Head of Payments Policy Department
Reserve Bank of Australia
GPO Box 3947
Sydney NSW 2001
Via email to pysubmissions@rba.gov.au

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Response to the Australian Market - Default Setting and Tokenisation: Issues Paper June 2023

The National Australia Bank (NAB) welcomes the opportunity to respond on this issues paper issued by the Reserve Bank of Australia (RBA).

In relation to the default setting of routing preferences, it is NAB's view that the existing ability to control network routing preferences by payment service providers in Australia via LCR/MCR implementations means that it is unnecessary to seek to change the priorities set on card EMV chips. Controlling routing from the payment service provider side would also be faster and less expensive to implement, as it does not rely on physical card plastic re-issuance.

NAB recommends further consideration and consultation around the impacts of setting routing preferences on behalf of merchants (not the current NAB practice, where merchant-choice is offered) and the wider implications of mandating broad-scale routing changes on the payments system as they relate to network-level stand-in and fraud mitigation capabilities. NAB also notes the large volume of change underway in the industry and the need to set clear and realistic timelines for any new industry mandates.

In relation to industry standardisation for token portability, synchronisation, and visibility, NAB is aligned with the AusPayNet working group findings and defers to AusPayNet's submission on this matter.

Default Setting

Q1:
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?

The contactless transaction process experience is anchored around having no account/application selection step in the payment flow. Fundamental to this processing is the need to default the transaction processing in some manner in order to initiate the payment processing from one of the applications on the cards' EMV chip. The absence of a default routing network on the card would mean that, without a default routing configuration on the terminal, transaction processing could not be initiated.

Merchant Choice Routing on acquirer terminals overrides the card priority for routing and it is NAB's view that it is this (or similar) acquirer-side capability that could more easily be leveraged to achieve the RBA's goal of mitigating the existing routing preferences set on DNDC's.

Removing default application priority on cards is also likely divergent from Global EMVCo. standards and may lead to unanticipated interoperability issues when these cards are used in other countries/markets.

a. By when would it be feasible for payment service providers to have identified and implemented a routing network preference for all of their merchant customers (such as by moving them to an LCR plan)?

NAB would need to understand more detail around the notion of setting a ‘routing network preference’, principally: Is the acquirer able to set this preference, or can this preference only be determined at a merchant’s direction?

If set by merchants (i.e. ‘merchant choice’), the procurement, establishment, and maintenance of these preferences across an entire portfolio of customers would involve significant time, cost, and resource to execute and manage. At a practical level, it is unrealistic to expect 100% of merchants to respond to a request around a network preference, so NAB would like to understand how network preferences would be determined where no merchant direction is provided.

Not all customers benefit from routing DNDC’s to eftpos, which is why NAB supports routing as a merchant choice. If NAB were required to determine routing on *behalf* of a merchant, there is a concern that some merchants may claim to have suffered a detriment due to the routing preference set. Merchant pricing is highly individualised in many cases and is complex. As scheme fee rates, interchange rates, and the merchants’ card mix and transaction sizes change over time, the associated benefits of routing will also change and be different for each merchant.

The complexity and inherent variability of these elements make it challenging, and potentially unfeasible, for acquirers to manage routing preferences on behalf of an entire portfolio of merchants with such precision that the risk of customer detriment is appropriately mitigated.

b. Will existing merchant terminals be able to accept transactions conducted using a DNDC without a set default routing network, assuming that payment service providers have implemented a routing network preference for all of their merchant customers?

As above, the absence of a default routing network on the card would mean that, without a default routing configuration on the terminal, transaction processing could not be initiated.

If reliance were to be placed on payment service providers to implement a network preference for merchants in anticipation of default routing priorities being removed from cards, then the payments industry would need to ensure that all payment service providers had implemented network preferences on all card capture devices (terminals etc) prior to the issuance of the new cards. If a non-defaulted card were to be presented to a device that had not been updated with a routing preference, the transaction would likely fail.

There may be legacy payment terminals in the idustry that provide a technical barrier to the implementation of transaction routing. This barrier would continue to diminish over time as terminal fleets are refreshed.

Q2:
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.

It is NABs view that prohibiting default routing preferences on cards has minimal benefit and significant downside risk. Routing preference can be controlled at terminals without updating card defaults.

The risks and impacts associated with such a prohibition on card routing preferences includes:
- Long lead time to implement changes or significant $MM costs to card issuers through forced card re-issuance ahead of natural reissuance cycle.
- Relying on routing preferences to be established at all payment acceptance devices which will require a significant lead-time to ensure 100% coverage (multi-year effort, unknown impact to existing payments industry roadmap priorities).
- Likely divergence from core EMVCo. standards have as-yet undetermined interoperability consequences.

Q3:
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?

The existing merchant choice routing mechanisms implemented by payment service providers allow card routing preferences to be overridden. It is NAB's view that these mechanisms should be utilised rather than to prohibit preferences set on the card EMV chips.

NAB encourages further consideration and consultation around the broader implications of large-scale routing of DNDCs to eftpos, especially in cases where the preference is set by the payment service provider rather than by the merchant.

Areas for further consideration include:

- **Customer experience**. Consideration around the implications to merchants and payment service providers of merchant detriment that could result from payment service provider directed routing preferences (i.e. not 'Merchant Choice').
- **Network resilience and stability**. Payment network stand-in capabilities are an important feature used by issuers to mitigate impacts from service outages. The stand-in capabilities of the card networks and resulting implications for routed transactions should be examined, as they may not be equivalent between the networks.
- **Safety**: We should further consider implications associated with network level features and capabilities in use by acquirers and issuers that help mitigate fraud. Consideration should be given to determine whether there are material differences in capabilities between the card networks and the potential impacts thereof.

Sincerely,

JDavison

Jenna Davison
Executive, Acquiring
National Australia Bank