Visa Inc.'s Response to the Reserve Bank of Australia's Review of Retail Payments Regulation Issues Paper

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7 February 2020

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Via email: pysubmissions@rba.gov.au

Dear Tony,

Visa submission to the Reserve Bank of Australia: Issues Paper on the Review of Retail Payments Regulation

Visa welcomes the opportunity to respond to the Reserve Bank of Australia (RBA) Issues Paper on the Review of Retail Payments Regulation (released on 29 November 2019), and we appreciate ongoing engagement with the Bank on Australia's payments ecosystem.

Visa has participated in a wide number of reviews and other consultations conducted by the RBA over many years. In each submission, we have highlighted the need for balanced, equally-applied and innovation-enabling approaches to the regulation of electronic payments.

In responding to the RBA's Issues Paper, this submission focuses on many of the topics the Issues Paper addresses, including dual-network debit cards/merchant choice routing, interchange, scheme fees, and surcharging.

Following the Bank's review of Visa's submission, we would welcome the opportunity to provide any additional information or support to help ensure that Australia's payments system has a vibrant future.

Yours sincerely,

Julian Potter

Overview

The Reserve Bank of Australia (RBA) derives its functions and powers from the *Reserve Bank Act 1959*, which describes the Bank's duty as contributing to the stability of the currency, full employment, and the economic prosperity and welfare of the Australian people. Among other things, the Bank seeks to do this by working to maintain an efficient payments system[1]. Visa shares the RBA's vision of contributing to Australia's economic prosperity, including for the country's citizens, through an efficient payments system. In our view, the ongoing development of a safe, efficient, and competitive electronic payment system is essential to the growth and stability of the Australian economy. Payment platforms such as Visa contribute significantly to economic growth, development and the financial inclusion of all Australians.

Electronic payments help the nation boost growth, create jobs, and increase tax revenue; drive innovation and the digital economy; support small and medium-sized enterprises; create transparency in transactions; and deliver enhanced security for financial institutions, businesses, and consumers[2].

The payments ecosystem in Australia is evolving at an unprecedented pace. Traditional electronic payments are giving way to frictionless, digital experiences across a host of new connected devices and consumer journeys; while alternative and innovative methods of interbank and digital payments are emerging. Technological advances, fast-changing consumer behaviours, and open innovation and collaboration between organisations are driving this trend. Consumers expect to be able to buy products and services with their computers, tablets, phones, cars and wearable devices, and they also expect the payment process to be as secure as it is seamless and convenient on the payment product of their choice. Merchant expectations have also heightened – with growing interest in new point-of-sale infrastructure and software as well as the leveraging of other technologies to drive and monitor sales. In addition, the providers of payment solutions are multiplying and diversifying. This is a progressively complicated, competitive and dynamic area, with providers ranging from traditional financial institutions – large and small – to digital giants, FinTechs and start-ups.

Given the numerous benefits of electronic payments and the increasing complexity of the payments ecosystem, Visa values the role of the RBA and other regulatory authorities in delivering stability and certainty to the payments system and the economy more broadly. It is critical that industry and regulatory bodies work together to ensure that regulation is not only appropriate for the current environment, but also remains relevant for the foreseeable future, while allowing industry to compete and innovate. As a result, Visa welcomes the opportunity to bring our global experience and knowledge to the RBA Review of Retail Payments Regulation (the Review).

Visa has actively participated in reviews conducted by the RBA over the past two decades, as well as other recent regulatory reviews impacting payments, such as those conducted by the Productivity Commission (PC), the Black Economy Taskforce and Treasury regarding Open Banking and the Consumer Data Right. In each of our submissions to these reviews, Visa has highlighted the need for balanced, equally-applied and innovation-enabling approaches to the regulation of electronic payments in Australia. Moreover,

[1] Reserve Bank of Australia (RBA) website, https://rba.gov.au/about-rba/

[2] For further details on the benefits of digital payments to economies, see the Visa-commissioned report (2017), *Cashless Cities: Realising the benefits of digital payments,* https://usa.visa.com/dam/VCOM/global/visa-everywhere/documents/visa-cashless-cities-report.pdf and Moody's Analytics (2016), *The Impact of Electronic Payments on Economic Growth*, https://usa.visa.com/dam/VCOM/download/visa-everywhere/global-impact/impact-of-electronic-payments-on-economic-growth.pdf

based on decades of experience working with regulators and policymakers in markets worldwide, Visa strongly supports industry consultation to determine the practical implications of regulatory reform and ensure the development of effective and commercially-viable safeguards for all participants in the payments environment.

In contributing to this Review, Visa wishes to address some potential misconceptions around payments economics and open, fair competition that could have a potentially detrimental impact. We welcome the opportunity to share our global experience and industry expertise with the Bank to help shape an outcome that is positive for all participants in the electronic payments ecosystem.

Central to Visa's submission are three tenets that underpin a fair and vibrant payments environment:

i) Consumer choice;
ii) Balanced economics; and
iii) Continuous innovation.

It is through the lens of these three principles that Visa considers the Review, and which we regard as aligned with the RBA's and Payments System Board's (PSB) priorities. For example, the RBA Governor, Dr Philip Lowe, summarised it well when he said in late 2019: "The Board wants to see a payments system that is innovative, dynamic, secure, competitive, and that serves the needs of all Australians"[3].

(i) Consumer Choice

Visa commends the RBA for considering multiple perspectives when examining the benefits of payments regulation. However, we believe that a number of the statements in the Review's Issues Paper do not consider the consumer experience comprehensively; rather, they challenge the rights consumers have over their payments services – particularly regarding choice. We make this point against the backdrop of the RBA's duty to contribute to the welfare of the Australian people[4] and the PSB's acknowledgement that the Bank has a "continuing role to play in identifying whether the payments system is meeting the needs of end users"[5]. Ensuring consumers have the right to choose the products and services that best meet their needs is essential. This is especially important to consider when devising policies regarding merchant choice routing (MCR), interchange rates, and surcharging - as the consumer might be disproportionately disadvantaged.

Merchant Choice Routing

Visa believes that MCR is a more accurate description of payment routing than least cost routing (LCR) because it is not the case that contactless debit transactions which are routed to and processed by the international payment schemes are, as some have suggested, always more expensive than transactions routed to the domestic payments scheme. Each payment transaction can carry a very different set of charges and costs depending on a number of factors, including card type, transaction type, value of the transaction, and the merchant. To enable more meaningful contactless debit transaction routing and

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[3] Reserve Bank of Australia (2019), RBA Governor Philip Lowe speech, "A Payments System for the Digital Economy", https://rba.gov.au/speeches/2019/sp-gov-2019-12-10.html
[4] Reserve Bank of Australia website, https://rba.gov.au/about-rba/
[5] Reserve Bank of Australia (2019), *Payments System Board Annual Report 2019*, https://www.rba.gov.au/publications/annual-reports/psb/2019/, p43

processing cost comparisons between the international and eftpos schemes, we encourage the RBA to request more granular Acquirer reporting. Oversimplification of the cost of electronic payments creates misunderstandings – and potentially greater costs – for merchants and consumers. As a result, this submission refers to MCR unless quoting directly from the RBA's Issues Paper.

Should the RBA decide to mandate MCR, it will adversely impact Australian consumers' right to choose their payment service, and it could limit their ability to benefit from contactless payments. Alternatively, allowing issuance of single-network debit cards (SNDCs) would better enable consumer choice and facilitate network-based innovation and competition.

Interchange Rates

Further reduction of interchange caps in Australia would certainly impact the Australian consumer's ability to access financial services. While Visa does not derive any revenue from interchange, it does act as an important source of funds for the broader payments ecosystem. We have witnessed that when faced with margin compression because of reducing interchange rates, Issuers[6] will need to source revenue elsewhere, nearly always influencing the cost and availability of various existing and nascent services for consumers. More specifically, margin compression negatively impacts smaller financial institutions which have fewer, less diverse, lines of business, which can lead to reduced financial services competition and detrimental consolidation. The Durbin Amendment[7] shows that there are negative repercussions for smaller financial institutions even when they are not directly affected by interchange regulation[8].

Surcharging

Visa continues to maintain its global policy of opposing merchant surcharging. In Australia, surcharging is expressly permitted by regulation. Given that context, we support the Australian Competition and Consumer Commission's (ACCC) efforts to ensure excessive surcharging practices in Australia are prohibited[9].

Visa also supports increasing resourcing for the ACCC to undertake investigation and enforcement to ensure the surcharging standards are enforced in a fully effective manner. We understand that consumers are still impacted by excessive surcharging due to a lack of education among merchants as well as the need for more resources for ACCC enforcement.

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[6] An Issuer promotes and issues payment cards to consumers and businesses.

[7] The Durbin Amendment is a provision of the Dodd-Frank Act and mandated a regulation aimed at reducing debit card interchange rates and increasing competition in the payments industry. The United States Federal Reserve Board subsequently issued Regulation II (Debit Card Interchange Fees and Routing), which took effect in October 2011.

[8] The Durbin Amendment mandated a regulation, which established a cap on debit interchange rates on financial institutions with more than $US10 billion in assets. However, it has been pointed out that "The Durbin amendment essentially cut larger banks' per-transaction debit interchange revenues in half and, in the process shifted more cost-sharing responsibility on to the small Durbin 'exempt' banks …" Wilkinson, Molly (2017), "Small Banks and Credit Unions Paying Millions For Durbin Amendment", *Forbes*, https://www.forbes.com/sites/realspin/2017/02/07/small-banks-and-credit-unions-paying-millions-for-durbin-amendment/#6b8e008b2a0a

[9] Australian Competition and Consumer Commission (2017), "Excessive payment surcharge ban" press release, https://www.accc.gov.au/media-release/excessive-payment-surcharge-ban

(ii) Balanced Economics

The value of the payments ecosystem is that by nature it must maintain a level of equilibrium in order to thrive and grow. It is essential that regulators and industry ensure a balance across stakeholders and that policies do not disproportionately advantage one party over the other. To date, the RBA has undertaken a number of measures to reduce the economics of financial institutions and FinTechs, and to maintain a very low interchange rate cap. Since the regulatory changes enacted following the RBA's 2015-2016 Card Payments Regulation Review (2015-2016 Review), the payments industry has continued to invest in security and innovation. However, should the RBA continue to reduce the economics available within the ecosystem, it could adversely impact the development of new services and competition as well as innovation.

Visa understands that one of the RBA's major imperatives is to ensure fair and balanced competition across the industry and, therefore, that it wishes to see policies that allow for new entrants as well as robust competition among incumbents, including smaller financial institutions such as credit unions and FinTechs. The Issues Paper requests feedback on the merits of a number of policies that would further distort payments economics in Australia – such as MCR, a further reduction of interchange rates, and surcharging. However, industry and the Government alike do not yet have an assessment of the efficacy of the regulatory changes enacted following the 2015-2016 Review. Furthermore, Visa's view is that any additional regulation impacting payments economics would create disincentives for new entrants into Australia and result in further consolidation of Australia's banking sector. Lower interchange rates would also disproportionately affect smaller financial institutions, with fewer, less diverse sources of revenue, and inhibit their ability to compete.

Should the RBA wish to evaluate the efficacy of the 2015-2016 Review's regulations, Visa suggests it examine whether the cost of goods was reduced proportionately to the interchange reduction, as well as the impact of fees charged to consumers as a result of interchange margin compression.

(iii) Continuous Innovation

The Australian Government is understandably committed to championing innovation and technology - to power the economy, provide jobs and ensure that all Australians have high living standards[10]. Visa wholeheartedly supports this agenda and we continue to invest in innovative technologies that improve the payments experience and contribute to economic growth. We also partner with new entrants and established entities (small and large) to deliver innovative solutions. These partnerships and the associated investments are focused on ensuring we deliver inclusive societal value.

In line with this commitment to championing payments innovation, Visa recommends that the RBA continue to cap surcharging; not proceed with further interchange compression; and not mandate MCR. More broadly, Visa recommends that the following questions be considered when evaluating the impact regulations have on payments innovation: i) will the policy impact network innovation; and ii) will the policy deter new entrants or negatively affect the ability of small participants to compete.

[10] Australian Department of Industry, Innovation and Science website, https://www.industry.gov.au/strategies-for-the-future/boosting-innovation-and-science

Network Innovation and Security

Well-balanced and market-based regulations can enable competition and innovation. In Visa's experience, principles-based policy frameworks that are adaptable to rapidly evolving markets, maintain a level playing field and are technology neutral contribute to a vibrant payments environment. In contrast, overly prescriptive policy environments deter innovation and limit growth.

Network innovation not only delivers new forms of payment, it also ensures delivery of solutions aimed at reducing risk across the system and deterring fraud. For Visa, the security of our network is a top priority. Visa's platform uses Artificial Intelligence and deep learning technology to monitor threats and keep payments safe. We analyse billions of security logs every day. In 2019 alone, Visa prevented $US25 billion in fraud[11]. When consumers use their Visa cards or other payment credentials, their transactions are protected by one of the most secure networks in the world. However, policies like MCR can introduce inconsistency and friction to the payments experience. As a result, consumers and banks may not benefit from Visa's network security and innovations if the transaction is routed on another platform. Consequently, financial institutions and FinTechs are unable to ensure that all consumers experience new innovation and technologies in a consistent manner.

New Entrants

New entrants are redefining traditional electronic payment systems in Australia and elsewhere. We expect this trend to continue in the years to come. As a result, Visa recommends that any further regulatory measures should:

i) Be forward looking and take into consideration both the payments environment as it is today and what it is likely to look like in the future;
ii) Ensure a level playing field between incumbents and new entrants – both to balance the risks in the ecosystem as well as to maximise competition and innovation; and
iii) Not inadvertently reduce the economic incentives necessary to deliver new products and solutions as well as risk and fraud mitigation to Australian consumers, nor discourage expansion into Australia.

[11] Visa (2019), "Visa Prevents Approximately $25 Billion in Fraud Using Artificial Intelligence", https://usa.visa.com/about-visa/newsroom/press-releases.releaseId.16421.html

Chapter 1: Strategic Issues in the Retail Payments System

Key Points

- While a world with more digital payments means greater economic growth, security and convenience, for the foreseeable future there will be a role for cash alongside digital payments.
- On new technologies, we recommend that the RBA's policies be principles-based, to support, rather than hinder, innovation. While Visa welcomes competition from new entrants, competition must be fair and allowed to unfold on a level playing field.
- Operational resilience is essential to a thriving payments environment, and Visa invests in resilience and security accordingly. We believe it is vital to consider not just the resilience of individual firms, but to move to an ecosystem-based approach to resilience across prevention, preparation and response.
- On cross-border payments, we welcome the ACCC's acknowledgement that payment cards are generally cheaper than the alternatives. New entities have entered cross-border payments in Australia in recent years; we expect this trend to continue over the longer term, leading to increased competition in cross-border payments.

1.1 The Future Role of Cash

A world with more digital payments means greater economic growth, security and convenience[12]. However, as digital payments grow, we recognise that there is still a role for cash, alongside digital payments. We believe in consumer choice and will always support multiple payment options for consumers as well as businesses.

To help societies manage the decline in cash, we make every effort to ensure that digital payments are available to any consumer and business, so that they are able to choose for themselves between digital and cash payments. Visa has a team dedicated to ensuring our products and services are accessible to the differently abled, with accessibility and user experience experts partnering with teams across the company, throughout the product development lifecycle. We also offer Visa Transaction Controls, which empower consumers focused on budgeting to monitor and manage their spending more effectively through a mobile app. In the case of merchants, businesses of any size can accept digital payments through Visa's support for innovative point-of-sale technology. Small businesses can set up and be ready to accept payments within minutes and, more recently, we have led the way with software-only solutions that make it even easier for business to take payments in the ways their customers want.

[12] For further details on the benefits of digital payments to economies, see the Visa-commissioned report (2017), *Cashless Cities: Realising the benefits of digital payments,* https://usa.visa.com/dam/VCOM/global/visa-everywhere/documents/visa-cashless-cities-report.pdf and Moody's Analytics (2016), *The Impact of Electronic Payments on Economic Growth*, https://usa.visa.com/dam/VCOM/download/visa-everywhere/global-impact/impact-of-electronic-payments-on-economic-growth.pdf

1.2 The Future of the Cheques System

We agree with the RBA's assessment that it is likely it will be appropriate at some point to wind up the cheques system[13] - given its diminished usage, cost of processing and lack of security. Viable and robust alternatives will need to be in place before this occurs.

1.3 Capabilities around the Management of Automated and Recurring Payments

We note the RBA's advice in the Issues Paper that "end-users have periodically noted to the Bank that cancellation or redirection of direct debit and other automated payment arrangements is not always straightforward"[14]. Visa has invested significantly over the years in developing value-added services, such as card controls and stop payments for automated and recurring payments. The goal of these services is to enable stakeholders in the ecosystem to improve the consumer and merchant experience, and reduce both the risk and system-wide cost of managing fraud and disputes. These services rely on the underlying authorisation message in order to be effective, and MCR may undermine the ability of financial institutions to deliver a consistent and useful service, given that authorisation messages are scheme dependent.

Use cases for card controls might include the consumer receiving an alert following certain transaction types, or once a spend limit has been exceeded; as well as allowing the consumer to block certain types of transactions, such as gambling or online shopping. These controls are generally set using the Issuers' mobile banking app. Use cases for stop payments may include placing a stop after finalising an agreement for recurring charges with a merchant, or pausing payments whilst an account is in dispute.

A network's ability to use these services, when the consumer cannot choose how a transaction is processed (such as with MCR), can create uncertainty and gaps in consumer expectations that is not a function of the network's capability to deliver. In this environment, in addition to consumer uncertainty, regulation can create duplication of cost in the ecosystem and hamper speed to market.

1.4 New Technologies and Entrants

Open Competition Fosters Innovation

Responsible and secure innovation is at the core of Visa's business. We believe businesses that facilitate digital transformation have a shared responsibility to work together, and to play their part in ensuring a stable foundation for Australia's digital economy of 2020 and beyond. For Visa, this means substantive investments to deliver a world-leading security standard to counter increasing cyber threats. This also means innovation cannot come at the expense of security, interoperability and governance.

There is no substitute to an open and competitive payments system to foster innovation. A level playing field is a strong incentive to payments providers to invest in order to offer the best and latest technology to consumers, merchants and financial institutions at scale. Open systems like Visa's support greater security, as firms compete to develop innovative approaches to secure payment transactions against fraud

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[13] Reserve Bank of Australia (2019), "Review of Retail Payments Regulation – Issues Paper", https://rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/pdf/review-of-retail-payments-regulation-issues-paper-nov-2019.pdf, p12

[14] ibid.

and data breaches and thereby to gain consumers' trust. Visa's experience in some markets suggests that when the playing field is tilted in favour of specific entities or certain payment solutions, it stifles competition - mainly to the detriment of local consumers, small businesses and domestic innovation as well as international interoperability.

In a world of fast-paced innovation and multiple payment technologies and systems, a truly competitive framework – where the playing field is level - is the only way to support Australia's ambitions to advance innovation and growth in the digital ecosystem. To enable further innovation in Australia's digital payments environment, Visa recommends that the RBA continue to cap surcharging; not proceed with further interchange compression; and not mandate MCR.

New Technologies, including Digital Wallets

As the PSB has noted[15], the payments ecosystem is highly dynamic, with increasing innovation and competition in recent years. New payment methods are increasingly competing directly with card payments. These alternative payment methods - such as digital prepaid wallets, and closed commerce and account-to-account systems - have experienced significant and rapid growth in market share over a very short time, demonstrating the changing dynamics in the payments environment.

Although at this stage usage of QR code-based payment technology is concentrated in specific use cases and adopted by specific communities in Australia and should be seen as part of the overall mix of payment methods, Visa would highlight that a common QR standard promotes interoperability and standardises QR capabilities across markets, promoting a consistent end-user experience. This enables a level playing field that incentivises continued investment in payment systems, benefiting both consumers and businesses. The EMV Co standard adopted by regulators in many markets in the Asia Pacific[16] promotes interoperability, standardises QR capabilities across markets and is open source.

Looking forward, what we are likely to see is a blurring of the traditional lines - with different providers offering a variety of bespoke payment solutions to consumers, whether they are banks, payment institutions, technology companies or FinTechs. While it remains to be seen how consumers respond to this wider service offering, careful consideration should be given to the level of protection they will receive from different providers and the transparency of these payments.

Technology will continue to revolutionise the purchasing experience, given the rise of the Internet of Things (IoT). This will fundamentally change commerce by putting point of sale in the consumer's control. As new technologies like IoT emerge, security is a top priority. Therefore, Visa is working with several partners to ensure that a wide range of IoT appliances can become secure places for commerce, deploying best-in-class security features and technologies.

One such technology increasingly in the marketplace is tokenisation, which replaces sensitive payment card account information with digital payment tokens to reduce the risk of fraud or account compromise. In this regard, we wish to highlight that MCR optionality has had the unintended consequence of increasing risk due to the ongoing storage of PANs in order to enable tokenisation of multiple networks.

[15] Reserve Bank of Australia (2019), *Payments System Board Annual Report 2019*, https://www.rba.gov.au/publications/annual-reports/psb/2019/, p41

[16] These markets include Hong Kong, Malaysia, Singapore, Taiwan and Thailand.

Against this backdrop, Visa recommends that the RBA encourage the introduction of the EMV Co QR standard across the market and the replacement of PANs with tokens.

New Entrants, including Closed-Loop Systems

A number of new entrants have joined the ecosystem in recent times, including large technology platforms, which have developed sophisticated financial services networks with broad capabilities in payments. Alongside of this development, we anticipate changes in the Australian payments environment will only accelerate in the coming years through initiatives like the New Payments Platform (NPP) and Open Banking. During this time of significant change, it is critical that the RBA maintain a forward-looking approach to regulation and that it ensures that any future interventions take into account the policy, economic and risk implications of the new entrants in an expanding ecosystem. We would also encourage the RBA to ensure that any further regulatory measures ensure a level playing field for established entities and new entrants – to balance the risks in the ecosystem as well as to maximise competition and innovation.

In Visa's assessment, although financial institutions and consumers continue to ultimately hold the risk associated with transactions, the economic value is being driven away from participants that support the resilience and security of the system. Additional constraints on the economics of one payments system will negatively influence its ability to compete effectively in the marketplace and ultimately result in shifting payments - not necessarily to the least expensive proposition in the market, but to unregulated entities.

In addition, while payment systems like Visa have evolved within the parameters of the banking system and subject to high regulatory scrutiny, nearly all the new entrants have burgeoned on the periphery of traditional economic and regulatory requirements. The placing of additional requirements on the economics of the payments ecosystem may not only impact its ability to continue investing in the infrastructure and technology to safeguard data and privacy in an increasingly digital world, but also shift consumer spending to entities and platforms who are in the very early stages regarding security and resiliency.

Against this backdrop, Visa encourages the RBA to determine specific outcomes-based principles for payment service providers, such as security parameters, levels of market access and service delivery, while also giving payment companies the flexibility to determine how best to deliver on these objectives.

More broadly, while the transformation of the payments ecosystem is already significant, it is just the beginning – whether we are referring to new technologies or new entrants. In this context, we encourage the RBA to assess the current regulatory environment for payments in Australia with a longer-term view that takes into consideration the wider policy implications.

1.5 Resilience of the Retail Payments System

Visa sees operational resilience as an essential capability, and so we are aligned with the RBA on the importance of reliable electronic payment services[17]. Consumers and businesses expect to be able to rely on the security, quality and availability of the services we provide, and the continued operation of our

[17] Reserve Bank of Australia (2019), "Review of Retail Payments Regulation – Issues Paper", https://rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/pdf/review-of-retail-payments-regulation-issues-paper-nov-2019.pdf, p12

systems to meet these needs is core to Visa's strategy. In line with this position, we undertake a full test of our capacity every year to determine the maximum number of transactions per second our global systems can accept ahead of peak season. That figure is currently 65,000 transactions per second[18].

However, the increasingly interconnected and global nature of financial services means it is essential to consider not just the operational resilience of individual organisations, but to move to an ecosystem-based approach to resilience. By establishing communications procedures, sharing information, and understanding interdependencies, organisations can better coordinate sector-wide preparations to effectively prevent, detect, respond and recover from disruptive incidents. The resilience of individual organisations remains vital, but may not be sufficient in an increasingly complex environment where new entrants and technologies are transforming the market and threats are constantly evolving. At a global level, operational resilience is clearly increasingly important and consistency in regulation across jurisdictions is needed to best enhance the resilience of the payments system overall.

Cyber resilience is a key component of operational resilience. Visa is relentless in fortifying the cybersecurity of both our network and the broader payments environment to protect sensitive data, prevent fraud and ensure the security and reliability of payment transactions.

Governments have an important role to play in supporting cybersecurity and, in this regard, we recommend a principles-based approach to cybersecurity regulatory approaches and frameworks. From our perspective, such frameworks should:

i) Be flexible, and allow room for companies to tailor defences based on business needs. Given the ingenuity of hackers and the fast-changing nature of cyber threats, it is vital that cyber defences quickly evolve to keep ahead of potential attacks.
ii) Be based on globally-accepted standards. International standards form the backbone of the digital payments industry, enabling global interoperability, monitoring and acceptance across digital payments systems.
iii) Allow businesses to determine data storage site location based on business requirements. Data is a linchpin of the modern global economy, with digital trade contributing to economic growth and development. Digital trade barriers, including localisation requirements, can have unintended consequences, potentially harming cybersecurity by introducing potential risks to otherwise secure global systems.
iv) Encourage transparency and information sharing between government and private industry, among government agencies, and between the governments of different nations regarding cyber threats, vulnerabilities, controls and best practices. Governments can also lead in investigating and prosecuting cyber criminals to help eliminate "safe havens", and facilitate public awareness and education of cybersecurity efforts. Malicious actors do not respect national borders, and cyberattacks can be launched from any geographic location, often traversing multiple jurisdictions. Industry and government must coordinate effective, adaptive and consistent responses to address the changing nature of today's threats.

[18] Visa, Fact Sheet, https://www.visa.com.au/dam/VCOM/download/corporate/media/visanet-technology/aboutvisafactsheet.pdf

1.6 Cross-Border Payments

Visa agrees with the RBA's assessment that cross-border payments are increasingly important[19], and notes that they are more complex than domestic payments.

Regarding currency conversion, Visa welcomes the ACCC's acknowledgement in its 2019 final report on its currency conversion services inquiry that payment cards are generally cheaper than foreign cash, travel cards and international money transfers[20]. We believe that consumers should receive clear advice on the currency conversion rates and costs that they are likely to experience in making a cross-border transaction. Visa's client contracts emphasise the importance of this for consumers. As a result, we make every possible effort to ensure that consumers and clients have access to Visa's market rates for foreign currency conversion.

Since approximately 2007, we have published our currency conversion rates on Visa's public website. Visa also maintains a publicly-available online calculator (for Australia, refer to https://www.visa.com.au/travel-with-visa/exchangerate-calculator.html) that indicates the rate that Visa sets for the applicable processing day for a transaction in a currency other than that in which a card was issued, subject to Issuer practices and a consumer not opting into Dynamic Currency Conversion (DCC) at point of sale. Although Visa does not prescribe the rate used by the Issuer with their accountholder, the Visa Rules require the Issuer to make complete written disclosures to the accountholder regarding any fees it may charge with respect to international transactions and/or currency conversion, as well as the currency conversion rate. Additionally, Visa's conversion rate should be declared on the accountholder statement.

With respect to online transactions in particular, Visa believes that consumers should be aware if a transaction will incur international transaction fees because the transaction is taking place with a merchant located in another country. Acquirers are required to ensure that their merchants clearly and prominently display the country of the merchant on the same screen as the checkout screen or within the sequence of web pages that the consumer accesses during the checkout process.

The RBA Issues Paper also raises cross-border payments and competition issues[21]. In this regard, Visa notes that the ACCC final report on the foreign currency conversion services inquiry highlighted that there have been a number of newer entrants supplying international money transfer services in Australia, including OFX, CurrencyFair, InstaReM and TransferWise [22]. Based on Visa's FinTech Fasttrack Program and other activities, we expect this trend to continue in the immediate and long term, thereby resulting in increased competition in Australia regarding cross-border payments.

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[19] Reserve Bank of Australia (2019), "Review of Retail Payments Regulation – Issues Paper", https://rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/pdf/review-of-retail-payments-regulation-issues-paper-nov-2019.pdf, p12

[20] Australian Competition and Consumer Commission (2019), *Foreign Currency Conversion Services Inquiry Final Report,* https://www.accc.gov.au/system/files/Foreign%20currency%20conversion%20services%20inquiry%20-%20final%20report_0.PDF, p11

[21] Reserve Bank of Australia (2019), "Review of Retail Payments Regulation – Issues Paper", https://rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/pdf/review-of-retail-payments-regulation-issues-paper-nov-2019.pdf, p12

[22] Australian Competition and Consumer Commission (2019), *Foreign Currency Conversion Services Inquiry Final Report,* https://www.accc.gov.au/system/files/Foreign%20currency%20conversion%20services%20inquiry%20-%20final%20report_0.PDF, p51

1.7 Regulatory Technology

Visa would welcome the use of regulatory technology ('regtech') in the RBA's regulatory regime to enhance efficiencies and minimise or eliminate manual processes. For example, the UK's Financial Conduct Authority has been working with the Bank of England (among others) to pilot a program to make regulatory reporting "machine readable and executable … creating the potential for automated straight-through processing of regulatory returns"[23].

[23] Financial Conduct Authority website, https://www.fca.org.uk/innovation/regtech/digital-regulatory-reporting

Chapter 2: Competition in the Cards Market – Payments Economics

Key Points

- Visa does not recommend that the RBA mandate MCR. Any consideration of MCR should preserve the key principles of consumer choice and experience, balanced economics and continuous innovation.
- Visa recommends that the RBA consider allowing issuance of SNDCs across both international and domestic schemes.
- Participation in the card acquiring market needs to be permissioned carefully to ensure that the entry bar is not lowered to such as level that the broader payments ecosystem is put at risk through the entry of inappropriate Acquirers.
- As the payments ecosystem in Australia is very competitive, information regarding the service fees that Visa charges to the financial institutions that issue Visa cards and acquire Visa transactions is highly commercially sensitive. Disclosure of such information would be particularly advantageous to unregulated entities, especially if they would not be required to disclose information about their own fees.
- There is a no clear case for further lowering of the credit or debit interchange benchmarks. Further compression of the interchange rates has the potential to undermine the ability of participants to deliver ongoing digital payments security, stability, innovation, and useability to consumers and businesses.
- The RBA's reasons during the 2015-2016 Review for not regulating interchange for cross-border transactions still stand – the market share of foreign-issued card transactions in Australia is low and the international card schemes maintain rules that prevent circumvention of domestic interchange caps.
- The surcharging regime should be applied equally across businesses. Increased resourcing for investigation and enforcement is needed to monitor surcharging.

2.1 Dual-Network Debit Cards and Merchant Choice Routing

2.1.1 Introduction

Following the RBA's strong support for Acquirers to provide merchants with MCR functionality, supported by Visa the industry has taken measures to provide merchants with the ability to route transactions. For example, ANZ Bank CEO Shayne Elliott told the House of Representatives Standing Committee on Economics in November 2019 that ANZ had MCR-enabled 95 per cent of its terminals[24]. Commonwealth

[24] House of Representatives Standing Committee on Economics (2019), "Australia's four major banks and other financial institutions: four major banks", Official Hansard, 15 November 2019, https://parlinfo.aph.gov.au/parlInfo/download/committees/commrep/1dd5064e-e2b0-4616-b7a5-665cf9e50617/toc_pdf/Standing%20Committee%20on%20Economics_2019_11_15_7355_Official.pdf;fileType=application%2Fpdf#search=%22committees/commrep/1dd5064e-e2b0-4616-b7a5-665cf9e50617/0000%22, p53

Bank of Australia[25] and Bendigo and Adelaide Bank[26] also confirmed for the Committee that they offer MCR. In addition, Suncorp advised the Committee that it had rolled out MCR in April 2019[27].

Against this backdrop, we do not recommend that the RBA mandate MCR. Mandating routing would likely limit innovation and further inhibit consumer choice. As a result, consumers and banks would not benefit from Visa's innovations, including enhanced security, if transactions were routed on another platform. Consequently, financial institutions and FinTechs would not be able to ensure that all consumers experience new innovation and technologies in a consistent manner.

With that in mind, any consideration of MCR should preserve the key principles outlined at the outset of this response: i) consumer choice, ii) balanced economics, and iii) continuous innovation. Furthermore, if the RBA seeks to maintain a level playing field, it should consider allowing Australia's financial institutions to issue SNDCs for any/all schemes.

2.1.2 Consumer Choice

MCR adversely impacts the Australian consumer's right to choose their preferred payment service while benefiting from the efficiencies of new technologies, such as contactless payments. As industry continues to implement MCR, we need to ensure choice for both merchants *and* consumers. Visa believes that has not been the case to date with MCR, given the current lack of information available to consumers – which has been reflected in recent media reporting[28].

As highlighted throughout the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry[29], consumers should have confidence that the financial products and services of their choice will perform in the way that they are marketed and sold, a point with which Visa strongly agrees. However, MCR on DNDC products has the potential to undermine consumers' confidence and trust that their chosen financial products and services will meet their expectations. For example, financial institutions are increasingly offering services to consumers that enable more robust security solutions,

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[25] House of Representatives Standing Committee on Economics (2019), "Australia's four major banks and other financial institutions: four major banks", Official Hansard, 8 November 2019, https://parlinfo.aph.gov.au/parlInfo/download/committees/commrep/86eef00b-f8cd-4c13-b8c3-3cef597b3142/toc_pdf/Standing%20Committee%20on%20Economics_2019_11_08_7339_Official.pdf;fileType=application%2Fpdf#search=%22committees/commrep/86eef00b-f8cd-4c13-b8c3-3cef597b3142/0000%22, p34

[26] House of Representatives Standing Committee on Economics (2019), "Australia's four major banks and other financial institutions: smaller banks", Official Hansard, 29 November 2019, https://parlinfo.aph.gov.au/parlInfo/download/committees/commrep/54c25a7b-12bd-4883-9af3-9eb800f4c108/toc_pdf/Standing%20Committee%20on%20Economics_2019_11_29_7427_Official.pdf;fileType=application%2Fpdf#search=%22committees/commrep/54c25a7b-12bd-4883-9af3-9eb800f4c108/0000%22, p26

[27] ibid, p55

[28] See, for example, Rolfe, Brooke (2020), "The new hidden fee most Coles customers don't know about – have you been stung?", Yahoo News Australia, https://au.news.yahoo.com/hidden-card-fee-coles-customers-dont-know-about-065147256.html, Sinclair, Amy (2020), "Coles 'secret' card fee affecting shoppers who tap and go", 7.news.com.au, https://7news.com.au/lifestyle/shopping/coles-secret-card-fee-stinging-shoppers-that-you-probably-dont-know-about-c-652392, and Sinclair, Amy (2020), "The secret card fee stinging Coles shoppers that you probably don't know about", *NewIdea Food*, https://www.newideafood.com.au/the-secret-card-fee-stinging-coles-supermarket-shoppers-that-you-probably-don-t-know-about

[29] Quoting the Murray Financial System Inquiry, the Commission's Interim Report said: "'[F]air' treatment requires that financial products and services perform in the way that consumers expect and are led to believe." Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (2018), *Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry Interim Report: Volume 1,* https://financialservices.royalcommission.gov.au/Documents/interim-report/interim-report-volume-1.pdf, pp20-21

provide access to their financial data, create broader controls over their payment products and generate more consumer-friendly means of payment. From early fraud detection and liability protections to setting limits on everyday spend, these services are not necessarily network agnostic and often depend on transactions being routed over a specific network. This spirit of consumer empowerment has been echoed and encouraged by the Government through the Open Banking initiative and the Consumer Data Right. MCR runs counter to this objective and creates the potential that consumers cannot be guaranteed that their chosen financial products will perform as advertised, nor that they will benefit from these services in the manner they expect when transactions are routed over alternative networks, which cannot deliver comparable services.

Furthermore, issuing institutions may not be able to guarantee that consumers' financial products and associated benefits – regardless of network – will function consistently, depending on how MCR is implemented. As such, it is important to ensure that consumers are educated and that there is suitable information available at the point of sale on transaction routing arrangements. In this regard, Visa welcomes the RBA's recognition that "cardholders may not be indifferent as to the routing of their transactions"[30]. If a consumer believes they are receiving certain benefits or protections (i.e. insurance, chargeback, lower fees, and cashback) by using the product of their choice, they are likely to be highly concerned to find out after the fact that the transaction was not routed over the network they thought they were using and did not deliver the benefits they expected.

We see Issuers informing consumers to make proactive choices on network selection as the best available vehicle for educating consumers about MCR. This could be conveyed by more traditional methods – such as mail and email – or, as the payments experience increasingly moves beyond plastic cards, through real-time alerts at the time of payment. If the RBA decides to proceed with point-of-sale signage on the use of MCR, Visa recommends that guidance on signage be developed in close consultation with the payments industry. This takes account of advice from Suncorp CEO, Banking and Wealth, David Carter, to the House of Representatives Standing Committee on Economics in November 2019 that "merchants are just finding it complex to understand how they have a conversation with their customers and explain to the customer why they should choose a different route"[31].

2.1.3 Balanced Economics

Within the payments ecosystem, economics are established to maintain a level of equilibrium that enables the system to thrive and grow. This essential balance between ensuring acceptance at a manageable cost, whilst investing in security and network innovation should be front of mind when considering regulatory interventions on payments. While the RBA considers MCR an additional mechanism to reduce the cost of acceptance for merchants – in addition to regulated interchange rates and surcharging – it is important to consider the different value propositions across networks. Visa finds in many instances that merchants prioritise simplicity over cost. Underpinning the RBA's stated rationale for the benefits of MCR are two key assumptions with which Visa differs: i) that all networks – domestic and international – deliver comparable value; and ii) that all merchants would prefer only to accept low-cost payments.

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[30] Reserve Bank of Australia (2019), "Review of Retail Payments Regulation – Issues Paper", https://rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/pdf/review-of-retail-payments-regulation-issues-paper-nov-2019.pdf, p26

[31] House of Representatives Standing Committee on Economics (2019), "Australia's four major banks and other financial institutions: smaller banks", Official Hansard, 29 November 2019, https://parlinfo.aph.gov.au/parlInfo/download/committees/commrep/54c25a7b-12bd-4883-9af3-9eb800f4c108/toc_pdf/Standing%20Committee%20on%20Economics_2019_11_29_7427_Official.pdf;fileType=application%2Fpdf#search=%22committees/commrep/54c25a7b-12bd-4883-9af3-9eb800f4c108/0000%22, p55

Value vs Cost

Business competes on a combination of value and cost and, indeed, the value propositions across payments networks vary. As a result, businesses may see advantages in choosing certain payment acceptance solutions that are higher cost, but that provide greater value both to their businesses and to consumers. This reflects a market trend wherein small businesses are selecting point-of-sale technologies that not only facilitate payments acceptance but also power payroll processes, inventory management and more. These solutions may cost businesses more on a monthly basis, but deliver important additional sources of value and certainty in which they see and experience advantage. In addition, Acquirers' advice to Visa indicates that for Small and Medium Enterprise (SME) merchants price certainty can be a stronger benefit than least cost, which is represented through bundled merchant pricing as well as the growth of challenger merchant solutions.

Oversimplification of the cost of digital payments and the lack of access to data which enables like-for-like comparison creates misunderstandings – and potentially greater costs – for businesses. It is not accurate that international schemes are more costly than domestic schemes. In fact, contactless debit transactions which are routed to, and processed by, the international payment schemes are sometimes less expensive than transactions routed to the domestic payments scheme.

Innovation

Network innovation impacts financial institutions, merchants, consumers and, ultimately, economies. The discussion around MCR has been made possible by networks investing in, and providing, the technology that enabled contactless payments. In addition to the aforementioned investments in payments security, Visa is also investing in network innovation to deliver enhanced point-of-sale solutions for merchants.

Visa fully appreciates the importance of businesses being able to manage their costs of payments acceptance. However, regulation where payments networks are competing on merchant cost alone will negatively affect ongoing investment in security, innovation and value-added services that benefit both consumers *and* businesses - with flow-on to Australia's productivity and economic growth. Competition fuels these investments in innovation, and Visa believes that Australia should embrace innovation from all participants and ensure that networks can continue to compete in order to deliver the best of tomorrow's technology to Australia.

2.1.4 Single-Network Debit Cards

Visa believes that ensuring a level playing field and open competition should be a prevailing principle of payments regulation. Accordingly, if one network is permitted to issue SNDCs, then all networks should be allowed to do so. However, today it appears to be accepted practice for Issuers to issue eftpos single-network debit cards, and for eftpos to incentivise this through higher interchange. The RBA has commented publicly that this practice would not be supported for products from competing networks[32].

[32] RBA Assistant Governor (Financial System) Michele Bullock told the Australian Securities and Investment Commission Annual Forum in May 2019: "In the specific case of least cost routing, we would not want to see the benefits to competition from this innovation thwarted by Issuers taking eftpos off dual-network cards". Reserve Bank of Australia (2019), RBA Assistant Governor (Financial System) Michele Bullock speech, "Leaning In: Towards Better Payment and Clearing Systems", https://www.rba.gov.au/speeches/2019/sp-ag-2019-05-16.html

A non-discriminatory approach to SNDC issuance would incentivise and promote improved outcomes for Australian consumers and businesses as well as increasing competition in the financial services sector.

One avenue for establishing this would be to develop guidelines for single-network issuance, such as that SNDCs could be issued where they deliver specific consumer value propositions, functionality or innovation that otherwise would not be feasible due to cost and complexity. For example, transaction controls, stop payments, spend categorisation and insights, and other features that help customer manage their money. Regarding interchange, whether a financial institution or FinTech issues dual-network or a single-network debit cards, the schemes still must comply with RBA-mandated interchange-weighted averages and caps.

Given that mandatory Dual Network Debit Card (DNDC) issuance increases the cost to Issuers of providing payment services, permitting banks to issue SNDCs with any/all schemes would remove barriers to entry for new entities and established smaller banks, as well as enabling speed to market. This, in turn, would promote further competition and increased consumer options. It would also create the market conditions for investment in innovative capabilities to drive competitive differentiation.

A bank's ability to choose a single network supports cost efficiencies, particularly for smaller financial institutions, rather than being required to maintain the infrastructure and rule requirements of multiple networks. In fact, the RBA highlights smaller Issuers' interest in the introduction of SNDCs: "[S]ome smaller Issuers have recently indicated to the Bank that it is costly to them to maintain two networks on their debit cards and to carry out largely duplicative activities such as regular upgrades of cards to the standards of both schemes (for example in chip compliance) and investment to enable both scheme networks in mobile wallets"[33].

In the past, DNDCs enabled consumers to access both domestic and international schemes without the need to have multiple cards in their wallet. This barrier to consumer choice does not exist for digitised card credentials where there is a limited marginal impact on the consumer to hold multiple credentials within the same digital wallet. In a digital environment, consumers have the ability to seamlessly exercise choice in what card credential is used for payment, based on the value it provides. This incentivises all schemes to compete continually on the value delivered to payment parties via security, reliability, innovation, and improved consumer and merchant experience.

Visa makes these points against the backdrop of the Australian Prudential Regulation Authority (APRA), Australian Securities and Investment Commission (ASIC) and other regulatory bodies continuing to promote a more competitive financial services environment. Through initiatives such as the restricted Authorised Deposit-Taking Institution (ADI) licensing program and regulatory sandbox, Australia is seeing an unprecedented number of neo-banks enter the market. APRA – as well as the new entrants – have a clear intent to graduate from restricted licensing arrangements, which require applicants to meet full prudential requirements including demonstrating a sustainable business and funding model as well as sophisticated operational and risk processes and capabilities. Single payment provider partnerships – with their single compliance obligations and technology development – will support the regulatory intent and outcomes in this case.

[33] Reserve Bank of Australia (2019), "Review of Retail Payments Regulation – Issues Paper", https://rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/pdf/review-of-retail-payments-regulation-issues-paper-nov-2019.pdf, p16

2.1.5 Stakeholder Comment – Dual-Network Debit Cards and Merchant Choice Routing

The Issues Paper at various points seeks stakeholder comment on a range of specific topics. The following section addresses certain of these in regard to DNDCs and MCR. Visa's stakeholder comments on interchange and surcharging are outlined elsewhere in this submission.

Payment Costs and MCR

In seeking views on the availability and functioning of MCR to date, the RBA said: "LCR is bringing down payment costs for some types of merchants and transactions, but that payment costs for other merchants may have risen as schemes have increased some interchange fees"[34]. In providing Visa's perspectives on this matter, we wish to highlight that the company always aims to be in compliance with the RBA interchange standards.

It is also important to note that interchange rates and Merchant Service Fee (MSF) levels do not have a one-to-one relationship. Ultimately, merchant pricing is complex and driven by various market-based factors, such as:

i) Acquirer business models which factor in economies of scale and the merchants' size;
ii) Competition between Acquirers and merchants across more dimensions than just price (e.g. merchant service, value added services, data and analytics);
iii) Other internal banking services for which an Acquirer may use MSF as a loss leader to attract a merchant's business (e.g. cash management, forex, etc.); and
iv) Merchant investment in different point-of-sale infrastructure/software and the leveraging of new technologies.

Explicit Criteria for Preferred or Strategic Interchange Rates

In considering options for "additional, possibly regulatory, actions that may be warranted" regarding MCR, the RBA raises the possibility of schemes publishing explicit criteria for any preferred or strategic interchange rates[35]. On this proposal, Visa notes that strategic interchange rates are offered based on a range of commercial considerations from which the payments ecosystem benefits. These can include merchants adopting new technology, best-in-class processing (low fraud/chargebacks), commitments to participate in Visa's innovation agenda, and increased payment volume onto the network. We evaluate each opportunity based on the merchant's value to the ecosystem. It is important to note that Visa considers credit and debit opportunities separately and does not link participation in credit to offer a debit interchange rate and vice versa.

The commercial consideration and criteria for which we evaluate a strategic merchant interchange rate is commercially proprietary information, which may consider new innovations and technologies in addition to evolving competition. In addition, merchant contracts are dynamic, with different terms, and therefore they vary as priorities change. This means it would be very difficult to standardise criteria in this regard.

[34] ibid., p18
[35] ibid.

Durbin Amendment and Merchant Choice Routing

The Durbin Amendment in the United States (US) obliges all Issuers to have two unaffiliated networks on a debit card to enable MCR. It has been highlighted that this requirement leads to substantial and recurring administrative costs. This would be a significant burden for smaller institutions (whether traditional financial sector entities such as credit unions or FinTechs)[36] at a time when the Government is seeking to increase competition in financial services. In the Issues Paper, the RBA also states that there appears to be limited evidence regarding how effective the Durbin Amendment has been in facilitating MCR[37]. Similarly, Natasha Sarin, of the University of Pennsylvania Law School, has said that, putting aside the interchange cap, further work remains to be done on the consequences of the amendment, including the routing restrictions[38].

First-Priority Network and International Scheme Rules

The RBA Issues Paper raises the possibility of the "issuance of cards with eftpos as first-priority network and an international scheme as the second-priority network for domestic use." It adds that the RBA would be interested in information as to whether there are any international scheme rules or policies that would prevent or discourage this option[39]. Visa's rules and policies relate to the use of its ISO 4 BIN allocation, proprietary technology and intellectual property (IP) so that transactions can be completed in an efficient, secure and ubiquitous manner. Visa's rules and policies are not written to determine how another network's BIN, technology and IP can be used. If eftpos allows a Visa credential to be used on its ISO allocation, we would seek to understand the benefits of participating in the product.

2.2 Competition in Card Acquiring

It is crucial that participation in the card acquiring market is permissioned carefully to ensure that the entry bar is not lowered to such as level that the broader payments environment is put at risk through the entry of inappropriate Acquirers. Pressure on schemes regarding the speed at which new Acquirers are given access does not take account of the need for proper due diligence to mitigate the risk that they may negatively impact the payments environment.

Visa makes these points against the backdrop of the company ensuring that new licenses are granted to institutions that are financially sound and are not at risk of default, and that they implement adequate controls to ensure that merchants do not process transactions that are illegal and/or that may adversely affect trust in the Visa system. As part of our overall processes, Visa is also focused on not permitting transactions, such as those that involve deceptive marketing practices, illegal Internet gambling, and violent crime (among others), which are checked at origination and closely monitored and dealt with thereafter.

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[36] Wilkinson, Molly (2017), "Small Banks and Credit Unions Paying Millions For Durbin Amendment", *Forbes*, https://www.forbes.com/sites/realspin/2017/02/07/small-banks-and-credit-unions-paying-millions-for-durbin-amendment/#32b578b2a0a9

[37] Reserve Bank of Australia (2019), "Review of Retail Payments Regulation – Issues Paper", https://rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/pdf/review-of-retail-payments-regulation-issues-paper-nov-2019.pdf, p19

[38] Sarin, Natasha (2019), "Making Consumer Finance Work", *Columbia Law Review*, https://scholarship.law.upenn.edu/cgi/viewcontent.cgi?article=3049&context=faculty_scholarship, p1534

[39] Reserve Bank of Australia (2019), "Review of Retail Payments Regulation – Issues Paper", https://rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/pdf/review-of-retail-payments-regulation-issues-paper-nov-2019.pdf, p19

On competition in card acquiring, the RBA states in the Issues Paper that the marginal cost of additional transactions in simple merchant plans is typically around 1.5 per cent, well above the likely marginal cost of interchange and scheme fees, and implying a margin much larger than that typically paid by merchants on interchange-plus contracts[40]. Visa is not involved in how an Acquirer prices its merchants, nor does it set their margins. Like many commercial businesses, Visa is aware that Acquirers typically require higher margins for merchants with lower volumes since these merchants generally can be more costly to service, and have higher risk profiles and turnover risk. Furthermore, as is stated in the previous section of this submission, merchant pricing is complex and driven by a number of market-based factors.

2.2.1 Stakeholder Comment – Competition in Card Acquiring

Transparency of Merchant Payment Costs

In considering policy action regarding competition in card acquiring, the RBA raises the possibility of further enhancing the transparency of merchant payment costs (such as breaking down total fees into scheme fees, interchange and Acquirer margins)[41]. In the Scheme Fees section of the submission that immediately follows, Visa highlights in detail the company's concerns regarding potential disclosure of our scheme fees as well as the fact that merchants already have access to interchange rates, given that these are regulated.

2.3 Scheme Fees

During the 2007-2008 RBA Review of Card Payment Systems Reforms (2007-2008 Review), the PSB conceded that there were commercial sensitivities regarding scheme fees[42] and did not proceed with requiring the transparency of scheme fees that payment schemes charge their financial institution clients. We recommend that the reasons for not doing so still stand in regard to the current Review.

As Visa highlighted during the 2007-2008 Review[43], information regarding the service fees we charge to financial institutions that issue Visa cards and acquire Visa transactions is highly commercially sensitive. Disclosure of such information is not recommended, not least because it will become available to competitors. In such a situation, it is reasonable to assume that unregulated schemes would be in a particularly advantageous position of seeing both Visa and MasterCard fees without having to disclose any information about their own fees.

It is also worth noting that all merchants already have access to interchange rates. It seems unlikely that more information would be beneficial to merchants – or that merchants would find it useful and have the time to consider scheme fee arrangements. In terms of circumvention, the RBA can already request information to verify that schemes are compliant.

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[40] Reserve Bank of Australia (2019), "Review of Retail Payments Regulation – Issues Paper", https://rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/pdf/review-of-retail-payments-regulation-issues-paper-nov-2019.pdf, p20

[41] ibid., p21

[42] Reserve Bank of Australia (2008), "Reform of Australia's Payments System: Conclusions of the 2007/08 Review", https://www.rba.gov.au/payments-and-infrastructure/payments-system-regulation/past-regulatory-reviews/review-of-card-payment-systems-reforms/pdf/review-0708-conclusions.pdf, pi

[43] Visa (date unknown), "Major Policy Issues and Options Regarding Interchange Fees in the *Preliminary Conclusions of The 2007/08 Review*", https://www.rba.gov.au/payments-and-infrastructure/payments-system-regulation/past-regulatory-reviews/review-of-card-payment-systems-reforms/pdf/review-0708-pre-conclusions/visa-30062008-3.pdf

Visa's pricing reflects the global nature of our business, the breadth of services/products we provide, and the variety of clients we serve. Like any commercial business, we negotiate pricing and incentives based on a range of commercial and competitive factors. Visa may have differential incentives – related to volume and growth commitments, security, innovation, and the deployment of new technologies and services (to name a few). Pricing is also dynamic and, in addition to a range of competitive factors, is based on new types of payment flows and evolving market-based opportunities.

Visa has highlighted in the past that there are difficulties in calculating meaningful averages of scheme fees. Of course, an artificial way of calculating fees could be devised, but the usefulness of such information would be questionable. Methods of calculation would need to be specified in considerable detail by the RBA – both to improve the prospects of producing data that is comparative across the regulated schemes and to achieve an outcome that does not stifle change in fee structures or lead to accusations that changing fee structures over time distort transparency goals.

We also query whether any other industries in Australia are required to make publicly available such highly commercially sensitive information and if the payments industry would be a priority if such reforms were to be introduced. Such a step could be expected to set a very negative precedent for the payments industry, but would also be of great concern to other sectors of the Australian economy.

2.4 Interchange and Net Compensation Regulation

2.4.1 Introduction

Following the 2015-2016 Review, Visa and its peers undertook a number of measures to comply with the revised interchange rates and compliance cycle. In our assessment, it is premature to consider introducing further interchange regulation before fully and impartially assessing and understanding the impacts of the recent changes to the interchange levels on the Australian market.

This is particularly important given that further compression of interchange rates has the potential to undermine the ability of participants to deliver ongoing digital payments security, reliability, innovation, and utility to consumers and businesses. Further reduction of interchange rates could distort the economics of the payments system, stifle innovation and competition, and negatively affect consumers – outcomes which are not in accordance with the RBA and PSB mandates.

A full understanding of the benefits that interchange brings to the payments ecosystem makes clear why a further lowering of interchange could be highly detrimental. In Australia, Visa does not derive any revenue from interchange. Rather, we are motivated to set interchange at a level that increases the volume of digital transactions and balances the interests of all participants in the payments system, while remaining compliant with the RBA's regulations.

2.4.2 The Role of Interchange in Payments

The primary role of interchange is to create the right balance of incentives and costs between the Issuer and Acquirer to optimise the growth of digital payments. This involves the transfer of value between an Acquirer and the Issuer each time a payment is made. The strong economic case for the transfer of value from one side of a four-party card scheme to the other has been accepted in the regulatory debate around interchange, as there is no expectation that the "user pays" principle will deliver efficient outcomes.[44]

Interchange also balances the needs and expectations of consumers and merchants. Consumers benefit from innovation that delivers increasingly secure and more convenient methods of payments, while merchants benefit from innovation that increases the speed of payment transactions, reduces operational costs and raises sales. Merchants also gain as a result of a payments process that is robust, provides readily accessible dispute handling, and delivers a payment guarantee.

Thus, merchants receive a wide variety of benefits from acceptance, the majority of which are created and funded by the Issuers of cards. Accordingly, the interchange rate, which the merchant's bank pays to the Issuer in connection with each transaction, allows the Issuer to recoup some of the costs of payments innovation that benefits all participants of the payments system. Without interchange or equivalent payments, each Issuer would have to recover all its costs from the revenue received from consumers, and merchants would have the benefits of a payments system for free or at a cost that is not reflective of the value derived.

For Visa, setting the right level and structure of interchange is not simply a mathematical formula or a cost-based exercise. It is process of ongoing fine-tuning in an effort to establish balance in the market. Setting interchange too high or too low can affect one or other side of the market. If interchange is too low, then consumers' financial institutions will not issue cards or will not invest in accountholder usage programs from which merchants benefit; if interchange is too high, businesses will not accept cards.

Against this backdrop, both the PC's recommendation to ban interchange[45] and any regulatory actions potentially taken as part of this Review to reduce interchange further, would eliminate a key mechanism for enabling the innovation of digital payments and balance across a wide range of participants in the payments system. Today, there is more competition in Australia's payments ecosystem than ever before, with new entrants offering fresh payment solutions for both e-commerce and at the physical point of sale, thereby providing merchants and consumers with more choice and options. This environment is forcing incumbents to differentiate themselves at all levels of value, including price. If the RBA were to either further reduce interchange or, even more problematically, follow the PC's recommendation, new payments technology providers – both networks and non-traditional Issuers – would have little to no incentive to deliver innovative payments solutions in Australia. This could result in further consolidation of financial services, significantly reducing competition and negatively influencing Australia's reputation as an innovative nation.

Even putting aside the PC's recommendations, it is important to recognise that no concrete evidence has been presented to date justifying further compression of interchange. Lower interchange caps would only serve to undermine the ability of participants to deliver ongoing digital payments security, stability, innovation and useability to consumers and businesses.

More specifically, there is the risk that smaller financial institutions – whether they be established credit unions or FinTechs – could be negatively affected by interchange compression, including reduced

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[44] Rysman, Marc (2009), "The economics of two-sided markets", *Journal of Economic Perspectives,* *https://www.aeaweb.org/articles?id=10.1257/jep.23.3.125*

[45] Reserve Bank of Australia (2019), "Review of Retail Payments Regulation – Issues Paper", https://rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/pdf/review-of-retail-payments-regulation-issues-paper-nov-2019.pdf, p24

competition leading to unintended consolidation of the sector. The detrimental repercussions of interchange compression for smaller financial institutions emerged in the US under the Durbin Amendment, even though financial institutions with assets of $US10 billion or less were exempted from the legislation[46]. There is also concern that further reductions in interchange could result in detriment to consumers. For example, lower interchange may reduce the optimal sharing of fraud risk within a card payment scheme. Lower interchange benchmarks could also result in higher accountholder fees and reduced usage due to poorer consumers departing banking services because of the higher fees. This could, in turn, negatively affect merchants, particularly in a market where consumer spending has been soft and the outlook is uncertain[47].

Interchange also plays a crucial role in regard to payments innovation and additional compression of interchange would put that at risk. Consumers' and businesses' needs will continue to evolve as technology advances. In this environment, interchange will remain an important mechanism for creating new payment forms and tools valued by consumers and businesses and which enables Australian banks and other organisations in the payments industry to remain competitive.

2.4.3 Foreign-Issued Cards

Visa's Position on the Inclusion of Foreign-Issued Cards

Visa supported the RBA's decision not to regulate interchange for cross-border transactions following the 2015-16 Review of Card Payments Regulation - an outcome the Bank reached after detailed assessment for two reasons:

i) Given the low market share of foreign-issued card transactions in Australia, the RBA recognised that regulating interchange for these transactions would do little to impact merchant and consumer costs; and
ii) The RBA also recognised that international card schemes maintain rules that effectively prevent the circumvention of domestic interchange caps[48].

The RBA's decision in 2016 was both prudent and based on the economic realities of the marketplace. Its reasons for exercising restraint in this area remain just as valid today as they were then.

Whilst Visa acknowledges that the value of purchases in Australia made by foreign-issued cards has increased[49], the rise has been minimal. In May 2016, when the RBA released its findings, the share of credit transactions on foreign-issued cards was 5.29 per cent. This share marginally increased to 5.68 per

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[46] The Executive Director of the Electronic Payments Coalition, Molly Wilkinson, has noted: "The Durbin Amendment essentially cut larger banks' per-transaction debit interchange revenues in half and, in the process shifted more cost-sharing responsibility on to the small Durbin 'exempt' banks …" For further details, see Wilkinson, Molly (2017), "Small Banks and Credit Unions Paying Millions For Durbin Amendment", *Forbes*, https://www.forbes.com/sites/realspin/2017/02/07/small-banks-and-credit-unions-paying-millions-for-durbin-amendment/#6b8e008b2a0a

[47] RBA Governor Dr Philip Lowe noted in December 2019 that "The main domestic uncertainty continues to be the outlook for consumption, with the sustained period of only modest increases in household disposable income continuing to weigh on consumer spending." Reserve Bank of Australia website, https://rba.gov.au/media-releases/2019/mr-19-33.html

[48] Reserve Bank of Australia (2016), *Review of Card Payments Regulation: Conclusions Paper*, https://www.rba.gov.au/payments-and-infrastructure/review-of-card-payments-regulation/pdf/review-of-card-payments-regulation-conclusions-paper-2016-05.pdf, p2

[49] Reserve Bank of Australia (2019), *Payments Systems Board Annual Report 2019*, https://www.rba.gov.au/publications/annual-reports/psb/2019/, p27

cent by October 2019. In fact, since the RBA began keeping statistics on foreign-issued card transactions in May 2008, their share has increased by only 1 per cent[50].

Regarding card scheme rules, Visa's Operating Rules prohibit financial institutions from issuing cards to consumers outside their jurisdictions. These rules remain in place today and, since Australia implemented domestic interchange caps, Issuers have not been able to shift to a cross-border issuance model. This also is evidenced by the stable share of transactions on foreign-issued cards within Australia, noted above.

Value Proposition of Cross-Border Transactions

In addition to the points noted above, Visa wishes to reiterate the unique characteristics of cross-border transactions, which the RBA has acknowledged. We also wish to highlight the additional investments and value that we provide regarding these characteristics.

Firstly, as the RBA acknowledged in 2016, fraud rates are higher on international transactions than domestic transactions[51]. Specifically, domestic fraud rates in Australia are currently 4.8 bps, while fraud rates on foreign-issued cards are 40.5 bps. Fraud is particularly high in segments where cash is unlikely to be used. In particular, the fraud rate on cross-border card-not-present transactions is 66.7 bps, while on travel and entertainment it is 39.2 bps, and for education and government it is 54.2 bps.[52]

Alongside increased fraud risk, interchange for cross-border transactions is also higher to account for the complexities of these transactions and due to chargeback processing. Issuers make significant investments in infrastructure to address these risks and complexities. If Issuers are forced to internalise losses associated with fraud, currency volatility, or other factors that are heightened in a cross-border context, we continue to believe that Issuers will resort to declining more transactions in Australia because the cost of these transactions to Issuers will outweigh the revenue generated by them. This outcome would be disruptive for the larger payments environment. For example, one study found that retailers lose 32 per cent of their customers that experience false transaction declines.[53] Increased transaction declines could also lead to a fall in tourism expenditure in Australia, which is a mainstay of the country's economy accounting for almost 10 per cent of total exports.[54]

In addition to Issuer investments, Visa makes significant investments to drive cross-border commerce, including, for example, by guaranteeing consumers' zero liability for fraudulent transactions and engaging in real-time fraud monitoring. Due to the protections that Visa offers for lost or stolen cards, Visa is safer to travel with than cash or cheques. Alongside security and fraud protection, international travellers conveniently have access to funds wherever Visa is accepted and have been recognised as generally receiving significantly better currency exchange rates when using their cards as compared to currency

[50] Analysis based on Reserve Bank of Australia statistics available at https://www.rba.gov.au/payments-and-infrastructure/resources/payments-data.html, Table C1
[51] Reserve Bank of Australia (2016), *Review of Card Payments Regulation: Conclusions Paper*, https://www.rba.gov.au/payments-and-infrastructure/review-of-card-payments-regulation/pdf/review-of-card-payments-regulation-conclusions-paper-2016-05.pdf, p20
[52] VisaNet Settlement and Fraud Reporting System for purchases at Australian acquired merchants with a purchase date of 1 July 2018 through 30 June 2019.
[53] PYMNTS.com (2015), "Fixing Retail's $118B Mistake", https://www.pymnts.com/news/2015/fixing-retails-118b-mistake/
[54] Tourism Australia website, http://www.tourism.australia.com/en/markets-and-stats/tourism-statistics/the-economic-importance-of-tourism.html

exchange services[55]. As with their domestic transactions, international travellers also benefit from real-time expense tracking, instant currency conversion and real-time payment authentication.

These result in additional online and face-to-face sales for Australian merchants. Further benefits include guaranteed payment and additional fraud protections for merchants. As with domestic transactions, importantly for merchants average spend is higher on payment cards.

As merchants and consumers increase their use of digital payments, we continue to add new defensive capabilities, including monitoring, detection, response, intelligence and investigation. These capabilities are complemented by internal processes and policies designed to ensure resiliency in the event of a cyber-attack affecting Visa or a third party. A cap to cross-border interchange would disregard such efforts to maintain and grow a resilient, secure electronic payments infrastructure.

Impact to Competition of Foreign-Issued Card Interchange Regulation

Finally, Visa does not believe that regulation needs to be introduced in an already competitive environment. For international transactions, Visa competes intensely with not only MasterCard, but also with schemes like American Express and Diner's Club, which sometimes act as three-party schemes but at other times act as four-party schemes. These schemes account for a significant share of international transactions – particularly in the travel and entertainment segment, which is where a large amount of spending by international travellers occurs. Visa also competes with schemes like Union Pay, Alipay and WeChat from China, JCB from Japan, and emerging systems like Mir in Russia. Furthermore, Visa faces significant competition from emerging and rapidly developing alternative payment technologies allowing both in-store and offline payment capabilities. If the RBA does not take these market dynamics into account, a cross-border interchange cap will have the perverse effect of creating a major distortion in the payment cards market by granting unregulated schemes as well as emerging FinTech solutions a substantial competitive advantage.

2.4.4 Stakeholder Comment - Interchange

Developments in Debit Interchange Strategies in Response to MCR

In the Issues Paper, the RBA states that the international schemes have traditionally set their schedules to keep weighted-average interchange fees close to the benchmark and that, by contrast, average interchange fees in the eftpos system have (since 2012) always been well below the benchmark[56]. In responding, Visa wishes to highlight that we continually balance the interests of all stakeholders by adjusting interchange rates where appropriate and in compliance with the RBA's regulations. On eftpos specifically, Visa competes with eftpos in the most competitive card present segments and, as a result, eftpos averages are slanted to those merchant segments. This is the case against the backdrop of eftpos presently not being able to process transactions in all merchant segments and channels. It also should be noted that competition for debit processing is not solely based on cost. Visa enables its clients to offer more services, including reliability, more efficient processing, advanced authorisation, and chargeback protections.

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[55] Australian Competition and Consumer Commission (2019), *Foreign Currency Conversion Services Inquiry Final Report,* https://www.accc.gov.au/focus-areas/inquiries-finalised/foreign-currency-conversion-services-inquiry/final-report, p11
[56] Reserve Bank of Australia (2019), "Review of Retail Payments Regulation – Issues Paper", https://rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/pdf/review-of-retail-payments-regulation-issues-paper-nov-2019.pdf, p26

Implications of Decline in Average Value of Card Transactions

The RBA also seeks stakeholder views on the implications of the ongoing fall in the average value of card transactions, especially for debit[57]. The international schemes have not maximised their weighted-average interchange on debit. For example, the current Visa blend rate (<7 cents) is well below the 8 cent cap as more and more transactions and merchants move to contactless debit. In our assessment, lower price controls on debit will only benefit merchant profits at the expense of investments in innovation as well as negatively affecting consumers.

Weighted-Average Benchmarks Compliance

In response to the RBA seeking input on compliance with the weighted average benchmarks[58], Visa wishes to note that we are committed to complying with RBA regulation and understands the Bank's objective of keeping the effective rate below the cap and not allowing the effective rate to creep up between resets. We note that quarterly compliance requires costly system changes, extensive coordination with participants in the ecosystem, and is not an efficient way to manage the interchange system. In order to improve the efficiency of the payments network for all involved, Visa recommends moving from a quarterly reset to an annual reset. We regard an annual reset as striking the right balance in terms of a timeframe for confirming compliance.

Reversals, Credits and Chargebacks

The RBA notes that there are now a wide range of transaction types processed as credits or reversals and seeks views as to the costs and benefits of alternative approaches to the definition of transactions[59]. The current reporting is on point-of-sale transactions. However, different transaction types are emerging, such as P2P and original credits, and they are for different use cases. Given the current volume of different transaction types (credits/reversals), the overall impact of including or excluding them has a minimal impact from a weighted average perspective. As a result, in Visa's view, the current definition should continue to be used to reflect purchase transactions.

2.4.5 Net Compensation

In Visa's view, the recently strengthened net compensation provisions are generally working effectively and we have appreciated the RBA's collaboration with industry on this matter. However, we encourage the RBA to continue monitoring potential circumvention of the provisions.

On Visa's general position regarding enforcement, see the section below on Regulation and Enforcement.

2.5 Surcharging

Visa welcomes that a number of significant enforcement actions have been taken by the ACCC since the change to the *Competition and Consumer Act 2010* provided it with investigation and enforcement powers

[57] ibid.
[58] ibid.
[59] ibid.

to take action in cases where merchants may be surcharging excessively[60]. However, we see a need for increasing resourcing regarding investigation and enforcement. For example, an October 2019 Retail Finance Intelligence Research survey found that only 51 per cent of all of the interviewed merchants knew that excessive surcharging is not permitted[61]. In addition, it is also important to raise awareness among merchants that there are costs associated with accepting cash and that electronic payments can be a more cost effective way to accept payments[62].

Increasing awareness in the community that excessive surcharging is not permitted is also essential. Visa makes this point against the backdrop of Australian consumers paying an estimated $A1.6 billion in surcharge fees in 2017[63].

We would also encourage that the surcharging regime be applied equally across businesses. For example, taxi services are excluded from the *Competition and Consumer Amendment (Payment Surcharges) Act 2016*, with the industry being regulated by state and territory regulators[64]. This has resulted in the application of different surcharging levels across Australia's states, leading to confusion and a negative experience for Australian consumers and foreign travellers. Victoria's Essential Services Commission publicly advised in 2019 that it had forwarded to the RBA a proposal that all commercial passenger vehicle trips be brought within the national regulatory framework for card payments – as is the case with ride share services and hire cars[65]. Visa would welcome the RBA and other relevant agencies giving this matter serious consideration.

2.5.1 Stakeholder Comment - Surcharging

On the RBA's request for information regarding the observance of the requirement in Clause 6.3 of the surcharging standard, Visa provides BIN listings to its Acquirer participants in Australia to enable them to provide these to their merchant customers. Visa does not have a direct processing connection to most merchants in Australia, as they access the Visa network via their Acquirer relationship. As a result, Acquirers are more able to deliver securely this highly sensitive information due to their existing direct relationships.

If a merchant requests BIN tables, we direct them to their Acquirer or to our Payment Attributes Application Program Interface (API) in the Visa Developer Centre:

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[60] Australian Competition and Consumer Commission (2019), "Europcar to pay $350,000 penalty for excessive car payment surcharges", https://www.accc.gov.au/media-release/europcar-to-pay-350000-penalty-for-excessive-card-payment-surcharges and Australian Competition and Consumer Commission (2018), "Fitness First pays penalty for excessive surcharging", https://www.accc.gov.au/media-release/fitness-first-pays-penalty-for-excessive-surcharging

[61] Retail Finance Intelligence Pty Limited (2019), *Australian Merchant Acquiring Program October 2019 Survey*. This was a quantitative survey Visa commissioned and it was conducted by Retail Finance Intelligence in an independent capacity.

[62] For further details, see the Visa-commissioned report (2017), *Cashless Cities: Realising the benefits of digital payments.* The report notes that "Accepting cash and checks costs businesses about 7 cents of every dollar received compared to 5 cents of every dollar collected from digital sources", https://usa.visa.com/dam/VCOM/global/visa-everywhere/documents/visa-cashless-cities-report.pdf, p4

[63] PYMNTS.com (2017), "Australia Officially Bans Excessive Credit Surcharges", https://www.pymnts.com/news/regulation/2017/australia-officially-bans-excessive-credit-surcharges/

[64] Australian Competition and Consumer Commission website, https://www.accc.gov.au/consumers/prices-surcharges-receipts/credit-debit-prepaid-card-surcharges

[65] Essential Services Commission (2019), "Taxi Non-Cash Payment Surcharge review 2019: Draft Decision", https://www.esc.vic.gov.au/sites/default/files/documents/DDP%20-%20Taxi%20Non-Cash%20Payment%20Surcharge%20review%202019%20-%20Draft%20Decision%20-%2020190530.pdf, p108

i) Acquirer: BIN tables and account range definitions are delivered to VisaNet endpoints and these tables include issued Visa Token Service BIN ranges.

ii) API: The Payment Account Attributes inquiry service has two APIs that enable merchants to look up important attributes of a Visa account. The General Attributes Inquiry API provides information about a Visa account that is generally applicable to many different types of projects (such as card type). This API will be updated to include token details.

Chapter 3: Competition in the Cards Market – Other Issues

Key Points

- Since the Payment Card Access Regimes were varied in 2015, these regimes have been generally working effectively.
- As a general principle, Visa encourages risk-based regulatory frameworks proportionate to the size and complexity of the institution, and based on a commitment to fair and open competition.

3.1 Access Regimes

In Visa's assessment, since the Payment Card Access Regimes were varied in 2015, these regimes have been generally working effectively. We regard the appropriate balance as having been found between openness regarding the entry of new participants and risk mitigation to maintain a healthy payments environment.

3.2 Regulation and Enforcement

In terms of a general approach to regulation and enforcement, we encourage principles and risk-based regulatory frameworks proportionate to the size and complexity of the institution, and based on a commitment to fair and open competition. In our view, such frameworks should be sustainable and focused not just on the types of payments entities and technologies that exist today, but also with consideration to those that will exist in the future. The payments ecosystem is evolving at a rapid pace and now includes not only traditional financial institutions and retail payments systems, but also new entrants who can increase the potential for innovation and growth. However, they can also introduce additional risks to the stability of the ecosystem.

Conclusion

The RBA's Review of Retail Payments Regulation is taking place at a critical juncture for the global and Australian payments ecosystem in terms of technological advances and the entry of an expanding number of entities offering payment solutions. This reality underscores the importance of the Review and the need for the best outcomes to be reached - not just for the effective and secure functioning of the domestic payments system into the future, but to meet the RBA's duty to contribute to Australia's economic security and the welfare of the Australian people. Visa is aligned with the RBA in this regard. We believe that the ongoing development of a safe, stable, efficient, and competitive electronic payments system is essential to the growth and stability of the Australian economy. Contributing significantly to the nation's economic growth, development and the financial inclusion of all Australians is central to Visa's mission.

In terms of these crucial shared goals and as a result of decades of experience working with regulators and policymakers in markets worldwide, Visa is approaching the Review with the belief that industry consultation helps determine the practical implications of regulatory reform and ensures the development of effective and commercially-viable safeguards for all participants in the payments environment. It is critical that industry and regulatory bodies such as the RBA work closely together to ensure that regulation is not only appropriate for the current environment, but also remains relevant for the foreseeable future, while allowing industry to compete and innovate.

Several steps are required to achieve this is: examining the effectiveness of previous reforms before proceeding with further measures; ensuring that all stakeholders - current and emerging - are treated equally to prevent any imbalances negatively impacting the payments environment; and developing and implementing policies which are innovation-enabling to ensure the vibrancy and competitiveness of Australia's payments ecosystem.

A collaborative approach, led by the RBA together with the payments industry, will ensure that Australia has a payments ecosystem, which is open, competitive, secure, reliable and innovative.

Visa has welcomed the opportunity to engage in this first stage of the Review of Retail Payments Regulation. Together with the RBA, we look forward to building an inclusive payments system that is operating effectively to the benefit of the Australian economy, business and consumers.

About Visa

Visa is the world's leader in digital payments. Our mission is to connect the world through the most secure, reliable and innovative payment network - enabling individuals, businesses and economies to thrive. Our advanced global processing network, VisaNet, provides secure and reliable payments around the world, and is capable of handling more than 65,000 transaction messages a second. The company's relentless focus on innovation is a catalyst for the rapid growth of digital commerce on any device for everyone, everywhere. As the world moves from analog to digital, Visa is applying our network, people, products and scale to reshape the future of commerce.

In Australia, Visa has a physical presence in Sydney and Melbourne. Together with our Australian financial institution, FinTech and merchant clients, and our technology partners, we are committed to building a future of commerce that fosters Australian economic growth and innovation. In 2019, Visa partnered with Startup Muster to gain insight into Australia's fast-growing FinTech industry and how startup founders can best be supported. Enabling this type of entrepreneurship and innovation, which benefits Australian consumers, merchants and the economy, is a core focus for our business in Australia.

With clear momentum in innovation for consumers, we are also working to expand acceptance across the payments ecosystem, ensuring that every Australian can not only pay, but also be paid in a convenient and secure way. One way we have furthered these efforts is by partnering with Quest Payment Systems and The Big Issue, the independent magazine sold by homeless, marginalised and disadvantaged people, to enable Big Issue vendors to accept digital payments. We have also launched #WhereYouShopMatters, an initiative focused on supporting Australian small businesses through education and promotion.

Appendix A: Analysis of RBA Perspectives in Review of Retail Payments Regulation Issues Paper

Appendix A outlines the Reserve Bank of Australia's perspectives on a range of topics in the Issues Paper and Visa's responses to these views.

Dual-Network Debit Cards and Merchant Choice Routing

Merchant Payment Costs

Reserve Bank of Australia: As LCR functionality has been rolled out gradually, schemes have responded with lower interchange rates for merchants that might be considering adopting LCR (Graph 8). However, there are several factors which may be limiting the overall downward pressure on merchant payment costs. First, lower interchange rates for some debit card transactions have been accompanied by increases in rates on other types of cards and/or transactions, in some cases for segments of the market where LCR is not an option. Second, the Bank has continued to hear concerns that merchants may lose access to favourable strategic rates on credit transactions if they adopt LCR for debit transactions. Third, there appears to have been only limited competitive response in the form of lower scheme fees, which also affect payment costs to merchants and where the international schemes appear to remain more expensive than eftpos[66].

Visa: We continually balance the interests of key stakeholders by adjusting interchange rates where appropriate and always in compliance with the RBA's regulations. Interchange reflects market opportunities, competition and value provided to different stakeholders.

For preferential strategic merchant interchange rates, Visa has separate requirements for credit and debit and does not tie the two together. Visa may offer strategic interchange rates on credit or debit or both, depending on the commercial business opportunity. A merchant can qualify for the lowest credit rate without routing debit transactions over VisaNet and vice versa.

Visa aligns its scheme fees based on the value that different participants receive in utilising the network. As Visa is not privy to our competitors' scheme fees nor their level of incentives and rebates provided, we cannot comment on our competitors' pricing. Visa will note that we process both domestic and international transactions, which have different costs, fees and value, to the stakeholders associated with these different types of transactions. We do not regard comparing 100 percent domestic transactions with a scheme that processes both domestic and international transactions as a like-for-like comparison.

[66] Reserve Bank of Australia (2019), "Review of Retail Payments Regulation – Issues Paper", https://rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/pdf/review-of-retail-payments-regulation-issues-paper-nov-2019.pdf, p16

Scheme Fees

Scheme Fees and Merchant Service Fees

Reserve Bank of Australia: Information from some stakeholders suggests that scheme fees on Acquirers and Issuers have been growing over time and represent an increasing proportion of merchant service fees[67].

Visa: Scheme fees support investments to maximise the security, reliability and speed of the payments ecosystem as well as the development and roll-out of new technologies such as tokenisation, contactless and mobile payments. As the payments environment becomes more complex, payment schemes have had to make even greater investments to ensure the security and safety of their networks.

Scheme fees should also be considered within the perspective of the overall economics of payment transactions. Like interchange, scheme fees are generally set on a per transaction basis, whereas Acquirers' charges tend to vary significantly depending on merchant size and industry. Given that interchange is capped in Australia, any link between scheme fees for Issuers and merchant cost is highly attenuated.

Visa regularly reviews its fees based on the cost and value of the service provided. Sometimes fee adjustments are made, both increase and decreases, due to a range of market-based factors.

With respect to MSF, it is important to understand that the merchant's Acquirer sets those fees; Visa is not involved. Therefore, the RBA's representing and reporting of the MSF cost at a network level is not accurate or fact based.

Interchange

Direction of Interchange Rates

Reserve Bank of Australia: In contrast to normal markets for goods and services, competition in payment card networks can actually drive fees higher[68].

Visa: Interchange has been restricted from rising higher due to RBA regulation. The market in Australia is highly competitive between schemes, new entrants and use cases such as NPP. Schemes are competing based on price, innovation, value and brand within a controlled environment. If margins were regulated as that of a utility, Australia would risk a lower level of payment innovation, such as contactless payments, advanced authorisations, tokenisation, and new use cases.

Scheme Preference and Interchange Rates

Reserve Bank of Australia: Other things being equal – in particular assuming no regulatory intervention and no merchant surcharging to offset the differences in their costs – consumers will have a preference to use a card from a network where larger interchange payments flow to the card-issuing financial

[67] ibid., p21-22
[68] ibid., p5

institution. Merchants will prefer to receive cards from a network with lower interchange rates (or fees flowing in the opposition direction). In circumstances where multiple card networks are widely accepted by merchants (as in Australia and many other developed countries), the consumer typically decides which means of payment is tendered and used in a transaction. Given this, financial institutions will have an incentive to issue cards from networks where interchange fees flow from the merchant's financial institution to the consumer's financial institution, and competition may lead networks to increase the size of such fees[69].

Visa: If this were the case, consumers would choose credit over debit. However, the data points to debit growing faster than credit[70]. Consumers are not interested in the interchange earned by an Issuer on an individual transaction; they are concerned about the overall benefit to them of using one card over another—based on which bank, which scheme, and for which card to apply. More specifically, bank, scheme, and card benefits include security, reliability, convenience, acceptance footprint, and feature benefits. As a result, financial institutions are incentivised to issue the most robust payment products to consumers. And a number of merchants increasingly have their own co-brand cards[71] – which they prefer over other cards. In addition, merchant costs need to be balanced against their card benefits, return on consumer surcharging, and costs associated with processing cash transactions when consumers choose to avoid a surcharge.

Competition between mature card schemes

Reserve Bank of Australia: The major card schemes are mature systems, and regulators in many countries have reached the judgement that their cards are 'must take' methods of payments – that is, that merchants have little choice but to accept their cards. In practice, with interchange fees being used to incentivise Issuers to issue cards from a particular scheme and consumers to use that card, the tendency has been for competition between mature card schemes to drive up interchange fees and costs to merchants, with adverse effects on the efficiency of the payments system[72].

Visa: The reference to a mature system can imply that payments have reached a phase where there will be no further or minimal development (and, therefore, there is a lack of competition and there will be little or no further innovation). In fact, as outlined in the submission, there is rapid change underway in the payments environment, including via contactless, tokenisation, advanced authorisation and wearables. There is also rapid change in terms of new entrants, such as buy now pay later providers, new NPP use cases, Open Banking, PayPal, and other direct payment options. Interchange remains an important motivation for the entire ecosystem in terms of generating incentives to invest and adopt in new technological innovations and creating the right economic balance to optimise growth.

In Australia, merchants have many mechanisms available to them: they are able to surcharge, offer installment/financing for purchases; and negotiate with payment systems/Acquirers to receive benefits for preferring one scheme over another. Even if a merchant chooses none of these options, they still

[69] ibid., p6

[70] *The Payments System Board Annual Report 2019* notes that there are now around 43 million debit cards on issue in Australia, compared with 21 million credit cards. In addition, growth in the value of debit card payments has outpaced that for credit cards. Reserve Bank of Australia (2019), *Payments System Board Annual Report 2019*, https://www.rba.gov.au/publications/annual-reports/psb/2019/, p26

[71] Examples include the Qantas Premium Everyday Card and the Coles Rewards Card

[72] Reserve Bank of Australia (2019), "Review of Retail Payments Regulation – Issues Paper", https://rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/pdf/review-of-retail-payments-regulation-issues-paper-nov-2019.pdf, p6

benefit from extremely low acceptance costs and receive significant benefits from cards over cash and cheques[73]. While some merchants may want to regard payments as a utility, competition and profit margins for Acquirers, schemes, and Issuers result in improved payment systems which benefit merchants– less friction in finalising sales (including through a faster checkout experience), guaranteed payment and less cash slippage. These benefits should not be underestimated.

[73] See the Visa-commissioned report (2017), *Cashless Cities: Realising the benefits of digital payments*, for further details. https://usa.visa.com/visa-everywhere/global-impact/cashless-cities.html