Australian Payments Plus

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Via email: pysubmissions@rba.gov.au

Issues Paper: The Australian Debit Card Market: Default Settings and Tokenisation

Dear Ellis,

Australian Payments Plus (**AP+**) supports the Reserve Bank of Australia's (**RBA**) focus on updating the payments regulatory architecture to ensure our regulatory framework is fit-for-purpose now and into the future. AP+ supports the Government's vision of a world-class payments ecosystem that serves the needs of its users and participants and supports Australia's economy. The Australian payment ecosystem needs to be safe, resilient, efficient, and open to competition.

The Government's Strategic Plan for Australia's payments system supports the reduction in small business transaction costs "*(t)he growth in contactless payments, including through mobile wallets, has resulted in most debit card transactions being automatically routed to the international Visa and Mastercard networks, where previously many of these payments were made over the domestic eftpos network*"[1].

We welcome the consultation on the *Australian Debit Card Market: Default Settings and Tokenisation* and support the RBA's aim to improve efficiency and competition in the debit card market. In the attachment to this letter AP+ has provided a response to the questions posed in the consultation paper, we make the following additional observations:

> **Debit Card Market Default Settings:** The implementation of least-cost routing (**LCR**) functionality for contactless and online payments, has significantly improved the efficiency of the Australian debit card market. AP+ anticipates that LCR for mobile wallet transactions will also deliver significant benefits by further lowering the costs of card acceptance for merchants as payments processed via the eftpos rails are 20bps less expensive on average for in-person transactions.[2] AP+ notes the RBA's observation[3] that while LCR has delivered benefits, the rollout and uptake has been slower than required to deliver on the RBA's desired policy outcomes of making the Australian payment system more competitive and lowering merchants' payment acceptance costs.
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> Therefore, AP+ is supportive of further reforms to ensure that debit card networks operate on a level playing field and that all merchants get a choice in how their payments are routed. This will drive payment system efficiency. AP+ notes that the proposed reform has been adopted successfully in Malaysia, however there are lessons that can be learnt from that experience (see Appendix 1). Should the RBA pursue this policy reform, AP+ recommends an orderly and sequenced implementation pathway to minimises cost impacts on the industry.
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> **Tokenisation:** There is a need to ensure that the uptake of tokenisation in the Australian payments system does not introduce barriers to competition in the debit card market, and also does not restrict merchants' ability to route to their chosen debit card network. AP+ believes

[1] Federal Treasury, A Strategic Plan for Australia's Payments System, 7 June 2023.
[2] Reserve Bank of Australia, *The Australian Debit Card Market: Default Settings and Tokenisation - Issues Paper*, June 2023, available at: https://www.rba.gov.au/publications/consultations/202306-issues-paper-australian-debit-card-market/
[3] Ibid

tokenisation will continue to be an important area of ongoing policy focus for the RBA as we are seeing tokenisation usage expanding to a wider set of payments functions.

AP+ does consider that minimisation of sensitive data, such as Primary Account Numbers (**PAN**), in the payment ecosystem is a necessary step towards a safer and more secure Australian payment system. The sensitive details of many cardholders are vulnerable to data breaches as some merchants still retain PAN data without conforming to security standards such as the Payment Card Industry Data Security Standard (**PCI-DSS**).[4]

In addition, tokenisation will further enable competition between gateways and acquirers. However, this competition will only be realised when tokens are obtained from both the international and domestic network associated with a Dual Network Debit Card (**DNDC**); and importantly, also when these tokens remain up to date through synchronisation. Further, tokenisation will give the ability for merchants to easily switch between payment providers without incurring excessive costs or requiring customers to re-enter card details. This will facilitate further competition in a range of payment scenarios. Token portability plays a vital role in fostering a competitive and dynamic payment ecosystem. AP+ is mindful that there are coordination challenges for the industry to unlock the benefits associated with token portability and the RBA's engagement on this important policy issue is most welcome.

To achieve the above benefits for consumers and merchants, the RBA will need to consider how best to link multiple tokens and maintain synchronicity across participants in the Australian payment ecosystem. One preferred option is the use of Payment Account Reference (**PAR**) which is a non-financial reference assigned to each unique PAN and used to link a PAN to payment tokens, as defined in the EMVCo Payment Tokenisation Specification.[5] AP+ strongly believes that PAR or an equivalent solution should be widespread and ubiquitous throughout the Australian ecosystem. 'PAR Data' will significantly assist in token portability, synchronisation and visibility by linking tokens to a PAN. Without PAR Data, the linking of multiple tokens to a single PAN and maintaining their synchronisation is technically very challenging, thus the use of PAR is a solution which appeals to AP+ due to its simplicity and network efficiency. AP+ also recommends, that where possible, existing industry standards such as the EMVCo Payment Tokenisation Specification and PCI DSS, should be leveraged.

Considering the size and growth of the Australian debit card market which processed over 10 billion transactions in 2022, (representing a ~13% YoY growth from 2021[6]), the work of the RBA to ensure a fair and efficient payments system is critical. AP+ is supportive of the RBA's focus on the efficient and secure operation of the Australian debit card market and we are available to answer any further questions and can be reached at: aidan.oshaughnessy@auspayplus.com.au.

Yours sincerely,

Aidan O'Shaughnessy.
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Encl.

[4] Payment Service Providers may also retain PAN data as a fall-back option in case payment processing on a token does not work. While Payment Service Providers are generally PCI-DSS compliant, their retention of PANs remains a potential point of compromise.
[5] EMV stands for "Europay, Mastercard, and Visa". EMVCo creates and manages EMV Specifications for secure card-based payments.
[6] RBA Payments Statistics – C2.1 Debit Cards – Original Series, available at: rba.gov.au

AP+ response to consultation questions

Question 1: What would be the technical or practical challenges raised by prohibiting the setting of a default routing network on DNDCs at issuance? Could these challenges be overcome?

AP+ recognises that a decision by the RBA to prohibit the setting of a priority network on a Dual Network Debit Card (**DNDC**) would require a significant commitment of resources from the industry. AP+ believes that implementation can be sequenced in a practical way to minimise both the effort and cost impact. We propose that if the RBA choses to pursue this policy reform, that a staged implementation pathway is taken to minimise costs and that work sits alongside existing least-cost routing (**LCR**) initiatives and other industry efforts (e.g., Mobile LCR, AES initiative) to ensure that benefits for end users of the Australian payments ecosystem continue to be delivered in a cost-efficient manner.

On initial evaluation of the policy proposals, there are three key implementation considerations:

1. **Card issuance feasibility**: AP+ understands this could be implemented without card re-issue and that technical change could be limited to terminal software upgrades. With current LCR implementation, both the international card network application and the eftpos card network application need to be presented to the terminal to facilitate a contactless payment. This would also be the case with the implementation of the prohibition of a priority card network.

2. **Terminal change requirements:** AP+ understands that all merchant terminals would feasibly be able to accept a dual network debit card without a default routing network; however, there might be a requirement to update the terminal's software application, or other applications (depending on the acquirers routing solution). In Malaysia, where this has been implemented, the network routing choice is required to be set in the terminal hardware (see Appendix 1), but we understand that in the Australian market only a software update would be required. There would still need to be a comprehensive terminal uplift assessment, and AP+ would propose that any changes required to terminal software could be sequenced and bundled with other changes such as the Advanced Encryption Standard (AES) initiative, which is been undertaken by the card payments industry to uplift encryption standards by 1 July 2025.

   AP+ considers that this approach (focussing on terminal routing logic and leaving priority on a card, at least potentially until they are reissued) is technically the easiest solution to implement, as this is how LCR works today. A merchant is offered least cost routing and their terminal routes based on the merchant's routing decision, and the priority on the card is therefore ignored. AP+ believes mandating that the merchant must make an informed choice will achieve the policy outcomes sought by the RBA.

3. **Unbundling of end-user debit network pricing:** To promote cost efficiency in the debit card market, merchant choice should be enabled through competitive and differentiated pricing by card networks passed on to merchants by acquirers and service providers. Some acquirers/ service providers offer fixed pricing plans meaning merchants on these plans may not currently have access to differential pricing between debit networks to realise potential lower costs of acceptance.

   The consultation paper notes that merchants would choose the routing network, with the merchant's payments service provider responsible for identifying and implementing the merchant's routing network preference. If in this scenario where acquirers/service providers are required to identify and implement the merchant's routing choice, and the merchants were at that time, accepting payments through a fixed price plan which does not have differentiated merchant pricing for the different debit scheme transactions, there would be no price signal available to support that merchant in making a fully informed choice. The lack of a clear price signal at the point where a merchant is making a decision may hinder the ability of the RBA to improve efficiency in the debit card market. AP+ supports reforms that ensure all merchants get access to their choice of routing, and that they are supported in that decision by data to inform their understanding of the difference in actual wholesale network costs and the potential savings for their business.

AP+ therefore supports the RBA promoting greater transparency and visibility to merchants of their wholesale payment network costs (across all pricing plan types). This would help merchants make informed routing choices.

Question 2: What would be the benefits of such a prohibition? What would be the costs? Please provide estimates of the costs that would likely be incurred by your institution.

AP+ expects that if the proposed reform was implemented such that all merchants chose the network upon which their debit card transactions were routed, there would be continued downward pressure on merchant payment costs. We have seen through the progressive implementation of LCR functionality for contactless and now online payments, that enabling choice leads to improved efficiency in the debit card market through the lowering of card acceptance costs for merchants.

AP+ recognises that while LCR has delivered benefits, rollout and uptake by merchants has been slower than necessary to meet the RBA's desired policy outcomes. AP+ also agrees with the RBA[7] that due to the high pace of change in consumer payments innovation, there will be a need to ensure that LCR is available in all new and emerging form factors. Prohibiting a default network would support and accelerate progress towards RBA's desired policy outcomes of improving competition and efficiency in Australia's debit card market.

Similar policy reforms introduced in Malaysia (prohibiting priority networks on dual network debit cards) (see case study in Appendix 1) has successfully resulted in delivering the desired policy outcomes for that jurisdiction. Following the reforms there was a decline in the average Merchant Discount Rate (MDR) resulting from a shift in market share towards the domestic debit card network (MyDebit). The reforms also resulted in the international card networks reducing their interchange rates.

While AP+ recognises there would be costs to implement this change, especially for acquirers, we would support a sequenced approach to minimise implementation costs. AP+ would also recommend an implementation timeline that closely follows the availability of mobile LCR in the market, which will deliver the necessary technical uplift in enabling both network tokens to be presented to a terminal to enable routing choice.

AP+ also notes that there would be a number of commercial agreements in place in today's market, and that the time required to revise these agreements would need to be included as part of any implementation timeline.

[7] Reserve Bank of Australia, The Australian Debit Card Market: Default Settings and Tokenisation - Issues Paper, June 2023, available at: https://www.rba.gov.au/publications/consultations/202306-issues-paper-australian-debit-card-market/

Question 3: What alternative courses of action could better address the Bank's concerns around default settings on DNDCs to improve efficiency and competition in the debit card market?

Should the RBA not pursue the proposed policy settings flagged in the consultation paper, then AP+ recommends the RBA should continue to drive LCR rollout across all existing and emerging form factors and continue to monitor the market for availability and uptake.

As an alternative, should the RBA not pursue prohibiting a priority debit card network, consideration could be given to mandating or setting an expectation on the unbundling of end-user debit network pricing across all pricing plans. This would introduce clear price signals into the market to guide end-users on their network choice, allowing merchants to understand the potential cost savings available.

Question 4: What is the relative importance of addressing the issues regarding token portability, synchronisation and visibility?

AP+ is strongly supportive of the RBA's focus on the issue of tokenisation, to ensure that tokenisation, across the range of channels and implementations does not restrict a merchants' ability to route to their chosen debit card network. AP+ believes tokenisation will continue to be an area of RBA policy focus as we are seeing tokenisation being expanded to wider applications across payments.

Given the evolution of tokenisation mechanisms and their importance to the Australian payments system, AP+, in our submission to Treasury's consultation on reforms to the Payment Systems (Regulation) Act 1998 (PSRA), AP+ have specifically called for the updated PSRA to have the ability to capture tokenisation solutions such that they can be appropriately regulated under the PSRA if deemed necessary. Token portability, synchronisation and visibility all play a pivotal role in different aspects of tokenisation, therefore we raise the following issues for RBA consideration.

1. The significance of data parity and token synchronisation by issuers is critical as it directly impacts the accuracy and reliability of transactions. This importance amplifies with dual tokenisation as issuers are currently the only party with the requisite data and access to reconcile network tokens from both card networks as well as the underlying DNDC. Ensuring both network tokens maintain consistency and remain up to date is essential to avoid transactional discrepancies or failures, thus playing a pivotal role in the resilience of the payment system. Any issuer-initiated changes, such as token deletion, card expiration or loss, or merchant-initiated token lifecycle events such as token suspension must be accurately mirrored across all associated tokens. This consistency ensures that all network tokens accurately reflect the status of the underlying card. Successful synchronisation requires effective lifecycle event management, which must be implemented across all tokens. The timely provision of lifecycle events becomes crucial in this process to avoid data decay or degradation, as exclusively updating tokens associated with one network but not both networks will result in data decay.

2. Token portability plays a vital role in fostering a competitive and dynamic market. Portability enables an environment where merchants can switch between providers without incurring excessive costs or experiencing operational interruptions, thereby facilitating greater competition. Effective token portability eliminates the need for merchants to request their customers to re-submit their card details when switching gateways. This contributes to an optimal consumer and merchant experience by reducing friction during migration whilst helping to prevent potential provider lock-in. AP+ is supportive of the concept of token portability, however we accept there are significant technical and operational challenges for the industry to first resolve prior to achieving these benefits.

3. Token visibility can provide cardholders with greater control and a better understanding of their financial commitments, enhancing trust and confidence. Token visibility can also help reduce fraudulent activity by allowing cardholders to quickly and easily identify tokens that they did not authorise. Although important for consumers, we don't believe token visibility impacts the efficiency or competitive dynamics of the payment system in the same way that token synchronisation and portability does. AP+ believes that Payment Account Reference (PAR) is the only standard and widely distributed data element that can be used to link tokens and provide true token visibility.

Question 5: What are potential solutions to these issues and their respective costs and benefits?

There are a number of actions which the RBA could consider, namely:

Data Parity: AP+ considers that gateways should have the technical capability to receive and process equivalent updates for both schemes associated with a Dual Network Debit Card (DNDC) and to synchronise them. This approach would require gateways to actively engage in managing updates from the Token Service Providers (TSPs) associated with a DNDC. By maintaining parity in the processing of updates across both TSPs, gateways should ensure synchronicity between the associated tokens. This method would not only ensure consistency of the underlying card's status across tokens but also reduce the likelihood of declines related to the data degradation of one token. An expectation of parity in the processing of lifecycle event updates, along with attempts to synchronise those updates could be established. Furthermore, AP+ believe an expectation should be set that would require a party to notify both TSPs of any account or relationship status change.

Payment Account Reference (PAR): A PAR is a data element that can be linked to multiple tokens representing the same underlying payment card account. The PAR is not considered sensitive data and cannot be used to initiate transactions, and it does not replace the Primary Account Number (PAN) or token. PAR falls outside the scope of Payment Card Industry Data Security Standard (PCI-DSS) compliance and provides a stable reference point, allowing different payment tokens, and the transactions performed with them, to be associated with the same cardholder account. The Payment Account Reference remains the same even if the card number or any tokens associated with it change. According to EMVCo, one of the key benefits and drivers for the development of PAR is removing PAN data from the payment ecosystem.[8]

The use of PAR can significantly aid in both token synchronisation and visibility as a mechanism to link network tokens to a PAN. Given that the PAR remains consistent across all tokens linked to a particular underlying account, it can be used to manage and synchronise lifecycle events across different tokens representing the same account. This means that changes such as card expiration, loss, or replacement can be tracked and accurately reflected across all associated network tokens using the PAR, ensuring synchronisation and consistency.

Furthermore, PAR is a solution to achieve token visibility by providing a consolidated view of transactions and tokens associated with a PAN. 'PAR Data' should be widespread and ubiquitous in the ecosystem as it helps provide a consolidated view of transactions, which can be useful for cardholders for visibility but critical for transaction monitoring, synchronisation and fraud detection. For instance, anomaly detection algorithms can use PAR to link transactions associated with one PAN to detect and prevent fraud. Given the need for a secure and resilient payment system, AP+ considers PAR as a critical element in the fight against fraud.

[8] https://www.emvco.com/specifications/emvco-white-paper-on-payment-account-reference/

Finally, the RBA could require data parity, by requiring market participants to share the PAR widely to all stakeholders which would help to ensure it becomes ubiquitous throughout the ecosystem. In requiring BIN Controllers to make the PAR available to all market participants, one method to achieve that would be the adoption of the ’PAR Enquiry Function’ interface as defined by the EMVCo specifications.

***Question 6**: What expectations could the Bank set for industry to address these issues, and the storage of PANs more generally, and what key details should be specified?*

To address the challenges surrounding token synchronisation, portability, visibility, and the more general issue of PAN storage, the RBA could consider setting the following expectations for the industry:

1. **Parity in lifecycle event processing and synchronisation**: It is crucial to establish an expectation of equal processing of lifecycle event updates across different Network Token Service Providers (TSPs). Further, all parties involved should be encouraged to consistently endeavour for the synchronisation of these updates. This includes managing any changes in the status of accounts or relationships and communicating them across all TSPs.

2. **Communication of status changes**: The RBA could set an expectation that necessitates any party aware of an account or relationship status change to communicate that change via all TSPs. This promotes transparency and ensures that all parties involved are updated with the most recent account or relationship status.

3. **Wide distribution of Payment Account Reference (PAR)**: The RBA could specify the need for parity in data distribution, particularly regarding the sharing of PARs. The RBA could require market participants to distribute the PARs broadly wherever possible such as in financial messages and in tokenisation API calls to aid in its ubiquity throughout the ecosystem.

4. **Implementation of a PAR Enquiry Function Interface**: As per the definition by EMVCo, the RBA could set an expectation for BIN Controllers to implement a ‘PAR Enquiry Function’ interface[9]. This functionality allows the enquirer to obtain the PAR associated with a PAN or token, which is instrumental in promoting token synchronisation, enhancing transactional security and also provides visibility of issued tokens. Any ‘PAR Enquiry Function’ interface should be made freely available to all market participants.

5. **Dual tokenisation of DNDC**: The RBA could set an expectation that when a DNDC is tokenised, that tokens are requested and stored for both the domestic and international network.

6. **Backfilling**: The RBA could set an expectation that for existing card(s)-on-file that only have one international scheme token associated with them - be backfilled to include the domestic scheme token. PAR will greatly aid in this process as it is a mechanism to link multiple tokens to a PAN.

Each of these expectations would collectively contribute to a more secure and efficient Australian payment ecosystem, whilst also steering towards the goal of minimising reliance on PAN data and bolstering the adoption of tokenisation to improve competition.

[9] EMVCo, "White Paper on Payment Account Reference," EMVCo.com, https://www.emvco.com/specifications/emvco-white-paper-on-payment-account-reference/.

Question 7**: **Would the end of 2024 be a desirable and feasible timeline for the industry to support token portability, and to make substantial progress in removing PANs from the ecosystem?

We believe that the end of 2024 is a feasible timeline for industry to support token portability and to also have made significant strides in minimising PANs from the Australian payment ecosystem.

Question 8**: **Should the Bank and the industry consider broader action to encourage the tokenisation of card payments and removing PANs, as seen in some other jurisdictions?

AP+ strongly believes reduction of PANs from the ecosystem is a positive step towards a safer and more secure Australian payment system. However, considering the prevalence of this sensitive data throughout the ecosystem it will take considerable effort to achieve this aim, while minimising adverse impacts on merchants and consumers. Given the importance of protecting Australians from fraud, whilst also promoting competition we believe certain expectations could be established to help build the foundation for tokenisation of DNDCs, token synchronisation and visibility.

Reforms to encourage the adoption of tokenisation and the movement away from the reliance on PANs, could include:

- **Dual Token Provisioning:** The RBA could set an expectation that Token Requesters must obtain tokens from both networks associated with the DNDC. This will ensure LCR remains possible.

- **Payment Account Reference:** BIN Controllers should make freely available a "PAR Enquiry Service" to all market participants. The availability of PAR will help to simplify the process of token synchronisation whilst building the foundation for future token visibility capabilities.

- **Communication of status changes**: The RBA could set an expectation that any party aware of an account or relationship change must communicate that change via domestic and international TSPs.
- **Parity in lifecycle event processing and synchronisation**: Token Requesters (e.g., gateways) should receive and process lifecycle events from all TSPs. Furthermore, managing any changes in the status of accounts or relationships and communicating them across both TSPs to help ensure synchronicity of tokens.

In developing our response to the consultation paper AP+ considered the methods in which DNDCs are tokenised across both the domestic and the international schemes. The views provided in this response are based on implementing dual tokenisation for each PAN. Other options which AP+ considered included an interoperable and a national TSP in which a single token is issued per PAN. Given the relative complexity of these alternative solutions and the stated aim to make eftpos available for merchant tokenisation by March 2024; AP+ has formed the view that that dual tokenisation is the best path forward. The alternative approaches to dual tokenisation would require significant industry collaboration and effort to determine a workable solution and the timeframe to delivery would be significantly impacted.

Appendix 1

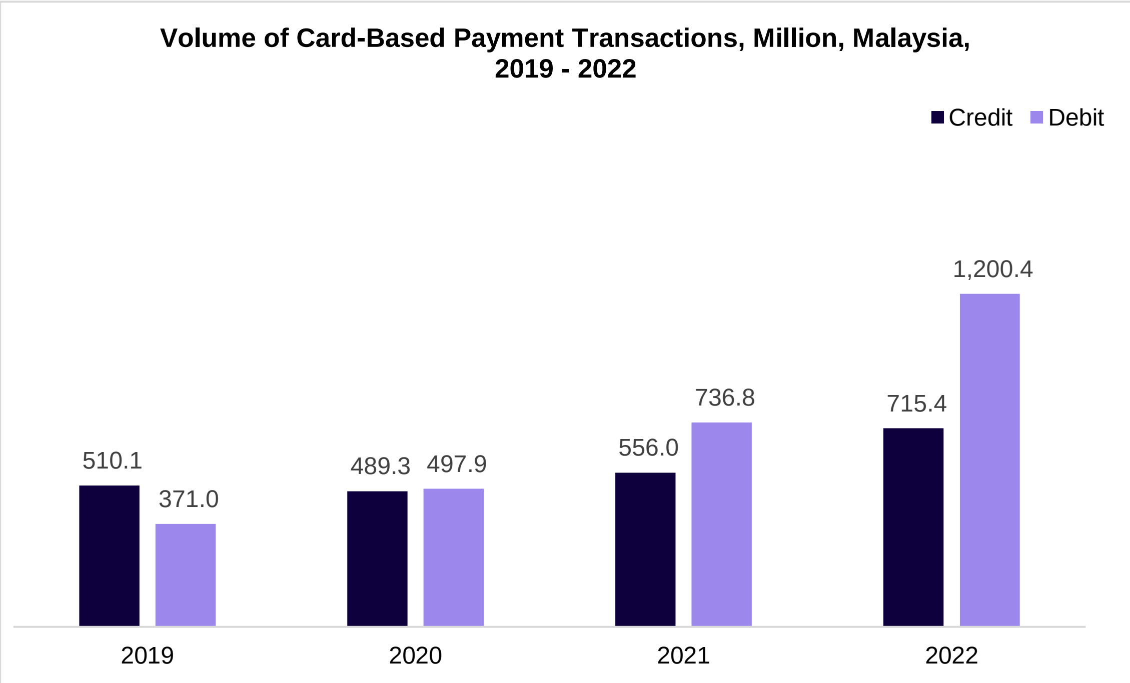
Malaysia PayNet - Case Study

The case study reviews two major payment card reforms that took place in Malaysia and summarises the impact of the reforms. The case study examines three areas, market dynamics, regulatory reforms, and impacts. The case study was prepared by Australian Payments Plus (AP+) based on observations and discussions with a number of Malaysian market participants.

Background and Market Dynamics

Malaysia has a population of 33 million, the payments market remains cash-reliant but digital payments are growing rapidly. The adoption of card-based payments is largely driven by the efforts of Malaysia's Central Bank, Bank Negara Malaysia (BNM). Since 2020, debit card volume has exceeded credit card volume, reaching 1.2 billion in 2022.[10]

Bank Negara Malaysia is the single largest shareholder of Payment Network Malaysia (**PayNet**), which operates Malaysia's domestic debit card network called 'MyDebit', (an equivalent of 'eftpos' in Australia). MyDebit is enabled for contactless payments. OEM wallet payments (E.g., Apple Pay, Google Pay) are not currently enabled for MyDebit transactions for a number of reasons which includes access to relevant tokenisation capabilities.



Regulatory reforms

In December 2014, Bank Negara Malaysia released their Payment Card Reform Framework (**PCRF**), which came into effect in 2015. The policy set out requirements in nine areas:

1. An interchange fee framework;
2. Unbundling of the MDR for domestic payment card transactions;
3. Facilitating the identification of debit cards and international prepaid cards;
4. Removing restriction on co-badging of debit cards;
5. No surcharging for debit card and international prepaid card transactions;

[10] https://www.bnm.gov.my/payment-statistics

6. Empowering merchants to steer cardholders to use cost-effective payment cards and to have the first priority in routing decisions;
7. Prohibition on exclusivity to an account or a line of credit;
8. Minimum product offering for payment cards; and
9. Reporting and data retention requirements.

The PCRF supported the sustained growth in the use of payment cards and also helped drive other outcomes including a declining average Merchant Discount Rate (**MDR**). In a second stage of reforms, the Payment Cards Framework (**PCF**) was released by Bank Negara Malaysia in August 2022. Key features of the 2014 PCRF and 2022 PCF requirements are outlined below.

	2014 PCRF	**2022 PCF**
Interchange fee cap	**Domestic debit card**: **0.15%** or RM0.5 + 0.01%, whichever is lower. **Credit card**: **1.1%** or **1%** depending on the situation	**Domestic brand debit card**: 0.1% or RM0.7 + 0.001%, whichever is lower **International brand debit card**: 0.27% or RM0.63 + 0.001%, whichever is lower **Credit card:** 0.6%
Unbundling of the merchant discount rate (MDR)	An acquirer shall charge merchants specified and separate MDR for: • **Domestic debit card** transactions • **International debit card** transactions; and • **Credit card** transactions	Same as 2014
Empowering merchants to steer cardholders' choice	Merchants are empowered to use the more cost-effective payment cards and to have the first priority in routing decisions. For transactions made using a co-badged debit card: • Merchants shall have the first priority in deciding which payment network a transaction is to be routed to, followed by cardholders. • Acquirers to ensure POS terminals are enabled to allow merchants to choose the payment card network of the merchant's choice.	For transactions made using a co-badged debit card (including card-not-present scenario): • Merchants are allowed to decide which payment card network that a transaction is to be routed or processed; and • Acquirers shall ensure that the POS terminals or the online payment facilities provided to merchants are enabled to allow merchants to choose the payment card network of the merchant's choice.
No surcharging for debit card	Acquirer shall ensure that merchants do not impose any surcharge on payments made using a domestic/international debit card.	Same as 2014
Equal branding for co-badge debit card	The logos of the payment card networks are of equal size and displayed on the same side of the debit card.	Same as 2014
Payment cards acceptance	N/A	Acquirers shall ensure that its merchants accept debit card transactions at a minimum, but shall not require a merchant to also accept other payment cards such as credit cards as a condition.

Market changes arising from the regulatory reforms

Interchange fee caps:

- In 2015, both Visa and PayNet lowered their respective debit card interchange fees in response to the interchange caps while Mastercard maintained its debit interchange fee at 21 basis points. Visa dropped its interchange fees to 15 basis points (from 21 basis points) while PayNet reduced MyDebit interchange fee to 14 basis points (from 15 basis points).

Unbundling of the merchant discount rate (MDR):

- The average MDR across all debit transactions has reduced as a result of the reforms. Between 2015 and 2020, the average MDR declined from 1.40% to 1.05% for credit cards, 1.20% to 0.53% for international brand debit cards and 0.65% to 0.44% for the domestic brand debit card.

- Another differentiating factor is that PayNet charges for approved transactions only, whereas the international card networks charge for both declined and approved transactions.

Empowering merchants to steer cardholders' choice:

- Merchants work with their acquirers to implement their routing choice. A merchant's routing preference is programmed into the terminal as a hardware setting and is set up when the terminal is installed. This required terminal reconfiguration was conducted initially in conjunction with EMVCo certification, subsequent site visits are required if a merchant's wishes to change routing preferences.

- In September 2022, the international card networks introduced mobile payments (Apple Pay, Google Pay). PayNet is now exploring mobile payment capability for MyDebit to address the issue of the default routing requirement being circumvented at MyDebit merchants through the debit card provisioned on a mobile payment. It is anticipated that volume is unlikely to shift to international card networks imminently – as not many issuers in the jurisdiction currently offering mobile payments on debit cards or have plans to do so in the near future. Furthermore, if a merchant has default routed to MyDebit, an onsite terminal re-programming is required to convert the default routing from MyDebit to the international card networks and those additional reprogramming costs are incurred by Acquirers / Visa / Mastercard. MyDebit retains at least 70% of routing volume on physical dual network debit cards. As MyDebit is not present in a mobile wallet, these transactions are currently routed to the international card schemes.

- For international visitors visiting Malaysia, even where a merchant has selected MyDebit as their routing choice, the payment will route to the international card networks available on the visitor's card.

Equal branding for co-badge debit card:

- both MyDebit and international card network logos on the front of the card strengthened consumer brand awareness of MyDebit, which was traditionally seen as an ATM card prior to the 2014 reforms. In 2019, PayNet established a MyDebit Development Fund to encourage the development of MyDebit acceptance and adoption. Initiatives included usage and activation programs with key merchants and banks to incentive customers.

Payment cards acceptance

- All acquirers are required to enable debit card transactions and quarterly targets are monitored by Bank Negara Malaysia.

Incentives provided by card networks

- Before the regulatory reforms, international card networks predominately offered incentives to issuers. Since the reforms, international card networks started to offer some incentives to acquirers, but only to a selection of large acquirers and the incentives are not substantial. The incentives offered came in the form of scheme fee rebates, enabling acquirers to offer lower MDR to merchants.

- PayNet offers marketing funds or enablement incentives to acquirers and system integration partners for use cases such as parking, self-service payment kiosks, laundromats, and public transport. PayNet's incentives to issuers are focused on activation, which are predominantly focused on incentivising non-active debit card users.

Summary

The Malaysian market participants which AP+ has had discussions with, stated that they believed the regulatory reforms have achieved the intended outcomes, with the additional observation that the prohibition of a default network was implemented concurrently with parallel reforms (such as unbundling the MDR) to deliver the intended outcome.

In the ten years since the reforms came into effect, the MyDebit share of the domestic debit card market grew from ~30% to ~70%. The central bank's support, alongside PayNet's efforts to educate the public and increase debit card usage, contributed to the growth in acceptance of debit payments, and lowered acceptance costs (MDR) for merchants. While the introduction of Apple Pay and Google Pay by the international card networks is likely to impact PayNet's market share in the longer term, Bank Negara Malaysia's policy of promoting and advancing domestic debit card network usage in the country appears to have, to date, delivered the benefits sought.

End.