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Parliamentary Joint Committee on Corporations and Financial Services: Inquiry into Mobile Payment and Digital Wallet Financial Services.

PO Box 6100
Parliament House
Canberra ACT 2600

[Via email: corporations.joint@aph.gov.au]

Dear Committee Members,

Thank you for the opportunity to provide a further submission to this important inquiry.

eftpos is a mutual style corporation that is not motivated by profit and promotes choice and competition in the Australian market.

As the only Australian-owned separately designated payments system, eftpos is an essential part of the national payments infrastructure and is committed to providing efficient, safe, cost-effective and market-specific payments solutions for the benefit of all Australians.

The Company's Purpose is simple – to do good for Australia.

To that end, eftpos believes it can greatly assist the Australian finance sector and broader economy to thrive and grow by providing low cost access to our network and payments capability over our national, real time processing infrastructure.

Further, low cost access, mobile payments capability, our ability to issue tokens, and the work we are doing with industry around real time digital payments and a ubiquitous Digital Identity solution, have the potential to bring many FinTech solutions to life in the current environment, particularly through mobile payments.

eftpos has invested deeply in the mobile ecosystem, having purchased Beem It, the Australian payments App that enables consumers to send and receive money using their phone in seconds, in November 2020 to help diversify the eftpos Group business and move further into the digital ecosystem.

eftpos also processes millions of mobile NFC payments a week via mobile Pays such as Apple Pay, Google Pay and Samsung Pay, and operates a tokenisation service (eftpos TSP), to generate tokens for secure mobile payments.

As a key component of the nation's payments ecosystem and infrastructure, eftpos will remain wallet agnostic and work with a wide range of FinTechs and other digital partners to offer a fully digitised payments rail that supports a variety of competing digital wallets and other digital applications to encourage further innovation. To that end, eftpos is already supporting Apple Pay, Samsung Pay and Google Pay and we have seen eftpos mobile transactions grow rapidly year-on-year across all supported mobile ecosystems.

eftpos recently released its *Product Roadmap 2021 Update*, which aims to drive payments competition and improve consumer experiences in Australia's fast-growing digital economy.

A key aim of the Roadmap is to continue to transition eftpos from the card present retail payments business it was a few years ago to a major player at the centre of Australian digital commerce ecosystem.

The eftpos Product Roadmap 2021 Update follows the release of the company's digital and technology strategy in December 2020. It has five key elements: Mobile Wallets; eCommerce; Digital Identity – connectID; APIs and FinTech access; and QR Acceptance & Experiences Platform.

Australians are increasingly turning to shopping online, and businesses are looking to digital innovation to improve productivity and efficiency as the nation continues to deal with COVID-19 and recovery.

By way of example eftpos recently announced that its subsidiary, Beem It, had been selected to build the company's national QR code utility. The new QR code payments capability, which will be offered by eftpos, is expected to be in market as early as July 2021, with multiple merchants in trial.

eftpos QR will provide Australian consumers and merchants with better data-rich payments experiences no matter where they choose to shop – online, on their mobile or at the checkout – or whichever payment type they choose to use.

eftpos and Beem It are designing the new national QR code utility to be low cost and to facilitate many value adds for merchants and consumers such as loyalty, offers and receipts. The national rollout is expected to be completed in 2022.

This will enable consumers to initiate and transact securely with their preferred digital wallet. This innovative multi-interaction connectivity creates a new experience beyond payments, powered by eftpos' emerging APIs.

Further information on the eftpos Roadmap and development of the QR code utility initiative can be found here:

<https://www.eftposaustralia.com.au/news/eftpos-roadmap-update-aims-to-drive-competition-and-improve-consumer-experiences-as-digital-innovation-takes-off>

<https://www.eftposaustralia.com.au/sites/default/files/2021-03/eftpos-Product-Roadmap-2021.pdf>

STATEMENT AGAINST TERMS OF REFERENCE

INTRODUCTION

Competition and access are vital - Growing popularity of mobile payments and debit.

As Australia emerges from the COVID-19 pandemic and the nation's appetite for mobile and digital transactions increases, it is vital that competition and access is properly regulated in mobile ecosystems and platforms to ensure the right balance between promoting competition, innovation, efficiency, safety, resilience and stability of the system and choice for consumers and merchants.

In mobile payments, cards, and debit cards in particular, are by far the most frequently used means of transacting, as people move their physical cards into mobile wallets. In fact, in Australia generally, debit cards are the primary source of competition (70%), as continues to be demonstrated by the RBA's most Retail payments Statistics (March 2021) and this has simply transitioned into the mobile environment as people have provisioned their physical cards into mobile apps and use contactless and mobile payments more since COVID-19.

Anecdotal evidence from merchants and statistical analysis of eftpos' own network indicates that some retailers are now seeing between 10-30 per cent of their point of sale transactions made on NFC mobile devices, up from just a couple of per cent a few years ago. In-app mobile purchases are also growing in

popularity as people move to digital payments. This is further evidenced by numerous industry statements including an announcement by CBA on 19 May 2021¹ which predicted digital wallets were likely to become the most popular contactless¹ way to pay in-store by the end of the year, if current trends continue.

In the debit market, dual network debit cards (DNDCs) are by far the most prevalent (more than 36 million cards), providing merchants with the choice of two schemes and the associated benefits of competition which has had a significant impact by placing downward pressure on the cost of payments in Australia via Least Cost Routing (LCR).

As Australian mobile payments continue to grow and evolve with new technologies and new players, eftpos believes published, enforceable regulation of all participants providing retail and consumer payment systems is needed to ensure a level playing field, support innovation that facilitates competition on these platforms and guarantees the best outcomes and protections for merchants and consumers.

This should include:

- (a) Economic efficiency – choice and transparency provide better cost of payments outcomes for merchants and consumers, holistic enforceable electronic retail or consumer payments regulation is needed including:
 - a. Any innovation in the use of the common access and acceptance “platforms” and “channels” from mobile, such as point of sale, or in-app, through which payments efficiency is maintained, should leave open the possibility of competition;
 - b. Transparency and scrutiny for fair pricing – for all fees, including access fees, scheme fees on all platforms and all participants, so that merchants, consumers, FinTechs, regulators and financial institutions can make simple and informed comparisons and have access to fair pricing;
 - c. Transparency of Scheme and Technical, Operational and Security Rules for participants, within a secure access environment, to avoid potential impacts on competition in all platforms and channels whilst maintaining the security of specifications for critical payments infrastructure;
 - d. Mandate a hierarchy of payments choice, with merchants at the top so they can control their costs of payment acceptance by choosing the rails to be used;
 - e. Mandate dual network functionality, including eftpos, on all form factors including mobile form factors issued by all issuers and in all channels available to merchants for the lifecycle of a debit product;
 - f. Mandate Least Cost Routing (LCR) for all debit transactions in all channels including mobile, unless the merchant specifically requests otherwise (as Malaysia has done).
- (b) Level playing field – maintaining a long-term, sustainable, competitive market:
 - a. Regulation should ensure no technical lockout and no commercial lockout;
 - b. All payments types, channels and platforms should be open to competition;

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<https://www.commbank.com.au/articles/newsroom/2021/05/digital-wallets-contactless-soar.html>

- (c) Enforceable, published regulation
 - a. All regulation should be published, with clear intent, and be transparent;
 - b. Regulation should prohibit conduct that disincentivises the desired regulatory outcome;
 - c. Regulation should be enforceable and enforced; and
 - d. Regulation should be technology/product or service neutral so that it remains fit for purpose as payments evolve.
- (d) Australian regulatory control of strategic national assets – to protect it from external influences and for better outcomes around resilience, efficiency, security and innovation
 - a. All electronic retail or consumer payments and participants should be consistently regulated;
 - b. Clearing and settlement of all debit transactions initiated in Australia should be done through Australian-based infrastructure, such as eftpos, similar to what countries such as Canada, Singapore, South Africa, Nigeria, Morocco, Turkey and Mexico have done, and Vietnam is implementing; and
 - c. Digital identity infrastructure should be required to be onshore, similar to what countries such as Norway, Nigeria, South Africa and the Scandinavian countries have done.

We have provided more specific commentary below on some specific areas important to eftpos in the digital payments and broader FinTech sectors.

DIGITAL WALLETS AND LEAST COST ROUTING (LCR) ON MOBILE

The rise of single network debit cards or digital form factors that can be pushed out electronically threatens to circumvent both the availability of consumer choice and merchant LCR and reduce competition and efficiency in debit payments.

Single network is a particular issue in mobile because not all mobile ecosystems have technically enabled both payment functions (ICS and eftpos) from a DNDC and not all issuers have provisioned both available payment methods from a DNDC. This reduces functionality for consumers, creates a large back book issue for eftpos and routing leakage point for merchants, even though eftpos tokenisation and mobile functionality was available at close to the same time as the ICS mobile functionality.

For consumers, the rise of single network cards has implications for access to services such as Beem It, cash out at some merchants, Medicare refunds at point of sale and could result in higher surcharges at some merchants. It also threatens to circumvent LCR and reduces competition and efficiency in the payment system.

The same regulatory policy issues arise for mobile ecosystems as arise in other payment systems, such as competition, efficiency, access barriers, resilience, certainty of payment, security and appropriately transparent and regulated pricing.

In eftpos' view, any innovation should enable competition and not remove choice for consumers and merchants.

The same principles apply as referenced in the introductory section above.

Despite the Reserve Bank's stated objective to enable Least Cost Routing on multi network debit cards in Australia in order to reduce merchant costs, this functionality is currently not available for Mobile Point of Sale Payments (mobile), or mobile in app payments in this country.

The way that mobile has been implemented in Australia (contrary to other countries such as France) effectively means that the choice sits with the card issuers. This is because card issuers decide which functionality/scheme they enable for their customers and in what order if more than one is enabled.

The design of mobile solutions is such that the default priority of token is given to the International Card Scheme, requiring either the customer to actively change the token order or the merchant to make terminal specific changes to search for a different token (which is not the norm in Australia).

Lack of tokenisation of all payment functions available on a dual network debit card (DNDC) at the same time or at all, means that not only do merchants have no choice when a mobile device is presented for payment, often the consumer also has no choice or is unaware whether they have a choice and how to exercise it.

Experience of other markets including France, USA and Malaysia show that, with an appropriate combination of actions, least cost routing can thrive, driving material cost benefits to all tiers of merchants and in all platforms including online and mobile.

Access to LCR in mobile and digital environments is currently being considered by regulators in the United States².

CHOICE IN PAYMENT SYSTEMS

eftpos has noted that the recent ACCC examination and report on the operation of the Apple App Store and the Google Play Store in Australia identified a number of issues that they have stated warrant attention.

These included terms of access to app marketplaces for app developers (including payment arrangements) and alleged self-preferencing and the use of data.

The ACCC report acknowledges that “These issues affect competition with potentially significant impacts for both app developers and consumers” and identifies, as potential measures, those steps that could be undertaken and states that “regulation may be required if they fail to do so”.

The ACCC report also notes that a number of jurisdictions, particularly in the EU have already, or are proposing to, put in place rules governing the conduct of digital platforms which meet certain thresholds.

As previously stated, eftpos is fully supportive of any interventions that ensure a level playing field, support innovation, facilitate competition and guarantee the best outcomes and protections for merchants and consumers in Australia.

Yours faithfully,

Stephen Benton
Managing Director, eftpos

Ciaran Forde
Acting CEO, Beem IT

² <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20210507a.htm>