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House of Representatives Standing Committee on Economics
Inquiry into Schemes, Digital Wallets and Innovation in the Payments Sector
January 2026

Block, Inc. appreciates the opportunity to provide a submission to the House of Representatives Standing Committee on Economics' Inquiry into Schemes, Digital Wallets and Innovation in the Payments Sector.

Block is a global financial services and technology company with operations in Australia through our brands Square and Afterpay, and with digital asset initiatives including Bitkey, a self-custody bitcoin wallet that empowers individuals to securely manage their own digital assets.

Block has transformed access to payments since entering Australia in 2016. Square has expanded the merchant acquiring market, dramatically increasing choice for small merchants previously underserved by traditional institutions. Afterpay's Buy Now Pay Later (BNPL) product has provided a transparent, interest-free alternative to traditional revolving credit.

We welcome the opportunity to provide input to this Inquiry.

Executive Summary

Block strongly supports the Committee's focus on ensuring Australia's payment systems are fair and accessible, that fees are transparent and affordable, that small businesses are not disproportionately burdened, and that consumers and merchants have genuine choice across payment options. Our evidence leads us to the following conclusions:

1. **Scheme fees are the fastest-growing, least transparent component of costs**

   Increased competition among merchant acquirers has compressed acquirer margins and contributed to lower merchant service fees, while scheme net compensation has remained stable or increased. This is consistent with the Reserve Bank of Australia's finding that declines in merchant service fees (MSFs) have been driven by reductions in interchange and acquirer margins, while "scheme fees have risen over time, putting upward pressure on card payment costs for merchants."[1]

2. **Small card issuers require carve outs from interchange cap reductions to remain competitive with major banks.**

   Australia's card issuing market is highly concentrated, with the major bank consistently holding over two thirds of market share. Lowering interchange fees for all providers will reduce the already limited ability for small card issuers to compete sustainably in a market with major banks that can offset revenue from other sources. To address this, the RBA should introduce differential interchange caps or regulatory treatment for small issuers. This would increase competition in card issuing, while ensuring businesses received the vast majority of savings from interchange cap reductions more generally.

[1] RBA, Merchant Card Payment Costs and Surcharging Issues Paper - October 2024, page 14

3. **Mobile wallets are a critical part of the payments ecosystem**

   At the point of sale, consumers increasingly choose to pay using a personal digital wallet.[2] Once that choice is made, card issuers are required to pay non-negotiable wallet fees, with these costs ultimately flowing through to merchants and reducing competition. This matters because mobile payments are growing rapidly, with Square observing 122 per cent median year-on-year growth in tap-to-pay transactions in Australia.

4. **Small businesses overwhelmingly value simple, predictable pricing**

   Policy settings that effectively force unblended pricing - including certain proposed surcharge-ban structures - risk increasing pricing complexity for small businesses, raising compliance and administrative burdens, and shifting wholesale cost volatility onto merchants least able to manage it.

5. **Competition in payments has improved because of new entrants, not incumbents**

   The strongest competitive pressure in the merchant acquiring market over the last decade has come from fintech PSPs like Square, delivering simplicity, lower costs and improved product innovation.

6. **Smart reform should not disrupt effective and competitive parts of the system**

   There are two clear areas of the payments industry that operate as a virtual duopoly - card payment rails, and digital mobile wallets. In contrast, merchant acquiring is one of the most competitive areas of Australia's payments system[3] but it is consistently (and unnecessarily) the target for reform.

Response to Terms of Reference

1(a) Transparency and affordability of scheme fees for payment service providers

Australia's card payments ecosystem is dominated by a small number of international card networks, principally Visa and Mastercard (see Appendix 1 for a visual representation of how Australia's retail payments system operates), which together operate as a functional duopoly in the four-party card scheme market. Visa and Mastercard together account for the large majority of total credit card transaction value, with American Express representing a smaller but material share,[4] and Visa and Mastercard debit cards account for the majority of debit transaction value in Australia, despite eftpos remaining significant by transaction count.[5] While interchange fees are regulated and acquirer margins have been subject to increasing competitive pressure, scheme fees have grown materially in recent years and are now widely recognised as the most complex and least transparent component of merchant payment costs.

The Reserve Bank of Australia (RBA) itself has acknowledged that: 'Scheme fees can also be very

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[2] Mandala, March 2024, Competition in Australia's Payments System
[3] Mandala, March 2024, Competition in Australia's Payments System
[4] RBA Payments Data, Table C1: Credit and Charge Cards – Seasonally Adjusted Series
[5] RBA Payments Data, Table C2: Debit Cards – Seasonally Adjusted Series

complex and opaque. Some card networks have hundreds of fees and their fee schedules typically are not publicly available. Card networks also regularly adjust the level of their fees and add, rename or remove fees. It is unclear whether the complexity of fee schedules is necessary. This complexity means that even acquirers report that they find it difficult to understand the schedules'.[6]

In this environment, merchants and merchant acquirers have little practical ability to constrain scheme pricing. In the absence of credible substitutes to Visa and Mastercard, participants are effectively price takers at the scheme layer: unable to meaningfully negotiate pricing, opt out of mandatory services, or exert discipline through switching. This lack of contestability fundamentally limits the effectiveness of transparency alone as a constraint on scheme fee growth.

Consistent with the RBA's findings, Block's experience as a payment service provider is that scheme fees have become increasingly unbundled and fragmented, proliferating into hundreds of discrete fee categories. Rather than a small number of predictable wholesale charges, scheme fees are now applied across a wide range of dimensions, including but not limited to:

- whether a transaction is initiated via a mobile wallet, which typically attracts higher scheme fees than equivalent plastic card transactions;
- tokenised versus non-tokenised transactions;
- the specific card network and product type used; and
- bespoke or strategic merchant arrangements, which are typically available only to the largest merchants.

The cumulative effect of this complexity is that wholesale payment costs are no longer easily attributable to a single driver, making it difficult for merchants and even acquirers to understand which elements of a transaction are driving higher costs. This challenge is compounded by the fact that scheme fees are frequently changed, renamed or added on an ongoing basis.

A particularly concerning feature of current scheme fee structures is the increasing use of fixed, per-merchant fees, such as so-called "location fees". These fees are levied on a per-merchant or per-outlet basis, regardless of transaction volume.

In practice, this means that a large national retailer with thousands of transactions per location is charged the same absolute location scheme fee as a micro-business that may process only one or two transactions per month at a given location. For small and micro-businesses, these fixed fees represent a material and disproportionate cost, significantly increasing their effective cost of acceptance on a per-transaction basis.

This structural feature contributes directly to the inequity in payment costs between small and large merchants identified by the RBA.

Block supports the RBA's broader reform agenda as part of its current Review of Merchant Card Payment Costs and Surcharging, including a full ban on surcharging and reductions in interchange caps. At the same time, Block considers that any changes to interchange regulation should include appropriately calibrated and, where necessary, time-limited exemptions or transition arrangements for smaller card issuers, to avoid unintended consolidation and preserve competition at the card issuing level. However, the evidence from both the RBA and industry participants demonstrates

[6] Reserve Bank of Australia, Merchant Card Payment Costs and Surcharging – Issues Paper (October 2024), page 15

that interchange regulation alone is insufficient to ensure that merchant payment costs fall in a transparent and equitable manner.

Accordingly, Block considers enhanced transparency and oversight of scheme fees to be an important first step. Once the broader industry and regulators better understand exactly how scheme fees are charged, and exactly how much, there should then be consideration as to whether scheme fees should be regulated in the same way that interchange fees are.

International developments reinforce the case for action in Australia. In the United Kingdom, the Payment Systems Regulator has proposed binding directions on Mastercard and Visa requiring stronger pricing governance, advance notice of fee changes, and explicit assessment of impacts on acquirers, merchants, competition and innovation.[7] In Australia, the Reserve Bank has reached a similar preliminary conclusion: recognising that scheme fees have risen over time and are not disciplined by competition, the RBA has proposed setting a regulatory expectation that scheme fees should not increase without clear justification, alongside enhanced publication of scheme fee data and further intervention if fee growth persists. Block supports this direction and considers that aligning Australia's approach with emerging international best practice is necessary to constrain scheme fee growth in a highly concentrated market.

1(b) Inequity of payment costs for small businesses

The issue of inequitable payment costs for small businesses must be considered in light of how small merchants actually engage with the payments system. For the vast majority of small and micro-businesses, simplicity, predictability and price certainty are essential, and pricing models that add complexity or operational burden disproportionately harm them.

If surcharging is to be banned, Block supports a total ban on surcharging. Partial approaches - such as a debit-only surcharge ban, or a debit ban combined with caps on credit card surcharges - would create significant unintended consequences for small businesses and for the broader payments ecosystem.

1. Partial surcharge bans undermine simple pricing models

A partial surcharge ban would require merchants and PSPs to:

- distinguish between debit and credit transactions in real time,
- apply different pricing or surcharging rules depending on card type,
- manage edge cases involving mobile wallets, combination cards, and card-not-present transactions.

For small businesses, this is not practical. For PSPs offering blended pricing, it creates a structural mismatch: a single blended rate cannot be reconciled with differentiated surcharging rules.

The likely outcomes are:

[7] UK Payment Systems Regulator, CP25-3 Market review of card scheme and processing fees - Proposed directions
https://www.psr.org.uk/publications/consultations/cp25-3-market-review-of-card-scheme-and-processing-fees-proposed-directions/

- PSPs being forced to unbundle pricing, removing simple blended plans;
- higher compliance and operational costs; and
- increased pricing complexity for merchants who are least equipped to manage it.

This directly exacerbates the inequity the Inquiry is seeking to address.

2. Partial surcharge bans impose significant industry-wide costs

Economic analysis from Mandala, and the RBA's own consultation findings, show that removing only some forms of surcharging is more costly for the industry to implement than a total ban.

A partial surcharge ban would require:

- terminal and software upgrades to correctly identify transaction types;
- retraining of staff and merchants;
- ongoing compliance monitoring to avoid accidental breaches;
- dispute resolution when consumers contest surcharges; and
- changes to merchant pricing and PSP reporting systems.

Critically, these costs are borne upfront by PSPs and merchants, not by card schemes.

3. Partial surcharge bans undermine the potential for even lower cost payment rails

Partial surcharge bans risk entrenching existing card-based payment rails and weakening incentives to invest in, and adopt, lower-cost alternatives.

By restricting merchants' ability to price different payment methods transparently and consistently, partial bans:

- reduce merchants' capacity to signal the true cost of different payment options;
- blunt competitive pressure on higher-cost card schemes; and
- diminish the commercial case for investment in emerging lower-cost rails.

In contrast, a total ban applied consistently across payment methods avoids distorting relative incentives, supports competition on underlying costs, and creates a more stable foundation for the evolution of the payments ecosystem.

Where these costs ultimately flow

If reform stops short of a total surcharge ban, the cost burden flows in a predictable sequence:

1. First, PSPs incur increased system, compliance and operational costs.
2. Second, those costs are passed through to merchants, particularly very small businesses that lack negotiating power.
3. Finally, merchants recover those higher costs by:
    - raising base prices;
    - reducing service levels; or
    - narrowing payment acceptance options.

In practice, consumers ultimately bear these costs, either through higher prices or reduced choice.

This outcome is materially worse than a total surcharge ban implemented alongside wholesale cost reductions.

A total surcharge ban, applied consistently across debit and credit card payments, avoids these outcomes by:

- minimising implementation and compliance costs across the industry;
- reducing consumer confusion at the point of sale;
- ensuring that cost reductions must occur upstream, where market power actually sits - in wholesale pricing, scheme fees and wallet fees; and
- preserving simple and blended pricing models for small businesses.

As the RBA has itself acknowledged, a debit-only surcharge ban is more complex and costly to implement than a full ban, while delivering fewer benefits.

Importance of competition in merchant acquiring

Competition in merchant acquiring is one of the clearest examples of where open access, low barriers to entry and contestable pricing have delivered tangible benefits for Australian businesses, particularly small and micro-merchants.

Prior to Square’s entry into Australia in 2016, small businesses had very limited choice when it came to accepting card payments (see Appendix 2 for further detail). The acquiring market was dominated by a small number of incumbent banks and providers whose offerings were designed primarily for larger merchants.

Very small businesses, in particular, were often effectively excluded from card acceptance altogether, or faced conditions that made acceptance uneconomic. Common barriers included:

- Long-term contracts (often three to five years) with early termination fees;
- Monthly account fees and terminal rental fees, regardless of transaction volume;
- Complex pricing structures, including interchange-plus or tiered pricing that small merchants lacked the expertise to understand or manage;
- Minimum monthly spend or volume thresholds; and
- Lengthy onboarding and approval processes, which created friction for sole traders, micro-businesses and new enterprises.

For many very small businesses - market stalls, sole traders, tradespeople, casual service providers and early-stage businesses - these models made card acceptance either prohibitively expensive or operationally impractical. Cash acceptance remained common not by preference, but by necessity.

Square entered the Australian market with a fundamentally different proposition. That proposition was grounded in simplicity, transparency and low commitment, including:

- a single, simple blended rate with no hidden fees;
- no lock-in, long-term contracts
- no monthly fees or minimum volumes; and
- fast, self-service onboarding.

This lowered the barriers to entry for card acceptance and materially expanded access to digital payments for businesses that had previously been underserved or excluded.

The impact of increased competition in acquiring has been significant. Since 2016:

- merchant choice has expanded materially;
- onboarding times have shortened;
- pricing transparency has improved; and
- innovation in terminals, software and integrated services has accelerated.

In 2026, the Australian acquiring market is highly competitive. Small businesses now have a wide range of PSPs to choose from, including banks, fintechs and specialist providers, offering different pricing models and service bundles.

The vast majority of Square's merchants in Australia process under $100,000 in payments per year. Square merchants only pay Square when they process a payment, while also benefiting from an ecosystem of software tools that help them run their business. The ecosystem of software comprises integrated point-of-sale, invoicing, inventory management, payroll, and business analytics tools that are bundled with payments processing and designed to support small Australian businesses in operating efficiently, rather than functioning as standalone consumer-facing platforms.

These businesses only pay Square when they process a transaction. We do not charge them monthly fees, or require them to enter into long-term "locked-in" contracts with us.

Square does not claim to be the cheapest PSP in Australia in every circumstance. Instead, Square competes on value, combining:

- transparent pricing;
- ease of use;
- fast access to funds;
- integrated software; and
- a low-friction merchant experience.

The fact that merchants can and do switch providers if a better option emerges is itself evidence that competition in acquiring is working.

The experience of merchant acquiring demonstrates an important lesson for the Inquiry into competition in payments:

- Where markets are open and contestable, competition delivers better outcomes; and
- Where market power is concentrated upstream and access is constrained, competition struggles to operate.

Further reforms should therefore be carefully targeted. Competition among acquirers should be preserved and supported, not undermined by policies that inadvertently increase costs or complexity for small merchants.

Importance of competition in card issuing

Smaller card issuers disproportionately rely on interchange to be commercially viable. Most smaller card issuers do not benefit from the major banks' economies of scale, ability to cross subsidise with other consumer offerings (such as deposit taking and lending products), or ability to leverage intra-bank transactions that avoid scheme fees. This challenge has meant significant barriers to entry for new entrants, with the major banks estimated to represent around 56% of the overall market and major banks plus card schemes accounting for 70% of an estimated $6.3 billion in payments-related revenue (see figure below). In this context, the ability of smaller card issuers to compete will become increasingly untenable if interchange is further reduced. The RBA should consider how policy settings can be tweaked to encourage smaller card issuers, potentially including targeted exemptions from proposed changes to interchange, forms of differential pricing or other incentives. Over time, increased competition among issuers directly benefits consumers, supports new entrants, and improves the overall efficiency of the payments system.

1(c) Consolidated market power between payment schemes and its impact on choice

Australia's payments ecosystem is characterised by high and increasing concentration at critical layers of the transaction stack, particularly in card networks and mobile payment initiation. While competition has intensified at the merchant acquirer level, market power at the scheme and wallet layers remains largely undisciplined, with direct consequences for merchant choice, accessibility to alternative payment systems, and the cost of accepting digital payments.

The current structure of scheme fees reflects the market power of two dominant international networks. The Reserve Bank of Australia has noted that "almost all domestic credit cards are issued with Mastercard and Visa, with limited scope for merchants to refuse to accept these two schemes."[8] In practical terms, Visa and Mastercard cards are 'must-take' payment methods for Australian merchants across most sectors of the economy.

While interchange is regulated, scheme fees are not, and the RBA has observed that limited competitive pressure at the scheme level has allowed these fees to grow in both scale and complexity. In the absence of credible substitutes, merchants and merchant acquirers are effectively price takers at the scheme layer, unable to meaningfully negotiate pricing, opt out of services, or exert discipline through switching.

Visa and Mastercard, operating as an effective duopoly, are therefore able to set fees unilaterally across a wide and expanding range of categories - including transaction processing, tokenisation, digital wallet usage and so-called 'behavioural' or compliance-related fees - with little meaningful input from acquirers or merchants. Fees are frequently introduced, restructured or re-labelled, with schemes typically providing post-hoc explanations rather than engaging in any ex-ante

[8] Reserve Bank of Australia, Merchant Card Payment Costs and Surcharging – Issues Paper (October 2024), page 15

consultation, justification or competitive process.

This is not a market in which competition can reasonably be expected to constrain pricing. Merchants cannot refuse Visa or Mastercard without losing sales; acquirers cannot substitute away from the schemes; and consumers do not meaningfully choose networks at the point of payment. Where payment systems are 'must-take' and switching is not a realistic option, competitive forces are not operating and there is no genuine choice. In these circumstances, regulatory oversight is not a distortion of competition - it is a necessary substitute for it.

2(a) Digital currency and blockchain technology

Block supports safe, responsible innovation in blockchain-based payments, where new technologies can improve the speed, cost, resilience and accessibility of the payments system while maintaining strong consumer protections.

Through Square, Afterpay and Cash App (in the United States), Block has extensive experience operating regulated payment products that interact with digital assets. This experience informs our view that blockchain technology, including bitcoin and stablecoins, can complement existing payment rails rather than replace them, particularly for everyday payments and cross-border transfers.

Bitcoin as everyday money

Block has consistently articulated a long-term view that bitcoin has the potential to function as everyday money - an open, global and permissionless monetary network that anyone can access. Bitcoin's design enables:

- direct, peer-to-peer payments without intermediaries;
- resilience against single points of failure; and
- global reach that is not constrained by national payment infrastructures.

However, Block also recognises that bitcoin's volatility and evolving infrastructure mean that widespread everyday usage will take time, education, and continued technical development. For this reason, Block views bitcoin not as a near-term replacement for existing payment systems, but as foundational infrastructure for a more open and inclusive financial system over the long term.

Stablecoins as a bridge between traditional payments and blockchain rails

In parallel, Block views stablecoins as a practical, near-term application of blockchain technology for payments. Stablecoins are designed to maintain a stable value relative to fiat currency (such as the U.S. dollar), while enabling:

- near-instant settlement;
- low transaction costs;
- programmability; and
- global interoperability.

As recently announced, in the US, Block's Cash App product will soon provide customers with the ability to send and receive stablecoins, allowing users to transfer digital dollars almost anywhere in seconds. This reflects Block's view that stablecoins can function as an improvement on legacy payment rails for certain use cases, particularly international transfers and peer-to-peer payments.

This framing is deliberate. Stablecoins are not positioned as speculative assets, but as a payments utility that can coexist with traditional bank-based systems and card networks.

Implications for Australia's payments system

From a policy perspective, blockchain-based payments raise several important considerations relevant to this Inquiry:

1. Competition and choice
Blockchain rails have the potential to introduce new competitive pressure into payments markets that are currently highly concentrated at the scheme and wallet layers. Properly regulated stablecoins and bitcoin-based payment solutions could expand choice for consumers and merchants, particularly in cross-border contexts.

2. Efficiency and cost reduction
Distributed ledger technology can reduce reliance on multiple intermediaries, lowering settlement costs and improving speed. These efficiencies are particularly relevant where traditional card or correspondent banking systems remain expensive or slow.

3. Interoperability with existing systems
Block's approach emphasises interoperability, not displacement. Stablecoins and bitcoin-based payments should integrate with existing wallets, merchant tools and compliance frameworks, allowing consumers and businesses to adopt them incrementally.

2(b) Account-to-account payments

Further expanding account-to-account based payments presents a critical opportunity to deliver a more open and efficient payment system for Australia. Central to this is providing more open access to the New Payments Platform (NPP), enabling more providers and more use cases that leverage its infrastructure.

Direct participation in the NPP is limited by two major barriers:

1. **Requirement for an ADI Licence:** To directly access the NPP, an entity must be an Authorised Deposit-taking Institution (ADI). This requirement poses a substantial barrier for non-incumbent fintechs and payment innovators, many of whom are not in the business of deposit-taking or traditional banking but still offer critical payment services. The NPP was designed to enable fast and efficient payments, a function that extends beyond the domain of banks.
2. **Requirement for an Exchange Settlement Account (ESA):** In addition to an ADI licence, entities must hold an ESA with the Reserve Bank of Australia (RBA). While ESA eligibility has broadened in recent years, in practice, access remains highly concentrated. Of the 100 current ESA holders, 92 are ADIs and only 8 are non-ADIs, highlighting the difficulty for non-traditional players to meet overly stringent governance, liquidity, and operational obligations attached to ESA access.

For entities that do obtain the necessary regulatory approvals, the physical infrastructure requirements for connecting to the NPP introduction can also add additional layers of cost, complexity, and delay. This includes high setup and maintenance costs, security and staffing requirements. Many of these costs are also relatively fixed in nature, making it disproportionately difficult for smaller providers to compete. Some opportunities to reduce the burden of on premises requirements include:

- Allow certified cloud-native or hybrid infrastructure models, which reduces setup costs and increases scalability without compromising compliance.
- Establish standardised "NPP-as-a-Service" platforms with utility-style pricing - lowers the barrier to entry by turning infrastructure into a plug-and-play service.
- Certify Managed Service Providers (MSPs) for infrastructure and operations - give smaller players access to expert support without building in-house teams.
- Provide compliance toolkits and audit templates for smaller entrants - speeds up onboarding and reduces regulatory complexity.
- Clarify and promote outsourced 24/7 support and disaster recovery as a compliant model - enables lean teams to meet uptime requirements without full internal staffing.
- Encourage shared operations hubs for smaller participants - cuts operational costs by pooling resources across multiple providers.
- Approve use of automation and cloud monitoring tools to reduce manual load - improves reliability and responsiveness with minimal human oversight.

2(c) Opportunities for Australia to increase competition and consumer choice, and decrease fees in the digital payment processing industry

Opportunities to increase competition and consumer choice in Australia's payments system do not lie primarily at the merchant-facing layer, where competition between merchant acquirers is already healthy. Instead, the most significant constraints on competition and fee outcomes sit upstream, at the scheme and payment initiation layers (particularly mobile wallets), where market power is concentrated and competitive forces are weak.

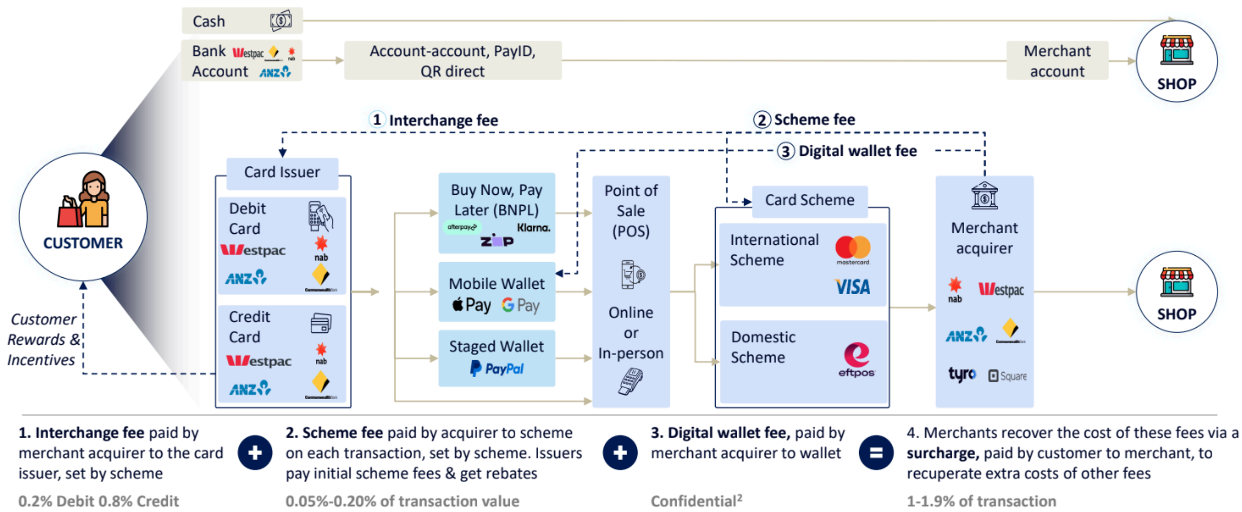
The Parliamentary Joint Committee on Corporations and Financial Services' report Mobile Payment and Digital Wallet Financial Services[9] found that while innovation in payments has accelerated, this has added another layer in the retail payments chain, with implications for competition, innovation and costs.

The Committee observed that Australia's mobile payments ecosystem has a small number of digital wallet providers, which together account for almost all point-of-sale mobile wallet transactions.

9 https://parlinfo.aph.gov.au/parlInfo/download/committees/reportjnt/024736/toc_pdf/MobilePaymentandDigitalWalletFinancialServices.pdf;fileType=application%2Fpdf

Appendix 1

Exhibit 2: Australia's retail payments system



Appendix 2