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Standing Committee on Economics  
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Dear Committee Secretariat

### **Inquiry into Schemes, Digital Wallets and Innovation in the Payments Sector**

The Council of Small Business Organisations Australia (**COSBOA**) is the peak body representing the nation's small businesses. Small businesses are the backbone of the Australian economy, representing 97% of all businesses and employing over 5 million Australians. Yet they face significantly higher payment acceptance costs than larger businesses despite processing lower transaction volumes.

Australia's payment system currently imposes a disproportionate cost burden on small businesses through inequitable fee structures, limited competition, and insufficient transparency. The payments landscape has undergone rapid transformation with the proliferation of digital wallets, Buy Now Pay Later (**BNPL**) services, and contactless payments. Innovations have arguably expanded or created new "relevant markets" which may be notably concentrated from a competition perspective. Innovations marketed as "improvements" for the consumer have led to:

- escalating scheme fees, often surpassing traditional EFTPOS costs by a wide margin
- reduced visibility and control over how transactions are processed or routed
- limited capacity to negotiate better transaction terms or choose lower-cost options
- confusing, opaque fee structures that make cost comparison nearly impossible
- erosion of competition in payment processing, driving up prices and squeezing margins

COSBOA proposes:

- **a level playing field in the form of overall reduced merchant fees** – small businesses disproportionately bear the burden of merchant fees, forcing them to disclose payment options and the higher costs of credit card acceptance to consumers. Surcharging provides transparency to consumers by revealing these otherwise hidden fees. As noted in the Reserve Bank of Australia's (**RBA**) Review into Merchant Card Payment Costs and Surcharging (**Review**), on a per transaction basis, small businesses pay significantly more than larger businesses which makes effective competition more difficult.
- **improved transparency** – increasing transparency around the types of fees, interchange and scheme, that make up merchant fees could be useful to educate small businesses and encourage greater comparison of merchant fee offerings, particularly as newer technologies become available. However, most time poor small businesses are extremely time poor and tend to look at the bottom-line dollar cost of merchant fees being charged. Therefore,

seeing and understanding an actual reduction in fees on monthly statements is the most critical factor to most small business owners. Added transparency will make it easier for small to medium sized businesses to compare offerings and costs in the market. The ability to compare and have a competitive market is key in providing businesses oversight over recurring costs.

COSBOA acknowledges the significant complexity in the structure and regulation of the payment system and recommends the Standing Committee focus on policy settings that enhance transparency and reduce costs for small businesses to level the competitive playing field with larger businesses.

Whilst acknowledging the significant experience of the RBA in overseeing policy setting in the highly complex payment setting, COSBOA considers that the Australia Competition and Consumer Commission's (ACCC) experience in conducting competition analysis in these highly complex and changing payments markets could be usefully harnessed in joint or coordinated review with the RBA. If such a mechanism were made available there would be significant value in a full analysis of market competitive dynamics and innovation as well as the resulting impact in upstream and downstream markets. This is particularly the case when such a large discrepancy on the per price transaction fee to smaller businesses exists compared to their larger competitors –the impact will be even greater impact should the RBA recommend the ability to surcharge be removed following its Review.

Small businesses must benefit from genuine cost savings and wholesale cost reductions to be passed on to small merchants. Transparent disclosure of all costs associated with accepting new payment technologies also must be made available in simple easy to read language.

As referenced in our earlier submission to the RBA's Review, any proposed reforms must consider the real-world impacts on small business owners who face disadvantage through rising costs, wage pressures, and complex regulatory burdens.

Kind regards,

**Matthew Addison**  
Chair, COSBOA