12 August 2025

MACQUARIE BANK

Reserve Bank of Australia
Attn: Ellis Connolly, Head of Payments Policy Department

By email: pysubmissions@rba.gov.au

Dear Ellis,

Submission to the Reserve Bank of Australia
Review of Merchant Card Payment Costs and Surcharging

Macquarie Bank welcomes the opportunity to provide input to the Reserve Bank of Australia's Review of Merchant Card Payment Costs and Surcharging.

Executive Summary

Reduce debit card costs for merchants and consumers

Our position is unequivocal: debit cards are the most efficient way for businesses to accept payments, with the lowest costs to the system as a whole, and should be the least expensive way for merchants to accept payments - therefore consumers should not face a surcharge for paying with a debit card. We strongly support proposals to cut interchange rates and eliminate debit card surcharging.

Unfortunately, blended merchant fee plans are preventing these low costs from being passed on to small businesses. We therefore strongly support further measures to directly cap the merchant fees paid by businesses for debit card acceptance, and to ban the blending of debit card and credit card merchant fees.

Reduce credit card costs in line with debit cards

The consultation paper noted that a reason for ending credit card surcharges is the difficulty that industry participants would face in splitting fees between debit card and credit card. If participants are unable to manage the complexity of passing low-cost debit card fees onto merchants and consumers fairly, then we propose that interchange should simply be aligned for credit cards at the same level as debit cards.

The simplest and most effective reform is to align credit card interchange with the low, cost-based rate for debit cards. This single measure would dismantle the complex and inefficient web of cross-subsidies and incentive structures that we believe drive perverse outcomes across the value chain. It would eliminate the need for blended pricing, simplify merchant fees, and correctly allocate the costs of credit card rewards programs to the users who benefit from them, creating a truly efficient user-pays system.

Directly cap merchant fees and scheme fees, and extend coverage

If the current system of differentiated interchange is to continue, we recommend that further regulatory and legislative measures be taken to ensure that savings are passed on to merchants, and ultimately to consumers:

- Merchant fee regulation, to cap the actual fees charged by PSPs to businesses;
- A cap on credit card surcharges that reflects their cost to businesses;

- Designation of three-party schemes so that merchant fees and surcharging can be regulated;
- Designation of Buy Now Pay Later schemes so that merchant fees and surcharging can be regulated;
- Retirement of the Least Cost Routing and Dual Network Debit Card regulatory expectations; and
- Direct regulation to simplify and cap card scheme fees, to prevent regulatory arbitrage.

The central principle underpinning our submission is that debit cards, as the lowest cost payment method available, should have the least profit-driven friction throughout the payments ecosystem. Consumers should be encouraged to use debit cards, because their use minimises real system-wide costs for both consumers and businesses. If that optimal incentive exists for consumers, competition among card issuers should encourage issuance of debit cards as the least-cost way for deposit customers to access their money. That approach contrasts starkly with the current framework, which creates an incentive for card issuers to issue high-cost forms of payment in order to maximise the interchange revenue they receive.

We agree with the positions put forward in consultation, that three-party and, in particular, Buy Now Pay Later (BNPL) payments should be regulated. We believe that bans on BNPL surcharging are creating the perverse and unfair outcome that users of low-cost payment methods are cross-subsidising users of BNPL, as merchants are forced to blend costs into their prices. We strongly support the inclusion of BNPL payment schemes as designated networks, and believe that it would be unfair to continue to allow them to operate outside of payments regulation.

<u>Second order impacts</u>

In this submission, we have attempted to look beyond the immediate impacts of the changes that have been highlighted in the consultation paper and subsequent public discussion since its publication, and to predict second-order market impacts that can be reasonably foreseen. We have framed our analysis and responses in terms of the major components of the payments value chain as it relates to merchant card costs, which we believe highlights an over-reliance on surcharging bans and fee transparency.

	Paid by	Paid to	Current Regulation	Consultation Proposals	Macquarie Bank Proposals
Scheme Fee	Acquirer / PSP	Card Network	None	Publication only	Cap and Simplify
Interchange Fee	Acquirer / PSP	Card Issuer	Average capping	Lower caps International included	Cap
Merchant Fee	Merchant	PSP	Disclosure in statements	Further disclosure, publication for large PSPs	Cap
Surcharge	Consumer	Merchant	Capped at cost of acceptance	Removed (can be banned by schemes)	Remove for Debit, Cap for Credit

Many banks and card schemes have contributed to the creation of an inefficient, opaque and needlessly complex system of fees and charges to generate profit from payments. Without direct intervention by the Government and the RBA, enabled by legislative changes if required, we question the effectiveness of the proposed reforms in achieving the PSB goals of an efficient and competitive payments system. As happened with the 2003 surcharging reforms, we believe this package of reforms are likely to have unintended consequences as large market participants rearrange fees and incentives to maintain profits, at the expense of small businesses and consumers.

Q1: Would removing surcharging on designated card networks best support the RBA's objectives to promote the public interest through improving competition, efficiency and safety in the payments system? In particular, the RBA welcomes feedback on whether there are additional public interest considerations that should be taken into account for each policy option.

We concur with the RBA's view that surcharging may no longer be achieving its intended purpose of steering consumers to more efficient payment choices due to blended merchant fees and surcharging, and PSP business models that rely on the consumer surcharge to cover merchant costs and incentives. We believe it is particularly alarming that 39% of merchants are paying a single rate to their provider.

Cap credit card interchange at same level as debit cards

We strongly support the removal of surcharges on debit cards. We believe that the public interest is best served by allowing surcharges on credit cards unless their cost to merchants is aligned with debit cards – which we propose to be implemented by a cap on credit card interchange at the same low rate as debit cards. Low interchange on credit cards would serve the public interest by allocating the costs of credit cards to their users, removing complicated incentive systems that shift costs to the merchant, and then via cross-subsidy to all consumers.

Ban blended merchant fees and surcharges

If credit card interchange is allowed to remain at the current (and proposed) inflated levels, then blending of debit card fees or surcharges at any level should be banned. This is a significant point of public interest, to ensure that consumers and merchants enjoy the benefit of lower debit card costs. Currently, "blended pricing" arrangements obscure the real cost of different payment methods, which only benefits large players in the payments system, at the expense of consumers and small businesses.

If credit card interchange is maintained as a way to move costs from the credit card user to the merchant, then businesses must be allowed to pass those higher costs on to consumers via credit card surcharges. Otherwise there will be no incentive for customers to use the lowest-cost forms of payment. Consumers would be indifferent to using credit cards vs debit cards and card Issuers would encourage consumers towards credit cards via reward schemes, fees and promotion. In the proposed scenario of blended pricing with a ban on both credit and debit surcharging, consumers using the lowest-cost form of payment (debit cards) would be cross-subsidising the more expensive rewards earned by credit card customers.

Extend regulatory coverage to Buy Now Pay Later

Other high-cost payment methods should also be designated by the RBA and expressly allowed to surcharge, so that merchants aren't required to absorb these costs and pass them on to consumers. This may require legislation to prohibit contractual constraints imposed by BNPL providers on merchants that prohibit them from surcharging – the result of those contractual prohibitions is that BNPL costs are subsidised by consumers who don't use BNPL products.

Cap surcharges and merchant fees for credit cards

In terms of the options for consultation, we therefore support Option 2 including the recommendation of a cap on the surcharge for credit card payments. This measure would simplify compliance and enforcement, while still providing an effective price signal and cost recovery mechanism for small businesses. As pointed out in the paper, "this option could lower costs in the payment system overall and incentivise consumers to choose the most efficient payment method at the checkout."

We agree that the risk of increased fees being levied by PSPs described in the consultation paper would also be mitigated by a cap on the credit card surcharge, but believe that this should be further mitigated by direct caps on merchant fees and a ban on blended fees. We note the RBA's comment that this would be a significant step beyond its existing regulation of wholesale costs; we believe that significant steps are warranted and necessary. This intervention would mitigate the risk of higher costs for merchants, especially if consumers use debit cards to avoid the surcharge.

We don't believe that the complexity introduced by a ban on debit cards only would be prohibitive for participants, even at the costs estimated, in the context of the overall system benefits. The changes may be disruptive to the PSP business model of charging blended merchant fees and retaining the benefits of directing payments toward the least cost payment type, but we believe that is an unfair model in need of disruption. Card acceptance systems must already identify the card type for many other reasons such as authorisation, routing and billing. We aren't aware of combination cards (debit and credit) being available currently in Australia, and note that mobile wallets are clear in their differentiation between card type. Surcharging would be automated in almost all cases, so the risk of erroneous charges seems minimal. But even those costs and risk could be avoided by reducing credit card interchange to align with debit cards, as noted above.

<u>A total ban surcharge ban will harm merchants unless additional steps are taken</u>

On the other hand, the preferred Option 3 proposal of putting the onus on merchants to choose the best payment plan is unlikely to be effective due to:

- Customer choice of payment type, often not visible to the merchant until billing, and unable to be influenced by the merchant;
- Costs to businesses in changing payment provider, especially if that provider is also their business banking provider or if payments are integrated into business systems;
- The impracticality and inefficiency of the suggested use of discounts by merchants to steer consumers to lower cost payment methods; and
- The absence of caps on merchant fees charged by the PSP.

We expect that a total ban on surcharging, without the deeper reforms we propose, would create unintended beneficiaries. Large acquirers would see their wholesale interchange costs fall, yet they would have little incentive to pass these savings on, instead maintaining their opaque, single-rate merchant pricing and capturing the difference as profit. Similarly, the large credit card-issuing banks, shielded from price signals at the point of sale, would be free to reduce rewards and increase fees, further increasing their margins at the expense of consumers and merchants alike as volumes move from debit to credit. And, of course, the card schemes will also benefit from this increased usage, with lower interchange having no direct effect on their scheme-fee driven business model.

Option 3 is an easy solution to explain and implement, but we believe will simply result in larger participants in the payments industry reorganising their business models to preserve profits at the expense of small merchants and consumers. We believe that it is in the public interest for the RBA to take the more difficult path of driving inefficient costs out of the system via Option 2 combined with capping of credit card surcharges and direct regulation of merchant fees.

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

We strongly support the recommendations to reduce and cap interchange, to include commercial cards within the lower cap, and to cap interchange on foreign card transactions, for all of the reasons stated in the consultation paper. Current interchange settings drive the inefficient card payments system, which ultimately results in high costs for merchants and consumers. We believe limiting interchange, as compensation to card issuers from merchants for the convenience of the payment, to a level near actual costs is in the public interest.

Lower the cap on debit card interchange, and cap merchant costs for debit cards

We support the proposed cap of 6 cents or 0.12% of transaction value for debit card interchange, with a weighted-average benchmark of 6 cents per transaction. We also recommend that percentage charges should only be allowed for e-commerce transactions, with no obvious justification for fees higher than 6 cents for any in-person payments including where tokenised wallets are used.

It is critical to the success of this measure that the RBA does not rely merely on market forces for wholesale savings to be passed on to consumers. Without complementary merchant fee regulation, wholesale savings are likely to accrue to wholesale participants.

Debit card issuers are generally deposit-holding financial institutions who are issuing the debit card as a service to their customers, and arguably do not require a revenue stream to offer that service in the same way that credit card issuers might. We believe that the public interest is best served by debit card costs sitting with the issuer.

Move from "least cost routing" to *all* debit cards being low cost

With very low debit card interchange rates, we believe that "least cost routing" is no longer required. A hard cap on debit card fees regardless of network is a more direct way to achieve the goal of allowing consumers to use their own money for purchases at the lowest possible cost to businesses, avoiding the watering down effect of blended merchant fees. Any benefits achieved by LCR, especially after further reduction of debit card interchange caps, do not justify the costs to PSPs and issuers in meeting "least cost routing" requirements, the effort of standard-setting and enforcing, and the misdirection of public attention from higher impact merchant fees.

Q3: Are there further considerations for smaller issuers that the RBA should take into account to enhance competition and efficiency in the payments system?

Where small issuers such as fintechs have built business models with artificially inflated interchange and surcharging as the primary revenue driver, they will need to adapt those models. This could result in more investment in alternative low-cost payment methods such as account-to-account payments.

Q4: Do the proposed changes to the net compensation provisions effectively achieve the RBA's objectives and promote the public interest? Will Australian issuers sponsored by overseas entities be able to comply with the changes?

We believe that these are reasonable steps to prevent any circumvention of regulation.

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?

We support the RBA's proposal for card networks to publish aggregate wholesale fee data. We believe that greater transparency can help to promote competition and efficiency in the market, and that commercial concerns in the wholesale market are minimal.

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?

There is a very real risk that inefficient card payment system costs are simply shifted from regulated areas such as interchange to scheme fees, which may be paid back to market participants such as banks in contractual incentives that again preserve wholesale profits at the expense of small businesses and consumers. We encourage the RBA to use scheme fee transparency to closely monitor this risk and specifically to ensure that scheme fees included in PSP pricing to merchants don't increase as interchange falls.

We agree that the RBA should stand ready to take direct action if a regulatory expectation proves to not be driving progress by the September 2026 review date.

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

We are sceptical that a no-legally binding "expectation" that scheme fees should not rise without clear explanation will be sufficient to address concerns over growth in scheme fees.Itmay not be effective in restraining the behaviour of card networks, in the absence of enforcement powers.

We believe that the RBA should consider stronger measures, such as capping scheme fees, to ensure that they are at reasonable levels that don't re-inflate merchant fees as interchange fees are constrained.

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, we believe that capping scheme fees would provide greater certainty and transparency in the market. We believe that this option should be further considered as the recommendations of this review are implemented, and taken forward if there is evidence that scheme fees are filling the wholesale profit gaps left by interchange and surcharging reductions. We would be happy to help with further contributions and suggestions on methodology.

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?

While transparency is welcome, we believe that the costs of switching are too high to make regular searches for a better plan feasible for most businesses. We also consider that complexity and information asymmetry in card acceptance arrangements, even with publication of average pricing, means that merchants would in most cases be unable to efficiently compare providers.

As discussed above, we believe that merchant fees should be capped for the most certain and direct benefit to small businesses.

Q10: Does the proposal to amend the cost of acceptance reporting on merchant statements to include a breakdown for domestic and international cards promote competition by helping merchants receive more information about the fees they pay? Is there a public interest case to exempt taxi fares from this requirement?

This additional information is welcome and there is no public interest case for a taxi fare exemption. We would propose that disclosure should change more fundamentally.

Changes in the surcharging regime mean that PSP disclosure of "cost of acceptance" is no longer directly relevant, and a breakdown of fees by components – interchange, scheme fee, and margin would be the most transparent approach. The rationale that this disclosure isn't feasible because scheme fees are too complex to allocate to a merchant is symptomatic of a problem that we believe needs to be addressed separately, but an average fee for the PSP could be applied if a merchant level calculation is not immediately possible.

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

LCR has been successful, as noted in the consultation paper, at ensuring competitive tension in the market and it has achieved scale as a feature that can be sought out by merchants who value it.

We agree that the costs of any changes would outweigh the uncertain benefits. We agree that eftpos is not always the cheaper payment method, that scheme debit may in some cases be more appropriate for the merchant regardless of cost, that the consumer may have a preference for which card to be used, that online and wallet implementation is technically challenging, and that dynamic LCR would likely be a net cost for merchants. Most of all, we believe that many merchants, especially small businesses, are prevented from enjoying the benefits of LCR by flat blended pricing.

As illustrated below, interchange is already closely aligned between debit schemes. Proposed reductions in debit card interchange will result in further convergence.

Value	Scenario	Mastercard debit (Premium SNDC)	eftpos debit (DNDC)
$20	in-person with card tap	$0.10	$0.04
	in-person with token (eg ApplePay)	$0.10	$0.07
	in-person at strategic merchant (tier 1)	$0.01	$0.02
	online (card not present)	$0.03	$0.10
	online with token (eg ApplePay, Link)	$0.02	$0.04
$100	in-person with card tap	$0.10	$0.04
	in-person with token (eg ApplePay)	$0.10	$0.07
	in-person at strategic merchant (tier 1)	$0.01	$0.02
	online (card not present)	$0.15	$0.12
	online with token (eg ApplePay, Link)	$0.10	$0.10
$500	in-person with card tap	$0.10	$0.04
	in-person with token (eg ApplePay)	$0.10	$0.07
	in-person at strategic merchant (tier 1)	$0.01	$0.02
	online (card not present)	$0.75	$0.60
	online with token (eg ApplePay, Link)	$0.50	$0.50
$2,000	in-person with card tap	$0.10	$0.04
	in-person with token (eg ApplePay)	$0.10	$0.07
	in-person at strategic merchant (tier 1)	$0.01	$0.02
	online (card not present)	$3.00	$2.40
	online with token (eg ApplePay, Link)	$2.00	$2.00

Sources: https://www.mastercard.com.au/en-au/business/overview/support/interchange.html; https://www.auspayplus.com.au/solutions/eftpos-interchange-fees

We suggest that the PSB consider ending the LCR regulatory expectation at this stage in favour of:

- Competitive market pressure where relevant to a merchant, given the high levels of market awareness and availability that the RBA's efforts to date have driven; and
- Regulation of debit card interchange and merchant fees, to ban blended costs and to ensure that debit card schemes are effectively cost neutral and left to compete on features.

Capping debit card interchange would negate any perception that PSPs, who are also debit card issuers, prefer non-eftpos debit cards. It could also reduce inefficient costs for card issuers in duplicating effort to issue dual network debit cards.

Q12: Does the PSB's preferred package meet its objectives of competition, efficiency and safety in the payments system? Are there any variations to the package that the PSB should consider that would yield higher net public benefits? Is there any additional evidence that the RBA should consider before finalising its decision?

We believe that to achieve its objectives, the PSB needs to adopt a package of reforms that introduces fundamental change to the regulation of card costs. This should include:

- Direct regulation of scheme fees, in terms of simplification and to avoid the transfer of merchant costs from interchange to scheme fees;
- Direct regulation of merchant fees, capping costs for businesses at reasonable level that includes interchange, scheme fee and margin – mandatorily differentiating between debit card and credit card;
- Capping of interchange for credit cards as proposed, and capping debit card interchange in the same way;
- Designation of three-party card schemes and buy-now-pay-later schemes to include regulated interchange and to allow surcharging for these more expensive payment methods; and
- Maintaining surcharges for all payment types except for debit card, to ensure that the least cost payment method is met with the least friction. Surcharges should be capped at a maximum level for simplicity of implementation and enforcement.

We recognise that these changes go beyond the RBA's current scope of regulation. We believe that without addressing wholesale costs and merchant fees directly, that second-order effects will see any potential benefits to consumers and merchants negated over time.

<u>Second order impacts: A Future of Higher Costs and Hidden Fees</u>

Without fundamental reform, the RBA's proposed package risks worsening outcomes for Australian consumers and small businesses.

Consumers will pay higher prices as merchants are forced to bake payment costs into their sticker prices. The ability for consumers to save money by choosing a cheaper payment method will vanish. Meanwhile, issuers will be incentivised to push higher-cost credit products, funding growth and promotion from card scheme rebates of the uncapped scheme fees that are ultimately paid for by all participants in the economy.

Small merchants pay merchant fees that are composed only partly of interchange fees. These would stay at current levels or increase as PSPs look to pass on the cost of implementing disclosure requirements. Some PSPs that rely on surcharging as a proposition will exit the market, resulting in less competitive pressure and upward pressure on fees. Major banks with complete SME banking offerings will bundle merchant packages, cross-subsidising and further driving competitive alternatives out of the market.

Larger merchants may be forced to pay higher interchange rates as opportunities to cross-subsidise across the weighted average disappear. While this is a positive change, it may be inflationary as large merchants increase their prices to maintain profits. Some online merchants will simply stop offering card payments to customers, detracting from customer choice and the fraud protection that cardholders enjoy.

Acquirer and PSPs have no obligation, and are unlikely to, pass interchange savings on to merchants under the recommended package. Over time, with less competition, more complex payment offerings, and complementary tools integrated into the SME workflow, PSP relationships with merchants will become even more sticky and less price-sensitive. Costs will increase without direct regulation.

Domestic credit card issuers will initially see interchange revenue reduced, but will reduce consumer incentives and services while increasing fees, with the high-profile ban on surcharging providing a justification. As more consumers choose credit cards (encouraged to do so by card issuers offering reward points), revenue will increase dramatically. Card networks will earn more in scheme fees and will pass some of these fees back to major banks to use in promoting credit card use amongst their customers. Some issuers will innovate to offer reward cards in unregulated offscheme networks with merchants. Overall, this will increase the inefficiency, cost, and profit pools in credit card issuing.

Debit card issuers will also see a reduction in interchange and major banks will move to promote credit cards instead. Small debit card issuers will exit the market, curtailing the innovation driven by fintech competition.

Card networks will innovate to maintain their profits and the profits of the major bank card issuers who are their primary customers. Without regulation of scheme fees or merchant fees, financial innovation will concentrate on those areas at the expense of consumers and merchants.

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

We are more concerned with the effectiveness of the proposed changes, and would encourage additional measure to be taken within the same proposed timeline. Even where legislation is required, we believe that the timeline is achievable by all participants.

Q14: Do the draft standards in Appendix D achieve the intended policy objectives? Are there factors that have not been properly addressed or considered in the drafting of the proposed standards?

The draft standard appears to reflect the proposed package of reforms. As discussed above, we encourage further consideration of those measures to impose clearer controls on pricing rather than relying on disclosure.

Kind regards,

Drew Hall

Executive Director, Head of Banking Product & BFS Treasury

Macquarie Bank Limited