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Submitted via email: pysubmissions@rba.gov.au

Dear Ellis,

The Australian Debit Card Market: Default Settings and Tokenisation

The Australian Banking Association (ABA) welcomes the opportunity to respond to the issues paper, *The Australian Debit Card Market: Default Settings and Tokenisation*. ABA is responding to the proposal to ban the setting of a default network on dual-network debit cards (DNDC).

Summary

ABA supports the policy objective of helping merchants, including small businesses, to manage the cost of payments acceptance, while balancing merchants' need for transparency, simplicity and cost effectiveness and considerations for consumers' user experience.

In recent years, banks have undertaken a number of least cost routing (LCR) and merchant choice routing (MCR) initiatives to meet the RBA's expectations for banks to make LCR available to customers for physical card payments, and to find ways to encourage or help customers to move onto more cost effective pricing options.

ABA welcomes the RBA's current focus on online and mobile wallet payments. As identified in ABA's recent report, *Bank On It – Customer Trends 2023*, online and mobile wallet payments are the fastest growing way for Australian consumers to pay. By comparison, ABA understands the proposal to remove default priority on DNDCs would apply to payments made using a physical dual-network debit card. This means a significant and increasing proportion of point of sale (POS) transactions would not benefit from this proposal, and any benefits from this proposal would be eroded in coming years.

This proposal is technically complex and requires further consideration including formal consultation. ABA's response considers these questions:

- Benefits for merchants compared to existing initiatives
- Consumers' user experience
- Technical considerations
- Impact on other payments initiatives

ABA's initial assessment is the proposal will have limited impact on reducing merchants' cost of acceptance, and (subject to the implementation approach) unlikely to speed up take up of LCR in the next 2-3 years. From this initial assessment ABA does not see public policy merit in the proposal.

ABA acknowledges the importance of cost of business for merchants and would be keen to work with the RBA to identify and implement initiatives that achieve the policy objective.



Benefits for merchants

Time and cost to implement

In order to remove default priority on DNDCs, two changes are required: re-issue physical/plastic cards with chips that do not have a default priority; review whether existing POS terminals can work with such cards and update any terminals that cannot to ensure universal capability.

There are, broadly speaking, two approaches to re-issuing cards. ABA's initial assessment is that both will take some time to implement, and the approach with a shorter implementation period will raise security, cost and consumer experience challenges.

A pragmatic approach identified by the RBA is to follow the existing cycle to re-issue cards. This would require a significant implementation program to test and produce re-programmed chips without default priority, review and update terminals, and re-issue cards over about 3 years. Over the same period, existing or enhanced LCR initiatives can increase take up of LCR from current levels in a more cost effective way.

Mass re-issue of cards within a shorter period is an alternative approach. This approach is still subject to the testing and production of re-programmed chips and updating of terminals. A mass re-issue of cards will create real security concerns. It will require accompanying consumer communication and awareness, and customers would be required to update recurring payments out of cycle. ABA members also consider mass re-issue of cards would not only bring forward costs, but would increase overall costs by creating more demand for chips when there is a global shortage. The increased costs can displace other payments projects identified as Government or regulator priorities.

Transparency and simplicity

It is well recognised that merchants have differing needs which may be served by a range of pricing packages and options. Despite significant growth in the availability of LCR for physical card payments, existing initiatives to provide information about LCR or recommend specific customers to take up LCR has not yet met RBA expectations. Take up of interchange+ /++ remains low among small businesses.

The proposal to remove default settings would require all merchants to make choices about how to route payments, thus potentially one barrier to the take up of LCR. However, it is not clear whether this proposal would make pricing options easier to understand and compare, which is key to making informed decisions that meet the merchant's needs.

Pricing packages represent trade-offs between simplicity and transparency. Pricing that is more closely reflective of the interchange charged by the schemes is not simple to understand, apply or compare: the international schemes' interchange schedules are long and complex, while EFTPOS pricing varies depending on factors like volume rebates; the combination of these two pricing models compounds the overall complexity of interchange+ /++ options. By comparison, flat fee or fixed % pricing provide the benefit of simplicity. Other products may give merchants simplicity in a different way, by automatically passing on a surcharge to the customer.

The proposal to remove default settings from DNDCs would give merchants choice. It will not change other factors like complexity that may be inhibiting take up of some forms of LCR to date. In practice, the onus may fall to the banks to set default routing choices on behalf of merchants. This outcome may not be what the proposal is seeking to achieve. Further, while banks provide general information about the pricing options that may be appropriate for types of merchants, a range of factors including the value placed on simplicity, actual or anticipated volume, actual or anticipated payment mix, can influence which option is the most cost effective or otherwise appropriate for each merchant.

Incremental impact on costs for merchants

In light of the above, ABA questions whether this proposal would achieve a significantly improved outcome for merchants overall or some classes of merchants, compared to existing initiatives. ABA and members are happy to consider some of the issues raised in more detail, including practical considerations.



Consumer user experience

An important consideration in many payments reforms is the user experience for the consumer. In the time available, ABA has identified but has not formed a view on these questions:

- ABA understands in some jurisdictions that have removed default settings, consumers are required to 'double tap' for every transaction – once to activate the terminal and prompt the customer to select the preferred account or network, followed by another tap to complete the transaction.
- Under this proposed approach, Australia's debit card market can lose interoperability with other jurisdictions. This raises a question whether, when Australians travel overseas, they may face challenges using their cards in some jurisdictions or with some terminals.

Technical considerations

ABA also highlights the following issues for the RBA's consideration. These may not directly go to cost effectiveness for merchants but touch on other Government priorities in payments policy.

If the proposal to remove default setting on DNDCs is implemented, one potential outcome is that more payments are routed via EFTPOS and fewer are routed via the international schemes. Differences between international schemes and EFTPOS dispute resolution mechanisms and technological investment in scams and fraud detection can have other payments policy implications, which ABA would be happy to explore with the RBA.

ABA has referred to the need to test and re-program chips. ABA understands some jurisdictions have successfully removed default priority on cards. This approach is a significant departure from existing EMV technology. If Australia's debit card market would lose interoperability with other jurisdictions under this approach, ABA asks the RBA to consider whether adopting this approach may impact on Australia's position as a fast adopter of new payments technology.

Impact on other payments initiatives

ABA has referred to the potential costs of re-issuing cards and updating terminals, particularly if these changes are required to be implemented within a relatively short period. This would be a significant new initiative, which will require banks to re-prioritise resources from other payments initiatives. ABA also asks RBA to consider whether doing so may have an impact on key payments initiatives that the Government has set out in the Government's payments strategic plan.

Finally, ABA asks the RBA to consider the timing of future consultations during a period of significant regulatory change across payments and related areas. Coordination on the timing of consultations directly impacting payments can help industry give each consultation the time and attention it needs.

ABA welcomes the RBA's focus on cost of business for merchants and would welcome the opportunity to discuss these issues and other, potential, LCR initiatives with the RBA.

Yours Sincerely

Rhonda Luo
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