

Application for authorisation by Industry Committee, on behalf of the shareholders and members of BPAY, eftpos and NPPA to amalgamate under NewCo (Application)

Statement in connection with the Application

BPAY Group Pty Ltd and BPAY Pty Ltd (together BPAY Opco), signed off by Mark Williams, Chief Strategy Officer of BPAY Group Pty Ltd and BPAY Pty Ltd

Date: 16 March 2021

This document contains confidential information to BPAY which is indicated as follows:

[Confidential to BPAY]

Tab number	Details	Paragraph
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3.	BPAY Group Shareholder Considerations – Industry Committee on Potential Consolidation, 14 September 2020	63(b)
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A. INTRODUCTION

1 I am the Chief Strategy Officer of BPAY Group Pty Ltd and BPAY Pty Ltd and make this statement on behalf of those entities.

2 In this statement:

(a) a reference to **BPAY Opco** is a reference to BPAY Group Pty Ltd and BPAY Pty Ltd together;

(b) a reference to **BPAY Group** is a reference to BPAY Group Holding Pty Ltd, BPAY Pty Ltd and BPAY Group Pty Ltd together;

(c) a reference to **BPAY Holdco** is a reference to BPAY Group Holding Pty Ltd; and

(d) a reference to **BPAY** is a reference to BPAY Pty Ltd.

3 This statement has been prepared at the request of Industry Committee Administration Pty Ltd (**Industry Committee**) in connection with its application for authorisation on behalf of the shareholders of BPAY Holdco, the members of eftpos Payments Australia Limited (**eftpos**) and the shareholders of NPP Australia Limited (**NPPA**) (such shareholders and members together referred to as the **Applicants**) who were members of Industry Committee at all relevant times, and by NewCo once it is incorporated, to acquire shares in NewCo and for NewCo to acquire shares in each of BPAY Opco, eftpos and NPPA (the **Application**).

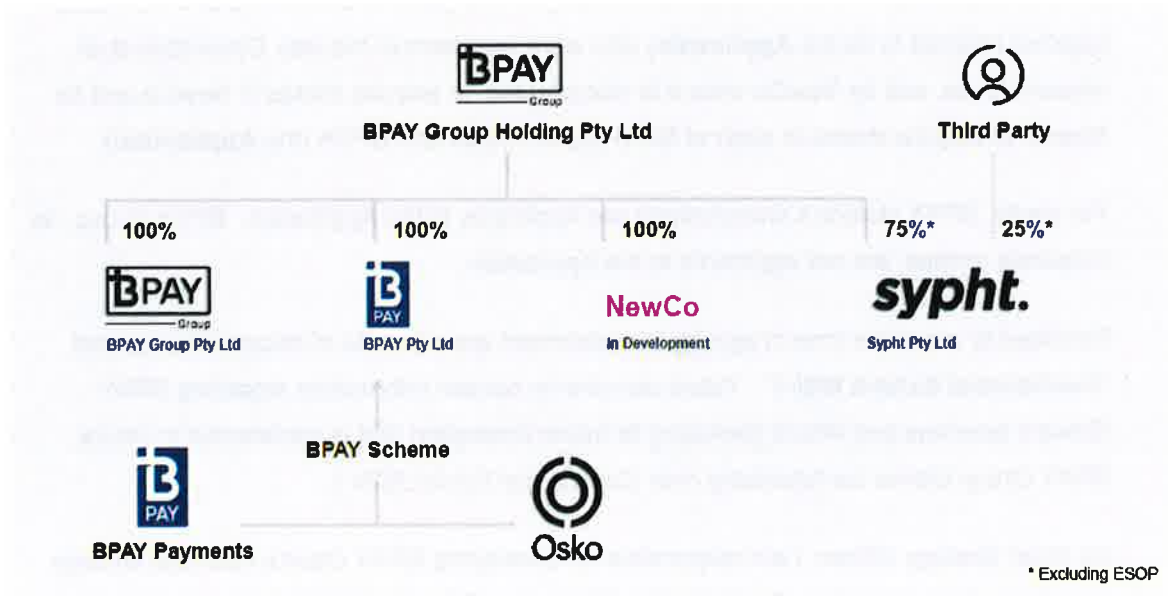
4 For clarity, BPAY Holdco's shareholders are Applicants to the Application. BPAY Group, as corporate entities, are not applicants to the Application.

5 Exhibited to me at the time of signing this statement are a bundle of documents, marked "**Confidential Exhibit MW-1**". These documents contain information regarding BPAY Group's business and affairs (including its future strategies) that is confidential in nature. BPAY Group claims confidentiality over Confidential Exhibit MW-1.

6 As Chief Strategy Officer, I am responsible for developing BPAY Opco's business strategy and plans. I report to John Banfield, Chief Executive Officer of BPAY Opco. I have been in my current role since July 2018. Prior to my current role, I was the Chief Development Officer of BPAY Group Pty Ltd between February 2014 and July 2018. I have been employed by BPAY Group Pty Ltd since 2005 in various roles.

7 The matters set out in this statement are based on my knowledge of BPAY Group's operations, my review of BPAY Group's business records, my participation in BPAY Group's Leadership Team, and my involvement with BPAY Group's business.

- 8 BPAY Group is a corporate group organised under a holding company, which enables partnership, expansion and innovation through multiple business lines.
- 9 BPAY Holdco is the holding company, under which both payments and non-payments related enterprises sit. BPAY Holdco is owned in equal parts by Australia and New Zealand Banking Group Limited ACN 005 357 522 (**ANZ**), Commonwealth Bank of Australia ACN 123 123 124 (**CBA**), Westpac Banking Corporation ACN 007 457 141 (**Westpac**), and National Australia Bank Limited ACN 004 044 937 (**NAB**). Each shareholder nominates a single director to BPAY Holdco's Board of Directors. **[Confidential to BPAY]**.
- 10 The BPAY Scheme is owned and operated by BPAY, with employees and related centralised services provided by BPAY Group Pty Ltd.
- 11 Syphpt Pty Ltd (**Syphpt**) is a joint venture majority-owned by BPAY Holdco. The balance of the shares are owned by a co-investor, with a small number held by Australian employees under an employee share plan. Syphpt is a company which provides a no-code AI service platform to customers. Syphpt will be excluded from the proposed amalgamation.
- 12 An illustration of the current BPAY corporate structure is set out below.



- 13 The management of BPAY Group is the responsibility of the Leadership Team. The Leadership Team comprises John Banfield (Chief Executive Officer), Hugh Frames (Chief Operating Officer), Angela Donohoe (Chief Information Officer), Keith Brown (General Manager, Product, Scheme and Business Development), Lucy Lithgow-Constable (General Manager, People & Culture), Renee Amor (General Manager, Marketing and Communication) and myself.

14 The Leadership Team is also responsible for developing business plans for the strategic direction for BPAY Group. The Leadership Team proposes the strategy and annual business plans to the BPAY Holdco Board of Directors. The strategy and associated initiatives are subject to the approval of the Board of Directors, represented by members nominated by each of the BPAY shareholders. Practically, this is then implemented through an annual business planning and budget cycle.

B. BPAY GROUP'S CURRENT STRATEGIES

15 BPAY Group's strategy is two-fold:

- (a) enabling the BPAY Scheme, discussed at paragraph 17, to thrive through simplifying payments for members, consumers and businesses to maximise the effectiveness of existing payments solutions that remain in high demand; and
- (b) creating value by diversifying payments into planned non-payment activities such as Syphnt and **[Confidential to BPAY]**, discussed at paragraph 20. This strategy is summarised in the diagram below.

BPAY GROUP 2025 | vibrant & vital to our employees, customers and partners



16 As part of BPAY Group's strategy:

- (a) BPAY Group's payments initiatives are focused on enabling the BPAY Scheme to thrive. These include simplifying BPAY access and processes (e.g. through APIs), accelerating BPAY payment notifications, enabling third party payment initiation and implementing Osko services 2 and 3 (described in paragraph 17 and 19 below).

- (b) BPAY Group's non-payment initiatives include **[Confidential to BPAY]**, providing a single access point for debits, invoices and out-of-bank payments, and enabling integrated payments for businesses.

C. BPAY GROUP'S CURRENT AND PLANNED SERVICES AND OFFERINGS

BPAY Group's current payments-related services

- 17 A summary of BPAY Group's current payment-related services and operations is set out below.
- (a) **the BPAY Scheme** is the payment service owned and operated by BPAY Opco. The BPAY Scheme manages the rules and operating procedures and reporting and collaboration between scheme members to ensure the services BPAY Payments, BPAY View, and Osko are ubiquitous in end customer experience. Members agree to the minimum standards and have the opportunity to provide competitive differentiation in the execution of the services in their own channels. BPAY Group provides the following services to the BPAY Scheme: marketing, brand strategy, research, customer training, expert product knowledge, business development, risk and compliance, and fraud monitoring. Over 150 financial institutions are members of the BPAY Scheme.
 - (b) **BPAY Payments** is an Australian electronic bill payment service that enables payments to be made through a financial institution's online, mobile or telephone banking facility to organisations which are registered billers. There are over 60,000 registered billers. The payment is initiated by the payer with their bank, rather than being debited or pulled by the biller, putting the payer in control of paying the bill. Customers can pay their bills by finding the BPAY biller code and Customer Reference Number (**CRN**) on their bill, logging in to their online or mobile banking, and selecting BPAY and their preferred account, then entering the BPAY details, amount and payment date. The process and infrastructure used to facilitate BPAY Payments is explained in paragraphs 23 and 25 below.
 - (c) **BPAY View** is a bill presentment service that delivers bills directly to a customer's online banking account. BPAY View sends bills straight to the same online banking environment that the customer uses to pay them, eliminating the risk of bills being misplaced in the mail or in email inboxes. Depending on the customer's bank, the customer will receive a convenient SMS, email or bank message reminder to pay their bill. This reminder message serves to make it easier for the customer to pay their bills on time.
 - (d) **Osko (Service 1)** is a payments service designed to facilitate real time transfer of funds between individuals or businesses account to account (**A2A**). It was the first

(and remains the only) overlay service on the NPP. It allows customers to make near instant payments from one bank account to another, either by using a BSB and account number or an NPP PayID.

(e) **BPAY APIs** allow billers to integrate their services with BPAY's network through publicly available application program interfaces (**APIs**). BPAY's APIs are used by Members, large Payers and Billers to simplify their integration with BPAY. BPAY currently has four APIs, with further APIs in development (which are outlined in paragraph 19(a) below). The four current APIs are:

- i Biller Lookup API, which allows the retrieval of biller details using a biller code or biller name;
- ii Validation API, which validates the details of a BPAY Payment to indicate whether the payment will be accepted for processing. This and the Biller Lookup API allows Members to avoid downloading the Biller Master File (described at paragraph 23(b) below) on a daily basis;
- iii Batch Generation API, which allows large Payers to batch their payments before submitting them to their Financial Institution; and
- iv CRN Generation API, which allows a Biller to create CRNs in the correct format, without the need for their own internal software, and for the generation of a QR Code for inclusion in an invoice.

18 Included in **Confidential Exhibit MW-1 at Tab 1** is a document which details BPAY's actual and forecasted transaction volume and value for BPAY Payments from the financial year ending 30 June 2011 to the forecasted financial year ending 30 June 2025.

BPAY Group's payment initiatives

19 A summary of BPAY Group's initiatives with respect to potential future payment services and operations include:

- (a) **Extension of the BPAY APIs**, including a Payment Submission API which allows Payer Institutions to submit payment instructions via an API. BPAY currently plans to release this initiative in April 2021;
- (b) **Osko Service 2 – payment with document** is a payment product that allows customers to receive a payment together with additional information (relating to the payment) at the same time. An example of this would be to receive a salary payment together with a payslip. BPAY currently plans to launch Osko service 2 in 2021; and

- (c) **Osko Service 3 – payment requests** is a proposed service that would allow a request to be sent to a payer, where the payer has the ability to choose when and how much of the request to pay. The payer is in control of the authorisation of the payment at their bank, rather than the requester, and could initiate a BPAY or Osko service 1 payment in response to the payment request. An example of this could be a yoga instructor sending a request to the class participants, giving the attendees the ability to see the payment request and respond after a class. For reasons described below, BPAY does not presently have a proposed launch date for Osko service 3.

BPAY Group's non-payments initiatives

20 A summary of BPAY Group's planned non-payment initiatives are:

- (a) **[Confidential to BPAY]**
- (b) **[Confidential to BPAY]**

21 BPAY Group has not yet determined if the planned non-payments related initiatives above will be included in the amalgamation, and a decision by the BPAY Holdco Board of Directors on this issue is expected in around May 2021.

D. BPAY EXISTING AND PLANNED INFRASTRUCTURE / TECHNOLOGY

22 BPAY's services and operations are primarily delivered as business-to-business (B2B) services to BPAY's members (typically financial institutions), who then provide services direct to their customers. There are a few exceptions to this, such as BPAY's APIs, which are made available directly to BPAY's customers.

23 BPAY essentially clears and processes a BPAY Payment using its infrastructure, which facilitates the creation of biller codes and CRNs, communication of payment details between financial institutions, and the calculation of net settlement positions, in the process set out below.

- (a) Each day, BPAY provides each member's financial Payer Institution, with a file, called the Biller Master File, that contains details of each Biller enabled for BPAY Payments.
- (b) Amongst other data, the Biller Master File contains the Biller's name, relevant Biller Code, format and validation information for their CRN and their Biller Institution (note, as described at paragraph 17(e)ii above, there is now also the ability for Payer Institutions to access this information via an API).
- (c) The Biller Institution details are used by the Payer Institution to identify their own Billers, payments which are usually processed internally, and also to assist where

they have a need to contact the Biller Institution (for example when there is a dispute or an unauthorised transaction).

- (d) At least twice each business day, (some Payer Institutions send files multiple times a day and on non-business days), the member Payer Institutions of BPAY send a batch file detailing the transactions initiated that day by their customers to BPAY's Central Interchange Processor (**CIP**).
- (e) The CIP is the entity that provides BPAY processing and associated services to the BPAY Scheme. A contract exists between BPAY Pty Ltd (the owner of the BPAY Scheme) and BPAY Group Pty Limited (the provider of the CIP services) for provision of these services.
- (f) At the end of each business day (some Biller Institutions receive multiple files a day and on non-business days) the CIP sorts the data and sends a batch file to each Biller Institution including details of all transactions made to their Billers.
- (g) The CIP also calculates the net amounts owing by each Participant Member to each other Participant Member and provides them with their settlement position within the Scheme.

24 A differentiating feature of BPAY Payments (compared to direct credit, direct debit and the international card schemes) for Billers is that it provides an efficient reconciliation process of "push" credit payments because the CRN that the Biller provides on their bill or invoice, together with the relevant Biller Code is validated by the Payer's Financial Institution at the time of entry by the Payer. This CRN is then passed through the BPAY system to the Biller allowing them to efficiently reconcile the payment with the original bill or invoice. In this way, BPAY Payments is differentiated from both direct credits (which do not provide similar reconciliation efficiency) and direct debits (which are less attractive for customers that wish to remain in control of their payments and also come with the risk for Billers of dishonoured payments).

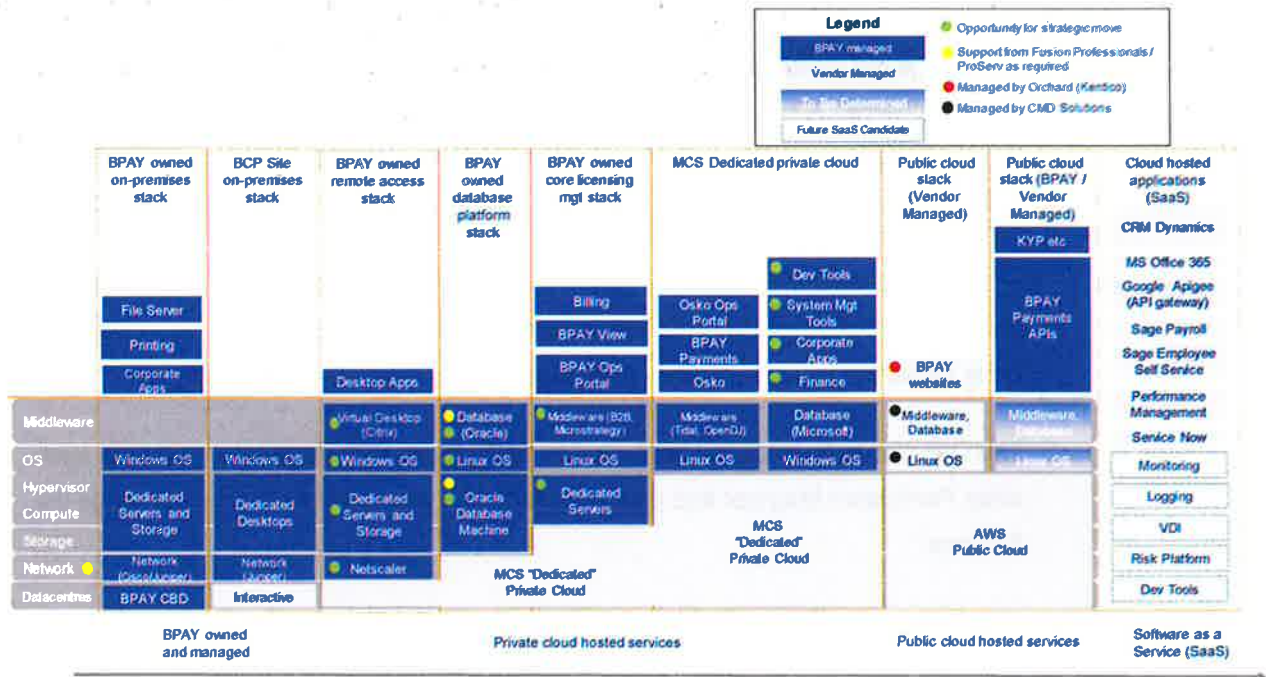
25 BPAY Payments are settled using this net settlement position using the direct entry (or DE) system each business day in the last Bulk Electronic Clearing System Framework (or BECS) settlement window (10:30pm).

26 This can be contrasted with A2A services offered by NPPA, pursuant to which NPPA clears and processes transactions *at the same time* as settlement using *the same infrastructure* (the NPP).

27 BPAY provides its services using a hybrid cloud platform, which incorporates a range of technologies including some owned and managed by BPAY Group and others which are

provided using both private or public clouds hosted by third parties (including Amazon Web Services) and cloud hosted applications.

28 This is illustrated in the diagram below. Each column in the diagram below refers to different BPAY technology operating models, and whether BPAY is providing those services on its own, or whether it is obtained from third parties.



29 BPAY is considering the potential of providing more services using public cloud platforms and cloud hosted applications (software as a service, or “SaaS”) rather than on BPAY owned and managed infrastructure. However, this depends on the nature of the service being offered and associated risks. BPAY will determine which infrastructure to use on a case-by-case basis.

30 For example, some services (such as employee performance management services) are better suited to a SaaS model where data sensitivity is low, functionality is commoditised, and non-functional requirements such as performance and availability are not critical.

31 However, it is more appropriate for BPAY to provide other services using its own infrastructure, for example services which have specific requirements (such as Payment Card Industry security standards) or other non-functional requirements which require dedicated infrastructure with associated controls.

32 BPAY’s technology infrastructure was designed and built for BPAY’s specific use and, accordingly, I am not aware of any request for access to the BPAY infrastructure to provide a new payment service since BPAY was established. This does not include instances where

BPAY establishes APIs for third parties to connect to the BPAY system to provide value added services to billers to assist billers with payment management.

Background to BPAY's development of services on the NPP

33 BPAY understands that:

- (a) The NPP was established in response to the Reserve Bank's strategic review of innovation in the payments system.
- (b) At that time, the Australian Payments Clearing Association established a Real Time Payments Committee comprising senior executives from Australian banks to develop a response to the Reserve Bank's review. This committee outlined the initial blueprint for NPP in their "Real Time Payments Committee: Proposed Way Forward" proposal, published around February 2013.
- (c) This proposal describes the business architecture of NPP and the separation of roles between the basic infrastructure operator (now NPPA), responsible for management and operation of the NPP infrastructure; and the overlay service providers (of which BPAY is the first) who would provide the products and services that operate on top of the basic infrastructure.
- (d) The proposal also foreshadowed the need for an initial convenience service to be implemented as the platform launched, thus providing an immediate customer proposition at launch.

34 BPAY understands that the proposal for the NPP outlined above included a competitive process for the provision of the basic infrastructure and for the initial convenience service.

35 In response to the competitive process, BPAY proposed three potential overlay services:

- (a) X2P – which was successful and became Osko;
- (b) small business invoicing and payments; and
- (c) real time BPAY.

36 Following the lengthy process governed by the NPP Steering Committee, BPAY was successful in being appointed as the initial convenience service provider. BPAY's proposed X2P service (now Osko), comprised three main features:

- (a) service 1: payments;
- (b) service 2: payment with document; and

(c) service 3: requests.

37 To confirm support for the initial convenience service, BPAY sought and received commitments from NPP Participants to implement the Osko services. Importantly, BPAY received sufficient commitments from Participants to all 3 Osko services to achieve the critical mass, network and reach necessary in order to give the services sufficient prospects of success in-market.

38 BPAY indicated to NPP Participants at the time that a condition of BPAY's proposal to deliver Osko services 1, 2 and 3 was that a critical mass (including ANZ, CBA, NAB and Westpac) of NPP Participants would implement all three Osko services.

39 The development of Osko service 1 design started in 2014, was finalised in mid-2015 and went live in February 2018 as the NPP went live.

40 Designs for Osko services 2 and 3 were completed in 2016 and 2017 respectively, before the NPP went live to its participating shareholders in October 2017, and then to the general public in February 2018.

41 BPAY's intention in 2018 was to continue implementation of the remaining Osko services. However, due to significant backlogs of work remaining from the initial NPP program and later work on NPPA's Mandated Payment Service (**MPS**) taking priority (described at paragraph 57), and challenges in securing funding to implement these services, sufficient participants withdrew their commitment to implement Osko services 2 and 3 to the agreed timetable, such that a critical mass of participants was no longer likely. As a result, the Osko stage 2 program was put on hold and implementation of the remaining Osko services stopped.

42 Currently, a proof of concept for Osko service 2 is to be developed by December 2021 with a subset of NPP Participants and a Federal Government agency.

43 Osko service 3 has been put on hold until after the launch of the MPS, with no current implementation date.

E. TOP 10 CUSTOMERS FOR EACH SERVICE, BASED ON ANNUAL REVENUES FROM THE CUSTOMER FOR THAT SERVICE IN THE LAST FINANCIAL YEAR

44 The table below outlines BPAY's annual revenue for BPAY Payments in financial year 2020.

[Table confidential to BPAY]

45 **[Confidential to BPAY]**

46 The table below outlines BPAY's annual revenue for Osko service 1 in financial year 2020.

[Table confidential to BPAY]

F. BPAY'S SERVICES AND PROVIDERS OF ALTERNATIVE SERVICES

- 47 Competition in the payments industry is dynamic, as there are significant product innovations and developments from various sources, including from overseas payments providers (such as international card schemes Visa and Mastercard) and large technology companies (such as Google and Apple).
- 48 Broadly speaking, while there are a significant number of alternatives for consumers and businesses to make payments, the various forms of payments have features that mean they are directed to particular circumstances or uses. For example, BPAY's services have features such as: generation and provision of biller codes and CRNs, communication of payment details between financial institutions and the calculation of net settlement positions, that are focused on providing a convenient means for bill payment. These services may overlap with other payment services functionality, but at the same time may be distinct in focus.
- 49 Set out below is BPAY's current overview of its services, alternatives to its services, and potential providers of alternative services.

BPAY Service	Current alternatives	Potential providers of alternatives
BPAY Payments	Direct entry debit Direct entry credit Credit cards (international card schemes including Visa, Mastercard, Amex) Debit cards (international card schemes including Visa and Mastercard) Australia Post NPPA's SCT payments PayPal Buy Now, Pay Later (BNPL) providers (e.g. Afterpay)	NPPA (e.g. MPS) SWIFT Big Tech (e.g. Facebook, Apple, Google) Overseas players (e.g. AliPay) BeemIt
BPAY View	Paper bills Email bills Biller direct presentment Subscription models (i.e. no bill)	NPPA's MPS Big Tech PayPal Overseas players
Osko	NPPA's SCT payments Cash Direct Credit	NPPA's MPS SWIFT Big Tech

	PayPal BeemIt International card schemes BNPL Google, Apple, Facebook	Overseas players
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Overlap between BPAY and eftpos

- 50 Historically, eftpos and BPAY have different use cases. Eftpos was traditionally used by customers to make in-store payments for retail purchases using a debit card. In contrast, BPAY was traditionally used by customers to pay their bills using their bank's online, mobile or telephone banking facility.
- 51 There is the potential for overlap between BPAY and eftpos with eftpos "card on file" service because usage for direct debit equivalent use cases (recurring card-not present circumstances) will overlap with BPAY Payments. However, given similarities with other existing card payment services, there is not likely to be a significant increase in overlaps with BPAY.
- 52 BPAY considers that its Osko service 3 request to pay model has a different available user base than eftpos card on file service, as it is designed to be available in peer-to-peer (**P2P**) and similar use cases, well beyond the traditional consumer-to-business (**C2B**) retail payments.

Overlap between BPAY and NPPA

- 53 There are two primary areas of potential overlap between BPAY and NPPA:
- (a) potential overlap between BPAY's Osko service 1 and NPPA's Single Credit Transfer (**SCT**); and
 - (b) potential overlap between BPAY Payments and NPPA's MPS service.
- 54 With respect to the overlap between Osko service 1 and NPPA's SCT:
- (a) The overlap between the two services is primarily a result of the expansion of the intent of SCT.
 - (b) As set out in the "Real Time Payments Committee Proposed Way Forward" proposal discussed at paragraph 33, the original business architecture of NPP outlined an intention for third parties to provide overlay services using the NPP infrastructure (in other words, services "on top of" the NPP), and that the role of NPPA would be to manage the NPP basic infrastructure. This proposal also outlined a requirement for

financial institutions to be able to use the NPP infrastructure without needing to use an overlay service, thus presenting an opportunity for NPPA to develop their own native business services.

- (c) In BPAY's view, the initial design of the NPPA implicitly contemplated facilitating a competitive market for overlay services. NPPA has now expanded its remit beyond provision of the NPP basic infrastructure to now provide business services of its own using the NPP, which is a direct alternative with BPAY's role as an overlay service provider.
- (d) The expansion of NPPA into the provision of business services in BPAY's view may create conflicting interests on the introduction of new initiatives. An early example of conflicting interests was the late introduction of the intention to create a consumer facing brand for the NPPA's addressing service (PayID). As a direct result the customer experience of Osko (which was the product created to launch the NPP to consumers), has been confused. Financial institutions have struggled to communicate to their customers, turning to BPAY Group to solve the confused customer experience.
- (e) The overlap between NPPA's business services and BPAY's overlay services is increasing as NPPA continue to expand the range and functionality of their business services.
- (f) BPAY understands the NPP is developing a number of category code message sets for bulk payment types such as CATSCT invoicing, CATSCT payroll, and CATSCT superannuation. While this expansion in the range and functionality of NPP services may provide opportunities for Osko (for example, Osko overlay services may be overlaid over the core SCT service or over any of these category code "CATSCT" message sets), it may also have other implications for Osko service 1 (for example, if most of the direct credit volume on the NPP moved to the SCT services, using Osko service 1 service level parameters, without using Osko service 1, one potential outcome is that Osko service 1 becomes a stranded asset).

55 With respect to the potential overlap between BPAY Payments and NPPA's MPS service - NPPA's MPS, currently under development, is to operate in subscription and direct debit services, which is a direct alternative to BPAY Payments, a bill paying service. If MPS is to be a standalone branded service offered in the market, it will be more than simply an infrastructure capability. It will also be available for use by financial institutions in communications with their customers about payment methods. As a significantly enhanced proposition from existing direct debit services, this is expected to materially increase its overlap with BPAY Payments.

- 56 For completeness, NPPA's MPS is quite different from BPAY's Osko service 3 requests, a future planned service:
- (a) Osko service 3 requests are designed so that the payer has an opportunity to receive the request at their own bank, choose which account to pay from, how much is paid and when it is paid. This is highly desirable as it leaves all control in the hands of the payer, rather than the payee (as is the case with MPS).
 - (b) Accordingly, Osko service 3 request to pay model has a different available user base than either NPPA's MPS service or the eftpos card on file service, as it is designed to be available in P2P and similar use cases, well beyond the traditional C2B retail payments.
- 57 As outlined previously at paragraph 41, given the potential overlapping capabilities of the BPAY and NPPA platform services, priority for service implementation and bank implementation funding between BPAY and NPPA, has resulted in priority currently being given to MPS, over Osko service 3.
- 58 As a result, BPAY Group has impaired the assets (Osko service 3) by approximately **[Confidential to BPAY]** with a further **[Confidential to BPAY]** to be impaired should Osko service 2 not proceed. This inability to improve the Osko value proposition has caused BPAY to forgo price increases to the estimated impact of **[Confidential to BPAY]** over FY21-25.

Potential overlap with NPPA and eftpos, post amalgamation

- 59 Subscription and recurring debit payments are a potential overlap with NPPA and eftpos which is likely to continue post-amalgamation.
- 60 However, it is unclear the extent to which these areas of potential competition will be impacted by the proposed amalgamation in the long term, given uncertainty of NewCo's strategy beyond the short term.

G. POLICY CONTEXT FOR PAYMENT CONSOLIDATION

- 61 On or around 19 June 2020, BPAY Group were invited to execute an Industry Committee Participation Agreement. Following execution of that document, BPAY Group's CEO, John Banfield, was invited to attend Industry Committee meetings as an observer only.
- 62 On or around 16 October 2020, the Industry Committee unanimously agreed a non-binding resolution, recommending an amalgamation of BPAY Group Pty Ltd and BPAY Pty Ltd with NPPA and eftpos and the establishment and operation of a new holding company.

- 63 BPAY Group internally considered the amalgamation, and the implications of the amalgamation on BPAY Group's business. This internal consideration is reflected in the following key business records of BPAY Group:
- (a) BPAY Strategy Update for Leadership Team, 7 August 2020 (**Confidential Exhibit MW-1 at Tab 2**);
 - (b) BPAY Group Shareholder Considerations – Industry Committee on Potential Consolidation, 14 September 2020 (**Confidential Exhibit MW-1 at Tab 3**);
 - (c) BPAY Group and Industry Consolidation – Discussion with Shareholders, September 2020 (**Confidential Exhibit MW-1 at Tab 4**); and
 - (d) BPAY Group and Industry Consolidation – Discussion with Shareholders, October 2020 (**Confidential Exhibit MW-1 at Tab 5**).
- 64 On or about 26 November 2020, the BPAY Group board passed a resolution to proceed with the amalgamation of BPAY Group Pty Ltd and BPAY Pty Ltd with NPPA and eftpos subject to certain conditions (including obtaining ACCC authorisation).

BPAY businesses excluded from the amalgamation

- 65 BPAY Group Pty Ltd and BPAY Pty Ltd will be included in the amalgamation. BPAY Holdco and SyphT are not intended to be included in the amalgamation.
- 66 **[Confidential to BPAY]**
- 67 Depending on the outcome of this decision, this may present a potential significant challenge to BPAY Holdco in that these projects are currently being executed by people in BPAY Opco, they are funded by BPAY Opco and they rely on BPAY Opco's assets, capability, corporate services and reputation to bring them to the market.
- 68 Currently, BPAY Holdco has none of these capabilities outside of BPAY Group Pty Ltd and would be required to establish these, either drawn from BPAY Group Pty Ltd's current capabilities, or through the establishment of a new entity (for example, an Innovation Co) to house these and future innovation projects.
- 69 Building this capability outside of BPAY Group will be challenging and will require material investment to replicate the credibility, breadth, depth and reputation that BPAY Group currently brings to these initiatives.
- 70 The likelihood of executing this capability outside of BPAY Group is uncertain. It is possible the amalgamation will likely extend the timelines for these initiatives and decrease their prospects of success.

Prescribed services

71 In the last 3 years, BPAY has mandated 2 changes relating to the Osko service, and 4 changes relating to the BPAY Payments service.

(a) The Osko mandates were:

- i Requirement to be able to send payments to BSB and Account Number by 01 February 2020; and
- ii Requirement to provide a "reference" field for all payments, and to pass it to the Payee by 01 October 2020.

(b) The BPAY mandates were:

- i Requirement for all members to support the latest version of transport layer security by 6 February 2018;
- ii Requirement for all members to be able to send and receive partial refunds by 7 August 2018;
- iii Requirement for all members to be able to meet the updated service level agreement for reporting of unauthorised payments by 30 July 2019; and
- iv Requirement for all biller institutions to update their biller agreements to match the latest version by 2 February 2021.

72 BPAY Group's initiatives require support from, and in many cases corresponding investment (in their own systems) by, its shareholder banks. Such investment and support are essential to the success of its initiatives. However, BPAY Group does not mandate its services to its shareholder banks (unlike other payment schemes). BPAY will only issue mandates in relation to its services that are already implemented by shareholder banks to ensure its service standards are consistent across its participants.

73 According to the implementation agreement entered into between BPAY Holdco, eftpos and NPPA on 10 December 2020 (**Implementation Agreement**), NewCo is obliged to support ongoing provision and development of the prescribed services, as defined in the Implementation Agreement. However, the Implementation Agreement does not require BPAY shareholder banks to implement any prescribed service or govern how the prescribed service will be implemented.

74 BPAY does not have any separate arrangements with its shareholder banks that mandate shareholder banks to implement any BPAY related prescribed services. Therefore, if the

amalgamation proceeds, there is no certainty banks will implement BPAY's prescribed future services set out in the Implementation Agreement.

H. CONSEQUENCES OF AMALGAMATION FOR BPAY GROUP

75 BPAY Group has extensively considered the consequences of the proposed amalgamation on BPAY Group and its businesses. Its considerations are set out in detail in the Confidential Exhibits referred to in paragraph 63 above.

76 If the amalgamation were to proceed, potential consequences for BPAY Group's business include:

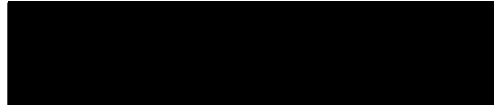
- (a) The increased potential and ability for industry coordination to prioritise and implement payment services. This increased coordination may reduce the risk to BPAY of stranded investments or false starts. As described in paragraphs 57 and 58 above, as a result of the lack of industry coordination and competing priorities, BPAY Group has impaired some of its Osko assets. There may also be areas of innovation that would improve with better industry coordination. For example, the amalgamation may assist in the potential migration of BPAY payments to real time on the NPP or development of standards for QR codes in the payment industry.
- (b) The amalgamation may also raise material challenges for BPAY Opco's business. The amalgamation will cede decision-making with respect to BPAY Opco's business to NewCo's governance and strategy. BPAY Opco will be faced with the challenge of competing with other priorities within NewCo for the investment and support for its business plans, strategies and innovations identified in paragraphs 19 and 20 above. This may result in BPAY Opco's potential future initiatives in line with its current business strategy (that are not prescribed services within the meaning of the Implementation Agreement) not being prioritised. This may reduce BPAY Opco's ability to offer new services in market.
- (c) As noted in paragraphs 67 and 70, depending on the structure of NewCo, there may be material challenges and risks to BPAY Group's capability to innovate following the amalgamation.

77 If the amalgamation did not proceed, potential consequences for BPAY Group's business include:

- (a) BPAY Group will continue to operate and be governed by its shareholder approved current 5-year strategic roadmap, as developed in late 2019. This is discussed in detail at paragraph 15 to 16(b).

- (b) In addition, as set out in Confidential Exhibits referred to in paragraph 63 above, BPAY would continue to explore ways in which to achieve the benefits of industry coordination absent the amalgamation.

Signed on behalf of BPAY Opco by

A large black rectangular redaction box covering the signature of the person on behalf of BPAY Opco.

Name Mark Williams, Chief Strategy Officer of BPAY Group Pty Ltd and BPAY Pty Ltd
Date 16 March 2021