

Monday, 6 February 2023

Assistant Treasurer
Minister for Financial Services
The Hon. Stephen Jones MP
PO Box 6022
House of Representatives
Parliament House
Canberra ACT 2600

RE: Treasury consultation on 'A Strategic Plan for the Payments System'

Dear Minister,

Airwallex welcomes the opportunity to respond to Treasury's consultation paper on 'A Strategic Plan for the Payments System' and looks forward to working with the Government as it develops its reform program.

Australia is, unfortunately, not among the top five in the global fintech rankings today. We commend the Government for taking constructive steps to address issues holding the country back from having a world-leading and competitive payment system.

Airwallex is a homegrown payments company born in Melbourne in 2015. We now have more than 200 employees based across Australia, with substantial offices in Melbourne and Sydney, and plans to grow our headcount locally by almost 50 per cent in 2023. We plan to have close to 300 employees (including senior executives) in Australia. We are also invested in supporting Australia's pipeline of science and technology talent, including through our multi-year scholarship partnership with the University of Melbourne.

Airwallex can help shape the future of Australia's payments system

With Airwallex's experience in Australia, our growth beyond Australia's borders, and our commitment to investing in Australia, we want to play a constructive and active role to help shape the future of Australia's payments system.

We want to foster additional competition and ultimately deliver benefits for the tens of thousands of businesses and their millions of customers who make payments everyday.

In developing the Government's Strategic Plan for the Payments System, I urge you, Minister, and your colleagues, to pursue an ambitious agenda that will remove barriers to entry and encourage and promote competition, leading to better services, better products and lower costs for businesses and their customers. We see this as a win-win proposition.

A new payments licensing regime is key

Airwallex respectfully submit that the most urgent priorities are to:

1. promote competition by adopting a new payments licensing regime that encourages new entrants to the market, allowing them to compete with incumbents on a fair and equitable basis; and
2. accelerate the timetable by committing to clear dates for reforms to give new and existing payments service providers certainty, to aid them in developing their own growth and development plans for their operations in Australia.

Australia's payment system and the international components to it affect nearly everyone everyday. The industries affected by the system and its components span from e-commerce to trade and logistics, banking and software as services. Whether you're buying clothes from a company in another country, in a business selling them overseas, wishing to pay for Facebook advertising or other advertising platforms, or a firm managing staff expenses incurred in different countries; we believe that if you're a modern business, you will be using Australian and global payments systems more and more.

Treasury is right to highlight the progress Australia's payments system has made, but much more needs to be done for our country to claim it has a world-class payments system. Unfortunately, Australia's current payment system has the opposite result and in fact helps entrench the dominance of incumbent players. Australia can do more to prevent incumbents having a cartel-like grip on Australia's payments system.

We submit that Australia will achieve this by modernising the licensing regime. We believe the effect of modernising the licensing regime will attract more senior executives to relocate to Australia and thereby the entry of new players into the market.

Small and medium businesses that Australians rely on pay tens of millions of dollars each year in higher payment costs because the current system discourages competition. Those higher costs are passed on to everyday Australian consumers and their families.

If Australia wants to help tackle the cost of living issues families are now facing, reforms to the payments system will save Australians millions each year. The most effective way to do this is by reforming the licensing regime to encourage new entrants that will compete with the incumbents, pushing prices down.

Under the current licensing regime stored value facilities require a restricted banking licence. A new licensing system however needs to reflect that stored value facilities are not banks and do not offer banking services. That means that the requirements placed on banking operators should be different to those placed on stored value facilities.

Should you wish to discuss any element of this response, please contact Airwallex's Associate Director of Corporate Affairs for Australia and New Zealand, Nick Creevey, on 0447 644 957.

We are keen to contribute and be actively involved in the proposed reforms, and welcome the opportunity to meet and participate in any roundtable discussions.

I look forward to the Government's next steps.

Sincerely,



Jack Zhang
CEO and Co-Founder
Airwallex

FEEDBACK ON CONSULTATION QUESTIONS

Background on Airwallex

Airwallex is a global payments and financial platform for modern businesses. We remove the unnecessary friction and cost inherent in the traditional financial system to help entrepreneurs achieve their global ambitions.

Leading companies around the world trust Airwallex to manage everything from payments, treasury, and spend to embedded finance - all in one single platform. Our purpose is to connect entrepreneurs, business builders, makers and creators with opportunities in every corner of the world.

With an international footprint across the Asia-Pacific, Europe and North America, we empower businesses to grow without borders.

Founded in Melbourne in 2015, Airwallex has since grown to over 1300 employees in 19 locations around the world. Airwallex has around 200 staff in Australia, with plans to grow by adding about 90 more employees locally in 2023, by up to 500 globally.

In November 2022, Airwallex was valued at US\$5.6bn (~AU\$8bn).

International comparisons

We applaud the Government in taking its first step, by acknowledging that *“the regulatory architecture governing payments needs to be updated to reflect the changing landscape,”*¹ and Airwallex’s position is that progress on the issues identified in the consultation paper will remove many of the barriers holding Australia back from being a world leader in payments.

The most recent edition of the Global Fintech Rankings² positions Australia at number six, with a score well behind the United States and the United Kingdom, and in the APAC region behind Singapore. Australia scored 13.73, while the US scored above 69, the UK 38.71, and Singapore 15.83. As acknowledged by the Council of Financial Regulators, there are international lessons to be learned from how other jurisdictions legislate and regulate their payments systems³.

¹ Page 5, Treasury consultation paper, ‘A Strategic Plan for the Payments System’

² Findexable, 2021, [Global Fintech Rankings Report](#)

³ Page 2, Regulation of Stored-value Facilities in Australia, Conclusions of a Review by the Council of Financial Regulators

With global services covering more than 150 countries and operating from 19 locations, Airwallex has had extensive experience with international payment systems. We look forward to partnering with the Government to improve Australia's payment system.

Lastly, we encourage the Government to implement the new reforms by acknowledging that Australia's payments system is not, and does not promote competition; and that it is necessary for Australia to do more than only "maintain"⁴ its current reputation. Australia should, instead, seek to deliver truly world-leading payments regulation that best serves the needs of Australian businesses and everyday consumers.

⁴ Page 5, Treasury consultation paper, 'A Strategic Plan for the Payments System'

Consultation question 1: What are your views on the proposed key principles?

Airwallex supports the proposed key principles - efficiency, innovation, accessibility and trust - and recommends that 'accessibility' should be a key focus for the first iteration of the Strategic Plan.

We agree that 'efficiency', 'innovation', 'trustworthiness' and 'accessibility' are key principles that should underpin the Strategic Plan.

In particular, Airwallex strongly agrees with the value the Consultation Paper places on 'accessibility' as a key principle. This is because that principle endorses the removal of barriers to entry and encourages payment service providers to innovate. With full transparency, lower costs and greater choice of payment products and services in the Australian market, these will empower consumers and businesses and enable them to grow their businesses globally, directly contributing to Australia's economic growth.

Consultation question 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.

Airwallex agrees with the list of key priorities that have been laid out, particularly the focus on *"ensuring the regulatory framework is fit-for-purpose and promotes competition"*⁵.

Airwallex suggests that updating the current regulatory framework should be the Government's foremost priority, with a strong focus on making the payments system more accessible.

Airwallex welcomes the articulation of the proposed key priorities for the Strategic Plan, and encourages the Government to commit to Treasury's proposal that those priorities will be regularly reviewed and updated in consultation with industry.

The Consultation Paper outlines that the introduction of a new, tiered payments licensing framework for payment service providers is a component of those key priorities – this is something that Airwallex strongly supports.

⁵ Page 10, Treasury consultation paper, 'A Strategic Plan for the Payments System'

While the Government has attempted in the past to reform certain regulations to encourage more competition in the financial sector, we submit that such reform has not entirely been successful; particularly for payment service providers who wish to offer stored value facilities to Australian businesses and consumers as an alternative to using traditional banks.

For example, the Government amended the Financial Sector (Shareholding) Act 1998 in 2018 stating that “removing perceived barriers to entry in the sector should encourage greater start-up activity with the intention of increasing competition and offering consumers more choice in this critical part of the Australian economy”.⁶ The Government attempted to achieve this by raising the threshold for when an “unacceptable shareholding situation” arises from 15 per cent to 20 per cent and introducing a “streamlined” approval process for financial sector companies with assets under \$200 million where a shareholder, together with their associates, own more than this threshold. The list of associates of a shareholder is too broad, covering their family members as well as people who sit on the same board as the shareholder. We encourage the Government to review and reconsider the definition of “associate” to only capture those that are truly related to the relevant shareholder in question.

The 2018 amendment did not go far enough to support successful start-ups. This is because it ignored the fact that successful start-ups require flexibility in respect of how they raise capital to fund innovation and growth. It prevents shareholders from having representation on the board of start-ups because the associate test aggregates shareholding interests of unrelated parties triggering unacceptable shareholding situations. This is unattractive to foreign investors who view this as draconian, limiting potential additional follow-on investment in Australian payment service providers by the relevant shareholders.

We recommend the Government remove barriers (such as the one noted above) as an element of the Strategic Plan. More specifically, if a tiered licensing regime is to be introduced for payment service providers, then ownership restrictions ought to be repealed for all tiers to encourage competition and growth in the market. If payment service providers do not have the freedom to grow to compete with the incumbents, this will only work against Australian businesses and consumers who will face higher costs of using the payments system.

⁶ Paragraph 1.4, [Explanatory Memorandum](#), Treasury Laws Amendment (Financial Sector Regulation) Bill 2018

Consultation question 3: What are your views on the proposed key supporting initiatives? Are there other initiatives that could be included in the Plan?

Consultation question 4: Do you have any feedback on the proposed approach for any of the initiatives?

Consultation question 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?

Airwallex recommends the Strategic Plan should commit to specific timeframes for the completion and progress of the key priorities in order to provide certainty to the industry.

There has been a lot of discussion about reforming the payment system but little action. Now is the time to commit to regulatory reform that fosters a competitive payment system in Australia.

Airwallex agrees with Treasury's approach to itemise key initiatives associated with its priority areas, and in finalising the roadmap, Airwallex recommends the Government detail the proposed timeframes for completing the various workstreams. This will be important for public accountability, and to provide certainty to the payments industry.

We welcome the work Treasury has done in the Consultation Paper to advance the finding of the Payments System Review that the current regulatory framework is based on "outdated"⁷ concepts of payment products and payment services. Specifically, the current legislative and regulatory tools available to the RBA, APRA and ASIC are too complex and in need of modernisation. Accordingly, Airwallex strongly supports the key initiative in the Strategic Plan to introduce a payments licensing regime.

As has been highlighted in reports to government, currently, there is significant overlap between the regulators, which is unnecessarily complex for payment service providers who operate in Australia. Simplification of the existing regulatory regime is important to further reducing barriers to entry and promoting competition in the sector.

⁷ Page 36, Payments System Review

Finally, Airwallex notes that there is little detail in the proposed timelines and encourages the Government to commit to clear dates to complete the consultation period and introduce new regulation to modernise the payment licensing regime.

Consultation question 6: What are your views on the proposed review process and engagement arrangements?

Consultation question 7: Are there any other sections or topics that you would like to see added to the Plan?

Airwallex agrees that the proposed review arrangements for the Plan are appropriate, but that those reviews would benefit from involvement of the Treasurer of the day.

Airwallex recommends that the Government adopt the recommendation from the Payments System Review to appoint a 'payments system convenor' to help drive implementation of the Government's finalised Strategic Plan for the Payments System.

Airwallex supports an annual report on the Plan and the Government committing to update the Plan, its progress and focus initiatives each year.

Given the increasing importance of the payments system to the everyday lives of Australians, Airwallex proposes that it is a requirement that the Treasurer invite industry participants for consultation with the sector as a part of its review of the Plan each year.

Airwallex believes the Minister for Financial Services of the day is the appropriate ministry to oversee and administer the payments sector, but that the growth of importance of the sector to the Australian economy makes it appropriate that the Treasurer be co-opted in the Plan's annual review. This also helps guarantee the sector's representation in Cabinet.

Airwallex also supports the introduction of a payments industry convenor as outlined in the Payments System Review⁸. The role of this convenor would be an important conduit for the industry to ensure the effective functioning of Australia's payments system, and would ensure that there is a dedicated appointee driving the implementation of the Strategic Plan for the Payments System and its important initiatives.

⁸ Page ix, Payments System Review