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Payments and competition in a digital economy

Submission to the House of Representatives Standing Committee on Economics

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

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Dear Committee Members,

We are academic economists who specialise in institutional economics and frontier technologies, including how those technologies transform economic institutions, and what that means for regulatory reform.[1] Together with colleagues, we have published extensively on the digital economy, the evolution of payments infrastructure, and competition policy for digital platforms.[2] We are pleased to draw on our research for this submission.

We take a deliberately broader perspective than is typical in payments policy debates. We argue that regulation should be derived from the type of digital economy Australia is moving towards, and wants, rather than from the payment technologies we use today. The key regulatory challenge is whether Australia supports new types of economic activity, actors and infrastructure that are more composable, global and machine-mediated.[3] We caution against policy responses that treat today's payment systems as the endpoint of competition, rather than a transitional phase. We warn against controls on fees, wallets, or payment schemes that risk entrenching incumbent institutional forms and foreclosing emerging alternatives such as programmable payments, stablecoins, and machine-mediated exchange.

[1] We are academics at RMIT University but make this submission in our personal capacities.
[2] e.g. Allen, D.W.E., Berg, C., and Potts, J. (2020), 'Blockchain and the Evolution of Institutional Technologies: Implications for Innovation Policy', *Research Policy*, 49(1), 103865; Berg, C., Davidson, S., and Potts, J. (2019), *Understanding the Blockchain Economy: An Introduction to Institutional Cryptoeconomics*, Edward Elgar Publishing; Allen, D. W., Auer, D., Berg, C., Lane, A. M., Manne, G. A., Potts, J., & Radic, L. (2025). 'Dynamic Competition and Digital Platforms'. Available at SSRN 5141815.; Potts, J. (2023), 'The Computable Economy', SSRN Working Paper.
[3] Allen, D.W.E., Berg, C., and Potts, J. (2025), *Institutional Acceleration: The Consequences of Technological Change in a Digital Economy*, Cambridge University Press.

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Because payments systems shape entry, experimentation, and coordination across the economy, regulation should focus on enabling competition and contestability *over time*. Put another way, a central aim of any reforms to payments policy should be to enable new institutional experimentation while avoiding locking in existing market structure and technological implementation.

Our submission proceeds in four parts.

1. First, we argue that competition in payments should be understood in a dynamic and institutional sense. The focus should be on entry, substitution, and innovation over time.
2. Second, we emphasise how technologies combine to create new types of economic organisation and trade. We are moving into an economy characterised by machine-mediated exchange, including programmable and autonomous trading.
3. Third, we address the Committee's concerns about existing fees with a focus on interchange fees. Interchange fees are governance mechanisms within complex networks. This focus not only draws on our previous work, but provides a case study in the unintended consequences of regulatory interference in markets.
4. Finally, we draw out implications for regulatory design, cautioning against *ex ante* controls that constrain institutional evolution. We also point attention towards economic capabilities and enabling competition through experimentation.

1. Competition as an institutional process

The typical static approach to understanding competition is to focus on an industry at a point in time, including measuring market share or assessing pricing behaviour. But this static analysis misses how economies evolve. Industrial organisation tools like market concentration ratios miss the dynamic institutional processes through which new coordination mechanisms emerge, and through which deeper forms of competition occur. Ultimately, competition is an institutional process of discovery and innovation over time.

Payments systems are not just services because they determine who can participate in markets and on what terms. Payment system choices shape who can enter a market and what kinds of coordination are possible. A merchant excluded from a payments system is excluded from a market. A consumer unable to hold or transfer a particular digital asset cannot transact with certain counterparties. An AI agent without access to programmable payment infrastructure cannot do what their principal wants them to. Payments infrastructure is a determinant of economic possibility.

Competition in payments therefore means the capacity for new institutional forms to emerge and be tested, not merely the presence of multiple providers at a point in time. Static competition analysis asks whether substitutable services exist today while dynamic institutional analysis asks how coordination mechanisms can enter, experiment, and compete over time. In the latter dynamic analysis the critical question is not market share today, but contestability tomorrow. From this perspective the design of the payments system should enable experimentation in new technologies and business models that not only are not yet dominant, but those that do not exist yet or that have not yet been conceived.

Digital wallets show this type of institutional innovation we mean in practice. Digital wallets initially appear as new competitors to card-based payments, such as Apple Pay and Google Pay competing with Visa and Mastercard, or MetaMask and Ledger hardware wallets offering alternatives to traditional banking. But from an institutional and dynamic perspective, they represent novel mechanisms that enable new types of economic activity and coordination.

There is a spectrum of institutional architectures across digital wallets. Digital wallets like Apple Pay and Google Pay operate within existing financial infrastructure but create new coordination capabilities such as biometric authentication or peer-to-peer transfers. They can bundle payments with loyalty programs and identity verification in ways physical cards cannot. Self-custodial cryptocurrency wallets like MetaMask and hardware wallets like Ledger represent a more fundamental institutional departure, enabling users to hold and programmably transfer digital assets without intermediaries. A user holding USDC stablecoins in a self-custodial wallet does not have a relationship with a bank or payment service provider. Rather, they control assets cryptographically while using smart contracts to create programmable payment conditions, such as payments based on oracles.

These alternative wallet architectures enable different types of economic activity. For instance, self-custodial wallets enable people to receive stablecoin payments from international customers instantly, or to engage in new types of decentralised finance (defi). They enable AI agents to hold funds and make autonomous payments without bank accounts linked to natural persons or corporations. They enable decentralised marketplaces where payment and delivery confirmation occur through the private governance of smart contracts.

Self-custodial wallets expose the assumptions embedded in existing payments regulation. Current frameworks assume intermediary institutions, transactions flowing through designated rails with known governance structures, and users holding relationships with regulated entities. Self-custodial wallets challenge all these assumptions while still enabling the core economic capability: transferring value securely and efficiently. The regulatory challenge is that these institutional innovations don’t fit existing categories, yet they enable genuine economic exchange – often with lower transaction costs and greater programmability than incumbent systems.

This is why we caution that the Committee's concerns about consolidated market power and the impact of scheme fees on small businesses might be counterproductive for innovation and consumer benefits in the medium-to-long term. Static regulatory interventions risk protecting incumbents by constraining the institutional experimentation that creates genuine competition. Regulation that protects small merchants by capping interchange fees may inadvertently protect incumbents by reducing the profitability of new entrants, such as stablecoin payment systems or new digital wallet architectures.

The regulatory task is not to optimise competition within today’s payment systems, such as mandating access to particular payment rails, or redistributing rents between incumbent players. The regulatory task is to ensure that new institutional forms can enter, experiment, and compete against incumbents on their ability to reduce transaction costs and expand economic possibilities.

Regulators cannot predict which institutional forms will succeed. The payments system of 2036 may be coordinated through programmable stablecoins in self-custodial wallets, AI agent-mediated transactions, tokenised asset exchanges, or institutional forms we cannot yet imagine. Regulation should therefore avoid locking in institutional forms that reflect current technologies and business models. Instead, it should focus on enabling the evolutionary process through which better institutional forms emerge, compete, and either succeed or fail based on their ability to serve the needs of a digital economy.

This institutional perspective on competition that we have laid out here is essential context for understanding the type of digital economy Australia is moving into.

2. The emerging digital payments economy

Australia is transitioning from an industrial economy with digital overlays to a digital economy characterised by institutional acceleration, machine-mediated exchange, and programmable financial infrastructure.

Institutional acceleration and the digital economy

The digital economy is not simply an economy with more computers. It is an economy in which economic coordination itself is increasingly computable, programmable, and modular. Digital technologies can of course help us digitise existing processes, but they also create new institutional infrastructure for new types of coordination.

Institutional acceleration refers to the increasing speed at which economic institutions can be created, tested, combined, and replaced. We describe this transformation to a digital economy in our recent book, *Institutional Acceleration: The Consequences of Technological Change in a Digital Economy* (Cambridge University Press, 2025). In an industrial economy, institutional change occurs slowly, including legal structures evolving over decades with sticky organisational forms. But in a digital economy, institutions can be designed, deployed, and iterated rapidly. Smart contracts encode complex governance rules, tokens create new property rights, protocols can be forked, recombined, and adapted. This institutional acceleration creates enormous economic opportunity.

Institutional acceleration is enabling faster innovation, more experimentation, and greater institutional choice (like the choice of wallets described earlier). But regulation designed for slow institutional change struggles to keep pace with rapid institutional evolution. Payments systems are at the centre of this transformation. Digital payment protocols encode rules about settlement, access, privacy and governance. When these protocols are programmable and composable, the design space for payments infrastructure expands dramatically. New coordination mechanisms become feasible.

Australia's payments regulation must consider this institutional acceleration and how it responds to it. It should recognise that payments infrastructure is evolving from fixed organisational forms toward more open, composable, and programmable systems. Regulation that assumes payments infrastructure will remain organised around schemes and issuers will struggle to accommodate the institutional diversity that digital technologies enable.

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Machine-mediated exchange and AI agents

The digital economy is also characterised by the rise of machine-mediated exchange. Economic coordination is no longer exclusively human-to-human, increasingly involving autonomous agents such as trading bots, automated procurement systems, algorithmic pricing mechanisms, and AI-powered market participants.

Blockchain technologies enable machine-mediated exchange at scale.[4] When assets are tokenised and transactions are programmable, machines can conduct complex exchanges across multiple asset types without human intervention. That is a powerful combination of the seemingly disparate technologies of blockchains and AI.

Machine-mediated exchange has profound implications for payments infrastructure that is designed for human-to-human transactions. Notably it breaks down some key assumptions such as accounts linked to identities, settlement times measured in hours or days, dispute resolution through human intermediaries. Machine-mediated exchange requires different institutional properties: programmable settlement conditions, near-instantaneous finality, composable transactions, and machine-readability.

AI agents will increasingly act as economic actors by purchasing inputs, selling outputs, negotiating and executing contracts, and managing portfolios. They will not fit neatly into existing institutional categories. An AI agent is neither a natural person nor a corporation. It may operate autonomously under programmed objectives. Just as we have written about the need for legal recognition of decentralised autonomous organisations in Australia, there will also be many ongoing questions around the status of AI economic agents.[5]

Australia's payments system should be capable of supporting machine-mediated exchange. Regulation that hard-codes assumptions about human actors, manual intervention, and organisational intermediaries will struggle to accommodate this evolution.

Stablecoins and programmable payments infrastructure

Stablecoins represent an important development in payments infrastructure. They are digital tokens designed to maintain stable value relative to a reference asset, typically a fiat currency. Stablecoins are payments infrastructure that is global-by-default, programmable, composable, and accessible without intermediation. They enable cross-border settlement without correspondent banking relationships and while integrating natively with smart contracts. These institutional properties create competitive pressure on incumbent payment systems. If merchants can accept stablecoin payments with lower fees and faster settlement than card-based systems, they have an alternative. If AI agents can hold and transfer stablecoins programmably, they have an alternative to accounts held by natural persons or corporations.

[4] e.g. Berg, C., Davidson, S., and Potts, J. (2018), 'Beyond Money: Cryptocurrencies, Machine-Mediated Transactions and High-Frequency Hyperbarter', SSRN Working Paper.
[5] e.g. Lane, A. M., Allen, D. W. E., & Berg, C. (2024). Towards Legal Recognition of Decentralised Autonomous Organisations. A*ustralian Business Law Review*.

Australia should approach stablecoin regulation with institutional openness. Regulation should focus on ensuring that stablecoin issuers maintain adequate reserves, provide transparent information to users, and meet appropriate prudential standards. Within those constraints, stablecoins should be permitted to compete as payments infrastructure. The Committee's Terms of Reference appropriately identify opportunities to increase competition, consumer choice, and reduce fees. Regulation that forecloses competitive opportunities from stablecoins would harm the long-run institutional evolution of Australia's payments system.

3. Interchange fees as governance mechanisms

The Terms of Reference identify concerns about the transparency and affordability of scheme fees, such as interchange fees. These concerns reflect genuine frustration among small businesses. But addressing these concerns requires understanding what interchange fees actually do within complex payment networks.

In work with Jason Potts, Sinclair Davidson and Aaron Lane we have argued that interchange fees should be understood as governance mechanisms within four-party payment systems, not simply as monopoly rents.[6] This perspective draws on transaction cost economics and applies it to the institutional structure of card-based payments.

Four-party payment systems involve consumers, merchants, issuing banks, and acquiring banks engaged in long-term relational contracting. Consumers establish ongoing relationships with issuers while merchants establish ongoing relationships with acquirers. These relationships involve relationship-specific investments that create quasi-rents vulnerable to opportunism.

Interchange fees exist to align incentives across these long-term relationships. They transfer value from the acquiring side to the issuing side of the network, reflecting the economic reality that issuers bear costs and risks that benefit merchants: fraud liability, credit risk, and payment guarantee. Without interchange fees, four-party systems would face vertical integration or bilateral negotiation. Vertical integration would sacrifice efficiency gains from specialisation, while bilateral negotiation at scale would dramatically increase transaction costs.

Regulatory interventions to cap or ban interchange fees therefore risk unintended consequences. The Reserve Bank of Australia's interchange fee regulation since 2003 provides a cautionary example. Merchant fees declined in some segments, but consumer fees increased and rewards programs diminished. More fundamentally, interchange fee regulation treats symptoms without diagnosing underlying institutional structure. If high merchant costs reflect genuine market power, regulation should address that market power directly (e.g. through enabling entry by alternative payment systems).

The Committee should be cautious about recommendations that focus narrowly on interchange fee levels. If interchange fees are excessively high, this likely reflects insufficient competition between payment systems, not an inherent flaw in four-party institutional design.

[6] Berg, C., Lane, A., and Potts, J. (2018), 'A Genuine Commercial Justification for Interchange Fees', Australian Taxpayers' Alliance; Davidson, S. and Potts, J. (2015), 'Australian Interchange Fee Regulation: A Regulation in Search of Market Failure', International Alliance for Electronic Payments.

The policy response should be enabling competitive entry (including by account-to-account systems and stablecoin infrastructure), not constraining the governance mechanisms within incumbent systems.

Legacy payment systems will coexist with emerging digital infrastructure. During this transition, regulation should focus on maintaining contestability by ensuring that incumbent systems remain subject to competitive pressure, and that barriers to entry remain low for alternative systems. This requires transparency, substitutability, portability, and interoperability where technically feasible. These institutional features create competitive pressure without mandating particular market structures or fee levels.

4. Implications for regulatory design

Avoid ex ante controls on dynamic systems

In separate work on Australia's emerging ex ante digital competition policy framework, we have cautioned against applying pre-emptive regulatory controls to innovation-driven digital systems. As we have alluded to above, that analysis also applies directly to payments regulation.

Ex ante regulatory frameworks operate by designating firms or systems as subject to prescriptive rules before any competitive harm has occurred. These frameworks rest on assumptions including that regulators can identify future market failures, that prescriptive rules can prevent those failures without unintended consequences, and that pre-emptive intervention is preferable to ex post enforcement.

These assumptions are problematic in payments systems including because payments infrastructure is evolving rapidly. Regulators cannot reliably predict which institutional forms will succeed, which will fail, or which will create consumer harm. Pre-emptive rules risk locking in assumptions about market structure that may be obsolete within years.

Ex ante frameworks also constrain institutional experimentation. If new payment systems must comply with prescriptive rules designed for incumbent systems, they face barriers to entry. If stablecoin issuers must meet the same regulatory requirements as banks, they cannot offer differentiated services. If digital wallets must unbundle features to comply with anti-tying rules, they cannot innovate on bundled experiences.

Australia should resist the temptation to apply ex ante regulatory frameworks to payments systems. The evolutionary process through which better payments infrastructure emerges requires institutional experimentation, and experimentation requires regulatory space.

Focus on economic capabilities, not particular rails

Payments regulation should focus on economic capabilities such as who can transact, on what terms, with what flexibility, and subject to what constraints. It should not privilege particular payment rails, organisational forms, or technological implementations.

Economic capabilities are what matter to consumers, merchants, and the broader economy:

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- A consumer wants the capability to transact securely, conveniently, and at reasonable cost.
- A merchant wants the capability to accept payments from customers without prohibitive fees or technical barriers.
- A small business wants the capability to participate in digital markets without requiring relationships with incumbent financial institutions.

Current regulation can privilege particular organisational forms from licensed banks to regulated payment service providers. These forms emerged to address genuine institutional problems such as ensuring financial stability and preventing fraud. But they also create barriers to entry for alternative institutional forms that might address those problems differently.

Consider stablecoins again. A well-designed stablecoin with transparent reserves, independent audits, and redemption guarantees provides many of the economic capabilities that consumers want from money such as stable value and easy transfer. Stablecoins create competitive pressure on incumbent systems and expand economic capabilities for users.

Regulation should focus on ensuring that stablecoin issuers meet appropriate standards for reserve adequacy, transparency, and consumer protection. It should not require stablecoins to mimic the organisational form of banks or integrate with existing schemes. Regulation should enable institutional diversity while maintaining appropriate safeguards.

This principle applies broadly across payments infrastructure. New systems should not be constrained to operate identically to card-based systems. Digital wallets should not be required to unbundle services that consumers value as integrated experiences. New institutional forms should be permitted to experiment with different coordination mechanisms, governance structures, and technical implementations.

Enable competition through institutional experimentation

The Inquiry identifies opportunities to increase competition and reduce fees. The most powerful mechanism for achieving these goals is enabling institutional experimentation. When multiple institutional forms compete they create pressure on each other to reduce costs, improve service quality, and innovate. This competition occurs not just through static price competition but through dynamic institutional innovation.

But the evolutionary process we need requires regulatory openness. Regulators should permit experimentation with new institutional forms, subject to appropriate safeguards for financial stability and consumer protection. We have made separate contributions to the ongoing independent review of the Enhanced Regulatory Sandbox regarding ways to enable experimentation.[7]

[7] Allen, D. W. E. and Berg, C. (2026) 'Regulatory sandboxes fail because they get the default rule wrong' Available online https://darcyallendotnet.wordpress.com/wp-content/uploads/2026/01/submission-letter-pdf.pdf; Allen, D. W. E., Berg, C. and Lane, A. M. (2026) 'From closed to open regulatory sandboxes:
Why default and altering rules matter' Working paper available online:
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=6092826

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5. Conclusion

This Inquiry is happening at a time where Australia is moving toward a digital economy characterised by programmable infrastructure, machine-mediated exchange, and institutional acceleration. Payments systems sit at the centre of this transformation. The Committee rightly focuses on competition and emerging technologies. Australia needs institutional design that enables evolution, not regulatory controls that lock in today's market structure or technological assumptions.

We have outlined three principles when considering reform of our payments system.

First, *understand competition as an institutional process*. Competition means the capacity for new coordination mechanisms to emerge and challenge incumbents over time, not just multiple providers today. Digital wallets, stablecoins, and programmable payment systems compete by enabling different types of economic activity, not merely by offering lower prices. Regulation should enable this institutional experimentation, not constrain it through prescriptive rules designed for incumbent systems.

Second, *focus on economic capabilities, not particular rails*. Regulation should ask who can transact, on what terms, and with what flexibility, not privilege specific organisational forms like banks or card schemes. Self-custodial wallets challenge regulatory assumptions about intermediaries and designated rails, yet they enable genuine and new economic exchange. A small business receiving stablecoin payments or an AI agent making autonomous transactions should not face regulatory barriers simply because they don't fit traditional categories.

Third, *exhibit institutional humility*. Regulators cannot predict which institutional forms will succeed or what payments will look like in 2036. The payments system may be coordinated through technologies we cannot yet conceive. Regulation should create conditions for institutional evolution, not attempt to optimise today's systems or prevent all failure.

The Committee's concerns about market power and merchant fees are genuine. But addressing them requires enabling competitive entry by alternative payment systems, not constraining governance mechanisms within incumbent systems. Interchange fees, for instance, are institutional solutions to coordination problems in four-party networks. Capping them treats symptoms without addressing underlying market structure, risking unintended consequences that protect incumbents by reducing new entrant profitability.

Payments infrastructure determines who can enter markets and what coordination is feasible. Australia should design payments regulation for the digital economy it is becoming, not the industrial economy it is leaving behind.

Regards,

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