

31 March 2015

Senior Adviser
Financial System and Services Division
The Treasury
Langton Crescent
PARKES ACT 2600

Email: fsi@treasury.gov.au

Dear Sir/Madam,

Financial System Inquiry submission on final report recommendations

eftpos Payments Australia Limited (**eftpos**) is delighted to have the opportunity to make this submission as part of Treasury's consultation about the final report recommendations contained in the Government's Financial System Inquiry Report (**FSI Report**).

eftpos operates the eftpos payment system in Australia, which has been a key component of the Australian payments landscape since the mid-1980s. eftpos provides Australian-based, convenient, low cost, ubiquitous debit card acceptance across the country for consumers and merchants. The Company is currently transforming its core infrastructure to provide new payments infrastructure platforms and enhanced product functionality, including Contactless, Online and Mobile payment methods.

eftpos, the Company, has been incorporated since 2009 and is a mutual-style organisation with membership comprising all major financial institutions, two major retailers and three aggregator payment service providers. Through this membership, all financial institutions and all merchants that provide and accept card based point of sale debit payment products are represented within the Company.

In FY14 there were more than 39 million eftpos enabled cards in the market, capable of acceptance at more than 827,000 point of sale terminals, generating 2.4 billion eftpos transactions worth \$139 billion, and representing approximately 40% of all card transactions by volume in Australia.

Submission

Payments competition is essential

eftpos is an important part of the Australian domestic payments marketplace. Without a viable domestic payments system, the majority of consumer electronic payments would be handled by foreign payment systems, resulting in a significant reduction in competition, and less domestic control and influence over infrastructure, economics, product development and innovation. The loss of a domestic payments system would also likely lead to increased wholesale costs, reduced jobs and skills locally and the off shoring of essential national infrastructure.

Payments competition and the resulting product innovation remain important policy objectives for the Australian economy. The growing market power of many foreign payment providers puts at risk the level playing field that is required to deliver efficiency, choice and innovation to consumers and merchants. Transparency and choice of payment products for both consumers and merchants are key elements to vibrant competition in the Australian market.

Payments oversight is appropriate

Appropriate regulation designed to promote competition, efficiency and stability is an essential component of a properly functioning payments system, particularly during a time of rapid technology change and disruption. The powers granted to the Payments System Board (**PSB**) under the *Payment Systems (Regulation) Act 1998 (PSRA)* remain the most effective mechanism currently in place to discharge these important obligations across the Australian economy.

Regulatory changes are necessary

eftpos concurs with observations in the FSI Report covering interchange fees (**Recommendation 17**) and its suggestion that the PSB consider implementing a number of appropriate changes to improve the current interchange fee regulations.

Payments regulation continues to be a very active area globally¹, with focus on a number of key areas, consistent with FSI Recommendation 17, being:

- Interchange fee regulation to deliver efficiency and simplicity across all payment systems,
- Price transparency to allow informed choice by consumers and merchants, and
- Open access and competition on current/new payment form factors to avoid technology lockout.

The recent Reserve Bank of Australia (**RBA**) Issues Paper – Review of Card Payments Regulation² (**RBA Issues Paper**) details a number of important issues for consultation as part of its planned review of card payments regulation in 2015, including 8 relating to interchange, 2 relating to transparency and choice and 1 relating to open access and competition on a single device or form factor.

Several of these issues are of material interest to eftpos and we believe it is essential that the PSB consult with industry and then make the necessary changes to the current regulatory framework with some haste, so as to avoid further damage to eftpos in such areas as pricing transparency, open access and technology lockout (for example, contactless, where eftpos has seen a significant loss of transaction numbers on dual network eftpos/scheme debit cards due to the removal of choice at the point of sale). Open access and choice will be especially relevant as payment technology evolves and broad based common platforms, such as mobile NFC payments, are developed.

In summary, eftpos supports the direction described within both Recommendation 17 of the FSI Report and the RBA Issues Paper. Our reasons are based on the public policy objective of promoting competition, efficiency and innovation for the benefit of consumers and merchants. In our view, this objective is best served through the speedy progress of these reforms via the existing regulatory framework.

eftpos would be pleased to discuss the matters raised above with representatives of the Treasury in more detail. In addition, eftpos will continue to engage the RBA and provide a submission to them covering necessary changes to card payments regulation as part of the RBA Issues Paper consultation process.

Yours faithfully,



Bruce Mansfield
Managing Director

¹ Council of the European Union Proposal 12912/14 for the Regulation of the European Parliament and of the Council on interchange fees for card-based payment transactions (September 2014)

² RBA Review of Card Payments Regulation Issues Paper (March 2015)