



The Hon. Ed Husic MP
Chair of Standing Committee on Economics
House of Representatives
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Parliament House
Canberra ACT 2600

Submission lodged online: [Upload Submission](#)

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

Dear Chair

Thank you for the opportunity to make a submission to the Standing Committee on Economics in relation to its inquiry into Schemes, Digital Wallets and Innovation in the Payments Sector, adopted by the Committee on 8 December 2025.

The NSW Small Business Commissioner (the Commission) is an independent statutory office of the NSW Government. It provides strategic advice, advocacy, and affordable dispute resolution services across NSW.

Small businesses are dependent on electronic payments to operate. For most, accepting card and wallet payments is no longer optional, even where the costs are high and the market provides limited ability to negotiate or switch to more cost-effective payment plans. In this context, the Commission welcomes the Committee's focus on fairness, accessibility, affordability and the effects of market power in the payments sector.

This parliamentary inquiry is also timely and complementary to the Reserve Bank of Australia's (RBA) Review of Merchant Card Payment Costs and Surcharging. The RBA's review is expected to deliver important reforms to the technical settings of the card payments system, including surcharging, interchange and aspects of pricing transparency.¹ However, many of the most significant challenges facing small businesses in the payments sector are structural and extend beyond the RBA's existing regulatory remit. These include issues of market power, platform and wallet control, access to key technologies, and the way new payment methods and account-to-account alternatives are evolving.

This submission addresses the fairness and accessibility of card-based payment schemes for NSW's almost 900,000 small businesses.

1. The Small Business Problem Statement

1.1 Small businesses are under acute cost pressure

Small businesses are operating in a highly challenging economic environment. Following a period of artificially low business insolvencies during the Covid-19 pandemic, insolvencies remain elevated amid ongoing cost pressures, weakening customer demand and the recovery of historic debts.

¹ Reserve Bank of Australia (2025), [Media Release "Review of Merchant Card Payment Costs and Surcharging"](#)

The cost of business inputs remains one of small businesses' top concerns according to the Commission's latest Momentum Survey, with approximately 84 per cent expressing concern.²

Feedback to the Commission indicates that many small businesses consider merchant, EFTPOS and card fees to be a material and growing operating cost, particularly in sectors such as retail and hospitality where margins are already thin.

1.2 Small businesses pay substantially more than large businesses

Small businesses also consistently point to the significant gap between the fees they pay and those available to larger businesses for the same payment methods. The RBA's analysis demonstrates that the average cost of acceptance for small merchants is around three times that paid by large merchants.³ The value and volume of transactions processed by larger businesses mean they are generally better positioned to access or negotiate more favourable pricing regimes, while small businesses report having very little control over either the level or the structure of the fees they are charged.

1.3 Pricing structures are complex and opaque, weakening competition and switching

Fee structures are often complex, difficult to understand and difficult to compare. Many small businesses report being offered standardised, bundled plans on a "take it or leave it" basis, with little or no ability to negotiate. The RBA has noted that determining scheme fees at the individual transaction level in real time is technically difficult given the complexity of scheme fee structures and has been advised that some acquirers' systems are sometimes not able to determine the scheme fees paid by individual merchants, let alone calculate these fees on a per-transaction basis at the point of sale. This suggests that aspects of pricing opacity are embedded in the technical and commercial architecture of the payments system itself.⁴ If some payment providers cannot readily observe all components of the cost of a transaction in real time, it is not possible for small businesses to do so.

This complexity is reflected in low levels of engagement and comparison. A survey undertaken by the Commission in 2021 found that one in two small businesses accepting card payments had never heard of least-cost routing (LCR), 42 per cent of respondents had not reviewed whether their payment terminal provider was the best and/or cheapest one for their business and only 19 per cent had compared alternatives in the previous 12 months.⁵

The Commission understands significant progress has since been made, with LCR for in-person transactions now widely available and enabled for around 76 per cent of merchants according to the RBA.⁶ While LCR has improved outcomes for many small businesses, it does not guarantee that merchants consistently benefit from the lowest-cost routing. Feedback received consistently by the Commission from NSW small businesses indicates that even where LCR is said to be enabled, transactions can still be processed via higher-cost scheme networks in a range of common situations. This includes cases where customers pay using mobile wallets, where a debit card transaction is presented and processed as a scheme or credit transaction, where the merchant's terminal or payment provider does not expose a routing choice, or where LCR is only partially implemented across transaction types. In practice, this means that small businesses do not always have effective control over how transactions are routed and therefore cannot reliably ensure that payments are processed via the lowest-cost network, particularly for wallet-presented and online transactions.

² NSW Small Business Commission (2025), [Small Business Momentum Survey Report December 2025](#), p. 2

³ Reserve Bank of Australia (2024), [Merchant Card Payment Costs and Surcharging – Issues Paper](#), p. 4

⁴ Reserve Bank of Australia (2025), [Review of Merchant Card Payment Costs and Surcharging – Consultation Paper](#), p. 64

⁵ NSW Small Business Commission (2021), [Submission to the Reserve Bank of Australia on the Review of Retail Payments Regulation – Consultation Paper](#)

⁶ Reserve Bank of Australia (2025), [Review of Merchant Card Payment Costs and Surcharging – Consultation Paper](#), p. 61

Most importantly, concerns remain about whether the cost savings associated with LCR and increased routing choice are being passed through to merchants and the extent to which complexity in pricing and plan structures continues to inhibit effective comparison, switching and competitive pressure.

1.4 Small businesses are structurally disadvantaged in the payments system

The RBA's analysis recognises that small merchants face structurally higher payment acceptance costs and weaker competitive outcomes than large merchants. In general, small businesses pay more, per transaction, to accept the same card or electronic payment as a large business for the same payment service. These higher costs are unavoidable and built into day-to-day trading. This represents a structural disadvantage in the cost of an essential business input: the ability to get paid.

This structural disadvantage also exists regardless of whether a business chooses to surcharge or absorb payment costs into its prices. The RBA estimates that around 90 per cent of small merchants do not currently surcharge and instead embed these costs into their prices.⁷ Even where small merchants do surcharge, they still face a persistent competitive disadvantage relative to larger merchants who pay lower unit costs for the same payment service.

Given 97 per cent of all NSW businesses are small businesses, it is important that market fundamentals are supportive of competitive pricing for small businesses.⁸ This includes ensuring competitive pressure remains effective across payment systems and providers, and that despite their relatively smaller number of transactions, small businesses benefit from this competitiveness.

2. Considerations for a payments system that improves outcomes for small businesses

It is the Commission's view that the effectiveness of reform should be assessed not only on average system outcomes but on whether it addresses the underlying structural disadvantages faced by small businesses in the payments system and improves outcomes for the smallest and least powerful merchants.

From a small business perspective, a fair payments system should deliver three core outcomes: lower and more fairly distributed costs of acceptance; genuine transparency and comparability of pricing; and a regulatory framework that remains effective as payments increasingly move through digital platforms, wallets and new intermediaries.

2.1 Lower and more fairly distributed payment costs

The Commission supports policy changes aimed at placing downward pressure on pricing for small businesses, including lowering caps on domestic interchange fees and capping the interchange on foreign-card transactions. The RBA's modelling indicates that these changes have the potential to reduce the cost of acceptance, particularly for small merchants. However, as the RBA notes, pass-through of these savings cannot be assumed. Reductions in wholesale costs will not necessarily translate into lower merchant charges in the absence of effective competition and transparency in the acquiring market.

In this context, the Commission notes the RBA's proposal to remove surcharging on designated debit, prepaid and credit card systems. Feedback to the Commission indicates that many small businesses are

⁷ Reserve Bank of Australia (2025), [Review of Merchant Card Payment Costs and Surcharging – Consultation Paper](#), p. 10

⁸ Australian Bureau of Statistics, ABS, 8165.0, June 2022 – latest available

concerned that, if surcharging is removed before cost reductions are demonstrably passed through, they will be required to absorb ongoing payment costs into their prices or margins. The risk is of particular concern for low-margin sectors such as hospitality, where businesses have limited capacity to absorb additional costs at a time of rising operating pressures.

As the RBA notes in its consultation paper “Amendments to the surcharging framework without corresponding regulatory actions to lower card payment costs would simply redistribute costs in the payments system while allowing inefficiencies to remain”. For this reason, the Commission supports the RBA’s approach of treating surcharging reform as part of a broader package rather than as a standalone measure. However, careful consideration should be given to the timing of any changes to surcharging to ensure that small merchants benefit from, rather than bear the risk of, the broader reform package.

The Commission also maintains further work is required to assist businesses in taking advantage of the potential benefits of dynamic least-cost routing (LCR) with clear opt out options for merchants. This includes reducing any existing barriers to promoting LCR to small businesses as well as addressing any structural impediments that inhibit the implementation of technical adjustments needed to reduce system costs.

2.2 Greater transparency and comparability of payment costs

Lower wholesale costs will not improve outcomes for small businesses unless pricing is transparent and comparable. Pricing structures should allow merchants to understand the full cost of acceptance and to compare providers without specialist advice.

The Commission supports stronger and standardised fee disclosure. This includes clearer breakdowns of interchange, scheme and provider margins, and more consistent presentation of pricing across providers.

In addition, the Commission reiterates its longstanding support for extending the Consumer Data Right to merchants.⁹ An extended CDR would allow small businesses to compare providers more easily using their own transaction data, including volume of transactions by payment type, total fees charged and the average cost per transaction. This would improve competition and put downward pressure on card payment costs for merchants by reducing the friction involved in shopping around and switching providers.

Finally, the Commission continues to support consideration of a service guarantee framework for key payment services.¹⁰ Small businesses have expressed concerns about the impact of system outages on their business. The Commission has proposed the establishment of a service guarantee as a means of providing a set of clear expectations and requirements regarding reliability and service standards while ensuring transparent and fair compensation processes in the event these standards are not met. Noting the increased reliance of small businesses on these payment systems, the Commission maintains that further consideration of this proposal is a priority.

2.3 Future-proofing the regulatory framework

New and emerging payment technologies offer the potential for improved efficiency and lower costs, and also for increased competition and consumer choice. In particular, account-to-account payment rails have the potential over time to provide a stronger competitive alternative to card-based payment systems. However, these benefits will not automatically flow to small businesses without appropriate market and regulatory settings. For small businesses, adoption depends not only on technical

⁹ NSW Small Business Commissioner (2023), [Submission to the Australian Competition & Consumer Commission on Consumer Data Right](#)

¹⁰ NSW Small Business Commissioner (2021), [Submission to Commonwealth Treasury on Payment Systems Review](#)

availability, but on whether new systems are simple to use, affordable to implement, and proportionate to their administrative and operational capacity.

The challenges facing small merchants in the payments system extend beyond the scope of current pricing regulation alone. The RBA acknowledges that parts of the modern payments system sit at the edge of its regulatory remit.¹¹ The experience with LCR for online and wallet-presented transactions illustrates one of these challenges: even where lower-cost options exist, merchants may not always be able to access them because key decisions are shaped by platform settings, default choices or technical design. While the RBA can set rules for banks, card schemes and some acquirers, it has limited powers to impose equivalent obligations on wallet providers, payment gateways and some other technology platforms that increasingly shape how payments are initiated and processed.

There may be value in considering what steps are needed to maximise the potential benefits of new and emerging payment technologies for small businesses, including consideration of regulatory interventions to support competition, transparency and fair outcomes for small businesses.

Thank you for the opportunity to provide feedback. If you require further information, please contact my Executive Officer at commission@smallbusiness.nsw.gov.au.

Yours sincerely

Catherine Ellis
Acting Commissioner
NSW Small Business Commission

Date: 30/01/26

¹¹ Reserve Bank of Australia (2025), [Review of Merchant Card Payment Costs and Surcharging – Consultation Paper](#), p. 61