Response to RBA Review of Retail Payments Regulation in Australia

Issues Paper Consultation

Phase 1: Merchant Card Payment Costs and Surcharging

January 2025

PUBLIC VERSION

Executive Summary

Mastercard's response to the Review is informed by the following six themes which are expanded on in our detailed responses to the consultation questions:

(i) **Approach and timing of the Review.**
There must be a comprehensive review of retail payments regulation only when the RBA has the regulatory powers and responsibilities to look at the whole market and other important issues together.

The scope of the Review does not address significant market participants including wallets and three-party schemes. We note the high cost and increasing market share of payment networks who are not currently designated by the RBA. The expected amendments to the *Payment Systems (Regulation) Act* (PSRA) have not yet been made resulting in the lack both of a broader factual enquiry by RBA and powers on its part is inconsistent with further interchange regulation.

As a matter of process, it would be best for the Review to be followed with a further revised RBA issues paper (as part of its intended phased approach) with the full factual context addressed and that the RBA then initiates any proposed policy or regulatory interventions. There are many justifications for this including the growth in use of wallets, the transformative impacts of what has happened in payments since the last review, matters aligned with RBA's focus on security including tokenisation and the application of the government's critical infrastructure framework to payments systems.

The risks of the RBA not proceeding in this way include that the broader interests of market participants in all the topics in scope of the RBA's present work will not be served by a holistic market review. In turn, this creates risks of continued market inefficiencies, an ongoing lack of level playing field and potential re-work.

(ii) **Market context in Australia.**

Current market conditions show that cards are the lowest end to end cost for merchants to accept payment methods in Australia. Moreover, Australia has one of the lowest card acceptance costs amongst other developed markets.

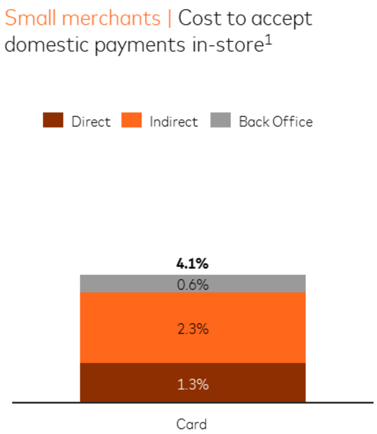
The cost of acceptance for card payments in Australia is amongst the lowest in the world, while the cost of cash payments is amongst the highest and will likely only get higher. A Boston Consulting Group (BCG) quantitative research study commissioned by Mastercard in August 2024 examined the end-to-end costs incurred by businesses and consumers when making payments. The research found that in Australia (as illustrated in the graphs below),

(a) that by focusing only on components within direct cost, it ignores the overall end to end cost –indirect and back-office costs individually are as high if not higher than direct cost.

(b) the end-to-end cost for a merchant to accept a card payment (1.8%) is lower than cash (3.9%).

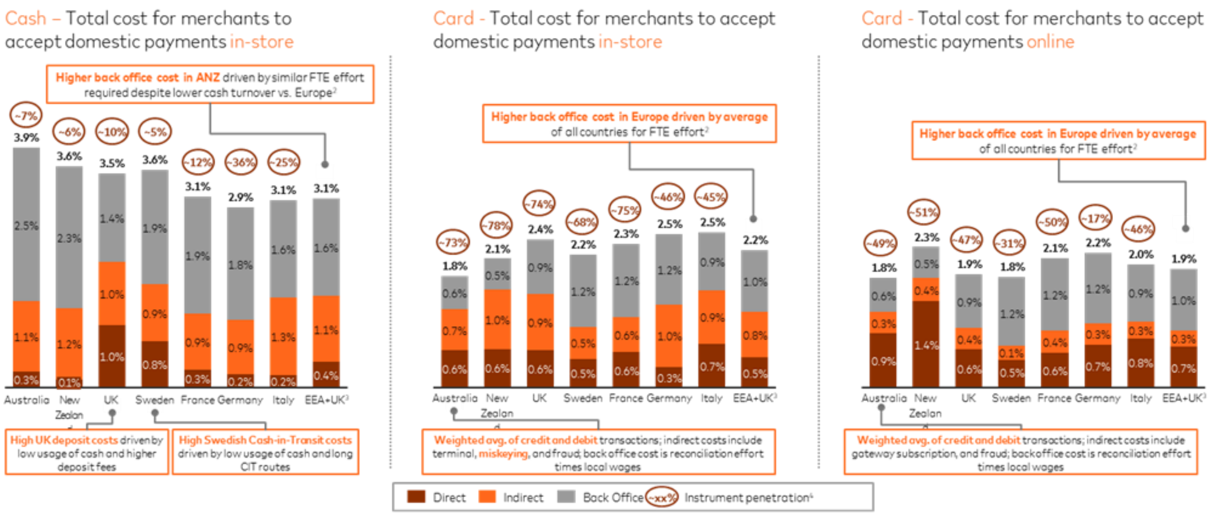
(c) scheme fees, interchange and merchant service fees represent only a small part of the end-to-end cost of acceptance

Graph: In-store cost of acceptance across payment methods in Australia, segmented by merchant size[1]

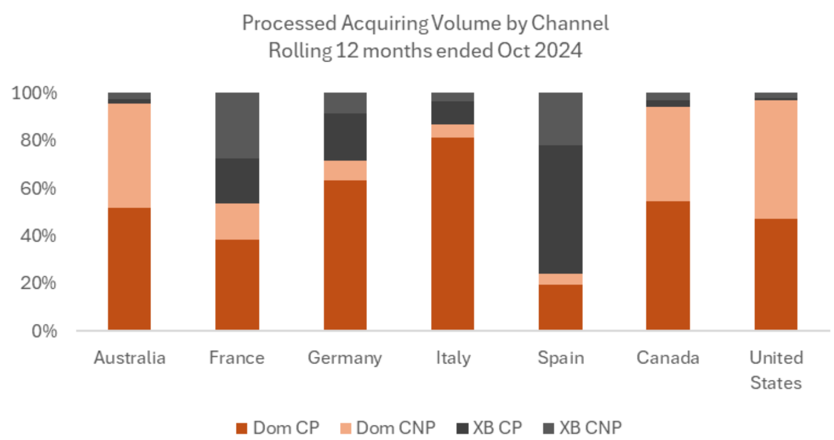


[1] BCG White Paper, The Hidden Cost of Cash and the True Cost of Electronic Payments in Australia, Europe, New Zealand and the UK – Addendum August 2024

Graph: Merchant's cost of acceptance and cards in Australia, New Zealand, and European countries (EEA & UK)[1]



Graph: Weighted average proportion of acquiring volume by channel[2]



(iii) **There is a lack of a level playing field.**

There needs to be symmetry of regulation among key players and schemes.

To create a more level playing field that benefits competition and efficiency, the RBA should promote a fair, and consistent approach to regulation. The RBA's policies should not discriminate by unfairly disadvantaging some participants such as international schemes over others such as domestic schemes, three party schemes and digital wallets, that have leveraged business models and existing infrastructure to their competitive advantage. Equally, in considering follow up action to this consultation, the RBA should not propose action that has the direct effect of increasing risk (and therefore cost as well as risk

[2] Mastercard MyMPA

management requirements) to payment systems such as Mastercard that have been specified as critical infrastructure.

Regulation that has been inconsistently applied (notably surcharging, blended pricing and the lack of transparency of the end pricing to merchants) has enabled certain participants to grow faster and increase pricing to small businesses and then pass these higher costs onto consumers through surcharging. Smaller issuers on the other hand are unable to compete due to lower interchange revenue at the same time as bearing higher regulatory compliance costs such as supporting other networks, and higher digital wallet costs.

(iv) **Surcharging should be banned.**
Mastercard supports a ban on surcharging across credit and debit on designated schemes as the current surcharging practices are not resulting in market efficiencies (i.e., merchants add a surcharge and pass on their costs to consumers, with no competitive pressure for the merchant to 'shop around').

Surcharging (and especially excessive surcharging) has a negative impact for all involved, but it is vital that any change in surcharging policy by the RBA needs to be equally applied to both debit and credit. If surcharging remains on credit there runs a risk of consumers paying via credit and absorbing the entire cost of payments by the surcharge encompassing other add on costs, effectively subsidising other payment methods.

The real focus should be on the RBA creating competitiveness and pricing transparency among acquirers and payment service providers (**PSPs**) and ensuring merchants do not simply pass on these costs to consumers in the form of surcharges.

(v) **The focus should be on improving the ability to meaningfully compare price and value.**
The value propositions across payments networks vary, and cost alone is not the only relevant factor.

A broader focus needs to be applied to consider value, choice, and trust, which are not currently considered as part of the Review. Mastercard supports transparency measures that meaningful and genuinely help users make informed comparisons between products, services, and providers. Visibility of the cost and value of different payment methods is important as it allows all participants in the value chain to understand how much it costs them to use a specific payment form, and the benefits accrued to them. In the first instance, merchants should have the ability to shop around between PSPs' rack rates.

Mastercard estimates that the biggest component of the merchant service fee (MSF) is the acquirer's margin (upto ~62.3%), with merchants able to get upto a direct 80bps reduction by switching with another. Equally, the rest of components, of which RBA is focusing at some not all, are individually and in aggregate smaller in comparison to the acquirer's margin.

By increasing transparency, we make it easier for merchants and consumers to understand the benefits, as well as the costs, of electronic payments. For example, information currently provided to merchants from acquirers for surcharging gives merchants visibility of average costs. But this does not always indicate the cost of the different networks and payment types, nor does it illustrate the benefits merchants derive from accepting electronic payments. It also fails to consider factors such as convenience, existing relationships, and bargaining power which contribute to the dynamics of competition in payments.

There is a need for enhanced disclosure in helping small merchants and PSPs to navigate changes regarding pricing changes, and those who are currently surcharging card transactions, and to meaningfully compare different value propositions. There is opportunity to help small merchants not only in cost of acceptance but also incrementally value that electronic payments can do in terms of uplifting efficiency, resiliency, and growth of their businesses.

(vi) **We do not need more regulation of interchange or scheme fees but an even-handed approach to regulation.**
Unnecessary and inefficient regulation should be avoided and should not be at the expense of competition and innovation.

Regulating foreign-issued cards and further lowering interchange fees will jeopardise the ability of financial institutions to provide cardholder services and may have unintended consequences for innovation and the Australian economy. While Mastercard scheme fees are a component of the total cost of acceptance by merchants, the benefits and value that merchants and card holders derive from the Mastercard card network exceed the cost of acceptance. Equal consideration should be given by the RBA to other unregulated costs that exist in the payment system through buy now pay later and digital wallet providers, that contribute to the overall costs merchants face in accepting card payments. Cost-savings for merchants from a reduction in fees are unlikely to be passed on to consumers through lower retail prices. To reduce costs for merchants and consumers, and create opportunities for productivity improvement, the RBA's payments policies should consider all direct, indirect, and back-office costs (such as fraud, terminal rental, invoice reconciliation, mis-keying etc). For a small business for instance, moving from a standalone terminal or cash register to an integrated terminal can reduce the cost of card payment acceptance by more than fifty per cent.

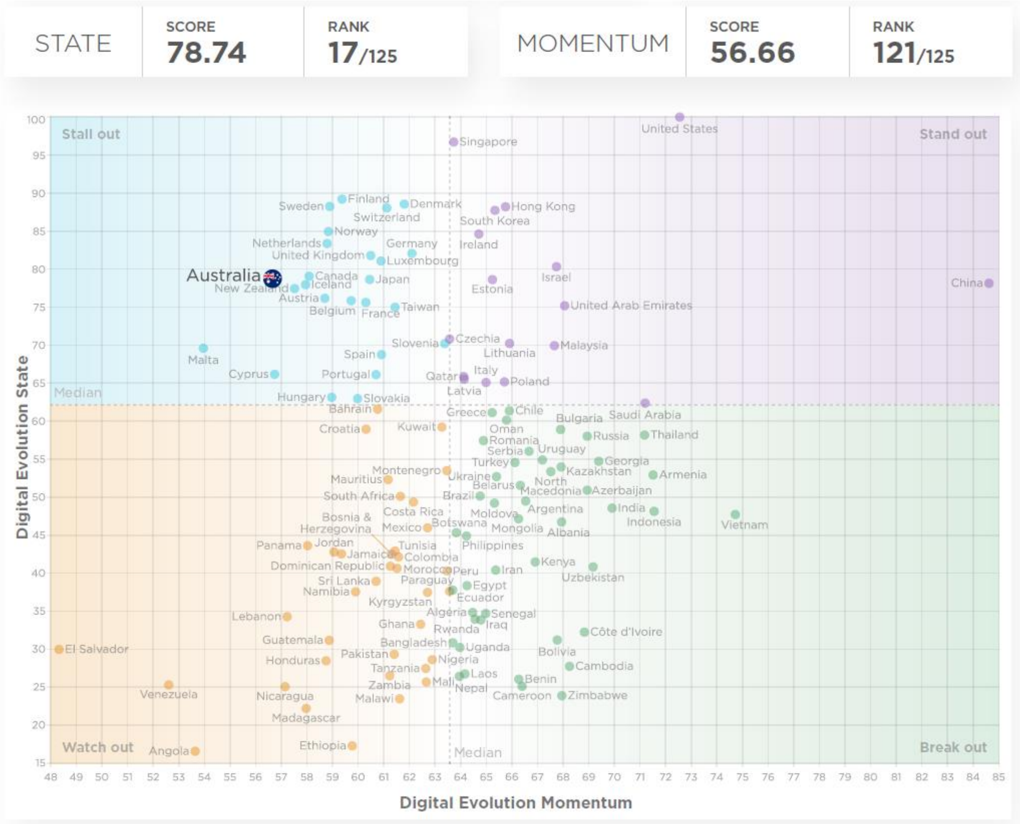
It is crucial that the industry and the RBA as part of its Review prioritise and incentivise ongoing investment in new technology and payment innovations to benefit all players in the ecosystem. The Digital Intelligence Index (DII) scorecard[3], an independent study produced by Tufts University and funded by Mastercard, provides valuable insights on the Australian economy and illustrates a rapidly receding trend in digital innovation. Although the state of digitisation in Australia is relatively high, ranking 17th out of 125 countries observed, the momentum over the 15-year period (2008 – 2023) is among the lowest, ranking 121st out of 125. (as depicted in the below graph). Australia scores low compared to its near peers (in no particular order) in rural digital inclusion and related mobile access availability, transaction (i.e., payments) infrastructure, ICT regulatory environment, and across several aspects of innovation such as the availability and access to risk capital, talent availability, R&D, and value capture.

Expanding rural digital and digital payments inclusion, combined with an easing and review of regulatory burdens, without compromising on the principles and effectiveness of regulation, and adopting and advancing inclusive innovation policies could lead to greater investments from market actors and participation by businesses in the innovation ecosystem and to unlocking productivity gains.

The RBA's continued focus on wholesale costs and LCR ignores the end-to-end costs in the payments eco-system and leads to low productivity growth. In its Review, we urge the RBA to consider the symmetry between surcharging and designated schemes which have regulated interchange, create a level playing field for all players in the ecosystem, and to create policy where merchants are able to have appropriate transparency of data and are able to seek out better acquirer deals to reduce the overall costs of acceptance.

[3] Digital Intelligence Index, Fletcher School at Tufts University and Mastercard, Q3 2024 update

Graph: DII Digital Dashboard– Australia 2023[4]



Mastercard looks forward to working with the RBA on the initial phase of its Review. Any outcomes, whether policy or regulatory, must be well considered and consistently applied to continue to maintain the overall efficiency of the Australian payments system.

[4] Digital Intelligence Index, Fletcher School at Tufts University and Mastercard, Q3 2024 update

Responses to Consultation Questions

Interchange

Question 1: Is there a case for lowering the level of interchange benchmarks or caps? Should the difference between the interchange fees paid by big and small businesses be limited in some way?

Mastercard does not support lowering the regulated interchange benchmarks or caps.

Interchange fees enable four party schemes to balance the interests of the various parties in the payment ecosystem, incentivising innovation and implementation of consumer protections, fraud and cyber protections and support for vulnerable consumers (through innovations such as the Touch card). As such, they are an important part of what makes it possible to deliver and optimise value delivered to issuers, acquirers, merchants and consumers. Australia already has amongst the lowest total cost of acceptance for cards of any market in the world (BCG analysis). Further intervention is not warranted and based on the evidence of past regulatory action, does not reduce merchant prices, but improves PSPs margins, and results in increased fees levied on consumers.

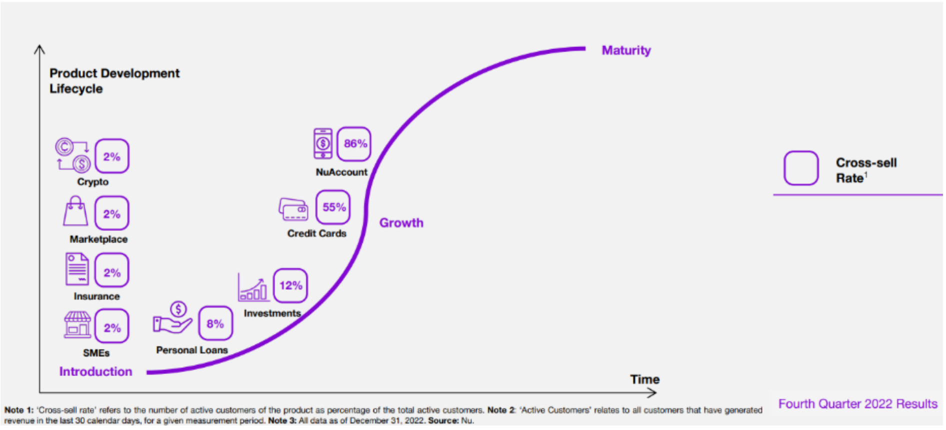
Current interchange settings have reduced competition in banking, reducing the revenue available for issuers to fund their operations and compete. Mastercard is aware of numerous international fintech competitors who have decided not to enter the Australian market due to the current regulatory settings, instead prioritising other markets.

Fintechs rely on interchange to grow

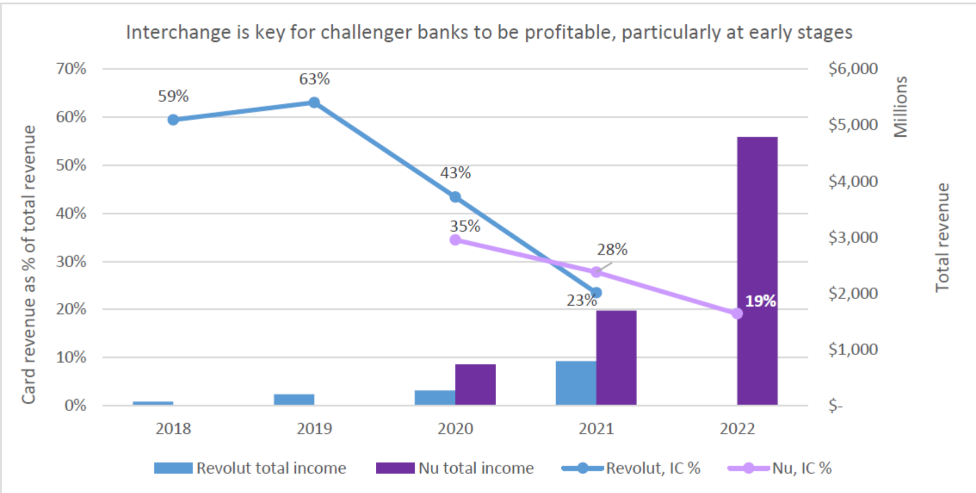
Further reductions in interchange would further impede competition. Many of Australia's "challenger" banks with restricted or full Deposit taking licenses have failed, in part because they were losing money on every debit transaction. This issue is exacerbated by the fees payable to digital wallets to participate in their ecosystem, which in some instances are known to be greater than the net average interchange received by banks for card present transactions. During the last decade, the growth of new "challenger" banks, or institutions that issue a card linked to a debit or credit account, has allowed many previously excluded persons to access the formal financial system. In the US, key examples are Sofi, Chime, Acorns, and Varo, fintechs on a path to success that were able to grow in part because of a regulatory threshold of US$10 billion in assets, below which interchange is un-regulated. In South Korea, a partner bank was able to scale in part due to absence of interchange restrictions. Three examples which we describe in more detail here below are Nubank in Brazil, Revolut in the UK and Movii in Colombia.

Nubank, a Brazilian "challenger" bank had more than 74.6 million customers as of Q4 2022 across Brazil, Mexico and Colombia. Out of these, 5.6 million people had never previously had access to banking services. Most of the payments-related fintech business start with granting consumers access to a zero-commission debit or a credit card. These zero-commission or no-minimum-balance accounts are possible primarily due to the interchange fee, which in the case of Nubank, represented 76% of its total fee and commission income in Q3 2022. This is relevant, as debit and credit accounts, are spearheading new offerings towards reaching base-of-the pyramid consumers, like never before:

Graph: Nubank product development lifecycle[5]



Graph: NU and Revolut's reliance on interchange to scale[6]

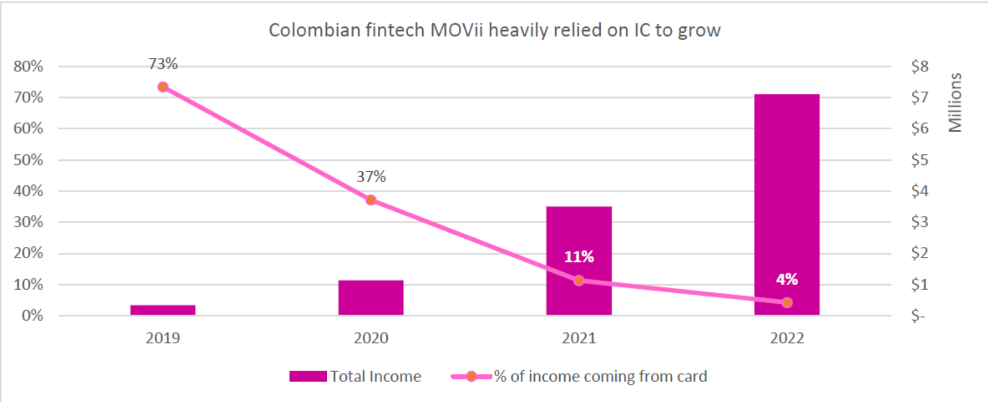


Another successful example of financial inclusion comes from Colombia, from a fintech called Movii, a payments-first company that supported the Colombian Government during the Covid 19 pandemic, in disbursing subsidies towards the most in need. During the pandemic, Movii's enabled payments ecosystem, saw that 64% of their customers used their card for e-commerce. This is relevant, as the

[6] Mastercard – Policy Center for Digital economy (PCDE)

incentives and products were tailored towards allowing the poorest to access and use their subsidies through an electronic payment. Below is a similar graph to the one presented above, it is presented by itself as Movii is still a small fintech, compared to Nu and Revolut — what is worth noting is that the integral role of interchange persists. During the first years of operations, interchange revenue is essential for fintechs. Having a reliable income from cards' issuing, allows them to then focus on growing their product portfolio into other non-card products like lending and competing with traditional banks.

Graph: Movii's reliance on interchange to grow[7]



In sum, Interchange rates enable a transparent and reliable way for fintechs to generate revenue, from issuing debit or credit cards, to grow into other segments—like personal loans and insurance. In other words, the 4-party-model is—after more than 60 years in the market—relevant and essential to drive innovation and financial inclusion.

Without interchange fees, small financial institutions also will be less able to offer the services that customers expect and they will not have the scale to invest in new product or security technologies. Given this, lowering interchange could have the unintended — and undesirable — consequence of discouraging new entrants and entrenching the market dominance of the big banks. Reductions in interchange would hurt these businesses disproportionately and be harmful to competition in financial and payments services. This is inconsistent with most government's desire to increase competition in financial services and encourage the development of the local fintech sector.

Mastercard suggests regulators engage with new entrant digital banks and smaller regional banks to understand the costs of operating a debit payments business today. These costs have dramatically increased with the advent of digital channels and the inherently higher cybersecurity risks associated with these channels.

Addressing inconsistencies in the DNDC framework

[7] Mastercard - Policy Center for Digital Economy (PCDE)

The RBA's expectations on financial institutions to issue DNDCs should they process more than $4 billion in debit transactions each year is arguably anti-competitive. A separate interchange benchmark already exists for single network cards, as determined by the RBA. Propping up another scheme not only adds unnecessary costs and but also much less revenue for these issuers. The $4 billion threshold should be removed, as this ostensibly benefits one party, distorting competition in the market. Particularly in view of the experience in Australia of "challenger" bank failures, we believe that the RBA's earlier expectation on DNDC issuance should now be withdrawn in order to make it easier for smaller banks to manage costs and to compete effectively in the market.

Mastercard's actions to address the cost of acceptance

Mastercard has a track record of recognising and acting upon the importance of cost of acceptance for small business. In 2022, Mastercard introduced small business interchange programs, lowering the interchange for participating merchants. Earlier this year, Mastercard further enhanced the programs by broadening the turnover criteria as well as lowering the rates.

As a result, the interchange rate[8] gaps between big and small business are low:

- On debit – the small business rate is as low as 2 cents, which is the second lowest rate possible for strategic merchant programs.
- Similarly on credit – the small business rate program is at 30 bps, a significant positive difference of 50 bps from regulated transaction cap, or 20 bps lower than benchmark; the lowest strategic merchant rate at 18 bps.

Addressing the wider issues related to cost of acceptance

The RBA rightly focuses on costs as an element of efficiency. But the RBA has not investigated costs arising from the current state of the Australian payments' ecosystem as a whole. Specifically, the RBA has not included in its work to date a review of costs arising to the eco-system from the use of wallets and three-party scheme payments. This is likely linked to delays in the expected amendment of the PSRA. We refer again to the key point we make in our executive summary that the RBA should not take further action as a timing matter until it has undertaken a more holistic review. The current interchange standards and benchmarks, whilst restrictive, do provide a level of certainty.

The weighted average and cap approach enables flexibility for all participants, whilst maintaining amongst the lowest acceptance costs in the world:

1. For issuers to differentiate product propositions to target consumer segments, driving competition

[8] Mastercard Interchange: Interchange | Mastercard Australia

2. Creates incentives for merchants to adopt and promote more secure, seamless, innovative acceptance channels
3. For schemes to compensate for digital wallet costs imposed on issuers

Accepting credit card transactions provides incremental value to merchants:

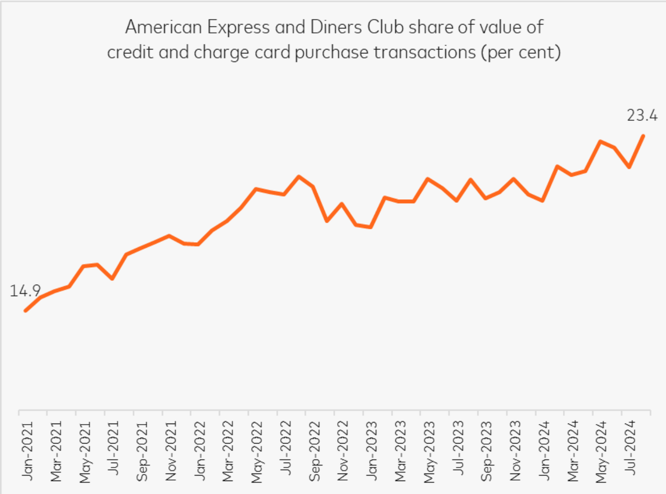
- *The financing cost*. Giving the cardholder the possibility of buying on credit, allows a business not to incur costs for credit loss, credit management, or having to forego investment capital that is usually essential to replace inventory or their operation. Obtaining the necessary capital to maintain transactions would involve either obtaining a line of credit or selling their accounts receivable by carrying out a transaction called 'factoring without recourse', and these alternatives generally have a higher cost than card acceptance. Merchants that want to help finance cost to their customers, as they do when accepting BNPL, are paying much higher cost at 6-7%. Merchants that want to offer financing to their customers, as they do by accepting BNPL, are paying higher costs – credit provides financing costs which is borne by merchants for that incremental sale.
- *Guaranteed payment*. A business knows that if it accepts a card with an international brand in accordance with the scheme rules, and lets a cardholder leave the store with the merchandise, payment to its account is guaranteed by the scheme. Issuers bear the credit risk and are getting paid in whole or in part whenever the bill cycle is.

  Enablement of incremental sales. Merchants benefit from incremental sales which they may not get in the event where cardholders have insufficient funds to make a purchase. It also drives higher basket sizes (approx. 2x) and more frequent transactions per cardholder (approx. 50% higher).

  Consistent with our responses to earlier reviews, Mastercard maintains that the level of credit interchange cap of 0.80 per cent and the benchmark at 0.50 percent are unreasonably low and jeopardises the efficiency of the payments system, especially on commercial cards. The inclusion of commercial cards to the interchange cap has failed to recognise that commercial and consumer cards are different products and has limited the ability for issuers to service Australian businesses and has furthermore provided a competitive advantage to unregulated schemes. This is evidenced by market share gains of non-designated schemes in both consumer credit as well as in commercial credit.

Excluding commercial is consistent with other regulated markets around the world. Mastercard seeks that the RBA considers removing commercial cards from the credit interchange regulation to foster competition.

Graph: Three-Party Scheme credit and charge market share[9]



Given the impact of previous regulation of interchange rates by the RBA and its stated effects, i.e. that *"The average fee that merchants pay for each card payment has declined over the past two decades"* (page 4 of the Issues Paper), combined with a dramatic increase in acceptance products, including those with higher acceptance costs for merchants, steps to further lower interchange benchmarks would be misdirected at best, would exacerbate level-playing field issues, and could potentially further distort the competitive landscape among other unintended consequences.

Question 2: Should interchange regulation be extended to foreign card transactions in Australia?

Foreign-issued cards should not be subject to interchange caps in Australia.

Consideration of capping the interchange fees on foreign-issued cards does not recognise the immense value that they provide to Australian merchants via overseas consumers spending in Australia, either online or when travelling. The credit risk associated with foreign-issued cards is greater than that associated with domestic cards, and associated costs are borne by foreign Issuers for their consumers who are using the cards.

The processing costs for an overseas transaction are higher than a domestic transaction due to the greater degree of complexity, risk and security protections, as well as the various currency differences. For instance, at a global level, cross border fraud level is double that of domestic.

[9] RBA Payments Data - C1.3 Credit and Charge Cards – Market Shares of Card Schemes

Regulating foreign-issued cards will jeopardise the ability of financial institutions to provide cardholder services and may discourage foreign spending in Australia. This increased credit risk must be reflected in a capacity to allow higher interchange rates for foreign issue cards. To encourage cardholders to use their cards when traveling, some issuers do not charge any fee on some or all of their cards. However, to be able to do so, issuers must be able to recoup the actual cost of foreign transactions via the interchange fee. Any jurisdiction that imposes price controls on interchange fees charged on foreign cards diminishes issuers' ability to meet their commitments. As a response, rather than remove such commitments entirely, issuers might well simply carve out restrictions for jurisdictions with such controls in place, notifying customers that they will be subject to foreign-transaction fees in those jurisdictions. At the margin, this could disincentivise and/or reduce the number of tourists who travel to Australia and, perhaps consequently, reduce the amount that tourists spend in the country. Australia's tourism industry experienced a significant economic impact from Covid with tourism GDP as a share of the national economy in 2020-21 dropping to 1.4% (from 3.1% in 2018-19), and rising to 2.5% in 2022-23, which is still less than pre-Covid rates[10].

In addition, regulating only Mastercard and Visa and not regulating other schemes serves to further increase both the regulatory disparity and the existing cost differential for merchants. Higher interchange on foreign issued cards is necessary for issuers to issue cards that permit international, authorise and take on the increased costs and risks such as costs of funds, credit risk/losses, fraud risks/losses, chargeback dispute resolution, international settlement, and other operational costs associated with cross-border transactions.

We would be surprised if, having considered this matter repeatedly in its previous reviews, the RBA chooses now to assert that it is for the RBA to decide how much of its costs for any foreign bank may recover in providing a payment capability benefitting international travellers and Australian merchants. We note that such foreign businesses have no voice in the Review and that they would be rule and cost-takers because of unilateral Australian supervisory action.

Question 3: Is there a case for reducing the complexity, and/or enhancing the transparency, of interchange fees? If so, how?

Question 4: Is there a case for further transparency of scheme fees to promote efficiency and competition? If so, what additional information would be beneficial?

[10] Tourism Research Australia

Interchange provides the economics that underpin the key elements of an efficient electronic payments' ecosystem.

These include acceptance, innovation, security, fraud protection and guaranteed payments to merchants. Interchange is crucial for a healthy acquiring ecosystem capable of driving acceptance among new merchants. As such, it should be high enough for new players to be incentivised to enter the space and low enough that merchants are encouraged to adopt digital payments.

Interchange rate programs have become more numerous due to several factors that the RBA identifies, primarily innovation and the broadened use of electronic payments where the appropriate incentives and balancing are often different and necessary to overall efficiency. We do not see this as undesirable complexity rather as a necessary part of an efficient market.

Mastercard interchange rates are transparent and published online in the public domain[11], as noted in the Issues Paper. All acquirers and issuers have full access to the Mastercard interchange manual, their qualification criteria and any changes to interchange are published via written bulletins. It is important to note that interchange fees are payable between acquirers and issuers, not by merchants nor cardholders. Equally interchange fees are not Mastercard revenue.

Lastly, we note again that the expected changes to the PSRA not yet having been made, digital wallets are not in scope of the Review, and this adds to the complexity given they remain unregulated and add cost to the overall payments ecosystem.

[11] Mastercard Interchange: Interchange | Mastercard Australia

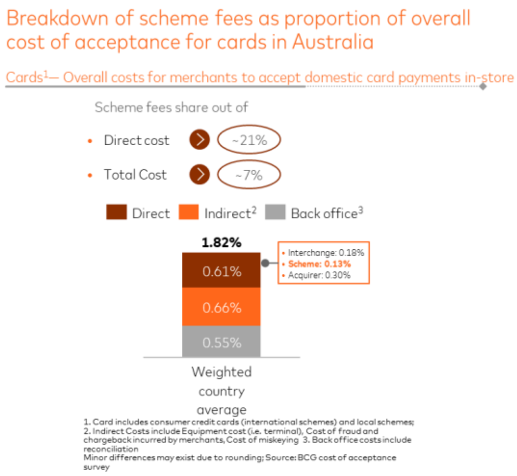
Scheme Fees

Scheme fees enable Mastercard to develop and sustain the delivery of fast, safe, secure, convenient and reliable critical financial market infrastructure.

The Mastercard card network drives value by improving payment efficiency, ensuring security and stability, driving innovation, and providing benefits to the global economy and society. Given the parts of a card transaction that are most visible to merchants and cardholders, one might think that the core product Mastercard provides is the transfer of money. However, this is not precise. Mastercard engages in many pre- and post-payment scheme activities including but not limited to assistance in co-ordinating issuers, acquirers, cardholders and merchants who would otherwise be reluctant to work together and setting rules that are essential to delivering seamless card transactions at the point of sale—whether it is a physical or a digital one.

Mastercard scheme fees are assessed on and paid by issuers and acquirers (and not merchants or cardholders) for the value and services provided by Mastercard and to cover the costs of operating and maintaining the card network infrastructure and resilience.

It is important to note that total costs of acceptance for merchants include the acquirer margin, acquirer processing fees, interchange fees, Mastercard scheme fees, and other costs. In Australia, Mastercard scheme fees comprise a small component of the total cost of acceptance at approximately 7% of the total cost of acceptance by merchants[12] and significantly less than 15% which approximately one-third of merchants believe scheme fees comprises[13].



Mastercard scheme fees are wholesale fees assessed on issuers and acquirers who receive services and value associated with such services from Mastercard and are not fees assessed on merchants or cardholders. While Mastercard scheme fees are a

[12] BCG White Paper, The Hidden Cost of Cash and the True Cost of Electronic Payments in Australia, Europe, New Zealand and the UK – Addendum August 2024

[13] BCG White Paper, The Hidden Cost of Cash and the True Cost of Electronic Payments in Australia, Europe, New Zealand and the UK – Addendum August 2024

component of the total cost of acceptance by merchants, the benefits and value that merchants and card holders ultimately derive from the Mastercard card network exceed the cost of acceptance. Among the most significant and directly measurable benefits are:

- **Security** - Keeping payment transactions safe is a key focus for Mastercard as a critical financial market infrastructure operator in Australia. Through a range of sophisticated security solutions, Mastercard continuously protects our payment card network, its transactions and data against fraud, cybercrime and cyberattacks. Mastercard constantly invests in new products and services to ensure it maintains a state-of-the-art network. Examples of investments in new and evolving technologies are tokenisation, biometrics, machine-learning to help detect, analyse and prevent further fraud. Another example is our investments into Decision Intelligence, a real time authorisation decisioning solution that applies thousands of data points and sophisticated modeling techniques to each transaction, simplifying these insights into a single transaction decision score that helps issuers fine-tune their authorisation decisions in order to approve more genuine transactions without increasing the risk of fraud. At the global network level, Mastercard protects all issuers by scoring and blocking high-risk transactions, supplementing the fraud solutions used by the issuing institutions.

- **Accessibility and Resilience** – Merchants and cardholders in Australia benefit from the Mastercard card network as a highly resilient and reliable critical financial market infrastructure, available in more than 210 countries. Operational resilience of the Mastercard card network is a matter of purposeful design and control. The Mastercard card network operates on a continuous basis 24x7x365 ensuring that cardholders can use a Mastercard branded card anytime and consists of redundant paths and back up authorisation alternatives to ensure a high authorisation response occurs for every transaction. An example of this is Mastercard's Stand-in processing (STIP), conducting payment authorisation on behalf of an issuing bank or issuer processor when its authorisation systems are temporarily unavailable. STIP helped a large Australian issuer process 2.7m transactions, ensuring that AUD 250 million merchants' sales went through.

- **Supporting the economy and financial system in response to Covid-19**- In response to the COVID-19 pandemic, Mastercard provided global insights to the RBA and the Australian government. During the Covid period, Mastercard was able to support in-store businesses moving online, and enabled commerce transactions; the failure of which could have led to increased merchant failures Overall, c. 400,000 net new merchants were added during that period (+38% increase versus 2019), at this time there was no alternative support and Australian businesses would not have survived or diversified revenue streams post Covid.

- **Sale increase and expansion of customer base** – Merchants and cardholders alike benefit from higher value transactions thanks to direct access to current accounts and credit lines. Merchants therefore directly benefit from the higher profit margins linked to more and higher value transactions. A consumer who walks into a shop which only accepts cash will be limited to the cash available in his or her wallet whereas a consumer with a debit or credit card will have access to the funds on their bank account or a credit line. Mastercard card acceptance allows merchants to service a global customer base through e-commerce and international travel.

- **Guaranteed payment** – The Mastercard scheme guarantees settlement of Mastercard transactions amongst principal issuers and acquirers. This helps enable global acceptance by providing acquirers and (indirectly) their merchants with assurance they will receive settlement in the event that a cardholder fails to settle. Mastercard undertakes a range of activities to make that guarantee real, such as monitoring and enforcement of our scheme rules. When necessary, it also 'stands in' for issuers with its own finances to ensure the transaction goes ahead and the retailer is paid. Mastercard's payment card settlement processing takes place 7 days per week/365 days per year (to our knowledge not all schemes have the capability of), enabling efficient and timely payments to merchants.

- **Reducing cost for merchants** - Cash transactions have an underestimated and hidden cost to merchants and society as a whole and do not offer the levels of guarantee and security that electronic payments offer, neither for merchants nor for cardholders. Studies show that cash is more expensive than card payments especially in countries with well-developed infrastructures for electronic payments[14].
- **Innovation –** Mastercard fosters and accelerates emerging ideas into real solutions that deliver innovative and scalable services. Contactless is one

[14] BCG White Paper, The Hidden Cost of Cash and the True Cost of Electronic Payments in Australia, Europe, New Zealand and the UK – Addendum August 2024

specific example of how Mastercard has helped consumers and merchants to benefit from Innovation. Another example can be taken from Mastercard's In Control solutions which offer convenience, security and control to consumers, small businesses and corporations to set parameters for when, where and how cards are being used, giving them control over their card accounts and adding extra value to their relationship with their financial institution. Innovations in the Australian payments market that contribute to safe and secure payments e.g. contactless payments, tokenization, Apple Pay, Click to Pay, and open loop transit all of which have been developed by the international schemes. Accordingly, any assessment of an increase in the Mastercard scheme fees and/or of how those scheme fees have changed over time, needs to be done with an awareness of the activities Mastercard undertakes to deliver its services and how the activities associated with these scheme fees have necessarily evolved over time. Policy and regulatory regimes for critical financial market infrastructure and designated payment systems should work in concert and not at cross purposes to achieve desired outcomes of a secure, stable and resilient payments system for the benefit of Australians and the Australian economy and society.

Scheme fees in Australia are already transparent to those that pay them and there are two elements to transparency that Mastercard believes should be kept separate.

Mastercard supports making scheme fees transparent and already makes them transparent to those who pay them - issuers and acquirers. Merchants need to be able to make meaningful comparisons between acquirers or PSPs to manage their costs and select the payment services that are best suited for their needs. However, transparency of acquirer and PSP fees to merchants and corresponding obligations on acquirers and PSPs is a separate matter and we provide further comment and responses on this in Questions 8 to 11.

Mastercard scheme fees are wholesale fees assessed on issuers and acquirers who receive services and value associated with such services from Mastercard and are not fees assessed on or paid by merchants or cardholders.

Mastercard also provides issuers and acquirers with extensive information on scheme fees. Issuers and acquirers have full and transparent information at their disposal via the Mastercard Connect platform ("Mastercard Connect"), to which all customers have access as a function of their licensed status.

Question 5: Is there a case for regulatory action to reduce the complexity or growth of scheme fees? If so, what form should this take?

The payment ecosystem is complex and competitive and Mastercard scheme fees reflect the value of services provided by Mastercard, including security and innovation. In this context, scheme fees already increase and decrease due to

competitive market forces and there is no case for regulatory action to reduce the perceived complexity or growth of scheme fees.

The RBA notes that there is a lot of variation in scheme fees between different card networks[15]. This reflects the fact that the services are different between different schemes and reflect different levels of technological development and security.

Mastercard continues to invest significantly into uplifting safety and security and resilience of the Mastercard card network to provide best-in-class protection while driving innovation to meet the needs of hyper connected consumers, a more complex world and real-time economy. For example, Mastercard is already undertaking further work to modernise and strengthen our network through tokenisation (tokenising not just credentials but also identity, assets, data), implementing payment passkeys, real time clearing, settlement and immediate payouts. Participants on the network benefit from these advances and investments which they would otherwise have to incur significant cost to develop themselves. It is critical to the current and future security, resilience and efficiency of the Australian payments system that regulatory outcomes maintain these objectives rather than diminish or adversely impact them. Policy and regulatory outcomes should work in concert and not at cross purposes to achieve a secure, stable and resilient payments system.

The payment services market in which Mastercard operates globally, Australia included, is already highly competitive. Competition from alternative current and emerging payments technology shapes and ultimately constrains Mastercard's commercial strategy, including with respect to service features and associated pricing and fees. For this reason, 'competition and technology' is one of the main risk factors identified by Mastercard in its annual reporting to investors. The set of competitors Mastercard faces and the particular constraints they place on Mastercard's fees varies across products.

As also noted in Mastercard's annual reporting, Mastercard competes against general purpose payments networks including but not limited to, other international schemes, debit and local networks, real-time account-based payments systems, alternative payments and new entrants (focused on online activity across various channels and processing payments using in-house capabilities), digital currencies and cash. Mastercard also faces competition from companies that provide alternatives to its value-added services and adjacent network capabilities (including open banking and digital identity).

[15] Ellis Connolly Speech at Merchant Risk Council Conference, Online Retail Payments – Some Policy Issues, 18 June 2024

The Mastercard business model therefore relies on having an attractive value proposition for issuers, acquirers and system users more broadly; a clear, transparent, coherent and value-reflective fee structure is a central component to attain this goal.

Mastercard's global strategy consists of developing sustainable long-term pricing that balances returns from issuers and acquirers; ensures exposure to individual business segments is managed; provides reliable, sustainable, but flexible revenue streams; and ensures overall economic benefit.

Mastercard continuously competes for card portfolios, which to a large extent is driven by competition for cardholders. Competition for card use directly affects the fees that schemes can charge to acquirers and merchants. If a product is made more attractive to cardholders (through a lower price, or an improved product quality), this is likely to increase the number of cardholders. This, in turn, increases the potential value of card acceptance to merchants and may therefore affect the fees that merchants are willing to pay.

Market outcomes (taking into account not just fees but the value that system users receive as a result of Mastercard's innovation and service quality improvements) are consistent with a well-functioning market. If the RBA were to focus on regulating fees, it would be ignoring the significant value that customers receive in return for the fees, including the process of continual service enhancement of Mastercard scheme services. These require continued maintenance, improvement and innovation to remain competitive. These improvements and innovations benefit the whole ecosystem and therefore, at times, a recalibration of fees is undertaken to reflect more fundamental changes in the nature of Mastercard's offering. Therefore, when setting scheme fees, Mastercard takes into account market conditions, changes in product characteristics, costs and underlying value, competition, and technology evolutions, all of which affect the payments ecosystem and Mastercard's position in it.

To ensure good commercial practice across all areas of Mastercard's business, fee setting at Mastercard is governed by general principles:

- *Upfront notice*: Any price or fee change to our customers be announced prior to its implementation. In this way Mastercard ensures that direct customers (issuers and acquirers) can make systems changes to their invoicing and billing systems, as well as adjust existing contracts with end customers (i.e., cardholders and merchants). The communication and implementation of price changes requires close collaboration and transparency in order to avoid negative customer experiences and reaction. Such requirement to give adequate upfront notice imposes an important constraint on the ability of Mastercard to adjust its fees in the short-run.
- *Value driven pricing:* Each fee must be linked to the creation of value that systems users receive from Mastercard products. This includes the value

created to merchants on the acquirer side, and to cardholders on the issuer side.

The range of Mastercard fees reflects the range of services and seeks to link costs to users and the services that they use. It is the result of innovation in response to customer need and the evolving nature of the payments landscape. To reduce the number of services offered by card schemes would not promote innovation. Any reduction in the number of services by way of bundling (rather than removing services that respond to customer demand) may create barriers to entry and expansion. It is therefore difficult to see how any such proposal would increase competition or innovation. Accordingly, it is not appropriate to cap or limit the number of scheme fees that can be charged by card networks nor introduce consolidation of fee categories or standardisation of fees.

Question 6: What other regulatory action should the RBA consider to increase the competitive pressure on scheme fees?

Evaluating competition and efficiency with respect to scheme fees requires consideration of the system as a whole, potentially including both sides of the market and multiple levels of the value chain. A high level of competition among schemes in Australia already exists and Mastercard scheme fees comprise a small component of the total cost of acceptance. There is no case for further regulatory action to increase the competitive pressure on scheme fees and further regulatory action would be mis-directed.

The services that Mastercard is able to sell depend not only on the choices of Mastercard's immediate customer (be that an issuer or acquirer) but also on the choices of system users as a whole.

To remain competitive, Mastercard must maintain its reputation as a high quality, high value, competitively priced, and trust-worthy card network. Not being able to live up to this promise may cause severe reputational damage, resulting in the loss of customers to both existing and new competition. The current trends in the payments industry – including uptake in mobile wallets and account to account payments - are expected to increase the extent to which this factor constrains Mastercard in the future.

The market is already subject to a high degree of competition. Accordingly, there is no case for further regulatory action to increase competitive pressure on scheme fees.

Two-sided network effects and multi-homing for consumers and merchants are key characteristics of the payments market and enable network competition. Competition in the payments market is supported by the prospect of tipping points, facilitated by multi-homing which can enable rapid switching. The threat of existing players (unregulated schemes, open banking participants and account to account solutions) achieving growth in the payments market already creates competitive pressures, which forces Mastercard continuously to innovate, maintain quality and adjust pricing to compete for market share, leading to competitive outcomes without necessarily causing market volatility.

The prospect and threat of tipping compels Mastercard to 'run to keep still'. The presence of multi-homing and the activity of challengers creates significant competitive pressure on payment providers, to continue to provide great outcomes to all their users or risk losing their position.

Least Cost Routing

Question 7: How do stakeholders assess the functioning and effectiveness to date of LCR for in-person transactions? Is further regulatory intervention needed? What might that look like?

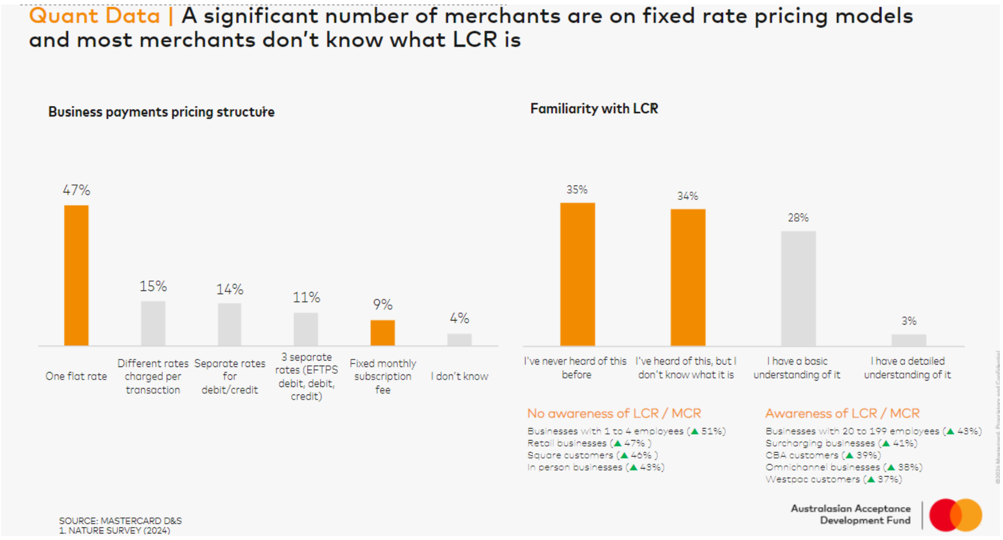
It is unclear whether the promotion of and increased implementation of LCR is effective and whether it has resulted in reducing card payment costs for merchants.

A recent market study conducted by Mastercard shows that LCR has led to inconclusive cost savings for merchants, with merchants on fixed plans (provided via their acquirer or PSP arrangements) actually seeing an increase in costs. This is also cited by the RBA in the *"Update on availability and enablement of least-cost routing for merchants Data as at June 2024"*[16] and the paper "*The Effect of Least-cost Routing on Merchant Payment Costs*" (18 April 2024) where the RBA notes that "..*for the avoidance of doubt, those institutions with the highest rates of LCR enablement do not necessarily provide merchants with the lowest overall payment costs*" and found that in 2022/2023 merchants with LCR turned on had a marginally higher cost of acceptance for debit cards on average than those with LCR turned off (0.56 per cent versus 0.52 per cent).

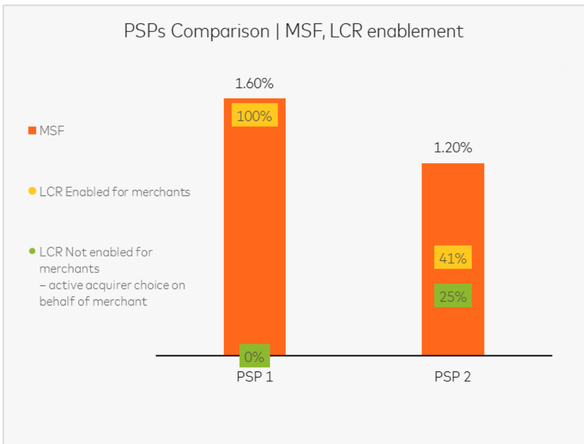
Arguably, there are greater savings in merchants shopping around rather than focus on achieving 100% LCR enablement. Merchants today are paying higher MSF on a PSP that has enabled LCR where they could in fact achieve lower prices with another PSP who has not necessarily enabled LCR. PSP 1 appears to have simply retained the margin benefit to their own business and promoted the media focus on this issue to incentivise merchants to switch to potentially a higher cost plan than those offered by other major acquirers. This is further exacerbated by merchants' ability to pass on their payment costs as surcharges, further bundling services into the MSF and distorting price signals.

[16] Update on availability and enablement of least-cost routing for merchants - Data as at June 2024 (published August 2024) | RBA

Small businesses often prefer simplicity and are typically on a flat rate. This is illustrated through findings from the same market study that shows that a significant number of merchants surveyed are on fixed rate pricing models, which effectively negate the need for LCR, a concept that 97%[17] of those surveyed say they do not have a detailed understanding of.



<u>Graphs: PSPs Comparison on MSF and LCR Enablement, and Fixed Rate Pricing Models[18]</u>



A similar cost of acceptance study done by BCG in August 2024[19] shows that only 1 in 5 surveyed merchants are very familiar with LCR, and of these and have LCR enabled, more than half are on flat or blended rates (as depicted below).

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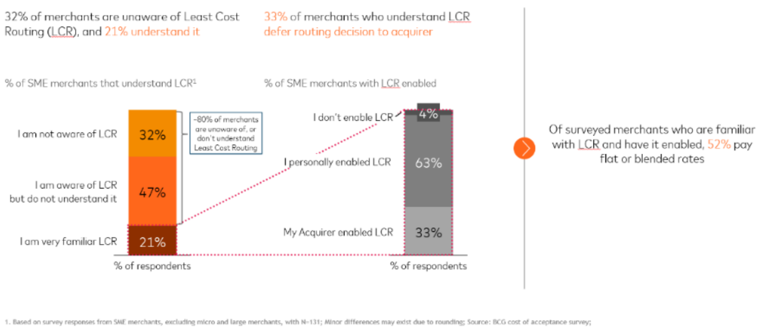
[17] Mastercard Data and Services – Nature Survey (2024)
[18] Mastercard Estimates & Update on availability and enablement of least-cost routing for merchants - Data as at June 2024 (published August 2024) | RBA
[19] BCG White Paper, The Hidden Cost of Cash and the True Cost of Electronic Payments in Australia, Europe, New Zealand and the UK – Addendum August 2024

Surveyed SME merchants' usage of least cost routing



In the next round of analysis that the RBA will undertake, we suggest an approach is taken that focuses on end-to-end cost rather than focusing narrowly on wholesale costs. In this way it will become clear to all that where merchants are able to have appropriate transparency of data and are best able to seek out better acquirer- and other deals for their needs, overall costs will be reduced.

We add that it is important that LCR is viewed in a broader context including specifically obligations now on a range of industry players as critical infrastructure in Australia. A feature of the LCR experience is that a consumer making a transaction on a dual network debit card does not know how his / her transaction is routed, and which scheme rules and card value proposition applies to the transaction including the level of security and consumer remedies.

Accordingly, Mastercard does not support LCR implementation in a way that is non-transparent. Mastercard cardholders expect protections like Mastercard's Zero Liability, knowing they will not be held responsible for fraudulent charges or unauthorised purchases made with their Debit Mastercard. However, this policy can only be fulfilled by Mastercard when that transaction is processed by Mastercard. The lack of consumer choice by design with recent mobile wallet changes for LCR may also lead to cardholders being charged or incurring a fee over and above the free eftpos transaction quota (typically $1/transaction when the free quota threshold is exceeded). This is a feature that still exists in select smaller financial institutions, in particular credit unions, and will not be a fee that cardholders will be able to opt out of because of the choice of the merchant.

Finally, the effectiveness of LCR should be measured in terms of tangible economic benefits that actually reach small business merchants. Mastercard has led efforts in supporting small businesses by introducing low-cost debit programs, demonstrating the importance of accessible acceptance while maintaining safety and brand value.

Transparency of Merchant Service Fees

Question 8: Is there a case for greater transparency of fees, wholesale costs and market shares for some payment services? If so, what form should this take? What benefits or drawbacks might arise from implementing any of these measures?

Information symmetry contributes to better informed participants, more efficient decision-making and better functioning markets from increased competition.

The publication of further scheme fee data, which are wholesale fees and which represent only a small portion of the total cost of acceptance, will not enable merchants to make meaningful comparisons, as merchants are not direct participants of the Mastercard card network and data provided should also not mislead merchants and suggest that scheme services among different schemes are like for like to each other when they are not.

Instead, there must be consideration to the usefulness and meaningfulness of information provided to merchants to enable merchants to use the information to better understand their payment costs and reduce their costs.

We refer generally to our answer to Question 4.

Question 9: Should PSPs be required to provide individual merchants more detailed information on their regular statements (or through other channels)? How could this information be presented without creating additional complexity for merchants?

Question 10: Should PSPs be required to publish standardised information on their pricing and services for merchants (in line with reforms introduced in the United Kingdom)?

To help merchants make meaningful comparisons and remove complexity, reforms may be necessary, and we urge the RBA to consider examples in other markets such as the United Kingdom (UK) and adopted in other industries in Australia on transparency tools that would best serve the needs of the Australian payments market and merchants.

We note from the UK PSR's review of the effectiveness of competition in the card acquiring market[20] that that review included a finding that for small and medium-

[20] Payments Systems Regulator - Market review into the supply of card-acquiring services, May 2024

sized merchants, acquirers do not typically publish their prices and their pricing structures and approaches to headline rates vary significantly. This makes it difficult for a merchant to compare prices in that market. For the purpose of remedying these issues, the UK PSR has required that bespoke summary boxes are in conjunction with a new online quotation tool.

UK acquirers must now include the summary boxes in merchants' monthly billing information and show them prominently in the merchant's online account. Information generated through use of online quotation tools must be provided to merchants in the same format as the summary box. The online quotation tool is to be shown prominently on each acquirer's website. Any merchant can then obtain an indicative quote for card-acquiring services by entering information into the calculator. This enables the merchant to directly compare, on the same basis the cost of their current acquirer with the cost of a new acquirer.

Such an approach has the potential to be useful to merchants with readily accessible information, in a set format enabling a comparison by those merchants without significant resources to be 'experts' in payment services. While the UK tool might not be perfect (the summary boxes online quote may not include everything that the merchant may want to know about the acquirer or its services), it provides a lot of information and can provide the necessary encouragement for the merchant to consider switching or renegotiate its contract with its current acquirer or PSP. An enhancement to this could also involve the publication or disclosure of non-price information that is also beneficial for merchants to understand the quality of services that they are receiving such as requiring publication of PSPs' uptime, approval rates, and fraud rates on various schemes.

Question 11: What other regulatory measures should the RBA consider to improve competition between PSPs?

Mastercard transaction data suggests that there is growing competition in the acquiring space in recent years.

In the immediate term, we suggest that greater transparency of acquirer and PSP fees to merchants could have a meaningful difference to the already growing competition between the acquirers who are offering similar services but with varying price points. For example, greater transparency of acquirer fees could provide insights to merchants as to why Acquirer A can provide a rate of 1.10% for a small business plan versus 1.90% for a small business plan at Acquirer B. If the merchant had the benefit of transparency of fees between Acquirer A and B, the merchant could benefit from 80 bps of cost savings from Acquirer A by shopping around[21].

[21] Mastercard Analysis

Competition between PSPs should not just be about cost but other factors that each merchant may consider important or relevant to its business needs such as the value, diversity, quality, choice or features of the products or service offerings and/or customer service. Accordingly, merchants should be given the option of choosing the most appropriate payment plan for them (e.g. interchange plus, interchange plus plus pricing or blended pricing) depending on their business needs and requirements provided transparency reforms are implemented to the merchant statements to ensure that there is meaningful information for merchants to understand what they are receiving for their payment services.

Surcharging

Question 12: Is there a case for revising the RBA's surcharging framework? If so, which options or combination of options would best address the current concerns around surcharging? What other options should the RBA consider?

Question 13: What are the implications for merchant payment costs from changes to the surcharging framework? Could the RBA address these with other regulatory actions?

Mastercard has long opposed merchants surcharging their customers when they choose to pay by card. Unless permitted by local regulations, Mastercard does not permit surcharging on Mastercard transactions.

In 2003, and subsequently in 2007, the RBA imposed standards requiring the removal of no-surcharge rules primarily to provide the price signals cardholders face when making payments. The price signals are about the relative costs of different payment methods that merchants incur. In 2012, with evidence that merchants do commonly set surcharges at levels that are higher than average merchant service fees, the RBA required that surcharges should be limited to the reasonable cost of card acceptance. In 2016, new laws banning excessive payment surcharges were introduced into consumer protection legislation.

Merchants receive significant value from accepting cards and the cost should rightly be borne by them. Electronic payments boost retail sales, simplify accounting and the provision of credit to customers, and reduce operating and security costs for merchants, while providing guaranteed payment. Surcharging conceals this value in the form of a cost that is passed onto consumers.

Mastercard makes the following observations:

- Surcharging has not worked as a price signal in the way described as consumers prefer to use debit. Consumers behaviour shift towards debit is led by demographic mindset change as well as a more stringent and highly restrictive credit environment as a consequence of regulated interchange, higher annual fees, reduced benefits on credit cards, higher APR as a result of responsible lending laws and consumer protections.
- Where accepted, surcharging on three-party schemes are typically bundled under credit. As three-party schemes are not regulated, the bundling of surcharging further erodes competitive neutrality. In effect, designated credit schemes are cross subsidising the acceptance of three-party schemes which is concealed as a cost to consumers. Concurrently, three-party schemes can and do attract consumers and businesses alike with compelling card propositions that no other issuers can offer with regulated interchange on designated credit payment systems.
- The surcharging 2012 variation alluded to the concerns that merchants surcharging above the cost of acceptance were common practice; this remains true today.
- Emergence of "free" PSPs; a number of providers capitalise on arbitrage opportunities by providing "zero cost MSF" through surcharging and inflating true cost including value added services.

Proper deliberation is necessary to avoid further unintended consequences

Mastercard recognises there could be challenges arising from any variation and/or removal of the current surcharging framework, given how prevalent it has been over the last two decades. To that end, Mastercard makes the following inputs under select proposed options laid out in the Issues Paper. Ultimately, we encourage the RBA to consider all stakeholders, in particular consumers and small merchants alike.

Banning surcharges on debit card transactions

While this scenario may appear to preserve price signal to encourage consumers to choose a lower cost of payment, a surcharging ban on debit card transactions only may lead to the following consequences:

(1) Penalising consumers and businesses, in particular small merchants who need to use credit cards either as expense management or just to get by.
(2) Inflated credit surcharging – with a debit transaction MSF added onto a credit transaction surcharge, either by merchants or PSPs providing 'free' debit.
(3) Merchants preferring cash to debit, or even credit to debit, contradicting the price signal objective. This is because debit card payments come as a cost to the merchants that they should rightfully bear but are unwilling to, preferring to accept "free services" by passing costs via surcharges on credit transactions.

The approach towards a surcharging ban should therefore be symmetrical and applied to credit as well as debit. If this is not done in relation to credit, present regulatory limits on interchange related to some credit products should be removed.

Banning card transaction surcharges more broadly

A surcharging ban on all card payments including non-regulated three-party schemes card products will eliminate PSPs' exploitation of bundling and/or providing 'free' MSF, remove any concern around excessive surcharging, and recognising that merchants rightfully should bear cost, as they have received the benefits, of card payments.

This scenario seems to address current issues save for the following:

a) Merchants, in particular small merchants, would be disproportionately impacted. On a typically higher MSF rate, with less bargaining power, they are more likely reliant on their existing PSPs.
b) Merchants' backlash which in turn leads to incorrect focus on other fees e.g., interchange. The answer to a surcharging ban is not a further reduction in interchange or scheme fees. Rather, it is the recognition that merchants rightfully should bear cost, as they have received the benefits, of card payments.
c) Non-regulated/non-designated payment schemes' acceptance are further cross subsidised, failing competitive neutrality. It is highly likely that absent any surcharges, these schemes will further promote their card issuance, which is not regulated, to encourage cardholders to transact on such cards.

Other scenarios

Mastercard believes that other scenarios e.g., tightening the definition of the cost of acceptance, mandating differentiated pricing for transactions processed across different networks are either impractical or have proven to be ineffective.

Mastercard strongly argues that surcharging should be banned on debit and credit designated schemes card transactions. This is consistent with other regulated markets such as the European Union and the UK, based on the same premise.

There is a need for enhanced communication efforts in helping small merchants navigate changes regarding surcharging and/or pricing changes, particularly those who are currently surcharging. There is an opportunity to support small merchants not only in cost of acceptance but also the incremental value that electronic payments can provide in respect of uplifting efficiency, resiliency, and further growth of their business.

Other Regulatory Options and Broader Implications

Question 14: Are there any other regulatory actions that the RBA should consider taking in response to the issues raised in this paper?

Question 15: Are there any issues in, or implications for, the broader payments ecosystem that the RBA should be aware of when designing a regulatory response to any of the issues discussed in this paper?

Low Productivity Growth in Highly Regulated Markets

Jurisdictions with heavy regulatory requirements for businesses typically have lower investment and slower growth in productivity. Driving digital inclusion particularly in remote or disadvantaged areas, remains a vital objective for enhanced productivity.

Australian productivity has not meaningfully improved in a decade and today, our productivity growth languishes well behind comparable developed nations.

The Business Council of Australia recently stated in its 2024 paper "*Australia's Flagging Competitiveness and Productivity - How to Turn it Around*" [Australia] cannot be more productive without securing more investment from businesses by being more competitive, so we must take significant steps to make that investment more attractive by cutting through red tape and ensuring we have less, yet effective, regulation.

One way to address productivity growth is by looking at the end-to-end cost of payments within the payments system, in order to accurately address inefficiencies in the system and ease cost of living pressures.

Ultimately, the current framework hinders competition amongst issuers and reduces the incentives for merchants to shop around for a better deal by allowing and encouraging merchants to pass on costs to consumers through surcharging.