

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

Response to Questions on Notice

Question 1. When there are wholesale-fee reductions, such as those from least-cost routing or lower interchange, are there any legal or contractual obligations requiring payment facilitators like Block to pass the reductions on to end merchants, or is any pass-through entirely discretionary?

Reductions in average merchant service fees [recorded by the Reserve Bank of Australia \(RBA\)](#) have been driven largely by competition among payment service providers and acquirers, rather than any legal or contractual pass-through requirement.

The payments service provider (PSP) and merchant acquiring market is the most competitive in Australia's retail payments sector (see Figure 1). This competitive environment has been a key driver of merchant service fees declining over the past decade (see Figure 2).

Figure 1: Market Concentration in Retail Payments, 2025

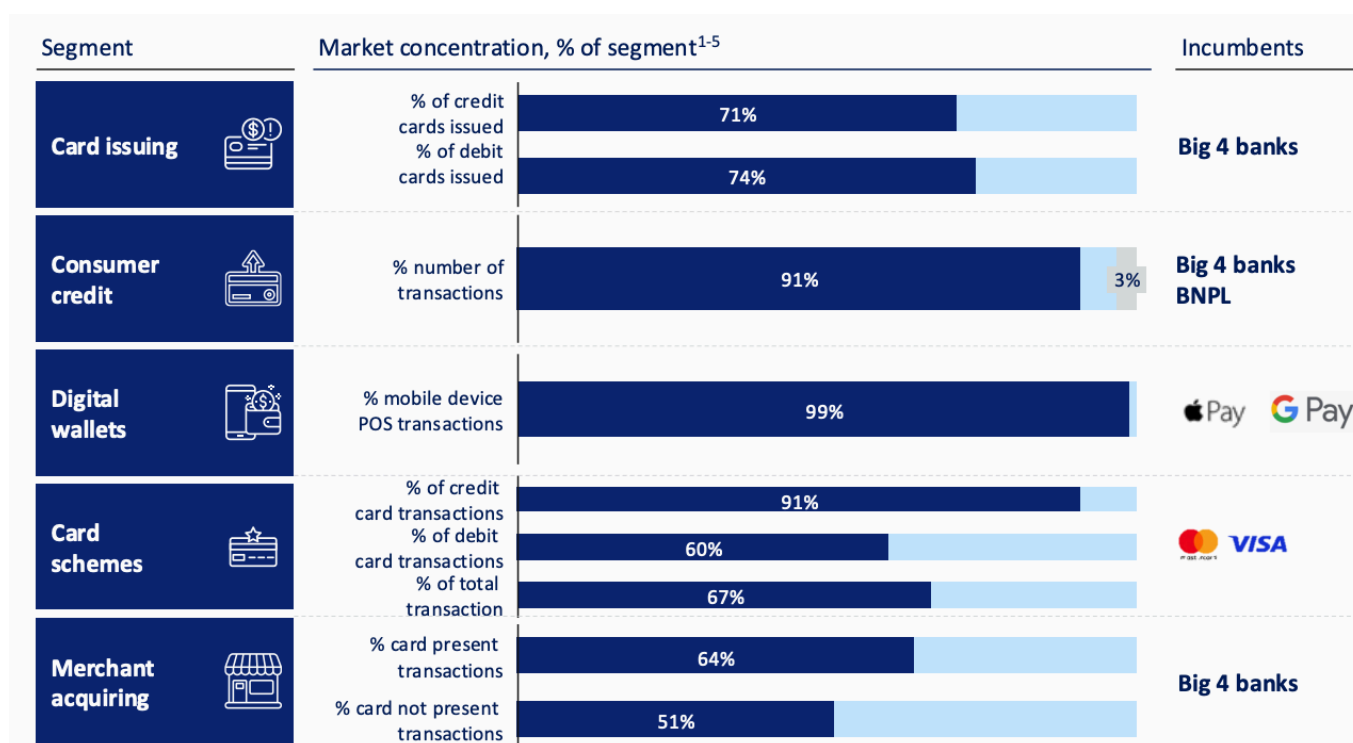
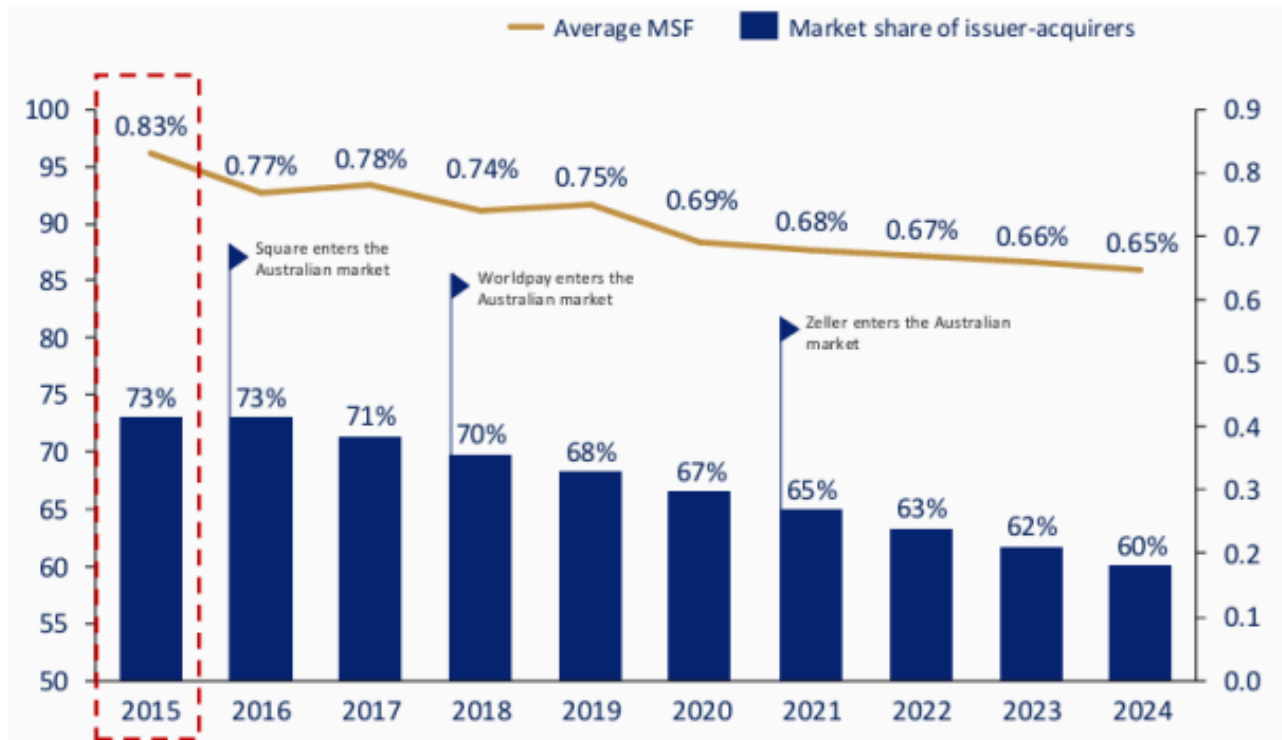


Figure 2: Price and Competition Changes as Fintech PSPs Enter Market, 2025



Source: [FinTech Australia and Small Business Association Submission to the RBA's Merchant Payment Costs and Surcharging Discussion Paper](#), 2025; Mandala Partners analysis.

Question 2. Can Block quantify what percentage of prior interchange and other wholesale-fee reductions it has passed on to its small-business merchants over the last five years? And if not, why is that information not available?

Regulated interchange caps have not materially changed over the past five years. [The Reserve Bank of Australia has also recently noted](#) that "scheme fees have risen over time, putting upward pressure on card payment costs for merchants."

In addition, [the significant rise](#) of payments made via digital cards over the past five years has added a further cost layer for many in-person transactions. Notably, Square incurs higher fees for digital card transactions regardless of whether the wallet provider charges fees to the issuer.

Despite these cost pressures, Square began offering a new headline rate for merchants of 1.6 per cent (down from 1.9 per cent) in 2024. This was built upon a previous rate reduction for some specific hardware types, which commenced in 2019. As outlined in the response to Question 1, this is part of a broader observation by the [RBA that merchant service fees are declining](#), in part due to increasing competition and the rollout of least-cost routing.

Question 3. Does Block support an Australian small-business interchange program similar to Canada's, under which the schemes would lower interchange for qualifying small merchants and acquirers would be required to pass those reductions on to end merchants?

Block supports the objective of reducing the comparatively higher interchange costs faced by smaller businesses.

Any program would need careful design to ensure savings flow through to small merchants in practice. This includes avoiding outcomes seen in the Canada program and broader interchange reform in the [European Union](#), where interchange reductions have been offset by higher scheme fees. This concern may be compounded by the growth of fixed, per-merchant scheme fees, such as location or participation fees, which disproportionately impact small and micro businesses.

Question 4. Chemist Warehouse announced a QR code consumer payment method at the POS recently. Have you looked at rolling that function out to your POS software?

Square is focused on helping small businesses never miss a sale by supporting the payment methods their customers choose. This includes supporting QR code payment options where there is consumer demand. For example, Square supports QR code payments via PayPay in Japan, and via Cash App in the United States. Square also allows its Point of Sale software to be used for QR code payments by merchants in Australia who use their own payment provider (see Question 5).

While QR code payments have been growing, they remain a very small share of Australian payments given the highly developed card-based payment system. This, combined with the significant operational challenge of introducing a new payment rail, means it is not something that Square has directly offered at this stage. The significant challenge in doing so is illustrated by ShopBack's (powering Chemist Warehouse's solution) [recent decision to close its in-person QR payments](#) offering, citing limited consumer adoption.

To better support QR code payment methods, Block has previously put forward the following regulatory options via relevant government consultations:

- a. **Lower barriers to entry for fintechs to access the New Payments Platform (NPP):** non-banks cannot access the NPP on the same basis as banks. In addition, requirements to hold an Exchange Settlement Account (ESA) and meet related infrastructure obligations also create barriers for NPP take-up by fintechs.
- b. **If a partial surcharge ban is enacted, it should be technology-neutral rather than debit-only:** A debit surcharge ban would mean the surcharging framework could no longer accommodate circumstances where Account to Account transactions offer a lower-cost alternative to debit. This would lead to situations where the lowest cost form of payment (A2A) incurs a surcharge, while a more expensive form (debit card) does not. In these situations, customers would be incentivised to use debit (as this could not be surcharged) even if this method was more expensive for the merchant.

Question 5. Are new payment providers, particularly those with low costs to merchants and consumers, prohibited from accessing your point of sale software? What steps do they need to take to incorporate their payments into your POS?

No. Square offers Point of Sale (POS) software without integrated payments functionality to small businesses for free. Small businesses can use this POS software with free or low-cost payment methods utilising New Payments Platform infrastructure.

However, integrating a new payment method directly into an in-person POS environment requires meeting security, compliance, operational resilience and customer support requirements to protect merchants and consumers. As a result, providers like Square must see sufficient merchant and consumer demand for new payment methods before making the considerable investment that would be needed to integrate them directly.

Further details, and potential regulatory reforms to lower barriers for non-banks to provide these services, are outlined in Question 4.

Question 6. The Committee heard evidence from Block on being barred by eftpos from using the eftpos scheme when they initially launched in Australia in 2016. Please explain the circumstances of that process.

When Square was looking to launch in Australia, it needed to partner with an acquiring bank to connect to the Visa, Mastercard and eftpos networks. At the time, direct access to these schemes required Authorised Deposit-Taking Institution (ADI) status or sponsorship by an ADI. As a non-bank entrant, Square therefore relied on a bank partner.

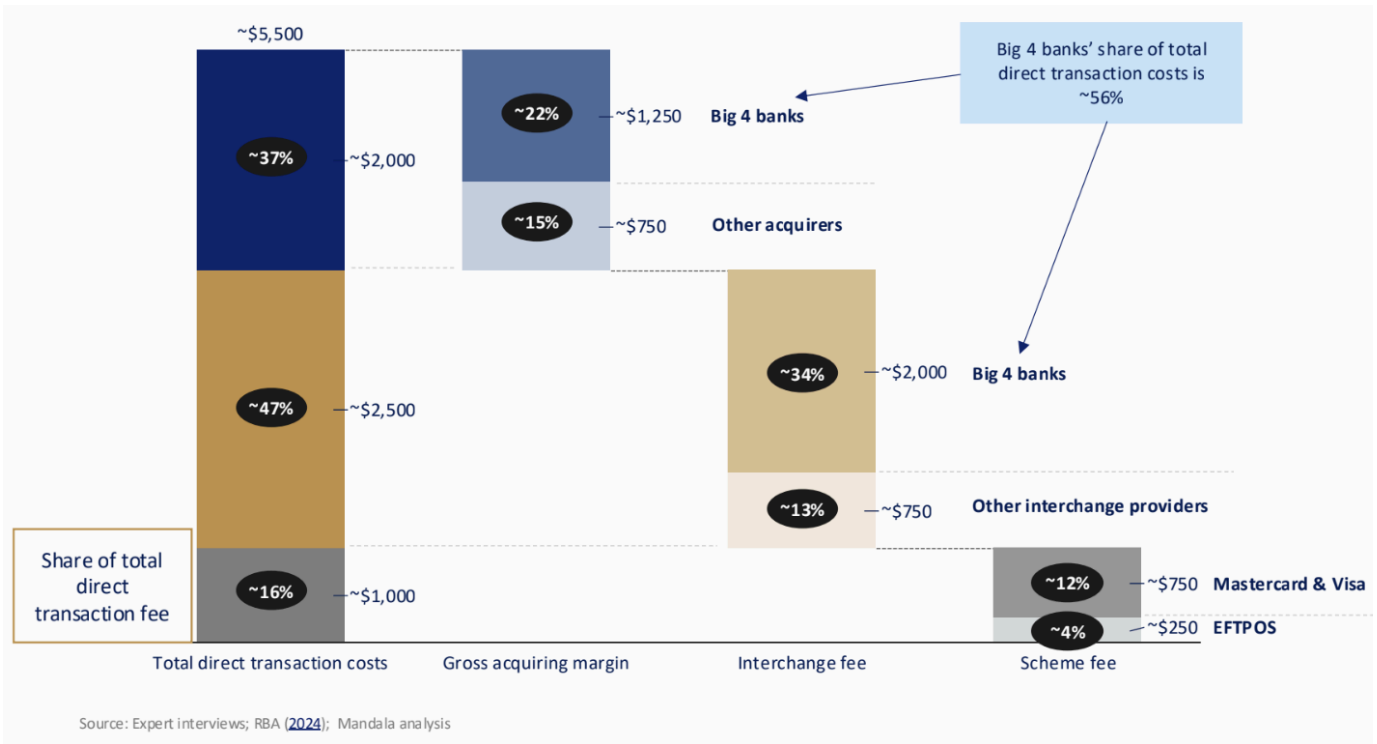
Square initially partnered with one of Australia's major banks to be its acquiring bank partner in 2013. However, following contract execution, project milestones were significantly delayed. Square formed the view that the bank was not progressing implementation on a timely basis, due in part to it prioritising its competing offering. As a result, the partnership was terminated in late 2014, with Square subsequently engaging a different provider in 2015.

During implementation, the same bank raised objections to Square's new innovation, which allowed small businesses to accept customers entering their PIN on their own mobile device (referred to as 'PIN on Glass' technology). The bank requested the self-regulatory authority, the Australian Payments Clearing Association (APCA, now AusPayNet), to deny Square accreditation to operate because it used this technology. This required Square to seek waivers from the card networks to operate, which the bank again sought to prevent from being provided.

The bank's conduct extended beyond regulatory channels. It publicly claimed its security had been compromised and began blocking acceptance of its cards at Square terminals, only withdrawing these actions after requests from Square.

Finally, at the time of Square's launch in 2016, APCA's arrangements resulted in Square being unable to access the eftpos scheme. Square's view was that this outcome was not driven by objective technical or security requirements. Square was subsequently permitted to use the eftpos network in 2019.

Figure 3: Breakdown of Direct Transaction Cost by Type and Market Participant (\$M), 2024



Source: [FinTech Australia and Small Business Association Submission to the RBA's Merchant Payment Costs and Surcharging Discussion Paper, 2025](#); Mandala Partners analysis.