

7 February 2017

Dr. Tony Richards
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Reserve Bank of Australia
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Dear Dr. Richards,

Dual-Network Cards and Mobile Wallet Technology Consultation Paper December 2016

eftpos Payments Australia Limited (eftpos) appreciates the opportunity to respond to the consultation paper published by the Reserve Bank of Australia (RBA) with regard to Dual-Network Cards (DNCs) and Mobile Wallets.

Maintenance of consumer choice, transparency of choice, and both consumer and merchant choice of payment network for DNCs across all payment channels and environments, including Mobile Wallets, are critical in eftpos' view.

Specific comments are provided below with regard to each of the questions raised in the consultation paper:

1. Consumer and Merchant views of DNCs, including use in mobile payments

Historically, consumers have enjoyed the convenience of DNCs. DNCs reduce the number of physical cards that consumers carry, while enabling account selection by consumers at the point of sale (POS) and routing choice by merchants between multiple payment networks according to price signals and product features.

Consumers use DNCs for both contact and contactless payments, however, consumers are not aware that POS terminals deny choice of payment network for contactless transactions on DNCs, as POS terminals only read the first contactless application on the chip and automatically route the transaction according to this priority, which may be at a higher cost. No second network is displayed.

Presently, merchants have the right and ability to choose from the range of contact and contactless applications that reside on any one card. Mobile payments will significantly impact the ability of merchants to choose the payment network that best suits their needs¹ from those available on a card. In mobile payments, only one scheme application will be observable to the merchant/acquirer, eliminating any existing network choice that they may have from a card. In the absence of effective merchant choice, it is critical that merchants are provided with the capability to set different prices based on the underlying cost of the payment scheme presented by the consumer.

Additionally, consumer research indicates that consumers expect eftpos as an available choice in mobile payments. All payment networks are on record supporting competitive neutrality and consumer choice

¹ See RBA Research Discussion Paper December 2014, The Evolution of Payment Costs in Australia Chris Stewart, Iris Chan, Crystal Ossolinski, David Halperin and Paul Ryan

across all devices and form factors².

Without open competition in consumer payments and a viable domestic payment network freely able to compete with its contactless and mobile products, interchange rates, merchant fees and consumer costs may rise.³

2. Actual and planned card scheme restrictions on mobile wallet provisioning of competing networks on DNCs

Mobile payments rely on tokens to replace card numbers when cards are provisioned into the Mobile Wallet. Our concern that mobile payments will eliminate the ability of merchants to choose the network that best suits their needs also applies to consumer choice. While it may be possible for a multinet network debit card user to replicate their portfolio of payment and network instruments in a mobile wallet through multiple provisioning exercises, we are concerned that unless multinet provisioning is unrestricted, made simple to understand, unbiased and easy for the consumer to execute, the only networks represented within consumer wallets will be the more expensive networks available on the card.

One international payment system has a rule that prohibits Issuers from generating a token from a competitive payment network on cards having a BIN allocated by that international payment system⁴, and contractual restraints that either prohibit or impose additional costs to Issuers if they elect to tokenise a competing payment network on those cards. These provisions apply even if another payment system is currently available on physical cards issued under those BINs in a market.

These payment network rules and contract obligations prevent or delay Issuer implementation of competing payment networks within Mobile Wallet, remove the existing choice available to consumers today and add significant costs of the provisioning of payment services to consumers and merchants.

These rules and contract provisions cannot be justified. Having a separate token for each payment network associated with a card will not impact the security, speed or efficiency of payments for either network as can be seen by Visa and MasterCard announcing a co-operation agreement to allow each other's tokens to be provisioned and shared for online, in-app and in-store payments. This recent agreement indicates that there is little commercial justification for a prohibition on tokens from competing domestic networks⁵.

3. Likely effect of actions above on competition and efficiency in the payments system and more broadly

The restrictions outlined above convert a DNC to a Single Network Debit Cards within a Mobile Wallet by removing the ability for both consumers and merchants to select the best payment method for their needs, and also remove the option for consumers and merchants to manage the costs associated with different payment products and networks.⁶ The broader consequences of removal of competition may impact pricing at both the wholesale and retail level for payments participants, as well as merchant and consumer goods and services.

4. Views on feasibility of different possible ways of provisioning DNCs

There are several ways to provision DNCs into a Mobile Wallet, including Manual and In-App provisioning from an Issuer's Mobile Banking application. In both cases, eftpos' preference is for the

² Refer Visa and MasterCard submissions to RBA on previous card payments system reviews and to ACCC at <http://registers.accc.gov.au/content/index.phtml/itemId/1197444/fromItemId/278039/display/submission>.

³ See recommendation 17 <http://fsi.gov.au/publications/final-report/chapter-3/interchange-fees/>. See also rationale for the 2007/2008 review of card payments regulation; <http://www.reuters.com/article/us-mastercard-lawsuit-britain-idUSKCN11E2S9>

⁴ Rules 4.1.1.1., 4.1.2.2, 4.1.24.1 and definitions at <https://usa.visa.com/dam/VCOM/download/about-visa/visa-rules-public.pdf> (cut and paste into browser to open)

⁵ <http://www.pymnts.com/news/mobile-payments/2016/mastercard-and-visa-tag-team-tokens/>

⁶ <http://www.fcac-acfc.gc.ca/Eng/forIndustry/publications/lawsReg/Pages/CodeofCo-Codedeco.aspx>

provisioning of eftpos tokens to occur at the same time as the provisioning of any other payment network token. In addition, either separate card art bearing the eftpos brand should be displayed within the mobile wallet, or card art with equivalence of eftpos branding alongside other payment network branding, and customer choice with regard to priority of payment network for default use at POS should be available.

Any requirement for additional, subsequent or separate steps to be taken to provision a second available payment network will greatly reduce the potential that the consumer will provision both networks on the DNC within the Mobile Wallet. If provisioning has already occurred for DNCs with a single token within the Mobile Wallet, eftpos supports Issuer provisioning of eftpos tokens without any additional requests from cardholders to complete this task.

Any potential consumer confusion or concerns about duplicated provisioning and having two networks available from the same DNC are addressed by simultaneous provisioning of tokens and clear branding being displayed within the mobile wallet for each available payment network.

5. Have the existing undertakings been an effective response to competitive issues that arose earlier?

Confidential undertakings are not as effective as public regulation. The current undertakings are not public documents and the entities providing these undertakings are not publicly accountable for compliance. Specifically, the undertakings cover a number of issues with regard to DNCs, including Issuance, Data Provision, Technical Matters, Merchant Choice and the Levying of Fees on Competing Networks. As a result of these undertakings, eftpos branding has been relegated to the rear of DNCs, eftpos contactless is the secondary application AID on DNCs, and, due to the confidentiality of the undertakings, Australian merchants remain unaware that they have a choice in relation to the routing of contactless debit transactions to the eftpos payment network. The above outcomes are not in support of competition and efficiency in the Australian payment system.

Would an extension of the undertakings be appropriate for the current issues?

Yes - as an interim measure pending the necessary notice period needed for standards to become effective, provided the extended undertakings are made public, with appropriate education to merchants and consumers and actively monitored for compliance. Any extension to the current undertakings should cover the following:

- no prohibition/restriction/fettering of issuers provisioning all payment networks within a mobile wallet,
- co-residency of available payment functionality on cards in mobile wallets and devices,
- parity of representation of card images for all available networks (including brand) in mobile wallets, and
- consumer control of default settings and choice of payment network within the mobile wallet.

6. Foreign precedents

The consultation paper already refers to regulations and undertakings in Canada, Denmark, the European Union and France. Additional relevant jurisdictions are Malaysia, where the regulator is actively ensuring choice of the lowest cost debit network. Also, regulators in the USA have recently taken action against technology lockout activity that confuses consumers at the point of sale with regard to EMV chip technology and consumer selection of competing payment networks.⁷

⁷ <https://www.paymentssource.com/opinion/feds-debit-pressure-on-visa-a-welcome-move-for-competition>

7. Do the DNC competition issues also apply to combo cards?

Yes, but with the additional consideration that when more than one payment network's functionality is available on a combo card, separate payment tokens are required to ensure funds are debited from the correct account.

8. Prospective developments in payment card technology relevant to these issues

Any development of functionality that is available through more than one payment network will potentially lead to competition issues and the opportunity for one payment network to control/limit technology access in the same way as occurred for DNCs. Current examples where technology lockout is being experienced in addition to contactless POS include tokenization (Mobile, In-App, Online), closed loop payments (Transit) and Primary Account Reference (PAR) values.

9. What are the particular compliance costs that would arise for industry if a Standard were introduced?

Compliance costs arise with undertakings as well as for standards. eftpos does not consider that the compliance costs would exponentially increase from compliance with the undertakings if standards were introduced. There would also be additional benefits from publication of standards rather than confidential undertakings. Having no regulation or ineffective undertakings will have a far greater impact on the long term competitive environment for retail payments in Australia.

eftpos would be pleased to meet with the RBA to discuss any of these matters in more detail.

Yours faithfully,



Bruce Mansfield
Managing Director