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Response to Reserve Bank of Australia (RBA) Issue Paper on **'The Australian Debit Card Market: Default Settings and Tokenization'**

Tokenization of dual-network debit cards

Introduction

Stripe is writing in response to the Reserve Bank of Australia's (RBA's) Issues Paper on 'The Australian Debit Card Market: Default Settings and Tokenization' of 23 June 2023 referred to as ("the Issues Paper" below). For an overview of Stripe and our business, please see **Appendix A.**

As a global technology company that builds payments infrastructure for the internet, Stripe is focusing its response to the RBA's Issues Paper specifically on the issue of the **tokenization of dual-network debit cards (DNDCs)** for the purpose of conducting online transactions. We are not addressing the question of setting a default network on dual-network debit cards at this stage, but will engage with the RBA and industry players on the issue as the Bank's consultations on that issue progresses forward.

Stripe's Response on the Tokenization of DNDCs

Stripe strongly supports the RBA's commitment to developing payments policy options which will further enhance the competitiveness, efficiency and safety of Australia's debit card market. It is widely recognised that, with the rapid acceleration in the internet economy and digital payments through the COVID-19 pandemic, the Australian payments landscape has become more complex and fragmented. This has created new challenges and opportunities across the payments ecosystem, including the need to constantly balance the imperatives of safety and security with future innovation and growth.

Many companies utilize a variety of tokenization techniques to secure data. Stripe has launched network tokens globally, including in the US. Stripe shares the RBA's view that **the e-commerce ecosystem may derive benefits from tokenization, including enhanced data security.** Tokenization products aim to enhance security, improve authentication rates, build trust among consumers and merchants and, in some cases, reduce payment costs. We share the view that tokenization of transactions should not be a barrier to Least Cost Routing (LCR) of dual network debit cards, inhibit competition or diminish the wider efforts by the RBA to balance the needs for a safe and secure ecosystem with its cost reduction efforts to support merchants.

Principles which should guide future regulation(s)

Stripe would encourage the RBA to focus on the following key principles in developing new expectations for the tokenization of DNDCs in the online environment. We recommend that any new regulatory regime for tokenization should ensure:

- Concrete benefits to merchants and consumers (including through improved lifecycle management) - with no adverse impact on consumer or merchant payments experience.
- Technology neutrality and an emphasis on performance outcomes - enhanced security, fraud reduction, improved authorization rates - over specific technologies or products.
- Portability between payment service providers to facilitate merchant choice.
- The continued affordability of payment transactions and scope for further reductions in payment costs, consistent with the RBA's wider objectives.
- Strong domestic and international competitiveness, and a level playing field for all players in the payments ecosystem.
- A secure and resilient payments ecosystem that is not dependent on a narrow set of players or solutions.
- Support for rapid innovation in the payments sector, recognizing the importance of diversity in payment methods and providers, and encouraging market-based solutions.
- Enhanced payments security, including through fraud prevention.

- Level of regulatory burden on PSPs is commensurate with the specific risks being addressed, and that the new regime does not impose any significant additional cost on the industry and provides adequate time for implementation of any changes.

Key Considerations

Operationalizing Network Tokenization

Network tokenization has positive potential, but it should not be deployed in ways which restrict competition, increase processing costs (through elimination of in-house alternatives), decrease reliability or become a blocker to processing transactions, increase costs for other players in the ecosystem or discourage the evolution of new payment innovations and rails.

Given the RBA's focus on **competition**, it is worth noting that tokenization has become a common practice across the payments industry with networks, acquirers and merchants using a variety of solutions to secure consumers' information. Network tokens are proprietary solutions developed by the international card schemes that can be used in conjunction with or in lieu of acquirer tokens. They are company and technology specific.

Globally, many payment system providers and gateways are working on new technologies and innovations designed to deliver optionality and high quality tokenization solutions for merchants, including "bring your own" token solutions and sophisticated PSP token vaults. We therefore believe it is important in developing any new RBA regime to ensure merchant perspectives are taken into account, there is recognition of the role which PSPs can play on tokenization and that it is sufficiently flexible to keep pace with global innovation.

If network tokens are supported for dual routing, networks must ensure that their network token services have the same level of **reliability and latency** as their main processing rails. Otherwise performance will likely be degraded if the network token integrations are treated as lower importance than core processing. In the event that either networks or network token solutions go down, without access to PANs merchants would be blocked from accepting payments.

For card payments, **customer experience** and security are of prime importance. For implementation of tokenization, parameters like technical performance of card networks with respect to tokenization, differences in card network rules regarding liability shifts and the ability to chargeback/dispute transactions in a tokenized scenario also needs to be addressed to ensure that customer experience is not diminished.

On **cost**, in order to achieve meaningful benefits of tokenization, we suggest that: (1) no punitive fee is imposed for tokenization and de-tokenization services; (2) no fee is imposed for non-token based card-on-file transactions; (3) merchants who process transactions using tokens are incentivized where possible.

Primary Account Number (PAN) Deletion

We believe there are a number of considerations which should also be taken into account by the Bank in setting expectations on the usage and storage of PANs.

PANs play an important role across the payments ecosystem. **The ability of merchants to operate seamlessly without access to PANs will ultimately be contingent on the effectiveness, cost and competitiveness issues in network tokenization.** Without a high level of trust in a new network tokenization regime and a clear demonstration of its benefits, it may be difficult for merchants to accept PAN deletion as a business priority.

Having access to PAN information is important for participants in the payments ecosystem for a number of processes:

- The ability to process transactions in the event network token solutions are not available.
- Equated Monthly Installments (EMIs) and refunds: PANs are required to identify if EMI is supported by a card network or not. Similarly, PAN helps in identifying routing of a transaction. With the restriction on storing PANs, PSPs will be unable to provide automated and seamless refunds to customers or offers or process their EMIs. If storage of PANs by PSPs is not permitted, the time taken for issuing refunds and processing payments may increase, thereby causing inconvenience to the customer.
- Offers to consumers: Banks roll out specific offers for specific cards. As an example, some of these offers are given 2-3 times per card during a specific duration, other offers could be given one time per card per merchant, etc. For such use cases, PANs are required to view and validate offers against a specific card and also for processing cashback, etc. Without an option to store PANs, these offers will be difficult to manage and ultimately may cease to exist.
- Identification of fraud patterns and cyber security risks: PANs can play an important role in fraud reduction including through pattern identification. Without access to

PANs, it would become difficult to train the AI/ML models which are increasingly used to perform fraud checks.

At a minimum, we would suggest that the issues of tokenization and PAN deletion by merchants be addressed through a phased approach **where a decision on the requirement for PAN deletion is taken only if and when there is clear evidence that any new tokenization regime is functioning to the benefit of all players in the payments ecosystem, and merchants in particular.**

Our strong preference would be for the retention of PANs by industry participants who meet relevant global security standards (eg. PCI-DSS).

Industry Standardization

Stripe understands the rationale for proposing **portability, synchronization and visibility** as issues where industry standardization could enhance the benefits of tokenization. Those concepts should be applied to all aspects of token management (including cryptogram and domain validation).

Stripe supports the concept of token **portability** to the extent clear benefits accrue to merchants. Portability is important both in a multiprocessor environment and to also ensure sole processor merchants are not locked-in to individual PSPs but have the ability to change providers when necessary to optimize for their business needs.

We agree that token **synchronization** as proposed in the Issues Paper is important for effective implementation and operation of any tokenization requirements especially in the case of DNDCs where token systems of all entities involved must be in sync with each other while payment transaction processing.

We also support the concept of **visibility** of tokens for issuers and potentially consumers, so that they are able to see where their card credentials are stored. We understand that issuers generally have that visibility today.

However, as highlighted by the lack of consensus in the AusPayNet Working Group on the best way to set or enforce these standards, we suggest that consideration be given to conducting further, extended industry consultations on the proposal before the RBA mandates industry standardization or appoints an industry organization such as AusPayNet to develop industry standards. At the minimum, security standards should be fully interoperable among networks.

Consultation Process and Timelines

Given Stripe’s experience in other jurisdictions (including the US and India), we understand the process of developing and implementing new regulation on tokenization of card payments is complex and could impose significant new regulatory, resource and cost burdens on industry participants.

We believe, therefore, that a thorough consultation process with the industry over an extended period of time is warranted before the Bank issues any new regulations or expectations. The target timeframes for implementation should be adjusted accordingly, with a period of up to two years provided for industry implementation. As the RBA has noted in the Issues Paper, the successful completion of rollout of the eftpos eCommerce tokenization service will be essential to tokenization of DNDCs in the online environment.

We are grateful for the opportunity to provide our views and look forward to having a further opportunity to discuss these issues with you.

Penny Burtt
Head of Public Policy and Government Relations, Asia Pacific
on behalf of Stripe

APPENDIX A: About Stripe

Stripe is a global technology company that builds payments infrastructure for the internet. Businesses of every size - from startups to scaleups to public companies - use the company's software to accept online payments and simplify running an internet business. Stripe partners with established financial institutions including banks, card schemes and payment methods. We are closely integrated with payment rails as a direct member of global card networks such as Visa, Mastercard and American Express, and through direct connections with national schemes such as eftpos in Australia.

Stripe combines economic infrastructure with a set of applications for new business models like crowdfunding and marketplaces, fraud prevention, analytics, and more. Our tools help companies grow their business across borders.

Our founders - Irish entrepreneurs Patrick and John Collison - had experienced first-hand the difficulty of accepting online payments in an earlier business the two had launched together. On almost every front, it was becoming easier to build and launch an online business. Payments, however, remained dominated by clunky legacy providers. It seemed clear that there should be a developer-focused, instant-setup payment platform that would scale to support a business of any size. Stripe was formed to solve this problem and launched in 2011.

Only about three percent of GDP happens online today. Stripe wants to help more companies get started and thrive, and ultimately to grow the GDP of the internet. In addition, the Covid-19 pandemic has served to highlight the importance of having a resilient and innovative payments system, and we are providing the infrastructure to help Australian businesses to adapt and thrive.

We have been in Australia since 2014 and are growing rapidly. We have an Australian Financial Services License. We work with clients ranging from start-ups to ASX listed companies, including Catch, Canva, CultureAmp, ServiceM8, Atlassian, Xero and Coviu. Globally, 43 percent of businesses who start on Stripe are run by first time entrepreneurs. However, one of the trends we have observed in Australia are traditional enterprises now leveraging Stripe the way digital natives have for years. The transformation is occurring across different sectors, including retail, insurance and education. 100,000 new businesses signed up to Stripe in Australia and New Zealand in 2021. Our survey research has shown that 70% of Stripe businesses in Australia double their monthly volume after two years.