Submission to the Productivity Commission

Response to interim report into Creating a More Dynamic and Resilient Economy

Block, Inc.

Block, Inc. (ASX: SQ2) welcomes the opportunity to respond to the Productivity Commission's interim report on creating a more dynamic and resilient economy. Block is a global financial services and digital payments company, operating in Australia under the brands of Square and Afterpay.

Block supports the interim report's recommendations to enhance regulatory scrutiny and practice to deliver growth, competition and innovation. This is particularly relevant in the financial services where there are significant opportunities to increase economic dynamism and growth.

The regulatory settings in the financial services sector would settings to help promote business dynamism

Block supports the interim report's recommendation to more comprehensively scrutinise regulations' impacts on growth and dynamism. Establishing principles and processes to reduce regulatory burden; with clear, measurable, and periodic targets can play an important role to ensure regulatory settings are fit for purpose.

The regulatory environment for the financial services sector would benefit significantly from the principles outlined in the interim report. This is because the sector faces a set of circumstances where economic dynamism and competition have not been fully accounted for. This includes:

- **Fragmented and strict regulatory oversight**: Fintechs face disproportionately high regulatory burdens generally from day one of their operations. This requires providers to navigate complex and overlapping requirements from multiple regulators including ASIC, APRA, RBA, AUSTRAC and the ACCC.
- **Regulatory mandates and priorities focused on risk minimisation**: Financial regulators are often mandated to prioritise systemic stability and consumer protection due to the significant downsides that exist in the sector. This can lead to limited inputs for decision-making and regulator indexing highly on risk minimisation (often at the expense of broader economic benefits and competition).
- **Entrenched incumbent resistance**: Major banks and institutions frequently leverage regulatory processes to defend their market position, using regulation as a competitive moat to constrain fintech entrants.
- **Absence of metrics or direct accountability for delivering economic dynamism**: Industry-specific regulators have often focused on harm reduction but have limited accountability or responsibility for achieving metrics associated with growth and competition in the financial services sector.

The inherent challenges of financial services' regulatory environment has resulted in some situations where economic dynamism is not reaching its full potential. One example is that competition in consumer credit and card issuing has historically not been effectively considered in policy-making, as it has fallen outside of the mandate or the immediate priorities of the responsible regulators. Partly as a result of this, competition in consumer credit and card issuing has remained far lower in Australian than that seen in comparable economies[1]. In addition, the take up of non-card based payments via the New Payments Platform (NPP) has been slowed due to onerous regulatory barriers [2]. This is due in part to historic requirements for an Authorised Deposit-taking Institution licence, Exchange Settlement Account requirements, as well as high physical infrastructure requirements have all made access to the NPP unnecessarily difficult for challenger providers.

Sectoral review of competition in financial services can help identify opportunities to improve economic dynamism

The interim report's draft recommendation to make greater use of sectoral reviews to reduce cumulative regulatory burden (2.2) is an important opportunity to support economic dynamism and growth. More specifically, a major competition review into Australia's financial services industry is overdue and would help identify important reform opportunities consistent with the aims of the interim report.

The last comprehensive review of competition in financial services was conducted by the Productivity Commission in 2018. That review found the system to be vertically integrated, with the major banks holding strong pricing power and consumers rarely switching providers[3]. Since 2018, the sector has undergone substantial structural and technological change, including the rise of Buy Now Pay Later (BNPL), the rollout of Open Banking, the expansion of e-commerce, and the growth of digital assets. Despite these shifts, there has been no equivalent holistic review of competition in financial services since this time.

A new review would provide an important opportunity to apply the interim report's principles to financial services. It could assess barriers faced by fintech entrants, regulator responsiveness, and whether current frameworks adequately support innovation. It could also ensure competition policy reflects new technologies and market dynamics. Such a review would provide a strong evidence base for reforms that balance systemic stability with innovation and consumer choice, better aligning financial services policy with the Government's broader economic and industry goals.

There are examples of overseas financial regulators that have acknowledged the trade-off and balancing act that is necessary when considering how regulation that purports to protect consumers can also hinder innovation. For example, the Chief Executive of the Financial Conduct Authority of the United Kingdom made the following comments in relation to forthcoming BNPL regulation in the UK:

[1] Mandala analysis in Block's submission to the RBA Merchant Payment and Surcharging Review, 2024
[2] Further details see Block's submission to to the Future Vision for Account-to-Account payments in Australia, 2025
[3] Productivity Commission of Australia, Competition in the Australian Financial System, 2018

> *We need to make an overall judgment about information provision, and about the proportionality and affordability of credit checks, because if we go too far and make it too onerous, we make the product uneconomical for lending £50 or £100.*[4]

Despite this, it is less common for Australian regulators to explicitly acknowledge the trade-offs that are inherent in the design, oversight and enforcement of consumer protection frameworks.

Growth and dynamism should be central considerations in the recently expanded regulatory perimeter for payments

The upcoming expansion of Australia's payment regulatory framework and new licensing regime presents a critical area where the recommendations outlined in the interim report should be applied. In September 2025, Parliament passed legislation amending the *Payment Systems (Regulation) Act 1998 (Cth)* to broaden the regulatory perimeter. While the reforms will play an important role in updating the regulations for the modern payments sector, the new regime will introduce a significant regulatory burden across a broad range of participants. If not applied effectively, it has the risk of imposing the very types of regulatory burden that the interim report is seeking to reduce.

Payments regulation has historically been highly interventionist, often justified by market concentration in legacy networks and systemic risk. But many newer services, especially non-bank platforms that will now be regulated under the expanded framework, operate under very different conditions. Many of these sub-sectors are highly competitive, with significant price and product differentiation, transparent pricing for businesses and covers a tiny fraction of overall payments. As a result, applying a distinct regulatory approach is appropriate.

Introduction of an expanded payments regulatory regime should be undertaken with caution and with evidence-based justification. The focus should be narrow and only in circumstances where there is genuine lack of competition and 'must take' scenarios for businesses and consumers. As the interim report highlights, greater use of ministerial statements of expectation as well as central agency guidance, which are held accountable to key performance indicators and the costs they impose on businesses are important can play an important role in focusing regulations on these areas without imposing unnecessary restrictions where they are not required. This will help ensure that new regulation in the payments sector does not have the unintended consequences of reducing competition and resulting consumer experience.

Conclusion

Block welcomes the interim report's recommendations regarding a more holistic approach to assessing the impact of regulations. Central to this should be further empowering agencies to measure and factor in economic dynamism and growth into regulatory decision making. Efforts to embed this approach can play a critical role in making Australia's financial services sector more competitive and innovative.

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[4] https://committees.parliament.uk/oralevidence/16030/pdf/, page 11.