

Appropriate payment surcharging explained

Accepting different payment methods can impose different costs on you as a merchant. A surcharge is an extra fee charged to recoup any additional cost from your customers where they choose to use a way to pay that is more expensive for you to provide. This note explains how you can surcharge appropriately.

Fees that make up appropriate surcharges



What is a merchant service fee?

The merchant service fee is the fee you pay to your acquirer (also known as a payment service provider) for accepting certain means of payment. It varies from one payment service provider to another but many offer rates of 0.7% for contactless debit card transactions and 1.5% to 2% for domestic credit card transactions.

Other payment options such as international, commercial card payments and buy now, pay later are generally higher again.

You can check with your payment service provider if you are not sure of your merchant service fee rates and should make sure you are on a plan that works best for your business. If your

business has grown since you set up your merchant facility with your payment service provider, you may be able to obtain better merchant service fee rates.

There is no merchant service fee for cash, Eftpos or where a debit card is inserted or swiped through your terminal.

What costs might be included in a surcharge?

Appropriate surcharges should be no more than your additional cost for accepting that particular payment method or group of payment methods.

In most cases, this will be your merchant service fee for that payment method.

The associated cost of doing business and the operating costs required for all payment methods are generally not related to specific types of payments and are more the cost of doing business i.e. POS costs, staff costs, electricity costs. These costs should not be included in any surcharge.

Choosing to surcharge

Surcharging can allow you to recoup the costs of higher cost payment methods or help you avoid these costs where your customers respond by using lower cost options.

Surcharging is not going to be beneficial to all merchants in all circumstances.

When deciding if surcharging is best for your business, you may want to consider the:

1. additional cost of accepting the different payment options;
2. cost of surcharging – for example, it may take staff and consumers longer to process a payment;
3. impact on your customer experience – applying surcharges and the time taken may impact the speed of the transaction and the customer experience; and
4. impact on revenue – in some cases, you may lose customers or gain customers depending on the payments methods you adopt and any surcharges you apply.

Appropriately surcharging

To surcharge appropriately you must:

1. be transparent about the surcharge and the customer's options ahead of paying it;
2. provide your customers with at least one alternative payment method that does not incur a surcharge; and
3. set surcharges so they do not exceed the additional cost of accepting the retail payment that the surcharge applies to. In most cases, this is likely to be the merchant service fee for those payments.

Appropriate surcharges can be different for different types of payments (e.g. contactless debit vs. credit). Surcharges can also be the same for multiple payment options of a similar type (e.g. all those payments where you pay the same fee).

Where there is a single surcharge for payment methods that are of the same type, it is important that the surcharge considers the relevant revenue shares of each payment method and is not a simple average of the different costs. Please refer to the example of appropriate surcharging below.

Does there have to be a different surcharge for each payment method?

You can choose to surcharge different rates for different payment methods but may want to consider how complex this makes the customer and staff experience.

Is there a way to avoid surcharging my customers?

All merchants have the ability to recover the costs of payments directly through the price of the goods and services you sell, avoiding surcharges completely. However if you do surcharge, there should be at least one payment method which is not surcharged.

The methods will vary from one merchant to another:

- If you mostly accept in-person payments, the option should be Eftpos and debit cards that are inserted and swiped as they do not incur any transaction specific costs for you.
- If you are online only, or your customers purchase predominantly online, this will depend heavily on the type of transaction. For example, with time dependent transactions, some card based payments may be the lowest cost to your business whereas with non-time dependent transactions (such as regular bill payments) an internet banking payment may be the lowest cost method.
- You should contact your payment service provider to help determine your lowest cost option and if there is an alternative available to you and your customers when implementing surcharges.

What does it mean for a surcharge to be transparent?

Surcharges must be clearly displayed, for example, by adding information to your website where your customers pay online or for in person payments, placing a sign close to your terminal.

Your customers should be made aware that a surcharge will be payable when they make a decision on which payment method to use, so they can decide whether to pay the surcharge or use a different method.

For in person payments you should ensure that your notice is prominently displayed where your customers pay.

For online payments the notification of any surcharges and alternative ways to avoid surcharges should be prominently displayed prior to the payment being made.



Example of appropriate surcharging

A business accepts debit and credit payments. The costs to that business are:

- \$30 a month for hiring the payment terminal; and
- \$15 a month for the network connection fee; and
- 0.7% to accept contactless debit which are 40% of their payments; and
- 1.5% to accept Mastercard and Visa credit cards which account for 20% of their payments.

In this example 40% of the payments are free as Eftpos and debit cards that are inserted or swiped do not attract any form of surcharge.

The remaining 60% of transactions that are capable of being surcharged can be calculated as follows:

	Share of total transactions	Share of transactions being surcharged	Per transaction cost	Weighted average surcharge
Contactless debit	40%	66.7% (40/60)	0.7%	0.47% (66.7x0.7)
Credit	20%	33.3% (20/60)	1.5%	0.50% (33.3x1.5)
Total	60%	100%		0.97%

If the business wants a single rate of surcharge for contactless debit and credit transactions, that surcharge should be no more than the weighted average of the fees for accepting those two types of payment (the per transaction cost above). Given the relevant payment shares in the example above where 60% of payments can be surcharged:

1. The share of each of the costs needs to be taken into account.
 - Contactless debit represent 40% of the total value of transactions, but 66.7% of the transactions that are a cost the business ($40\%/60\% = 66.7\%$)
 - Credit represents 20% of the total value of transaction, but 33.3% of the transactions that are a cost the business ($20\%/60\% = 33.3\%$)
2. Taking the different costs for the payments into account to get a weighted average cost which can be used as the surcharge rate:
 - the costs (0.7% and 1.5%) are multiplied by the relevant shares (66.7% and 33.3%) and added together (0.47% and 0.5%) to get the weighted average of 0.97%
3. If the business wants different surcharge rates, they would be 0.7% for contactless debit and 1.5% for Mastercard and Visa credit cards.

Please note that this calculation would not include the cost of the terminal or the network connection fee as they are both required for all payments.

In both circumstances there should be adequate signage showing that customers who choose to pay with a contactless debit card or a credit card will incur a surcharge and the relevant amount of either 0.97% where a single surcharge rate is used or, 0.7% and 1.5% respectively, while **there is no surcharge for Eftpos and debit cards that are inserted or swiped.**

The calculation above is an example and you should contact your payment service provider to assist you in establishing what surcharges you can apply to the specific payment methods you offer.