From:	Nick Hossack
To:	Merger Authorisations
Subject:	Benchmark Analytics: MA1000020 – submission
Date:	Friday, 14 May 2021 12:59:25 PM

Good afternoon,

Thank you for the opportunity to comment on the **Charles River expert report.** Please note that I have recently been a consultant to eftpos Australia and have in prior years advised a number of the bank applicants and also BPay. This is a personal submission.

On page 31 of the Charles River expert report, the author states the following:

"I consider that the proposed amalgamation would not be likely to have the effect of substantially lessening competition for the following reasons…Second, I do not consider any of the existing services of the three entities or any of the main services in the current roadmaps of the three entities to be more likely to be withdrawn, abandoned or significantly degraded in their quality under amalgamation compared to the likely counterfactuals."

I disagree with the above conclusion for the following reasoning:

1. Customer transactions through the Visa and Mastercard schemes are more profitable for banks than are eftpos transactions. One reason is the interchange fees are generally more favourable to banks in Visa and Mastercard schemes. This relative profitability fact was acknowledged in the expert industry opinion provided to the ACCC.

2. For this core reason, the banks have been ambivalent to promoting eftpos transactions. This was demonstrated in the bank's sluggishness in offering least cost routing (LCR) to merchant customers, ultimately requiring heavy RBA suasion to implement. It is also evident in Macquarie Bank (and other ADIs) issuance of single network debit cards, denying customers the capacity to use eftpos.

3. One important constraint on the commercial incentive of banks to promote Visa and Mastercard transactions is the existence of the eftpos Australia board and its clear focus on promoting eftpos transaction volume, including through new digital services. This clear focus will be lost under the amalgamation proposal as the amalgamated board will be responsible for three payment schemes.

4. Under the amalgamated board, the banks can disguise their commercial incentive to underinvest in and reduce eftpos transactions by claiming other investments have greater 'priority'. For example, it will be much easier to limit investment spending to just those services deemed as 'compliance'. It has been well canvassed in the media that the RBA is frustrated with slow bank implementation of some NPP functionality.

5. It is notable that the amalgamation proposal is only guaranteeing individual scheme roadmaps up until mid-2022. In the payments industry, this is an extremely short timeframe.

In general, the amalgamation application erroneously argues that amalgamation is needed so

Australia can better compete against Visa and Mastercard (and Big Tech). In relation to the bank applicants, this may sound patriotic, but is wrong. The banks use Visa and Mastercard as a means of driving fees and interest income from merchants and consumers. They don't compete against them. Visa and Mastercard are not ADIs, they don't take deposits or issue home loans.

In my view, consumers and merchants would be better off without the amalgamation. A much better vehicle to drive any additional investment coordination needed is the Australian Payments Council (APC), supported with appropriate RBA/PSB regulation and suasion. The APC body has a clear public interest mandate.

Regards,

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