



Policy Submission: House Economics Inquiry into Schemes, Digital Wallets and Innovation in the Payments Sector

30 January 2026

Executive Summary

Mastercard welcomes the opportunity to contribute to this inquiry and the Reserve Bank of Australia's (RBA) concurrent Review of Retail Payments Regulation. Together, these processes represent a valuable opportunity to strengthen Australia's payments system.

Australia's card payments system is highly efficient, trusted, and constantly evolving. Card schemes invest continuously in innovation, security and fraud prevention to keep pace with technological change and emerging threats, with security and trust at the centre of everything we do.

Card payments process over one billion transactions monthly and contribute \$38.7 billion annually to the economy¹. Research by Boston Consulting Group confirms Australia has among the lowest card acceptance costs of any developed market, with end-to-end costs (1.8 per cent) significantly below cash (3.9 per cent) and Buy Now Pay Later (BNPL) (5.3 per cent)².

Scheme fees fund essential infrastructure, real-time authorisation, fraud prevention, global interoperability, and network security, yet represent just 7 per cent of merchants' total acceptance costs. Merchants' fees are set by acquirers / providers and scheme fees are the smallest proportion compared to interchange and acquirer / provider margins.

Small businesses today have choice among over 100 acquiring providers and could save up to \$625 annually by switching to more competitive options³. However, current surcharging practices and the rise of verticalized payment solutions⁴ mean merchants do not always access the lowest-cost options. The real challenge is barriers to switching and lack of transparency in acquirer pricing for end merchants.

Further, current regulation creates market asymmetry. Three-party schemes face no equivalent interchange regulation despite charging significantly higher fees. BNPL providers charge merchants approximately 5.3 per cent with no comparable transparency requirements. A consistent, proportionate regulatory framework across all payment participants would create a more level playing field.

To address these challenges and ensure small businesses can access the benefits of a competitive payments market, Mastercard recommends:

1. Adopt 'value-over-cost' as a payments policy principle, assessing regulation on security, reliability and economic contribution—not transaction cost alone.
2. Apply proportionate, risk-based regulation across all retail payment participants to reduce regulatory asymmetries.
3. Advance initiatives helping small businesses compare and switch acquirer / provider solutions to drive competition and real savings.

¹ Deloitte, *Value of Australia's Retail Payment System (2024)*

² Boston Consulting Group, *The Cost of Electronic Payments and Cash (2024)* (BCG)

³ Mastercard analysis

⁴ Single provider offering payments and business software in one integrated (bundled) price package.

4. Abolish surcharging across debit and credit to enable genuine price competition and improve consumer transparency.
5. Adopt a voluntary industry undertaking for small business fee reductions, with safeguards ensuring benefits flow to merchants rather than held in acquirer / provider margins, similar to the Canadian model.
6. Establish technology-neutral regulation for digital currencies ensuring competitive neutrality.
7. Ensure open access to real-time payments infrastructure to promote competition and resilience.

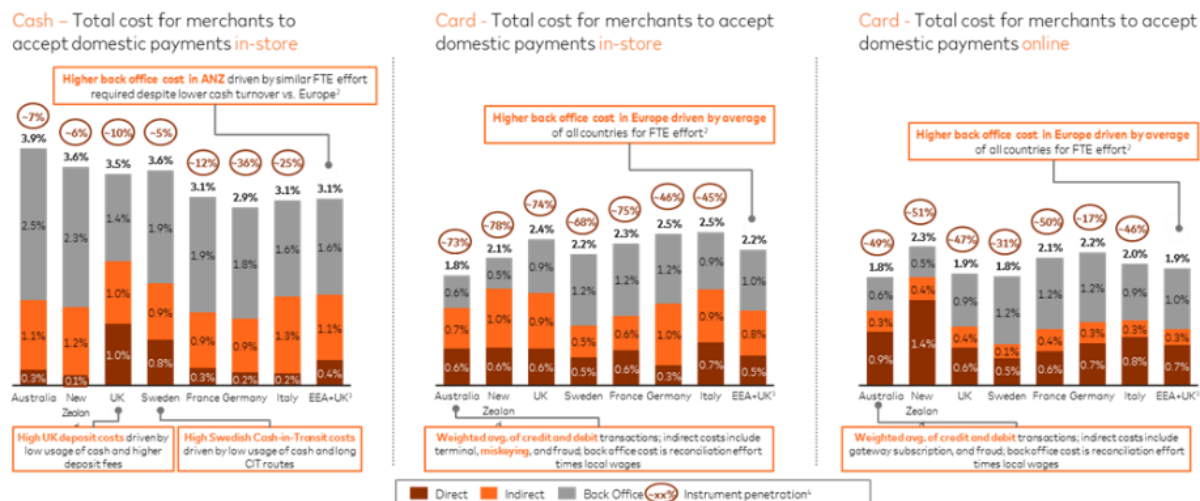
Card-based payment schemes: Fairness and accessibility

The Economic Value of Card Payments

Card payments drive over one billion monthly Australian transactions and deliver significant net value to merchants through increased sales conversion, reduced fraud, improved reconciliation, and e-commerce enablement. Card acceptance enables transactions that may not occur if customers were limited to cash or bank transfers, representing meaningful incremental revenue for merchants. Cards access high-value customer segments, such as international travellers and business cardholders, while enabling modern digital business models like online marketplaces, subscriptions, and recurring billing.

When assessed on true end-to-end costs—including direct fees, labour, reconciliation, error handling and fraud management cards cost merchants 1.8 per cent on average, materially below cash (3.9 per cent) and BNPL (5.3 per cent). Research by Boston Consulting Group (2024) confirms Australia has among the lowest card acceptance costs of any developed market, while cash handling costs are among the highest and likely to rise further as cash volumes decline (Figure 1). Card programs also provide interest-free liquidity, saving small businesses more than \$500 million annually in avoided interest for working capital⁵.

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



Source: Boston Consulting Group, 2024

Despite this substantial value, public debate narrows on scheme fees without recognising the broader ecosystem they fund: guaranteed settlement, fraud protection, global interoperability, and e-commerce enablement. Scheme fees represent a modest, efficient contribution to payments infrastructure security and resilience. Any assessment of scheme fees should be grounded in this value-for-

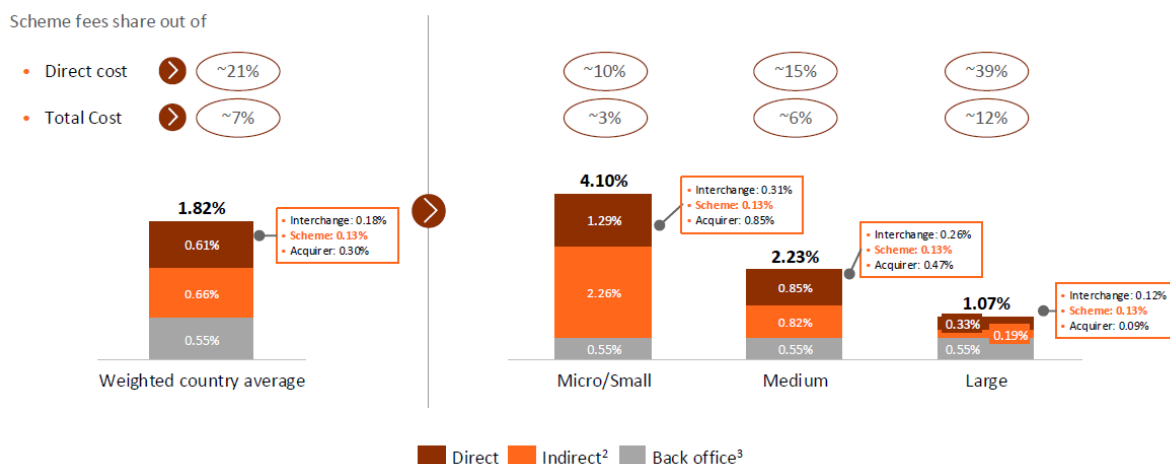
⁵ Deloitte, *Value of Australia's Retail Payment System* (2024)

money context and applied consistently across comparable payment methods to ensure competitive neutrality.

Transparency and affordability of scheme fees

Scheme fees represent a small component of total merchant acceptance costs, just 7 per cent of the total cost to end merchants (Figure 2). Policy interventions targeting scheme fees alone would have limited impact on overall merchant costs.

Figure 2: Overall costs for merchants to accept domestic payments in-store



Source: Boston Consulting Group, 2024

Scheme fees are broadly consistent across acquirers and merchant types, meaning they are not the driver of merchant service fee (MSF) variation observed in the market. RBA data confirms that fluctuations in average merchant service fees have been driven primarily by acquirer pricing decisions, not scheme fee changes.

Scheme fees fund critical infrastructure and security investments, including:

- Real-time authorisation, clearing and settlement systems operating 24/7 with 99.9 per cent+ availability.
- Fraud prevention technologies that have reduced card-present fraud to under \$1 per \$1,000 spent, supporting continued investment in technologies to reduce card-not-present fraud, which now accounts for 90 per cent of total card fraud.
- Global interoperability enabling Australian merchants to accept payments from overseas customers and visitors.
- Standards development including EMV chips, PCI-DSS compliance, 3-D Secure authentication and tokenisation.

With Australians losing more than \$2 billion annually to scams and card-not-present fraud approaching \$500 million per year⁶, the need for continued investment in fraud prevention has never been greater. Given the rapid uptake in AI and Agentic

⁶ National Anti-Scam Centre (2025)

commerce, Deloitte project generative AI fraud losses could reach US\$40 billion globally by 2027⁷, scheme-funded fraud prevention will become increasingly critical. Policy settings should preserve the economics that fund these protections.

Mastercard's scheme fees are fully transparent to those who pay them, namely Mastercard licensed acquirers and payment service providers. Such acquirers and payment service providers have access to our Pricing and Billing Resource Centre containing pricing guides, invoice search and download capabilities, and analytics tools. When scheme fee changes are made, Mastercard issues formal bulletins to issuers and acquirers several months before changes take effect.

The relevant price signal for merchant decision-making is their total MSF charged by their acquirer / provider. The primary transparency gap affecting small merchants is between acquirers and merchants, not between schemes and acquirers. Measures such as standardised merchant statements, industry comparison tools (similar to those used by the UK Payment Systems Regulator), and clearer disclosure requirements on acquirers / providers would deliver practical benefits to small businesses.

Regulatory approaches that focus solely on scheme fees risk overlooking the broader drivers of merchant costs and may inadvertently reinforce existing market asymmetries. Three-party schemes, digital wallet providers and BNPL operators currently sit outside many transparency requirements applied to regulated four-party schemes, despite charging materially higher fees. Transparency and conduct requirements should apply consistently across all payment providers performing comparable economic functions.

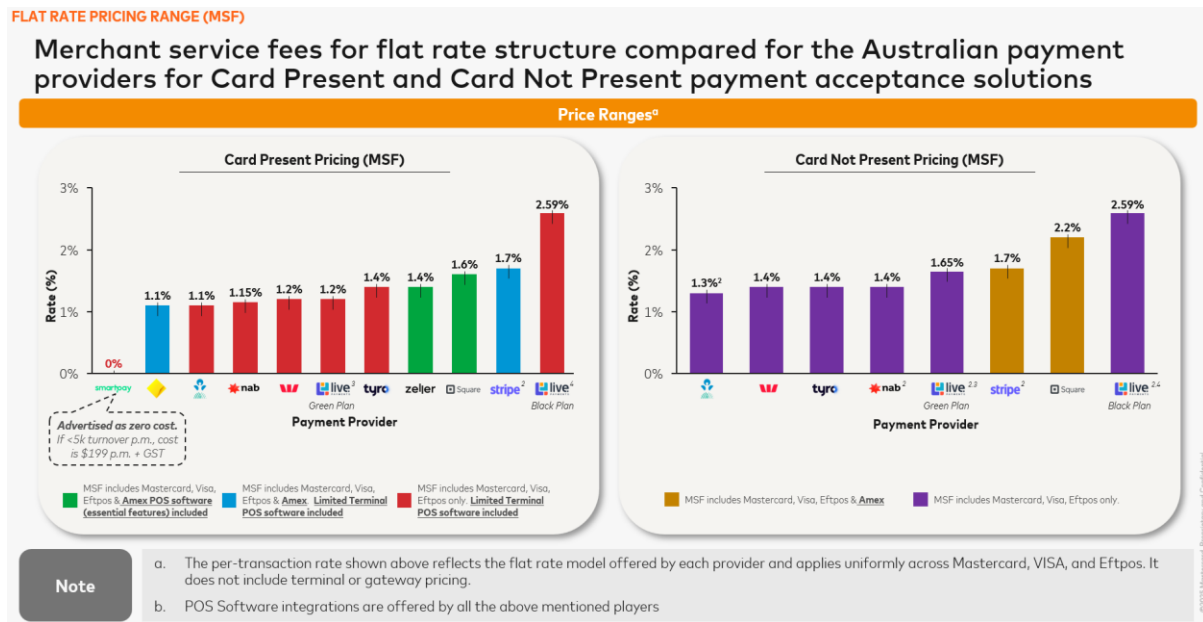
Small business payment costs

As outlined above, small merchants receive exceptional value when accepting cards, with total costs (1.8 per cent) well below cash (3.9 per cent) and BNPL (5.3 per cent), plus access to interest-free liquidity worth over \$500 million annually in avoided borrowing costs.

Over 100 acquiring providers now compete for Australian merchant business, with flat-rate offerings as low as 1.1 per cent for card-present transactions (Figure 3).

⁷ Deloitte, *Centre for Integrated Research* (2025)

Figure 3: Merchant Service Fees for Flat Rate Structures



Source: Mastercard industry analysis

Further, Mastercard has developed specific programs to address payment acceptance costs for small businesses. Our small business interchange program, introduced in 2022 and enhanced in 2025, provides reduced rates (on interchange and scheme fees) for both debit and credit. As a result, the interchange rate gaps between large and small businesses are minimal:

- On debit: The small business interchange rate is as low as 2 cents, which is the second lowest rate available through Mastercard's strategic merchant rate programs for debit. The program provides a 50 per cent reduction in the scheme fees applicable to card present transactions conducted through digital wallets. Card present debit transactions conducted via physical cards are priced at even lower levels across the market.
- On credit: The small business rate is 30 basis points, representing a significant 62.5 per cent reduction from the regulated transaction cap of 80 basis points, or 40 per cent lower than the RBA benchmark of 50 basis points.

Despite competitive rates being available, small merchants do not always access them. Two factors contribute:

- Surcharging distortions:** Current settings allow merchants to offer eftpos as 'surcharge-free' while passing card costs to consumers, distorting price signals and undermining competition. Mastercard supports the RBA's policy proposal to abolish surcharging across debit and credit to enable genuine price competition and consumer transparency.
- Verticalised solutions:** Merchants increasingly adopt integrated solutions bundling POS systems, inventory management and reporting with payments, often at higher rates reflecting services previously priced separately.

The Productivity Commission's 2018 inquiry found small businesses often remain with less competitive providers due to switching barriers including complexity and bundled services. Small merchants on bundled pricing do not automatically benefit from wholesale cost reductions⁸.

Rather than price regulation that primarily benefits acquirers and large merchants, targeted measures would deliver real savings to small businesses:

- Standardised merchant statements enabling cost comparison across providers.
- Industry comparison tools and streamlined switching processes.
- Targeted small business programs following international models.

In 2024, the Canadian Government secured voluntary undertakings from payment schemes to lower small business costs⁹, with mechanisms ensuring reduced fees flow through to merchants rather than being absorbed into acquirer margins. Mastercard has proposed a similar model to the RBA, supported by major banks and schemes in recent submissions to the RBA review process. We recommend the RBA adopt this approach in its current review, including safeguards to ensure fee reductions reach intended beneficiaries.

Market power and access to alternative payment systems

Australia's payments market demonstrates robust competition across multiple dimensions. Merchants in Australia can choose to accept cards from multiple domestic and international card schemes (such as Mastercard, Visa, eftpos, American Express, Union Pay, JCB and Discover), consumers and businesses in Australia have access to over 80 credit card issuers, and merchants have access to over 100 acquiring providers.

Merchants also have access to a wide and increasing range of alternative payment methods including BNPL and account-to-account payments which are growing rapidly. Mastercard supports merchant choice and the ability of merchants to access alternative payment systems.

The concern is not with merchant choice and access but ensuring that there is regulatory symmetry, and that merchants have sufficient transparency to make informed decisions. The concern lies with unregulated payment providers that operate outside the current regulatory perimeter:

- Three-party schemes: American Express holds approximately 50 per cent share of commercial cards while facing no interchange regulation equivalent to that applying to four-party schemes.
- Digital wallet providers: Certain wallet providers charge card issuers fees on card transactions. These fees represent an additional cost layer inserted

⁸ Productivity Commission, *Competition in the Australian Financial System Inquiry Report (2018)*

⁹ Department of Finance, Canada (2024)

between issuers and consumers that extracts value previously used to fund domestic innovation and consumer benefits.

- BNPL providers: Charge merchants 5-7 per cent of transaction value while facing no fee transparency requirements equivalent to those proposed for regulated card schemes.

Recently legislated Payment System (Regulation) Act (PSRA) amendments strengthen the RBA's powers and broaden its regulatory perimeter. To avoid entrenched asymmetries, future regulatory measures must apply consistently across economically similar activities—including three-party schemes, digital wallets, and BNPL providers.

Mastercard competes based on economics, performance, security and value-added capabilities. By contrast, eftpos benefits from regulatory protection through the mandatory dual-network debit card (DNDC) framework, which guarantees placement on nearly all debit cards regardless of issuer preference. This enables eftpos to price aggressively on the acquiring side without equivalent competitive pressure, creating market outcomes driven by regulation rather than competition.

Competitive neutrality requires that regulatory settings not guarantee one network's presence while requiring others to compete for placement.

New and emerging payment technologies

Digital currency and blockchain technology

Mastercard recognises that digital currencies, central bank digital currencies (CBDCs), stablecoins and blockchain technology represent transformative innovations that may enhance competition, efficiency and innovation in Australia's payments system.

We are actively engaged globally in research, pilots and partnerships including the RBA and Digital Finance Cooperative Research Centre on CBDC use cases, cryptocurrency, card programs and Mastercard Multi-Token Network for blockchain innovation.

Realising digital currency benefits requires regulatory clarity including technology-neutral regulation focusing on activities and risks, and legislative reforms for stablecoins and digital assets platforms. The Government should ensure any new regulatory frameworks apply consistent principles to all providers performing economically similar functions.

Account-to-account payments

Account-to-account payments represent a genuine opportunity to increase competition in Australia's payments system. However, realising this potential requires addressing current barriers and ensuring appropriate consumer protections.

The Reserve Bank's March 2025 Risk Assessment on BECS decommissioning highlighted gaps in Australia's current account-to-account trajectory, noting that the New Payments Platform (NPP) currently operates as a 'more expensive, less reliable alternative' to legacy batch systems while processing only 30 per cent of account-to-account volume¹⁰. With BECS facilitating 3.5 billion payments worth \$17.4 trillion annually, the transition challenge and systemic risks of single-rail dependency are significant.

Policy should:

- Ensure open access to essential infrastructure, particularly the PayID directory.
- Enable multi-provider competition rather than mandating a single-rail approach.
- Require failover capability between instant and batch payment systems to ensure resilience.

Mastercard operates real-time and batch payment systems in 12 countries globally. We support competitive account-to-account payment options designed with open access principles and robust consumer protections.

Opportunities to increase competition and decrease fees

The most significant opportunity to benefit merchants and consumers lies in applying consistent regulatory principles across all payment providers.

The Committee should encourage:

- Proportionate, risk-based regulatory treatment of payment activities.
- Extension of transparency requirements to all payment providers, not only designated card schemes.
- Open access to essential payment infrastructure for all qualified providers.
- Continued industry focus and investment on fraud prevention and security
- Greater pricing transparency and ability to compare and switch merchant payment solutions.

Policy Conclusion

Australia is well-positioned to maintain a world-leading payments system. This inquiry, alongside the RBA's review, represents an opportunity to modernise regulation while preserving the innovation and security investments that benefit all Australians.

Mastercard submits that regulatory intervention should be evidence-based, proportionate and targeted. Scheme fees fund essential infrastructure including fraud prevention, network security, dispute resolution and continuous innovation.

¹⁰ RBA, *Decommissioning of the Bulk Electronic Clearing System: RBA Risk Assessment (2025)*

The policy priorities are consistent regulatory treatment across all payment providers, improving transparency between acquirers / providers and merchants, and supporting security investments.

Mastercard welcomes the opportunity to appear before the Committee to discuss these matters further.

About Mastercard

Mastercard is a global technology company in the payments industry, connecting consumers, financial institutions, merchants, governments, and businesses across more than 210 countries and territories. With over 35,000 employees worldwide and processing tens of billions of transactions annually, Mastercard's network enables safe, simple, and smart payment experiences that power commerce and financial inclusion.

Mastercard has been operating in Australia for almost 50 years and maintains a significant local presence with over 900 employees. In 2018, Mastercard opened its Sydney Global Tech Hub—one of only seven worldwide and the only such facility in the southern hemisphere—housing 550+ technology professionals focused on artificial intelligence, cybersecurity, fraud detection, and digital identity innovation.