

Payments Amalgamation

Meeting with ACCC

31 May 2021

Why

Rationale for
amalgamation

If not, then what

Counterfactuals

Key themes from market feedback

eftpos' viability

Influence of major
Australian banks

Representation

Least cost routing

Case for

Likely effects

Likely benefits

Why

The payments landscape is rapidly evolving

The Reserve Bank of Australia recognises this

The three Australian payments scheme need to be more innovative

Why

The amalgamation will result in more successful domestic innovation

The amalgamation will allow the three Australian schemes to:

- Co-ordinate their innovations, creating greater efficiencies, reducing the risk of stranded assets and overcoming the current network externalities and market failures that result in asset write downs and new services failing to achieve ubiquity in a timely way
- Better compete against the international payments schemes, as a result of unified leadership and an agreed pipeline of innovations

Why

**BPAY, eftpos
and NPPA are
sub-scale.**

**They each have
annual
revenues of
less than
AUD 75 M**

They are competing with the international payments schemes:

Visa: annual revenues of USD 21,846 M

Mastercard: annual revenues of USD 15,301 M

Apple: annual revenues of USD 275 B

Samsung: annual revenues of USD 200 B

Google: annual revenues of USD 182 B

If not, then what?

**The
amalgamation
is the best
outcome for
users,
including small
business, and
consumers**

The counterfactuals would involve:

- A continuation of the splintering, confusion and wait and see approaches by the banks about which innovations to deploy and when to deploy them
- Less representation by stakeholders in the decision-making processes about which domestic payments innovations to deploy and when to deploy them
- Less certainty for eftpos
- Less competition with the international card schemes
- Less efficiency

Many of the submissions of third parties fail to have any regard for the likely counterfactuals

Key themes from market feedback

eftpos' viability

The Reserve Bank's Review of Retail Payments, May 2021:

The Board has not viewed the consolidation discussions as material to the Review, except insofar that a consolidation could result in more streamlined decision-making by the three systems and their individual members which is likely to improve [eftpos'] ability to compete with the two large international debit schemes

The banks and retailers need eftpos as a pricing wedge against the international card schemes

eftpos' market share has declined by 50% over the last 10 years. Under the status quo, it has not been able to deliver services that would enable it to compete with the international card schemes (i.e., online payments)

Users of eftpos will be responsible for any decisions that would result in a fundamental change to it (services, deployment of its revenues, investment etc)

Key themes from market feedback

Influence of Major Australian Banks*

The decision-making power of the Major Australian Banks will be decreased as a result of the amalgamation – they will not have positive or negative control of NewCo

All 21 initial shareholders in NewCo will have one vote regardless of the size of their shareholding

In terms of representation on NewCo's board:

- There will be four independent directors, including the Chair
- There will be nine directors nominated by shareholders:
 - Four nominated by Major Australian Banks
 - Three nominated by non-ADIs
 - Two nominated by other ADIs

NewCo will be able to admit new shareholders

NewCo's Board will have obligations to consult with non-shareholders

*See exhibit 1

Key themes from market feedback

Representation

Small business will not be represented on the board of any of the three domestic payment schemes in the counterfactuals

There will be greater engagement with small businesses through the Board's End-User's Engagement Committee

NewCo's Board will be obliged to take the End-User's Engagement Committee's views into account

Key themes from market feedback

Least cost routing

The ABA has found that least cost routing is now available to 95% of merchants

Least cost routing is not related to the proposed amalgamation. It is a matter for the RBA

NewCo will not be able to deliver the rollout of least cost routing by the banks and payments processors even if it wished to do so (just as eftpos cannot do so today)

The RBA has recently noted that: “*The industry has made considerable, albeit slow, progress on the provision of LCR without explicit regulation.*” It has signalled that it will continue to exercise regulatory influence on the rollout of LCR, through a range of options

The case for

No likely substantial lessening of competition

The proposed amalgamation will not be likely to substantially lessen competition in any market:

- The three domestic schemes are not each other's closest competitors
- They compete for support from the banks to invest in their innovations. This leads to increased costs for Australian consumers, delays in the adoption of innovations and impairments from stranded assets
- Any fundamental changes to each of the schemes will ultimately be determined by users of the scheme who are shareholders in NewCo
- No change to existing scheme rules for open and non-discriminatory access

The case for

Likely net public benefit

The proposed amalgamation will be likely to result in a net benefit to the Australian public:

- Enhanced ownership interests of smaller scheme participants
- Enhanced engagement with small business
- Reduction in uncertainty and more efficient deployment of capital
- Enhanced speed to market of domestic innovations
- Increased likelihood of hybrid Australian products
- Reduced risk of asset write-downs
- Greater import substitution
- Policy benefits
- Potential for synergies

Exhibit 1

Objective of NewCo: Self-sustaining entity operating in the public interest, focused on meeting the needs of payment users (including low-cost payments via eftpos)

