Payments Policy Department
Reserve Bank of Australia
GPO Box 3947
Sydney NSW 2001

12 July 2023

By email only: pysubmissions@rba.gov.au

Australian Payments Network (AusPayNet) welcomes the opportunity to respond to the Reserve Bank of Australia's (RBA) Issues Paper on *The Australian Debit Card Market: Default Settings and Tokenisation*.

AusPayNet is the industry association and self-regulatory body for the Australian payments industry. We manage and develop standards and guidelines governing payments in Australia. Our purpose is to create confidence in payments by setting enforceable industry standards for a safe, reliable, and effective payments system; leading transformation in payments to drive efficiency, innovation, and choice; and being the home for ecosystem collaboration and strategic insight. AusPayNet currently has more than 150 members including financial institutions, payment system operators, major retailers, and financial technology companies.

This submission has been prepared by AusPayNet in consultation with its members. In developing this submission, interested members participated in a consultation process to discuss key issues and provide feedback to inform our response to the consultation paper. Any comments reflecting the views of AusPayNet Management only have been noted as such.

Introduction

In late 2022 and early 2023, AusPayNet supported the RBA by convening an industry working group examining the technical feasibility of merchant-choice routing (MCR) in a scheme-tokenised environment. This submission builds on the findings from this earlier work to respond to the specific matters in the Issues Paper.

We acknowledge the RBA's policy focus on reducing payment costs (as echoed in the Strategic Plan for the Australian Payments System) through broad availability of merchant-choice routing capabilities. The key matters noted in this submission are:

- It is our view that removal of the default priority for contactless applications does not provide any benefit in achieving the desired outcomes of encouraging availability and adoption of MCR across the range of payment terminals in market.
  - For terminals which do not have MCR enabled, the EMVCo specification provides for a 'tie break' mechanism which will automatically select a default application if no highest priority application is available. This priority is based on the ordering of the list of applications, with the first item on the list of equal priority applications being selected.

- For terminals which do have MCR enabled, the presence or absence of a priority indicator is immaterial, as the terminal is already making the configured selection of preferred application.
- With respect to the enablement of MCR at the terminal, we believe that legacy payments terminals would provide the greatest technical barriers to the implementation of transaction routing. As more modern terminals have already demonstrated the ability to route transactions regardless of default/priority status, the acquiring channel should be the preferred avenue to resolve this issue, rather than changing items related to the data held within the EMV chip.

- AusPayNet supports the realisation of enhanced security in the payments ecosystem via widespread tokenisation and the subsequent removal of PANs. During the industry consultation process, we received a range of comments regarding feasibility and timelines of various items related to the tokenisation problem space, and we provide summary information below on these matters where relevant.

Responses to consultation questions

1. Application selection for contactless transactions

The definition of a 'default' network should be considered when evaluating this question. Each Application ID (AID) on a card has an associated priority value, and the relevant EMV Specification[1] outlines the process of selecting which AID to use to process the transaction. The Specification includes a rule that if an AID has no associated priority, it is considered to be priority "F", the lowest priority level. The Specification also includes a rule for final selection of an AID if a highest priority one is not found, and this is to choose the first on the list of equally highest priority applications presented.

The implementation of merchant-choice routing for contactless dual-network debit card (DNDC) transactions shows that it is possible to effectively override the 'default' network without requiring amendment to the priority of AIDs encoded on the card.

From an implementation perspective, removal of the priority of AIDs from cards would require either a full reissuance program, or the natural reissuance lifecycle to complete, likely to take several years based on card expiry dates.

Some Members have expressed concerns that changing data elements used in a global standard may put at risk the correct behaviour of Australian issued cards in overseas markets. If terminals are in use overseas which have not correctly implemented the full EMVCo specification, a card which presents applications with no priority may not be accepted.

Given the above considerations, AusPayNet sees little benefit in prohibiting a default network – there are a number of issues to consider, and the changes would not create a positive impetus to the

---

[1] "EMV® Contactless Specifications for Payment Systems, Book B, Entry Point Specification

enablement or adoption of MCR by the acquirer community. A terminal must have some means of determining how to process a transaction and already has rules in place to determine this, should the priority of the applications be removed. The amount of work for any given terminal to enable MCR is essentially the same, whether the applications have priority or not.

Given the solution to contactless MCR has already been proven for more modern terminals, and the likelihood that the overall terminal fleet will continue to evolve to be more sophisticated over time, with Mobile Payments on Commercial-Off-the-Shelf (MPoC) devices becoming more mainstream, we believe that continuing the focus on implementing merchant-choice routing through the merchant/gateway/acquirer channel offers the better course of action. We further believe that the trend of wallet-based contactless transactions increasing in market share over time will continue.

We understand the RBA's policy aim is to reduce merchant card payment costs by fostering competition between card schemes, including through wider availability and take-up of MCR. Stronger emphasis on the acquirer pathway would appear to be the most logical option to achieve these aims.

2. Relative importance of addressing the issues regarding token portability, synchronisation and visibility

The three issues identified in the Issues Paper emerged from the AusPayNet industry working group process. The industry working group considered portability as the most important, followed by synchronisation and then visibility, in decreasing importance. The reasoning for this ranking is:

- Token portability is a key factor in promoting competition between gateways and acquirers for merchant business. If a merchant is not able to migrate their Scheme tokens between different gateways due to either commercial or technical limitations, they may not be able to realise the full benefits of their preferred gateway – which may include MCR.
- Synchronisation exists to prevent relatively low-incidence scenarios, such as when a merchant receives a declined transaction using one scheme token and re-attempts the transaction using a second stored token. If tokens are not synchronised, there is a risk that the outcome of the request could be different. For example, if a cardholder cancels their account at a merchant, but the merchant does not propagate that change to both tokens stored, it is possible that, when a recurring payment becomes due, the merchant system may see the first token's cancellation and attempt the payment using the alternate token instead. Synchronisation of token lifecycle events across the full ecosystem of merchant to issuer is also a requirement to achieve full issuer token visibility.
- Token visibility is a 'value add' service that does not affect the ability of payments ecosystem participants to implement MCR but offers an enhanced data set to issuers and potentially an improved cardholder experience if this data is provisioned to the cardholder.

The working group found that proposed solutions to these issues include:

Token Portability

A regular theme in the working group was that regulation and standards need to strike a balance between the benefits of standardisation and the ability for individual participants to create competitive advantages. Noting this healthy tension, the working group found that solutions to token portability include:

- The RBA could set expectations, regulation, or standards on all schemes to ensure that an appropriate token migration service is in place for each scheme. This service may be scheme-specific, to promote innovation by the Schemes, or could be standardised to some extent, to reduce the burden and timeline for gateways to implement. We note that many gateways currently offer token migration by means of a "detokenized PAN export" capability. Token migration services should be built to allow for the possibility of PANs no longer being available at the gateway.
- The RBA could place expectation, regulation, or standardisation on all token-holding entities to ensure that they provide any reasonable data to any authorised third party in support of a token migration.
- The RBA could place expectation, regulation, or standardisation on all token-holding entities to ensure that token migration is executed in a timely manner.

Guidance related to the financial aspects of token portability could also be considered. Members have expressed that the pricing structures for token migration across different gateways has significant variance, and in some cases has a high risk of creating financial lock-in. Guidance that only the reasonable costs of processing a token migration should be passed on to merchants could assist in addressing this issue.

Synchronisation

The RBA could place expectation, regulation or standardisation on both Issuers and token-holding entities to ensure that any status change related to one token is, where relevant, duplicated to all other relevant tokens held, including notification to each relevant Scheme, to ensure that all such changes propagate through the full ecosystem. This should apply regardless of where a status change originates – merchant, scheme, issuer, or cardholder.

Token Visibility

The RBA could place expectation, regulation, or standardisation on schemes to ensure that all relevant tokenisation events are sent to Issuers, or that Issuers have access to an API call or dashboard function to determine the current status of all tokens associated with a given PAN.

3. Removal of PANs from the ecosystem

We note that one of the key benefits of ubiquitous tokenisation is the opportunity to remove PANs from the broader payments ecosystem. Most merchants and gateways with whom we consulted, who have currently implemented scheme tokenisation, still retain PANs for reasons which include ensuring the opportunity to route eCommerce transactions to the eftpos rails. The availability of the eftpos eCommerce tokenisation service is a key milestone in the journey to full industry adoption of tokenisation, and the opportunity to reduce the total prevalence of stored PANs.

In addition to the expectations related to the availability of tokenisation services, the RBA may consider setting a series of target dates for the removal of PANs by merchants. This could be prioritised based on the level of PCI compliance that a merchant has obtained (the higher the level of the compliance, the lower the risk of data breach could be considered to be), or could be based on a principle of using merchant / PCI tokens as a short term stop gap, as described below:

- In the short-term action could be taken to require any merchant who does not have a direct connection to the Schemes, to replace any stored PAN with a PCI token. In this case, the PANs would then be able to be purged from each merchant on an individual basis
- By removing the PAN storage at the merchant level, the remaining PAN storage would be at the gateway/PSP level, and the schemes themselves. We note that this does not create any increased data concentration risk when compared to the current ecosystem, as the PANs are already stored by each of these parties. There is a threat concentration risk, however, in that malevolent actors would have a reduced target set to attack and would likely increase their efforts to compromise the vaults of a gateway or other PSP – with an associated much larger payoff than all but the largest merchant PAN stores.

4. Desirability and feasibility of end of 2024 timeline

The timeline for achieving token portability and making significant inroads into the removal of PANs involves a number of inter-related dependencies and several Members have indicated that the end of 2024 will not be a feasible timeline.

The availability of the eftpos service is a key pre-requisite to this target outcome, and its availability would mark the beginning of the broader industry design, development, test, and commissioning of tokenisation-related upgrades to their systems.

5. Broader action the RBA could consider

During the industry working group engagement participants expressed concerns about the volume of change in the industry, and without clear guidance on priorities (or firm regulatory deadlines), it may not be possible to achieve the full set of required industry changes within the desired timelines.

With respect to comparing the RBA’s approach to other jurisdictions, there are several overseas positions to consider. The Canadian position, with a firm legislative requirement to route certain transactions to their domestic scheme, appears to preclude the option of competition between international and domestic schemes to provide downward pressure on merchant acceptance costs.

In India, the RBI has addressed the tokenisation space with firmer guidelines that prohibit PAN from being stored anywhere but issuers and card schemes. Once the AP+ eftpos eCommerce service is fully matured and has broad industry take-up, this would become a path that could be considered.

In the European market, the relevant legislation[2] specifies:

Payment card schemes, issuers, acquirers, processing entities and other technical service providers shall not insert automatic mechanisms, software or devices on the payment instrument or at equipment applied at the point of sale which limit the choice of payment brand or payment application, or both, by the payer or the payee when using a co-badged payment instrument.

Payees shall retain the option of installing automatic mechanisms in the equipment used at the point of sale which make a priority selection of a particular payment brand or payment application but payees shall not prevent the payer from overriding such an automatic priority selection made by the payee in its equipment for the categories of cards or related payment instruments accepted by the payee.

The above regulation provides a stricter interpretation of merchant/consumer choice than the RBA's present approach that consumer choice is not mandatory in all circumstances, but if offered, must be respected. The European regulation provides that consumer choice must be offered in all circumstances.

We have heard feedback that the European requirement has resulted in undesirable cardholder experiences in some jurisdictions, such as a contactless transaction flow being more complex and time-consuming than a card insert flow (tap card once, cardholder selects preferred network, cardholder taps again to initiate payment).

Overall, AusPayNet feels that the current approach taken by the RBA achieves the right outcomes, but would encourage the Bank to consider two key factors when determining future steps:

- With the growing complexity of payment terminals and acceptance devices, a more granular set of expectations may be worth considering – such as grandfathering of capabilities for older terminals, or specific requirements against mobile wallets, eCommerce sites, or smarter payment terminals, recognising the overall market evolutions and minimising burdens on participants to make changes to systems which are likely to be obsolete in a relatively short horizon.
- The ability of the RBA to provide firmer deadlines or legislative/regulatory impetus to the target outcomes will provide additional emphasis when market participants are prioritising their overall development portfolios.

Conclusion

AusPayNet appreciates the opportunity to respond to the consultation on the Australian debit card market. As the payments industry association and self-regulator of debit card issuing and acquiring in Australia, AusPayNet would welcome the opportunity to work with the RBA on the design of any

[2] REGULATION (EU) 2015/751 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 29 April 2015 on interchange fees for card-based payment transactions, Article 8, para 6

emerging standards or regulation that this consultation may inspire. Please contact Luke Wilson (lwilson@auspaynet.com.au) or Andy Leigh (aleigh@auspaynet.com.au) if you have any further questions.

Yours sincerely,

Luke Wilson
Chief Operating Officer
Australian Payments Network