

WOOLWORTHS GROUP



16 March 2021

Tom Leuner
Executive General Manager
Mergers, Exemptions and Digital
Australian Competition and Consumer Commission

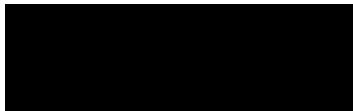
Dear Mr Leuner,

Re: Application for authorisation for the proposed amalgamation of BPAY Group Holding Pty Ltd, BPAY Group Pty Ltd, BPAY Pty Ltd, eftpos Payments Australia Limited and NPPA Australia Limited (Application)

Please see the **attached** statement of Woolworths Group Limited in support of the Application. This statement sets out Woolworths Group Limited's position.

Yours sincerely

WOOLWORTHS GROUP LIMITED



Bill Reid
Chief Legal Officer
Legal Services

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 (eftpos) and NPPA Australia Limited (NPPA)

Statement by Woolworths Group Limited in support of application for authorisation

Date: 16 March 2021

This document contains confidential information which is indicated as follows:

[Confidential to Woolworths]

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A. Woolworths Group Limited

- 1 Woolworths Group Limited (**Woolworths**) is a major Australian retailer, selling everyday products to consumers including fresh food, groceries, general merchandise and liquor, through its extensive retail store network and online platforms.
- 2 Woolworths currently operates a number of retail offerings (or “banners”), including Woolworths Supermarkets, Woolworths Metro, BIG W, BWS and Dan Murphy’s.
- 3 Woolworths operates and maintains more than 3,000 retail stores nationally across its businesses (at which point of sale transactions are made by consumers) and employs more than 200,000 team members.
- 4 Woolworths also sells products to consumers through its online platforms, with payments made for such products by consumers using online payment mechanisms.
- 5 Woolworths “self-acquires” payments services for payments made instore and online across the majority of Woolworths’ banners, by sending transactions directly to payment schemes rather than through a third party intermediary acquirer such as a bank, in its capacity as a merchant. Woolworths also acquires payments services for EG Group, a third-party entity that purchased the former Woolworths Petrol business from Woolworths in 2019.
- 6 Woolworths self-acquires payment services for the following reasons:
 - (a) *Innovation*: self-acquiring gives Woolworths more control over the investment in new payments innovations for the benefit of Woolworths’ customers, rather than being limited by the innovation efforts of third party intermediary acquirers such as the banks. When considering new payments innovations, Woolworths is primarily focussed on meeting Woolworths’ customers’ needs, whereas third parties may have other priorities, for example scale;
 - (b) *Speed of delivery*: self-acquiring enables Woolworths to deliver innovation and new capabilities to meet Woolworths’ customers’ needs quickly, as it provides Woolworths with an opportunity to influence the speed at which new payments innovations relevant to Woolworths’ customers are delivered; and
 - (c) *Cost*: self-acquisition reduces the cost to Woolworths of processing payments as Woolworths does not need to pay fees to an intermediary acquirer.

B. Woolworths’ use of payment methods/services

- 7 Woolworths processes approximately [Confidential to Woolworths] transactions on an annual basis across all payments types.
- 8 **Table 1** below sets out the approximate value and volume of transactions processed by Woolworths in the 2019 and 2020 financial years, using credit, debit, or eftpos:

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9 [Confidential to Woolworths]

10 [Confidential to Woolworths]

Woolworths' relationship with eftpos

11 Woolworths currently uses eftpos' services in the following ways:

- (a) *Payment acceptance in-store:* Woolworths accepts in-store payments made using any debit card. Accordingly, if a customer pays using a debit card which is connected to eftpos, Woolworths' in-store payment devices are programmed to accept the payment made using this eftpos card profile;
- (b) *Transaction processing:* eftpos transactions made in-store are processed by the Woolworths' payments switch. The records of these transactions are then passed on to eftpos for authentication against the issuing bank; and
- (c) *Settlement position:* eftpos issues the "end of day" settlement positions for all transactions that Woolworths has processed via eftpos on a daily basis to the relevant issuing banks. The operational teams of each of Woolworths and the issuing banks use the settlement position issued by eftpos to settle the payments that need to be made between the two entities.

12 In addition to the services which eftpos presently provides to Woolworths, Woolworths understands that eftpos is developing the following additional services. Should the proposed amalgamation proceed (**Proposed Amalgamation**), eftpos has mandated that NewCo's acquirer members (which would include Woolworths) must develop the capabilities to use these services.

- (a) *Digital acceptance online:* eftpos has published a Digital Acceptance Framework (**eDAF**) which, once the relevant capability is developed by an acquirer, would enable that acquirer to send multi-network debit card transactions made **online** to eftpos. This is, in essence, the online equivalent of the in-store Merchant Dual Routing capability described at paragraph 10(a) above. Should the Proposed Amalgamation proceed, NewCo's acquirer members (including Woolworths) are mandated to develop the capability to enable such arrangements.
- (b) *New centralised settlement service:* eftpos is developing a centralised settlement service which would expand the service which eftpos currently provides in issuing "end of day" settlement positions between acquirers and issuing banks (as described at paragraph 11(c) above). In summary, this new centralised settlement service will enable eftpos to also act as an intermediary between issuing banks and acquirers in the disbursement of funds as part of the reconciliation of the settlement position. Currently, this process is undertaken directly between the acquirer and the issuing bank. Woolworths, as an acquirer, will be a user of eftpos' new centralised settlement service, once developed.
- (c) *QR codes:* eftpos has announced that it is working to establish a QR code standard and to enable QR code payments to be made from a point of sale machine or online as an equivalent to a payment terminal NFC payment today. Woolworths understands that eftpos is looking at surfacing QR codes to not only process eftpos debit cards, but also a standard that could potentially accept cards from other networks.

Interchange fees paid by Woolworths for eftpos services

13 eftpos' schedule of interchange fees is published publicly on eftpos' website.¹ **[Confidential to Woolworths]**

14 **[Confidential to Woolworths]**

eftpos plays an active role in maintaining competitive tension against international card schemes

15 Of the three Australian domestic payments organisations (being NPPA, BPAY and eftpos), only eftpos currently provides consumer debit payments products for retail payments.

16 Woolworths considers that eftpos does and will continue to play an active role in maintaining competitive tension against the international card schemes (**ICS**), namely Visa and Mastercard, in respect of consumer debit payments products. To date, Woolworths considers that eftpos has acted as a pricing wedge against the ICS in the following ways.

17 *Firstly*, the competitive tension brought about by the presence of eftpos has assisted to keep the cost of processing debit transactions low. Being a member-led Australian organisation, eftpos has sought to serve the interests of members by offering low debit costs, in order to drive benefits to not only the members, but to Australian organisations generally. This has included eftpos offering attractive interchange rates.² We understand that the ICS have reviewed their interchange pricing and the structure of their pricing,³ presumably in response to eftpos' offering. An extract of the debit card interchange fee structure (excluding GST) offered by each of eftpos, Visa and Mastercard as at 12 March 2021 is set out at **Table 2** below.

Table 2

	Visa ⁴	Mastercard ⁵	eftpos ⁶
Merchant category: Strategic Merchant 1	1.0 cents	1.0 cents	1.0 cents
Merchant category: Strategic Merchant 2	1.5 cents	2.0 cents	2.0 cents

18 *Secondly*, eftpos has advocated for developments which have led to lower costs for acquirers in Australia. For example, we understand that eftpos brought to the attention of the Reserve Bank of Australia (**RBA**) the issue of contactless payments made on dual-network cards historically being automatically routed via the default network programmed to the card (which is generally the Visa or Mastercard network, rather than eftpos). Following this, the RBA sought industry feedback on, and supported the introduction of Merchant Dual Routing in Australia (described at paragraph 10(a) above).

¹ <https://www.eftposaustralia.com.au/about/interchange/>

² eftpos' interchange rates are published at: <https://www.eftposaustralia.com.au/about/interchange/>

³ This is described in detail by the Reserve Bank of Australia in its Payments System Board 2019 annual report at page 54: <https://www.rba.gov.au/publications/annual-reports/psb/2019/pdf/retail-payments-regulation-and-policy-issues.pdf>

⁴ <https://www.visa.com.au/about-visa/interchange.html#2>

⁵ <https://www.mastercard.com.au/en-au/about-mastercard/what-we-do/interchange.html>

⁶ <https://www.eftposaustralia.com.au/about/interchange/>

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19 *Thirdly*, eftpos has also worked to raise domestic awareness of gaps in the payments network. This has included eftpos' contribution to the RBA Issues Paper of 2015/2016 which requested feedback from the industry around surcharging and interchange standards. eftpos was an active participant in outlining the gaps in interchange and difference in interchange between the ICS and eftpos.

Woolworths' use of NPPA's services

20 The New Payments Platform (**NPP**) was launched in February 2018 to provide banks with the ability to settle payments between each other in real time, 24 hours a day, 7 days a week.

21 The NPP was funded by a consortium of 13 financial institutions (including ANZ, CBA, NAB and Westpac), as well as the RBA, all of which remain shareholders of NPPA. Woolworths understands that the four major banks hold 76% of the shares in NPPA, with the other 9 financial institutions holding the remaining 24%.

22 Woolworths does not presently use any products offered by NPPA or the NPP account-to-account (**A2A**) infrastructure.

23 In respect of the NPP A2A infrastructure, Woolworths does not currently allow for customers to use this infrastructure to pay for online transactions at Woolworths banners (i.e. using direct debit, by providing a BSB and account number). This is because such a transaction could take up to three days for the funds to clear and be received by Woolworths, in circumstances where the products purchased as part of that transaction are often delivered to the customer in a much shorter time period. Accepting such direct debit payments for online transactions therefore presents unnecessary risks for Woolworths. However, should the A2A infrastructure enable real time transactions in future, this technology could be very useful for Woolworths' online sales.

24 **[Confidential to Woolworths]**

25 **[Confidential to Woolworths]**

Woolworths' use of BPAY's services

26 BPAY was launched in November 1997 as an electronic bill payment system. BPAY is 100% owned by the major banks (i.e. CBA, Westpac, ANZ and NAB) in equal shares.

27 BPAY was adopted across the banking sector and is a widely used online consumer bill payment solution through online banking platforms.

28 In February 2018, BPAY introduced Osko, which was the first "overlay service" utilising the NPP platform, allowing bank customers to digitally transfer funds via a "PayID" (known as "person to person" payments).

29 Woolworths does not presently use any of BPAY's payments services, including Osko for customer initiated payments.

C. Potential benefits for Woolworths from the Proposed Amalgamation

30 Woolworths is supportive of the Proposed Amalgamation for the following reasons:

- (a) *better balance in the innovations of BPAY and NPP between banking and other use cases (e.g. retail)*: The banks currently have a controlling stake in NPP and BPAY and the innovations by these entities are naturally geared towards banking use cases. The

proposed governance structure for NewCo (which allows for more director representation for non-ADIs than the existing structures of eftpos, NPPA and BPAY) will enable non-bank views (including merchant views) to be given additional weight when considering what innovations to prioritise in the Australian payments industry and what new technology to adopt, to the benefit of all potential users of NewCo's services;

- (b) *greater retail use case innovation*: as a current member of eftpos, Woolworths only has sight of innovations being considered by eftpos, and provides feedback and requirements into that process. Should the Proposed Amalgamation proceed, as a member of NewCo, Woolworths would have visibility of the proposed innovations by NPPA and BPAY, and would be able to assist in the consideration of requirements or potential retail use cases for such innovations. In Woolworths' view, this will encourage the development of new digital and retail use cases in the domestic payments system, to the benefit of Woolworths and the Australian retail sector generally; and
- (c) *greater speed and efficiency of innovation - e.g. QR codes*: The Proposed Amalgamation is likely to result in greater speed and efficiency of innovation, including because the alignment of views in NewCo will enable the development of a coordinated and agreed roadmap for development across the three platforms and avoid unnecessary and inefficient duplication across the Australian payments system. For example, the Proposed Amalgamation would assist in the development of a **national** QR code payments code, noting that eftpos is currently developing its own code, by avoiding unnecessary duplication in this space that may otherwise arise from any separate developments in this space by NPPA and/or BPAY. Absent the Proposed Amalgamation, NPPA for example may seek to develop a different QR standard in due course, which could lead to increased difficulties for merchants (such as Woolworths) to integrate such technologies into their systems as there would be multiple and potentially conflicting QR code standards to navigate.

Greater industry commitment to eftpos and card-based payments enabled by the Proposed Amalgamation

- 31 Woolworths considers that it is critical for eftpos (or NewCo, should the Proposed Amalgamation proceed) to be a viable domestic competitor to the ICS, particularly in the short to medium term where card transactions are essential to retail payments at both Woolworths and across the Australian retail landscape. To effectively compete with the ICS, further investment and innovation is required in eftpos and other card-based payments by participants in the Australian payments industry.
- 32 To date, absent the Proposed Amalgamation, there has been limited industry support by many eftpos members for key developments in eftpos' services, such as the expansion of eftpos' services to the online space. The Implementation Agreement for the Proposed Amalgamation includes a commitment by the proposed NewCo members to ensure the roll out of eftpos' services online (amongst other services), should the Proposed Amalgamation proceed. Given the rise in online transactions as Australians pivot increasingly to the online space, Woolworths considers that this development is critical to ensure that NewCo has the ability to effectively compete against the ICS in immediate to medium term. This is because, in Woolworths' view, the decline experienced by Woolworths in eftpos transactions to date is likely attributable to eftpos' slower rate of innovation to date as compared against the ICS, for example in the online space (see paragraph 10).

33 More broadly, Woolworths considers that the Proposed Amalgamation will also provide NewCo with more support to deliver innovations through a stronger balance sheet (through lower duplication of costs), and increased focus in the support and assessment of strategic direction from NewCo's larger member base (as compared to the current state whereby the common members of each of eftpos, BPAY and NPP must navigate competing priorities). In the medium to long term, Woolworths believes that NewCo would be more effective as a competitor to the ICS than eftpos would be without the Proposed Amalgamation.

D. Prescribed Services

34 Woolworths considers that the commitment to the three prescribed services in the Implementation Agreement (Prescribed Services), which is contingent on the Proposed Amalgamation proceeding, provide greater certainty for the eftpos roadmap, which potentially includes a faster timeframe for delivery of those eftpos services.

35 **[Confidential to Woolworths]**

36 **[Confidential to Woolworths]**

37 **[Confidential to Woolworths]**

E. Woolworths' initial concerns about the Proposed Amalgamation have been addressed

38 Woolworths' initial concerns are described below, all of which have since been addressed by the Industry Committee (IC):

- (a) Woolworths was initially concerned that the governance structure of NewCo would be skewed towards the authorised deposit-taking institutions (**ADI**), which could then lead to NewCo unduly favouring ADI priorities over other use cases, for example those more relevant to retail payments, to the detriment of the competitiveness of NewCo. Woolworths considers that the agreed governance structure for NewCo (which allows for more director representation for non-ADIs than the existing structures of eftpos, NPPA and BPAY) ensures that merchant views will be given additional weight when considering the future of the Australian payments industry and what new technology to develop and adopt, to the benefit of all potential merchant users of NewCo's services;
- (b) Woolworths was initially concerned that eftpos' currently contemplated future developments would not be taken into account under the NewCo structure. However this was resolved by the identification of these planned developments in the Implementation Agreement as "prescribed services" (and the declaration of some of these services as "mandated services" as described at paragraph 12 above), contingent on the Proposed Amalgamation proceeding; and
- (c) Woolworths was initially concerned that NewCo might require a large capital investment from participants in the Australian payments sector (including from Woolworths), and was particularly concerned that this investment would be required in respect of the NPP (which Woolworths does not presently use). These concerns have been alleviated by Woolworths' review of the balance sheets of the 3 entities which confirmed that, given the current financial position of each of eftpos, NPP and BPAY, NewCo is likely to be a self-funding entity. In addition, NPPA has committed that it will continue to be self-funded by the existing members of the NPP for the current roadmap of the MPS currently being developed.

F. Likely counterfactual

eftpos

39 eftpos is a self-funded entity that has a defined pipeline of work and investment allocated to it in the next couple of years. In absence of the Proposed Amalgamation, **[Confidential to Woolworths]**.

40 **[Confidential to Woolworths]**

BPAY

41 **[Confidential to Woolworths]**

NPPA

42 **[Confidential to Woolworths]**