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Submission to the Productivity Commission Consultation on Creating a more dynamic and resilient economy - Block inc.

Thank you for the opportunity to provide a submission to the Productivity Commission's consultation on creating a more dynamic and resilient economy. Block, Inc. (ASX: SQ2) is a financial services and digital payments company that provides payment and software solutions to merchants through our brand Square, and buy now pay later services through our brand Afterpay. Our response to the relevant question in the consultation can be found below:

1. **Reduce the Impact of Regulation on Business Dynamism: *What areas of regulation do you see as enhancing business dynamism and resilience? What are the reasons for your answer?***

Payments regulatory reform that encourages greater uptake of payments via the New Payments Platform can be a key productivity driver.

The payments sector is undergoing significant regulatory reform, which presents a critical opportunity to drive productivity improvements. To realise this, the Productivity Commission should play an active role and consider the role of payments policy settings as a focus area of this inquiry. The payments system is a critical area where regulation can either enhance or inhibit business dynamism and productivity, particularly for small and medium-sized enterprises (SMEs) and Australia's fintech sector.

One key productivity reform is increasing uptake of non-card based digital payments via the New Payments Platform. The Productivity Commission's 2024 *Revitalising National Competition Policy Review* identified increased adoption of low-cost payment rails—specifically account-to-account (A2A) transactions via the New Payments Platform (NPP)—as one of the most impactful opportunities for productivity reform in the financial services sector. The Commission stated:

"Currently, fees on debit cards range between 0.27 to 0.52% and credit cards from 0.90 to 1.53%. Comparatively, payment systems similar to the NPP have achieved transaction fees between 0.2 and 0.3% of transaction cost." The Productivity Commission estimates that widespread take up of A2A payments would increase competition and put downward pressure on interchange and scheme fees: *"This reform is expected to reduce average debit card merchant fees by 0.3 percentage points for the share of purchases currently done with Mastercard/Visa and 0.1 percentage points for the share of purchases currently done with Eftpos. For credit cards, we anticipate a flat 0.05 percentage point reduction in average credit card merchant fees."* - Productivity Commission

Potential proposed policy reforms are likely to deter uptake of NPP-based payments and associated productivity benefits.

In late 2024, the Reserve Bank of Australia (RBA) released an Issues Paper initiating a comprehensive review of merchant card payment costs and surcharging. This review is examining the effectiveness of current pricing models, the role of Least Cost Routing (LCR), and the impact of surcharging on merchant and consumer behaviour. One of the options being proposed, that received support within the Government at the time, is banning businesses from surcharging for debit card transactions while continuing to allow surcharges for other card transactions. While this may be a well intentioned reform designed to reduce payment costs for consumers at checkout, it would greatly reduce the uptake of NPP-based transactions.

The purpose of payment surcharges is to encourage consumers to use the form of payment that is cheapest for a merchant to accept. The logic being that normal market dynamics don't apply to card networks, that merchants are unable to exert downward pressure on payment processing costs, and that differentiated surcharging rates can help encourage competition between providers by encouraging consumers to choose the lowest-cost payment method for them.

Debit is very popular in Australia and generally the cheapest way to pay, but this fact has clouded broader payment trends. Non-card based digital payments (often referred to as account to account or pay-by-bank) are growing rapidly, getting cheaper and outpacing cards in many places globally. That is why the recent National Competition Policy Review highlighted greater uptake of account-to-account payments via the New Payments Platform (NPP) as the single biggest productivity booster for payments (est. benefits of $445 million p.a.).

For an increasing number of higher value online transactions, paying with the NPP-enabled PayID does not have a surcharge because it is cheaper to accept for the merchant than debit (which does incur a surcharge). The most prominent example being airline tickets. If a blanket debit surcharge ban is put in place, as currently proposed by the RBA, this would no longer be possible. This means if the merchant continued to apply surcharges, they would be required to offer debit as the surcharge-free option even though it is not the cheapest for them to accept. This contradicts the core purpose of surcharging policy — to incentivise the lowest-cost payment method.

Potential alternatives to a debit surcharge ban that do not undermine productivity benefits of increased NPP uptake.

Block inc. among other industry participants have highlighted a number of alternatives to a debit surcharge ban to address the negative impacts of a debit surcharge ban on competition, productivity and payment system efficiency. These include:

1. **Banning payment surcharging entirely:** This would be consistent with the UK and EU, which eliminated surcharges for both debit and credit cards in 2018. Instead, the focus would be on interchange caps and other regulatory tools to manage competition and costs in card payments. While a full surcharge ban addresses the significant negative impacts of competition that a debit ban introduces, it does require more attention and smaller businesses can be supported during any transition.

   Under a full surcharge ban, if merchants wanted to incentivise customers using a lower cost payment option they could also offer a discount. This is something that is already becoming increasingly common. For example, Amazon offers a 1% discount for using PayTo for its ecommerce platform.

2. **Require merchants to offer a digital surcharge-free payment method, but do not mandate what that payment method is:** Mandate merchants to offer at least one surcharge-free digital payment method, but the merchant can choose which digital payment method based on their own business. While most businesses would likely choose debit today, this approach future-proofs the regime for the growing number of cases where debit may not be the cheapest option (including NPP based transactions. This would allow merchants to incentivise customers to use the lowest cost form of payment in all circumstances, as surcharging policy is designed to do.