

15 September 2017

Competition in Australia's Financial System inquiry
Productivity Commission
GPO Box 1428
Canberra City ACT 2601

Dear Sir

Competition in the Australian Financial System inquiry

eftpos Payments Australia Limited (**eftpos**), incorporated in 2009 and designated under the Payment Systems (Regulation) Act 1998 (C'th) (**PSRA**):

- administers the eftpos payment system that has been used for over 30 years to process eftpos debit card transactions initiated by cardholders at merchant points of sale;
- is a mutual style card scheme with a membership that includes both financial institutions and retailers; and
- operates a business that involves setting rules and interchange for eftpos debit card transactions, providing processing and tokenisation infrastructure and developing products and services for our Members to provide to their cardholder and merchant customers.

eftpos Then, and Now

Since incorporation, eftpos has transformed from a magnetic stripe only card product to a payment system with chip and contactless functionality being rolled out across all cards and terminals and with supporting processing and tokenisation infrastructure. eftpos is now rapidly moving towards mobile, in-App and in-browser payments. The investment made by eftpos in these new functionalities and technologies over the last 7 years has been significant.

Considerations for efficiency and cost effectiveness in payments

Efficiency and cost effectiveness in payments is achieved through scale, ie transaction volume. Innovation depends on scale for success as much as existing products and services do. Scale is achieved through the use of:

- common platforms (eg chip, contactless, processing infrastructure, tokenisation infrastructure);
- common standards (eg EMV and PCI standards); and
- solutions designed to provide the required security while also minimising confusion for consumers and maximising adoption by both consumers and merchants.

Each of the elements above raise the potential for barriers to entry to be created, which prevent or delay competition between payment systems. Those barriers can take the form of technology lockout, scheme rule conflicts, cost prohibitive licensing and/or pricing barriers. The complexity and interplay of the elements pose very real challenges to competition policy and regulation.

In the course of its transformation, eftpos has faced a number of challenges, including technology lockout arising from innovation, which has had a negative effect on competition in debit card payments.

There have been two recent examples of technology lockout related to payments in Australia. The first concerns multi-network debit cards (MNDCs) and the role of the chip in determining processing flows when



the card/chip supports two payment systems. The second is the more recent debate around use of the near field communication capability in phones. Both cases have raised crucial questions about the appropriate role of regulators in navigating the balance between innovation, proprietary ownership and open competition as well as the method of regulation. There is a cost to the economy of these kinds of technology lockout.

The regulatory challenge

Innovation may not equate to consumer benefit in all instances, unless competition is also safeguarded. Particularly in payments, the regulatory challenge is great. Clear, published regulation, minimising barriers that can arise from common platforms and standards, requires knowledge of the components, Australian-specific features, drivers affecting the market, along with an almost omniscient understanding of the likely effects of regulation. In a world where technology and business models are evolving rapidly, this poses a challenge to the traditional skills and capabilities of regulators, just as it does to other market participants. It also requires rethinking of many existing regulatory frameworks and tools.

We would be pleased to discuss this submission further with you.

Yours faithfully

Leslie Martin
Director