



Small Business
Development Corporation

Our ref: D25/9427

Head of Payment Policy Department
Reserve Bank of Australia
GPO Box 3947
SYDNEY NSW 2001

Dear Consultation Team

REVIEW OF MERCHANT CARD PAYMENT COSTS AND SURCHARGING

The Small Business Development Corporation (**SBDC**) welcomes the opportunity to contribute to the Reserve Bank of Australia's (**RBA**) consultation on merchant card payment costs and surcharging.

The SBDC is an independent statutory authority of the Government of Western Australia, established to support and facilitate the growth and development of small businesses in the State.¹

Under the leadership of the Western Australian Small Business Commissioner, the SBDC provides a range of services to assist and empower small business operators in this State at various stages across the business lifecycle. Through our business advisory and dispute resolution services, the SBDC hears directly from small business operators – including when they are experiencing challenges or unfair business practices by a point-of-sale provider or a payment service provider.

In the current economic climate, the SBDC is increasingly concerned about the disproportionate costs and regulatory burdens placed on small business operators, particularly as they navigate other significant challenges such as rising operating expenses and persistent labour shortages. For this reason, the SBDC urges the RBA to ensure that the needs of small businesses are thoroughly considered, particularly as the current payment system disproportionately impacts these smaller merchants.

To elaborate further, the SBDC considers it important to acknowledge that, unlike large corporates that benefit from high transaction volumes and lower interchange rates, small businesses often face fees that are up to three times higher. With limited capacity to absorb these costs, many are compelled to pass them on to customers – most commonly through surcharging, which has become a necessary mechanism for cost recovery.

¹ The views presented here are those of the SBDC and not necessarily those of the Western Australian Government.

By way of example, a small café in Perth has told the SBDC that without adding a surcharge to customers for card purchases, the business would have been forced to absorb approximately \$20,000 annually. These critical funds are used to offset rising wages, superannuation obligations and operating expenses. Without this buffer, the small business owner fears the business's long-term viability may be compromised.

Compounding the issue for small business operators is the reliance on third-party payment platforms that bundle features and upgrades small businesses may not need yet must pay for. Concerningly, the SBDC has received five small business complaints within an 18-month period about a particular point-of-sale provider. These complaints related to:

- fees for upgrades not agreed to
- fees being charged without authorisation and without any additional service being delivered
- services not delivered
- complaints being ignored and not rectified
- refunds/reimbursements not being processed.

While this may be considered out of scope for the RBA, the underhanded tactics and unfair trading practices used by some point-of-sale providers needs to be recognised, so too the current challenges small businesses face when attempting to find a better, fairer deal. Fee structures in particular can often be opaque, making it difficult for businesses to identify, compare and understand the specific charges they face or consider alternative products.

Switching providers is rarely a viable solution, as it risks operational disruption – something providers are acutely aware of and may leverage to retain clients. Meanwhile, the decline in cash usage, coupled with the decline in bank branches and automatic teller machines, leaves small businesses with little choice but to adopt digital payment systems, despite the financial pressures they may impose.

The SBDC strongly supports increased transparency for small business merchants, as well as a balanced approach to surcharges – one that does not leave small businesses bearing all the costs of payment service providers. A further consideration going forward will be how best to support small businesses with education and support around the implementation of any changes, to assist them with exploring how they may need to evolve their business models to adapt to and make best use of the reforms.

To that end, the SBDC wishes to formally support the recommendations outlined in the Australian Small Business and Family Enterprise Ombudsman's submission. Specifically, the SBDC supports:

Surcharging

Recommendation 1: The RBA should adopt Option 2 in the consultation paper and only remove the ability of merchants to surcharge *debit* card transactions. The Commonwealth Government should consider amending the *Competition and Consumer Act* 2010 or other relevant legislation to prohibit blended payment plans.

Recommendation 2: Delay implementation of any proposed surcharge ban for 12 months to allow time for small businesses to take advantage of greater transparency and competition in the payment service providers market and secure a better payment plan arrangement.

Interchange fees

Recommendation 3: The RBA should monitor fee arrangements, including scheme fees and acquirer margins, to ensure merchants and consumers are receiving the benefit of the interchange caps.

Transparency of wholesale fees and scheme fees

Recommendation 4: If the RBA's regulatory expectation is not effective in reducing scheme fees, the RBA should adopt Option 3 and set a cap on scheme fees

Least-cost routing of debit card transactions

Recommendation 5: The RBA should adopt Option 2 and introduce a formal requirement for dynamic least-cost routing for all in-person transactions with the ability for merchants to opt out if they wish.

Thank you for the opportunity to comment on the review. If you require any further information, please contact Lauren Westcott, Assistant Director Policy and Advocacy, on (08) 6552 3307 or lauren.westcott@smallbusiness.wa.gov.au.

Yours sincerely



Saj Abdoolakhan
Small Business Commissioner

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