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Productivity Commission
Commissioner Barry Sterland
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Deputy Chair, Alex Robson
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Mastercard Policy Submission: Productivity Commission on Productivity Reform Priorities

Dear Secretariat

We welcome the opportunity to contribute to the Productivity Commission's (PC) consultation on Australia's productivity reform priorities, with particular focus on policy pillars '*creating a more dynamic and resilient economy*' and '*harnessing data and digital technology*'.

Mastercard is at the core of facilitating global commerce, by providing a trusted and secure payments network that enables individuals, financial institutions, governments, and businesses to move money and make transactions worldwide.

Retail payment systems more broadly represent critical economic infrastructure that underpins every business transaction in Australia's economy. Like telecommunications or transportation networks, the efficiency of payment system operations and regulation has the potential to either accelerate or constrain productivity goals across all sectors in the economy. With Australia's retail payment system currently undergoing its largest wholesale regulatory reform in over two decades, the design and successful implementation of these regulatory changes will be crucial to the success of Australia's productivity reform outcomes.

Our submission highlights the material role regulatory reform can play in the Government's productivity reform agenda. We also outline the substantial value already being delivered by retail payment systems, and potential unintended consequences presented by the current retail payment system reform agenda.

A few of our key messages include:

- Australian retail payment systems deliver strong productivity benefits to merchants today, saving 46 million labour hours annually, providing over 50% cost efficiency advantages compared to cash transactions

- Digital payment adoption correlates with measurable GDP growth, with research showing 0.10 percentage point increases in per capita GDP growth for each percentage point increase in digital payment usage

- Australia's payment system reforms offer substantial productivity opportunities but risks stifling growth through poor regulatory design, duplication, or frameworks that fail to ensure a level playing field, potentially triggering market failures.

- Regulatory approaches focused on driving value and innovation can maximize productivity benefits, whilst policy objectives that solely focus on minimizing costs, risk undermining long-term economic and productivity gains

- Ensuring regulation is harmonized and interoperable, both domestically and internationally, is fundamental to mass adoption of key productivity growth enablers, such as digital payments

- Fostering greater financial inclusion and accessibility, through modern and well-regulated payment systems including open banking and fintech, can unlock positive productivity growth, by enabling broader participation in the economy.

Value of Australia's Retail Payments System

Retail payment systems are an integral part of Australia's modern economy, facilitating transactions between customers and merchants and used by almost every Australian each day. In 2024, Australians held almost 63 million debit and credit cards, supporting over 1.6 billion transactions per month[1]. The Government's Strategic Plan for Australia's Payments System recognizes that "an effective payments system can help drive economic growth" and that "even relatively small inefficiencies can have significant implications for the broader economy."[2]

Australia's retail payment system already delivers substantial value to merchants and consumers, far in excess of costs. Research by the Boston Consulting Group found that electronic payments cost businesses an average of 1.8 per cent per transaction, compared to 3.9 per cent for cash, delivering a more than a 50 per cent efficiency advantage for the average small business[3]. The economic value created extends well beyond these direct cost savings. Deloitte Access Economics quantifies that electronic payment systems save 46 million labour hours annually across key industries, with 67 per cent of businesses confirming that

[1] https://www.rba.gov.au/statistics/frequency/retail-payments/2024/retail-payments-1224.html
[2] https://treasury.gov.au/sites/default/files/2023-06/p2023-404960.pdf
[3] *Boston Consulting Group 2024 Report*

card payments bring greater efficiency and checkout speeds[4]. This evidence shows retail payment systems currently generate significant economic value above their operational costs.

Low productivity growth in highly regulated markets

Australia's productivity growth has stagnated under an increasingly complex regulatory environment, with "red tape" costing the economy an estimated $176 AUD billion annually in foregone output[5]. As the Business Council of Australia recently emphasized[6], restoring competitiveness requires *"cutting through red tape and ensuring we have less, yet effective, regulation."* Regulatory over-reach, whilst often well intended, ultimately stifles investment and innovation.

Payment system regulation is an example of this. Despite longstanding, heavy handed, price regulation targeting interchange fees, merchant payment costs—particularly for SMEs—remain stubbornly high. This occurs because policymakers have focused narrowly on upstream wholesale costs while ignoring the full spectrum of expenses from payment service providers who directly serve merchants – and will increasingly do so in a digital economy.

Current regulations have also created market distortions that benefit large, less-regulated payment systems (such as three-party schemes as opposed to four-party schemes), whilst disadvantaging smaller participants who face both reduced income due to lower interchange fee revenues, and higher operations and regulatory costs due to scale.

Put simply, there is no conclusive evidence anywhere in the world that price regulation has resulted in stronger market competition, greater innovation, or better consumer outcomes. However, there is a wealth of evidence to support the hypothesis that well intentioned, but flawed regulation can directly undermine economic and productivity growth[7].

Digital payments enable productivity growth

Australia's rapid transition to digital payments represents a fundamental shift in economic infrastructure. The decline in cash usage from 27 percent to 13 percent (2019-2024), with contactless payments now representing 95 percent of in-person transactions[8], signals more than behavioral change—it reflects a structural transformation in how commerce operates in our modern economy. This shift carries significant economic benefits, as demonstrated by Bank for International Settlements, research across 101 economies showing that each

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[4] https://www.deloitte.com/au/en/services/economics/perspectives/value-australias-retail-payments-system.html
[5] https://ipa.org.au/wp-content/uploads/archive/The-176-Billion-Tax-On-Our-Prosperity.pdf
[6]https://assets.nationbuilder.com/bca/pages/9204/attachments/original/1731995892/Australia%E2%80%99s_flagging_productivity_and_international_competitiveness_20241119_WEB.pdf?1731995892
[7] https://www.oecd.org/en/publications/regulation-productivity-and-growth_078677503357.html
[8] https://www.rba.gov.au/publications/bulletin/2023/jun/consumer-payment-behaviour-in-australia.html

percentage point increase in digital payment adoption correlates with a 0.10 percentage point rise in per capita GDP growth[9].

Productivity benefits of digital payments manifest through multiple channels that directly impact economic performance. Transaction costs decrease substantially as businesses eliminate cash handling, counting, transport, and deposit processes. Theft at point of sale is reduced. Settlement times accelerate from days to minutes, improving cash flow management and reducing working capital requirements.

Digital transactions create comprehensive financial records that can enhance small business access to credit, while the resulting data enables businesses to optimize operations and make more informed strategic decisions – as opposed to other forms of payments such as cash or cheque.

Mass adoption of digital payments depends fundamentally on merchant and consumer confidence in trusted, safe, and efficient systems—making robust security infrastructure an economic prerequisite, not merely a technical consideration. The security investments that enable this trust require sustainable funding mechanisms to maintain Australia's competitive payment ecosystem.

Mastercard's $10 USD billion investment in cybersecurity and AI-based fraud prevention over five years demonstrates the scale of resources required to protect digital commerce. These systems blocked $20 USD billion in suspicious transactions globally in 2023 alone, directly protecting Australian consumers and businesses. However, the economic model supporting these critical security investments—including interchange fees—faces increasing regulatory pressure that threatens to undermine the very infrastructure that makes digital payments trusted and reliable.

Policy frameworks must recognize that security infrastructure requires ongoing investment and sustainable funding models. Undermining the economic foundations of payment security through regulatory uncertainty risks degrading the trust and reliability that underpins Australia's digital economy, potentially stifling innovation and leaving consumers and businesses more vulnerable to fraud and cyber threats.

Financial inclusion and accessibility underpins productivity growth

Greater financial inclusion in rural and remote Australia can also assist productivity growth and economic output by enabling broader participation in the economy. When individuals and businesses have access to essential financial services, they can invest, manage risks, and

[9] https://www.bis.org/publ/work1196.pdf

engage in commerce more effectively. Further addressing these gaps by improving financial inclusion can therefore unlock significant economic potential.

Modern, accessible, and well-regulated payment systems are central to driving this financial inclusion and its associated productivity benefits. Fintech solutions, such as mobile phone enabled merchant terminals, and the increasing use of digital wallets, make transactions more convenient and secure, lowering barriers to financial participation.

Harnessing data in a global economy

Mastercard is a global player in open banking, with active businesses in the USA, Europe, UK and Australia. Our global strategy drives digital infrastructure and supports consumers to better manage their data. Australia's Consumer Data Right (CDR) regime is an ambitious, economy-wide data portability regime and while the number of participants and use cases is growing year on year,[10] uptake has been stymied by poor design principles, complex regulation (including a dual privacy regime), operational and technical issues and the continued availability of screen scraping. There is an opportunity for the PC to boost uptake of the CDR and drive increased productivity across the digital economy by supporting a simplification of the regulatory framework. This will allow Australia to capitalise on work that has already been done on the CDR across the banking, energy and non-bank lending sectors, and drive further efficiencies in other sectors moving forward.

Regulatory Challenges and Productivity Risks

Australia's retail payment system is currently undergoing its largest wholesale regulatory reform in over 30 years, through the Reserve Bank's Review of Retail Payments Regulation and Treasury's implementation of the Strategic Plan for Australia's Payments System. While aimed at supporting the modernization of payments, enhancing competition and protecting consumers—objectives Mastercard supports—regulatory reform also risks creating unintended headwinds on productivity benefits through sub-optimal regulatory reform outcomes.

The Reserve Bank review is focused on "putting further downward pressure on merchant card payment costs" whilst Treasury concurrently undertakes the implementation of a new payments licensing framework and the uplift of the Consumer Data Right regime, among other regulatory exploration such as stablecoins and cryptocurrency. The scale and significance of what is being consulted on creates regulatory uncertainty, compliance and industry cost that can divert resources from productivity-enhancing innovation. Multiple concurrent reforms across different agencies increase the cumulative regulatory burden and could discourage investment in research and development that drives long-term productivity improvements,

[10] https://www.openbankingecosystemmap.com/australia-open-banking-ecosystem-map-fifth-edition

central to the Government's priority areas. These reforms should consider interoperability with international best practices whilst harmonizing federal laws with state ones, for example, standardizing state and federal privacy laws, in addition to international best practice, as part of the Privacy Act reform. Further, policy decisions being made today aren't being done through the prism of value-delivered, rather solely focusing on minimizing network costs, at the potential expense of the PC's core productivity objectives.

Capturing productivity gains from digital payments requires regulatory frameworks that balance innovation with stability, consumer protection with competition, and broad access with market efficiency. Poor regulatory design risks creating bottlenecks and duplicate costs that undermine productivity gains. Overly restrictive approaches may discourage innovation and new market entrants, while excessive focus on cost minimization through price regulations, without considering total value created could reduce incentives for continued technological advancement.

Given Australia's strong agenda in advancing digital payments, and the demonstrated relationship between payment digitization and economic growth, the regulatory stakes are substantial. Well-designed regulation has the potential to amplify the productivity benefits already being delivered by Australia's payment transformation, positioning the nation to capture significant long-term economic advantages from digital payment infrastructure becoming more ubiquitous.

Policy Recommendations

To maximize productivity benefits from payment system regulation while supporting the Commission's broader productivity reform objectives, we recommend:

1. Regulatory Harmonization and Interoperability: Ensure regulatory reform harmonizes federal and state regulations, whilst ensuring interoperability with international best practices. For example, (i) standardizing state and federal privacy laws as part of Privacy Act reform and removing the bespoke CDR Privacy Safeguards to reduce compliance complexity and ensure all industry participants are competing on an equal playing field, (ii) leveraging international experience for the adoption of AI payments and the latest in fraud protection services, or (iii) mitigate adverse constraints on dual network debit card requirements which are slowing down improvements in e-commerce - a material potential driver for productivity growth.

2. Productivity-Focused Regulatory Design: Payment system regulations should explicitly require consideration of value creation, productivity and efficiency as guiding policy criteria alongside competition and consumer protection. Current regulatory focus on

least cost in payment systems as the primary policy objective, over value-focused, productivity gains risks undermining wholesale productivity reform

3. Coordinated Reform Implementation: Formal coordination mechanisms should be established across the Reserve Bank, Treasury, ASIC and other relevant agencies to minimize cumulative regulatory burden. The Government's Strategic Plan acknowledges that "coordination challenges" can impede innovation, making sequenced implementation essential to avoid resource constraints that divert investment from productivity-enhancing activities.

4. Comprehensive Impact Assessments: Rigorous productivity impact assessments should be conducted for payment system regulatory changes, quantifying effects on innovation, adoption rates, and broader economic efficiency. Given multiple concurrent reforms, cumulative impact evaluation is essential to understand the combined effect on productivity outcomes.

5. Value-Led Regulatory Approach: Regulatory approaches should preserve innovation incentives that drive long-term productivity benefits. This includes ensuring that regulatory frameworks encourage continued investment in technologies and services that enhance economic efficiency, rather than creating constraints that limit technological advancement or market development.

6. Greater Financial Inclusion: Make broad acceptance and coverage of digital financial services key metrics for financial inclusion policies, and scale existing programs like community Wi-Fi and digital mentorship to drive efficient digital payment adoption in rural and remote communities.

Conclusion

Retail payment systems are central to achieving productivity growth in Australia's economy. The quantified benefits—including 46 million labour hours saved annually and direct correlation to GDP growth—illustrate the substantial economic value at stake. As the Reserve Bank and Australian Treasury undertakes these wholesale payment system reforms, the design and coordination of these changes will determine whether the country captures or constrains these productivity benefits.

We strongly urge the Commission to recognize efficient payment system regulation as a priority component of Australia's broader productivity strategy. Well-designed regulation could unlock substantial productivity gains and position Australia as a global leader in payment system efficiency, while poorly coordinated or overly restrictive market interventions could constrain growth when Australia needs productivity improvements most. The regulatory choices made today will have lasting implications for Australia's economic competitiveness and productivity performance.

About Mastercard

Mastercard is a technology company in the global payments industry that connects consumers, financial institutions, merchants, governments, digital partners, businesses and other organisations worldwide, enabling them to use electronic forms of payment instead of cash and cheques.

For more than 50 years, we have pioneered technology to make payments smarter, safer and more efficient, providing a wide range of payment solutions and services using our family of well-known brands, including Mastercard®, Maestro® and Cirrus®. We are a multi-rail network that offers customers one partner to turn to for their domestic and cross-border payment needs. Our fraud prevention and customer protection services including chargeback capabilities are world leading, far surpassing the levels of consumer protections provided by domestic schemes.

Through our unique and proprietary global payments network, which we refer to as our core network, we switch (authorise, clear and settle) payment transactions and deliver related products and services. We have additional payment capabilities that include automated clearing house ("ACH") transactions (both batch and real-time account-based payments).

We also provide integrated value-added offerings such as cyber and intelligence products, information and analytics services, consulting, loyalty and reward programs and processing. Our payment solutions offer customers choice and flexibility and are designed to ensure safety and security for the global payments system.