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Dear Ellis

Merchant Card Payment Costs and Surcharging – July 2025**Introduction**

The Council of Small Business Organisations Australia (**COSBOA**) welcomes the Reserve Bank of Australia's (**RBA**) consultation paper on Merchant Card Payment Costs and Surcharging. There are approximately 2.5 million small and micro businesses in Australia which represent approximately 97.3% of all businesses in the country. The ATO defines a small business as one which has a turnover of less than \$10 million and a micro-business as having a turnover of less than \$2 million.

COSBOA's membership comprises over 40 industry associations who represent the interests of small businesses in a broad range of industry sectors including construction workers, hairdressers and beauticians, cafes and restaurants, newsagents, pharmacies, complementary medicine practitioners, independent grocers, cinemas, accountants, bookkeepers and music retailers.

As the RBA is aware, there are currently a broad range of practices within the small and micro business community in terms of surcharging practices. COSBOA acknowledges that many of these small businesses do already incorporate merchant fees in their pricing. However, for certain industries such as hospitality and travel agencies and operators, that currently do not incorporate merchant fees, the effect of a surcharging ban and the necessity to absorb those costs would be significantly detrimental and potentially industry changing with little net consumer benefit. Therefore, COSBOA does not support an outright ban on surcharging. Small business merchants do not have any control over the card fees that they may incur through consumer card choices and should not be expected to absorb those costs. This is particularly the case when cards with expensive fees are utilised, for example, foreign cards. The current surcharging regime allows customers to choose their method of payment and to choose a lower cost method rather than creating a significant price increase for all card holders across all goods and services.

Ultimately, COSBOA supports

- Lower interchange fees
- Improved transparency
- Mandatory least-cost routing (LCR)

COSBOA is also supportive of potential payment solutions (including industry led solutions) which would lead to lower merchant fees for all small businesses to level the playing field against larger businesses who currently benefit from significantly lower per transaction merchant fees.

Surcharging

In the absence of maintaining the status quo, COSBOA's most favoured option is Option 1: Retaining the current surcharging framework and narrowing the definition of a permitted surcharge to include only wholesale fees.

COSBOA understands that many small merchants surcharge on card transactions with micro-businesses¹ more likely to surcharge, particularly in the hospitality sector. Other small business sectors such as hairdressing, allied health professionals, travel agents also regularly surcharge on their base prices. COSBOA queries the veracity of the statistics put forward by the RBA that only 10 percent of merchants surcharge given the prevalence of small and micro businesses in the economy. Therefore, a total ban on surcharging would disproportionately impact those micro-businesses.

Forcing businesses to absorb processing fees, rather than passing them on to customers based on their payment choice, removes a critical cost management tool and risks reducing profitability for Australia's smallest employers and sole traders.

The majority of small businesses already choose to absorb surcharges into their costs, and this is usually reflected in their pricing models. For example, small business pharmacists are prohibited by the *National Health Act* from charging patients more than (as of 1 November 2024) \$31.60 for PBS subsidised medicines. This means that pharmacists are already subsidising the costs of processing debit and credit card payments for these medicines through cross-subsidised pricing of over-the-counter goods. This results in potential less competitive over-the-counter pricing than say the nearby supermarket which already benefit from cheaper merchant fees.

However, there are also small business models where the option to absorb merchant fee costs is not possible by increasing product pricing. For example, newsagents and lotteries act as agents and have limited to no price control over the cost of publications and lottery tickets. If surcharging the cost of card acceptance for those goods were to be prohibited, the cost of absorbing the merchant fee could outweigh the agency commission received by the newsagent for the sale of the good and render them unprofitable or indeed worse, loss leaders.

There are many scenarios where travel agencies and operators may be unable to lift prices to recover costs, for example, where a merchant is acting as an agent for a principal. Travel agencies and operators already operate on very slim margins, with average profits ranging from 0.75 per cent to 3.90 per cent.

Removing the ability to apply reasonable and transparent surcharges would have a material effect on the ongoing viability of these small businesses if they were forced to absorb the costs.

Large businesses already benefit from significant economies of scale in negotiating merchant fees and can readily afford to absorb them. However, in the event of a surcharging ban for credit, debit and prepaid options as proposed in **Option 3**, small and micro businesses that currently surcharge

¹The ATO defines a microbusiness as having a turnover of \$2 million or less.

will be required to absorb merchant fees and increase in the prices of the goods and services on offer regardless of whether consumers choose to pay by cash or card.

COSBOA therefore does not support Option 3. Many small businesses would be significantly disadvantaged by having to absorb the much higher costs of foreign card merchant fees which would further push up prices and impact the current cost of living crises.

To promote the public interest and enhance competition, it is imperative to level the playing field between large and small businesses so that small businesses are able to access similar merchant fee rates on a per transaction basis

Interchange Fees and Transparency

COSBOA supports lower interchange fee caps to the extent this will help reduce the cost burden on small businesses and the reduction of fees will be passed onto them in full. COSBOA acknowledges that reducing interchange fees could reduce costs for those small businesses that are already absorbing these fees into their pricing models. However, whilst the RBA's proposal to reduce interchange fees will go some way to lowering surcharge costs for small businesses, they will not result in a completely level playing field between small and larger businesses and will not negate the inevitable cost increases for consumers acquiring goods and services from small businesses that currently surcharge.

COSBOA is supportive of increased transparency around the interchange fees offered by different providers as it would assist small businesses to better compare products in the market, facilitate easier switching and promote competition.

Scheme Fees

COSBOA's view is that scheme fees should be more transparent. The publication of more standardised scheme fee data would enable small businesses to better understand and compare fees. However, the proposal that RBA set an expectation that scheme fees should not rise without clear explanation is based on assumption that PSPs will undertake behavioural change which may not occur. Further, consideration should be given to a cap on scheme fees, which form a material part of cost of acceptance.

Least Cost Routing

COSBOA continues to advocate for mandatory least-cost routing for all payment types, ensuring that all businesses have access to the lowest possible merchant costs, not just large enterprises

Conclusion

Any proposed reform must consider the real-world impacts on small business owners who face rising costs, wage pressures, and complex regulatory burdens. Removing surcharging without fixing the underlying pricing issues and the disparity between charges to small versus large businesses risks creating a new layer of hidden costs that will ultimately hurt both businesses and consumers.



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