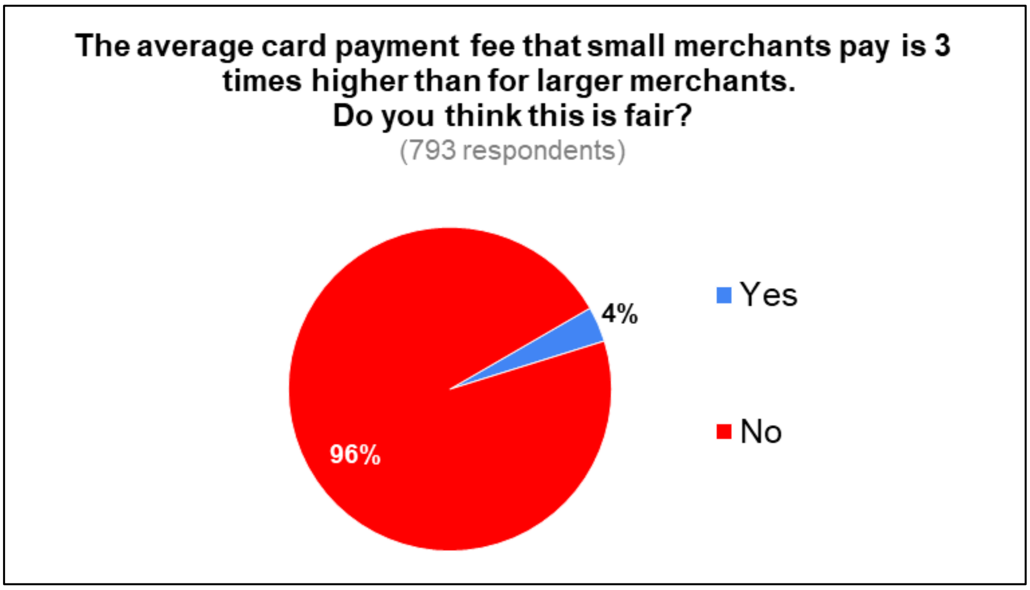


**Q: Is your merchant fee a single flat rate (blended price)?**




**Q: The average card payment fee that small merchants pay is 3 times higher than for larger merchants.**

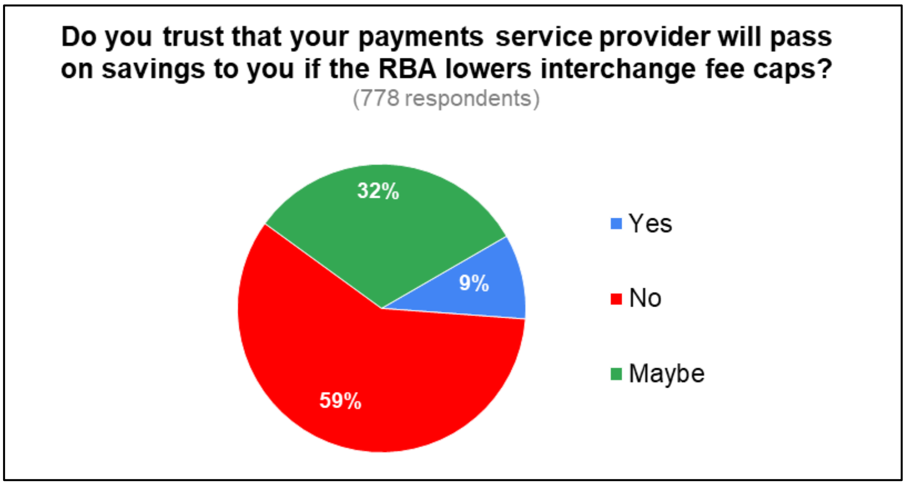
**Do you think this is fair?**



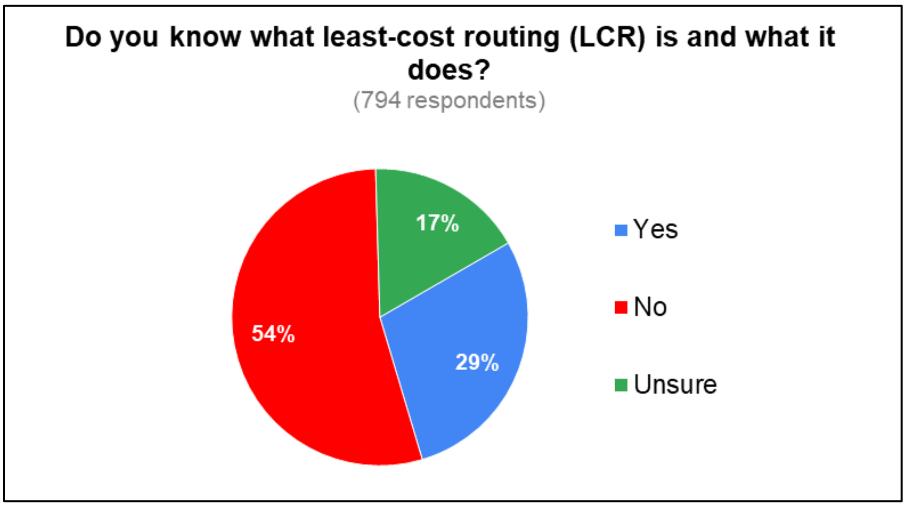

**Q: The RBA wants to ban surcharging and is recommending the lowering of interchange fee caps (for domestic debit from 8c to 6c and domestic credit from 0.8% to 0.3%).**

**Do you have any concerns about this and the impact on your business?**
Examples of responses can be found under the "What do small businesses say?" headings throughout the submission. Full responses can be supplied on request.

### Q: Do you trust that your payments service provider will pass on savings to you if the RBA lowers interchange fee caps?




### Q: Do you know what least-cost routing (LCR) is and what it does?

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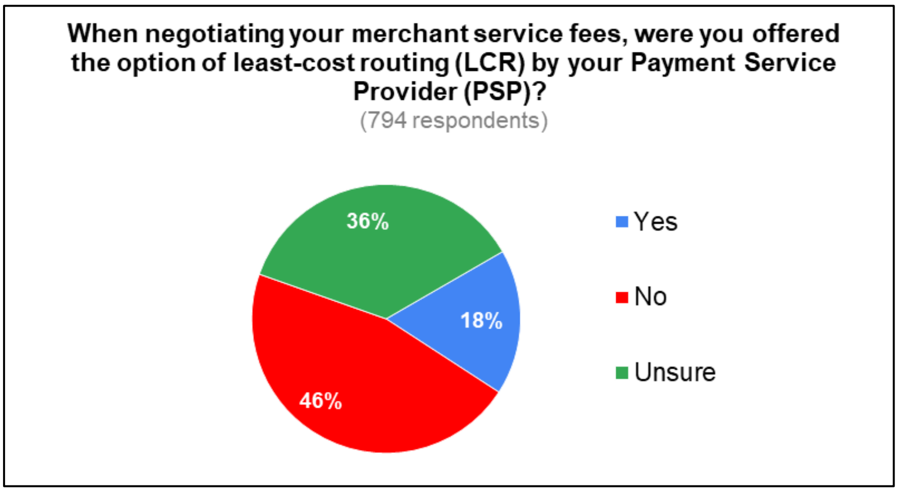

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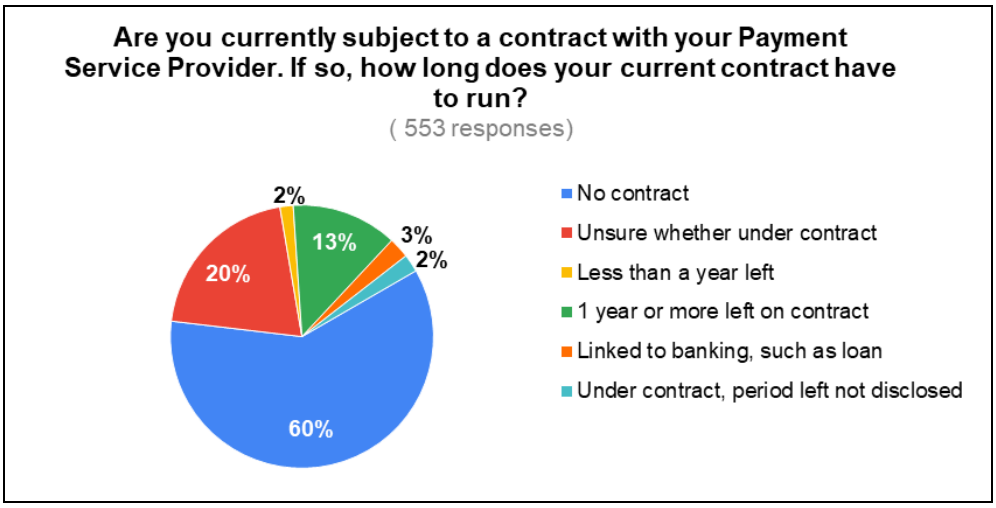
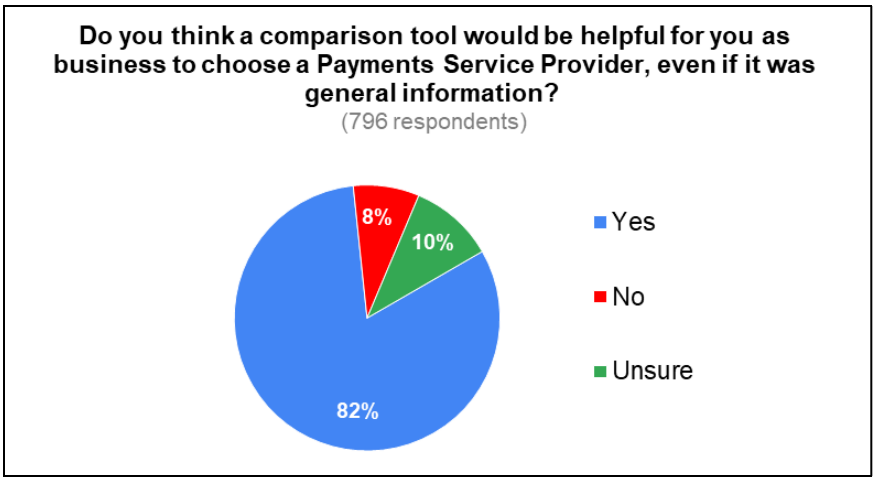
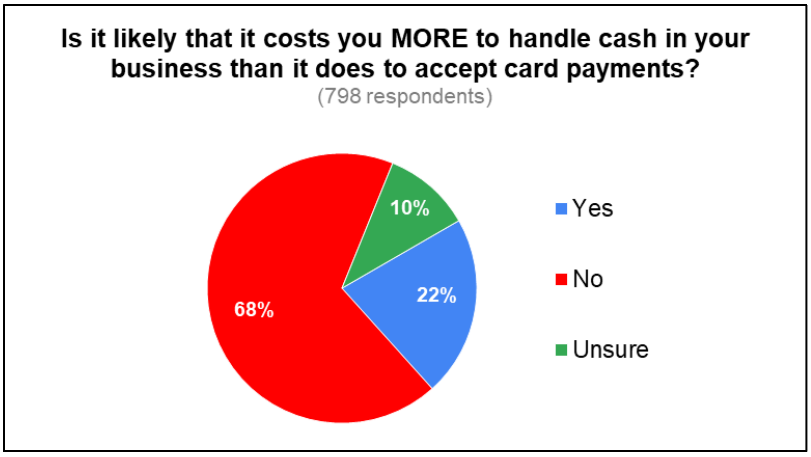



### Q: Do you think a comparison tool would be helpful for you as business to choose a Payments Service Provider, even if it was general information?




### Q: Do you think a comparison tool would be helpful for you as business to choose a Payments Service Provider, even if it was general information?



### Q: What, if any costs are associated with cash handling in your business?

Over 140 respondents answered that there were no additional costs associated with accepting cash.

Listed costs associated with cash handling included:

- Bank and Australia Post fees for depositing cash
- Staff costs for counting, organising change and petrol
- Travel time to the bank. There were multiple comments about branch closures and lengthy trips to the bank.
- Insurance
- Security

### Q: Do you have any concerns about merchant service fees, surcharging or general comments?

Examples of responses can be found under the “What do small businesses say?” headings throughout the submission. Full responses can be supplied on request.

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## RESPONSE TO RBA CONSULTATION PAPER

Discussion paper on the impact of a proposed surcharge ban

Photo credit: Andrea Piacquadio

Commissioned by
Independent Payments Forum Australia

INDEPENDENT PAYMENTS FORUM AUSTRALIA

# CONTENTS

## 1. Summary[40]

In the lead-up to the 2025 Federal Election, the Albanese Government proposed removing debit card surcharging in Australia and lowering payment costs for small businesses.

This announcement was a factor in prompting the RBA to launch a review of surcharging and merchant payment costs. On 15 July 2025, the RBA released the conclusions of its review and proposed a range of regulatory changes for consultation (RBA, 2025).

The RBA has recommended abolishing surcharging on both debit and credit card transactions. It has also proposed reducing the caps on interchange fees—to 0.3 per cent for credit cards and 6 cents for debit cards. In addition, the RBA has outlined a range of minor reforms relating to disclosure.

The remainder of this paper responds to aspects of the RBA's recommendations.

## 2. Government election policy to remove surcharging and lower business costs

Here is the election policy announced by the Albanese Government, with emphasis added in bold:

*"The Albanese Government is cracking down on unfair and excessive card surcharges to get a* ***better deal for Australians and small businesses at the physical and online checkout…***

*The Government is prepared to ban debit card surcharges, subject to further work by the Reserve Bank of Australia (RBA) and safeguards to ensure* ***both small businesses and consumers*** *can benefit from lower costs…*

*The Albanese Government is working to reduce payment fees for* ***small businesses*** *and* ***consumers****." (Albanese, 2024)*

## 3. The RBA's reforms (notionally) meets the election promise

The package of reforms proposed by the RBA in its Consultation Paper notionally fulfils and expands the election promise to abolish surcharging on debit but including credit cards, and claims to reduce business payment costs. This outcome is supported by two estimates.

The first estimate is that surcharging across all Australian businesses raises approximately $1.2 billion annually. In practice, this represents revenue for businesses designed to offset the costs of accepting non-cash payments.

The second estimate advanced by the RBA is the potential savings to businesses from lower merchant service fees, driven by reductions in both debit and credit card interchange fees. The RBA estimates these savings will also amount to about $1.2 billion.

On a net basis, businesses overall should be no worse off, according to the RBA's paper. Moreover, the RBA projects that 90 per cent of businesses will benefit, as they will receive reductions in merchant

[40] This paper is written by Nick Hossack of Benchmark Analytics. Nick's website is at www.benchmarkanalytics.com.au .

fees despite not currently applying surcharges. Only about 10 per cent of businesses are estimated to surcharge.

One aspect of the RBA's proposed reforms departs from the election commitment: the extension of the surcharging ban to credit cards as well as debit cards. The RBA argues that banning debit surcharges alone would impose unnecessary complexity on small businesses in advertising prices and payment options.

There is also a political imperative to remove the unpopular practice of surcharging. Once debit surcharges were prohibited, pressure would inevitably mount for credit card transactions to be treated the same way. A complete ban is therefore likely to provide greater regulatory stability.

Notwithstanding that the RBA has constructed a reform package which notionally offsets lost business revenue against lower payment costs, considerable uncertainty remains as to whether this balance will be realised in practice.

In particular, while businesses will certainly lose surcharging revenue, it is far less certain that lower interchange fees go far enough, or will be passed through as lower merchant service fees. There are several reasons to doubt this outcome. Some of the risks for businesses are outlined below.

# 4. The sources of uncertainty for small business that payment costs will fall

## 4.1 Are the RBA's numbers correct?

A first-order issue for small businesses is whether the RBA's estimates of $1.2 billion for both surcharging revenue and lower merchant costs are accurate.

The RBA has estimated that 10 per cent of businesses currently surcharge. This contrasts sharply with an estimate from the Independent Payments Forum (IPF), which finds that around 45 per cent of businesses do so.

These percentages are calculated as the ratio of the number of businesses that surcharge (the numerator) compared to a defined pool of businesses (the denominator). The discrepancy between 10 per cent and 45 per cent could therefore arise from differences in either the numerator, the denominator, or both.

On the denominator side, the IPF surveyed its members, which are primarily businesses engaged in high-volume retail transactions such as chemists, convenience stores, petrol stations and restaurants. By contrast, the RBA is likely to have employed a denominator encompassing a broader set of businesses, including those with low transaction volumes but high margins—consultants, not-for-profits and business-to-business firms. In these industries, payments are more often settled through account-to-account transfers, which typically have no payment costs and thus no rationale for surcharging.

Differences in the numerator are also possible. The RBA appears to have sourced its surcharging data from banks and payment service providers (PSPs). Yet it is not clear how a bank acquirer could reliably determine whether a merchant applies a surcharge. By contrast, the IPF's survey of actual businesses draws on direct knowledge from respondents.

It would be valuable to reconcile this modelling discrepancy before the reforms are finalised. Any underestimation of surcharging revenue would have material implications for the RBA's cost–benefit assessment of its proposed reform package.

### 4.2 Will lower interchange actually find its way into lower merchant fees?

The uncertainty over the pass-through of lower interchange fees to offset the loss of surcharging revenue is not merely a theoretical issue. Over the past twelve months, there have been two developments that should have placed downward pressure on merchant fees.
The first was a reduction in EFTPOS interchange fees in September 2024, followed by a further reduction in May 2025. Australian Payments Plus also lowered the fees charged to issuers of EFTPOS debit cards.

The second was a reported increase in the number of businesses adopting least-cost routing (LCR). LCR is an automated process that directs payments through the cheapest available debit payment rail. RBA statistics show that as at June this year, LCR was enabled for 80 per cent of in-store merchants—an increase of 10 percentage points compared with the same time the previous year.

Given that around 70 per cent of card transactions are debit and that EFTPOS is relatively less costly than Visa and Mastercard debit, the combined impact of these two developments should have been reflected in lower average merchant debit costs.

In fact, the opposite occurred. RBA data show that over the past twelve months, average merchant fees have continued to rise.

### 4.3 Will higher scheme fees offset lower interchange?

Another potential risk to smaller businesses from the proposed reforms is the use of tactics by the card schemes to offset the effect of lower interchange costs.

In Australia, scheme fees already represent a significant expense. In 2023–24, Australian acquirers paid approximately $1.4 billion in net scheme fees to card networks, with a further $0.4 billion paid by issuers (RBA, 2024, p. 14). The gross number, before rebates is unknown.

Scheme fees are complex, opaque, unregulated, and often bundled into merchant service charges in ways that obscure their true impact—particularly for small businesses. Without timely regulatory safeguards, the benefits of lower interchange fees could be eroded.

In the United Kingdom, following regulatory caps on interchange fees, Mastercard and Visa increased scheme and processing fees by more than 30 per cent in real terms between 2015 and 2023. The UK's Payment Systems Regulator (PSR) found little evidence of improved services or cost justification for these increases and concluded that the market was failing to deliver fair or efficient outcomes for merchants—especially smaller ones.

## 5. Unfair distribution of costs and benefits

Using the RBA's figures—that surcharging is undertaken by just 10 per cent of businesses and amounts to $1.2 billion per year—a corollary is that abolishing surcharging will impact the revenue of only 10 per cent of businesses.

While the adverse impact falls on this 10 per cent, the benefit of lower interchange fees is distributed across all businesses. Assuming an even distribution of lower merchant costs from reduced interchange fees, the expected savings accruing to those businesses losing surcharging revenue would be just $120 million (i.e. 10 per cent of $1.2 billion).

In other words, in net terms, those businesses currently surcharging will **be out of pocket by more than $1 billion.** This represents an unfair burden, particularly as the businesses that surcharge are typically in industries where competition is strongest and margins are thinnest.

While the out-of-pocket estimate depends on the assumption of an even distribution of savings from lower interchange, the inescapable conclusion is that the policy change will impose a far greater financial burden on the 10 per cent of businesses that currently surcharge. Inevitably, these businesses will need to raise product and service prices for all customers (including cash users), cut staff or other costs, or absorb lower earnings. Some marginal businesses may find that the additional burden is the final event rendering them unviable, especially if competition prevents them from raising prices.

There is also the issue of how abolishing surcharging will affect the Consumer Price Index (CPI). At present, the CPI does not account for surcharges in its price estimates of goods and services. If some portion of the $1.2 billion in lost revenue is recovered through higher product prices, this will be recorded in the CPI and could have implications for monetary policy. The extent to which this happens will depend on market dynamics.

It should be emphasised that the $1.2 billion reduction in surcharging revenue is not a one-off, it is an on-going, year after year, revenue hit to businesses that surcharge. Using a present value concept with a discount rate of 5%, the revenue hit to surcharging businesses over a ten year period is calculated at $7.7 billion, almost eight times the annual estimate.

## 6. Simplification of the system

The most common refrain when discussing Australia's payment system is that it is complicated. Understanding the system's components and how they interact is difficult, which makes effective regulation problematic. Regulation also creates incentives for gaming, where profits are made by finding ways to stay within the letter of the law while pushing the boundaries of its spirit.

As a result, regulating payments often resembles a game of 'whack-a-mole', with each new rule prompting further regulation to close off attempts to evade the original measure. Broadly, there are two approaches to addressing this problem: either a commitment to deregulation, or more robust interventions that have the effect of simplification.

Outlined below are three policy interventions which, while robust, would serve to significantly simplify the system.

### 6.1 Are interchange fees still useful?

While the RBA went further than the ALP's policy commitment to ban surcharges on debit cards by also extending the ban to credit cards, it missed the opportunity to fundamentally simplify Australia's card payments system by fully abolishing interchange fees.

Interchange fees make up a substantial share of merchant service fees, accounting for around 50 per cent of the wholesale cost of accepting debit cards and up to 80 per cent of the cost for credit cards (RBA, 2024, p. 10).

Estimates indicate that small businesses pay, on average, three times the merchant service fee per transaction compared with large businesses (RBA, 2024, p. 4), reflecting their limited bargaining power and lack of access to strategic interchange rates.

### 6.1.1 Have banks been undermining the spirit of interchange fee regulations through loyalty programs?

In the Australian Financial Review on 21 July 2025, journalist Joyce Moullakis reported on conversations with ‘multiple’ bankers regarding how their institutions would respond to the RBA proposal to reduce credit card interchange fees to a maximum of 0.3%. She writes:

*“Multiple bankers, not authorised to speak publicly, told this column the hit to interchange fee income could lead to the entire dismantling of card rewards and loyalty programs, and at the very least would see the value of rewards points and programs markedly cut. One executive said, “unpopular but necessary” changes would flow to customers, including fee increases on cards or adjacent products to help offset the RBA’s proposed changes.” (Moullakis, 2025)*

If this quote is correct, it suggests that interchange fee revenue is indeed being used to fund loyalty programs. This should be a concern, as the original interchange fee benchmark introduced in 2003 explicitly excluded loyalty program costs from eligible interchange expenses.

An obvious set of questions follows: how long have issuing banks been using interchange fees to fund loyalty point schemes? How long have the interchange fee benchmark caps been inadequate in preventing these costs being passed on to merchants? And will there be any redress for merchants? The problem arises in part from the nature of the regulation. To set an interchange fee benchmark based on eligible costs, a comprehensive cost study must be undertaken. This is a complex and cumbersome process, which likely explains why so few studies have been conducted. The last such study, used to set benchmark costs, was undertaken nearly twenty years ago in 2006.

If banks have known that the existing interchange fee benchmarks were in effect helping to fund loyalty programs, what incentive would they have to proactively support a new cost study that could reset the benchmarks and adjust them downwards to exclude loyalty scheme costs? The fact this has happened is a strong argument in favour of removing interchange fees altogether.

### 6.1.2 Mature payment systems don’t need interchange fees

One argument for interchange fees is that they are instrumental in balancing incentives to fully capture the benefits of network effects. This rationale is now obsolete in the context of a mature and saturated payments market.

Australians currently hold approximately 48.5 million debit cards and 16.5 million credit cards (RBA, 2025), highlighting the ubiquity of card-based payments.

In a single month—April 2025—Australians made over 1.3 billion card payments worth $91.2 billion, with EFTPOS and scheme debit cards accounting for 76 per cent of all point-of-sale transactions (RBA, 2025). Market penetration is near-universal, indicating that the benefits of network effects have been fully realised.

The European Union’s Interchange Fee Regulation (2015) capped debit card interchange fees at 0.2 per cent and credit card fees at 0.3 per cent (Commission, 2016). These represented significant reductions, yet high usage rates were retained, demonstrating that mature markets can sustain substantial adjustments to interchange levels.

### 6.1.3 Interchange fee regulation is not competitively neutral

Another problem with the existence of interchange fees, and the regulation associated with them, is that they are not competitively neutral. This is because interchange fees are used explicitly only in four-party schemes, meaning regulation of interchange applies solely to those schemes with explicit interchange. It does not apply to competitors such as AMEX, Diners Club, Afterpay or Zip.

Competitive neutrality is a sound and fundamental regulatory principle, yet it does not apply in the context of interchange. There is also a competitive neutrality issue with respect to the use of strategic interchange rates, with large retailers essentially enjoying close to zero interchange.

### 6.1.4 Support from other inquiries

Calls to abolish interchange fees are not new. The Productivity Commission, in its 2018 report on competition in the Australian financial system, concluded that interchange fees should be reduced—and ultimately eliminated—as they lack justification in mature card systems and instead serve mainly to shift costs onto merchants and consumers (King, Abramson, & Harris, 29 June 2018). Similarly, the Black Economy Taskforce recommended in 2017 that interchange fees be lowered (Andrew, 2017, p. 61).

Given Australia's highly developed card market, the case for maintaining interchange fees as a policy lever has eroded. Reforming this system is both economically justified and necessary to ensure a more equitable, transparent and competitive payments landscape.

### 6.1.5 Removing interchange would simplify and help restore a fairer balance between end user groups in banking

The banking system exists primarily to serve two main customer groups: households and businesses. Broadly, banking services fall into three categories: (a) lending, (b) deposits, and (c) payments, including cash handling and related services.

In Australia, there have been persistent concerns that major banks focus disproportionately on lending to households, often at the expense of small business lending. A common grievance is the stringent collateral requirements imposed on small businesses, which typically necessitate residential property titles as security.

Evidence of the banking sector's household bias can be seen in shifts in aggregate bank fee revenues over time. The RBA conducts an annual survey of bank fee revenues. In 2003, Australian banks collected approximately $7.6 billion in total fee revenue, of which household account fees accounted for 41 per cent and business-related fees for the remaining 59 per cent.

By contrast, 2024 data reveal a marked shift. In that year, total fee revenue was $14.6 billion, with households contributing 25.3 per cent and businesses 74 per cent.

Removing interchange fees offers an opportunity not only to simplify regulation but also to help address this imbalance between fees paid by merchants and those paid by households.

## 6.2 Dynamic Least Cost Routing (DLCR)

The history of implementing Least Cost Routing (LCR) has been one of frustration for small businesses, and likely also for RBA executives who have advocated for it for more than a decade. At every stage, obstacles have emerged to block effective implementation or best-practice models.

The underlying dynamic is obvious. EFTPOS is, in almost all debit transactions, the cheapest payment rail for merchants. Visa, Mastercard and the banks therefore have clear incentives to resist or dilute LCR policies that would route transactions towards EFTPOS.

One such strategy is to label certain merchant payment products as ‘LCR’ when in reality they are not. For example, some so-called LCR products use routing systems based on preset transaction value thresholds. High-value transactions may be routed to one network, while low-value transactions are directed to another. Because these thresholds are fixed, a payment can be routed through an international card scheme even when EFTPOS would have been the cheaper option.

The best-practice LCR model is known as Dynamic LCR (DLCR). Under this model, every payment transaction is routed in real time to the cheapest available payment rail, based on all relevant information.

Why does the RBA not simply mandate best-practice DLCR? Estimates published by the IPF suggest the potential savings to merchants from DLCR—compared with fixed-rate blending products—range from 58 to 79 per cent.

Apart from lower costs, perhaps an even more compelling argument for mandated DLCR relates to the RBA’s regulatory objective of safety and stability. With dynamic routing, an outage of one debit system – as occurred with a MasterCard worldwide outage in March this - can be seamless handled by an automatic routing to the alternative system.

## 6.3 Blended rate products

Many of the problems currently identified in the regulation of payment systems can be traced back to blended-rate products.

For example, once these products penetrated the market, they undermined the public policy benefits of surcharging. Merchants no longer had an incentive to surcharge the more costly credit cards over debit cards.

Blended products also appear to have obstructed the normal process by which lower wholesale costs flow through to lower merchant costs. For instance, EFTPOS interchange and scheme fees were reduced in 2024 and 2025, yet RBA data show that average merchant service fees increased over the same period.

In that same period, the prevalence of LCR usage also increased. This suggests that blended products were undermining the routing of debit transactions to the lowest-cost payment rail.

Blended-rate products are marketed primarily to small businesses. Large retailers, by contrast, are typically offered and make use of the more transparent “Interchange++” contracts, under which lower wholesale costs (such as interchange) are automatically passed on to merchants.

A frequently stated virtue of blended-rate products is their 'simplicity'. However, this argument was made in an environment where surcharging was permitted and even encouraged. A single rate meant that a single surcharge could legally be applied, regardless of the payment instrument.

With surcharging now being abolished in Australia, this simplicity argument no longer holds. Under best-practice DLCR, merchants could be offered payment acceptance plans that are just as administratively simple, yet more effectively transmit savings to merchants when wholesale costs decline.

The RBA should move decisively to eliminate blended-rate products.

## 7. Conclusion

In conclusion, through its proposal to extend the ban on surcharging to both debit and credit cards, the RBA has put forward a package of reforms that has the potential to meet the Government's election promise to eliminate surcharging and lower costs for both consumers and businesses.

While it is certain that surcharging will be abolished, it is far less certain that businesses will enjoy an equivalent reduction in payment acceptance costs. There also remain significant opportunities for the RBA to simplify the payments system by abolishing interchange fees, mandating DLCR, and removing blended-rate products.

These three simplification measures would not only streamline the system but also help lower payment acceptance costs, thereby ensuring that the Government's election promise is achieved in practice.

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