14th July 2023

Head of Payments Policy Department
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Re: Issues Paper – The Australian Debit Card Market: Default Settings and Tokenisation

Thank you for the opportunity to provide comment on the Default Settings and Tokenisation policy options. Woolworths Group (Woolworths) is in the unique position of operating both as a large retail merchant and as a participant in the payments ecosystem as a payments acquirer in the Australian market.

About Wpay

Wpay (a Woolworths company) offers services primarily to larger merchants (inside and outside Woolworths) but also some smaller merchants primarily through payments service providers (partners).

We support Least Cost Routing (LCR) on the basis that it drives competition in the card payments market and provides options for merchants.

Setting a default network on dual-network debit cards

In regard to Questions 1–3, while some technical work would be required, we expect to be able to implement a default routing network on the proposed late 2024 timeline. We have no objections to a 'no default' scenario. The more pressing challenge for the market is the ability to route *all* debit transactions (including mobile wallets for medium to large merchants).

Routing all debit transactions will provide greater benefits to merchants

For LCR to be effective for larger retailers, all forms of channel and device should be enabled for LCR, *i.e.* 100% of Dual Network Debit Card (DNDC) traffic. This would include in store (Card Present), Online (Card Not Present), and Mobile Wallet (OEM Wallets) tokenised transactions. Complete coverage of LCR for debit transactions will enable a true comparison between card

schemes and enable acquirers and merchants to make optimal business choices about where to route transactions.

Wpay currently prices transactions for medium to large retailers on the basis of Interchange + (Interchange plus a fee comprised of scheme and processing fees) or Interchange ++ (Interchange plus schemes fees plus processing fees). This enables merchants to compare scheme pricing and enables a clear LCR choice.

For each merchant we configure their selection of LCR scheme choice. Therefore there is no 'default' within the card presentation process. The addition of 'no default' into the card should not have an impact on how our LCR process works.

We observe that larger retailers will typically have a formal relationship with each of the schemes and the process of routing based on priority or override can be effective and material in managing their cost base and cost to customers.

Tokenisation of dual-network debit cards

In regard to Questions 4–8, we support the move towards tokenisation of payment cards and see token portability and synchronisation as critical elements to fast track the adoption and migration of existing cards on file to tokens.

We currently tokenise a portion of our card not present transactions and also process all scheme tokens provided to us via OEM Wallet Transactions. This includes both gateway scheme tokens and merchant restricted tokens.

Full LCR enablement must consider the context of scheme portability, as well as acquirer/Payment Service Provider (PSP) portability.

Scheme Token Portability is required if LCR is to provide maximum benefit to merchants. It will lower the barrier to switching: as schemes adjust their pricing models, merchants and PSPs will need to be able to seamlessly (even dynamically) route between schemes. Further, without the ability to route all possible future transactions the overall LCR framework could be undermined. The merchant and PSPs need some form of control. Finally, the ability to easily route tokens is likely to lower pricing of token services/transactions, further lowering costs to merchants.

Portability between Token Service Providers (TSPs)

The key to enabling merchants to best manage their PSP relationships is the portability of tokens across schemes; merchants should also have the ability to port tokens from one TSP to another. For example, a merchant may have a merchant token (restricted to that merchant) who they registered with their acquirer (and corresponding TSP). If they switch acquirer and/or TSP they then need to be able to transfer those tokens and ensure they work within the payments system (not be specific to an acquirer/TSP). The ability to easily port tokens will reduce

switching costs and minimise customer impacts, associated with rekeying details where their merchant has switched service providers.

Standard primary tokens

We prefer a solution utilising a standard primary token, used across schemes, reducing the complexity in the system. However this may take time to implement. In the meantime, the continued retention of PANs will be critical to enable merchants and PSPs to collect multiple tokens (at customer entry) or request tokens in the future from schemes. The current implementation of 'push provisioning' (the transfer of tokens from a banking app to a merchant through a token provider) does not pass through the underlying PAN, only the international scheme token. This is a future road block for full LCR.

Therefore, the PAN will also be needed until true portability of tokens is enabled.

Other considerations:

Resilience is key within the payments network

Tokens involve the underlying request of the cryptogram from the TSP. This then forces a new 'choke point' into the system, *i.e.* if the TSP is down, then this could create a potential resilience issue if the token cannot be ported, or another method used. Until portability is achieved, the merchant/PSP will continue to want to hold the PAN to maintain fall back options.

Payment Account Reference (PAR)

In response to a scheme transaction, the scheme returns a PAR to identify a transaction account. Currently that PAR is unique per scheme. Where there are multiple schemes related to the same account (as there are in DNDCs) it would be simpler if the PAR be a true account reference and be common across schemes. This will then enable better reporting, error reporting and lookups. It could also be a fall back for PAN in the future – and is a lesser security risk because it is not customer–idefiable.

Wpay is happy to discuss any of the above points with the Bank and any representatives.

Regards,

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