Australian Government

Australian Small Business and Family Enterprise Ombudsman

Least-cost routing research paper

Prepared by The Australian Small Business and Family Enterprise Ombudsman with insights from CMSPI Pty Ltd

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List of Terms

Acquirer	A bank or non-bank entity engaged in the transaction process by receiving consumer funds on behalf of the merchant.
BNPL	Buy Now, Pay Later.
Card Not Present	A transaction made at point-of-sale using a mobile device such as a watch or mobile phone.
Contactless payment	A payment made using near-field communication, e.g., bank cards with a chip, smart devices such as a watch or mobile phone.
Default route	The scheme a transaction is automatically processed by when a consumer does not select cheque, savings or credit.
Default scheme	Without active routing, the scheme listed on the front of the card; most commonly Visa or Mastercard is used to facilitate a transaction.
Device present	A debit card or device interacting with acceptance technology (such as a payment terminal) to authenticate a transaction.
Device not present	A transaction processed remotely, including those made online, 'in-app', by mail and over the phone.
DNDC	Dual-network debit cards that allow transactions to be routed through two different networks. Also known as multi-network debit cards.
eftpos	eftpos Payments Australia Ltd.
EFTPOS	Electronic funds transfer at point of sale.
Form factor	The different forms that debit account information can be presented to facilitate a payment, i.e., debit card, mobile wallet, online etc.
Interchange fee	A fee paid by the acquirer to the issuer to compensate for the value and benefits that a merchant receives when they accept electronic payments.
Issuer	A financial institution that issues debit cards.
LCR	Least-cost routing, also known as merchant-choice routing.

Mastercard	Mastercard Asia/Pacific (Australia) Pty Ltd.
Merchant	A business using payment-facilitation services.
Merchant fees	Total fees charged by schemes and acquirers to a merchant to facilitate debit transactions.
Payment service providers	Aggregate of schemes, acquirers and issuers.
Payment gateway	An e-commerce application service provider that authorises payments processing.
Payment terminal	Hardware used to process a card-based transaction. Also known as point-of-sale system.
Scheme	The networks through which funds can be transferred between a customer's and a merchant's bank accounts where a credit or debit card is used, i.e., eftpos, Visa and Mastercard.
Settlement terms	How long (immediate, hours or days) it takes for a bank to settle card payments into the merchant bank account.
Visa	Visa Inc.

Abstract

'Merchant fees' are charged by schemes, acquirers, and issuers (payment service providers) to facilitate card-based payments between merchants (businesses) and consumers.

On average, these fees cost small businesses twice that of large businesses to process the same transactions.[1]

The Australian Small Business and Family Enterprise Ombudsman (ASBFEO) has prepared this report with insights from CMSPI Pty Ltd (CMSPI), a leading global advisory firm. CMSPI estimates Australian businesses are paying excess merchant fees of approximately $1 billion a year.[2]

Least-cost routing (LCR) is an initiative aimed at promoting competition in the debit card market by ensuring a payment is processed via the least-cost route. Merchants could implement LCR to reduce their payment costs.

Dating as far back as 2017, the Reserve Bank of Australia's (RBA) has taken a light-handed approach to implementing LCR; by applying 'expectations' that the payments industry makes LCR available for payments made in certain form factors. This approach has not successfully compelled providers to make LCR available and promote LCR to all merchant customers.

The Treasury has proposed to update the Payment Systems (Regulation) Act 1998 (PSRA) to capture the full suite of payment entities and systems and provide the Treasurer with ministerial powers to address payment issues outside the scope of the RBA's public interest powers.[3] This change will be a positive step towards reducing merchant fees for mobile transactions, as transactions may no longer automatically default to the card issuer's preferred network.[4] However, the use of other existing government interventions can be justified to increase merchant access to LCR until these regulatory changes are made.

The objectives of this paper are to:

- define least-cost routing
- evaluate previous government payments policy efforts and inquiry recommendations
- identify international payments policy successes and failures
- recommend policy options to reduce the transaction costs for small business
- propose an advocacy pathway for the ASBFEO to improve small business merchant access to LCR.

[1] Reserve Bank of Australia (RBA) Governor Philip Lowe, *An efficient, competitive, and safe payments system*, RBA, 14 December 2022, accessed 16 January 2023.

[2] CMSPI, June 2022, *Least-cost routing workshop with ASBFEO*.

[3] The Treasury, *Strategic Plan for the Payments System: Consultation Paper*, accessed 30 March 2023.

[4] RBA, *Bulletin*, September 2022.

Summary of policy options

Now that the government has confirmed strategic plans for the payments system, and proposed clarification of regulatory roles, the following policy options are proposed for the ASBFEO's advocacy, aiming to improve small business merchant access to LCR.

Option 1: The government should expand the Payment Systems (Regulation) Act 1998 (PSRA) to give the RBA sufficient regulatory capacity to mandate least-cost routing (LCR) for transactions across all form factors, including in-person, online, BNPL and digital wallets.

Rationale: To increase the number of merchants accessing LCR by default and reduce the number of merchants accessing LCR under fixed-plan structures; and therefore, increase the number of merchants paying the lowest possible merchant fees, by:

- mandating unbundled fee structures as the default setting for new contract arrangements
- mandating that fixed or bundled plans are opt-out rather than opt-in
- providing merchants with appropriate examples of each fee structure to inform a decision about the most appropriate fee structure for their business.

Option 2: The government should advocate to industry for 'lesser-cost' routing.

Rationale: Payment service providers (that do not already) should offer all small business merchants a point-in-time analysis of their transaction history and recommend how the merchant can reduce their merchant fees (payment costs).

Option 3: The government should update card payment regulation within the Competition and Consumer Act 2010 so that merchants can surcharge customers the cost of processing their chosen payment type.

Rationale: Merchants should not be financially penalised for accepting consumers choice of payment type, by having the option to surcharge customers the cost of processing their payment, based on their chosen payment form factor.

Option 4: The government should ban payment service providers from engaging in 'tying conduct' or bundling fee structures with other products and terms of service.

Rationale: Increase transparency of merchant fees, empower merchants to find a better deal, and remove restrictive terms of service, by requiring payment service providers to bill merchant fees as they are paid to schemes, acquirers, and issuers for every single transaction.

Option 5: The government should standardise payment system terminology and industry information requirements.

Rationale: To increase transparency, and merchant's and customer's comprehension of merchant fees by:

- Implementing industry standards for merchant fee disclosures and comparisons.
- Setting industry standards for publication of accurate examples of LCR in practice.

ASBFEO strategic alignment

The ASBFEO has also advocated for mandated application of LCR to small business merchants, and in mid-2022, engaged CMSPI to deliver detailed training to strengthen the office's technical understanding of merchant fee structures and LCR in practice. CMSPI have also supported the development of this research paper through the provision of domestic and international statistics and examples of debit card transaction costs and policy outcomes.

This research paper is designed to increase the ASBFEO's understanding of LCR, barriers to implementation of LCR, the economic benefit of policy options that the Australian Government; relevant Ministers, Treasury and the RBA could implement to enforce the implementation of LCR.

The major political parties recognised the importance of LCR small businesses during their 2022 federal election campaigns:

- The then Treasurer, the Hon Josh Frydenberg MP, stated that the Morrison Government would consider changes that may be necessary to promote LCR more broadly, particularly in an online environment.[5]
- The Hon Richard Marles MP and the Hon Matt Keogh MP announced that a Labor Government would 'reduce small business transaction costs at the point of payment with a clear timeline for implementing least cost routing', saving businesses 'up to $804 million a year in merchant fees'.[6]

The Treasurer, the Hon Jim Chalmers released a statement on 7 June 2023, regarding Modernising Australia's Payment System that included the release of the Strategic Plan for Australia's Payments System.[7] The first associated consultation paper proposed updates to the Payments Systems (Regulation) Act 1998 (PSRA) to address the risks posed by new payments technologies.

The ASBFEO made a submission to the consultation, recommending:

1. Support for the proposed definition of 'payment system' and 'participant'.

   Updating the definitions of payment system and participant will help the RBA facilitate changes to default debit card settings and tokenisation; and thereby broaden its ability to designate new and emerging payment systems in the 'public interest'. This will address any potential regulatory asymmetry for new and incumbent participants, to promote fairness and consistency in the system.

2. The RBA having greater information gathering and disclosure powers.

   It is appropriate to introduce a mechanism that enables the RBA to publicly disclose identifying participant information without acquiring consent to support the RBA's existing public interest-based powers, in accordance with appropriate notification requirements and thresholds in relations to these powers (similar to section 57 of the *Australian Prudential Regulation Authority Act 1998*).

   The RBA's extended information-gathering and disclosure powers should apply to all payment system participants equally to avoid discriminating or unfairly disadvantaging one participant over another. A preferable approach could involve reporting on the performance of all participants or calling out all parties engaging in a poor behaviour. If such powers can be enforced by adding new civil penalties to the penalty framework, this could more effectively deter behaviour that diverges from the RBA's direction and increase regulatory effectiveness.

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[5] The Hon. Josh Frydenberg, *Letter to Payment Systems Board*, 8 August 2021.

[6] Parliament of Australia, *Labor's better deal for small business*, 2022. accessed 17 November 2022.

[7] The Hon Dr Jim Chalmers MP, 7 June 2023, *Modernising Australia's Payment System.*

3. Granting the RBA stronger information-gathering and disclosure powers would foster transparency for personal consumers and merchant customers. It would also promote competition between payment system participants, as more of their performance metrics would be publicly available. The penalty regime under the Payment Systems Regulation Act should be strengthened to better support system enforcement and compliance with RBA regulatory directions.

   We support the proposal to establish a more graduated penalty regime with new civil penalties added to the existing criminal penalty framework. The RBA is not currently able to impose civil penalties under the Payment Systems Regulation Act. The addition of civil penalties will enable the RBA to encourage compliance with its regulatory directions without having to resort to criminal penalties (which are generally reserved for serious misconduct). This will more effectively deter all payment system participants – irrespective of size – from engaging in non-compliant behaviour. 3

The Hon Bruce Billson published an op-ed in Kochie's Business Builders on 13 June 2023: *Why merchant fees could be costing your business too much*:[8]

> The simplicity and convenience of making instant electronic payments in person or online masks an incredibly complex structure, where massive hidden costs for consumers and small businesses lurk like a financial black hole.
>
> Across our economy, merchants are paying higher fees and charges than they otherwise should, worth a staggering $1 billion a year!
>
> We need urgent reform to fix this problem. The Reserve Bank found that on average, these fees cost small business twice as much as what it costs a large business to process the same transactions.
>
> It's one thing to applaud small business as the engine room of the economy but why do we then put a heavier load on that engine that strangles a productive, innovative and more competitive economy, and when cashflow is so critical to small business?
>
> The solution is to mandate a system called least cost routing, so the fee charged to small businesses for facilitating any transaction is always the lowest fee available.
>
> Most of the cards we carry are 'dual network', meaning they typically have a Visa or MasterCard logo and an eftpos logo. When we buy something using the card, unless we instruct the merchant or website otherwise, the usual default is to a more expensive international network. This is most prevalent when we tap and go or buy online.
>
> Sometimes the customer sees the fee but in most cases they do not, and it is charged to the merchant who cops it on the chin or passes it on to the customer as a surcharge by adding it to their prices.
>
> Everyone loses – except the banks and payment companies.
>
> We all know the rising cost of living, inflation and sharply higher interest rates are creating intense pressures on our lives. Mandating least cost routing would be a simple step that could help to ease some of that pressure – by $1 billion across the economy if it was fully implemented.
>
> The recent changes to the payments system, announced by Treasurer Jim Chalmers, are a positive step because they aim to give the Reserve Bank more power to lean in when overseeing the performance of payment service providers, which will ultimately promote stronger competition in the payments market and lower payment costs for small business.
>
> The Reserve Bank has revealed a woeful roll-out of least cost routing technology by the major banks. Despite reassuring words, the National Australia Bank has remarkably only turned the system on for 14 per cent of its merchants and the other major banks offer it to well under half their customers.

[8] Bruce Billson, 13 June 2023, *Why merchant fees could be costing your business too much*, Kochie's Business Builders, accessed 14 June 2023.

The banks and major card providers claim customers don't want least cost routing. That's laughable when they have done all they can to go slow on it. People simply don't know it exists. For example, how many people know they can choose the payment network in their mobile wallet or how to do it? And how many small businesses have been supported to make the change that will save them money when margins are under real pressure?

Buy Now, Pay Later (BNPL) providers have no interest in promoting this either. Average transaction costs in 2020-21 were 6 per cent of the transaction value compared to just 95 cents for the average debit transaction. That's a difference of $496 million!

We need to better explain how the payment system works and have a more transparent fee structure to allow comparisons and promote competition.

There are many ways people can pay at the point-of-sale, whether it is a credit or debit card, mobile wallet, online token or third-party gateway, and small businesses should not have to pay higher fees depending on which option is chosen by the consumer or when no choice is made.

It is time to mandate least cost routing to do what the name says and have an easy-to-use system to make payments that comes at the least cost for consumers and small businesses.

The RBA released an Issues Paper on 16 June 2023: *The Australian Debit Card Market: Default Settings and Tokenisation*, outlining options for further enhancing the competitiveness, efficiency and safety of Australia's debit card market. The key issues raised in the paper are:[9]

- the practice of a default routing network being set at issuance on dual-network debit cards
- the tokenisation of debit cards for the purpose of conducting online transactions.

The ASBFEO made a submission to the consultation, recommending:

1. Prohibiting the setting of a default routing network on DNDCs at issuance.

   Given rapid advancements in payment technology and payment provider types, it is essential that government policies enforce merchant choice of routing or LCR for all payment form factors so that small business merchants pay the least-cost merchant fees.

   Altering the current unregulated default payment routing settings in the payments system would increase the value and volume of transactions that can be automatically routed by the least-cost, or the merchant's choice route. As a result, it would also:

   - increase competition between payment system participants
   - increase merchant awareness of payment service options, by virtue of the 'default' route becoming the least-cost or the merchant's preference in routing
   - ensure future payment technologies are built without default routing controls.

   A further action to address the Bank's concerns regarding default settings on dual-network debit cards would be to prohibit the issuance of single network debit cards (SNDCs). While SNDCs account for a minority of debit cards on issue, their limitation to a single card scheme prevents all associated transactions from being routed to the least-cost route.

[9] RBA, 16 June 2023, *The Australian Debit Card Market: Default Settings and Tokenisation June 2023.*

2. The tokenisation of debit cards for the purpose of conducting online transactions.

   Tokenisation transforms sensitive payment details into a 'token' unique to the wallet/merchant, so that when a payment is made, the token is transmitted – not the card details. The importance of addressing token portability, synchronisation and visibility cannot be overstated.

   Small-business merchants should be empowered to find a better deal on their payment service arrangements, and enabling token portability, synchronisation and visibility would ensure that merchants are not impeded from switching between payment service providers once their customers' cards have been tokenised.

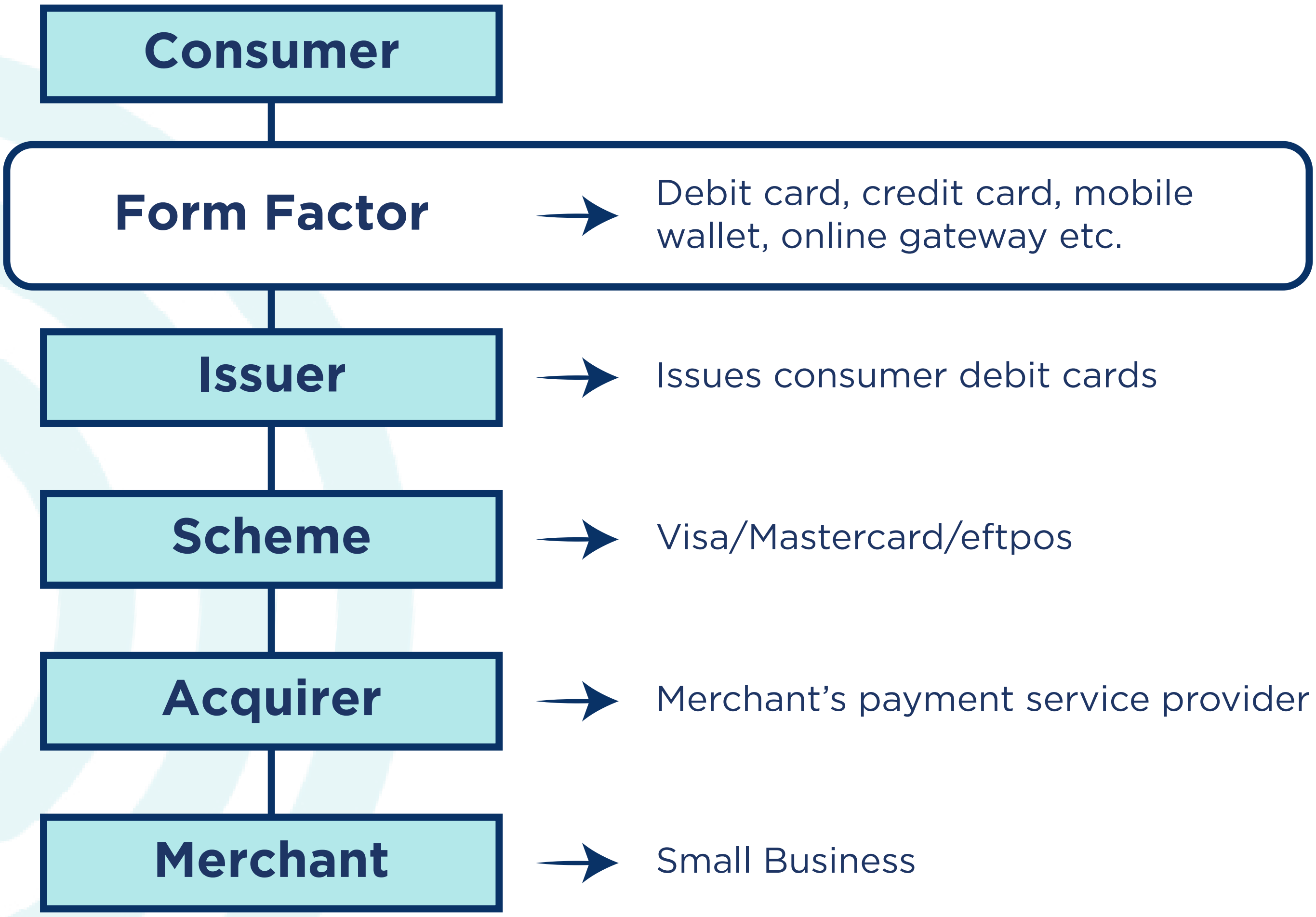
   Any expectations the RBA holds for the storage of customer primary account numbers (PAN) should align with its expectations for the availability of LCR, That is, both requirements should come into force from the date the new form factors (i.e. means of making debit payments) are developed and made accessible to consumers.

   In the interim, all existing form factors should address these issues by the end of 2024, when the Bank expects that LCR should be made available for mobile wallet transactions, in addition to online and in-store debit transactions.

1. Background to the payments system

The electronic payments system operates within a complex framework and multiple parties are involved in facilitating electronic payments. Figure 1 maps the relationship between acquirers, issuers and schemes that are involved in facilitating the transfer of funds between merchant and consumer banks.

Figure 1: Entities engaged in facilitating card payments



2. What is least-cost routing?

In practice, LCR actively overrides 'default' debit card payment routing to process eligible payments via the scheme (or route) with the lowest fee. Conditions for a transaction to be eligible for LCR include:

- the acquirer has activated LCR technology on the payments gateway (for example, at the terminal or online store)
- the consumer uses a dual-network debit card (DNDC)
- the consumer does not manually choose the scheme on a payment terminal; that is, they tap their card or enter their card details online, rather than insert their card into a payment terminal and select cheque, savings or credit
- the transaction is processed by the scheme that has the smallest merchant fees; eftpos Payments Australia Ltd (eftpos), Visa Inc. (Visa) or Mastercard Asia/Pacific (Australia) Pty Ltd (Mastercard). The debit card type, transaction value and payment service provider the merchant has engaged to facilitate the transfer of consumer payments also determines the total merchant fee per transaction.

Merchant fee structures

Schemes, acquirers, and issuers charge merchants a fee every time they are involved in facilitating a transaction. These fee structures are complex, as they can vary depending on the:

- scheme: that is, Visa and eftpos or Mastercard and eftpos
- issuer: that is, domestic or international
- value of a transaction
- physical payment method: that is, whether a debit card is swiped, inserted, or tapped on a payment terminal, or the debit card details are manually entered into an online payment gateway.[10]

Table 1 demonstrates how different schemes structure their fees.

Table 1: How different schemes structure their fees

<table>
<tr><th>Fee</th><th>eftpos</th><th>Visa & Mastercard</th></tr>
<tr><td>Acquirer fee
paid to the acquirer, accounts for 10% of total fees</td><td>Set charge per transaction</td><td rowspan="3">Set charger per transaction
or
percentage of the transaction</td></tr>
<tr><td>Interchange fee
paid to the acquirer and passed to the issuer, accounts for 70% of total fees</td><td>Set charge per transaction</td></tr>
<tr><td>Scheme fee
paid to the acquirer and passed to the scheme, accounts for 20% of total fees</td><td>Set charge per transaction or percentage of the transaction</td></tr>
</table>

Average merchant fees

Unlike scheme and acquirer fees, the RBA has capped interchange fees. The average interchange fee is required to be below a benchmark of 0.50% of the transaction value for credit cards, and 8 cents for debit and prepaid cards.[11] In the years since the interchange fee cap was introduced, increased scheme fees have compensated for lost profit margins and now account for 70% of total merchant fees.[12]

CMSPI delivered a presentation to the Policy & Advocacy team regarding LCR and merchant fee structures in May 2022. CMSPI had estimated the profit from merchant fees was 8% for schemes, 35% for acquirers, and 24% for issuers, and highlighted total merchant fees are increasing in dollar value because of inflation.[13] The average merchant fee for debit card transactions processed by eftpos was 0.24 percentage points on transaction value (or about half) lower than for debit transactions processed through the Visa and Mastercard networks in 2021-22.[14]

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[10] Reserve Bank of Australia (RBA), *Payment Data. C3: Average merchant Fees for Debit, Credit and Charge Cards*, 22 May 2022.

[11] RBA, *What are the RBA's Interchange standards?*, 2022; RBA, *Review of Retail Payments Regulation: Conclusions*, 22 October 2021.

[12] CMSPI, *Least-cost routing workshop with ASBFEO*, June 2022.

[13] CMSPI, *Least-cost routing workshop with ASBFEO*, June 2022; CMSPI, Webinar, *Manoeuvring merchant Fees: Budgeting More Effectively*, July 2022.

[14] For debit card transactions where the device is present.

The Table below shows the average merchant fees for Australian debit card transaction schemes in the 2021-22 financial year.

Table 2: Average domestic debit card merchant fees as percentage of 2021-22 transaction values

Scheme	Mastercard	Visa	eftpos
Total merchant fees	0.50%	0.48%	0.28%
Device present	0.54%	0.53%	0.29%
Device not present	0.43%	0.42%	n/a[15]

Source: RBA, *C3 Average merchant fees for Debit, Credit and Charge Cards*, September 2022.

Bundled merchant fees

Merchant fees are further complicated by the way they are presented and charged, either in a bundled or unbundled format.

Unbundled formats itemise merchant fees as scheme, acquirer and issuer fees for every sale, where bundled fees are presented as one value – a fixed percentage of total sales.

Bundled merchant fees are potentially more attractive to small businesses because they are simpler to understand and budget for, whereas unbundled fee structures are variable and can complicate budgeting and comparison of financial products.

Technically, bundled merchant fees use LCR technology because it allows payment service providers to maintain profit margins on merchant fees. The use of LCR technology for these plans inflates the headline number of merchants that are reducing their payment costs through LCR, and merchants may not be benefiting from any savings on their merchant fees than if they were paying the direct scheme, acquirer and interchange fees.

Example

Compare the cost of the two fee structures for a merchant using:

- the RBA published average debit card transaction value of $50[16]
- LCR eligible debit transactions per annum of $500,000
- the Commonwealth Bank of Australia's (CBA) bundled fee structure of 1.1%[17]
- the average eftpos merchant fee per transaction (0.28%) for unbundled fee structures.

The applicable merchant fees are calculated as:

- $1,400 a year for unbundled (variable fee rates) with active LCR, or
- $5,500 a year for bundled (fixed fee rates) at 1.1% of total sales.

In this example, businesses paying unbundled fees saves $4,100 a year on their merchant fees.

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[15] eftpos has only recently commenced processing online transactions, therefore data is limited.

[16] RBA, *Monthly value and volume of debit card transactions*, June 2022. The average debit card transaction is $50.00.

[17] Commonwealth Bank of Australia, *Business / eftpos, Payments & eCommerce / Smart, 2022*, accessed 13 December 2022.

Packaged financial products

Some payment service providers offer merchant fee structures with other financial products and varying point of sale (POS) functionality. Common product features tied to LCR, offered by the big four banks, include:

- different merchant fees based on the business' annual turnover
- surcharging applicable to inserted and 'tapped' payments only
- inability to split bill
- options for POS internet connectivity (for example, 3G, 4G, Bluetooth, Ethernet)
- same, second or several days settlement terms
- access to online sales platform functionality.

Bundled fee products often have more standard inclusions than unbundled or LCR-active products.

Example

A bank offers two payment terminals:

- The LCR fee structure terminal excludes digital receipts, settlement on the terminal, access to the app marketplace, and does not have a dual sim card.
- The fixed fee structure terminal does not have POS integration or split billing, but does offer digital receipts, settlement on the terminal, access to the app marketplace, and has a dual sim card.[18]

Structuring terminal features in this way may be an attempt by payment services providers to encourage businesses to use bundled fee structures that are more profitable than unbundled LCR models.

Tying conduct

Tying conduct occurs when an agreement in which the seller conditions the sale of one product (the 'tying' product) on the buyer's agreement to purchase a separate product (the 'tied' product) from the seller.[19]

Visa and Mastercard have historically provided strategic interchange fee rates on credit card transactions to the value or volume of merchants' debit card transactions (or their decision to adopt LCR). This behaviour penalises merchants that route debit card transactions to eftpos by charging them higher interchange rates on their credit transactions, which could offset the merchant fee savings from implementing LCR.[20]

There is a short-term court-enforceable undertaking from Visa that it will not engage in such conduct. However, the RBA has argued that there may be some merit in an ongoing regulatory requirement to ensure that all schemes refrain from tying conduct.[21]

On 22 October 2022, the RBA released its conclusions paper to the Review of Retail Payments Regulation – October 2021. In this report, the RBA announced that it will seek to obtain specific undertakings from Visa and Mastercard that they will not engage in tying conduct.[22]

CMSPI considers that the RBA should impose a formal mandate that prohibits tying conduct, to promote stronger competition in the domestic debit payment market.[23]

[18] Commonwealth Bank of Australia, *EFTPOS, Payments & eCommerce. Compare all terminals*, 2022, accessed 13 December 2022.

[19] Legal Information Institute, *Tying arrangement*, 2022.

[20] RBA, *Review of Retail Payments Regulation - Consultation Paper*, May 2021.

[21] RBA, *Review of Retail Payments Regulation, Regulation Impact Statement*, October 2021.

[22] RBA, *Review of Retail Payments Regulation - Conclusions Paper*, October 2021.

[23] CMSPI, *Least-cost routing workshop with ASBFEO*, June 2022.

3. Current implementation of least-cost routing

There are many different forms that debit account information can be presented at point-of-sale to facilitate a payment, for example, debit card, mobile wallet, tokenised online, via a third-party gateway.

Small business merchants should not have to pay more to accept a payment form factor, because of consumer choice. Given the rapid advancements in payment technology and payment provider types, it is essential that government policies that enforce the implementation of LCR, consider all payment form-factors.

To date, the RBA's Payment Systems Board has taken a light-handed approach by applying 'expectations' that LCR is made available for payments made in certain form factors, as detailed below.

In-person dual-network debit card form factor

In-store transactions are facilitated when a DNDC or mobile device is tapped on a payment terminal.

The RBA has expected – but not required – payment service providers to implement LCR for in-store payments since December 2017.[24] The RBA subsequently surveyed payment service providers in August 2022 to determine how many merchant customers have technical access to LCR, and how many have LCR enabled. As of August 2022, only half of the 85% of merchants with access to LCR had the functionality enabled.[25]

The RBA provided an update on the availability and enablement of LCR across the major acquirers in a speech to the Australian Financial Times annual Banking Summit (March 2023), as below.

Table 3: Least-Cost Routing when Debit Card is presented

Acquirer	Available to merchants	Enabled for merchants
Square	100	100
Suncorp Bank	100	58
Tyro	100	56
Westpac	100	30
Fiserv	100	27
Adyen	100	17
ANZ Worldline	98	23
Commonwealth Bank	89	42
National Australia Bank	55	14
Total	**90**	**53**

Per cent of merchants, December 2022
(a) Excludes very large (strategic) merchants and merchants that supply their own payment terminals

Source: RBA

[24] RBA, *Merchant Payment Costs and Least-cost Routing*, 13 December 2017.

[25] RBA, *Bulletin – September 2022, The Cost of Card Payments for merchants*, 15 September 2022.

The few laggard payment service providers have suggested to the RBA that access to LCR is restricted by older payment terminals not having the requisite technological capability.

The RBA has asked for concrete plans and assurances from the relevant providers that they will address these gaps promptly, to ensure that LCR is made available for in-person transactions for all their merchants.

Online dual-network debit card form factor

Online transactions are facilitated when DNDC details – card number, expiry date and CVC – are entered into an online payments gateway.

The RBA Payment Systems Board (Payment Systems Board) expects that acquirers and payment service providers will have implemented LCR for online transactions (by enabling eftpos) by the end of calendar 2022.[26]

The RBA has advised ASBFEO that half of acquirers and payment facilitators look like they will meet this end of year deadline and the remaining half are under pressure to meet the requirements in the first half of 2023.

The first reports from acquirers and payment facilitators on how online LCR has been implemented are due in early 2023. The RBA does not currently publish these data.

Acquirers and payment facilitators have suggested to the RBA that eftpos technology updates have delayed implementation, but also that some acquirers' payment gateway services are provided by Visa and Mastercard, that are obstructing the implementation of LCR because it will reduce their profits.

Mobile wallet dual-network debit card form factors

Mobile wallet transactions are facilitated when a tokenised DNDC is tapped on a payment terminal.

The RBA Payment Systems Board declared its expectation that mobile wallet providers will develop LCR functionality in August 2022. The Payment Systems Board announced that it considers it to be both feasible and desirable for the industry to deliver LCR functionality for mobile wallet transactions by the end of 2024, in November 2022.[27]

The RBA had previously avoided placing expectations on the market to implement LCR for mobile-wallet transactions, because of reported technical difficulties in implementation and their lack of clear legislative powers to regulate mobile-wallet facilitated transactions.

The RBA is anticipating authority to be designated by the payments system regulatory reforms, as recommended by the Farrell review.[28] Treasury is proposing to update the Payment Systems (Regulation) Act 1998 (PSRA) to capture the full suite of payment entities and systems, as well as provide the Treasurer with ministerial powers to address payment issues outside the scope of the Reserve Bank of Australia's (RBA) public interest powers.[29] This change will be a positive step towards reducing merchant fees for mobile transactions, as transactions may no longer automatically default to the card issuer's preferred network.[30]

Tokenisation

Tokenisation transforms sensitive payment details into a 'token' unique to the wallet/merchant, so that when a payment is made, the token is transmitted – not the card details.

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[26] RBA, *Review of Retail Payments Regulation - Conclusions Paper*, October 2021.

[27] RBA, *Payments System Board Update: August 2022 Meeting*, 25 August 2022; RBA, *Payments System Board Update: November 2022 Meeting*, 24 November 2022.

[28] The Treasury, P*ayments System Review. From system to ecosystem*, June 2021; RBA, *Meeting with ASBFEO*, 5 October 2022.

[29] The Treasury, *Strategic Plan for the Payments System: Consultation Paper*, accessed 30 March 2023.

[30] RBA, *Bulletin*, September 2022.

There are two main types of tokenisation:[31]

1. Merchant tokenisation is where a merchant requests a customer's primary account number (PAN) to be tokenised by their payment gateway. The merchant does not store the PAN and instead uses the token provided by the gateway, which in turn has stored the PAN in a token vault. When processing the tokenised payment, the merchant's gateway then extracts the PAN from the token vault and sends it to the card scheme.

2. Network tokenisation involves the card scheme tokenising the PAN and storing the PAN in a token vault. As such, both the merchant and the gateway do not need to store the PAN, instead using the token provided by the card scheme. Network tokenisation limits PAN exposure during the authorisation process, reducing the risk of a PAN being compromised when passed from a payment gateway to the card scheme.

The RBA has suggested that payment system participants should support the portability of scheme tokens by the end of 2024.[32] While some stakeholders have raised issues about the expected timeframe for implementing tokenisation, it would empower small-business merchants to find a better deal on their payment service arrangements. It would also that merchants are not impeded from switching between payment service providers once their customers' cards have been tokenised.

Debate over consumer choice

Perspectives differ as to how much control consumers should have, and how much they care about which scheme is used to process a debit card transaction. Device-present debit transactions allow consumers to choose the scheme used to process the transaction, and mobile wallets currently allow consumers to override the default scheme selection with a tap of a button.

The Reserve Bank Payment Systems Board has previously noted industry concerns that implementing LCR in mobile wallets will remove consumer choice and potentially limit consumer led innovation in the payments system.[33]

Independent research commissioned by the Visa Group in May 2021 found that 67% of consumers surveyed would be displeased if their preferred choice of payment scheme brand was overridden.[34] These findings support the industry perspective that consumers should retain choice of scheme and the associated payment rights and protections. The flip side to this argument is that most consumers are not aware they can choose the payment's scheme in their mobile wallet, let alone appreciate the difference in scheme fee structures and their impact to the bottom line of small business merchants.

As such, mobile wallet providers will need to develop their LCR functionality in a way that the merchant's choice of scheme is the default for every payment, unless the consumer manually selects the scheme themselves.

Other transaction types

LCR is currently only available for debit transactions because debit cards are issued with dual networks to support routing via the lesser-cost scheme. However, any policy changes to enforce LCR need to consider other high-cost payment types, such as Buy Now Pay Later (BNPL).

The Australian Finance Industry Association (AFIA's) has highlighted the scale and cost of the BNPL sector to Australian businesses:

- BNPL was accepted by more than 135,400 Australian businesses as of 30 June 2021.

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[31] RBA, *The Australian Debit Card Market: Default Settings and Tokenisation Issues Paper*, June 2023.

[32] RBA, T*he Australian Debit Card Market: Default Settings and Tokenisation Issues Paper*, June 2023.

[33] RBA, *Payments System Board Update: November 2022 Meeting*, 24 November 2022.

[34] VISA, *'Consumers want to maintain choice over how they pay, says new research'*, 8 June 2021. Visa Group commissioned CLEAR, a global consultancy firm, to survey 2,045 Australian debit cardholders on their routing preferences.

- Merchants paid $496 million in BNPL merchant fees in the 2020-21 financial year.[35]

On average, BNPL transactions cost 6% of the transaction value compared to just $0.95 for debit transactions.[36]

The Australian Government has announced it will regulate BNPL products under the National Consumer Credit Protection Act (NCCP Act) by mid-2023.[37] To complement the revised NCCP Act, AFIA engaged Promontory Australia to conduct an independent review of the BNPL code of conduct in October 2022.[38]

Under current regulatory settings, regulated banks can promote their own BNPL products, such as pay-in-four 'debit cards', while charging merchants credit product rated fees; average Visa and Mastercard credit transaction merchant fees are 0.9%, compared to 0.5% for debit transactions.[39]

Sole BNPL services are also able to continue positioning themselves strategically as an essential small business marketing tool and charge higher merchant fees compared to fees for debit and credit card transactions. BNPL services can also deliberately continue to:

- hide their fee structures on company websites. BNPL services require merchants to contact them or create an account to find out what the merchant fee structure looks like
- present transactional data in a way that demonstrates BNPL customers spend more and have higher conversion rates than debit customers.

In the absence of regulation, BNPL services also present a settlement risk to merchants, as they may be considered unsecured creditors to BNPL service providers. One European BNPL product has 'transaction +5' settlement terms, meaning the merchant receives payment 5 days after a sale is processed. There is an example of such settlement terms creating a multimillion-dollar risk for just one business.[40]

4. Key issues for small and family business

Opportunity cost

Small businesses pay more for debit transactions because without active choice, the typical $50 debit transaction is routed to Visa and Mastercard, which incur more fees than if it was routed via eftpos.[41]

CMSPI estimates Australian businesses could save $837 million per annum in merchant fees through implementing LCR as the default mechanism.[42]

Low merchant and consumer awareness of payment facilitation

Half of small businesses that accept card payments have never heard of LCR.[43] Such low awareness leads to low take-up of the offering across the sector.

[35] Australian Finance Industry Association (AFIA), *The Economic Impact of BNPL in Australia*, June 2022.

[36] CMSPI, Webinar, *Manoeuvring merchant Fees: Budgeting More Effectively*, July 2022.

[37] The Hon Dr Jim Chalmers MP, The Hon Stephen Jones MP, Joint media release, *Modernising Australia's financial system*, 14 December 2022.

[38] AFIA, *Buy Now Pay Later Code Review*, 14 October 2022.

[39] RBA, *The Cost of Card Payments for Merchants*, March 2020.

[40] CMSPI, Webinar, *Manoeuvring merchant Fees: Budgeting More Effectively*, July 2022.

[41] RBA, *C2.1 Debit Card Statistics*, 2019.

[42] CMSPI, *Updated forecasts on the cost of Australian merchant fees*, September 2022.

[43] NSW Small Business Commissioner, *Business survey*, 2022.

EFTPOS or eftpos? The history of EFTPOS and eftpos Payments Australia Ltd

The acronym EFTPOS stands for *electronic funds transfer at point of sale*. The technology that facilitates EFTPOS was developed in the 1980s by the Australian Retail Banks to meet Australian conditions including a small population, high rates of cash transactions, a small number of banks capable of 'exchange of value' settlements and enormous distances.[44] Legally, the EFTPOS system was supported by a series of bilateral agreements between the then participating entities, governing connectivity, and settlement arrangements.[45]

The banking industry created eftpos Payments Australia Ltd (eftpos) to oversee and deliver the EFTPOS Scheme Rules in 2009. Twenty-one banks, FinTechs and retailers are owner-members of eftpos in 2023.[46]

Arguably, the banks involvement in the development and ownership of Australia's EFTPOS system has contributed to poor merchant access and awareness of LCR. It has not been in the banks' financial interests to upgrade EFTPOS infrastructure and enable payments to be processed by the lesser cost route.

EFTPOS or eftpos? Terminal hardware, a payment method or a card scheme?

Industry referring to terminal hardware and POS payment methods as 'EFTPOS' further complicates small business and consumer understanding of how card-based payments are processed.

General use of EFTPOS to describe a card payment at POS disadvantages merchants and their customers because consumers are unlikely to differentiate between EFTPOS the payment method and eftpos the scheme, and they may assume their payment is being made using eftpos the card scheme rather than Visa or Mastercard.

Misrepresentation of LCR

Some financial institutions have attempted to simplify examples of how to implement LCR in different small business circumstances. However, by over-simplifying examples small businesses may be misled as to how LCR works and how much it can reduce their payment costs.

Example from the Australian Banking Association

How LCR is applied in a hospitality business states that:

> *'If the LCR fee for a Visa/Mastercard debit transaction is 2%, and if the eftpos transaction has a flat fee of $0.25, LCR might not be the best option.*
>
> *When LCR is not enabled, the payment is automatically routed through the debit card. A $10 purchase would cost $0.20 (2% of $10).*
>
> *If [a merchant] enabled LCR, the same transaction via eftpos would cost $0.25, costing an additional $0.05 per transaction.'*

This example implies that by enabling LCR, a transaction will default to being routed via eftpos, which may not be the case, potentially misleading merchants when assessing the impact LCR would have on their business.

This example has been replicated by several banks on their webpages related to LCR.[47]

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[44] Gyoery, Ralph and Seberry, Jennifer, *Electronic funds transfer point of sale in Australia*, 1987.

[45] eftpos Payments Australia Ltd, *Statement in support of application for authorisation*, 21 March 2021.

[46] eftpos Payments Australia Ltd, *Statement in support of application for authorisation*, 21 March 2021; eftpos Payments Australia Ltd, *About us*, accessed 4 April 2023.

[47] Commonwealth Bank of Australia (CBA), *Least Cost Routing*, accessed 13 December 2022; National Australia Bank (NAB), *Merchant Choice Routing*, accessed 13 December 2022.

Example from Westpac

'For merchant customers that are not on a monthly pricing plan, or paying a flat percentage rate for transactions, you can choose to activate [LCR] on your eftpos terminals (and/or eCommerce Merchant Facilities). It sends contactless debit transactions through the eftpos network – rather than through the Visa or Mastercard networks.'

Worldline Australia Pty Ltd (ANZ Worldline Payment Solutions) also claims that LCR routes debit card transactions through the eftpos network, and that the fixed eftpos fee per transaction can cost more than non-LCR arrangements depending on the transaction value.[48]

Examples from ANZ

Example 1: A coffee truck business has an average transaction size of $5. Their Merchant Service Fee (MSF) to process a Visa debit card is 1.0% and their eftpos debit card fee is $0.25.

- This would mean that when a customer presented this merchant with a Visa Debit Card for a contactless transaction and the coffee truck business did not have merchant choice routing activated, the transaction would be processed through Visa and it would cost this merchant $0.05 ($5 at 1.0%) to process the transaction.
- If this merchant did have merchant choice routing activated, the transaction would be processed through eftpos and it would cost them $0.25 to process the transaction.
- In this example, it may not be beneficial for this merchant to activate Merchant Choice Routing.

Example 2: A handmade accessories business has an average transaction size of $80. Their Merchant Service Fee (MSF) to process a Visa Debit Card is 1.0% and their eftpos debit card fee is $0.25.

- This would mean that when a customer presented this merchant with a contactless Visa Debit Card and the accessories business did not have Merchant Choice Routing activated, the transaction would be processed through Visa, and it would cost this merchant $0.80 ($80 at 1.0%) to process the transaction.
- If this merchant had Merchant Choice Routing activated, the transaction would be processed through eftpos and it would cost them $0.25 to process the transaction.
- In this example, it could be beneficial for this merchant to activate Merchant Choice Routing.

Information directed at the debit card consumer

Some financial institutions have targeted debit card consumers with information about how their transactions are processed in a way that encourages them to select Visa or Mastercard over eftpos.

Example from a bank

An article discusses large retailers changing their default routing to eftpos, which may affect card holders monthly debit card eftpos transaction limits, stating:

'To avoid getting charged with excess EFTPOS merchant fees, simply insert your Visa debit card into the EFTPOS machine and select 'Credit'. By choosing 'Credit', your payments will be processed via the Visa network and will not be counted as an EFTPOS transaction.'[49]

[48] ANZ Worldline Payment Solutions (ANZ), *Merchant Choice Routing*, accessed 13 December 2022.

[49] Southern Cross Credit Union, *Least-cost routing to Affect Tap-and-go Payments*, 6 January 2020.

The meaning of ‘excess’ in this statement can be interpreted to mean either additional fees, or fees in excess of what would be paid to Visa.

While the consumer has a right to know which scheme may cost them (or the merchant) less, this does not necessarily result in a saving to the consumer because as previously mentioned, the merchant fees depend on many variables including the card type, transaction value and whether the merchant is applying a surcharge. Further, limiting the number or value of eftpos transactions in this way can be considered tying conduct since there is no obvious technological reason for the number of eftpos transactions to be restricted.

Anti-competitive behaviour

The RBA has been engaging with the Australian Competition and Consumer Commission (ACCC) on some of the competition issues associated with LCR.

Example of potentially anti-competitive conduct

A scheme entering into an agreement with merchants for discounted merchant fees, provided the merchant routes all or most of their consumer’s debit card transactions via that scheme over another. It has been alleged that this behaviour was a direct response by Mastercard to the RBA’s least cost routing initiative in 2017.[50]

The RBA lacks regulatory oversight or powers over providers of new payment technology

The RBA’s expectation that the technical availability of LCR would evolve into practical accessibility and take-up by merchants has not been realised. Only 50% of merchants had LCR enabled by the end of 2021-22.[51]

To ensure LCR is offered by payment service providers by default, the government needs to amend the Payment Systems (Regulation) Act 1998 (PSRA) to allow the RBA to mandate LCR merchant-fee arrangements. Just as ‘MySuper’ legislation requires default superannuation options to provide a simple, cost-effective, and balanced product, an amended PSRA could require LCR as the default merchant-fee mechanism, with an op-out provision for alternative arrangements.

Transparency of fee structures

As highlighted in the fee structure section, merchant fees are complex and difficult for small businesses to understand.

Inconsistent presentation of fees via tying conduct, bundled fee formats and packaged financial products all discourage competition between financial institutions, by challenging small business’ capability to directly compare the cost of different products and services. This costs the small business in time (deciding which product or service is right for their business requirements) and money in the long term (if they have not been able to identify and implement the least-cost option).

While increasing merchant access to LCR would enhance financial services’ customer experience and retention, they may be hesitant to actively promote LCR because merchant fees can be a profitable area of business.

CMSPI estimates the profit from merchant fees is 8% for schemes, 35% for acquirers, and 24% for card-issuing banks.

[50] ACCC, *Mastercard in court for alleged misuse of market power over card payments*, 30 May 2022.

[51] T Gill, C Holland, and G Wiley, *The cost of card payments for merchants*, RBA, 15 September 2022, accessed 16 January 2023.

[52] CMSPI, *Least-cost routing workshop with ASBFEO*, June 2022.

Another reason for the failure of financial institutions to promote LCR actively is that they have not all enabled the functionality to route transactions differently to the default route, or the scheme listed on the front of the card, commonly Visa or Mastercard.[52]

Groups that support merchants to access LCR and advocate for regulation in this space suggest that under-regulation is limiting small business awareness of their transaction routing options and how seeking a better deal on merchant fees may financially benefit their bottom line.

Understanding merchant fees to implement surcharging

The RBA permits businesses to charge customers a 'surcharge' to cover the cost of processing card-based transactions; however, the complexity and opacity of merchant fee structures makes it difficult for many small businesses to levy appropriate surcharges.

Businesses can calculate a surcharge amount from the preceding 12 months of transaction data to cover merchant fees and associated costs of accepting payments, including:

- costs payable to acquirers, such as fees for rental and maintenance of payment terminals
- fees incurred in processing card payments and levied by the acquirer and the scheme
- other fixed fees for providing payment acquiring equipment and services
- fraud costs related to card acceptance.[53]

Levying an excessive surcharge can result in the ACCC issuing an infringement notice, which in turn leads to payment of a penalty. The ACCC can also take court action seeking pecuniary penalties against businesses that wrongly surcharge their customers. Therefore, before implementing a surcharge, it is essential for businesses to:

- understand their average monthly merchant fees, including POS rental and maintenance
- question if it is industry practice to surcharge and what are customer's perceptions of surcharging; will it discourage consumer spending
- question whether current financial products will allow surcharging, and if so, to which transaction types.

Inconsistent access and functionality

The absence of mandated LCR functionality for merchant payment services has resulted in inconsistent implementation, restricting the volume and value of 'routable' transactions.

Approximately 18% of all card-based transactions by volume are routable.[55] As much as government and others may promote LCR, small businesses may have to shop around to find a provider that has LCR functionality and services for their other business banking and point-of-sale requirements.

Some factors influencing the value of routable transactions:

- There is no single best-practice framework for implementation of LCR.
- Not all debit cards are dual network. Until the end of 2024, large issuers can issue SNDCs to children, customers' accounts that are formally managed by another person and other vulnerable customers that explicitly request a card with restricted functionality.[56]

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[53] RBA, *Guidance Note: Interpretation of the Surcharging Standards*, November 2012.

[54] ACCC, *Credit, debit & prepaid card surcharges*, 2022.

[55] CMSPI, Webinar, *Manoeuvring merchant Fees: Budgeting More Effectively*, July 2022.

[56] RBA, *Payments System Board Update: May 2022 Meeting*, 26 May 2022.

- Not all payments are contactless, and a customer may prefer a specific routing option that gives them access to other services provided by their issuers, such as discounted insurance products or rewards points. The customer can select cheque or savings for card-inserted debit card transactions to determine the payment route.
- Advancing payment technology is a barrier to broader implementation of LCR because it has driven a significant shift away from the use of physical cards at the point-of-sale to new 'form factors', such as mobile wallets of which transactions cannot currently be routed.[57]
- The RBA had stated they expect all acquirers and payment facilitators that provide card acceptance services to merchants to offer and promote LCR to their merchants for in-person transactions, and for online transactions by the end of 2022. The next report to the RBA on acquirers and payment facilitator LCR offerings, and merchant take-up is due in March 2023.[58]

  Note: Some institutions had indicated to CMSPI that LCR in the online environment will not be implemented until 2024.[59]
- There remains a debate about how much consumers care which scheme their transactions are processed through – and if they should have the rights to choose which scheme is used to process a dual-debit card transaction. Arguably the introduction of contactless payments removed the previously well-known choice of payment scheme when inserting or swiping a card.

Some small businesses, such as franchises, may also be limited in their LCR options by other commercial agreements, such as franchise agreements that include all POS systems because stock-on-hand needs to be reportable between franchise stores. According to the Franchise Council of Australia, franchising is a $184 billion sector accounting for approximately 24% of transaction values in Australia. It is important that franchise agreements do not restrict business access to optimised transaction routing.[60]

5. International policy

Policy action to reduce the cost of merchant fees has been taken in Canada, the European Union, New Zealand, and the United States of America.

The United States of America (the US) has the most advanced policy because it mandated at least two card schemes per debit card and capped interchange fees. US politicians are also talking about extending regulation of interchange fees to credit card transactions.

Canadian policy still allows consumers to override merchant choice of route through full and unrestricted control over default settings on mobile devices and in mobile walletsT

New Zealand has mirrored Australian policy to date by capping the interchange element of merchant fees. LCR remains opt-in for merchants, rather than the default.

The importance of a strong payments policy was demonstrated in the United Kingdom following Brexit. Because of gaps in domestic payments policy post-Brexit, Visa and Mastercard were able to increase their merchant fees by 500% or 0.2% to 1.1%.[61]

A detailed summary of these international policies can be found in Table 4.

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[57] RBA, *Review of Retail Payments Regulation – Conclusions Paper*, October 2021.

[58] RBA, *Least-cost routing of Debit Card Transactions*, 2022.

[59] RBA, *Least-cost routing of Debit Card Transactions*, 2022.

[60] Franchise Council of Australia, *Submission to RBA Review of Retail Payments Regulation*, 19 July 2021.

[61] Cash Matters, *Mastercard to Raise Fees for UK Purchases from the EU*, 28 M arch 2021.

Table 3: Least-Cost Routing when Debit Card is presented

Country	Policy	Advantages of Implementation	Disadvantages of Implementation
European Union (EU) and the United Kingdom (UK)	**Heading Interchange Fee Regulation (IFR) 2015**[62] • Capped interchange fees on debit and credit card transactions; 0.2%A and 0.3% respectively (except some American Express cards) where all parties are all within the EU. • Banned surcharging except for transactions made using American Express/Diners Club cards and corporate credit cards.	• Annual interchange fees declined by approximately EUR 2.7 billion between 2015-2017. • Increased merchant fee transparency - 60% of merchants have taken the default option of seeing a breakdown of their fees rather than a bundled structure.[63] • Acquirers must give merchants information about the costs of accepting different schemes and categories of cards. • More merchants accept card payments. • Based on estimated pass-through rate of 66-72%, the IFR caps save consumers almost EUR 900 million every year. [64]	As a result of Brexit, Visa and Mastercard announced revisions to interchange rates for domestic UK, and international UK and European Economic Area transactions: • Under the EU, Consumer card-not-present transactions were charged 0.20% for debit and 0.30% for credit cards, but now as the UK, businesses are charged in line with the interregional capped consumer rates of 1.15% for debit and 1.50% for credit cards. • Mastercard said that Britain is one of the most innovative and competitive payments markets in the world and the company was committed to working with the payment systems regulator to increase choice in the interests of everyone that makes and receives payments. • Visa said it continues to be one of the most cost-effective and secure ways to pay and be paid, adding that it remains committed to offering consumers and businesses in Britain access to innovative, easy, reliable and secure digital payments.[65]

[62] The United Kingdom Treasury, *Payment Card Interchange Fee Regulations*, 2015.

[63] Linklaters, *EU retains Interchange fee cap on card payments for now,* 29 July 2020.

[64] Copenhagen Economics, Ernst & Young, S*tudy on the application of the Interchange Fee Regulation*, 2020. Accessed 1 December 2022. kd0120161enn.pdf (europa.eu).

[65] Jones. H, *UK watchdog to review post-Brexit Visa and Mastercard fees*, 21 June 2022.

Country	Policy	Advantages of Implementation	Disadvantages of Implementation
United States of America	**The Durbin Amendment - Regulation II 2011 and 2022**[66] • Capped interchange fees at USD $0.22. • Mandated at least two unaffiliated schemes per debit card to process card-not-present transactions.	• Average interchange fee per transaction remained largely stable between 2011 and 2020; USD $0.22 and $0.24, respectively. • Banks experienced a significant decrease in interchange revenue at the benefit of small merchants. • Merchant interchange fee caps reduced business costs by $6.5 billion annually.[67] • Prohibits all issuers and schemes from restricting the number of networks to less than two. • Standardised and clarified the use of certain terminology.	• Merchants need to pass through savings to consumers however, causal evidence suggests banks fully offset losses by charging higher fees for other products. • Merchant choice routing is not captured; major schemes are blocking the ability of merchants to choose the network they use on contactless and internet debit payments.
Canada	**Code of Conduct for the Credit and Debit Card Industry in Canada**[69] • Canadian business owners (excluding those in Quebec) surcharge customers — of up to 2.4% as of October 6, 2022.	• Merchants receive a minimum of 90 days' notice of any fee changes. • Merchants are allowed to provide discounts for different methods of payment. • Merchant-acquirer agreements, including cancellation and renewal terms and conditions, must be clearly and simply disclosed and not mislead merchants.	• Consumer choice allows merchant preferences (LCR) to be overridden on mobile devices.

[66] Board of Governors of The Federal Reserve System. Regulation II.

[67] Mukharlyamov. V., Sarin. N, *Research Paper No. 19-06 The Impact of the Durbin Amendment on Banks, merchants, and Consumers*, 2019.

[68] The Association for Convenience & Fuel Retailing, Swipe Fees (Interchange), 25 March 2022.

[69] Government of Canada, *Code of Conduct for the Credit and Debit Card Industry in Canada*, accessed 6 April 2023.

Country	Policy	Advantages of Implementation	Disadvantages of Implementation
New Zealand (NZ)	**Retail Payments System Act 2022**[70] • Limits interchange fees: o online debit fees at 0.6%; contactless debit fees at ≤0.2% or $0.05 per transaction.	• Limits the maximum interchange fee across all payment types. • Enables the Commerce Commission to monitor the retail payment system and directly intervene to regulate designated networks. • Built-in 5-year review to ensure legislation remains relevant and promotes competition.	• LCR remains optional instead of the default payment route.

[70] New Zealand Government. *Retail Payment System Act 2022*. S7. p3c.

6. Relevant Australian Government Inquiry findings and recommendations

Over the past five years, at least three government reports have commented on the need to increase access and activation of LCR. These are summarised below.

2017 Review of the Four Major Banks (Third Report)[71]

- Banks should be required to give merchants the ability to send tap-and-go payments from dual-network debit cards through the channel of their choice.
- Merchants should be able to choose whether to route these transactions through eftpos or another scheme, noting that consumers may override this merchant preference if they choose to do so.
- If the banks have not facilitated this recommendation by 1 April 2018, the Payments System Board should take regulatory action to require this to occur.

2017 Black Economy Taskforce Final Report[72]

- The RBA's Payments System Board should consider regulating to ensure downward pressure on the cost of debit card payments. Where debit cards allow for the authorisation of the transaction to occur via two different networks, merchants should be given the ability to send the transaction via the lower-cost network.
- The RBA should also seek to ensure that effective price competition among payment networks is maintained for dual-network debit card usage in the context of mobile wallet technology.

2018 Competition in the Australian Financial System[73]

- The Payments System Board should set a regulatory standard that gives merchants the ability to choose the default network to route transactions for dual-network cards. The review suggested that as the technology is readily available, this reform should be in force by 1 January 2019 at the latest.

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[71] Standing Committee on Economics, *Review of the Four Major Banks (Third Report)*, 7 December 2017.

[72] The Treasury, *Black Economy Taskforce Final Report*, 8 May 2017.

[73] Productivity Commission, *Competition in the Australian Financial System*, 29 June 2018.

7. The evolution of domestic payments regulation

Even though the technology to process a transaction via the lowest cost route has existed for many years, the RBA has repeatedly stopped short of introducing a legislative requirement for payment service providers to promote such capability. A timeline of the LCR-related policy and regulation is presented below.

2016	• The Competition and Consumer Amendment (Payment Surcharges) Act 2016 was amended to insert a new part that bans excessive payment surcharges, such as a fixed 50 cent charge per transaction.
2017	• The RBA Head of Payments Policy made a speech regarding merchant payment costs and LCR in December 2017 and stated that, 'the Bank expects that by early in 2018 there will be concrete indications that a critical mass of acquirers are moving to provide LCR and that the Visa and Mastercard are not attempting to prevent this.'[74]
2018	• The Payment Systems Board asked staff to closely monitor pricing developments in the payment card market and whether smaller merchants are being provided with reasonable access to LCR by the major banks.[75]
2019	• The Payment Systems Board:[76] o welcomed the progress been made to date and is expecting implementation shortly by the other major banks o expected the banks to promote this functionality to all their merchant customers o expected banks to promote LCR functionality to all their merchant customers, and that the benefits to competition should not be prevented by issuers removing networks from DNDCs.
2021	• The 2021 Review of Retail Payments Regulation made several conclusions:[77] o All debit card issuers with more than 1% of the total value of debit transactions will be expected to continue issuing dual-network debit cards (DNDCs). o For these issuers, both schemes on their DNDCs should be provisioned in all form factors, including mobile wallets. o All acquirers and payment facilitators providing card acceptance services to merchants are expected to offer and promote LCR functionality to merchants in the device-present (in-person) environment.

[74] RBA, *Speech: merchant Payment Costs and Least-cost Routing*, 13 December 2017.

[75] RBA, *Payments System Board Update: May 2018 Meeting*, 18 May 2018.

[76] RBA, *Payments System Board Update: May 2019 Meeting*, 24 May 2019.

[77] RBA, *Review of Retail Payments Regulation: Conclusions Paper*, 22 October 2021.

	o In the device-not-present (online) environment, all acquirers, payment facilitators and gateways will be expected to offer and promote LCR functionality to merchants by the end of 2022. o The debit interchange standard will be amended to introduce a 'sub-benchmark' for single-network debit cards (SNDCs), such that the weighted-average interchange fee on SNDCs from a given scheme must be no more than 8 cents. There will also be a reduction in the cap on debit (and prepaid) interchange fees that are set in cents terms from 15 cents to 10 cents. o Schemes will be required to provide the Bank with access to their scheme fee schedules and all scheme rules, and to notify the Bank promptly of any changes to these. schemes will also be required to provide to the Bank quarterly data on scheme fee revenue and rebates.
2022	• The Payment Systems Board:[78] o welcomed the considerable progress that has been made in providing merchants with access to LCR o expected the industry to develop LCR functionality for mobile-wallet transactions o will consult further with industry on the approach and timeline for meeting this expectation. • The RBA released the *Bulletin: The Cost of Card Payments for merchants*[79] reporting that LCR is available to 85% of merchants, however: o only 50% of these merchants have LCR enabled o of those with LCR enabled, the majority are on fixed plans and being charged the same rate for all network, card and transaction types. • The Bank asked for concrete plans and assurances from the relevant acquirers that they will address gaps in servicing promptly, to ensure that LCR is made available for in-store transactions for all merchants. • The Treasury sought input to the S*trategic Plan for the Payments System* between 14 December 2022 and 6 February 2023. o Part of the consultation paper proposed how a payments system strategy could reduce small business transaction costs by implementing LCR (or a similar solution).

[78] RBA, *Payments System Board Update: August 2022 Meeting*, 25 August 2022.

[79] RBA. *The Cost of Card Payments for merchants*, 15 September 2022.

2023	• To provide greater transparency on whether providers are supporting LCR, the RBA published a report on LCR availability and take-up across the major acquirers for the first time on 28 March 2023 in *The Shift to Electronic Payments – Some Policy Issues*, 28 March 2023.[80] • ASBFEO submitted to Treasury's consultation on a *Strategic Plan for the Payments System*, making several assertions: o The government should expand the *Payment Systems (Regulation) Act 1998 (PSRA)* to give the RBA sufficient regulatory capacity to mandate least-cost routing (LCR) for transactions across all channels, including in-person, online and digital wallets. o On average, it costs small businesses twice that of large businesses to process the same transactions.[81] o The RBA's expectation that the technical availability of LCR would evolve into practical accessibility and take-up by merchants has not been realised. By the end of 2021-22, only 50% of merchants had LCR enabled.[82] o To ensure LCR is offered by payment service providers by default, we suggest amending the PSRA to allow the RBA to mandate LCR merchant-fee arrangements. o Just as 'MySuper' legislation requires default superannuation options to provide a simple, cost-effective, and balanced product, an amended PSRA could require LCR as the default merchant-fee mechanism, with an op-out provision for alternative arrangements'. • *A Strategic Plan for Australia's Payments System, Building a modern and resilient payments system*, June 2023 (the strategic plan) was released and details that: o the RBA will continue to publish institution-level data on LCR availability and take-up o the government is consulting on updates to the PSRA and will introduce legislation to expand the payments regulatory perimeter and bring into scope payment systems and participants such as mobile wallet providers by the end of 2023 o the majority of payment service providers to enable LCR for online payments by mid-2023, in line with the RBA's expectations

[80] RBA, Speech to the AFR Banking Summit, *The Shift to Electronic Payments – Some Policy Issues*, 28 March 2023.

[81] Philip Lowe, *An efficient, competitive, and safe payments system*, RBA, 14 December 2022, accessed 16 January 2023.

[82] T Gill, C Holland, and G Wiley, *The cost of card payments for merchants*, RBA, 15 September 2022, accessed 16 January 2023.

   - mobile wallet providers, and other industry participants as necessary, to enable LCR on mobile wallet transactions by the end of 2024, in line with the RBA's expectations
   - the government will continue to monitor payment costs for small businesses and will directly intervene if necessary.
- The *Australian Debit Card Market: Default Settings and Tokenisation Issues Paper (the paper)* was released on 16 June 2023,outlining options for further enhancing the competitiveness, efficiency and safety of Australia's debit card market. The key issues raised in the paper are:[83]
   - The practice of a default routing network being set at issuance on dual-network debit cards.
   - This practice can reduce competition between card schemes and puts upward pressure on merchants' debit card payment costs, which in turn feeds through into higher prices for consumers. The Bank seeks stakeholder views on the benefits and costs of actions to prohibit this practice, with merchants instead choosing the routing network.
   - The tokenisation of debit cards for the purpose of conducting online transactions.
   - Tokenisation of card details in the online environment plays an important role in improving security. However, merchants and payment service providers continue to retain sensitive card details, which undermines the security benefits of tokenisation. There are also some areas where standardisation may be necessary to ensure that the full benefits of tokenisation are realised without impeding competition. The Bank seeks stakeholder views on expectations that the Bank could set for the industry to address these issues and to substantially reduce the amount of sensitive card details being held across the industry by the end of 2024.
- The Treasurer, the Hon Jim Chalmers released a statement on 7 June 2023, regarding Modernising Australia's Payment System that included the release of the Strategic Plan for Australia's Payments System.[84] The first associated consultation paper proposed updates to the *Payments Systems (Regulation) Act 1998 (PSRA)* to address the risks posed by new payments technologies.
- The RBA released an Issues Paper on 16 June 2023: *The Australian Debit Card Market: Default Settings and Tokenisation*, outlining options for further enhancing the competitiveness, efficiency and safety of Australia's debit card market.[85]

[83] RBA, 16 June 2023, *The Australian Debit Card Market: Default Settings and Tokenisation June 2023*.

[84] The Hon Dr Jim Chalmers MP, 7 June 2023, *Modernising Australia's Payment System.*

[85] RBA, 16 June 2023, *The Australian Debit Card Market: Default Settings and Tokenisation June 2023*.

8. Australian policy options

Policy Option	Issues/Addressed	Priority	Advantages of Implementation	Disadvantages of Implementation
Standardise payments system terminology and industry information requirements Determine and implement industry standards for merchant fee disclosures and comparisons. Set industry standards for publishing accurate and relevant examples of LCR.	• Misleading representation of payment system structures and LCR.	High	• Increased small business and consumer understanding of how payment systems function. • More transparent merchant fee structures facilitate comparisons and promote competition. • More small businesses have greater awareness of their merchant fees. • Greater small business and consumer awareness of what LCR is.	• Merchants and consumers having a better understanding of payment systems might be seen to work against banks' commercial interests. • We need to determine who is best responsible for monitoring the accuracy of industry information. • In the absence of an established government 'single source of truth' model for small businesses information, it is unclear how LCR guidance might be effectively distributed.
Ban 'tying conduct' or bundling of fee structures with other products and terms of service Services, their terms of service and fees should be presented and charged as they are paid to schemes, acquirers, and issuers for every single transaction.	• Poor transparency of merchant fees. • Insufficient competition between payment service providers.	Medium	• Greater transparency of merchant fee structures. • Greater competition between payment service providers to lower merchant fees. • LCR products are not subject to other product or service exclusions.	• Navigating merchant fees will remain complex and maintain demand for fixed or bundled fee structures. • Payment service providers will potentially reject this requirement as it would require product restructuring and would likely affect associated profit margins adversely.

Policy Option	Issues/Addressed	Priority	Advantages of Implementation	Disadvantages of Implementation
Deliver a whole-of-government and industry LCR awareness and education campaign targeted at small businesses A collaborative media campaign across government, state small business commissioners and industry associations, aimed at increasing small business awareness of LCR.	• Low merchant awareness of LCR.	Low	• Merchants would be more aware that processing a digital transaction comes with a cost, and the cost of each transaction is variable depending on the payment method and card type. • Small businesses understand how much merchant fees cost them per year and can make informed decisions about changing their arrangements to an LCR arrangement.	• A strong public policy case would need to be presented to the government as: o Other policy challenges – including those relevant to small business – may be higher priorities. o Government has limited resources and we need to identify and agree on who should be the lead agency. o Payment service providers could be doing more to promote LCR themselves, and we do not want to facilitate division between the payments service providers, merchants, and government.
Update the *Competition and Consumer Act 2010* for merchants to surcharge customers the cost of processing their chosen payment type Merchants should be able surcharge customers the cost of processing their transaction, based on their chosen payment form factor.	• Insufficient competition between payment service providers. • Inconsistent merchant access to LCR.	High	• Merchants are not financially penalised for accepting consumers choice of payment type. • It may encourage consumers to make payment using a method that is cheaper for the merchant to accept.[86]	• Wider application of customer surcharging may affect spending habits and reduce discretionary spending. • Merchants and payment service providers will need to invest more resources in calculating surcharges that are appropriate for various payment methods and not deemed to be excessive; or more than it costs a merchant to process the payment type.

[86] RBA, Bulletin – December 2018, Payment Surcharges: Economics, Regulation and Enforcement, December 2018.

Policy Option	Issues/Addressed	Priority	Advantages of Implementation	Disadvantages of Implementation
Mandate issuance of dual-network debit cards The RBA should explicitly require issuers to only offer DNDCs, with a minimum of two schemes (eftpos being one) provisioned in all relevant form factors.	• Insufficient competition between payment service providers. • Inconsistent merchant access to LCR.	Low	• All debit cards (approximately 429 million on issue) would be dual-network, enabling LCR of all contactless transactions.[87]	• Without default LCR, mandating DNDCs would by default, move more transactions onto Visa and/or Mastercard networks and potentially increase small business merchant fees. • It is unlikely that a legislated mandate would take effect before the end of 2024; large issuers can issue SNDCs to vulnerable customers until the end of 2024, but thereafter will be expected to issue DNDCs.[88] • This might have negative consequences for vulnerable card holders, that might be ill-equipped to prudently manage access to certain services such as online shopping.
Mandate freedom of acquirer Require all card acquiring contracts to have an end date, limit the length of POS terminal contracts and end terminal contracts that automatically renew for successive fixed terms.	• Poor transparency of merchant fees. • Insufficient competition between payment service providers.	Low	• Requires acquirers to provide pricing information in a standardised, and therefore comparable format for merchants to seek the best deal. • Drives payment competition by creating flexible contract terms.	• There are technology and partnership-based barriers to integrate systems between differing schemes, acquirers, and banks.

[88] RBA, *C2.1 Debit Cards – Original Series: Debit cards on issue: May 2022*, June 2022.

[89] RBA, *Payments System Board Update: Meeting 17 February 2022*, February 2022.

Policy Option	Issues/Addressed	Priority	Advantages of Implementation	Disadvantages of Implementation
Advocate to industry for 'lesser-cost' routing Payment service providers should be required to offer all small business merchants a point-in-time analysis of their transaction history and recommend how the merchant can reduce their merchant fees (payment costs).	• Low merchant awareness of LCR. • Insufficient competition between payment service providers Inconsistent merchant access to LCR.	High	• This will require payment service providers that do not already offer to review their merchant customers transaction profile, to do so. • Increasing merchant awareness of their merchant fees and how they can be paying less.	• A small businesses transaction profile will change with time, and it needs to be made clear that a point-in-time analysis may mean that the merchant is no longer paying the lesser cost merchant fee if their transaction profile drastically changes.
Expand the Payment Systems (Regulation) Act 1998 (PSRA) to give the RBA sufficient regulatory capacity to mandate LCR. This should apply to transactions across all channels, including in-person, online and digital wallets.	• Low merchant awareness of LCR. • Insufficient competition between payment service providers Inconsistent merchant access to LCR. • The RBA lacks regulatory oversight or powers of new payment technology providers.	High	• Amending the PSRA would allow the RBA to mandate LCR merchant-fee arrangements across all form factors by requiring LCR as the default merchant-fee mechanism, with an op-out provision for alternative arrangements. • Merchant fee structures would be more transparent and promote greater payment competition. • Adoption of LCR via bundled free structures should decline; these are currently considered to be LCR structures since they use LCR technology to ensure the bank makes a profit on merchant fees.	• This is a longer-term action as updating the PSRA requires due process to be followed. • It would potentially complicate negotiations of terms other than a defaulted LCR model that banks could apply using average debit card transaction values. • It may create an administrative burden in implementation, if small businesses decide to shop around for the lowest cost, LCR option. • Inability to integrate systems between differing schemes, acquirers and banks to facilitate choosing the lowest code route.

9. Recommended priority policy options

Option 1: The government should expand the Payment Systems (Regulation) Act 1998 (PSRA) to give the RBA sufficient regulatory capacity to mandate least-cost routing (LCR) for transactions across all form factors, including in-person, online, BNPL and digital wallets.

Rationale: To increase the number of merchants accessing LCR by default and reduce the number of merchants accessing LCR under fixed-plan structures; and therefore, increase the number of merchants paying the lowest possible merchant fees, by:

- The LCR fee structure terminal excludes digital receipts, settlement on the terminal, access to the app marketplace, and does not have a dual sim card.
- The fixed fee structure terminal does not have POS integration or split billing, but does offer digital receipts, settlement on the terminal, access to the app marketplace, and has a dual sim card.[18]

Objective: Small business merchants are offered LCR by default and the value of merchant fees is reduced.

Key Stakeholders:

- The Treasury
- Reserve Bank of Australia
- Australian Banking Association & Customer Owned Banking Association.

Next steps for ASBFEO: Advocate to stakeholders to publish a forward plan for updating the PSRA.

Option 2: The government should advocate to industry for ‘lesser-cost' routing.

Rationale: Payment service providers (that do not already offer so) offer all small business merchants a point-in-time analysis of their transaction history and recommend how the merchant can reduce their merchant fees (payment costs).

Objective: In the absence of mandated LCR, Small business merchants have greater awareness of their merchant fees and how they can be paying less.

Key Stakeholders:

- The Treasury
- Reserve Bank of Australia
- Australian Banking Association & Customer Owned Banking Association
- Payment service providers.

Next steps for ASBFEO: Advocate to stakeholders that payment service providers can be doing more to reduce merchant payment costs.

Option 3: The government should update card payment regulation within the *Competition and Consumer Act 2010* so that merchants can surcharge customers the cost of processing their chosen payment type.

Rationale: Merchants should not be financially penalised for accepting consumers choice of payment type, by having the option to surcharge customers the cost of processing their payment, based on their chosen payment form factor.

Objective: Small business merchants can pass-on the cost of processing higher-cost customer payment types.

Key Stakeholders:

- The Treasury
- Reserve Bank of Australia
- Australian Banking Association & Customer Owned Banking Association
- Payment service providers.

Next steps for ASBFEO: Advocate to stakeholders to review and table changes to payments surcharge terms within the *Competition and Consumer Act 2010*, to include payments other than those made by card.

Option 4: The government should ban payment service providers from engaging in 'tying conduct' or bundling fee structures with other products and terms of service.

Rationale: Increase transparency of merchant fees, empower merchants to find a better deal, and remove restrictive terms of service, by requiring payment service providers to bill merchant fees as they are paid to schemes, acquirers, and issuers for every single transaction.

Objective: More small businesses access payment facilitation services on an unbundled basis and the value of merchant fees is reduced.

Key Stakeholders:

- The Treasury
- Reserve Bank of Australia
- Australian Banking Association & Customer Owned Banking Association
- Payment service providers.

Next steps for ASBFEO: Pending an updated PSRA, advocate to stakeholders to make clear an expectation that service providers will offer unbundled fee structures, or not engage in 'tying' of LCR functionality with other financial product inclusions or exclusions.

Option 5: The government should standardise payment system terminology and industry information requirements.

Rationale: To increase transparency, and merchant's and customer's comprehension of merchant fees by:

- Implementing industry standards for merchant fee disclosures and comparisons.
- Setting industry standards for publication of accurate examples of LCR in practice.

Objective: Small business merchants are empowered with the information (once they have the awareness) to seek a better deal on their merchant services and access LCR; incentives for payment service providers to be transparent in their payment fees; and further incentives for schemes to lower their transaction processing costs.

Key Stakeholders:

- The Treasury
- Reserve Bank of Australia

- AusIndustry advisory programs and business.gov.au
- State Small Business Commissioners
- Australian Banking Association
- Customer Owned Banking Association
- Payment service providers
- Small business industry associations.

Next steps for ASBFEO: Advocate to stakeholders to mutually agree on consistent payment systems terminology, how LCR is defined and what are appropriate examples of LCR in practice for small business merchants.

Appendix A: Key stakeholders

Advocates

Australian Chamber of Commerce and Industry (ACCI)

- ACCI members are state and territory chambers of commerce, national industry associations and a council of business leaders from individual enterprises, representing Australian businesses of all shapes and sizes, across all sectors of the economy.
- They have called for a fairer, more transparent, competitive and innovative payments system that provides user choice and places merchants (customers) at the centre of the payments system.

CMSPI

- Are a leading global advisory firm helping merchants reduce their payments costs.
- Their mission is to equip businesses with industry expertise, data-driven technology, and unrivalled visibility into industry data to achieve best-in-market results through more legitimate transactions, with less fraud, all at a marketing leading cost for the solutions provided.

Council of Small Business Organisations Australia (COSBOA)

- COSBOA have openly called for government action on LCR in recent pre-budget submissions and a campaign promoting LCR, calling its implementation 'An important and urgent building block in the recovery of small business in the COVID-19 environment.'
- They advocate for LCR being mandated as the default merchant fee structure for all debit transactions in every form factor.

National Retailers Association (NRA)

- Represent more than 60,000 stores across Australia.
- They have made several calls for an updated regulatory system for debit payments that reflects modern retail.

Payments Consulting Network

- Provides a forum for sharing key industry trends and metrics.
- MERCHANTPRICING.COM helps businesses and not-for-profits optimise payments acceptance.
- Benchmark key performance metrics against peers and the industry.
- Market, Product and Competitor Analysis.

Government

Reserve Bank of Australia (RBA)

- Payments Policy Department.

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[89] COSBOA, *Least-cost Routing: Framework needed for implementation, 6 September 2021; COSBOA, COSBOA launches campaign to show the faces behind fairer merchant fees*, 19 February 2022.

The Treasury

- Payments System and Strategy Unit.

Department of Industry, Science and Resources

- AusIndustry and business.gov.au are both delivered by the department and are key stakeholders in building merchant awareness of LCR.

State Small Business Commissioners

Big four banks

ANZ

- As of 1 April 2022, ANZ moved to a merchant Agreement system with ANZ Worldline Payment Solutions.
- They have content online under MCR terminology.
- Their fee structures are offered as 'Single Rate Pricing' (bundled), 'Differential Rate Pricing' (unbundled), or interchange Plus:
    - Each of these fee structures charge a single agreed rate for eftpos debit transactions - based on a dollar rate against the number of transactions.
    - Single Rate Pricing charges Visa and Mastercard fees using a single agreed rate for all transactions.
    - Differential Rate Pricing charges Visa and Mastercard fees using different rates for different card categories.
    - Interchange Plus pricing charges a Margin and International Rate depending on the scheme; Visa or Mastercard.

Commonwealth Bank of Australia (CBA)

- Has online content specific to LCR, including a description, some instructional videos and merchant plan options, including examples of LCR in practice.
- LCR does is applicable to their Simple merchant plan or Bundled Pricing plan.
- Their LCR plan has device requirements, and presents the options as transactions processed via:
    - Mastercard and Visa networks only
    - eftpos only
    - Mastercard, Visa or eftpos based on transaction thresholds.

National Australia Bank (NAB)

- Has online content specific to LCR, referred to as MCR, including a description, FAQs, merchant plan options and examples of LCR in practice.
- Their 'simple pricing plan' charges 1.15% of all transactions.
- LCR has be applied to all terminals registered to a merchant, which may require all terminals to be upgraded, at cost to the business (LCR is limited to a particular terminal).

Westpac

- Has online content specific to LCR, referred to as MCR, including a description and FAQs.
- LCR is available for merchants that are not on monthly pricing plans or paying a fixed rate (1.15% of all transactions).
- LCR only applies to transactions under $1,000 – those over $1,000 will automatically route through the Visa or Mastercard network.
- Their website notes:
    - o Directing contactless debit card transactions through the eftpos network can attract lower merchant service fees – thereby reducing your overall costs. However, please note that this depends on how your fees are currently structured and priced for different types of transactions.

Common payment platforms

Square

- Square does offer custom pricing packages for some businesses that process more than $250K in card sales.
- For merchants with smaller sales values, their merchant fees are fixed at:
    - o 1.6% (including GST) per tap or insert on Square Terminal and Square Register.
    - o 1.9% (including GST) per tap or insert on Square Reader and Square Stand.
- Afterpay facilitated merchant fees are 6% of the transaction value+ 30 cents (excluding GST).

Stripe

- Stripe offers two merchant fee structures:
    - o An integrated pricing plan with merchant fees of 1.75% + A$0.30 for domestic debit transactions.
    - o A customised package for merchants with large payment volumes or high value transactions.

Tyro

- Tyro refer to LCR as ‘Tap & Save’.
- LCR only applies to transactions under $1,000 – those over $1,000 will automatically route through the Visa or Mastercard network.
- LCR plans do not allow merchants to apply a surcharge.

Banking Industry Associations

Australian Banking Association (ABA)

- Promotes LCR on their website.
- Works with the RBA and member banks stakeholders with regards to implementation of LCR.

Customer Owned Banking ASsociation (COBA)

- Promotes LCR on their website.
- Works with the RBA and member banks stakeholders with regards to implementation.

Appendix B: Media

Channel 7, *Latest News, Surcharging, 4th April 2023*, 10.53:30PM.

Smart Company, *SMEs slogged with card transaction fees three times higher than big business, with least-cost routing yet to reach full potential*, 29 March 2023.

National Retailers Association, *Retailers support electronic payment fee reform*, 31 March 2023.

Banking Day, *AP Plus already working with device makers on mobile LCR*, 28 November 2022.

Australian Financial Review, *Consumers the 'biggest losers' from rampant surcharging*, 30 September 2022.

Australian Financial Review, *RBA wants banks to cut iPhone payment costs for retailers*, 16 September 2022.

Fin Extra, *What is Least Cost Routing and how does it work?* 21 July 2022.

Australian Financial Review, *Mastercard hit by ACCC for undermining the RBA on payment costs*, 30 May 2022.

The Australian, *Why merchants should be able to direct payments to lowest cost networks*, 15 April 2022.

Banking Day, *ABA says benefits of merchant routing are 'inflated'*, 13 April 2022.

Smart Company, John Durie: *ACCC is focused on small business, Rod Sims says*, 3 March 2022.

ASBFEO, *More decisive action needed on small business payments says Ombudsman*, 25 November 2021.