

**SUPPLEMENTAL REPORT  
TO  
EXPERT INDUSTRY OPINION**

**IN RELATION TO THE APPLICATION TO THE AUSTRALIAN  
COMPETITION AND CONSUMER COMMISSION FOR  
AUTHORISATION OF THE PROPOSED AMALGAMATION OF BPAY  
GROUP PTY LIMITED AND BPAY PTY LTD, EFTPOS PAYMENTS  
AUSTRALIA LIMITED AND NPP AUSTRALIA LIMITED**

Submitted by:

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Dated:

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**NON-CONFIDENTIAL VERSION**

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## I. Summary

1. This document provides a Supplemental Report to the independent expert industry opinion (**Opinion Report**) of Lance Sinclair Blockley dated 18 March 2021, in regard to an application to the Australian Competition and Consumer Commission (**ACCC**) for authorisation of a merger of three of Australia's domestic payments systems operated by NPP Australia Limited (**NPPA**), eftpos Payments Australia Limited (**EPAL**), BPAY Group Pty Ltd and BPAY Pty Ltd (together **BPAY**).
2. The document includes additional commentary in regard to the proposed amalgamation of the Australian domestic payments industry and also responds to a specific request from the ACCC (dated 9 June 2021) for further information and views.

## II. Key Messages

3. In my opinion, the key target outcome of the proposed amalgamation is to move the three domestic Australian payments systems into one entity so that, together, they can more efficiently and effectively compete with the international payments players, both existing and new/future entrants, for the benefit of Australian consumers and businesses.
4. With debit card payments growing strongly, and projected by my modelling to account for 59% of “low value” payment transactions in 2025<sup>1</sup>, it is important for Australia to have its own, viable and vibrant domestic debit card scheme - eftpos. As noted in my Opinion Report, *“In my opinion, without the proposed industry consolidation and in the absence of significant regulatory intervention, the eftpos domestic debit card payment scheme is likely to cease to exist within the next 10 years”*<sup>2</sup>. Hence I support the proposed amalgamation of eftpos, BPAY and NPPA.
5. There is a need to draw a distinction between the survival of the eftpos debit card scheme from the survival of EPAL as an entity. A number of EPAL’s new initiatives are tangential to the eftpos debit card scheme and do not directly support its ongoing existence, e.g. Connect ID. These may be good independent business initiatives to support the independent “corporation”, but do not help eftpos debit directly compete against the international card schemes (ICS) and other potential competitors.

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<sup>1</sup> Appendix V of Expert Industry Opinion of Lance Sinclair Blockley, 18 March 2021

<sup>2</sup> Paragraph 15 of Expert Industry Opinion of Lance Sinclair Blockley, 18 March 2021

### III. Why eftpos needs the amalgamation

6. The current thrusts by EPAL to independently grow the volume and market share of the eftpos debit card scheme are likely to have some success in the short term, but will be thwarted and fail in the longer term due to the “fight back” strategies and tactics that are likely to be deployed by the ICS. In line with this thinking, the projections in my Opinion Report show the eftpos transaction volumes rising through 2024 and then falling in 2025, and the eftpos share of debit card transaction volumes rising from 40% in 2020 to 46% in 2022, and then falling back to 30% by 2025.
7. The EPAL statement of 17 March 2021 notes that (paragraph 139 (c)) “*cards, and debit cards in particular, are by far the most frequently used means of transacting in the economy*” and that (paragraph 144 (f) iv) “. . . *particularly important given the growth of debit in Australia. Debit is clearly the most commonly used retail transaction type in Australia and volume continues to grow as shown by the latest RBA numbers*”. I entirely agree with EPAL’s statements, and the modelling in my Opinion Report has debit cards accounting for 43% of “low value” payment transactions in 2020 and growing their share to 59% in 2025<sup>3</sup>. Amongst other things, the growth of card based payments is driven by the fact that they are convenient, quick, low cost and ubiquitous (both in cardholding and in merchant acceptance). Hence it is important for Australia to have its own, viable and vibrant domestic debit card scheme - eftpos.
8. To grow debit transaction volume on the eftpos scheme, and thereby maintain or grow debit market share (given that the whole market is growing), EPAL is deploying and/or supporting a number of initiatives; these include:
  - Least Cost Routing (LCR), sometimes also called Merchant Choice Routing, at physical POS (point of sale) for Multi Network Debit Cards (MNDC) when used in contactless mode;
  - Gaining acceptance as a form of payment at online merchants;
  - LCR for MNDC when used at online merchants; and
  - Gaining uploads and usage adoption as the payment method within mobile wallets (Apple Pay, Google Pay and Samsung Pay).
9. I believe that each of these initiatives would have a higher chance of success in the marketplace if deployed from within a consolidated “*Payments Australia*” entity, as they would be part of an agreed industry-wide coordinated roadmap and have the support and backing of a broad array of stakeholders. I would like to explore how the ICS (and potentially other forms of payment from new/future entrants), along with consumer and merchant

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<sup>3</sup> Appendix V of Expert Industry Opinion of Lance Sinclair Blockley, 18 March 2021

behaviour, might nullify each of these initiatives if the eftpos debit scheme remained isolated in a separate entity.

#### A. Least Cost Routing at POS

10. Given a number of submissions that have been made to the ACCC, it needs to be stated that EPAL, and in the future NewCo if the amalgamation proceeds, is not directly involved in the provisioning or adoption of LCR by merchants. EPAL may provide specifications and processing guidelines for LCR, and can try to influence, encourage and cajole others to provide and adopt LCR, but it is the merchants, their acquirers and (for ecommerce) their gateways that are directly involved in implementing LCR. To suggest that the adoption of LCR will cease just because EPAL becomes part of NewCo is, in my opinion, missing the fact that implementation and adoption is practically outside of their control.
11. For physical POS, LCR is normally requested by the merchant (“opt in”) and provisioned by their merchant acquirer (if the acquirer has this functionality available, which all four major banks do today). At least one major merchant acquirer has provided LCR automatically to a segment of their merchants, who can choose to “opt out” if they wish. In both instances, the transactions are routed via the EPAL hub and handled as eftpos domestic debit scheme transactions. But in both instances, EPAL was not involved in the adoption of LCR at the merchant’s terminal.
12. Clearly LCR relies on the survival of the eftpos debit card scheme and the continued issuance of MNDC<sup>4</sup>; and in my opinion the survival of the eftpos debit card scheme relies on the proposed amalgamation. But of course, LCR does not necessarily mean routing the transaction to eftpos. Already today, there are instances of merchants instituting LCR rules whereby low value transactions (e.g. under \$15) route to ICS and higher value transactions route through the eftpos debit card scheme<sup>5</sup>. If a sufficient volume of transactions moves from ICS debit to eftpos debit due to LCR, then there will come a point where the ICS reprice their debit card transactions such that eftpos is not the least cost option. In the global operations of the ICS, Australia is a small market and they could easily choose to sustain lower returns in this market in order to re-gain or grow share in debit card transaction volume.
13. EPAL recognises the ICS re-pricing risk in paragraph 164 (g) of its statement, where it notes the potential need to cross-subsidise the eftpos debit card scheme in the future from funds generated by the other activities in which it is investing (e.g. Connect ID, Beem It, Hedera

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<sup>4</sup> The RBA recently released its Consultation Paper as part of its Review of Retail Payments Regulation <https://www.rba.gov.au/media-releases/2021/mr-21-08.html>, in which it is recommending that the four major Australian banks will be forced to continue the issuance of MNDC for the foreseeable future.

<sup>5</sup> Paragraph 458 of Expert Industry Opinion of Lance Sinclair Blockley, 18 March 2021.

Hashgraph, etc), noting that “revenues from allied businesses supporting continued reduction in eftpos prices to the market”.

14. LCR only operates on MNDC, and, if the preliminary recommendations of the RBA’s Consultation Paper released 28 May 2021<sup>6</sup> (as part of its current Review of Retail Payments Regulation) are enacted, then many smaller card issuers are likely to stop issuing MNDC and move to SNDC<sup>7</sup> with one of the ICS (just as Macquarie Bank has done). Even with the RBA’s proposed lower interchange cap on SNDC (at 6 cents) versus MNDC (at 10 cents), the “lost” 4 cents on the low number of transactions within a small portfolio does not exceed the cost savings that the issuer would gain through adopting single scheme debit cards<sup>8</sup>. So, the number of card accounts in Australia on which LCR can occur is likely to fall, albeit that the four major banks will continue to have to issue MNDC and they do comprise the vast majority of debit card accounts in the country.
15. As noted in my Opinion Report, there are a number of issues surrounding the use of LCR for transactions conducted using mobile phone digital wallets, which are an increasing proportion of contactless card transactions<sup>9</sup>. In paragraph 459 of my Opinion Report, I note: *“Merchant Choice Routing is also “neutralized” by the use of mobile wallets (e.g. Apple Pay will use the default card when presented at a tap’n’go terminal, and, if the default is an international scheme debit card, then the transaction will go via the international scheme regardless of the acquirer set up for MCR) and the use of tokenisation (e.g. for recurring payments)”*. The problems for eftpos debit cards presented by mobile phone digital wallets include:
  - Early adopters –

In the early stages of the roll out of Apple Pay, Google Pay and Samsung Pay in Australia<sup>10</sup>, only cards of the ICS were able to be loaded up into these wallets, with MNDC cardholders not being presented with both the image of an ICS debit card and an eftpos debit card. Hence there is a cohort of early adopters of mobile digital wallets, who were not originally provided with access to an eftpos version of their debit card and who just have ICS debit in their mobile wallets.

For most members of this early adopter cohort, there would now be the opportunity to upload the eftpos version of their debit card, as many card issuers now support both ICS and eftpos in the digital wallets. However, for these early adopters to access the eftpos

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<sup>6</sup> <https://www.rba.gov.au/media-releases/2021/mr-21-08.html>

<sup>7</sup> Single Network Debit Card

<sup>8</sup> Based on prior project work undertaken by The Initiatives Group for two second tier banks on their debit card portfolios.

<sup>9</sup> Commonwealth Bank of Australia (CBA) announced that, as of March 2021, more than 40% of the bank’s combined debit and credit card contactless transaction volume was via a digital wallet <https://www.commbank.com.au/articles/newsroom/2021/05/digital-wallets-contactless-soar.html> ; see also the recent whitepaper from The Initiatives Group <https://www.initiatives.com.au/s/Plastic-Not-Present.pdf>

<sup>10</sup> These digital wallets launched in 2015-16 in Australia.

version of their debit card, they are likely to have to remove the existing ICS debit card from their mobile wallet and then re-upload the card<sup>11</sup>, which would now appear as both the ICS and eftpos version. The cardholder would then have the choice of accepting one or both versions of the card, and deciding which one to have (if either) as their default payment card in the wallet. All of which takes a conscious decision by the cardholder that they need to add the eftpos version of their debit card onto their mobile phone.

- Some issuers still only support ICS uploads –  
Following on from the “early adopter” issue above is the fact that some card issuers still only support the upload of ICS cards into mobile digital wallets. My understanding is that EPAL has a mandate for issuers to support the upload of the eftpos version of MNDC into mobile digital wallets, but not all issuers have implemented this as yet (and some non-major banks may now move to SNDC in order to avoid the cost of this implementation).
- Cardholders choosing the default card –  
As mentioned above, if cardholders upload both versions of their MNDC debit card into their mobile digital wallet, then they need to choose which card will be the “default card” used by the wallet at POS (they may also have uploaded other cards into the wallet, e.g. a credit card, and select one of those as the default card). Although the cardholder can consciously and manually select any card in their digital wallet to fund the transaction prior to tapping on the contactless reader at POS, most transactions occur on the default card, as this requires no intervention and is automatic.

Therefore, in my opinion, the eftpos debit card will gain the most usage if it is selected as the default card in the mobile digital wallet. Unfortunately the brand located on the front of a MNDC is the brand of the ICS, and this tends to drive the cardholder towards selecting the ICS version as their default card.

16. Unless the acquirer selects LCR for its small merchants, as Westpac Banking Corporation (Westpac) has done for a segment of its merchant portfolio, the savings available through LCR may be too small to be of interest to a small merchant. Indeed, research undertaken by The Initiatives Group amongst merchants for an acquiring study at the end of 2019 indicated that smaller merchants favoured simplicity and certainty (e.g. as offered in the “bundled pricing” of some merchant acquirers), rather than having to understand the intricacies of payment economics, LCR, interchange and other “specialist” topics - preferring to spend their time increasing sales. For small merchants with limited revenue in card transactions, the savings available through making acquiring changes are not as large as the revenue opportunity in spending that time on sales:

- These 90% of merchants account for only about 15% of total card transaction value;

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<sup>11</sup> See <https://support.apple.com/en-us/HT209137> regarding the need to remove the original card. Alternatively, if removal is not necessary due to the particular architecture of an issuer, then the cardholder will still have to make a conscious decision to add the eftpos version of their card.



- For example, a typical small merchant may handle \$500,000 of card payments per year and a 0.1% saving on acquiring costs would generate an annual saving of \$500 or \$42 per month;

It is easy to understand that simplicity and convenience in payments acceptance charges/billing might greatly outweigh this level of savings.

17. In theory, LCR for large merchants should be attractive in terms of cost savings on the acceptance of debit card transactions, but these large merchants also often have direct relationships with the ICS. The ICS can provide direct monetary incentives to these merchants, for example through providing Strategic Merchant Rates on interchange, and through funding (and potentially implementing) marketing campaigns, marketing support, technology investments, etc. In addition, larger merchants tend to have a specific manager in charge of payments, who is focussed and knowledgeable enough to try and optimise the company's payment acceptance, including (if they adopt LCR) the active management of the rules by which debit transactions are routed - ensuring that the most up to date interchange rates and schemes fees are utilised.

#### B. Adoption at Online Merchants

18. EPAL appears confident that eftpos debit card acceptance will be adopted by online merchants, but this adoption, in my opinion, is not as straightforward and simple as it might appear. Although EPAL report that over 40 card issuers are enabled to process transactions made with an eftpos debit card online, there is a need for payment gateways and acquirers to also be capable of handling these transactions; and ultimately the online merchant has to decide that they wish to accept eftpos debit at their online payments page, and then update the page to do so.
19. Therefore gaining a reasonable level of adoption of eftpos online will take time (2 to 3 years) due to all of the players needing to be ready and merchants then deciding if they wish to use the service. In line with this thinking, the projections in my Opinion Report show the eftpos transaction volumes in "Remote Retail" slowly rising from a minimal level today to 500 million in 2024 (a 23% of Remote Retail debit card transaction volume), but then falling to 400 million in 2025 (a 20% of Remote Retail debit card transaction volume) as the ICS take back share. This delay in adoption allows the ICS to consolidate their position in online payments through activities such as the tokenisation of card-on-file details (see below), attractive contractual arrangements with major merchants, provision of marketing campaigns and card-linked offers, etc.
20. Previous investigations/assignments by The Initiatives Group in the area of online merchants have indicated that there are about 100,000 online merchants in Australia (this has probably grown since COVID-19), of which over 90,000 sold less than \$1 million per year online. Hence

online merchant volume is heavily concentrated in a small number of large online merchants (for example: in normal times - Qantas, Virgin, Webjet, Expedia and other major travel sites; in retail – Woolworths, Coles, Amazon, eBay, JB HiFi, Harvey Norman, Myer, David Jones). Most of these large merchants, as in the physical world, have direct relationships with the ICS and gain Strategic Merchant Rates on interchange and other benefits. Their overall contractual arrangements may therefore make eftpos online look less attractive than EPAL may believe.

21. **[Confidential to TIG]**

C. Least Cost Routing at Online Merchants

22. The topic of tokenisation for recurring payments, particularly in online transactions, is covered in paragraph 460 of my Opinion Report. These recurring payments is where eftpos debit is just entering the market. As noted in the specific merchant example above, tokenisation may be a problem for eftpos given that the tokenisation of stored card details is well underway by the ICS, and if the token is created by Visa, for example, only Visa can use it to make a payment.
23. As noted in paragraph 461 of my Opinion Report, *“As coverage of scheme tokenisation increases, the scope for eftpos card on file to compete for recurring payments will be reduced due to the developing inventory of tokens held by merchants. eftpos would need to persuade merchants to go to the trouble of asking either the gateway to re-tokenise the PAN into eftpos, or the cardholder to re-enter the card details and then choose eftpos tokenisation rather than scheme tokenisation - potentially introducing friction to the merchant/consumer relationship”*.
24. Gaining adoption of eftpos by the payment veneer organisations, such as PayPal, Afterpay, Uber and others, would be a good way to gain adoption of eftpos card-on-file recurring payments, as these organisations may have opted not to use ICS tokenisation and may therefore be able to more easily route via eftpos. I note in paragraph 180 of the EPAL statement **[Confidential to eftpos Payments Australia Limited]**.
25. Other issues around LCR in the online environment are discussed in my responses to EPAL’s submission in Section VI below.

D. How the Amalgamation Assists

26. The proposed amalgamation improves the ability of the eftpos debit scheme to compete against the ICS, and other new/future entrants in the payments arena, by -

- placing it within a larger, more robust entity, with the ability to appropriately coordinate investments and priorities across the broader Australian payments market - with broader stakeholder representation across the three payment streams;
  - the more coordinated approach, and agreed roadmap, of domestic payments innovation will gain “ubiquity” or the “network effect” for those services more quickly across the financial institutions and industry as a whole – thereby improving the speed of innovation in Australian payment products and services, and providing a better competitive platform;
  - mandates (emanating from the agreed roadmap) being more easily implemented across, and if necessary enforced upon, the financial institutions issuing and/or acquiring eftpos transactions – initially through the undertakings given to the ACCC as part of the amalgamation and in future by having had the broader industry involved in approving the roadmap for the Australian domestic payment systems;
  - enhanced competitive positioning of Australian payment products and services against the international players;
  - delivering increased efficiency in the Australian payments system – in lower administrative costs, improved/faster decision-making, greater coordination, reduced speed-to-market; and
  - removing barriers to close cooperation with the other Australian payment rails, with whom new differentiated hybrid products could be developed and deployed, improving the domestic industries competitive position vis a vis the international players.
27. The amalgamated entity, NewCo, will house within the one entity the key Australian payment rails for the future (noting the growing desire by market participants to eventually terminate the DE system in favour of NPP, and the likelihood that cheques will also be terminated as a form of payment within the next 3-5 years). I believe that the eftpos debit card scheme will be able to survive competitive attack by international payments players by being within this structure rather than on its own as a standalone entity. NewCo will be able to provide the different payment rails on top of which the competition and battle for consumer attention can be waged by the growing number of payment veneers - with eftpos, BPAY and NPP explaining to the veneer providers why their payment rails are a better value proposition than those of the international players.
28. As noted in paragraph 531 of my Opinion Report, “*The primary payment uses of eftpos, BPAY and NPP have been separate and distinct, with payers and payees selecting them for where they are most appropriate, being physical point of sale, bill payment and “pay anyone” respectively. Current “competition” as such among the three payment streams is at the margin, although, like many things in the digital age, convergence may occur over a longer period of time. Rather than competing with each other, their main competition are the international card schemes, Direct Entry [which will eventually terminate] and the many*

*veneers that sit above the core payment systems (some of which may choose to use eftpos or NPP as their “payment rails”).*

29. It seems unlikely, without significant regulatory intervention, that eftpos debit could ever regain a position where it accounts for the majority of debit card transactions in Australia. But it grow back it share to 45-50% if part of a strong, well-coordinated industry-wide entity. If left in a standalone entity I remain of the opinion that the eftpos debit scheme will cease to exist in 10 years, as its transaction base is attacked by the ICS and other international payments providers, including BigTech. There is “strength in numbers” and strength from the broad support of senior executives from across the Australian payments industry, which the eftpos debit scheme will gain by being part of NewCo in the proposed amalgamation.

## IV. Additional overseas example: Malaysia

### A. Background

30. On 1 August 2017, MyClear and MEPS merged to form Payments Network Malaysia Sdn Bhd (PayNet), which then became the national payments network and shared central infrastructure for Malaysia's financial markets. Prior to the merger MEPS operated the real time payments system and the ATM network, and was owned by the major commercial banks; MyClear operated the domestic debit card scheme, JomPAY (the equivalent of Australia's BPAY) and the Giro & Direct Debit system (the equivalent of Australia's Direct Entry).
31. The PayNet website quotes<sup>12</sup>: *"As the national provider of financial market utilities, PayNet aims to build inclusive, accessible and efficient payments and financial eco-systems for Malaysia. In line with this developmental objective, PayNet's shareholders do not receive dividends, and surplus profits are instead re-invested to ensure that the nation's financial market infrastructures and payment eco-systems are resilient, competitive and accessible to all.*
- Bank Negara Malaysia (BNM) is PayNet's single largest shareholder, with eleven Malaysian's financial institutions namely, Malayan Banking Berhad, RHB Bank Berhad, Public Bank Berhad, CIMB Bank Berhad, AmBank (M) Berhad, Hong Leong Bank Berhad, Affin Bank Berhad, Alliance Bank Malaysia Berhad, Bank Islam Malaysia Berhad, Bank Muamalat Malaysia Berhad and Bank Kerjasama Rakyat Malaysia Berhad, as joint shareholders."*
32. The ICS were and still are strong competitors in retail payments in Malaysia.

### B. PayNet services

33. The retail payment services offered by PayNet<sup>13</sup> are analogous to those in Australia that are proposed to amalgamate into Newco, namely:
- **Real Time Electronic Transfer of Funds and Securities (RENTAS)** - real-time gross settlement of wholesale funds transfers and securities trades denominated in Ringgit as well as Renminbi. RENTAS' Renminbi settlement service supports Malaysia's role as a recognised off-shore Renminbi clearing hub.
  - **Interbank GIRO (IBG)** - a funds transfer system that allows account-to-account credit transfers between 42 participating banks in Malaysia.

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<sup>12</sup> <https://paynet.my/about-paynet.html>

<sup>13</sup> PayNet also offers Debt Securities Services, Cheque Clearing, a direct-to-bank Internet payment gateway and banknote processing.

- **JomPAY** - Malaysia's national bill payment scheme where customers can pay any registered biller from Internet or Mobile banking by drawing funds from Current, Savings or Credit Card accounts. Billers need only sign up with one bank to collect payments via 42 banks.
- **MyDebit** - Malaysia's domestic debit card scheme, which allows point-of-sale payments using ATM cards issued by banks in Malaysia.
- **Direct Debit** - allows billers and merchants to debit a consumer's bank accounts on a periodic basis to collect recurring payments.
- **DuitNow** - pay instantly to any account or to a DuitNow ID such as mobile number or NRIC number.
- **DuitNow QR** - Malaysia's National QR Standard where any compliant QR Code can take payments from any participating Banks and e-Wallets mobile apps.
- **Shared ATM Network and MEPS ATM** - enables bank customers to conveniently access their funds anywhere from more than 10,000 ATMs of participating banks.

### C. Early Commentary

34. Mr Muhammad bin Ibrahim, Governor of the Central Bank of Malaysia (Bank Negara Malaysia), noted in a keynote address at the Malaysian E-Payments Excellence Awards (MEEA) in Kuala Lumpur in 2018<sup>14</sup>:

*"We now have PayNet, the domestic shared infrastructure at the heart of the country's payment systems. We envision PayNet to be a catalyst, one that challenges the status quo to drive its diverse members to foster competition and innovation, develop cost effective solutions and advance financial inclusion through digital payments. We should expect PayNet to ensure that the payment infrastructure of this country will always be at the cutting edge of technology. This will enable the economy to innovate, be competitive and productive.*

*The results speak for themselves; we have made great strides. Payment card spending has increased by more than threefold since 2006 to RM176.9 billion in 2017. From 2011 to 2017, e-payments per capita have more than doubled to 111 transactions. In the same period, we have reduced cheque usage by more than 40% to 119 million cheques. We have almost doubled the number of point-of-sale (POS) terminals to over 407,000 units. Debit card transactions have also increased by more than six times to 162 million*

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<sup>14</sup> <https://www.bis.org/review/r180511e.htm>

*transactions in 2017. All these are achievements that we should be proud of as a collective industry.*

*The progress that we have achieved so far is only possible with the collective contribution of all in the industry. This annual award ceremony recognises the achievements of those who have contributed to the progress, modernisation and enhancement of our payment systems.”*

#### D. Current Views

35. I have taken the opportunity during the last week to speak with a number of executives associated with PayNet, and to gain their views, now almost 4 years after the merger of MyClear and MEPS, of the benefits that have been gained through this consolidation of Malaysia’s domestic payments systems.
36. **[Confidential to TIG]**
37. In my opinion, many of the benefits of the merger of MyClear and MEPS to form PayNet in Malaysia that were noted above from my executive interviews should also be delivered in the proposed amalgamation in Australia to form NewCo.

## V. Business Analogy: NewCo decision-making

38. As noted in the Opinion Report, *“the successful execution of this will rely on the attitudes and mindset of those governing and managing the new organisation and its operating divisions, where a collaborative and cooperative approach could deliver great benefits and efficiencies to Australians and the country’s economy”* (paragraph 532). In this regard, in my opinion, I would see the operational and strategic management and decision-making of NewCo being analogous to a large diversified corporate.
39. It might, for example, be compared with CSR Limited (CSR), the Australian building materials company. CSR owns and operates a number of different building materials businesses, including PGH bricks, Bradford insulation and Gyprock plasterboard. Each of these businesses serves two separate construction sectors: residential (for consumers) and commercial (for businesses) - these sectors could be considered analogous to consumer and commercial payments.
40. Each of PGH, Bradford and Gyprock service different needs of the same customer (the builder), just like eftpos, BPAY and NPP do today. Similarly, PGH, Bradford and Gyprock compete at the margin, such that a double brick house construction dispenses with the use of Bradford and Gyprock in the outer walls versus a brick veneer house construction which uses all three products.
41. In terms of operational and strategic management and decision-making, the management teams of PGH, Bradford and Gyprock are independently running their day-to-day businesses and operating against an agreed strategy and budget. Annually, the management team of each division has to submit its strategic plan and budget for the following three years to corporate HQ, including plans for investment in new products and any new manufacturing capacity. The corporate team reviews each plan, aggregates them, discusses them with divisional management (potentially individually and then all together), and then develops the consolidated strategy and budget for the corporation as a whole - which is subject to Board review and approval. Subject to the capital expenditure plans of the different operations, this process may require trade-offs between various investment projects due to cashflow considerations, market conditions, competitor activities, overall strategic direction, returns on investment, etc. But in making these decisions, the corporation wants to ensure that PGH, Bradford and Gyprock remain viable and vibrant competitors within their individual parts of the overall building materials and construction market.
42. My hypothesis would be that this would surely be the same with NewCo’s management and Board of Directors, with day-to-day decision-making delegated to divisional management, who are operating against an agreed consolidated plan (or roadmap), and longer term strategic and investment decisions subject to a planning process that is eventually agreed and



endorsed by the Board. This being overlaid with the safeguards and requirements built into the Newco Constitution and Implementation Agreement.

## VI. Response to EPAL submission

43. I would like to state that I agree with much of the commentary and information provided by EPAL in its “Statement of support of application for authorisation” dated 17 March 2021, as submitted to the ACCC. EPAL and I disagree, however, about the best way of the eftpos debit card scheme competing and surviving against the ICS and other new/future international payments players.
44. I specifically mention the survival of the eftpos debit card scheme, as there is a need to separate the survival of the eftpos debit card scheme from the survival of EPAL as an entity. A number of EPAL’s new initiatives are tangential to the eftpos debit card scheme and do not directly support its ongoing existence, e.g. Connect ID. These may be good independent business initiatives, but do not help eftpos debit directly compete against the ICS.
45. Indeed, the EPAL statement of 17 March 2021 notes (paragraph 123) that EPAL *“is no longer a card based business or only a domestic debit scheme. This fundamental shift changes its [EPAL’s] future and its risk profile.”* The focus of the views presented on debit card activity in my Opinion Report was the survival of the eftpos debit card scheme, rather than the survival of the EPAL entity and its corporate structure.
46. As noted in my Opinion Report (in which I used the term *“veneers”*), and also as stated in the EPAL statement of 17 March 2021 (paragraph 144 (i)) *“Increasingly, competition and value add will be ‘above the rails’ sitting on top of core message flows, using apps and with capabilities accessed via easily integrated APIs. This is possible as card based platforms can have easy access to innovation”*, but the driving force behind the proposed amalgamation is bringing the Australian *“rails”* into one entity and allowing the veneer market to flourish above them. In the case of card-linked veneers, we want these to be driven by eftpos debit payment credentials rather than those of the ICS, which dominate this environment today.
47. The following tables repeat the items raised in paragraphs 180 and 181 of the EPAL statement, against which I have provided my comments and responses. I hope that these are helpful to the ACCC in its review<sup>15</sup>.

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<sup>15</sup> This is in response to the ACCC’s request to me dated 10 June 2021.

#180: The counterfactual scenario reflects a vibrant diversified and agile eftpos. eftpos has confidence in this position. The ACCC application and the reports from the independent experts attempt to call in question the eftpos management hypothesis however it is clear the application and reports are based upon material and fundamental misunderstandings. The following table highlights some of these misunderstandings.

Misunderstanding	EPAL Facts	Blockley Comment/Response
eftpos is slow and cannot keep up with ICS; ICS have large R&D teams	<ul style="list-style-type: none"> <li>• eftpos Contactless specs were available from 2012/3 and the 75% actual issuance and terminal coverage tipping point was reached in 2017</li> <li>• Mobile specs first available to issuers in 2016, with 52 issuers now active for eftpos across Apple Pay, Samsung Pay and Google Pay</li> <li>• 3DS, SRC, Tokenisation, Card, terminal, disputes and chargebacks, fraud tools, core hub are all common for card based payment systems and EMVCo compliant platforms that support a large number of card based businesses and schemes globally at a relatively low cost and fast speed – this means we are aligned to ICS and have access to the same qualified and experienced vendor pool</li> <li>• ICS pace of change is slow as they also rely upon their issuers and acquirers keeping up and creating a network effect for each new product and service, often over multiple year time ranges</li> </ul>	<ul style="list-style-type: none"> <li>• Mastercard first piloted contactless card transactions in the Australian market with the Commonwealth Bank in 2006, and eftpos specifications were then released 6 to a 7 years later.</li> <li>• The ICS pace of change may be relatively slow, but their development of new ideas and concepts appears to be inexhaustible. Domestic debit systems, including eftpos debit, have to respond to the new products/services that the ICS decide to deploy, either in specific geographies (quicker) or globally (slower).</li> </ul>
eftpos is just a price wedge and always in catch up	<ul style="list-style-type: none"> <li>• Now that core capability build is almost complete eftpos has shifted its focus to differentiation for the local market (something ICS are not good at) and this is the eftpos focus going forward under its current strategy.</li> <li>• Sales packs with members and merchants evidence dialogue around areas that meet core needs including the role of Beem It, QR and connectID driven customer experiences, tailored offerings for unique segments</li> </ul>	<ul style="list-style-type: none"> <li>• “Price wedge” is not a term that I have used, but the existence of the eftpos debit scheme in Australia does clearly provide merchants and financial institutions with negotiating leverage against the ICS.</li> <li>• Products and services on the eftpos debit scheme are always likely to be in “catch up”, as it is the ICS that are research and deploying the newest card-based concepts.</li> <li>• The Beem It and ConnectID concepts are tangential to the eftpos debit scheme, but are good initiatives for the independent EPAL</li> </ul>

	<p>leveraging Fin tech access and deep segment insights, propositions that shift mobile preference etc.</p> <ul style="list-style-type: none"> <li>• Since incorporation, eftpos has moved from a laggard to a leader – with distributed ledger capability being just one more example</li> <li>• A price wedge is not ordinarily a prioritised counterparty which means it is always in catch up – if this continues to be the eftpos positioning within the NewCo entity, then there is a real risk for eftpos to be de-prioritised for any investment.</li> </ul>	<p>corporate entity. QR codes for payments in Australia have yet to see mainstream adoption, but it is good that eftpos debit has this available if needed.</p>
<p><b>Misunderstanding</b></p>	<p><b>EPAL Facts</b></p>	<p><b>Blockley Comment/Response</b></p>
<p>Banks have large competing investment decisions</p>	<ul style="list-style-type: none"> <li>• Banks are net recipients of interchange and scheme fee rebates and the costs to support eftpos above these have been low. The costs slow down as we end the catch up.</li> <li>• eftpos has repeatedly asked for justification of this statement through showing the relative investment demands between the three entities</li> </ul>	<ul style="list-style-type: none"> <li>• The investment decisions at the banks are not wholly driven by funding, but also the availability and prioritisation of IT resources. Based on my recent discussions with five separate payments businesses, the current lack of skilled immigration and the reticence to offshore developments due to COVID, which may be long lasting, is reportedly causing a significant shortage of IT personnel in Australia, with companies competing for these human resources and bidding up their cost.</li> <li>• It is obvious that all large and complex organisations, including banks, have an array of ventures and product development opportunities in which they could invest. Banks need to prioritise and sequence these investments, especially in the payments arena, as they fear making multiple changes to their 24x7 systems simultaneously as this may cause outages - an area of focus for the RBA, which is asking for resilience in electronic payments. Banks have competing investment decisions, and in the area of payments on Australian domestic systems an agreed, mandated, industry-wide roadmap which could be followed by all banks would be greatly welcomed.</li> </ul>

<p>Banks are slow to support eftpos</p>	<ul style="list-style-type: none"> <li>• This has been true historically but is no longer the case. The pace of change over the last 18 months is the highest ever and shows momentum in delivery of the eftpos strategy while at the same time maintaining eftpos' customer engagement scores through surveyed senior representatives of members.</li> <li>• This has been driven by fundamental changes to the commercial relationship with commercial tension and deals, far stronger relationships and a genuine commitment to eftpos success.</li> <li>• The past and the present in all aspects including this one should not be confused</li> <li>• Our strategic shift to above rails competition actually support banks strategic imperatives without driving high build costs for them</li> <li>• Our catch up build will be largely complete by the time of amalgamation (if approved).</li> </ul>	<ul style="list-style-type: none"> <li>• There is no disagreement that banks were slow to deliver new initiatives on the eftpos debit scheme historically, and that recent times have seen much more activity. Even so, there remain many card issuers that are yet to provide the necessary functionality to load eftpos cards into mobile wallets (into the "Pays") and many acquirers that are yet to support eftpos online payments. The eftpos "build" might be well progressed by the time of the proposed amalgamation, but the deployment of those capabilities may still be in its early phases.</li> <li>• It is also that by raising the scheme fees paid on an eftpos debit transaction by acquirers (which are generally passed on to merchants in the MSF) and by issuers, EPAL has generated a source of funds that can be used to assist the various players in the eftpos debit card value chain (in fact primarily card issuers). This mirrors the economic model of the ICS, but does so by lifting the cost of eftpos debit acceptance closer to that of the ICS.</li> <li>• I believe that the proposed amalgamation is focused on the Australian domestic payment rails (eftpos, NPP and BPAY), and is not about competing in the large and rapidly growing market for payment "veneers". The Australian payments industry wants to provide a comprehensive but coordinated range of domestic payment rails for people to use, and on which an array of innovative "veneers" can be deployed by fintechs, merchants and other interested parties.</li> </ul>
<p><b>Misunderstanding</b></p>	<p><b>EPAL Facts</b></p>	<p><b>Blockley Comment/Response</b></p>
<p>eftpos MCR is not sustainable</p>	<ul style="list-style-type: none"> <li>• Today eftpos is up to 40% cheaper in card present and multiples cheaper online than ICS – that creates merchant demand. Merchants are end users/ customers of the eftpos payment system and of retail payments</li> <li>• eftpos and ICS price differently – eftpos could go to zero costs on merchants as we make more than the ICS do on the issuer side</li> <li>• ICS make most of their profit from all but the top tier merchants and very little from issuing and their online</li> </ul>	<ul style="list-style-type: none"> <li>• Today the ICS are already cheaper than eftpos in certain card present transactions (as witnessed by the use of LCR rules to favour Mastercard debit for transactions under \$15 at Chemist Warehouse), and the ICS are already re-pricing/re-negotiating contractual arrangements with large online merchants in anticipation of the online entry by eftpos debit. Given their global scale and the very small size of the Australian market, it would be relatively straightforward for the ICS to re-price their debit card offerings in order to ensure that the price differential of their debit card transactions is reduced, nullified or potentially inverted.</li> </ul>

	<p>costs are around 4 times more than eftpos – so there is a large pool of available transactions in online</p> <ul style="list-style-type: none"> <li>• eftpos is not driven by profit, however ICS are</li> <li>• Why would MCR not be sustainable in Australia if it has been in other countries – some sustain 50% or more routing away from ICS</li> <li>• Much of our fixed costs are covered through our infrastructure fees</li> </ul>	<ul style="list-style-type: none"> <li>• In addition, for many merchants, unit pricing is not everything and the marketing programmes, campaigns, collateral and support offered by the ICS provide the opportunity for additional sales revenue for merchants, thereby more than offsetting the higher transaction costs.</li> <li>• Indeed, our research undertaken amongst merchants for an acquiring study at the end of 2019 indicated that smaller merchants favoured simplicity and certainty (e.g. as offered in the “bundled pricing” of some merchant acquirers), rather than having to understand the intricacies of payment economics, LCR, interchange and other “specialist” topics - preferring to spend their time increasing sales. For small merchants with limited revenue in card transactions, the savings available through making acquiring changes are not as large as the revenue opportunity in spending that time on sales:             <ul style="list-style-type: none"> <li>○ These 90% of merchants account for only about 15% of total card transaction value;</li> <li>○ For example, a typical small merchant may handle \$500,000 of card payments per year and a 0.1% saving on acquiring costs would generate an annual saving of \$500 or \$42 per month; and</li> <li>○ It is easy to understand that simplicity &amp; convenience in payments acceptance charges/billing might greatly outweigh this level of savings.</li> </ul> </li> <li>• I believe that the 50% example of MCR effectiveness put forward by EPAL comes from the USA, where the unregulated merchant fees and interchange rates are significantly elevated to the Australian market, and therefore the savings available from local debit routing are much more significant.</li> </ul>
<p><b>Misunderstanding</b></p>	<p><b>EPAL Facts</b></p>	<p><b>Blockley Comment/Response</b></p>
<p>eftpos may have a successful non scheme business but the scheme volumes will drop off</p>	<ul style="list-style-type: none"> <li>• Continued diversification of use cases such as D&amp;W and ATMs</li> <li>• The diversified businesses actually drive volume and rich propositions to eftpos (Beem IT, QR, Dig ID etc)</li> </ul>	<ul style="list-style-type: none"> <li>• I would suggest that diversification of business interests and activities ensures that EPAL as an entity survives rather than focussing on the survival of the eftpos debit card scheme.</li> </ul>

	<ul style="list-style-type: none"> <li>• MCR is sustainable and RBA/ACCC will ensure there is a level playing field</li> <li>• Diversification ensures that eftpos services remain relevant “must have/take” payment services, supporting the core</li> </ul>	<ul style="list-style-type: none"> <li>• As noted above, I believe that the proposed amalgamation is focused on the Australian domestic payment rails (eftpos, NPP and BPAY), and is not diversification into associated businesses. The Australian payments industry wants to provide a comprehensive but coordinated range of domestic payment rails for people to use, and on which an array of innovative products/services can be deployed by fintechs, merchants and other interested parties.</li> </ul>
<b>Misunderstanding</b>	<b>EPAL Facts</b>	<b>Blockley Comment/Response</b>
eftpos will not compete with NPP and BPay in the future	<ul style="list-style-type: none"> <li>• The roadmaps clearly overlap, particularly in customer initiated transactions, many online transactions and digital identity and we will continue to aggressively compete for new use cases and volume, with or without amalgamation</li> </ul>	<ul style="list-style-type: none"> <li>• Currently the usage of the three payment systems hardly overlaps at all: consumers use BPAY to pay bills, use eftpos debit at physical point of sale and, for the most part, unknowingly use the NPP when making an internet banking “pay anyone” transaction (just like they previously “unknowingly” used the Direct Entry system). For the BPAY and eftpos transactions, the ICS provide the strong competition and not the other Australian domestic payment systems. That is the situation today.</li> <li>• The situation for the next five years or more will not be much different. As noted in my Opinion Report, payment behaviour changes slowly as it is very habit-forming and becomes ingrained. In addition, the new competition that both eftpos and the NPP are proposing to offer for online and recurring payments (against the ICS and Direct Debit) is not in their own hands to deploy - they are reliant on a range of other parties to make these available to consumers and businesses, with decision-making and ultimate availability resting with merchants, gateways, acquirers and banks. This value chain of players is not generally known for its speed of action.</li> <li>• The use of NPP to undertake account-to-account transactions at scale at physical POS is highly unlikely in the next five years or more, due to price (more expensive than debit card), speed (NFC much faster than QR code) and systems (merchant investment in new integrations). Both Coles and Woolworths have this on their payments “radar”, and I am sure can provide their own views to the ACCC on timing. Paragraph 17 of my Opinion Report states: <i>“The ability of account-to-account payments via the NPP to displace eftpos at physical POS is unclear and unproven. In particular, it is</i></li> </ul>

		<p><i>not yet established whether NPP can deliver both an end-to-end transaction cost as low as the current eftpos level (NPP is currently significantly more expensive) and offer as rapid &amp; seamless consumer experience as a contactless card transaction (particularly at major, high throughput merchants)."</i></p> <ul style="list-style-type: none"> <li>• EPAL in its own statement at paragraphs 162 and 172 endorses the above point of view:             <ul style="list-style-type: none"> <li>○ Para 162 – <i>"We do not see that the growth in digital or our POS volumes will be at risk through NPPA activities as eftpos is already low cost, fast and real time (for consumers and same day for most merchants as a matter of practice) and continues to shift to value beyond price, therefore the business case for merchants and the impetus for consumers to change behaviours at scale in the medium term is unlikely. In addition, to play in retail the investments for the market to move to NPPA are high and the business case for banks to invest may not exist."</i></li> <li>○ Para 172 – <i>"operating entities are:</i> <ul style="list-style-type: none"> <li><i>(a) a card entity: . . . would compete largely with Visa and Mastercard, with a focus on real-time, retail transactions, not just card but also mobile, online, tokenised credentials, wallets (as most rely on the underlying card); and</i></li> <li><i>(b) an account entity: . . . rationalisation . . . direct entry and business to business payments with rich data, replacing legacy platforms, driving efficiency of payments in a non-retail environment."</i></li> </ul> </li> </ul> </li> <li>• However, my opinion is that there are benefits in the <i>"card entity"</i> and the <i>"account entity"</i> being "housed" together under one parent entity of <i>Payments Australia</i>, the NewCo.</li> </ul>
<p><b>Misunderstanding</b></p>	<p><b>EPAL Facts</b></p>	<p><b>Blockley Comment/Response</b></p>
<p>eftpos will not collaborate with NPP and BPay without amalgamation</p>	<ul style="list-style-type: none"> <li>• Connect ID, QR, Beem It are all rails agnostic and Beem It uses BPay today as an indicator of existing collaboration</li> </ul>	<ul style="list-style-type: none"> <li>• I do not believe that this statement was included within my Opinion Report, but I do believe that closer and more frequent collaboration could be achieved by the three payment systems being within one parent entity (NewCo), which would remove some</li> </ul>



	<ul style="list-style-type: none"> <li>We are highly success driven and do collaborate with competitors (eg Mastercard on interoperable digital ID solutions, BPay on NPP alternative etc)</li> </ul>	<p>of the difficulties presented today due to different ownership structures and confidentiality issues.</p> <ul style="list-style-type: none"> <li>As noted in my Opinion Report, the sort of collaboration that I would hope to occur would include the development of hybrid payment products/services across the different payment “rails”, which would provide Australian competition to the ICS and other international players, existing &amp; future.</li> </ul>
<b>Misunderstanding</b>	<b>EPAL Facts</b>	<b>Blockley Comment/Response</b>
eftpos competition was and will always be only ICS	<ul style="list-style-type: none"> <li>True of the past not of the future, the future competitors include NPP and BPay, but most importantly Big Tech in collaboration with our members</li> </ul>	<ul style="list-style-type: none"> <li>I do not believe that this statement was included within my Opinion Report, and I do not believe that the ICS will be the only competition for the eftpos debit scheme.</li> <li>Paragraph 14 of my Opinion Report states: <i>“There is a need for the presently fragmented domestic payments entities to combine, in order to provide a larger, stronger and more robust domestic player that would have the resources and coordinated approach necessary to keep pace with the innovations in products and services being deployed by the growing array of much larger international competitors.”</i></li> <li>Paragraph 470 of my Opinion Report states: <i>“There is also the potential for new competitors entering the market (or growing their existing activity) for point of sale payments, which would further endanger the eftpos position; all of these potential competitors have “deeper pockets” than eftpos and could plausibly deploy greater functionality; these could include . . . [examples are then provided, including Big Tech]”</i>.</li> </ul>
ICS can out fund eftpos	<ul style="list-style-type: none"> <li>Both ICS and eftpos are bound by the RBA driven net compensation rule</li> <li>Where an issuer supports eftpos growth, then the rebates will be very much in line</li> </ul>	<ul style="list-style-type: none"> <li>The global scale, stock market valuations and Balance Sheets make it clear that the ICS are better funded than EPAL and the eftpos debit scheme in any absolute sense.</li> <li>The RBA net compensation rule only applies to issuers of the designated payment card schemes, which include the ICS and eftpos for debit. This rule means that issuers can not receive rebates or funding from any payment scheme that exceeds the amount that the issuer has paid that payment scheme in (scheme) fees; such that an issuer may not receive “net compensation” , it</li> </ul>

		<p>must always pay the scheme more than the scheme pays the issuer.</p> <ul style="list-style-type: none"> <li>• However, the net compensation rule does not apply to other parties in the payment value chain, most notably merchants. Such that the ICS can provide direct monetary incentives to merchants, for example to fund marketing campaigns, marketing support, technology investments, etc., with the ICS capable of significantly out funding EPAL in this regard.</li> <li>• Similarly, the ICS can fund a far greater level of research &amp; development on new, innovative payments concepts and be able to absorb far more in-market failures, than EPAL.</li> </ul>
<b>Misunderstanding</b>	<b>EPAL Facts</b>	<b>Blockley Comment/Response</b>
<p>eftpos will be slow in digital and is just entering</p>	<ul style="list-style-type: none"> <li>• The Network effect already exists for eftpos in online</li> <li>• All capabilities for all use cases are to be enabled and activated this financial year</li> <li>• eftpos has a path for speed to market for online MCR vs CP as merchants often have multiple gateways and acquirers who are agile and competitive</li> <li>• <b>[Confidential to eftpos Payments Australia Limited].</b></li> <li>• eftpos has a material price advantage and differentiated pricing strategy (3 times cheaper than ICS in published online pricing)</li> </ul>	<ul style="list-style-type: none"> <li>• Unfortunately, the network effect does <u>not</u> already exist for eftpos debit in online transactions. It is true that EPAL has several dozen card issuers who have already implemented the capability to handle eftpos transactions online. But card issuers are only one part of the online payments value chain, with the need for eftpos online implementation by gateways and acquirers, and most importantly a decision by the online merchant themselves to adopt eftpos online and/or Least Cost Routing online.</li> <li>• Gaining adoption of eftpos online will take time (2-3 years) due to all of the players needing to be ready and merchants then deciding if they wish to use the service. This delay allows the ICS to consolidate their position in online payments through activities such as the tokenisation of card-on-file details, attractive contractual arrangements with major merchants, provision of marketing campaigns and card-linked offers, etc.</li> <li>• My previous investigations/assignments in the area of online merchants have indicated that there are about 100,000 online merchants in Australia (this has probably grown since COVID-19), of which over 90,000 sold less than \$1 million per year online. Hence online merchant volume is heavily concentrated in a small number of large online merchants (for example: in normal times - Qantas, Virgin, Webjet, Expedia and other major travel sites; in retail – Woolworths, Coles, Amazon, eBay, JB HiFi, Harvey</li> </ul>

		<p>Norman, Myer, David Jones). Most of these large merchants, as in the physical world, have direct relationships with the ICS and gain Strategic Merchant Rates on interchange and other benefits. Their overall contractual arrangements may therefore make eftpos online look less attractive than EPAL may believe.</p> <ul style="list-style-type: none"> <li>• <b>[Confidential to TIG]</b></li> <li>• The strategy of eftpos gaining the card-on-file transactions of the payment “veneer” providers such as PayPal, Afterpay, Uber and others is a good idea to gain volume. If these providers have used proprietary tokenisation, then re-directing the debit card transactions to eftpos should be possible for existing customers; but if the providers have used the tokenisation services of the ICS, then it is likely that their customers would have to be asked to re-enter their debit card details in order to achieve routing to eftpos.</li> </ul>
<b>Misunderstanding</b>	<b>EPAL Facts</b>	<b>Blockley Comment/Response</b>
<p>eftpos will experience the same demise as Bankcard</p>	<ul style="list-style-type: none"> <li>• eftpos is in a materially different situation to bankcard. Bankcard was sub scale, was not a separate scheme, was not diversified or focussed on customer propositions and was not growing volumes and revenue.</li> </ul>	<ul style="list-style-type: none"> <li>• I agree that the situation of eftpos today is not the <u>same</u> as Bankcard, but it has many similarities. As stated in Paragraph 495 of my Opinion Report: <i>“In my opinion, without consolidation of the domestic payment systems in Australia the future for the three separate entities over the next 10 years would see –</i> <ul style="list-style-type: none"> <li>○ <i>The eftpos debit card system continue to lose market share to Mastercard and Visa Scheme debit cards over time (despite the short term “band-aid” of Merchant Choice Routing and the expansion into online transactions), which will eventually lead to the termination of the system - just as happened to the domestic Bankcard credit card system in 2006; the EPAL organisation itself may continue longer, given that the management team have plans to develop products and services in a number of different adjacencies; however, card-based payments will remain the dominant form of payment by transaction volume, but the market will almost exclusively be dominated by Visa and Mastercard . . .”.</i></li> </ul> </li> </ul>
<b>Misunderstanding</b>	<b>EPAL Facts</b>	<b>Blockley Comment/Response</b>

<p>Costs will be lower in amalgamation</p>	<ul style="list-style-type: none"> <li>• eftpos strategy is to continue to lower its already low costs and its diversified revenues moving forward are expected to allow processing costs to approach zero over time.</li> </ul>	<ul style="list-style-type: none"> <li>• The consolidation should permit a reduction in overhead costs.</li> <li>• The objective of NewCo would be to keep the costs of all of the domestic payments schemes as low as possible, but commensurate with maintaining a strong competitive position in the market by investing in new, innovative payment products/services/functionality/etc.</li> </ul>
<p>eftpos may not realise network effect on initiatives</p>	<ul style="list-style-type: none"> <li>• Due to being a card based business, network effects exist already for eftpos</li> <li>• eftpos don't need all acquirers or all issuers to support all initiatives to be able to route online. Gateways can solve this issue and create demand.</li> </ul>	<ul style="list-style-type: none"> <li>• As noted above, the network effect does <u>not</u> already exist for eftpos debit in online transactions.</li> <li>• The new online entrants, such as Stripe and Adyen, provide a combined gateway &amp; acquiring (&amp; fraud mitigation) service and a wider array of payment methods. Their new technology platforms and this integrated/end-to-end service offering are gaining share within major online merchants.</li> <li>• The major acquirers tend to have a preferred gateway, and many online merchants go to the acquirer and buy a "bundled" service. Indeed, in the online merchant Request For Proposal projects in which I have been involved over the last 18 months, a lower cost has been achieved for our online merchant client by purchasing a "bundle" than by purchasing the gateway, fraud engine and acquiring as separate services.</li> <li>• Many smaller online merchants find an acquirer first and then ask them to organise the gateway; so gateways will not necessarily solve the lack of eftpos ubiquity across online acquirers.</li> <li>• It is true that some larger online merchants (for example, Webjet) do use a gateway in order to connect to multiple acquirers, but these tend to also be the larger online merchants with whom the ICS will have a direct relationship and contractual arrangements.</li> </ul>
<p>Misunderstanding</p>	<p>EPAL Facts</p>	<p>Blockley Comment/Response</p>

<p>The prescribed services will not happen without amalgamation</p>	<ul style="list-style-type: none"> <li>• By definition, the prescribed services were services in train for the near term and so were and continue to be already in eftpos' strategy and roadmap without amalgamation and are to be largely delivered by the time amalgamation happens (if approved)</li> </ul>	<ul style="list-style-type: none"> <li>• I did not discuss the prescribed services in my Opinion Report.</li> </ul>
<p>eftpos' alternative proposal is "likely" to happen in any event</p>	<ul style="list-style-type: none"> <li>• eftpos put an alternative proposal to the IC as an example of another option that should be considered, but the focus of the IC was on amalgamation in its current form only</li> <li>• the alternative option was put to show eftpos did not need amalgamation and while eftpos is pursuing ATM volume, that does not mean that the whole alternative option is "likely" to happen</li> </ul>	<ul style="list-style-type: none"> <li>• I did not discuss this in my Opinion Report.</li> <li>• As noted above, however, my opinion is that there are benefits in the "card entity" <u>and</u> the "account entity" being "housed" together under one parent entity of <i>Payments Australia</i>, the NewCo.</li> </ul>

#181 Likewise eftpos also observed misunderstandings should amalgamation proceed.		
Misunderstanding	EPAL Facts	Blockley Comment/Response
NewCo will better compete with ICS	<ul style="list-style-type: none"> <li>• ICS only go to market through intermediaries so the decision whether to support domestic schemes remains in hands of banks</li> <li>• MND construct allows banks to get the best out of both schemes while prioritising eftpos however this has not happened and there is no new trigger through consolidation that will make this happen. Suggestion has been made the eftpos is a price wedge providing tension for the banks' negotiations with ICS. This indicates banks support eftpos to survive, but not necessarily thrive which is a choice in banks' hands today and will not change through consolidation.</li> <li>• Network effects are required across all relevant form factors through all channels to maintain relevance as a competitor to ICS – any diminution or failure to gain network effects and scale through a transition to NPP of eg online volume would fundamentally impact eftpos' viability and ability to continue to provide the competitive tension to be a price wedge for banks with ICS (see eftpos strategy below)</li> </ul>	<ul style="list-style-type: none"> <li>• NewCo will provide the eftpos debit scheme with a parent company having industry-wide representation, more coordination of new functionality across the Australian domestic payment landscape and more “firepower to get things done” when competing with the ICS.</li> <li>• NewCo also offers the opportunity for the development of unique Australian hybrid payment products with which to compete in the market.</li> <li>• I believe that the NewCo stakeholders definitely want the eftpos debit scheme to survive as a viable and vibrant provider of low cost card transactions in the Australian market. By having all of these stakeholders aligned, the future of eftpos debit should be more assured.</li> <li>• Given that the ICS dominate (~95% share) the fast growing online space and that it will take time for both eftpos and NPP to gain adoption by online merchants, there would seem to be plenty of room for both of these domestic new entrants in the online space to put competitive pressure on the ICS. Merchants can select which of eftpos and/or NPP they would like to add to their forms of payments acceptance. Expanding “the ways to pay” is important for online merchants. My firm is currently in the process of expanding one online merchant's checkout from five to fourteen different schemes/ways-to-pay, as they have said “<i>When the customer wants to pay, don't get in the way</i>”.</li> </ul>
Overlapping investment decisions solved	<ul style="list-style-type: none"> <li>• This is not an eftpos issue as the catch up is nearing an end and banks are well funded through interchange</li> </ul>	<ul style="list-style-type: none"> <li>• The “catch up” of the eftpos debit scheme to the debit offerings of the ICS has still a long, long way to go in the actual Australian marketplace.</li> <li>• The ability of NewCo to provide the Australian payments industry with an agreed, coordinated roadmap for the deployment of new products/services/functionality will be greatly welcomed by those organisations who today face the difficulty of determining which of</li> </ul>

		<p>the various competing demands of the payment schemes they should support – as they cannot support them all when they are presented in an uncoordinated and, to them, an ad hoc manner.</p> <ul style="list-style-type: none"> <li>• The issue of overlapping investment decisions is not just a today issue, it will continue into the future as new innovations and changes appear unless addressed by the amalgamation.</li> </ul>
<b>Misunderstanding</b>	<b>EPAL Facts</b>	<b>Blockley Comment/Response</b>
There will be less compliance effort in amalgamation	<ul style="list-style-type: none"> <li>• Perhaps at the edges however the only materially impact would occur if the schemes are wound down as until that happens, all three schemes would continue with their respective requirements</li> </ul>	<ul style="list-style-type: none"> <li>• It should be easier for new entrants, new veneer providers, fintechs, etc to have a single starting point with NewCo, and to receive overall advice in regard to connectivity, participation, etc from a single source, which might then direct them to an OpCo.</li> </ul>
There are material efficiency gains	<ul style="list-style-type: none"> <li>• Unless platforms converge, which is unlikely with very low chance of a viable business case then cost saving will be low</li> <li>• Shared services will save very little in the scheme of things</li> </ul>	<ul style="list-style-type: none"> <li>• There should be some savings in the administration of the overall Australian payments system and for the stakeholders themselves in the time &amp; effort currently taken by three separate entities.</li> </ul>
eftpos will maintain its strategy and roadmap	<ul style="list-style-type: none"> <li>• Beyond June 2022, this is not assured, particularly given the apparent desire to move online volume to NPP</li> <li>• Even before June 2022, this is unlikely as connectid and Beem IT are not prescribed services and with prioritisation of investments likely combined with loss of control of key functions into shared services the ability for eftpos to maintain its strategy is fundamentally challenged (strategy, innovation centre, shared services)</li> </ul>	<ul style="list-style-type: none"> <li>• My Opinion Report makes it clear that I think the eftpos debit scheme needs to survive for the benefit of Australia, and I believe that this is best achieved through the proposed amalgamation.</li> <li>• The strategy and roadmap for EPAL the organisation goes beyond that of the eftpos debit scheme, which is understandable for an independent stand-alone “corporate” whose Board needs to be concerned with its longevity. NewCo is focused on providing a coordinated set of modern payments rails for the use and benefit of the Australian population and economy. NewCo will ensure that the eftpos debit payments system gets the prioritisation and investment required to compete with the ICS and new entrants.</li> </ul>

Misunderstanding	EPAL Facts	Blockley Comment/Response
Focus on rails investments	<ul style="list-style-type: none"> <li>• Significant competitive, sovereignty and disintermediation risks come from Big Techs, not ICS - hence this needs to be the focus on investment - this is not the thrust but rather a side bar interest for NewCo</li> </ul>	<ul style="list-style-type: none"> <li>• The ICS are the clear and present threat today to the eftpos debit scheme, and I agree that other new entrants, including Big Tech, may become competitors in the future.</li> <li>• As EPAL itself has noted, the real competition is at the user interface with the providers of “veneers” battling for consumer attention. The key issue with these veneers is which set of payment rails becomes embedded within them, as consumers tend to set them up just once (“set and forget”). Today nearly all of these veneers are “powered” by the payment rails of the ICS. NewCo and the eftpos operating division needs to change this situation, such that the eftpos debit card system is selected as the “rail of choice” when setting up the payment service powering the veneer.</li> <li>• For example, ASIC reports that 80% of the Buy Now Pay Later apps are funded by debit cards, but today these are all ICS; in the future a good proportion of these might hopefully be funded by eftpos debit.</li> </ul>
A2A solves material issues for merchants	<ul style="list-style-type: none"> <li>• eftpos is already low cost, already has same day settlement for most merchants</li> </ul>	<ul style="list-style-type: none"> <li>• I did not say this in my Opinion Report, and I believe that card-based systems will dominate point of sale transactions for many years to come.</li> </ul>
Advisory groups have a voice	<ul style="list-style-type: none"> <li>• This is unlikely given there are too many parties covering too many topics for too many schemes in forums with their competitors</li> <li>• Recommend that this construct be supplemented by reference groups that are scheme or customer journey specific</li> </ul>	<ul style="list-style-type: none"> <li>• I did not specifically comment on advisory groups in my Opinion Report.</li> <li>• However, I would note Paragraph 532 of my Opinion Report: “<i>The successful execution of this [NewCo] will rely on the attitudes and mindset of those governing and managing the new organisation and its operating divisions, where a collaborative and cooperative approach could deliver great benefits and efficiencies to Australians and the country’s economy.</i>” In the end, it will be the people running the payments businesses inside NewCo and those involved in its governance from the outside, who will decide whose voices get heard and how collaboratively the business is operated. As I noted, <i>attitudes</i> and <i>mindset</i> will be key, as they are in just about any business.</li> </ul>



