Re: Proposed amalgamation of BPAY Group Holding Pty Ltd, BPAY Group Pty Ltd, BPAY Pty Ltd (together, BPAY), eftpos Payments Australia Limited and NPPA Australia Limited

Statement in support of application for authorisation by Westpac Banking Corporation

Signed by: Dianne Challenor, Managing Director, Global Transaction Services

Date: 16 March 2021

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A. INTRODUCTION

1 This document has been prepared in support of the application by Industry Committee Administration Pty Ltd for authorisation on behalf of the shareholders of BPAY Group Holding Pty Ltd (**BPAY Holdco**), the members of eftpos Payments Australia Limited (**eftpos**) and the shareholders of NPP Australia Limited (**NPPA**) who were members of Industry Committee (IC) at all relevant times, and by NewCo once it is incorporated, to acquire shares in NewCo and for NewCo to acquire shares in each of BPAY Group Pty Ltd and BPAY Pty Ltd (together **BPAY Opco**), eftpos and NPPA (the **Application**).

B. WESTPAC

2 Westpac Group, comprising Westpac and its associated businesses, provides a range of banking and financial services for consumers and businesses, primarily in Australia and New Zealand including lending, deposit taking, and payments services. Westpac Group's businesses are structured along divisional lines as follows:

(a) The Consumer Division serves the banking needs of consumers in Australia including the sales and service of banking products, from mortgages, credit cards, personal loans and savings to deposit products. This division also works with Business, Westpac Institutional Bank, and Specialist Businesses in the sales, service and referral of certain financial services and products including general and life insurance, superannuation, platforms, auto lending and foreign exchange.

(b) The Business Division serves the banking needs of small-to-medium businesses and commercial and agribusiness customers across Australia. It also supports the banking needs of high net worth individuals through the Private Wealth business.

(c) Westpac Institutional Bank delivers a broad range of financial products and services to commercial, corporate, institutional and government customers with connections to Australia and New Zealand; services include financing, transactional banking, financial and debt capital markets.

(d) Westpac New Zealand Limited delivers banking, wealth and insurance services to customers in New Zealand.

(e) The Specialist Businesses Division comprises the non-core Australian businesses, including superannuation, wealth platforms, investments, auto-finance, general insurance, life insurance, lenders mortgage insurance, and Westpac's operations in Fiji and Papua New Guinea.

C. WESTPAC'S INTERFACE WITH THE SERVICES OF BPAY, EFTPOS AND NPPA

Westpac's investment in the Australian payment schemes

3 Westpac is a shareholder in BPAY and currently holds 25% of BPAY Group Holding Pty Ltd. Westpac has used BPAY's services since inception. Westpac has nominated a director of BPAY Group Holding Pty Ltd since it was formed in 2018.

4 Westpac is a founding member of eftpos. Westpac began offering eftpos' services prior to its inception and still offers an eftpos only debit card, known as Handycard, to its customers. Westpac also acquires eftpos transactions and offers eftpos services on most credit cards and on all of our debit cards. Westpac has nominated a director of eftpos since it was formed in 2009.

5 Westpac is a founding shareholder in NPPA and currently holds 19.07% of the shares in NPPA. Westpac is an initial participant in the NPP and has used the NPP since the platform was launched in November 2017. Westpac began rolling out NPP services to Westpac customers on 13 February 2018.

Payment and transaction services

6 Payments, alongside deposits and lending, is one of the most important services Westpac provides to its customers. To do this requires a source and store of funds, payment infrastructure (also known as "**rails**"), specific payment offers and 'value-added' features.

7 Westpac, as a commercial bank, provides payments services to:

(a) meet customer needs, and in so doing, earn the right to hold deposits and broaden customer relationships. Payments are relevant for all transactional relationships, which are a building block of long-term relationships with customers of all types (consumer, business and institutional). Typically, a customer's main financial institution is its transactional bank;

(b) create a funding source, as the transactional deposit attached to customer relationships is the most efficient and stable source of liabilities for a commercial bank, even though its volume, as a pure funding source, is substantially less than other bank liabilities;

(c) generate direct revenue through: interest revenue (net interest income) on transactional deposit; account keeping fees; transaction fees associated with the movement of funds from one party to another; and fees from provision to merchants of point-of-sale systems for the acceptance of cards and other payments mechanisms;

(d) collect transactional data, which represents a source of customer data for use in a range of transactional and payments services, regulatory reporting and oversight and customer propositions including, where applicable, the extension of credit and management of surplus funds.

Payment schemes operating in Australia

8 There are broadly seven groups of 'payment rails' operating in Australia:

(a) the four domestic rails: Direct Entry (**DE**), BPAY, eftpos and NPPA; and

(b) three global rails: the international credit card schemes, SWIFT and 'alternative rails' (such as Alipay and Libra).

9 Westpac's various businesses all interact with one or more of the Australian payment schemes (BPAY, eftpos and NPPA) and the products and services they offer. These products allow Westpac's customers to access the payments system to execute their transactional needs, which can range from basic to complex depending on a customer's requirements.

Payment scheme products and services

10 Westpac's customers typically use payment products or services for:

(a) customer to customer payments (typically a gift, or a reimbursement to a friend for paying on a consumer's behalf),

(b) customer to business payments (in-store or online payment to a retailer for a good or service or bill payments),

(c) business to business or business to consumer payments (disbursements including payroll, superannuation, payments to other businesses and large volume payments between financial institutions), and

(d) international payments (remittances, overseas retail, cross-border business).

11 Each of the three Australian payment schemes offers customers a different way of processing payments and transactions, depending on the nature and type of transactions and the needs of the individual customer. This reflects the largely complementary (rather than substitutable) nature of the products and services offered by the schemes, as each focus on different types of transactions and customers. For example:

(a) BPAY payments operate completely online (i.e., from online and mobile banking services) and are largely used for consumer-to-business and business-to-business bill payments;

(b) eftpos operates in a physical environment using a physical card or, more recently, a mobile device which is present at a physical POS terminal for in-store consumer-to-business transactions; and

(c) NPPA's 'real time' payments are largely used in consumer-to-consumer payment transactions, effected through bank transfers between individuals.

12 Westpac Group deploys each of the payments products currently offered by each of the Australian payment schemes to enable payments to be made by its customers. It is important for Westpac to have close working relationships with each of the schemes, and access to the range of products and services they offer, to respond to the range of situations in which customers will need to make payments.

D. FUTURE OF THE PAYMENTS INDUSTRY

13 The way Australian consumers, businesses and government bodies transfer funds is changing rapidly, particularly through the shift from physical payments (e.g. cash, cheques) to electronic payments. This shift is global and irreversible and, because of its scale, is attracting substantial investment and innovation across all markets and jurisdictions.

14 To continue to be effective in the face of the scale, investment and innovation of global payment rails, and maintain some degree of price tension, the domestic rails need to be resilient, efficient, accessible and adaptable.

15 Today, the industry and Westpac face several challenges in meeting these objectives. As each domestic rail is run by a separate commercial entity, some have recently sought investment for similar capabilities from core industry participants (i.e., the major banks). For example, in September 2019, both eftpos and NPPA were looking to build their own direct debit capability (which is already offered by AusPayNet's BECS) and sought investment from industry participants. Further information regarding these challenges is set out below in Section E.

16 The uncertainty created by duplicative investment proposals leaves the domestic rails open to disintermediation from alternative rails (e.g. Calibra and Libra), or unable to provide competitive tension with the global rails (Visa and Mastercard).

17 To increase the long-term viability and competitiveness of the domestic rails, the Australian payments industry needs to focus and streamline its resources, investment roadmap and target innovations in areas in which it can be successful across the industry.

18 The most effective way to facilitate this is to consolidate the governance of the domestic rails, to ensure consistency and efficient deployment of resources. The amalgamation of eftpos,

BPAY and NPPA may help address each of the identified challenges and produce a more competitive, resilient and responsive set of Australian payments rails.

E. INVESTMENT DECISIONS, FUNCTIONALITY AND INTEROPERABILITY

19 As noted above, the uncertainty and inefficiency created by the duplicative investment proposals of the Australian payment schemes makes them less effective and less competitive than they can be.

20 This section explains in further detail some of the challenges associated with these investment decisions from Westpac's perspective, in particular interoperability and technical integration.

21 The primary consideration in any decision by Westpac to invest in the development and/or implementation of new payments products or services offered by any of the Australian payment schemes is the business case for doing so. Important factors include: the benefits to customers, functionality, the potential revenue proposition, the incremental operational expense, the extent to which those new products and services are compatible (or interoperable) with Westpac's infrastructure and the ease with which those products and services can be integrated into Westpac's core technology systems.

22 Interoperability is a key consideration. It is a term used to describe the ability of computer systems to exchange and make use of information. The complexity of interoperability can be influenced by the nature and type of the transaction being processed. There are differences between the transactional needs of consumers, businesses and corporations. For example, a consumer may need a simple transfer of funds from one person to another; a small business may need to split an invoice into a series of sub payments for allocation to a variety of suppliers and contractors; a corporation may need a mix of both domestic and international payments actions. All these use cases need to be integrated into, and be interoperable with, a variety of core payments infrastructure maintained by Westpac and the payments system as a whole. This can be demanding, complex and expensive, particularly for banks operating across a range of customers and users.

23 The implementation of each scheme's services also presents distinct technological challenges to Westpac. As each scheme develops or expands its product offering, this requires further integration with Westpac's core payments systems, often in addition to basic maintenance and resilience requirements of the existing product suite. In other words, there is no generic implementation or integration process across all three operating schemes. This is inefficient and results in duplicated investment. In addition, Westpac needs to consider the risk that a commitment of cost and resourcing to implement and maintain one product or service will inhibit its flexibility to implement others. This means that decisions as to interoperability

between each scheme’s products and services need to consider a range of interdependent implementation and ongoing service factors in addition to any technology factors.

24 Some Australian payment schemes, as a means of promoting or incentivizing the use of the proposed services, have sought to “mandate” material capital expenditure by members with potential contractual sanctions for non-fulfilment. By way of example, in the course of 2019, Westpac and other stakeholders were advised of a decision by NPPA to mandate that its members build customer functionality (including back end and front end services) to utilise their Mandated Payments Service (**MPS**).

25 MPS is a service which enables customers to authorise third parties to initiate payments from their (i.e., the customers’) bank accounts using NPP. Currently, NPP supports credit or "push" payments whereby customers themselves initiate a payment from their account via their banking channel. MPS will enable customers to authorise third parties to initiate payments from their bank accounts via the NPP.

26 A consent-based payment initiation service may be attractive to many market participants. However Westpac did not believe the designation of MPS as mandatory was necessary. This was primarily because alternative commercial solutions were available to support the same use-cases and potential customer demand could be met through provision of these solutions. For example, Westpac offers card-not-present functionality via the Visa and Mastercard systems and has substantially built card-not-present functionality using the eftpos “rails”. More generally, cards schemes have increasingly secure recurring payments functionality that Westpac has integrated into its core payments systems. In Westpac's view, MPS would not have resulted in any material new functionality becoming available to customers.

27 The NPP Board decided in October 2019 to designate MPS as a Mandated Compliance Requirement (MCR) with an effective compliance date of 3 December 2021. The NPPA Board approved specific regulations to ensure MPS is implemented. MPS regulations include provision for NPP to require payment from participants who do not comply. As a secondary mechanism, there are also indemnity clauses through which NPP participants who suffer damage because another participant has not met its obligations can claim compensation from the party which has not fulfilled its obligations.

28 The implementation of the MPS requires changes to Westpac’s technological interface with NPPA’s Basic Infrastructure, changes to Westpac’s online and mobile banking services for payers, training to our customer support teams, new f6raud and risk capabilities, new arrangements between the bank and payees and new reporting requirements.

29 The estimate is that the capital cost associated with MPS implementation will be up to $73m. While of the view that other alternatives are available, Westpac currently plans to execute NPPA’s mandate. This example, however, demonstrates the potential inefficiency and

duplication in investment between domestic payment schemes to address similar customer problems. It also demonstrates the different investment decisions which might confront participants as each operating company pursues different solutions to common customer problems.

30 Projects like MPS are very complex, spanning multiple years, multiple participants and requiring an assumed (often unstated) customer migration from other services to the new service. Westpac has its own technological plans and customer strategies which must adapt to changes in customer preferences, bank priorities and broader market conditions. Any investment decisions must have these risks in mind. The potential for investment reallocation and reprioritisation becomes more complex and testing for management when such investments are 'mandated'.

31 Westpac's view is that the domestic schemes, as they currently stand as separate entities, are not capable of addressing these complex issues and do not have the breadth or depth of understanding to incorporate all these variables in their decision-making. By amalgamating the governance of the payment schemes, not only will the likelihood of duplicated and inefficient investments be reduced but NewCo will also have broader and more complete visibility of the issues facing the industry, and a combined management depth to assist in making better and more sustainable decisions on investment roadmaps. The current separate governance structures for each scheme limits the ability to define an overarching strategy, investment approach and portfolio view. Without this, it is difficult to compare the relative merits of existing and new payment options and select the most cost-efficient product or service for customers that is fit for purpose.

32 It is not Westpac's view that continuing support for eftpos is contingent upon the outcome of approval being sought from the Commission. Of course, in the longer run, eftpos faces major strategic challenges but these would in any event need to be addressed by eftpos in the normal course. Westpac will continue to be reluctant to invest in eftpos initiatives that are not NPV positive, irrespective of amalgamation. However, card-based payments are very likely to continue to grow and remain a very large proportion of retail point of sale (POS) payments for at least the next 10 years. Given this, it may be in Westpac's interests to maintain a viable eftpos, as a potential alternative to the international card schemes for at least that period of time.

F. LIKELY BENEFITS FROM THE PROPOSED AMALGAMATION

33 Westpac supports the proposed amalgamation for at least the following reasons.

Reducing inefficiency and potential duplication

34 As noted above with regard to the MPS, there is the potential for duplication in rail functionality arising from overlapping investment proposals. As all three schemes consider expanding their capabilities, the risk of duplicated investment and inefficiencies increases.

35 Consolidating the three payment schemes will likely reduce costs for industry participants without reducing the payment offerings currently available to businesses and customers.

More compelling and innovative payment solutions

36 Westpac considers that an amalgamation of the Australian payment schemes has the potential to establish a single entity which will be better placed to present compelling payment solutions for Westpac and its customers and a more coordinated strategic investment roadmap for the domestic payments industry. In short, Westpac considers the whole will be greater than the sum of its parts.

37 Each of the existing Australian payment schemes has unique assets. Currently, for reasons outlined above, these assets are deployed within relatively discrete use cases proposed by each scheme. From the perspective of users of those products and services (Westpac and other participants), there are challenges in taking a holistic view of the merits of innovation.

38 An amalgamated payment scheme would be in a position to present hybrid solutions and could do so in ways that would meet the concerns of participants such as Westpac. A coordinated and holistically sequenced roadmap of capabilities and innovation would mitigate a common concern that a commitment to one scheme's initiative (or commitment to that initiative at the wrong time) might result in stranded assets with limited or niche functionality. The result of this would likely be capital expenditure stranded in a program of change for a product or service that lacks the critical mass to be viable in the Australian market or is simply less compelling when compared to equivalents proposed by international schemes. For example there is considerable doubt over whether Osko Service 3 ("request to pay") will become a live service. Westpac currently has no plans to support implementation of Osko Service 3.

39 Westpac also notes that the proposed amalgamation is primarily a change in governance. It is intended to achieve the efficiencies and benefits of a single point of interface with industry participants. Given their largely complementary products and services, it is not envisaged that there will be any reduction in the range or coverage of the products and services that each of the Australian payment schemes currently offer. Rather, it is hoped that through innovation, the amalgamation will enhance those products and services and ensure they keep pace with the rate of technology change.

Increased ability to compete with international providers

40 To increase the long-term viability and competitiveness of the domestic rails, the Australian payments industry needs to focus and streamline its resources, investment roadmap and target innovations in areas in which it can be successful across the industry.

41 Westpac understands that the major international payment schemes, Visa and MasterCard, are progressing a range of additional products and services that will likely compete directly with the existing or future products and services of the Australian payment schemes, including:

(a) QR code functionality, which is also being deployed by other international players such as Apple Pay, Alipay and WeChat Pay;

(b) loyalty programs for participating merchants, which given the international scale of Visa and MasterCard are likely to be compelling for any Australian-based merchants or international merchants operating in Australia;

(c) the integration of accounting software and data analysis services into enterprise and point-of-sale systems. American Express is also developing similar functionality, primarily focused on its corporate / business customers.

42 The Australian payment schemes are progressing the development of similar functionality in order to compete. However, given the ubiquity and resources of Visa and Mastercard, their development and deployment of these new products and services will likely be faster, more efficient and more cost effective. The breadth of coverage of Visa and MasterCard is something that the three separate Australian payment schemes cannot match in terms of product and service development, testing and deployment.

43 The domestic rails play an important role in ensuring Australians enjoy appropriate functionality at a fair price by offering competition to the global rails. Without domestic rails the Australian payments system would be largely dependent on a small number of international providers such as Visa and Mastercard. As such, continuity of a consolidated domestic rails option is in the best interests of users and service providers.

44 An effective way to facilitate this is to consolidate the governance of the domestic rails, to ensure consistency and efficient deployment of resources. The amalgamation of eftpos, BPAY and NPPA will help address each of the identified challenges and produce a more competitive, resilient and responsive set of Australian payments rails.

G. COUNTERFACTUAL

45 Given the challenges facing the domestic payment schemes, Westpac considers it unlikely that the status quo will remain beyond the near term. To be effective in the face of the scale, investment and innovation of international competitors, the domestic rails need to be resilient, efficient, strategically focused and innovative.

46 Absent the proposed amalgamation, the factors outlined above that drive competitive dynamics have the potential to lead to:

(a) the further erosion of the position, credibility and viability of the Australian payment schemes in particular relative to their international competitors, and

(b) a failure to achieve organic innovation as a result of the fragmentation in investment and strategic focus in the domestic industry, prompting reactionary intervention by regulators or use by the schemes of “artificial” measures, such as the mandated compliance requirements or rebate models which entrench subscale and short-term responses.

47 The likely outcome in the short term will be an increase in operational complexity and inefficient deployment of capital expenditure by industry participants to implement mandated products or services, based on a compliance mindset rather than a considered weighing of merits, including customer experience. This would be a negative outcome for all customers and industry participants.

48 This may also lead some domestic financial services providers to reduce usage of domestic payment services and increase usage of products and services of offshore schemes and providers which may present more complete and integrated propositions to customers. This would further diminish investment by local domestic financial services providers in domestic payments schemes.

49 At some point, all domestic financial services providers, including Westpac, would need to determine whether the operational costs, risk and compliance requirements and strategic consequences were tenable.

Signed on behalf of Westpac Banking Corporation by

[redacted]

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Name	Dianne Challenor, Managing Director, Global Transaction Services
Date	16 March 2021