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Head of Payments Policy Department
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Review of Merchant Card Payment Costs and Surcharging Consultation Paper - Submission

Dear Head of Payments Policy,

Thank you for the opportunity to participate further in the Reserve Bank of Australia (RBA) Review of Merchant Card Payment Costs and Surcharging consultation.

IPSI is a proudly Australian owned and operated business, providing a range of advanced enterprise payment gateway, routing and tokenisation services to platforms and merchants with businesses in Australia.

As part of IPSI's wider Smart Routing offering, our Dynamic Least-Cost Routing (DLCR) solution, unique in the Australian market, delivers outcomes significantly aligned with the RBA's objectives, not just for today but also into the future.

DLCR provides a mechanism to better achieve the three primary objectives of the RBA's Payment System Board under Section 10B of the Payment Systems (Regulation) Act 1998:

- 1. controlling risk** in the financial system – **the ability to route transactions based on any combination of 20 variables, including route availability and redundancy, fraud risk preference or optionality (including scheme fraud combative measures);**
- 2. promoting the efficiency of the payments system** – **enabling the most effective least-cost outcomes for merchants** and their customers using Australia's most popular payment method, debit cards; and
- 3. promoting competition** in the market for payment services, consistent with the overall stability of the financial system.

Entrenching DLCR as a cornerstone to competition will result in merchant savings flowthrough, where those savings may otherwise be lost in PSP pricing strategies as noted in the RBA's October 2024 Issues paper: "For merchants on plans with blended pricing across debit and credit (or across debit schemes), LCR serves to lower wholesale costs for PSPs. The extent to which any savings are passed on to merchants will depend

on the pricing strategies of PSPs...” (RBA, 2024, p. 38). IPSI also acknowledges and welcomes Adyen’s recent announcement of bringing their DLCR offering to the Australian market.

IPSI contends that many least-cost routing solutions in market today, all of which have been in market for some time, are not generating or availing sufficient benefits of competition through to merchants and ultimately, consumers.

Statistically, we believe that only ~40% of debit transactions in market are being routed via eftpos, meaning the remaining 60%, for whatever reason, are likely attracting higher cost structures at certain transaction values which have a disproportionately adverse financial impact on merchants in the SME space and / or consumers of such products or services, via higher prices or surcharging.

IPSI acknowledges (from experience) the cost, time and technical difficulty of developing a DLCR solution for the Australian market and concerns expressed from market participants viewing this through the “build ourselves” lens. Anticipating this, some time ago IPSI also developed a modularised “DLCRaaS” version, decoupled from our wider gateway offering to provide routing decisions to *any incumbent gateway* in a white-labelled fashion.

From a future-proofing point of view, as new payment methods are introduced and matured over time, our DLCR offering can be extended to include more payment methods in overall routing decisions as variables to route develop.

A significant Government use case may currently exist regarding the impact of banning surcharging in a non-DLCR enabled environment, after some Federal Government agencies including the Australian Tax Office and Services Australia were banned from surcharging debit transaction costs on 1 January 2025 (Australian Tax Office, 2025). Federal Treasury and taxpayers are bearing the cost impact of that decision, which could be reduced via DLCR enablement for the benefit of all Australians.

Thank you again for the opportunity to participate in this discussion and we welcome further engagement.

Yours sincerely,

Mark Luton

Chief Executive Officer

IPSI

1. Least-Cost Routing

According to the definition quoted in the Reserve Bank of Australia's issues paper, "LCR gives merchants the ability to override the default network and route Dual Network Debit Card (DNDC) transactions via whichever of the two networks on the card costs them less to accept." (Reserve Bank of Australia, 2024, p.16)

However, in Australia today least-cost routing is delivered in three different ways, only one of which truly meets the RBA's definition above.

This inconsistency results in varying levels of cost savings for merchants and consumers and fails to leverage the potential resilience and security benefits that could be achieved through better use of this innovative technology.

The three solutions described in Australia as "least-cost routing" today are -

- **Binary LCR** – all eligible transactions are routed to one network, chosen by the merchant or PSP, usually the latter
- **Threshold LCR** – the merchant (or PSP) chooses a threshold transaction value so that transactions with a value below the threshold are routed to one network, while transactions with a value above the threshold are routed to the other network
- **Dynamic LCR** – the lowest cost network is assessed and chosen for each individual transaction. This reflects the fact that the lowest cost network may vary across transactions, due to factors such as transaction value (Reserve Bank of Australia)

Of these three options, Dynamic LCR brings the possibility for a quantum leap forward in adding competition to the network as it can account for rapid changes in transaction fee values (including merchant-based incentives) and other value-enhancing variables (such as uptime, fraud etc) to be added into the routing decision and route accordingly.

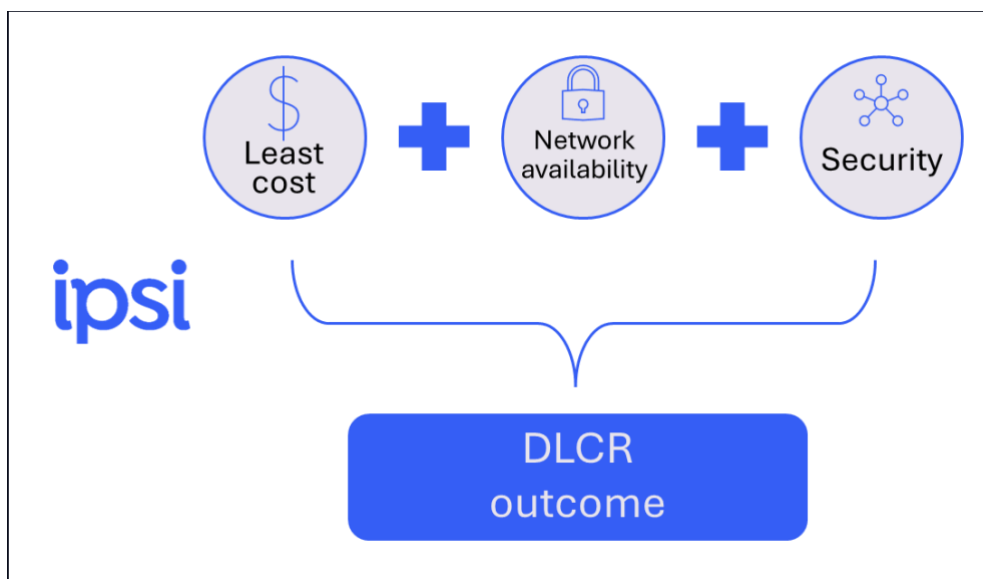
DLCR technology takes into account that the "least-cost" breakeven point for processing transactions is complex, frequently changing, and varies significantly depending on route availability and transaction value. It is not a static equation as suggested by both binary and threshold routing.

1.1 Other routing considerations – keeping businesses "up" and secure

In terms of overall cost for merchant businesses, IPSI's DLCR routing solution also avoids downtime due to payment network outages and can be adjusted to enhance security features – both enabling businesses to remain "up", continue trading and accepting transactions.

For example, in times of peak trading where service availability (i.e. transaction completion first time) may be considered more valuable than cost alone.

Alternatively, scheme-specific security offerings and enhanced fraud factors on particular transaction types may be significant to some merchants, particularly online.



These factors combined align with the Government’s vision for a modern, world-class and efficient payments systems that is safe, trusted and accessible, and enables greater competition, innovation and productivity across the economy (Commonwealth of Australia, 2023, p.1).

The Government’s A Strategic Plan for Australia’s Payments System in 2023 committed to lowering small business transaction costs through least-cost routing (LCR), and said it was monitoring results: “The Government will continue to monitor payment costs for small businesses and will directly intervene if necessary.” (Commonwealth of Australia, 2023, p.17).

IPSI notes that merchant service fee data collected by the RBA indicates that fees are rising for small business, despite the RBA’s current strategy on LCR.

2. Savings

LCR can directly reduce card payment costs for merchants while also increasing the competitive pressure on debit networks to lower their wholesale fees, thereby putting downward pressure on payment costs across the economy.

Based on current interchange, scheme fees and mobile payments, and maintaining the RBA’s published average 0.19% acquirer margin, DLCR provides significant savings across the entire debit card spend in Australia:

Type of routing	Routing cost plus margin	Saving
DLCR	\$1,182,012,538	\$469,355,702*
Threshold	\$1,242,829,343	\$296,078,657
Binary	\$1,183,403,660	\$355,504,340

*DLCR includes benefit of avoiding 64 minutes of peak time outage per year - based on average outage times in FY25 for 11 Providers of "Accepting Payments"

However, this cost saving is significantly amplified for merchants paying blended rates.

Merchant processing \$1 million in debit card transactions (0.19% margin included)



Blended rate	Cost	DLCR	Outage saving	Total saving
1%	\$10,000	\$4,160	\$188	\$6,028
1.1%	\$11,000	\$4,160	\$188	\$7,028
1.4%	\$14,000	\$4,160	\$188	\$10,028

Merchant processing \$2 million in debit card transactions (0.19% margin applied)



Blended rate	Cost	DLCR	Outage saving	Total saving
1%	\$20,000	\$8,320	\$376	\$12,056
1.1%	\$22,000	\$8,320	\$376	\$14,056
1.4%	\$28,000	\$8,320	\$376	\$20,056

Merchant processing \$5 million in debit card transactions (0.19% margin applied)



Blended rate	Cost	DLCR	Outage saving	Total saving
1%	\$50,000	\$20,800	\$941	\$30,141
1.1%	\$55,000	\$20,800	\$941	\$35,141
1.4%	\$70,000	\$20,800	\$941	\$50,141

Merchant processing \$10 million in debit card transactions (0.19% margin applied)



Blended rate	Cost	DLCR	Outage saving	Saving
1%	\$100,000	\$41,600	\$1,882	\$62,082
1.1%	\$110,000	\$41,600	\$1,882	\$70,282
1.4%	\$140,000	\$41,600	\$1,882	\$100,282

Significant savings for merchants have also been seen by another supplier of DLCR, Adyen.

Reports indicate that disclosures in Adyen's global financial accounts for the six months to the end of June show that 55 corporate merchants in Australia who adopted Adyen's DLCR solution during the half were able to reduce their acceptance costs for online debit transactions by an average of 47 per cent (Lekakis, 2025).

It is worth noting that the ACCC supports 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 (ACCC, 2024, p.12).

3. Controlling risk – resilience and security

In addition to cost, IPSI's DLCR helps to control risk in the payments system by enabling merchants to make real time transaction-based network availability and security choices for both debit and credit transactions in milliseconds.

In times of peak trading where service availability (i.e. transaction completion first time) may be considered more valuable than cost alone.

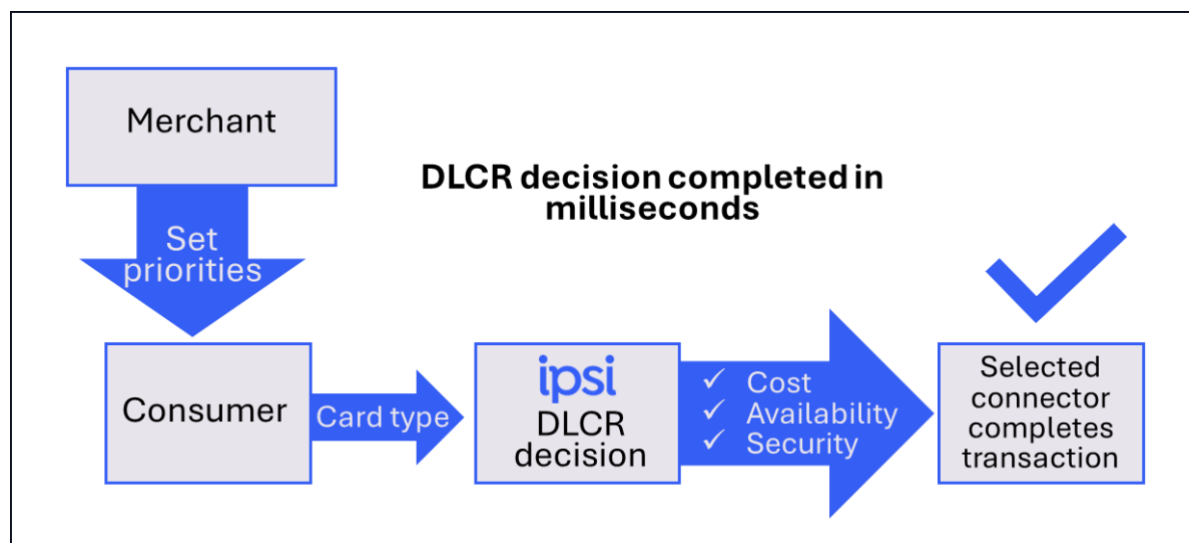
For example, disruptions to businesses and consumers during Mastercard's global outage in March 2025 (Adams, 2025) could have been avoided with a DLCR solution across both debit and credit cards, simply by switching transactions to other networks.

Such fail safes and resilience are vitally important in an economy that is increasingly reliant on digital transactions.

Small disruptions in those networks are not uncommon and can also be mitigated by DLCR transactions in real time.

While the Mastercard outage was a recent but not isolated example, it could easily be repeated across other networks that also rely on complex systems and networks to provide digital services across the world. Data provided indirectly by Visa's competing network, Cybersource, reported three (but not concurrent with Mastercard's) outages across the seven months to March 2025.

In terms of security, DLCR can be adjusted by merchants to suit their needs. For example, scheme-specific security offerings and enhanced fraud factors on particular transaction types may be significant to some merchants, particularly online.



4. Simple API integration removes complexity

In the consultation paper the RBA accepts that “LCR can directly reduce card payment costs for merchants while also increasing the competitive pressure on debit networks to lower their wholesale fees, thereby putting downward pressure on payment costs across the economy”, however, it says, “very few PSPs offer a fully dynamic LCR solution that evaluates and routes each individual transaction to the lowest cost network.” (Reserve Bank of Australia, 2025, p.61)

However, the RBA states, we believe incorrectly, that the costs of implementing dynamic routing may significantly exceed the benefits.

In a DLCR environment, we do not accept the RBA’s statement that: “PSB acknowledges that LCR for in-person transactions is not necessarily suitable for all merchants” (Reserve Bank of Australia, 2025, p.62), as the outcomes can be adjusted to suit individual merchant requirements.

IPSI submits that the benefits of DLCR easily outweigh the cost because it:

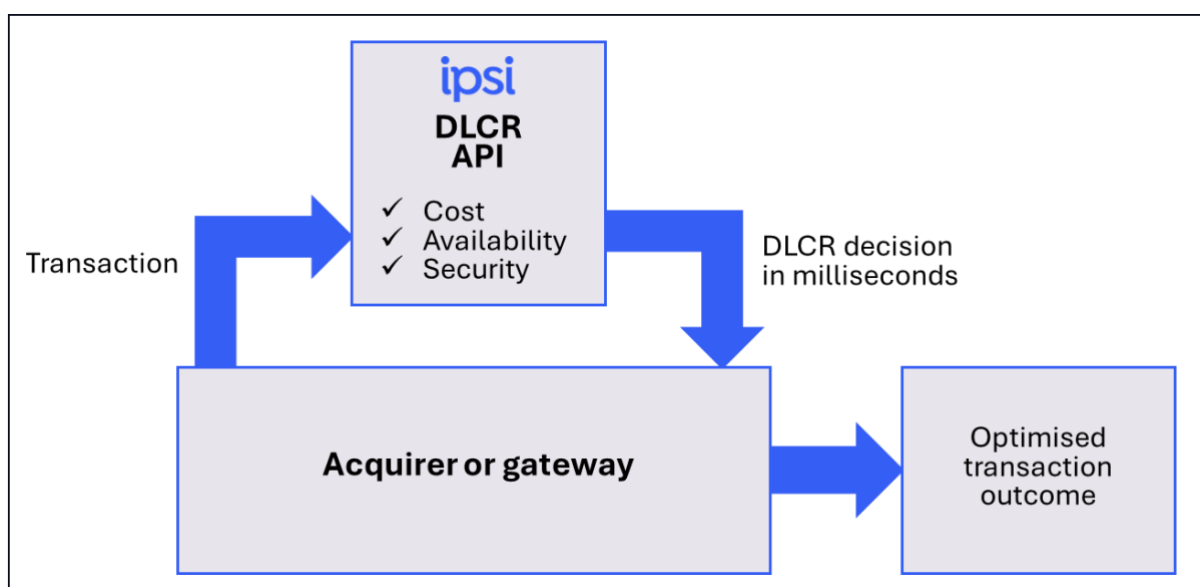
- builds competition into the system that deals with future price changes;

- builds resilience into the system with the ability to route to alternative networks in outages; and
- can be implemented easily, quickly and cheaply.

As demonstrated in previous sections of this submission, the outcomes of DLCR routing are clearly superior to other forms of routing, including on cost.

Left to its own devices, the industry has had eight years to develop effective solutions for least-cost routing and deploy the technology across the ecosystem with disappointing results, despite significant pressure from the RBA, government and business groups.

IPSI's DLCR routing solution can be deployed within weeks, cheaply and easily via and API to any acquirer operating in the Point of Sale or online environments.



It is worth noting that the ACCC also supports 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 (ACCC, 2024, p.12).

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 (ASBFEO, 2024).

During the initial RBA consultation, it was also noted by a group of Government MPs that the advent of blended rate offerings, coupled with no mandated Least-cost Routing directive from the RBA, has driven up small business and consumer costs (Laxale, J. et al. 2024, p.3).

6. Answers to specific RBA questions

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

Yes, we believe that many least-cost routing solutions in the market today do not provide the full benefits of competition.

As such there is insufficient competition in the Australian market for card processing services to motivate optimal cost and delivery outcomes for merchants and consumers.

At a time when the RBA is considering banning merchant surcharging, DLCR will help soften the impact on merchant and, by enhancing competition in the payments system, will deliver greater savings for both Australian businesses and consumers over time.

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?

Yes, the proposal to publish aggregate wholesale data will improve competition and efficiency as long as it provides enough detail to be useful.

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?

The impact of any proposal to simplify scheme fees schedules will depend on how such a plan is implemented in the market.

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

No. There is no evidence to suggest expectations set by the RBA or any other regulator will achieve desired results, particularly when two of these companies do not make these decisions locally in Australia.

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?

Yes, the RBA should mandate opt out DLCR with a 12-month window for implementation.

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?

The RBA should mandate opt out DLCR with a 12-month window for implementation.

Simultaneously, the RBA should sponsor a trial of DLCR technology with a significant acquirer to demonstrate best practice and the benefits of the technology. This could be done with the RBA commercial arm that provides services to customers including Government.

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

The RBA should mandate opt out DLCR with a 12-month window for implementation.

LCR can directly reduce card payment costs for merchants while also increasing the competitive pressure on debit networks to lower their wholesale fees, thereby putting downward pressure on payment costs across the economy.

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