6 July 2021

Mr Tony Richards
Head of Payments Policy, Reserve Bank of Australia

Dear Mr Richards

I write to you today in relation to the Reserve Bank of Australia's (**RBA**) Review of Retail Payments Regulation. In light of the RBA's report, FinTech Australia believes that we are currently at a critical juncture in Australian payments, with potentially broad and long lasting ramifications for consumers and Australian small businesses, including fintechs. If the Government does not take urgent regulatory action, FinTech Australia predicts that it is likely to create an irreversible, negative impact upon Australian consumers, small businesses and the Australian fintech ecosystem. Our concerns are in line with the RBA's report, which addresses issues in the market that will have significant impacts on choice and pricing for consumers, as well as harm competition and innovation in the financial services sector.

Most importantly, FinTech Australia notes the importance of maintaining the widespread availability of eftpos functionality on all platforms. If eftpos functionality is limited to the big banks, fintechs are likely to face immense barriers to business. For example, fintechs may be unable to access lower cost, innovative payment alternatives, like QR code payments, which are expected to be launched by eftpos in the short-term, as well as continued digital functionality via the eftpos application programming interface (**API**) program and its new connectID offering.

To mitigate the risk to consumers, small businesses and fintechs, we request that urgent regulatory action should be taken in the following areas.

Firstly, FinTech Australia advocates in favour of least cost routing (LCR) for merchants accepting multi network debit cards issued by authorised deposit-taking institutions (ADIs), due to its benefits to merchants and consumers. However, merchants or fintechs accepting these transactions should have the ability to opt out of least cost routing for whatever reason, including value adds or innovations that may be on offer from a competing scheme. LCR does not and should not apply to credit cards or prepaid cards, in POS or in digital, as they have different use cases and are dealt with under separate designations under the Payment Cards Regulation. Additionally, regulation should incentivise greater competition between mobile payment applications, including LCR in mobile wallets, which is available in other jurisdictions.

Secondly, Multi-Network Debit Cards (**MNDCs**) should be mandatory to be attached to deposit accounts. As ADIs take deposit accounts, MNDCs should be mandatory for ADIs when a deposit-account is issued . ADIs have a social obligation to promote competition in the Australian finance sector. As outlined in the RBA's Retail Payments Regulatory Review consultation report, a widespread shift towards SNDCs will threaten the viability of LCR. MNDCs are critical to allow consumers to take advantage of LCR and enable competition between debit networks. In contrast, Single-Network Debit Cards (**SNDCs**) use international schemes, which are likely to have higher fees for merchants and consumers. Furthermore, by requiring banks to offer MNDCs it indirectly incentivises fintechs to build out their functionality to support LCR. In turn, the ability of a business to support LCR will be market-driven by a desire to gain a competitive advantage, leading to benefits for merchants and consumers and promoting a stronger fintech ecosystem.

Thirdly, regulation must combat anti-competitive behaviour, including specifications and rules that create barriers or prevent or delay competitors from entering or scaling in a form factor or channel of the market. Broadly, fintechs building on the eftpos roadmap may suddenly find that their products only work for major banks, critically harming competition and upsetting the business models of new entrants.

Finally, transparency of merchant fees should be enhanced to enable informed choices to benefit the interests of all stakeholders. Overall, these changes will allow debit networks to work closely with fintech providers striving for innovation and disruption, ultimately promoting competition, choice and enhanced digital payments functionality for consumers and businesses alike.

Our competitive market has enabled Australia to create some of the world's greatest and most innovative companies in the financial services and fintech industries. The health of the sector is extremely valuable and must be maintained for our market to continue to produce innovative and globally competitive products. Furthermore, higher processing fees and costs are likely to unfairly impact business entrants and disruptors, including neobanks whose purpose is to generate better consumer outcomes. Stifling innovation and competition in banking is likely to erode Australia's competitive-edge in the sector overtime. Concerns around high merchant costs causing barriers to entry for new entrants could be addressed with a tiered system of interchange fees.

A lack of direct regulatory action to combat these issues is likely to lead to the decline of eftpos, a payment choice that Australians have used for over 35 years to date. The decline of eftpos will have wide-ranging impacts for consumers, including no cash out at most merchants, no Medicare refunds in real time, and no access to Beem It (which many consumers already use to pay their friends directly without having to use a bank interface and inputting an individual's BSB and account number information each time). Furthermore, many Australians still enjoy the convenience of accessing cash via cash-out in the shops, especially older people and people in regional communities. This is particularly true as the number of ATMs declines. Additionally, the decline of eftpos is likely to lead to many consumers being exposed to further surcharges as retailers are likely to pay more to accept payments. Consumers would also be likely to lose future benefits from eftpos, like the release of their QR code payments expected to launch in the near future. Moreover, in line with the RBA report, if eftpos is forced to exit the market it is likely to result in an increase in interchange rates and scheme fees, impacting merchants and reducing competition in the debit market. As a result, disrupting the industry by impacting eftpos is likely to lead to broad and negative ramifications for consumers.

To combat these impacts, at a bare minimum, eftpos as a payment option should remain on all Australian debit cards as part of every bank's social obligations in the Australian market. Eftpos is fundamental in underpinning choice for consumers, including on mobile channels, digital channels like Beem It and online channels. The alternative, the decline of eftpos, will lead to Australians having eftpos cards without eftpos being offered on them, restricting choice for consumers and forcing consumers to use overseas giants, like Visa and Mastercard, instead of eftpos Australia.

At a time when people are using debit more and credit cards less so they can better manage their money, regulation is needed to ensure Australians have full access to their country's local debit network – in shops, on mobile and online. Ultimately, FinTech Australia encourages the government to take immediate action to promote competition, choice and innovation, across all payment channels. Regulatory action is essential to protect the functionality of the fintech sector, enrich the consumer experience and bolster fintech businesses.

Yours faithfully,

Rebecca Schot-Guppy
CEO, FinTech Australia