



7 February 2017

Head of Payments Policy Department
Reserve Bank of Australia
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Dear Sir / Madam,

Submission on the Reserve Bank of Australia's Dual-Network Cards and Mobile Wallet Technology Consultation Paper

Tyro Payments welcomes the opportunity to provide this submission on the above-named Consultation Paper.

Tyro is Australia's only independent eftpos banking institution and is the first new entrant in the banking business in more than 18 years. Tyro holds an authority under the *Banking Act 1959* (Cth) to carry on a banking business as an Australian Deposit-taking Institution (ADI) and operates under the supervision of the Australian Prudential Regulation Authority (APRA).

Tyro provides credit, debit, eftpos card acquiring, Medicare and private health fund claiming and rebating services, as well as a transaction and deposit account integrated with Xero cloud accounting. Tyro takes money on deposit and offers unsecured cashflow-based lending to Australian eftpos merchants.

It is in the public interest to see the Australian domestic debit card system survive so as to maintain competitive tension between schemes, as well as to give merchants and consumers choice. With the establishment of eftpos Payments Australia, the industry has invested in a modern hub network, with contact-less, mobile and online acceptance.

However, the domestic debit card system has been declining under the competitive pressure of the global schemes and will continue to do so, unless a strong regulatory intervention can establish a level playing field.

The voluntary undertakings have failed

In August 2013, the Reserve Bank of Australia (RBA) announced voluntary undertakings by the three debit card networks eftpos, Visa and MasterCard, who committed:

- 1. *To work constructively to allow issuers to include applications from two networks on the same card and chip, where issuers wished to do this***

As of mid-2015, 20 million debit-only dual network cards were indeed on issue, yet the Visa and MasterCard schemes have mandated to the issuers that their own network has to be the first priority in network selection. When a cardholder selects his/her dual-network, contactless card for a transaction, the eftpos terminal automatically routes the transaction to the application with the highest priority on the contactless card's chip. The consequence is that for the high volume of contactless transactions, any choice for the merchant or the consumer is de facto removed. The technical specifications are written

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in a way that makes it impossible for the acquirer to offer its merchants a possibility to overwrite the mandated network priority. Merchants have been precluded from network choice or low cost routing for these contactless transactions.

2. ***Not to prevent merchants from exercising choice in the networks they accept, in both the contact and contactless environments; and***

Merchants are de facto prevented from any choice in the contactless environment. Theoretically, they could decide to accept only eftpos, yet given the preponderance of the global schemes, that is not an option. Thus, through the priority mandated, the global schemes enforce that contactless transactions are automatically routed via their network.

3. ***Not to prevent merchants from exercising their own transaction routing priorities when there are two contactless debit applications on one card***

Again, despite the coexistence of two debit card schemes on the dual cards, the priority mandate and the technical specification exclude routing for the predominant contactless transactions.

Mobile wallets require regulatory intervention

Given the experience with the three debit card schemes having ignored the regulator's concern with maintaining choice, the last opportunity to provide the domestic debit card scheme with a competitive level playing field has come with mobile wallet technology.

Mobile wallets are a relatively new technology in the Australian marketplace. There is now an opportunity to make sure that there are no mandates or technical specifications removing choice from merchants and cardholders. For it to be delivered effectively, a clear regulatory mandate and standard is required.

At this point, early implementations suggest that the global schemes will again be able to stifle the intent for a competitive level playing field. For instance, currently the cardholder selects the card of choice transaction by transaction; or the mobile wallet provider sets the default card; or the cardholder overwrites the default card choice. Regardless, the merchant's eftpos terminal will not be able to know anything but the chosen token. The mobile wallet, at the time of transaction, only presents a single application to the terminal, even if there are multiple cards loaded in the wallet. Consequently, the merchant's right of overriding such a choice to achieve low cost routing is again removed. The merchant is unaware of any network choices.

To maintain competition, the technical specification and implementations have to enforce:

1. Automatic congruent provisioning of both networks for dual-network and combo cards through the third-party wallet provider or the bank issuer.
2. Preserve a user experience that allows cardholders to always see network options and easily switch transaction-by-transaction or per default settings with their network choice.
3. Transmit the network choice to the eftpos terminal and support an option to override a cardholder choice to allow low-cost routing. If this is not enforced, we again face the



lockout that we experienced in contactless transactions. This step in the process is critical, since the reality is that only the merchant has the skill and potentially the eftpos terminal technology that can reduce transaction cost and avoid surcharging to the benefit of himself and his customer. Tyro would implement the routing technology if it were enabled by the technical specification and not excluded by a scheme mandate.

The need for competitive tension

In the contactless space, a technical lockout via the EMV protocol and the priority mandate have removed choice and low cost routing for the transaction when it comes to a dual-network contactless card. Tyro, as the acquirer, cannot ascertain on its eftpos terminals which application on a contactless card is preferred by the cardholder during a transaction. In some situations, a terminal may not even support an application such as cheque or savings on the card, leading the transaction to be declined. This is not only disruptive to the merchant, yet it gives an unfair advantage to the prioritised schemes.

It is this type of technology lockout that will continue to stifle competition in the new mobile payment space, if the regulator does not intervene with strong mandatory standards.

In the absence of regulatory intervention, the resulting lack of competition will reduce choice for cardholders by removing the options that only the domestic debit card scheme offers, such as efficient cash-out or Medicare rebating. The cost of transactions will increase for the merchants and these costs will be increasingly passed on to consumers through surcharges. Under such circumstances, both merchants and consumers will have no choice with regard to how the transaction is routed, thus will be forced to absorb these additional costs.

It is not in the public interest to see the only domestic debit card system fail, thereby removing all contestability of the global schemes and eliminating the only provider keen to tailor to domestic payment market requirements. The move to mobile wallet technology is the last opportunity to recover from the effect that the lockout in the contactless card transaction space has had on the eftpos network.

We note, as stated in the RBA's Consultation Paper, that other international jurisdictions have moved to regulatory intervention to improve network choice or priority for the domestic debit card system. The RBA's prior approach of voluntary undertakings has failed in the contactless payment transaction space. Only a regulatory intervention will ensure that such a failure is not reoccurring in the mobile payment space.

Kind regards,

A handwritten signature in blue ink, appearing to read 'Jost Stollmann', is written over a horizontal line.

Jost Stollmann
Executive Director
Tyro Payments

ⁱ Reserve Bank of Australia Dual-Network Cards and Mobile Wallet Technology Consultation Paper, p.4