

From: Luke Fuller [REDACTED]
Sent: Friday, 7 May 2021 5:31 PM
To: Wu, Connie <connie.wu@accc.gov.au>
Subject: Re: Proposed amalgamation of BPAY, eftpos and NPPA [SEC=OFFICIAL]

Dear Connie,

Please see our additional comments below:

1. Could you please clarify the extent to which the concerns you have raised about eftpos might apply regardless of the proposed amalgamation, and whether – and if so how – the proposed amalgamation would increase those concerns?

Whilst it is true that the banks have not supported eftpos debit cards (instead prioritising scheme debit) EPAL is still independent enough to have its own identity and independent business plans. This will completely change with amalgamation with what could be described as a natural competitor in BPAY and the NPP. There is a great risk that in consolidation, existing eftpos transaction volume will be diverted to support a NPPA that needs more volume and more investment to be viable, therefore hampering eftpos' ability to use that money to innovate.

2. More specifically, how would the proposed amalgamation change the incentives of the banks (and separately, NewCo) with regards to the future investment in, and development of, eftpos payments products and services?

Banks do not directly invest in EPAL as it survives by the fees it can levy in relation to its services. If it is forced to coexist with a natural competitor then it goes without saying that any competition, in the real sense of the word, and hence innovation that is driven by that competition, will evaporate. This kind of behaviour can clearly be seen when the NPP awarded a closely aligned affiliate BPAY, the first overlay service. BPAY was awarded to provide the service through a tender process that was not transparent, not inclusive and had a forgone conclusion.

We doubt very much that EPAL was approached to provide such a service. Certainly, we were not approached and Quest is a significant technology provider to the Australian payment industry.

If innovation at EPAL is reduced after a merger, it will further disincentivise banks to offer EPAL on their debit cards, instead providing scheme debit and removing this valuable competition for both consumers and merchants. It is essential that EPAL can continue to

innovate and compete in its own right. There are already examples of banks removing EPAL support from their debit products. Macquarie Bank has recently removed EPAL support (see <https://help.macquarie.com.au/s/article/November-2020-product-changes-transaction-and-offset-accounts>) which has removed the capability for merchants to least cost route contactless transactions. Additionally, functionality for consumers has been reduced. If a merchant has least cost routing turned on, the consumer will be forced to insert their card and even then can't select 'Cheque' or 'Savings', but must select 'Credit'. Macquarie acknowledge this in the aforementioned article, "Tap purchases at some merchants may not work. If this happens, please insert/swipe your card and press 'credit' to ensure your transaction is processed".

We understand that some other issuers are considering following this example. If this trend continues, eftpos transactions will decline to zero. Indeed, Quest already has customers who do not have least cost routing turned on, where only a very low percentage of their transactions are processed via EPAL. EPAL are working to address these challenges now, but its ability to do so will be greatly hampered should the merger take place.

We believe EPAL's current ownership structure allows them to position themselves in the middle of Australia's digital economy, creating value for our country, providing strong competition to other debit products and competing with the likely future emergence of Big Tech in our financial sector.

Regards,

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