

20 April 2012

Mr. Christopher Kent
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Dear Mr. Kent

National Australia Bank welcomes the opportunity to respond to the RBA's recent request for comments on the possible form of a new designation for the eftpos system.

NAB agrees with the Payment System Board's view that the current designation is no longer appropriate given changes to the EFTPOS system, particularly the advent of ePAL. We believe that defining the EFTPOS system according to ePAL membership and rules is the best option to engender competition on an equal footing, encourage innovation, reduce industry and regulatory complexity and lessen systemic risks.

The following pages detail these points.

Should you require further information on this submission please direct your initial inquiry to:

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Yours sincerely,



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Review of the Regulatory Framework for the eftpos System: Consultation on Designation

Engender competition

Under the current regulatory framework ePAL can neither determine the necessary terms and standards for access to the eftpos network nor provide a competitively neutral pricing structure for their members.

Institutions that wish to participate in the international card schemes must be members and thus the schemes are able to treat Acquirers and Issuers on a consistent and competitively neutral basis. For ePAL to successfully compete they too must be capable of determining access and providing a consistent interchange structure for their members.

The bilateral interchange fee standard represents a significant on-going competitive issue with any new eftpos participants able to approach ePAL members under the Access Regime and compel them to enter into bilateral pricing arrangements where the new entrant may have a pricing advantage over ePAL members.

Defining eftpos in the designation according to ePAL membership and rules will put all eftpos participants on an equal competitive footing and likewise ePAL on an equal footing with the international card schemes.

Encourage innovation

Innovation in the eftpos system requires significant collaboration and standardisation of systems between all participants. Under the current regulatory and legal framework eftpos participants have struggled to implement technological innovation due to competing interests and the complexity of negotiating multiple bilateral agreements.

ePAL has significant ground to cover in terms of getting the eftpos system up to the technological sophistication of the international card schemes and cannot be expected to be a viable competitor without bridging this gap. Where a participant in eftpos sits outside the aegis of ePAL and a technological change is mandated (e.g. EMV) there is a real risk of disparate rates of development and systemic dislocation.

Implementation of technological changes on bilateral links with eftpos participants outside of ePAL membership could be more expensive for all parties involved due to multiple bespoke solutions being required as opposed to a single standardised ePAL implementation with costs spread evenly between members.

Having the eftpos system under the aegis of the ePAL scheme will help overcome many of these complications; allow efficient and effective implementation of change and fair distribution of costs between competitors in the eftpos system which will ultimately be in the public interest.

Reduce industry and regulatory complexity

Currently ePAL members have both multilateral and bilateral arrangements with each other and with non-members. The myriad of contractual arrangements has been necessary due to the retention of the bilateral interchange standard and the ability of eftpos participants to operate outside the aegis of ePAL.

The bilateral agreements outside the purview of ePAL create ambiguity and process duplication for ePAL members resulting in considerable administrative difficulty and contractual difficulty in relation to issues

such as technology upgrades, pricing and compliance mandates. An example of this complexity is the current efforts of APCA to determine which parts of the CECS manual should remain and which parts should be subsumed by ePAL rules and regulations.

If eftpos is defined according to ePAL membership and rules it would allow a simple set of regulations for all eftpos participants and a much more efficient eftpos system.

Lessen systemic risk

In addition to allowing ePAL to standardise systems and reduce system outages a single scheme for the eftpos system will allow ePAL to effectively manage fraud, operational and credit risk and business continuity planning. Without a contractual relationship ePAL cannot effectively manage these risks and their members must each continue to deal with these risks in an ad-hoc fashion as they arise with non-members.

Central control of fraud management will improve financial safety for eftpos cardholders as ePAL innovates (e.g. into the Card Not Present channel). Likewise ePAL having ultimate responsibility for operational risks such as network outages, credit and business continuity risks will help lessen systemic risks and provide a better experience for the Australian public.

Conclusion

A broader definition of eftpos as outlined by the RBA in Option 2 of the Consultation Paper would place a significant part of the eftpos system outside the scope of ePAL and significantly lessen ePAL's ability to provide a competitive, efficient, innovative, safe and stable environment.

Similarly, while removing the designation of eftpos as a payment system and ceasing regulation is an ultimately desirable outcome we do not believe that the eftpos system and payments industry as a whole has reached the necessary level of uniformity to warrant such action. Either action would likely leave eftpos in its current position with competitive imbalance, complexity, ambiguity and stagnant innovation.

Therefore, we support Option 1 from the Consultation on Designation Paper, to define eftpos according to ePAL membership and rules as we believe this the best option for ensuring the efficient, effective, competitive, innovative, stable, simple and fair operation of the eftpos system for all participants and in the interests of the Australian public.