Response to the Review of Merchant Card Payment Costs and Surcharging of the Reserve Bank of Australia

9 September 2025

Introduction

Mastercard welcomes the opportunity to provide feedback on the preliminary conclusions, proposed implementation timeline and draft standards outlined in Reserve Bank of Australia's *Review of Merchant Card Payment Costs and Surcharging* (the **Review**).

We believe the Review should include an assessment of the broader end-to-end costs of payments as well as the importance of overseeing impact on all Australians including merchants and consumers. It should do so while recognising the importance of sustaining investment in security, technology and innovation, in evaluating competition, efficiency and safety in today's modern payments system.

Whilst we appreciate the RBA's assessment of the policy issues outlined in the Review that are intended to address surcharging and payments costs, we now have an opportunity, with the recent passing of the *Treasury Laws Amendment (Payments System Modernisation) Bill 2025* amending the *Payment Systems (Regulation) Act 1998* **(PSRA)**, to take a broader view that seeks to provide a modern regulatory regime that reflects today's modern payments market.

Scope and Timing of the Review

We reiterate our earlier feedback provided in our submission to the Issues Paper which aligns with the Governor's stated objective that a comprehensive, modern regulatory approach is needed to reflect today's contemporary retail payment ecosystem. It is clear that surcharging is antiquated and that a ban is required – this policy consideration can and should be pursued as a priority. However, the RBA's decision to stagger its Review and introduce the proposed regulatory changes to interchange in the absence of regulatory oversight of all participants and systems disadvantages designated schemes such as Mastercard and risks creating further market distortions that significantly affect competition, innovation and safety at a critical juncture for the payments ecosystem and the broader Australian economy.

The RBA's recently expanded powers under the **PSRA** are essential to undertake a comprehensive assessment of end-to-end costs and ensure competitive neutrality across all payment methods.

In order to properly address the RBA's stated policy objectives, **a comprehensive assessment and evaluation of end-to-end payment costs to merchants as well as impact on consumers, should now be undertaken prior to adoption of any further regulatory measures such as interchange reductions, to ensure there is an effective modern payments regime that is fit for purpose.** This is also essential for achieving the RBA's objectives of promoting competition and efficiency in payments. Expediting a piecemeal aspect of the Review before the RBA has expanded powers will only result in inefficient outcomes, further enabling the accelerated growth of non-designated schemes with higher costs for merchants.

Surcharging

The current surcharging framework which was introduced to encourage consumers to use lower-cost payment methods, is no longer achieving its intended policy objective, instead, it deters efficient price signalling by small merchants to drive efficiency within the merchant acquiring segment of the payments system, which in turn, is driving poor consumer outcomes and market inefficiency.

Mastercard supports the RBA's preferred policy proposal to lift its prohibition of 'no-surcharge' rules for the designated debit, prepaid and credit card systems. This change would simplify the understanding of payment costs for businesses and consumers. It will also promote transparency and competitive pressure by eliminating practices like zero-cost EFTPOS transactions and bundled value-added services, which currently obscures the true cost and value of card payments to merchants. The current surcharging framework allows acquirers to bundle value-added services into the merchant service fee, which is recovered by the merchant from consumers in the form of surcharges.

With surcharging on designated products removed, Mastercard believes merchants will be encouraged to seek better deals, potentially benefiting from lower payment costs and paying only for what they need. Additionally, allowing surcharging to continue on non-designated schemes contributes to market efficiency, providing competitive neutrality as those schemes traditionally provide enhancements.

Nevertheless, we reiterate our earlier feedback to the Issues Paper, that the solve for excessive surcharging is not a further reduction in interchange or scheme fees. Rather, it is the recognition that merchants should bear the costs as they have received the benefits associated with accepting card payments.

Interchange Fees

The RBA's proposal to reduce the weighted average benchmarks, and impose caps, on interchange fees for both card present (CP) and card not present (CNP) credit and debit transactions, for domestic and cross-border transactions is flawed. The proposed interchange reductions are particularly concerning as there is no evidence that there is a lack of efficiency and competition under the current settings.

Australia's weighted average interchange rates are among the world's lowest and in fact are currently <u>equal</u> to those in the European Union. Debit interchange rate is very low in Australia while credit is higher than in Europe, which is more optimal as it provides greater access to credit at a lower overall system cost.

Any further reduction to interchange fees could lead to a value erosion in the payments ecosystem, where Australian consumers will inherit the cost of such reforms via higher consumer prices, higher interest rates and higher annual credit and debit card fees. Proposed changes could also pose challenges to other Government policy initiatives, such as productivity reform, competition in banking and investment in scams and fraud prevention.

The RBA's projected $1.2 billion in merchant savings from the proposed interchange regulation assumes a direct pass-through of these savings by all merchants and not just the 10% that currently surcharge card payments, this is unsupported by evidence[1].

Interchange caps in the RBA's proposed model are set well below sustainable levels, particularly for smaller issuers. This implies, by the RBA's own issuer cost assessment, that small issuers would be operating below their operating costs, which could result in debit products only being viable for large incumbents under the current proposal. This is a key observation that runs contrary to the RBA's core policy objectives.

Evidence base

As previously shared with the RBA, research conducted by BCG in August 2024 reveals that **card payments in Australia are amongst the lowest and are the most cost-effective payment method for merchants, with a total acceptance cost of 1.8%. This is significantly lower when compared to other payment methods such as cash (3.9%) and buy now pay later (BNPL) services (5.3%).** This efficiency is a result of continuous innovation and competition, demonstrating that the current settings effectively balance stakeholder interests.

Merchant behaviour highlights the true value proposition of electronic payments. Despite concerns about card acceptance costs, BNPL is a popular product offered by merchants to boost sales, with some merchants willingly accepting BNPL services at a cost of up to 6-7%, showing their readiness to invest in more expensive payment methods that will drive incremental sales.

The rapid and material growth of third-party schemes will only be exacerbated by the proposed interchange reforms, ultimately contributing to further increased costs for merchants.

The Issuer Cost Study relied on by the RBA to inform its preferred policy position on reducing interchange fees caps and extending regulation to foreign issued cards, is informed by a narrow sub-set of issuer costs referred to as 'an eligible costs benchmark', which fundamentally underestimates true eligible issuer costs.

[1] https://competition-policy.ec.europa.eu/system/files/2021-10/IFR_report_card_payment.pdf

The study has also highlighted inconsistencies with RBA policy priorities relating to competition, with smaller issuer costs on debit found to be 67% higher than the proposed 6 cent cap, implying by RBA's own data, it would be unsustainable for any smaller issuer to compete in debit with larger issuers at the proposed levels.

Some concerns regarding the methodology of the Issuer Cost Study include:

- Findings are based on a sample of 11 issuers, despite there being over 80 credit card issuers in Australia.
- Material costs to issuers have either been excluded and/or appear to be significantly underestimated such as cost of funds, mobile wallet costs or dispute management. While fraud costs are included, the cost of resolving fraud should also be included ie dispute resolution.
- The RBA allowed for different apportionment methodologies from institutions, which contain assumptions that have not been included in the study.
- No foreign issuers were included in the empirical survey, international proxy costs based on domestic issuer proxies are likely not representative of varying foreign issuers' costs.

Rather than focusing on the Issuer Cost approach, without taking demand into account across both sides of the ecosystem, the RBA could consider adopting the merchant indifference test (MIT) methodology, as a widely used tool for regulators, including the European Commission (EC), to balance consumer and merchant interests. Appendix A (Independent Expert Assessment - Oxera) provides further detail with respect to the MIT, and how it could be applied in the Australian context.

Competition Implications

The proposed reductions of interchange fees could increase barriers to entry for new smaller issuers such as neo-banks and other fintechs, impacting ability to bring products to the Australian market and thereby reduce competition in payments markets. The importance of interchange in supporting innovation is underestimated in the Review, including in particular for fraud protection measures, noting that the RBA points to innovations being introduced such as tokenisation and Click-to-Pay[2] in an environment with low debit interchange yet ignores that these innovations were introduced across both credit and debit.

Transparency of Merchant Fees

Mastercard supports the RBA's preferred policy initiatives designed to improve transparency to drive efficiency and competition in the public interest. Merchants should

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[2] https://www.mastercard.com/us/en/personal/ways-to-pay/click-to-pay.html

be able to access helpful information on fees to inform their decisions and compare products and services.

The RBA should take an approach that focuses on end-to-end costs rather than narrowly on wholesale costs. In this way, all merchants, in particular small merchants, will have appropriate transparency and will be able to best seek out better payment service providers (**PSPs**) and competitive deals for their needs, thereby reducing overall costs in the payments system. Disclosing wholesale aggregate scheme fees, including aggregates rebates, based on the level of detail proposed offers little value to merchants and would add regulatory costs to the payment system and could create further asymmetric, uncompetitive advantages to unregulated networks in the payments system.

The RBA should prioritise alternative market-led policy options to deliver targeted cost savings to small merchants.

To better support small merchants, the RBA should consider adopting more **targeted policies** and risk-adjusted measures that address existing market inefficiencies in merchant acquiring.

Small merchants should have readily accessible merchant service offerings with associated pricing. A flat rate structure or simple pricing is typically preferred by small merchants who would be more focused on growing their business rather than worrying about variability in their merchant service fee as is the case in the interchange plus arrangement. The ease of access helps to promote transparency and competition in the marketplace.

Market competitiveness is available to small merchants on a flat fee structure in Australia today. Card acquirer websites tell us that the majority of merchant service fees for card present payment acceptance solutions are as low as 1.1% and 1.2%, but there are many options available.

Increased transparency of, and access to, standardized information, coupled with a no-surcharge environment to drive efficient price signalling, could reasonably expect to drive significant cost savings to small merchants without any need for further regulatory intervention. Mastercard estimates that a small merchant could save up to $625[3] annually by shopping around and looking for a better deal today. Initiatives such as the UK's comparator tool[4] for merchants to assist with comparison and switching could be considered as a complementary measure to the current surcharge proposal.

Mastercard currently supports small businesses with initiatives like its **Small Business Program** and merchant interchange programs for debit and credit. We estimate these efforts may help small merchants save up to $125[5] a year. Introducing an industry-wide

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[4] https://www.payacardservices.com/sign-up/psr-comparison-tool
[5] Mastercard estimates

program similar to Mastercard's could offer further benefits, subject to an expectation that these cost reductions would reach these merchants.

Merchants who are currently using high cost bundled services could be aided in transitioning to a lower cost provider by an SME program. As the 2024 BCG research found, the wholesale costs of payments are not the problem, the continuation of surcharging and the abuse of its nebulous nature is the fundamental flaw that needs to be addressed with a surcharge ban.

Mastercard reiterates that **merchants already receive value far exceeding costs under the current settings**. This position is supported by studies from BCG, Deloitte, and various other recent market-specific analyses that demonstrate material economic contribution to the economy and significant net value to both merchants and consumers under the current regulatory framework.

Other jurisdictions have addressed costs for small businesses in a targeted way. For example, in 2024, the **Canadian Government** directed and secured voluntary undertakings with payment schemes to lower interchange costs for qualifying small businesses. The undertakings have delivered interchange reductions to more than 90 per cent of qualifying merchants in Canada. A similar targeted approach could support those most affected by surcharge bans - those 10% or so of merchants (according to the RBA) who currently surcharge. In Australia, the Reserve Bank and/or the ACCC would likely be the required authority to coordinate such an agreement, which should cover both debit and credit card payments and include monitoring to ensure benefits are passed through to merchants.

The Commerce Commission in **New Zealand** published its decision in July 2025 to lower credit interchange fees, with a reduction for in-person transactions from 0.80% to 0.30%, and for online transactions from 0.80% to 0.70%. These changes are projected to save New Zealand businesses approximately $90 million annually, particularly at the small business end which tend to focus heavily on in-person transactions, while encouraging a simplified cost system for businesses. Reductions to interchange for online transactions were significantly reduced to take into account the significant fraud prevention investments made to enhance security of payments online.

Question 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.

Mastercard fully supports the RBA's proposal to remove/amend clause 3 of Standard No.3 to allow designated card schemes to prohibit surcharging. Australia currently allows surcharging, unlike most countries where bans benefit businesses and customers. The proposed change could shift $1.2 billion to merchants, encouraging them to seek more competitive payment options and exerting pressure to reduce costs, rather than the current framework which results in passing these costs onto consumers.

Mastercard Australia is prepared to vary our Rules specific to Australia to implement a surcharge ban on regulated products. In our view, as an extension of the regulatory symmetry principle, surcharging should be allowed on 'unregulated' products (for example, inbound cross-border, three party schemes and BNPL providers). Maintaining surcharging on unregulated products ensures appropriate price signals about true payment costs while protecting consumers from surcharges on efficiently priced regulated networks, creating genuine competitive pressure on unregulated providers to reduce their fees.

A technical review and feasibility study of how 'unregulated' payment flows can be surcharged should be considered by the RBA to help ensure the effective identification and communication of surcharges to cardholders. This will be particularly relevant for small and medium-sized merchants that may use their card for both business and personal use. Clause 3 of Standard No.3 should be amended to reflect this. It is unreasonable however, to expect the international schemes to bear the costs associated with implementation and supporting compliance, whilst at the same time consulting on policy proposals intended to exert downward pressure on the fees Mastercard Australia may charge as a scheme for card acceptance.

A clear approach to surcharging in Standard No.3 is essential to ensure consistency and prevent interpretation issues across schemes and merchants. The existing definition in Standard No.3 should be retained, with the RBA and ACCC providing definitive guidance on compliance monitoring and enforcement.

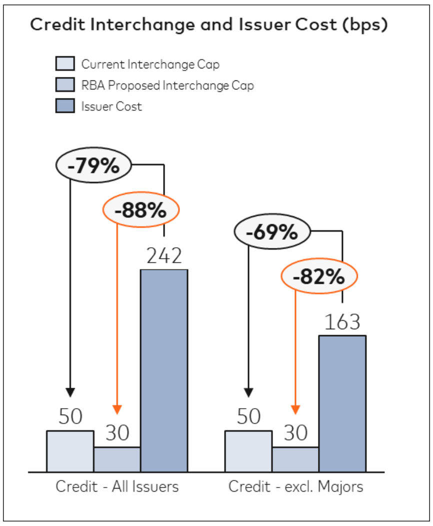
Q2: Do the proposed changes to interchange regulation promote the public interest by improving competition and efficiency in the payments system?

Mastercard has reservations about the RBA's methodology in determining the appropriate level of interchange fees. By evaluating only a subset of issuers' costs only, the RBA's approach does not achieve an efficient level of interchange fees, i.e. the level of fees which maximises the joint surplus to cardholders and merchants. Academic literature does not support setting interchange levels solely on the basis of issuer costs. This perspective is further reinforced by international practice, including policies adopted by central banks in the UK and the EU.

Within its Issuer Costs Study, the RBA concentrates on specific cost categories, namely transaction processing costs and fraud-related expenses, which were recognised as eligible under the RBA's 2005 issuer costs methodology. Consistent with its previous position in 2003, the RBA has proposed excluding costs associated with credit losses and loyalty programmes. Additionally, the RBA now proposes to exclude costs related to interest-free periods, arguing that the associated benefits of the interest-free period do not solely accrue to merchants.

The RBA states that it is applying a 'user-pays approach' to setting interchange, stating that '*most of the cost of funding interest-free periods should be borne by the issuer and cardholder, rather than entirely by the merchant*.'[6] Nevertheless, in two-sided markets, it is not realistic to assess a user-pays model as generating efficient signals for payment usage. Moreover, the fact that certain cost categories, such as interest-free periods, confer advantages to both cardholders and merchants does not preclude their inclusion in this methodology. Further discussion on this matter can be found in Appendix A.

Figure 3: RBA Credit Interchange Proposal Comparison[7]



Mastercard disagrees that the RBA's proposed eligible costs approach results in interchange fee caps that reflect an efficient level of interchange. Issuers must cover all credit card issuing and operating costs, many of which the RBA excludes but are essential for system safety and efficiency—such as settlement infrastructure, fraud prevention, KYC compliance, and technology platforms. With current interchange revenue already insufficient to cover these costs, and alternative income sources unlikely to offset the

[6] Reserve Bank of Australia (2025), 'Consultation paper: Review of Merchant Card Payment Costs and Surcharging', July, p29.
[7] Reserve Bank of Australia (2025)

shortfall (88% for most issuers, 82% for smaller ones), further reductions threaten the viability of credit issuance, as illustrated in Figure 3 above.

Mastercard believes that the RBA has underestimated appropriate interchange levels for certain transactions, such as credit, cross-border, and commercial payments. Different transaction types—like CP or CNP, credit or debit, and domestic or foreign-issued cards—carry varying costs and benefits across the two sides. For credit, cross-border, and commercial transactions, merchants gain added value (e.g., avoiding higher-cost payment alternatives), while issuers often incur higher costs in supporting these transactions.

While Mastercard agrees that credit and cross-border transactions should have higher interchange fee rates compared to debit and domestic transactions respectively, the RBA has underestimated the differences in the required interchange. Additionally, Mastercard disagrees with the RBA's view that commercial transaction interchange fees should be regulated or that they do not warrant a premium.

Proposed levels of interchange fees are not appropriate for credit transactions

Credit cards offer considerable value compared to debit cards. Unlike debit cards, credit cards are not directly connected to a transaction account. After a cardholder makes a purchase, there is a period between the transaction being settled with the merchant, the customer receiving a statement, and the payment being made to the credit card issuer. Typically, this process results in an issuer providing the cardholder with an interest-free period. Without an interest-free period, merchants would have to wait until cardholders pay their credit card bills to receive payment. This flexibility makes credit cards more valuable than debit cards in several ways. Credit cards help consumers manage spending and boost merchants' sales. Studies show that higher credit access increases consumption[8]. Credit cards are also commonly used for pre-authorisation in tourism, such as car rentals and hotel bookings.

Credit cards benefit merchants by enabling them to avoid more expensive alternatives, such as three party schemes and BNPL payment solutions, which they might otherwise accept to retain customers in the absence of credit cards. The provision of credit benefits merchants through the avoided costs of extending credit themselves, which is likely to be costly, particularly for small merchants.[9] As the flexibility that credit provides is valuable to merchants through generating incremental sales, merchants may choose to provide and fund credit themselves to convert sales.

As well as increasing incremental sales by providing consumers with the flexibility to make the purchase, credit cards benefit merchants directly through higher approvals, as credit card transactions are less likely to be rejected than debit card transactions (which may be

8 Gross and Souleles (2002) empirically showed that greater credit availability increases consumption, even among those who are not near their credit limit. David B Gross and Nicholas S. Souleles, 'Do liquidity constraints and interest rates matter for consumer behavior? Evidence from credit card data', *Quarterly Journal of Economics* (2002) vol 117(1), pp149-85
[9] Rochet, J.-C., and Wright, J. (2010), 'Credit card interchange fees'

rejected due to lack of funds in the current account). Higher credit interchange, and higher inbound interchange, particularly on credit, is an efficient way to price for that benefit. If credit interchange is reduced to the levels proposed, issuers may take a more risk-averse approach to authorisation, leading to more transactions being refused which would be to the detriment of merchants.

Credit transactions, though advantageous for merchants, are more expensive for issuers than debit transactions. There are several cost lines associated with credit transactions which are not relevant for debit transactions, including credit write-offs and costs associated with the interest free period. In addition, credit transactions tend to have higher fraud costs compared to debit transactions. If these higher costs are not recognised through the interchange credit transactions, this could lead issuers to respond by taking a more risk-averse approach and, in turn, leading to lower approvals. The recent interchange review in New Zealand took these increased costs into account.

It is vital that the additional benefits provided by credit cards, relative to debit cards, are properly accounted for when considering the appropriate interchange fee levels. The additional value that credit provides to merchants through these channels would be captured by an appropriately conducted methodology which seeks to take into account the benefits which merchants receive from interchange. For example, an appropriately conducted MIT would capture the fact that, in the absence of credit, consumers would be more likely switch to payment methods which provide credit and tend to be more expensive (such as three party schemes and BNPL). Accounting for this factor would likely imply that the MIT interchange fee for credit is higher than the MIT interchange fee for debit transactions. Further, this approach is likely to underestimate the true optimal interchange fee as it does not take account of incremental sales or the social costs of cash, as discussed above. This is supported by Bolt who states that in determining the appropriate interchange level for debit and credit card transactions—and whether they should differ—is an empirical issue that should consider the extra costs of credit card services.10

Proposed levels of interchange fees are not appropriate for cross-border transactions

The RBA proposes to cap interchange on foreign-issued card transactions processed in Australia at 0.2% for debit and 0.4% for credit for CP transactions, and 1.15% for debit and 1.50% for CNP transactions. While the RBA is correct in its conclusions that higher interchange fees are appropriate on cross-border compared to domestic transactions, its conclusions on the specific levels of interchange fees for cross-border transactions are not appropriate.

In proposing to set interchange fees at this level, the RBA appears to draw from the EC's interchange fees for cross-border transactions. These levels of interchange fees, which

[10] Bolt, W. (2024), 'Expert Support on the NZ Commerce Commission Consultation Paper "Retail Payment System – Cost to Businesses and Consumers of Card Payments in Aotearoa NZ"', 22 November, p. 26.

were set in the specific context of transactions at European merchants, are neither appropriate in and of themselves, nor are they appropriate in the specific context of Australia.

The RBA is correct in its conclusions that higher fee levels are appropriate for cross-border as opposed to domestic transactions

As acknowledged by the RBA in the Consultation Paper, there is a need for higher interchange for in particular on cross-border CNP transactions. This is driven both by the fact that four-party cards provide greater benefits for merchants in the CNP cross-border context compared to other contexts, and by the greater issuer costs associated with cross-border CNP transactions. The rationale for higher interchange on four-party card transactions are expanded on below.

Four-party cards offer extra value in cross-border CNP transactions by enabling merchants to reach overseas consumers and avoid costly alternative payment methods. Cheaper account-to-account options are often unavailable due to online security concerns, leaving expensive choices like digital wallets and three party schemes as alternatives. Four-party cards help merchants reduce these costs and support higher interchange fees for cross-border CNP compared to domestic transactions. Additionally, consumers face more unfamiliar merchants in the cross-border context and seek secure payment options, which may otherwise be pricey or deter purchases entirely. The near-universal network of four-party cards allows broad consumer-merchant interactions, further boosting merchant sales.

Cross-border transactions are generally associated with greater issuer costs, especially due to higher fraud risks. Factors include consumers dealing with unfamiliar merchants, challenges in detecting fraudulent activity[11] , varying merchant regulations, and inconsistent application of Strong Customer Authentication (**SCA**). Fraud not only involves prevention and remediation expenses—such as chargebacks—but also results in declined legitimate transactions, creating additional merchant costs.

Interchange fees for cross-border transactions are often higher than those for domestic transactions due to the increased fraud risks issuers encounter. One method of managing fraud exposure is by tightening transaction authorisation, which can have adverse effects on merchants. Issuers use algorithms and real-time monitoring to assess transaction risk, declining transactions that exceed a specified risk threshold. If interchange fees do not offset anticipated fraud costs, issuers may lower their risk thresholds, resulting in more declined transactions—including some legitimate ones—which can affect merchant revenue, particularly with cross-border payments.

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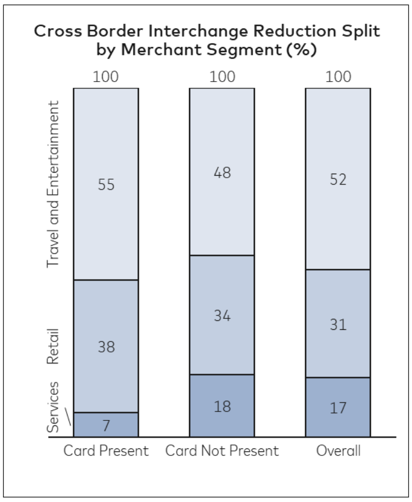
11 One way of detecting fraud is if the transaction looks unusual when compared to the card-holder's usual spending patterns. If the cardholder has gone abroad, their usual spending patterns will naturally be disrupted as their usual retailers will not be available.

The reduction in cross border interchange skewed towards non-small business merchant segments

Mastercard's analysis points to the fact that most of the interchange reduction will be skewed towards Travel and Entertainment segment (over 52% overall). These are the segments in which card payment and foreign card transactions bring most value to them and understand the higher fees associated with this transaction type. On the contrary, the policy may lead to unintended consequence of fewer approval leading to loss in sales transactions. Furthermore, RBA's preferred policy intended to focus on small merchants are also likely not met through this proposal.

Figure 4: Cross-border interchange reduction split by merchant segment[12]



The RBA should not rely on benchmarks from the European context when setting the levels of interchange fees in Australia. The RBA is mistaken in assuming that interchange fee rates for cross-border CNP transactions into the EEA are suitable benchmarks for setting Australian interchange fees rates. The EEA's MC2 rates (1.15% debit, 1.50% credit) were set specifically for EEA merchants' transactions. European rates were set a time when interest rates in the EU were near zero / negative and central banks, perhaps optimistically, expected interest rates to remain at these levels into the future.

Mastercard does not consider that the MC2 interchange rates are appropriate for transactions even within the EEA context:

The 0.2% and 0.3% levels for debit and credit cards respectively were set in 2015 (based on data gathered earlier, in 2012 and 2013) and have not been updated since then.

- The 2015 study used the MIT methodology and had a number of methodological flaws:

[12] Mastercard estimates

    - It was based on a small sample size and an unrepresentative sample focused on larger retail sectors.
    - The study suffered from self-selection and reporting bias by merchants.
    - The study did not consider the appropriate timescale when considering whether costs should be fixed or variable and relied on the merchant's classifications.
- While the EC states that it used a range of payment methods to determine the appropriate Interchange, the complete MIT methodology, the methodology used by the EC to derive the MC2 Interchange was never published. Mastercard's own analysis of the optimal IF rates for inter-regional CNP transactions for EEA merchants based on an appropriate MIT methodology showed the MC2 MIFs may be too low even in the EEA context. Through this study, Mastercard found that the optimal rates for these transactions would be substantially higher than the MC2 rates for CNP transactions, above 2% for both credit and debit.[13]
- The benchmarks resulting from the study cannot be adopted for CNP transactions:
    - First, the EC did not consider online payments in determining the interchange fee levels as at that time they accounted for a small proportion of card transactions in the EU Since then online payments have experienced significant growth.14
    - The MIT methodology is based on cash as the alternative payment method. For certain transaction types, notably CNP, cash is not an alternative and, in today's payments ecosystem a wide-range of other alternatives do exist, such as three-party schemes, BNPL options and digital wallets. Evidence shows that consumers in New Zealand use a range of payment options, which vary by purchase and transaction types.15

Further, even if these interchange fee levels were appropriate in and of themselves, they would not be applicable to the context of cross-border transactions made at Australian merchants. The costs of alternative payment methods to merchants are likely to vary by type of card (e.g. debit and credit cards), transaction (e.g. CP and CNP transactions) as well as across merchants and countries. This means that the optimal IF based on the MIT methodology can also vary by, for example, type of transaction and merchant, as well as across countries.

Notably, the EC's interchange fee caps are based on the average cost calculated across the ten largest payment services markets and applied uniformly across all EU member states. This approach did not account for variations between these ten countries or the

[13] Oxera (2016), 'A merchant indifference test for inter-regional transactions'
[14] For example, research published by Bank of New Zealand shows that there was significant growth in the value of monthly online sales, both domestically and internationally; between 2013 and 2019, monthly domestic online sales increased from around $150m to $250m, and monthly international online sales increased from around $100m to $150m (source: Bank New Zealand (2019), 'New Zealand Online Retail Sales: July 2019', 30 August, p. 1). In 2024, Kiwi shoppers were estimated to have spent $6bn online, a rise of more than 5% relative to 2023 (source: NZ Business IQ (2025), 'Record transaction levels drive 2024's online growth', 20 February).

differences between those larger countries and smaller payment markets. The EC's decision to impose a uniform interchange fee across EU member states was based on broader policy goals (i.e. creating a single European market) rather than purely economic cost differences. As a result, the EU's approach cannot be directly applied to Australia.

Mastercard supports the view that exclusion of commercial cards from interchange fee regulation, consistent with the EU and UK approach, best aligns with the RBA's policy objectives of competition and efficiency.

Consumers and businesses use their cards in fundamentally different ways. Commercial cards are mainly used for business-related expenses, which are typically higher in value and more predictable compared to consumer card transactions. Given this, commercial card transactions require a different fee structure that reflects the unique risk and reward profiles associated with business payments

Commercial cards deliver more value to the cardholder, and to the overall economy, and are a critical tool for businesses and SMEs to manage expenses, payments and cash flow, through line-of-credit and interest free-lending. Deloitte research found merchants utilised $6 billion interest free-liquidity on commercial card balances each month, benefiting from approximately $506 million in avoided-interest due to utilizing interest free periods[16].

Commercial card transactions provide distinct value propositions in business-to-business contexts, that benefits both buyer and supplier:

1. Small businesses rely on commercial credit cards as a vital tool for managing cash flow and accessing working capital. Business cards are the most commonly used form of short-term financing for SMEs, often more accessible than other forms of business finance.
2. From a merchant's (in a B2B arrangement – the supplier) perspective, commercial card transaction typically have a higher average transaction value than personal cards. In addition, the payment options for businesses are different to those for consumers—for example, to settle invoices, bank transfers. Although these alternatives may have lower direct costs to the merchant, they entail higher indirect costs relative to commercial cards, due to the higher administrative costs and costs associated with payment delays and defaults. A study by Oxera conducted in 2019 on a selection of European countries found that the end-to-end administration cost associated with relying on invoicing rather than commercial cards amounted to 4.3% of the average transaction value (rising to 5.6% if the costs of non/late payment are included).This was much higher than the commercial cards interchange fee levels. Oxera estimated that the full costs of acceptance of cheque and bank transfer are approximately 35–110% higher than commercial cards.[17]
3. Commercial cards enable businesses to offer better payment terms to their customers while still receiving prompt payment, and the buyers can take advantage

[16] Deloitte, The Value of Australia's Retail Payments System (2024)
[17] Oxera (2019), 'The economics of commercial cards: briefing paper prepared for Mastercard'

of interest free days available on their commercial cards to help manage their cash flow.

Because of the above, commercial cards drive large amounts of value to merchants and this value should factor into the interchange fee.

For commercial card Issuers, the provision of this vital business tool is heavily reliant on interchange. Unlike consumer cards, commercial cards typically carry lower or zero revolving balances, and interchange is required to fund the cost of credit, fraud protection and other business productivity features (expense reporting, reconciliation, payment controls) that commercial cards provide.

Regulating commercial interchange will only exacerbate the uneven playing field, with non-designated three party operators already comprising half of the issuing market, as noted by the RBA. Commercial card transactions (credit and debit) should remain unregulated, consistent with other comparable jurisdictions.

Implications of setting interchange fees too low – value erosion

Mastercard is concerned that if interchange fees are set at sub-optimal levels, this impact to approval rates would be twofold:

1. Due to the shortfall in interchange fees, the issuer may invest less in fraud prevention tools. This lack of investment may lead to a higher risk of fraud on each transaction, meaning that a higher proportion of transactions will exceed the risk threshold of the issuer. Indeed, it is well-established that higher fraud rates are associated with lower approvals. Issuers look at the net benefits and costs of approving a transaction; i.e. the interchange fee as one of the benefits and the fraud costs and customer inconvenience as some of the costs.
2. If interchange fees are lowered for a specific channel, issuers may choose to directly adjust their risk thresholds for the type of transaction. In setting their risk threshold, issuers have to trade off the benefits of improved customer (i.e. cardholder) experience from approving transactions against the increased risk of fraud. If interchange is lowered for this channel, issuers are both less willing to encourage consumers to make transactions on this channel and are less able to take risks in supporting these transactions due to the lack of interchange fees to support these transactions. This gives them incentives to reduce the risk threshold for this transaction type.

Lower approval rates have a negative impact on transactions through making the transaction and purchasing experience less smooth and convenient. While this impacts consumers by reducing the convenience, the impact on merchants can be much greater, as the declines (of transactions that are genuinely made by the cardholders; i.e. not fraudulent) reduce the likelihood that the consumer will complete the transaction once it has been started resulting in a lower conversion rate for merchants and potentially a reduction in repeat customers.

Mastercard is concerned that proposed reductions in credit interchange—which exclude interest-free periods as eligible costs—may prompt some issuers to seek alignment of settlement cycles with cardholder payment dates to reduce their risks and expenses. Extending settlement cycles could increase payment costs for acquirers system-wide. Additionally, Mastercard may face such requests from both domestic and foreign issuers, complicating its efforts to balance the interests of all parties in its network.

The RBA's policy proposals on interchange fees may not result in the anticipated benefits for small merchants

The RBA's assertion that small merchants will be primary beneficiaries of interchange reductions is contradicted by empirical evidence from international markets. Independent regulatory analysis of EU interchange regulation demonstrates that interchange reductions fail to flow through to small merchants on blended or simple pricing plans.

Despite the EU interchange fee regulation reducing weighted-average interchange by 32 basis points, merchant service charges for small merchants fell by only 18 basis points, with acquirers and payment facilitators capturing 44% of theoretical savings through margin expansion. European evidence from the interchange fee regulation Impact Study shows acquirers retained significant portions of interchange savings, with full pass-through to merchants not achieved[18].

Based on Mastercard's analysis of the Australian market, similar distributional inequities would likely occur. Based on current market dynamics, only 30% of the estimated $880 million reduction in domestic interchange fees would flow through to small merchants on simple pricing plans, while 71% would immediately benefit medium and large merchants on interchange-plus pricing models who already receive strategic rates below issuer costs.

Adverse impacts to consumers

The RBA's assertion that by removing surcharging combined with lower interchange fees will benefit consumers by $1.2 billion annually may not have taken into account the second order impacts: how reduced and increased costs may or may not flow through the payment ecosystem.

Reducing interchange fees would have significant consumer impacts including increased annual fees, higher annual percentage rates (as observed in the UK where rates reached 36-45%), introduction of account keeping fees, reduced credit access for SMEs and lower-income consumers, as well as diminished rewards programs.

Following Europe's interchange fee regulation, average annual fees for regulated consumer credit cards increased by 13% as issuers recovered lost interchange revenue through direct charges. Multiple independent studies have found no evidence of merchant-to-consumer pass-through of interchange savings in any jurisdiction implementing interchange caps. The EC's five-year review of the interchange fee regulation

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[18] https://copenhageneconomics.com/wp-content/uploads/2021/12/copenhagen-economics_march_ifr-report.pdf

acknowledged the absence of demonstrable consumer price reductions from lower interchange fees.

Mastercard estimates that proposed interchange reduction will increase cost to consumer by $1.5 billion annually through: direct fee increases ($650 million), reduced rewards and benefits ($400 million), increase in APR ($200 million), and higher price increases ($250 million).

Negative effects on issuers, regardless of size, reduce competition and undermine a level playing field

A reduction in interchange will severely impact smaller issuers who rely more on this revenue to compete and are less able to cross-subsidise compared to larger issuers. Large issuers will incur costs to make significant changes to the product offering, card management systems, update pricing models, fee and financial monitoring, reporting and controls.

The proposed changes systematically harm competition across all layers of the payments ecosystem:

- **Competition in Issuing** The interchange reductions disproportionately disadvantage smaller and regional banks who lack the scale and diversified revenue streams of major banks. Unlike the Big Four banks, who can cross-subsidise payment products through mortgage lending, wealth management, and corporate banking, smaller issuers depend on interchange revenue to fund competitive card products. This revenue reduction will force smaller issuers to either exit the market or significantly curtail their offerings, concentrating market power among major banks. International evidence from the EU shows that following interchange fee regulation, the number of active card issuers declined by 23%, with smaller institutions either withdrawing from card issuance or being acquired by larger competitors. This is likely to substantially reduce competition in the issuing market, with negative effects of this flowing through to cardholders and consumers of financial services products more broadly. It is also likely to impact innovation, as smaller issuers and new entrants are likely to be particularly reliant on interchange revenues (see Appendix A).
- **Competition Between Payment Networks** The proposed approach to interchange regulation creates an uneven playing field - unregulated three-party schemes charge higher merchant fees; while EFTPOS benefits through the RBA's current policy position on DNDC and LCR. This imbalance limits competition by hindering innovation and service quality and makes it difficult for emerging payment systems like the New Payments Platform (NPP) to compete in retail payments.
- **Barriers to New Entrants** These proposed changes will create major barriers for new payment entrants in Australia, making market entry unattractive due to heavily regulated prices that do not cover costs whilst facing intense competition from the domestic scheme on debit cards, as well as from unregulated three-party schemes. This will restrict global innovation and competition in Australian payments.

Interchange fees are vital for funding fraud protection, dispute resolution, processing infrastructure, and credit access. Cutting interchange fee rates too aggressively is risky—especially with Australians losing over $2 billion to scams annually—as it could compromise essential services and slow crucial developments like advanced fraud prevention technology.

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

The proposed interchange reductions pose significant risks to smaller issuers who face structurally higher costs that cannot be overcome through operational efficiency alone. The RBA's own analysis demonstrates that smaller issuers face costs approximately twice those of major banks—10 cents versus 5 cents per debit transaction, and 0.24% versus 0.10% for credit excluding interest-free period funding. These figures likely understate true cost disparities, as the RBA's sample of 11 issuers is skewed toward larger institutions and does not fully capture the economics of neobanks, challenger banks, and innovative new entrants operating fundamentally different business models.

Sampling bias systematically underestimates issuer costs

The RBA's cost analysis relies on data from a small sub-set of 11 issuers who responded to its consultation request—a sample that is not representative of the approximately 80 Australian issuers, in particular smaller issuers, with fundamentally different cost structures. The RBA has previously acknowledged in its 2005 paper, that "*within a scheme there is significant variation in the eligible costs reported by various issuers, partly reflecting variation across issuers in the characteristics of their cardholders*". This caveat is reiterated in Appendix C of the Consultation Paper.

Large issuers benefit from substantial economies of scale that smaller institutions cannot replicate. A major bank for example, can spread a $50 million technology investment across 100 million annual transactions at $0.50 per transaction, while a smaller issuer with 5 million transactions faces a significantly higher cost of $10 per transaction. Mastercard estimates that costs for financial institutions with less than 100,000 active cards can be three to four times higher than major bank costs, reaching 15-20 cents per debit transaction.

Structural dependence on interchange revenue

Unlike major banks that generate significant revenue from mortgages, retail and business lending, wealth management, and investment banking, smaller issuers typically focus on payment products and basic transaction accounts. Interchange revenue represents 50-70% of total revenue for smaller issuers, compared to less than 5% for major banks who can cross-subsidise payment services from other profitable business lines.

Based on the RBA’s proposed 6 cents per debit transaction, with actual costs of 10-15 cents for smaller issuers, every transaction would generate a loss. Without viable economics, venture capital and growth funding would cease, eliminating the pipeline of new entrants who drive competitive pressure and innovation. Furthermore, at 6 cents, there is no commercial justification for maintenance of dual-network debit cards (**DNDC**).

Market evidence of challenges under current economics

The Australian payments market has witnessed successive smaller issuer exits demonstrating that current economics are already marginal. Xinja Bank collapsed in 2020 after investing $160 million, citing inability to achieve sustainable unit economics on payment transactions. The forced merger of 86 400 with NAB following its acquisition, and Volt Bank's decision to revoke its ADI licence further illustrate these structural challenges.

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?

Mastercard does not object to the expansion of the net compensation provisions to apply to Australian card issuers sponsored by overseas scheme participants and to include benefits and costs relating to transactions with overseas merchants acquired by overseas acquirers. However, we highlight that overly stringent approaches may unintentionally harm competition, particularly as new entrants may want to begin issuance from another market to test demand before making broader investment decisions. We suggest the RBA considers introducing a scale or time threshold.

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?

Mastercard supports proportionate transparency measures that deliver genuine benefits to market participants. The RBA's proposal to require publication of aggregate wholesale scheme fee data (including aggregate rebates) by designated schemes on their website, however, does not balance the information needs of the market with commercial concerns.

The RBA has not demonstrated how additional public disclosures would materially improve market outcomes or influence stakeholder behaviour, while creating significant risks to commercial confidentiality and competitive dynamics.

Without a clearly defined purpose, scope, and format guided by principles of effectiveness, proportionality, and commercial sensitivity, publication requirements risk facilitating tacit coordination among networks, revealing commercially sensitive strategies, and creating an uneven playing field where only regulated schemes face disclosure while non-scheme competitors operate without comparable transparency obligations.

The proposal lacks clear objectives and a demonstrated need

Sophisticated participants such as acquirers already possess significant capability to access and understand fee arrangements through existing bilateral channels such as Mastercard Connect ('the Pricing and Billing Resource Center') that offers all business types pricing guides (which contain updated pricing definitions and charge descriptions) and transaction analysis tools with near-real-time access to detailed billing transaction data.

The RBA's proposal fails to identify:

- Which stakeholders would benefit from aggregate publication of direct costs, noting that Mastercard does not have visibility of the commercial arrangements of acquirers, PSPs, or payment facilitators,
- How this information would be used, and
- Finally, what behavioural changes would be expected to result.

Successful transparency initiatives in other contexts, such as bank stress tests, demonstrate that effective publication requires clearly defined intended audiences, standardised methodologies, and interpretation frameworks. Without such design safeguards, **scheme fee publication risks causing speculation and misinterpretation rather than informed scrutiny.**

Mastercard already provides extensive transparency to its customers as outlined above, and regulatory oversight can be appropriately achieved through existing confidential regulatory monitoring of scheme fee data without the need for public disclosure on the relevant card scheme's website.

Commercial sensitivity and competitive neutrality concerns

Publishing wholesale aggregate fee data (i.e. total interchange and scheme fees (as distinct items), total transaction value and the total number of transactions for each of domestic and international credit and debit/prepaid, and within each category the breakdown by card-present and card-not-present transactions, and within each of those subcategories the amount relating to mobile wallet transactions) would reveal commercially sensitive aspects of Mastercard's Australia-specific strategy. **The commercially sensitive nature of this data, combined with the concentrated market structure, means publication could facilitate anticompetitive coordination or reveal strategic commercial information.**

The proposed publication of rebate data raises significant competition law concerns. While the data would be historical and aggregated, it would not meet commonly accepted safe harbours for information exchanges, which require at least five participants with no single participant holding more than 25% market share. This threshold cannot be met in the Australian market where issuing fees and rebates for both Mastercard and Visa are concentrated among two major customers. The requirement to separately disclose issuer and acquirer rebates creates particular concern given this market concentration. In both cases, the aggregated data would effectively reveal commercially sensitive information about specific market participants due to the concentrated market structure.

Fundamental competitive inequities arise from the proposal to impose requirements on designated schemes to publicly disclose aggregate data broken down by key transaction types while competitors—including BNPL services, digital wallets, and three-party schemes—can continue to operate without comparable enhanced transparency obligations. Currently, mobile wallet providers face no requirement to disclose their fees, meaning the proposed scheme and interchange fee disclosures would capture only part of the total wholesale cost structure. This partial disclosure does not address the stated objectives of reducing complexity and opacity in merchant pricing. The proposed disclosure requirements for mobile wallet fees provide an incomplete view of transaction costs. The aggregated data would provide limited utility to market participants, particularly merchants. Transparency measures for merchants would be more effective if focused on acquirer pricing, as acquirers determine merchant payment acceptance costs.

Mastercard also considers that in relation to the treatment of commercial cards or the proposed interchange fee cap on foreign interchange, in the context of the current uneven playing field, it will distort competition and lead to inefficient outcomes with more expensive, less regulated payment options (three party schemes or other internal four party schemes) being favoured. These providers could analyse published scheme data to inform pricing strategies while maintaining opacity regarding their own fees. This information disclosure would create material competition risks without corresponding public benefit.

There are concerns that the proposed updated scheme fee definition in Appendix D to the Consultation Paper may reduce rather than enhance merchant transparency. It captures fees for optional value-added services that acquirers select to enhance their capabilities, potentially misleading merchants to view these as unavoidable network costs rather than discretionary acquirer business decisions. The reference to "*but if such an Associated Entity is an Issuer or International Issuer, excluding Interchange Fees and International Interchange Fees.*" is broad and may unintentionally capture unregulated entities and therefore clarification is required on what falls within the definition of 'an Associated Entity'.

Further**, with only three major card networks in Australia, publishing wholesale scheme fee data could also enable parallel pricing behaviour without explicit collusion.**

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 RBA has not provided specific details or parameters regarding what is the intended process for engaging with 'industry' on scheme fees schedules beyond the schemes' existing billing processes, such as frequency, format or measurable outcomes or how this proposed process will achieve the stated purpose.

Rather than mandate industry consultation on simplification and transparency of scheme fee schedules, the RBA should recognise existing industry initiatives that balance service sophistication with transparency, allowing market forces to drive optimal fee structures while ensuring participants have adequate information for decision-making.

Mastercard recognises the importance of fee transparency to its customers and has implemented extensive transparency initiatives through the Pricing and Billing Resource Center, providing real-time fee calculators, historical fee data, detailed service descriptions and cost optimisation guidance. These substantial investments demonstrate industry capability to access information without the need for a regulatory mandate.

Mastercard's fee structure corresponds directly to the breadth of services meeting diverse market needs. Each fee category represents distinct value propositions—from basic processing to sophisticated fraud prevention, tokenisation, and analytics—that participants select based on specific requirements. This granular pricing ensures efficient resource allocation by aligning costs with consumption and preventing cross-subsidisation between participant types. **Despite the complex fee structures this may entail, in general, Mastercard’s top 20 fee items represent more than 95% of the overall fees that Mastercard charge to acquirers; with the top 8 representing more than 75% of the total fees typically billed.**

The proposal to work with industry on an individual basis could become arduous and paradoxically make it harder for participants to understand actual cost drivers and the timing of fee reviews on our global network.

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

Before intervening on scheme fees, the RBA must first establish a clear and evidence-based rationale, demonstrating that the market is not functioning effectively. Mastercard considers that the RBA has not shown that intervention is justified. In particular, the RBA has not demonstrated that current market outcomes fail to keep scheme fees at competitive levels.

The RBA has not defined what constitutes its expectation on ‘justification’ of scheme fees or its intended process for engaging with PSPs and issuers on reasons for increases or new fees introduced by designated schemes beyond fee disclosure measures already taken by designated schemes such as Mastercard. There are legitimate concerns with the RBA’s proposal given the level of detail proposed to be publicly disclosed (including aggregate rebates) and given that disclosures will not be required by higher cost three party schemes.

A robust market review must first be conducted, evaluating both the competitive process and the outcomes it produces, such as price, volume, choice and service quality, to determine whether the market is delivering for users. Weak outcomes may indicate ineffective competition. The RBA’s conclusions on what might happen in the payments market following the removal of surcharging is not supported by any empirical evidence. Moreover, the RBA does not give any consideration to the competitive constraints which schemes face, including the potential influence of alternative payment methods (**APMs**) such as real-time payment systems, digital wallets aggregating multiple payment methods, BNPL providers, and emerging cryptocurrency solution. As a result, there are significant weaknesses in the RBA's rationale for any proposed intervention, which raises doubts about the justification for the proposed intervention.

Mastercard faces intense direct competition for every issuer and acquirer relationship, with contracts regularly contested and occasionally lost based on value propositions including on APMs. Additionally, we face growing competitive pressure from EFTPOS on debit card transactions. Sophisticated institutional customers benchmark our offerings against competitors and demand clear value for fees paid. These competitive dynamics have real consequences for our pricing decisions.

The RBA's proposed requirement for justification of fee increases fundamentally discounts how innovation works in payment networks. Innovation is not a discrete activity that can be mapped to specific fee changes but rather a continuous process of experimentation, development, and refinement. Tokenisation technology, now essential for digital commerce security, took over a decade from initial concept to widespread adoption. Scheme fees fund critical infrastructure and services essential to the payments ecosystem's functioning. These include advanced AI-powered fraud detection systems processing billions of transactions in real-time, network infrastructure maintaining 99.99% uptime, tokenisation technology protecting against data breaches, and continuous security upgrades addressing evolving cyber threats.

Mastercard undertakes extensive pre- and post-payment activities essential to managing network risks including digital fraud, cyber threats, financial crime, and systemic risk. We provide critical backup services, such as our Issuer Stand-In service that maintains transaction flow when issuer systems fail. Requiring only designated schemes to justify fee changes, while competitors are not required to, puts the international card networks at a significant competitive disadvantage.

APMs including three-party schemes could gain artificial advantages through regulatory arbitrage.

For all these reasons, Mastercard opposes the RBA's proposed expectation.

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?

Mastercard supports the RBA's decision not to impose regulatory intervention on scheme fee levels. However, we oppose the suggestion that the Payments System Board (**PSB**) might consider future measures including caps on scheme fees, mandating dual-network credit cards, or extending LCR to credit transactions. Such interventions lack evidentiary support and would likely reduce competition, safety and innovation, ultimately disadvantaging consumers and merchants.

Regulatory certainty is essential for investment and innovation

Potential regulatory intervention could create significant headwinds for capital investment required to maintain current levels of payment system innovation in Australia. Faced with uncertainty, firms defer long-term investments and innovation projects, prioritising markets with greater regulatory stability. Payment infrastructure investments require multi-year commitments with returns realised over extended periods. Regulatory uncertainty increases investment hurdle rates and reduces capital allocation to the Australian market. This was a resounding message from industry participants at the Government's recent productivity roundtable.

Regulation needs to be Evidence-based

New regulations should only be introduced when backed by robust evidence demonstrating they will promote competition in the market for payment services, consistent with overall financial system stability.

There is no empirical evidence to support the view that price regulation of scheme fees could result in enhanced competition or efficiency. Mastercard contends current settings provide abundant transparency for issuers and acquirers to satisfy the RBA's competition objectives. Further, Deloitte research found card payments contribute over $38 billion annually to the Australian economy each year (1.8% of GDP), creating $16 billion in incremental revenue alone, demonstrating the inherent value of the Australian retail payment system under current regulatory settings[19].

Cost-based pricing is inappropriate for competitive markets

Cost-based pricing, while potentially suitable for natural monopolies, is inappropriate for payment markets where competition and continuous innovation drive value creation. Capping returns to predetermined margins over costs eliminates incentives for efficiency improvements, innovation investments, and risk-taking essential for market dynamism.

Implementing cost-based pricing in payment networks would be impractical given operational realities. Scheme services involve substantial common costs not directly attributable to specific geographies or service lines. Allocating these costs to specific markets would require arbitrary decisions, creating permanent regulatory uncertainty and compliance complexity.

Competition effectively constrains scheme fees

The Australian payments market features robust competition that provides more effective discipline than regulatory intervention. Mastercard faces direct competition from Visa, eftpos, and increasingly from APMs.

Beyond traditional network competition, we face competitive pressure from rapidly growing alternatives. BNPL providers have captured significant transaction volume despite charging merchants on average 5-7% as compared to 1.8% for cards, demonstrating that

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[19] Deloitte, The Value of Australia's Retail Payments System (2024)

merchants value service attributes beyond price. Digital wallets, real-time payments, and emerging payment technologies further intensify competitive dynamics.

This competitive environment naturally constrains pricing without requiring regulatory intervention that could stifle innovation and reduce service quality.

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.**

While Mastercard supports transparency measures that assist merchants in making informed decisions, the proposed requirement for acquirers to publish average cost of acceptance data raises concerns about effectiveness, commercial sensitivity, and potential unintended consequences. Publishing average cost data by merchant size and card type would provide limited practical value to individual merchants whose costs are determined by multiple factors beyond these broad categories.

Broad categories do not reflect pricing complexity

The proposed publication of average costs by merchant size and card type does not accurately represent acquirer pricing structures. Merchant costs are determined by multiple factors, for example:

- Industry risk profiles
- Transaction characteristics
- Channel mix (online versus in-store)
- Fraud history
- Integration requirements
- Value-added services
- Contract terms and volume commitments.

Publishing averages based solely on size and card type would create potentially misleading comparisons for merchants whose specific circumstances differ from the aggregated data.

Risk of market distortions

Average cost data could mislead merchants who lack context for interpreting published figures. Individual merchants might incorrectly conclude they are overpaying when higher costs reflect legitimate risk factors or additional services not transparently reflected.

Publication of averages could create market distortions as acquirers adjust strategies to optimise reported metrics through selective merchant acquisition or cost reallocation to non-reported categories.

Threshold and reporting frequency considerations

The proposed $10 billion threshold may exclude significant market participants specialising in specific segments. Any threshold creates incentive distortions where acquirers near the boundary may limit growth to avoid compliance obligations.

Quarterly publication appears excessive given that acquirer pricing structures typically remain stable for extended periods. Most merchant contracts have annual or multi-year terms with fixed pricing. Annual reporting would provide more stable, meaningful information while reducing compliance costs.

International precedents and alternative approaches

The UK PSR's approach, following comprehensive market review, offers relevant insights. Rather than mandating public price publication, the PSR focused on enhancing individual merchant transparency through:

- Standardised summary boxes,
- Online quotation tools, and
- Proactive trigger messages.

The PSR explicitly found that prescriptive publication requirements could inhibit development of innovative pricing models.

Recommended approach

Rather than prescriptive requirements, the RBA should consider industry-led initiatives where acquirers collaborate to develop best practices for cost transparency. The Australian Payments Network could coordinate development of voluntary transparency standards.

Enhanced merchant education through workshops, guides, and tools would empower merchants to utilise existing information effectively. The Council of Small Business Organisations Australia (COSBOA) has established precedents for such programs, such as the current $23 million three-year initiative, funded by the Federal Government to assist small businesses enhance cyber security and resilience[20]. A similar initiative could address merchant education on payment costs.

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?

[20] https://ministers.treasury.gov.au/ministers/julie-collins-2022/media-releases/support-small-businesses-act-cyber-festive-season

Mastercard acknowledges the RBA's intended objective of enhancing transparency through merchant statements that distinguish between domestic and international card costs. While this information could assist some merchants in understanding their cost structures, the proposal requires careful consideration of implementation complexity and potential merchant confusion.

Limited benefits from enhanced statement transparency

The proposed domestic versus international card breakdown assumes merchants have the knowledge to interpret and act on this information. Evidence suggests many merchants, particularly smaller businesses, face challenges understanding current statement formats. Additional data layers may reduce rather than enhance clarity, especially for the 39% of merchants on blended rate contracts.

The domestic/international distinction represents one of multiple cost drivers. Isolating this single factor could lead merchants to incomplete conclusions about their cost structure. Additionally, for merchants on blended pricing models, the proposed breakdown would not reflect actual cost differentials, as acquirers aggregate costs across transaction types.

Technical implementation considerations

Distinguishing between domestic and international cards presents technical complexities:

- Cards issued by Australian banks to foreign nationals
- International cards held by Australian residents
- Co-branded cards with multiple BINs
- Virtual cards that obscure issuer origin
- Prepaid cards with ambiguous issuer identification.

System modifications to address these complexities would require significant investment across the payments ecosystem. These costs would ultimately be recovered through merchant fees, potentially offsetting any benefits from enhanced transparency.

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*?

Mastercard notes that the RBA's current LCR framework has influenced competitive dynamics in Australian debit payments, affecting consumers, merchants, and the payments ecosystem. While acknowledging the RBA's objectives, Mastercard observes that the current industry expectation on LCR implementation to route DNDCs has led to reduced innovation incentives, operational complexity, and security considerations for EFTPOS's competitors.

Regulatory measures support EFTPOS's advantage in Australian debit payments

The RBA's existing expectations in relation to DNDC issuance and the way that these have been given effect by the industry, means that EFTPOS is present on nearly all Australian debit cards irrespective of issuer preference, consumer choice, or commercial viability. These factors have created a market structure where EFTPOS's strong position in Australian debit payments is ensured. Maintaining the current approach to DNDC at considerably lower interchange levels will increasingly not be sustainable or attractive for issuers, prevent new market entry on the issuing side and hinder the availability of innovation driving greater safety.

Market impacts of current LCR framework

The LCR implementation has commoditised debit transactions by prioritising cost over other value factors. This approach reduces incentives for card networks to invest in enhanced security, innovative features, risk and compliance, or service improvements. When routing decisions are determined solely by cost, without consideration of functionality, fraud protection capabilities, service levels or operational costs, the business case for innovation investments becomes unviable.

Implementation has imposed substantial costs across all participants without demonstrated commensurate benefits. These costs disproportionately affect smaller participants that lack scale to efficiently absorb implementation and ongoing operational expenses.

The RBA's own review of LCR implementation has identified similar concerns regarding complexity and cost-benefit outcomes[21].

Security and innovation implications

The LCR framework raises security concerns as transactions are routed across networks with varying fraud detection capabilities and rules. This inconsistency in fraud monitoring creates potential vulnerabilities. With the National Anti-Scam Centre reporting $2 billion[22] in scam losses, prioritising cost over security capabilities in routing decisions presents systemic risks, and is at odds with the RBA's safety objective.

* Mastercard does not necessarily agree that there is a distinct debit card market. Rather, Mastercard considers debit card transactions form part of a larger electronic payments ecosystem, which also includes credit cards, BNPL, BPAY and NPP.

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 PSB is required under the *Reserve Bank Act* to fulfil its responsibility for determining the RBA's payment system policy in a way that is directed to the greatest advantage of the Australian people and to ensure that the RBA's powers under the PSRA are exercised in

[21] Least Cost Routing Research Paper, ASBFEO, CMSPI (2024)
[22] National Anti-Scam Centre Statistics, (2024)

a way that best contributes to the efficiency, competitiveness and safety of the payments system.

Several of the proposed changes, particularly regarding commercial cards and foreign interchange caps, would distort competition in the current asymmetric regulatory environment, leading to inefficient outcomes where more expensive unregulated payment options gain competitive advantage.

Mastercard has significant concerns that the proposed policy package will not achieve its stated objectives of promoting competition in the market for payment services while maintaining financial system stability. The cumulative impact of reduced interchange fees and wholesale scheme fee transparency requirements could constrain innovation, security investment, and competitive dynamics in Australia's payments system.

Contradictory impacts of surcharging and interchange reforms

As outlined in greater detail above, the benefits from the proposal to re-instate the 'no-surcharge' rules for designated schemes on all designated cards would likely be offset by the proposed interchange fees reductions with asymmetric effects for merchants.

Mastercard estimates that large merchants will incur estimated annual revenue losses of $400-600 million as a result of surcharging restrictions. Conversely, small merchants on blended contracts, representing approximately 40% of SMEs, would see minimal cost reduction as acquirers have no contractual obligation to adjust existing rates.

Implementation costs and pass-through evidence

The RBA's cost-benefit analysis underestimates implementation costs, which industry estimates indicate could exceed $500 million. These costs must be recovered through the payment system, ultimately increasing total costs.

The RBA's pass-through assumptions are not supported by empirical evidence. International studies demonstrate that acquirers typically retain 60-70% of interchange savings rather than passing them to merchants. Analysis of the US Durbin Amendment found merchants passed through at most 28% of debit savings to consumers, while banks passed through 42% of interchange losses as higher fees to cardholders[23].

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

Mastercard urges the RBA to undertake further consultation to address underlying empirical assumptions and critical evidence gaps identified throughout this submission to the Review.

[23] Mukharlyamov, Vladimir and Sarin, Natasha, "The Impact of the Durbin Amendment on Banks, Merchants, and Consumers" (2019

Furthermore, the RBA must conduct comprehensive consultation under enhanced PSRA powers to properly assess end-to-end payment system costs across all players in a modern payments market, before any final decisions or discussions regarding merchant payment costs are made let alone implemented.

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?

For all the reasons stated in earlier parts of this submission, Mastercard does not agree that the proposed amendments to the standards achieve the intended appropriate policy objectives.

The approach is premature given the RBA has acknowledged ongoing work on additional requirements arising from PSRA amendments that will expand its regulatory scope. The proposed amendments to the Standards should be deferred until the PSRA reforms are enacted and further consultation is undertaken by the RBA on currently unregulated players throughout 2026. This will ensure disclosure requirements apply consistently across all designated payment schemes under the enhanced PSRA, help to reduce risk of growing market failure, and assist in creating a level competitive playing field commensurate with a modern payments marketplace.

Appendix A: Independent Expert Assessment on Interchange Fee Methodologies