



Submission to Strategic Plan for the Payments System

Block, Inc.

January 2023

Executive Summary

Thank you for the opportunity to provide feedback on the Strategic Plan for the Payments System - consultation paper.

Australia has a highly respected regulatory regime for payments and financial services more broadly. Australian regulators have effectively implemented globally leading infrastructure and policy settings to improve access and reduce costs within the traditional payment systems. The existing regulatory framework was, however, designed for a different time.

Accordingly, Block welcomes the opportunity to update Australia's overarching regulatory strategy for payments to ensure it is best able to accommodate the digital age. Central to this should be a more coordinated and holistic approach to regulatory settings that support innovation, create business certainty, protect consumers and drive competition. Details on specific consultation questions are outlined below:

Consultation Questions

1. What are your views on the proposed key principles? Are there other principles that should be included? Please provide an explanation.

Block supports the proposed four principles outlined in the consultation paper. They set a clear and comprehensive foundation for the Strategic Plan and resulting regulatory priorities, while remaining adaptable to the inevitable changes to the sector. Below outlines suggestions to further support and build on these principles:

Expand the Innovation Principle to reflect Australia's industry policy goals

Block particularly welcomes the inclusion of Innovation as a key principle in the Strategic Plan. As the consultation paper notes, payments innovation can enhance the payment experience for all parties. However, payments innovation is also critical to a thriving financial services sector and increasingly drives innovation in many other sectors. The Innovation Principle should further reflect this impact by explicitly recognising the broader economic benefits of being at the forefront of payments technology and innovation.

The Australian Government has a goal of employing 1.2 million in tech-related jobs and a \$250bn GDP contribution by 2030¹. Payments technology or 'PayTech' is one of the top five tech segments in Australia that will help achieve this objective and an area where we already have a comparative advantage globally². Australia has a disproportionate share of global PayTech startups (2.6%) relative to our contribution to global GDP (1.6%). FinTech more broadly is one of the top three areas for

¹ Australian Government, [Mapping out Australia's path to tech jobs future](#), 2022

² Tech Council of Australia, [Turning Australia into a Regional Tech Hub](#), 2022

venture capital funding in Australia and is an area where we attract comparatively more investment than global peers³.

Australia's comparative advantage in PayTech is driven by our sophisticated financial services sector, strong and stable regulatory environment, as well as a digitally savvy population. To build on this success, our regulatory environment must actively encourage innovation and competition. As the Tech Council of Australia notes, the continued success of PayTech is *"dependent on a regulatory environment which is proportionate and predictable for investors, innovators and consumers; interoperable with other jurisdictions"*. In recognition of this, the Strategic Plan should reflect the Australian Government's broader ambitions for the PayTech sector and innovators that rely upon it.

There is important precedent for having clear Government and regulatory support for global leadership in payments innovation. For example, Singapore's central bank and key financial regulator, The Monetary Authority of Singapore ("MAS"), has the explicit mission 'to develop Singapore as an international financial centre'⁴. This objective has helped drive the organisation's focus on promoting innovation and Singapore's advancement as a global financial hub and sent a welcoming message to innovators. MAS's initial efforts created significant goodwill, attention and investment internationally.

2. What are your views on the proposed key priorities? Do they provide enough certainty on what the key priorities are for the Government? Are there other matters that should be included? Please provide an explanation.

Ensuring the regulatory framework is fit-for-purpose and promotes competition

The consultation paper states that the payments system *"should promote competition by making it easier for payment service providers to get access to payments infrastructure"*. Block supports this priority and welcomes Treasury's focus on driving greater competition in the payments ecosystem. However, the Strategic Plan presents an important opportunity to go broader and be more explicit in supporting greater competition more generally.

As the payments industry grows more complex and intertwined with other functions, so too does the ability to assess issues related to competition. As outlined in the ACCC review and subsequent Treasury consultation notes, major tech platforms are increasingly acting as financial services 'gateways' which a majority of consumers and businesses must now engage with. This has raised a number of competition issues that are far broader and being considered by Government well beyond payments or financial services policy alone⁵. In recognition of this, the Plan's priority should be to not just encourage competition within the payments system itself - but to promote competition more generally and align with the Government's broader objectives.

Broadening scope of the Strategic Plan's competition priorities will also assist in recognising the broader benefits of payments innovation. The benefits associated with payments innovation are

³ Tech Council of Australia, [Turning Australia into a Regional Tech Hub](#), 2022

⁴ Monetary Authority of Singapore, [what we do](#), 2022

⁵ ACCC, [Digital platform services inquiry 2020-25](#), 2022

often much broader than the traditional payment system itself. For example, Buy Now Pay Later (BNPL) has delivered significant competition benefits in consumer credit by offering differentiated and lower cost alternatives to traditional credit cards⁶. However, these benefits have not been fully recognised in the development of payments policy as they fall outside of the narrow metrics within which payments regulators have traditionally assessed the sector's performance. Having the Treasury take a broader and more holistic view of competition in payments policy will be an important step in addressing this issue.

To assist in efforts to encourage innovation more broadly, Treasury should also proactively assess and monitor expected competition impacts of new regulation prior to their introduction. Regulation of payments is highly interventionist when compared to many other sectors. Regulatory requirements including pricing controls and restrictions on business to business contracts have far ranging impacts on traditional market forces and the competitive landscape. An unintended consequence of this is that payments regulation can be highly distortionary and hinder competition, rather than improving service offerings for end users. The Government must be highly attuned to this and ensure that any new regulation in the payments sector does not have the unintended consequences of reducing competition and resulting consumer experience.

Developing Australia as an international financial centre

As outlined in question 1, PayTech represents a core part of the Australian Government's tech industry employment and economic goals⁷. For our payments sector to be industry-leading, it requires a regulatory regime that explicitly supports the Government's industry and economic goals for the tech sector.

The Strategic Plan should include a priority to develop Australia as a global leader in payments and financial technology. An explicit priority for Australia to be a global leader in payments will instil confidence, attract investment and refine both industry and government focus towards this objective. The previously mentioned Monetary Authority of Singapore's efforts in this regard present a best-practice guide to draw from.

Ensuring alignment with the broader digital economy transformation

Block supports the proposed Strategic Plan's priorities of having a payment system that is open and transparent, as well as cost-effective and time-efficient. Crypto-assets have the potential to help contribute towards these priorities as an everyday tool that allows people to easily and equitably transact in their daily lives. Block has chosen to focus on bitcoin in particular as a potential global native currency for the digital world due to its open standard, low cost, accessibility and transparency.

⁶ An [Accenture report](#) commissioned by Afterpay found that Afterpay customers in 2020 saved more than \$110m in fees and charges when compared to credit cards. An [Oxford Economics Report](#) commissioned by AFIA found in 2022 found BNPL users in Australia gained \$264 million in gross benefits from using BNPL services in FY21, driven by savings in interest and fee costs (relative to credit cards) surcharge savings and the benefits to consumers of delaying payment, and allowing for more effective budgeting.

⁷ Australian Government, [Mapping out Australia's path to tech jobs future](#), 2022 and Tech Council of Australia, [Turning Australia into a Regional Tech Hub](#), 2022

For Australia's payments system to be aligned with broader digital transformation it must adequately incorporate crypto-assets (or digital assets) as a meaningful form of payment. The Strategic Plan and subsequent reforms should have due regard for the potential of developing payment systems like the Bitcoin network to create a low-cost, transparent and speedy payment system that allows people to easily and equitably transact in their daily lives. This will require close coordination with digital assets licensing efforts expected to be undertaken in 2023 and beyond.

- 3. What are your views on the proposed key supporting initiatives? Are there other initiatives that could be included in the Plan? Please provide an explanation.**
- 4. Do you have any feedback on the proposed approach for any of the initiatives (as outlined in Attachment B)? Please provide an explanation.**
- 5. What are the key milestones for particular key initiatives that you would like to see included in the Plan? Are there any conflicts between milestones or pressure points that need to be taken into account in revising the roadmap?**

Key Priority: Ensure regulatory framework is fit for purpose and promotes competition

Enable greater collaboration between payments regulators

The Consultation paper notes that there are many regulators that oversee specific elements of the payments system. The Reserve Bank of Australia (RBA), Australian Securities and Investments Commission (ASIC), Australian Prudential Regulation Authority (APRA), Australian Competition and Consumer Commission (ACCC) and AUSTRAC all play an important role in payments regulation.

There are inherent challenges associated with Australia's somewhat fragmented payments regulatory system. Emerging policy areas are at risk of falling between the cracks or being dealt with in a piecemeal manner. In addition, regulators with narrowly defined remits risk implementing policies that achieve their specific objectives without sufficiently considering broader impacts. For such a regulatory environment to work effectively, a central coordinating role is therefore essential.

Block believes that the Treasury and the Treasurer are best positioned to take on leadership of the payments system. The regulatory architecture for the payments system would benefit from greater Treasury oversight in several ways. As a central policy agency, Treasury is expected to anticipate and analyse policy issues with a whole-of-economy perspective, understand government and stakeholder circumstances, consumer interests and respond rapidly to changing events and directions. This approach builds on the decisions to move responsibility for oversight of the Consumer Data Right (CDR) regime from the Australian Competition and Consumer Commission (ACCC) to the Treasury, and remains broadly consistent with the recommendations of the Payments System Review.

Implement changes to PSRA, including a Ministerial designation power

The Consultation Paper proposes to introduce a Ministerial designation power as part of a broader payments licensing framework. In line with a broader strategic role for the Treasury in payments policy, it logically follows that the relevant Minister (i.e. the Treasurer or delegate) should be formally empowered to designate payment systems.

Importantly, the power to designate a payment system should solely sit with the responsible Minister. Expanding the definition of payment system while maintaining the RBA's parallel powers to designate payments system risks blurring accountabilities. For example, the RBA has considered the issue of BNPL surcharging in the narrow context of its existing jurisdiction, including its previous work on credit cards. While the RBA's proposals are well-intentioned, they are in pursuit of achieving a narrow set of objectives without sufficient consideration to broader impacts. This includes substantially enhancing competition and lowering borrowing costs in consumer credit markets, as well as economic growth and job creation in the tech sector. A designation power unique to the Minister, combined with a holistic strategic role for Treasury will provide an important mechanism for ensuring that policy settings are appropriately calibrated.

Empowering the responsible Minister with designation powers alone is consistent with similar payments regulatory regimes globally. In the UK, the Government is responsible for “designating” a payment system, which then brings it into the scope of the UK Payment System Regulator (PSR). The UK approach allows the government to focus the regulator's attention where it is required and provides flexibility to bring emerging payment systems into scope. However, the PSR cannot unilaterally decide to regulate a non-designated payment system. New Zealand has recently moved to a similar model, where the relevant Minister holds the responsibility to designate new payment systems (called ‘retail payment networks’).

Introduce a tiered payments licensing framework for payment service providers

The current payments regulatory framework is based on historical concepts of payment products and payment services. The rapid rise of mobile wallets and e-commerce platforms in particular mean this framework is no longer fit for purpose. In any new licensing framework, Block supports the consultation paper's approach to be agnostic to the technology, business model or the store of value utilised.

As payments is an increasingly complex area with far-reaching impacts, reforms need to be approached carefully and with a clear rationale. While the concept of basing regulation on a clear list of activities seems logical, the objective of this regulation in each case first needs to be assessed. Regulatory interventions in payments have historically applied to a very narrow cohort of companies and functions for good reason - the market dynamics have been highly concentrated and the enforcement tools used to address them are highly interventionist.

Any expansion of payments licensing and associated obligations needs to be done with caution and with an evidence-based justification. Consistent with historic payments regulation, the focus should be narrow and only in circumstances where there is genuine lack of competition and ‘must take’

scenarios for businesses and consumers. This is consistent with UK and EU approaches to similar reforms and those related to digital platforms - where 'gatekeeper' platforms are specifically targeted when they are deemed to be unavoidable business partners.

Prior to any changes to the PSRA, a comprehensive cost-benefit analysis of regulatory obligations for an expanded set of payments services should be undertaken. The market dynamics in the broader payments ecosystem are fundamentally different from those in the traditional payments system and associated card schemes. The BNPL sector for example, is highly competitive, with significant price and product differentiation, with transparent pricing for businesses. Applying regulatory obligations to BNPL that were designed for the concentrated international card market has the very real potential to increase prices for consumers and reduce competition, while failing to meaningfully achieve intended policy objectives. A review, led by the Treasury, would holistically assess potential impacts of new obligations in an evidence-based and broad-ranging way to ensure wider impacts are assessed before expanding regulatory powers.

Promote competition by facilitating proportionate, objective, and transparent access to payment systems

Block supports the consultation paper's proposal to establish more transparent access to payment systems. Inadequate access to payment systems has been a longstanding issue within the Australian payments industry and can act as a means to slow or prevent the entry of potential competitors. A model where an enhanced payments licence could provide access to national payment systems, subject to meeting appropriate operational and financial resilience standards, should be a basic principle of the new framework.

Block also supports an integrated payments licensing framework that provides a pathway between a payment facilitation service, a stored-value provider and an authorised deposit-taking institution (ADI). In such an environment, innovative business models will be better able to compete due to greater flexibility to shift as markets and business priorities change.

Reduce small business transaction costs, by supporting the availability of least-cost routing

Least-cost routing (LCR) has the potential to deliver benefits across the payments ecosystem. These benefits will continue to help foster greater competition in both card schemes and the merchant acquirers. This trend will be further supported by the Consumer Data Right and more transparent access requirements to critical financial infrastructure under payments licensing reform.

As an acquirer, Square (part of Block, Inc.) has enabled and activated LCR across its entire merchant base via its simple or blended pricing model. This model has been established in response to our small business customers' need for simplicity, consolidated reporting and settlement, easy-to-use software and bundled services. By implementing LCR, Square achieves economies of scale on behalf of a larger portion of small businesses, which improves our overall pricing to merchants.

As noted in the consultation paper, LCR activation and enablement by acquirers has been slower than expected. Operational difficulty, reluctance by some industry participants, combined with new

technical challenges have all seen LCR take up fall behind schedule. With this in mind, Block supports the Strategic Plan's dedicated focus on implementing LCR and expanding it to mobile wallet transactions (tap to pay) under this priority.

Key Priority: Alignment with the broader digital economy transformation

Ensure the payments system is aligned with developments in the broader data ecosystem such as the Consumer Data Right (CDR) framework

The CDR represents a significant opportunity to empower consumers to access their data and make informed decisions. As an emerging piece of Australia's digital infrastructure, it can improve a consumer's ability to compare and switch between products and services, encourage competition and drive innovation.

Delivering these potential benefits and outcomes requires significant work, stakeholder engagement, and regulatory design, including driving consumer use and functionality through initiatives like the implementation of third party action initiation. Action initiation is an important next step for the CDR regulatory framework, as it has the potential to expand the CDR across the economy, including in the existing designations in the banking, finance, telecommunications and energy sectors, and grow the opportunities and use cases for consumers to leverage their data for their benefit.

As noted in the Consultation Paper, recent inquiries into the future of the CDR and the implementation of action initiation have proposed that payments are to be the first action to be introduced in the CDR. Block supports this move, which would enable consumers and businesses to authorise, manage and facilitate payments securely via the CDR. Importantly, payments initiation has the potential to enhance, utilise and build on existing developments in the payments landscape, such as the New Payments Platform and PayTo, which provides a digital way for merchants to initiate real-time payments from customer bank accounts. To date, these reforms have been underutilised by consumers and businesses. Enhanced interaction and interoperability between the CDR and payments systems reform can help drive engagement and policy alignment and will be key to their long-term success.

Key Priority: Promote a safe and resilient payments system

Provide a roadmap for mandating the ePayments Code as part of the new licensing framework, including proposed timing for consultation.

Block supports mandating the ePayments Code for all payments licensees and that the licensing framework should facilitate transparent access to payments. We support the proposal to create a roadmap for mandating the ePayments Code as part of the new licensing framework, including proposed timing for consultation.

***6. What are your views on the proposed review process and engagement arrangements?
Please provide an explanation.***

7. Are there any other sections or topics that you would like to see added to the Plan? Please provide an explanation.

At a high level the proposed timelines and consultation processes outlined in the paper appear comprehensive and consistent with best-practice.

In developing a consultation framework it should be noted that the payments landscape contains a multitude of views and competing interests. For this reason developing an ‘industry view’ on major policy issues is very difficult, if not impossible. To address this, the Treasury should allow for ongoing feedback to the Strategic Plan from individual organisations directly. This will help ensure smaller players and the diversity of views in the sector can be fully and continually be taken into account in the development of the Strategic Plan.