



## File Note

<b>Matter name:</b>	Proposed amalgamation of BPAY, EPAL and NPPA		
<b>ACCC parties</b>	Commissioners – Anna Brakey, Rod Sims, Stephen Ridgeway Staff – Tom Leuner, Sheridan de Kruiff, Danielle Staltari, Mark Basile, Michael Eady, Chris Holder, Nick Cooke, Connie Wu		
<b>TRACKIT No</b>	IM-070782	<b>File No.</b>	
<b>Other parties</b>	Reserve Bank of Australia: <ul style="list-style-type: none"><li>• Tony Richards, Head of Payments Policy</li><li>• Michele Bullock, Assistant Governor, Financial System</li></ul>		
<b>Date:</b>	Thursday, 24 June 2021	<b>Time:</b>	1.30pm
<b>Phone to</b> <input type="checkbox"/>	<b>Phone from</b> <input type="checkbox"/>	<b>Meeting</b> <input checked="" type="checkbox"/>	<b>Other</b> <input type="checkbox"/>

### History of domestic schemes consolidation

1. The RBA provided some background about the industry rationale for consolidating the eftpos, BPAY and NPP payment schemes, i.e. the schemes had largely common owners and mostly complementary products, and there are efficiency gains from bringing the schemes together (including from coordinating the roll out of new investments and new services across the schemes' membership).
2. The RBA noted that a benefit of the consolidation may be that more senior bank representatives would be involved in the EPAL decision-making, resulting in more strategic decision making and greater ability to push EPAL initiatives within their own organisations.

### Least-cost routing

3. The availability of LCR is important because it enables merchants to make a decision between eftpos and the ICS, hence facilitating competition between debit card schemes at the point of sale. LCR, and the possibility of routing contactless transactions through eftpos has contributed to lowering of interchange and scheme fees, and hence merchant fees for debit card transactions.
4. The RBA made the following observations about least-cost routing (**LCR**) and how the banks interaction with different card schemes:
  - Progress has been made with the implementation and take-up of LCR but it has not been as fast as the RBA would like. However, two major banks are now providing LCR on an 'opt out' basis to some merchants which is a positive development.

- The RBA noted that while the major banks are both card issuers and payments acquirers, it was the business units responsible for card issuance that seem to be most influential in the decisions banks make regarding card schemes.
  - The banks' business units responsible for card issuance receive interchange fee revenue from the card schemes and may be offered incentives to issue only the cards of a particular card scheme.
5. eftpos' share of debit card transaction volumes had been declining over a long period but this had been halted during 2019 as LCR was being rolled out. Volumes are said to have decreased again with the onset of the COVID-19 pandemic. eftpos' market share for debit cards is now approximately 25–30%.
6. The RBA is aware of a number of issues impacting on the viability of LCR, and is currently considering policy options in its review of retail payments. These issues include:
- a trend (particularly for mid-sized and smaller issuers) to issue Single-Network Debit cards as opposed to Dual-Network Debit Cards (**DNDCs**). LCR is only possible on DNDCs;
  - 'leakage' issues – mobile and online transactions typically cannot be routed to eftpos. This means these transactions are routed to the international card schemes (**ICS**); and
  - the ICS had been providing attractive strategic rates to large merchants if they agree to route all transactions (credit and debit) through their schemes (so called tying conduct which Visa has ceased under a court-enforceable undertaking to the ACCC).
7. [REDACTED]  
[REDACTED]  
[REDACTED] and this will result in a further decline in eftpos volumes and market share.
8. The RBA said it would explore measures to ensure the benefits of competition on merchant fees were not lost if, for any reason, LCR was no longer a viable option for many merchants or merchant fees began to increase. Depending on the circumstances, such action could include lowering the regulatory weighted-average cap on debit card interchange fees (see paragraph 9).

### **Regulation of interchange fees**

9. The RBA sets a benchmark or cap on weighted-average interchange fees on debit card payments. This is because, absent regulation, competition between the schemes will tend to drive up interchange fees.

### **The banks' incentives to support or maintain the eftpos debit card scheme**

10. The RBA made the following observations about banks' incentives:
11. The RBA believes that four major banks collectively have an incentive to keep the eftpos scheme functioning, because:
- the presence of eftpos (and LCR) may contribute to downward pressure on scheme fees set by Visa and Mastercard;
  - eftpos has some additional functionalities that customers want (e.g. cash out, Medicare claims); and

- there is little cost per card for the major banks to include eftpos on DNDCs.<sup>1</sup>
12. While collectively the major banks have an incentive to keep eftpos, there may be enticements for individual banks to sign a deal with one of the ICS in return for agreeing to issue only Single-Network Debit Cards. However, the RBA does not expect that outcome to eventuate — effectively, it expects the collective (long-term) incentive to outweigh the individual (short-term) incentives.
  13. The RBA's preferred approach (as set out in its May 2021 consultation paper) is to state an expectation that the major banks continue to issue DNDCs, however it is also still liaising with industry participants on other approaches (e.g. mandating the issuance of DNDCs by a broader range of issuing banks).
  14. The RBA considers the proposed amalgamation is unlikely to change the banks' incentives noted above.

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<sup>1</sup> In contrast, the smaller and mid-sized banks have indicated to the RBA that they find it relatively costly to issue DNDCs and maintain two debit card networks. That is because they do not have a large customer base over which to defray the cost.