Zenith Payments

Submission to the

RBA Review of Merchant Card Payment Costs and Surcharging

August 2025

About Zenith Payments

At Zenith Payments, we are proudly Australian owned and consider ourselves to be at the forefront of payment technology and innovation. For over 21 years, we have been first to launch many innovative payments products to the Australian market, delivering the right solutions for our partners, clients and end customers. We offer multiple leading payment processing solutions, across various consumer-to-business (C2B) and business-to-business (B2B) industries.

Zenith is an Australian Financial Service Licence (AFSL) holder, is AUSTRAC registered, level 1 PCI DSS compliant, a member of the Australian Financial Complaints Authority (AFCA), and operates in Australia and New Zealand.

Zenith's API-rich platform is complemented by payer and merchant portals and white-label solutions. Our white label solutions allow us to work with any business in any industry.

Our brands include:

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Glossary

AFSL	Australian Financial Service Licence
API	Application Programming Interface
AUSTRAC	Australian Transaction Reports and Analysis Centre
A2A	Account-to-Account
BPAY	Bill Payment
B2B	Business to Business
C2B	Consumer to Business
CNP	Card-Not-Present
COSBOA	Council of Small Business Organisations Australia
CP	Card-Present
CPS	Consumer Payments Survey
EFTPOS	Electronic Funds Transfer at Point of Sale
EFT	Electronic Funds Transfer
LCR	Least Cost Touting
MED	Special Return Mechanism
NFC	Near-Field Communication
NSR	No surcharge Rules
PC	Productivity Commission
PCI DSS	Payment Card Industry Data Security Standard
PIX	Instant Payments Ecosystem (Brazil)
POS	Point of Sale
PSB	Payment System Board
PSD2	Payment System Directive
PSR	Payment System Regulator
PSP	Payment Service Provider
PAYFacs	Payment Facilitators
RBA	Reserve Bank of Australia
SCA	Strong Customer Authentication
SME	Small and Medium-Sized Enterprises
UPI	Unified Payment Interface

Executive Summary

Zenith Payments welcomes the opportunity to respond to the Reserve Bank of Australia's (RBA) *Review of Merchant Card Payment Costs and Surcharging*. We fully acknowledge that consumer frustration with unexpected and poorly disclosed surcharges on low-value, everyday purchases is a legitimate issue demanding a policy response. The decline of cash as a readily available, fee-free alternative has amplified this problem.

While acknowledging the concerns, Zenith strongly opposes the RBA's proposal for an across-the-board removal of surcharging on all card payments. *(Payments System Board's Broad Option Number Three)* as it is a disproportionate and counter-productive policy.

Community concerns regarding the impact of surcharging are largely concentrated on card present, low-value transactions (e.g. a cup of coffee from a cafe) where there is often poor disclosure and /or a lack of a no-fee alternative. This dynamic is materially different from other transactions where fee-free options are readily available, and consumers have the choice to accept a fully transparent fee to utilise card payment options.

Zenith observes that the RBA's proposal to remove all card surcharging risks the following likely adverse outcomes:

- *The removal of card payment options by merchants*: resulting in a **reduction in consumer choice**, especially in industries where margins do not allow for absorption of card fees and where the ability to increase prices to absorb the added cost is not readily available. Specific sectors impacted here include:
    - *The rental property sector*: where the merchant is acting as an agent for a landlord and does not control pricing. Card payment options for tenants (alongside state-mandated no-cost payment methods) are not viable if the merchant would have to fund the cost, which is a significant proportion of their low margins.
- *Consumers will lose access to popular card benefits*: as the reduction in payment options leads to the loss of benefits for which cardholders are prepared to pay (e.g. chargeback rights, fraud protection, "free" travel

insurance, interest free payment periods, loyalty points, and resultant cash flow management opportunities).

- *Closure of small businesses in certain industries*: who do not have the ability to absorb the extra costs. This will result in further economic consolidation towards larger operators - reducing competition across the economy. Specific sectors at risk include:
    - *Travel services*: here the merchant is acting as an agent for a principal and has no control over pricing. These businesses operate on low margins, where absorbing a card fee (including credit and international cards) would likely result in merchants losing money on a large proportion of sales and as a consequence make them more likely to exit the industry.
    - Other essential service industries would also be at risk, including *education* and *childcare*.
- *Over-regulation of sectors that already provide no-cost payments options:* Merchants in at-risk sectors, like rental and travel services, are currently providing card payment options alongside no-cost options. No-cost options (such as EFT, direct debit, and BPAY) are widely available to customers and account for the vast majority of payments in these industries. In these sectors, consumers can currently choose to pay by card for a clearly disclosed fee to gain the benefits cards provide (in contrast to sectors without no-cost options).
- *Big banks stand to gain from a surcharge ban*: as a reduction in card acceptance in specific sectors will lead to a resulting greater volume of EFT bank-to-bank transactions and because PayFacs and alternative payment service providers will be negatively impacted. This will inevitably increase concentration within the payments market and increase the influence of big banks over their business customers as their dominating market power is further amplified. This does not fulfil the PSB's responsibility to promote competition in the payments system.
- *Innovation will be discouraged*: In contrast to big banks, PayFacs typically provide highly efficient back-office integrations. These allow merchants to streamline administration, reconciliation and debt collection. A reduction of competition in the payments market would kill the incentive for PayFacs to

operate and innovate. This does not fulfil the PSB's responsibility to promote efficiency and competition in the payments system.

- *A lack of innovation would be rewarded*: One of the stated arguments in the RBA Review against restricting a surcharge ban to debit cards is that some acquirers (typically big four bank) have older terminals. This outdated technology (allegedly) cannot differentiate between credit and debit card types. Newer technologies are well able to make the distinction between debit and credit cards. Removing surcharging would weaken incentives for acquirers to expedite upgrades to more modern and transparent payment solutions. This does not fulfil the PSB's responsibility to promote efficiency and competition in the payments system.

Removing surcharging from *all* card payment transactions would be a policy overreach, going well beyond the declared problem. As outlined in the RBA documents, only about 10 per cent of merchants surcharge. Furthermore, this percentage is highly concentrated on industries such as hospitality where the key issue resides, which is the lack of a widely available no-cost alternative way to pay.

The RBA's policy response should be proportionate to the primary challenge it seeks to address, namely reducing cost and overcoming the decline of the surcharging framework effectiveness due to a decline in consumers' cash use for typically in-person, low-value purchases.

Under the proposal currently being considered in New Zealand, surcharges will only be banned for in-store transactions. In contrast, the RBA's proposed surcharge ban will impose restrictions and/or costs on the entire merchant community. This includes those where no-cost payment methods are widely available and those with restricted ability to absorb the additional cost through increase pricing.

Businesses would be forced to absorb the higher cost of some payments (e.g. premium, commercial and foreign credit cards where the interchange fee is not capped) into headline prices. That shift would result in consumers who use lower cost transaction methods subsidising consumers using higher cost transaction methods. This dynamic weakens competition, threatens business viability, blunts incentives to adopt lower cost payment options and results in higher overall prices for consumers.

Ultimately, a broad surcharge ban would be counter-productive to Australia's broader productivity and de-regulation agendas. Instead, a proportionate response should include measures which ensure that a guaranteed fee-free option is available to consumers.

If the RBA chooses to include a surcharge ban, then this should apply only to the lowest-cost option, in this case, debit cards *(which reflects the Payment Service Board's Broad Option Number Two).*

In conclusion, Zenith calls upon the RBA to enact a nuanced response, underpinned through the two following recommendations:

Recommendation 1:

Limit any surcharge ban to debit cards.

This will:

- Guarantee consumers access to a no-cost payment option;
- Limit the increase in prices for consumers from businesses that will pass on the costs; and
- Limit the cost exposure to businesses by allowing merchants to recover the legitimately higher costs of credit card payments.

Recommendation 2:

Limit any surcharge ban to card-present (in-store) payments.

This will:

- Directly target the "cup of coffee from a cafe" scenario at the heart of community concerns where cash usage has declined; and
- Ensure the ongoing viability of other card payment options where low-cost alternatives and disclosure are readily available to consumers.

These targeted recommendations are not complex to implement. They are practical, pro-consumer, and pro-competition solutions that protect consumers where they are most vulnerable, protect small business, foster price transparency, and support a dynamic and innovative Australian payments system.

Summary of our Recommendations

"Guarantee no-cost way to pay; protect SMEs and competition"

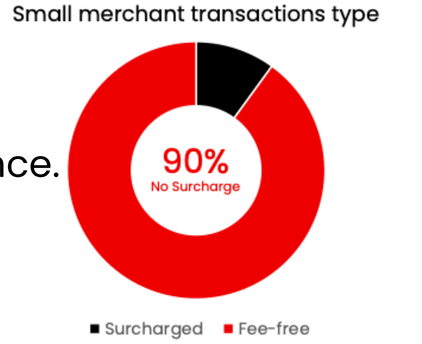
1 Limit any surcharge ban to debit cards

To guarantee no-cost payment options whilst protecting businesses from higher costs, and consumers from higher prices.

Protects consumers: Guarantees a no-cost card option whilst maintaining card acceptance.

Supports SMEs: Limits exposure costs for businesses and consumer price increases. Allows recovery of higher cost card acceptance.

Drives innovation: Through a competitive payments market.



Source: RBA 2023

2 Limit any surcharge ban to card-present payments

To ensure the viability of other card payment options, where low-cost alternatives and disclosure are readily available to consumers

Consumer focus: Safeguards small, everyday purchases where cash is no longer prevalent.

Business viability: Enables ongoing choice of payments.

Safety: Maintains secure and accessible payment rails.

A targeted, proportionate approach protects consumers, supports SMEs, and keeps innovation and competition alive.

1. Surcharging removal proposal: detrimental impact to the Australian economy

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.

The Payments System Board (PSB) sets out three broad options for surcharging:

(i) narrow the definition of permitted surcharges to wholesale card fees only;
(ii) remove surcharging on debit (and prepaid) cards; or
(iii) remove surcharging across the designated debit, prepaid and credit schemes.

The PSB's preferred package is option three: removing surcharging across the designated schemes, paired with material cuts to interchange caps and stronger fee transparency.

The proposal to remove surcharging across the board is a response to specific community concerns associated with low-value purchases where there are limited or no fee-free alternatives (e.g. a cup of coffee at a café). While these are legitimate concerns, this is not representative of the broader payment landscape. The blanket nature of the proposal does not recognise that digital payment solutions are vital for businesses which offer essential services and provide consumers with choice and utility (e.g. services and rewards) in high-value transactions.

The PSB's proposal to remove surcharging is a blunt policy response, which risks significant unforeseen negative consequences, including:

- Commercial unviability which would see pay by card options removed by merchants;
- Small business failure in, and withdrawal from, low margin industries where there is little or no ability to absorb transaction costs (e.g. travel agencies and rental property managers) or to increase pricing;
- Reduced fraud and security protections for transactions across the market with the loss of card features such as 3DS;
- Reduced payment cost transparency for businesses, especially small businesses;
- Increased concentration of the payments market further towards the big banks; and
- Reduced innovation in payments technologies across the economy. Indeed, the proposal would perversely reward that lack of innovation by some (generally big bank) acquirers, who claim that their payment terminals are unable to differentiate between debit and credit cards.

Higher-value, card-not-present (CNP) payments are an essential offering by thousands of businesses across the Australian economy. These businesses are the lifeblood of communities across the country, facilitating transactions that enable the payment of rent, school fees, childcare fees and travel bookings. These businesses typically offer fee-free alternative payment options (for example, bank transfer, BPAY or direct debit) so the aforementioned concerns around no fee-free options do not exist. When customers choose to utilise a CNP payment option they do so with clear and upfront visibility of the cost and value-proposition associated with the option.

Common Transaction Types

Card Present (CP)	Card-Not-Present (CNP)
EFTPOS	Credit / debit card (online entry)
Credit card (swipe, insert, tap)	BPAY
Debit card (swipe, insert, tap)	Bank transfer (EFT)
Contactless / NFC (Apple Pay, Google Pay, Samsung Pay)	Direct debit (bank or card)
Prepaid card	PayPal
	Buy Now, Pay Later

In contrast, purchasing a coffee at a local cafe is a low-value, day-to-day, card-present transaction. Importantly, a fee-free payment option beyond cash (if accepted) is often not available. In such instances, a poorly communicated surcharge applied at the point of sale can understandably creates dissatisfaction in this setting.

However, removing surcharging across-the-board puts at risk vital payment pathways for large CNP transactions, which are offered by businesses and readily chosen by many consumers around Australia. **Bundling the low-value purchase (where a no-cost option is not available) with a larger CNP transaction (where no-cost options are typically readily available) demonstrates the risk of blunt policy responses to targeted specific challenges.**

The following sections outline specific concerns and key risks of this proposal.

1.1 Risks of withdrawal of pay by card options from the market

The loss of benefits valued by many merchants and consumers

If policy changes lead merchants to withdraw 'pay by card' options, or particular card types from the checkout, both customers and merchants will lose benefits they value. These include convenience, speed, security, cash flow management and strong dispute rights. Over-emphasising the problems concentrated in a low-value, card-present context, and developing a 'one size fits all' ban risks shrinking card acceptance, dulling competition and shifting costs into headline prices. Importantly, the ban would impact the viability of pay by card solutions. If merchants are unable to recover the costs of pay by card options, cost pressures on margins would reduce the competitive viability of the merchants themselves. Consequently, a reduction in viability will reduce the number of small merchants and likely force payment solution providers to exit the Australian market.

Card payments deliver clear benefits, including fast checkout, wide acceptance in store and online, fraud protections, cash flow management, travel insurance and chargeback protections. Furthermore, cards provide the ability to serve customers who prefer not to carry cash (an impact of the COVID-19 pandemic).[1]

[1] The decline in the use of cash transactions has been noted in successive RBA Consumer Payments Surveys, and the shift from using cash to electronic payment methods has continued after accelerating during the COVID-19 pandemic.

For merchants, cards support higher consumer spend in remote channels, reduce cash-handling risks and enable tourism and cross-border spend.

If surcharging is prohibited across the board, some merchants (especially in lower-margin or regulated sectors) are likely to restrict access to cards in general and, more specifically, higher-cost card types (for example, premium or foreign-issued cards where interchange fees are not capped). More broadly, merchants and technology providers would likely withdraw card acceptance for all or larger transactions, where cost recovery is most difficult. Merchants in low-margin industries who offer card payments would not know what card type (e.g. debit, consumer, business, international) their customer is going to use and therefore would not know if their margin was going to be eroded by higher cost cards. Customers would face fewer ways to pay, less access to the benefits of card, and more cash-only points of sale.

Specific concerns regarding the impact to Australian small businesses

The risks associated with the PSB's proposal to remove surcharges are disproportionately borne by Australia's vital small business sector. According to the peak body the Council of Small Business Organisations Australia (COSBOA), approximately 2.5 million small and family businesses operate across Australia. Of this approximately 49 per cent of Australian small businesses are not presently breaking even and are under continual financial pressure.[2] In light of this reality, it is vital that Australian small businesses are able to minimise or pass-on costs borne by the choices of their consumers to maximise margin potential and ongoing financial viability.

Small businesses depend on card acceptance to make sales quickly, reduce cash-handling and serve customers who do not carry cash. Furthermore, small businesses need to leverage the services offered by commercial partners (such as payment providers) to offer affiliated incentives and benefits associated with their products or services.

The proposal to broadly remove surcharges on pay by card options is entirely contrary to this reality. Removing surcharging would directly raise costs for small

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https://www.rba.gov.au/publications/bulletin/2023/jun/consumer-payment-behaviour-in-australia.html

[2] COSBOA, 2025-26 Pre-Budget Submission, 28 January 2025, available at https://www.cosboa.org.au/_files/ugd/98ffda_c16ff60e86914178afc8fa7a6ababc14.pdf

businesses by forcing them to absorb higher card-acceptance fees. This dynamic would erode already thin margins (including regulated prices) and weaken cash flow.

COSBOA has cautioned that banning surcharges "doesn't remove the cost - it hides it", and as such the ban would force small businesses to either absorb fees or increase prices. A large proportion of small businesses (including many who are barely breaking even) would be left with no choice other than to increase their prices and lessen their competitive position vis-à-vis larger competitors that may have greater margin flexibility and scale to negotiate lower transaction fees.

COSBOA has also observed that when one fee is pushed down, others often rise, leaving small merchants no better off overall. These concerns go to the heart of small-business viability and were reflected in the United Kingdom, where a 2018 ban on surcharges did not prevent businesses having to wear costs. Without the ability to pass on costs through a surcharge, British businesses had to recover costs through higher headline prices (which resulted in all consumers bearing the costs of merchant card acceptance, regardless of the payment method they choose) or the need to try and renegotiate terms with their payment providers *(see summary in Chapter 2)*. Without a transparent way to align a customer's choice with the cost of acceptance, firms have fewer options to manage margins and keep prices fair for all customers.

Where surcharging is broadly applied, it is generally in instances where there are greater costs to be captured. This is evidenced in the Australian travel industry, where it is estimated that in excess of 95 per cent of accredited travel agents opt to levy a surcharge. Options for consumers to pay by credit cards are important for travel agents, whose high-value transactions are exposed to higher costs despite very low margins. For air ticketing, the up-front margin is generally less than 1 per cent of commission of the fare price (despite fixed pricing from the supplier). In parallel, there is a higher prevalence of foreign card use, as travel agents service a high proportion of foreign residents. These international credit card holders utilise travel agents to visit friends and relatives. The ability to pass these high costs through to the consumer, via a surcharge, is critical to maintain agent viability.[3]

The rental property sector is another with fixed costs and limited ability to absorb additional costs. Here, the merchant is acting as an agent for a landlord and does not have control over pricing. Card payment options for tenants (alongside state-mandated no-cost payment methods) are not viable if the merchant would have to fund the cost. This is a significant proportion of their low margins.

A blanket rule would also slow the shift to lower-fee options. Least-cost routing (LCR) and account-to-account (A2A) payments rely on visible price signals and merchant tools. If every card appears "fee-free" at checkout, the commercial incentive to invest in and promote LCR and A2A and the consumer incentive to select these lower fee payment alternative weakens as they lose this visible price signal. For small merchants, that means slower access to rails that could genuinely lower costs. At the same time, restricting card acceptance can push volume to channels with higher fraud risk (for example, some card-not-present flows) or to manual transfers.

Faced with unrecoverable costs on premium, commercial or foreign cards (or larger transactions more broadly), many small businesses would likely restrict certain card types or withdraw card acceptance for some transactions, losing faster checkout, payment efficiencies, fraud protections, and chargeback protections.

A fact that seems to have been not adequately considered is that **for many businesses, the costs of accepting premium, commercial or foreign cards (even with the proposed cost reduction measures) will mean that the business would lose money on that transaction**.

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[3] Australian Travel Industry Association – estimate of surcharge coverage amongst accredited travel agents across Australia.

Low-value transactions drive consumer concern (and the RBA's proposal)

Consumer complaints about surcharges cluster around smaller, day to day, in person purchases. By contrast, high value and recurring outlays (rent, utilities, school fees, travel costs) are mostly paid via bank transfer or bank direct debit bill payment channels, and are typically fee free. Policy should instead focus on the small subset of card present contexts, where consumers face surcharges and have no readily available fee-free alternatives (e.g. cash).

The PSB highlights behavioural friction and disclosure problems at in-person checkout transactions. It also notes the rise of single-rate plans and automatic surcharging tools offered by some providers and commonly preferred by SMEs. Around 39 per cent of merchants were on single-rate plans in 2024.

In contrast, the CPS shows that Australians are making an increasing share of purchases online and automatically (direct debits). In 2022, nearly one-third of weekly spending by value was made automatically, with online plus automatic payments accounting for about 60 per cent of weekly spending by value. In these channels, fee-free options (e.g. bank transfer/BPAY, direct debit) represent the majority, and where card is an option and surcharged, consumers already face clear, up-front totals at checkout.

Payment methods

Share of payments based on total weekly spending value

Source: RBA 2023

The pain point is clearly small, in-person, tap-and-go purchases where no obvious fee-free payment options are offered except cash. Anecdotally, this retail practice has grown significantly subsequent to the COVID-19 pandemic, with many consumers transitioning their low-value purchases from cash to card options.

Jurisdictions that tightened merchant comparison tools rather than banning surcharges at source have tackled these frictions with lower potential for negative impact. For example, the UK Payment Systems Regulator (PSR) has mandated summary boxes and online quotation tools for acquirers to help small businesses pick lower-cost plans, improving competition and transparency upstream without removing price signals downstream. Australia could adopt similar low-burden remedies.[4] A more balanced approach can help to ensure an outcome that is more in-keeping with the government's broader productivity enhancement and compliance burden reduction agenda.

The RBA estimates that roughly 90 per cent of small merchants (under $1 million in annual card payment value) already build payment costs into prices, however, the 10 per cent that do surcharge would have to absorb costs or reprice (if they can).

Share of merchants surcharging by size

Merchant size	Annual value of card payments	Share that surcharge
Small	< $1,000,000	10%
Medium	$1,000,000 - $10,000,000	23%
Large	> $10,000,000	12%

Source: RBA 2023

This represents a non-trivial impact for hospitality, travel, rentals and other low-margin sectors where surcharges are more prevalent or where acceptance costs are structurally higher (e.g. commercial or foreign cards). For regulated sectors, the ability to vary headline prices is limited. Removing surcharges would squeeze margins or prompt the introduction of less transparent ancillary fees. In addition, surcharging provides negotiating leverage with networks (as the RBA acknowledges). Removing that lever risks reducing downward pressure on wholesale fees, with costs ultimately passed through to <u>all</u> customers.

Removing surcharges penalises innovation, increases risk and rewards laggard technologies

Innovation in lower-fee payment options depends on visible price signals and practical tools that let merchants, payment processors and consumers act on

[4] https://www.psr.org.uk/publications/policy-statements/ps222-card-acquiring-market-remedies-final-decision/

those signals. A2A rails such as the New Payments Platform (including PayID, Osko and PayTo) can offer materially lower acceptance costs and provide stronger security features[5]. LCR for contactless debit, now extending into online settings, lets merchants and payment processors route transactions over the cheaper available debit rail (for example, eftpos rather than an international scheme).

Amid the Federal Government's broader efforts to enhance productivity and business dynamism, the RBA should not risk a disproportionate response that reduces payment choice, reduces competition, reduces efficiency, and further squeezes margins.

Removing surcharging across designated card schemes would weaken the price signal at the point of choice, making higher-cost and lower-cost methods appear the same to consumers and depriving merchants and payment processors of a transparent way to reflect cost differences. Such a change would reduce the commercial incentive to invest in A2A innovation and to expand LCR, slowing adoption where policy aims to accelerate it.

A2A solutions compete most effectively when customers can see, and benefit from, their lower cost. If all card payments must be presented as fee-free at checkout, while A2A already appears fee-free, the incremental benefit of steering to A2A becomes less obvious to the end-user. The merchant still bears substantially different costs but cannot easily align the customer's price with the merchant's cost.

Over time, that disconnect blunts the business case for building and promoting A2A options (e.g. prominent "pay by bank" buttons or PayTo payments). It also weakens incentives for banks, gateways and platforms to invest in smoother user experiences for A2A, because fewer customers will actively choose it. The result is slower product iteration and a longer runway before network effects take hold on these lower-fee rails.

When merchants and payment processors cannot pass through higher costs to users of higher-cost methods, cross-subsidies grow. As a consequence, all customers would face the same price regardless of the cost to accept their

[5] Whilst stronger security features, these features are unlikely to be as strong as the leading features developed by credit card schemes.

chosen method. This blurs the difference between low-fee and high-fee options (which would still be a material difference, even with the proposed cost reduction measures) and reduces the pressure on schemes and acquirers to cut fees or improve efficiency.

Over time, the spread between merchant fees and cardholder benefits can persist or widen, raising barriers for lower-fee entrants. In contrast, calibrated surcharging (with clear disclosure) maintains the onus on method cost and benefits cost-reducing behaviour, both by consumers (selecting debit or A2A) and by providers (competing on price and functionality).

International experience supports the link between clear incentives, merchant steering and A2A growth. India's UPI scaled rapidly once pay-by-bank options were prominently embedded in commerce flows and priced to reflect low acceptance costs. In support, the National Payments Corporation of India publishes monthly volumes that reflect this sustained growth.

The Netherlands' iDEAL achieved a leading share of online payments by making bank-transfer checkout simple and trusted with a clear value proposition for merchants, payment processors and customers. These systems grew alongside visible commercial incentives and merchant tools - not in their absence. Removing those levers makes it harder for innovative A2A methods to cross the adoption threshold in retail and invoice-based commerce.

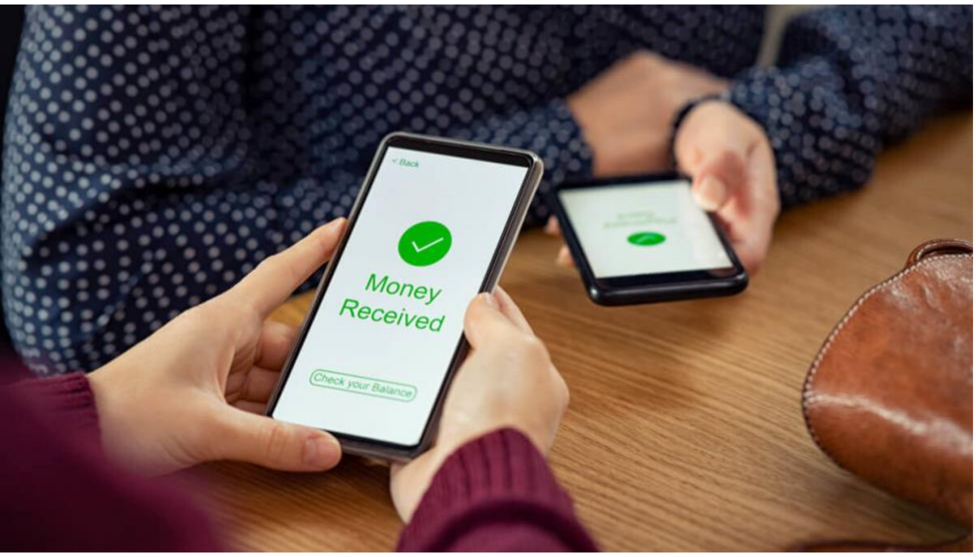
The UK has taken a different path for card surcharges (banning most consumer-card surcharging in 2018). Consequently, regulators have had to introduce separate remedies to improve merchant switching and upstream competition in acquiring. Those measures aim to restore some of the competitive tension that visible downstream price signals had previously provided. Australia can learn from this - removing one of the clearest demand-side signals (surcharging) will inevitably require more intervention elsewhere to keep pressure on fees and to support alternatives.

A proportionate approach is more likely to drive innovation. Higher-value, card-not-present transactions, with clearly disclosed surcharges should continue to be permitted so users of higher-cost methods meet the incremental cost while fee-free options (A2A, BPAY, direct debit) remain available. This will permit merchants and payment processors to retain the ability to direct consumers to lower-cost options (including LCR and A2A).

Fee-free payment offering is already the norm in CNP transactions

In higher value, online, bill payment, or remote payments, cash is not a viable payment option and consumers are used to seeing fees handled transparently. Fee-free options e.g. bank transfer, BPAY, direct debit, are already available and widely used. Removing surcharges here would hide real differences in acceptance cost and weaken competition between payment methods.

The PSB recognises that the original intent of Australia's surcharging framework was to inform consumers about cost differences, encourage switching to cheaper payment networks and systems and put competitive pressure on schemes' wholesale fees. The consultation argues that reduced cash use and the prevalence of single-rate plans have weakened this signal. It therefore favours removing surcharging and delivering savings via lower interchange caps and stronger transparency.



The CPS shows that high value transactions are more likely to be made using non card methods such as bank transfers and BPAY, and that a significant share of overall spend occurs via automatic (non-card) channels.

A surcharge ban would be most counter-productive in the case of these transactions. In online and bill-payment use cases, consumers already have fee-free choices (bank transfer/BPAY/direct debit). Keeping transparent surcharging for more expensive methods preserves a clear signal and keeps pressure on schemes and issuers to compete on fees and benefits to consumers (e.g. rewards).

A surcharge ban would also be an attempt to solve a problem that does not exist in this payment channel, as not only are no-cost payment methods widely available, they are also used for the majority of transactions.

Narrowing the set of payment options adds separate fraud and financial crime risks. If merchants and payment processors cannot price-differentiate and are pushed to rely on a smaller set of payment methods, more volume may shift to channels with higher fraud rates and reduced consumer protections. Conversely, attempts to avoid card costs by encouraging manual account transfers can raise the risk of invoice-redirection and business-email-compromise scams, and complicate the reconciliation process.

Reducing the availability of secure, traceable payment networks and systems (such as well-screened A2A and direct-debit options) also weakens layered controls that help detect and deter money laundering. Pushing some large payments back towards cash can reduce transparency altogether.

More broadly, if consumers can no longer access pay by card solutions, they will also lose access to functions that offer consumer production, such as 'chargebacks'. The recent Bonza airline collapse is a relevant example of this. Bonza customers who paid by card were protected by their right to chargeback, yet those who paid via A2A methods suffered the loss of their unprotected payments.

A resilient framework maintains multiple, well-supervised payment options. This allows transparent, proportionate cost recovery so that merchants and payment processors can steer volume to lower-risk, lower-cost rails without compromising customer protection.

1.2 Contrary to the government's de-regulation agenda

It is important that the policy response to the PSB's broad options is consistent with the Federal Government's broader commitment to enhancing productivity and reducing the unnecessary 'red tape' compliance burden across the Australian economy.

The deregulation and productivity agendas are presently the focus of key initiatives such as the Treasurer's 'Economic Roundtable' and Productivity Commission's (PC) 'Five Pillars' inquiry into productivity. These initiatives are specifically looking at the role of innovation and business dynamism to stimulate economic growth. A disproportionate response to this RBA review would be directly at odds with these objectives.

Limitations of antiquated payment terminals is driving policy thinking

Some older point-of-sale (POS) payment terminals (generally issued by big-bank acquirers) and legacy software cannot easily distinguish debit from credit or only support a single "global" surcharge setting. It is argued that a broad removal of surcharging across card payments is necessary to prevent the obsolescence of this technology and its continued availability.

This policy response would paper over these shortcomings and not offer a sustainable longer-term fix. As a consequence, removing surcharging would remove a price signal and weaken incentives for merchants to upgrade to more current and transparent payment solutions. Such an outcome is fundamentally misaligned to policies designed to incentivise more efficient, tech-enabled businesses and firms in Australia and drive innovation. Indeed, the current proposal would have the perverse effect of rewarding antiquated laggard technology. In parallel, it would penalise the systems and providers driving innovation that enables a more efficient and sustainable economy. It would also reduce competition with older terminals typically provided by the major banks.

A targeted response that improves technology and disclosure at low-value, card-present business outlets is more proportionate and effective than a blanket ban. The RBA's consultation paper provides a justification for the blanket "no-surcharge" rule. It notes difficulties in enforcing cost-based surcharges, referencing that many small merchants are on single-rate plans and disclosure can be poor.

Whilst these are legitimate concerns, they are also symptoms of technology and configuration constraints that are hindering a more-effective payment landscape. Some antiquated terminals cannot vary the surcharge by card type or network, and some merchant plans only support one rate for all cards. Relying on a policy ban to solve a technology problem risks entrenching those constraints, seeing Australian businesses fall further behind.

The consultation itself notes the rise of single-rate plans (around 39 per cent of merchants in 2024), which compresses price differences and makes disclosure harder. Removing surcharges would lock in that compression rather than encourage better tools.

Concrete examples show how device limits drive blunt surcharging. Payment platform provider Verifone Central's guidance lets a merchant set a *Global Surcharge Percentage* "that applies to all the cards" in the profile, useful where terminals cannot (or are not configured to) differentiate debit from credit at the point of sale.

Consumers also encounter terminals where any contactless 'tap' transaction attracts a higher surcharge, while '*insert + PIN*' (selecting EFTPOS "Savings/Cheque") attracts a lower fee. This represents an operational workaround for terminals that default contactless debit to the (often higher-cost) international networks.

A one-size-fits-all ban would have wider drawbacks and would remove a clear way to align a customer's choice with the merchant's cost. This would further push costs into headline prices and undermine incentives to adopt LCR and other low-fee payment rails. It would also reduce merchants' leverage to seek lower fees, because the visible alternative (presenting different prices by method) disappears.

Rather than remove surcharging to accommodate legacy terminals, policy should lift technology capability and require disclosure where problems actually arise.

Removing surcharging across the board is a risky overreach of policy

The core consumer irritation highlighted by the RBA being concentrated at small, in-person and card-present purchases (i.e. a cup of coffee at a cafe) where fee-free digital alternatives beyond cash are limited. This core problem requires a targeted policy response rather than a blunt measure that is extrapolated across very different and essential payment types. As such, attempting a single-rule approach to remove surcharging across the board represents risky policy overreach.

Rather than enhancing consumer choice and transparency for consumers and businesses, a surcharge ban would remove useful price signals, shift costs into headline prices and weaken incentives to adopt lower-fee payment options. Given the targeted problem at hand, the proposed one-size-fits-all policy would deliver narrow gains at broader cost.

The RBA's consultation aims to simplify pricing and reduce "surprises" for consumers at the point of payment. Whilst the intention to reduce costs for certain low-value transactions is legitimate, policies that suppress the surcharging system would remove a transparent method for merchants to align a customer’s choice with the cost of acceptance.

In practice, a surcharge ban would embed higher acceptance costs into base prices or in alternative fees with low-cost transactions effectively subsidising high-cost transactions. This will fundamentally reduce competition between payment methods and weaken the commercial case for investment into LCR and A2A methods. Such an outcome is less efficient than letting merchants recover the incremental cost of higher-cost methods with clear and well-timed disclosure.

A blanket ban on surcharging would also have uneven effects across sectors. Low-margin or regulated businesses that face large, often remote transactions (e.g. travel, rentals, education and health) would find it hard to recover higher costs from premium, commercial or foreign cards. Many would respond by restricting certain card types or withdrawing cards as an option for larger value transactions. This reduces customer choice and pushes volumes to cash or manual bank transfer with more reconciliation work and higher fraud exposure (e.g. invoice-redirection scams, *see Section 1.3*).

The RBA’s policy response should target the card-present, low-value purchase problem it seeks to solve (the cup of coffee scenario) where no-cost options are not readily available and expressly avoid other larger transactions where CNP solutions play a critical role for businesses and consumers alike. Such a proportionate approach meets the RBA’s aims of clarity and competition without the drawbacks of a blanket ban, and maintains pressure on providers to lower fees and improve efficiency.

Recognise that every payment type has a cost

All payment methods have a cost. In fact, the RBA notes that the cost of accepting cards may now be lower than cash for many merchants and payment processors. Nevertheless, prices should reflect the baseline cost of the lowest-cost option (or cash where it is not the lowest cost option). Where consumers choose higher-cost methods (other than cash), merchants and payment processors should be able to recover those extra costs transparently.

The PSB’s preferred package would remove surcharging and offset the loss of direct cost recovery by lowering interchange caps, publishing more wholesale fee data and enhancing merchant-level fee disclosure. The PSB argues this would simplify pricing for consumers and compress the cost gap between small and large merchants.

However, even if surcharges disappear, higher payment costs do not; they move into the sticker price or into alternative, harder-to-compare fees. Economic research on no-surcharge rules (NSRs) shows they tend to push merchants to raise prices in a uniform fashion, shifting costs from users of higher-cost methods onto everyone, including cash or debit users. This dilutes price signals and can increase average prices. It is more efficient and fairer to transparently show consumers the extra cost where it arises.[6] Raising sticker prices and lowering choice is counter-intuitive to broader efforts to boost productivity and lower compliance burdens across the Australian economy.

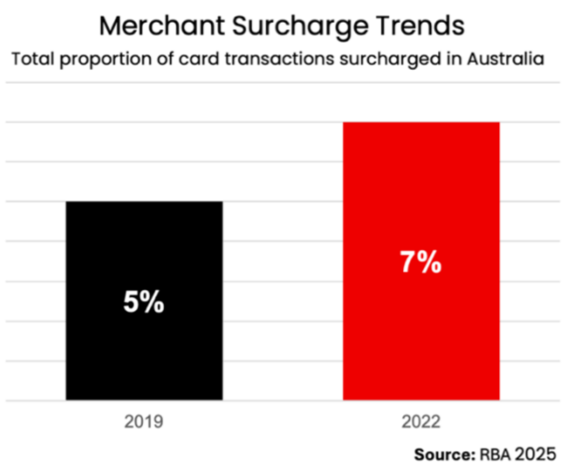
The European Union and United Kingdom surcharge bans pursued transparency but resulted in shifting costs into headline prices. [7]

Maintaining the baseline cost in the sticker price allows recovery of incremental costs from higher-cost payment types, and requires simple, prominent disclosure. This approach addresses consumer concerns in day-to-day spend while keeping accurate price signals for larger, often CNP transactions where fee-free options (e.g. bank transfer, BPAY) already exist.

Little evidence of widespread inadequate disclosure

[6] https://ideas.repec.org/a/bpj/rneart/v5y2006i1n6.html
[7] https://ec.europa.eu/newsroom/fisma/redirection.cfm?item_id=615072

Most card purchases in Australia are not surcharged, with the RBA's own survey evidence showing that only a small share of transactions attract a surcharge and the largest, most-visited merchants generally do not surcharge. Where disclosure falls short, the scale is too limited to warrant a wholesale redesign that would remove clear price signals and create new costs and risks.



The RBA's Issues Paper reports that only 7 per cent of card payments in the 2022 Consumer Payments Survey (CPS) attract a surcharge, up from around 5 per cent in 2019.

In fact, large, everyday-spend merchants (supermarkets, petrol, large fast food and major online retailers) typically do not surcharge. The RBA also notes a lack of comprehensive data and acknowledges that compliance challenges drive some disclosure problems. This existing evidence base supports targeted fixes, not a system-wide ban.

A broad, one-size-fits-all prohibition on surcharging would generate material drawbacks for competition and merchant costs while only marginally addressing the limited consumer detriment observed.

Any reforms should be kept proportionate to the real impact on all stakeholders, with a particular acknowledgment of consumer challenges.

New measures should be focused on transactions and sectors where disclosure problems are occurring, rather than implementing a blunt policy lever with substantial drawbacks, such as removing surcharging altogether. This better-fits the consumer concern that centres on low-value, day-to-day payments where no fee-free alternative is offered.

1.3 Risks of fraud and the 'black economy'

Narrowing the choice of payment options available to consumers and businesses increases risks associated with fraud and malpractice. Payment Facilitators (PayFacs) sit at the forefront of global efforts to address fraud.

PayFacs are often first movers in deploying controls that materially lower fraud and are continually developing and rolling out the latest technologies to identify and address risks associated with fraud and the 'black economy'.

Conversely, pushing large transactions back to less-sophisticated payment methods (including cash) reduces transparency and increases handling and security costs.

Early technology adoption by Payment Facilitators is vital to reducing risk of fraud

Measures that reduce the prevalence of pay by card options across the economy will reduce the level of protection afforded by PayFac industry investments. If withdrawn, transaction volumes are likely to shift to channels with higher fraud risks. Early adoption of advanced fraud-control technology by PayFacs reduces risk across the system by providing merchants and customers with early access to innovative protections.

A blanket removal of surcharging weakens the commercial incentives for PayFacs and merchants to invest in these technologies. As a consequence, transactions will be steered towards other payment options (such as cash and pay-by-bank).

Removing surcharges will increase risk

In Australia, enabling LCR and expanding secure A2A choices are central to lowering both cost and risk for lower-value transactions. The RBA's own material highlights that LCR promotes competition in debit and can reduce acceptance costs for merchants, with larger savings as online and wallet routing matures.

Those savings free capacity for PayFacs and merchants to focus their efforts on adopting stronger controls for higher-value transactions. If surcharging is removed across the board, the visible difference between higher-cost and lower-cost rails disappears at the point of choice. Consequently, this reduces the incentive to invest in and promote lower risk rails and undermines the business case for continued upgrades.

International experience shows how early technology adoption reduces risk. India's *Unified Payments Interface (UPI)* operates with centralised, real-time fraud monitoring for participants and published best-practice controls (e.g. beneficiary-side and payer-side monitoring).[8] Brazil's I*nstant Payments Ecosystem (Pix)* complements instant transfers with a regulated *Special Return Mechanism (MED)* that can freeze and return funds in suspected fraud.[9]

These global examples demonstrate how PayFacs can help merchants to leverage platform-level safeguards. These features work best when providers have clear commercial incentives to build safer options in the checkout flow, precisely the incentives that blanket bans on surcharging tend to mute. In summary, a one-size-fits-all prohibition on surcharging would deliver simplicity to narrow low-value transactions. This limited benefit, however, is to the detriment of many businesses that rely upon sophisticated payment services to mitigate risk and offer greater services to customers (fraud and security controls).

1.4 Limit the surcharge ban to debit cards

A key objective of this RBA review is to ensure that consumers are not forced to pay a surcharge on what is, essentially, a very low-cost service (debit card).

It is important to note that the differential in processing cost for debit vs credit card is high (and even higher for commercial and international cards), even with an interchange cap of 0.3 per cent. Scheme Fees which are not capped under the RBA proposal, are far from transparent, and have been steadily increasing over time. Any further caps on interchange will be offset by increases in non-capped Scheme Fees resulting in the cost to be absorbed by merchants increasing with, potentially, limited or no opportunity to recover. Importantly, commercial and international cards are much more expensive to process leading to a sizable cost differential versus cheaper cards.

The technology to differentiate between debit and credit cards exists, notwithstanding the fact that some terminal providers (generally the big bank acquirers) have old terminals that struggle to differentiate at the point of

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[8] National Payments Corporation of India (NPCI), 'Fraud Risk Management – Best Practices', https://www.npci.org.in/who-we-are/risk-management/fraud-risk-management

[9] Banco Central do Brasil, 'Pix FAQ' (São Paulo: BCB), describing the Special Return Mechanism (MED), https://www.bcb.gov.br/en/financialstability/pixfaqen

payment. However, accepting the limitations of antiquated technology as a justification not to split debit from credit is a flawed argument. This will have the perverse impact of disincentivising innovation.

In card-not-present and bill payment scenarios, the choice to pay by bank account funded payment methods (such as EFT and BPAY) is widely available at no cost. Limiting a surcharge ban to just debit cards will provide an alternative way for payers to pay using their bank account funds. This will also differentiate the legitimate consumer choice to pay by credit card (using someone else's funds) where a surcharge may be applied in order to access this extra choice of funding, in addition to the many other benefits of paying by card (interest free days, chargeback rights, reward points, insurance and more).

Recommendation 1:

Limit any surcharge ban to debit cards.

This will:

- Guarantees consumers access to a no-cost payment option;
- Limit the increase in pricing for businesses that will pass on the costs; and
- Limit the cost exposure to businesses by allowing merchants to recover the legitimately higher costs of credit card payments.

2. Surcharging proposal does not reflect lessons learned globally

2.1 International experience in United Kingdom, European Union and Canada

United Kingdom experience

Since January 2018, UK merchants have been prohibited from adding surcharges to most consumer debit and credit card payments under the *Consumer Rights (Payment Surcharges)* regime. In practice, merchants still faced acceptance costs and recovered them through other means (such as price increases or plan renegotiation).

Recognising that a ban alone did not create strong competitive pressure upstream, the Payment Systems Regulator (PSR) later introduced remedies to help businesses shop around, including summary boxes, online quotation tools..[10] The UK's experience therefore illustrates the unintended consequence of a blunt policy - and the need for remedial measures post-implementation.

European Union experience

The EU's 2018 *revised Payment Service Directive (PSD2)* bans surcharging for most consumer cards, covering the vast majority of domestic and cross-border transactions. The measure followed a 2015 regulation that capped surcharge fees. While the combination of the caps and ban were designed to enable businesses to absorb the surcharge, businesses across the EU have experienced unchanged or increased overall card processing costs. This is due to other non-regulated costs increasing.

The changes resulted in the transparency of the old surcharge system being replaced by an opaque, bundled pricing model that ultimately penalises consumers who opt for more efficient payment methods.[11]

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[10] Department for Business and Trade (UK), 'Consumer rights: payment surcharges', Guidance, last updated 19 September 2024, https://www.gov.uk/government/publications/payment-surcharges

[11] EU Travel Industry observations

The prevailing outcome of the surcharge ban appears to be the widespread embedding of costs into general retail prices. Both economic theory and post-implementation observations suggest that merchants, particularly in competitive markets, were unlikely to absorb a significant new cost without increasing pricing.

The European Court of Auditors (ECA) provided a clear illustration of this economic reality in their 2025 special report, 'Digital payments in the EU'. In their model, a merchant selling two identical items for €100 faces a €2 processing fee for a card payment but no fee for a bank transfer.[12] To remain cost-neutral after the surcharge ban, the merchant cannot charge the card user €102. Instead, they must calculate a "global add-on" based on their total sales and total fees. In this simplified case, the €2 fee on €200 of sales necessitates a 1% price increase across the board. Consequently, both the card user and the bank transfer user pay €101. This demonstrates how the cost of the more expensive payment method is spread across all customers, resulting in the bank transfer user cross subsidising the card user.

The removal of card surcharging effectively hid the cost of payments from the consumer, embedding it within the product price of the good or service rather than presenting it as a separate, transparent charge. [13]

Projected vs Realised Outcomes

While the elimination of explicit surcharges in Europe provided consumers with greater certainty about the final price at checkout, the claim of substantial net savings is also highly debatable. The widespread merchant strategy of embedding payment costs into general prices suggests that the financial burden was not eliminated but merely redistributed across all consumers. Consumers may no longer see a line item for a "card fee," but they are likely paying for it through marginally higher prices on every item they purchase.

This view is strongly supported by the special report from the European Court of Auditors (ECA) mentioned above. The ECA was notably critical of the Commission's price interventions in the payments market, stating that for the surcharge ban, the Commission "**could not demonstrate that the positive effects for consumers clearly outweigh the negative ones**". Furthermore, the ECA pointed out that despite the combination of the Interchange Fee Regulation and the surcharge ban, that the "promised" €550 million in savings to consumers may

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[12] European Court of Auditors, *Digital Payments in the EU: Progress towards making them safer, faster and less expensive, despite remaining gaps*, 2025, https://www.eca.europa.eu/ECAPublications/SR-2025-01/SR-2025-01_EN.pdf
[13] ibid

have been an illusion, representing a transfer of costs from a visible surcharge to an invisible price increase rather than a true reduction in the consumer's financial burden. [14]

Germany experience

Implementation of the PSD2 directive in Germany was contentious. After implementation of the ban in German law, Germany's Federal Court of Justice ruled in 2021 that merchants *are* allowed to levy a surcharge on certain providers. Significantly, the court reasoned that the surcharge was *not for the underlying payment,* but rather for *the value-adding service provided by the intermediary*, such as payment guarantee and accelerated processing.[15]

Canada experience

Contrary to the UK and EU, Canada took a different path, allowing capped and clearly disclosed surcharges that keep price signals while protecting consumers. Rather than a blanket ban, Canada coupled clear surcharge rules with upstream measures (notably lower interchange for small businesses and strengthened conduct rules). This represents a more balanced model than a general ban on surcharges albeit still not addressing the issue of increasing Scheme Fees.[16]

Where surcharging is not used, other upstream tools still reduce costs. In 2024 the government and networks implemented an average **0.95%** interchange for many small businesses and updated the national *Code of Conduct* to strengthen merchant protections. The result is transparency plus pressure on fees, rather than a shift to uniform higher prices.[17]

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[14] ibid

[15] Industry observations, and Bird and Bird, German Federal Court: German merchants are allowed to surcharge Paypal and Sofort, 25 March 2021, https://www.twobirds.com/en/disputes-plus/shared/insights/2021/germany/german-federal-court-german-merchants-are-allowed-to-surcharge-paypal-and-sofort

[16] Department of Finance Canada, 'Government reduces credit card fees by 27 per cent for small business owners', 24 October 2024, https://www.canada.ca/en/department-finance/news/2024/10/government-reduces-credit-card-fees-by-27-per-cent-for-small-business-owners.html

[17] Financial Consumer Agency of Canada, 'Merchant surcharges, service and convenience fees, and discounts', 30 October 2024, https://www.canada.ca/en/financial-consumer-agency/services/merchants/credit-fees-merchant.html

2.2 The New Zealand example

New Zealand offers an example of a practical, proportionate alternative with learnings from the outcomes seen in other markets.

In New Zealand, the Government has announced a targeted ban on in-store card payment surcharges. The Government's proposal would prohibit retailers from adding surcharges to most domestic, in-person payments made with Visa and Mastercard debit and credit cards and with EFTPOS. This change is to take effect by May 2026.

The New Zealand policy responds to evidence of inconsistent and sometimes excessive add-on fees. It follows the Commerce Commission's final decision to lower interchange fees on the Visa and Mastercard networks, which officials estimate will save businesses about NZ$90 million per year. It also is a targeted approach to solve the primary consumer concerns about the lack of available no-cost alternatives in card present, in-store purchase flows.

Under the NZ Government's proposal, the ban does not extend to online transactions or to certain non-domestic or non-designated card schemes (for example, foreign-issued and some other international cards).

2026 New Zealand Surcharge Scope	
Banned	**Not banned**
EFTPOS Physical debit/credit cards (Mastercard & Visa)	Online transactions

The Canadian and New Zealand examples show how proportionate interventions can address consumer irritation without withdrawing all surcharging from the market or muting competition on acceptance costs.

3. A practical and proportionate alternative

In the Australian context, a proportionate response targets reforms at small, in-person purchases. Viable options include a guaranteed fee-free option with clear, early disclosure. If the RBA chooses to include a surcharge ban, then this should apply only to the lowest-cost option (in this case, debit cards).

A proportionate policy response embeds the baseline cost of the lowest-cost payment method in prices. The proportional response would also enable the transparent recovery of incremental costs when consumers choose to utilise higher-cost methods.

The focus must be on low-value, card-present purchases where fee-free payment options are limited. In these instances, consumers require enhanced transparency and choice. Clearly disclosed surcharging should be maintained for higher-value and CNP payments, where fee-free options already exist.

Elements of the alternative approach are as follows:

1. **Restrict any ban on surcharges to the use of debit cards.**
    - If the RBA is committed to removing surcharges for card-present, low-value transactions, the measure should differentiate between debit cards (utilising consumer cash in a bank account) from credit products.
    - Given that debit cards currently attract substantially lower processing costs than credit products, businesses are considerably better-able to absorb these fees at the point of sale.
2. **Keep measured price signals for larger/CNP payments.**
    - Allow surcharges for online and CNP payments with clear disclosure of surcharge fees.
3. **Strengthen upstream competition and merchant choice.**
    - Require acquirers/PSPs to present summary boxes and maintain an online quotation tool (UK PSR model) so small merchants can compare true costs and switch more easily.
    - Maintain LCR expectations and encourage dynamic LCR in both in-person and online channels.

3.1 Limit any surcharge ban to card-present payments

This proportionate path addresses the limited but real consumer concern about low-value, everyday transactions without removing useful price signals and consumer choice where they matter most.

Community concerns regarding the impact of surcharging are largely concentrated on low-value transactions where there is often poor disclosure and a lack of a no-fee or low-fee alternative (e.g. a cup of coffee).

In most card-not-present scenarios, no-cost payment methods are already available to payers. These include bill payment channels (where customers receive invoices) for the payment of utilities, rent, education expenses, travel and more. When choosing how to pay, consumers are actively provided with no-cost choices (e.g. EFT, BPAY, and increasingly PayID). The choice to pay by card, and to pay an adequately disclosed surcharge for doing so, is available in order for consumers to unlock and access the benefits of paying by card. These include interest-free periods, deferred payment in general, chargeback rights, enhanced security / fraud protections and travel insurance).

Given this dynamic, the RBA should limit any ban to scenarios and payment channels where there is no active or tangible no-cost alternative method. Importantly, this is the approach that underpins the surcharge regulatory methodology applied in New Zealand.

Recommendation 2:

Limit any surcharge ban to card-present (in-store) payments.

This will:

- Directly target the "cup of coffee" scenario at the heart of community concerns where cash usage has declined; and
- Ensure the ongoing viability of other card payment options where low-cost alternatives and disclosure are readily available to consumers.

4. Responses to other inquiry questions

Zenith has considered the remaining questions posed in the RBA's Review and broadly supports measures to cap interchange fees and enhance transparency in the payments process.

Such pragmatic measures should not be considered contingent upon enacting a ban on surcharges.

Brief responses to the rest of the RBA's questions are included below.

4.1 Question 2

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

Further cuts to interchange would lower some acceptance costs. That is welcome in principle. However, the net public interest depends on the full package. If lower interchange is paired with removing merchants' ability to surcharge for some or all cards, the overall effect is weaker price signals, new costs for merchants who surcharge, less consumer choice, and slower innovation. Furthermore, the requirement to absorb surcharge costs could impact the viability of many businesses. This is especially the case for SMEs, who lack the scale of larger businesses to negotiate down fees. Any reduction in competition would be to the detriment of the consumer, and the efficiency of the economy more broadly.

The risk is that previously visible costs move into headline prices or into less transparent fees. This would reduce consumers' ability to choose lower-cost methods and reduces pressure on networks and acquirers to compete on cost. The proposal therefore mixes one measure that can help (lower interchange) with another that undermines competition at the point of sale (removal of surcharging). Consequently, a reduction in viability will reduce demand for payment facilitators and negatively impact their commercial viability. As such, the change will likely force payment solution providers to exit the Australian market. This would remove further choice and competition from the Australian market.

Interchange caps also act on only part of the total bill. Scheme fees have grown into a larger share of the merchant service fee over time. Without guardrails on scheme fees, networks can re-optimise pricing (reducing interchange while increasing scheme fees) to preserve economics. To deliver durable benefits, the RBA needs a parallel approach to scheme fees. Otherwise, any interchange cap savings will be diluted by movements in un-capped components.

Further capping interchange can help, but it does not outweigh the competition and efficiency harms from removing surcharging and leaving scheme fees unconstrained. A targeted approach (of keeping surcharging with clear disclosure for higher-value, CNP transactions improve transparency and LCR for day-to-day in-person payments and addressing scheme fees directly) would better promote the public interest.

4.2 Question 3

> **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 main additional considerations arise not only for smaller issuers but for smaller players across the acceptance side e.g. payment facilitators (PayFacs), gateways, independent acquirers and processors.

The proposed package would dampen the demand-side signals (via removal of surcharging) that smaller entrants rely on to differentiate themselves. If card methods must be presented as fee-free in all instances, it becomes harder for challengers to win business by enabling merchants to steer to lower-fee options.

To enhance competition, the RBA should ensure proportionate compliance for smaller providers and open, non-discriminatory access to cost-reducing tools, including LCR, online debit routing and A2A.

4.3 Question 4

Q4: Do the proposed changes to the net compensation provisions effectively achieve the RBA's objectives and promote the public interest

At this stage, Zenith does not intend to provide a further response to Question 4.

4.4 Question 5

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?

Publishing aggregate wholesale fee data is a step forward, but it is not sufficient on its own to sharpen competition or to constrain total costs. Scheme fees are complex, frequently re-labelled, and often bundled with non-payment services. Trends show scheme fees have been increasing and these changes will promote, rather than inhibit, further increases.

Just publishing scheme fees details, without a cap, is unlikely to deliver any material competitive or efficiency benefits.

4.5 Question 6

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?

Reducing complexity is desirable, but voluntary simplification alone will not change outcomes. Even a halving of complexity would leave a large, shifting catalogue of fee categories set at networks' discretion. Without enforceable constraints, complexity tends to re-emerge over time.

This has been proven to be the case with the publishing of Interchange Fees, where the publishing alone does not materially influence competitiveness.

To enhance competitiveness, the RBA should pair any simplification drive with binding guardrails. A cap on total scheme fees is required to achieve competitiveness and efficiency.

The Australian market should not depend on fees and fee structures developed by schemes in overseas locations with application to international markets. Where fee structures are set for international scale, local policy must ensure they do not produce unintended outcomes for Australian merchants, payment processors and consumers. A scheme fee cap is the only solution to achieve durable competitiveness and efficiency.

4.6 Question 7

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

No. An "expectation" signals intent but without binding rules and verifiable disclosure, the proposal will not deliver the intended gains in competition and efficiency.

4.7 Question 8

> **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. A cap on total scheme fees is required to secure the benefits from interchange reform and to maintain competitive pressure on networks. *See answer to Question 6.*

4.8 Question 9

> **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?

Generic publication will have limited effect. Many acquirers are likely to publish standard rate cards or averages that mask the price differences that are based on scale, merchant category or other factors.

4.9 Question 10

> **Q10:** Does adding a domestic/international breakdown to cost-of-acceptance on statements promote competition? Is there a public-interest case to exempt taxi fares?

More granular statements help merchants see what drives their costs. However, this also increases the complexity of card payment acceptance. On its own, more data will not change outcomes if merchants cannot act on the data or if they are barred from recovering the incremental cost of high-cost methods through transparent surcharges in appropriate contexts.

If the framework removes surcharging for all or most cards, merchants cannot recover the higher cost of international, commercial or credit cards where price increases are impractical. Costs are then cross-subsidised in headline prices, diluting incentives to switch to lower-fee options. Furthermore, merchants can face the risk of making a loss on overseas and commercial card transactions and only finding out which card their customer used after the cost has been incurred

4.10 Question 11

> **Q11:** Are there 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?

Yes. If the PSB nevertheless proceeds with restrictions on surcharging, those restrictions should be limited to debit and / or focused on card-present transactions where a fee-free method other than cash is ensured (for example, by requiring that one option be fee-free). Furthermore, compliance with offering surcharge-free options should be enforced through requiring innovation through adequate POS technology at the point of sale.

4.11 Question 12

> **Q12:** Does the PSB's preferred package meet its objectives of competition, efficiency and safety? Should variations be considered?

No. The preferred package seeks to lower interchange and to increase transparency, but its centrepiece, removing surcharging, undercuts price signals that support competition and efficiency. Only a minority of merchants surcharge and problems with disclosure appear concentrated in specific sectors. A blanket rule would shift costs into sticker prices and reduce the incentive to choose cheaper methods. This would result in inequitable cross-subsidisation of higher-cost payment methods by consumers utilising lower cost channels.

Competition and efficiency are not enhanced by a blanket surcharge ban that (as detailed elsewhere) will lead to the removal of the choice to pay by card including in scenarios where customers currently have a fee-free option. Likewise, they are not enhanced by the very real prospect of low-margin businesses with limited price control losing money on the provision of their goods or services.

Safety is not enhanced by pushing volumes into channels with higher fraud risks or by encouraging workarounds (for example, manual transfers) that can raise the risk of invoice-redirection scams.

See Chapter 1 on Surcharging for more detail.

4.12 Question 13

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

A minimum of 12 months is required from final decision to the effective commencement date, with staged milestones.

4.13 Question 14

> **Q14:** Do the draft standards in Appendix D achieve the intended policy objectives? Are there factors that have not been properly addressed?

No. The drafts do not sufficiently differentiate between card-present vs CNP channels or between low-value vs higher-value use cases. They risk solving what is primarily a hospitality checkout problem by imposing a blanket solution on sectors with very different economics (for example, travel, property rentals, education, health), where transactions are larger, often agent- or commission-based, and where fee-free alternatives already exist.

The extension of the surcharging ban beyond only debit cards appears to have been influenced by large terminal providers and acquirers with outdated technology that does not enable debit/credit differentiation. This outcome would be anti-competitive and anti-innovation.

A key factor that has not been properly addressed is the impact of the blanket application of the surcharge ban on all card categories, without adequate consideration of the sizable differences in the acceptance costs of domestic debit cards versus domestic premium / commercial credit cards and versus international cards. The cost impact to businesses, especially low margin and SME businesses, is not immaterial and as noted elsewhere means that businesses face the real prospect of losing money on certain sales.

4.14 Summary observation:

Zenith is supportive of any practical measures that would enhance card payment transparency. This is reflective of sensible policy approaches around the world.

A universal ban on surcharging would be counterproductive. Subsequent developments in the UK and EU have resulted in high ongoing costs for businesses (and consumer prices) as well as legal uncertainty.

With the Australian Government's current focus on enhanced productivity, the RBA can ill-afford to reduce transparency and the ability of businesses to manage optional costs borne by the consumer.

5. Conclusion

Removing surcharging from *all* card payment transactions would be a policy overreach. It would narrow consumer choice and reduce access to valued features, such as remote acceptance and chargeback protections.

The 'cup of coffee' example demonstrates the need for targeted reform rather than a one-size-fits-all rule. Low-value, card-present transactions require a fee-free electronic option where practical.

A universal surcharge ban would force businesses to absorb the cost of higher and more variable payment methods (i.e. premium, commercial and foreign credit cards) into headline prices. That shift weakens competition, blunts incentives to adopt lower-cost payment options and risks higher overall prices for consumers.

A ban on all surcharges would impact the viability of many digital payment options, putting at risk their ongoing ability to operate, adapt and compete in Australia. This would ultimately be to the detriment of Australian businesses (especially small and medium enterprises) who rely upon dynamic payment methods to limit their risk and provide competitive services for customers (including the latest security and fraud protection).

The RBA's policy response should be proportionate to the primary challenge it seeks to address, namely the cost of small, in-person low-value purchases. The proportionate response should ensure that a guaranteed fee-free option is available to consumers. This requires clear, early disclosure to enable informed payment decisions at the point of sale.

If the RBA chooses to include a surcharge ban, then this should apply only to the lowest-cost option, in this case, debit cards *(which reflects the Payment Service Board's Broad Option Number Two).* A resilient payments framework requires multiple credible options that enable proportionate, transparent cost recovery. This enables merchants to steer volume to lower-risk, lower-cost payment methods, without compromising flexibility and innovation for business, as well as choice, services and protections for the consumer.