

Price Signaling, Competition Within the Card Market, Interchange Caps, and Pricing Transparency – Executive Summary

Merchant payment costs, as exhibited in the methodology section below, are complex and rising to the point where regulators are stepping in. To combat rising complexity and costs of acceptance, regulators and lawmakers must ensure that merchants have unfettered access to resources and tools that offer greater control over payment costs. These tools can come in the form of price signaling protections, co-badging requirements and routing rights, and transparency or disclosure standards. In addition, some governments have set price controls on the level of interchange.

Measuring Success of Regulatory Interventions

In this section of the report follows a review of the effectiveness of various government interventions to reduce merchant costs of acceptance or prevent merchants and consumers from incurring higher payments costs. This is done by examining regulatory interventions on price signaling, co-badging and routing, interchange caps, and pricing transparency by each country in scope and evaluating interventions against publicly available data on merchant payments costs.

Price Signaling

DEFINITION

Price signaling involves the conveyance of information about a company's pricing intentions to competitors, customers, or the broader market, either explicitly or implicitly, with the aim of influencing market behavior or expectations. For retail payments, price signaling can come in the form of a card surcharge (typically a percent-based fee levied on of the customer's bill should the customer pay with a payment card) or cash discounting (typically a percent-based discount subtracted from the customer's bill should the customer pay with cash).

COUNTRY IMPLEMENTATION

Where national or local regulators do not intervene, the global network rules apply. For Visa and Mastercard, networks prohibit merchants from levying a fee on top of the transaction price unless applicable laws or regulations require that a merchant be permitted to impose a surcharge. Across the four countries reviewed, Australia is the only country in which surcharging has been regulated as a guaranteed right for merchants.

Despite the difficulties of surcharging, network prohibitions on cash-discounting are limited, however there are no regulatory guarantees in any of the countries surveyed that protect cash-discounting.

IMPACT ANALYSIS

In 2003, the RBA permitted merchants to surcharge at the cost of acceptance but must ensure that the surcharge is adjusted to be percentage-based or per item fee based on how the underlying costs are applied. Network rules in Australia have been adjusted to account for the national regulation, with Visa and Mastercard both requiring the surcharge to be reasonable and proportional to the cost of acceptance. In the years following the introduction of surcharging rights, there has been a

steady decline in the cost of acceptance for certain cards. While many factors influence this decline, surcharging allows merchants to apply persistent and consistent pressure on the card networks to reduce costs of acceptance.

In the 15-year period following implementation of interchange caps and surcharging laws, the cost of accepting American Express cards fell from above 2.5% to below 1.5%. This appears to be the effect of indirect downward pricing pressure as a result of the interchange caps as well as the prevalence of surcharging on American Express credit cards.

Based on the results of an Australia Competition & Consumer Commission survey, almost three out of four consumers would continue with the transaction if they “encountered a ‘high’ transaction fee and no fee free alternatives.”⁵ However, nearly one in four would cancel the purchase, but this can vary by country and channel. For example, price sensitivity may be more prevalent in certain countries and industries.

KEY TAKEAWAYS

- **Limited Implementation by Regulators:** Only Australia, one country of the four in scope, has protected surcharging rights for merchants. In all other markets, global network prohibitions on surcharging apply. Despite those restrictions, some countries, such as Singapore, have seen surcharging occur in certain sectors.
- **Surcharging May Apply Downward Pressure on Uncapped Card Types:** As observed in Australia, American Express and Diners Club cards were exempt from the 2003 interchange caps, and yet have seen their total merchant fees steadily fall in the period 2003-2023. American Express rates have fallen from 2.51% in 2003 to 1.32% in 2023. While many factors influence this decline and controlling for myriad factors is empirically difficult, it’s possible that surcharging has contributed to this decline.

Interchange Caps

DEFINITION

Interchange fees, the fee set by global card networks, paid by the merchants, and received by the issuing bank, is typically the largest portion of the MDR. To prevent rising interchange fees, central banks around the world have set caps on the price of interchange. These caps range from per item, to percent, to weighted-average limits.

COUNTRY IMPLEMENTATION

Across the countries surveyed, only Australia currently has interchange caps across credit and debit transactions. The table below presents current and former interchange caps by region:

Country	Effective Date(s) of Current Cap	Credit	Debit	Exceptions
Australia	2017, 2021 (updated debit)	0.5% weighted avg (0.8% for individual txns) ⁶	AUD 0.08 (~\$0.05) weighted avg. (\$0.10 or 0.2% for individual txns) ⁷	Three Party Card Networks, International Cards
Singapore	No Debit or Credit Interchange Cap in Singapore			
India	2018	-	0.9% (POS/online), 0.8% (QR code) ⁸ ; for SMBs 0.4% (POS/online), 0.3% (QR code)	Credit Cards, International Cards
Japan	2019 (discontinued)	3.25%	-	Debit Cards

Table 1. Interchange Caps (Current and Discontinued) by Country

IMPACT ANALYSIS

Immediately following the enforcement of the 2003 interchange caps and surcharging protections in Australia, there was a sharp decline in Mastercard and Visa average cost of acceptance for Australian merchants. Between Q1 2003 and Q1 2004, the average Visa and Mastercard cost of acceptance fell from 1.45% to 1.08% (Figure 1).⁹

⁶ <https://www.rba.gov.au/payments-and-infrastructure/review-of-card-payments-regulation/conclusions-paper-may2016/interchange-fees-and-transparency-of-card-payments.html>

⁷ The RBA also established a sub-benchmark for the weighted average interchange cap of single-network debit cards (SNDs) at AUD 0.08 to remove incentives for issuing these kinds of cards. <https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/conclusions-paper-202110/pdf/review-of-retail-payments-regulation-conclusions-paper-202110.pdf>

⁸ Small merchants have an annual turnover below Rs 20 lakh (~\$24k) <https://www.medianama.com/2017/12/223-rbi-mdr/>

⁹ <https://www.rba.gov.au/payments-and-infrastructure/resources/payments-data.html>

KEY TAKEAWAYS

- Limited Implementation by Regulators:** Only Australia, one country of the four in scope, has active interchange caps for credit and debit transactions. While Japan had previously introduced an interchange cap of 3.25% on credit transactions, due to significant pushback from the credit card industry, lawmakers reversed their stance, allowing card companies the discretion to decide whether or not to uphold the cap.¹⁰ India’s market has introduced interchange caps for debit and UPI-enabled transactions, but credit transactions remain uncapped.
- Immediate Drop in Interchange Fees:** In Australia, the market with the most robust public reporting on card fees, there was a precipitous drop in the average total merchant fees for Visa and Mastercard credit and debit rates. From Q3 to Q4 2003, Visa and Mastercard total merchant fees fell from 1.44% to 1.18%, the largest single drop in average rates quarter-over-quarter. By Q1 2004, average Visa and Mastercard rates reached 1.08% (Figure 1).

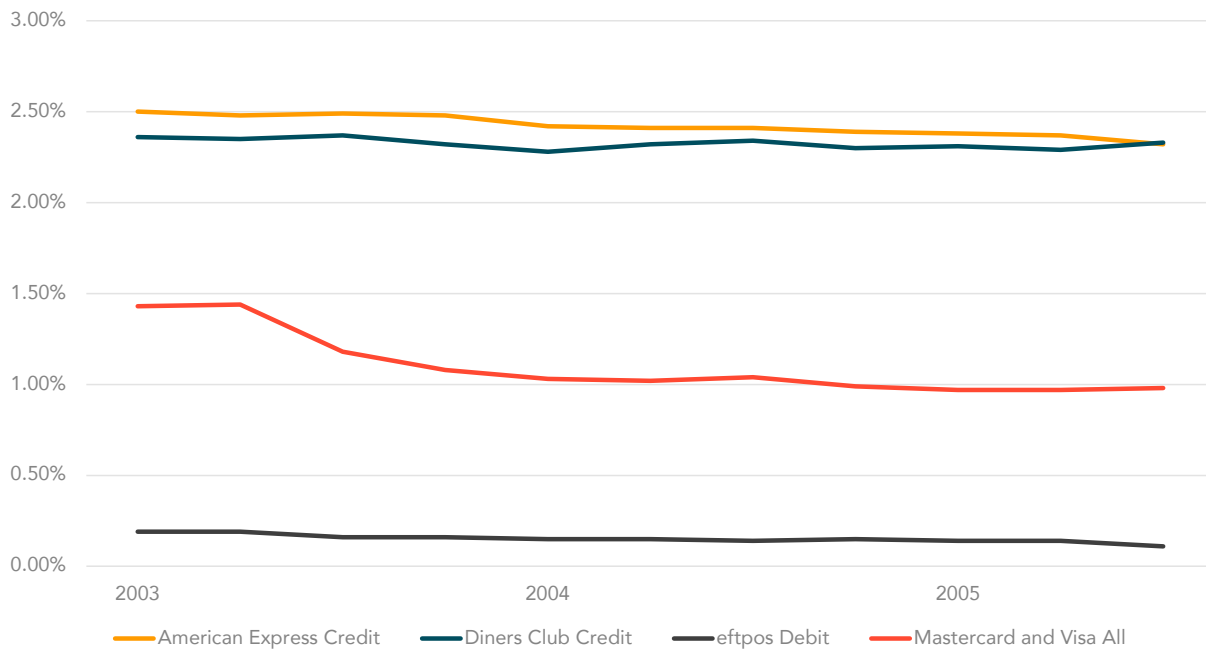


Figure 1. Australia Total Merchant Fees by Card Type (2003-2005)

Co-badging and Routing

DEFINITION

Co-badging refers to a single payment card that has at least two or more payment card networks enabled on it, allowing the card to be used for transactions across multiple payment networks. This is especially relevant in countries where there exists at least one local network for processing. Local networks are typically networks that operate domestically or regionally, whereas global networks are typically offered across a variety of regions. Examples of local card networks include eftpos in Australia and RuPay in India, while a global network would be considered Visa or Mastercard.

Merchants can take advantage of co-badging by routing transactions via competing networks. Co-badging and routing also offer merchants a strategic lever when establishing commercial deals with networks, providing the opportunity to reduce their payment costs and promote competition between card networks.

COUNTRY IMPLEMENTATION

Some countries, such as the United States, have mandated co-badging through central bank regulations, while regulators in Australia have established expectations or incentives for issuers to co-badge debit cards by setting higher interchange caps for co-badged cards. None of the other countries in scope have mandated or incentivized payment card co-badging. All countries in scope, however, operate at least one local debit network (Table 2).





Country	Local Card Networks	Estimated Local Market Share
 Australia	Eftpos	20%
 India	RuPay	14%
 Japan	Suica, Aeon, J-Debit	4-10%
 Singapore	NETS	17%

Table 2. Domestic Debit Networks by Country and Market Share¹¹

IMPACT ANALYSIS

In Australia, the market with the strongest public reporting of merchant fees, rates for the domestic debit network eftpos are on average less than Visa and Mastercard debit merchant fees. By Q4 2023, average eftpos merchant fees were 35 basis points, 15 basis points lower than Visa and Mastercard's debit fees at that time. With unfettered access to domestic debit networks, CMSPI estimates approximately \$800 million of benefit annually for merchants.¹²

11 Euromonitor 2022

12 <https://cmspi.com/news/breaking-news-what-merchants-need-to-know-about-the-rbas-latest-payments-update/>

KEY TAKEAWAYS

- **Domestic Networks Exist Across All Markets:** Every market operates at least one domestic network. In Australia, the domestic debit network eftpos is on average 15 basis points cheaper per transaction than Visa and Mastercard debit.
- **Limited Regulation of Mandated Co-Badging:** Only Australia, one of four countries analyzed, regulates debit card co-badging by setting expectations for issuers and processors to facilitate least-cost routing. In addition, there is a higher interchange cap for dual-network badged cards than single-network badged cards, creating an incentive for issuers to ensure at least two networks are available on the card for routing.
- **Merchant Fees for Domestic Debit Transactions on Average Lower Than Global:** Over the period Q2 2020 to Q4 2023, Visa and Mastercard average total merchant fees ranged from 0.47-0.54%, while in this period eftpos rates ranged from 0.26-0.35%. In any given quarter between Q2 2020 and Q4 2023, the Visa and Mastercard total merchant fees were between 42-89% higher than eftpos rates. While co-badging may not directly contribute to the lower rates for domestic debit networks, a mandate for issuers to co-badge cards grants merchants access to lower cost networks.

Interchange and Network Fee Pricing Transparency

DEFINITION

Regulators may mandate that networks publish interchange or network fee pricing as these are typically multi-laterally set fees that impact both card issuers and card-accepting merchants.

COUNTRY IMPLEMENTATION

Of the four countries in scope, both Australia and Japan have mandated card networks to publish interchange fees. Clause 6.1 of the RBA's Standards No. 1 and No. 2 of 2016 required card schemes in Australia to publish "Multilateral Interchange Fee rates or amounts." Pursuant to these clauses, global card schemes Visa¹³ and Mastercard¹⁴ publish interchange rates for domestic transactions made on credit, debit, and prepaid cards. In addition, in September 2022, Japan's Ministry of Economy, Trade, and Industry (METI), responsible for enhancing economic and industrial aims of the Japanese government, required the card networks to disclose interchange fees "in order to ensure fair competitive conditions among international brands in the credit card issuance market and raise the transparency of the credit card market as a whole."¹⁵

IMPACT ANALYSIS

The availability of country-level payments statistics varies significantly by country. In some countries, central banks will publish payments statistics through financial institution data collections or surveys. Where available, this data can be used by merchants to benchmark their own rates or to gauge their performance against a market average. In addition, while isolating the effects of price transparency from other determinants of price is empirically difficult, some examples of transparency in financial markets suggest transparency lowered prices. From a review of empirical research on price transparency, "most research suggests that when better price information is available prices for goods sold to consumers fall."¹⁶ Markets in intermediate goods, however, is more complicated, with price transparency on the one hand providing buyers and sellers important information about the true economic value of goods or services, on the other hand, "public prices may make collusion among sellers easier."¹⁷

KEY TAKEAWAYS

- **Limited Regulation of Mandated Transparency:** Of the four countries analyzed, only Australia and Japan have mandated interchange fee disclosures for Visa and Mastercard.
- **Pricing Transparency May Contribute to Market Efficiencies and Lower Costs:** Studies show that pricing transparency may contribute to lower prices for consumers. However, in intermediary markets such as payments, empirical studies show mixed results on the efficacy of pricing transparency to reduce costs.

13 <https://www.visa.com.au/about-visa/interchange.html>

14 <https://www.mastercard.com.au/en-au/business/overview/support/interchange.html>

15 https://www.meti.go.jp/english/press/2022/0914_002.html

16 <https://crsreports.congress.gov/product/pdf/RL/RL34101#:~:text=Despite%20these%20complications%2C%20greater%20price,efficient%20outcomes%20and%20lower%20prices.>

17 *Ibid*