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6 February 2017

Mr. Tony Richards  
Head of Payments Policy Department  
Reserve Bank of Australia  
GPO Box 3947  
Sydney NSW 2001

**By email: [pysubmissions@rba.gov.au](mailto:pysubmissions@rba.gov.au)**

Dear Mr Richards

I refer to the Bank's request for views from interested parties on the Consultation Paper "*Dual-Network Cards and Mobile Wallet Technology*" issued by the Bank on 7 December 2016.

### **About PayPal**

PayPal was founded in 1998 and has been at the forefront of the digital payments revolution operating an open, secure and technology agnostic payments platform that businesses use to securely transact with their customers online, in stores and increasingly on mobile devices.

PayPal is a truly global payments platform that is available to people in more than 200 markets, allowing customers to get paid in more than 100 currencies, withdraw funds to their bank accounts in 57 currencies and hold balances in their PayPal accounts in 26 currencies.

PayPal has operated in Australia for more than 10 years and was one of the first 'digital wallets' to aim to provide fast, safe, simple and secure transactions for consumers and merchants. Our payments platform, fraud prevention tools and extensive risk management capabilities enabled PayPal to successfully process over 6 billion transactions valued at in excess of US\$350 billion globally in 2016.

### **Response to Questions Posed in the Consultation Paper**

Having reviewed the material contained in the Consultation Paper, PayPal provides the following comments based upon its experience of the Australian and global payments market environment. Specifically we provide comment in respect of:

- Question 1 – Views of end-users regarding dual network cards
- Question 4 – Views as to the feasibility of different ways to provision cards
- Question 6 – Foreign Precedents
- Question 9 – Compliance costs arising from a standard

Question 1: What are the views of end-users (cardholders and merchants) regarding dual-network cards, including their use in mobile payments? Are there particular benefits that arise for end-users from having multiple payment networks available on a mobile device? What risks and costs might arise?

Response: PayPal provides its consumer base with the choice to select and use a preferred payment method within their PayPal digital wallet. In our experience, a consumer's preference for a method of payment, as indicated by the number of transactions that a consumer undertakes using their default method of payment, is strongly held and is likely to reflect factors specific to the consumer.

While consumers expect to be able to choose their preferred method of payment in their digital wallet there often arises situations which may require the consumer to alter their preferred preference. An example may be the use of a deposit account for regular purchases, while maintaining the ability to use a credit account for larger purchases. In this instance choice and switching is driven by a different financial outcome for the consumer: use of their funds versus use of a credit provider's funds based on the requirements of a particular purchase.

In light of this observed online consumer behaviour a possible challenge with the introduction of dual-network cards will be ensuring consumers are informed as to the options available to them when using such cards. Given that both networks will in most cases draw funds from the same underlying account, with a potentially similar commercial outcome (given both networks would be subject to similar interchange arrangements based on the Bank's proposed interchange reforms) any new choices provided will need to be sufficiently differentiated to allow consumers to make informed choices, particularly in terms of what different outcomes will flow from the choices consumers make.

Without appropriate education it is possible that consumer uncertainty as to the consequences of the choices they can make will result in an increased burden on those channels involved in enabling those choices. It is also possible that uncertainty will lead to further inertia in consumer behaviour.

Question 4: Do cardholders, issuers or others have views as to the feasibility of different possible ways of provisioning dual-network cards?

Response: Consumer behaviour in online commerce demonstrates a clear preference for frictionless (or reduced friction) scenarios. That is to say, consumers take a negative, and in many cases strongly negative, attitude to any purchase friction encountered in their online experience. This is especially true for transactions conducted via a mobile device.

Such friction results from the addition of process steps between the consumer's decision to purchase and the completion of the transaction as marked by the making of a payment. Steps that delay the purchase increase the possibility that the consumer will judge the process of purchase burdensome, frustrating their desire to purchase, and thereby withdraw from the purchase transaction. This is particularly the case where the consumer is conducting their transaction on a mobile device where consumers expect to be able to facilitate transactions with as little friction as possible.

PayPal encourages the Bank to avoid any mandates in respect of dual account provisioning that could increase friction for consumers at the point of checkout. In particular, PayPal cautions against mandating a process of account selection for every transaction attempted on a specific primary account number (PAN).

PayPal's preference, should the Bank mandate a method of dual-network acceptance, would be for consumers to make a default selection as to which network they wish to use and to be given the option to amend their default selection at any time. While PayPal recognises that consumer inertia may mean that a default selection is never altered our commercial experience indicates that such an outcome will be overwhelmingly supported by consumers and will in addition support consumer experience.

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

Response: In addition to the examples contained in the Consultation Paper, PayPal notes that the challenge created by dual-network cards is also being examined in a number of Asian markets. These case studies may be of direct relevance to the Bank's considerations given the nature and maturity of schemes in Australia.

Question 9: If the Bank were to contemplate a standard addressing conduct in this area, are there particular compliance costs that would arise for industry?

Response: PayPal is conscious of the significant challenges for global corporations and Australian corporations seeking to compete in international markets that arise from the adoption of specific national, rather than international, standards.

Were the Bank to adopt an orphan standard which is not used or likely to be contemplated by any regulators in other markets there would be a specific cost associated with provisioning and maintaining dual-network cards in Australia.

Global payment providers – and Australian firms seeking to compete in both domestic and foreign markets – would incur specific and non-replicable costs in the development of new products in order to meet account servicing or transaction processing and flow obligations specifically in Australia. This could lead to increases in the time to market for innovations or restrict Australia's access to global innovations should such costs become prohibitive.

### Conclusion


PayPal is committed to acting as a customer champion and providing customers with choice.

When considering the regulatory framework for dual-network cards we would counsel the Bank to give significant weight to the importance and value of frictionless consumer experiences in the online world. As mobile and online digital commerce continues to expand it is critical for merchants that consumers not be deterred from finalising transactions by the imposition of steps that fulfil a regulatory purpose rather than support the consumer's experience. It is also critical that any regulatory intervention by the Bank ensures Australia does not confront a bespoke solution that in the global context increases compliance costs and reduces Australia's access to innovation.

PayPal would welcome the opportunity to further discuss our submission with the Bank.

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Yours sincerely,



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