Tech Council
of Australia

Merchant Card Payment Costs and Surcharging

Tech Council of Australia Submission

August 2025

1. Introduction

The Tech Council of Australia (**TCA**) welcomes the opportunity to make a submission on the Reserve Bank of Australia's (**RBA's**) Review of Retail Payments Regulation on Merchant Card Payment Costs and Surcharging Consultation Paper (the **Consultation Paper**).

The TCA is Australia's peak industry body for the tech sector. The tech sector is a key pillar of the Australian economy as the country's third largest industry behind mining and banking, and our seventh largest employing sector. The TCA represents a diverse cross-section of Australia's tech sector, including fintech startups and scale-ups, and global tech companies.

Australia is host to a rich fintech ecosystem that has driven innovation in payment technology. It punches above its weight in this space, with homegrown businesses that have expanded globally such as Airwallex and Afterpay. Australia has also attracted globally innovative fintech companies such as Stripe and Block, helping to drive improved competition and consumer outcomes.

Fintech is a key sector where Australia has a comparative advantage. However, while Australia registered $1.1 billion in fintech investments across 43 deals in the second half of 2024, investment remains cautious in the start-up and scale-up end of the market.[1] As the RBA considers reforms to card payment regulation as part of this review, it is critical that any changes are designed with a view to encouraging innovation and competition. Fintech businesses bring in disruptive technologies and services not offered by big banks which can ultimately deliver better outcomes for consumers.

The TCA makes **six recommendations** in response to the Consultation Paper:

1. The RBA should introduce a clearly scoped volume-based exemption from interchange fee regulation for small issuers to promote greater competition in the highly concentrated issuing market. This could be subject to transparency requirements and ongoing monitoring to mitigate against inefficient outcomes.
2. The RBA should undertake a holistic review of the payments landscape following the passage of legislation updating the *Payment Systems (Regulation) Act 1998* (Cth).
3. The RBA should introduce standardised disclosure requirements in scheme fee schedules.
4. The RBA should set a cap on scheme fees, informed by a targeted study and appropriate industry consultation.
5. Large acquirers should be required to publish clear, comparable pricing—broken down by blended rates, interchange plus pricing, and strategic merchant rates—to ensure merchants can validate costs and make informed decisions.

[1] KPMG Pulse of Fintech H2'24: Australia Insights Summary.

6. Changes to surcharging and interchange fee regulation should be implemented by 1 July 2027. Any regulation of scheme fees should take effect at the same time as these other changes.

2. Surcharging

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.*

We reiterate the concern set out in our previous submission on the Issues Paper that banning surcharging will reduce competition in the payments landscape by limiting the ability of some fintechs to recover the costs of delivering cutting-edge, efficient payment solutions. For certain smaller or early-stage players, surcharging plays a crucial role in sustaining more targeted business models and funding continued innovation.

However, we acknowledge that surcharging is not the only lever for innovation for all merchants. Some platforms already operate with no-surchage models and continue to invest heavily in payment optimisation. In these contexts, innovation is more often driven by a focus on customer experience, reliability, and efficiency rather than by surcharging revenue.

The TCA recognises the RBA's desire to align the regulatory framework with contemporary payment practices to deliver the best outcomes for consumers. As the RBA proposes to remove the prohibition on 'no-surcharging' rules which has been in place in some form since 2003, it is critical that changes to the regulatory framework are delivered with sufficient clarity, certainty and with consideration of the practicality of compliance across the ecosystem.

A. Surcharging regulation should be consistent across card payment methods

We support the proposed approach of regulating surcharging consistently across card payment methods.

A partial ban on surcharging would introduce significant regulatory complexity and compliance burdens as PSPs will need to implement different pricing and compliance structures for debit and credit cards, which may require the replacement of terminals which currently cannot differentiate between card types.

B. Regulatory clarity is needed to realise policy intent

The proposal to remove the 'no-surcharging' ban represents a significant shift in how merchants, PSPs, and consumers interact with the payments ecosystem. It is important that the RBA sends a clear signal about the proposed changes and its compliance expectations.

The TCA supports the proposal to lift the prohibition on 'no-surchage' rules by amending the RBA's standards. However, as the responsibility for preventing surcharging would fall on the contractual relationship set by card networks with merchants and acquirers, this raises questions about whether changes will be realised consistently across the whole industry, particularly for small merchants who may lack the resources or legal clarity to navigate complex contractual terms. This may result in uneven compliance where surcharging practices persist despite policy intent.

If it appears that surcharging is continuing after the prohibition, we would encourage that the RBA recommend to the Government that a surcharging ban for debit (and prepaid) and credit cards of the designated systems be legislated, as contemplated in the Consultation Paper.

3. Interchange fees

Q2: *Do the proposed changes to interchange regulation promote the public interest by improving competition and efficiency in the payments system?*
Q3: *Are there further considerations for smaller issuers that the RBA should take into account to enhance competition and efficiency in the payments system?*

A. Lowering interchange fees will reduce competition in a concentrated issuing market

As outlined in our previous submission on the Issues Paper, an unintended consequence of the proposed interchange fee changes is that it reduces the viability of small card issuers to compete and limits opportunities for innovation and payment startups to enter the market. This is particularly concerning as card issuing in Australia remains a highly concentrated market with limited new entrants. Longer term, the proposed changes could result in a lack of competitive tension placing upward pressure on costs.

The dominance of established issuing institutions in Australia is due in part to the high costs associated with bringing a new issuer to market. Establishing the necessary infrastructure—such as secure processing systems, fraud prevention mechanisms, and card management—demands substantial capital investment. New issuers are also likely to face higher scheme fees as they typically lack the transaction volume, customer base or established reputation that market incumbents use to negotiate strategic rates with card networks. Further, as digital wallets gain widespread popularity, small issuers must adopt their services and pay per-transaction costs to remain competitive.

These high establishment costs mean that early-stage issuers often struggle to demonstrate profitability or scalability, making it difficult to attract early investment. Until new issuers reach a critical mass of users and transactions, their unit economics remain unfavorable.

Interchange fees represent a crucial revenue stream for smaller issuers. While large financial institutions have some capacity to absorb a reduction in interchange fee revenue through alternative revenue streams, small issuers and new market entrants lack the scale and diversified sources of revenue to effectively distribute losses and will be disproportionately affected by a reduction in interchange fees.

While the proposed changes may directly reduce costs for merchants and consumers, it will have the unintended consequence of making it uneconomical for innovating new fintechs to issue cards. Small-to-medium enterprises (**SMEs**), which make up over 99% of businesses in Australia,[2] will lose out especially. These businesses benefit from the unique offerings of small issuers.

B. The RBA should introduce differential interchange for small issuers

Differential interchange for smaller issuers would better enable smaller providers to compete while still delivering on the objective of the reforms.

In practice, the RBA could introduce a clearly scoped small issuer exemption based on a volume-based threshold similar to the existing dual-network debit card requirements. The exemption could be accompanied by transparency requirements to give merchants simplicity and predictability, and to mitigate against inefficient outcomes. It could also be monitored to avoid any unintended downstream impacts.

While a volume-based exemption may help enable smaller providers to enter the market, the exemption should be carefully scoped. Exemptions should be designed to avoid creating loopholes that can be exploited by larger institutions through structural separation or volume gaming, which would undermine the objective of a fair and efficient system.

Recommendation 1: The RBA should introduce a clearly scoped volume-based exemption from interchange fee regulation for small issuers to promote greater competition in the highly concentrated issuing market. This could be subject to transparency requirements and ongoing monitoring to mitigate against inefficient outcomes.

The global payments landscape has shown that innovation can flourish in regulated environments when accompanied by clear regulatory settings and access to infrastructure (e.g., open banking).

[2] June 2024 data from the Australian Bureau of Statistics show that SMEs make up 99.8% of total businesses in Australia, with small businesses (1-20 employees) representing 97.2% and medium businesses (21-199 employees) representing 2.6% of total businesses.

For example, small issuers (<$10bn) in the US are exempt from the caps on debit card interchange fees that apply to larger banks. Greater interchange revenue has fostered innovation in payments technology and supercharged US fintechs, providing meaningful competition to card networks.

In the United Kingdom, small e-money issuers (outstanding e-money liabilities below €5 million) and small payment institutions (annual transaction volumes below €3 million) can register with the Financial Conduct Authority for lower compliance obligations and capital requirements. Singapore has similar tiered regulation of payment institutions, with those under the thresholds for monthly transactions (below S$3 million for any activity type and below S$6 million for two or more activity types) and daily e-money liability (below S$5 million) subject to lower capital and compliance requirements.

C. A reduction in interchange fees could create a competitive advantage for unregulated three-party (and closed loop) schemes

The TCA is concerned that the proposed reduction in interchange fees in isolation could potentially create a competitive advantage of three-party schemes which are not subject to interchange fee regulation. In turn, this may disadvantage some fintechs and small issuers that use four-party schemes.

It should be acknowledged that the regulatory perimeter for payments is being expanded to cover three-party (and closed loop) schemes as part of the proposed amendments to the *Payment Systems (Regulation) Act 1998* (Cth). After these and other amendments come into effect, the RBA should assess whether the regulatory framework for the payments landscape is achieving policy objectives.

Recommendation 2: The RBA should undertake a holistic review of the payments landscape following the passage of legislation updating the *Payment Systems (Regulation) Act 1998* (Cth).

D. Foreign-issued cards should be subject to interchange fee regulation

We agree with the RBA's view that there appears to be little justification for the high level of interchange fees on foreign-issued cards compared to domestic cards.

Foreign-issued cards may face higher fraud rates for transactions acquired in Australia. However, higher fraud risk does not justify leaving interchange fees wholly uncapped, especially where this has led to inefficient outcomes with weighted average foreign interchange fees three and a half times higher than the domestic credit interchange benchmark.[3] Merchants, who will ultimately shoulder the burden of high interchange fees if surcharging is removed, bear substantial cost and risk for

[3] As noted at p 39 of the Consultation Paper.

fraudulent transactions as they are required to refund amounts paid back to customers and may lose the product or service being provided. This is a particularly significant consideration for smaller merchants.

The TCA supports the proposal to introduce an interchange fee cap on foreign-issued cards. Doing so would also bring Australia in line with other key jurisdictions where interchange fees for foreign-issued cards are regulated, such as the EU and UK.

4. Wholesale fee transparency

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?*
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?*

We agree with the PSB's view that additional measures are needed to reduce complexity and promote transparency in relation to wholesale fees set by card networks. These measures are critical to drive competition and efficiency in the payments system and are long overdue.

The TCA supports the proposals for card networks to publish more detailed aggregate data on interchange and scheme fees on a quarterly basis. The proposed category breakdowns in the Draft Standards will better enable PSPs and merchants to compare wholesale fees charged by different card networks. This ultimately improves efficiency in the payments ecosystem and supports informed decision making by participants, especially in relation to least-cost routing.

We also support the proposal for card networks to work with industry to reduce the complexity and improve the transparency of scheme fee schedules in the first instance. PSPs and merchants alike have long faced challenges with a lack of accessible scheme fee information–it can often be difficult to predict the level of scheme fees before they are incurred or for those fees to be cross-checked afterwards. A lack of business certainty not only introduces significant barriers to the viability of smaller businesses, it also reduces efficiency for medium-sized players. Increasing scheme fee transparency will have positive flow-on effects for merchants, especially those who have chosen pass-through pricing models by improving predictability of merchant service fees.

We note that the Consultation Paper states that the PSB expects card networks to submit a plan setting out the proposed improvements to transparency by September 2026. Depending on the degree of compliance by card networks with this expectation and the range of transparency measures proposed, introducing a level of standardised disclosure in scheme fee schedules would help ensure that there is an acceptable level of clarity and consistency for participants in the payments ecosystem.

Recommendation 3: The RBA should introduce standardised disclosure requirements in scheme fee schedules.

6. Scheme fees

In the context of the PSB's other proposals in relation to surcharging and interchange fees, the level of scheme fees charged by card networks should also be regulated to drive efficiency in the payments system. With the removal of surcharging, card networks may be incentivised to increase scheme fees as competitive pressures are reduced with consumers no longer receiving price signals to steer them towards lower-cost payment options.

The proposal to set a regulatory expectation that average scheme fees per transaction do not rise without adequate explanation by schemes does not go far enough to counteract this risk. It does not address the current levels of scheme fees which have grown significantly over recent years. It also relies on an ambiguous criteria which creates a low threshold for justifying fee increases.

Importantly, we are also concerned that this proposal places the burden of scrutinising scheme fee increases on market participants given the complexity of scheme fee information. It is questionable whether the market can meaningfully evaluate whether the explanation provided by a network for an increase is 'adequate'. This is particularly so if the RBA does not introduce standardised disclosure requirements in scheme fee schedules (which we say it should – see **Recommendation 3** above).

The TCA urges the RBA to impose caps on the level of scheme fees set by card networks. An industry-led solution is insufficient given the historical trajectory of scheme fee levels set by card networks and the opacity of scheme fee structures, even with the proposed changes to wholesale fee transparency.

Recommendation 4: The RBA should set a cap on scheme fees, informed by a targeted study and appropriate industry consultation.

5. Merchant fee transparency

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 TCA supports measures to increase merchants' understanding of fees. However, we question whether the proposed breakdown of this information by merchant size is an effective way to increase this understanding.

Merchants have diverse needs when it comes to pricing. While some may value simplicity and certainty, many larger or more digitally advanced merchants rely on interchange plus pricing to gain visibility into cost drivers and compare fee structures which requires more time and resources to manage from the merchant's perspective. Further, some merchants have strategic rates negotiated with card networks which further influence their overall cost.

Transparency is critical not only to promote competition, but also to ensure merchants can validate pricing and negotiate effectively. Transparency measures should focus on merchants having access to information regarding readily comparable pricing, supporting both simplicity for smaller merchants and detail for those on unblended pricing models. This is better achieved by separating out publication of blended rates, interchange plus pricing structures, and strategic merchant rates, which would allow merchants to make more meaningful pricing comparisons across acquirers compared to a breakdown by merchant size.

Recommendation 5: Large acquirers should be required to publish clear, comparable pricing—broken down by blended rates, interchange plus pricing, and strategic merchant rates—to ensure merchants can validate costs and make informed decisions.

6. Least cost routing

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?*

We support the proposal to maintain the existing industry expectation on LCR implementation. Existing competitive forces have driven a substantial uptake in the adoption of least cost routing, especially the RBA's publication of the availability and enablement of LCR for merchants across major acquirers. This has already delivered a range of benefits such as increased competition between PSPs.

We agree with the PSB's assessment that acquirers and PSPs will likely incur significant costs to comply with a mandatory LCR requirement for in-person transactions, especially a dynamic LCR requirement, which ultimately may not lead to better cost outcomes for merchants.

7. Implementation

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

We agree that the proposed amendments to surcharging and interchange regulation should come into effect at the same time. If our recommendation to regulate scheme fees is adopted, this should also take effect simultaneously.

Given the profound impact that these proposed changes will have on the payments landscape, it is important that businesses have sufficient time to prepare. For smaller fintechs whose costs and revenue streams are less diversified than major players, the changes will likely represent a major shift and require a re-evaluation of strategy and economics of their businesses. A longer timeframe for implementation would better help these businesses to prepare for the changes.

We note that some larger acquirers and PSPs may already be well positioned to implement the proposed changes. The RBA could consider a shorter staggered transition period from 1 July 2026 for larger, more established players.

Recommendation 6: Changes to surcharging and interchange fee regulation should be implemented by 1 July 2027. Any regulation of scheme fees should take effect at the same time as these other changes.

Yours sincerely,

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