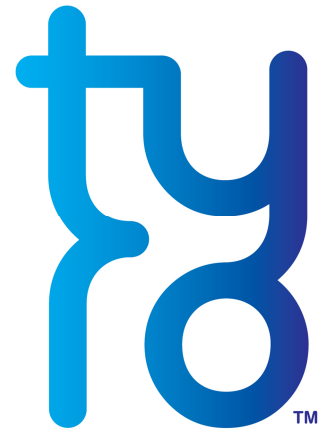


20 June 2011

VIA EMAIL : [pysubmissions@rba.gov.au](mailto:pysubmissions@rba.gov.au)

Payments Policy Department  
Dr Christopher Kent  
Reserve Bank of Australia  
GPO Box 3947  
SYDNEY NSW 2001



Dear Chris,

**Submission: Multi-functionality, Contactless and Differential Surcharging**

Tyro Payments Limited is a Specialist Credit Card Institution authorised by the Australian Prudential Regulation Authority. It has launched acquiring services for credit, scheme debit and EFTPOS cards and electronic Medicare processing services for patient paid and bulk-bill claims.

Tyro Payments submits this paper with reference to the RBA Media Release dated 25 February 2011 on *Multi-Function Cards and Related Issues*, the Australian Payment Forum's *Multi-Function Card Discussion Paper* and the ensuing discussion.

Tyro also refers to a Visa member communication dated 16 June 2011, announcing the *introduction of Account Level Processing Capability to Australian Market*.

The Payment System Board has expressed its strong support for the ongoing issuance of multi-function cards as they enable stronger competition between payment systems at the point of sale and are convenient for cardholders. The Board aims to promote efficiency and competition in the Australian payment system by giving all participants a choice influenced by cost-based price signals. Accordingly it believes the merchants' right to surcharge should be retained.

The recent industry discussion of the Australian Payment Forum revealed unanimous support from the present issuers, acquirers and merchants for the continued issuance and use of multi-function cards.

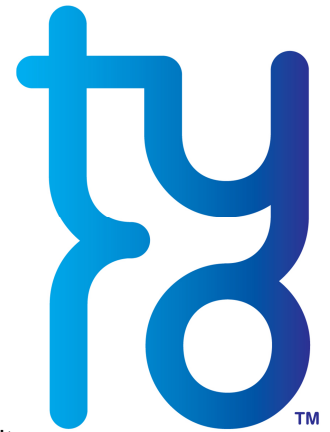
**Contactless cards eliminate network and currency choice and surcharging**

Contactless cards remove the need and option for cardholders to interact with the terminal for transactions under a certain limit. For cardholders of multi-function cards and for accepting merchants, this removes the opportunity to choose the payment type and network at the EFTPOS terminal for contactless payments.

As the issuer pre-determines the payment type and network default, cards essentially become single scheme cards when operating contactless. The technology is designed in a way that requires the transaction amount to be determined by the terminal before knowing which type of card is in the wallet to be tapped on the terminal. The card creates a cryptogram that includes the amount in the algorithm used and sends it to the issuer. This is done to prevent changes being made to the amount after the card's approval, as there is no other proof of the amount accepted such as a signed paper authorisation.

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This one step process also prevents the merchant surcharging the card. A default surcharge amount does not work technically and would not accurately offset the actual cost to the merchant of processing each individual transaction.

The technology also eliminates the possibility for the merchant to offer Dynamic Currency Conversion (DCC) for contactless transactions because the card's Bank Identification Number (BIN) is not available until after the transaction is completed. This excludes the possibility of issuing a DCC lookup (from terminal to acquirer) and calculation, before the actual transaction is submitted to the issuer bank for authorisation.

### **Schemes have to maintain a level field between chip & dip and contactless**

The cardholder can however maintain the option to avoid the contactless process by carefully handling the card and swiping or dipping it. This keeps open the choice of network and currency and exposes the cardholder to potential surcharging.

Similarly, merchants should be able to protect their network and currency choices and surcharging rights, by having the option to offer the 'chip & dip' solution without being disadvantaged by not offering the contactless solution.

That requires that the schemes undertake:

- to refrain from mandating contactless terminals as MasterCard has done for certain merchant category codes; and
- to extend the same terms to 'chip & dip' transaction as for contactless.

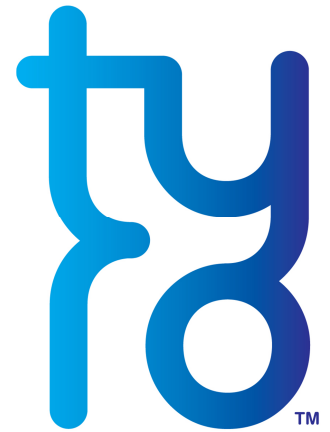
Visa and MasterCard should therefore agree to offer identical receipt and PIN requirements for the same maximum amounts and interchange fees, as well as charge back rights for both authentication processes.

### **Mobile payment implementations have to re-establish choices and rights**

The significantly higher technology capabilities of smart phones should be used to address issues such as default settings, inter-operability and access for scheme applications on mobile devices. The EMV standard for mobile payments should be specified in a way that gives customer and merchant their choices back. The implementation should allow BOTH card holders and the merchants to set default network priorities. It also should allow the terminal to provide surcharged amounts and currency choices.

### **Visa account level processing (ALP) eliminates the ability to differentiate card type at the terminal**

Visa has announced it will implement changes to support Account Level Processing (ALP) in Australia. This change will fundamentally shift the way transactions are processed in Australia, enabling issuers to customise consumer credit products at the account number level (instead of using a six-digit BIN), and allowing product identification to be sent to participating acquirers with every transaction. As a result, consumers can be upgraded or downgraded to a new card product without requiring a new card number.



In our view, Visa could have chosen to maintain the card type that allows determining the applicable interchange fee on the card's chip, a feature inherent in the EMV specification. This would have left acquirers and merchants with the option of surcharging the cost of the specific card transaction.

The Wall Street Journal Business dated 14 June 2011 reports that *"the Retail Industry Leaders Association expressed concern that merchants can't distinguish which cards carry higher interchange fees on sight.*

*The Justice Department said that it has worked with Visa and MasterCard and that they "will soon offer such an electronic means to differentiate among card types."*

These technology choices, and today's practice of calculating a surcharge through mental arithmetic or through the point-of-sale system, compromise or eliminate the potential of fair and transparent surcharging, stymieing informed and efficient choices. The challenge increases with card proliferation, interchange fee differentiation and contactless and mobile payment technologies. If the merchant and cardholder cannot identify the card type and its associated costs, economic pricing and market mechanisms fail.

It is time for the industry schemes, issuers and acquirers to embrace the surcharging concept and to create a transparent and cost-based surcharging process. Tyro would be happy to provide its merchants with the required technology, should the industry move towards differential surcharging. The disarmingly simple alternative would be to eliminate, or significantly reduce, the interchange fee and consequently the surcharging requirement.

Tyro believes it is critical to retain choices at both the cardholder and merchant level to maintain competitive tension and efficient pricing. To this end we recommend:

- The Reserve Bank of Australia require schemes to refrain from mandating contactless terminals and to not discriminate against chip & dip alternatives.
- The Bank requires the EMV specifications for future mobile payments to re-establish the network and currency choices and surcharging capabilities.
- The Bank requires schemes to implement their system, operation and business enhancements in a way that maintains choices for issuers, acquirers, merchants and card holders.

Yours Sincerely

A handwritten signature in blue ink, appearing to read 'Jost Stollmann', is written over a light blue horizontal line.

Jost Stollmann  
CEO