KING&WOOD MALLESONS

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NON-CONFIDENTIAL VERSION

Proposed Amalgamation of BPAY, eftpos and NPPA

Applicants' response to submissions from interested third parties

1 Context

1.1 The Australian Competition and Consumer Commission (**ACCC**) received an application for authorisation from Industry Committee Administration Pty Ltd (**ICA**) on behalf of its members who are shareholders of BPAY HoldCo, members of eftpos and/or shareholders of NPPA, and NewCo, seeking to amalgamate ownership of BPAY Group Pty Ltd and BPAY Pty Ltd (**BPAY**), eftpos Payments Australia Limited (**eftpos**) and NPP Australia Limited (**NPPA**) under a new entity (**NewCo**) by way of share acquisition (**Proposed Amalgamation**).

1.2 The Application was made on the basis that the Proposed Amalgamation would:

(a) not have the effect, nor be likely to have the effect, of substantially lessening competition in any market; or

(b) result, or be likely to result, in a benefit to the public, and the benefit would outweigh any detriment to the public that would result, or be likely to result, from the Proposed Amalgamation.

1.3 The application for authorisation for the Proposed Amalgamation was lodged with the ACCC on 22 March 2021 (**Application**).

1.4 From 30 March 2021 to 16 April 2021, the ACCC held a public consultation process. During the public consultation process, the ACCC published non-confidential versions of 23 submissions from interested parties (together, the **Submissions**).

1.5 The ACCC published eight additional submissions on its register on 14 May 2021 and the Applicants understand that it may publish further submissions in due course. These submissions do not appear to raise any new concerns with the Proposed Amalgamation but the Applicants will need a reasonable amount of time to consider the additional submissions and any other subsequent submissions and respond to them.

1.6 To the extent that Oxera provides a response to Dr Edwards' long-form report, Dr Edwards may require the opportunity to respond to that as appropriate.

1.7 The Applicants have considered the Submissions and appreciate the opportunity to respond to them. The Applicants' response to the Submissions is set out below (**Response**).[1]

2 Executive summary

2.1 The Submissions are from small business, retailers, financial service providers and academics. Some Submissions express support for the Application. Others express concerns about the Application.

2.2 This Response focusses on the latter: those Submissions that express concerns about the Proposed Amalgamation.

2.3 The concerns raised in the Submissions may, therefore, be grouped thematically as follows:

[1] Unless mentioned otherwise, defined terms in this document have the same meaning as in the Application.

(a) whether eftpos' long-term viability is placed at risk by the Proposed Amalgamation, which could ultimately lead to increased costs for merchants and consumers;

(b) whether the Proposed Amalgamation will increase the influence of the Major Australian Banks;

(c) whether small businesses are adequately provided for in the governance structure of NewCo; and

(d) whether the Proposed Amalgamation sufficiently pursues and protects least-cost routing (**LCR**), which is widely recognised as a low-cost payment option, beneficial to both consumers and merchants.

2.4 The concerns raised in several of the Submissions are expressed in a very similar manner and at times use identical terms.[2] In addition, several third parties are attempting to use the Application to reposition themselves in Australia's payments landscape. These concerns are opportunistic in nature and should be disregarded by the ACCC.

2.5 In summary, the Applicants submit that the concerns raised in the Submissions:

(a) are contradicted by the NewCo governance structure, which provides for broader representation with clear and effective checks and balances and open and non-discriminatory access to each of the three payment schemes;

(b) are concerned about the potential influence the major Australian Banks will have over NewCo. This concern is misguided. The Application clearly states that their influence will be diminished compared to their current influence over each of the three schemes. In fact, the manner in which directors will be appointed and the intended structure of the NewCo Board will be more representative than is currently the case in any view of the counterfactual;

(c) disregard the fact that the Proposed Amalgamation would not result in any changes to the scheme's existing rules for open and non-discriminatory access. Critically, each of the three payments schemes will continue to operate substantially in accordance with their current rules – including rules that allow for open and non-discriminatory access to them. This addresses any concerns raised about access and increased prices, in particular those raised in the Mastercard submission which incorrectly posit that the Proposed Amalgamation will lead to reduced access and increased prices;

(d) are inconsistent with the rationale for the Proposed Amalgamation:

(i) the rationale for the Proposed Amalgamation is very clearly focussed on co-ordinating innovations, creating efficiencies for customers (including by reducing transaction costs), businesses and consumers and reducing the risk of stranded assets from innovations that are not able to succeed due to their inability to achieve network effects in a timely manner and to better compete against existing and future global payment companies, enhancing competition in domestic payments markets; and

(ii) the Proposed Amalgamation is also intended to enable eftpos to remain competitive and viable in the future, rather than detract attention and investment away from its initiatives;

(e) are contrary to the positions articulated in the Submissions about the very active role envisaged by small business. This is something that has been actively considered. The anticipated consultation processes catered for in the establishment of advisory committees is designed to ensure NewCo considers a much wider audience within

[2] For example, the submissions by the National Retail Association, the Pharmacy Guild of Australia and the Restaurant & Catering Australia are expressed in very similar terms.

the payments landscape and, in particular, small business. The increased role of small business is a direct result of the Proposed Amalgamation;

(f) do not contain evidence;

(g) do not adequately engage with any competition theories of harm or provide support for claims that the likely benefits of the Proposed Amalgamation will not be likely to be realised;

(h) do not have sufficient regard to the inefficiencies in the status quo or the counterfactual scenarios;

(i) do not give sufficient recognition to the broader representation of stakeholder groups that will directly result from the Proposed Amalgamation;

(j) do not have sufficient regard to the makeup and anticipated skillset of the Newco Board and in particular, that there will be four independent Non-Executive Directors appointed to NewCo's Board of 13, one of which will be appointed Chair. In that regard, please see **attached** the **Confidential** skills matrix for NewCo's independent directors;

(k) are not confined to merger-specific effects, including merger-specific potential benefits and detriments. Many of the Submissions raise concerns about NewCo's lack of commitment to the pursuit and availability of LCR. This is not strictly relevant to the ACCC's assessment of the Application. However, the Applicants submit that the Proposed Amalgamation will lead to an increase in the volume of transactions, and in turn reduce overhead costs, which has the potential to lower transaction costs. One submission fails to recognise that the Direct Entry system will be decommissioned and its volumes are likely to migrate to NPPA, irrespective of the Proposed Amalgamation; and

(l) are adequately addressed in the evidence before the ACCC (including expert reports submitted by the Applicants).

2.6 The Submissions do not alter the Applicants' position which remains that the ACCC should authorise the Conduct because:

(a) the Conduct will not be likely to have the effect of substantially lessening competition in any market, however defined and irrespective of which counterfactual scenario is adopted; and

(b) the Conduct will be likely to give rise to a net benefit to the Australian public.

3 Concerns about the viability of eftpos and deprioritisation of eftpos' innovations

3.1 eftpos' viability is a recurrent theme throughout a number of the Submissions, including those lodged by:

(a) Quest Payment Systems (**Quest**);

(b) The Australian Chamber of Commerce and Industry (**ACCI**); and

(c) The Australasian Convenience & Petroleum Marketers Association (**ACPMA**).

3.2 For example, Quest submitted that the Proposed Amalgamation would distract eftpos from its current growth strategy, compromising its ability to compete with the large and powerful international payment schemes and leading to increased costs for merchants and consumers.

3.3 Similarly, the ACCI incorporated their submission to Federal Treasury on the "Review of the Australian Payments System", dated 24 December 2020, which stated that:

"Eftpos is a low-cost, high take-up payment solution. If an amalgamation of payment platforms were to proceed, merchants risk a governance structure that may result in similar circumstances that have arisen in the UK."[3]

3.4 Consistently, the ACPMA expressed the view that:

"[T]he continued unencumbered operation of Eftpos – a uniquely Australian payment service provider that stands independent of the two international card payment services – is essential to the maintenance of competitive tension in the Australian payment services market."[4]

3.5 As set out in the Final Economic Expert Report of Dr Geoff Edwards[5] and in the Expert Industry Opinion of Mr Lance Sinclair Blockley,[6] and acknowledged in Quest's submission,[7] eftpos' market share in the debit card market has fallen dramatically over the past 10 years.[8] Although eftpos' recent position may have stabilised, eftpos has been losing its market share to the international card schemes, Visa and Mastercard. Mr Blockley attributes eftpos' decline, in part, to the fact that it remains in 'catch-up mode' with the international card schemes. That is, investing in capabilities that have already been deployed by the international card schemes. These catch up capabilities add little to the consumer experience while imposing an investment burden on the banks who are asked, by eftpos, to enable the capabilities on their systems.[9]

3.6 The expert observation of Dr Edwards additionally notes that the ambivalence and limited commitment which financial institutions have exhibited towards eftpos' payment service initiatives is likely to continue in the absence of the Proposed Amalgamation.[10]

3.7 The Proposed Amalgamation is intended to secure the long term viability of eftpos by facilitating more effective competition with the international card schemes. Pooled resources and more targeted investment will allow innovations by the three payment schemes, including eftpos, to achieve the necessary ubiquity and network effects faster. The Proposed Amalgamation will also enable multi-rail solutions which will enable the schemes to adapt to changing payment behaviours.

3.8 The Application clearly states this intention at paragraph 2.9:

"There is consensus among the Applicants that eftpos is critical to their ability to negotiate against the ICS and Big Tech and there is a strong and unanimous desire to ensure eftpos continues to operate as a critical pricing wedge against the ICS and Big Tech.

The desire to ensure eftpos continues to operate as a critical pricing wedge against the ICS and Big Tech is reflected in commitments to preserve existing rules of open and non-discriminatory access and to preserve eftpos' strategic roadmap to June 2022 as well as the checks on fundamental changes to the schemes..."

3.9 It is submitted that these concerns do not accurately reflect the rationale of the Proposed Amalgamation and the very important role eftpos will continue to play going forward.

3.10 It is not in any of the Applicants' interests for eftpos to become less competitive. eftpos is a critical pricing wedge for the banks and large retailers (as well as other Applicants) in their negotiations with the international card schemes.

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[3] ACCI Submission, page 4.
[4] ACPMA Submission, page 3.
[5] Confidential version of the Final Economic Expert Report of Dr Geoff Edwards at [181].
[6] Confidential version of the Expert Industry Opinion of Mr Lance Sinclair Blockley at Appendix V.
[7] Quest Payments Systems Submission, page 1.
[8] Although eftpos' volumes have remained stable through this time.
[9] Confidential version of the Expert Industry Opinion of Mr Lance Sinclair Blockley at [452] to [455].
[10] Confidential version of the Final Economic Expert Report of Dr Geoff Edwards at [99] to [101].

3.11 Several Submissions expressed concerns that the Proposed Amalgamation would lead to eftpos' innovations being neglected or deprioritised in favour of the other schemes.

3.12 For example, the Australian Retailers Association (**ARA**) submitted that:

> *It appears that it still may be possible within a merged NewCo for one payment system to become favoured over another, which may cause a failure to deliver the requisite investment and development of products suitable for the retail industry. For example, under the new structure, there are no guarantees that investment would be diverted towards eftpos, which currently provides affordable payment solutions to many retailers but only delivers smaller commercial benefits to the major banks.*[11]

3.13 Similarly, the ACPMA submitted that because the financial performance of BPAY and NPPA has been sub-optimal in recent years:

> *there is a significant risk that capital investment will be diverted away from the stronger financial performer (i.e. Eftpos), over time – and thereby lessen the current strong competitive capacity of this market participant to take on the international payment service providers (i.e. Visa and Mastercard)*.[12]

3.14 To the extent that these Submissions are concerned with the possibility that the Proposed Amalgamation would divert investment away from the innovations of eftpos that would be beneficial to retailers and small business, please refer to the comments regarding small business representation.

3.15 Further, the Prescribed Services include a minimum set of services that BPAY Opco, eftpos and NPPA must provide on day one and develop in the near term.

3.16 Contrary to the submission of the ACPMA, there is no proper basis for contending that, if the Proposed Amalgamation proceeds, capital will be diverted away from eftpos and towards BPAY and NPPA because the financial performance of the latter two has been "*sub-optimal*":

(a) It is simply incorrect to assert that NPPA's and BPAY's financial performance has been sub-optimal and that eftpos is a strong participant, particularly in circumstances where eftpos' market share has fallen dramatically over the last 10 years.[13]

(b) The contention is contradicted by the expert observation of Dr Edwards that the ambivalence and limited commitment which financial institutions have exhibited towards eftpos' payment service initiatives is likely to continue in the absence of the Proposed Amalgamation.[14]

3.17 The proposed funding arrangements for NewCo will be based on principles which state that the day-to-day operating costs of each system, including eftpos, will be funded by users of the system.[15] This will prevent cross-subsidisation of operation profits between OpCos or starving of investment.

3.18 Should the ACCC authorise the Proposed Amalgamation, NewCo will be subject to a commitment to conduct its business in accordance with the existing strategic roadmaps, including that of eftpos, to June 2022.[16]

3.19 Any proposal to fundamentally change eftpos will be subject to checks under the NewCo governance structure. This includes ratification by NewCo shareholders who are users of

[11] ARA Submission, page 2.
[12] ACPMA Submission, page 4.
[13] Confidential version of the Expert Industry Opinion of Mr Lance Sinclair Blockley at Appendix V. Further, eftpos' transaction volume has remained stable during this time.
[14] Confidential version of the Final Economic Expert Report of Dr Geoff Edwards at 99 to 101.
[15] Application, section 7.8.
[16] Application at section 26.2.

eftpos in some circumstances.[17]

4 Concerns about the influence of the Major Australian Banks

4.1 Concerns that NewCo will be dominated by the Major Australian Banks appears in a number of submissions including:

(a) Council of Small Business Organisations Australia;

(b) National Retail Association;

(c) the Pharmacy Guild of Australia;

(d) SuperChoice Services Pty Limited;

(e) Australian Lottery and Newsagents Association;

(f) MGA Independent Retailers and Timber Merchants Australia; and

(g) Restaurant & Catering Australia.

4.2 These Submissions state that the decision-making power of the Major Australian Banks will increase as a result of the Proposed Amalgamation.

4.3 This statement is incorrect.

4.4 Under the proposed arrangements for NewCo, the decision-making power of the Major Australian Banks will in fact decrease. NewCo's proposed governance structure is intended to ensure that the NewCo Board is representative of a broader range of payments stakeholders than is currently the case for any of the three payment schemes.[18]

4.5 Of the 21 current shareholding organisations which are directly connected to one of the three payment schemes, nine will be able to nominate the directors of NewCo.[19] Whereas the nominee directors of the Major Australian Banks will not constitute a majority of the votes on the NewCo Board and will not be able to, individually or collectively, to control the Board of NewCo.[20]

4.6 In addition, all NewCo shareholders will have one vote at General Meetings, regardless of the size of their shareholding.[21]

4.7 Further, banks are focussed on the interests of their merchant customers. They want to deliver products at prices that their customers are satisfied with.

5 Representation of small business

5.1 The Submissions lodged by small business and retailer industry groups are concerned with whether small business will be given a "*voice*" in NewCo.

5.2 These Submissions include those lodged by:

(a) the Council of Small Business Organisations in Australia (**COSBOA**);

[17] More detail is set out in the Application on page 22.
[18] Application, section 7.9.
[19] As outlined in the Application at section 7.4, 4 directors will be nominated by the shareholders who each hold more than 15% of the total number of shares, 2 directors will be nominated by ADI shareholders with less than 15% of the total number of shares, and 3 directors will be nominated by non-ADI shareholders.
[20] Application, section 7.9.
[21] Application, section 7.9 and section 26.11.

(b) the National Retail Association (**NRA**);

(c) the Australasian Association of Convenience Stores (**AACS**);

(d) the Pharmacy Guild of Australia;

(e) MGA Independent Retailers and Timber Merchants Australia (**MGA**);

(f) Restaurant & Catering Australia (**R&CA**); and

(g) Dr Harjinder Singh and Associate Professor Nigar Sultana of Curtin University (**Dr Singh**).

5.3 Collectively, the concern raised by these Submissions appears to be that the Proposed Amalgamation is a threat to small business and that small business will not have a sufficient voice within NewCo.

Small business representation

5.4 Small business does not currently have representation on the boards of any of the three payment schemes.

5.5 Greater engagement with small business is expected to be achieved through the End-User Advisory Committee. This Committee will be independent and will include a senior representative from each of Australia's three payment schemes.

5.6 Further, the NewCo Board will be required to take the Committee's view into consideration during its decision-making, ensuring that the voice of small business will be heard and properly considered.[22] The dialogue between this committee and the NewCo's Board will be two way.

5.7 This is something small business does not currently enjoy. It is a benefit of the Proposed Amalgamation that will flow directly to small business.

5.8 Ultimately, the interests of organisations such as small business will be represented by the organisation that connects them to the payment rails, by NewCo's Directors, including its Independent Directors and through participation in one of NewCo's Advisory Committees. In addition, the amplification of the voices of non-traditional banks (e.g, Tyro) — which indirectly represent smaller retailers — will further add to the increased representation of these organisations.

5.9 The increased role of small business will be a direct result of the Proposed Amalgamation.[23] Under the terms of the Proposed Amalgamation the operation of the three schemes will continue. Small business will continue to benefit from existing arrangements at eftpos in addition to the newly created opportunities to present its views at NewCo.

5.10 Small business will, therefore, benefit from an increased 'voice' and representation of its interests as a direct result of the Proposed Amalgamation.

Lower transaction costs

5.11 Submissions have raised concerns that the Proposed Amalgamation will not result in lower transaction costs for small business.[24]

[22] Application, section 2.9.
[23] eftpos already broadly consults with stakeholders, including small business groups, and we expect this to continue under the Proposed Amalgamation.
[24] For example, the ACCI have criticised the Proposed Amalgamation on the basis that it "is not expected to, nor guaranteed to, deliver lower transaction costs for customers, particularly small business merchants".

5.12 For example, these concerns were raised in the Submissions made by the:

(a) ACCI;

(b) AACS;

(c) COSBOA; and

(d) Pharmacy Guild of Australia.

5.13 It is anticipated that the Proposed Amalgamation will lead to higher transaction volumes, and reduced overhead costs, which in turn has the potential to lead to lower transaction costs. In addition, as set out in the Constitution of NewCo, one of the objects of NewCo would be to provide "*cost effective*" payment services and to facilitate "*the provision of low-cost solutions for retailers, other businesses, and their customers*".[25] As set out in the Application[26], following the Proposed Amalgamation, there will be a single unified roadmap for innovations which is expected to reduce time spent by the domestic Schemes and their participants assessing innovations for which the participants cannot create a successful business case. This is likely to result in reduced scheme fees over time.

5.14 In any event, even if transaction costs remain the same, the Applicants and their Experts expect the Proposed Amalgamation will be likely to result in a net benefit to the public of Australia.

5.15 The Applicants consider it noteworthy that the current Chief Executive Officer of eftpos, Mr Stephen Benton, wrote to the Chairman of COSBOA on 16 April 2021, outlining his view of NewCo's focus on low cost payments. In the letter, Mr Benton stated:

> *"The proposed consolidation holding company "Newco" has been set up with a purpose of delivering low cost payments. Newco has also been set up to follow an active innovation agenda with the purpose of delivering low cost and higher value payments and payments related services.*
>
> *It is therefore my expectation that should industry consolidation occur both eftpos and Newco will continue to be focussed on low costs and indeed continue to be more competitive in terms of price and value adds around the payment experience."*

5.16 A copy of Mr Benton's letter is **attached** to this Response.

5.17 Further, the Applicants believe that NewCo will not have any incentive to make decisions that will result in increased transaction costs. That would be contrary to NewCo's objectives as enshrined in its Constitution.

6 Submissions raise issues that are not merger specific

6.1 Several of the concerns raised in the Submissions are not merger specific.

6.2 By "not merger-specific", we mean that the Proposed Amalgamation will not cause, and will not compound, the issue raised. The issue raised is independent of the Proposed Amalgamation.

6.3 Moreover, a number of third parties are advancing arguments in their respective Submissions that are not only unrelated to the Proposed Amalgamation, but opportunistic in nature. Third parties should not be permitted to use the Proposed Amalgamation and the opportunity

[25] See Confidential Implementation Agreement, 10 December 2020, Schedule 5 – NewCo Constitution clause 14.1 – annexed as Confidential Annexure 2 to the Application.
[26] See paragraph 27.9 of the Application.

afforded to them through responding to the Application to seek to reposition themselves in Australia's payments landscape. Any attempts to do so should be disregarded by the ACCC.

The availability and pursuit of LCR

6.4 LCR is an example of an issue that is not specific to the Proposed Amalgamation.

6.5 Some Submissions raised concerns about NewCo's lack of commitment to the pursuit and availability of LCR.

6.6 LCR is a merchant solution that has been strongly endorsed by the Reserve Bank of Australia (**RBA**). LCR is a matter for the RBA. It has nothing to do with the Proposed Amalgamation. The Applicants understand that LCR is the subject of a current dialogue with the RBA, the Australian Bankers' Association and other industry groups, including those who lodge Submissions. It is not relevant to the ACCC's assessment of the Application.

6.7 The RBA is charged with promoting competition and efficiency in the Australian payments system. The RBA Payments Systems Board supports the issuance of dual-network cards to consumers and the provision of least-cost routing functionality to merchants. Continued promotion of LCR remains a priority of the ongoing RBA Review of Retail Payments Regulation.

6.8 Currently the schemes, including eftpos, are unable to increase the availability of LCR. LCR has been implemented by the Major Australian Banks under the oversight/suasion of the RBA. LCR has not been the subject of mandates or investment proposals from eftpos. Similarly, NewCo will not have the ability to deliver LCR, even if it wished to.

6.9 The pursuit and availability of LCR is, therefore, not a consideration relevant to the ACCC's assessment of whether the Proposed Amalgamation will have the effect or likely effect of substantially lessening competition, or whether the potential public benefits of the Proposed Amalgamation will outweigh any potential benefits.

6.10 In any event, the rollout of LCR will be unaffected by the Proposed Amalgamation. In his letter to COSBOA, Mr Benton made the following observations about LCR:

> *"As you know, eftpos is driven by a sense of purpose to "do good for Australia" and this includes the delivery of low cost and high value payments for merchants through our acquiring members.*
>
> *In addition to being aligned to our strategy, least cost routing is an important source of volume and revenue growth for eftpos both for card present and online, card not present, transactions.*
>
> *The payments regulators have an important role to play in creating and enforcing the rules that enable least cost routing to continue and thrive and we are actively engaging with the regulator in this regard."*

6.11 That said, the Proposed Amalgamation is likely to assist with promoting the aims of LCR, insofar as eftpos participants are more likely to enable eftpos for a wide range of card not present (**CNP**) transactions and, therefore, expand the potential scope of LCR into the fast growing CNP (e-commerce) space.

6.12 In a December 2020 speech[27] , the RBA Governor noted: "*The major banks now also all offer least-cost routing, with some making it the default offering for small and medium-sized businesses. So there has been significant progress*." The RBA Review of Retail Payments

[27] https://www.rba.gov.au/speeches/2020/sp-gov-2020-12-07.html.

will continue to focus on this topic, including how LCR might apply in the online world, and is expected to make further announcements about this in the near future.

6.13 The Applicants understand that the Australian Banking Association estimates that LCR has now (May 2021) been made available to over 95% of eligible merchants of the Major Australian Banks. While the implementation approaches of the Major Australian Banks differ slightly, they are switching or offering the LCR service to their entire eligible customer base where they are able to assess the customer may benefit. Further, the Applicants understand that merchant awareness has significantly increased and that different education initiatives are being undertaken by the Major Australian Banks in 2021 to support merchant take-up of LCR.

6.14 Just as eftpos cannot today, NewCo will not have the ability to deliver LCR, even if it wished to. LCR must be implemented by the banks and payment processors, with oversight of the RBA, which is expected to continue.

7 Specific comments by the international card schemes

7.1 The Proposed Amalgamation will create a merged entity capable of competing with the international card schemes. The ability of the merged entity to better compete with the international card schemes, and the consequent flow on effects for retailers and consumers, is one of the major benefits articulated in the Application.

7.2 The ACCC received Submissions from both Visa and Mastercard.

7.3 The Applicants note that Mastercard's submission is accompanied by an "*Initial economic assessment of the proposed amalgamation of BPAY, eftpos and NPPA*" prepared by Oxera, dated 22 April 2021.

7.4 Each of Mastercard's submission and Oxera's initial report seem to have only considered a small subset of the materials and evidence provided in support of the Application and, consequently, do not offer a balanced or informed view about the likely effects, benefits and detriments of the Proposed Amalgamation. For example, at paragraph 1.2 of Oxera's report, Oxera notes that it only considered the witness statements lodged by BPAY, eftpos and NPPA in connection with the Application.

7.5 Oxera did not review the witness statements lodged by seven of the shareholders of the merger parties, namely:

(a) Australia and New Zealand Banking Group Limited (**ANZ**);

(b) Commonwealth Bank of Australia (**CBA**);

(c) Coles Group Limited (**Coles**);

(d) Cuscal;

(e) National Australia Bank Limited (**NAB**);

(f) Westpac Banking Corporation (**WBC**); and

(g) Woolworths Group Limited (**Woolworths**).

7.6 Many of the concerns raised are directly contradicted by the Applicants' witness statements and expert evidence which neither Mastercard nor Oxera seem to have properly considered, or considered at all.

7.7 In addition, Mastercard raises concerns that the Proposed Amalgamation would result in reduced access and increased prices. The Applicants submit that Mastercard is not drawing the necessary distinction between shareholders and scheme members and that the Proposed

Amalgamation would not result in any changes to the scheme's existing rules for open and non-discriminatory access.

8 Proposed safeguards

8.1 Some of the Submissions, including those made by Visa and Dr Singh, suggest that should the ACCC authorise the Proposed Amalgamation, it should do so subject to certain safeguards.

8.2 Visa submits that the following safeguards would ensure the Proposed Amalgamation will not lead to a substantial lessening of competition:

> *"the merged entity consider operating within open and globally recognised standards that enable access by other players and continued growth of cross-side network effects."*[28]
>
> *"appropriate information exchange protocols are hardwired into any authorised conduct and subject to an audit requirement."*[29]

8.3 Dr Singh states that:

> *"if the merger is approved, a number of safeguards must be put into place. The banks will need to guarantee that the benefits claimed in support of the proposal will actually flow to retailers and consumers instead of ending up as corporate profits. This may include a moratorium on costs and guaranteed minimum service levels. There should also be oversight under a government body with legislated representation by small businesses and consumer groups*."[30]

8.4 In relation to Visa's desire for a safeguard about open access, it is proposed that the three schemes will continue to operate in accordance with their open and non-discriminatory rules of access.

8.5 Each of the Applicants is aware of their obligations under the *Competition and Consumer Act 2010* (Cth), including in respect of competitively sensitive information, and under the *Corporations Act 2001* (Cth), including in relation to the duties of directors. In addition, each of the three payment schemes lack the incentive to share the competitively sensitive information to which Visa is referring. Consequently, the Applicants submit the obligations and incentives that will exist after the Proposed Amalgamation should address any concerns about the unlawful sharing of information.

8.6 Dr Singh's submission in support of a guarantee from a subset of the Applicants about the likely benefits is inconsistent with the test the ACCC must apply when assessing applications for authorisation. The question is not whether a benefit can be guaranteed, but whether a benefit is likely to be achieved. As the ACCC is aware, there is a line of jurisprudence defining "likely" to mean a real chance, which is less than a probable chance.[31]

9 Other

Factual inaccuracies

9.1 The Submissions raise a number of factual inaccuracies relevant to the Applicants or schemes and we wish to bring the following to the attention of the ACCC. This is not an exhaustive list.

[28] Visa submission, page 3.
[29] Visa submission, page 5.
[30] Dr Singh submission, page 3.
[31] *Australian Gas Light Company v ACCC* (No 3) [2003] FCA 1525.

Submission	Reference and Extract	Correction
Mastercard	4.11 *"The above issues limit the extent to which Mastercard is currently able to compete with other payment platforms, such as BPAY and NPP. This is acknowledged by eftpos, which notes in its submission that Visa and Mastercard's P2P products, Visa Direct and Mastercard Send, have very limited enablement across banks and the decision to enable remains in the banks' control…In addition, cash out at sale is highlighted as being a differentiator for eftpos when compared to the limited scale of Visa or Mastercard, which is due to the reluctance of certain of the Applicants, such as [Confidential to Mastercard], to enable cash out on either Mastercard or Visa, preferring to have cash out undertaken through eftpos in which they are a shareholder."*	The Applicants deny preferential treatment given to eftpos due to shareholder status. A decision by any Applicant not to expend the significant effort required to enable the international scheme offerings is understandable given the proposed functionality is already being provided to the Applicant's end users (eg through NPP, Direct Entry or SWIFT for P2P payments, or through eftpos for cash out).
Mastercard	5.1(b) *"the majority of the Applicants are global organisations that operate substantial businesses outside of Australia"*	Most of the Applicants are not global organisations that operate substantial businesses outside of Australia. Please refer to Schedule 3 to the Application.
Mastercard	5.1(d) *"despite being competitors, Mastercard has continued to provide support to eftpos for many years, for example by continuing to enable eftpos functionality on Mastercard branded Debit Cards, and supporting eftpos' inclusion in transit and online"*	eftpos Incorrect by omission. The inclusion of eftpos functionality on cards is a direct result of undertakings given to Reserve Bank of Australia, to address conduct by both international card schemes (**ICS**) when contactless eftpos cards were being introduced, including rejection of chips with dual applications, charging by the ICS for eftpos transactions on dual network debit cards (**DNDCs**) and rejection of DNDCs submitted by issuers that had eftpos branding. **[Confidential to eftpos]** Mastercard does not enable eftpos on Mastercard branded cards. These are cards issued by the financial institutions, and it is those financial institutions who enable eftpos access.
Mastercard	5.1(e) "*unlike Visa, Australia is one of Mastercard's six global technology hubs, with Mastercard having invested substantial resources in operating and staffing its technology operations across its sites in Australia, in*	The workforce comparison is misleading, because the majority of Mastercard's workforce are not in the "schemes" business, but are directed towards loyalty, rewards, and the former Travelex prepaid card service business.

Submission	Reference and Extract	Correction
	particular at its Tech Hub and Innovation Centre in Sydney, and Mastercard's workforce in Australia is over [Confidential to Mastercard] the size of the combined BPAY/eftpos/NPP workforce, before any rationalisation of this workforce following the merger"	
Mastercard	5.2 *"In particular, the Application and Blockley report do not address the fact that Australian payment technology is heavily dependent on international providers. Unless BPAY, eftpos and/or NPP cease using these international providers to provide key infrastructure, any actual sovereign risk remains and any claim to national championship lacks legitimacy and does not remove Australia's dependence on imports for its payments infrastructure"*	The relationship between the domestic schemes (and Australian banks) and the technology providers (eg FIS, ACI) is very different to that between the international schemes and their customers. The technology providers do not set the rules for participation, nor do they control much of the innovation relied on by the banks (eg NFC, card not present), or access and participation rules (membership, surcharging, chargebacks, brand etc.). The tech providers are vendors that sit in the background and can be relatively easily replaced if commercial terms or performance are not suitable.
Mastercard	6.4 *"Second, the fact that NewCo will be committed to the Merger Parties' individual roadmaps means that many of the services that will be provided by NewCo under the factual are likely to be the same as those that would be provided by each of BPAY, eftpos and NPP under the counterfactual, at least in the short term. Accordingly, the benefits of these services should be discounted when assessing the benefits of the proposed merger application as they do not flow from the merger."*	Most of eftpos' roadmap may not have been supported by the Applicants absent the amalgamation.
Mastercard	6.6 *"Finally, the Application itself does not recognise a valid counterfactual as being one where BPAY, eftpos and NPP collaborate on discrete projects and seek ACCC authorisation as appropriate to facilitate this collaboration. NPP in its supporting statement acknowledges that this was an option, for instance in relation to online payments or QR codes but does not further discuss this option. This would*	Previous attempts at collaboration and co-ordination, for example, through AuspayNet, have been unsuccessful. A more recent example is the work that has been facilitated by AusPayNet as a broad industry project to seek alignment around a consistent Australian approach to QR code usage in Australia where, despite a number of workshops involving a broad range of parties, there remain different approaches to QR Code adoption being pursued among the three Operating Companies. The Proposed Amalgamation is not proposed to only address contention between the schemes on discrete projects, to enable medium and long term planning on development of innovations and investments which will enable the schemes to bring prioritise and bring

Submission	Reference and Extract	Correction
	achieve the same public benefits claimed for the merger, without raising the concerns that emerge from the permanent change to the market structure that is currently proposed."	innovations to the market more efficiently and within a shorter timeframe.
Mastercard	7.5 *"Finally, the Application relies heavily on the fact that Mastercard and Visa, as well as "Big Tech", will impose an ongoing competitive constraint. While Mastercard is currently a strong competitor for card payments, it is not a strong competitor across all payments. As discussed, Mastercard and other participants rely on NewCo's shareholders to be able to get their products and solutions to market. NewCo's shareholders will naturally be incentivised to prefer NewCo's offerings to those provided by its competitors or potential competitors. There is no reason why NewCo's shareholders would invest in and support a new Mastercard service that could be a new competitor to an NPP or BPAY service that they have already invested in or committed to invest in."*	It is worth pointing out that Mastercard now operates a global account to account (**A2A**) platform (Vocalink) and has won domestic real-time A2A mandates all over the world.
Mastercard	8.5 *"This is because collaboration between the entities is possible in the absence of the merger.* *Indeed, eftpos highlight examples of such collaboration in their submission, pointing to Beem It as one such case"*	The Applicants submit that the type of collaboration that is required to develop and execute a pipeline of payments innovations would not be possible, as a matter of law and for the other reasons outlined in the Application in the absence of the Proposed Amalgamation. eftpos' one-off contractual arrangements with BPAY in relation to Beem It is not an example of the type of collaboration — in terms of magnitude — necessary to develop and execute a pipeline of payments innovations across all three payments schemes.
Mastercard	8.7 *"For example, it is not clear how enhanced voting rights of smaller participants is beneficial, unless it is seen to translate to a different balance when making investment decisions (which does not appear to be the case)."*	Benefits to small and non-bank shareholders are explained more clearly 7.4 of the Application, which was marked as Confidential to the Parties, and not available in the non-confidential version of the Application.

Submission	Reference and Extract	Correction
Mastercard	9.9 *"Parties have the ability and incentives to foreclose third party providers of payment services, by refusing them access to the infrastructure, making access to the overlay services more costly or reducing some of the quality aspects of third parties' products."*	The NPP will continue to have an open access framework, and all Business Services being developed by NPPA will be available for use by the market at large via one of 105 directly-connected Participants, Identified Institutions, or potentially via direct connection as a Connected Institution.
Mastercard	9.10 *"In the Australian market, concerns about the openness of the market had already been raised in the June 2019 RBA consultation paper, where a number of stakeholders, particularly fintechs, highlighted the need to facilitate access by increasing the use of application programming interfaces (APIs), which third parties can use to communicate in a standardised and secure way with a bank's systems to access NPP functionality. The proposed amalgamation will magnify these concerns, as it unequivocally reduces the incentives of NewCo to provide access to the infrastructure to third parties who compete with NPP, eftpos or BPAY in the downstream part of the market. While NPP would potentially have the incentive to foreclose access to its infrastructure where it was considering introducing downstream services, it may have been attracted to support a new third party downstream service that would increase volumes over the NPP system. Being amalgamated with two entities that already are active in this downstream space, and with all three entities having active plans to develop these services in the future, means the incentive to refuse to support a third party service will increase."*	There is no basis for a submission that the Proposed Amalgamation unequivocally reduces the incentives of NewCo to provide access to third parties who compete with NPP, eftpos, or direct entry in the downstream part of the market. All three organisations are currently focussed on outreach and engagement to fintechs, including access arrangements, involvement in product design and delivery (in the case of NPP this includes PayID, data rich payments and MPS/PayTo). In the case of NPP, this will be supported by an open access framework with decisions about access continuing to be made by independent Directors. NPP has 110 identified institutions, including several which are non-ADI fintechs.
Mastercard	9.11 *"This issue is worsened by the fact that any new third party development will need to get agreement from a critical mass*	The submission that any new third party development will need to get agreement from a critical mass of Australian banks is incorrect. As is currently the case, for the development of new overlay services on the NPP, proponents will need to

Submission	Reference and Extract	Correction
	of the Australian banks to develop the new service offering. Given these banks are the ultimate owners of NewCo, they will have the ability and incentive to restrict new third party developments"	approach the banks to determine whether they will subscribe to these overlay services. However, as is set out in paragraphs 49 – 58 of Adrian Lovney's (CEO of NPPA) statement, the focus has been placed on the development of broad business services which are open to use by any market participant (as supported by the RBA/ACCC in its review of NPP Functionality and Access).
Mastercard	9.14 "*Third, post-merger the NewCo could gain knowledge of competitors' commercial strategies, giving it an unfair commercial advantage. In the 2019 consultation, a number of fintechs had already raised serious concerns with respect to the sharing of business plans and intellectual property to NPP in the process of applying to be an overlay provider. The concerns was that this information could then be accessed by their potential competitors on the Board of the NPP, and potentially used to their advantage. While these concerns existed prior to the merger, it is clear that allowing the transaction would make them even more prominent and relevant, increasing the number of situations in which NewCo could use this information to its advantage*"	This was a theoretical concern posed by some fintechs. There has been no confidential information provided by third parties, either to NPPA management or Board, and no applications to become overlay services either. Overlay services applications (if they were to be received) would be dealt with by management and – if Board involvement was required – this would be independent directors only.
Mastercard	10.6 *"The RBA and ACCC in the "New Payments Platform Functionality and Access: Conclusions Paper" dated June 2019 recognised even then that there were a number of access issues that could present barriers to entry for new participants. It was recommended that NPP make certain changes and that there be a further review in July 2021. It is not clear what if anything has happened to address those concerns"*	The NPP published their progress on a number of initiatives here: https://nppa.com.au/updated-and-supplementary-responses-to-the-rbas-npp-functionality-and-access-consultation/.
Mastercard	10.9 *"Potential conflicts of interest need to be managed and mitigated. For example, board representation of eftpos is currently made up of representatives from the Big 4 bank's acquiring arms, which*	The implication that the eftpos board, which includes representatives from the Major Australian Banks' acquiring arms, sets pricing is incorrect. Insofar as there is a suggestion that there was inappropriate misuse by those directors of the eftpos board of confidential information when setting the pricing for merchants within their institutions, that suggestion has no basis and is refused.

Submission	Reference and Extract	Correction
	also set merchant pricing for acquiring services, including separate pricing for eftpos vs bundled pricing for Mastercard/Visa (including card present/card not present, debit/credit, domestic/international).”	
Visa	Annexure 1 *“The retail prices of the eftpos and ICS services (i.e. the costs acquirers charge retailers/merchants for the network services) do not appropriately reflect the wholesale prices (i.e. the cost the schemes charge the acquirers). Where a like for like transaction is compared, from a wholesale price point, Visa is competitive. Additionally, a transaction processed by Visa delivers incremental value to both consumers and merchants. For example, sophisticated fraud prevention, tools and processes enable higher transaction conversion rates, and efficient dispute resolution services.”*	The suggestion that eftpos does not have efficient dispute resolution services is incorrect. eftpos has an efficient automated tool that enables members to meet the requirements of the ePayments Code.
MGA Independent Retailers and Timber Merchants Australia	4(a) “*On its face, the idea that consolidating three separate domestic payment entities into one will enhance competition defies logic:* *a. particularly as the banks and large retailers (who are acquirers in their own right), which are motivated by their own profit-maximising financial interests, will have the decision-making power on the board of the consolidated entity.”*	The interests of the banks, who are net issuers, and the retailers, who are net acquirers, are not always aligned. It is by no means clear that they will vote on proposals the same way. In addition, decisions about pricing, interchange and scheme fees will be made by independent directors, as they are today.
Dr Harjinder Singh and Associate Professor Nigar Sultana, Curtin University	Page 2 *“For example, Eftpos owned Beem It app competes head-on with NPP Australia’s peer to peer instant payments platform. Another area of merging competition between the schemes is in QR code payments. Such existing competition between schemes and products understandably results in banks seeking to merge such competing tensions thus avoiding funding*	The extent to which Beem It competes with NPP’s real time payments application is debatable, given that Beem It payments can only be sent to other people who have downloaded the application, whilst NPP transactions can be sent using the banking applications that customers already use today. Beem It is a multi-service wallet, and not a payment network or a scheme. Beem It is likely to integrate into NPP (possibly even Osko) and utilise A2A rails for processing of payments, in addition to card payments. The reference to QR codes as an example where completion will provide lower costs is misguided. The

Submission	Reference and Extract	Correction
	service duplications. However, such competition is how smaller retailers and consumers are able to transact within ecommerce in a reduced cost environment. Such avenues will disappear when the banks merge their practices under one entity with that entity effectively left unfettered to (eventually)charge higher costs to financial intermediaries and consumers."	ideal use case for QR codes is one where it is used as an initiation option by all payments types in the future. Rollout and consumer adoption of QR codes for payments is likely to be delayed by the lack of coordination across the industry on a QR standard, which all payments can utilise. One standard will mean a single implementation by issuers, acquirers, processors, gateways and merchants, as opposed to multiple, potentially very different implementations. A more coordinated approach will likely lead to greater access, and a greater number of offerings utilising an agreed industry standard, as opposed to participants having to choose one 'winner'.
Dr Lien Duong, Professor Grantley Taylor and Dr Baban Eulaiwi, Curtin University	Page 2 *"However, one of BPAY services, Osko, is facing direct competition from a service being developed by the NPAA. The yet-to-be-launched Mandated Payment Service (MPS) of the NPAA is a close substitute of the Osko service (Osko service 2 and 3). In the recent submission by BPAY2 , it is mentioned that "the potential overlapping capabilities of the BPAY and NPPA platform services… has resulted in priority being given to MPS over Osko service 3". As a result, BPAY has impaired assets (Osko service 3) and will continue to record such impairments if Osko service 2 does not proceed"*	The Mandated Payment Service (**MPS**) is not a substitute for Osko 2 (Request to Pay). This is dealt with extensively in Geoff Edwards' report 6.6.3 The MPS is separate to Osko 3 Dr Edwards says that Osko and SCT are complementary (see his report at 6.3.2). The combination of Osko and SCT in the one organisation is likely to produce incentives to lower prices for both services through Cournot complementarity effects (see 6.3.5)
Australasian Convenience & Petroleum Marketers Association (**ACPMA**)	4.1 *"Noting that the financial performance of two of these offerings (i.e. BPay and NPPA) has been sub-optimal in recent years, there is a significant risk that capital investment will be diverted away from the stronger financial performer (i.e. Eftpos) over time – and thereby lessen the current strong competitive capacity of this market participant to take on the international payment service providers (i.e. Visa and Mastercard).* *Notwithstanding the suggestion that the new governance model will make provision for small business representation, the strategic and market decisions of the new entity are likely to be dominated by the large banks (and the large*	The Applicants do not agree with the assessment of the relative performance of the 3 entities. Each of the three entities currently has different accounting policies surrounding capitalisation v expense with regard to the treatment of Project Expenses (capital investment) as well as the amortisation of such expenses over time which impacts the reported financial performance. In addition, each of the three businesses also have had a range of corporate and accounting events which have impacted each entity individually that have not been adjusted in the accounts. As a result of the above the reported financial results of each entity are not directly comparable. Whilst each of the businesses are at different stages of maturity also noting that, in the case of eftpos (established 1983) and NPPA (established 2016) each of the entities are generating positive EBITDA and cash flow from operations. eftpos' market share has dropped by 50% over 10 years and it is projected to report materially lower earnings in the near term while it invests in some of the services outlined at the top of page 6 of ACPMA's letter (digital wallets, mobile wallets, QR Code, Digital Identity), none of which are guaranteed to succeed, particularly as a stand-alone provider in a counter-factual context.

Submission	Reference and Extract	Correction
	retailers). Further, strategic decisions made by the new entity are likely to be rightly focussed on maximising financial returns and minimising investment in ongoing product innovations (i.e. by spreading scarce capital across three entities) - instead of allowing a strong participant to emerge from a normal process of natural market survival."	Further it is not correct to say the "strategic decisions made by the new entity are likely to be rightly focussed on maximising financial returns and minimising investment in ongoing product innovations". NewCo will be economically self-sustaining, will not be profit maximising and will be able to find the most efficient and least cost way of innovating across the three payment schemes.[32] The strategic focus will be on low cost outcomes and innovation, further there is no expectation that NewCo will produce a financial return to shareholders.
Council of Small Business Organisations Australia	Page 3 *"large players in the market are already moving away from the dual network"*	It is not correct to make this conclusion. In December 2020, Reserve Bank governor Philip Lowe speculated on the reasons behind the move to single network cards with no eftpos functionality: *"This may be partly in response to financial incentives from the international schemes and possibly the additional costs to issuers from supporting two networks on a card … The board's view is that it is in the public interest for dual network cards to continue and to be the main form of debit card issued in Australia. It is also important that acquirers and other payment providers offer or support least cost routing and that the schemes do not act in a way that inappropriately discourages merchants from adopting least cost routing."*
Council of Small Business Organisations Australia	Page 4 *"The proposal, in creating the NewCo banking payment and processing entity, will inhibit the development of innovative fin techs domestically who have been developing competitive products. These have been a great hope for small businesses looking for innovative payment solutions. These innovators will require access to payment rails and the space to grow competitive product in our domestic market. Rather than facing four competitive entities, they will have to negotiate with one, whose best interest are served by removing these solution providers. This does not create an environment for innovation."*	This conclusion is incorrect. There will continue to be incentive for payment rails to grow their volumes by encouraging third party use of their rails. They have all been working in this direction and this will continue, in many cases supported by formal access regimes (with decisions about access and pricing being made by independent directors). The fintech sector is welcoming the more efficient engagement model proposed by NewCo.

[32] Confidential Implementation Agreement, 10 December 2020, Schedule 3 – Transition Plan, clause 2.3.

General references

9.2 Is it submitted that none of the Submissions raise concerns or issues that have not been adequately addressed in the Application, lay evidence or expert evidence.

9.3 However, there are several observations in the Submissions to which particular cross-references to the Application may be of assistance to the ACCC. This is the purpose of the following table:

Submission	Extract	Cross reference	Comment
Mastercard	4.2 *"First, while the Application emphasises that the major Australian banks will have less influence than they currently do in relation to each of the entities, it is apparent that they will continue to have a significant degree of influence. Further, the extent of this influence is not clear from the information provided. Specifically:* *(a) it is not disclosed what representation the major Australian banks will have on the boards of each of the OpCos and what decision-making powers these boards will have regarding their respective operations;* *(b) it is not disclosed what the major Australian banks' position will be with respect to Special Majority Band Resolutions for each of the payment services and whether they (alone or together with other authorised deposit-taking institutions) will hold a majority for any of these or have veto power with respect to any of these (noting the 75% threshold); and* *(c) what influence they may have via funding arrangements (the method for which is yet to be determined)."*	7.4	The Application describes the proposed governance arrangements in detail. However, this information was Confidential to the Parties, and was not made available in the non-confidential version of the Application. Specifically: **[Confidential to the Parties]**
Visa	Page 2 Visa notes that there is some inconsistency in the references to the RBA not continuing to hold shares in NPPA and considers that this would best be addressed by confirmation from the RBA that it will neither hold shares in NewCo or maintain its shareholding in NPPA.	2.2	Section 2.2 confirms that the RBA will not become a shareholder of Newco, and therefore, will not maintain its shareholding in NPPA.

10 **The threat from FinTech and ICS is not Australia specific**

10.1 In addition, and as the ACCC may be aware, it is worth noting that it was recently reported that the European Payments Initiative (**EPI**) is looking to create a payments firm that can compete with the biggest US Fintechs and payment companies.

10.2 **Attached** to this Response is an article titled "*Europe's largest banks plan joint attack on US payment giants*", which was published by the Financial Times on 3 May 2021.

10.3 Joachim Schmalzl, the chair of the EPI, told the Financial Times that: *"The idea is to build a European payment champion that can take on PayPal, Mastercard, Visa, Google and Apple*". Based in Brussels, the EPI comprises 40 payment experts, including Deutsche Bank, BNP Paribas, ING, UniCredit and Santander.

10.4 The project is backed by the European Commission and financial regulators and has received more than €30 million from its backers, according to Schmalzl. Importantly, this is a combined proposal of banks and regulators aimed at integrating with common domestic schemes.

eftpos Payments Australia Limited
ABN 37 136 180 366

Mr McKenzie
Chairman COSBOA
L3 33- 35 Atchison Street,
St Leonards NSW

Dear Mark,

I am writing to you as I understand from Robert Milliner you have requested a letter of comfort from eftpos in relation to its position on least cost routing post the proposed industry consolidation.

As you know, eftpos is driven by a sense of purpose to “do good for Australia” and this includes the delivery of low cost and high value payments for merchants through our acquiring members.

In addition to being aligned to our strategy, least cost routing is an important source of volume and revenue growth for eftpos both for card present and online, card not present, transactions.

The payments regulators have an important role to play in creating and enforcing the rules that enable least cost routing to continue and thrive and we are actively engaging with the regulator in this regard.

The proposed consolidation holding company “Newco” has been set up with a purpose of delivering low cost payments. Newco has also been set up to follow an active innovation agenda with the purpose of delivering low cost and higher value payments and payments related services.

It is therefore my expectation that should industry consolidation occur both eftpos and Newco will continue to be focussed on low costs and indeed continue to be more competitive in terms of price and value adds around the payment experience.

Thank you for your continued support of eftpos and its objectives.

Yours faithfully,

CC: Peter Strong CEO of COSBOA

CC: Robert Milliner, Chair of the Transaction Advisory Committee

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European banks

Europe's largest banks plan joint attack on US payments giants

More than 30 lenders designing rival to take on PayPal, Mastercard, Visa and Apple

The Brussels-based venture will seek to challenge payment giants such as PayPal © Bloomberg

Olaf Storbeck in Frankfurt MAY 3 2021

More than 30 of Europe's largest banks and credit card processors are trying to create a payments giant capable of shattering a US-dominated "oligopoly".

A Brussels-based venture, which currently employs 40 payment experts, has until September to draw up a blueprint for a pan-European payments service that can be used to pay online as well as in stores, to settle bills between individual consumers and to withdraw cash at ATMs.

"The idea is to build a European payment champion that can take on PayPal, Mastercard, Visa, Google and Apple," said Joachim Schmalzl, the chair of the European Payment Initiative.

The banks and acquirers behind the initiative include Deutsche Bank, BNP Paribas, ING, UniCredit and Santander and currently process more than half of all payments in Europe. The project has the backing of the European Commission as well as the euro area's financial regulators.

EPI has so far received more than €30m from its backers, said Schmalzl. He is also a board member of the German Savings Banks Association, the country's biggest retail banking group and staunch supporter of the initiative, which is still searching for a brand name.

> **Nobody [in Europe] on its own can compete with the US credit card giants. That will be possible if we team up**
>
> **Joachim Schmalzl**

The first real-world applications — a system for electronic real-time payments between consumers — could be launched in early 2022, while a broader payments tool could follow in the second half of next year, said Schmalzl.

Burkhard Balz, a Bundesbank board member, said that Germany's central bank supported the EPI, which "would strengthen the strategic autonomy of the EU in the payments market, enhance competition and thus improve consumer choice". The ECB has also welcomed the initiative.

The Commission described the initiative as "a new, ambitious and European project". It added it "believes that EU citizens and businesses should benefit from fast, efficient and reliable payments solution . . . [the EPI] would be a critical and decisive step in that direction, in particular if it covered a large spectrum of European banking communities."

Card payments in Europe are predominantly processed by US-based companies. Four in five transactions in Europe are handled by Mastercard and Visa, according to EuroCommerce, a lobby group of European retailers.

Schmalzl warned that such a dominant market share could hurt consumers and merchants — pointing to relatively high fees as well as questions over data protection. "We want to offer an alternative to this oligopoly and give merchants and consumers in Europe a real choice," he said.

Previous pan-European attempts to challenge the US supremacy in payments have failed miserably. The "Monnet Project", which in 2011 was backed by 24 European lenders, faltered because it lacked political backing and failed to develop a viable business model.

The barriers to entry are high because payments schemes are only attractive for merchants if many customers use them — and vice versa. "Overcoming this chicken-and-egg problem is the key obstacle," said Marcus Mosen, a payments consultant and former chief executive officer of German payments firm Concardis.

A Deutsche Bank spokesperson said that a European payment scheme was needed "to remain independent", and that Germany's largest lender had joined the initiative "to support this joint effort of European financial institutions".

Eric Tak, global head of the payment centre at Dutch group ING, said: "There is an opportunity to harmonise the scattered European payment landscape with many local payments schemes and unite forces of sub-scale national solutions," adding it had contacted other banks in the Netherlands and Belgium to sound out their support.

Several countries have payment solutions that are successful in specific cases. For instance, Germany's "Girocard" and France's "Carte Bancaire" offer cheap access to cash and in-store payments, and the Netherlands has the "iDEAL" ecommerce payment system.

"The national solutions cannot be scaled across European borders," said Schmalzl. He said the idea behind the EPI was to harmonise the best national initiatives and then roll them out across Europe.

"Nobody [in Europe] on its own can compete with the US credit card giants. That will be possible if we team up."

The Brussels-based EPI team started nine months ago. After the summer, the consortium's backers will decide whether they will push ahead with the idea, which would require significant additional funding. "As a level of investment, several billions of euros will be needed," said Schmalzl, adding: "We can jointly muster the necessary resources if we team up in Europe."

Additional reporting by Jim Brunsden and Michael O'Dwyer