

19 May 2021

Committee Secretary
Parliamentary Joint Committee on Corporations and Financial Services
PO Box 6100
Parliament House
Canberra ACT 2600

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

Dear Committee Secretary,

INQUIRY INTO MOBILE WALLETS AND DIGITAL PAYMENTS

The Australian Retailers Association (ARA) welcomes the opportunity to make a submission to the Parliamentary Joint Committee on Corporation and Financial Services' inquiry into mobile wallets and digital payments financial services.

The ARA is Australia's largest and oldest retail industry group and represents around 7,500 independent, national and international members. The ARA is the trusted voice for Australia's \$340 billion retail sector, which employs more than 1.2 million people.

The ARA believes that the payments system should facilitate competition, innovation, efficiency, and merchant choice. As such it is pleasing to see that the Committee is examining the issue of mobile payments and digital wallets, which are likely to have an ongoing and growing impact on retailers as shoppers increasingly engage with new ways of shopping and new modes of payment.

For retailers, competition in the payments system is crucial so merchants can access affordable, secure, and efficient payment solutions that meet the current and future needs of their customers for a fast and secure shopping experience. While digital wallets can bring enhanced customer experiences, they should not be deployed in a way that limits competition, particularly as more and more Australians increase their usage of these modes of payment.

Merchant Choice Routing

The ARA has previously raised concerns about the development of digital wallets and mobile payment solutions which limit the ability of merchants to apply least-cost routing to these transactions.

While the rollout of least-cost routing has been slower than desired, retailers are increasingly being given the opportunity to route transactions on multi-network debit cards down a lower-cost path, enhancing competition between payment schemes and reducing costs for retailers and consumers. Unfortunately, multi-network debit cards are limited from operating in the same way when uploaded to a digital wallet such as ApplePay, GooglePay, or Samsung Pay, due to technological limitations and settings which prevent the operation of these competitive forces.

Currently, even if mobile wallets allow users to upload two versions of the same debit card (supporting both schemes on a multi-network debit card), users are required to choose a default card for transactions. Regardless of whether the consumer passively uses the default card or actively selects the alternate debit card in the mobile wallet, whichever card is presented by the wallet will be the

scheme by which it is processed. This completely overrides the ability of a retailers to apply least-cost routing to the point of sale on these transactions and potentially increases the cost of transactions.

A further limitation applies to early adopters of digital wallets, which initially only had the choice of an international scheme debit card compatible with the technology, with the domestic scheme supporting the technology at a later date. Despite being issued with new multi-network debit cards with new expiry dates from their bank, these early adopters do not need to reupload new versions of their debit card which leaves them still today only with a single (international) scheme debit card on their mobile wallet. The net effect is again that retailers are unable to bypass this technological limitation to apply least-cost routing to transactions which reduces the competitive tension between payment schemes.

Restrictions to Innovation

Retailers are also impacted by limitations on competition and innovation due to restrictions imposed by Apple on its iPhone which effectively leave developers (including retailers) and consumers no choice but to use Apple's own payment application and systems for contactless transactions using Apple mobile phones and technology.

Restrictions on access to near-field communication (NFC) technology on Apple products prevent developers and retailers from using this method of communication, despite NFC being used by most point-of sale terminals at retail stores. This prevents or at least severely restricts the potential for new payments innovations which can be used by retailers and consumers. With about half of Australian consumers using Apple iPhones¹, retailers are directly limited in their ability to develop new payments solutions for their customers, such as streamlining payments within a single app that might link customer loyalty programs, coupon redemption, or additional future innovations to enhance the customer experience in a 'single tap'.

Thank you for the opportunity to make a submission to this inquiry.

Yours sincerely

Paul Zahra
Chief Executive Officer

¹ Statista, Market share of leading mobile device vendors in Australia from 2011 to 2020, accessed <https://www.statista.com/statistics/861577/australia-mobile-device-vendors-market-share/>