



Senate Standing Committees on Economics
PO Box 6100
Parliament House
RG Casey Building, 10 McEwen Crescent
Canberra, ACT, 2600

Ms Amelia Hamer
Director, Revenue Strategy & Operations
Airwallex
Level 7, 15 William Street
Melbourne VIC 3000

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RE: Inquiry into international digital platforms operated by Big Tech companies

Dear Senators,

Thank you for the opportunity to provide a submission into this important Inquiry.

I agree with the Chair of the Economics References Committee Senator Andrew Bragg that, *"...we must have the policy settings to protect users and ensure that Australians are not being exploited by possibly the strongest corporations in history"*.

As a growing technology firm however, Airwallex also supports the Committee's thorough consideration of the variety of factors that need to influence policy making such as the access, convenience and cost reductions that technology brings to our lives.

Financial technology companies (aka fintechs), like Airwallex, have the potential to deliver great enhancements to the lives of Australian families and businesses. But those fintechs need the right conditions to establish themselves and grow.

For the purposes of responding to this Inquiry, Airwallex is most focused on points (a) and (b) of the Terms of Reference.

Airwallex is most focused on how the market concentration of payment platforms - such as Apple Pay and Google Pay - can be exacerbated by Australian payments laws and regulations.

The rise and dominance of contactless payment technology platforms such as Google Pay and Apple Pay has given Australians more convenient, simpler access to making payments. Those contactless platforms are a popular feature of everyday life, with estimates they are used by up to 92 per cent of Australians¹.

The key issue Airwallex wishes to address in its submission is as follows:

- the Reserve Bank of Australia (RBA) mandates **pricing restrictions** on the fees paid by merchants for the use of card-based transactions - these are known as interchange fees;

¹ <https://aw.visa.com/visa-everywhere/innovation/contactless-payments-around-the-globe.html>



- to meet consumer expectations, payment providers such as Airwallex must use a payment platform in order to be accessible to Australian consumers; yet
- the RBA does not regulate the costs those payment platforms charge payment providers, and the interchange fee restrictions are less than what it costs to use a payment platform.

This means that many payment providers currently must process transactions for consumers at a financial loss.

Airwallex is a firm believer in the power of new finance and payments technology. However there are only a limited number of payment platforms that Australians use, which creates an uncompetitive environment for payments technology pricing. Combined with RBA-enforced restrictions on what payment providers can charge for interchange fees, payments providers such as Airwallex face a significant cost barrier to increased investment in Australia and delivering technological advances.

When setting interchange fee caps, Australia's regulators need to consider all of the costs that payment providers face to process a transaction.

The current situation has and will continue to make it difficult for innovative fintechs and payment providers to succeed in the Australian market, resulting in limited competition for established players such as banks and ultimately leading to less choices and higher prices for Australian families and businesses.

Payments technology platforms offer convenience for consumers, and are likely to grow in popularity and use in Australia. Airwallex encourages the Committee to look closely at the interaction our country's laws and regulations have with payments platform technology.

Should you wish to discuss any element of this submission, please contact Airwallex's Associate Director of Corporate Affairs for Australia and New Zealand, [REDACTED]

Airwallex would welcome discussions with Senators about the issues raised in our attached submission.

Yours sincerely,
Amelia Hamer
Director, Strategy & Operations ANZ
Airwallex



Background on Airwallex

Airwallex is a global payments and financial platform for modern businesses. We remove the unnecessary friction and cost inherent in the traditional financial system to help entrepreneurs achieve their global ambitions.

Leading companies around the world trust Airwallex to manage everything from payments, treasury, and spend to embedded finance - all in one single platform. Our purpose is to connect entrepreneurs, business builders, makers and creators with opportunities in every corner of the world.

With an international footprint across the Asia-Pacific, Europe and North America, we empower businesses to grow without borders.

Founded in Melbourne in 2015, Airwallex has since grown to over 1300 employees in 19 locations around the world. Airwallex has around 200 staff in Australia, with plans to grow by adding about 90 more employees locally in 2023, by up to 500 globally.

In November 2022, Airwallex was valued at US\$5.6bn (~AU\$8bn).

Transactions costs and income

Airwallex wants to ensure the Committee understands the important role that the fees of payment technology platforms play in the cost considerations for payment providers. These are costs that are typically fixed and standard across international markets.

For payment providers to offer debit and credit transaction services to customers, there are a number of costs that need to be considered:

Transaction related charges:

- domestic and international service fees by the payment networks;;
- a license fee for using a payment network;
- data processing fees for use of the payment network;
- domestic and international clearing fees charged by payment network; and
- transaction settlement, refund and chargeback facilities charged by payment network.

Technology platform charges:

- technology platform (such as Apple Pay, Google Pay and Samsung Pay) hosting fees;
- face-to-face transaction fees for a customer tapping their phone at a point of sale; and
- e-commerce transaction fees (for using a payment provider to make an in-app purchase).

Card charges:



- physical or digital card set up, and physical card manufacturing and delivery; and
- additional card features.

Infrastructure charges:

- a Bank Identification Number (BIN) set up fee;
- mandatory subscription fees for use of the payment network's risk management tools;
- server subscription fees for access to the payment network itself;
- third party registration fees for using payment network approved vendors;
- administration and customer service costs; and
- dedicated hardware leasing, hosting and encryption costs.

While there are a variety of costs that payment providers need to consider when providing transaction services to customers, the only means by which payment providers can defray those costs is through interchange fees.

In a market such as Australia, restrictions on interchange fees mean that payment providers cannot easily accommodate changes in the cost base of transactions.

The small number of widely accessible payment networks and technology platform providers also means payment providers have limited scope to 'shop around' for cheaper costs that can ensure that transaction offerings still deliver a commercial benefit to a business such as Airwallex.

Market comparisons

As the Treasury has outlined in its draft Strategic Plan for the Payments System², the Government is committed to *"...a world-class payments system that serves the needs of its users and participants and supports Australia's economic growth"*.

The most recent edition of the Global Fintech Rankings³ positions Australia at number six, with a score well behind the United States and the United Kingdom, and in the APAC region behind Singapore. Australia scored 13.73, while Singapore scored 15.83. Hong Kong placed higher than Singapore in the city comparisons, and higher than any Australian city. As acknowledged by the Council of Financial Regulators, there are international lessons to be learned from how other jurisdictions legislate and regulate their payments systems⁴.

With global services covering more than 150 countries and operating from 19 locations, Airwallex has had extensive experience with international payment systems.

² Page 5, Treasury, 2022, [A Strategic Plan for the Payments System Consultation paper](#)

³ Findexable, 2021, [Global Fintech Rankings Report](#)

⁴ Page 2, Regulation of Stored-value Facilities in Australia, Conclusions of a Review by the Council of Financial Regulators



Airwallex suggests the Committee look at comparable jurisdictions in the APAC region and their approach to regulating interchange fees, making the situation regarding cost competitiveness among a limited number of suppliers less of an issue.

Australia	Singapore	Hong Kong
Under the Reserve Bank of Australia's interchange standards, card schemes must comply with weighted-average benchmarks for interchange fees including a benchmark of 0.5 per cent for credit cards, and 8 cents for debit and prepaid cards.	Singapore only mandates interchange costs ceilings for specific categories of transactions, including public transport, insurance and property management.	Hong Kong only mandates interchange costs ceilings for specific categories of transactions, including mass transit, supermarkets, education and government services.

For Singapore and Hong Kong, there is no regulated ceiling on interchange fees in the way that Australia has one; instead the schemes have a much more complex system of tiered interchanges, targeted at regulating the costs of transactions for essential goods and services.

Payment providers in those jurisdictions therefore have more scope than Australian providers to be able to fully defray their expenses on the costs of providing transaction services.

This means there is a market that encourages new entrants to payment services, offering more choice and competition which ultimately means lower costs for families and businesses.

The perverse outcome of limited competition in the Australian market for payment networks and technology platform providers coupled with restrictions on interchange fees, means that the primary beneficiaries of the system are a small number of large banks that can operate at a profit by processing high volumes of transactions and batching their overhead costs.

Suggested approach

Airwallex respectfully requests that the Committee consider this issue within the scope of its Inquiry hearings to better understand the interplay between the fees payment providers face from the limited competition available amongst payment processors and transaction providers, and the interchange regulations that restrict the ability of payment providers to continue to offer services to consumers at a profit and to stay in market.

Australia can and should be home to more fintechs and payment providers that offer better, cheaper services to families and businesses. But the current system risks holding Australia back as the rest of the world charges ahead.