

## Consumer Backlash to Surcharging on Card Payments

or

### ***“Would you like a surcharge with that?”***

A tipping point appears to have been reached among Australian consumers, with a widespread backlash now occurring to what many see as the endemic surcharging of card payments by retail merchants. As more and more consumers have moved from paying with cash at physical point of sale to paying with cards (debit and credit, both physical or in a mobile device), what was once an occasional “hit” with a card surcharge has become for some *“a constant one to one & a half percent being added to my bill”*. People have raised the topic with me at multiple different non-payments forums and events over the last few months, such that the infrequent “surcharging complaint” seems to have moved to a constant clamour. Of course, mainstream retailers like Coles, Woolworths, Chemist Warehouse and others do not surcharge card payments, but a large segment of smaller retailers do (especially in verticals like hospitality), and it is being noticed.

Perhaps the current noise around the “cost of living crisis”, as expounded by the media and politicians, is making consumers more sensitive to the additional cost of a surcharge on a card payment. Perhaps the ease of surcharging on certain terminals, such as those deployed by Tyro and SmartPay, are making its use more widespread. Whatever is causing consumers to take note of the issue, they certainly are and some tell me that they are specifically moving back to using cash - willing to accept the additional inconvenience this brings (versus mobile wallets and the like), and which, unfortunately in some circumstances, can help feed the Black Economy.

The rules around the surcharging on card payments are set by The Reserve Bank of Australia (RBA) and policed by the Australian Competition & Consumer Commission (ACCC). Merchants are permitted to surcharge a card payment made by a consumer/buyer up to the same level that their payment service provider is charging them for accepting the payment. In circumstances where the merchant is being charged a bundled rate by their payment service provider, this can lead to low cost debit card transactions being surcharged at the same rate as higher cost credit card transactions.

It is of note that, when the European Union lowered the interchange rates on debit cards to 0.2% and on credit cards to 0.3%, the EU Commission banned the use of surcharging on card payments<sup>1</sup>, as they claimed that at these levels of interchange the cost of accepting a card payment was similar to that of accepting other forms of payment, in particular cash. The surcharge regime of the RBA has effectively always measured the cost of card payments against a zero cost base, hence permitting the surcharge to equal the full cost of their payment service provider. For some time, I have expressed the opinion that

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<sup>1</sup> Merchants in the EU are still permitted to surcharge payments on cards that have been issued by an institution outside of the EU; hence Australian’s may still incur surcharges when using their Australian issued cards at EU merchants.

the card surcharge should be the differential in cost between accepting a card payment and accepting cash - in a similar vein to the EU regime.

Over the years, the merchant's cost of accepting debit card transactions in Australia has been reduced by various requirements and limits published by the RBA<sup>2</sup>, such that one could argue that the cost of debit card acceptance is now equal to the cost of accepting cash - that is, if merchants really calculated the true cost of accepting cash, but many smaller merchants still believe that the cost of accepting cash is zero. Large merchants, especially those that have conducted their own internal studies on the topic, seem to have a much stronger understanding of the cost of accepting cash - including all of the security and staff safety issues that surround it.

If debit card acceptance incurs the same cost as cash acceptance, and there is a growing consumer backlash to surcharging, there would seem to be a case for the RBA to ban merchants from surcharging debit card transactions in Australia - at least at physical point of sale. Such a move would appear to address consumer concerns, whilst not increasing the true cost of payments acceptance for merchants (or the payments ecosystem). Doubtless something for consideration in the RBA's retail payments review foreshadowed for later this year . . . unless the consumer clamour requires action earlier.

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<sup>2</sup> Indeed, where debit card interchange is incurred as a percentage of the transaction value, it cannot exceed 0.2% - the same as in the EU.