

31 March 2014

Financial System Inquiry
GPO Box 89
Sydney NSW 2001
Email: fsi@fsi.gov.au

Dear Sir/Madam

Re: Financial System Inquiry - submission

eftpos Payments Australia Limited (**eftpos**) is delighted to have the opportunity to make this submission in the Government's Financial System Inquiry announced by the Prime Minister on 20 November 2013.

eftpos operates the eftpos PIN debit payment system in Australia, which has been a key component of the Australian payments landscape since the mid-1980s. eftpos provides convenient, low cost, secure, ubiquitous debit card acceptance across Australia and is currently transforming its core infrastructure to provide an Australian payments alternative on new platforms and technology to deliver chip, contactless, online and mobile payments to consumers and merchants.

eftpos, the company, has been incorporated since 2009 and is a company limited by guarantee, operated as a mutual style organisation with membership comprised of major financial institutions, two major retailers and three aggregator payment service organisations (see Schedule 1). Through this membership, all financial institutions and all merchants accepting card based point of sale debit payments are represented.¹

In 2013, there were more than 38 million eftpos enabled cards in the market (comprising eftpos, scheme debit and scheme credit cards), capable of acceptance at more than 780,000 point of sale terminals, generating 2.4 billion eftpos transactions, having an aggregate value of \$135 billion, and representing more than 45 percent of all card transactions by volume in Australia.

Executive summary

- eftpos is an important part of the Australian domestic payments market place. Without a viable domestic payments system, the majority of card payments would be handled by a small number of offshore payment systems, resulting in a loss of domestic influence and control over governance, economics and management of the increasing number of electronic consumer debit transactions occurring within Australia.

¹ The views expressed in this submission are those of eftpos and not necessarily the views of all eftpos members.

- Payments competition and the resulting product innovation, remain important objectives for the Australian community. The growing market power of a small number of offshore payment providers puts at risk the level playing field that is essential to competition, innovation and efficiency in the domestic market. It could also impact the cost to consumers and merchants of electronic payments, given the price differential between domestic and international debit schemes, and also slow down the transition from cash to electronic payments. Transparency and choice are key elements that will ensure a level playing field remains in Australia and that innovation is not used as a technology lock-out to both existing and new market participants.
- Stable, reliable, secure, efficient, Australian-based payments infrastructure is, in our view, critical to the nation. However, the duplication of centralized payments infrastructure can be inefficient and expensive for participants in the event that such infrastructure delivers identical functionality. This should be avoided.

Submission

The payments landscape in Australia has never been so diverse, nor has it seen so many innovations, despite complex and disparate regulation designed to address a range of public policy objectives. The rapid pace of change has seen:

- international payment scheme debit card products, initially offered by credit unions and building societies, now adopted across all tiers of banking;
- the rise of chip cards and contactless payment issuance and acceptance; and
- the introduction of many and varied mobile and online payment methods,

all of which have challenged the very existence of eftpos as a product. Over the past 12 months, eftpos' market share has been impacted by the adoption of contactless technology on scheme debit cards which automatically route these transactions to the international schemes and remove payment choice from both the consumer and merchant. This technology lock-out, combined with mandated issuance and acceptance by the international schemes, is having a material impact on the competitive landscape.

Since being established as a commercial entity in 2009, eftpos has worked hard to provide a more nimble environment for the processing of eftpos transactions and the implementation of new payments product innovation. This innovation capability will be delivered through the development of a new central processing infrastructure, known as the eftpos Hub. From August of this year, the eftpos Hub is expected to begin to replace the current bilateral processing infrastructure that has been in place for the last 30 years, serving all Australians well.

One of the first product developments to utilise this new infrastructure will be our chip and contactless payments technology. This development will provide increased security and functionality to consumers and merchants delivering competitive pressure to the market. We expect this product innovation to be rolled out to consumers and merchants in the first half of FY15, in line with our new Hub capability.

eftpos is also well advanced with the development of its online and mobile payment solution. This product will initially serve the consumer to merchant segment, but is scoped to accommodate the consumer to consumer and business to business segments as well. In-market trials commenced in December 2013 with a release date targeted for 2015. These solutions are also designed to utilise eftpos' new Hub infrastructure and eftpos' secure, low cost, simple, reliable, ubiquitous acceptance model.

In aggregate, these infrastructure and product developments are the key elements of eftpos' Transformation Program. This program forms the natural and important progression of commercial changes resulting from the creation of eftpos as an incorporated company in 2009. The eftpos Transformation Program goes directly to deliver the ambitions identified by the Reserve

Bank of Australia (RBA), whose support was important to the creation of eftpos as a modern payments company. These achievements have been funded solely through charging minimal scheme fees to members and setting low interchange fees between members to derive a network benefit for all participants.

The birth of eftpos has taken place amid a period of unprecedented regulatory engagement in payments. Various competition issues have been the focus of this regulatory process, including:

- regulation of interchange fees;
- establishment of access arrangements; and
- the impact on the industry of competing payment system rules on issuers seeking to issue convenient card products to their customers and acquirers offering greater payment choice to their merchants.

These same issues have also arisen overseas, where regulators in a number of jurisdictions have varyingly addressed the issues by requiring, for example:

- two payments systems being accessible for each debit card transaction (USA);
- local debit payment system processing only (Canada and China);
- interchange fee regulation and anti-trust prosecutions (USA and Europe); and
- the requirement for centralized payment processing centres (Europe).

In Australia, these matters have in part been dealt with by express regulation, which impacts only some payment industry participants (in the case of interchange fees), by access regimes applicable to specific payment systems, and by enforceable undertakings dealing with matters such as brand placement, levying of fees on competing payment system volume, placement of multiple chip applications on the one debit card and merchant choice of payment systems at the point of sale.

Other industry wide issues have been dealt with by industry collaboration under the guidance of various organisations, including the RBA, Payments System Board (PSB) and Australian Payments Clearing Association (APCA). Establishment of the new Payments Council (PC) will further advance this activity over the coming year, an initiative to which eftpos looks forward to contributing.

The RBA and PSB has gone some way towards levelling the playing field in the specific areas they have addressed, however, these regulations are not a complete answer, given the narrow focus of the regulations. It is clear that regulation has created change at a wholesale payments level, however, until consumers and merchants have transparent access to these changes, the ability for eftpos to compete effectively as a safe, secure and efficient payment solution is overwhelmed by the commercial power of our larger foreign competitors.

Transparency in pricing was one recommendation coming from the previous financial system enquiry as a solution to the inequity that existed between participants and interchange regulation was introduced.

Submission - eftpos encourages further consideration of means to achieve greater transparency of price and choice to both merchants and consumers with regard to payment card acceptance.

eftpos observes that only some payment schemes are regulated while others are not, creating another competitive inequity. In our view, either all participants should bear the same level of regulatory burden or no participants should be subject to regulatory control.

Submission - Functional regulation is superior, in our view, to regulation based around institutions. We believe that the levelling of the regulatory playing field would be aided by the continued requirement for two-payment networks to be available on debit cards². This action should be considered during this Inquiry as a viable alternative to the current enforceable undertaking regime applying to some participants only.

² This approach has been recently adopted in the United States of America under the Dodd-Frank Consumer Protection Act.

Efficiency and innovation in a payments system provision is largely a question of scale. Centralised infrastructure generally improves speed and efficiency and reduces the costs of innovation and change. These motives are jointly at the heart of both eftpos' Hub development and the New Payments Platform (NPP) initiative. eftpos is also of the view that private, rather than public sponsored ownership of centralised payments infrastructure, is the preferred operating model for such an important, mission critical, wholesale domestic payments network.

Submission - Duplication of infrastructure investment for participants could have an unintended broader economic impact for consumers and merchants.

eftpos is an essential and enthusiastic competitor in the payments industry in Australia, both now and well into the future. However, the key to a healthy, secure, competitive and innovative payments industry is a level playing field. Without a competitive, viable, domestic payments system, innovations and the speed and price at which they are offered in Australia may suffer. It could also impact the cost to consumers of accessing cash as well as the speed of cash displacement within Australia as a result of the cost differential between cash and card acceptance if there are fewer card acceptance participants in the market. As payment activity concentrates with a small number of foreign companies, our market will lose influence over payments innovation and the value to the economy of debit transactions occurring within a domestic scheme, negating the hard won advances made over recent years which have delivered significant benefit to Australian consumers, merchants and the broader business community.

We look forward to meeting with the Financial System Inquiry panel to elaborate on the comments made in this letter.

Yours sincerely,



Bruce Mansfield
Managing Director

Schedule 1 – eftpos Members

eftpos is wholly owned by its 14 founding Members

- Australia and New Zealand Banking Group Limited
- Australian Settlements Limited
- Bank of Queensland Limited
- Bendigo and Adelaide Bank Limited
- Cashcard Australia Limited
- Citigroup Pty Limited
- Commonwealth Bank of Australia
- Coles Group Limited
- Cuscal Limited
- Indue Limited
- National Australia Bank Limited
- Suncorp
- Westpac Banking Corporation
- Woolworths Limited