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**By email only:**

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Dear Payments Strategy and Policy Unit,

**RE: A Strategic Plan for the Payments System - consultation**

Mastercard welcomes the opportunity to provide its response to the Treasury's *A Strategic Plan for the Payments System* consultation paper on the high-level principles and engagement strategy that will inform the creation of its strategic plan for the Australian payments system over the next five years.

Mastercard is a technology company in the global payments industry that connects consumers, financial institutions, merchants, governments, digital partners, businesses, and other organizations worldwide enabling them to use electronic forms of payment. We operate in 210 markets around the world and operate a multi-rail payments network. For almost thirty years, our work in Australia with banks and retailers has enabled the adoption and growth of contactless transactions via both a card and a device, the implementation of safer online transactions, and rapid growth of quick, easy, and secure transactions.

## **I. Consultation response**

Australia benefits from an advanced, competitive payments market which delivers value to all participants, government, and the economy and provides consumers with a range of ways to pay and businesses to be paid. As the Australian payments market continues to evolve and innovate rapidly – with new entrants, technologies, payment options and the introduction of new products and innovations by schemes like Mastercard, this competitive and dynamic sector requires a principled regulatory framework that is fit-for purpose, promotes continued innovation, focused on ongoing security, and ensures a level playing field.

## II. Feedback on the key objectives and priorities for the payments system

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

Mastercard strongly supports the proposed key principles of efficiency, innovation, accessibility, and trustworthiness to guide the future direction of payments system regulation in Australia. We have set out our feedback on each of these principles.

**1.1 Efficiency:** We agree that an efficient payment system is one where payments are processed in a seamless manner with minimal friction and which also ensures robust protection for consumers. The efficiency of electronic payments is a strategic priority of Mastercard. The growing use of contactless electronic payments in Australia highlights the efficiency of payment cards which provides enhanced customer and merchant sales experiences, particularly in high-traffic stores where fast transaction times are desirable while also ensuring card payment security and robust protection for consumers.

**1.2 Innovation:** It is important that regulation supports an environment where positive innovation outcomes for consumers and businesses in Australia can continue. A balance needs to be struck between costs to businesses and consumers while supporting and encouraging continued investment into innovation and security. Through ongoing and significant investment in digital secure payment technology and innovation such as tokenisation, innovation can strengthen payments systems and developments in the broader digital economy around the world, drive consumer trust and choice, greater sales for merchants and safer transactions, resulting in more resilient payment systems. Mastercard is tokenising a growing number of everyday payments at point of sale which provides frictionless, secure payments using Mastercard proprietary security-grade tokenisation for a growing number of pay ahead or as-you-go in app payments for online food delivery, entertainment streaming and transport services.

**1.3 Accessibility:** We agree that an accessible payments system is one that is inclusive, encourages competition and provides more choice of payment products and services to consumers and businesses. Mastercard currently makes available and transparent our access criteria for existing and potential scheme members and we are pleased to be able to contribute to the work being done by the RBA on common access requirements which will form part of the payments licence to facilitate access for licensees to the Mastercard payment network.

**1.4 Trustworthiness:** We agree that a trustworthy payments system is one that is safe, secure, reliable, and resilient. Mastercard looks at the process from end-to-end in its focus on contributing to safety, efficiency and resilience for consumers and merchants in the payment ecosystem. We use a combination of biometrics, data and tools like machine learning and AI to protect the payments ecosystem.

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.

**2.1 Promoting a safe and resilient payments system:** Mastercard supports and agrees with the priority of promoting a safe and resilient payments system. Protecting Australians from scams and fraud is important and must be a priority alongside maintaining an efficient payments system that is open to competition. Greater connection in a digital world and the shift to online payments poses greater cybersecurity challenges and has significantly increased the risk to consumers and businesses of scams, fraud, and data theft. Threats or compromise to personal and sensitive information, and the potential for payments fraud against merchants, can occur at more points in the transaction flow as that flow becomes more complex and interconnected. Mastercard has invested significantly in and is at the forefront of detecting, mitigating, and preventing cyber incidents and fraud and maintaining system security and resilience experience to secure the overall digital economy. A balance is needed in the regulatory reform by ensuring that regulation supports and encourages efficiency, security, and innovation rather than focusing disproportionately on transaction costs and driving a "race to the bottom" at the expense of security. Consumers also must always have choice of their preferred payment methods that are efficient, safe, and secure given the challenges and inefficiencies for consumers to pursue bad actors on their own especially those which are located outside of Australia.

**2.2 Ensuring the regulatory framework is fit-for-purpose and promotes competition:** Mastercard supports the development of evidence-based policy which considers the impact of regulation on all system participants. Regulation should be purpose-based, allowing for regulatory flexibility to foster innovation while, at the same time, addressing risks posed by different participants and the functions that they provide. As payment transactions have become more disintermediated and technology continues to evolve, a tiered functionally based payments licensing regime for participants across the payment ecosystem will create certainty and transparency in respect of the standing of payment system participants. However, consideration should be given to ensuring streamlined licensing, supervisory and enforcement

powers to minimise overlap and duplication of regulatory regimes, particularly for existing participants that are already regulated or supervised.

### **2.3 Ensuring alignment with the broader digital economy transformation:**

Mastercard is supportive of necessary changes to modernise payments system legislation to align with developments in the broader digital economy including Buy Now, Pay Later (BNPL) and digital wallets to meet the needs of participating financial institutions, payment providers and users of the wider payments ecosystem. We agree that it is important that reforms are considered holistically, avoids duplication, overlap or conflicting compliance obligations and supports a level playing field for businesses to compete in Australia effectively.

**2.4 Modernising payments infrastructure:** We see the benefits of regulatory developments that encourage access to competition and options for consumers and businesses across different payment rails and systems. To facilitate more competition in modern payments infrastructure, the PayID directory should be separated from the New Payments Platform (NPP) and made open access to enable competitive development. Central to this is delivering the minimum network effect required to enable different organisations to be able to pursue their respective commercialisation and innovation objectives. As noted in the Payment System Board Annual Report for 2022, the NPP now processes more than 25% of account-to-account credit transfers in the market and 6.3% of the total value of non-cash retail payments, which is approximately 150% larger than the total value of all purchases made using Australian-issued cards. This is just one development, unlike cards where a number of payment schemes operate and compete in Australia, NPP Australia is the single provider.

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.

Please see our response to question 4.

4. Do you have any feedback on the proposed approach for any of the initiatives (as outlined in Attachment B)? Please provide an explanation.

- **Promoting a safe and resilient payments system:**
  - o ***Reduce the prevalence of scams and fraud***
  - o ***Strengthen defences against cyber attacks***
  - o ***Supervision of systematically important payment systems***

**4.1** Mastercard agrees payment scams and fraud continue to present an important issue in the retail payments system and will continue to evolve in

an increasingly digital world. Security and resilience should be objectives for payments policy and in light of recent data breaches, it is even more important that the payments system supports the Government's existing agenda on cyber security and increases investment in cyber and payment (including card) security to protect consumers and small businesses. This needs to be at the forefront of the broader stated objectives of the plan. As a designated critical infrastructure operator in Australia, Mastercard is focused on cyber security and payment card security and continues to invest heavily to constantly monitor and protect the Mastercard network from cyber-attacks. We operate a cybersecurity center of excellence in Australia and are supportive of government and industry initiatives that drive better co-ordination and sharing of best practices and intelligence to disrupt fraud, scams, and other malicious activities.

**4.2** However, the development of secure digital payments technology and increase in online transactions necessitates more advanced and complex tools, leveraging tokenisation, biometrics, and machine learning technologies, to protect businesses and consumers. The proposed Plan and regulation should continue to encourage and support security innovations and capabilities with respect to electronic payments. A regulatory model that focuses disproportionately on the cost of transactions potentially inhibits investment in innovation, competition, security, and resilience, and could compromise overall security of the payment ecosystem.

**4.3** Designated critical infrastructure payment system operators should not be subject to additional or duplicative risk management and security obligations given existing obligations under the *Security of Critical Infrastructure Act 2018*. However, we agree with the plan that the RBA broaden its work on safety and resilience to include additional payment systems including the NPP. This will enhance the security and resilience of critical payment systems in Australia.

- **Ensuring the regulatory framework is fit-for-purpose and promotes competition**
  - ***Implement changes to PSRA, including a Ministerial designation power***
  - ***Introduce a tiered payments licensing framework for payment service providers***
  - ***Enable greater collaboration between payments regulators***
  - ***Promote competition by facilitating proportionate, objective, and transparent access to payment systems***
  - ***Reduce small business transaction costs, by supporting the availability of least-cost routing***

**4.4** In addition to our feedback in question 2 on the priority for the regulatory framework being fit-for-purpose and one that promotes competition, the

licensing framework reform should be prioritised at the outset of the proposed five-year program of work in order to set direction and provide regulatory certainty. We agree with a proposed licensing approach of reviewing coverage of entities that play a material role in Australia payments systems and with the proposed functional approach to describe the role that the service plays in the payments system. A defined list of payment functions should be developed and consulted on from the outset in order to provide regulatory clarity and also to obtain feedback on the actual level of risk of the payment function and how and whether it should be licensed. To ensure the ongoing competitiveness of payments systems in Australia it is important that the proposed licensing regime does not become so onerous, complex, duplicative, and costly so as to impose additional burden and preclude payment service providers from participating in payment systems. Mastercard would appreciate:

- (i) additional clarity on the proposed new Ministerial designation power, and examples that would warrant the Treasurer intervening and directing regulators to develop regulatory rules or give binding directions to operators of, or participants in, payment systems for matters of national significance, and
- (ii) greater transparency around the objectives and remit of the inter-agency payments forum, including its participants and their respective roles.

**4.5** Visibility of the cost and value of different payment methods is important as it allows all participants in the value chain to understand how much it costs them to use a specific payment form, and the benefits accrued to them. By increasing transparency, we make it easier for merchants and consumers to understand the benefits, as well as the costs, of electronic payments. Savings merchants make through LCR are minimal and unlikely to translate into lower consumer prices. Mastercard will remain competitive on cost in a least-cost routing environment but will continue to provide an industry-leading safe, secure, and innovative payments ecosystem for small business and consumers. Low cost does not equal greater efficiency and there are value considerations associated with choosing payment schemes including the innovative safety and security measures provided by Mastercard. A continued focus on LCR needs to be balanced against security of payments in the ecosystem. The focus should not solely be on the cost of acceptance – ongoing investment is required in the broader ecosystem/cost of security and protection for consumers. Consumers must always have choice of how they pay with the payment instrument that provides them with robust protection.

- **Ensuring alignment with the broader digital economy transformation**
  - ***Ensure the payments system is aligned with developments in the broader data ecosystem such as the CDR***
  - ***Explore the policy rationale for an Australian CBDC, including investigating the economic, legal, regulatory, and technological considerations associated with an Australian CBDC***

**4.6** Mastercard supports the expansion of the CDR to include action initiation. Consumer experience must remain at the forefront of this expansion, particularly with respect to designing the regulatory regime. Mastercard agrees with the recommendation of the Inquiry into the Future Directions for the CDR that payment initiation should be the first action to be designated. Consultation with industry is key and close consideration will need to be given to the interaction between the existing CDR accreditation regime and the criteria it imposes upon applicants, and the new tiered payments licensing framework to be introduced in line with the Strategic Plan. The two regimes should be streamlined to encourage payment initiation service providers to enter the market and gradually expand their service offering over time through a tiered approach. A good example is the position in the EU/UK where, under PSD2, payment initiation is one of a number of specific permissions that a payment service provider can apply for and add to their licence. The ongoing obligations that will apply to payment initiators and other actors within the ecosystem also need to be as streamlined and made as unambiguous as possible. Incorporation into the payments regulatory framework of other principles from other areas of financial services regulation, such as the "honest, fair and efficient" provision of services, should be done thoughtfully and be accompanied by guidance.

**4.7** Central Bank Digital Currencies (CBDCs) can bring multiple benefits to a financial system but are an untested tool with financial system implications that are difficult to predict. Mastercard is committed to supporting national payment modernisation efforts, including the exploration of an Australian CBDC. We have offered, and will continue to offer, our support to many of these initiatives around the world. Overall, our experience from CBDC projects shows that a clear vision of the goal to be achieved is critical to their success. As there are different ways to achieve payments innovation or similar policy goals, we believe that central banks should first evaluate whether a CBDC is the right tool. CBDCs could bring benefits to a financial system but are untested with financial system implications that are difficult to predict. Within advanced and well-regulated payment ecosystems such as Australia, the creation of a CBDC would compete with the diverse and innovative solutions being provided by the private sector, and in fact risk that doing so damages the dynamism and innovation of that ecosystem.

**4.8** Central banks have mandates to implement monetary policy and ensure financial resilience, but the design of a general-purpose CBDC should seek to capitalise on the complementary capabilities of both the central bank and the private sector. Any efforts to build a CBDC would be best aimed at enabling new payments capabilities. Two areas where Mastercard is actively experimenting that we believe might be of particular interest would be:

- (i) Enabling interoperability between permissionless crypto-asset ecosystems and a regulated store of tokenised value anchored in central bank money (either in the form of a retail CBDC, or a system of tokenized deposits built on the foundation of a wholesale CBDC); and
- (ii) Supporting improved speed and efficiency of cross-border payments, either through the linking of wholesale CBDCs or through the development of linked RTP / tokenised deposit frameworks.

**4.9** One of the greatest challenges to driving mass adoption of a new payment solution is enabling acceptance. Consumers will be more likely to adopt a CBDC if it can be used on existing acceptance infrastructure and is supported by known and identifiable payment form factors (physical and digital) that are linked to the user's existing devices and accounts. Therefore, linking a prospective CBDC to existing private payment networks with broad merchant acceptance would make adoption easier for both consumers and merchants.

- **Modernising payments infrastructure**

- ***Support the transition to more modern infrastructure***
- ***Maintain adequate access to cash for those that rely on it***
- ***Promote interoperability with international standards and arrangements for cross-border payment***

**4.10** Mastercard supports the transition to more modern payments infrastructure to ensure it remains fit for purpose and serves all players in the payments ecosystem. Newer systems bring benefits to Australian consumers and businesses such as enhanced functionality and reliability, integration, and higher levels of data security. The retirement of legacy systems such as the Bulk Electronic Clearing System (BECS) needs to be carefully managed, ensuring newer systems such as the NPP are fully functional and properly embedded to support these changes when they are introduced.

**4.11** Mastercard believes the future of payments will be multi-rail. A world where people and businesses can move money quickly and efficiently across card, account, and blockchain rails – irrespective of whether the payment's destination is domestic or international. Jurisdictions like Australia can play a key role in forging consensus on the policy principles and specific standards



that shape national and regional approaches to data frameworks. Mastercard is committed to supporting the implementation of the G20 Roadmap for Enhancing Cross-border Payments and stands ready to work with Treasury in this ongoing process to make cross-border payments as seamless, simple, and secure as today's domestic transactions. When it comes to potential priorities for Australia in this context, we believe that national and regional data frameworks are a critical issue, as they can have an important impact on safety, efficiency, and accessibility of cross-border payments. The free flow of data across borders plays a critical role in the digital economy, driving down costs for consumers and small businesses, expanding the accessibility of advanced digital services, and supporting innovation. A range of best practices is required to reconcile the digital economy's need for free-flowing cross-border data flows with the underlying concerns driving the deployment of localisation frameworks (such as the imperative to upholding citizen's right to privacy). These include trade agreements that establish fair and binding rules to facilitate data flows across borders.

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?

**5.1** Mastercard believes a functions-based framework that describes the role of industry players in the payments system is required, and priority should be given to consultation on the payments licensing regime as a starting point.

### **III. Feedback on the process for review of the Plan**

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

**6.1** Treasury's timeline for the strategic plan is ambitious, particularly given the number of inter-related priorities, proposed actions and regulatory requirements which should incorporate feedback from different industry participants and must be considered thoroughly. In implementing regulatory reform, it is important for the payments industry to move together. Mastercard supports a more consultative approach with the industry which is inclusive of and considers the views of different system participants.

**6.2** We also encourage Treasury to consider developing and publishing implementation timelines (noting the plan will be assessed annually) with the feedback and input of the industry to allow sufficient time for any additional policy issues that may arise, to provide system participants with greater clarity and adequate time to comply.

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

**7.1** Mastercard recognises the importance of industry self-regulation for the payments industry and would appreciate clarification on the future intended role of AusPayNet in standard-setting.

**7.2** In the spirit of strengthening collaboration and communication, we expect the inter-agency payments forum could also be leveraged for enhancements and to raise industry standards, for example, in relation to cybersecurity, fraud and scam prevention.

We look forward to engaging with Treasury further on the strategic plan. If you have any questions, please do not hesitate to contact me at

[REDACTED] or Ali Steele, Senior Counsel at

[REDACTED]

Yours sincerely,



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**Mastercard**