Visa Inc.'s Response to The Reserve Bank of Australia's Consultation Paper on Preliminary Conclusions to the Review of Retail Payments Regulation

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Group Country Manager Letter

9 July 2021

Dr Tony Richards
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Reserve Bank of Australia
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Sydney NSW 2001

Via email: pysubmissions@rba.gov.au

Dear Tony,

Visa submission to RBA Consultation Paper on Preliminary Conclusions to the Review of Retail Payments Regulation

Visa welcomes the opportunity to respond to the Reserve Bank of Australia (RBA or Bank) Consultation Paper on the Review of Retail Payments Regulation (released on 28 May 2021), and we appreciate the ongoing engagement with the Bank on Australia's payments ecosystem.

Visa has participated in a wide range of reviews and other consultations conducted by the RBA over many years. In each submission, we have highlighted the need for approaches to digital payments regulation which focus on consumer choice; balanced economics; and continuous innovation and security, all in the context of a level playing field.

In responding to the RBA's Consultation Paper, this submission focuses on several key topics, including Single-Network Debit Cards, Merchant Choice Routing, interchange, and tying conduct.

Following the Bank's review of Visa's submission, we would welcome the opportunity to provide any additional information or support to help ensure that Australia's payments system continues to drive economic growth and deliver benefits for both consumers and businesses across the country.

Yours sincerely,

Julian Potter
Group Country Manager
Australia, New Zealand & South Pacific

Overview

Visa shares the RBA's vision of contributing to Australia's economic prosperity, including for the country's citizens, through an efficient payments system. In our view, the ongoing development of a secure, efficient, competitive and innovative electronic payments system is essential to the growth, stability, recovery and resilience of the Australian economy.

Payment platforms such as Visa contribute significantly to economic growth, development and the financial inclusion of all Australians. This objective has increased in urgency as we work together to ensure that Australia's digital payments system can support and catalyse the nation's post-COVID-19 economic recovery. Digital payments help to:

- Boost economic growth, create jobs, and increase tax revenue;
- Increase financial inclusion, including support of small- and medium-sized businesses (SMBs);
- Deliver enhanced security for financial institutions, businesses, and consumers; and
- Drive innovation of, and support the transition towards, a digital economy[1].

These contributions are delivered against a backdrop in which Australia's payments ecosystem is evolving at an unprecedented pace – and will continue to do so. It is important to take into account the depth, scale and pace at which change is occurring. Traditional digital payments are giving way to frictionless, digital experiences across a host of new connected devices and consumer journeys; while alternative and innovative methods of interbank and digital payments are emerging. Technological advances, fast-changing consumer behaviours, and open innovation and collaboration between organisations are driving this trend, with the appetite for using different payment platforms having accelerated further due to the COVID-19 pandemic. We do not expect that this will change in a post-COVID-19 world.

Consumers now expect to be able to buy products and services with their computers, tablets, phones, connected and wearable devices, and they also expect the payment process to be as secure as it is seamless and convenient on the payment product of their choice. Merchant expectations have also heightened – with growing interest in new point-of-sale infrastructure and software as well as the leveraging of other technologies to drive and monitor sales. In addition, the providers of payment solutions are multiplying and diversifying. It is a progressively complicated, competitive, and dynamic ecosystem, with providers ranging from traditional financial institutions – large and small – to digital giants, fintechs and other start-ups, and merchants themselves.

Given the numerous benefits of digital payments and the increasing complexity of the payments ecosystem, it is critical that industry and regulatory bodies work together to ensure that there is an enabling environment where competition and innovation can flourish, and security remains an uncompromisable priority. As a result, Visa welcomes the opportunity to bring our global experience and knowledge to the next phase of the RBA Review of Retail Payments Regulation (the Review).

[1] For further details on the benefits of digital payments to economies, see the Visa-commissioned report (2017), Cashless Cities: Realising the benefits of digital payments, https://usa.visa.com/dam/VCOM/global/visaeverywhere/documents/visa-cashless-cities-report.pdf and Moody's Analytics (2016), The Impact of Electronic Payments on Economic Growth, https://usa.visa.com/dam/VCOM/download/visa-everywhere/global-impact/impactof-electronic-payments-on-economic-growth.pdf

Visa has actively participated in reviews conducted by the RBA over the past two decades, as well as other recent regulatory reviews impacting payments, such as those conducted by Treasury and the Productivity Commission (PC), as well as providing input to Treasury and the Australian Competition and Consumer Commission (ACCC) to support their efforts to provide the next generation of new products and services through the Consumer Data Right (CDR).

In each case, Visa has highlighted the need for approaches to digital payments regulation which focus on consumer choice; balanced economics; continuous innovation and security; and a level playing field. Moreover, based on decades of experience working with governments, regulators and policymakers in geographies worldwide, Visa strongly supports industry consultation to determine the practical implications of any proposals and ensure the development of effective and commercially-viable safeguards for all participants in the payments environment. In contributing to this phase of the current Review, Visa will address the preliminary conclusions outlined in the "Review of Retail Payments Regulation – Consultation Paper" (Consultation Paper).

Central to Visa's submission are three tenets that underpin a modern, fair, and vibrant payments ecosystem:

i) Consumer choice;
ii) Balanced economics; and
iii) Continuous innovation and security.

It is through the lens of these three principles and in the context of a level playing field that Visa has considered the Review. These principles also reflect the RBA's and Payments System Board's (PSB) priorities. The RBA Governor, Philip Lowe, summarised it well when he said: "The Board wants to see a payments system that is innovative, dynamic, secure, competitive, and that serves the needs of all Australians"[2].

(i) Consumer Choice

Visa commends the RBA for considering multiple perspectives when evaluating how to ensure that the payments ecosystem can continue delivering benefits for all participants. However, we believe that there is further potential for the RBA to consider consumer choice and experience comprehensively. We make this observation against the backdrop of the RBA's mandate to contribute to the welfare of the Australian people[3] and the PSB's acknowledgement that the Bank has a "continuing role to play in identifying whether the payments system is meeting the needs of end users"[4]. It is essential that the RBA ensure that consumers have a right to choose how they pay – including by selecting the products and services that best meet their needs - and how their payments data is handled and protected. Research commissioned by Visa and conducted by a consultancy, CLEAR, in May 2021 emphasises this point, finding that 67 per cent of consumers would be displeased if their preferred choice of payment

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[2] Reserve Bank of Australia (2019), RBA Governor Philip Lowe speech, "A Payments System for the Digital Economy", https://rba.gov.au/speeches/2019/sp-gov-2019-12-10.html
[3] Reserve Bank of Australia website, https://rba.gov.au/about-rba/
[4] Reserve Bank of Australia (2019), "Payments System Board Annual Report 2019", https://www.rba.gov.au/publications/annual-reports/psb/2019/, p43

network for online and face-to-face (f2f) debit transactions was overridden. Surveyed consumers also linked key benefits, including fraud and data protection with specific payment networks, such as Visa[5].

Consumer choice is a key guiding principle in the design of the CDR that "will give consumers greater access to and control over their data and will improve consumers' ability to compare and switch between products and services. It will encourage competition between service providers, leading not only to better prices for customers but also more innovative products and services"[6]. This is especially important to take into account when considering policies, including Merchant Choice Routing (MCR)[7] both f2f and in the online environment and interchange compression - as consumers might be disadvantaged.

(ii) Balanced Economics

The payments system is a two-sided market in which various participants partner to provide optimal solutions for buyers and sellers to conduct an enormous volume and variety of transactions. In order to thrive and grow, it must maintain equilibrium between the two sides. Therefore, it is essential that regulators and industry ensure a balance across stakeholders and that policies do not disproportionately advantage one side of the market over the other. To date, the RBA has introduced a number of measures to compress the economics of financial institutions and fintechs, including by maintaining a very low interchange rate cap for domestic transactions. Since the regulatory changes enacted following the RBA's 2015-2016 Card Payments Regulation Review (2015-2016 Review), the payments industry has nonetheless continued to invest in security and innovation. However, we are concerned that if the RBA proceeds to implement certain preliminary conclusions in its current Review, then the economics available within the ecosystem will decrease even further. Under that scenario, market participants would be less likely to invest in the development of new services, which would adversely impact competition and innovation to the detriment of all end users.

(iii) Continuous Innovation and Security

Visa wholeheartedly supports the Australian Government's digital economy agenda, and we continue to invest in innovative technologies that improve the payments experience and contribute to economic growth. We also partner with new entrants and established entities (small and large) to deliver innovative solutions. These partnerships and the associated investments are focused on ensuring we deliver inclusive societal value.

Network innovation not only results in new forms of payment, it also ensures delivery of solutions aimed at reducing risk across the system and deterring fraud. For Visa, the security of our network is a top priority. As a result, we invest heavily to preserve and enhance the security of the transactions we

[5] CLEAR (2021) 'Uncovering preference for routing debit transactions in Australia' research commissioned by Visa in May 2021. Based on survey of 2,045 Australian debit cardholders aged between 18-75 years undertaken in an independent capacity.

[6] Australian Competition & Consumer Commission website, "Consumer data right – project overview", https://www.accc.gov.au/focus-areas/consumer-data-right-cdr-0

[7] Visa believes that MCR more accurately describes payments routing than Least Cost Routing (LCR) because it is not the case that contactless debit transactions which are routed to and processed by international payment schemes are, as some have suggested, always more expensive than transactions routed to the domestic payments scheme. Visa Submission to the RBA (2020): https://www.rba.gov.au/payments-and-infrastructure/submissions/review-of-retail-payments-regulation/visa.pdf As a result, this submission references MCR rather than LCR unless directly quoting the RBA or others.

process and to protect consumers and merchants. In fact, over 2015-2019 Visa invested nearly US$9 billion in systems resilience, fraud management and cybersecurity, including tokenisation, Artificial Intelligence and blockchain-based solutions, to bring even more security to every transaction[8]. Visa's platform uses Artificial Intelligence and deep learning technology to monitor threats and keep payments safe. We analyse billions of security logs every day. In Australia, Visa prevented more than AU$560 million in fraud from impacting businesses in the 12 months ending 30 June 2020[9].

All payments system participants have a role to play in protecting the ecosystem, as indicated in Visa's Security Roadmap[10]. Among this group, issuers are key in terms of the importance of continually investing and upgrading their systems. As interchange fees are paid by the acquirer to the issuer to cover handling costs, fraud and the risk involved in approving the payment, a reduction in interchange fees will reduce issuer net revenue and the funds available to invest in fraud reduction, security and risk prevention. To ensure Australian consumers and businesses continue to have access to the world's most innovative and secure payments technology, Visa recommends that the RBA not proceed with further interchange compression and that it uphold consumers' rights to have the first and final say on how their transactions are routed, including in regard to MCR online.

Level playing field

Visa believes that ensuring a level playing field and open competition should be a prevailing principle of payments regulation. This position takes into account that, in a world of fast-paced innovation and multiple payment technologies and systems, a truly competitive ecosystem – where the playing field is level – is the only way to support Australia's ambitions to advance innovation and growth in a digitally-enabled economy.

Visa encourages the RBA to ensure that its approach to the payments ecosystem results in a level playing field for established entities and newer entrants. This approach balances the risks in the ecosystem as well as maximising competition and innovation. In addition, it takes account of newer participants in the payments system often not being faced with the same domestic regulatory requirements, including those for which their payments business is secondary to supporting expansion of their primary business lines.

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[8] Visa (2019), US$9 billion investment figure based on internal data on global technology and operations investments between FY2015-FY2019. More information available at https://usa.visa.com/visa-everywhere/blog/bdp/2019/12/24/investing-in-the-1577207091483.html

[9] Visa (2020), "Visa prevents more than $560 million in fraud from impacting Australian businesses", https://www.visa.com.au/about-visa/newsroom/press-releases/visa-prevents-more-than-560-million-in-fraud-from-impacting-australian-businesses.html

[10] Visa (2017), "Future of Security Roadmap", https://www.visa.com.au/pay-with-visa/security/future-of-security-roadmap.html

1. Dual-Network Debit Cards and Merchant Choice Routing

Key Points

- Visa supports the RBA's preliminary assessment regarding Option Two, which would permit small- and medium-sized issuers, to offer SNDCs. Of the three options considered, we regard this as is the most appropriate course of action.
- Visa agrees with the Bank's preliminary assessment that the payments industry has made considerable progress in the provision of MCR in the f2f environment without explicit regulatory requirements.
- Regarding online MCR, Visa encourages the RBA to revise Principle Two to ensure that the core feature of DNDCs and the principle of consumer choice are maintained in the online environment.
- Consumers should continue to be provided the opportunity to make an informed decision about how their data is routed via payment networks when purchasing online. Recent research underscores this point, finding that 67 per cent of consumers would be displeased if their preferred choice of payment network was overridden whether online or f2f[11].
- Methods have been developed over a number of years through established market practices to enable the best possible online transaction experience for consumers and merchants in terms of security, convenience, and overall value. Retaining these practices is in the public interest.
- The security, risk and operational profiles vary significantly by payment network, including in the online environment. These differences need to be recognised to ensure that the online payments ecosystem, at large, is not adversely impacted.
- On the RBA's assessment of tying conduct, Visa accepts that the Bank's mandate under the *Reserve Bank Act* (1959) may be said to extend to the promotion of competition in payment services in the context of considering the overall stability of the financial system. However, the ACCC is the principal regulator regarding competition law issues and is the principal enforcement agency in respect of the provisions of the Competition and Consumer Act.

1.1 Single-Network Debit Cards

Visa supports the RBA's preliminary assessment in the Consultation Paper that, of the three options provided, Option Two[12] is the most appropriate course of action. With the RBA's recommendation of Option Two, Visa welcomes the application of this policy setting consistently across all payment networks to ensure a level playing field. Limiting the explicit expectation of Dual-Network Debit Card (DNDC) issuance to the four major banks will provide new and greater opportunities for smaller issuers to compete and innovate. This is especially significant considering that many of the development costs

[11] CLEAR (2021) 'Uncovering preference for routing debit transactions in Australia' research commissioned by Visa in May 2021. Based on survey of 2,045 Australian debit cardholders aged between 18-75 years undertaken in an independent capacity.

[12] The RBA Consultation Paper states that Option Two 'would set an explicit expectation that the major banks would continue to issue DNDCs'. Reserve Bank of Australia (2021), "Review of Retail Payments Regulation – Consultation Paper", https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/consultation-paper-202105/pdf/review-of-retail-payments-regulation-consultation-paper-202105.pdf, p11

of new services often need to be built twice, or at least in a way that the service works consistently irrespective of the network [13] (e.g. mobile wallet tokenisation).

With respect to Option Two, it is important to note that there is a significant gap between the fourth and fifth largest banks. As of March 2021, the fourth largest bank represented 12.55 per cent of household deposits market share, which compared to 3.55 percent for the fifth largest bank in the same month. This significant scale differential has direct implications for the ability of non-major banks to gain economies of scale and, therefore, compete. To put this scale distribution into further context, the six non-major bank issuers with greater than 1 per cent household deposit market share comprise 14 per cent of total household deposits (March 2021), which is roughly the size of only one major bank[14].

The implication of this volume composition is that this model will not compromise the RBA's MCR policy objectives. In addition, the role of Single Network Debit Cards (SNDC) in market dynamics can be inferred, given eftpos has the largest SNDC portfolio in the market today (which is significant across both major and smaller issuers).

1.2 Merchant Choice Routing in the Face-to-Face Environment

Visa agrees with the RBA's recent assessment that "The payments industry has made considerable progress in the provision of LCR in the device-present environment without any explicit regulatory requirements"[15]. In this regard, Visa would highlight the findings of a recent RFi Group survey[16] which examined merchant awareness and understanding of MCR, and supports the position that the RBA has reached. Of the nearly 1000 Australian merchants with a physical presence surveyed, there has been a significant increase in awareness of MCR from 27 per cent (in October 2019) to 66 per cent (April 2021). The merchants surveyed were more likely to understand the potential impact of MCR on their businesses in April 2021 compared to October 2019. In April 2021, 88 per cent of surveyed merchants indicated they had a good, or some, understanding of the potential impact that MCR holds for their business – compared to 72 per cent in October 2019.

The Consultation Paper states that "In the device-present environment, the Board's expectation would be that all acquirers should offer and promote LCR functionality to their merchant customers. Further action seems unnecessary given the progress that has been made to date …"[17]. The RFi Group survey finds that of the 66 per cent of merchants aware of MCR, 62 per cent have in turn made changes to the way they process transactions, with most saying they were driven by provider recommendations[18]. On average, 90 per cent of these merchants advised that they had made changes to the way they process transactions based on acquirer recommendations (with the acquirers representing regional and major

[13] This view is based on advice from our clients regarding the implications of delivering new capabilities on DNDCs.

[14] Australian Prudential Regulation Authority (2021), "APRA Monthly Authorised Deposit –taking Institution Statistics, March 21," https://www.apra.gov.au/monthly-authorised-deposit-taking-institution-statistics

[15] Reserve Bank of Australia (2021), "Review of Retail Payments Regulation – Consultation Paper", https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/consultation-paper-202105/pdf/review-of-retail-payments-regulation-consultation-paper-202105.pdf, p16

[16] Retail Finance Intelligence Pty Limited (2021), Australian Merchant Acquiring Program April 2021 Survey. This is a quantitative survey Visa commissioned and it was conducted by Retail Finance Intelligence in an independent capacity.

[17] Reserve Bank of Australia (2021), "Review of Retail Payments Regulation – Consultation Paper", https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/consultation-paper-202105/pdf/review-of-retail-payments-regulation-consultation-paper-202105.pdf, p18

[18] Of the merchants aware of MCR, 38 per cent did not make changes to the way they process transactions.

banks as well as non-banks). The remaining 10 per cent said they enquired with their provider regarding MCR.[19]

Throughout the Consultation Paper, the RBA has sought to take a fact-based and data-driven approach to assessing issues and underscored its presumption in favour of self-regulation. While an "expectations" based approach is certainly preferred over a regulatory approach, the data and facts on this particular issue suggest that no intervention is required. Most merchants appear to understand and appreciate there is a wide range of choices available in the market today, including solutions such as Buy Now Pay Later (BNPL), which tend to cost merchants more overall but may offer alternative forms of value.

In this regard, Visa encourages the RBA to focus on sufficient promotion of, and education about, f2f MCR, with merchants being able to make the choice to take up MCR if they believe it will benefit their business. As Visa has outlined in the past, merchants may see advantages in choosing certain payment acceptance solutions based on a number of factors, such as value, system resilience, simplicity, and innovation – and not just cost. This reflects a market trend wherein small businesses are selecting point-of-sale technologies that not only facilitate payments acceptance but also power payroll processes, inventory management and more. These solutions may cost businesses more on a monthly basis but deliver important additional sources of value and certainty in which they see and experience advantage. In addition, acquirers' anecdotally report to Visa that for small- and medium-sized merchants price certainty can be a stronger benefit than least cost[20].

1.3 Merchant Choice Routing in the Online Environment

Introduction

As acknowledged in the Consultation Paper, the online payments landscape is distinct from the type of payment experience delivered in-store[21]. Given the unique complexities and additional risks in the online payments environment, it is misleading and factually incorrect to contend, as some have suggested to the RBA, that MCR can or should function in exactly the same way online as f2f. In addition, it is important to note that eftpos is currently building its online capabilities.

For this and several other reasons detailed below, Visa believes that consumer choice for DNDCs must be honoured and upheld should acquirers, gateways, or merchants choose to add eftpos as an option in the online environment. Accordingly, Visa encourages the RBA to revise Principle Two such that the core feature of DNDCs and principle of consumer choice are maintained in the online environment.

The RBA states that "The [Payments System] Board is persuaded that the majority of customers do not have a preference between debit card schemes"[22]. In the absence of evidence-based research in this area and as already mentioned, Visa commissioned independent research to better understand

[19] Retail Finance Intelligence Pty Limited (2021), Australian Merchant Acquiring Program April 2021 Survey.

[20] Visa (2020), "Visa Inc.'s Response to the Reserve Bank of Australia's Review of Retail Payments Regulation Issues Paper", https://www.rba.gov.au/payments-and-infrastructure/submissions/review-of-retail-payments-regulation/visa.pdf, p20

[21] Reserve Bank of Australia (2021), "Review of Retail Payments Regulation – Consultation Paper", https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/consultation-paper-202105/pdf/review-of-retail-payments-regulation-consultation-paper-202105.pdf , p11

[22] ibid., p18

consumer preferences regarding payment networks processing transactions in-store and online. The survey found that consumers seek some important benefits when paying with a debit card, especially regarding security[23]. Furthermore, Visa was more strongly associated than eftpos with delivering security-related benefits[24]. More respondents indicated that they preferred Visa than eftpos on protection from fraudulent purchases (+ 20 per cent), fraudulent purchase alerts (+18 per cent) and ensuring card data remains safe (+17 per cent)[25].

Against this backdrop, Visa strongly believes that consumers should continue to be provided the opportunity to make an informed decision about over which payment network the transaction data is processed when purchasing online. The CLEAR research underscores this point, finding that 67 per cent of consumers would be displeased if their preferred choice of payment network for online and f2f debit transactions was overridden, and close to one third would choose to shop elsewhere[26]. In Visa's view, such consumer dissatisfaction would point to a potential negative revenue impact for merchants.

Consumers should continue to be able to select between payment networks and services, to ensure that the consumer benefits from the services and protections offered by their payment network of choice. This is evidenced in CLEAR's research which found that 53 per cent of respondents would change their online retailer if the rights and protections offered by their chosen payment network are not covered by a retailer's chosen payment network[27]. In addition, 95 per cent of consumers want to know if retailers are overriding their payment network brand choice beforehand and 61 per cent of consumers said a retailer should not decide for them – rather, they want to understand how their debit card transaction are processed[28]. Visa encourages the RBA to take into account these findings and ensure that its final assessment of whether customers do or do not have a preference between debit card schemes is evidence-based.

Given developments in the payments industry, the proliferation of innovation, and the opportunities that come with digitisation, Visa believes it is critical that retail payments regulation focus on consumer protection and ensuring payment solutions are secure. One notable market in this regard is Europe, which has concluded that an efficient market should guarantee consumer protection and a wide choice of payment services, and as such has mandated consumer choice.[29]

Choice improves the cardholder experience by providing transparency and enabling cardholders to be in control when choosing how to pay. For engaged cardholders, choice ensures they can receive all the benefits associated with their preferred payment network. In the case of Visa cardholders, this includes Zero Liability protection for fraudulent transactions and the security and reliability of the Visa payment network, including rights, obligations and protections which may apply to the transaction. Maintaining cardholder choice fosters competition among networks, merchants and between issuing banks, driving

[23] CLEAR (2021) 'Uncovering preference for routing debit transactions in Australia' research commissioned by Visa in May 2021. Based on survey of 2,045 Australian debit cardholders aged between 18-75 years undertaken in an independent capacity.
[24] ibid.
[25] ibid.
[26] ibid.
[27] ibid.
[28] ibid.
[29] European Commission website (2021) "Payment Services", https://ec.europa.eu/info/business-economy-euro/banking-and-finance/consumer-finance-and-payments/payment-services/payment-services_en

all stakeholders to deepen investments in improved security and innovation. This is clearly in the public interest.

MCR in the online environment – established market practices

Visa notes that in recent years, e-commerce has grown significantly, spurred by technological advancement and the secure and convenient experience it provides, as seen during the COVID-19 pandemic. The online payments landscape today is a highly competitive environment, as evidenced by the increasing number of new entrants and payment methods introduced over the past several years, both domestic and international. The wide range of payment methods currently available include Visa, Mastercard, American Express, BPay, PayPal, direct debit from a bank account, POLi, Alipay, Afterpay, Zip Pay, and Apple Pay, among many others.

Each of these payment methods has been introduced under established market practices that provide consumer *and* merchant choice, as well as a balanced and innovation-enabling approach. In practice, merchants introduce and offer these payment methods to consumers prior to any payment credentials being entered and an authenticated transaction taking place. Importantly, each payment method represents a different combination of risks, costs, fees, user experiences, fraud protections, and other features that a merchant can measure through data, while equally providing consumers with transparency and choice. The availability of choice online reflects the overall dynamism of the payments ecosystem and the check-out process itself represents well-established practices accepted both in Australia and around the globe by consumers and merchants alike.

In Visa's view, these established, orderly market practices and conditions should continue, and therefore determine which payment methods continue to scale, based on the market's assessment of the above criteria (e.g., risk, cost, fees and user experience). For example, in recent times, BNPL providers have been introduced as a payment method using this same methodology.

Often, merchants control the checkout experience to best meet the needs of their business.
Merchants can influence the choice of payment method online through several options – for example:

- The choice to display some payment options upfront over others;
- The order in which the payment methods are displayed;
- Providing consumers with information on security, features and benefits associated with different payment methods;
- Providing consumers with information on fees associated with different payment methods; and
- Potential discounting for use of preferred payment options – for example, BNPL providers have current end of financial year sales where consumers may be offered savings on particular goods and services.

This increased merchant control is different to the card present environment. From the payment options displayed, the consumer selects their preferred payment method to continue with the transaction. In many instances, merchants have started to encourage consumers to choose the least-cost method by publishing what the associated costs are for using each payment method on offer. And while merchants may choose to offer new payment methods, such as eftpos, consumer choice should continue to be provided – as has been the case with the introduction of eftpos capabilities in the contact, contactless and contactless mobile channels. Again, Visa notes this does not add friction to the checkout process and is an established market practice embraced by all market participants, including consumers and merchants.

Principle of consumer choice

The principle of consumer choice is inherent in why and how Australia's CDR was designed, with the key outcome of the CDR centred on driving competition, innovation and optimal outcomes for consumers. This is reflected in the following statement from the ACCC Chair, Rod Sims, who said: *"International experience, especially in banking, has shown that giving consumers more control over their data increases competition as it gives consumers more scope to compare competing offers, make more informed choices and move their business … There is also a sound economic rationale for the CDR. Markets work more effectively when consumers are well informed about the price and quality of offers available to them; the costs consumers incur when switching between providers are small; and barriers to entry for new providers are low."* [30]

MCR in the online environment will create the potential for consumer confusion in respect to whether their chosen payment products will perform as advertised and whether they will benefit from the services in the manner they expect them to when transactions are routed over alternative networks. For example, if a consumer believes they are receiving certain benefits or protections (i.e. zero liability on fraudulent transactions, insurance, lower fees, and cashback) by using the product of their choice, they are likely to be highly concerned to find after the fact that the transaction was not routed over the network they thought they were using and did not deliver the benefits they expected. The ACCC is increasingly focused on the disclosures provided by companies to consumers for how personal data is collected, used and disclosed as highlighted in a recent Australian Federal Court decision[31]. Therefore, it is crucial to ensure consumers have full awareness and free choice in selecting the security, privacy, and other payment product features that best suit their diverse needs.

In response to the Consultation Paper, Visa recommends that the RBA take a principled and pragmatic stance and ensure that consumer choice is offered in the online environment, as is the case currently within the existing online payments ecosystem.

Additionally, since merchants have greater control to influence consumer choice in the online environment, based on the design adopted during checkout, consumer choice needs to be transparently honoured. Consumer choice of payment method is an established standard that is expected as part of an online payments ecosystem. As an increasing number of methods and participants are added to the payment acceptance options, deviating from this principle will likely result in unintended consequences, which is why Visa encourages the RBA to replace Principle Two with a principle that provides consumer choice to be maintained in the online environment.

The RBA sets out a key principle in seeking to address transparency (Principle Three)[32]. While we

[30] Australian Competition & Consumer Commission (2018) ACCC Chair Rod Sims Speech, "Consumer data and regulatory reform", https://www.accc.gov.au/speech/consumer-data-and-regulatory-reform

[31] Australian Competition & Consumer Commission (2021) "Google misled consumers about the collection and use of location data", https://www.accc.gov.au/media-release/google-misled-consumers-about-the-collection-and-use-of-location-data

[32] Reserve Bank of Australia (2021), "Review of Retail Payments Regulation – Consultation Paper", https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/consultation-paper-202105/pdf/review-of-retail-payments-regulation-consultation-paper-202105.pdf, p19

appreciate the RBA's focus on ensuring that MCR is not used by merchants to mislead consumers, we believe Principle Three[33] leaves substantial room for consumer confusion and a mismatch in consumer and merchant expectation for how a transaction will be processed. Aside from creating consumer dissatisfaction[34], shopping cart abandonment represents a significant potential revenue loss for merchants.

<u>Networks' security capabilities</u>

In the Consultation Paper, the RBA states that "International schemes and some acquirers have argued that material differences remain between the security capabilities and other product offerings of eftpos compared with the international schemes. Given the higher incidence of fraud in the e-commerce environment, these stakeholders have argued that LCR online could undermine security, adversely affecting all stakeholders in the online payments ecosystem"[35].

With more than 60 years of experience, Visa provides advanced functionality and experiences in these areas. For example, we deploy sophisticated fraud monitoring, detection and prevention programs to protect the payments ecosystem. When Visa identifies a potential data compromise in Australia or elsewhere in the world, our cyber security experts actively work with the entity at risk to contain the event and ensure minimal fraud impact to Visa accountholders everywhere. Visa not only leads the industry in evolving data security standards to reduce the likelihood and impact of a data compromise as new threats and innovation in payments occurs, but we also share actionable intelligence and indicators of compromise with industry stakeholders in Australia and worldwide.

Over the last five years, Visa has invested nearly US$9 billion globally in systems resilience, fraud management and cybersecurity, including tokenisation, Artificial Intelligence and blockchain-based solutions to bring even more security to every transaction[36]. Visa's platform uses Artificial Intelligence and deep learning technology to monitor threats and keep payments safe. We analyse billions of security logs every day. In Australia, Visa prevented more than AU$560 million in fraud from impacting businesses in the 12 months ending 30 June 2020[37]. Given the industry's significant progress in combatting card not present and card present fraud, careful consideration should be given to ensure this progress is not compromised – otherwise the public interest may be negatively impacted.

When paying with Visa online, these transactions are secured with additional data elements to facilitate consumer authentication – the in-store equivalent of a consumer entering their PIN[38]. The network

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[33] ibid.

[34] According to CLEAR's research, 29 per cent of consumers would shop at a different retailer if their preferred choice of payment network brand was overridden.

[35] Reserve Bank of Australia (2021), "Review of Retail Payments Regulation – Consultation Paper", https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/consultation-paper-202105/pdf/review-of-retail-payments-regulation-consultation-paper-202105.pdf, pp16-17

[36] Visa (2019), US$9 billion investment figure based on internal data on global technology and operations investments between FY15-FY19. More information available at https://usa.visa.com/visa-everywhere/blog/bdp/2019/12/24/investing-in-the-1577207091483.html

[37] Visa (2020), "Visa prevents more than $560 million in fraud from impacting Australian businesses", https://www.visa.com.au/about-visa/newsroom/press-releases/visa-prevents-more-than-560-million-in-fraud-from-impacting-australian-businesses.html

[38] In a card present environment, presentation of a physical chip enables encrypted data to be incorporated as part of the payment message (including the Cardholder Verification Method – such as a unique PIN) that is secured end-to-end, from the POS through to the Issuer

additionally processes and validates these authentication elements on which issuers rely when deciding to authenticate a purchase. In some cases, transactions may fail if automatically rerouted to an alternative payment network for processing. More broadly, Visa plays an instrumental role in operational resilience, for example, standing in to authenticate and process a transaction when a participant in the ecosystem faces an outage or similar situation[39]. Networks that do not operate internationally or invest as much in threat monitoring and prevention may not be able to offer the same or similar benefits with regard to security.

In addition, Visa has defined authorisation data values to help identify initial storage and usage of stored payment credentials (card on file) to enable differentiated processing. We have updated our rules and processing specifications to address a comprehensive list of scenarios where payment credentials are stored with the merchant. These include standing instruction type transactions (e.g. installments or recurring payments) and industry-specific transactions (e.g. no show, delayed charges or incremental). Recognising stored credential transactions allows for greater visibility into the transaction risk, enabling processing and resulting in differential treatment.

Like the RBA, Visa acknowledges that eftpos is currently building its online capabilities[40]. As such, inevitably, there are material differences between the security and product offerings. Against this backdrop, Visa is concerned that Principle Two[41] deviates from established market practices and the online payments ecosystem at large will be adversely impacted. Regarding these concerns, Visa believes that it is vital that consumers and merchants continue to understand and trust that their payment options will deliver the benefits they expect with regard to security, convenience, and overall value, and that payment networks' respective capability sets are clearly delineated in the online environment.

Visa recognises that merchants will continue to offer new payment methods. Visa recommends that consumers continue to have the ability to select between payment processing networks, when using a DNDC to purchase online.

See the Appendix for further information on Visa's perspectives regarding online MCR.

1.4 Tying Conduct

The RBA has identified a potential concern in relation to the linking of strategic rates on credit card transactions to merchant decisions on debit card routing. In response, it proposes two options: (1) leaving this to the ACCC; or (2) seeking voluntary undertakings from the international schemes or introducing a new standard to regulate such conduct[42]. Visa considers that Option One is appropriate.

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[39] Visa (2020), "Visa Harnesses Real-Time Deep Learning to Enhance Transaction Processing", https://usa.visa.com/about-visa/newsroom/press-releases.releaseId.17301.html

[40] Reserve Bank of Australia (2021), "Review of Retail Payments Regulation – Consultation Paper", https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/consultation-paper-202105/pdf/review-of-retail-payments-regulation-consultation-paper-202105.pdf, p16

[41] ibid., p18

[42] ibid., p14

Visa accepts that the mandate of the Bank under the *Reserve Bank Act* (1959) may be said to extend to the promotion of competition[43] in payment services in the context of considering the overall stability of the financial system. Nevertheless, the ACCC is the principal regulator in respect of competition law issues and is the principal enforcement agency in respect of the provisions of the Competition and Consumer Act (CCA).

The CCA contains provisions which are appropriate to address any legitimate competition law concern flowing from any linking of credit and debit transactions and the ACCC is the appropriate body to consider whether conduct may be anti-competitive and therefore contravene the CCA. Visa considers that it is not consistent with good regulatory practice for the RBA to take steps to, in effect, regulate industry behaviour where there is an existing regulator and an existing legislative regime which can adequately address any relevant concerns.

As the RBA is aware, Visa entered into an Enforceable Undertaking (the Undertaking) with the ACCC in relation to potential tying conduct in March 2021[44]. The ACCC considered that the terms of the Undertaking were appropriate and proportional to address the potential conduct concerns. Visa notes that it has made no admission in respect of anti-competitive conduct. The fact that an undertaking was negotiated and implemented in such circumstances demonstrates the efficacy of an ACCC-led approach to any competition concerns.

The RBA, in considering regulatory intervention, should ensure that regulation is minimally interventionist and not seek to regulate alleged anti-competitive conduct outside of the scope of the CCA. Visa submits that in this case, the RBA's proposed reach of regulatory intervention is significant. Option Two essentially allows the RBA to set aside a court enforceable undertaking entered into by Visa and another regulator of competent authority, and supplant it with different terms - without having the benefit of the underlying investigatory proceedings that led to the undertaking. If Option Two was implemented, this would undermine the ACCC's position as the appropriate regulator as a party would not have full confidence that the matter had been finalised, and know that the RBA could step in and undermine the integrity of the engagement process and any agreement reached through it. Unless there are clear reasons for deviation, the CCA is the appropriate mechanism to ensure appropriate competitive conditions in the Australian economy and the ACCC should be the prime enforcement agency regarding any competition-related concerns.

All industry participants may bring concerns or issues to the attention of the ACCC (including the RBA). If the ACCC concludes that conduct does not contravene the CCA, Visa considers it would not be appropriate for the RBA to nevertheless regulate to address some perceived concern. This is, in effect, what would occur under Option Two.

The experience of the recent Visa Undertaking is instructive. The ACCC considered that the Undertaking addressed relevant concerns and that Visa's compliance with the terms of the Undertaking preclude any anti-competitive outcome. Proposed regulation or undertakings which go beyond the Undertaking

[43] ibid.

[44] Australian Competition and Consumer Commission (2021) "Visa undertakes to address competition concerns over debit card payments", https://www.accc.gov.au/media-release/visa-undertakes-to-address-competition-concerns-over-debit-card-payments

suggest regulatory overreach, which would impose additional costs, limit efficiency, may have unintended consequences, and ultimately is detrimental to competition.

1.5 Dual-Network Debit Cards

Comparison of costs for networks

Visa disagrees with the RBA's following comment in the Consultation Paper: "For many merchants … payments via eftpos can be significantly cheaper to accept than payments via the international schemes"[45]. As Visa has outlined to the RBA previously, such rhetoric is enabled by the fact that currently publicly available data on Merchant Service Fees (MSFs) is not granular enough to allow for a true comparison of the costs of processing payments through individual networks. The RBA-published MSFs compare the fees charged for routing f2f domestic debit transactions via the domestic network with the fees charged for routing domestic debit transactions, international debit transactions, f2f and e-commerce transactions via multiple international networks. This is clearly not a like-for-like comparison.

Visa appreciates the RBA's recent agreement, through dialogue with a AusPayNet working group, to remedy this significant shortcoming through capturing, and ensuring that acquirers report, accurate information at a sufficient level of detail. As a result, we anticipate that more accurate information regarding MSFs will become progressively available on the RBA's website. Such an outcome is in the public interest.

On MSFs more generally, it should be remembered that scheme fees are one small component of an acquirer MSFs, which are accompanied by other costs that the acquirer chooses to incorporate as part of this fee. Acquirers determine the overall price for the underlying services that they provide to merchants. As already mentioned, some networks may have a simple value proposition to support one channel, while others may offer a complete suite of services that merchants can use (card present, mobile, online and international). If an acquirer wants to simplify its pricing, it might bundle all fees together to offer simplified weighted average pricing. In addition, depending on the acquirer pricing strategy and the network's business model, pricing will be different. As a result, over-simplified comparisons of one network to another seems inappropriate without taking into account the factors above, especially regarding separating all products and services to enable the comparison of pricing within each network on a like-for-like basis.

[45] Reserve Bank of Australia (2021), "Review of Retail Payments Regulation – Consultation Paper", https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/consultation-paper-202105/pdf/review-of-retail-payments-regulation-consultation-paper-202105.pdf, p8

2. Interchange

Key Points

- Visa does not support the RBA reducing the cents-based debit interchange cap. Commercial adjustments for small ticket transactions have already pre-empted the need for such an adjustment, and further rate caps could have a detrimental effect on future investments in payments security and innovation.
- Visa recommends that interchange for SNDCs be set somewhat higher than the proposed 6 cents to ensure that investment in security, among other things, is not negatively impacted.

2.1 Debit Interchange Cap/SNDC Interchange

Visa welcomes that the PSB "does not see a strong case for significant reforms to the interchange regulations. The current interchange settings have been in effect for only four years and appear to be working well"[46]. With that being the case, we encourage the RBA to not proceed with its proposal to reduce the cents-based debit interchange cap from 15 cents to 10 cents for DNDCs (and all prepaid cards).

In taking this position, Visa acknowledges the RBA's concern that interchange may have on small ticket transactions[47] and notes that we have made commercial adjustments to interchange to account for these transactions. For tokenised transactions under AU$15, we have implemented a lower interchange rate. In addition, Visa has ad valorem rates that scale based on ticket size. And the current effective interchange rates are well below the cap – showing our willingness to operate both within the rules and the spirit of the RBA's regulatory framework. Collectively, these examples and the general advice that follows on Visa's approach to interchange point to a responsible approach to putting in place the right incentives to grow the payments ecosystem.

With regard to SNDCs and as described in Section 1.1 above, Visa accepts the RBA's expectation that some smaller institutions may decide to issue SNDCs. At the same time, Visa would suggest that interchange for SNDCs should be set somewhat higher than the proposed 6 cents to ensure that investment in security among other things (as outlined in more detail directly below) is not negatively impacted. The economics of these transactions should be sufficient to drive innovation and security and, in Visa's view, the 6 cents cap would likely put smaller issuers at a disadvantage.

Further reductions to interchange could be highly detrimental to the payments ecosystem as a whole, which would not be in the public interest. In Australia, Visa does not derive any revenue from interchange. Rather, we are motivated to set interchange at an appropriate level that increases the volume of digital transactions and balances the interests of all participants in the payments system, while remaining compliant with the RBA's regulations.

More specifically, further interchange compression has the potential to undermine the ability of participants to invest in ongoing digital payments security, reliability, innovation, and utility to consumers and merchants. In addition, a further interchange reduction could distort the economics of

[46] ibid., p3
[47] ibid.

the payments system and stifle competition – outcomes which are not aligned to the RBA and PSB mandates.

For Visa, setting the right level and structure of interchange is not simply a mathematical formula or a cost-based exercise. It is process of ongoing fine-tuning in an effort to establish balance in the market. Visa does not have an incentive to set interchange too high or too low, but rather to find the appropriate balance that can incentivise both sides of the market. If interchange is too low, then consumers' financial institutions will not issue cards nor invest in accountholder usage programs from which merchants benefit; if interchange is too high, businesses will not accept cards – which is clearly not the case in Australia.

In fact, there is more competition in Australia's payments ecosystem today than ever before, with new entrants offering innovative payment solutions for both e-commerce and at the physical point of sale, thereby providing merchants and consumers with more choice and options. Many of these new entrants are offering products such as BNPL that come with significantly higher costs to merchants than interchange-based card transactions. This environment is forcing traditional participants to differentiate themselves at all levels of the payments value chain. If the RBA were to further reduce interchange – both networks and issuers – would potentially be at a significant disadvantage to unregulated participants such as BNPL entities and have little to no incentive to deliver future innovative payments solutions in Australia over time. This could result in further consolidation of financial services, significantly reducing competition and negatively influencing Australia's well-known leadership in payments innovation.

As previously mentioned, lower interchange would only serve to undermine the ability of participants to deliver ongoing digital payments security, stability, innovation and utility to consumers and businesses. More specifically, smaller financial institutions – whether they be established credit unions or fintechs – could be negatively affected by interchange compression, including reduced competition leading to unintended consolidation of the sector. The detrimental repercussions of interchange compression for smaller financial institutions emerged in the United States under the Durbin Amendment, even though financial institutions with assets of US$10 billion or less were exempt from the legislation[48]. There is also concern that further reductions in interchange could result in detriment to consumers. For example, lower interchange could also result in higher account-holder fees and reduced usage as consumers depart from digital banking services because of the higher fees. This may negatively affect merchants, particularly in a market where the outlook is uncertain. These risks are real. In fact, they are exactly what played out in the U.S. in the aftermath of the Durbin Amendment.

Interchange also plays a crucial role in regard to payments innovation and additional compression of interchange would put that at risk. Consumer and merchant needs will continue to evolve as technology advances. In this environment, interchange will remain an important mechanism to create new payment

[48] The then Executive Director of the Electronic Payments Coalition, Molly Wilkinson, has noted: "The Durbin Amendment essentially cut larger banks' per-transaction debit interchange revenues in half and, in the process shifted more cost-sharing responsibility on to the small Durbin 'exempt' banks …" For further details, see Wilkinson, Molly (2017), "Small Banks and Credit Unions Paying Millions For Durbin Amendment", *Forbes*, https://www.forbes.com/sites/realspin/2017/02/07/small-banks-and-credit-unions-paying-millions-for-durbin-amendment/#6b8e008b2a0a. See also Mukharlyamov, Vladimir, and Sarin, Natasha, (2019), "The Impact of the Durbin Amendments on Banks, Merchants and Consumers", Penn Law: Legal Scholarship Repository, January. https://scholarship.law.upenn.edu/cgi/viewcontent.cgi?article=3048&context=faculty_scholarship

forms and tools valued by consumers and businesses, which enables Australian banks and other organisations in the payments industry to remain competitive.

The Consultation Paper requests advice on how much time should be allowed between any final decisions being made on the interchange standards and the effective date of any new or revised standards[49]. Notwithstanding the points made above, should the RBA proceed to make its preliminary recommendation final, Visa recommends a minimum of six months from publication to implementation in order to communicate and coordinate with our clients and properly plan for them and Visa to update our systems.

The Role of Interchange Payments

The primary role of interchange is to create the right balance of incentives and costs between the Issuer and Acquirer to optimise the growth of digital payments. This involves the transfer of value between an Acquirer and the Issuer each time a payment is made. The strong economic case for the transfer of value from one side of a four-party card scheme to the other has been accepted in the regulatory debate around interchange, as there is no expectation that the "user pays" principle will deliver efficient outcomes*.

Interchange also balances the needs and expectations of consumers and merchants. Consumers benefit from innovation that delivers increasingly secure and more convenient methods of payments, while merchants benefit from innovation that raises sales, reduces operational costs and increases the speed of payment transactions. Merchants also gain as a result of a payments process that is robust, delivers a payment guarantee, and provides readily accessible dispute handling.

Thus, merchants receive a wide variety of benefits from acceptance, the majority of which are created and funded by Issuers. Accordingly, the interchange rate, which the merchant's bank pays to the Issuer in connection with each transaction, allows the Issuer to recoup some of the costs of payments innovation that benefits all participants of the payments system. Without interchange or equivalent payments, each Issuer would have to recover all its costs from the revenue received from consumers, and merchants would have the benefits of a payments system for free or at a cost that is not reflective of the value derived.

* Rysman, Marc (2009), "The economics of two-sided markets", Journal of Economic Perspectives, https://www.aeaweb.org/articles?id=10.1257/jep.23.3.125

[49] Reserve Bank of Australia (2021), "Review of Retail Payments Regulation – Consultation Paper", https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/consultation-paper-202105/pdf/review-of-retail-payments-regulation-consultation-paper-202105.pdf, p49

3. Other Issues

> **Key Points**
> - Visa supports the RBA's proposal to increase availability of pricing information for merchants and believe requirements could be even more frequent.
> - Having acquirers share specific insights directly with merchants could be a viable alternative to the proposal to extend the CDR to acquiring services.
> - Visa supports a new issuer beginning net compensation certification once it has completed a full financial year of operation following the public launch of its card product.

3.1 Competition in Card Acquiring

Visa welcomes the RBA's proposal to increase the availability of pricing information for merchants[50], which would likely raise competition between acquirers and, overall, is in the public interest. We also expect that the increase in pricing visibility would help reduce the length of time it commonly takes in the market for price reductions to pass through to merchants and which may be included in acquirer margins. In addition, Visa anticipates that the RBA's proposal would encourage acquirers to increase their engagement with their merchant clients, including in cases where merchants are identified as paying above-market rates. We note that the RBA proposes that "acquirers and other entities that provide card acceptance services would be expected to notify their merchant customers about where to find the information at least once a year, likely at the same time as they provide the annual cost of acceptance statement". Visa recommends that the RBA may wish to consider notifications being sent to merchants on a more regular basis, say, twice a year.

On the RBA's proposal to possibly extend the CDR to acquiring services provided to small businesses[51], we appreciate the reasons for the RBA's interest in exploring this, given that it aims to apply the CDR to increase competition and improve price transparency for merchants. However, Visa notes that this approach raises questions regarding the data intended to be shared and ensuring consumer control of data is maintained as defined under the CDR. Given the complexities of seeking customer consent for data sharing in this scenario, we believe it may be more appropriate for acquirers to share specific insights about the merchant, such as MSFs, total volumes, Merchant Category Codes, and any other details to achieve the desired outcomes. Visa also notes that sharing all of the merchant's card details (or any other form of payment) would require strong security measures to minimise the potential for sensitive payment data becoming compromised.

3.2 Net Compensation Regulation

On the RBA's preliminary assessment of net compensation regulation[52], Visa supports a new issuer beginning certification once it has completed a full financial year of operation following the public launch of its card product (with the related scheme certifying at the same time as the issuer). We also support a minor technical revision to part (a) of Standard No. 2 of 2016 (The Setting of Interchange Fees in the Designated Debit and Prepaid Card Schemes and Net Payments to Issuers) including prepaid cards

[50] ibid., p41
[51] ibid., p42
[52] Ibid., p43

to bring the Standard in line with the RBA's intent. In addition, Visa agrees with the PSB that card migration benefits should be included in net compensation calculations. We also continue to support 'Core Service' under both Standards No. 1 and No. 2 of 2016 being interpreted as defined – in this case, to exclude services that are provided by a scheme but that would traditionally have been performed by the issuer or a third party.

4. Draft Standards

Visa commends the RBA in preparing the draft Standards for public consultation. As the preliminary recommendations have not yet been finalised, Visa has no comments to share in respect of the interim drafting. As set out in Section 2.1, should the RBA proceed to make its preliminary recommendations final, Visa recommends a minimum of six months from publication to implementation in order to communicate and coordinate with our clients and properly plan for them and Visa to update our systems, processes and operations.

Conclusion

When Visa responded to the RBA's Review of Retail Payments Regulation Issues Paper in February 2020, we noted that the Review was taking place at a critical juncture. Little did any of us realise that the COVID-19 pandemic would reinforce – more so than was already the case – the importance of a secure and innovative digital payments system. More specifically, the pandemic has highlighted that a resilient, efficient, and competitive digital payments system is essential to the stability and revitalisation of the Australian economy. This is central to Visa's mission. We always seek to contribute significantly to economic growth, development and financial inclusion in the countries in which we operate.

This backdrop is in addition to what was already apparent regarding the payments industry in Australia: the payments ecosystem is evolving at an unprecedented pace. Traditional electronic payments are giving way to frictionless, digital experiences across a host of new connected devices and consumer journeys; while alternative and innovative methods of interbank and digital payments are emerging. Technological advances, fast-changing consumer behaviours, and open innovation and collaboration between organisations are driving this trend. Consumers expect to be able to buy products and services with their computers, tablets, phones, connected and wearable devices, and they also expect the payment process to be as secure as it is seamless and convenient on the payment product of their choice. As previously stated, a May 2021 survey finds that consumers residing in Australia want to know how their online debit card purchase will be processed (95 per cent) and 61 per cent believe that retailers should not decide for them[53].

Merchant expectations have also heightened – with growing interest in new point-of-sale infrastructure and software as well as the leveraging of other technologies to drive and monitor sales. In addition, the providers of payment solutions are multiplying and diversifying. This is a progressively complicated, competitive and dynamic area, with providers ranging from traditional financial institutions – large and small – to digital giants and fintechs.

Given this environment, Visa has approached the Review with the belief that industry consultation helps determine the practical implications of regulatory reform and ensures the development of effective and commercially-viable safeguards for all participants in the payments environment. It is critical that industry and regulatory bodies such as the RBA work closely together to ensure that regulation is not only appropriate for the current environment, but also remains relevant for the foreseeable future, while allowing industry to compete and innovate.

With this approach in mind, Visa has been committed to engaging with the RBA throughout the Review. Furthermore, we remain committed going forward to seeking to ensure that the Review's conclusions contribute to maintaining an inclusive payments system that is operating effectively for the benefit of the Australian economy, business and consumers.

[53] CLEAR (2021) 'Uncovering preference for routing debit transactions in Australia' research commissioned by Visa in May 2021. Based on a survey of 2,045 Australian debit cardholders aged between 18-75 years undertaken in an independent capacity.

About Visa

Visa is the world's leader in digital payments. Our mission is to connect the world through the most secure, reliable and innovative payment network - enabling individuals, businesses and economies to thrive. Our advanced global processing network, VisaNet, provides secure and reliable payments around the world, and is capable of handling more than 65,000 transaction messages a second. The company's relentless focus on innovation is a catalyst for the rapid growth of digital commerce on any device for everyone, everywhere. As the world moves from analog to digital, Visa is applying our network, people, products and scale to reshape the future of commerce.

In Australia, Visa has offices in Sydney and Melbourne. Together with our Australian financial institutions, fintech and merchant clients, and our technology partners, we are committed to building a future of commerce that fosters Australian economic growth and innovation. In 2019, Visa partnered with Startup Muster to gain insight into Australia's fast-growing fintech industry and how startup founders can best be supported. In 2021, Visa partnered with the Council of Small Business Organisations Australia (COSBOA) regarding its Accelerator for Enterprising Women program, to ensure Australia's next generation of businesswomen have the support and skills required to run and grow their businesses, and to transform the industries in which they work. Enabling this type of entrepreneurship and innovation, which benefits Australian consumers, merchants and the economy, is a core focus for our business in Australia.

Visa is also working to expand acceptance across the payments ecosystem, ensuring that every Australian can not only pay, but also be paid in a secure and convenient way. One way we have furthered these efforts is by partnering with Quest Payment Systems and The Big Issue, the independent magazine sold by homeless, marginalised and disadvantaged people, to enable Big Issue vendors to accept digital payments. We have also launched #WhereYouShopMatters, an initiative focused on supporting Australian small businesses through education and promotion. Since 2020, Visa has worked with Australian not-for-profit, Global Sisters, to provide business mentoring and coaching to aspiring Australian businesswomen who recently graduated from Global Sisters' small business education program.

Appendix

Introduction – Merchant Choice Routing in the Online Environment

The following pages outline how the established market practices for online payments can continue to enable consumer choice of payment method for DNDCs in 'guest checkout' and 'stored credential' (or 'card-on-file') payments experiences.

The examples that follow illustrate that the online environment provides an opportunity to offer both merchant and consumer choice, driving competition and innovation in the market. The merchant can influence choice of payment method through a number of options – for example:

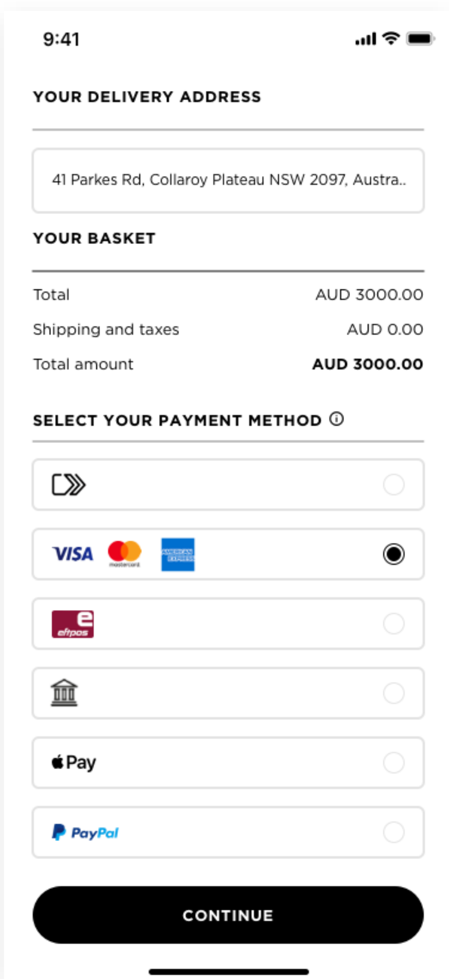
- the order in which the payment methods are displayed;
- providing consumers with information on fees associated with different payment methods; and
- providing consumers with information on security, features and benefits associated with different payment methods.

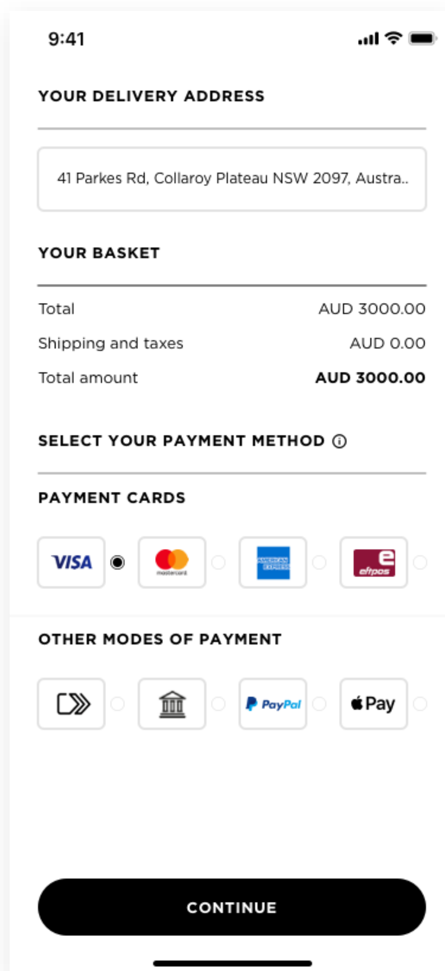
Consumers can exercise an informed choice, based on information, and clearly displayed and labelled options.

DNDC Operation in 'Guest Checkout'

For 'guest checkout', merchants display which payment options are available to the customer at the first step of the payments journey. Two variations are provided below where DNDCs are presented as separate buttons that allow either to be selected by the customer. Following the customer selection of payment method, the respective payment method's customer journey is presented, including entry of payment credential, authentication, and security features.

Some merchants already utilise these payment method selection methodologies and would add an eftpos button/option to support DNDCs.



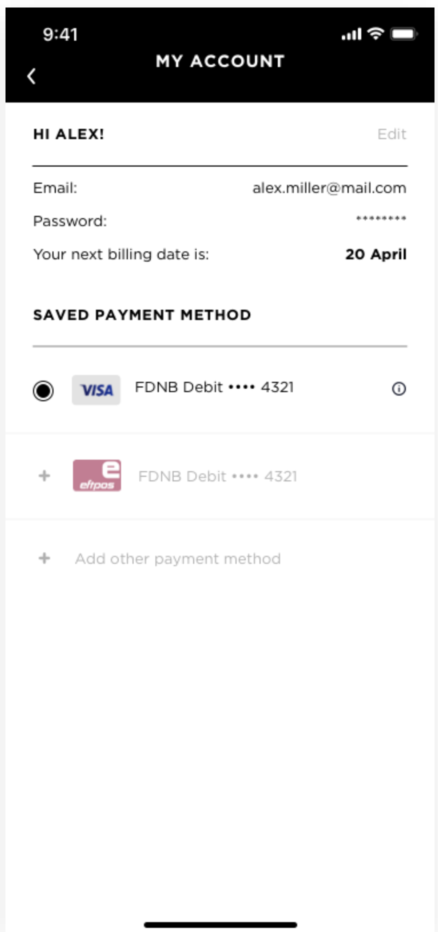


DNDC Operation for Merchant-initiated Transactions (recurring transactions)

Existing Card On File, credential storage

For Card On File (COF) credentials already stored by merchants, merchants display the stored credential using the brandmark in the payment management section within the customer's online account. For example, the Visa brandmark will be displayed in the case of a credential with a Primary Account Number starting with 4. In the case of existing COF credentials, a merchant can enable a customer to select eftpos within the payment management section and fulfil the necessary eftpos authentication and security requirements.

The example below illustrates how the customer can select and enable eftpos for payment.



New COF, credential storage

The steps taken by merchants and customers in the initial storage of a credential for a standing instruction with the merchant is just like the ‘guest checkout’ experience.

The selection of a payment method using a credential from a DNDC can be introduced at the first step of the payments journey where merchants provide payment methods from which customers select. Merchants typically prompt customers to save the credential on file for later use as part of the purchase journey through the creation of an account.

Visa’s view is that the customer/cardholder choice of payment method should be preserved for the entire card lifecycle or until the customer/cardholder expressly requests to change the payment method. This ensures no transaction processing data integrity issues arise and enables a better customer experience, which benefits merchants.

In our assessment, it would be acceptable for merchants to seek to store both DNDC payment methods on initial storage, enabling customers to have both methods available for use.

In the example below, the customer journey of adding a new payment method is shown. The customer would first select ‘Add payment method’ and then be presented with the list of payment methods available to them. The customer is then required to enter the respective payment credential, authentication, and security features (not pictured below). The final image shows the newly added payment method. In this example, the customer has elected to change their preferred method to be via bank account.