

Response from Queensland Government to consultation questions:

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.

Retaining surcharging for credit cards while removing it for debit cards would better balance the objectives of efficiency, competition, and fairness in the payments system. Credit cards incur higher costs for merchants, and surcharges ensure these costs are borne by credit card users rather than being cross-subsidised by users of lower-cost payment methods like debit cards. This approach maintains a price signal encouraging consumers to use cost-effective payment methods, such as debit cards, while enabling merchants to recover higher credit card costs.

Removing surcharges on debit cards would simplify payments for consumers and reduce upfront costs, as debit cards are already the most used and cheapest payment method for merchants. Eliminating surcharges entirely, including for credit cards, risks shifting the financial burden of higher-cost payment methods onto merchants, particularly small businesses, which could lead to higher prices for all consumers.

If surcharging is discontinued, it is essential for the Reserve Bank of Australia (RBA) to promote competition by ensuring businesses can easily compare and choose between payment service providers (PSPs). Enhanced transparency and competition would help merchants manage costs, while card payments offer better consumer protection compared to other methods.

To address excessive surcharges, the RBA could strengthen enforcement of cost-of-acceptance limits and improve transparency around merchant fees. Complementary measures, such as lowering interchange fee caps and promoting least-cost routing (LCR), would further reduce credit card costs and incentivise the use of lower-cost payment methods.

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

The proposed changes to interchange regulation are likely to promote the public interest by improving competition and efficiency in the payments system. Lowering interchange fee caps, particularly for domestic and foreign-issued cards, would reduce costs for small merchants, who currently pay higher fees than large merchants, thereby narrowing the disparity between these groups. This would promote fairness and encourage competition by reducing the cross-subsidisation of credit cardholders by debit card users. Additionally, the proposed transparency measures, such as requiring card networks to publish interchange and scheme fees, would empower merchants to make more informed decisions and incentivise PSPs to compete more aggressively on pricing.

However, the effectiveness of these changes depends on ensuring that PSPs and acquirers pass on the savings to merchants as intended. Transparency and oversight will be critical to prevent card networks from offsetting lost interchange revenue with higher scheme fees. To further enhance competition and efficiency, the RBA should consider complementary measures, such as mandatory LCR and stricter caps on interchange fees. These steps would help address entrenched cost inequalities faced by small businesses and ensure that the benefits of reduced interchange fees are fully realised.

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 RBA should consider additional measures to support smaller issuers to enhance competition and efficiency in the payments system. Smaller issuers often face higher costs due to limited economies of scale and significant compliance burdens, which can restrict their ability to compete with larger players. While the proposed interchange fee caps are unlikely to significantly reduce revenue for smaller issuers, transitional support, phased implementation, increased engagement or regulatory incentives (such as reduced compliance costs) could help smaller issuers adapt to the changes and remain competitive.

Additionally, the RBA should monitor the long-term impact of reduced interchange revenue on smaller issuers' ability to innovate and compete, ensuring the payments system remains dynamic and inclusive. Transparency measures around scheme fees and acquirer pricing could also benefit smaller issuers by fostering a more competitive environment.

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?

The proposed changes to the net compensation provisions align with the RBA's objectives by promoting transparency and reducing cross-subsidisation in the payments system. Ensuring that Australian issuers sponsored by overseas entities are subject to the same requirements would create a level playing field and prevent potential regulatory gaps. While operational challenges may arise for foreign-sponsored issuers in meeting reporting and settlement requirements, these can be mitigated through clear implementation guidance and a transition period to facilitate compliance.

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

The proposal for card networks to publish aggregate wholesale fee data partially achieves the RBA's objectives of improving competition and efficiency by increasing transparency. It allows merchants and PSPs to compare average fees across networks, which can enhance competitive pressure and support more informed decision-making. However, the aggregate nature of the data limits its utility, particularly for small businesses, as it does not provide the granularity needed to fully understand and manage costs, such as scheme fees and interchange fees by transaction type.

To better balance market information needs with commercial concerns, the RBA should require more detailed fee breakdowns, such as by transaction type and card type. This additional granularity would empower smaller merchants to negotiate better terms and drive greater competition and efficiency in the payments system.

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 proposal for the RBA to set an expectation that card networks work with industry to reduce the complexity and improve the transparency of their scheme fee schedules is a crucial step toward enhancing competition and efficiency in the payments system. Simplifying and clarifying scheme fee structures would empower merchants, particularly small businesses, to better understand their payment costs and make more informed decisions. This would help small businesses, which often face disproportionately high merchant service fees, to negotiate better deals or switch providers, thereby introducing greater competition and driving down costs.

It could also help larger businesses and merchants, noting even the Queensland Government in its capacity as a merchant finds fee schedule negotiations difficult and time consuming, and often results in little or no change / benefit.

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

The proposed expectation on scheme fees partially aligns with the RBA's objectives of competition and efficiency by encouraging greater transparency and scrutiny of fee increases. However, the lack of enforcement mechanisms limits its effectiveness. Scheme fees have risen over time, disproportionately impacting small merchants, and are not currently subject to regulatory caps. While requiring card networks to justify fee increases and simplify fee schedules is a positive step, voluntary compliance may not sufficiently address these issues. Clear criteria for acceptable justifications, a transparency mechanism for market scrutiny, and stronger regulatory measures, such as mandatory caps and regular audits, are recommended to ensure compliance, accountability, and the promotion of competition and efficiency in the payments system.

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

Yes, the PSB should consider further regulatory measures to promote competition and efficiency in the payments system. Scheme fees have grown disproportionately, creating a significant cost burden for merchants, particularly small businesses. Measures such as capping scheme fees and mandating LCR would directly address these issues by limiting fee growth and enhancing competitive pressures. A cap on scheme fees, informed by a targeted study and industry consultation, would help contain excessive fee increases, particularly in less competitive segments like credit card and international transactions. Mandating LCR would further promote competition by enabling merchants to route transactions through lower-cost networks. Additionally, an inter-jurisdictional analysis of practices in other markets could provide valuable insights into effective regulatory approaches.

However, monitoring the effectiveness of existing measures, such as transparency initiatives and simplification of fee structures, is also important. These steps could provide valuable insights into market dynamics and allow for adjustments before implementing more extensive regulations. If these measures prove insufficient, regulatory interventions like caps or mandates could then be introduced with greater precision. This balanced approach would ensure that regulatory actions are both effective and proportionate, aligning with the PSB's objectives of fostering competition, efficiency, and fairness in the payments system.

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.**

The proposed requirement for acquirers to publish merchants' cost of acceptance is likely to enhance competition and efficiency by enabling merchants to compare costs and seek better plans. The size threshold of \$10 billion in annual card payments is appropriate, as it balances the need for transparency with the potential burden on smaller acquirers. The category breakdowns by merchant size and card type are useful for merchants to make informed comparisons without compromising commercial sensitivity, as the aggregated data would not reveal specific pricing details. Quarterly publication is suitable, providing timely updates while avoiding excessive administrative costs. Implementation should include standardised templates and a data dictionary to ensure consistency, with a phased timeline, such as a start date of 1 July 2026, to allow acquirers sufficient time to prepare and comply. These measures would improve transparency, encourage price competition, and ensure that merchants, particularly smaller ones, benefit from a more competitive payments system.

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?

Including a breakdown of domestic and international card costs on merchant statements promotes competition by providing merchants with actionable information about the fees they pay. This transparency enables merchants to better understand their cost structures, compare pricing, and negotiate with acquirers or switch providers if necessary. Clear guidance should accompany this data to help small businesses interpret and act on it effectively. Existing examples, such as statements showing transaction numbers, turnover, and scheme fee rates, demonstrate the utility of such information for decision-making.

Regarding taxi fares, while transparency is important, there may be a public interest case for exemption if the administrative burden outweighs the benefits. The unique nature of the taxi industry, including its reliance on standardised fare structures and high transaction volumes, could make compliance disproportionately costly relative to the competitive benefits. The RBA should consult with high-frequency sectors, such as taxis, to assess operational burdens before deciding on exemptions to ensure a balanced approach that supports transparency without imposing undue burdens.

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

The RBA's existing industry expectation on LCR could be strengthened to improve competition and efficiency in the debit card market. Current implementations, such as basic or threshold-based LCR, do not always route transactions through the cheapest network, limiting potential savings for merchants. Requiring dynamic LCR, which evaluates each transaction individually to determine the lowest-cost network, would maximise savings and increase competitive pressure on card networks. Additionally, LCR for mobile wallet transactions remains underdeveloped, despite the growing use of mobile payments. The RBA should reinforce its expectation that LCR be enabled for mobile wallets by a specific date to ensure the policy remains relevant as payment preferences evolve.

To further enhance LCR adoption, clearer communication from PSPs about the benefits of LCR and how to enable it is essential, as many merchants remain unaware of its potential savings. Making LCR mandatory for all acquirers, with strict compliance monitoring, would ensure broader implementation and more consistent cost reductions. While significant progress has been made, these additional measures would ensure that LCR fully supports competition and efficiency in the debit card market.

However, some organisations with legacy systems have indicated that implementing LCR can be expensive and challenging, which may deter adoption. The RBA should ensure adequate consideration is given to these types of entities to ensure the costs of implementing LCR does not exceed the benefits.

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's preferred package makes progress toward its objectives of competition, efficiency, and safety in the payments system but falls short in addressing systemic issues that disproportionately affect small businesses. While measures such as reducing interchange caps, improving transparency, and simplifying scheme fees are positive steps, the absence of mandatory LCR and caps on scheme fees risks entrenching existing inequities. Mandatory LCR, including for mobile wallet transactions, would maximise savings for merchants and increase competitive pressure on card networks. Caps on scheme fees would address their rapid growth and reduce costs for small businesses, ensuring a fairer operating environment.

The package should also consider the growing impact of mobile wallets, which often carry higher fees, and include these in any regulatory response to ensure relevance in an evolving payments landscape. Transparency measures, such as requiring acquirers to publish average costs of acceptance, are beneficial but must be accompanied by clear guidance to help small merchants interpret and act on the data.

Additionally, the RBA should monitor the pass-through of savings to merchants and assess whether further regulatory intervention is needed to ensure benefits are equitably distributed. Robust monitoring of pass-through and distributional impacts is essential, and transitional supports should be implemented where appropriate, particularly for small issuers and merchants. The RBA should also maintain contingency options to address any adverse effects that may emerge.

Before finalising its decision, the RBA should gather additional evidence on the effectiveness of transparency measures, the feasibility of mandatory LCR for mobile wallets, and the potential impact of scheme fee caps. These adjustments would enhance the package's ability to deliver higher net public benefits and ensure a more competitive, efficient, and fair payments system.

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

The proposed implementation timeline for the reforms appears reasonable, allowing sufficient time for stakeholders to prepare and comply. A 6 to 9 month period for implementation, as indicated by some stakeholders, aligns with the proposed timeline and provides adequate time for system updates, approvals, and coordination with service providers. However, flexibility should be maintained to address any unforeseen challenges during implementation or any delays in the RBA publishing its implementation guidance. A phased approach could be beneficial, prioritising measures like LCR adoption to maximise immediate benefits while easing the administrative burden on stakeholders.

For measures such as surcharging removal and additional reporting requirements, a phased timeline would allow stakeholders to adapt incrementally, minimising operational disruptions. The RBA should also monitor the progress of implementation to ensure that reforms are effective and that the intended benefits, particularly for small merchants, are realised.

Q14: Do the draft standards in Appendix D achieve the intended policy objectives?

The draft standards in Appendix D make progress toward achieving the intended policy objectives of competition, efficiency, and safety in the payments system but fall short in key areas. While the standards address transparency through measures such as reporting merchants' cost of acceptance and publishing interchange and scheme fees, they lack enforceable provisions for critical issues like mandatory LCR and scheme fee regulation. Without mandatory LCR adoption, including for mobile wallets, and caps on scheme fees, the systemic issues driving high merchant costs, particularly for small businesses, remain inadequately addressed.

The omission of a no-surcharge option for merchants and the limited scope of the proposed expectations on scheme fees further dilute the effectiveness of the draft standards. These gaps risk entrenching existing inequities in the payments system and limiting the competitive pressure on card networks. To better align with the policy objectives, the standards should include mandatory LCR, enforceable caps on scheme fees, and clear guidance for merchants on interpreting and acting on cost data. Additionally, the growing impact of mobile wallets and their higher associated costs should be explicitly addressed to ensure the reforms remain relevant in an evolving payments landscape.

Prior to finalisation, the RBA should confirm precise data definitions, anti-avoidance provisions to prevent fee reallocation into scheme or service lines, transitional arrangements, and compliance and enforcement expectations. These measures would reduce ambiguity and support smooth implementation. By addressing these gaps and providing additional clarity, the draft standards would better align with the objectives of fostering competition, efficiency, and safety in the payments system while ensuring higher net public benefits.