

30 January 2026

Committee Secretary
Standing Committee on Economics
PO Box 6021
Parliament House
Canberra ACT 2600

Via email: economics.reps@aph.gov.au

Dear Committee Secretary

House of Representatives Standing Committee on Economics Inquiry into Schemes, Digital Wallets and Innovation in the Payments Sector

The Customer Owned Banking Association (COBA) welcomes the opportunity to provide a submission to the House of Representatives Economics Committee Inquiry into the payments sector.

COBA is the industry association for Australia's customer owned banks (mutual banks, credit unions and building societies). Collectively, our sector has over \$190 billion in assets and is the fifth largest holder of household deposits. Our members range in size from less than \$200 million in assets to around \$25 billion in assets.

COBA supports a competitive, efficient payments system that delivers value for all participants across the value chain. Any reform to the payment system must be proportionate, targeted and consistent with broader public policy objectives.

Changes to card payment costs should not disproportionately affect small issuers

COBA remains concerned that the Reserve Bank of Australia's proposal to reduce interchange fees for card issuers¹ will disproportionately affect small issuers, particularly customer-owned banks.

COBA does not support the proposed reductions to interchange fee caps for domestic debit, credit and prepaid cards for smaller banks, as these changes risk undermining competition, innovation and consumer choice in banking and payments.

For small card issuers, including customer-owned banks, a reduction in interchange fees would materially reduce already constrained revenue, at a time when issuance costs are rising and remain significantly higher than those faced by large issuers. For many customer-owned banks, existing debit card interchange fee revenue already falls short of issuance costs. Further reductions would exacerbate these losses, directly impacting the viability of card issuance by smaller issuers and therefore competitiveness across the ecosystem. Unlike larger banks, customer-owned banks have limited capacity to absorb or cross-subsidise these costs from other business lines, increasing the

¹ See: <https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/2025-07/>

likelihood that costs will ultimately be passed on to customers through higher account fees, reduced investment in fraud prevention, and weaker digital and financial inclusion outcomes.

In contrast, large card issuers are less exposed to the impacts of the RBA's proposal given their lower per-unit issuance costs, greater scale over which to spread fixed costs, and their ability to rebalance lost issuer revenue against merchant acquiring activities, which are largely unaffected by the proposed reforms. As a result, the proposal risks entrenching existing market power and widening the competitive gap between large and small banks.

More broadly, the RBA's proposal also directly undermines the Government's stated objective of supporting the growth and competitiveness of small banks, as set out in the 2025 Council of Financial Regulators' (CFR) review into small and medium banks.²

Small card issuers should be exempt from interchange fee reductions

An effective solution to our concerns with the proposal to reduce interchange fees for card issuers is for the RBA to maintain the current interchange fee arrangements for small issuers.³

This targeted tiered approach would preserve small issuer competitiveness at minimal cost to the broader market. The RBA can still achieve its broader objective of lowering overall merchant costs given the limited market share of small issuers – the CFR Review found that the smallest 74 banks, most of which are customer-owned institutions, account for only 6% of the banking system⁴ – and it would avoid further concentration of retail customer market share in the hands of the major banks. This approach would recognise that small issuers face structural disadvantages but play an important role in providing competition, innovation and choice for Australian consumers.

Account to account (A2A) payment systems must remain competitive, secure, reliable, cost effective

COBA believes that the A2A payments system should offer:

- 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,
- strong industry coordination and buy-in for any transition away from the Bulk Electronic Clearing System (BECS), and
- a core focus on resilience, safety, and fraud prevention, especially as digital adoption accelerates.

In considering the future of A2A payments, including a transition from BECS to the New Payments Platform (NPP), Government and industry must ensure that service and processing costs remain competitive. While almost all customer-owned banks utilise the NPP, BECS continues to be highly valued by customer-owned banks due to its efficiency, stability and very low per-transaction costs, particularly for high-volume payments on behalf of end-users such as government agencies and large corporates. By contrast, NPP pricing remains materially higher. For customer-owned banks, this cost differential represents a significant barrier to migration and risks placing upward pressure on customer prices if not addressed. COBA therefore encourages further industry and regulatory review of NPP cost-recovery arrangements, including as part of the current review of the future of A2A payments, to

² See: <https://www.cfr.gov.au/publications/consultations/2025/review-into-small-and-medium-sized-banks/>

³ For example, those with less than 1,000,000 debit cards on issue.

⁴ See: <https://www.cfr.gov.au/publications/consultations/2024/review-into-small-and-medium-sized-banks/review-into-small-and-medium-sized-banks.html>

ensure equitable participation and to avoid disproportionate financial impacts on smaller institutions and their customers.

Reliability and accessibility are also critical considerations. A2A payment systems must deliver consistently high levels of availability and performance, particularly for time-critical and high-volume transactions such as salary and welfare payments. Any future A2A framework must at least meet, and preferably exceed, the reliability, resilience and service standards currently delivered through BECS to maintain end-user confidence and trust in Australia's payments system.

Access to digital wallets must be available on fair and transparent terms

Digital wallet functionality for customers is increasingly seen as a core offering for banks in the retail payments marketplace, however, for customer-owned banks, which typically operate at a smaller scale and with limited bargaining power compared to major banks and global technology firms, current digital wallet market dynamics present particular challenges.

A small number of globally dominant digital wallet providers set access conditions, pricing structures and technical requirements on a largely non-negotiable basis. This creates a significant power imbalance and can result in opaque processes, disproportionate costs and restrictive terms that are especially burdensome for customer-owned banks. Without clearer transparency and fair, cost-effective access arrangements, there is a risk that customer-owned banks' ability to compete, innovate and offer digital payment options to their members will be constrained, ultimately reducing consumer choice and competition in the retail banking and payments market.

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

Yours sincerely



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