7 August 2026

Mr Ellis Connolly
Head of Payments Policy Department
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Sydney NSW 2001

via email: pysubmissions@rba.gov.au

Dear Mr Connolly

Review of Payment Systems Regulation – Issues Paper (June 2026)

The Australian Small Business and Family Enterprise Ombudsman (ASBFEO) welcomes the opportunity to make a submission to the Reserve Bank of Australia's (RBA) Review of Payments System Regulation.

Australia's payments ecosystem is undergoing rapid structural change, driven by integrated commerce/e-commerce platforms, embedded finance, digital wallets and emerging AI-enabled commerce. While these developments aim to improve efficiency and consumer convenience, there is a risk they could reduce competition, limit merchant choice and create new financial safety risks for small businesses if regulatory settings do not evolve accordingly.

ASBFEO is concerned that the combined effects of increasingly integrated payment ecosystems, the upcoming ban on card surcharging, and the emerging use of AI purchasing agents could reduce small businesses' ability to choose, compare and negotiate payment services. As payment functionality becomes more embedded within digital platforms and purchasing decisions become increasingly automated, small businesses may face higher switching costs, reduced access to least-cost payment options, and fewer opportunities to negotiate competitive payment arrangements.

Small businesses, which comprise more than 97 per cent of Australian businesses, are particularly exposed due to their limited bargaining power, fewer technical resources and reduced ability to identify, assess and mitigate risks associated with new payment technologies. They also have limited influence over how emerging payment technologies are designed, implemented and governed.

Of the issues identified in the Review's Issues Paper, two of the most significant for small business are barriers to merchant choice in payments due to integrated platforms, and the emerging use of AI-enabled commerce.

1. Integrated platforms can create barriers to merchant choice

Integrated platforms increasingly bundle payment services with accounting, payroll, point-of-sale and e-commerce solutions. While these arrangements can improve efficiency, they can also make payment costs less transparent and reduce the ability of small businesses to compare providers, negotiate pricing and switch to lower-cost alternatives.

The ASBFEO supports the Issues Paper's focus on merchant choice of payment providers. Small businesses have a higher uptake of these types of payment services due to the perceived lower cost of a flat rate and the ability to integrate into their businesses administration systems, as services are bundled within integrated business platforms that combine payment processing with e-commerce, point-of-sale, accounting, payroll and other business management tools.

As legacy payment systems are decommissioned and new technologies adopted, payment system reforms should preserve merchant choice, support competition, and ensure that small businesses have practical, affordable pathways to adopt new payment solutions without being locked into a single provider or business model.

While these payment platforms simplify business operations, they can create significant switching costs. Merchants may be required to use the platform's preferred payment processor or face higher integration costs, reduced functionality or loss of business data if they seek alternative providers. This can substantially weaken competition between payment service providers and reduce the practical effectiveness of least-cost routing (LCR), particularly in e-commerce.

LCR enables debit transactions to be processed through the lowest-cost available network, helping reduce payment acceptance costs for merchants. The effectiveness of LCR is diminished where integrated platforms, digital wallets or emerging AI-enabled payment systems limit merchant control over routing decisions or favour preferred payment networks over lower-cost alternatives.

The RBA has previously found that merchants using LCR generally experience lower debit card acceptance costs, with the greatest benefits flowing to small merchants. The RBA has consistently identified merchant routing choice as a key mechanism for promoting competition between debit networks, noting that LCR reduces merchant payment costs and increases competitive pressure on payment providers. It has also recognised that payment gateways and third-party providers play a critical role in determining whether merchants can access LCR, particularly for online payments.[1]

Integrated platform arrangements may increasingly limit merchants' ability to exercise routing choice by embedding payment acceptance within proprietary software and hardware, restricting access to alternative payment providers, and making it technically, contractually, or commercially difficult to enable LCR. These arrangements can reduce merchants' capacity to negotiate more competitive acquiring or payment processing services, increase switching costs, and reinforce reliance on a single integrated provider.

As integrated platforms expand their role in delivering end-to-end payment solutions, these constraints may weaken competitive pressure between payment service providers and diminish the effectiveness of LCR as a mechanism for promoting price competition and lowering payment acceptance costs for merchants. This is particularly significant as commerce increasingly shifts towards online, mobile and embedded payment environments.

2. AI agents in e-commerce transactions introduce new competition and financial safety risks

AI-enabled commerce presents a second emerging risk. As AI agents increasingly influence or play a role in purchasing decisions, they may reduce merchant control over payment routing, undermine LCR outcomes and increase uncertainty regarding chargebacks, fraud and liability where transactions occur with limited human oversight.

[1] Dobie, B & Watson, B 2024, *The Effect of Least-cost Routing on Merchant Payment Costs*, RBA Bulletin, April, Reserve Bank of Australia, Sydney, accessed 3 August 2026.

The ASBFEO considers this area should be a regulatory priority for the RBA's 2027 work program because it has the potential to materially affect competition, efficiency and financial safety across the payments system. Without appropriate safeguards, AI-enabled developments may increase costs for small businesses, weaken competitive pressure between payment providers and shift emerging technology risks onto those least able to absorb them.[2]

As Australia's payments ecosystem modernises, small businesses face increasing barriers to shopping around for payment services and managing emerging technology risks. The ASBFEO's experience with chargeback and dispute-related cases suggests that AI-enabled commerce could increase fraud, disputes and liability uncertainty if appropriate safeguards are not established.

The Issues Paper identifies AI-enabled commerce as an emerging area where consumers may increasingly rely on AI agents to search for, compare and purchase goods and services. While these technologies may improve efficiency and convenience for consumers, they also risk reducing merchant choice, increasing fraud and chargeback disputes, and creating uncertainty on legal liability where purchasing decisions are made or influenced by AI.

ASBFEO encourages the RBA to prioritise this area to ensure existing regulatory settings continue to promote competition, financial safety and clear accountability across the payment's ecosystem.

<u>Reduced merchant choice in payment routing</u>

AI purchasing agents may optimise transactions according to commercial arrangements embedded within the digital platform, rather than the merchant's preferred payment routing or lowest-cost payment option. These AI agents are invisible to both merchants and consumers, reducing their ability to make informed choices about payment instruments, payment networks or payment service providers.

This development risks undermining long-standing regulatory objectives promoting merchant choice, network competition and LCR. The ASBFEO considers that merchants should retain the ability to specify preferred payment routing rules, regardless of whether payment instructions originate from consumers or AI agents.

<u>Increased risk of chargeback disputes and fraudulent purchases</u>

AI-assisted commerce may also increase the incidence of disputed transactions. Errors in AI decision-making, unauthorised purchases, mistaken product selection or manipulation by malicious actors may all contribute to higher chargeback volumes.

For many small businesses, chargebacks represent a significant financial and administrative burden.[3] The ASBFEO continues to receive requests for assistance relating to chargebacks and payment disputes, highlighting the practical challenges small businesses face in managing payment risks.

[2] Reserve Bank of Australia, *Review of Payments System Regulation: Issues Paper*, June 2026.
Australian Small Business and Family Enterprise Ombudsman, *Review of Merchant Card Payment Costs and Surcharging*, September 2025.
Australian Small Business and Family Enterprise Ombudsman, *Inquiry into Schemes, Digital Wallets and Innovation in the Payments Sector*, January 2026.
[3] Mastercard 2025, *What's the True Cost of a Chargeback for Businesses?*, accessed 3 August 2026.

While small businesses generally support payment system modernisation, they are the least able to manage the costs, complexity and risks associated with new payment technologies and regulatory change. Small businesses often lack the resources to investigate and respond to disputes, have limited scope to absorb the loss of revenue and goods or services already provided, and can face dispute-handling fees that exceed the value of the original transaction.[4]

Payment system rules should therefore ensure that liability frameworks appropriately reflect situations where purchasing decisions are initiated or materially influenced by autonomous AI agents, rather than solely by consumers.

Uncertainty regarding legal liability

Current payment and consumer protection frameworks generally assume that payment instructions originate directly from an identifiable consumer. AI agents challenge this assumption by introducing additional parties into the transaction chain, including AI developers, platform operators, merchants, payment service providers and consumers.

Without greater legal certainty, disputes may arise regarding responsibility for:

- unauthorised transactions
- AI-generated purchasing errors
- fraudulent manipulation of AI agents
- inaccurate product recommendations
- payment routing decisions
- consumer redress.

The ASBFEO considers that liability in AI-enabled payment ecosystems should rest with the party exercising meaningful control over transactional decision-making. Meaningful control includes the ability to influence the steps and safeguards applied by AI systems to make purchasing or payment decisions. Clear and transparent liability frameworks are required to ensure consumers and small businesses do not bear disproportionate losses arising from opaque AI processes.

As agentic commerce becomes more prevalent, the RBA should prioritise regulatory settings which preserve merchant choice, support competition and LCR, and establish consistent, transparent dispute resolution pathways for AI-facilitated transactions. Without clear safeguards, AI-driven payment decisions risk increasing chargebacks, fraud exposure and uncertainty in the chain of liability for small businesses.

If you require any further information, please do not hesitate to contact the Policy and Advocacy team via email at advocacy@asbfeo.gov.au.

Yours sincerely

Lynda McAlary-Smith

Australian Small Business and Family Enterprise Ombudsman

[4] Mastercard 2023, *Chargebacks Made Simple Guide*, Mastercard, accessed 3 August 2026.