



29 August 2025

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

By Email: pysubmissions@rba.gov.au

RE: IATA Submission - Review of Merchant Card Payment Costs and Surcharging Consultation.

Dear Mr. Connolly,

The International Air Transport Association (IATA) in its submission dated 6 December 2024 to the Reserve Bank of Australia (RBA), highlighted the critical role aviation plays in enabling the Australian economy. IATA emphasized that the process of purchasing airline tickets must be cost-effective, transparent, and secure. As part of its response to the RBA's Review of Merchant Card Payment Costs and Surcharging, IATA underscored the importance of maintaining a regulatory framework that supports a diverse range of payment options, promotes transparency in cost allocation, and ensures fair compliance mechanisms.

IATA commends the Reserve Bank of Australia (RBA) for undertaking a thorough and inclusive consultation process as part of the Review of Merchant Card Payment Costs and Surcharging and in this context, IATA welcomes the opportunity to respond to the preliminary policy questions outlined in the consultation paper by providing the following responses:

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

Removing the ability to surcharge does not improve competition or efficiency within the payment system. Instead, it deprives merchants of the only available mechanism to offset the cost of accepting different forms of payment in a transparent manner to the customer.

Removal of a tool intended to inform consumers of the true cost of using a particular payment instrument can, in practice, encourage the use of those that are most expensive for merchants to accept. This dynamic would place upward pressure on prices for all customers, including those who use lower-cost payment methods. Surcharging also enables merchants to recover not only the regulated interchange fees associated with a specific payment method, but also other unregulated costs, which we believe are increasingly trending upward.

The RBA FAQ '*review of merchant card payment costs and surcharging*' notes that only 10% of merchants currently apply surcharging, with the practice concentrated on a handful of merchant sectors. However, a number of Australian and international airlines operating to and from Australia, appear to apply a percentage that is significantly higher than 10%. This likely reflects the higher costs incurred by airlines due to higher transaction values and volumes.

IATA believes that certain sectors, including airline merchants, are also disproportionately impacted by card products with higher acceptance costs, such as three-party scheme cards, and foreign-issued cards. Again, this places a higher and broader cost burden faced by merchants in these sectors, which if surcharging is removed, may put upward pressure on prices.



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

Proposing to regulate foreign issued cards used in Australia is a valuable addition to the regulatory framework.

However, the current framework does not offer a holistic attempt to encompassing payment instruments nor does it address the existing imbalance on how these instruments are used by customers. Examples of this include three-party card schemes and alternate forms of payment which are becoming more and more prevalent.

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

IATA is not in a position to comment.

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

IATA is not in a position to comment.

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?

The demand for more transparency on fees may put some pressure on the card schemes to simplify the current complexity of their pricing structure. It may also help document and confirm what is believed to be a systematic upward trend, one that has been widely observed in other regions and could reasonably lead to a requirement for card schemes to justify this occurrence.

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?

It is always desirable to invite the card schemes to work with the broader industry to provide more clarity and transparency.

At the same time, achieving transparency on the merchant side requires all acquirers to adopt an 'interchange++' pricing model, along with providing merchants the tools and information needed to understand this more detailed pricing structure.

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

Requiring card schemes to justify fee increases to the regulator may help foster a more competitive and efficient payment system, one that serves both sides of the market fairly, however, it would be more likely to happen if it was a regulated requirement.

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?

IATA does not have additional suggestions to offer.

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.



IATA is of the opinion that the core issue lies in the intentional complexity of card scheme pricing, for interchange and for scheme fees, which adversely impact all acquirers. It appears impossible for an acquirer to present a simple and legible proposition to the merchant without over-simplifying and thus compromising on the transparency desired by all.

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?

Considering the huge discrepancy between domestic and international acceptance costs, it is important to put this in evidence so that merchants are properly informed.

IATA is not in position to comment on the second part of the 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?

The Least Cost Routing (LCR) option demands that acquirers treat merchants fairly in presenting them all possible options in relation to the brands that the card bears. But while the consultation paper reports a satisfactory 76% take up for 'card present merchants' (p62), it does not report anything for 'card not present' (CNP) merchants and incorrectly appears to assume that the statistic is valid for all merchants: "76 per cent of merchants already have LCR enabled" (p 63).

It is very telling that PSPs and acquirers appear to have downplayed this issue in their reporting to RBA. It should be a major source of concern that CNP merchants, who conduct most of their sales remotely, are at risk of being overlooked on this matter.

IATA strongly recommends that RBA continues its efforts in ensuring that all types of merchants are given access to the LCR option. Otherwise, the outcome of a level playing field will not be achieved.

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?

IATA is of the view that consumer and commercial cards pertain to different business models and should be monitored and regulated separately.

Appendix B 'International Comparison of Card Surcharging and Interchange Frameworks'; of the RBA consultation paper presents on p 79 an overview of the national regulatory framework in other countries but omits to point out that EU regulation allows each Member State to decide whether to surcharge un-regulated cards (i.e., commercial card and 3-parties card schemes).

The United Kingdom is another example where the practice of surcharging unregulated cards is allowed. Those instances evidence that consumer and commercial cards are considered as having distinctly different regulatory issues.

Some examples are:

- Consumer and commercial cards are inherently different, the EU regulation on interchange even exempts the merchant from the Honour All Cards Rule (HACR imposed by the card schemes as regards cards other than consumer cards. (see Article 10 "Honour All cards rule" from <https://eur-lex.europa.eu/eli/reg/2015/751/oj/eng>).

In the absence of a right to surcharge, the cost of accepting commercial cards is factored into the prices charged by merchants to all clients, consumers and corporates alike, a fact that deserves more regulatory attention considering the market dynamics currently in place.



- In the context of B2B transactions, international card schemes are actively promoting the replacement of invoice payments, typically settled via low-cost domestic bank transfer instruments, in favour of **international** commercial cards payments, which is likely to result in the increase of operating costs for the suppliers. Please reference: <https://fintechmagazine.com/articles/mastercard-transforms-b2b-payments-with-virtual-cards> : *Cash and cheques carry inherent security risks, while ACH transfers and wire payments fail to transmit essential transaction data alongside the payment itself. This disconnect creates reconciliation challenges and operational inefficiencies. VCNs address these problems by....*

<https://www.vixio.com/insights/pc-visa-mastercard-raise-their-bets-b2b-payments> : *The Mastercard partnership will enable organisations to replace traditional payment methods with secure virtual cards....*

Furthermore, international card schemes have introduced commercial cards designed for the use of travel intermediaries when remitting to travel suppliers. These cards replace consumer card payments to the travel suppliers with a two-step transaction process:

- The first process: where the consumers pay with their consumer cards the travel intermediary, instead of paying the travel supplier. The intermediary bears the acceptance cost of a consumer card.
- The second transaction, where the travel intermediary remits the collected funds to the travel provider using a commercial card. The travel provider now bears the acceptance cost of a commercial card, that represents a **significant increase in operational expenses without generating any additional sales**, as the transaction substitutes the previous transaction.

The travel intermediary is incentivised by the commercial credit card issuer, which shares a portion of the high international interchange card fees, fees that would not have been collected otherwise, as the transaction would not have occurred had the consumer paid the travel provider directly.

Such practice is difficult to detect if at all, especially when the travel intermediary chooses **not** to notify the travel provider of their decision to proceed in this manner, which is contrary to what the below article suggests:

<https://www.mastercard.com/global/en/business/large-enterprise/mastercard-enterprise-partnerships/b2b-travel-solutions/wholesale-program.html> : *Travel agencies and suppliers can agree on specific terms with the Mastercard Wholesale Program,*

If there is consideration for this approach where consumer and credit cards are treated differently because they are deemed to be fundamentally different, and as a result, the RBA considers differential treatment for interchange regulations for commercial cards, the ability to surcharge for these cards must be in place.

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

The proposed timeline may not provide sufficient time for card schemes and their members to implement the necessary changes. It may also limit merchants' ability to engage with their payment service providers, assess the economic impact, and consider how to adjust their commercial policies.

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

The amendments proposed in Appendix D 'draft standards' of the RBA consultation paper do not define a commercial card as opposed to a consumer card, and do not introduce a distinction between consumer and commercial cards in the proposition to collect statistic from the card schemes on their turnover or associated interchange and scheme fees..

IATA recommends that this essential distinction between consumer and commercial cards be added in the reporting required from the card schemes, so that RBA and all relevant market participants are kept fully informed of the present situation, and likely future developments.



Conclusion

We trust that the above information will be carefully considered by the RBA as part of this important review. The aviation sector plays a critical role in connecting communities and driving economic growth and given its sensitivity to cost pressures, the industry closely monitors merchant card payment costs and surcharging practices.

IATA is committed to contributing constructively to the consultation process and remain at the RBA's disposal for any clarification or support that may assist in its ongoing review.

Please do not hesitate to contact me at zanarinim@iata.org should you have any questions regarding the contents of this submission.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Matteo Zanarini", with a stylized flourish at the end.

Matteo ZANARINI
Area Manager South West Pacific