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**Re: Proposed amalgamation of BPAY Group Holding Pty Ltd, BPAY Group Pty Ltd, BPAY Pty Ltd (together, BPAY), eftpos Payments Australia Limited and NPPA Australia Limited**

Statement of: Coles Group Limited, signed by Paul Askew, General Manager - Financial Services

Date: 17 March 2021

**This document contains confidential information which is indicated as follows:**

**[Confidential to Coles]**

**[Confidential to third parties]**

Contents

<b>A.</b>	<b>INTRODUCTION.....</b>	<b>4</b>
<b>B.</b>	<b>COLES .....</b>	<b>4</b>
	B.1 Role as a Merchant.....	4
	B.2 Role as a Self-Acquirer .....	5
	B.3 Role as an Acquirer for Third Party Merchants .....	6
<b>C.</b>	<b>COLES' USE OF PAYMENT METHODS/SERVICES .....</b>	<b>6</b>
	C.1 Coles' current membership of EPAL.....	7
	C.2 Coles' current use of EPAL's services.....	8
	C.3 Why eftpos is important to Coles .....	8
	C.4 Coles' proposed use of further EPAL services .....	9
	<b>C.5 [Confidential to Coles].....</b>	<b>9</b>
	C.6 eftpos and LCR .....	10
	C.7 Coles' use of NPP's services.....	12
	C.8 Coles' use of BPAY's services.....	12
	C.9 Coles' assessment of payment services .....	12
<b>D.</b>	<b>THE FUTURE OF AUSTRALIA'S PAYMENTS INDUSTRY .....</b>	<b>12</b>
<b>E.</b>	<b>POTENTIAL BENEFITS FROM THE PROPOSED AMALGAMATION .....</b>	<b>15</b>
	E.1 Industry commitment to eftpos and card-based payments.....	15
	E.2 More balanced governance framework for Australia's domestic payments .....	17
	E.3 Reduced costs for retailers .....	18
	E.4 Increased ubiquity and network effects in payments services .....	18
	E.5 Increased competition with the ICS and major international technology companies .	19
<b>F.</b>	<b>[CONFIDENTIAL TO COLES].....</b>	<b>20</b>
<b>G.</b>	<b>COUNTERFACTUAL .....</b>	<b>21</b>

**Non Confidential Version**

**Exhibits**

Tab number	Details	Paragraph
<b>Confidential Exhibit 1</b>		
1.	<b>[Confidential to Coles]</b>	26
2.	<b>[Confidential to Coles]</b>	61
3.	<b>[Confidential to Coles]</b>	62
4.	<b>[Confidential to Coles]</b>	159
5.	<b>[Confidential to Coles]</b>	160

**A. INTRODUCTION**

1 I am the General Manager of Financial Services of Coles Group Limited (**Coles**) and I am authorised to make this statement on Coles' behalf.

2 This document has been prepared in support of the application by Industry Committee Administration Pty Ltd for authorisation on behalf of the shareholders of BPAY Group Holding Pty Ltd ACN 626 481 525, the members of eftpos Payments Australia Limited ACN 136 180 366 (**EPAL**) and the shareholders of NPP Australia Limited ACN 601 428 737 (**NPPA**) who were members of the Industry Committee (**IC**) 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 Group Pty Ltd ACN 003 311 644 and BPAY Pty Ltd ACN 079 137 518 (together **BPAY**), EPAL and NPPA (each an **OpCo** and together the **OpCos**).

3 Now produced and shown to me at the time of swearing this statement are a bundle of documents marked "**Confidential Exhibit 1**". Coles claims confidentiality over the documents and information included in Confidential Exhibit 1.

4 The matters set out in this statement are based on my knowledge of Coles' operations, my review of Coles' business records, my participation in Coles' Management Team, my involvement in Coles' business, my participation in the IC process and my knowledge of the payments industry in Australia.

**B. COLES**

**B.1 Role as a Merchant**

5 Coles is a leading Australian retailer, selling everyday products to consumers including fresh food, groceries, general merchandise, and liquor, through its extensive retail store network and online platforms.

6 Coles also:

(a) sells convenience products and is a commission agent for retail fuel sales operating under the Coles Express brand, pursuant to its alliance with Viva Energy; and

(b) sells financial services via white label arrangements with financial services partners and is a 50% shareholder of flybuys, a loyalty program covering more than six million active households.

7 Coles operates some of Australia's most well recognised brands, including Coles, Coles Local, Coles Express, Liquorland, First Choice Liquor Market and Vintage Cellars.

8 Coles operates and maintains more than 2,400 retail stores nationally across its businesses (at which point of sale transactions are made by consumers) and employs more than 118,000 team members.

9 Coles also sells products to consumers through its online platforms, with payments made for such products by consumers using online payment mechanisms.

10 Coles was demerged from Wesfarmers in November 2018. Prior to that time, Coles was a related body corporate of other leading Wesfarmers brands including Kmart, Target, and Officeworks.

## B.2 Role as a Self-Acquirer

11 Coles owns and operates its own card acceptance capability, which I describe in more detail below.

12 An “**Acquirer**” is a participant in a payments scheme which provides services to a third-party merchant to allow the merchant to accept card payments. A “**Self-Acquirer**” is defined by the RBA as a merchant (or related body corporate of a merchant) that sends transactions directly to schemes rather than through an Acquirer, and otherwise takes on card acceptance responsibilities usually undertaken by an Acquirer.

13 Since 1992, Coles has owned and/or operated its own card acceptance capability, in order to manage and control the acceptance of card-related payments for transactions made both in-store and on Coles’ online platforms, without using an intermediary Acquirer in order to process the card transaction **[Confidential to Coles]**. This is in contrast with most other Australian retailers/merchants who deal with the schemes and process card transactions indirectly through an Acquirer.

14 The Coles infrastructure which enables it to manage and control card acceptance without an intermediary Acquirer comprises:

- (a) a switch (a high availability platform which facilitates communication between different payment service providers) together with a secondary back-up switch in the event of failure of the primary switch;
- (b) a settlement reconciliation and charge back system and process;
- (c) payment terminals/PIN pads in store; and
- (d) a payment gateway for Coles’ online businesses.

15 In short, the payment terminals/ PIN pads connect to a Coles data centre, which manages switching and interfacing with the schemes to enable real-time authorisation of transactions and

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deduction of funds from a customer's account, and subsequent netting off with the schemes for settlement and processing.

16 The infrastructure which Coles uses in its card acceptance capability includes some hardware and software supplied by third parties. For example, Ingenico has been Coles' payment terminal provider for over five years.

17 Coles processes transactions through an RBA settlement account at **[Confidential to Coles]**.

18 **[Confidential to Coles]**.

19 Coles is an active participant in industry forums such as the Australian Payments Council and Australian Payments Network.

20 As a consequence of the matters set out above, Coles' relationship with each of EPAL (which operates the Australian domestic card scheme, eftpos (**eftpos**)) and the international card schemes such as Visa, Mastercard, Diners Card, American Express and Union Pay (referred to in this statement as the **ICS**), is, for all intents and purposes, as an Acquirer.

21 **[Confidential to Coles]**.

### **B.3 Role as an Acquirer for Third Party Merchants**

22 **[Confidential to Coles]**.

23 From March 2018 when the demerger from Wesfarmers was announced, through to 18 November 2018 when the demerger took effect, Coles worked with all card schemes and relevant contracting parties to establish the appropriate licences and arrangements to allow Coles to act as an Acquirer for third party merchants in its own right, in addition to continuing operations as a Self-Acquirer. **[Confidential to Coles]**.

24 **[Confidential to Coles]**:

(a) **[Confidential to Coles]**;

(b) **[Confidential to Coles]**;

(c) **[Confidential to Coles]**.

### **C. COLES' USE OF PAYMENT METHODS/SERVICES**

25 Coles supports the following payment methods for transactions made in-store and online:

(a) both in its capacity as merchant/Self-Acquirer and as an Acquirer for third parties, the following cards:

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- i American Express
  - ii Diners (in-store only, not accepted online);
  - iii Discover;
  - iv eftpos (in-store only, not accepted online);
  - v JCB;
  - vi Mastercard;
  - vii UnionPay; and
  - viii Visa,
- (b) as a merchant, Coles also accepts payments made using:
- i cash;
  - ii fuel cards (Motorpass/Motorcharge and ShellCard);
  - iii Coles proprietary cards;
    - (A) Coles Group & Myer Gift Cards;
    - (B) Coles Group Account Card; and
  - iv PayPal.

26 **[Confidential to Coles].**

27 **[Confidential to Coles].**

28 As card transactions represent a majority of transactions for Coles (as a merchant, Self-Acquirer and Acquirer), Coles sees card transactions (and eftpos) as critical in the short to medium term.

### **C.1 Coles' current membership of EPAL**

29 Coles has been a member of the eftpos scheme since its formation as a card scheme in 1983. Shane Harris (Head of Payments at Coles) is currently a director of EPAL. I am Shane Harris' alternate director on the EPAL board.

30 Coles is eligible for membership of EPAL on the basis that it operates as a Self-Acquirer of eftpos scheme transactions and as a provider of Acquiring services to others. Coles therefore processes and settles directly with EPAL rather than via an intermediary Acquirer such as a bank.

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31 Coles' membership votes in EPAL fluctuate based on transaction volume at any point in time (including volume derived from transactions in Coles' stores and from the acquiring services Coles provides to third parties).

### C.2 Coles' current use of EPAL's services

32 Coles presently uses eftpos' primary services of transaction processing, settlement and reporting.

33 **[Confidential to Coles].**

34 **[Confidential to Coles].**

35 The eftpos services currently only support card transactions made in Coles' retail stores (as eftpos does not currently support transactions made by consumers on Coles' online platforms). Therefore, Coles is not currently able to process eftpos transactions **[Confidential to Coles]** online.

36 As discussed below, the amalgamation is intended to accelerate any work needed to bring eftpos online capability to market. **[Confidential to Coles].** Coles considers these commitments to the Prescribed Services to be essential and these were a key reason for Coles supporting the amalgamation.

37 **[Confidential to Coles].**

### C.3 Why eftpos is important to Coles

38 Coles sees eftpos as critical (both to its own business and for the broader Australian payments ecosystem) for a number of reasons:

39 Coles' view is eftpos functions as a critical mechanism to ensure an ongoing competitive marketplace in Australia, **[Confidential to Coles].**

40 Coles is also supportive of eftpos' strategic roadmap (see C.4 below) and sees certain proposed products and services within that roadmap to be important to Coles and the broader payments industry.

41 EPAL holds a unique position as an Australian company that operates as a not for profit (in comparison to many of the ICS, which are public foreign companies listed on overseas stock exchanges). The ICS are therefore not necessarily solely focussed on (or regulated by) the Australian jurisdiction. Coles would be very concerned there was a sovereignty risk to Australian Acquirers, merchants and customers if the Australian payments industry was solely reliant on these foreign companies.



**C.4 Coles' proposed use of further EPAL services**

42 Coles has had various discussions in recent years with EPAL on its future strategic roadmap (eftpos roadmap), including and most recently when EPAL management presented to the IC.

43 Coles supports EPAL's strategy set out in the eftpos roadmap.

44 **[Confidential to Coles]**. Currently, most online, in-app and digital wallet transactions at Coles are processed through the ICS, **[Confidential to Coles]**. In circumstances where more transactions are being made by consumers using these methods, **[Confidential to Coles]**.

*Online*

45 Coles considers there have been a number of challenges with the development and deployment of eftpos online, **[Confidential to Coles]**.

46 **[Confidential to Coles]**.

47 **[Confidential to third parties]**.

48 **[Confidential to third parties]**. **[Confidential to Coles]**.

49 EPAL will only be able to successfully compete with the ICS in online and digital payments if there is a significant adoption of the eftpos payment system by online merchants (including Coles). **[Confidential to Coles]**.

50 **[Confidential to Coles]**.

51 **[Confidential to Coles]**.

*QR Code*

52 I also understand from discussions with EPAL that EPAL is presently developing a QR code payment solution and standards, to enable eftpos' acceptance of in-store and online transactions using QR codes. Coles is also considering how to best integrate QR code payments systems into its payment acceptance capability.

*Mobile Wallets*

53 Coles is also interested in the expansion and further deployment of eftpos within mobile wallets (ApplePay and SamsungPay), which I understand is a service currently offered by eftpos but that has not yet been made available by all card issuers **[Confidential to third parties]**.

**C.5 [Confidential to Coles]**

54 **[Confidential to Coles]**.

55 [Confidential to Coles].

56 [Confidential to Coles].

57 [Confidential to Coles].

58 [Confidential to Coles]:

(a) [Confidential to Coles];

(b) [Confidential to Coles];

(c) [Confidential to Coles];

(d) [Confidential to Coles];

(e) [Confidential to Coles];

(f) [Confidential to Coles]; and

(g) [Confidential to Coles].

#### C.6 eftpos and LCR

59 LCR is a system where transactions made using multi-network debit cards are processed on the cheapest of the payments networks attached to the card.

60 [Confidential to third parties].

61 [Confidential to Coles].

62 [Confidential to Coles].

[Confidential to Coles]

63 [Confidential to Coles].

64 [Confidential to Coles].

65 [Confidential to Coles].

66 [Confidential to Coles]:

(a) [Confidential to Coles];

(b) [Confidential to Coles]; and

(c) [Confidential to Coles].

[Confidential to Coles]

67 [Confidential to Coles].

68 [Confidential to Coles].

69 [Confidential to Coles].

70 [Confidential to Coles].

71 [Confidential to Coles].

[Confidential to Coles]

72 [Confidential to Coles].

73 [Confidential to Coles].

74 [Confidential to Coles].

75 [Confidential to Coles].

76 [Confidential to Coles].

77 [Confidential to Coles].

78 [Confidential to Coles].

79 [Confidential to Coles].

[Confidential to Coles]

80 [Confidential to Coles].

81 [Confidential to Coles].

82 [Confidential to Coles].

[Confidential to Coles]

83 [Confidential to Coles].

84 [Confidential to Coles].

85 [Confidential to Coles].

86 **[Confidential to Coles]**. Critically, there are certain categories of transactions where EPAL does not currently compete with the ICS (**[Confidential to third parties]**) as EPAL does not currently have fully deployed capabilities to process these transactions. In Coles' view, the absence of EPAL's presence as a competitor for these transactions has resulted in increased costs for these transactions for participants of the Australian payments industry, including Coles. Coles sees the inclusion of the Prescribed Services in the Implementation Agreement, and the delivery and deployment of these services, as critical in ensuring the ongoing viability of EPAL, and therefore ongoing competition to the ICS.

87 Notwithstanding the changes set out at paragraph 85 above, if EPAL's longevity is not sustained, and EPAL is unable to provide competitive tension to the ICS, in my view the inevitable result will be increased transaction costs for Acquirers, with a potential domino effect to merchants and consumers (i.e., a reversal of the recent trends for certain types of transactions).

#### **C.7 Coles' use of NPP's services**

88 Coles does not presently use any products offered by NPP or the NPP account-to-account (A2A) infrastructure.

89 **[Confidential to Coles]**.

#### **C.8 Coles' use of BPAY's services**

90 Coles does not presently use BPAY's payments services as these services are developed for bill payments rather than retail payments, **[Confidential to third parties]**.

#### **C.9 Coles' assessment of payment services**

91 When assessing existing or new payment services, Coles considers a number of factors, including:

- (a) whether and how the service optimises the customer experience;
- (b) cost of the service (both to deploy initially and on an ongoing basis);
- (c) the complexity of the service (both for integration and on an ongoing basis); and
- (d) the likely scale of use for the service (i.e., expected volumes).

### **D. THE FUTURE OF AUSTRALIA'S PAYMENTS INDUSTRY**

92 Coles sees the following as key trends for the future of Australia's payments industry (in respect of retail transactions):

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- (a) growth in consumers interacting with merchants online, as well as consumers becoming more comfortable with digital payment solutions (both instore and online) rather than a physical payment solution (e.g., utilising digital wallets as opposed to physical cards); and
- (b) new products and services are emerging that provide an overlay to the existing payment processing "rails".

93 In support of these trends, Coles currently sees development in the following products and services areas as part of the evolution of the payments ecosystem for retail payments:

- (a) tokenisation (both by enabling secure storage and processing of card payments, as well as enabling life cycle management under the customers control);
- (b) digital wallets, including Apple Pay, Samsung Pay and SRC (as defined below);
- (c) authentication measures and fraud protection for online payments (such as 3-D Secure);
- (d) digital ID;
- (e) QR code solutions; and
- (f) buy now, pay later services.

94 Coles will always consider adopting new payments technologies, based on its assessment of a number of factors, including those set out at section C.9 above.

### *Digital wallets*

95 Digital wallets have traditionally been utilised for instore transactions but are becoming more mainstream for online shopping. Coles considers it likely that the need for consumers to enter sensitive card details online may become redundant in the near future. An example of the technology that would underpin this is SRC (as defined below).

96 Coles understands that Mastercard, Visa, Amex and UnionPay are adopting Secure Remote Commerce (**SRC**), to be marketed as "click to pay", which would remove the need for sensitive card information to be provided by the customer or stored by the merchant for online transactions. Coles expects SRC would also provide services that improve the merchant experience (e.g., by managing the lifecycle of the card number, such as when it expires or if the physical card is stolen), while improving consumers' experience (e.g., by allowing the consumer to control who has access to their payment information).

97 Coles understands SRC was a result of Visa Checkout, Mastercard Masterpass and other ICS working together on a program to improve security controls and the consumer experience, which has allowed for lifecycle management and additional fraud protection. This appeals to merchants such as Coles as it simplifies the process of integrating each of the ICS' solution with only one integration by Coles, improving both the merchant and user experience while giving them benefits and controls that are not possible with other payment solutions. This also disincentivises the merchant from adopting additional integrations with individual schemes.

98 In Coles' view, SRC, which is effectively a digital wallet much like PayPal, Apple Pay and Google Pay, could scale at pace, and provide compelling user experiences for consumers and merchants alike. I expect that most payment schemes will add SRC capability and that it will attempt to be the one solution for online checkout transactions.

99 [Confidential to third parties].

#### *Fraud protection*

100 With the rapid growth in online transactions, Coles also considers there to be a strong need for the payments industry to focus on how it will protect this channel against fraud, while also providing consumers and merchants with appropriate payment solutions.

101 [Confidential to third parties].

#### *QR Codes*

102 In terms of other innovation, I expect that alternative solutions will emerge that will implement QR code-based products that bypass Near-Field Communication (such as **NFC**) technology owned and controlled by large international technology platform providers (Apple, Google) and the resulting cost (including as a result of certain technology platforms restricting access to their NFC technology and charging card issuers for access to digital wallets).

103 I understand from the eftpos roadmap and discussions with EPAL, that EPAL is working on a QR code based payments solution, [Confidential to third parties].

104 However, I also expect that the offerings provided by the large international technology providers (such as Apple and Google) will continue to maintain substantial market share in respect of the volume and value of transactions made using mobile devices (in comparison to emerging QR code solutions), due to their greater degree of control over the customer experience and customer data.

105 In order to encourage users to move from the existing NFC contactless solutions (e.g., ApplePay) to QR code-based solutions, new App providers will need to provide a greater value proposition to the customer and retailer (such as adding loyalty products to the payment

solution). Continuing to leverage the existing card infrastructure will, however, allow for ease of access and the ability to scale these new Apps quickly.

106 **[Confidential to third parties].**

107 **[Confidential to third parties].**

108 As noted at section E.4, Coles has observed various challenges with the development and deployment of similar solutions by various industry participants, which Coles expects will be (at least in part) mitigated by the amalgamation.

109 Given card payments have had decades to enable enhancements that allow for full end to end reconciliation via a single payment, Coles considers further consideration of the fragmentation, costs and complexity of adding new and additional payment solutions outside of cards needs to be assessed. This is something that the amalgamated entity could support. **[Confidential to Coles].**

## **E. POTENTIAL BENEFITS FROM THE PROPOSED AMALGAMATION**

### **E.1 Industry commitment to eftpos and card-based payments**

110 Coles considers that it is critical for EPAL to be a viable domestic competitor to the ICS, particularly in the short to medium term where card transactions are essential to retail payments at Coles.

111 To effectively compete with the ICS, further investment and innovation is required in eftpos and other card-based payments by participants in the Australian payments industry.

112 **[Confidential to Coles].** In many respects, eftpos has fallen behind the ICS in terms of product offerings and capabilities (e.g., eftpos online)

113 The Implementation Agreement for the amalgamation includes a commitment by each of EPAL, BPAY and NPP to ensure delivery of the Prescribed Services **[Confidential to third parties].** The Prescribed Services include critical elements of eftpos' roadmap, **[Confidential to third parties].**

114 The inclusion of these Prescribed Services in the Implementation Agreement, and the governance framework of NewCo, creates short term certainty that EPAL will be a meaningful competitive alternative to the ICS. In Coles' view, this is an important benefit of the amalgamation and was critical to Coles' support of the amalgamation.

115 In Coles' view, the industry commitment to the Prescribed Services will result in each of those eftpos services being delivered to market sooner than without the amalgamation. While EPAL has already started work necessary to implement certain of the Prescribed Services pursuant



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to the eftpos roadmap ([Confidential to third parties]), I have observed necessary stakeholders have not consistently supported these new eftpos services, which has resulted in uncertainty and delay in eftpos delivering these services to market. [Confidential to third parties].

116 From Coles' perspective, the IC process and the agreed terms of the proposed amalgamation secured the necessary support and deployment momentum for the eftpos related Prescribed Services from all industry participants which had not previously been forthcoming.

117 The development by EPAL of the technological capability to offer a service is only the beginning of the process to effectively deploy a service across the Australian payments ecosystem. Action is required by members of EPAL to deliver the services to merchants and cardholders so that ultimately the service becomes widely available, useful, and lowers the cost of processing.

118 [Confidential to third parties]. [Confidential to Coles].

119 [Confidential to Coles]. The amalgamation provides a more efficient process for mandating services, giving EPAL the ability to mandate services with widespread industry support in areas where EPAL currently lacks the ability to effectively compete with the ICS ([Confidential to third parties]).

120 [Confidential to third parties], it also provides the industry with certainty with scheduled implementation timelines. [Confidential to Coles].

121 Over the medium to long term, Coles considers that NewCo is well placed to determine EPAL's future and how best to serve the Australian payments industry through greater alignment in the payments sector around future use cases and initiatives, including Digital IDs and fraud prevention. In addition to certainty of implementation timelines, the amalgamation will enable ubiquity for future services to drive scale and adoption.

122 In terms of new innovation, the Directors of NewCo will, at the appropriate points in time, consider the technology required to support a particular new innovation and select the right vehicle (i.e., BPAY, EPAL or NPP) for the development and deployment of this innovation. This can be contrasted with the present structure, where the directors of BPAY and NPPA are only required to consider what is in the best interests of BPAY and NPP, respectively.

123 Currently, BPAY's and NPPA's services are not used by Coles. Accordingly, Coles gaining an interest in BPAY and NPPA was not a significant factor in Coles supporting the amalgamation. However, we are hopeful that broader participation and support of NewCo, as well as having a single board overseeing the three entities, will enable lower cost and more innovative services, which may become available to Coles and other retailers in the future.



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- 124 In the medium to long term, the amalgamation will give NPPA and BPAY the ability to develop and provide other solutions that may be relevant for retailers, and for retailers such as Coles to have input into those solutions. Importantly, this input from Coles and other retailers is possible due to the more balanced governance structure of NewCo (both board and proposed user participant committees)
- 125 Further, as noted at paragraph 106 above, there is currently overlap between the three companies on certain services ([Confidential to third parties]) and we expect that this new innovation will be delivered more efficiently as part of a merged entity (than if the three entities remained separate). In Coles' view, the three companies each individually seeking to develop [Confidential to third parties] solutions has not resulted in a solution being brought to market faster.
- 126 [Confidential to Coles].
- 127 In my view, EPAL's status as a company limited by guarantee that cannot distribute profits has assisted eftpos to remain a low-cost operator in competing with the ICS. It was therefore important to Coles that the governance arrangements for NewCo have some form of mechanism to ensure eftpos' revenue (generated in part from retailers) is used primarily to support EPAL' in delivering its strategic roadmap and remaining a viable competitor to the ICS, at least in the short term and until such time that the viability of NPP/A2A based payments for retail had been demonstrated and had sufficient time to be deployed. [Confidential to Coles].

### E.2 More balanced governance framework for Australia's domestic payments

- 128 All Directors and shareholders have equal voting rights in NewCo.
- 129 The governance structure of NewCo ensures that non-bank participants, including Coles, in the payments industry will have greater influence on the decisions of the merged entity than they do presently in respect of the three separate entities.
- 130 In particular, the governance structure for NewCo is a significant departure from, and in Coles' view, a significant improvement on, the existing governance structure of EPAL, pursuant to which the bank members of EPAL exercised substantial influence.
- 131 An entity which has a more balanced director composition and shareholder voting rights is, in Coles' view, in the interests of all parties in the Australian payments ecosystem. It is in the interests of all parties that the amalgamated entity considers a strategy for all participants in the Australian payments ecosystem, rather than a strategy which is favoured by a particular sector (for example, a strategy favoured by the major Australian banks).
- 132 [Confidential to Coles].

133 In my view, the governance arrangements allow for non-bank participants to offer perspectives and advocate for lower costs for merchants (and, as a consequence, lower costs for consumers). In my experience, these costs are not usually a primary concern for banks as the banks are not typically responsible for paying them.

### **E.3 Reduced costs for retailers**

134 Coles anticipates the amalgamation will have the effect of increasing the speed to which new payment solutions are brought to market and potentially reducing the cost of payments processing systems to providers and users of payment systems.

135 Reduced costs may come in the form of continued lower overall payment acceptance costs (including through competition between EPAL and the ICS) and greater competition among Acquirers (both traditional and new to market) as they compete on price as well as on other new innovations (including adjacent services for merchants – such as full integration to accounting services, or ability for merchants to grow their business through loyalty programs).

136 I expect delivery of the Prescribed Services by NewCo, **[Confidential to Coles]**, will benefit all retailers (including Coles) as it will create competition at the scheme level, which may make scheme fees more competitive. **[Confidential to Coles]**. The expectation would be that the merchants are the beneficiary.

137 As a Self-Acquirer, Coles is able to assess all fees and costs charged directly by the various schemes, in contrast to other retailers that do not have this capability, that will need to work with their own third party Acquirers to determine the best strategy to minimise costs. Based on published industry pricing and RBA references, I expect that providing small retailers with the potential to LCR or accept eftpos online will ultimately help lower their costs, and, over the long term, all retailers (regardless of size or acquiring capabilities) will benefit from strong competition in the market between ICS and domestic alternatives (i.e., the amalgamated entity).

### **E.4 Increased ubiquity and network effects in payments services**

138 In determining whether to implement and integrate a new payments solution, a key consideration for Coles is how complex, costly and time-consuming it would be to integrate the new solution with the retailer's existing payments infrastructure.

139 In Coles' view, the amalgamation can facilitate a cohesive and concerted strategy for "rails" within the Australian payments landscape, whilst also allowing for greater participation and innovation with overlays to these rails.

140 An aligned approach to innovation that allows for the development and deployment of new payment solutions by one entity (as opposed to three, **[Confidential to third parties]**) should reduce costs to all industry participants. This is because scale can be achieved quickly with

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volume targeted to the one scheme, resulting in fractionalisation of the costs of providing this technology sooner than if different technological solutions were being provided by multiple schemes to solve the same problem. The single solution will also likely result in a greater participation rate across the Australian payments participants, and therefore ultimately benefit customers generally through greater confidence and convenience in making payments.

141 [Confidential to Coles].

142 In Coles' view, [Confidential to Coles].

143 Currently, there are many different [Confidential to third parties] solutions from multiple entities, making it difficult for any one of these to reach the ubiquity and scale required to be successful. In Coles' view, the development of [Confidential to third parties] solutions from multiple entities has not necessarily resulted in better payment solutions coming to market more efficiently. [Confidential to third parties].

144 With an amalgamated entity, the industry would have an opportunity to assess the most effective [Confidential to third parties] solution in the interests of all stakeholders. [Confidential to Coles]. Coles is also concerned that having multiple [Confidential to Coles] solutions would also add additional complexity to an already complex network of payments.

145 The proposed amalgamation should also assist in providing an entity through which the industry can create one set of standards [Confidential to Coles].

146 [Confidential to Coles]. One set of standards will be valuable to retailers, as it allows retailers to set up their systems according to those standards, which also creates a consumer benefit in terms of ubiquity of use, while minimising consumer and retail worker confusion.

### E.5 Increased competition with the ICS and major international technology companies

147 The amalgamation and the proposed terms of the amalgamation (in particular, the commitment to Prescribed Services and governance arrangements) will support EPAL to more effectively compete with the ICS, and also to respond to the various industry trends, [Confidential to Coles].

148 [Confidential to Coles].

149 [Confidential to Coles], the likely outcome of the amalgamation is that EPAL or NewCo will be in a better position to provide an appropriate alternative to the ICS to industry participants and, if competition is allowed to operate fairly, then the most efficient outcome should be achieved for all participants.

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150 In Coles' view, **[Confidential to Coles]**. LCR provides a viable ability for retailers to support eftpos' volume (and generate revenue for EPAL) until such time that EPAL's capability and offering is equivalent to that provided by the ICS (in accordance with the eftpos roadmap).

151 If EPAL is unable to compete effectively with the ICS, this could result in a further weakening, or worse still an exit of EPAL entirely, which:

(a) would likely lead to more consumer data and control being lost to ICS and therefore international jurisdictions; and

(b) would inevitably increase the cost to end users for payments (be they merchants and/or consumers), with all profits associated with these outcomes being generated by international rather than Australian entities.

152 Coles has observed some of these trends already playing out in segments of the market where EPAL is currently not a viable competitor to the ICS (**[Confidential to Coles]**).

153 **[Confidential to third parties]**.

154 Coles considers that EPAL, NPP and BPAY will be less effective at competing against global technology and payments companies without the amalgamated entity that allows the industry to have a single focus on innovation and funding decisions.

155 Australia's payment systems are also increasingly being controlled by the global technology and payments players (such as Apple Pay, Google Pay, Facebooks Libra currency, Uber etc.). If this trend continues, this will only serve to increase the sovereign risk of domestic payments and increase costs as these players restrict competition, which impacts all participants in the payments industry.

**F. [CONFIDENTIAL TO COLES]**

156 **[Confidential to Coles]**.

157 **[Confidential to Coles]**.

158 **[Confidential to Coles]**:

(a) **[Confidential to Coles]**;

(b) **[Confidential to Coles] (funding)** ;and

(c) **[Confidential to Coles]**.

159 **[Confidential to Coles]**.

160 [Confidential to Coles]:

(a) [Confidential to Coles];

[Confidential to Coles];

(b) [Confidential to Coles].

161 [Confidential to Coles].

## G. COUNTERFACTUAL

162 Coles considers it critical for new payments innovations to be supported by all major participants in the Australian payments industry for them to survive.

163 A key challenge in the existing three entity system is obtaining the necessary support from all industry participants for new innovations. These participants presently have differing interests in all three companies and I have observed participants are therefore not coordinated in determining which new payment solution to adopt, and providing the necessary support for the solution to succeed. I consider that the amalgamation will assist in addressing this problem.

164 If the amalgamation does not occur, then I am concerned participants in the Australian payments industry will continue to experience substantial challenges in determining which new payments innovations to invest in. I am also concerned industry support will continue to be fragmented, with industry participants spending time and energy adopting certain solutions over others (adopted by other industry participants), which will ultimately stymie the efficient adoption of new technology and lead to none of the three schemes effectively prospering.

165 This is demonstrated by the lack of historical widespread industry support for EPAL over the past decade, and the impact this has had on their ability to introduce new innovations to market. For example, I understand the ICS have been able to process online transactions for over 20 years. The need for EPAL to develop this capability in order to effectively compete against the ICS has been clear for years, [Confidential to third parties]. As part of the terms for the proposed amalgamation, stakeholders provided a commitment to certain elements of the eftpos roadmap via the Prescribed Services, [Confidential to third parties].

166 If the status quo continues and the three entities remain as stand-alone entities, then I consider the future of EPAL as an effective competitor to the ICS in respect of card-based payments is at risk, and the payments industry will not be able to deliver new and emerging technologies in a cost effective and timely manner. While EPAL may be able to continue to operate in the short to medium term in the absence of the amalgamation, I expect that, over the longer term, its ability to compete in new and emerging payments such as online and in-app wallet payments will decline [Confidential to third parties].



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- 167 While certain mandates have been made regarding the Prescribed Services, in Coles' view this is only a preliminary step in effectively deploying these services across the Australian payments industry. Industry participants will need to effectively deploy the services on their own systems, drive adoption of the payment service by consumers and merchants (which will involve communication to and education of these groups) and scale use of the service. In Coles' view, if the amalgamation does not proceed, the challenges faced by EPAL (and the industry generally) in effectively developing and deploying new payment solutions, as well as effectively competing with the ICS, will remain.
- 168 For these reasons, Coles believes the industry is better served by the proposed amalgamation, as the proposed structure maintains a focus on card-based payments in the short to medium term, while coordinating industry focus on new and emerging technologies providing a streamlined method to implement new innovations in a cost effective and timely manner and to ensure the ubiquity of adoption necessary for success.
- 169 For example, [Confidential to third parties].
- 170 In an eco-system that requires so many parties to align on standards and timing to facilitate the optimum network effect to all parties (being ubiquitous adoption), it is in the interests of all industry participants for a single, widely supported and self-funded Australian domestic payments operator (NewCo) to determine which of the available new technological solutions have the highest likelihood of success and how best to achieve this.
- 171 Without the amalgamation, the high level of investment required from domestic payments industry participants and the growth in the number of different payment solutions available and control by global players will continue, and it is likely that Australia will fall behind in providing domestic payment services and/or be controlled to a greater extent by the ICS and other global payments providers.
- 172 In contrast, NewCo will be able to bring new products to market that will effectively compete with the ICS and global payments providers, minimising the cost of payments processing and keeping payments processing revenue in Australia.

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Signature of witness



Name of witness Paul Askew, General Manager - Financial Services

Date of signature 17 March 2021

