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

January 2026

Westpac Submission

Overview

Westpac welcomes the opportunity to make a submission to the House of Representatives Standing Committee on Economics' inquiry into schemes, digital wallets, and innovation in the payments sector.

As one of Australia's largest financial institutions, Westpac plays a significant role across the payments ecosystem, including issuing, acquiring, settlement, fraud prevention and ongoing investment in payments infrastructure. We therefore have a strong interest in ensuring Australia's payments system remains safe, efficient, competitive and capable of ongoing innovation, while delivering fair outcomes for consumers and businesses.

Australia's payments ecosystem has changed significantly over the past decade. Card and digital payments are now the dominant method for everyday transactions, including low-value purchases that were historically cash-based. Digital wallets have accelerated this shift, while the phased withdrawal of cheques and the future retirement of legacy clearing systems are reshaping the payments landscape.

This submission draws on our role as a major payment's ecosystem participant with a focus on:

- The growth and influence of digital wallets;
- The role and conduct of payment schemes;
- Investment in Australia's payments infrastructure;
- Least cost routing; and
- Digital currency-backed cards.

Digital wallets and three-party schemes

Recommendation - Digital wallets and third-party schemes should be regulated on a level playing field as other participants in the payment system

As the payments ecosystem has evolved, certain participants, including digital wallet providers and three-party card schemes such as American Express have come to play a significant role in retail payments, despite operating largely outside the traditional regulatory perimeter that applies to other payment system participants.

Digital wallets sit at a critical point in the transaction flow, influencing consumer choice, merchant routing outcomes and access to payment rails. Similarly, three-party schemes perform scheme, issuing and acquiring functions within a single commercial model, yet have historically not been subject to the same regulatory obligations as four-party card schemes.

This regulatory asymmetry has persisted for too long. As these providers have scaled, their influence on costs, competition and merchant outcomes has increased without a commensurate extension of regulatory oversight.

The passage of reforms to the Payment Systems (Regulation) Act is therefore a critical and welcome step in modernising Australia's payments regulatory framework.

These reforms will help ensure that:

- All materially significant payment system participants are captured within the regulatory perimeter;
- Regulatory obligations are applied more consistently across comparable activities; and
- Competition and innovation occur on a more level playing field.

Westpac notes the Reserve Bank of Australia's (RBA) announcement that it will review its powers to regulate digital wallet providers and other currently under-regulated payment system participants. We strongly support this work and view it as a necessary next step in ensuring Australia's payments regulatory framework remains fit for purpose. Clarifying the scope and application of regulatory powers will be essential to promoting a level competitive playing field, transparency and system integrity.

Scheme fees

Recommendation - Acquiring scheme fees should be simplified and billed in AUD

Simplification of scheme fees

Scheme fees are a significant and growing component of merchant payment costs in Australia. Unlike interchange fees, which are subject to regulatory benchmarks, scheme fees are largely unregulated and have expanded materially in both number and complexity over time.

Each of the major international card schemes now maintains hundreds of individual scheme fee categories, with some schemes charging more than 400 separate fees across issuing, acquiring, processing, risk management and network participation activities. These fees are frequently amended, renamed or expanded, often with limited transparency regarding their cost basis, purpose or value to merchants and consumers.

The proliferation of acquiring scheme fees has become a material source of inefficiency across the payments ecosystem. A particular concern is that new acquiring scheme fee categories are routinely introduced without participants having the ability to opt out, even where the acquiring fee relates to services that may not be relevant to all use cases.

Examples of acquiring scheme fee practices that raise concern include:

- The introduction of new compliance, security or processing-related fees without a clear articulation of incremental value;
- Fees that apply uniformly across participants regardless of usage, transaction profile or risk exposure; and
- Limited or no consultation with acquirers prior to implementation.

Once introduced, these acquiring fees are embedded into merchant service charges and are difficult for merchants to identify, understand or challenge. Over time, this contributes to upward pressure on merchant payment costs, with limited competitive control.

One way to achieve better merchant outcomes is through the simplification of acquiring scheme fees structures. This will enhance transparency, improve comparability between payment service providers and strengthen competitive pressures across the acquiring market.

Foreign currency billing

In addition, many scheme fees are billed in foreign currency, typically USD, exposing Australian issuers and acquirers to:

- Foreign exchange volatility;
- Additional hedging and treasury costs; and
- Operational complexity in forecasting and managing fee impacts.

These costs ultimately flow through the payments system and are borne by merchants and consumers. Billing scheme fees in AUD, or introducing mechanisms to mitigate foreign exchange volatility, would materially improve cost stability and transparency.

Payments infrastructure

Recommendation – Cost of maintaining the payments infrastructure should be shared across all participants.

Australia's payment system relies on significant and ongoing investment by banks to remain secure, resilient, and capable of supporting innovation. Banks have invested heavily in the development and operation of infrastructure such as the New Payments Platform (over $2 billion), PayTo, and the Consumer Data Right (over $1.5 billion). These investments extend beyond the initial build costs and includes ongoing maintenance, cybersecurity, and continuous enhancements.

As the payments ecosystem becomes more open, an increasing number of international and non-bank participants are leveraging these rails to deliver payment services to Australian consumers and businesses. It is therefore critical that the costs of maintaining and evolving these systems are shared equitably across all participants who benefit from them. If banks are required to disproportionately shoulder the infrastructure costs, this will ultimately reduce the capacity to invest in new technologies and services to the detriment of the broader ecosystem. Ensuring fair contribution arrangements will support sustainable innovation, system stability, and long-term efficiency in Australia's payments ecosystem.

Least cost routing (LCR)

Recommendation - LCR is operating effectively and there is no need for further regulatory intervention. The mandating of LCR would result in higher merchant payment costs.

Least cost routing (LCR) has been an important reform in Australia's payments system and is functioning effectively in the current environment. When enabled appropriately, LCR allows debit transactions to be routed via the lowest cost network available (either through eftpos or international card scheme rails), delivering tangible cost savings for many merchants.

The effectiveness of LCR depends on transaction characteristics, such as transaction volumes and size, the mix of domestic and international cards, the pricing of domestic versus international networks, and that type of pricing plan the merchant uses. As a result, LCR through the domestic network is not always the most beneficial for the merchant.

It is also worth noting that while LCR can deliver meaningful savings, under the current system its benefits are often diluted where merchants are on a single blended pricing arrangement. Although single blended pricing provides simplicity and certainty for merchants, it can obscure underlying routing efficiencies and reduce the price signals that LCR is designed to create. That is why Westpac supported a ban on debit-only surcharging as part of its submission to the RBA Review of Merchant payment costs and surcharging.[1] A ban on debit-only would allow the cost benefits of LCR on debit transactions to flow directly to merchants and ensures the right price signals are sent to the consumer.

Westpac's approach to LCR is to assist every merchant customer to identify whether it will be cheaper to route through eftpos or international card schemes rails. This assessment is regularly maintained, and merchants are enabled for eftpos-routing if it will reduce their transaction costs.

This assessment considers factors like transaction volume, average value, and card types used. At times, routing through the domestic card network, eftpos, may be more cost-

[1] Westpac submission, RBA Review of Merchant Payment Costs and Surcharging, Issues Paper, December 2024 - Submissions on Review of Retail Payments Regulation – January 2025 | RBA.

effective for the merchant, while at other times, routing transactions through international card networks might be the better option for some merchants.

Our priority is to maintain pricing and cost efficiency for our customers. Since LCR through eftpos isn't always the most economical choice, we evaluate each case individually during onboarding, enabling LCR only when it provides a clear benefit to the customer.

We regularly review our existing portfolio and, where it is highly likely that a merchant would benefit, we auto-enable LCR with an option to opt out. Most of Westpac's merchant customers have LCR enabled. However, around 25 per cent of those customers we have identified will not benefit from LCR. The remaining 5 per cent includes institutional clients who have been directly involved in our calculations and are able to make their own determinations.

A policy of enabling LCR for all merchants would result in some of Westpac's merchants (circa 25 per cent) paying higher merchant fees. Westpac's view is the more appropriate process is to individually assess the financial benefit (or otherwise) of LCR enablement for merchants.

Digital currencies

Recommendation – Digital currency-backed debit and credit cards should be captured within the regulatory framework.

The payments ecosystem has seen the emergence of card-based payment products backed by digital currencies, including debit and credit cards that enable consumers to fund transactions using digital asset holdings or credit secured against those assets. While these products may increase consumer choice and convenience, they introduce new risks into the payment system, particularly where they replicate functionality of traditional card products without being subject to equivalent regulatory obligations and security measures.

It is essential that digital-currency backed payment products are captured within the regulatory framework, including appropriate Anti-Money Laundering/Counter-Terrorism Financing requirements, consumer protection safeguards, and disclosure obligations. Consistent regulations across functionally equivalent payment products are critical to preventing regulatory arbitrage, protecting consumers, and maintaining confidence in the payments ecosystem, while still allowing innovation in the digital payment models.

Conclusion

Australia has one of the world's most advanced payments systems. Maintaining this position requires balanced policy settings that promote transparency and competition while sustaining investment, innovation and system resilience.

As a major participant in the payments ecosystem, Westpac supports reforms that reduce costs, strengthen competition and ensure all participants are subject to adequate regulation on a level playing field with other providers. Specifically:

- Ensuring the regulatory framework captures digital wallets, three-party schemes, and digital currency-backed debit and credit cards;
- Simplifying and making more transparent acquiring scheme fees, billed in Australian dollars;
- Requiring all participants in the ecosystem to contribute to the cost of maintaining the payment rails and infrastructure; and
- No further regulatory intervention in LCR, given it is operating effectively.