

8 March 2021

Ms Kate Carnell
Small Business and Family Enterprise Ombudsman
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Via email: kate.carnell@asbfeo.gov.au

Dear Kate

Proposed consolidation of companies that operate eftpos, BPAY and New Payments Platform

Thank you for your time and constructive discussions to date about the proposed consolidation of the companies that operate eftpos, BPAY and NPP. Besides our conversation, I have met with over a dozen organisations, particularly from the retail, small business, and fintech sectors.

This letter summarises the feedback that we have heard to date and provides further clarity around several key points. The main feedback we have received includes:

1. Broad recognition of the changing payment landscape, the dominance of the international card schemes, and the greater coordination that can be achieved by combining three organisations which were established piecemeal over the last ~50 years.
2. Strong support for eftpos remaining as a source of competitive pricing tension against the international card schemes, and that this is extended into online payments which is growing exponentially and where the international card schemes have ~100% market share.
3. Uncertainty about how this proposal will deliver faster innovation compared to the status quo; in particular, how will a single Board achieve this outcome better than today?
4. Significant support for the proposed *reduction in influence* of major banks and/or major retailers in the governance of Australian payments, including at the Board level.
5. Interest in how the voice and perspective of end-users of the payment systems such as fintechs and small business will be incorporated into the governance of the new entity.
6. Ongoing reservations by fintechs about access to payment systems, that access is not controlled by incumbent banks.
7. Strong interest in the ongoing rollout of Least Cost Routing, and an acknowledgement that while progress has been made by some banks and payment processors, it remains a work-in-progress, noting that this is an ongoing regulatory focus of the RBA.

I've provided some additional information on some of the key themes below.

Competition will be enhanced

Creating a more efficient and co-ordinated domestic payments entity will improve competition, both in the short and long-term.

Under a single board – eftpos, BPAY and NPP will continue as separate schemes and distinct brands. There will be no lessening of competition as the three schemes' core payment products do not compete with each other in any meaningful way today.

Instead, the proposal aims to foster **greater** competition in the payments industry as our domestic entity will be better able to compete with multinational schemes through increased scale and scope, improved pricing pressure and mostly through increased effectiveness.

Innovation benefits

It is very clear to me that the current governance structure of Australian payments is a barrier to coordinated progress and innovation – indeed, in some cases, it is dysfunctional.

Today, uncertainty and an inability to prioritise slightly different and overlapping offerings proposed by the three domestic schemes causes delay. Or worse, value is destroyed because investments are only supported by some players, meaning that they do not reach the required network effect and the investment is wasted. There have been numerous examples where value has been destroyed or delays incurred because of an inability to coordinate and prioritise future investments across the different domestic payment companies. This ultimately harms end-users of the payment systems such as small business, including through higher payment costs relative to functionality.

In contrast, a single Board will get faster buy-in and progress by aligning a range of perspectives and greater co-ordination across the three schemes, removing the siloes and fragmented structure that currently hampers decision-making and progress. By aligning eftpos, BPAY and NPP towards common goals and agendas, our domestic entity will be able to agree upon and then deliver necessary solutions for users of the payment systems, faster than occurs today.

Indeed, we've already seen real evidence of what this kind of alignment can achieve. This consolidation process has resulted in shareholders agreeing to the rollout of eftpos online (by agreeing a roadmap of future services) if the consolidation proposal proceeds. This will give merchants the low-cost online payment option that they are seeking as purchasing shifts rapidly to online.

If regulatory approval is granted, similar outcomes could be achieved for example, interoperable QR codes across the three payment schemes, rather than a fragmented approach with each scheme developing their own solution.

Fostering greater progress in online payments in this way, comes at a critical time when the growth of ecommerce and online payments is skyrocketing.

More open governance structure

A balanced, single board will be more open and inclusive, representing a broader range of diverse payment stakeholders. The four major banks and two major retailers will have less influence, moving from a majority of votes at eftpos and BPAY today, to six from 13 seats on the NewCo Board.

Four of the 13 Directors will be independent, including the Chair. Independent Non-Executive Directors will be senior, accomplished leaders, selected according to specific criteria which include experience in relevant service-based industries that are significant end-users of the Australian domestic payment systems (eg. small business, fintechs).

Smaller payment users in particular will be better represented, including through the creation of advisory committees, each chaired by an independent Board director; one specifically for members of the payment schemes and one for end-users (ie small business, small retailers, fintechs, consumers).

All NewCo Directors will have one vote and all NewCo shareholders, regardless of size, will have one vote at General Meetings. [Attachment A](#) provides more information about these details.

Three schemes retain veto rights

Eftpos, BPAY and NPP will continue with separate schemes and infrastructure as appropriate.

Fundamental decisions about the operation, funding, or future of any of the three schemes would be subject to determination by the shareholders that use that system. Retailers, for instance, will retain specific veto rights over any proposals that would directly impact eftpos.

Streamlined engagement and access to the payment rails

The proposed consolidation is intended to make it easier for users to access a range of payments infrastructure. The existing open-access frameworks will be preserved for each scheme and expand over time. While there will be the option to become a NewCo shareholder, this will not be required to access payment services. Access (and pricing) decisions will continue to be made by independent Directors.

Engagement will be more efficient through single entry points and end-user committees. Over time, NewCo will pursue integration of API frameworks and other assets (ie sandboxes) that support access.

Focus on low-cost payments via eftpos is maintained

NewCo will be a self-sustaining entity. Payment costs will not increase as a consequence of this consolidation and a key objective of the new entity, made explicit in its constitution, is that eftpos services be low cost.

If via this consolidation, we make eftpos stronger and better able to compete with Visa and Mastercard, it will put greater pricing tension on the international schemes – in merchant fees and particularly online payments, where the international card schemes have ~100% market share today.

Least cost routing (LCR) will continue

LCR is a significant issue and we understand the importance of routing choices for merchants, particularly smaller businesses.

This consolidation will have no effect on the rollout of LCR, which is accelerating. Banks and payment processors continue to offer merchants LCR options – and this proposal will not distract from this ongoing work, which also remains a significant regulatory focus for the RBA.

The proposed new entity is about creating an efficient domestic payments group that can respond more effectively to payments needs now and into the future. As payments move beyond plastic cards, an efficient domestic payments company with greater optionality with underlying platforms, offers the best protection for Australian businesses.

Next steps

A formal application will be submitted to the ACCC in mid-March. It will be made public and subject to broad consultation as part of the ACCC process. Once this occurs, I would be very pleased to arrange another meeting to answer any questions you may have. Can I suggest a time in the weeks commencing 22 March or 29 March 2021, prior to Easter?

We are committed to continuing a transparent and open dialogue and would welcome any feedback as this process continues.

Yours faithfully



ROBERT MILLINER

Chair, Industry Committee

Objective of NewCo: Self-sustaining entity operating in the public interest, focused on meeting the needs of payment users (including low-cost payments via eftpos)

