MWE Consulting Pty Ltd
[redacted]

22nd August 2025

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

Dear Mr Connolly

I am pleased to respond and provide my views on several aspects of the proposals contained in the Reserve Bank of Australia's (RBA) 15 July 2025 "Review of Merchant Card Payment Costs and Surcharging".

I have over 35 years experience in card payments, initially with ANZ and over the past 26 years as an independent consultant and author of the monthly MWE Australian Payment Cards Report.

Removal of Surcharging

I was reminded of the RBA 2010 study "Payment Costs in Australia". This included Table 8 that compared merchant costs for credit cards, eftpos, cash and cheques as $ per average transaction value for each payment method. Cheques were the most expensive with cash being the cheapest. I think a number of conclusions can be gleaned from that table:

- The first is that there is a tangible cost to merchants in accepting cash payments.
- Secondly, that total average scheme debit and credit card merchant service fees (Visa and MasterCard) are now at around 45% of the 2007 levels used in the report, having decreased from 1.45% to now be around 0.66%.
- Thirdly that tender time was shown as then contributing to around a third of the cost to merchants of accepting a credit card. This was however, before the introduction of the contactless (Tap & Go) innovation that saw widespread adoption after acceptance by the two major supermarkets in 2012.

As far as I know, there have been no examples of merchants applying a surcharge for cash, despite this payment method involving real costs in holding a float; end of day reconciliation; value delayed until deposited with a bank; security issues and risks of loss. Twenty two years ago, there may well have been a rationale for the RBA to remove the no-surcharge rules on credit cards, but given that no other payment methods have been surcharged and that card acceptance costs have been substantially reduced, I completely support the preliminary view of the RBA that the ability to surcharge credit, debit, prepaid and eftpos transactions be removed. Cognisant of the fact that there is a cost of accepting cash payments, but that this has not been considered to warrant surcharging, I suggest that the review of interchange consider the current levels of surcharging minus the cost of cash acceptance. The cost of processing payments to merchants should be treated by merchants as simply another cost of being in business and incorporated into their price setting mechanisms.

Lowering Wholesale Card Payment Costs
I was similarly reminded of the Prices Surveillance Authority's (PSA) investigation of the credit card market in Australia, resulting in their "Inquiry into Credit Card Interest Rates" report of October 1992.

Restrictive pricing regulations had limited the extent to which credit card issuers in Australia could differentiate their products by developing and marketing credit card products targeting specific consumer segments. An example of the negative result of the inflexible nature of credit card pricing was the subsidisation by card revolvers (those usually paying interest) of card transactors (those who rarely or never) paid interest. The PSA agreed with the arguments put forward by the major card issuers and agreed that issuers should have the ability to use fees and interest rates as features of credit card products, individually targeting revolvers and transactors as well as other common interest groups. The immediate benefit to cardholders was that revolvers enjoyed a reduction in the interest rate on cards designed specifically for them.

I think the RBA Review of Merchant Card Payment Costs should not only consider the costs to merchants, but also the results to cardholders of any changes in the regulations applying to credit cards. I would not like to see a return to the experiences prior to the PSA review in 1992 when it was very much a "one-size-fits-all" scenario.

The proposed "hard cap" mandate of 30 basis points for credit card interchange is likely to see the removal of differential interchange rates by the four party card schemes. The resultant introduction of a common interchange rate across all credit cards will have a considerable impact on the ability of issuers to continue to offer differentiated products aimed at various target groups. One example is the commercial card market. My view is that there are indeed enough differences with this segment that a higher interchange rate is warranted. For example, the revolve rate (share of total balances paying interest) on a personal card is 54% whilst the revolve rate for commercial cards is less than half at 22%. The average net interest margin is therefore greatly lower for commercial cards.

The other segment clearly set to be impacted by a marked reduction in interchange fees to the issuer is the premium card market where reward programs are typically attached. In 2002, reward costs were not considered an eligible cost input to interchange. A reduction of 62.5% in the possible interchange rate for these cards would require that issuers determine if they devalue value-add features such as rewards or international travel insurance, and/or increase the annual fee and interest rate. I note the RBA currently shows the average interest rate on personal credit cards at 18.74%. The RBA cites the UK scenario where the interchange rate is now at 30 basis points. I note that the average interest rate there is currently stated as being 26.96% and higher on cards offering rewards. The difference between the Australian and UK average credit card interest rate cannot be explained by differences in the cash rate as these are now at quite similar levels of 3.6% in Australia and 4.0% in the UK. I therefore suggest that any move by the RBA to reduce interchange needs to take into account the likely results for fees and charges to cardholders as well as benefits to merchants.

In considering merchants, I understand the RBA's concern with the differential in card fees between large and small merchants. However, I wonder if the RBA has also considered the ongoing ability of acquirers to continue to offer strategic merchant rates to the very large merchants should the interchange rate be reduced to 30 basis points. In addition, strategic merchants are believed to account for a large (~70%) share of retail and so a reduction in interchange is unlikely to have a broad overall on overall pricing. Retail prices will also only be reduced by the extent to which acquirers pass on any interchange reductions as opposed to margin improvements.

Payment cards deliver considerable benefits to merchants. They facilitate impulse spend, thereby enabling sales to be brought forward; they deliver speed at the point of sale; they enhance security and reduce "leakage" by minimising cash transactions; they provide same day value; they deliver higher average transaction values as purchases are not constrained by on hand funds.

I think the proposed interchange on debit is acceptable and realistic as it is essentially in line with what is now occurring. Given that international credit transactions account for 5.6% of total credit value with debit at 1.5%, and with an overall figure of 3.2% of acquired value being from international cardholders, they do currently represent a disproportionately high share of interchange fee revenue. I note that card not present fraud on international cards accounted for 87% of fraud on international cards in Australia in 2024 and suggest that interchange rates for card not present should be set higher than the proposed 1.15% for debit and 1.5% for credit.

In summary, a review by the RBA should recognise that both merchants and cardholders have benefited from the ongoing replacement of traditional payment methods such as cash, accounts and cheques over the last thirty years. Both groups require some degree of certainty going forward and I think that the introduction of a 30 basis points cap on credit would have a negative impact on cardholders and probably on all but very small merchants.

The C9 table issued by the RBA shows merchant service fees for the twelve months to June 2021 through to the twelve months to June 2024. These fees have decreased in each successive twelve month period from $2,886 million over the twelve months to June 2021 to $2,306 million in the twelve months to June 2024. This is a 20.1% reduction. The RBA payment tables also show that the total value of acquired credit, charge and debit transactions increased from $670,233 million in the twelve months to June 2021 to $891,319 million in the twelve months to June 2024. This is an increase of 33%. Overall, merchants have enjoyed a very considerable total and per transaction decrease in their costs of accepting cards.

I note that the Commerce Commission in New Zealand has announced new caps with a significantly higher cap for card-not-present and no caps on commercial cards. My view is that this is a preferable approach and suggest that the RBA follows suit or (preferably) maintains a weighted average benchmark of something above 30 basis points. A reduction of such a considerable component of the current revenue stream to card issuers would undoubtedly lead to a diminution of card features, with this having widespread ramifications for all those merchants and service providers now involved in rewards schemes. A likely concurrent increase in annual fees and interest rates may well also lead to a reduction in credit card use with such a move having negative implications for merchants.

I am not in a position to comment on the eligible costs shown in Table 2 of the RBA Review and with that qualification, my view is that flexibility needs to be maintained via a weighted average benchmark and suggest this be reduced from 50 basis points to 40 basis points with a cap reduced from 80 basis points to 60 basis points but with commercial cards maintained at 80 basis points. Or reduce to 30 basis points for card present and 70 basis points for card-not-present and 80 basis points for commercial cards. I understand that no caps have been placed on commercial cards in New Zealand or in the UK.

Disclosure

There is already quite a deal of interchange data published on their websites by the card networks. I am unsure just how effective would be a more detailed breakdown of these rates on an aggregated quarterly basis to the great majority of merchants. I also question whether a requirement to publish transaction volumes and values could be considered to compromise confidential proprietary knowledge?

Scheme fees are too complex and opaque and I do support a more transparent and simplified approach as outlined in Section 4.1 Option 3

The nature of merchant service fee pricing and reporting to merchants should enable them to identify pricing by credit and debit, by domestic and by international, by card present and not present, if requested by the merchant. It does however, need to be recognised that many merchants are much more satisfied with as simple a pricing structure as possible.

I think that a requirement for the card networks to publish their average pricing, values and volumes is demanding a level of disclosure that is not (as far as I am aware) stipulated in other industries. I question what evidence exists that merchants now find it difficult to evaluate price quotations from differing acquirers? The movement in market shares of the merchant acquiring market over the last 10 years indicates a level of competitive tension that has already been placing a downwards pressure on merchant pricing. There is so much variance between merchants; dollar turnover, industry category, average transaction value, card present-card not present, domestic versus international traffic, that I doubt whether the publication of average value would be of significant value. Again, my view is that the proposed level of disclosure would not be widely utilised by most merchants.

Conclusion

Businesses are more likely to invest in the likes of product initiatives and system security when they operate in a stable environment. This review of interchange is the fourth or fifth such process since the initial changes in 2003 and one could argue this is reasonable over a 23 year period. However, the likelihood of investment in card payment systems will be improved if the industry had greater confidence that the regulatory parameters were more stable.

Relative to my comments on surcharging, I do not believe that this review needs to equate reductions in interchange with the forecast reduction in surcharging. My view is that surcharges should never have been allowed to be more than the cost of card acceptance, minus the cost of cash in card-present situations. My view is that a reduction in interchange should therefore be no more than the reported $1.2 billion, less an imputed cost of accepting cash.

The impact on cardholders needs to be recognised as well as any impact on merchants. Given the share of card transactions with strategic merchants and the potential for acquirers to use an interchange reduction as a means of improving their slim margins, a move to a cap of 30 basis points seems a heavy handed approach with significant adverse outcomes for cardholders and relatively little impact on overall merchant pricing.

Yours sincerely

Michael Ebstein