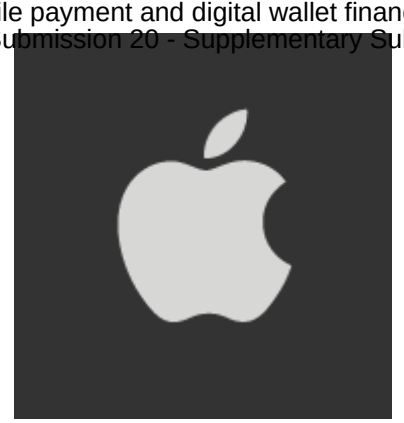

Parliamentary Joint Committee on Corporations and Financial Services - Mobile Payment and Digital Wallet Financial Services Inquiry

The Facts About Apple Pay

Apple Pty Limited

Apple is deeply committed to upholding the values of a fair and competitive market. Comments made during recent public hearings included misleading and false statements about Apple Pay and our business in Australia which Apple seeks to correct.

At Apple, the customer remains our focus, and our approach, technical architecture and user experiences are designed to improve our customers' daily lives with simplicity, privacy and security at the heart of everything we do. Sadly, it is evident from comments made during this inquiry that Apple's focus on what's best for customers is not always a priority shared by others. We believe we should all have a shared stake in working towards a future that encourages innovation, choice, security and privacy where consumers benefit.

Apple introduced Apple Pay with a bold but straightforward goal: to digitise our customers' wallets and allow them to carry and use all of their payment cards, loyalty cards, car keys, tickets, boarding passes and other cards, more securely on iPhone and Apple Watch. To do this, Apple created a unique and differentiated technical architecture, one that would protect personal information, provide consumers with an easy way to choose which card they want to use, and most importantly use the highest level of security.

Apple Pay is simple to use and underpinned by the most extensive privacy and security measures in the industry. Apple believes privacy is a fundamental human right, and a strong foundation of security is central to this. Apple Pay uses a range of technologies—hardware like the secure element chip, and software that includes cryptograms, tokenisation, and biometric authentication—to fight against fraud and make transactions more secure than ever before. Since launch, Australian banks and the payments industry have consistently confirmed that incidences of fraud are near zero on Apple Pay thanks to this unique, powerful and superior combination of hardware and software that's unmatched by our competitors.

Apple's relentless focus and proven capability to deliver advanced privacy and security, alongside a customer experience that's simple, convenient and aids competition, are critical facts to include in any fair assessment of mobile payments and digital wallets.

Apple Pay is Pro-Competitive

When developing Apple Pay, Apple chose a unique architecture to enable consumers to easily switch between cards issued by different banks whilst a) still supporting contactless payments initiated from third party apps and b) enabling non-payment uses of NFC technology such as car keys, loyalty, access to events, tickets and health insurance cards. Apple's pro-competitive technical architecture provides consumers, merchants and developers with greater choice, supporting cards and use cases from thousands of providers.

It is exactly this ease of switching cards that some banks are hoping to prevent by calling for an architecture that gives a single bank app control of the NFC functionality on Apple devices to the detriment of other banks and non-bank developers. They are asking Apple to make switching between cards from different banks cumbersome for customers. This erodes consumer choice and competition among banks. It is especially detrimental to smaller banks and new entrants into the payments industry. Traditionally, only large financial institutions had the means to create a digital payment option. Apple Pay is offered to all banks on a level playing field basis so Apple Pay significantly reduces the barrier to entry for banks to create mobile payment propositions. The smallest banks in Australia (including those without a banking app) can enjoy equal exposure in Apple's user experience to the largest incumbent banks, making it easy for customers to choose among them. In Australia we have worked with over 100 financial institutions to bring their cards and competitive offerings to customers via Apple Pay.

Calls by some banks to regulate and require that Apple adopt the same approach as its main competitor, Android, stifles competition, reduces innovation, and deprives customers of a better, more secure experience.

Near Field Communication

The scrutiny Apple has faced on this topic is largely driven by companies seeking to mischaracterise Apple's technical and customer-experience led approach for their own commercial gain.

It is incorrect to say Apple reserves or makes access to NFC unavailable. Banks and others can access NFC functionality from their iOS apps today via Apple's APIs which enable banks to offer differentiated and innovative experiences whilst still providing consumers with superior security, privacy and the ability to easily switch between card providers and non-bank use cases. Afterpay is an example of the innovative and differentiated experience that's possible without ceding control of NFC to a single bank.

In addition, Apple does not provide uncontrolled access by third parties to the NFC antenna, as this would undermine the seamless customer experience for switching cards and create avenues for third parties to hack into iPhone and Apple Watch, to access the sensitive data stored within these devices.

Apple's model is designed to ensure that all developers, including banks, car manufacturers, loyalty programs and others, have equal access to NFC. This is not the case with the Host Card Emulation (HCE) model which effectively gives one player (potentially a bank) sole control over NFC to the exclusion of their competition (potentially other banks) and other use cases (car keys or a hotel room key). For example,

Commonwealth Bank reports that it is the main financial institution for almost 35%[1] of Australian consumers, more than double the market share of its nearest rival. Allowing Commonwealth Bank to have sole control of the NFC controller would assist them in not only locking out competitors but also prevent innovation around non-bank use cases such as car keys or health insurance cards. Because Apple Wallet enables multiple payment cards to be stored, customers can easily choose between any of the cards at the point of sale without needing to change any settings on the device. Apple's architecture also enables Apple devices to intelligently identify different terminal types (for example transit tollgates and HICAPS terminals) and automatically present the user with the appropriate card, further enhancing the customer experience through convenience. Under the HCE model the customer would have to either find and open a competitor's app in order to make a payment or manually change the one-to-one pairing between the NFC antenna and the developer's app each time they wanted to use a different card. These unnecessary steps would significantly undermine the seamless customer experience and negatively impact market competition.

The cloud-based HCE model has been adopted by hardware competitors, likely because Android software is used in a variety of hardware devices offered from many different companies other than Google, and therefore they had to select a software-centric solution, even though it is less secure. What's more, Google, the developer of the Android operating system, now shares our view that a cloud-based model is less secure than a hardware-based solution[2] and is adopting a hardware-based model similar to Apple's for use cases like Government IDs, digital car keys and e-money solutions.

Some banks claim that the form of access to NFC they get on hardware competitors will allow for greater innovation, yet this is not evident from these banks' existing Android offerings. Banks confirmed at this inquiry the significantly lower usage of their Android digital wallets, which we believe is in part a result of the convoluted user experience. Furthermore, and again contrary to their claims, banks are already providing a more innovative and comprehensive proposition to their customers via Apple Pay compared to their Android offerings. This is thanks to the investments Apple has made in a) providing banks with additional features beyond the core payment experience and b) Australia specific solutions. Enabling the eftpos network for Apple Pay in Australia is an example of Apple's commitment to advancing innovation and supporting the Australian payments industry. All four major Australian banks provide dual network debit cards on Apple Pay for example, which is in stark contrast to the limited support eftpos has on Android-based mobile wallets.

In July, Apple announced the addition of contactless private health insurance cards in Wallet—a world-first—following lengthy collaboration with the majority of Australia's leading health insurers and NAB, the owner of HICAPS. This addition to Wallet further demonstrates the innovation possible through Apple's APIs and NFC access, bringing a more streamlined experience to customers and enhancing the relationship between them and their health insurer.

Alternatives Technologies for Offering Mobile Payments on Apple Devices

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[1] Results Presentation and investor pack, For the full year ended 30 June 2021: https://www.commbank.com.au/content/dam/commbank-assets/investors/docs/results/fy21/cba-fy21-results-presentation.pdf

[2] https://developers.google.com/android/security/android-ready-se

There are many options available to banks that elect to offer mobile payments on Apple devices other than Apple Pay, including mobile payments utilising QR codes and Bluetooth technology. There are a number of successful mobile payment apps and wallets on Apple devices, including PayPal, AliPay, WeChat Pay. In Australia three of the four major banks developed and launched Beem It[3], which has stated that it has more than 1.4 million customers[4], and is now forming the backbone for a national QR payment system for Australia[5].

Market Share
Apple Pay has under a 10% share of all credit and debit card spend across Australia.

The misleading 80% figure shared initially by Commonwealth Bank and cited in future dialogue and media reports does not represent Apple Pay's share of any market. It is simply the percentage of Apple Pay transactions from Commonwealth Bank's overall digital wallet payments at point of sale. This high usage of Apple Pay amongst Commonwealth Bank customers only demonstrates how strongly consumers prefer the convenience, security and privacy provided by Apple compared to the model being advocated by the Commonwealth Bank. This is unsurprising given that Commonwealth Bank CEO Matt Comyn stated publicly in October 2019 that launching Apple Pay was the number one customer request when he asked customers what he should prioritise when he was appointed into his role. The low usage of digital payments via Android reported by Commonwealth Bank further exemplifies the convoluted experience offered on this platform, and invalidates claims by banks that Android's open access to NFC paves the way to greater innovation.

Fees and Infrastructure
Central to some banks' advocacy for open access to NFC is the pursuit of an anti-competitive model that's detrimental to the customer experience, and an opposition to fair and reasonable fees.

Apple Pay is often mistaken for a payment service or a payment app when it is actually the technical architecture and a series of APIs developed to allow banks to offer their customers the ability to make mobile payments with their cards. The ongoing investment and advancement of this unique infrastructure is significant, and Apple charges banks a small fee on a level playing field basis. The largest banks in Australia pay exactly the same as the smallest and all banks enjoy equal access in terms of usability and prominence. Apple's fees are no different to the fees that banks pay other service providers. In 2014 the Reserve Bank of Australia's publication, 'The Evolution of Payment Costs in Australia[6]' estimated that Australian financial institutions incurred approximately $3 billion in payment-related costs every year. Apple Pay fees would represent a tiny fraction of this and the service is one of the most popular digital innovations offered by banks to their consumers.

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[3] https://www.afr.com/companies/financial-services/eftpos-buys-beem-it-to-expand-into-digital-wallets-20201103-p56b1h

[4] https://www.eftposaustralia.com.au/news/new-beem-it-ceo-kicks-plan-national-aussie-rewards-program-0

[5] https://www.zdnet.com/article/eftpos-uses-beem-it-acquisition-to-build-out-qr-payment-system/

[6] 'The Evolution of Payment Costs in Australia', Reserve Bank of Australia 2014 https://www.rba.gov.au/publications/rdp/2014/pdf/rdp2014-14.pdf

In addition, the reduction in costs to a bank from near-zero fraud on Apple Pay, the broader savings associated with managing fewer plastic cards and moving customer engagement to more efficient digital channels, make Apple Pay and iOS economically advantageous to banks when compared to plastic.

On the topic of fees, commentary during public hearings suggested Apple applied unreasonable confidentiality terms on banking partners. It is true that we consider our commercial terms and contracts with our partners to be confidential, a standard in nearly every industry. Confidentiality protects both parties and further promotes market competition so that our competitors are not privy to the details of our intellectual property, including how we operate with our partners.

Commentary by Commonwealth Bank suggests the organisation would like the public to believe Apple is unreasonable in both protecting our intellectual property and that we charge unreasonable fees for participating in the Apple Pay program. Of the bank's publicly stated investment in digital experiences and technology in 2020, some $1.8 billion, its investment in bringing Apple Pay to its customers — a service Commonwealth Bank readily admits is very popular and represents 80% of the bank's digital wallet transactions at point of sale — accounted for a tiny fraction of those costs.

Comparisons to Android, which chose to not introduce fees associated with its payment infrastructure, are baseless due to Android's wider business model of monetising the data obtained from monitoring their customers' transactions and behaviour. Apple's business is manufacturing hardware, software and services, not monetising our customers. Banks that prioritise and advocate for a fee-free model are condoning the tracking and monetising of their customers' data.

A recent interview with Ottmar Bloching, the representative of the largest banking group in Germany (the Savings Banks), explained why they had chosen to innovate on the Apple Pay platform in preference to Android. He said that the Savings Banks "preferred Apple Pay" because of its business model which is "clearly not [based on] the use of customer data," while Google "exploits customer data" in their payment solution.

Additional misleading claims were recently made that Apple is "free-riding" off of the investments made into the Australian payments infrastructure. In addition to the significant innovation and investment Apple has made into eftpos as mentioned earlier, it's important to understand that Australian banks benefit significantly from Apple's innovations and investments, including iOS and the App Store which banks have used to dramatically accelerate digitisation of retail banking, while innovations such as Touch ID and Face ID have brought world class security to how consumers authenticate when signing into their banking services.

The widespread adoption of digital banking solutions by customers over the past decade has resulted in a material shift in costs for banks both in Australia and around the world, for example by enabling them to reduce or retire other customer channels. Commonwealth Bank reports that 70%[7] of customer transactions by value are now made in digital channels, and that usage of their CommBank app has grown to 6.4m active users, up from

[7] Results Presentation and investor pack, For the full year ended 30 June 2021: https://www.commbank.com.au/content/dam/commbank-assets/investors/docs/results/fy21/cba-fy21-results-presentation.pdf

5.6m two years ago. As reported some banks are seeing over $1.2b[8] transacted daily through their apps and have restructured entire businesses to prioritise and enhance their app experiences. In the case of iOS, the building blocks of these apps, plus the hardware installed base and the immediate, secure distribution of apps via the App Store, are provided for $99 annually as part of Apple's Developer Program. We are proud that our partners can achieve such amazing benefits and our customers can simplify their daily lives by taking advantage of Apple's seamless and secure mobile technologies. It's clear the use of our mobile technologies used in conjunction with wireless, NFC and many other ecosystem technologies benefits everyone.

[8] The Australian, CBA leads the way in tech, https://www.theaustralian.com.au/subscribe/news/1/?sourceCode=TAWEB_WRE170_a&dest=https%3A%2F%2Fwww.theaustralian.com.au%2Fbusiness%2Fcba-leads-the-way-in-tech%2Fnews-story%2F3dc02bcc95649c250168be6e10400050&memtype=anonymous&mode=premium