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Mr. Rod Sims
Chairman, Australian Competition & Consumer Commission
23 Marcus Clarke Street
Canberra ACT 2601

Dear Mr Sims,

Re: Proposed merger of BPAY, Eftpos and NPP Australia

We attach our submission relating to the above proposed merger.

We would be very pleased to amplify any of the points made in this submission.

Kind regards.

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Background

Australia's three domestic payment groups; Eftpos, BPAY and New Payments Platform Australia (NPP Australia) have proposed a strategic merger effectively providing them with control over Australia's digital payments systems and processes. The international card schemes such as Visa and MasterCard and international technology providers currently dominate this sector. NPP Australia, having oversight over transactions moving through Australia's updated payments system alongside with Eftpos and BPAY, have announced plans to merge arguing that the merger will result in a single payments system operating in the public interest allowing for faster payments and new payments functionalities thus driving innovation and greater efficiencies.

Small retailers/businesses and consumers have concurrently been advocating for a fairer merchant fee payment system such as Least Cost Routing for many years and indicate that the current costs imposed by both banks and global card companies are unsustainable to their operations.

Proposal

The banks, through NPP Australia, argue that the merger is necessary to focus their efforts on investment and scale to compete against Visa and MasterCard who currently run competing payments networks and issue major bank cards. In terms of claimed benefits, the unified new entity is expected to reduce costs and increase competition against these overseas payment platforms. It is also purported to address inefficiencies in the national payment system by adopting a multi-service payment infrastructure with an expected low cost of acceptance. In relation its corporate structure, the new entity's board of directors, who will oversee the new entity's management structure, will consist of 13 directors, including nine from the major banks, smaller banks and non-authorised deposit-taking institutions. The voting power of the big four banks will be limited to four out of the 13 votes.

There is very little doubt that change is required to ensure that the point-of-sale and online payments sector in Australia operates in the interests of Australian consumers and businesses via increased choice, competition and reduced costs. Traditional forms of payment such as cash have been declining for a number of years as evidenced by the Reserve Bank of Australia's data which shows cash ATM withdrawals in 2020 reducing by 16% in November compared to the same time in 2019. In absolute terms, this equates to a reduction of approximately $1.5bn. On the other hand, the new payments platform, which facilitates instant payments, recorded transactions equalling $58.5bn.

Nevertheless, we believe that there are a number of significant issues with the proposed merger as identified in the next section which raise concerns over the appropriateness of the merger.

Issues

NPP Australia itself is facing competitive threats from other schemes in the digital payments market. For example, Eftpos-owned Beem It app competes head-on with NPP Australia's peer to peer instant payments platform. Another area of merging competition between the schemes is in QR code payments. Such existing competition between schemes and products understandably results in banks seeking to merge such competing tensions thus avoiding funding service duplications. However, such competition is how smaller retailers and consumers are able to transact within ecommerce in a reduced cost environment. Such avenues will disappear when the banks merge their practices under one entity with that entity effectively left unfettered to (eventually) charge higher costs to financial intermediaries and consumers.

The four major banks have consistently baulked in accelerating Least Cost Routing rollouts thus denying merchants the chance to process direct contactless debit transactions to the low-cost Eftpos network. This is little surprise as the banks stand to lose up to A$550m a year in merchant fee revenue if Least Cost Routing is offered to merchants.

There is also no clear indication in key documents such as the NPP Australia annual report the extent to which consumer groups had been invited to participate in this process by the industry and the owners of the unified payments platform. It is critical that their voice be heard clearly in this process. The ACCC should also seek evidence on claims from major banks that their competing digital schemes are making conflicting demands on their capital to support such unsustainable business cases.

Likely Consequences

Consistent with views expressed by small businesses and consumer groups, who use the online payments system, we believe that the merger will likely create a potentially monopolistic situation with control over the entire electronic payments process in the hands of a few, namely the big banks. The merger, if approved, will create a single payments entity with greater resources and scale to effectively destroy all competition in payments resulting from the concentration of such power. Some of the current competitive tensions which exist such as those between direct entry bank transfers and Eftpos, result in a reduction of costs for consumers and businesses and these will likely disappear if the amalgamation of the payment platforms were to proceed. For example, the merger will likely undermine Eftpos as a source of price tension. The result of such an eventuality could mirror the circumstance in the United Kingdom where the US-based payments giant MasterCard has become dominant in debit payments.

The fact is that the big banks in Australia are already favouring US credit giants such as Visa and MasterCard rather than investing in cheaper options such as routing contactless transactions used in Eftpos. As a result, the merger will likely eliminate important initiatives such as the Least Cost Routing reforms which currently help reduce merchant service fees, thereby benefitting small businesses and consumers. Ultimately, such actions will allow banks and related credit card schemes to continue gouging clients on transaction fees, with retailers already paying $4bn.

Given the need to develop better competitive capabilities but the real risks associated with the concentration of power in the hands of a few, there is an urgent need to develop sufficient oversight to ensure that competition and reduction of costs remain the focus in enhancing our national economic productivity. Such economic productivity should not occur at the risk of higher corporate profits, increases in costs for retailers and small businesses and ultimately, price-gouging of consumers.

The proposed governance arrangements for the combined corporate entity may also be unworkable as one board is expected to manage three payment systems, three management teams and a broad range of distributed shareholders.

Moving Forward

If the merger proceeds, it will result in a single domestic payments provider in Australia and will, as with most monopolistic arrangements, result in reduced competition and increasing costs for small businesses, retailers and ultimately, the Australian consumer. The merger would undoubtedly create a monopoly and consequently eliminate any real say that retailers and small businesses have over payments pricing, policy and payments infrastructure and architecture. The merger will erode competition in Australia and lead to higher prices for small businesses accepting card payments. These higher prices will then likely be passed on to consumers who will have to bear the costs of higher charges by the merged entity. The merger will result in greater power for banks, large businesses and international card providers. Such providers will consequently prioritise their profit-maximising financial interests at the expenses of other stakeholders in the payments process.

Having competitive tension between operators in the payments market is therefore important in keeping costs down. It is consequently crucial to maintain competition in payments infrastructure and among the schemes that use it. By way of example, Eftpos and Least Cost Routing have been helping many small businesses maintain some control over their banking and merchant costs. The ACCC should ensure the minimising of costs by requiring initiatives such as Least Cost Routing to be the default option and a condition of any payment platform amalgamation. We echo concerns expressed by the Council of Small Business Organisations Australia and the Australian Chamber of Commerce and Industry over the reduction in competition and increase in costs which are likely to eventuate under this merger.

However, if the merger is approved, a number of safeguards must be put into place. The banks will need to guarantee that the benefits claimed in support of the proposal will actually flow to retailers and consumers instead of ending up as corporate profits. This may include a moratorium on costs and guaranteed minimum service levels. There should also be oversight under a government body with legislated representation by small businesses and consumer groups.