

Shaping the future of Australian payments

eftpos submission to The Australian Payments Council

July 2015



eftpos[®]

Copyright, confidentiality and disclaimer

Copyright in this document belongs to eftpos Payments Australia Limited ABN 37 136 180 366 (eftpos).

This document contains the latest information available at the time of publication. However, eftpos reserves the right to modify the information described herein at any time, with published notification.

All information contained herein is confidential and proprietary to eftpos. No part of this document may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying, recording or information retrieval systems, except where expressly permitted by eftpos.

Written and published in Sydney, Australia by eftpos
©2015 eftpos Payments Australia Limited

All Rights Reserved

Contents

Introduction	4
eftpos background	5
Desirable characteristics	6
Current trends	7
Digital disruption	8
Forecast of longer-term trends	9
What should the Australian payments industry consider?	10
What else might the industry do?	11

Introduction

The payments system is fundamental to the national economy and the daily lives of all Australians. With that in mind, eftpos fully supports The Australian Payments Council's endeavours to develop an industry plan that establishes a roadmap for collaboration in order to protect and improve the Australian payments system in coming years.

The actions taken by the industry and the Reserve Bank of Australia over many years have played a central role in ensuring Australians have improved access to a range of robust and competitive payment services. However, with recent rapid technology change and disruption, it is the right time for industry to position Australia for the future and consider how to ensure that the payments system continues to operate in a properly functioning, accessible, competitive, fair and efficient manner.

In addition to the desirable characteristics for the payments system outlined in the Council's discussion paper, eftpos highlights three fundamental principles that should be applied to test any new change in the payments system. Specifically, we must ensure that Australia retains control of secure, robust and reliable essential payments infrastructure and adopts changes that provide:

1. Clear, fair and unambiguous rules and standards for both incumbents and new entrants,
2. Open access to technology and channels for all payments system participants, and
3. Transparency of pricing and benefits for consumers and merchants.

In addition, eftpos believes the industry should strive to be a world leader in electronic payments, with a vision of Australia becoming a truly cashless society as soon as possible.



Bruce Mansfield
Managing Director

“The Australian payments industry must ensure that Australia retains control of our secure, robust and reliable essential payments infrastructure and adopts changes that are clear, accessible and transparent.”



eftpos background

eftpos operates the eftpos payment system in Australia, which has been a key component of the payments landscape since the mid-1980s. It was established through industry collaboration and is an example of what can be achieved when the payments industry works together.

eftpos, the Company, was incorporated in 2009 and is a mutual style organisation with a Membership comprised of major financial institutions, two major retailers and three aggregator payment service organisations. Through this Membership, all financial institutions and all merchants accepting card-based point of sale debit payments are represented.

Today eftpos provides Australian-based, convenient, low cost, ubiquitous debit card acceptance across the country. In 2014 there were more than 39 million eftpos enabled cards in the market, capable of acceptance at more than 800,000 point of sale terminals, generating 2.4 billion eftpos transactions, having an aggregate value of \$139 billion, and representing more than 40% of all card transactions by volume in Australia. As such, eftpos is the most used card system in Australia, although its market share is declining due to the rapid adoption of new technologies such as contactless and online payments.

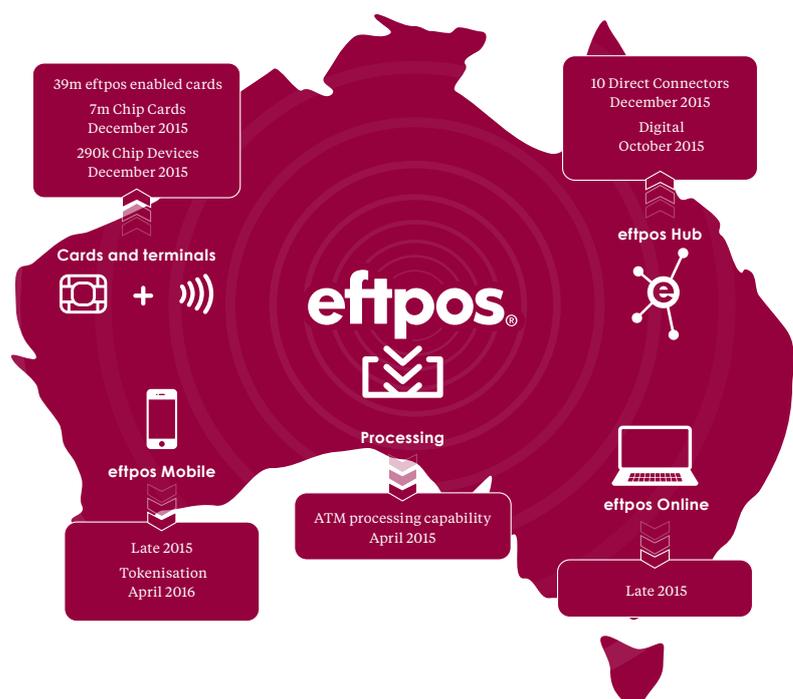
Importantly, eftpos is currently transforming its core infrastructure to provide new Australian payments platforms and enhanced processing and product functionality, including contactless, online and mobile payment methods. This represents the most significant change to the eftpos system in 30 years and is an important industry asset.

Without a viable domestic payments system, the majority of consumer electronic payments would be handled by foreign payment systems, resulting in a significant reduction in competition, and less domestic control and influence over infrastructure, economics, product development and innovation. As Australians increasingly move to new digital payment platforms such as mobile, it is important that payment system supports this same type of competition by ensuring competitive neutrality for new payments technologies.

It is in the interest of the public and the industry to continue to have a competitive and efficient domestic payment system as we move onto new technology platforms because it:

- Drives price competition,
- Offers choice for consumers and merchants,
- Promotes local innovation,
- Provides on-shore processing of transactions,
- Enables on-shore value exchange supervised by Australian regulators,
- Retains revenues in Australia, and
- Generates jobs and skills locally.

eftpos is transforming its core infrastructure and is aiming to introduce a number of new eftpos products and services into the market in 2015–2016.



Desirable characteristics

Question 1: Do Resilience, Efficiency, Accessibility and Adaptability address the desirable characteristics for the Australian payments system? Are there other characteristics that are more appropriate? Why?

eftpos supports many of the desirable characteristics as outlined in the discussion paper and detailed in the table below. However, eftpos believes these characteristics must be matched by a proactive approach from our regulators and industry self-regulators in order to protect the integrity of the payments system.

In addition, we must ensure that Australia retains control of secure, and reliable essential payments infrastructure and adopts changes to enhance competition and accessibility.

Other considerations could include:

- **Resilience** – specifically address security, business continuity, redundancy, data management,
- **Protection** – consider rules around lawful access by other governmental agencies, and
- **Efficiency** – address how system resources will be allocated and who will control allocation, the impact of competing networks, how access to innovation and platforms should be achieved and prevention of technology lockout.

DESIRABLE CHARACTERISTICS	RESILIENCE	Stability	Payments infrastructure is certain and predictable and provides a basis for delivery of well-defined and valued payment services to users through operators and service providers.
		Reliability	Payment services are available when users and service providers want them, and outages are minimised.
		Security	The system is structured to protect against unauthorised access to value and data.
	EFFICIENCY	Resource allocation	Finite system resources are allocated for maximum stakeholder value.
		Sustainability	Operators and service providers are able to develop and maintain sustainable business models.
		Integration	Standardised, automated processes and straight-through processing minimise cost and risk.
		Liquidity	Money circulates rapidly at minimal friction cost.
	ACCESSIBILITY	Ease of access	Consumers and businesses have access to a range of user-friendly payment services so they can choose how to make and receive payments.
		Reach	The payments system is widely accessible amongst users, so that payers can reach payees.
		Competitiveness	Payment service providers and operators have equitable access to underlying infrastructure so as to promote competition.
	ADAPTABILITY	Openness	The payments system is flexible to accommodate new business models, business strategies and technologies.
		Innovation	Innovation in payment networks and payment services is encouraged, so that changing user needs are met over time.
		Cooperation	Where there are strong network effects, governance frameworks encourage operators and service providers to cooperate to bring about payments system improvements.
		Regulatory certainty	Regulation (including self-regulation and industry standards) is clear, up to date and supportive of both cooperation and competition.

Current trends

Question 2: Are there any other current trends we need to take into account in developing the Australian Payments Plan?

Australians are rapid adopters of new payments technology. Card payments have grown strongly since eftpos was first introduced in the mid-1980s, contactless usage is now significant, and a large percentage of card transactions are now made online, or via mobile devices.

Australia also boasts very high smart phone penetration, creating an environment for rapid adoption of mobile payments in the near future. According to recent research, more than 10 million Australians will use their mobile phones for payments at least once a week by 2020.

Cards will remain a primary form of electronic payment for some years to come but eftpos believes Australia is on the verge of a dramatic shift in how people shop. While mobile payments volumes are quite small in Australia today, our high penetration of contactless-enabled terminals, high ownership of smartphones and widespread adoption of contactless by consumers could see that situation change quickly.

Digital technology enables consumers to access funds via a range of form factors, potentially changing traditional relationships between financial institutions and their customers. We are also seeing trends towards cloud based infrastructure, wearable technologies and digital currencies.

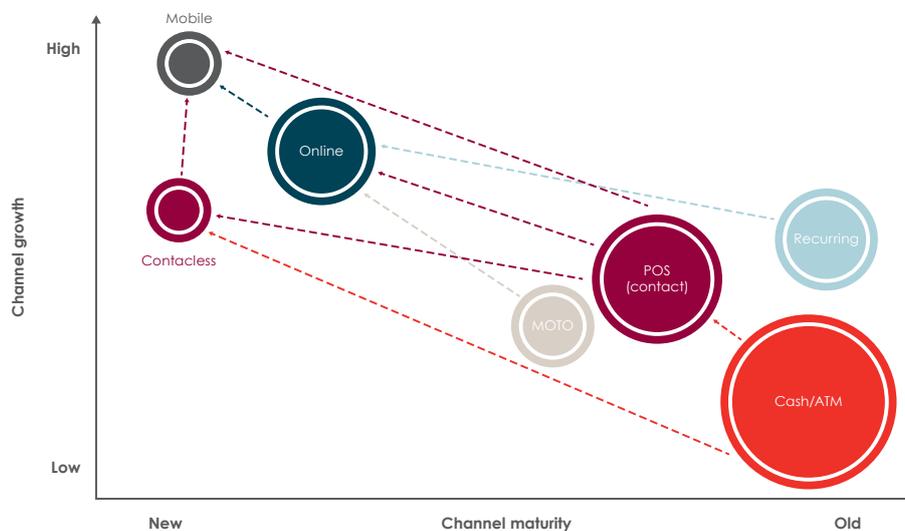
In this environment, the challenge for the industry is whether our standards, regulatory framework and infrastructure can keep pace with the increasing rate of technology innovation and disruption, and to ensure we retain the desired characteristics of the payments system.

Access to technology is key, allowing innovation to occur in a way that does not undermine competition or the security, stability, reliability and integrity of payments. Without that, domestic payment systems could be locked out of new technologies, significantly reducing competition that exists today.

The industry must also take pro-active measures to minimise the risk of fraud from new technologies, while maintaining the integrity of the national payments system. For example, new fraud prevention technologies such as tokenisation must adhere to industry standards, be accessible to all participants and not be monopolised by global players.

On important matters such as tokenisation, it is essential that the Australian Payments Council and local industry are involved in consultation and development of industry standards. If we are not involved in this process, Australia will be adopting the standards put together by sub-group of internationally-based, commercial organisations without reference to what is appropriate and prudent for the local market.

Transaction migration pathways between channels



Based on current trends, future growth will be in the digital channels such as online and mobile, where a substitution of payment types will occur between traditional channels such as point of sale contact card and cash.

Digital disruption

Question 3: What are your views on “digital disruption” being the primary force for change affecting Australian payments over the next 10 years?

There is no doubt that digital disruption will have a significant impact on payments over the next 10 years, particularly as mobility and ubiquitous internet connectivity make payments more interactive and integrated for consumers.

Consumers and merchants will become more influential in shaping product design, with less regard for the status quo and domestic regulatory constraints.

Convergence of industries such as technology and telecommunications with financial services will also blur the lines of traditional payments and banking business models.

While digital disruption will be a major driver for innovation and efficiency, it will bring our regulatory model and systems under increasing pressure from start-ups and large global technology players.

The Australian Payments Council has a role to play in pro-actively driving change and leading the industry’s response to disruption.

To cater for new technology platforms, drive competition and enhance local innovation, eftpos and its Members have invested heavily in new, centralised, infrastructure, providing the industry with cost effective, real time processing capacity for new payments types including contactless, mobile, online, ATM, Peer to Peer and Business to Person.

Known as the eftpos Hub, this robust, reliable, secure and scalable infrastructure already has seven direct connectors and is processing almost a million transactions a day, and will move to more than 6 million transactions a day by mid 2016. eftpos is also investing in tokenisation to offer the Australian industry a standardised, centralised, industry owned and cost effective option.

When built and implemented, the New Payments Platform will create another domestic infrastructure for innovation and competition, however, consideration is required as to how this will be managed to ensure equitable access and avoid duplication with existing infrastructure.

Economics will continue to have a significant impact on the payments system, and could potentially stifle innovation if regulations continue to allow market distortions between competing payment schemes.

Forecast of longer-term trends

Question 4: What are your views on our forecast of longer-term trends for Australian payments? Are there other factors to consider?

There is no doubt that Australian consumers and merchants will benefit from a range of new payments types and form factors over the next decade, from wearable technologies to sophisticated mobile payments options that are seamlessly integrated into the shopping experience.

New payments infrastructure such as the eftpos Hub and the New Payments Platform will enable significant local innovation and enhance competition as Australians quickly move to digital platforms.

However, rapid technology change in payments will bring with it increasing transaction volumes and technical complexity that will need to be managed carefully in order to minimise associated costs without putting at risk the desirable aspects of the current payment system that suits the needs of consumers and merchants.

Increasing globalisation of both payment transfers and payment providers introduces issues with different jurisdictional regulations and controls, particularly around data security, privacy, access and risks. This trend makes it increasingly important to adhere to robust standards and regulations in Australia to ensure security and consistency.

Globalisation of payment may also see a loss of revenue to the Australian economy.



What should the Australian payments industry consider?

Question 5: To achieve the desirable characteristics for the payments system in the next 10 years, what should the Australian payments industry consider doing collaboratively?

With the willingness of Australians to adopt electronic payments, the industry should accept the challenge of moving towards a cashless society as soon as possible.

Maintaining confidence and resilience in payments system, however, will be key to ensure adoption of developing innovative payment products. New approaches may need to be considered to deal with new types of participants and business models, while maintaining a low cost and efficient system.

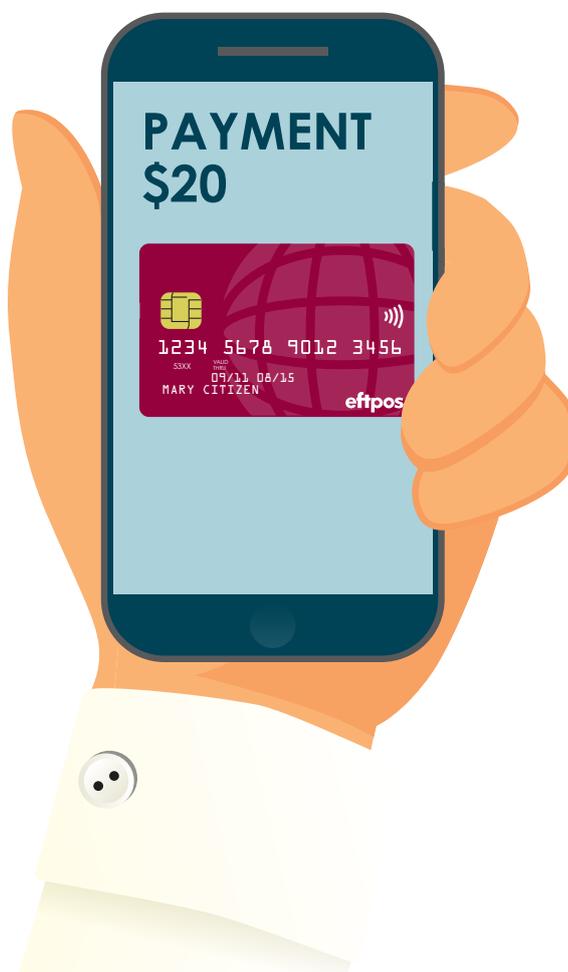
Industry collaboration on non-competitive issues enables innovation cost and risk diffusion and allows a ubiquitous industry solution that captures the consumer benefits of the 'network effect' and ubiquity.

Digital innovation will also create new opportunities and challenges for fraud and identity theft. The industry should consider a collaborative, standardised approach to digital identity, combatting fraud and network support, including some standardised approaches to tokenisation and shared infrastructure.

“We must have a deliberate and structured migration strategy to move away from cash and cheques”

Importantly, the industry must ensure that there is a level playing field for all market participants to prevent technology lockout by global payment schemes and new entrants. Technical neutrality will enable innovation to occur in a way that does not undermine competition or the security, stability, reliability and integrity of payments.

We must have a deliberate and structured migration strategy to move away from cash and cheques, and ensure that Australian Payments Council has representation on international bodies investigating and contributing to innovations in payments.



What else might the industry do?

Question 6: What else might the industry do collaboratively to achieve the desired characteristics?

Given the rapid take-up of new payments technologies in Australia, it is imperative that the industry moves quickly to position us for the future.

Proliferation of payment choices will not necessarily solve consumer or regulatory problems, but could compound them with complexity and confusion unless the industry can simplify and integrate the user experience seamlessly to their everyday needs.

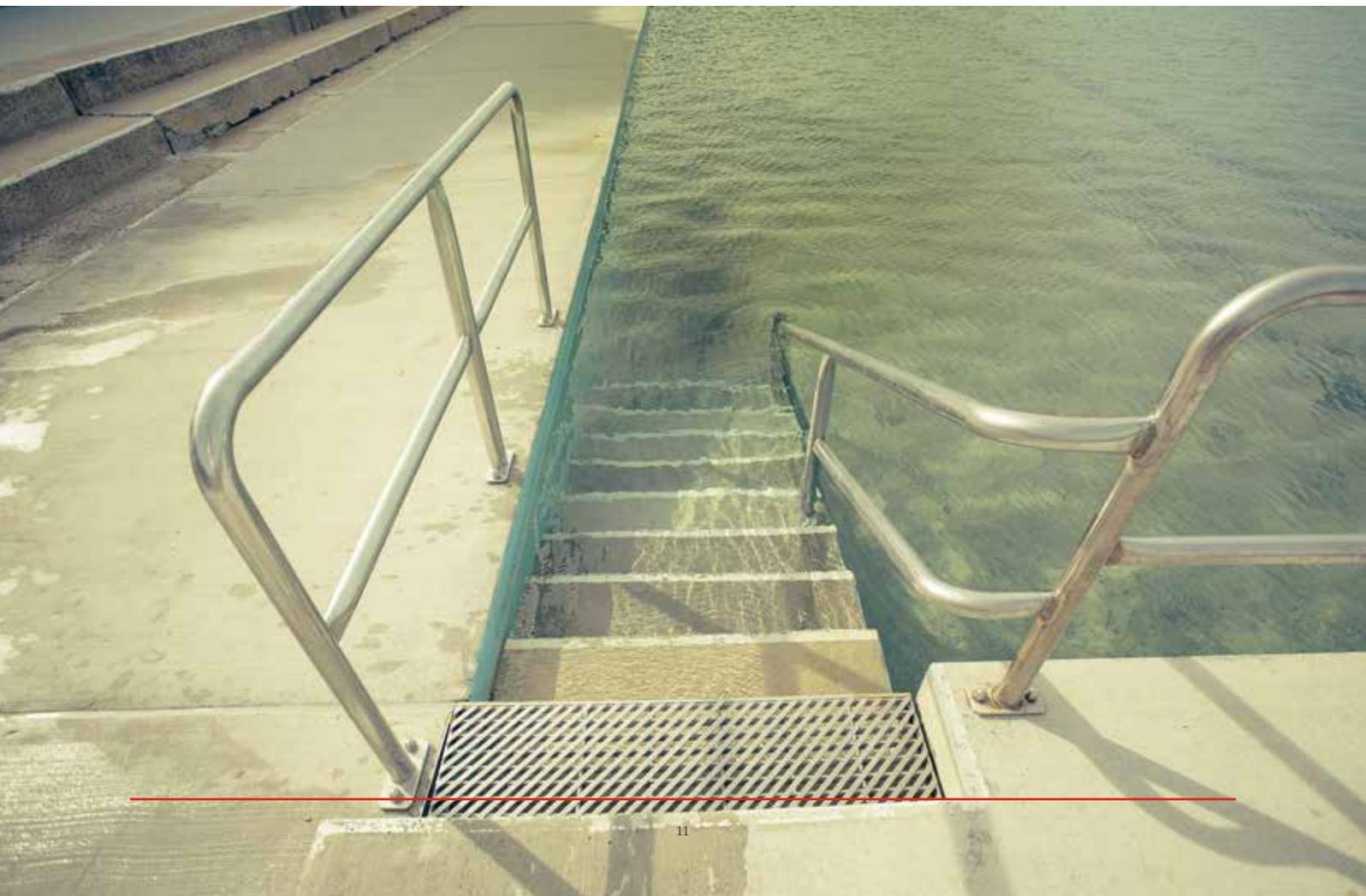
We must ensure that as new payments technologies are introduced, we continue to address fraud and identity theft effectively, and promote industry standards and controls to prevent illegal transfers and money laundering.

We must provide consumers and merchants with education and support so they understand the various payment options, the costs and risks associated with different payment types and make informed decisions.

To avoid duplication of investment we should also consider leveraging existing, commercially available network infrastructure for delivery of new innovations.

Fundamentally, as an industry we must ensure that Australia retains control of essential payments infrastructure, drives competition and promotes accessibility, clarity, choice and transparency.

Retaining a domestic payments provider as a viable and cost competitive alternative will be critical to maintaining competitive price tension and choice into the future.





eftpos Payments Australia Limited
ABN 37 136 180 366

Head Office
Suite 1, Level 9
60 Carrington Street
Sydney NSW 2000

Telephone +61282701800
Facsimile +61292992885
eftposaustralia.com.au