
# Submission to the Reserve Bank of Australia

# Strategic Review of Payments Innovation

**5 May 2011**

# Contents



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# 1 Introduction

The AMPF represents the interests of merchants within the important payments sector of the economy. It is important that the perspective of merchants is considered in addition to those of schemes, issuers, acquirers and cardholders. Merchants invest in payments infrastructure and are an essential component of the payments system. Two of the AMPF members, Coles and Woolworths, are EFTPOS acquirers and members of the Consumer Electronic Clearing System (CECS). They are also represented on the Board of EFTPOS Payments Australia Limited (EPAL). The Australian Retailers Association (ARA) is also a member and represents the views of a wide range of small to large merchants.

The Payments System Board is undertaking a strategic review of innovation in the Australian payments system and has requested input from all stakeholders, including payments system participants, small and large businesses, consumers and government. This submission from the AMPF is in response to that invitation and makes comments on innovations that have occurred in the Australian payments industry during the payments reform process, innovations that are likely to happen in the medium term and some views on structural issues to ensure that innovation remains strong and that any barriers are removed.

It is difficult to define exactly what constitutes innovation in the payments industry. However, the AMPF believes innovation falls into three broad categories. These are:

> **mandated innovations** - these innovations are typically mandated by card schemes and often based on global mandates, such as triple DES, PCI DSS and EMV.
>
> **independent innovations** - these may be marketing, technical or operational. These are developed by an individual organisation or group of organisations to gain a competitive advantage. These include, for example, prepaid cards (open and closed loop), in-pump card readers and mobile payments.
>
> **regulatory innovation**s - many of the regulatory reforms themselves have been innovations, a number of which have subsequently been taken up by other countries in one form or another. The opening of access to the acquiring market for non financial institutions and self acquirers is a good example.

All of these innovations are important, although the different types give rise to different issues.

# 2 Merchant Perspective

The key issues relating to innovation, from a merchant perspective, are:

- merchants believe innovation is important and should be supported by an appropriate governance and regulatory structure.

- merchants would like to see the development of non-card based on-line real-time payments at the Point of Sale (POS). This would not only be an innovative development in itself but would provide increased competition between payment methods which, in turn, would result in further innovation.

- innovations should not be mandated on to merchants without prior consultation (eg triple DES, PCI DSS). Mandated innovations are of particular concern to merchants as

these are generally compulsory[1] and frequently have been forced on merchants either without merchant involvement in the process at all or with insufficient consultation.

Too frequently merchants have been viewed simply as beneficiaries of the card payment systems when in fact they are an essential component of the system, and should be viewed as having equal standing with the issuers and acquirers. We believe this view of merchants by some financial institutions has hindered innovation. It should also be noted that often those innovations that are mandated on merchants by the card schemes and/or financial institutions are paid, or partly paid, for by the merchants, although the benefits, such as reduced fraud, often flow directly through to issuers and other participants in the system.

- merchants would like to see further evolution of our national payments infrastructure, such as a real-time direct entry system. This would potentially allow for lower cost payment methods for merchants and result in more innovative uses of our current infrastructure. For example, such a system could be used for real-time decoupled debit.

- merchants wish to see reduced barriers to entry into the Australian payments industry, similar to the concept of the Payments Institution in Europe, as this is a critical enabler in fostering innovation.

reduced barriers to entry
⇓
new entrants
⇓
increased competition
⇓
increased innovation

- merchants would like to see the formation of a payments advisory group to provide input to the Payments System Board. This group should have equal representation from all industry participants. We believe such an advisory panel would provide a balanced view of the reforms and provide even-handed advice to the RBA. It would also promote better dialogue and understanding between the various groups on important issues resulting in better relations between all parties.

# 3 Innovation During the Reform Process

There has been much discussion in recent years regarding what some parties see as the detrimental impact of the regulatory reforms on innovation.

[1] In some cases, mandated innovations are not compulsory, but significant deterrents may be put in place instead, such as liability shift, which eventually have the same consequence.

In particular, some organisations have expressed the view that the reduction in interchange fees has inhibited innovation in the payments market[2]. The AMPF strongly disagrees with this proposition on two fronts.

Firstly, this position assumes that most of the innovation and/or investment for innovation originates from issuers. This is frequently not the case. For example, when triple DES security for card terminals was introduced into the market, it was merchants and acquirers who contributed most of the funding. Similarly, for PCI DSS, it is again merchants who eventually bear the majority of costs. In fact the reduction in interchange fees actually improves the ability for merchants and acquirers to fund innovation. A good example of this is the lower interchange fee the schemes have introduced to encourage merchants to upgrade their terminals to accept contactless transactions and to incentivise merchant acceptance. Other examples of merchant investment in innovation are EMV and pay-at-pump.

Secondly, despite the reductions in interchange fees and the implementation of other payments regulatory reforms, there have been significant and on-going innovations in the payments market during the period of these reforms. Some examples of innovations during this period include:

- EMV contact chips on cards
- Triple DES
- PCI DSS and PCI PED
- contactless card payments
- PIN @ POS for credit cards
- no frills credit cards and low interest credit cards
- open loop prepaid cards
- closed loop prepaid cards
    - eg gift cards processed over the EFTPOS network
- Electronic Benefits Transfer (EBT)
    - eg BasicsCard
- Community of Interest Network (COIN)
- Medicare Easyclaim
- formation of EFTPOS as card scheme (EPAL)
- mobile payments trials
- banks commenced issuing Amex companion cards
- mass market adoption of Internet banking and Internet bill payment such as BPay
- widespread use of two factor authentication (eg tokens, SMS)

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2 For example: *"NAB believes that the RBA interchange regulation not only impacts innovation with existing and derivative payment type/channels as per the submissions summarised above but also impacts innovation for substantially "new" methods of payments as well."* Access and Innovation, Geoff Bebbington, National Australia Bank (Paper prepared for the Payments System Review Conference, 29 November 2007), p.7.

and

*"Deregulation of interchange fees and a strong commitment to market-based outcomes is important for long-term investment and innovation."* ABA's Submission - 2007/08 Payments Systems Review, Australian Bankers' Association, 31 August 2007, p.3

- entry of new payments organisations with innovative programs
    - PayPal commenced operations in Australia with a new Internet payment model
    - Tyro entered the market as the first acquirer-only organisation using a new Internet-based processing model. Tyro also developed an innovative approach to Medicare Easyclaim by integrating it with medical practice management systems
- Internet Protocol (IP) based card terminals
- independent certification body for secure devices
- online banking apps for smartphones
- transport ticketing using contactless smart cards

We also wish to refute the claim by some parties that even when innovations have been introduced into the Australian market, they have been delayed because of the regulatory reforms and interchange reductions. The introduction of EMV has been quoted as such a case[3]. Again, this is misleading. One of the principal reasons for the slow introduction of EMV into Australia was the lack of a solid business case. This was largely due to the relatively low fraud rates experienced here at the time relative to other countries where EMV had been implemented, such as the UK.

Further, there were often drivers for the move to EMV in other countries which were not relevant to the Australian market. For example, much of the drive to EMV in the UK was to move to PIN based transactions at the POS and to implement a PIN on chip solution in a high fraud environment where debit transactions were being processed off-line and with signature verification.

It should also be noted that EMV has not been implemented in the USA, the world's largest card payment market, and there have been no regulatory reforms there which could be held responsible for its non-introduction. Further, the USA has higher fraud rates than Australia and significantly higher interchange fees, but neither of these factors have resulted in the introduction of EMV into that market.

# 4 Future Innovations

The AMPF believes innovation in the payments industry will continue to grow strongly. The following sections provide examples of innovations we see happening in the medium-term future.

## 4.1 Use of Biometrics

While the PIN is the most commonly used form of secure cardholder validation, there are other options that have been tried in the past. An American company, Pay By Touch, has been advocating the use of fingerprint scanners at the point of sale for some time with limited commercial success. The lack of PIN pads in US merchants has been one of the drivers for this initiative. The secure entry of PINs for internet and other Card Not Present transactions has been problematic and has caused the proliferation of various “Two Factor Authentication” technologies including electronic tokens, SMS messages, Verified By Visa and others.

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3 *"some industry participants have argued that the introduction of chip and PIN on credit cards has been delayed in Australia because of the reduction in credit card interchange fees".* Reform of Australia’s Payments System - Preliminary Conclusions of the 2007/08 Review, Reserve Bank of Australia, April 2008, p.23.

A European company, VoiceCommerce Group, has implemented a version of Two Factor Authentication using Voiceprint technology which they claim to be 98% accurate in identifying a mobile phone user from their speech when called at the time of making a transaction in order to validate the person who actually has the phone at the time. This is potentially an elegant alternative to Near Field Communications and has the benefit that it works with all existing mobile phones.

As the cost of biometric technologies declines, and as the cost of internet payment fraud increases rapidly, there could be more trials of this type of authentication of the person initiating and approving the payment in the future. Biometric authentication can be used to identify an account holder, a card holder or any person involved in making an electronic payment and does not require the person to remember pass codes, numbers or other random strings of characters that are ballooning as more services require such confirmations to be made. Biometrics can also be consistent across all types of services and are largely language and culture independent, therefore potentially able to be adopted on a large scale.

## 4.2 Mobile Payments

The “smart” phone has introduced an era where many people now have a very small personal computer in their pocket. These devices can already access the internet and mobile internet banking applications for these devices will continue to develop and deploy. Over time large numbers of these devices will offer the potential to put quite sophisticated payments software in the pocket of the consumer. It is inevitable that these portable, connected devices will be used to make payments at the point of sale and in person-to-person situations. The owner of the telephone is likely to be able to initiate a payment direct from their nominated bank account, giving them an alternative to using a payment card of some sort. Users will register their account number in advance so this data does not have to be communicated over open voice networks at the time of making a transaction.

Near Field Communications (NFC) technology has been discussed and trialled for years and this may become the payment technology “du jour” for mobile phones or it may not. Large players such as Apple and the telecommunications companies may take a leading role or may partner with financial institutions. Merchants would encourage these forms of payment as long as the transaction cost to the merchant is held down at minimal levels. Any methodology that requires additional infrastructure at the point of sale will be slow to implement as merchants have limited capacity to deploy further technology over and above what is already in place.

## 4.3 Decoupled Debit

Card issuers have for some years now issued credit cards to customers who do not have accounts at their institution. This is essentially “decoupled credit”. In a similar way, a decoupled debit card is issued to a customer by an organisation that does not hold the account that is to be debited. The payment transaction direct debits the account using a central clearing service such as the Bulk Electronic Clearing System (BECS) in Australia. Traditionally these clearing services have evolved from cheque clearing and many still use batch processing systems where the organisation initiating the payment does not know for a period of time (sometimes days) whether the debit will succeed or fail. Some companies have developed to fill this space by taking and managing this risk, offering a payment guarantee in exchange for transaction or processing fees paid by the merchant.

In Europe, the payments clearing infrastructure is evolving via the use of “Straight Through Processing” that, in effect, gives a “near real-time” response to indicate success or failure (for

example, the Pan European Automated Clearing House). This initiative has been triggered by the SEPA program and the introduction of the Payment Institution as a new class of entity to compete with the established players across the European Union.

The concept of decoupled debit allows organisations which are not ADI's to issue debit cards in competition with the established debit card issuers. Increased competition should lead to further innovation and to lower costs for both cardholders and merchants over time. It is important to have an open and transparent clearing system that can process transactions rapidly to enable such opportunities to develop in the market.

## 4.4 Electronic Benefits Transfer

In September 2009 the federal government introduced the BasicsCard as a new method of payment which allows welfare recipients on Income Management to access their entitlement at the point of sale via the Australian EFTPOS payment system. Today this program is deployed across the Northern Territory and is also being trialled by the Queensland and Western Australia state governments.

Merchants believe there will be further EBT implementations in Australia in the future as governments seek to better manage their payments processes and also seek to gain some statistical feedback on how and where welfare payments are spent in the community.

Merchants are happy to support such initiatives but feel that criteria for merchant participation must be open, transparent and managed in a reasonable manner where any required administrative processes are simple and clear.

EBT programs should make use of the existing payments infrastructure used by merchants today and should not require additional investment at the point of sale.

Transaction costs for merchants should be reasonable and not more expensive than equivalent commercial transactions.

## 4.5 Internet Payments Security

The volume and value of payments made via the internet are growing rapidly and will continue to do so in the future. The level of fraud in this environment is a concern and will drive continuing innovation as the industry seeks cost-effective solutions. These solutions could take many possible forms including biometrics, low cost PIN pads with wireless or USB connections to personal computers and other forms of Two Factor Authentication.

Evolving personal authentication methods should ideally be portable from one form of payment application to another as the wide variety of different technologies and the increasing number of passwords and codes that need to be remembered by individuals actually represent a threat to security as they are inevitably written down somewhere and can therefore be intercepted.

Merchants expect this area to evolve rapidly over the next few years.

## 4.6 Internet Card Present

Card schemes levy higher interchange fees on Card Not Present transactions, claiming this is justified by higher CNP fraud levels. In many cases, however, no payment guarantee is given in exchange for this higher interchange fee and all fraud is charged straight back to the

merchant. Where this is the case, the issuer's fraud risk is actually very low as the merchant is accepting almost all the risk and therefore these merchants should actually pay a lower interchange rate.

EMV chip technology has the potential to allow internet payments to be classified as Card Present transactions, where the cardholder's computer is equipped with a chip card reader. In this situation, the card and the card reader can exchange secure messages to establish that they are both legitimate devices and that the card is, in fact, present during the transaction. The AMPF believes these transactions should attract the lowest Card Present interchange rate and this may encourage more investment in low cost chip card readers for personal computers.

## 4.7 Person To Person (P2P) Payments

Internet banking offers the ability to transfer funds directly to another person's bank account but this often takes time to complete and is not particularly simple if a small amount of money is involved. There needs to be some simple, direct electronic means of transferring small amounts of value from one person to another, perhaps from one smart phone to another. These transactions should either be free or extremely low cost and do not necessarily have to involve financial institutions as intermediaries.

This type of payment is likely to increase significantly in volume over time and could be a strong contributor towards the eventual decline of cash usage.

## 4.8 Banking Portals

Financial institution customers are making increasing use of internet banking facilities and the concept of online banking has become accepted by the majority of the population. For customers with deposit accounts, current accounts, mortgages, investment portfolios and payment cards at multiple banks, the need to have a different internet banking interface for each bank can be cumbersome and the AMPF believes new entrants to the market will offer online banking portals targeted at individuals with more than one FI relationship.

Customers who wish to make use of such a portal should be free to do so and account holding institutions should not be able to put obstacles in their way to prevent this from happening. The Reserve Bank could play a role in this emerging sector of the market by ensuring that no barriers to entry are created for new players.

## 4.9 Contactless Card Payments

The AMPF supports the implementation of contactless card payments because transactions may be conducted more quickly at the point of sale, reducing queuing issues for other customers waiting in line. Contactless payments also offer increased convenience to customers and a reduced exposure to fraud as the card does not leave the customer's hand during the transaction.

Below a given dollar value threshold, the cardholder is not required to enter a PIN. Cardholders should be encouraged to do contactless transactions above this threshold value with the extra step of PIN entry added. In the customer's mind therefore, contactless may be used at all points of sale displaying the contactless symbol without concern for the value of the transaction. This scenario will give the best result for retailers that have invested in contactless technology and will encourage its adoption by merchants that have higher average transaction

values. If cardholders feel they can use their contactless cards more often then they will be more confident with this technology.

This approach is possible in Australia with online PIN validation rather than the "PIN On Chip" method chosen by the UK and where contactless with a PIN is therefore not possible unless the cardholder holds the card near the reader for a long period of time to allow the PIN validation to occur or the card must be inserted into a contact chip reader.

## 4.10 Payments Without Cards

New forms of electronic payment at the point of sale, that do not make use of the traditional plastic payment card, should be encouraged to increase competition in the payments market. It will be important to have infrastructure to support these initiatives and a level of prudential oversight that is appropriate to stimulate new entrants. The existing card schemes have a large and very concentrated market share of payments at the point of sale and the AMPF would like to see this dominant position diluted through increased competition and innovation.

## 4.11 Real Time Direct Clearing System

At present, the Bulk Electronic Clearing System (BECS) relies upon outdated batch processing technology that leaves the party initiating a Direct Debit waiting to find out whether it has succeeded or failed due to lack of funds, incorrect account number or for some other reason.

The AMPF believes Australia needs to develop a Real Time Direct Clearing System to bring these payments into the modern age and to allow immediate response to both Direct Debit and Direct Credit requests. The creation of this new piece of national payments infrastructure would potentially allow a number of new payments innovations to be introduced into the market and would lead to increased competition.

This initiative should be given some priority to ensure it occurs within a reasonable time frame. It may be possible to make use of COIN as the base network for this new service.

## 4.12 Real Time Account Transfers

Internet banking users can transfer funds instantly from one account to another when both accounts are at the same institution. Transfers to "foreign" institution accounts must wait at least one banking day (and sometimes two depending upon daily cut off times). This long delay seems antiquated in the internet era. Transfers between the accounts of different institutions should be able to be completed within a few seconds, twenty-four hours a day and seven days a week.

Modern computer systems operate 365 days a year with very high availability, particularly at financial institutions which rely upon them totally to operate their core business activities. It is time our payments infrastructure moved beyond the current traditional, but outdated, mode of operation.

## 4.13 Improved Merchant Settlement

Merchants should be able to receive funds for card payment transactions and other forms of electronic payment seven days a week and perhaps more than once per day. There are

presently different forms of settlement delay that occur, particularly over weekends and public holiday periods. The heavy Christmas and New Year trading period is a perfect example.

Merchants rely heavily upon their cash flow and must find additional sources of working capital when large amounts cannot be accessed for a period of time.

Future improvements to real time payments infrastructure should include the ability to settle to merchant accounts much more frequently than at present.

From a technical perspective, merchant reconciliation processes are often end-to-end between a specific PED serial number and the acquirer's host system. If a PED is lost or stolen and the serial number is therefore replaced with a new one, this can cause reconciliation delays and difficulties. A smoother and more transparent way of dealing with replacement PEDs would be helpful to some merchants.

## 4.14 Issuer Interchange Negotiations

The recent reforms of the New Zealand card payments system included the ability for a merchant to negotiate bilateral interchange deals directly with domestic card issuers. The AMPF believes this would be a valuable reform to also introduce into the Australian payments market in the future. This ability gives merchants the opportunity to find innovative ways to reduce interchange and their cost of card acceptance in return for delivering added value to the card issuer in some way.

Interchange is the major component of the Merchant Services Fees (MSF) and this change would facilitate better management of interchange rates and also encourage acceptance of cards of those issuers who provide the most innovative product at the best cost. This innovation can only be brought about with the relaxation of the "Honour All Issuers" element of the Honour All Cards Rule.

## 4.15 Open Loop Transport Ticketing

As contactless public transport ticket systems (such as Octopus in Hong Kong, Oyster in London and myki in Melbourne) begin to proliferate nationally, it is likely they will be used for both top-up and for payment at retail points of sale. This may take some time to occur but it seems this could add more utility to these payment cards and merchants are beginning to invest in contactless infrastructure at the point of sale.

It would be valuable if the contactless card readers could also be used to transact with the public transport contactless ticketing systems. It may be worthwhile to have some structured dialogue between stakeholders to ensure that the infrastructure standards are agreed between all players.

## 4.16 Card Account Portability

There has been much discussion on the subject of bank account portability to make it easier for customers to move from one institution to another. Many cardholders have recurring payments debited to their credit card account. Any discussions of account portability should include credit card accounts for the same reason – to make it easier to move from one issuer to another.

# 5 Structural Issues

There are a number of structural issues which are vital in allowing innovation to flourish. These are areas where the RBA can, and should be, actively involved in providing the appropriate governance and regulatory structure. The key structural issues relevant to innovation are discussed below.

## 5.1 Unbundling

Unbundling of card scheme governance and branding from network, processing, clearing and settlement activities would increase competition and innovation by encouraging new entrants into the Australian payments market.

- merchants should have a choice of routing for all payment transactions, including the option of routing American Express (Amex) companion cards issued by banks directly to the issuing bank instead of Amex. For all practical purposes, these companion cards are the same as the original Visa or MasterCard card and linked to the same account and are issued by the issuers on their own card platforms and do not require any processing or routing via Amex. Routing via Amex only adds costs and generates an additional revenue stream for card issuers and Amex and additional points to the cardholder without any value add to the payment functionality or process.

- overseas examples of merchant routing options occur in Europe (via SEPA for Cards and the Payments Services Directive - PSD)[4] and the USA (transaction routing choices guaranteed to the merchant under the Durbin amendment[5] which prevents a scheme from mandating that its network be used for authorising, clearing or settling a debit card transaction).

- ownership of BINs is also an issue affecting routing. For contactless cards with multiple applications (eg EFTPOS and scheme debit applications on a single piece of plastic), the routing choice is determined by the BIN, which is typically "owned" by the international card schemes. This potentially prevents merchants from choosing to route these transactions over the lowest cost network. It also prevents consumers from

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4 The SEPA Cards Framework (SCF) requires the separation or “unbundling” of card scheme governance and brand management activities from processing, switching, authorization, clearing and settlement. No card scheme may mandate that its network or clearing services must be used for transactions where the card carries its brand. Instead, the card scheme participants must be permitted to use whichever entity they prefer to perform those services.

> *“A SCF compliant card scheme is a scheme that allows unbundling of functions whilst applying the same pricing per card product to national Euro and SEPA transactions of the same type. Separation of SEPA card schemes’ brand governance and management from the operations that have to be performed by service providers and infrastructures under these SEPA schemes is mandatory. A card scheme may offer additional services (e.g. processing services) but their usage cannot be mandated.*
>
> *"Scheme rules may not require as a condition of participation that any particular provider of processing services (e.g. network management, authorisation, switching, clearing, settlement) be used."*
>
> (SEPA Cards Framework, version 2.1, European Payments Council, 16 December 2009, p.15)

5 Refer *Dodd-Frank Wall Street Reform and Consumer Protection Act, Section 920 - Reasonable Fees And Rules For Payment Card Transactions* (Section 920 is commonly referred to as "The Durbin Amendment"). In particular see page H.R. 4173-697 - Limitation On Payment Card Network Restrictions. This requires issuers to ensure that any debit cards they issue can be processed via at least two unaffiliated networks and prohibits card schemes from mandating that their own networks be used for authorising, clearing or settling a debit card transaction. It also allows the merchant to make the choice of which network will be used to process its debit card transactions.

choosing whether they wish to process the transaction as an EFTPOS transaction or as a scheme debit transaction.

## 5.2 Barriers to Entry

The removal of barriers to entry is critical to ensure new entrants into the Australian payments market and the resultant competition which in turn fosters innovation. The RBA has a vital role in ensuring that any such barriers, whether direct or indirect, are removed. Examples of barriers include:

- the lack of a single message format for COIN and its adoption.
- there must be guaranteed direct access to the payments infrastructure for new entrants, including non-FIs, at a low cost and in a specified time frame, including:
    - BPay
    - BECS
    - COIN

  Non FI's must have direct access to the payments infrastructure and not be forced to connect via third parties or gateways. For example, non-FI's can now connect to BPay as Payer Institution Members (PIMs), but they must be sponsored by and settle through a full Participant Member and must be organisations that hold value accounts for customers but are not Authorised Deposit Taking institutions (ADIs).
- accelerated testing schedules for new entrants. For example, Tyro has only been able to gain direct connections to two EFTPOS issuers over an extended period.
- different standards for financial institutions (FIs) compared to non-FIs. A good example is that FIs don't pay GST on reloads of prepaid cards they have issued whereas non-FIs do have to pay GST. There should be a level playing field to encourage innovation.
- lack of penalties for non-compliance with regulations. For example, if card schemes exceed the interchange benchmark there is no penalty.
- at present the Honour All Cards Rule prevents merchants from steering customers towards, or away from, certain issuers, as is now allowed in New Zealand. The importance of this has also been highlighted earlier in Sec 4.14 (Issuer Interchange Negotiations)

## 5.3 Standards

Standards can play a significant role in either facilitating or inhibiting innovation. Standards must not be allowed to be used as a defacto barrier to entry by placing unnecessary requirements on participants, eg the multiple interpretations of AS2805 as seen in the EFTPOS bilaterals. New standards should not be introduced without consultation with all stakeholders.

## 5.4 Prudential Requirements

Lower prudential requirements for new entrants should be considered. The current SCCI arrangements are onerous and have deterred potential new entrants because of the significant cost and on-going maintenance associated with the process. A process similar to that provided in Europe's PSD for Payments Institutions should be considered. The AMPF understands that prudential oversight is required, but this should be sensible and not overly stringent.

## 5.5 Funding of Innovation

The AMPF is highly concerned about the recent introduction of new EFTPOS interchange fees, and see it as a good example of why structural changes need to be made to prevent the mandating of higher costs on merchants without reasonable consultation with the wider merchant community.

According to EPAL, these increased interchange fees have been introduced to allow issuers to invest in new EFTPOS innovations, such as contactless cards[6]. It should be noted that this move to contactless cards also requires a significant investment by merchants in new equipment at the POS and that the new interchange fees actually mean merchants, unlike issuers, have less money to invest in a process which will now cost them more.

It is not reasonable that merchants should be forced to pay for issuer innovations. The AMPF believes that each party should fund its own innovations and that the business case of any innovation should not be predicated on mandating that it be paid for by other parties, either via interchange fees or by other means. The AMPF does not expect card schemes or issuers to fund merchant innovations and can see no reason why the reverse should occur without proper prior consultation and agreement from the merchant community. The proposed payment stakeholders advisory group could play a valuable role in these types of discussions in the future.

6 *"The new multi-lateral model [for interchange fees] gives EPAL and its Members the confidence and funding necessary to invest in EFTPOS enhancements such as chip technology for state-of-the-art security, contactless payments that are quick and convenient, mobile and online payments."*

Media Release (EPAL announces new EFTPOS interchange fees), EFTPOS Payments Australia Ltd, 8 March 2011

# 6 Glossary

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| APCA | Australian Payments Clearing Association |
| BPay | System which allows payment of bills electronically over the Internet. BPay is owned by the four major banks |
| BECS | Bulk Electronic Clearing System (manages direct entry payments and operates under the auspices of APCA) |
| COIN | Community of Interest Network (new standard for connectivity to the cheque, direct entry and card payment systems which is managed by APCA) |
| DES | Data Encryption Standard (standard used for encrypting sensitive data, including card payment data) |
| 3DES | Triple DES (a variation of the DES encryption algorithm that encrypts data three times for enhanced security) |
| EBT | Electronic Benefits Transfer (used to provide an electronic payment instrument to people on welfare benefits) |
| EMV | EuroPay MasterCard Visa (accepted global standard for chips on payment cards) |
| FI | Financial Institution |
| PCI DSS | Payment Card Industry Data Security Standard (global standard for data security related to transmitting and storing card payment data, such as card numbers) |
| PCI PED | Payment Card Industry PIN Entry Device (global standard developed to specify security requirements for PIN pads) |
| PSD | Payments Service Directive (regulates payment services and payment service providers throughout the European Union and European Economic Area. It requires member states to implement domestic legislation consistent with the directive to allow seamless operation across the EU and EEA) |
| SCCI | Specialist Credit Card Institution (special class of authorised deposit-taking institutions (ADIs) which can only perform credit card issuing and/or acquiring business and are not allowed to hold deposits) |
| SCF | SEPA Cards Framework |
| SEPA | Single Euro Payment Area |