CUSTOMER OWNED BANKING ASSOCIATION

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Via email: pysubmissions@rba.gov.au

Dear Mr Connolly

RBA Review of Payments System Regulation – Issues Paper

The Customer Owned Banking Association (COBA) welcomes the opportunity to provide a submission to the Reserve Bank of Australia's (RBA) Issues Paper on its Review of Payments System Regulation.

Key points

Regulatory reforms should be proportionate, competitively neutral and practical for smaller ADIs to implement, with realistic timeframes that recognise the resource constraints facing COBA members.

COBs require fair, sustainable and transparent access to core payment infrastructure, including BECS, the NPP and card systems, so they can continue providing reliable and cost-effective payment services to customers.

Future A2A payment systems should be low-cost and reliable, maintain system resilience and include strong contingency arrangements for indirect participants.

Decision making on the future of the A2A payments system must include broad buy in from across the payments industry, ensuring that the COB sector has sufficient visibility over and representation at decision making forums.

Greater regulatory oversight is needed where market power or vendor dependency limits smaller institutions' bargaining power, commercial choice or ability to influence investment decisions.

Mobile wallet providers should be subject to transparent, fair and reasonable access, pricing and dispute resolution obligations, particularly where their market position affects competition and customer choice.

An appropriately regulated payments system is essential to protect consumers, support innovation, and enable secure, efficient, and cost-effective payments across the economy. Customer owned banks (COBs) play a critical role within this system by providing the primary banking relationship for millions of Australians and ensuring access to essential payment services for retail consumers.

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The payments system must remain accessible and sustainable for smaller banks, including all COBA members. The provision of payment services is a fundamental and non-negotiable component of modern banking, meaning the impacts on smaller institutions should be carefully considered when setting regulatory priorities and designing future payments system reforms.

In considering regulatory change, the RBA should ensure that reforms are proportionate, minimise compliance and implementation costs, and provide realistic implementation timeframes, particularly for smaller institutions such as COBs. This is especially important given the resource constraints faced by many COBs and the significant power imbalance that can exist between smaller institutions and the third-party providers on which they depend for key payment services.

COBs operate under structural and economic constraints that are not shared by larger banks. Many access core payments infrastructure through payment service providers (PSPs), including NPP connectivity, card issuing and management, fraud controls and other capabilities that cannot be economically maintained in-house. These dependencies can increase costs and reduce control over implementation; for example, the RBA's Merchant Card Payment Costs and Surcharging conclusions paper identifies higher card issuance costs borne by smaller ADIs, while COBs also incur comparatively high costs in processing NPP transactions. The RBA should therefore test proposed reforms for disproportionate cost and dependency impacts on smaller institutions.

When setting its regulatory priorities and actions, the RBA should therefore ensure that COBs can continue to participate effectively in the payments ecosystem and that their customers retain access to competitive, secure, reliable, innovative, and cost-effective payment solutions. This will support competition, consumer choice, and the long-term resilience of Australia's payments system.

We have provided the following detailed feedback on key issues identified in the RBA's Issues Paper, with a particular focus on account to account and card payment regulation.

Account to Account (A2A) Payments

A2A payments are a core aspect of banking service offerings for COBs and regulatory oversight is critical to ensure:

- equitable access to infrastructure for all participants,
- support for competition between, and innovation in, payment systems,
- prioritisation of cost-effectiveness and affordability, particularly for small ADIs,
- very strong industry coordination and buy-in for any transition away from BECS,
- a core focus on resilience, safety, and fraud prevention, especially as digital adoption accelerates.

A2A vision and roadmap

The RBA should have sufficient oversight of the existing A2A Payments Roundtable process, ensuring that the perspectives of small participants including COBs are considered, issues raised are adequately addressed and that any decisions made on the future of the A2A payments system have broad buy in from across the payments industry. Importantly, the COB sector must have sufficient direct visibility of, and representation at, strategic and technical forums deciding the future of A2A payments in Australia.

In considering the future of the A2A payments system, the RBA should prioritise three outcomes for all participants, including COBs: resilient infrastructure with effective contingency arrangements; affordable and proportionate transition requirements; and access and governance models that reduce vendor dependency and give smaller institutions meaningful influence over investment decisions.

Competition in the A2A market

We recognise the opportunities that technological development could bring to enhancing the consumer payment experience. This could include increasing competition between card and A2A payments for a wider range of consumer payments.

The RBA should explore how regulatory settings may be able to influence increased competition across payment methods that use different underlying payment rails. This could lead to lower costs for banks to provide their customers with payment services and may also intensify innovation and improve service quality by encouraging providers to develop payment options that are faster, more secure, more affordable and better aligned with customer needs.

An important barrier to the wider adoption of A2A payments as a genuine alternative to card-based payments is the lack of native integration with major digital wallets and, especially, the limited ability to access Apple's NFC capability. Without equivalent wallet functionality and point-of-sale usability, A2A payment options may struggle to match the convenience, familiarity and customer experience currently offered by card payments through mobile wallets. This creates a practical obstacle to consumer uptake and may limit the ability of A2A payments to compete effectively in everyday retail payment use cases.

Other practical and commercial challenges that limit competitiveness in the A2A payments system include:

- A2A payments currently lack the real-time consumer protections provided by card networks, including mature chargeback, dispute resolution and liability allocation frameworks that customers often expect when making payments;
- PayTo uptake remains slow, largely due to limited consumer understanding, inconsistent merchant readiness and high implementation and migration costs for ADIs and their service providers;
- PayTo has increased operational pressure on ADIs through tighter SLAs, more complex mandate management obligations and higher fraud and scam risks linked to impersonation and identity fraud; and
- The adoption of ISO 20022 across Australian retail payments has required significant technology uplift from payment providers including COBs, including new supporting infrastructure, system testing, staff capability and changes to vendor-managed platforms.

To resolve these concerns, further changes may be needed, such as:

- Expansion of PayTo adoption beyond current participants, to support greater consistency and consumer protection;
- Real-time fraud monitoring and risk scoring for A2A payments, comparable to the controls used by major card schemes;
- Merchant category controls and restrictions, enabling consumers and financial institutions to manage or limit payments, similar to controls currently available within card payment ecosystems;
- Chargeback-style protections for non-delivery of goods and services; and
- Comprehensive dispute resolution and refund frameworks for all participants in the payment chain.

Mobile Payments

Mobile wallet payments are now a mainstream aspect of card payments and regulatory action must recognise the dominant position of mobile wallet providers (typically multinational technology giants) in the payments ecosystem.

COBA members generally allow customers to use debit and credit cards through mobile wallet applications such as Apple Pay, Google Pay and Samsung Pay. Furthermore, access to mobile wallets is now becoming a core customer expectation from their financial institution. Banks (particularly small banks such as COBs) face a structural commercial power imbalance and very limited contractual leverage when negotiating access agreements with mobile wallet providers due to their size and market power disparity with the technology giants.

This results in contract terms and access arrangements that may disadvantage banks. However, due to consumer expectations around mobile wallet provision, banks are increasingly forced to accept mobile wallet access on the provider's terms. In particular, some COBA members have highlighted Apple Pay dominance and access to Apple NFC capability as a significant impact on competition. The high cost of imposed on banks by mobile wallet providers for the customer use of this payment method also impacts on the competitiveness of the COB sector. This is particularly relevant in light of the RBA's recent decision to reduce interchange fees for card issuers.

COBA considers that mobile wallet providers with substantial market power should be subject to transparent commercial terms, open and reasonable access to wallet functionality, clear dispute resolution mechanisms, regulatory oversight and equitable pricing.

Other considerations

The following issues warrant consideration because each affects the cost, security or competitive accessibility of payment services provided by smaller ADIs.

Payment system access

COBs depend on a small number of third-party service providers for access to crucial payment systems and services, including BECS, the NPP, card payment infrastructure, mobile wallet tokenisation services and related fraud, settlement and dispute management capabilities. Although these access arrangements provide valuable services to COBs, they can also result in higher costs, reduced operational flexibility and limited ability to influence technical, commercial and strategic decisions.

The RBA should consider whether existing access models to a wide range of payment systems and services create barriers to effective participation by smaller institutions, particularly where access depends on commercial arrangements with infrastructure providers or PSPs that have materially greater bargaining power. Regulatory oversight should support open, risk-based and proportionate access standards that preserve system safety while avoiding access requirements that are unnecessarily complex, costly or difficult for smaller institutions to meet.

Improving access to payment infrastructure would support competition, resilience and consumer choice by enabling COBs to offer payment services on more comparable terms to larger institutions. It would also help ensure that future investment and innovation in payment systems does not unintentionally entrench existing market power or create additional cost pressures for institutions that already operate at a smaller scale.

BNPL Regulation

BNPL providers should be subject to the same regulatory framework as issuers of other consumer credit providers, including issuers of credit cards and personal loans. Applying consistent regulatory obligations across consumer credit products would promote a level playing field, strengthen consumer protections, and reduce the potential for regulatory arbitrage.

Consumers can face increased risks when accessing BNPL products offered under less rigorous regulatory settings, including the risk of over-indebtedness, inadequate affordability assessments, higher overall transaction costs, and limited transparency regarding fees, charges, default consequences, and credit reporting practices. The ease of access and perceived low-cost nature of BNPL arrangements can also contribute to consumers taking on financial commitments without a full understanding of the associated risks.

There is a need for greater transparency and visibility regarding the consumer impacts of BNPL products, including data on financial hardship, repayment outcomes, complaint trends, and the prevalence of missed payments and defaults. Enhanced reporting and disclosure obligations would support more effective regulatory oversight and better-informed consumer decision-making.

Consideration should also be given to implementing more consistent merchant pricing practices and consumer protections, including transparency around merchant service costs, the treatment of BNPL-related fees within pricing structures, and safeguards against unfair surcharging practices. These measures would help ensure consumers are able to compare payment options effectively and are not disadvantaged by hidden or opaque costs associated with BNPL transactions.

Tokenisation

Further regulatory intervention would support competition, portability, and innovation within the tokenisation ecosystem, through:

- the allocation of dedicated token BIN (Bank Identification Number) ranges for payment tokens, distinct from underlying card BINs, to improve transparency, consistency, and interoperability across tokenisation frameworks; and
- requirements on token service providers and token platforms to enable the simple, timely, and efficient decoupling of customer tokens, allowing tokens to be transferred or re-associated without unnecessary technical, commercial, or contractual barriers.

These measures would facilitate the portability of payment credentials and enable the migration of tokens between different card management system endpoints.

Agentic commerce

There are various financial safety factors that should be considered in relation to the use of AI agents for e-commerce payments. These include:

- Clear identification and disclosure of financial risks associated with transactions undertaken by AI agents on behalf of consumers;
- The establishment of robust and transparent liability frameworks for transactions initiated or authorised by autonomous agents, to provide clarity on:
  - where fraud liability sits when an agent authorises a transaction based on the consent from the cardholder; and
  - responsibility and liability for losses arising from rogue, erroneous, manipulated, or unintended AI agent behaviour; and
- The need for clear, informed, and transparent consumer consent mechanisms.

Cryptography

COBs face numerous challenges in uplifting cryptography and broader cyber security practices to meet evolving industry standards and regulatory requirements, including:

- Upgrading legacy systems to comply with new security and cryptographic standards, which can require significant investment and operational effort;

- The continued use of legacy payment devices across the community, which may not support modern security requirements and can complicate implementation of industry-wide changes;
- Limited key translation capabilities and practices within the payments ecosystem, creating challenges for interoperability and migration activities;
- A shortage of specialised technical expertise, particularly in cryptography and cyber security, making it more difficult for some institutions to implement and maintain required controls; and
- Dependence on third-party vendors, including major card schemes, which often have lengthy development, certification, and implementation timeframes that can delay the delivery of necessary security enhancements.

Card not present (CNP) fraud

A broader regulatory response should be considered by the RBA in response to increased overseas CNP fraud. International card scheme participants and overseas merchants accessing the Australian payments system should meet security standards equivalent to those applied to Australian participants. This could include the use of strong customer authentication measures, such as two-factor authentication, and other fraud prevention controls designed to reduce the risk of unauthorised transactions.

Establishing more consistent security requirements across domestic and international payment participants would help reduce fraud risks, improve consumer protection, and support a more secure and trusted payments ecosystem. It would also help ensure that Australian institutions and consumers are not disproportionately exposed to fraud arising from weaker security practices in overseas jurisdictions.

Thank you for the opportunity to provide comment on this consultation. If you wish to discuss any aspect of this submission, please contact Alexander Woloszyn, Policy Manager (awoloszyn@coba.asn.au).

Yours sincerely

MICHAEL LAWRENCE
Chief Executive Officer

About COBA

COBA is the industry association for Australia’s customer-owned banking sector, representing mutual banks, credit unions and building societies. Collectively, the sector holds more than $200 billion in assets and is a significant provider of household banking products. Our members range in size from less than $200 million in assets to approximately $25 billion, yet all remain substantially smaller than their ASX-listed competitors.