

Proposed consolidation of Australian domestic payment companies

February 2021

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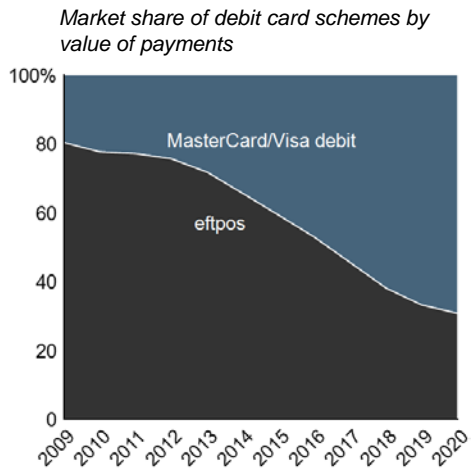
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Current state and case for the merger

Currently, Visa and Mastercard overwhelmingly dominate card transactions.

We need an efficient domestic player to ensure competitive pricing tension against multinational schemes and big tech.

Today



- International card schemes:
 - have captured 70% market share of debit transactions (by value), reducing eftpos' share from 80% to 30% in the last decade
 - have a near monopoly over online purchases
- The dominance of the international card schemes in payment volume and payment functionality is a significant concern for small business
- Australia's domestic payment organisations are fragmented and siloed, reflecting old divisions that are no longer relevant
- Innovation is harder – and slower – than it should be



Tomorrow

- An efficient, coordinated domestic payments entity
- Results in more payment options and choice for small businesses and retailers
- The new entity creates competitive price tension against large international players



What the proposed consolidation means for small business



An efficient, local, integrated payments entity

- Action is required to create a strong integrated payments entity that can compete more effectively against global competitors, who are dominating retail payments
- A coordinated entity can agree and deliver necessary capability and innovation faster than is possible today across three uncoordinated organisations



Eftpos to be strengthened and preserved

- Continues as a standalone brand and scheme
- A new, efficient and coordinated entity will put further downwards pressure on payments costs and strengthened competition with Visa and Mastercard (via increased scale, scope, and most importantly alignment)
- Consolidation facilitates broad roll out of eftpos online



Better access to payment options

- There will be continued access to existing payment methods – eftpos, BPAY, and real-time payments (PayID/Osko)
- There will also be access to new payment options in the future which draw on the strengths and assets of each organisation



Minimising payment costs

- New entity will operate as a non-profit-maximising utility, to recover only operating costs including costs of new features
- Payment costs won't go up as a consequence of this merger, and a key objective of the new entity will be to deliver low-cost payments to retailers, businesses and their customers



No impact on Least Cost Routing (LCR)

- LCR rollout is accelerating by banks and will continue uninterrupted
- This proposal facilitates the further rollout of LCR across all form factors, beyond plastic at point of sale, to online and mobile form factors



Fairer governance structure

- The majority of votes on the Board and in the shareholding of the new entity will not be held by the major banks or major retailers, who will have less influence than they do today
- Key purpose is to meet the present and future requirements of users of the Australian payment system including merchants, businesses, and their customers

What you will see: real outcomes for small business

Current services will be unaffected

Core purpose of NewCo is delivery of low-cost payments for retailers, business and their customers



Better coordination and alignment between the three companies and their owners will deliver faster progress

For example, this process has already secured the delivery of eftpos online, giving merchants access to lower cost payment options online which don't exist today



Small Business

Faster deployment of capability not currently possible across three separate organisations

For example, potentially QR codes across multiple payment streams, improved online payment capability and digital ID solutions



Least Cost Routing (LCR) is accelerating and is unaffected by this merger

This consolidation also facilitates the rollout of LCR to online and mobile form factors

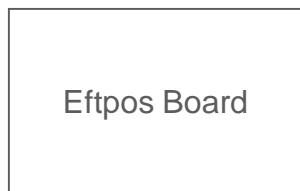


More inclusive and balanced governance, with input from a broader range of perspectives

The model will increase the influence of smaller organisations with less influence by large banks and large retailers at governance and shareholder level

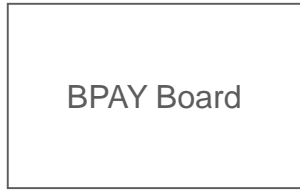


Current structure: siloed and outdated



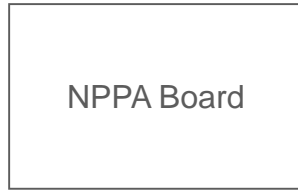
Eftpos Board

~75% of votes held by major banks and retailers



BPAY Board

100% of votes held by major banks



NPPA Board

33% of votes held by major banks



- Established 1983
- Point of Sale payments
- Important source of competition for global schemes
- No broadly available online payment method



- Established 1997
- Bill payments
- Osko real time payments



- Established 2016
- Real-time account to account credit payments
- PayID

Siloed approach – reflects evolution of different payment types over the past 40 years

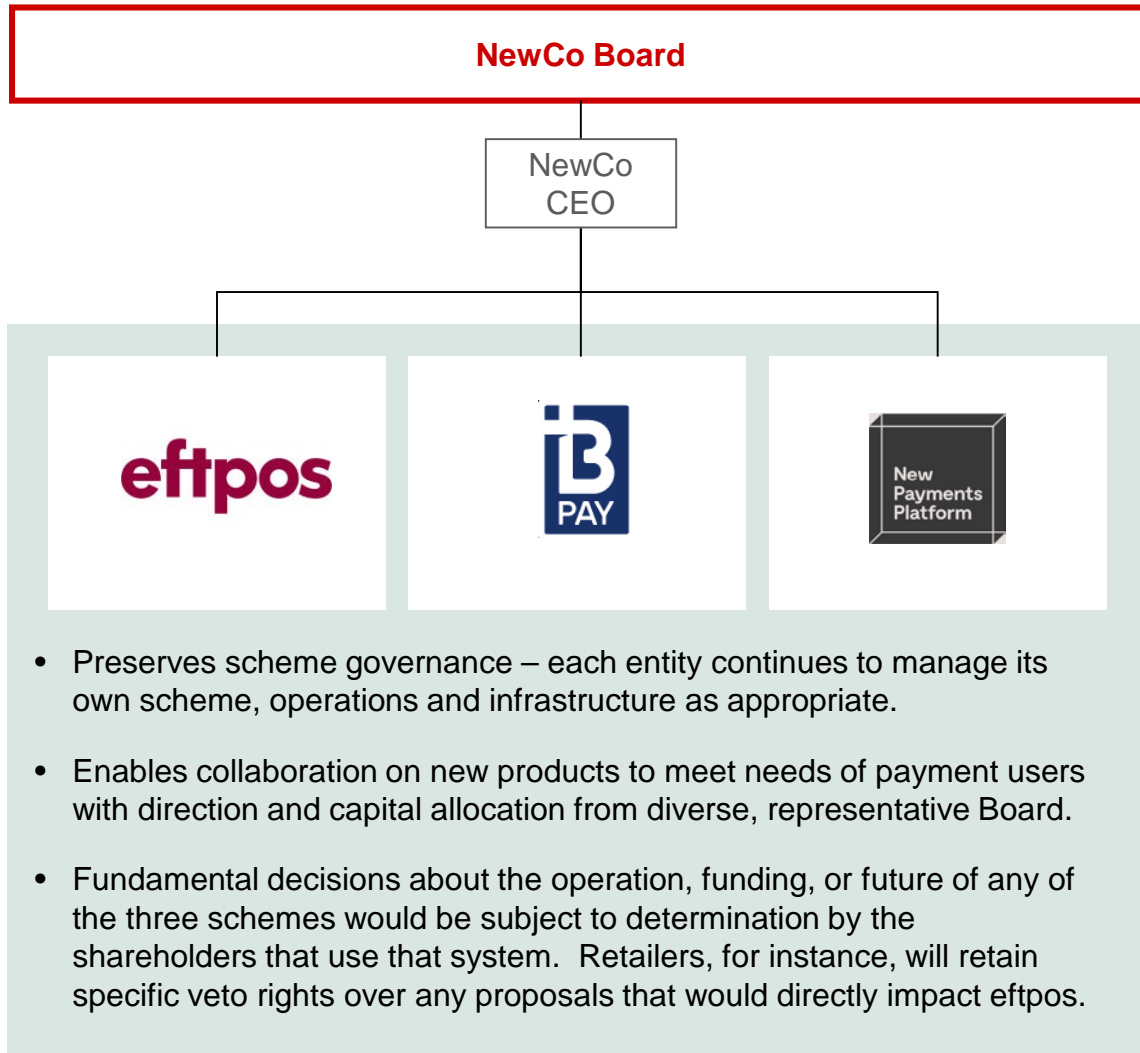
Do not compete today – the three companies core payment products do not compete with each other today

Majority of votes held by major banks and retailers – the majority of Board and shareholder votes for eftpos and BPAY are held by major banks and/or major retailers

No mechanism to coordinate – resulting in the three organisations competing with each other for limited bank funding, resources and priority

Slow or insufficient innovation to compete – competition for limited funds from owners to support rollout without any guarantee of broad take-up or clarity on roadmap e.g. no broadly available online payment capability suitable for retail

Proposed structure: integrated and balanced



- **Broader representation** – four independent directors (including the independent chair) and nine directors nominated by NewCo's shareholders (four of which will be from the major banks)
- **Balanced decision making** – each Board director has one vote. Each shareholder, regardless of size, will have one vote of equal weighting, at General Meetings of NewCo's shareholders
- **Smaller payment users better represented** – eg. other retailers who use the payment system could become shareholders (and potentially Directors) via a nominal capital contribution (and would have an equal vote as all other shareholders)
- **Non-profit-maximizing payment utility operating in the public interest** – objectives of company clearly focused on end users of the payment system, and specifically low-cost payments
- **Supports efficient involvement of payment users such as small businesses** – eg. through creation of end-user forums
- **Entities are still regulated by the RBA Payment Systems Board** – just as they are today

Next steps

Stakeholder and user
consultation and
conversations

ACCC application
submitted and published
for public consultation in
March 2021

Seek ACCC
authorisation, with
earliest possible decision
by June 2021

A futuristic cityscape at night, featuring a dense network of light trails in various colors (blue, red, yellow, green) that create a sense of motion and connectivity. The background shows a city with illuminated buildings and streets, overlaid with a complex digital data visualization consisting of numerous thin lines and points, suggesting a network or data flow. The overall color palette is dominated by dark blues and blacks, with bright highlights from the lights and data.

Questions and Discussion



Appendix: Least Cost Routing (LCR)

The rollout of LCR is unaffected by this proposal.

LCR rollout is accelerating and has been offered to nearly all merchants.

However, supporting its take-up by small business remains a work-in-progress.

- We collected data from six of the largest organisations providing merchant services, who collectively service the majority of the market or merchant base in Australia.
- Together, these organisations have made available or offered some form of LCR to >90% of their merchants.
- The approach taken to offering LCR to merchants varies; increasingly they are auto-enrolled, or proactively contacted.
- Depending on the organisation, take-up is as high as close to 1 in 3 merchants or ~20% overall.
- In addition, up to 20% of merchants in some organisations are on some kind of bundled pricing plan, where the mix of cards used does not influence the cost of accepting cards (i.e. there is no benefit to the merchant in moving to LCR).
- Feedback suggests that work to extend LCR continues to accelerate.
- The RBA's Review of Retail Payments Regulation will continue to focus on this.