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Dual-Network Cards and Mobile Wallet Technology

Cuscal appreciates the opportunity to respond to the RBA's December 2016 Consultation Paper "*Dual-Network Cards and Mobile Wallet Technology*".

Cuscal is an end-to-end payments provider that services more than 100 established and challenger brand clients with access to Australia's financial system and payments landscape, including the majority of the mutual banking sector.

Our credit and debit card issuing services include card production, transactional processing (switching), fraud prevention and settlement. Cuscal has relationships with each of the major card schemes operating in Australia (VISA, Mastercard and eftpos) and sponsors clients into those schemes.

Cuscal offers various banking platform technology to our clients including providing proprietary (client branded) digital wallets, and also provides connectivity and sponsorship into the major third party mobile wallets (Apple Pay, Android Pay and Samsung Pay). At present Cuscal connects 41 clients to these services, enabling access to digital wallets by approximately 4,000,000 cardholder customers.

Cuscal also provides merchant acquiring services and scheme sponsorship to a number of Australian and internationally based acquirers.

Cuscal supports an industry environment which encourages competition, including providing a level playing field between scheme providers. We also believe that any regulation of evolving technology must be careful not to adversely impact customer experience and innovation, or place unreasonable cost burdens on the industry. In this context, we have provided comments below based on the 9 questions raised by the RBA.

1. What are the views of end-to-end users (consumers and merchants) regarding mobile payments from dual network cards?

We have not specifically canvassed end users on this topic, although we believe that there are some assumptions that can be made based on the benefits to those end users.

Consumers: Debit Cards. The potential benefits to the consumer of selecting the "savings" option at a POS terminal are:

- the ability to get "cash out" where the merchant offers this;
- an immediate debit to the transaction account (as opposed to 2-5 days) ;
- the possibility of avoiding a merchant surcharge.

The potential benefit of using the "credit" option are the protections offered by the scheme providers in the form of charge back rights and zero liability for fraud and unauthorized purchases.

Most consumers would be unaware of the background processes and the differences in routing that their selection causes.

We recommend the RBA gather its own data on consumer knowledge of these benefits and how influential they are in determining which option a consumer chooses when given the choice. That information is not necessarily reflected in card usage statistics.

Merchants: Debit Cards. Merchants have the ability to determine surcharges (within the limits of the RBA's standard) and should be aware of the cost differentials associated with each scheme. Facilitating choice between schemes should allow merchants to encourage the use of the cheaper processing facility. Merchants may also benefit from increased customer satisfaction if they encourage customers to select a cheaper form of transaction and the ability to offer "cash out" to their customers. Merchants can also benefit from the generally faster clearing of funds provided by eftpos over the international schemes.

Consumers: Credit "Combo Cards". These cards essentially offer a single access source to two separate banking products. We think that there would be significantly more benefit to customers in facilitating choice of routing associated with these cards. As interchange and surcharging is generally higher with credit cards, the potential savings for consumers is greater. However, customers may prefer to use the credit facility either because they do not have a sufficient savings, or they wish to utilise an interest free period or gain the benefit of rewards points. We believe most customers would understand the costs and benefits associated with the choice between utilising their transaction or credit card account, and this choice should be encouraged.

2. Are there any impediments or restrictions planned by Card Schemes?

We are aware that VISA's tokenization agreement prevents the use of their DPAN (Device PAN) for non-VISA transactions. A dual network solution will require the issue of two separate tokens for a single card (see item 4 below), so that an agreement preventing this would effectively prevent access by a second network provider.

3. What would be the consequences of constraining provisioning of competing networks on dual network cards?

We think that any constraint on provisioning of multiple networks, whether due to rules or due to costs will have a detrimental effect on competition. The constraint would also affect the ability of consumers to choose the benefits described above.

However, there may also be some benefits of provisioning a single network on a dual network card in terms of costs and creating the simplest customer experience in provisioning a card.

4. Feasibility. What views do we have on the feasibility of different possible ways of provisioning cards?

We believe the feasible methods of provisioning cards would be similar to those expressed in the consultation paper:

(i) Provision as 2 separate cards. In this scenario, the cardholder would provision the same card as if it was 2 separate cards, with separate routing for each digital card. The consumer would then need to select which of those cards was the default card for the wallet. This method has the advantage of using most of the existing functionality for card provisioning.

(ii) Provision as a single card but with 2 separate routing options which a customer could swap between at any time. This may provide a simpler customer process for card provisioning, but is likely to involve considerable costs to implement. For example, as 2 tokens would be required for each card, the application would need to recognize a particular card as a dual access card at the time of provisioning in order to automate the 2 token requests.

Each of the above solutions would involve further development of the digital wallet applications and those wallet providers would be best positioned to respond to questions of feasibility and cost.

Any solution that detracts greatly from the simplicity of wallet provisioning or wallet usage will reduce take up of digital wallets. For example we do not consider a solution that required a customer to make a selection each time they used their mobile wallet would be viable. A solution that allowed a customer to make that choice may be viable. Equally, we do not see solutions that require the input of a selection at a merchant POS terminal to be viable. Such a solution would not only require the reprogramming of merchant terminals but would greatly detract from the contactless experience.

5. Have the 2013 Principles been effective in promoting competition. Should these be extended for digital wallets?

We do not think that the principles have been particularly effective although this may be in part due to the time it has taken to roll out multiple profiles within card chips. Additionally, although dual network chips are now being distributed, the two contactless profiles on those chips do not have equal priority, so that contactless transactions continue to default to the international schemes.

We are aware that some merchants, such as Woolworths (which runs its own processing switch) have set their routing to default to the eftpos network, though we are not aware of plans for other major merchants to follow suit.

While the agreement of similar principles may be an alternative to regulation, we do not think that the existing principles are suitable for digital wallets. Principles 2 and 3 are based on merchant choice rather than consumer choice. As discussed above, the provisioning of a particular network on a dual network card in a digital wallet will require a consumer choice which cannot be over-ridden by the merchant.

The nature of a digital wallet poses a unique challenge with either regulation or the agreement of principles in that the party who is least knowledgeable and probably most ambivalent about the outcome (the consumer), will be the one who will need to decide which network to provision.

6. Are there any foreign precedents that are relevant for consideration of these issues in Australia?

We understand that Canada which has a similar environment of domestic and international schemes has implemented a solution for digital wallets. We are not involved in that market.

7. Are the issues raised relevant to "combo-cards" with credit functionality from one scheme and debit functionality from another?

Cuscal has some clients which continue to issue this product type. These products appeared to be gaining some popularity before the introduction of scheme debit cards, but we are now seeing less interest from clients in this product offering.

As discussed in response to question 1 above, we think that the need for enabling consumer choice of default routing in respect of combo cards is greater than for debit cards only. There may be a stronger customer service incentive for issuers of those cards to ensure that multiple network provisioning is made available, even in the absence of regulation.

8. Are there any prospective developments in payment card technology that may be relevant for the RBA's consideration?

We are aware of some product innovations and industry changes that may be relevant to the Bank's considerations, although not directly relevant to the technical provisioning of dual network cards. These include:

- On-card account selection. There is currently at least one card supplier in the international market offering a smart card, which is battery powered credit card / debit card that allows the customer to select between accounts or networks. The customer presses a button on the card itself to select the account or the network provider and this then becomes the default until the alternative button is selected.
- Card to Card Payments. Both major schemes currently offer the ability to make payments directly from one card to another card within the scheme (Visa Direct and Mastercard Send). Although these products are not widely distributed in the Australian market yet, we expect to see growth in this form of payment transfer.
- Impact of the NPP on scheme competition. The NPP has the potential to impact payment methods selected by customers in certain channels. For example we expect to see small businesses favouring receipt of payment through the NPP due to the speed, cost and other potential future benefits the NPP may offer. This may introduce new competitive pressures on the existing card schemes.

9. What compliance costs would arise from a standard addressing conduct?

These costs will depend on how the conduct is addressed. If the standard regulates scheme conduct only, then wallet providers or intermediaries would not face the direct costs of maintaining compliance, but would face the costs of developing the technology to offer dual network provisioning. If the standard requires adherence by digital wallet providers, then there will be compliance costs in providing initial and ongoing assurance that products meet the standards required.

If the regulatory intervention requires an overly complicated customer experience, then the take up mobile wallets will suffer, and the progression from a cash payment economy to an electronic payment economy will also be slowed, with consequent macro-economic impacts.

We trust this submission has assisted the RBA's considerations. If we can be of further assistance, please contact **Scott Jamieson,** Senior Manager of Compliance on sjamieson@cuscal.com.au or phone (02) 8299 9660.

Yours sincerely,

Kieran McKenna
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