3 December 2024

Head of Payments Policy Department
Reserve Bank of Australia
GPO Box 3947
Sydney NSW 2001

By email: pysubmissions@rba.gov.au

Dear Sir/Madam,

Merchant Card Payment Costs and Surcharging – Issues Paper (October 2024).

Attached please find ACAPMA's submission to the Reserve Bank of Australia's *Merchant Card Payment Costs and Surcharging – Issues Paper (October 2024)*. As the national peak body representing the Australian Fuel Retail Industry – an industry that processes around 600M transactions per year- the *Australasian Convenience and Petroleum Marketers Association* (ACAPMA) has a strong interest in the operation of Australia's Retail payment System.

A general discussion on the significance of retail payments to the Australian fuel retail industry is presented in Section 3 of our submission. Section 5 provides a narrative that responds to the key themes contained in the Issues Paper and Section 6 provides a summary of the actions that would likely put downward pressure on merchant card fees in the future.

ACAPMA does not support any proposal to ban surcharging by retailers in Australia as the current differential in unit costs of these transactions levied between big and small businesses would disadvantage the competitive position of small businesses in deeply competitive markets such as fuel retail.

ACAPMA believes that the current issues surrounding the ballooning costs of merchant card payment costs (particularly debit card transactions) would be better managed by the joint pursuit of three actions, namely:

a) **Legislation of a new price transparency requirement in a revision of the Retail Payments Regulation.** Such a requirement would require all card providers to furnish the RBA with a breakdown of their direct merchant costs (i.e. separated by interchange fees, acquirer fees, and scheme fees) and indirect costs (i.e. Payment Gateway fees and Fraud prevention/risk management fees) for their merchant fee offerings. It is suggested that this information could be compiled by the RBA (or ACCC) and published to the market in the same way that the ACCC publishes quarterly information on wholesale and retail fuel prices in Australia, thereby allowing merchants to readily compare the price they are paying for their merchant fees.

b) **Introduction of a legislative requirement requiring all card providers to provide a simplified summary of the *total costs* of debit and credit merchant fee charges on all new merchant fee contracts (and renewals).** This information should be in a simplified form that is easy to understand, possibly developed along similar lines to the *Comparison Rate* used for ease of comparison of financial lending products in Australia.

c) **Mandating of *Dynamic* Least Cost Routing (LCR) in Australia by 1 January 2026.** This form of LCR should provide functionality at the point of sale (POS) to facilitate the *real time* cost comparison of each transaction via the Card and EFTPOS gateways – and the subsequent selection of the least cost gateway. This form of LCR is different to the current form of *Static* LCR that requires the merchant to make a binary choice of one gateway, despite the fact that the least cost merchant fees will vary dependent on the value of the transaction and the architecture of the merchant fee offering used by the business.

ACAPMA believes that the above transaction negates the need to legislate limits for key components of merchant fees (e.g. Interchange fees) by increasing the simplicity and transparency of merchant fee offerings from the perspective of merchants. Such transparency will likely create a competitive dynamic that will put downward pressure on merchant fees as retail businesses would be in a stronger position to compare the costs of different offerings.

The additional mandation of *Dynamic* LCR would provide Australian Consumers with a 'guarantee' that they are paying the least cost for their purchase based upon the card they are using – instead of incurring a 'penalty' as a result of the merchant not having selected the merchant fee offering that provides the least cost for electronic transactions.

Thank you for the opportunity to provide feedback on this Consultation.

Should you require clarification of any aspect of our submission, please contact me via email (markm@acapma.com.au) or by mobile (0447 444 011).

Yours sincerely,



Mark McKenzie
Chief Executive Officer

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Submission to the Reserve Bank of Australia (RBA)
Merchant Card Payment Costs & Surcharging
(Issues Paper – October 2024)

3 December 2024

ACAPMA
The Voice of Petrol Convenience

ACAPMA
Australasian Convenience and Petroleum Marketers Association

1. Introduction

This paper constitutes a submission by the *Australasian Convenience and Petroleum Marketers Association (ACAPMA)* to the Reserve Bank of Australia's Issues Paper entitled: Merchant Card payment Costs and Surcharging (October 2024). This Issues Paper discusses the conduct of an RBA review of merchants' card payment costs and surcharging in the face of:

a) An environment of heightened community concern around the cost of living, and

b) Ongoing changes in payment preferences with the majority of Australian retail consumers switching from cash payments to electronic payments (i.e. debit and credit)

ACAPMA argues that the issues to be considered by this latest Review are not new. In fact, concerns about the cost of electronic transactions have been the subject of considerable political discussion since early 1997 (including an RBA Review of the Retail Payments in Regulation in 2021) - as a result of the rising cost of electronic payments being borne by Australian retail businesses as a result of a dramatic escalation in electronic debit payments.

In preparing this submission, ACAPMA notes that many of the issues to be considered in this latest review are very similar to the issues canvassed in the RBA's 2021 Review. Accordingly, the issues identified in ACAPMA's *2021 Submission to the Review of Retail payments Regulation (July 2021)* should be considered together with the narrative presented in this latest submission.

This latest submission provides a narrative on the preliminary conclusions of the Payment Systems Board, as considered from the perspective of Australia's more than 2500 fuel retailing businesses –the majority of which are small to medium businesses operating under varying commercial relationships with the Nation's major fuel supply companies.

Further, the discussion presented in this paper is informed by over eight (8) years of advocacy about the need for urgent reform to the Australian Payments Regulation to reduce the rising cost of merchant fee transactions in the fiercely competitive Australian retail fuels market – a market that provides products (i.e. transport fuel) that constitute a significant input cost for Australian households and businesses.

2. About ACAPMA

The Australasian Convenience and Petroleum Marketers Association (ACAPMA) is the national peak body representing the interests of the petroleum distribution/wholesaling and the petrol-convenience retail industry. These two industry sectors generated annual revenues of around $101B in 2022 and employed an estimated 61,000 Australians, working in around 4500 businesses.

ACAPMA is first and foremost an employer organisation that is formally recognised under Australian law as the *industrial advocate* for fuel marketing and fuel distribution businesses. First established in 1976, the Association started operations as the Australian Petroleum Agents and Distributors Association (APADA) and subsequently changed its name to ACAPMA in 2007. The name change was accompanied by a change in the Association's Constitution to incorporate national representation of fuel retailers.

Today, the Association directly represents 95% of fuel distributors/wholesalers in the country and directly and indirectly (via franchisees and distributor-owned retailers) around 5400 of the 7100 service stations (i.e. 76%) operating in Australia.

The scope of ACAPMA's membership extends from the 'refinery gate' through to the forecourt of Australia's national network of service stations and petrol convenience outlets – including fuel importation, fuel wholesalers, fuel distributors, fuel retailers, petroleum equipment suppliers, and petroleum service providers.

ACAPMA's member businesses range from Australian-owned subsidiaries of international companies to large Australian-owned businesses, to independently owned mid-cap Australian companies, and small *single retail site* family-owned businesses.

Given the diversity of our membership base, ACAPMA strives to assemble an aggregate *whole-of-industry* perspective on key public policy and market regulation - with a view to providing policymakers and regulators with meaningful industry insights that are directly relevant to issues under consideration.

Given the wide variance in the market propositions (and market presence) of individual market participants, ACAPMA's aggregate *whole-of-industry* perspective should not be taken as necessarily being wholly representative of the position of any individual fuel retailer.

<u>It is therefore possible that one or more of ACAPMA's members may have an individual enterprise position that varies markedly from the one presented in this paper</u>.

3. Significance of retail payments to the fuel retail industry

The Australian Fuel retail industry comprises more than 2500 businesses operating an estimated 7080 retail sites across Australia, with the vast majority of these businesses being small to medium business.

These businesses sold an estimated 31 billion litres of fuel (i.e. petrol and diesel) to private households and businesses in FY20. An approximation of the profile of these transactions is provided in the table below:

Market descriptor	Petrol	Diesel
Annual volume sold through retail outlets in Australia	16.5B litres	15.2B litres
Average volume per transaction	47 litres	85 litres
Total no. of transactions per year	340M	176M
Estimated transaction value	$59	$116
Estimated number of electronic transactions per year (excludes cash and accounts)	204.3M	105.9M

Note: Data utilised in this table has been extracted from the Australian Petroleum Statistics data sets produced by the Australian Federal Government (Australian Petroleum Statistics 2024 | energy.gov.au) and information derived from ACAPMA's Monitor of Fuel Consumer Attitudes research series.

As evidenced by the above, Australian fuel retailers are large users of electronic payment services with an estimated 310M transactions processed each year – approximately 70% of which are debit transactions. As a consequence, fuel retail businesses (and their customers) are heavily exposed to the Australian electronic payments market and are vulnerable to deficiencies in market competition.

During 2017, fuel retailers reported a significant escalation in merchant fee costs and sought assistance from ACAPMA in seeking to better understand the drivers of this increase. ACAPMA's investigations revealed that the costs had 'quietly' increased as a result of 'tap and go' technology (see The silent debit transaction rort - ACAPMAg - The voice of downstream petroleum).

Further investigations revealed that debit transactions costs had increased markedly for processing these transactions via the international credit card gateways – and Australia's major banks had been complicit in routing payments via these gateways instead of the cheaper Eftpos network (which, at the time, did not have 'tap and go' functionality).

Individual investigations of the cost increases amongst a select number of retailers revealed that the cost of debit transactions increased three-fold as a result of: (a) Eftpos's inability to provide a competitive offering to 'tap and go' technology at the time and (b) the opaque nature of merchant fee offerings provided by banks to retailers.

Had these costs been replicated across all electronic payments, the cost to fuel retailers – and ultimately passed through to motorists in the form of higher fuel costs – could have been in the vicinity of $69M per year.

ACAPMA's 2017 investigation prompted the Association to join forces with the Master Grocers Association of Australia (MGAA) and the Council of Small Business Organisations of Australia (COSBOA), to advocate for greater transparency in merchant fee arrangements and the introduction of Least Cost Routing (or LCR).

Over the next 3 years, ACAPMA (and its' partners) were successful in raising awareness of the concerns surrounding merchant fees and securing the support of Eftpos to encourage the banks to introduce a simplified form of LCR. Of most relevance to this merger, ACAPMA learned that the temporary 'loss' of Eftpos in the marketplace (due to a technology barrier) resulted in reduction in the intensity of market competition that, coupled with the opaque nature of merchant fee services, significantly increased the costs of processing card payments in Australia.

ACAPMA has continued to advocate for the lowering of the costs of electronic transactions in Australia in recent times, working with the various members of the Independent Payments Forum (IPF) and the Australian Chamber of Commerce and Industry (ACCI) to devise and champion improvement measures.

4. Guiding insights

ACAPMA's specific commentary on the RBA Issues Paper on *Merchant Card Payment Costs and Surcharging* (October 2024) is founded on a series of guiding insights about the opaque and oligopolistic nature of the current merchant service market in Australia. The current nature of this market carries significant contingent risk for all Australian businesses (and their consumers) and there appears to be a strong need for reform in this area in the light of:

c) An environment of heightened community concern around the cost of living

d) Ongoing changes in payment preferences, with most Australian retail consumers switching from cash payments to electronic payments (i.e. debit and credit) following COVID19.

4.1. The operation of the merchant service market is both complex and opaque. These two characteristics create an unnecessary vulnerability of Australian businesses (and their customers) to escalating merchant fees.

The most challenging aspect of the current merchant service market is the varied architecture of the current merchant services offerings provided in the market. These offerings are complex, apply tiered cost structures that don't allow ready comparison of the cost of competing services, and are often conflated with the provision of other financial services to the merchant.

This lack of structure, and a general lack of transparency of charges and interchange costs (levied between the card provider and the issuing bank), makes it virtually impossible for merchants to compare the cost of competing offerings – and indeed, in many instances, difficult to calculate the true costs of electronic transactions paid by the business.

4.2. Merchant fees comprise both direct and indirect costs, yet the national conversation appears to be solely focussed on direct costs (i.e. Interchange fees, Acquirer Costs and Scheme Fees)

Merchant fees in Australia are the costs businesses pay to accept electronic payments, such as credit and debit cards. The total cost of these fees is typically a percentage of each transaction or a flat fee and include several components that fall into both *direct* costs and *indirect* costs:

- *Direct Costs:* Interchange fees, scheme fees, and acquiring margins are transaction-based costs directly affecting the percentage fee or flat rate applied to each transaction.
- *Indirect Costs:* Terminal rental, technology costs, and risk management fees are fixed or semi-variable costs that influence the overall profitability of accepting cards.
- *Total Costs:* The total merchant fee reflects the sum of these components, and the structure varies depending on the merchant's size, industry, and transaction volume.

4.2.1 Interchange Fees

- Definition: Fees paid by the merchant's bank (acquiring bank) to the cardholder's bank (issuing bank) for processing a card transaction.
- Purpose: Compensates the issuing bank for the costs of providing the card, risk management, and fraud prevention.
- Regulation: Interchange fees in Australia are regulated by the Reserve Bank of Australia (RBA) to prevent excessive charges. Caps vary depending on the type of card (e.g., debit vs. credit, standard vs. premium).
- Contribution to Merchant Fee: A significant portion of the merchant fee; premium cards often have higher interchange fees than standard cards.

4.2.2. Scheme Fees

- Definition: Fees charged by card networks (e.g., Visa, Mastercard, or American Express) for processing payments through their networks.
- Purpose: Covers the operational costs of maintaining the payment network, including technology, security, and customer support.
- Structure: Typically charged to the acquiring bank, which passes these fees to the merchant.
- Contribution to Merchant Fee: Varies by card scheme and transaction type; often proportional to the transaction value.

4.2.3. Acquirer Margin (Acquiring Bank Fee)

- Definition: The fee charged by the acquiring bank or payment processor for facilitating the transaction and settling funds to the merchant's account.
- Purpose: Covers operational costs, risk management, and profit for the acquiring bank.
- Structure: Usually, a percentage of the transaction or a flat fee.
- Contribution to Merchant Fee: The acquirer margin is the markup added by the acquirer on top of interchange and scheme fees.

4.2.4 Cross-Border or Currency Conversion Fees (if applicable)

- Definition: Additional fees for processing payments made with cards issued in a foreign country or transactions involving currency conversion.
- Purpose: Compensates for the additional complexity and risk of international transactions.
- Structure: Typically, higher than domestic transaction fees.
- Contribution to Merchant Fee: Adds a premium for foreign card transactions.

4.2.5 Payment Gateway Fees (for Online Transactions)

- Definition: Fees charged by payment gateways for processing online payments.
- Purpose: Covers secure transmission of payment data between the merchant, acquiring bank, and card networks.

- Structure: Often charged as a percentage of the transaction or a flat fee per transaction.
- Contribution to Merchant Fee: Applicable only for e-commerce or online payments.

4.2.6. Fraud Prevention and Risk Management Fees

- Definition: Costs associated with tools and services to minimize fraud and chargebacks.
- Purpose: Ensures the security and reliability of card transactions.
- Contribution to Merchant Fee: Typically bundled into acquiring or gateway fees.

4.3. The current competitive tension in the Australian merchant services market is not sufficient to ensure fair pricing of merchant service offerings to Australian retailers, particularly for smaller businesses.

As evidenced in the RBA's Issues Paper, there is a significant disparity in the unit pricing of merchant fees with the large national merchants enjoying fees that are up to 5 times lower than smaller businesses. This variance exists despite their being no obvious scale benefit and effectively penalises smaller businesses operating in fiercely competitive low margin markets such as fuel and grocery retail.

It therefore follows that if surcharging was to be abolished without addressing this merchant fee inequity, small businesses operating in competitive low-margin markets would be significantly disadvantage as a result of having to build in a higher price premium on the price of goods and services sold.

4.4. The past 'soft approach' of encouraging market participants to introduce LCR has failed, largely as a result of the key actors in Australia's merchant fee ecosystem (i.e. the Banks) being wholly conflicted in respect of lowering their fees for the provisions of merchant services.

As of June 2024, the Reserve Bank of Australia (RBA) reported that Least-Cost Routing (LCR) was enabled for approximately 54% of merchants across major acquirers for in-person transactions (See SmartCompany). This is despite the fact that the Australian Banking Association has stated that 95% of eligible small business customers of the four major banks had LCR made available or offered to them.

The above suggests that while a significant majority of small businesses have access to LCR, just over half have actively enabled it for their transactions, giving rise to a key question as to why this is the case.

While the major banks have introduced a *simplistic* form of least cost routing four years ago, this voluntary action appears to have had minimal effect with the proportion of merchants choosing the LCR offering being sub-optimal (Anecdotal feedback from fuel retail businesses suggests that those who chose to explore this option generally backed out of the process due to advice being provided by the bank about a possible increase in fees levied on other business products).

It is strongly suggested that the failure of the voluntary approach of the major banks was largely predictable. That is, it is not in the financial interests of Australia's major banks to introduce LCR given that it the widespread utilisation of same would substantially lessen annual income derived from the higher cost international card gateways.

4.5. Mandating LCR as a default for the processing of all debit payments – irrespective of payment form (i.e. physical, online, mobile and digital wallet) – is now required to create the competitive tension needed to protect Australian businesses from large and unjustified escalation of merchant fees in the future.

The complex and opaque nature of merchant fee service offerings is such that there does not appear to be any reasonable mechanism for introducing a benchmark indicator (e.g. such as the use of the 'Comparison Rate' for home loans) that might be used by Australian businesses to readily ascertain which of the available merchant fee products delivers the best value.

Further, it is not reasonable to suggest that Australia's banks – with their inevitable commercial conflict – can reasonably be expected to 'voluntarily' direct their customers away from the international card gateways that deliver them higher interchange revenues than the least cost route for merchants.

Rather, there would appear to be a strong case for the mandating LCR as a default position for all debit transactions (in all payment forms) and a requirement for all card issuers to provide Dual Network Debit Cards (DNDCs).

Such action is considered a relatively straightforward regulatory intervention that puts the onus on the higher card gateways to sell the benefits of these gateways to merchants as an alternative to the default setting. Further, such an approach does not involve the introduction of the 'band aid' cost fixing mechanisms as previously proposed in the RBAs 2021 *Review of the Retail Regulation Consultation Paper* – mechanisms that have not been fully modelled and risk unintended adverse consequences for merchants.

5. Specific comments on Issues Paper

The following comments are provided in respect of the narrative included in the RBA Issues Paper on *Merchant Card Payment Costs and Surcharging (October 2024).*

5.1 Opposition to Banning Credit Card Surcharges: Fairness and Competitive Neutrality

ACAPMA strongly opposes any move to ban credit card surcharges, arguing that such a prohibition undermines fairness and competitive neutrality within the payments ecosystem. Businesses incur varying costs to accept different payment methods, with credit cards typically incurring higher fees due to interchange and scheme costs.

Banning surcharges would force businesses to absorb these higher costs, potentially driving up prices for all customers regardless of their payment method. This is particularly unfair to customers using low-cost payment options like debit cards or cash, as they would indirectly subsidize the use of higher-cost credit cards.

ACAPMA believes that retaining the ability for businesses to surcharge reflects a transparent, equitable approach that aligns with free-market principles, ensuring all stakeholders operate on a level playing field.

5.2 Enhancing Transparency Through Mandatory Reporting of Merchant Fees

ACAPMA sees an opportunity to strengthen the transparency of Australia's retail payments system by modifying Retail Payments Legislation to introduce mandatory reporting of merchant fee cost elements by payment service providers. Drawing inspiration from the ACCC's reporting framework for fuel wholesale and retail prices, ACAPMA advocates for a similar requirement for payment service providers to disclose interchange fees, scheme fees, acquirer margins, and other relevant costs on a quarterly basis.

Such a measure would empower businesses with clear, comparative data, enabling them to make informed decisions about their payment processing options and negotiate better deals. Additionally, this initiative would provide policymakers with robust data to identify inefficiencies or anti-competitive practices within the payments ecosystem.

5.3 Prescribed Cost Architecture for all merchant fee contracts

ACAPMA supports a legislative requirement for the explicit disclosure of merchant fees - according to a prescribed cost architecture that includes interchange fees, scheme fees, and acquiring margins – in all merchant fee contracts. Such standardization would promote consistency across the industry, making it easier for businesses to compare services and identify opportunities for cost savings.

This action aligns with the goal of increasing transparency and accountability among payment service providers and puts merchants (i.e. the customers of merchant fee products) in control of their own costs for merchant card transactions by empowering them with the knowledge needed to navigate the complex architecture of different offerings.

5.4 Mandating Dynamic Least Cost Routing by 1 January 2026.

ACAPMA believes that there would be significant merit in the introduction of a legislative mandate requiring all merchant service providers to implement *dynamic* least-cost routing (LCR) by 1 January 2026.

Dynamic LCR ensures that each transaction is automatically routed through the lowest-cost network, reducing costs for merchants and ultimately benefiting consumers. While some banks and payment processors have already introduced LCR, adoption remains inconsistent.

A mandated deadline would ensure uniformity and prevent merchants from being disadvantaged by providers that delay or resist implementing this critical cost-saving measure.

6 Summary

Australian fuel retailers are large users of electronic payment services with an estimated 310M transactions processed each year – approximately 70% of which are debit transactions. The costs of processing debit card transactions alone were estimated to be in the vicinity of $116M per year in 2020 (i.e. pre COVID market).

Consequently, Australia's fuel retail businesses (and their customers) are heavily exposed to the Australian electronic payments market - and are vulnerable to deficiencies in market competition. The widespread availability of *Dual Network Debit Cards* (DNDCs) and *Least Cost Routing* (LCR) are considered to be critical to maintaining a competitive pressure on merchant fees in the future.

The latest RBA Issues Paper (October 2024), like its' predecessor in 2021 - openly acknowledges the vital importance of LCR for maintaining a positive competitive tension on the merchant card services market.

ACAPMA further believes that there is a significant opportunity to increase competition within the merchant card services market by implementing a series of measures to improve transparency of cost structures and elemental charges, together with measures to improve the efficacy of Least Cost Routing in Australia.

ACAPMA does not support any proposal to ban surcharging by retailers in Australia as the current differential in unit costs of these transactions levied between big and small businesses would disadvantage the competitive position of small businesses in deeply competitive markets such as fuel retail.

ACAPMA believes that the current issues surrounding the ballooning costs of merchant card payment costs (particularly debit card transactions) would be better managed by the joint pursuit of three actions, namely:

a) **Legislation of a new price transparency requirement in a revision of the Retail Payments Regulation.** Such a requirement would require all card providers to furnish the RBA with a breakdown of their direct merchant costs (i.e. separated by interchange fees, acquirer fees, and scheme fees) and indirect costs (i.e. Payment Gateway fees and Fraud prevention/risk management fees) for their merchant fee offerings. It is suggested that this information could be compiled by the RBA (or ACCC) and published to the market in the same way that the ACCC publishes quarterly information on wholesale and retail fuel prices in Australia, thereby allowing merchants to readily compare the price they are paying for their merchant fees.

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The additional mandation of *Dynamic* LCR would provide Australian Consumers with a 'guarantee' that they are paying the least cost for their purchase based upon the card they are using – instead of incurring a 'penalty' as a result of the merchant not having selected the merchant fee offering that provides the least cost for electronic transactions.

Thank you for the opportunity to provide feedback on this Consultation.

Yours sincerely,



Mark McKenzie
Chief Executive Officer

7 Further information

Further information about this submission can be obtained by contacting the Chief Executive Officer, **Mark McKenzie**, using any of the below details:

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