



# **Review of Merchant Card Payment Costs and Surcharging**

Submission to the Reserve Bank of Australia  
September 2025



## Introduction

Westpac supports the Reserve Bank of Australia's (RBA) intention to ensure Australia maintains one of the world's best payments systems, by making it simpler, more transparent and ultimately more cost effective.

Abolishing surcharging will help drive this efficiency and simplification, and will no doubt be welcomed by consumers when buying a morning coffee or paying a bill online. Westpac agrees the 'advertised price' on a product should be the price the consumer pays at the checkout.

However, with every action taken in a highly complex commercial supply chain (in this case, a payments supply chain), comes a reaction that must be carefully managed and solved for. In trying to manage the reactive impact of changes to surcharging for small business, we believe the RBA's proposal on interchange fees will have the perverse impact of a higher cost of living for all Australians.

Westpac believes there are five significant flaws in the RBA's consultation paper and policy proposals, which require further and much deeper consultation:

1. **Scope.** The proposal touches only Australian companies and Australian consumers, leaving international tech giants untouched. It is concerning that a policy proposal favouring companies in Silicon Valley over Australian families is being proposed at a time when the Australian Government is hosting a national conversation about growing Australia's productivity and economy for the benefit of all Australians.
2. **Data.** The RBA has developed a policy and major reforms based on partial data that does not consider the true costs of providing credit cards. In Westpac's case, the cost assumptions only factor in 12% of the bank's direct credit card operating costs. The data is also derived from an issuer cost study that only captured 11 of the 80 card issuers in Australia. Frontier Economics' report on the RBA's proposal for surcharging and interchange fees found there is no economic or policy basis to reduce fees from current levels and that a reasonable estimate of true interchange costs is substantially above the RBA's proposed cap.
3. **Cost of living – credit card changes.** What the RBA is proposing will significantly increase the base cost of credit cards in Australia (a consequence the consultation paper references). Seventeen million Australians hold a credit card today and for many families the credit card is an essential week-to-week family budgeting and income smoothing tool. Many small businesses also rely on credit cards to manage their cash flow. The RBA should have a more open and transparent public conversation about the policy intention to reprice Australian credit cards.
4. **Cost of living – groceries, fuel and hardware prices.** Australia's big retailers generally don't surcharge today. Supermarkets, fuel stations, fast food outlets, hardware chains and department stores process very large payment volumes which allows them to access lower volume-based merchant rates. Under the proposal, these lower merchant rates would be removed, almost certainly prompting large retailers to reprice their goods and services. This would translate into higher prices at the checkout for consumers and ultimately, contribute to inflationary pressures across the economy.
5. **Small business costs – assumptions.** The consultation paper outlines an unrealistic, non-commercial set of assumptions for how payments system operators (particularly international players) will respond to the changes and pass on savings. This assumption ignores empirical evidence from similar changes to interchange rates offshore. The vast majority of small businesses that surcharge today are on blended pricing plans. Evidence from international markets shows that very little, if any, cost savings were passed through blended plans to the small business owners. Frontier Economics found that the merchant service fees paid by business in Australia are today lower than in the EU and UK and there is no clear basis for the RBA's assertion that fees are lower in these jurisdictions compared to Australia.



If anything, evidence suggests businesses in the UK and Europe are paying more. The RBA's proposals will not help small business.

Each of these five areas is discussed in more detail in the following section.

Given our concerns about the flaws in the data and assumptions underpinning the RBA's proposal, Westpac is committed to working with the RBA to provide alternate solutions to ensure we can achieve the RBA's objectives and protect small business from carrying the cost burden of abolishing surcharging.

It would be unfair for any one cohort to carry the full cost of the surcharging reforms, and certainly not Australian families who rely on credit cards every day as their family budget safety net. At the very least, the clearly intended policy proposal (as stated in the consultation paper) to parlay surcharging abolishment into reforms to make credit cards more expensive for consumers, warrants a more open and transparent cost of living conversation with the Australian public. There should be no surprises with such a significant reform.

### **Westpac's recommended approach**

Westpac intends to be constructive in our submission and provide what we believe is a better, alternative approach and one that is fairer for Australian companies, shoppers and families. Our proposed approach is:

1. Support and complete the abolishment of surcharging from Australia's payments system;
2. In parallel, deliver a more targeted and meaningful approach to reducing merchant costs for small businesses; and
3. Embed changes 1 & 2 and allow the passage of the *Treasury Laws Amendment (Payments System Modernisation) Bill 2025*. This will give the RBA more holistic regulatory oversight of the costs and functioning of Australia's full payments system, specifically allowing the RBA to consider any reasonable intervention required to cover all payments system operators, including international players.

This third recommendation will allow the RBA to review and consider Australia's entire payments system, rather than excluding multinational payments giants. We cannot ignore the ever-increasing stream of payments revenue (and foregone tax) going offshore, at the expense of Australian households and families, simply because offshore companies are harder to regulate.

Westpac provides more detail within this submission on both the problems and solutions outlined above. We welcome the opportunity to assist the RBA further.

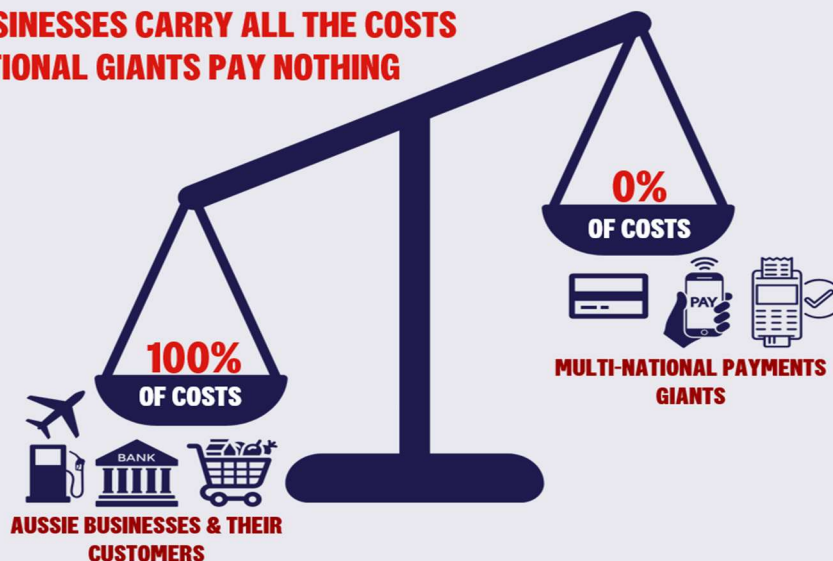


## Five flaws in the proposed reforms

### 1. The scope of the Review ignores the past decade of payments innovation and fails to capture big international payments players at the expense of Australian companies and consumers

- The proposals only cover part of the system and ignore predominantly international tech companies that have moved into the payments value chain.
- Digital wallet payments were introduced in Australia in 2015, and since then, there has been a sharp rise in their use, now accounting for 39% of total card transaction value (and growing). Three party schemes (such as American Express) account for 22% of total credit and charge card transaction value and buy now pay later makes up 2% of retail transaction value.
- The exclusion of American Express cards from current regulation means that unlike Mastercard and Visa, American Express has no interchange cap and a merchant service fee that is 40% higher – resulting in significantly higher system costs and an uneven playing field for competition.
- In seeking to initiate a major reform targeting only Australian payments operators using flawed data assumptions (see point #2), the RBA will permanently distort Australia's payments system, with Australian companies bearing an increasing portion of costs and foreign companies benefiting from an increasing share of system revenues flowing offshore to areas like Silicon Valley.
- The RBA's current proposal hits only Australian companies, Australian shoppers and Australian families. As a nation, our approach to regulatory change, particularly any change proposed by Australia's own central bank, should seek to support, not target, Australian businesses, workers and shoppers.

### AUSTRALIAN BUSINESSES CARRY ALL THE COSTS WHILE INTERNATIONAL GIANTS PAY NOTHING





## 2. The issuer cost data is incomplete. Public policy proposals should be formed on comprehensive datasets.

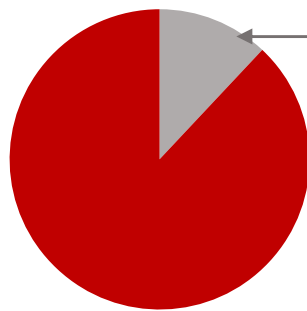
- The proposals are based on analysis of the RBA's issuer cost study and definitions of eligible costs in processing credit card transactions. These definitions do not recognise the true cost for card issuers or the true benefits derived by businesses in receiving card payments.
- Public policy and major reforms to Australia's payments system should not be based on such a limited and incomplete review of the available dataset.
- In Westpac's case, the RBA's definition of eligible costs only factors in 12% of Westpac's costs in providing credit cards and ignores 88% of relevant direct costs.
- Merchants gain significant productivity and cost benefits from receiving credit card payments that are not reflected in this definition of eligible costs.
- For example, the RBA deems account set up and overheads (99bps cost to Westpac), disputes chargebacks and write-offs (23bps cost) and reward incentives (57bps cost) all as ineligible costs. Yet the merchant derives value from these services, such as increased sales and guaranteed payment, while the bank or issuer assumes the risk of customer payment default.
- The cost of funds for providing credit cards and an interest free period are deemed eligible costs but are grossly underestimated. The cost of funds acknowledged by the RBA is 11bps, whereas Westpac estimates the true cost of funds at 27bps.
- Frontier Economics' analysis of eligible interchange costs found that "*the RBA has little basis to conclude that interchange fees are materially above costs and should be reduced*". Their cost assessment suggests "*a more reasonable approach to eligible costs would produce costs of around 0.5% for credit and 0.25% for debit.*" This analysis indicates that the RBA is proposing an interchange cap below the reasonable cost to serve and asserts that fixed payment costs for smaller banks will be higher again.
- While the market should decide the price, the value outlined above should not be ignored when regulating a price cap where there is a real cost to serve and productivity benefit for business. The productivity benefit for business of receiving card payments and carrying less cash, and other operating costs should also be noted in this context.
- The scope of the study also only covers 11 of the 80 card issuers in Australia, and fails to include true mobile wallet costs, factoring in only 1bp compared to industry estimates of 15bps. Mobile wallet transactions are growing rapidly and account for 39% of total card transaction value in Australia.
- The proposals include lower interchange caps for both debit and credit card transactions and draw parallels with the EU and UK. However, debit card transaction costs in Australia today are already significantly lower than the EU and among the world's lowest according to Frontier Economics, and the combined weighted average of all debit and credit transactions in Australia is 23bps which is approximately the same as our estimate of the UK. Debit interchange rates in Australia are already



very low, and at the absolute minimum for the system and fee-free products to remain sustainable. Westpac recommends the current interchange caps for both debit and credit cards are retained.

- The proposal for commercial card interchange caps ignores the different value proposition for business in receiving payments from other businesses and particularly bigger corporates using commercial cards to make quick and seamless payments for goods and services. This provides next day payment for business-to-business transactions and the associated cash flow benefits, together with a greater likelihood of bigger corporates purchasing from small businesses due to ease of processing and the protections that credit cards offer. In turn, commercial cards provide working capital and an interest free period for the card holding business. These benefits currently provide substantial value to all parties, which likely explains why commercial interchange rates remain uncapped globally in all but a tiny number of jurisdictions such as Argentina, Chile and Turkey, which are very different economies to Australia. Commercial credit cards are also substantially more expensive to operate due to integration with corporate expense management systems. Westpac recommends the settings for commercial credit cards remain unchanged.

**88% of Westpac's payment data was not examined**



Only 12% of Westpac's available data was considered by the RBA in its policy formulation

88% remains unexamined.



### 3. The RBA's interchange reforms will deliver an 'interest rate surprise' for Australian consumers

- Pulling hard on just one lever in a complex system will always deliver unintended consequences, particularly if the lever pulled only targets Australian credit card holders.
- When card issuer costs are underestimated and revenue is cut sharply, the cost of using a credit card will go up for the 17 million cardholders in Australia. There is clear evidence of this impact in international jurisdictions, and indeed, the RBA's own consultation paper states that increased costs will flow to users of credit cards - "*Issuers could recover these costs from cardholders via higher cardholder fees or higher interest rates, or could mitigate these costs by shortening interest-free periods.*"
- In this reference, the consultation paper accurately reflects what has occurred in the UK. Similar interchange reforms made in 2015 in the UK have resulted in credit card annual percentage rates at an average of 36.32% (finder.com Comparison UK), with rewards credit card advertised representative annual percentage rates as high as 80%<sup>1</sup>. The average interest rate in Australia is 18% today – half the UK equivalent even with a similar cost of funds.
- Australian families and small businesses rely on credit cards as a financial safety net and a source of working capital. However, under the current proposal annual fees and credit card interest rates will increase, while credit card rewards would be devalued, reducing the overall value proposition for consumers.
- Repricing credit cards, and thereby making consumer credit harder to access (due to serviceability), will see a boom in the less regulated payday lending sector. Payday lenders are now the fastest growing users of the Government's Consumer Data Right, which gives these firms real-time access to Australians' bank details. In fact, three large payday lenders have accounted for 45% of Westpac's total CDR consent volume to date in 2025. In September 2025, a family going to a pawnbroking chain for a \$2,000 short-term loan to pay a medical bill or car repair will pay a \$400 establishment fee and an annual interest rate of 48%. The same family using a credit card today benefits from 55 days interest free, and an interest rate of ~14% if using a low-rate card. Pricing Australians out of the lower cost, heavily regulated consumer credit card market represents significant unintended consumer harm policy risk.
- For an Australian using a low-rate credit card today and paying off a balance or substantial purchase, the RBA should explain that this current proposal will mean they may be saving 6 cents on their takeaway coffee surcharge, but their monthly credit card interest bill is likely to get a lot higher. Higher rates and servicing costs will also put more consumers at risk of persistent debt.
- The RBA's proposed reforms for debit interchange rates will also potentially lead to increased transaction fees for consumers as seen in the US post Durbin regulation.
- With less favourable conditions for card issuers, Australia's credit card market will become less attractive to smaller issuers / fintechs, resulting in decreased competition and less competitive pressure on card pricing for consumers.

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<sup>1</sup> <https://www.barclays.co.uk/credit-cards/>



- Changes to surcharging were openly discussed with Australians, but neither the Government, nor the RBA, have openly and transparently told the 17 million Australians who have a card in their wallet that the proposal to reduce interchange is intended to fundamentally change how credit cards work. Credit cards have been used by Australians since 1974, and this policy would result in arguably the biggest change in the market since introduction.
- Frontier Economics' assertions support the likelihood of these consequences of the RBA's proposed reforms - *"The most obvious effect of setting caps too low would be that it would reduce the profitability of issuing activities. This will reduce consumer benefits from card holding – higher fees, reduced interest free periods, fewer rewards etc."*
- If the RBA proposes to fundamentally change Australia's credit market, increase the cost of credit, reduce access to credit for some and reduce rewards, then Australians deserve a standalone and more transparent community consultation about what is planned.

#### **4. The proposed reforms will increase merchant costs for Australia's supermarkets, petrol stations and department stores and in turn hit Australian families**

- The RBA's proposal to reduce interchange rates would result in a lower overall average cost of acceptance, but would also result in the removal of the volume rates paid by Australia's biggest companies with massive transaction volumes, such as supermarkets, fast food, retail outlets and fuel stations.
- These rates are low because they are high volume and cost less for the banks to serve. The RBA's proposal fails to recognise that these companies don't impose any surcharge on purchases today – they cover the small transaction charge within their operating costs.
- The RBA's reforms will directly increase their merchant costs, increasing their operating costs, which in low margin industries can only mean higher prices at the checkout for Australian families.
- The counter argument 'that big business should not have a preferential rate over the smallest Australian businesses' is a valid one (albeit this is a function of efficient markets and economics), but it can be resolved by other more targeted strategies to support small business, rather than the RBA's current 'sledgehammer to crack a nut' solution.

#### **5. The RBA's proposals are unlikely to deliver significant cost savings for small business**

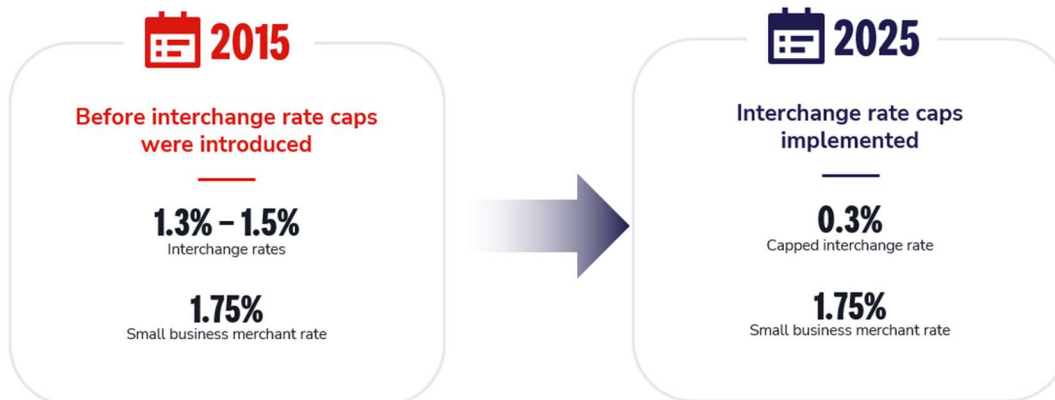
- There is substantial empirical evidence from similar reforms in the UK and Europe that the RBA's proposal is unlikely to work as intended, that is, to deliver any meaningful saving for small business.
- The consultation paper outlines an unrealistic, non-commercial set of assumptions for how payments system operators (particularly international players) will respond to the changes and ignores the actual market responses to similar changes internationally.





- Almost all small businesses that surcharge today are on 'blended' pricing plans and the evidence from international markets where similar reforms were made, is that very little, if any, cost savings were passed through blended plans to small business owners.
- The UK implemented very similar interchange caps in 2015 which cut costs for payment services providers from an average of ~1.3% to 0.3% for credit and ~0.8% to 0.2% for debit, but small businesses on blended rates saw a much smaller – if any – reduction. In fact, one of the dominant market providers actually held its blended rate flat at 1.75% (as shown in the diagram below). In the UK, 95% of businesses use a blended rate plan. Merchant service charges or blended rates paid by UK businesses typically stayed above 1.5%.
- This is a real-world illustration of what we can expect to see in Australia, and how pulling hard on just one lever in a complex supply chain rarely delivers a balanced outcome. The result will distort the Australian payments system and send benefits offshore to big multi-nationals leaving Australian small businesses and consumers holding the bill.

### UK EXAMPLE: LITTLE TO NO CHANGE IN MERCHANT BLENDED RATES DESPITE A MANDATED CAP ON INTERCHANGE FEES





## Westpac's recommended approach

Westpac supports a more complete and balanced review of Australia's payments system that will remove surcharging, protect small businesses and avoid unintended consequences for Australians at the checkout or when accessing consumer credit.

### 1. Abolish surcharging from Australia's payments system

- While Westpac's initial recommendation was to prohibit surcharging on debit cards alone on the principle that consumers should not be charged for using their own money, Westpac acknowledges that a partial ban would create regulatory complexity and therefore we support the Review's proposal for a holistic ban on surcharging.
- Given the RBA's preference for simplicity, we recommend the RBA moves to abolish surcharging as part of a two-step review, prior to making any further reforms before it has jurisdiction over today's full payments system. Immediately providing small business with a new low-cost interchange rate will provide protection in the interim.

### 2. Identify meaningful merchant cost savings for small business

- If surcharging is abolished, no participant in the system should carry an unreasonable or unfair cost burden. Westpac strongly supports the RBA's objective to protect small businesses from carrying the full burden.
- However, the RBA's current proposals for interchange caps would simply shift this cost burden from small businesses to consumers who use credit cards and, based on similar reforms in the UK, may not deliver any substantial cost reductions for small business.
- Instead, Westpac's recommendation is that the RBA mandates card schemes to introduce a Small Business Merchant category within the interchange framework at a rate that meaningfully reduces fees for small businesses.
- We also recommend that the RBA compels acquirers to pass the full benefit of the Small Business Merchant interchange category to all eligible merchants, including those on blended pricing. This should be accompanied by quarterly reporting to the RBA and public disclosure of the data by the RBA, following a transparency model similar to that used for least cost routing, which has proven effective.
- While scheme led small business programs exist, they are voluntary, conditional, and often tied to commercial terms. A regulated category, coupled with a requirement for acquirers to fully pass on the benefit, would ensure transparent, stable, and fair cost relief for small merchants – protecting small business from carrying an unreasonable cost burden.
- Our proposal is to introduce this interchange category for small businesses based on a defined level of card turnover and provide an interchange cap of 30bps. Our modelling indicates this would reduce flat rate or bundled transaction fees for small business from today's average of 1.2% to an average of 0.8%. This solution would provide value for small businesses and embed efficiency and fairness into Australia's payments system.
- A targeted small business proposal delivers the RBA's objective to reduce overall system costs, where we estimate the weighted average would come down from 50bps to ~45bps delivering a meaningful cost reduction for the system but delivered into the hands of the intended target market of small business owners, without the unintended cost of living consequences.



### 3. Consider any reasonable intervention required to cover international players in Australia's full payments system following changes to the PSRA

- With changes to the Payment Systems (Regulation) Act that will see digital wallets, three party schemes and buy now pay later regulated, the RBA will now have jurisdiction over the full payments system. This will allow for a holistic view of the whole payments system and any further regulation required to cover international participants, rather than making incomplete and ineffectively targeted reforms that are out of date before they're implemented.
- Westpac considers that steps 1 and 2 above will achieve the RBA's objectives of removing surcharging while ensuring small business does not carry an unreasonable cost burden. Under our proposed approach, Australian small businesses will be receiving lower merchant costs and better value than any other jurisdiction globally.
- Westpac also notes the specific recommendations in this submission for maintaining the current settings for debit and commercial card interchange rates, to ensure the ongoing sustainability of these categories which provide significant value in Australia's payments system.

## Further assistance

Westpac would welcome the opportunity to provide further information and assist the RBA to prepare for the changes to surcharging and subsequent reforms to Australia's payments system. We also offer assistance in further developing our proposal for a Small Business Merchant category, as a safety net to protect small business from carrying an unfair cost burden.

We encourage the RBA to review the Frontier Economics report and analysis cited in our submission. In particular, we encourage a closer analysis of the actual market outcomes in the United Kingdom following the Bank of England's interchange cap intervention.

Ultimately, Westpac shares the RBA's intent to make Australia's payments system simpler, more transparent and more cost effective. We believe surcharging can be abolished quickly and smoothly and this can be achieved while protecting Australian small business and consumers.

We offer our support and assistance.

