

## Proposed Amalgamation of BPAY, eftpos and NPPA

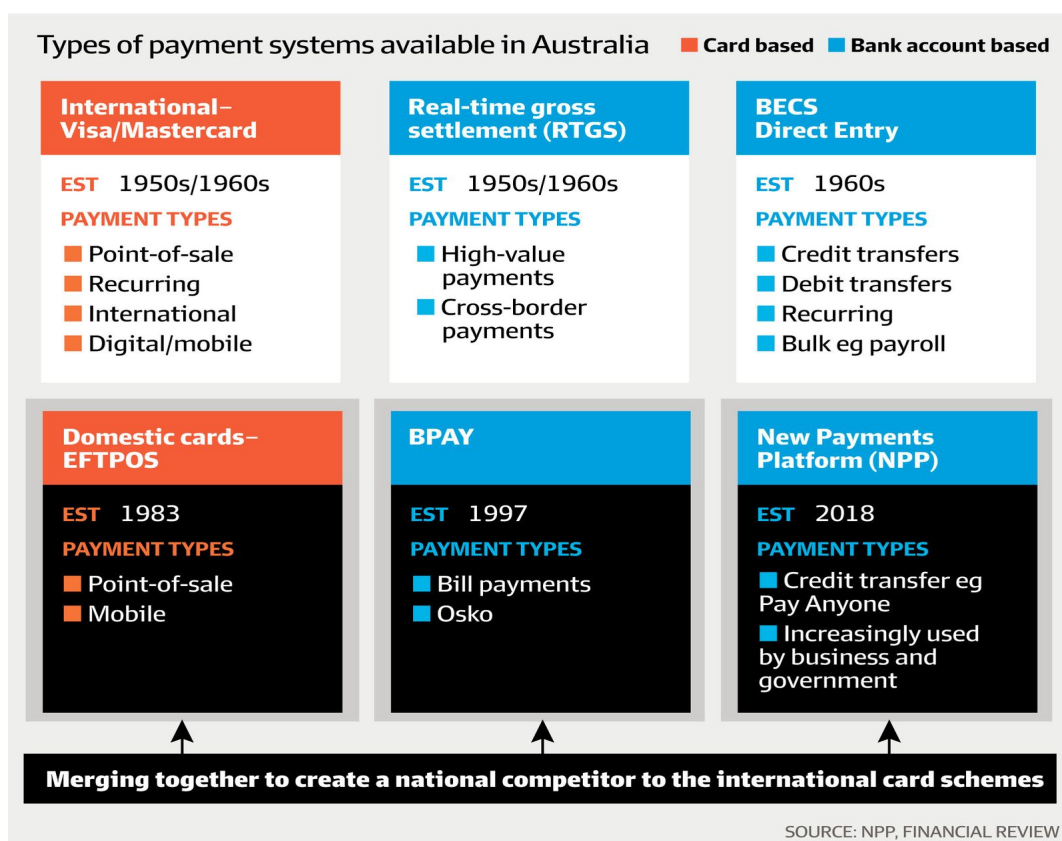
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This memorandum is to inform the Australian Competition and Consumer Commission (ACCC) on the proposed merger of BPAY, eftpos and NPPA to create a new entity (NewCo). Specifically, we address the six issues that are of interest to the ACCC.

### 1. How closely BPAY, eftpos and NPPA currently compete in the Australian payments industry.



The figure<sup>1</sup> above depicts the types of payment systems currently available in the Australian payments market. NPPA runs the new real-time payments network currently replacing EFT

<sup>1</sup> <https://www.afr.com/companies/financial-services/eftpos-bpay-npp-agree-to-merge-to-help-banks-take-on-card-giants-20201214-p56n9b>

transactions. Eftpos operates in the Australian debit card system and their direct international competitors are Visa, Mastercard and other large technology companies that focus on mobile and online payments such as Google (Google Pay), Apple (Apple Pay), Ant Group (Alipay) and Tencent (WeChatPay). BPAY, on the other hand, runs a bill payments system and its other service (Osco) facilitates a variety of real-time payments between individuals and businesses using NPPA. In general, these three payments systems have a different core customer base. As indicated in the ICA submission for the proposed merger, the three entities have largely complimentary assets and they do not offer services that are close substitutes for each other.

However, one of BPAY services, Osco, is facing direct competition from a service being developed by the NPAA. The yet-to-be-launched Mandated Payment Service (MPS) of the NPAA is a close substitute of the Osco service (Osco service 2 and 3). In the recent submission by BPAY<sup>2</sup>, it is mentioned that “the potential overlapping capabilities of the BPAY and NPPA platform services... has resulted in priority being given to MPS over Osco service 3”. As a result, BPAY has impaired assets (Osco service 3) and will continue to record such impairments if Osco service 2 does not proceed.

## **2. How closely BPAY, eftpos and NPPA might compete in the future if the proposed amalgamation does not occur.**

If the proposed amalgamation does not occur, BPAY, eftpos and NPPA will keep operating normally in that they will continue to expand their customer base in the Australian market. As mentioned in the previous section, they have largely complimentary assets and do not compete to each other, except for the direct competition between one of BPAY services (i.e. Osco) and NPPA. Since there are approximately 80% of transactions processed by NPPA being Osco transactions (indicated in the current ICA submission), there will be a strong desire to merge these entities to create economies of scale. Dr Phillip Lowe, Governor of the Reserve Bank of Australia (RBA), in an address to the 2019 Australian Payments Network Summit in Sydney, indicated that some rationalisation of the three Australian focused payment schemes (i.e. BPAY, eftpos and NPPA) might be in the public interest. Australian Federal Treasury Review commissioned a review into the regulatory architecture of the payments system to ensure it is

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<sup>2</sup> <https://www.bankingday.com/bpay-group-claims-nppa-strategy-shift-helped-trigger-osco-write-down>

responsive to advances in payments technology while benefiting consumers, businesses and the economy. The final report to the government will be available by the end of April 2021.

**3. Whether competition from other payment systems providers (for example, Visa, MasterCard, Apple and Google) will constrain the services provided by NewCo (i.e. BPAY, eftpos and NPPA).**

As indicated earlier in Section 1, the direct competitors of eftpos are overseas conglomerates such as Visa, Mastercard and other Big Tech companies that focus on mobile and online payments such as Google (Google Pay), Apple (Apple Pay), Samsung (Samsung Pay), Facebook (Facebook Pay), Ant Group (Alipay) and Tencent (WeChatPay). In addition, Visa and Mastercard have been aggressively moving beyond card payments to other payment areas such as developing real-time, account-to-account and online services that could compete directly with NPPA. Therefore, there is still a high level of competition in the Australian payments industry systems since NewCo (the merged entity of BPAY, eftpos and NPPA) will be constantly faced challenges from other overseas payment system providers.

**4. Whether the proposed amalgamation is likely to alter ICA and its members’:**

- **incentive to provide open and non-discriminatory access to payment services and infrastructure, and**
- **ability to foreclose competitors or otherwise frustrate the ability of other businesses to compete.**

The proposed amalgamation of BPAY, eftpos and NPAA is in response to the increasingly competitive strength of Visa, Mastercard and other large technology firms. The proposed merger will also allow banks as major shareholders to prioritise their investments to ensure Australian payment infrastructure remains innovative and transaction data is not lost to offshore payment system providers. The establishment of NewCo (the merged entity) will create economies of scales, reduce payment costs and will allow new payment innovations to get to the market more quickly which will greatly benefit retail participants. Under the proposed deal, the three payment schemes (i.e. BPAY, eftpos and NPPA) will remain distinct entities but will be governed by a single board. Users of each entity have been provided with veto rights

if a proposal made by the company (NewCo) could diminish the quality of one of the existing services.

If the proposed amalgamation goes ahead, the merged entity (NewCo) will commit to further innovations and improve the payment services of each of NPPA, BPAY and eftpos. However, as mentioned in Section 1 above, Osko (one of BPAY services) has assets (Osko service 2 and 3) which are close substitutes of the yet-to-launched assets of NPPA (the MPA). To enable the realisation of efficiencies, the proposed deal will give priority to the development of the MPA, result in recognition assets impairment of BPAY.

**5. The extent and likelihood of public benefits and detriments, claimed by the applicant or otherwise, arising from the proposed amalgamation.**

**Public benefits**

- The proposed amalgamation of BPAY, eftpos and NPPA could create a larger, more powerful payments processing company with a bigger reach into Australia's financial infrastructure. It will provide an opportunity for Australian domestic payments industry to remain competitive to global competitors and technology giants such as Visa, Mastercard, Apple, Samsung, Google, Facebook, Ant Group and Tencent. This is consistent with the commitment of the RBA and Federal Government to modernise the Australian payments systems so as to meet the current and future needs of all Australians. It could give consumers experience with technological advancements and innovations that can be tailored to the Australian market.
- It could see the removal of duplications in management, boards and corporate functions, information technology and can offer potential synergies.
- Economies of scales could lower costs of accessing payments systems for SME merchants and can provide greater access to innovations for large institutions.
- The consolidation of Australian domestic payments infrastructure has followed overseas successes in the UK and Singapore in 2017 via mergers of their domestic payments systems.

**Public detriments**

- The close substitute of Osko (one of BPAY's services) and NPPA services has resulted in preference for NPPA's assets (MPA) over Osko's assets (Osko service 2 and 3).

- There are concerns from the Council of Small Business Organisations Australia (COSBOA) and the Master Grocers Association (MGA) about the proposed amalgamation could reduce the ability of eftpos (the domestic debit scheme) to provide competitive tension in the market. However, the proposed merger could give NewCo a unified roadmap to response to changes in consumer expectations and technological advancements. NewCo still needs to compete to their international competitors (Visa and Mastercard) and technology giants (e.g. Samsung, Google, Apple) for market shares in the areas of online and mobile payments. In the proposed submission by ICA, the deal would include assurances that allow of each of the individual entities (namely, BPAY, eftpos and NPPA) to continue rolling out new features such as digital identity services. Each of the three payment systems will remain distinctive but governed by a single board. Users of each system are provided with veto rights if a proposal made by NewCo (the merged company) could diminish the quality of the existing services.

**6. Any other competition issues relevant to the ACCC's consideration of the proposed amalgamation under section 90(7) of the *Competition and Consumer Act 2010* (the Act).**

There are no additional competition issues relevant to section 90(7) of the Act that have been identified that could be relevant to the proposal outlined by the ACCC.