

Non-confidential version

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

Statement in support of application for authorisation

eftpos Payments Australia Limited

Signed by: Stephen Benton, Chief Executive Officer

Date: 17 March 2021

This document contains confidential information which is indicated as follows:

[Confidential to eftpos Payments Australia Limited] - red type indicates confidential information.

Confidential exhibits are in the bundle of documents designated *Confidential Exhibit EPAL-1*

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A. INTRODUCTION

- 1 I am the Chief Executive Officer and the Managing Director of eftpos Payments Australia Limited (**EPAL**) and I am authorised to make this statement on EPAL's 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 (**BPAY Holdco**), the members of EPAL and the shareholders of NPP Australia Limited (**NPPA**) who were members of 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 and BPAY Pty Ltd (together **BPAY Opco**), eftpos and NPPA (the **Application**).
- 3 Exhibited with this statement are a bundle of confidential documents marked "Confidential Exhibit EPAL-1". EPAL claims confidentiality over all of the documents and information contained in *Confidential Exhibit EPAL-1*.
- 4 References in this document to "eftpos" are references to the eftpos payment system.
- 5 The matters set out in this statement are based on my knowledge of EPAL's operations, my review of EPAL's business records, my participation on the EPAL Board both before and after my appointment as Chief Executive Officer and in EPAL's Executive Leadership Team since my appointment as Chief Executive Officer, my involvement with EPAL's business, and my knowledge of the payments industry in Australia.

B. EPAL AND EFTPOS

Background on the eftpos system

- 6 A co-operative bilaterally based card acceptance and settlement system known as "eftpos" was created in the mid-1980s and achieved near ubiquity by the early 1990s. This system was supported by a series of bilateral agreements between the then participants, governing connectivity and settlement arrangements.
- 7 EPAL, the entity offering the rules-based eftpos payment system, was created by the industry in 2009. The eftpos Scheme Rules constitute a multi-lateral contract between EPAL and its members and between each member and each other member. The Scheme Rules govern the operation of the eftpos payment system. Exhibited to this statement at tab 1 of *Confidential Exhibit EPAL-1* is a copy of the current version of the EPAL Scheme Rules.
- 8 The eftpos payment system was designated as a debit card payment system by the Reserve Bank of Australia (**RBA**) under the *Payment Systems Regulation Act 1998* (Cth) (**PSRA**) in

2006 with a replacement designation being issued in 2012 and a separate designation covering prepaid cards specifically being issued in 2015.

- 9 EPAL's members currently consist of Adyen Australia Pty Ltd, Australia and New Zealand Banking Group Limited, Australian Settlements Limited, Bank of Queensland Limited, Bendigo and Adelaide Bank Limited, Fiserv Australia Limited, Citigroup Pty Limited, Commonwealth Bank of Australia, Coles Group Limited, Cuscal Limited, EFTEX, Indue Limited, ING DIRECT, National Australia Bank Limited, Suncorp Bank, Tyro Payments, Westpac Banking Corporation, Windcave, Woolworths Limited (together, **Members**). The Scheme Rules facilitate additional members to be added from time to time which is part of the business as usual of EPAL having added five new members since incorporation and EPAL are expecting further members to be added prior to completion of consolidation.

Existing and proposed infrastructure and technology

- 10 The EPAL current architecture is a mixture of hardware and cloud-based services with APIs being developed to enable faster yet secure and controlled access to the purpose driven and designed payment system.
- 11 The eftpos approach to infrastructure and technology is to:
- (a) access best in class global capabilities that drive low cost;
 - (b) access secure and adaptable capabilities that we can integrate out of the box ; and
 - (c) create innovation value add services on top of those capabilities.

Due to the global ubiquity of EMV based standards and technology , there are large numbers of service providers supporting low cost to integrate, card-based services which supports EPAL's need for low cost , speed to market solutions that keep pace with the international schemes.

- 12 The main infrastructure and technology already deployed by EPAL for its payment systems and utilising this approach are:
- (a) The eftpos Hub is operated for EPAL by FIS Australasia Pty Ltd, a subsidiary of Fidelity Information Services, Inc under a contract that accords with the Australian Prudential Regulation Authority's CPS231 and CPS234;
 - (b) The eftpos token service provider, created by Bell Identification BV which was subsequently bought by Visa, Inc. Visa now utilises the same tokenisation solutions as eftpos in some markets;

- (c) The disputes and chargebacks tool, provided by Accertify Inc, a subsidiary of American Express;
 - (d) Card specifications and terminal specifications for chip and contactless capability, based on EMVCo published standards;
 - (e) Application Program Interfaces developed by EPAL and its consultants; and
 - (f) 3D Secure authentication specifications and services provided by Modirum MDpay OÜ, a provider of such services globally.
- 13 The eftpos Hub and token service provider infrastructure is an active/active processing system that has data centres located in Sydney and Melbourne, providing geographic separation which meets market accepted standards for continuous availability that underpin reliable payments architecture. Included at tab 2 in the bundle of documents marked *Confidential Exhibit EPAL-1* is a diagram of the architecture of the overall eftpos payment system in a presentation titled "eftpos Payment Architecture", dated March 2021.
- 14 Included at tab 3 in the bundle of documents marked *Confidential Exhibit EPAL-1* is a table that sets out as between EPAL and the service provider the various allocation of responsibility, accountability, consultation and informed (**RACI**) status for various activities related to the eftpos Hub. This is not the RACI of liability or obligations for Member facing activities but rather the responsibilities under the outsourced services contract. **[Confidential to eftpos Payments Australia Limited]**. Similar RACI and BCP/DRP arrangements are in place with other critical vendors. EPAL has its own Business Continuity Plan for its internal business operations and technology outside of the payments system.
- 15 The eftpos Hub back office automatically prepares a number of reports for EPAL and its members, specifically, the end of date Settlement Report summarising all transactions by volume and value for each member. Some Members use those reports for their own system reconciliation and all Members use those reports for interchange fee calculations. EPAL is in the process of changing the eSS to include automated interchange netting and settlement between Members and payment of scheme fees to EPAL.
- 16 To date, of the service provider has always met the service levels to create reports for Members by the required timeframes and for reports to be 100% accurate.
- 17 EPAL's Member Services and Operations team is dedicated to ensuring that the eftpos hub delivers against an SLA of 99.999% availability and provides support for processing issues. The team has expertise in service delivery within the payments sector and draws on more than 40 years combined experience in payments service delivery and technical support. To date the eftpos Hub (excluding Member owned host systems) met 100% availability.

Description of EPAL's business

- 18 EPAL's payment system business comprises:
- (a) a common acceptance mark, which is used by all eftpos Issuers and eftpos Acquirers;
 - (b) a set of common technical, operational and security rules with which all eftpos Issuers and eftpos Acquirers in Australia must comply. These rules set the:
 - i standards for the functionality applicable to eftpos form factors (including cards, mobile/digital wallet applications and tokenized credentials);
 - ii specifications for eftpos form factors and, terminals or other acceptance channels;
 - iii specifications for interchange links and message formats;
 - iv technical, security and operating rules including for processing, reconciliation and settlement, reporting, crisis management, dispute resolution and consumer protection;
 - v interchange that is payable between the eftpos Issuers and eftpos Acquirers for eftpos transactions and scheme fees payable to EPAL; and
 - vi certification of form factors and terminals;
 - (c) centralised payments clearing and settlement infrastructure and rules through which all card acceptors can access all eftpos Issuers, clear and settlement for eftpos transactions; and
 - (d) services to eftpos Members, including brand usage approvals, payments routing and processing, token service provision, disputes and chargeback services, settlement reporting, compliance monitoring and certification of cards and terminal applications.
- 19 For eftpos payment system services, eftpos Members who participate in an eftpos payment service are required to follow the scheme rules and technical, operational and security rules for that service. This ensures standard functionality and operations according to common standards for the service, including user experience, consumer protection safeguards, branding and settlement which are documented in our technical, operational and security rules.
- 20 This below table outlines the actual and proposed services that EPAL offers or proposes to offer itself and through Beem It and connectID. Core EPAL services are organised along five product lines with the objectives and desired outcomes summarised in the following table:

Product Line	Objective	Outcome (within 2 years)
Retail Point of Sale (POS)		
Core & Value Added Services	Defend and grow core eftpos payments proposition including Proprietary (Prop) debit cards, Multi-network Debit Cards, Prepaid cards and Multi-network Credit Cards.	Compelling front-of-card debit propositions driving new front-of-card volume and revenue
Retail Digital and Online		
Acceptance & Processing	Expand acceptance and support processing and routing choice	Ubiquitous domestic acceptance and routing optionality driving front- and back-of-card volume
Fraud & Disputes	Create market leading fraud management services to enable expansion into CNP channels	Enabling low risk transactions across all channels and flows
Secure Digital Payments	Deliver high quality and locally optimised digital payment services across key payment channels, flows and devices	Higher authorisation rates and low fraud rates across all channels, flows and form factors supporting consumer and merchant choice
Includes Account to account, APIs and Digital Identity		
New Flows	Build new and scaled solutions in adjacent markets including deposit & withdrawal messages and digital ID	New revenues from new use cases, diversifying eftpos' business

Retail POS

- (a) **Core & Value Added Services:** there are eight existing products and two new services in development in this product line:
 - i **Proprietary (Prop) Debit Cards (live):** traditional eftpos debit product that offers card present PIN based transactions at points of sale on a physical card, including the ability to link back to checking and savings accounts. Interaction with the physical terminal can be via "dip" (ie docking or swiping a

card) and “tap” technologies (ie contactless). Mobile tokenisation services also exist for provision of Prop cards into Apple Pay. Services supported include purchase, refund and cash out with cash out at scale being a differentiator for eftpos compared with the limited scale of Visa and Mastercard.

- ii **Multi-Network Debit (MND) Cards** (live): MND Cards have Mastercard (M) or Visa (V) branding on the front of the plastic card and eftpos branding on the back. The eftpos application provides the consumer the choice when the card is dipped domestically to cheque and savings accounts via eftpos processing or the “credit” option of processing via Mastercard or Visa. When the card is tapped the card would by default be processed by M/V network. The eftpos application provides merchants the option to route the transaction via eftpos, which is typically the lower cost option, via a service supporting the merchant exercising a right known as Merchant Choice Routing (**MCR**). Services supported include purchase, refund and cash out with cash out at scale being a differentiator for eftpos compared with the limited scale of Visa and Mastercard.
- iii **Prepaid Cards** (live): stored value eftpos prepaid cards, both single use and reloadable, for use at physical POS with a PIN.
- iv **Multi-Network Credit (MNC) Cards** (live): MNC Cards have Mastercard or Visa branding on the front of the plastic card and eftpos branding on the back. The eftpos application allows the consumer to choose when the card is dipped domestically to check and savings accounts as a debit transaction via eftpos processing or the “credit” option of processing via Mastercard or Visa. Typically used for cash out at supporting merchants and ATMs.
- v **eftpos Data Subscription Services (eDSS)** (live): service to provide secure access to anonymised transaction data and allow Card Linked Loyalty providers the ability to match POS purchase transactions with merchant funded offers to accurately redeem them for the consumer. The value of the offer is then credited back to the consumers account.
- vi **Processing services** (live): EPAL provides processing services through the eftpos Hub which switches transactions to and from issuers and provides reconciliation and settlement reports to both eftpos Issuers and eftpos Acquirers. .
- vii **Settlement services** (live): – EPAL provides centralised netting and settlement services approved as a multi-lateral netting system under the

Payment Systems and Netting Act 1998 (Cth) (PSNA), currently under revision to add interchange settlement between eftpos members and scheme fee payments by eftpos members to eftpos, planned for April 2021 launch and July 2021 full cut-over. The eftpos Settlement Services has been live since 2017.

- viii **Disputes and chargeback services (live):** – EPAL provides a tool for use by eftpos Members to manage the process to resolve disputed transactions and chargebacks arising from eftpos Transactions. Any chargebacks are then included in the eSS process, netting and settled between eftpos Members.
- ix **[Confidential to eftpos Payments Australia Limited].**
- x **Co-Brand Debit Card (Development):** new approach is being explored to develop an Issuer led co-branded prop card with eftpos branding on the front and with Issuers choice of Mastercard and/or Visa as preferred partner. The key difference from MND Card is that the eftpos contactless application is prioritised number one such that eftpos is the default network for processing of domestic tapped transactions. Online and international transactions would be processed by M/V. **[Confidential to eftpos Payments Australia Limited].**

Retail – Digital and Online

- (b) **Acceptance & Processing:** there are three live services and two initiatives in development in this product line:
 - i **Card Present Acceptance (live):** This is the traditional eftpos acceptance at the physical POS, which is common across most retail environments except for certain unattended terminals (i.e. Transit where Open Loop Transit has started accepting M/V, plus Parking and Vending machines).
 - ii **Merchant Choice Routing (MCR)-Card Present (CP) (live):** This supports the ability for merchants to exercise their choice of how to process contactless MND transactions at the physical POS.
 - iii **Payment API (Development) (live):** EPAL has developed an eHub connectivity option via API, rather than via legacy AS2805/COIN connectivity, to meet demand and preference of payment gateways. Included at tab 4 in the bundle of documents marked *Confidential Exhibit EPAL-1* is an EPAL presentation titled “eftpos Payment APIs: Solution Concept for Gateway”, dated February 2021.

- iv **[Confidential to eftpos Payments Australia Limited].**
 - v **National QR Code Acceptance Network (Development):** EPAL is developing a market wide scalable QR code acceptance network supporting digital wallet retail payments across instore, self-service and online channels. The solution will support multiple digital wallet operators accessing a single QR acceptance solution for merchants. QR acceptance can extend digital purchase experiences with integration of value adds such as account balance checks, digital receipts and loyalty. We call this QR orchestration. EPAL's plan is to launch a pilot in Q2 2021 with the solution expected to be ready for market wide expansion in Q3/4 2021. This will generate new revenues and new transaction volumes for eftpos.
- (c) **Fraud & Disputes:** two live services, with one being enhanced, and one initiative in development make up this product line:
- i **Fraud Reporting (live):** This service consolidates member reported fraud into value added insights on historical eftpos fraud trends to complement member fraud detection strategies.
 - ii **Disputes & Chargebacks (D&C) (live):** This service allows members to manage disputed transactions. Enhancements to improve case creation and processing times plus extension of the hosted service via an API to enable major members to integrate the service into their bespoke D&C platforms were launched in February 2021.
 - iii **Network Fraud Scoring & Monitoring (Development):** EPAL is developing a network fraud monitoring and transaction scoring capability, which is critical to enable the safe expansion of eftpos into riskier (ie beyond recurring) CNP transactions. The score will be provided to members within the transaction record enabling real time data capture and issuer decisioning within their authorisation processes. The service will launch in October 2021.
- (d) **Secure Digital Payments:** there are three live services and two initiatives in development within this product line:
- i **MCR-Card Not Present (CNP) (recurring - live):** supporting the ability for merchants with online transactions to exercise their right to process transactions via eftpos. This service, which went live in August 2020, is currently limited to low risk recurring CNP transactions ahead of eftpos developing advanced fraud detection capabilities (see para 20(c)(iii) above). However, **[Confidential to eftpos Payments Australia Limited].**

- ii **eftpos Mobile (live):** This product supports member participation in the “Pays” – Apple Pay, Google Pay and Samsung Pay. Both Prop cards as well as MND cards are supported. Note that the formal product name is moving to eftpos Tokenisation Service for Devices (eTS-D). Mobile/wallet enablement also utilises the eTS-D. eftpos’ tokenisation capability includes life cycle management **[Confidential to eftpos Payments Australia Limited]**.
- iii **Merchant Tokenisation (live):** Merchant tokenisation is a service that promises to improve authorisation rates and reduce fraud rates for debit cards stored with merchants in their Card on File services. Note that the formal product name is moving to eftpos Tokenisation Service for Tokens on File (eTS-F). This service replaces the card number with a randomly generated token so that mobile devices do not store card numbers and the merchant and their gateways do not need to store card numbers. The service also detokenizes the transaction from merchants so it can be directed to the correct issuer for approval or decline within the transaction flow. The service involves, generation, LCM and detokenization of tokens. eftpos’ tokenisation capability includes **[Confidential to eftpos Payments Australia Limited]**.
- iv **eftpos Secure (Development):** EPAL is developing a strong authentication service, developed in compliance with the EMVCo 3DS2.X standard, which will enable eftpos to securely process all CNP transactions. The launch date is October 2021.
- v **Secure Remote Commerce (SRC) (Development):** SRC is an emerging standard’s based online guest checkout service created via EMVCo to replace struggling proprietary digital payment services from Mastercard, Visa and Amex. The strategy is analogous to the standardisation that occurred at the physical point of sale where one terminal can accept cards from multiple networks. **[Confidential to eftpos Payments Australia Limited]**.

Including Account to account, APIs and digital identity

- (e) **New Flows:** There are four services live and one in development in this product line:
 - i **API Gateway (live):** the API gateway supports the increasing demand for product and service access via APIs, an expectation for digital service delivery from members and Payments Service Providers that support them. The gateway went live in October 2020 with specific APIs represented by initiatives listed in this document.
 - ii **Deposits (live):** This service is live but planned for expansion into broader disbursement use cases (i.e. medicare, insurance payments, instant payroll,

Cash deposits at ATMs) from October 2021. These are new flows and a source of new volumes for eftpos.

- iii **Withdrawals (live):** This service is live and facilitates cash movement between accounts; top up of funds on a gift card or other stored value. These are new flows and a source of new volumes for eftpos.
- iv **Person to person (P2P) & Disbursements (live):** The combined Deposit and Withdrawal messages referred to above support the extension of the eftpos network into new debit card use cases such as P2P payments and business or government disbursements. The initial service provider to leverage these new message types for P2P payments is Beem It with adoption expected to be materially completed by end March 2021 with likely expansion to other new market entrants. The real time end to end payments from account to account across cards rails is a direct competitor to NPP current and future use cases and will generate new transaction volume for eftpos and our members.
- v **Digital ID (Development):** The eftpos Digital Identity service (connectID) will enable eftpos to establish itself at the centre of the digital ecosystem by allowing identity issuers and requesters to connect with the widest range of Australian identity owners. As the broker providing 'rails' in the national identity network, we aim to connect every participant in the AusPayNet developed TrustID framework as well as in other Australian frameworks, such as the government's Trusted Digital Identity Framework (TDIF). Launch is planned for June 2021. This service will drive new revenue and new transaction volumes for eftpos.
- vi **Distributed Ledger:** eftpos is a twenty member of Hedera Hashgraph organisation, which is a second-generation distributed ledger capability, along with the likes of Boeing, Google and DLA Piper. We have conducted a proof of concept in one of many logical use cases being micro payments and see this capability as another asset and capability for our members and their customers to innovate with driving further diversification for eftpos and placing eftpos in the middle of the digital economy.

21 Separately from the eftpos payment system services, EPAL provides (either by itself or through its Beem It subsidiary):

- (a) **ATM processing (live)** - for Members connected to the eftpos Hub for ATM Transaction processing. In this regard, EPAL is processor only and not performing any administration or governance function. Settlement of ATM transactions utilises

the Low Value Settlement System (LVSS) within the Reserve Bank Information and Transfer System (RITS) under the Issuer and Acquirer Community (IAC) Code Set volume 5 (still known colloquially as CECS), which is administered by the Australian Payments Network (formerly Australian Payments Clearing Association Limited (APCA)). ATM volumes have bounced back and only down 6% on pre COVID levels.

- (b) **Beem It (live):** Beem It is a lifestyle app that aims to be Australia's digital wallet of choice by simplifying money and making the everyday more rewarding. A long road map of planned services aims to place Beem It in the centre of Australians lives helping them better manage daily needs and financial management in one place whilst being rails agnostic. The following services are live or are soon to launch:
- i **Instant P2P (live):** Beem It's app currently allows anyone to make, request or split payments. Additional features have been added over time, including group payments, instant transfers and the storing of loyalty cards.
 - ii **Virtual Gift Cards (live):** Beem It users can now send virtual gifts cards from various retail merchants via the app. This feature went live in November 2020 and the sender can also add a personalised message and image to the gift card.
 - iii **Bill payment (live):** Beem It users are able to pay their bills via BPAY. The bill payment feature went live on the app in February 2021 and included one tap bill view and payment. This allows Beem It users to access BPAY bill payment services. **[Confidential to eftpos Payments Australia Limited]**.
 - iv **Retail payments via QR code (development):** Beem It supports QR payments for micro merchants today and plans to further expand its payment capability from P2P into the merchant payment space, with the ability to make Card Not Present and Card Present retail payments via QR code. **[Confidential to eftpos Payments Australia Limited]**.
 - v **Retail payments via NFC (design phase):** Beem It plans to allow its users to pay at the point of sale using NFC **[Confidential to eftpos Payments Australia Limited]**.
 - vi **Revenue services (development):** Implement a range of services that create ease and value in day to day lives and generate revenue including FX services, loyalty/advertising and instalments.
 - vii **Loyalty card storage:** This service will allow customers to load loyalty cards electronically

22 Within the retail online segment, there are three distinct flows with different competitive conditions being:

- (a) pay-as-you-go (**PAYG**) where card details are typed-in
- (b) card on file (**CoF**) where card details are stored with a merchant (or more likely the merchant's payment gateway does this as a service) to create a seamless checkout experience (i.e. Uber payments), or
- (c) Guest Checkout where the consumer will pay using a 3rd party application (i.e. PayPal) where payments credentials are stored to use across merchants.

Competitive conditions differ between and within these flows. For example, at the moment, eftpos has a live offering before the financial institutions for CoF, but not PAYG or work with Guest Checkout providers, and it will be 9 months before eftpos will have the capabilities to process these riskier transactions. PAYG and Guest Checkout represent 25% and 40% of online volume respectively with PAG declined in relevance in favour of the other two flows due to customer experience challenges. With the delivery of the eftpos Roadmap through 2021 eftpos will be in a position to increasingly support riskier transactions **[Confidential to eftpos Payments Australia Limited]**.

EPAL's revenue streams and customers

23 The majority of EPAL current revenues are generated by scheme fees charged for the eftpos payment system activities. In the near future revenue streams will be diversified as the businesses including Connect ID, Beem It and QR Orchestration deliver different revenue streams in addition to greater transaction volume.

24 EPAL has a simple fee structure for each of the eftpos payment system services and the ATM services in the last financial year. EPAL actively and creatively manages its fee structure to enable it to compete aggressively and will continue adjust fees over time. Today EPAL fees comprise:

- (a) new member fees;
- (b) fixed infrastructure fees payable by each Acquirer and Issuer according to their aggregate scheme volume percentage of a fixed total amount, calculated annually, as a contribution to the ongoing running costs of the eftpos Hub and associated infrastructure; and
- (c) per transaction scheme fees payable by each Member according to their transaction volume, calculated monthly, based on a fee per transaction.

The pricing strategy of eftpos has changed dramatically and is now aligned with Visa and Mastercard for issuers. The RBA have a net compensation rule whereby no scheme can pay an issuer more than the issuer has paid to the scheme in fees. Historically Visa and Mastercard charged issuers higher fees than eftpos and then rebated fees for mutually agreed activities that grew the issuers and the schemes business. Without this construct eftpos was limited in its ability to fund member developments and following the change in approach eftpos has been able to facilitate a material lift in member support and speed to market. The past lags to get to market with Visa and Mastercard are likely to be shortened. In addition interchange gaps with Visa and Mastercard continue to close as eftpos generally prefers to compete in MCR on scheme fees than only interchange so the commercial advantage for Visa and Mastercard on the issuer side has significantly diminished.

25 [Confidential to eftpos Payments Australia Limited].

26 [Confidential to eftpos Payments Australia Limited]

27 Over the last three financial years to June 2020, issuers received a net benefit from participation in the eftpos payment system. The aggregate details are below:

[Confidential to eftpos Payments Australia Limited]

28 Pricing can differ between segments (such as retail in-store, retail online, bill/invoice, P2P, B2P/G2P (disbursements)), with the international card schemes for example, tending to set higher fees for online retail payments than for in-store retail payments with far more complex and less transparent pricing arrangements than eftpos.

Forecast to FY25

29 EPAL's forecasts have been developed based on the view that while in-store payments will continue to dominate retail payments for some time, the fastest growth in volumes from online where it is very competitive and offers a low risk solution for merchants. Nonetheless with the growth in mobile at physical point of sale EPAL also expects that mobile tokens in Apple Pay and Samsung Pay will also be significant for eftpos' future.

30 EPAL forecasts the diversified non-payment initiatives will contribute 24% of EPAL revenue in 2025. [Confidential to eftpos Payments Australia Limited].

31 [Confidential to eftpos Payments Australia Limited].

Beem IT

32 Beem It is a consumer product and so the top 10 customers are fluid. Beem It is pre-revenue although it has processed 18.7million P2P transactions in the last 12 months to December

2020. Plans are underway to commercialise Beem It, including through interaction with EPAL's connectID digital identity solution.

- 33 EPAL conservatively expects that Beem-It will break even in 2023-4 with material revenue and enterprise value created after that time.
- 34 In transaction volumes terms , EPAL forecasts that by the end of FY21 Beem It will be a top 15 merchant for eftpos and top 25 debit merchant in the market **[Confidential to eftpos Payments Australia Limited]** on P2P alone with P2B volumes expected to be multiples of P2P in FY24, based on the following observations:
- (a) Beem It has a very strong and successful presence in the under 25 target segment in NSW
 - (b) It's app store rating of 4.9 is reflecting its focus on meeting core segment needs with rich and easy experience. This approach will continue as it expands its target audience and widens its role.
 - (c) banks will start onboarding customers from **[Confidential to eftpos Payments Australia Limited]** to drive new registrations in line with widening of the target market.
 - (d) Beem It is differentiated from Osko because it is driven by customer choice whereas Osko volumes are often driven by bank default settings in their standard "Pay Anyone" services.

connectID

- 35 connectID is not yet launched and is pre-revenue, however has been included in the above forecast. *Connect ID* is targeting to be live and in revenue by **[Confidential to eftpos Payments Australia Limited]** with up to **[Confidential to eftpos Payments Australia Limited]** participants already signed, including three state governments, Australia Post and several businesses. Connect ID success is not dependent upon consolidation.

Transaction and revenue volume

- 36 eftpos' actual and forecast transaction volume, split by transaction type, is included at tab 5 in Confidential Exhibit EPAL-1. **[Confidential to eftpos Payments Australia Limited]**.

C. PAYMENTS LANDSCAPE

- 37 Based on my experience in the payments industry and current industry data, I make the following general observations about the payments landscape in Australia.

- (a) The payment services system is highly dynamic and is characterised by innovations across the spectrum. Different payment methods and systems are used to transfer monetary value from one party to another. The most dominant means of payment remain cash, direct transfers and cards with debit cards being the dominant way people pay in Australia representing around 70% of all payments according to RBA data. Recent innovations and entrants include the introduction of the New Payments Platform (NPP), Osko which provides an overlay service for payments via the NPP, and mobile P2P payment apps which use existing payment rails such as Beem It, PayPal.ME, Splitr and Splitwise, as well as QR-code payments services such as Alipay and WeChat Pay .
- (b) Critically, EPAL draws a distinction between the use of a card as a method of payment, and the plastic on which it is set. “Card” use is not declining. The decline is in the use of the “plastic” cards to make payments, in favour of other alternatives such as digital wallets (discussed in further detail below). The fundamental attributes of the card, which are necessary to facilitate these types of digital transactions, remain a crucial part of the payments landscape.
- (c) The RBA has also announced initiatives to improve the ability for new and innovative offerings in payment systems, including following the introduction of the Consumer Data Right (CDR) and the RBA itself is investigating stablecoin which will enable it to compete in the digital payments space. In addition to the numerous existing competitors, the dynamic environment and overseas experience evidence the likely future competition by emerging technologies, including those developed by large technology companies over the longer term.

Overview of EPAL competitors

38 EPAL now regards itself as competing with other rails (Visa, Mastercard, BPay and NPP) and with the acquisition of Beem It intends to compete with parties that provide services over the payment rails. Current and expected competitors for products and services are shown on the following table with material overlaps over the short and medium term.

Services		Today	Short Term (by end 2021)	Medium Term (by end 2023)	Long Term (beyond 2023)
Present at merchant - rails	POS -with card	eftpos, Visa, Mastercard			
	POS- with mobile	eftpos, Visa, Mastercard,		NPP, PayPal	Big tech/ Fintech*

Services		Today	Short Term (by end 2021)	Medium Term (by end 2023)	Long Term (beyond 2023)
Not present at merchant – rails	Online purchase	eftpos , Visa, Mastercard, PayPal		NPP	Big tech/ Fintech *
Not retail remote payments rails – P2P, P2B, B2B, B2P	P2P real time	eftpos , Osko , PayPal		Big tech/ Fintech*	Not retail remote payments rails – P2P, P2B, B2B, B2P
	P2P not real time	DD			
	Pay a bill	eftpos , Visa, Mastercard (card on file), BPay		NPP	Big tech/ Fintech*
	Real time deposit	eftpos , NPP			Big tech/ Fintech*
	Request a payment	eftpos (on Beem It)		NPP	Big tech/ Fintech*
	Future dated transfers	BPay	NPP		Big tech/ Fintech*
	Unattended bulk transfers	DE, BPay	NPP		
Digital Identity	Verify identity	Mastercard, Australia Post	eftpos	BPay	Big tech/ Fintech*
Apps for payments/ lifestyle services on top of rails	Pay via app	Beem It, Apple/Google/ Samsung, CBA, Afterpay, Zip plus many small apps/wallets	Retailers apps		Big tech/ Fintech*

39 “Big tech” captures technology providers such as Apple/Pay, PayPal, Google/Pay, Facebook who are increasingly competing with traditional payments providers by introducing emerging technologies, and who could use open banking payment initiation, in time, or stored value, or existing rails with value-add features. Actual and potential competitors of eftpos, Beem It and the EPAL digital identity service under development called connectID are referenced below.

EPAL – all eftpos payment system services

- 40 For EPAL, Mastercard and Visa are the most significant current competitors for payment systems. The share of debit card payments made using the domestic eftpos payment system has remained relatively flat although growing in recent years, while the share of international (Mastercard and Visa) system payments has been steadily increasing over time in line with the growth of the overall market.¹
- 41 The rising market share of the international schemes is partly attributable to the increasing use of contactless payments, which were only supported by the international debit schemes until EPAL achieved greater than 75% coverage of contactless capability in 2017.
- 42 **[Confidential to eftpos Payments Australia Limited].**
- 43 The broad availability of contactless for eftpos, the widening of acceptance and the commencement of routing have all driven an uptick in volume for eftpos despite the impacts of COVID_19. This uptick will escalate as online transactions, deposit and withdrawals, growth in LCR, eftpos having a broader role in ATM processing, eftpos' recent strong presence in mobile and volume driven by adjacent businesses all add to the current growth rate. These adjacent businesses, such as differentiated a fraud solution and data solutions, distributed ledger capability and innovative thinking to meeting target segment needs using all of eftpos' assets are evidence of eftpos' level of innovation and agility that is and will continue to drive growth and differentiation from Visa and Mastercard.
- 44 eftpos made the specifications for contactless technology available in 2012/3, but its implementation by eftpos members took a long time. Before this capability was introduced, all contactless payments were processed on the Visa / Mastercard system. Notwithstanding that eftpos has implemented its contactless capability, contactless payments still default to the Visa / Mastercard payments system, however merchants have the choice to route the transaction through eftpos (i.e. through LCR).
- 45 With the provision of real time deposit and withdrawal messages eftpos is also competing with NPP as the eftpos deposit and withdrawal messages do not just enable real time processing but also real time crediting of value to the recipient. The NPP roadmap also shows NPP entering into the traditional cards payments of retail both online and in store through its mandated payment service, making NPP a material competitor in the medium term.
- 46 EPAL's new to market Deposit and Withdrawal services allow real time transfer in and out of accounts using card rails and these capabilities compete directly with NPP's current and future services.

EPAL – ATM processing

¹ Reserve Bank of Australia, *Payment Systems Board Annual Report 2019*, p 26 (PSB Annual Report 2019).

- 47 ATM transaction processing is a non-scheme switching and processing activity carried out by EPAL. Actual competitors to EPAL for these services are Fiserv, Cuscal, TNS, FIS, ACI, Mastercard and Visa. The provision of switching and processing services is a mature market, with significant establishment costs, and market for ATM transactions have experiencing year on year declines since 2012, especially so since COVID_19, so the possibility of new potential competitors for these services than those listed is low. The eftpos ATM volumes are within 6% of pre COVID levels. **[Confidential to eftpos Payments Australia Limited]**.

Beem It – digital wallet

- 48 P2P payments refers to the transfer of funds from one customer to another (either from their bank account, debit card or credit card to another individual's account, or through the payment of cash). P2P payments can be made through various methods including cash and cheque, bank transfer (including Direct Entry, NPP via Osko), debit / credit or charge cards, PayPal, gift card or prepaid cards. In 2016, P2P payments to family and friends (transfers) accounted for about 2% of total payments by number and 6% by value.² The size of the Australian P2P payments space is estimated at \$15.1 billion and on the rise.³
- 49 For Beem It, Osko, PayPal.ME, Splitr, Splitwise, and cash payments are the most significant and effective competitors for P2P payments. Additionally, in terms of digital wallets, significant broader competitors include Apple Pay, Google Pay, Samsung Pay, and a range of other Apps such as PayPal.

Other digital wallets

- 50 eftpos also competes with Visa and Mastercard for usage in digital wallets. However the Visa and Mastercard deposit and withdrawal message sets (with P2P as one use case) that compete with eftpos have very limited enablement across banks and the decision to enable remains in the banks' control.
- 51 eftpos is now live in Apple Pay, Google Pay and Samsung Pay across a significant number of banks. With eftpos' digital wallet capability, customers with dual network debit cards can choose eftpos to process their digital wallet transactions, provided that their bank has enabled the functionality. Visa and Mastercard had launched with Apple and Google digital wallets in the USA before banks in Australia sought to launch Apple Pay or Google Pay and subsequently Samsung Pay. Even though eftpos had implemented its token service provider, the first bank in Australia to implement the Apple Pay digital wallet solutions did so with the

² Reserve Bank of Australia, *How Australians Pay: Evidence from the 2016 Consumer Payments Survey*, p 32 [7.3] (RBA Consumer Payments Survey 2016).

³ Australian FinTech, *New P2P Payment App Splitr is Saving Aussie Friendships!*, <<https://australianfintech.com.au/new-p2p-payment-app-splitr-saving-aussie-friendships/>> accessed 1 September 2020.

international schemes (ANZ/Visa 2016) before implementing eftpos. Further, implementation was for dual network debit cards for international schemes and eftpos only cards for eftpos (ANZ 2017) before they implemented dual network debit cards for eftpos (ANZ 2019). Other banks followed a similar path although more recently implementations of eftpos have been aligned to international scheme implementation projects and eftpos only card implementations have been aligned to dual network card implementation. In this way the international schemes obtained the “early adoption” advantage. eftpos is now live in Apple Pay, Google Pay and Samsung Pay across a significant number of banks and is looking to access the “back book”, being the portfolio of early adopters which have only provisioned the international scheme from dual network debit cards, as soon as the banks and BigTech companies and international schemes enable that functionality. Accessing the back book will enable consumers the choice of setting eftpos as the default tokenised card or using eftpos for transactions at the consumer’s election, in the same way do from their physical dual network card today, which will likely improve EPAL’s competitive position in mobile payments.

- 52 The range of available payment methods are broadly summarised in **Table 1** below. Tables explaining each of the competing services is at the end of this section.

Table 1. Summary of payment methods (per PSB Annual Report 2019 at pp 21-29)

Payment method	Description
Retail – POS	
Cash	Use of cash for transactions is the default form of payment in the economy and makes up a significant proportion of payments (despite being in structural decline over the past decade reflecting consumer preference for debit and credit cards for in-person payments, including lower value payments). The Reserve Bank’s last Consumer Payments Survey conducted in 2016 showed that cash was used in 37% of transactions, down from around 70% in 2007.
Cheques	Cheque use in Australia continues to decline at a rapid rate as consumers and businesses transition to more convenient electronic payment methods.

Payment method	Description
Cards (debit and credit)	<p>Debit and credit cards combined are the most frequently used payment method in Australia. Card payments represent about 75% of the total number of non-cash retail payments <u>by volume</u>. In 2018/19, domestic cardholders made around 9.8 billion domestic card payments worth \$635 billion.</p> <p>Debit cards account for around half of the total value of card transactions, with around 43 million debit cards on issue compared with 21 million credit cards in Australia. The eftpos debit card system provides real time processing and through acquirer terms, real time settlement to merchants has become the norm as well.</p> <p>For credit card payments, the combined share of Mastercard and Visa has also increased over recent years, to around 84 per cent by value of transactions.</p>
Account to account	
Direct Entry	<p>Direct Entry payments account for the bulk <u>of the value</u> of non-cash retail payments. Banks and other financial institutions use the Direct Entry system for a range of payments including direct debits, consumers' internet 'pay-anyone' transactions and various types of bulk payments (eg. salary and welfare payments) by businesses, corporations and governments. With the recent introduction of the NPP, some banks are now sending 'pay-anyone' transactions through the NPP instead of the Direct Entry system. Direct Entry payments are settled in batches, several times during the day or the next business day.</p>
Online	
BPAY	<p>The BPAY system is used by consumers and businesses to make a range of bill payments, including for utilities, education fees and investments.</p>
New Payments Platform (NPP)	<p>The New Payments Platform (NPP) was launched in February 2018. The NPP offers real-time settlement of individual payments and supports data-rich messages, and makes funds available to the recipient on a 24/7 basis. The NPP incorporates a "PayID" service which allows a payment to be addressed to a registered mobile number, ABN or email address (instead of sending a payment to a BSB and account number). Most NPP payments are made through a customer-facing service called Osko,</p>

Payment method	Description
	operated by BPay. The vast majority of “pay anyone transactions” now occur via the NPP and there is increasing usage for business and corporate payments. ⁴ The NPP now accounts for approximately 20% of all bank account-to-account credit payments. ⁵
All areas (POS, Account to Account and Online)	
Digital technologies⁶	<p>Innovation in the provision of retail payments in Australia in recent years has been spurred by advances in digital technology (such as those associated with the internet, mobile devices and data processing) and the entry of new firms into the payments space, including ‘big tech’ conglomerates and smaller ‘fintechs’. In most cases, these new players still rely on the existing payment system infrastructure and payments system participants to facilitate payments in Australia.</p> <p>Digital wallets allow users to store electronic representations of payment cards (ie. debit or credit card) that can be used to make contactless payments at the point-of-sale using the near-field communication (NFC) or quick response (QR) code functionality of the mobile device to communicate with a payment terminal. Digital wallets include for example Apple Wallet,⁷ Google Pay,⁸ Samsung Pay⁹ and a range of other Apps such as PayPal.¹⁰ Through its acquisition of Beem It, EPAL plans to broaden the scope of Beem It to compete with these wallets.</p> <p>‘Buy now, pay later’ (BNPL) services are a technology-enabled payment method that allow a customer to purchase goods or services but defer payment via low- or zero-interest instalments to the BNPL provider, typically over 1-2 months. Fintech companies that have launched BNPL services include Afterpay and Zippay. BNPL has been widely accepted by merchants in a number of retail segments. New partnerships and innovations such as Klarna have also combined the convenience of a payment App directly with a BNPL service through partnership with CBA.¹¹</p> <p>Cryptocurrencies were largely designed to be electronic payment mechanisms that do not rely on the involvement of a central party like a</p>

⁴ AusPayNet Future State of Payments Action Plan 2020, p. 6.

⁵ AusPayNet Future State of Payments Action Plan 2020, p. 6.

⁶ PSB Annual Report 2019, p 32-33.

⁷ <https://apps.apple.com/au/app/apple-wallet/id1160481993>

⁸ https://pay.google.com/intl/en_au/about/


⁹ <https://www.samsung.com/au/apps/samsungpay/>

¹⁰ <https://www.paypal.com/au/webapps/mpp/why-paypal>

¹¹ See <https://www.klarna.com/au/commbank/>.





Payment method	Description
	<p>bank to verify and record transactions. In practice, no cryptocurrencies have been widely adopted as a means of payment and there are very few merchants that accept them as a means of payment. Examples of cryptocurrencies include Bitcoin, DSH, ETH, Ripple, Litecoin and EOS. The RBA has recently announced that it is investigating stablecoin for RBA issuance.¹²</p> <p>Peer-to-Peer/person to person (P2P) payments services are “Pay Anyone” transactions to any bank and/or any bank or debit card or account, and may include functionality to send and request payments, as well as split payments (eg. splitting bills between friends). Digital P2P payments are typically facilitated through mobile apps using the existing payment system infrastructure. In this sector, P2P payment apps include Beem It (owned by eftpos), Splitr, Splitwise, OSKO bank transfer payments via the NPP (a partnership between BPay and NPP), as well as QR code based payment systems such as Alipay and WeChat Pay.</p> <p>Quick-Response (QR) codes can be scanned by smartphones to make retail payments or app-to-app payments. In 2018, more than 25,000 retailers across Australia offered Alipay and WeChat Pay to tap into an estimated \$10 billion Chinese tourist market.¹³</p>

Table 2: ePAL competitors (primary and secondary)

Existing and potential competitors	Products offered (POS, Online)
Visa 	A primary competitor today. Visa Inc. is a global payments technology company, and one of the two major international schemes in Australia. Visa was founded in 1958. Visa operates a payment processing network, VisaNet, which processes Visa transactions and connects merchants, acquirers, issuers and cardholders. Visa provides payment products including credit, debit and prepaid cards.

¹² <https://www.rba.gov.au/media-releases/2020/mr-20-27.html>

¹³ AusPayNet Future State of Payments Action Plan 2020, p. 7.

Existing and potential competitors	Products offered (POS, Online)
<p>Mastercard</p> 	<p>A primary competitor today. MasterCard is a global payments technology company, and one of two major international schemes in Australia. Mastercard was founded in 1966. Mastercard operates a payment processing network which connects consumers, financial institutions, merchants, governments and business. The Mastercard network processes 56 billion transaction per year and there are currently approximately 2.3 billion Mastercard and Maestro accounts.¹⁴ Mastercard payment products include debit, credit and prepaid cards. Mastercard also provides the Masterpass digital platform which enables customers to pay with debit or credit card for mobile and e-commerce payments.</p>
<p>American Express</p> 	<p>A secondary competitor today. American Express is an American financial service company founded in 1850. American Express provides payment products including credit card, charge card and traveller's cheque business. American Express had approximately 114 million cards in force in 2019.¹⁵</p>
<p>Diners Club</p> 	<p>A secondary competitor today. Diners Club is a charge card company. Diners Club Australia is owned by Citi Group. Diners Club is partnered with Mastercard to provide access to cardholders.</p>
<p>UnionPay</p> 	<p>A secondary competitor today. Union Pay provides cross-border payments services. UnionPay has been expanding its operations in Australia. As of 2018, UnionPay is accepted in 80% of local merchants in Australia.¹⁷¹⁶ UnionPay products include online payment services, mobile payments, mPOS acquiring terminal, cross-border 13213 payments, as well as card products (debit, credit, prepaid, and commercial). Union Pay utilises QR Codes for merchant acceptance in Australia¹⁸¹⁷. The most prominent use case for QR code payments in Australia has been a growing number of retailers using them to facilitate payments from tourists</p>

¹⁴ Mastercard, 'What we do', <<https://www.mastercard.com.au/en-au/about-mastercard/what-we-do.html>>, accessed 1 September 2020.

¹⁵ American Express, Annual Report 2019, p 41.

¹⁶ Union Pay, <<https://www.unionpayintl.com/en/>>, access 1 September 2020.

¹⁷ <http://www.unionpayintl.com/en/>

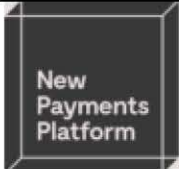


Existing and potential competitors	Products offered (POS, Online)
	from China, where take-up of QR-code based mobile payments has been extensive. ¹⁸
	<p>A secondary competitor today however moving to a primary competitor in the mid term, The NPP has published a QR code standard for use of QR codes on the NPP.¹⁹</p> <p>Additionally, the NPPA mandated payment service will compete with EPAL's deposit and withdrawal transactions, including at point of sale, such as recurring payments for card on file transactions. Today eftpos deposit messages compete with NPP and this will escalate in the short term.</p>
	<p>A secondary competitor today moving to a primary competitor as eftpos rolls out card on file billing. Currently competes with EPAL for OSKO and bill payment competes with card on file payments.</p>

Table 3: Beem It competitors

Existing and potential competitors	Products offered (Account to account (P2P); moving in medium term to POS and Online)
<p>Osko (BPay)</p> 	<p>Osko was built by BPAY (owned by the four major banks) as an “overlay” service on the New Payments Platform (NPP). Osko provides real-time P2P payments on an existing banking app through the NPP.²⁰ Most of the payments enabled by banks for Osko are internal bank app payments.</p> <p>Osko enables customers to send funds using BSB and account number or a Pay ID, which can be an email address or mobile number. It can also be used for P2B payments (such as paying tradespeople).</p>

¹⁸ <https://www.rba.gov.au/speeches/2019/sp-gov-2019-12-10.html>

¹⁹ <https://www.rba.gov.au/speeches/2019/sp-gov-2019-12-10.html>

²⁰ Osko, 'About Osko', <<https://osko.com.au/about-osko>>, accessed 1 September 2020.

Existing and potential competitors	Products offered (Account to account (P2P); moving in medium term to POS and Online)
	As of 31 January 2019, more than \$65 billion was transferred via Osko since its launch. ²¹ Osko is currently a primary competitor for Beem It P2P transactions.
PayPal 	PayPal is a global financial services company listed on the NASDAQ. PayPal was founded in December 1998 and is headquartered in California, U.S. PayPal provides an open digital payments platform which allows account holders to make payments via online, mobile, in app or in person. ²² PayPal has various P2P payments platforms including PayPal.ME ²³ which allows customers to send money to other PayPal customers and Venmo, a P2P payments app based in the U.S.
Splitr 	Splitr is mobile app that enables bill splitting and P2P payments. Splitr enables users to take a photo of an itemised receipt and uses OCR and machine learning to split the expenses with other users who are identified using phone numbers or Facebook. Splitr app also requests, tracks, pays and receives payments. ²⁴
Splitwise 	Splitwise is a Providence, RI based company. Splitwise is a mobile app that enables bill splitting and tracks P2P payments. Splitwise tracks expense balances, organise expenses, and track P2P payments. Users cannot send money to other users through the app in Australia. Venmo and PayPal have P2P integrations with Splitwise for US customers. ²⁵
Groupee 	Groupee is mobile app that enables money grouping for collective payments. Groupee uses a prepaid Visa card that can be embedded in a smartphone to enable groups to share the cost of purchases among multiple users. ²⁶

²¹ J Evers, 'Work with us, real-time pay exec tells banks', Australian Financial Review, 31 January 2019.

²² PayPal, 'About', <<https://www.paypal.com/us/webapps/mpp/about>>, accessed 1 September 2020.

²³ PayPal, 'What is PayPal.ME', <<https://www.paypal.com/au/smarthelp/article/what-is-paypal.me-faq3025>>, accessed 1 September 2020.

²⁴ Splitr, 'How it works', <<http://splitr-app.com/how-it-works.html>>, accessed 1 September 2020.

²⁵ Splitwise, <<https://www.splitwise.com/>>, accessed 1 September 2020.

²⁶ Groupee, <<https://groupee.com/>>, accessed 1 September 2020.










Existing and potential competitors	Products offered (Account to account (P2P); moving in medium term to POS and Online)
Stocard 	Stocard is a mobile wallet app that allows customers to add and use loyalty cards from the app. Stocard does not have P2P payment functionality. In the UK, mobile payment is available through Mastercard.
AliPay 	Alipay is a QR-code based mobile payment platform owned by the Alibaba Group. Alipay was launched in China in 2005. AliPay currently has approximately 1 billion users. ²⁷ Alipay functionality includes P2P payments, e-commerce, Point-of-Sale, in-app payments, and integrated Alipay rewards. Alipay is used in Australia mainly by Chinese tourists and they have stated they have no intent to attract Australian users due to the relatively small market size.
WeChat Pay 	WeChat Pay is WeChat's P2P product, operated by Tencent Holdings. WeChat Pay links Chinese bank accounts, Visa, Mastercard and JCB. In 2018, WeChat Pay 900 million people use WeChat Pay on a monthly-basis.

Table 4. Potential competitors in P2P payments

Existing and potential competitors	Products offered (POS and Account to Account (P2P, C2B))
Apple Wallet / Apple Pay 	Apple Pay is a mobile payment and digital wallet service by Apple, supported to iPhone, Apple Watch, iPad and Mac. Apple Pay Cash allows users to store money on a virtual Apple Pay Cash Card issued by Green Dot Corp. Users can transfer the cash to a linked bank account or spend it immediately at merchants that accept Apple Pay. Apple Pay Cash is only available in the US via iMessage. Apple has recently acquired Mobeewave, which could potentially be used as a platform for P2P transfers in Australia.

²⁷ AliPay, <<https://intl.alipay.com/ihome/index.htm>>, accessed 1 September 2020.

Existing and potential competitors	Products offered (POS and Account to Account (P2P, C2B))
Google Pay 	Google Pay is a digital wallet for Android users. It enables users to make 'tap-and-pay' payments in store or for transit using a smart phone, and in apps or on websites without having to enter payment information. Google Pay can be used for P2P payments in the US and India. ²⁸
Samsung Pay 	Samsung Pay is a digital wallet that is supported on Samsung smartphones. Samsung Pay is connected to credit and debit cards from a number of major Australian banks, including CBA, Westpac, NAB and ANZ. Samsung Pay can also be used on Sydney public transport. ²⁹
Facebook Pay 	Facebook Pay integrates payments apps and can be set up using a debit or credit card or PayPal. Facebook Pay provides free P2P payments to anyone on Facebook through Messenger or WhatsApp. Users must link a Visa or Mastercard debit-card issued by a US bank. Facebook Pay is being rolled out in Australia. ³⁰
Square Cash 	Square Inc launched Square Cash in 2013, and has since expanded the offering to allow individuals to pay merchants. Square Cash is a mobile wallet that allows users to store funds on a prepaid card issued by Sutton Bank, leave funds on Square's platform or transfer them to another bank through a linked debit card. Square Cash is available in the US only. ³¹
Zelle Pay 	Zelle is owned by a consortium of US banks. Zelle is available across member banks websites or mobile apps. Customers of a Zelle bank can send money in real-time to customers of any bank in the network. Customers of a non-Zelle bank can use the network by downloading Zelle's standalone mobile app. ³²

²⁸ Google, 'Google Pay Help', < <https://support.google.com/pay/answer/9023773>>, accessed 1 September 2020.

²⁹ Samsung, 'Samsung Pay', <<https://www.samsung.com/au/apps/samsungpay/>>, accessed 1 September 2020.

³⁰ Facebook Pay, 'How it Works', <<https://pay.facebook.com/au/how-it-works/>>, accessed 1 September 2020.

³¹ Square Cash, 'Square Cash is Open for Business', < <https://squareup.com/us/en/press/introducing-cashtags>>, accessed 1 September 2020.

³² Zelle, 'How it Works', <<https://www.zellepay.com/how-it-works>>, accessed 1 September 2020.





Existing and potential competitors	Products offered (POS and Account to Account (P2P, C2B))
Visa 	Visa Direct is Visa's deposit and withdrawal service (P2P is one use case). Visa Direct can be accessed through Netbanking, mobile or ATM, and enables real-time push payments from merchants to customers. Visa has been acquiring payment platforms globally to support P2P transfers domestically and globally. ³³ The level of competition remains entirely in the hands of the banks as Visa only accesses the market through issuers and acquirers.
MasterCard 	MastercardSend is an interoperable global platform that enables payments for disbursements (by governments, businesses, and not-for-profits to consumers), domestic and cross-border deposit and withdrawal service (P2P is one use case). Mastercard Send is currently available in the US. ³⁴ The level of competition remains entirely in the hands of the banks as Mastercard only accesses the market through issuers and acquirers.

Table 5: Potential competitors in digital identity (note, no fully launched digital identity solutions exists in the market which are providing the same services as EPAL are developing)

Existing and potential competitors	Products offered (Digital Identity)
	Mastercard has also announced a collaboration with AustPost for a digital identity solution. ³⁵ While they may be a competitor in the Connect ID model it is also likely they will be a collaborator.
	Through a downloadable app, AustPost digital identity solution facilitates identity verification by storing credentials for use by connected third parties. ³⁶ While they may be a competitor in the Connect ID model it is also likely they will be a collaborator

³³ Visa, 'Visa Direct', <<https://www.visa.com.au/pay-with-visa/featured-technologies/visa-direct.html>>, accessed 1 September 2020.

³⁴ Mastercard, 'FAQ Mastercard Send', <<https://www.mastercard.com.au/content/mccom-admin/faq-category-admin/mastercardsend.html>>, accessed 1 September 2020.

³⁵ <https://www.afr.com/companies/financial-services/mastercard-australia-post-testing-new-digital-identity-model-20191211-p53ivv>

³⁶ <https://www.digitalid.com/>





Existing and potential competitors	Products offered (Digital Identity)
Equifax	Operates an identity verification service called IDMatrix with knowledge based authentication use cases. ³⁷
Experian	Experian's service called CrossCore® combines risk-based authentication, identity proofing and fraud detection into a single cloud platform. ³⁸
	Short to medium term potential competitor for digital identity based on consumer data right support for financial institutions. While they may be a competitor in the Connect ID model it is also likely they will be a collaborator

Table 6: Potential competitors for rail services (ie processing for payment methods)

Existing and potential competitors	Products offered (rails)
	<p>Mastercard is a primary competitor today for processing of transactions from Mastercard form factors.</p> <p>Mastercard also operates the MPGS gateway service for processing any online payment, including through eftpos (under development).</p>
	<p>Visa is a primary competitor today for processing of transactions from Visa form factors.</p> <p>Visa also operates the Cybersource gateway service for processing any online payment, including through eftpos (under development).</p>

³⁷ <https://www.equifax.com.au/business-enterprise/products/idmatrix>

³⁸ <https://www.experianplc.com/media/news/2020/experian-releases-new-version-of-its-integrated-digital-identity-and-fraud-risk-platform/>

Existing and potential competitors	Products offered (rails)
	<p>A primary competitor today for processing of direct entry transactions (which compete with eftpos deposit & withdrawal transaction types) and expanding to also compete for retail (POS, mobile and online) transactions in the medium term.</p>

- 53 To scale a retail payments service requires set of requirements to be met, which neither BPay nor NPP can achieve in the short to medium term:

[Confidential to eftpos Payments Australia Limited]

- 54 **[Confidential to eftpos Payments Australia Limited].**

- 55 EPAL also proposed a quick to market low investment cost real-time direct credit solution for bulk credits over eftpos' rails, which would have competed with the NPP. This proposal entitled "Account-Based Transactions and Direct Entry Services" dated August 2019 prepared by Key One Consulting (see tab 6 in the bundle of documents *Confidential Exhibit EPAL-1*) was presented to a number of banks, including CBA (see the document entitled "Account Based Payments – Direct Entry & Recurring Payments" dated October 2019 at tab 7 in the bundle of documents *Confidential Exhibit EPAL-1*) but was not chosen over the corresponding proposal made by NPPA. Anecdotally, EPAL was informed that the banks considered they were expected to use the NPPA solution.

Focus on Big Tech

- 56 The strategy of EPAL is to invest in better digital experiences above the rails for both consumers and merchant and this is exactly the same space that Big Tech is playing in. The shift to digital allows for contextual payments and experiences that drive far greater efficiency, ease, safety and value add than is possible through a rails focus. As a core national infrastructure in and around payments, eftpos has placed strategic investments to allow it and its members compete with Big Tech.
- 57 Big Tech are focused on providing payment services 'above the rails', through direct customer engagement in areas that create value for them and the customer. EPAL is also delivering services above the rails.
- 58 From the perspective of a consumer, the creation of a close customer relationship is achieved through greater ease and access to better value than the traditional payment relationship. P2P payments have often been used as an entry point to secure the payment relationship,

build a self-reinforcing community and expand from there. From a merchant perspective Big Tech tends to support merchants to create greater value and experiences with their customers – supporting business growth.

59 eftpos has also chosen to deliver better digital experience through its assets (Connect ID, Beem IT, QR orchestration) competing directly with Big Tech.

60 The role of Beem It is to establish itself as a lifestyle-based platform that Australians use in their day to day lives creating ease and value whilst meeting the higher order need of better financial confidence. We are seeing competition in the area either existing today or becoming significant in the future from the likes of:

- (a) PayPal;
- (b) Apple Pay;
- (c) Google Pay;
- (d) Klarna;
- (e) Square;
- (f) Revolut;
- (g) Afterpay (now to offer a prepaid solution);
- (h) many foreign wallets including potentially WeChat and AliPay.

61 Competition from these organisations is likely to be significant as:

- (a) there are low barriers to entry as they sit above the rails utilising the existing two-sided markets;
- (b) they can often leverage existing customer bases (Apple, PayPal) with embedded relationships beyond the payment;
- (c) they have global scale of investments and learnings and deep pockets; and
- (d) they are the experts at recognising core millennial need (and merchant) shifts and delivering compelling seamless experiences.

62 Innovation and therefore competition is significantly taking place above the rails today and this will continue to escalate as Big Tech broaden their reach in terms of markets they enter and customer needs they meet, supported by open banking developments. The benefits of competition from eftpos for the Australian economy are:

- (a) products are designed for the local market, not globally;
- (b) competition begins quickly as the roadmap is nearly complete;
- (c) there is an existing low-cost network to leverage with access to more than 50 million accounts and hundreds of thousands of merchants;
- (d) retains relationships with Australian financial institutions;
- (e) regulated under existing rules; and
- (f) data is retained in Australia.

Key trends

63 Set out below is a summary of key debit market trends, relying in large part on publicly available RBA data.

Table: Non-cash payments (extracted from RBA PSB)

	2018/19				Average annual growth 2008/09–2018/19			
	Per cent of total		Average value		Growth (per cent)		Per cent	
	Number	Value	\$	Number	Value	Number	Value	
Cards	74.5	5.9	65	13.0	7.4	11.7	7.3	
Debit cards ^(a)	53.4	3.0	47	16.5	12.4	14.2	10.9	
Credit cards	21.1	2.9	111	5.2	2.5	7.3	4.6	
Direct Entry ^(b)	20.7	78.7	3,119	-4.2	5.8	6.1	2.9	
BPAY	3.1	4.2	1,111	2.4	8.0	4.9	9.7	
Cheques	0.5	6.1	10,856	-25.0	-34.9	-16.2	-8.0	
Property Exchange Australia	0.0	4.0	821,780	111.0	149.9			
New Payments Platform ^(c)	1.2	1.2	853					
Total	100.0	100.0	821	9.5	5.6	9.4	2.6	

(a) Including prepaid cards

(b) Data prior to May 2018 have been adjusted downwards to account for a reporting change that decreased the number and value of direct credit and direct debit payments.

(c) The New Payments Platform was launched to the public in February 2018.
Sources: BPAY, RBA.

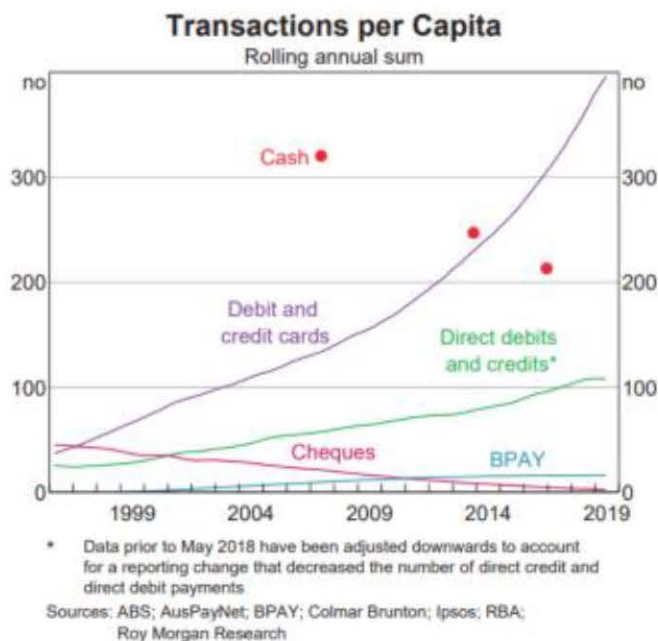
Source: PSB Annual Report 2019, p 25

64 In general, there has been a trend of strong growth in the use of electronic payment methods by Australian consumers over the recent decades, with the use of paper-based methods such as cash and cheques in significant decline.³⁹ Businesses and consumers are embracing digital payments and this provides a powerful base for innovation.⁴⁰

³⁹ PSB Annual Report 2019, p 21.

⁴⁰ AusPayNet, 'The Digital Economy', Australian Payments Network Milestones Report, Ninth Report, June 2018.

Figure 1. Transactions per capita (extracted from RBA)



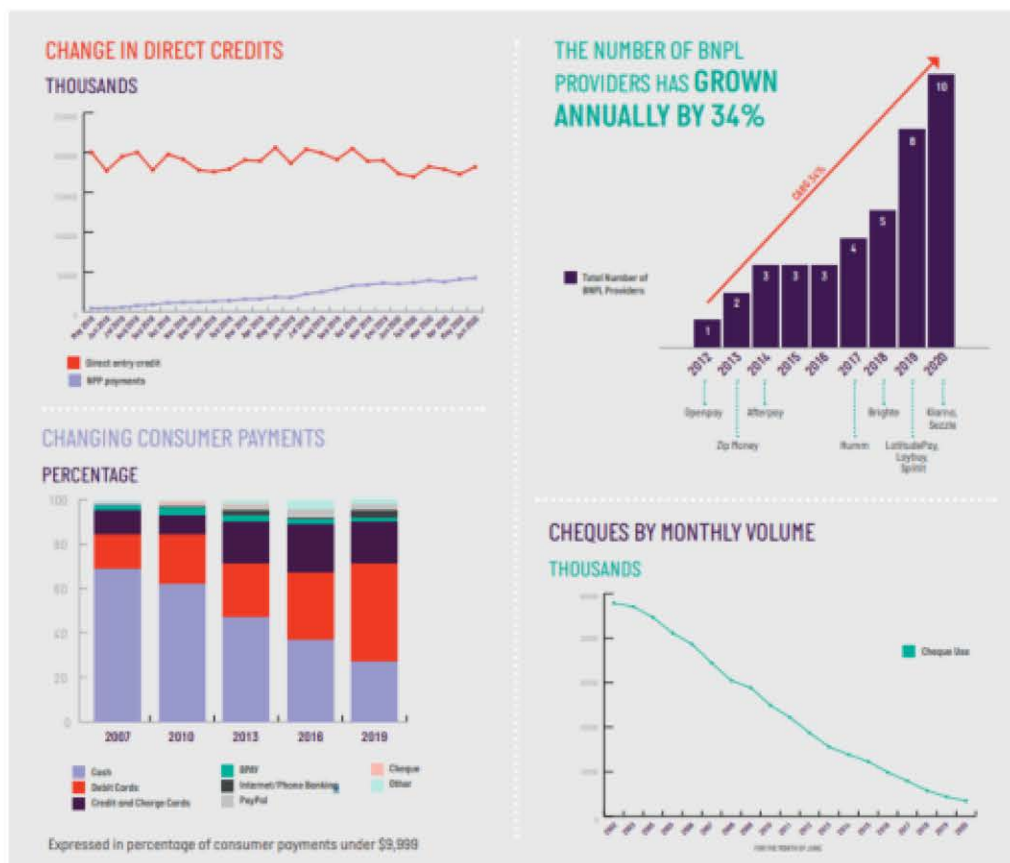
Source: [RBA Trends in Payments, Clearing and Settlement Systems](#)

- 65 The transition towards electronic payments has gathered pace as consumer preferences have shifted towards more convenient payment methods.⁴¹ Enhancements in electronic payment services have been made due to technological advances and the entry of technology-focussed firms in the retail payments space.⁴²

⁴¹ PSB Annual Report 2019, p 21.

⁴² PSB Annual Report 2019, p 21.

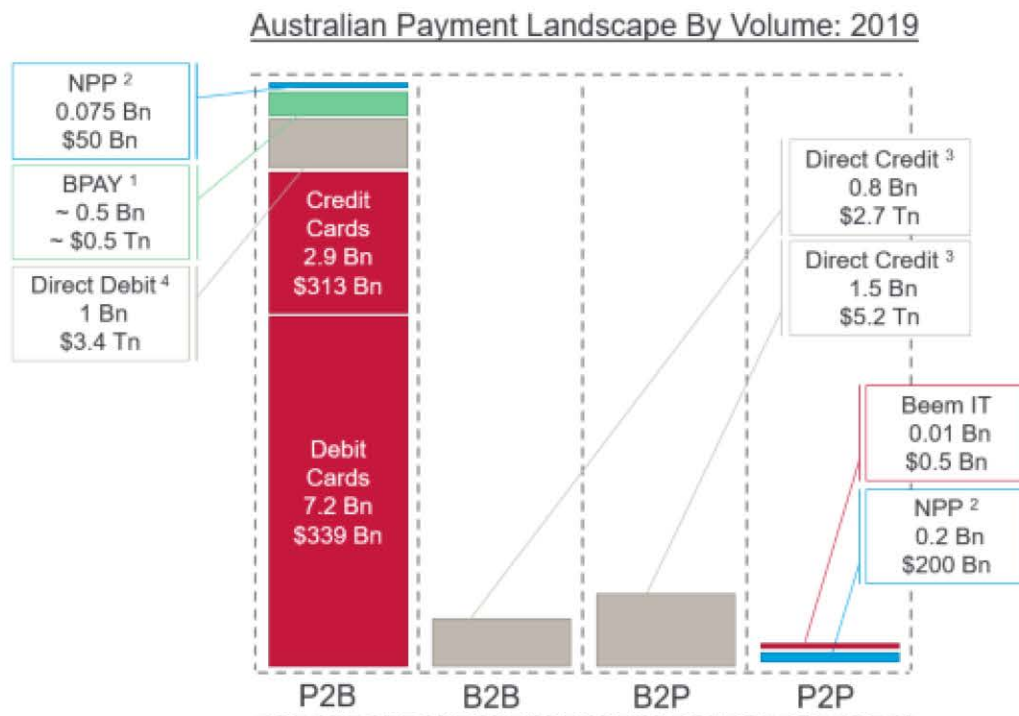
Figure 2. Trends in the payments system



Source: AusPayNet Future State of Payments Action Plan, August 2020, at p 5⁴³

- 66 Cards infrastructure processed 71% of all electronic payment transactions in Australia in 2019 across all flows, with debit cards representing 73% of that volume.

⁴³ https://www.auspaynet.com.au/sites/default/files/2020-08/APN_Future_State_Conclusions_Consultation_Paper_Aug20_0.pdf



Source: RBA Data published 2019 and eftpos Data, Services Australia Annual Report

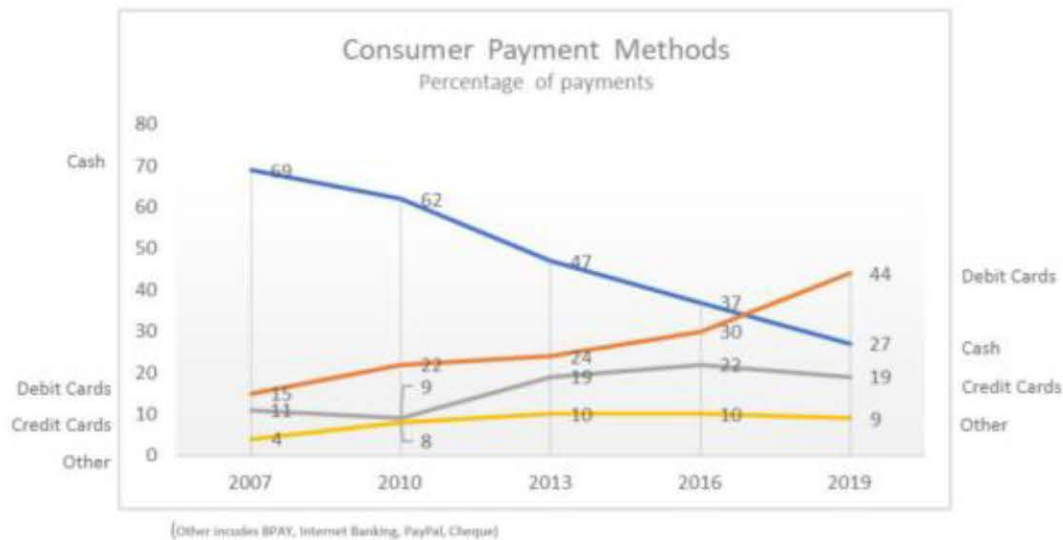
Key Assumptions:

1. BPAY volume/value from RBA charts.
2. NPP volume split between P2P (72%) & P2B (28%)
3. DE volume split based on Gov volume is B2P and 50% remaining split between B2B and B2P.
4. DE Direct Debit volume allocated 100% to P2B.

* Payment volumes and values do not include domestic RTGS & IMT transactions

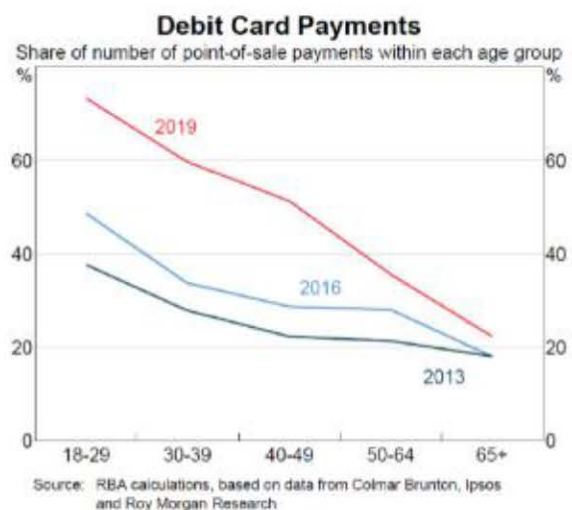
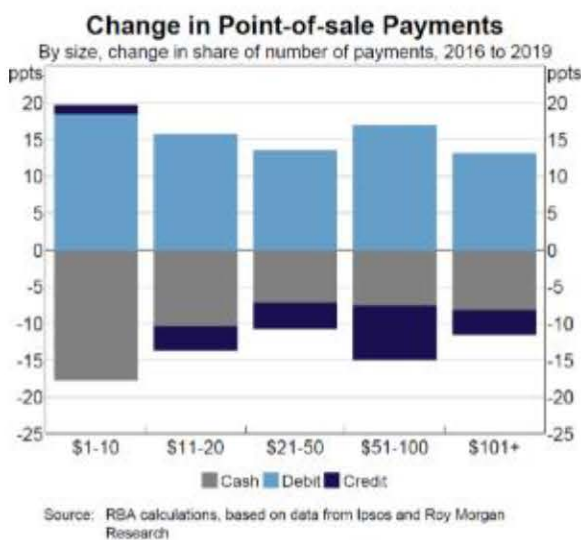
67 Looking at consumer payments trends over the past 12 years debit cards have been the clear share winner (including cash):

- (a) debit cards have become the most frequent used payment method, overtaking cash for the first time in 2019, now at 44% of all consumer payment methods;
- (b) collectively, debit and credit account for 63% of consumer payments volumes; and
- (c) reduction in cash and increase in debit card usage is attributable to the increase in tap-and-go contactless payments.



68 Debit growth has been across all price points and age groups:

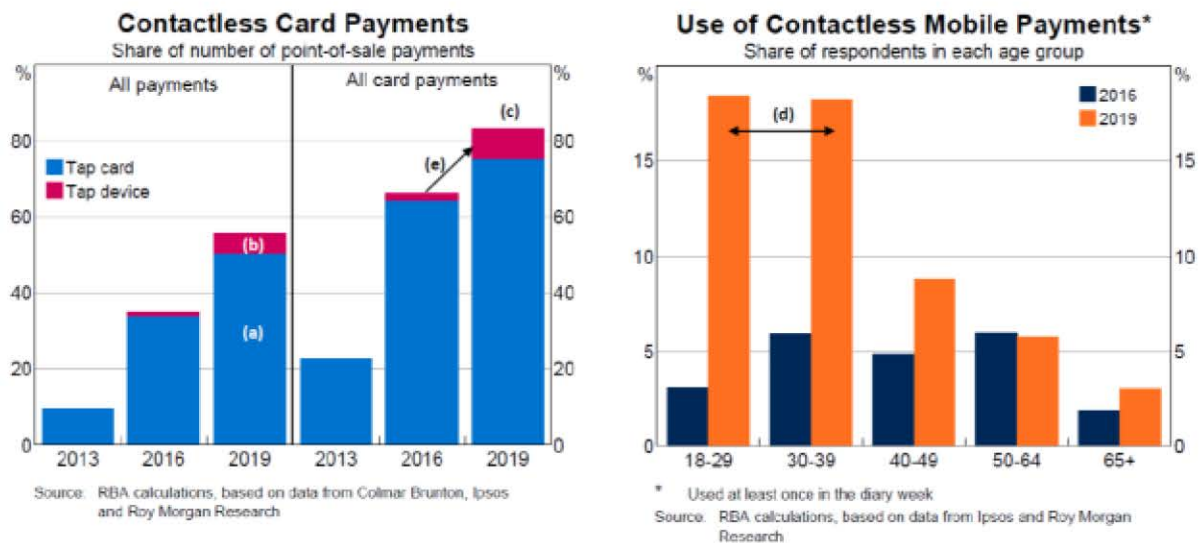
- (a) growth in the use of debit cards was strong across all transaction value ranges ; and
- (b) use of debit cards has increased across all age groups but is clearly most preferred amongst younger people.



69 Contactless payments, increasingly on mobile, is driving the shift in payments behaviours (references to chart following):

- (a) 50% of all POS transactions are made using a contactless card;
- (b) a further 5% are made using a contactless device (mobile, wearable)
- (c) 83% of all POS card transactions are contactless;

- (d) contactless payments are driven largely by consumers under 40; and
- (e) mobile phone use continues to rise, trebling since 2016.



70 Debit and mobile are gaining share in online payments:

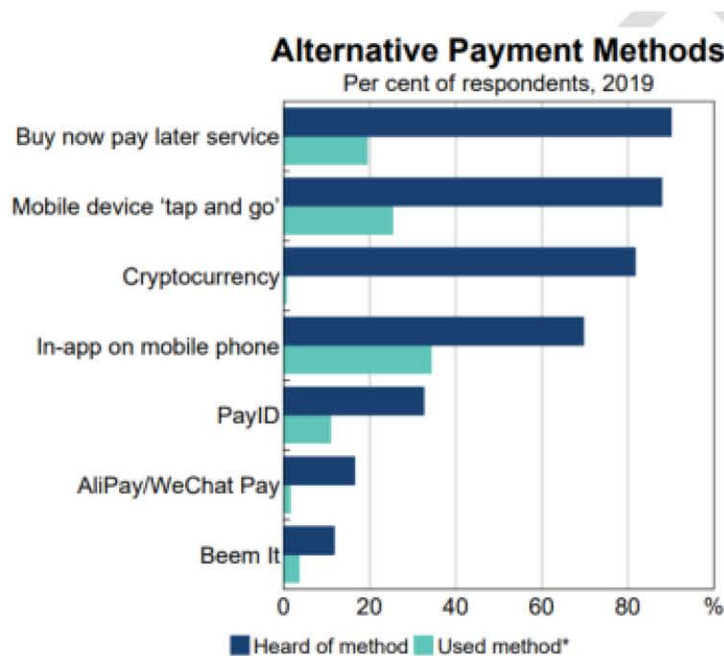
- (a) Recently, online share of consumer payments has stabilized;
- (b) it has become increasingly common for online payments to be conducted via a mobile/app (now 40%) vs traditional web browser;
- (c) debit share of online payments has steadily increased now at 31% up from 23% in 2016; and
- (d) share of “other” including PayPal has decreased in this survey.

Online Payments					
Share of number of consumer payments, per cent					
	2007	2010	2013	2016	2019
Debit card	0.3	1	2	3	4
Credit card	1	1	3	3	2
BPAY/Internet banking	2	4	5	4	4
Other ^(a)	0.4	1	3	4	2
Total	3	7	13	13	13
Mobile/app share of online	n/a	n/a	6	20	40

(a) “Other” methods include Paypal, prepaid, gift and welfare cards and “buy now, pay later” services
Sources: RBA calculations based on data from Colmar Brunton, Ipsos and Roy Morgan Research

71 There is strong awareness of a number of alternative payment methods but adoption is mixed:

- (a) over 80% respondents have heard of BNPL and 20% have made at least one payment in the last 12 months;
- (b) there is a high degree of awareness of mobile device tap-and-go;
- (c) despite high levels of awareness of cryptocurrencies, less than 1% of respondents had made a payment using the tech; and
- (d) highest conversion rate of awareness to active use goes to In-app payments pointing towards fast adoption potential.



* In the last 12 months

Source: RBA calculations, based on data from Roy Morgan Research

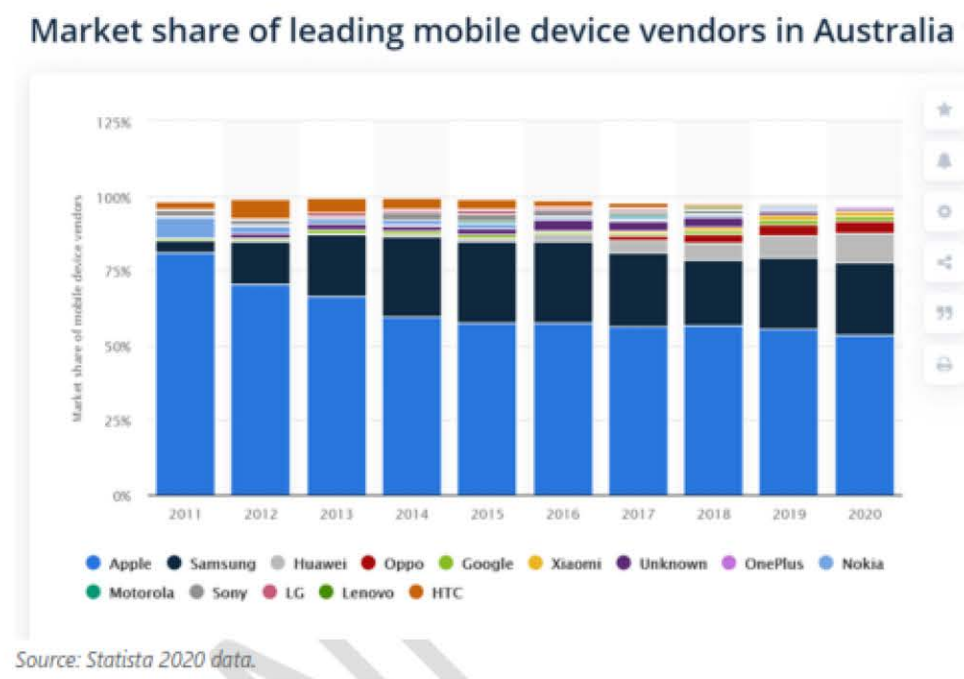
72 EPAL observes that innovations in P2P payment systems are being substantially driven by large global technology companies, who are able to leverage existing global product offerings (or related product offerings such as mobile phones) as well as third party social networks. For example, new P2P payment innovations that are occurring globally and are anticipated to be offered in Australia include:

- (a) PayPal recently announced that Australia will be one of the 21 markets to introduce QR code and potential PayPal entry with Venmo, which it owns, or Venmo-like features such as Emojis embedded in the payment flow with a social media component. Venmo allows users to pay family, friends as well as merchants. It can sync with social media accounts (such as Facebook or phone contacts).⁴⁴

⁴⁴ <https://venmo.com/about/product/>

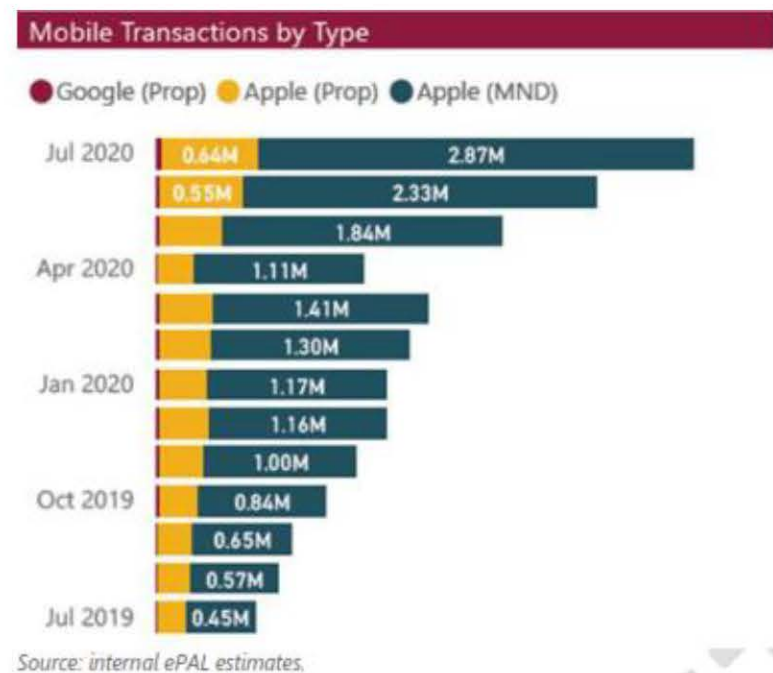
- (b) Apple Cash P2P is operational in a number of other markets. Apple Cash is expected to be a vigorous competitor to Beem It. Apple Cash allows users to send and receive money in the Messages app or make purchases using Apple Pay. Users can set up Apple Cash through the Apple Wallet and Apple Pay. Users can add money to Apple Cash through cards stored in the Apple Wallet. Money received by a user through Apple Cash is automatically stored on the users Apple Cash card, which can be found in the Apple Wallet. Users can transfer money from Apple Cash to their bank account.⁴⁵ Currently, Apple has a significant share of mobile transactions and Apple mobile phone devices supplied in Australia. **[Confidential to eftpos Payments Australia Limited]**. EPAL anticipates that Apple will easily be able to leverage its capabilities to promote the launch of its P2P product.

Figure 3. Share of mobile device vendors in Australia



⁴⁵ Apple, Apple Cash, <<https://support.apple.com/apple-cash>>, accessed 1 September 2020.

Figure 4. Estimate mobile transactions by type



Rise of Big Tech

- 73 In many countries one or two dominant wallets exist so the opportunity to secure a material position in Australia remains to be won.
- 74 While there is a spectrum of positions the competitors may take common themes tend to be:
- (a) strong use of data (Google Pay), often using AI to personalise experiences;
 - (b) provide access to many services in one place creating consolidation of existing apps (Alipay);
 - (c) available for day to day spend and central to consumers day to day lives;
 - (d) an integrated experience whether it be with the phone, across apps or with pre-existing services;
 - (e) increasingly shifting from payments to lifestyle and now the likes of Revolut and Google Pay taking on the role of financial management, meeting higher order consumer needs; and
 - (f) enormous scale (Swish used by 70% of the population, PayPal wallet has over 300mill users, Klarna is across numerous markets).

- 75 Increasingly the role of banks is at the risk of being marginalised as consumers see the wallet/app provider as being their main transactional relationship, with the movement of money being incidental:
- (a) Klarna started in instalment payments and is now a bank with transaction accounts;
 - (b) Apple Pay has prepaid balances and issues credit cards;
 - (c) Google Pay integrates into the consumers bank account; and
 - (d) Afterpay announced the setting up of a prepaid account.
- 76 The risk for banks is that they lose the transactional relationship and therefore the monies on deposit. These monies and the linked ability to lend are core to banking and a healthy growing economy. These entities often white label solutions and do not have costs and constraints associated with operating under a banking licence.
- 77 In many markets there is a proliferation of payment apps and it is expected these will rationalise over time and with shift to platforms for apps, similar to that which we have seen with Alipay. In Australia, Beem It has 1.5 million registered users (as at November 2020) and can be scaled quickly with new functionality to fill this void. Other eftpos functionality including connectID and QR could be used by other Australian apps to create other local alternatives via EPAL's API platform launched in 2020.

D. EPAL'S STRATEGY

- 78 There were a range of factors which influenced the setting of EPAL's current strategy, described in the following paragraphs **Error! Reference source not found.** to 82.
- 79 The trends that EPAL is observing from overseas, across three core themes, that it expects to also eventuate in Australia:
- (a) continued growth of debit and resurgence/relevance of domestic debit schemes:
 - i continued shift away from credit and towards debit and instalments (deferred debit);
 - ii shift away from cash and material sustained growth in cards volumes; and
 - iii the resurgence of domestic debit schemes in the majority of markets as they diversify their business and catch up with Visa and Mastercard (often into wallets and Digital ID adjacencies). Domestic schemes are now active and are retaking share. In addition, as national infrastructure providers they are often playing a broader role in payments apps, digital identity and beyond.

This natural broader national infrastructure role allows them to compete and differentiate from Visa and Mastercard.

- (b) increasing competition and innovation from widening range of players and platforms/technologies:
 - i continued focus on price competition between domestic schemes and Visa/Mastercard often supported by regulatory involvement to drive choice and lower costs for merchants and addressing potential sovereignty issues;
 - ii the emergence of “big tech” in payments;
 - iii the proliferation of fintechs with value-add experiences (which we are enabling through digital messages and APIs);
 - iv emergence of real time account to account platforms which have not as yet been successful, other than in a few instances, in taking share from cards but are taking share from traditional non real time payments globally; and
 - v examples of payment initiation capability widening through open banking style regulation with as yet limited scale as do not have existing “ecosystems” and often do not solve a problem; and
- (c) relentless shift to digital payments and enablement of richer experiences through digital wallets:
 - i shift from physical to online purchases and move from physical cards to mobile all on card rails;
 - ii continued lift in fraud prevention measures and tools as fraudsters shift to easier “pickings”;
 - iii move to paying on apps with one or two major winning “aggregator” apps in each market, hence our Beem It strategy. In most cases these remain on cards rails;
 - iv the shift to QR codes at acceptance to provide richer merchant and consumer propositions, hence our investment in QR orchestration; and
 - v the criticality and emergence of digital identity solutions that enable easier and safer digital transactions and commerce, hence our investment in connect ID.

80 EPAL are seeing many of these trends either taking place or likely to take place in Australia. Key trends in which Australia is lagging are:

- (a) the emergence of one or two dominant payment wallets;
- (b) adoption of digital identity; and
- (c) the shift to use of QR codes due to the early and dominant adoption of NFC.

81 At the time of producing the strategy in 2019 it was clear that the core eftpos business carried significant risks due to low and slow member support (issuing and acquiring), a continued decline in the proprietary book, slow and unreliable regulatory intervention and slow uptake of least cost routing. We were also a slow follower historically, driven largely by members and somewhat by eftpos and our pricing and rebate approach was not aligned with our competitors resulting in the inability to fund developments by our members. eftpos interchange was also materially lower than its competitors. However, the gap has now closed and our pricing models reward members who favour eftpos through strategic interchange rates and in fact issuers are now encouraging eftpos alignment for the timing of industry wide developments when they have the “bonnet open”, as is currently the case with SRC.

82 The combined view of the eftpos situation and the global view led management to propose a material shift in strategy to the board. The drivers of the new strategy were:

- (a) eftpos had been experiencing slow support from members who have entrenched deals with Visa and Mastercard and limited appetite to also support eftpos – this is a commercial decision, divorced from eftpos current functional capability;
- (b) less ongoing reliance on members (with the heavy lift on upgrading network capabilities nearing completion) to place more focus on consumers and merchants and where they can choose how they pay or are paid. This strategy also allows eftpos to both access customers directly but most importantly with a strong preference to better support its members delivering value to their customers allowing eftpos to compete for member support in a differentiated way to Visa and Mastercard;
- (c) a shift to a digital focus positioning eftpos at the centre of Australians digital lives and commerce with strategic investment in assets and capabilities that support this role;
- (d) target government advocacy for eftpos through a focus on meeting government needs;
- (e) diversification of revenue, roles and business model to create a more sustainable business; and
- (f) alignment to our purpose and vision.

- 83 The EPAL board approved what was called the “Horizon 2” strategy in August and October of 2019. Exhibited to this statement at Tab 8 of *Confidential Exhibit EPAL-1* is an EPAL Board update document dated August 2019, titled “Horizon 2 Strategy”. Also exhibited to this statement at tab 9 of *Confidential Exhibit EPAL-1* is an EPAL presentation dated 4 November 2020 “Why eftpos?”.
- 84 The business has largely aligned to the delivery of that strategy over the subsequent 18 months. The essence of the strategy was driven by clear domestic and global trends as discussed above:



- 85 The strategy aligned EPAL to have the purpose “of changing the way Australians pay for the better” with a vision to be “at the centre of the digital ecosystem”.
- 86 There was also a recognition that as EPAL lifted the pace of change the business needed to change the way it operated to ensure tight, efficient and agile delivery together with greater alignment to members.
- 87 Over the last 18 months EPAL has focussed on delivering this strategy. During the same period eftpos has seen continued growth in volumes and revenue.
- 88 Additional diversification opportunities are also being progressed including working with the Federal Government **[Confidential to eftpos Payments Australia Limited]** and building deposit capabilities across all ATMS including those that are not owned by the customer's bank.
- 89 Material progress has also been made in the way we operate with revisions to our operating model, greater clarity of roles, upgrading in talent across the business, tighter governance of delivery and stronger disciplines around member engagement and listening to the “voice of the customer”.

- 90 The efforts around member engagement have also been supported by a fundamental change in the commercial relationship. The shift to higher fees has allowed return of large rebates that are linked to delivery of the roadmap by members and deals are now in place that are effectively supporting this delivery agenda. The level of change and support by members since commencement of the strategy has never been higher. As the catch up on core capabilities is largely done the EPAL focus with members has been shifting to leverage eftpos assets to better meet member needs and continue to differentiate from Visa and Mastercard by doing so. The higher rebates, consistent with the Visa and Mastercard approach are supporting investments in these areas with members.
- 91 Bringing the strategy to life is creating a more diversified business which is less reliant on core eftpos volumes with Beem It, Connect ID, QR orchestration and ATM processing realising revenues in the near term from all payments types, not just eftpos scheme payments. This diversification both drives more core scheme volumes and creates revenue that allows the option of ongoing reductions in scheme fees to members.
- 92 EPAL is therefore well on its way to bringing to life its purpose and realising its Vision. This has been further supported by a brand refresh that is repositioning eftpos as a digital business, with the tag line "Good for Australia".
- 93 The August 2019 strategy continues to be directionally correct for EPAL however EPAL has made updates:
- (a) **[Confidential to eftpos Payments Australia Limited]** shifting to a Priority 1 solution on MND cards with bespoke product designs for a bank's target segments which is an initiative driven by the banks;
 - (b) shift to focus on differentiations for eftpos as consumers are increasingly having the opportunity to set their default as eftpos on their mobile;
 - (c) redesccribing the strategy execution to three themes being "Grow the Core", "Build Capability for digital future" and "Transform the payment experience";
 - (d) creating greater clarity around the target customer/merchant experiences and how we can more show how we "change the way Australians pay for the better" in a more tangible way; and
 - (e) a shift from capability build focus to customer propositions and differentiation.
- 94 Visa and Mastercard remain key competitors in the "Grow Volume" and "Build Capability" themes however for the "Transform" theme the current and future competitors will include "big tech" and NPP.

- 95 The business diversification, repositioning and sustainability are well evidenced by the current net revenue forecast in the document at tab 5 of the bundle of document at *Confidential Exhibit EPAL-1*.
- 96 The eftpos strategy is driven by a clear purpose of being “Good for Australia”. This is achieved by:
- (a) supporting the protection of sovereignty of payments and data through strong Australian owned payments scheme, everyday wallet and digital identity solutions;
 - (b) supporting financial institutions (and strong deposit base) by enabling richer payment experience for their customers without disintermediating the relationship; and
 - (c) shifting to the middle of digital experiences to directly compete with Big Tech while making Australia more efficient.
- 97 With the building of core eftpos digital capabilities nearing conclusion, eftpos will continue to shift its focus to these above rails innovations and investments through its proven ability to:
- (a) innovate;
 - (b) be agile
 - (c) deliver world class solutions through low-cost integration of solutions available globally; and
 - (d) understand customer needs.
- 98 See Part G Counterfactual, paragraphs 157 to 159, for details of eftpos’ achievements against the 2019 eftpos strategy to date.

E. POTENTIAL DETRIMENTS FROM THE PROPOSED AMALGAMATION

- 99 EPAL has considered the potential detriments to EPAL from the proposed amalgamation and its view of the potential detriments were presented to the Board Exhibited to this statement at tab 10 in the bundle of *Confidential Exhibits EPAL-2* is attachment 16 to a Board paper presented to the 11 November 2020 EPAL board meeting entitled “Management assessment of consolidation implications for eftpos” and at tab 11 in the bundle of *Confidential Exhibit EPAL-1* is a document entitled “*Attached 1 – Details Risks and Benefits*” which was an attachment to the document at tab 10 of the same bundle. At the same time, EPAL engaged a consultant, Peter Crone, to develop a model showing the consequences to merchants of a weaker eftpos or the removal of eftpos in the short to medium term. Exhibited to this statement at tab 12 in the bundle of *Confidential Exhibits EPAL-2* is the Peter Crone report. The Board did not conclude whether amalgamation was in the best interests of eftpos after

considering the benefits and detriments and risk assessment, but rather deferred the decision whether to proceed with consolidation to the eftpos members at a set of member class meetings.

100 [Confidential to eftpos Payments Australia Limited]

- (a) [Confidential to eftpos Payments Australia Limited];
- (b) [Confidential to eftpos Payments Australia Limited];
- (c) elimination of areas of competition across 3 entities (public interest issue) creating risks to volumes eftpos relies upon to operate and invest in a sustainable business. Areas of risk on volumes include online purchases, deposit and withdrawal use cases and over time retail transactions [Confidential to eftpos Payments Australia Limited];
- (d) diversion of focus and resources during consolidation / momentum (this is a current issue which is impacting delivery to EPAL's strategy);
- (e) [Confidential to eftpos Payments Australia Limited];
- (f) [Confidential to eftpos Payments Australia Limited];
- (g) increased bureaucracy – complex to get decisions made, less agility ; and
- (h) [Confidential to eftpos Payments Australia Limited].

101 [Confidential to eftpos Payments Australia Limited]

102 It is recognised that some protections have been afforded eftpos in the Newco structure however with 5 of the 19 members required to block any material change to eftpos and with the need for 5 members to block a material change, the long term effectiveness of the protection is uncertain. In addition, with potentially only two independent acquirers represented on a thirteen member board their ability to either initiate initiatives to enhance or block decisions that are to the detriment of eftpos on their own are non-existent.

103 EPAL, BPay and NPPA are not the only stakeholders for whom detriments (and benefits) of amalgamation need to be considered. The public benefit must also be considered. The document at tab 12 of the *Confidential Exhibit EPAL-1* assesses the impact to merchants and consumers if the current momentum that EPAL has in competing with Visa and Mastercard is arrested through the amalgamation process or as a result of amalgamation.

104 The parties have a degree of overlap in each of the areas of operations identified in Part C of this statement.

105 Given there is a direct competitive overlap:

- (a) between NPP and EPAL (with Beem It and also eftpos deposits/withdrawals) in P2P payments (both card to account and account to account transactions) and in future in POS given NPP's mandated payment service and publicly stated intention to compete in retail payments; and
- (b) between EPAL and BPay in digital identity; and
- (c) for high value of eCommerce transactions between NPP and EPAL; and
- (d) between NPP and EPAL for QR codes,

it is likely that the Board and management of NewCo will select one only of their subsidiaries to support for any overlapping product or service. Not all of the areas of overlap are on the NewCo roadmap. For example, Beem It's digital wallet and digital identity which are not in the NewCo roadmap. Further, the corporate entity structure proposed for EPAL will enable dividends to be declared in favour of NewCo and for the funding that would support these initiatives to be shifted within the group. The checks and balances in the governance structure do not ensure support for these EPAL strategic initiatives where there is potential future competition between the entities which has already been announced.

106 Any loss of support for the EPAL strategy will very likely have a negative effect on its ability to compete with the ICS in the medium to long term which will very likely have a flow on effect on downstream pricing, when merchant fees increase, the merchant either accepts the increase as a cost of doing business, seeks to recoup the increase through surcharging for the payment method or spreads the increase across its pricing for goods and services. In the second and third options, the merchants are passing on the cost increase to consumers and so the effect on merchant service fees as explained by Mr Crone (see the document at tab 10 in the bundle of Confidential Exhibit EPAL – 2) of removal or weakening of a competitor (such as eftpos) is likely to be reduced margin (and impact on growth) for the merchant or increased pricing for consumers. This equates to a public detriment rather than a public benefit if a vibrant and competitive eftpos is not maintained if consolidation occurs.

Big Tech

107 There is a risk that Newco and its owners will focus more on rails based investments than continuing the eftpos strategy of above rails competition with Big Tech.

108 There has been much discussion about potential synergies across rails, synergies at a share services level and the avoidance of overlapping investments

- 109 We need to be strong in POS and Digital and any weakening on eftpos in these areas will mean eftpos cannot compete effectively with Big Tech driven either but lowering of income or lower functionality. Perhaps the greater strategic imperative for the owners of Newco and Australia is to provide protection from Big Tech and this is a fundamentally different strategy than one that is focussed on rails efficiency. It is unlikely the investments funds are available to pursue both with ambition and vigour. There has been almost no articulation of the role of Newco beyond that of rails and there is a real risk that Newco can only afford to focus on potentially poor business case based rails investments or above the rails competition with Fintech but not both.
- 110 If indeed the focus is on rails efficiency, and investment is not available to compete with Big Tech then there are most significant data and payments sovereignty risks for the Australia that may be less likely to be checked through endeavours of individual Newco owners.

F. POTENTIAL BENEFITS FROM THE PROPOSED AMALGAMATION

- 111 EPAL has considered the potential benefits to EPAL from the proposed amalgamation, which were presented to the Board. The documents at tabs 9 and 10 of *Confidential Exhibit EPAL-1* identified and assessed the potential benefits of amalgamation and whether they were certain (likely) or uncertain.
- 112 The potential certain benefits of the proposed amalgamation for EPAL are:
- (a) clarity of eftpos role once/if defined with certainty enabling eftpos to invest and compete with certainty;
 - (b) short to medium term reliance on core eftpos infrastructure may well create some opportunities due to high cost of change (and continued innovation), end to end, for NPP combined with its capability gaps including the ability to support retail payments and the different role than Account to Account tends to play globally;
 - (c) retention of member support in the short term through mandates albeit that the heavy lifting on digital has been done in the absence of mandates to date; and
 - (d) greater talent pool for flexibility / career for eftpos team.
- 113 EPAL also identified that there are uncertain potential benefits from the proposed amalgamation for EPAL:
- (a) enhanced competition with global players (when banks could choose to do so today);
 - (b) greater innovation / speed / agility, albeit rarely does scale increase agility;
 - (c) RBA support/ greater alignment;

- (d) Newco supports a rails agnostic Beem It;
 - (e) Newco recognizes eftpos capability and upweights its role; and
 - (f) more senior Board equals additional member support. However, the evidence is that this has not been the case for NPP to date.
- 114 Possible stated benefits of greater innovation, more efficiency and greater ability to compete with Visa and Mastercard are positive and desired, however remain uncertain and do not accord with the eftpos experience and the level of additive value if realised to the eftpos counterfactual scenario remains uncertain. Clearly demand should drive innovation, not funds available to invest and without greater certainty is it unclear how effective or targeted innovation will be.
- 115 Any public benefits likely to accrue from the proposed amalgamation will arise primarily from efficiencies and synergies between merging BPAY with the NPP given that NPP infrastructure supports BPay offerings (both current and proposed⁴⁶). While a merger between BPAY and the NPP would likely reduce the future number of consumer services offered in the market for other account to account payments, it provides potential efficiency benefits through vertical integration. Most of the efficiencies and synergies, as indicated in the Bain Report to the Industry Committee which is part of the compendium, are likely to come from the merger between BPAY and the NPP as they appear to be operating in the same product space. On the other hand, there is no evidence that the efficiencies and synergies referred to in the compendium from the inclusion of eftpos are likely to arise, save for potentially cost savings arising from the rationalisation of managerial oversight functions.
- 116 The benefit of consolidation for eftpos is that the largely supported and funded roadmap has been formalised through the establishment of mandates that may lift the potential enforceability of the remainder of the roadmap with members.

Big Tech:

- 117 The position with an eftpos lens is that consolidation creates risks and uncertainties. Nonetheless an alternative scenario is possible where Newco is driven by:
- (a) rational business cases that best use existing capabilities rather than a rails preference;
 - (b) a rails preference based upon what existing or near existing capability best meets the use case;

⁴⁶ BPAY Group Pty Ltd (2020) Submission in Response to the RBA's Review of Retail Payments Regulation, Sydney, p. 2.

- (c) a clear strategy to do “Good for Australia”;
 - (d) a long-term view of the direction of payments and the real competitive threats from Big Tech’s for Australia and its owners; and
 - (e) a recognition that Visa and Mastercard influence is entirely in the hands of the banks today due to the banks’ preferences giving them that level of influence.
- 118 Should this shift be made and the NewCo entity display these characteristics then the benefits of consolidation could be significant:
- (a) focus on investments and priorities of more strategic value for Australia;
 - (b) richer payment experiences to use the best of each current entity; and
 - (c) financial might to shift investment to take on the Big Techs.
- 119 For these benefits to materialise, the purpose of Newco, the clarity of strategy and many elements of governance will need to be considered to better ensure this outcome is achieved and protected for the long term, together with a willingness to compete. To enable certainty that this outcome is delivered and it is the optimal solution for Australia and key stakeholders there would be need to be greater formality and “lock in” of what Newco will and will not be able to do and the right balance of voice are heard than exists in the governance proposed today. This approach may address many of the certain risks and uncertain benefits today.
- 120 Benefits for eftpos should this strategy be pursued are:
- (a) support for its assets;
 - (b) endorsement of its strategy and purpose;
 - (c) a level playing field based upon rational business cases to play a wider role in more use cases.
- 121 Benefits for members should the strategy be pursued and supported are:
- (a) better collective ability to compete with Big Tech with aligned investments through a focussed organisation; and
 - (b) strategic alignment with creating value for their customers

G. COUNTERFACTUAL

- 122 Absent consolidation, eftpos would continue to execute its existing well-defined strategy and roadmap (described above) which will see it maintain or increase its position and relevance in

the evolving payments landscape in both the core scheme business and additional complementary services. It is important to highlight that the future is uncertain and while potential benefits of consolidation are uncertain how and how effectively eftpos competes is also uncertain as is the effectiveness of its strategy. Nonetheless on balance eftpos management are significantly more positive about the outcome for eftpos in the counterfactual than in consolidation.

Overview

- 123 eftpos consciously established a strategy (see Part D of this statement) that addressed core risks and material global trends in paragraphs 138 to 144 of this statement to shift the eftpos business model and role to be broader, more centred in digital and far more diversified, reducing reliance on member support beyond the core message set capabilities and enhancing its ability to compete with international Big Tech. eftpos is no longer a card based business or only a domestic debit scheme. This fundamental shift changes its future and its risk profile.
- 124 Strategy execution is well underway, and by mid-2022, eftpos will be a transformed business and the experience for Australians will also change for the better.
- 125 The success of that strategy is largely in eftpos' hands with the only reliance on members being delivery to the technical roadmap. Financial incentives and mandates have proven to be effective in motivating member support to date with the bulk of the development work already completed with members supporting a higher pace of change than at any time of history.
- 126 Execution of the roadmap is unlikely to place any prohibitive financial burden on the banks because eftpos is self-funded, low cost and provides rebates to the banks to cover a significant portion of their implementation costs (in addition to interchange income from which they benefit). The forecast provided in the document exhibited at tab 5 of *Confidential Exhibit EPAL-1* shows the affordability of the eftpos strategy based on current pricing.
- 127 New revenue streams and eftpos only propositions enhance eftpos' economic viability in a less cash economy in areas such as digital identity, mobile wallets, eCommerce, ATM processing and cash out. These areas deliver revenue and also are additional sources of allied transactions processed by eftpos.
- 128 There is a range of evidence to support the proposition that debit card payments (in Australia as well as globally) will continue/ expand their relevance in payments despite the changing landscape, and that eftpos is and will remain a strong competitor providing valuable price competition and a sustainable low-cost routing solution at POS and in eCommerce.

Self-funded

129 Over the last three financial years to June 2020, issuers received a net benefit from participation in the eftpos payment system. This supports eftpos' assertion that it is self-funding and has not called for investment from members. The aggregate details are below noting that for the last 12 months specific details are set out in the tables in paragraph 25:

[Confidential to eftpos Payments Australia Limited]

- (a) While eftpos members pay scheme fees and infrastructure fees to eftpos, eftpos refunds a portion of those scheme fees to members to fund developments that support eftpos. These are known as rebates or refunds.
- (b) Issuers are the recipient of interchange fees paid by acquirers for each eftpos transaction (other than cash out, for which the interchange is reversed and payable by issuers to acquirers).
- (c) Acquirers pass interchange and scheme fee costs on to merchants through the merchant service fees they charge and have also received fee rebates. They have also had a much lower change burden than issuers and receive revenue from cash out interchange, as well as lower fees for sustainable LCR implementation across POS and eCommerce
- (d) In 2018, eftpos increased its scheme fees to provide a greater pool of funds to be rebated to members to support developments. However, even before that 2018 fee increase and commensurate increases in rebate pool, issuers were net beneficiaries from eftpos through the interchange yield. This strategy has effectively garnered significantly greater support and pace of change from members.
- (e) All eftpos Members have benefited from centralised hub-based architecture, streamlining development and saving issuers and acquirers development costs.
- (f) Pricing options to increase interchange revenue in return for eftpos support are available to issuers to create even greater incentives for roadmap development and increase competition with global players (a stated objective of the consolidation)
- (g) Similarly, pricing options to increase benefits to acquirers are also available to create even greater incentives for roadmap development and increase competition with global players (a stated objective of the consolidation).

130 It is important to highlight that while members have had to support the capability catch up required by eftpos (to be at functional parity with Visa and Mastercard), as referenced in paragraph 90 above over the last few years, the future roadmap has limited demands on members but significant additional choice for eftpos-only product capability:

- (a) Acquirers can comply with most roadmap items by supporting the change in transaction flow to “switch to issuer” which is a relatively small project, consistent with current Visa and Mastercard capabilities.
 - (b) Issuers already support the eftpos digital message set, therefore the work to be done is not major:
 - i 3DS is delivered by an external vendor to issuers and eftpos is working with the external vendors which minimises the effort for issuers
 - ii Fraud score enhancements are optional and require integration into existing bank tools if a member wishes to take advantage of the new service
 - (c) As has been the case over recent years, funding of work will continue to be largely paid for through fees rebates. **[Confidential to eftpos Payments Australia Limited]**.
- 131 Moving forward, rebates will be more aligned to driving growth of the member business by supporting eftpos, with a focus on areas that enhance payments experiences for members customers. Pricing and rebate changes introduced in 2018 mirror the pricing and rebate structures used by the international card schemes to cover the cost of development work and other related activities such as marketing as well as drive volume growth reinforcing the ongoing and historical position of issuers being net beneficiaries from the eftpos scheme.
- 132 The significant shift in eftpos strategy and material lift in capability (including Beem It acquisition, build of Connect ID and build of QR Orchestration) has and will continue to be funded by eftpos with no additional investment into eftpos being sought from members.
- 133 As the current eftpos roadmap (already in build and mandates now effectively agreed to ensure market wide support) reduces member effort over time and core messages have been built, any future issues of overlapping investments and duplicated costs will only arise where BPay or NPP seek to duplicate functionality.
- 134 eftpos’ low-cost network proposition also enables it to continue to compete with International Card Schemes (ICS) on price and sustainably grow market share in LCR, including in new eCommerce applications, without consolidation, as mentioned in Part D. eftpos is no longer competing only on price or simply catching up with ICS, eftpos is differentiating and its strategy is delivering better customer experiences and value.
- 135 Once the necessary IT development has taken place, which is almost complete with minimal work being required from banks, little further support is needed from financial institutions for eftpos to compete with the ICS in online payments, because gateways that connect merchants with multiple acquirers will seek out the lowest cost solutions for merchants and promote those solutions to merchants. This does not mean there is not a role for banks to play

should they choose however eftpos will not be reliant on the support. Support from banks to accelerate eftpos growth includes marketing of services to their customers, proceeding with a priority 1 MND proposition and supporting the roll out of QR to their merchants.

136 [Confidential to eftpos Payments Australia Limited]

137 [Confidential to eftpos Payments Australia Limited]. eftpos is driven by its sense of purpose and is highly commercial in its approach. Collaboration and partnering is in its DNA as it is in essence a solution integrator today and regardless of consolidation it will continue to engagement with other parties, including competitors in non competing activities that are of mutual commercial interest.

Viability of domestic debit card schemes and eftpos in particular

138 The following evidences the continued viability of domestic card schemes and eftpos in particular:

139 *Payment method comparison (Australia)*

- (a) eftpos (the entity) was established in 2009 as both the regulator and banks recognised that the eftpos debit system required operational oversight.
- (b) From the time of its incorporation, recognising the threat and aggregate effect of conduct by the ICS, eftpos followed a deliberate plan to build capability and diversify. This is evidenced by adoption of a common set of scheme rules which replaced the spiders web of bilateral interchange agreements between the then participants and facilitating new entrants (2010), adjusting its pricing model to enable competition (2011 and each year since), through development and progressive rollout of chip and contactless cards (2012/3), centralised processing (2013/4) and then settlement capability (2015), development and progressive rollout of mobile and tokenisation functionality (2016/7-2020), through to online enablement (2019), acquiring a digital wallet and building digital identity solutions (2020). In ten years, eftpos has evolved from a behind the scenes set of bilateral agreements relevant for point of sale only to a dynamic business, matching the capability of ICS for local demand at point of sale, for mobile and in online, diversifying into a digital wallet and digital identity business. As such, eftpos is no longer a card-only at point of sale business, and has grown into a diverse business with competitive digital capability and significant eftpos-only payments and non-payments functionality. eftpos sees that as continuing even without consolidation.
- (c) Part C of this statement has tables that show the continued growth of debit card transactions in Australia, supported also by the PSB Annual Report 2020. Cards, and debit cards in particular, are by far the most frequently used means of transacting in

the economy. They are also the primary source of competition in Australia (70%), as demonstrated by the RBA's Retail payments Statistics, October and November 2020. The table below shows the total volume of different payment methods, for cards, see the "total card purchases on Australian issued cards"

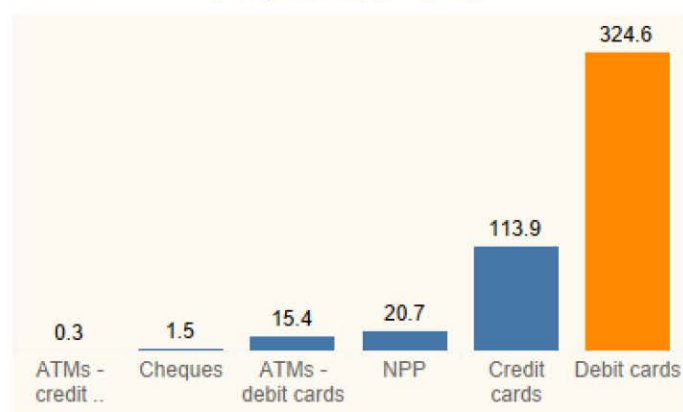
Number of Retail Payments

	Number (Million)
	Nov 2020
ATM withdrawals	33.3
Total card purchases on Australian-issued cards	1005.6
<i>of which: Credit and charge cards</i>	255.9
<i>of which: Debit cards</i>	749.6
Cards on issue	58.9
<i>of which: Credit and charge cards</i>	18.4
<i>of which: Debit cards</i>	40.5
New Payments Platform transactions	62.1
Cheque payments	3.2

Source: RBA

The table below shows the total number of debit card purchases in Australia, per person, per year:

Number of debit card purchases in Australia,
per person, per year



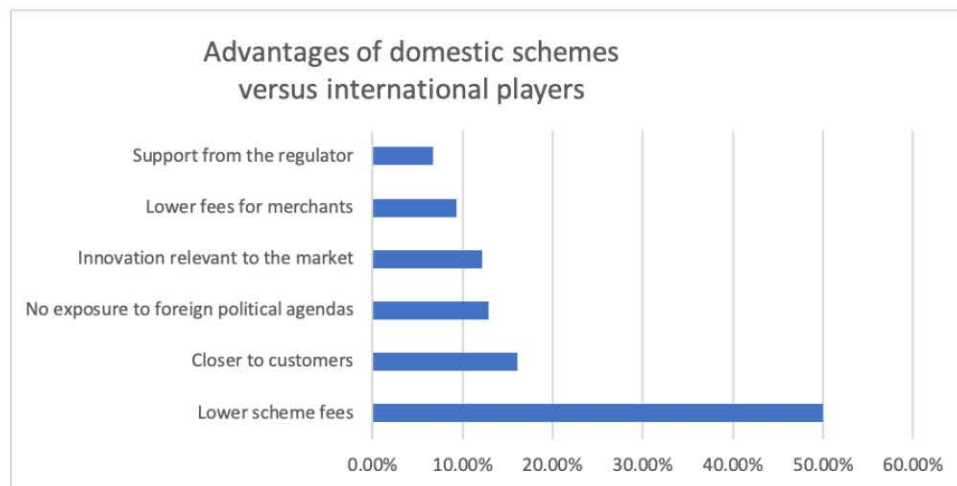
Source: Underlying data from RBA retail payments statistics, Oct 2020; ABS

- (d) Debit transactions and card rails are the most frequently used payment method for at least the medium term and card is currently competing with account to account in many markets, seeing material growth in card-based transactions globally. Note also that market share comparisons using only the aggregate value of transactions can be misleading.
 - i Volume data, rather than value data, is the only reliable and true measure of payment method success and efficiency, particularly in an increasingly less cash economy.
 - ii Volume represents scale and scale drives down unit price which goes to the efficiency of the method. Volume data (rather than aggregate value data) also indicates the extent to which electronic payments are replacing cash payments.
 - iii Value is variable for any number of reasons, including consumer sentiment, whereas volume indicates instances of usage or actual demand.
 - iv As such a combination of volume and average ticket size data best indicates the success of an electronic payment method.
 - v Payment systems suited to high value but a low volume transactions may not be suited to high volume low value transactions or the rapid transaction response time needed for retail payments. Organisations with large value payments often use value data to show a skewed comparison of the relative cut through and success of those other payment methods.
- (e) Note that for November 2020, card transactions grew 17% in volume terms in Australia, according to published RBA data. Page 107 of the directional draft ACCC application filed with the ACCC refers to the volume and market share of eftpos within call card payments and then against debit. It is worth noting that:
 - i all card payments includes credit and online as well as POS
 - ii debit market volumes include online (and as noted in this document, eftpos has been activated comparatively recently for online by some but not all banks); and
 - iii eftpos has grown in volumes since 2009 as the market has grown (albeit not that the same rate due to a number of factors including late introduction by banks of least cost routing as a mitigant to contactless priority one being given to the ICS, late activation by banks of eftpos functionality for online, priority implementation by banks of ICS in mobile and no back book access).

- iv despite COVID 19, and a shift to online payments, eftpos has year on year growth in volume.

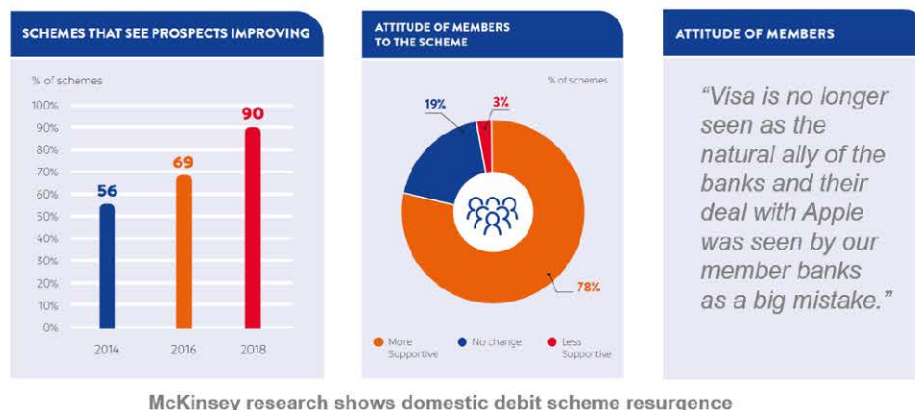
140 *Research by the Payments Innovation Jury (Overseas performance of domestic debit card schemes)*

- (a) Extensive research by the Payments Innovation Jury (in association with the World Bank) which is due for publication in March 2021 reveals the strength of domestic payments schemes (94% are card schemes and/or switches, 3% operate mobile payments and 3% operate acct to acct payments), especially during the COVID-19 pandemic.
- (b) As the pandemic has pushed more and more services online, mobile and app-based support for ecommerce is the top area for innovation, with enhancements to card products (again many of them mobile based) in second place. Digital identity is also a frequent priority as secure, remote forms of identity verification are being seen as important by public authorities and national solutions are favoured over less secure global approaches.
- (c) This data clearly demonstrates that as some domestic schemes were slow to develop their e-commerce offerings, because their bank owners preferred to offer restricted functionality cards, this situation has changed radically as the domestic players have innovated new services and enhanced competition.
- (d) Care must be taken when referring to research to ensure it is up to date. Over time, the research from the Payments Innovation Jury has shown the identification by domestic schemes of the source of decline risk and innovations being implemented and approaches being taken to drive locally focussed innovation and price reduction to compete with Big Tech companies like Visa and Mastercard. Contrary to being proof that domestic schemes are struggling, it is proof of the competition and customer service orientation and local focus of domestic schemes.
- (e) According to the new research, in terms of the advantages of domestic payments organisations versus international competitors, there are many. Lower scheme fees to participating organisations represents the fundamentally more efficient operation of domestic payments schemes. Lower schemes fees in turn results in lower fees to merchants. But the advantages go beyond the purely financial. In aggregate the benefits of having innovation relevant to the market of being independent of exposure to foreign interference and of being closer to the customer are almost as important as the financial efficiency considerations.



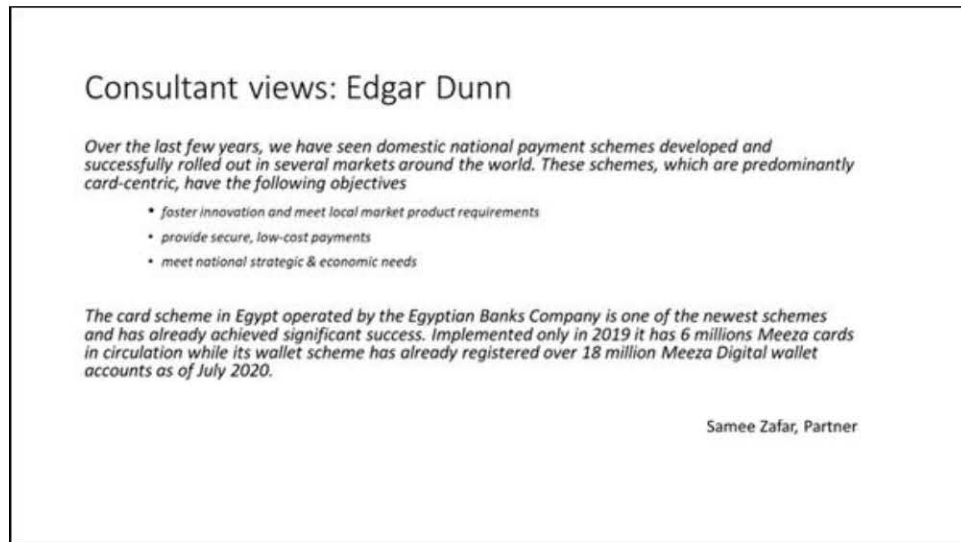
141 *McKinsey Report in 2017* – this similarly reported domestic debit card scheme resurgence, with the main drivers being:

- (a) innovation to meet end consumer and merchant needs;
- (b) issuing banks concerns relating to Visa/Mastercard;
- (c) merchant choice; and
- (d) central banks' concerns around sovereignty risk/profits going offshore.



McKinsey research shows domestic debit scheme resurgence

142 More recently, Edgar Dunn comment (taken from presentations to the Industry Committee) has also published commentary about the benefits and success of card-based domestic schemes around the world.



- 143 *Case study example* - New domestic card scheme reinstated in Brazil. The first significant domestic card scheme developed in reaction to the unwelcome dominance of the big international schemes was in Brazil when a card acquiring organisation reacted by developing the elo scheme (now owned by banks) which, by developing a uniquely Brazilian personality, became a major player in a very short timeframe.
- 144 Competition between domestic debit card schemes and international debit card schemes:
- (a) In many countries, concern about the dominance of ICS Big Tech in payments is shared by Governments, regulators and banks.
 - (b) There are more than 30 domestic card schemes and their resurgence is the result of one or more of the following drivers:
 - i Government led motivated by concerns of dominance of international schemes and desire to better address local needs at an overall lower cost. Examples being Russia, India and Saudi Arabia.
 - ii Concern by banks and regulators of the power of international schemes and the desire to better access some of the profits they take. Examples being Belgium and Brazil.
 - iii Domestic schemes now competing actively in eCommerce and mobile and taking share back, with this being a common theme.
 - iv Domestic schemes widening their role expanding into areas of natural capability and extension to their historical role in a digital world including wallets and digital identity. Norway and Canada are examples.
 - v A combination of many of these factors, with Malaysia being a good example.

- (c) In some markets, the tactics of ICS to use unregulated tools such as Rules and fee structures to gain market share and force domestic players out of markets has created a need for such support. Markets that have lost domestic schemes also require significant regulatory intervention or may suffer from the impact of less price competition in areas when regulation does not exist. While there has been a lag by domestic schemes in taking up new technologies with online being an example, eftpos are now seeing domestic schemes enter online and in doing so they are taking back share. Further case studies to be provided shortly.
- (d) Domestic schemes have been slower than Visa and Mastercard to implement EMV based changes and this has been partly because Visa and Mastercard have a head start given they are equity owners of and second staff as developers to EMV Co, with each development giving the BIN owner (ie ICS) primacy. As such, domestic schemes (as “business associates” but not owners of EMVCo) get delayed access to every new standard/specification and typically there has been no thought given to how a multi-network debit card or form factor would function within a specification. Nonetheless the ability to quickly follow Visa and Mastercard, at a relatively low cost is becoming increasingly more possible as global suppliers support card-based platforms:
 - i the token platform that eftpos operates is now owned and used by Visa;
 - ii the disputes and chargebacks platform that eftpos operates is owned by Amex (also an equity partner of EMV Co);
 - iii eftpos’ proposed SRC solution is built by the same supplier that supported Discover (also an equity partner of EMV Co);
 - iv the 3DS tools are provided by the same two suppliers that the banks use for Visa and Mastercard; and
 - v the Fraud tools eftpos are implementing are supported by a global player.
- (e) Being a fast follower of technical change in this way does not prohibit the ability of domestic schemes to compete or innovate independently of ICS.
- (f) While a stated objective of consolidation, the ability for eftpos to compete with Visa and Mastercard and the speed of capability development is significantly within the control of banks today but has not been taken up:
 - i Banks could have rolled out eftpos mobile, digital transactions, NFC on cards much faster as eftpos’ specifications for each were available years before rollout by banks, however they have chosen to prioritise support of Visa and

Mastercard ahead of eftpos. Mobile and NFC take up by banks are just two examples where it has been slow bank take up rather than eftpos capability that has slowed down the maintenance of parity of features. Evidence of this is:

- (A) eftpos made its contactless card and terminal specifications available to eftpos Members in 2012, but it was not until 2017 that the tipping point in chip and contactless card issuance and terminal upgrades was reached across all banks to support rollout;
 - (B) the May 2017 encouragement communication from the RBA to ensure tokens representing both applications on an dual network debit card could be enabled, rather than mobile functionality being built for one application only; and
 - (C) the significant gap in timing between ANZ rollout of eftpos mobile for Apple Pay and that of the other three major banks.
- ii Banks could change all cards to have eftpos priority 1 on the chip today and eftpos could match Visa and Mastercard rebates to support due to the RBA net compensation rule that caps rebates at the scheme fees paid by issuers (per RBA issued *Standard No 2 of 2016: The Setting of Interchange Fees in the Designated Debit and Prepaid Card Schemes and Net Payments to Issuers*)
- iii Banks could choose to route all transactions where eftpos is cheaper today for both card present (commenced by some banks in 2017 for limited merchants) as several have indicated they should in various media statements, and card not present (now being activated by major banks after being available since 2019) and share in the profits now being enjoyed by Visa and Mastercard
- iv This is particularly important given the growth of debit in Australia. Debit is clearly the most commonly used retail transaction type in Australia and volume continues to grow as shown by the latest [RBA numbers](https://www.rba.gov.au/statistics/frequency/retail-payments/2021/retail-payments-0121.html), see RBA Retail Payments statistics January 2021
<https://www.rba.gov.au/statistics/frequency/retail-payments/2021/retail-payments-0121.html>
- v Visa and Mastercard are only ever a competitive threat if the banks let them be so as they only provide services through these intermediaries.

- (g) Consolidation in and of itself will not improve the chances of eftpos (or the consolidated entity) to compete with Visa and Mastercard, nor improve eftpos' momentum or agility.
- (h) Despite the above, domestic schemes (including eftpos) have shifted their focus to meet local market needs better than Visa and Mastercard and in fact operate in areas that are different to Visa and Mastercard whilst addressing sovereignty risks through onshore processing. We are seeing domestic schemes also diversify into areas including payment wallets and digital identity to make their role more relevant and compete in different areas than Visa and Mastercard. This is the reason why the eftpos strategy seeks to diversify the revenue streams (processing services, Beem It, connectID and QR codes) and rely less on bank support or core volumes to sustain the business – a strategy which is well underway (and a model proven in other markets).
- (i) Increasingly, competition and value add will be “above the rails” sitting on top of core messages flows, using apps and with capabilities accessed via easily integrated APIs. This is possible as card-based platforms can have easy access to innovation. We have seen mobile payments and payment apps, for example, being largely cards based because the platforms are established, with centralised architecture and workable common rules and pricing that facilitate and incentivise speed to market. Just a few examples where this has been done are:
 - i Apple Pay, Google Pay and Samsung Pay that have enabled rapidly scaled retail mobile payment services using cards-based rails rather than developing their own payment networks, despite their respective scale and capabilities to pursue independent alternatives;
 - ii Beem It rapidly launched a P2P payment service, including a request to pay experience, outside of bank channels using card rails, similar to services launched in US (e.g. Cash by Square) and Europe (e.g. VIPPs in Norway) that followed similar paths;
 - iii various BNPL offerings;
 - iv loyalty solutions; and
 - v the first contactless cards were developed by the Seoul Bus Transport Association working closely with the BC Card and Kookmin domestic card schemes in Korea.
- (j) As such, the notion that you need to create new plumbing to drive payments innovation is flawed. Gradual evolution can and does completely transform a

platform, as it has done in other network environments such as the internet which is now 50 years old and continuing to inspire innovation.

- (k) This type of “on top of the rails” innovation is no longer the exclusive domain of banks, but also merchants, international card schemes and Fintechs, as well as merchant-based Fintechs. Domestic schemes such as eftpos can and do play an important role in cards-based retail innovation by working closely with local merchants in digital experiences, including LCR in eCommerce, digital identity (connectID) and data rich consumer experiences through APIs in QR Codes.
- (l) Given the local nature of these non-network innovations above the rails, banks and other network participants can take advantage of them, while also taking advantage of ICS global product pipelines. These are not mutually exclusive.
- (m) Malaysia is an example where the domestic player was able to both meet local merchant needs and satisfy the regulator’s demand for low cost services to out-compete the ICS.
- (n) The document which is tab 12 of the *Confidential Exhibit EPAL-1* is a report prepared by Peter Crone, economist, which shows the consequences in terms of costs to merchants, and therefore likely the broader economy, of a weakened eftpos which is likely to occur if volume is moved from EPAL to NPP in the short to medium term, and/or focus is removed from eftpos competing with ICS.

Fit for purpose infrastructure

145 eftpos’ infrastructure is designed to support change occurring in a centralised way which minimises the effort for Members and enables speed to market at a low cost. A substantial portion of the change needed to deliver eftpos strategy has already been undertaken by Members. During IC discussions, comments were made about legacy infrastructure.

146 eftpos’ platform:

- (a) is 6 years old and is the same as that operated by hundreds of payments providers globally with a scale materially higher than the total Australian market;
- (b) has high resilience with no technical debt (updated at regular intervals several times a year) and, being active/active in design, the system has never been down;
- (c) has very low latency, with very low being around 300ms end to end for transactions (actual time in switch is around 32ms), which is critical for the retail environment; and
- (d) is highly secure, using global best practice and global expertise. The supplier to eftpos operates more than 36 similar switches globally;

- (e) Continued evolution of the infrastructure using best in class cards-based capabilities globally (the fraud tool as an example with its Gartner top right quadrant ranking).

147 The facts about the eftpos message set (AS2805) are:

- (a) eftpos transactions are authorised real time at the time of the transaction and settled to merchants same day – this is better than Visa and Mastercard which can be pending for up to three days for international transactions;
- (b) eftpos is real time for the cardholder (ie the funds are notionally debited from the cardholder's account real time with the transactions so the cardholder has certainty of account balance);
- (c) eftpos is effectively real time between sender and receiver accounts using its Deposit and Withdrawal messages (ie funds are debited from the payer and credited to the payee real time for these transactions, with settlement between members occurring within 1 business day);
- (d) merchants access funds same day based upon the practices of many acquirers (ie acquirers make the funds available to merchants real time as a matter of practice and carry the very low settlement risk themselves);
- (e) additional data elements can be efficiently connected to the transaction through unique transaction references allowing for rich additional data, rather than being built into the transaction;
- (f) ISO20022 is too slow for the retail environment as currently designed and implemented through other services in Australia. In a recent RBA consultation aimed at the migration of a number of clearing stream payments utilising RITS for settlement, cards were specifically excluded.

148 Debit card platforms using AS2805 technology are processing and supporting significant technology innovation globally (ie as ISO8583), including examples such as:

- (a) mobile payments;
- (b) P2P payments;
- (c) Digital identity;
- (d) mobile wallets;
- (e) QR Codes; and

- (f) Buy now pay later – in Australia the majority of these transactions run on debit card networks.
- 149 Cards, globally, do not operate on ISO20022. As eftpos is effectively real time, low cost and has rich message sets, the major issues that A2A solve in some markets do not exist for retailers in Australia.
- 150 Sweden is one of the few markets where A2A is venturing into retail, albeit cards continues to grow faster in retail. Noting that A2A growth is starting from a base of zero, the recent cards vs A2A transaction volume growth in Sweden is shown below. The overall payments market is growing at 6.4%. Key points to note are, even though A2A is having some traction:
- (a) in raw numbers it is small
 - (b) in volume it is growing at quarter the rate of cards and well below the payments market growth rate
 - (c) cards remain and are becoming increasingly dominant

MERCHANT VOLUME AND TRANSACTIONS

Payment type (SEK / Billions)	2017	2018	2019	CAGR	AVG Annual Growth
Card Volume	1037	1079	1127	4.2%	45.0
A2A Volume (Swish)	4.5	13	27	144.9%	11.3

Payment type (# Transactions / Millions)	2017	2018	2019	CAGR	AVG Annual Growth
Card Transactions	3352	3548	3703	5.1%	175.5
A2A Transactions (Swish)	15	52	107	167.1%	46.0

Sources:

Card data - The Swedish Central Bank

Swish data - getswish.se

eftpos strategy

- 151 I have explained the current eftpos strategy above in part D. I provide further commentary on it below in the context of addressing the question of what would happen for eftpos absent the

proposed amalgamation with NPP and BPAY. eftpos is in the process of delivering on its strategy now, and will continue to do so absent the amalgamation.

152 The board endorsed strategy ensures that eftpos is no longer a traditional cards payment scheme and is no longer a point of sale only solution. This remains unchanged in the counterfactual scenario.

153 The features of the strategy include the following.

(a) Diversification of businesses and revenue streams that are not eftpos transaction dependent:

- i Rolling out Beem It capability to support all card types and enable value adds and revenue on all these debit and credit card transactions. eftpos acquired Beem It in 2020. Beem It will become an alternative to Apple Pay and Google Pay for banks and allow them to maintain their customer relationship.
[Confidential to eftpos Payments Australia Limited].
- ii While the intent is for Beem It to be the dominant national wallet, as has been achieved in many markets, the app is also a platform for delivery of experiences by merchants and eftpos.
- iii Rolling out the connectID digital identity business which supports safe easy digital experiences including payments, not limited to eftpos payments. connectID is in pilot and will be live with a range of partners including state governments **[Confidential to eftpos Payments Australia Limited]**. This service may well increase eftpos volumes through higher authorisation rates and access all transaction types.
- iv **[Confidential to eftpos Payments Australia Limited]**.
- v Data services leveraging eftpos, the broadening of data eftpos accesses combined with utilising the API platform and engaging efficiently with fintechs. The current engagement with Verrency for loyalty rewards is one example.

(b) Reduced reliance on members:

- i The speed of change and success of eftpos has been materially limited by the appetite of members. Member long term incentive agreements with international card schemes impacts the appetite and timing of member support for eftpos, despite their ownership and board voice.

- ii Once the product roadmap is completed by members, over the next 12 to 18 months, the focus of eftpos will be to drive value for members and compete with Visa and Mastercard above the rails using the base digital transactions.
 - iii The shift of focus is to facilitating digital experiences and supporting members to drive greater value for their customers with future fee rebates more aligned to this than the immediate focus of completing the core digital message capabilities.
 - iv The eftpos position is that threats to our member relationships with their customers are not from the likes of Visa and Mastercard. They are from the new tech players, local and global that provide a value-add service over the rails. The likes of PayPal and Apple Pay provide services above the rails ie they use card rails. This is also the eftpos strategy – now the core digital payments are being embedded, we are shifting to the value above the rails to support members protect their customer relationships.
- (c) Strategic role for issuers:
- i eftpos plays an important role for issuers in creating competitive tension with Visa and Mastercard. Many issuers have exclusivity with one international scheme and the ability to swap to the alternate scheme is not commercially viable and often requires building a new product. Swapping chip priority to eftpos is however viable at a lower cost.
 - ii It is likely that a number of members will issue an eftpos priority cobrand card. The drivers for this are:
 - (A) Strengthens competitive tension
 - (B) Accesses different customer propositions for discrete segments
 - (C) Supports consolidation of bank internal platforms including conversion of the less supported internal proprietary card platform.
 - iii Our digital capabilities are allowing for delivery of better customer experiences and tools that better meet core needs of many segments. We will continue to partner with our members to support their customers. This is including solutions such as white labelling Beem IT, and sharing QR capabilities in banks own apps.
- (d) Strategic role for merchants:

- i eftpos is demonstrating it can deliver price tension for merchants and generate savings for them.
 - ii We continue to have a price advantage over Visa and Mastercard and this is amplified in card not present which is often significantly more expensive than card present. Moreover, Visa and Mastercard charge significantly more for online transactions than for in-store POS transactions which is clear from their published interchange tables being only part of the fees that merchants ultimately pay (the other components being scheme fees and acquirer margin). As Visa and Mastercard operate to optimise profit and they rely upon merchants to source most profits, this advantage for eftpos, which derives revenues from issuers as well as the merchant side and which is not designed to profit maximise, is sustainable.
 - iii Over time the focus will shift to competing beyond price and the areas of fraud management/ authorisation optimisation and QR code orchestration are examples. These capabilities will support acquirers to deliver greater value to their merchants.
 - iv eftpos understands merchants and their **[Confidential to eftpos Payments Australia Limited]**. These include safer easier payments, increasing basket size, low cost new customer acquisition and for larger merchants bespoke customer experiences. We are working actively with merchants on these experiences today and, unlike Visa and Mastercard, have the appetite and ability to innovate in our local market for local needs.
- (e) Repositioning eftpos to be at the centre of the digital economy, a shift from a payments to a digital experiences infrastructure, a shift to higher value propositions and value adds. For the impact of this shift, see the document at tab 5 of the bundle of *Confidential Exhibit EPAL-1*.
- i The core building blocks that support this being:
 - (A) broad digital message set (live and rolling out additional use cases);
 - (B) wallet expansion (acquired Beem It in 2020);
 - (C) Digital Identity (in pilot and expected to be live 1H 2021);
 - (D) token platform (been operating for last 3 years);
 - (E) API platform (live) allow easier access for the likes of Fintechs;
 - (F) QR orchestration (in build, first major pilot expected 1H 2021);

- (G) Fraud tools (in build and expecting to be live 2H 2021); and
 - (H) Hedera Hashgraph distributed ledger with wide applications where cost and or trust need to be addressed with use case such as micro payments and supply chains (proof of concept completed).
 - ii These tools allow eftpos to support easy, safe and enriched digital experiences at a low cost including and beyond payments for the benefit of Australia.
 - iii This repositioning redefines eftpos as a core national infrastructure shifting from commodity style payments to areas of greater value and ease.
 - (f) Creating an innovative agile organisation
 - i The momentum, strong strategy and execution of eftpos has been proven over 2020, despite COVID and the distraction of the consolidation debate
 - ii This has been achieved through building a strong leadership team, an operating model that allows for both clarity of role and strong collaboration.
 - iii Quick decision making with small capable teams in a nimble small overall organisation has lead to high levels of delivery , exciting innovations and a sustainable business.
 - iv High and consistently rising levels of staff engagement and NPS being currently 88% and 38% respectively
- 154 EPAL sees that the ability to deliver on its strategy, diversification of its business, evolution of its positioning and brand and the momentum will likely continue to occur with or without amalgamation.
- 155 The EPAL business is now well placed to fund these investments with:
- (a) Over \$100m in cash as at 28th February 2021
 - (b) Over \$150m in gross revenue and growing
 - (c) Continued growth in profits
 - (d) Buffers built into cashflow forecasts to manage risks
 - (e) A relatively low fixed cost based largely covered by the fixed infrastructure fees that are not volume related

156 [Confidential to eftpos Payments Australia Limited].

EPAL's delivery on its strategy

157 From a digital perspective, since establishment of the strategy EPAL has:

- (a) experienced volume growth by more than 13% during the 2020 calendar year despite the impact of COVID;
- (b) developed and are launching a broad range of digital messages;
- (c) launched an API platform to accelerate product and service commercialisation to wider range of partners generating higher margin revenue;
- (d) accelerated and largely completed the rollout of the Apple Pay and Samsung Pay across banks/issuers;
- (e) entered the largest refund deals since incorporation, [Confidential to eftpos Payments Australia Limited];
- (f) [Confidential to eftpos Payments Australia Limited];
- (g) acquired Beem It (wallet capabilities) and launched two revenue generating services;
- (h) developed Connect ID (Digital ID solution) to be live and in revenue in [Confidential to eftpos Payments Australia Limited] with [Confidential to eftpos Payments Australia Limited] parties signed up to date and [Confidential to eftpos Payments Australia Limited];
- (i) published 3 D Secure specifications and supported issuer vendors;
- (j) designed and are developing QR orchestration to support richer merchant led digital experiences, expected to be live in [Confidential to eftpos Payments Australia Limited];
- (k) established live fintech connections for value adds (Verrency) and established the eftpos Fintech Advisory Committee to enable efficient Fintech access to services of value to them;
- (l) secured world class fraud management partner and technology to protect the network;
- (m) redesigned the eftpos brand for digital [Confidential to eftpos Payments Australia Limited];

- (n) **[Confidential to eftpos Payments Australia Limited];**
- (o) **[Confidential to eftpos Payments Australia Limited];** and
- (p) **[Confidential to eftpos Payments Australia Limited].**

158 These investments enable eftpos to deliver safer, easier and more value-add consumer and merchant experiences. Combined these capabilities bring together “pieces of the jigsaw puzzle” to allow eftpos to:

- (a) lower merchant’s costs for growing and mobile transactions and extends least cost routing to card not present’
- (b) support our members to develop richer experiences for their own apps;
- (c) deliver a national identity broker solution that makes digital lives easier and safer, including better authenticated payments; and
- (d) scale Beem It with rich experiences as a core national infrastructure ensuring the member’s customer relationship is enhanced and not disintermediated.

159 Least cost routing has also played a part in the delivery of EPAL’s strategy in terms of driving transaction volume growth. Visa and Mastercard have been dropping their fees and strategic rates to close the gap to eftpos in terms of pricing. Regardless, EPAL predicts that it will experience continued growth in transaction volumes via least cost routing on account of the following matters:

- (a) **[Confidential to eftpos Payments Australia Limited];**
- (b) **[Confidential to eftpos Payments Australia Limited];**
- (c) the ICS’ strategic rates focus on large merchants whereas eftpos provides strategic rates to any merchant that routes well beyond those merchants that traditionally access strategic rates;
- (d) **[Confidential to eftpos Payments Australia Limited];**
- (e) investment in eftpos brand and reinforcement that we are good for Australia;
- (f) **[Confidential to eftpos Payments Australia Limited];**
- (g) **[Confidential to eftpos Payments Australia Limited].**
- (h) Visa recently providing enforceable undertakings to the ACCC which will have the effect of enforcing a more level playing in respect of least cost routing;

- (i) an indication, from the RBA Governor's speech in December 2020, that the RBA will support MND and LCR in the upcoming payments review further support LCR sustainability; and
- (ii) **[Confidential to eftpos Payments Australia Limited]**.

160 We have seen least cost routing being a sustainable long term source of volumes for domestic schemes in the US where around 50% of transactions are routed, in countries like France and indeed in Malaysia where the domestic scheme outcompeted Visa and Mastercard on price. The continued growth of eftpos LCR volumes and the fact that despite intense competition, domestic schemes globally have been able to outcompete international schemes belies any position that LCR is short lived in Australia or globally.

161 The upward trend of eftpos volume growth over recent years will continue and accelerate as these new sources come on stream with the forecast volumes being reviewed and supported by the eftpos board. Like any forecast and projection, there are areas of variability on assumptions. The following assumptions were made in developing the forecasts: - no significant decline in eftpos only card numbers, mobile numbers were based on known mobile launch dates and average usage rates, the international schemes will compete aggressively in LCR and some regulatory support for LCR for online transactions. One example of new sources of revenue is the scope for growth of eftpos online payments volume where, following an August 2020 launch, current share of an estimated 1.3Bn online market place is below 1% but forecast to increase to 10% of that segment in FY22 as our services scale and expand low cost options for merchants. **[Confidential to eftpos Payments Australia Limited]**.

162 We do not see that the growth in digital or our POS volumes will be at risk through NPPA activities as eftpos is already low cost, fast and real time (for consumers and same day for most merchants as a matter of practice) and continues to shift to value beyond price, therefore the business case for merchants and the impetus for consumers to change behaviours at scale in the medium term is unlikely. In addition, to play in retail the investments for the market to move to NPPA are high and the business case for banks to invest may not exist. eftpos also accesses the existing network effect of cardholders and merchants accepting eftpos cards whereas NPP needs to spend time and money create this network effect in addition to materially and sustainably differentiating its propositions to make this shift possible.

163 As has been described, the core building blocks are either in place or well into delivery with material completion of most key elements by June 2022.

164 Looking forwards, the elements required to ensure continuing delivery to the roadmap and realisation of the strategy are:

- (a) maintain transaction volumes to fund the diversification strategy;
- (b) maintain competitive, creative and flexible pricing to drive the volume;
- (c) continue the fee rebate regime that incentivises issuers **[Confidential to eftpos Payments Australia Limited]**;
- (d) continue to build greater insights into consumer and merchant needs and delivery against these better than our competitors using our core capabilities;
- (e) ensure that Beem It, connectID and QR orchestration meet their business cases to shift from investment to funding of eftpos;
- (f) a degree of shift in the weight of focus and value creation towards merchants who can drive value and better experiences for consumers (different to Visa and Mastercard focus);
- (g) continued shift to lower cost with revenues from allied businesses supporting continued reduction in eftpos prices to the market;
- (h) roll out the rebranding work and investing in repositioning eftpos as a digital capability that is good for Australia; and
- (i) push for regulatory support, especially in the areas of MND both for card present and card not present.

Consolidation implications for eftpos

- 165 eftpos has a well-defined strategy and roadmap, is self-funded and is well advanced towards completing its roadmap within the next two years.
- 166 Through a combination of refund agreements, mandates and enforcement of rules, as well as adjustment to its activities according to the revenues received and its pricing according to the volume received, eftpos can continue to survive as an innovative payment system, transforming into a digital payments competitor with or without consolidation. With the evident greater Member support and clear and transparent regulation, eftpos could thrive as a payment system and digital capability provider. If amalgamation does not proceed, then eftpos expects to continue to conduct the business described in Part B of this statement according to the strategy/ies set out in Part D of this statement, modified over time as horizons shift and to address market trends.
- 167 Consolidation doesn't change:

- (a) the changing payments habits of Australians and need to increase competition in eCommerce (currently dominated by Visa and Mastercard) urgently in line with the eftpos roadmap and strategy;
- (b) the need to maintain volume growth;
- (c) the need to diversify and ensure the new ventures become financially and strategically valuable;
- (d) bank choice to compete with Visa and Mastercard, it is in their hands (through conscious decisions on issuance and merchant routing defaults);
- (e) bank choice to support or promote any Newco services;
- (f) regulatory uncertainty, which today is creating more upside for Visa and Mastercard than eftpos (as a result of EMV Co standards delivering the “do nothing” benefit to Visa and Mastercard and lack of regulation addressing anticompetitive conduct), although per the comments in paragraph [90] there seems to be a move for greater certainty in this area for payment systems as they exist today;
- (g) the trend by issuers to convert proprietary cards to MND cards and/or to issue single scheme cards with an international scheme only; and
- (h) the level of bank support.

EPAL's alternative proposal

168 eftpos has no intentions of pursuing any form of consolidation absent the amalgamation proposed by the applicants however may take a broader role in ATM scheme management in collaboration with APN.

169 When the discussions around industry consolidation were kicked off (ie July 2020) eftpos engaged KPMG to find out the drivers and issues for our members. Exhibited to this statement at Tab 13 of *Confidential Exhibit EPAL-1* is a KPMG presentation titled “EFTPOS: Project Bass”, dated July 2020. This led to creation of alternate models that eftpos believed may well better address the issues raised without the possible detriments of the proposed consolidation arising. At all times that any alternate options were raised including in a presentation by eftpos to the Industry Committee the response was that the scope of the committee was to only test one scenario as it had explored a number prior to establishment of the committee. In eftpos view other more viable options had not been considered and a more thorough assessment of alternate models may have led to a more optimal outcome for all stakeholders. EPAL presented a proposal to the Industry Committee on 11 August 2020, which was put forward as an alternative to the amalgamation. Exhibited to this statement at

tab 14 of *Confidential Exhibit EPAL-1* is a copy of that proposal, which was also attached to the Board paper for the 11 November EPAL board meeting.

170 In designing this proposal, EPAL gave close attention to the different roles played by A2A payment systems and cards, and took a broad, holistic view of the issues facing the payment industry and large investment issues facing banks, most of which are not directed towards cards or eftpos. The issues considered were:

- (a) the reduction in cash and cheques and the need for a direct entry replacement; and
- (b) duplicated settlement systems.

171 EPAL considered that the focus of an accounts-based platform would be to work with the banks to resolve the issues referred to in paragraph 167, as well as achieve costs savings for the banks. However, EPAL took the view that this focus was not relevant for a cards based entity such as eftpos.

172 Accordingly, EPAL's proposal involved the formation of two distinct operating entities with different capabilities. The two operating entities are:

- (a) a card entity: self-funded with broad industry participation, focused on growth, innovation, customer needs and competition with international card schemes. This entity would compete largely with Visa and Mastercard, with a focus on real-time, retail transactions, not just card but also mobile, online, tokenised credentials, wallets (as most rely on the underlying card); and
- (b) an account entity: bank-funded, moving to self-funded, bank centric participation and focused on infrastructure rationalisation, consolidation and cost reduction resolving the issues identified in paragraph 167, starting with direct entry and business to business payments with rich data, replacing legacy platforms, driving efficiency of payments in a non-retail environment. This entity would involve the amalgamation of NPPA and BPAY.

173 EPAL also proposed a single oversight entity through the consolidation of the Australian Payments Council (APC) and the Australian Payments Network (APN). It proposed that the single oversight entity would have clear responsibilities and stronger governance, that it would have a clear vision and broad membership across the industry, and it would be funded by all participants.

174 In EPAL's view, the potential benefits of EPAL's proposed two operating entity model are:

- (a) having a clear voice and vote at both shareholder and director level within each operating entity;

- (b) ability to solve three key market needs including key prioritisation issues; and
- (c) ability to solve broader industry challenges in respect of investment and governance.

- 175 The proposal also took account of EPAL's view is that many elements of the proposed NPP roadmap do not have business cases with clear rationalisation of application to the account to account environment, stated pay back period and seem to have high executional risk, especially given the architecture and lack of chargeback ability and that there may be better ways than amalgamation to solve for the issues identified, such as good collaboration and commercial engagement. Accordingly, EPAL proposed that it is appropriate to keep the two payment types segregated via two entities, each with their own distinct emphasis.
- 176 EPAL is likely to pursue its alternative proposal in the absence of the amalgamation, as far as it applies to EPAL and the card entity.
- 177 EPAL also gave initial consideration to a further proposal however did not pursue it due to the defined scope of IC. This proposal also created two entities with one being the wholesale provider of rails and the other being a retail customer/merchant facing entity. The wholesale entity would be owned and funded by the banks who would naturally be the source funding and the retail entity would be owned by banks and acquirers/retailers with the role of collaboration and focus on above rails investments for collective benefit. This model seemed to address many concerns by all stakeholders and be an elegant solution. Exhibited to this statement at Tab 15 of the bundle of documents in *Confidential Exhibit EPAL-1* is a document titled "Retailer structure options".

[Confidential to eftpos Payments Australia Limited]

178 **[Confidential to eftpos Payments Australia Limited]**

179 **[Confidential to eftpos Payments Australia Limited]**

- 180 The counterfactual scenario reflects a vibrant diversified and agile eftpos. eftpos has confidence in this position. The ACCC application and the reports from the independent experts attempt to call in question the eftpos management hypothesis however it is clear the application and reports are based upon material and fundamental misunderstandings. The following table highlights some of these misunderstandings.

Misunderstanding	Facts
eftpos is slow and cannot keep up with ICS; ICS have large R&D teams	<ul style="list-style-type: none">• eftpos Contactless specs were available from 2012/3 and the 75% actual issuance and terminal coverage tipping point was reached in 2017• Mobile specs first available to issuers in 2016, with 52 issuers now active for eftpos across Apple Pay, Samsung Pay and Google Pay

Misunderstanding	Facts
	<ul style="list-style-type: none"> • 3DS, SRC, Tokenisation, Card, terminal, disputes and chargebacks, fraud tools, core hub are all common for card based payment systems and EMVCo compliant platforms that support a large number of card based businesses and schemes globally at a relatively low cost and fast speed – this means we are aligned to ICS and have access to the same qualified and experienced vendor pool • ICS pace of change is slow as they also rely upon their issuers and acquirers keeping up and creating a network effect for each new product and service, often over multiple year time ranges
eftpos is just a price wedge and always in catch up	<ul style="list-style-type: none"> • Now that core capability build is almost complete eftpos has shifted its focus to differentiation for the local market (something ICS are not good at) and this is the eftpos focus going forward under its current strategy. • Sales packs with members and merchants evidence dialogue around areas that meet core needs including the role of Beem It, QR and connectID driven customer experiences, tailored offerings for unique segments leveraging Fin tech access and deep segment insights, propositions that shift mobile preference etc. • Since incorporation, eftpos has moved from a laggard to a leader – with distributed ledger capability being just one more example • A price wedge is not ordinarily a prioritised counterparty which means it is always in catch up – if this continues to be the eftpos positioning within the NewCo entity, then there is a real risk for eftpos to be de-prioritised for any investment.
Banks have large competing investment decisions	<ul style="list-style-type: none"> • Banks are net recipients of interchange and scheme fee rebates and the costs to support eftpos above these have been low. The costs slow down as we end the catch up. • eftpos has repeatedly asked for justification of this statement through showing the relative investment demands between the three entities
Banks are slow to support eftpos	<ul style="list-style-type: none"> • This has been true historically but is no longer the case. The pace of change over the last 18 months is the highest ever and shows momentum in delivery of the eftpos strategy while at the same time maintaining eftpos' customer engagement scores through surveyed senior representatives of members. • This has been driven by fundamental changes to the commercial relationship with commercial tension and deals, far stronger relationships and a genuine commitment to eftpos success • The past and the present in all aspects including this one should not be confused • Our strategic shift to above rails competition actually support banks strategic imperatives without driving high build costs for them • Our catch up build will be largely complete by the time of amalgamation (if approved).
eftpos MCR is not sustainable	<ul style="list-style-type: none"> • Today eftpos is up to 40% cheaper in card present and multiples cheaper online than ICS – that creates merchant

Misunderstanding	Facts
	<p>demand. Merchants are end users/customers of the eftpos payment system and of retail payments</p> <ul style="list-style-type: none"> • eftpos and ICS price differently – eftpos could go to zero costs on merchants as we make more than the ICS do on the issuer side • ICS make most of their profit from all but the top tier merchants and very little from issuing and their online costs are around 4 times more than eftpos – so there is a large pool of available transactions in online • eftpos is not driven by profit, however ICS are • Why would MCR not be sustainable in Australia if it has been in other countries – some sustain 50% or more routing away from ICS • Much of our fixed costs are covered through our infrastructure fees
eftpos may have a successful non scheme business but the scheme volumes will drop off	<ul style="list-style-type: none"> • Continued diversification of use cases such as D&W and ATMs • The diversified businesses actually drive volume and rich propositions to eftpos (Beem IT, QR, Dig ID etc) • MCR is sustainable and RBA/ACCC will ensure there is a level playing field • Diversification ensures that eftpos services remain relevant “must have/take” payment services, supporting the core
eftpos will not compete with NPP and BPay in the future	<ul style="list-style-type: none"> • The roadmaps clearly overlap, particularly in customer initiated transactions, many online transactions and digital identity and we will continue to aggressively compete for new use cases and volume, with or without amalgamation
eftpos will not collaborate with NPP and BPay without amalgamation	<ul style="list-style-type: none"> • Connect ID, QR, Beem It are all rails agnostic and Beem It uses BPay today as an indicator of existing collaboration • We are highly success driven and do collaborate with competitors (eg Mastercard on interoperable digital ID solutions, BPay on NPP alternative etc)
eftpos competition was and will always be only ICS	<ul style="list-style-type: none"> • True of the past not of the future, the future competitors include NPP and BPay but most importantly Big Tech in collaboration with our members
ICS can out fund eftpos	<ul style="list-style-type: none"> • Both ICS and eftpos are bound by the RBA driven net compensation rule • Where an issuer supports eftpos growth, then the rebates will be very much in line
eftpos will be slow in digital and is just entering	<ul style="list-style-type: none"> • The Network effect already exists for eftpos in online • All capabilities for all use cases are to be enabled and activated this financial year • eftpos has a path for speed to market for online MCR vs CP as merchants often have multiple gateways and acquirers who are agile and competitive • [Confidential to eftpos Payments Australia Limited] eftpos has a material price advantage and differentiated pricing strategy (3 times cheaper than ICS in published online pricing)

Misunderstanding	Facts
eftpos will experience the same demise as Bankcard	<ul style="list-style-type: none"> eftpos is in a materially different situation to bankcard. Bankcard was sub scale, was not a separate scheme, was not diversified or focussed on customer propositions and was not growing volumes and revenue.
Costs will be lower in amalgamation	<ul style="list-style-type: none"> eftpos strategy is to continue to lower its already low costs and its diversified revenues moving forward are expected to allow processing costs to approach zero over time.
eftpos may not realise network effect on initiatives	<ul style="list-style-type: none"> Due to being a card based business, network effects exist already for eftpos eftpos don't need all acquirers or all issuers to support all initiatives to be able to route online. Gateways can solve this issue and create demand.
The prescribed services will not happen without amalgamation	<ul style="list-style-type: none"> By definition, the prescribed services were services in train for the near term and so were and continue to be already in eftpos' strategy and roadmap without amalgamation and are to be largely delivered by the time amalgamation happens (if approved)
eftpos' alternative proposal is "likely" to happen in any event	<ul style="list-style-type: none"> eftpos put an alternative proposal to the IC as an example of another option that should be considered but the focus of the IC was on amalgamation in its current form only the alternative option was put to show eftpos did not need amalgamation and while eftpos is pursuing ATM volume, that does not mean that the whole alternative option is "likely" to happen

181 Likewise eftpos also observed misunderstandings should amalgamation proceed.

Misunderstanding	Facts
Newco will better compete with ICS	<ul style="list-style-type: none"> ICS only go to market through intermediaries so the decision whether to support domestic schemes remains in hands of banks MND construct allows banks to get the best out of both schemes while prioritising eftpos however this has not happened and there is no new trigger through consolidation that will make this happen. Suggestion has been made the eftpos is a price wedge providing tension for the banks' negotiations with ICS. This indicates banks support eftpos to survive, but not necessarily thrive which is a choice in banks' hands today and will not change through consolidation. Network effects are required across all relevant form factors through all channels to maintain relevance as a competitor to ICS – any diminution or failure to gain network effects and scale through a transition to NPP of eg online volume would fundamentally impact eftpos' viability and ability to continue to provide the competitive tension to be a price wedge for banks with ICS (see eftpos strategy below)
Overlapping investment decisions solved	<ul style="list-style-type: none"> This is not an eftpos issue as the catch up is nearing an end and banks are well funded through interchange

Misunderstanding	Facts
There will be less compliance effort in amalgamation	<ul style="list-style-type: none"> Perhaps at the edges however the only materially impact would occur if the schemes are wound down as until that happens, all three schemes would continue with their respective requirements
There are material efficiency gains	<ul style="list-style-type: none"> Unless platforms converge, which is unlikely with very low chance of a viable business case then cost saving will be low Shared services will save very little in the scheme of things
eftpos will maintain its strategy and roadmap	<ul style="list-style-type: none"> Beyond June 2022, this is not assured, particularly given the apparent desire to move online volume to NPP Even before June 2022, this is unlikely as connectId and Beem IT are not prescribed services and with prioritisation of investments likely combined with loss of control of key functions into shared services the ability for eftpos to maintain its strategy is fundamentally challenged (strategy, innovation centre, shared services)
Focus on rails investments	<ul style="list-style-type: none"> Significant competitive, sovereignty and disintermediation risks come from Big Techs, not ICS - hence this needs to be the focus on investment - this is not the thrust but rather a side bar interest for Newco
A2A solves material issues for merchants	<ul style="list-style-type: none"> eftpos is already low cost, already has same day settlement for most merchants
Advisory groups have a voice	<ul style="list-style-type: none"> This is unlikely given there are too many parties covering too many topics for too many schemes in forums with their competitors Recommend that this construct be supplemented by reference groups that are scheme or customer journey specific

H. COVID-19 / OTHER

182 COVID-19 has impacted consumer habits. Volumes of ATM transactions reduced, and will drop off further. Banks are consequently selling off their ATM networks. While eftpos ATM and cash out volumes initially saw a dramatic decline, they are now within 6% and 10% of their pre COVID levels.

183 The volumes in contact MND cards has decline as cardholders have been encourage to tap however, transaction volume has continued to increase since the initial downturn from COVID_19 through:

- (a) consumers transacting more frequently through tapping eftpos only cards;
- (b) Least cost routing;
- (c) card issuers enabling eftpos functionality in the main mobile wallets in Australia (Apple Pay and Samsung Pay) so consumer have a choice between using the eftpos

“rails” or the international card scheme “rails” when dual network debit cards are being used in those wallets and data suggests consumers use mobile payments more frequently than card payments;

- (d) The commencement of eftpos online transactions; and
- (e) With less cash being drawn from ATMs, more transactions are occurring on cards and mobiles which have replaced cash to a greater extent.

184 These developments have allowed eftpos to gain share of contactless and mobile in-store payments and steady its overall in-store POS volume share profile. Despite the effects of Covid 19, eftpos' volumes are up [Confidential to eftpos Payments Australia Limited] year on year from January 2020 to January 2021. Exhibited to this statement as tab 17 of the bundle of documents in *Confidential Exhibit EPAL-1*) is a slide showing growth comparisons between January 2020 and January 2021 drawn from eftpos Hub data.

185 A PIN is no longer required for contactless payments of up to \$200 for some networks as enabled by some issuers – an increase from the previous limit of \$100. This change is managed by AusPayNet, the industry self-regulatory body and is tied to the biosecurity emergency declaration issued by the government for COVID_19 and is currently set to expire on 17 June 2021, according to the AusPayNet website, so may not be a permanent change in the market. We expect to see some resurgence of contact in some segments when the limit returns to \$100.

Signed on behalf of eftpos Payments Australia Limited by

Name	_____ Stephen Benton, Chief Executive Officer
Date	17 March 2021