

A First Data submission: Joint consultation by the Reserve Bank of Australia and the Australian Payments Clearing Association

Proposed establishment of the *Australian Payments Council and Payments Community*

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1. Summary

First Data supports the Reserve Bank of Australia (RBA) and the Australian Payments Clearing Association (APCA) in their joint proposal to establish a new payments industry coordination body, the Australian Payments Council and also the broader Payments Community. It sees this as an ideal opportunity for government and the private sector to work towards common goals that will benefit the public whilst not unfairly burdening industry.

The proposed objectives and structure of both groups are sound, particularly the proposed inclusion of the industry in meaningful discussions with the Payments System Board (PSB) after industry positions have been reached collaboratively. An area that could cause some concern is around representation, in part due to the rapidly expanding payments market. This will require careful consideration and should provide balance around the relative representation of major participants, smaller participants and the newer participants.

Both the Payments Council and Payments community should be reflective of the broader payments industry and include emerging payments providers as well as current participants in Australian payment systems, operators of those systems and others with a significant interest in Australian payment systems. First Data notes that the PSB will represent the public interest, including the needs of end-users.

Neither the PSB nor the Payments Council would wish to be over-burdened with joint meetings, however some regular interaction is certainly necessary to ensure that the industry's views are being heard by the PSB and conversely, that the industry (via the Council) understands the PSB's preferred path forward for the industry in the payments area.

To ensure that the Council is well briefed, it would appear that a working group of strategic-thinking payments related participants is also required – this could perhaps be achieved by using sub-groups taken from within the broader Payments Community as necessary.

2. Context of First Data's Response

In its response to this consultation, First Data is taking into account its extensive view of the payments industry in Australia, based on its vast and deep connections across many players, ranging from individual merchants to credit unions, building societies, regional, foreign and major banks. This provides a broad spectrum of the Australian payments system participants.

First Data and its subsidiary companies interact with payments system participants in a number of ways – an overview is provided below:

2.1 Cashcard Australia

Cashcard Australia Limited is a wholly owned subsidiary of First Data Corporation. With 30 years of dedicated experience in Australia, Cashcard currently assists nearly 5,000 Australian businesses use ATMs as a key business building tool, offering a range of ATMs to suit any business' needs. Whether serving a club, hotel, convenience store, supermarket, retailer or service station, Cashcard ATMs help to maximise revenue and increase foot traffic through the business.

As a leading ATM provider across Australia, Cashcard understands this dynamic industry; its flexible solutions are designed to meet changing regulatory and security requirements now and in the future, including indoor, through-the-wall and outdoor/event ATMs.

2.2 BWA Merchant Services

BWA Merchant Services was established in 2006 when First Data acquired the merchant acquiring business of Bank of Western Australia Ltd (Bankwest). BWA Merchant Services is a wholly owned subsidiary of First Data and is licensed to use Bankwest branding to market EFTPOS services.

BWA Merchant Services has a proven track record of providing EFTPOS solutions that are closely aligned to business' needs – helping thousands of Australian businesses unlock business value through EFTPOS solutions. BWA Merchant Services' EFTPOS and Internet payment gateway technology provides customers with available and convenient payment acceptance methods. Whether the customer is a traditional bricks and mortar retailer or an e-business, BWA Merchant Services can provide services that allow any business to accept card payments in person, by internet, phone or mail.

2.3 Cashcard Member Network

With the growth of ATM and EFTPOS networks in Australia, second tier banks and smaller financial institutions (building societies and credit unions) were at a disadvantage in providing convenient access to their cardholders.

Although major banks established their own national ATM and EFTPOS networks, smaller institutions, particularly those regionally based, became disadvantaged with small ATM fleets in their immediate areas and no EFTPOS access.

To combat the competitive “access” threat from the major banks in the 1980’s, credit unions affiliated with Indue and all Australian building societies (affiliated with ASL) formed the Cashcard Member Network. These credit unions and building societies issued Cashcards (proprietary debit cards) to their members and a number of them deployed Cashcard ATMs across Australia. This network acted as a single entity and all network cardholders could access all network ATMs.

The Cashcard Member Network also attracted a number of second tier banks with access issues similar to those of credit unions and building societies, as well as other more recent entities such as a shopping centre group and ATM deployers. Due to the combined negotiating power of the Cashcard Member Network, over time it was also able to negotiate access to the major banks’ ATM and EFTPOS networks, providing a level playing field with greater “access” for Cashcard Network Members.

There are currently over 50 members of the Cashcard Member Network, with the majority (42) being financial institutions - membership now includes 3 international card schemes.

Membership of the Cashcard Member Network provides access to the Australian Consumer Payments system through a single point of entry. It gives Cashcard Network Members’ cardholders access to all ATM and EFTPOS devices in Australia without the need to negotiate individual agreements and establish individual links with each other participant. It also facilitates other institution cardholder access to Cashcard Network Members’ ATMs and EFTPOS devices throughout Australia.

Cashcard Network Membership provides a central point for settlement and reporting, taking away much of the complexity of dealing with the many interchange parties in the Australian marketplace. It can also settle those obligations with the Reserve Bank of Australia via the use of Cashcard’s Exchange Settlement Account.

The Cashcard Member Network provides industry representation on a number of APCA and eftpos Payments Australia committees for those members not otherwise represented. It also conducts consultation on upcoming industry issues and reforms via bi-annual Member forums and regular newsletters. Members also provide input into the future direction of the Cashcard Member Network via representation on the Cashcard Network Member Advisory Committee.

The total number of interchange transactions effected by members of the Cashcard Member Network accounts for over 9 percent of all ATM and EFTPOS interchange transactions undertaken in Australia.

2.4 First Data

First Data Australia and New Zealand has been providing switching and other payments services in Australia for more than 30 years, with more than 15 million card accounts on file, processing around 1.5 billion transactions annually and driving around 10,100 ATMs and 11,200 EFTPOS devices.

First Data Provides a wide range of services in the Australian market to more than 100 corporate clients (major banks, other banks, building societies, credit unions, government organisations, large merchants and internet payment gateways) and to more than 15,000 retail clients. These services include ATM and EFTPOS switching, merchant acquiring, clearing, settlement, fraud prevention and detection solutions, analytics, credit card processing, loyalty transaction processing and value-add, PIN management, direct entry processing, ATM managed services, dynamic currency conversion, consumer cards processing, internet payment gateway processing, eCommerce, mobile commerce, internet banking, Billpay, prepaid and debit processing.

Internationally, First Data is a leading provider of electronic commerce and payment solutions for businesses. With operations in more than 34 countries, First Data serves over 6.2 million merchant

locations, 4,000 financial institutions and their customers, processing more than 60 billion transactions per annum and with 812 million card accounts on file. The company powers the global economy by making it easy, fast and secure for people and businesses around the world to buy goods and services using virtually any form of payment.

The company's portfolio of services and solutions includes merchant transaction processing services; credit, debit, private-label, gift, payroll and other prepaid card offerings; fraud protection and authentication solutions; receivables management solutions; electronic cheque acceptance services through TeleCheck; as well as Internet commerce, loyalty and mobile payment solutions. The company's STAR® Network offers PIN-secured debit acceptance at 2.1 million ATM and retail locations.

3. Background

3.1 Australian Payments Council and Payments Community

In an initiative emerging from recommendations by the PSB in the conclusions to its Strategic Review of Innovation in the Payments System, the RBA and APCA have instigated a joint consultation on a proposal to establish a new payments industry coordination body, the Australian Payments Council.

The PSB proposed that there be regular and ongoing engagement between it and the industry on strategic objectives and other industry issues and so suggested the constitution of an enhanced industry coordination body that would engage directly with it.

The RBA has proposed that the Council should be of a senior level to enable it to be capable of taking a strategic perspective on issues of importance to the payments system, as well as discussing those issues with the PSB.

It is proposed that the Australian Payments Council will be made up of diverse parties from within the payments industry, including financial institutions, payment schemes and other payment and service providers.

A consultation paper, outlining the proposal has been issued by APCA and respondents have been asked to provide their views on the creation of the proposed Australian Payments Council in terms of that paper.

3.2 RBA User Consultation Group

The RBA believes it to be equally important that users of the payments system (consumers, merchants, businesses and government agencies) also have an effective mechanism for contributing to decisions about the payments system. Accordingly, and in tandem with the above consultation, the RBA is seeking expressions of interest from organisations that would like to participate in a new User Consultation Group.

This will meet with RBA staff on a regular basis to express views on payments system issues as an input to the RBA's policy formulation process.

This response does not address the proposed RBA User Consultation Group, but focuses on the proposed Australian Payments Council and Payments Community in terms of the consultation paper.

4. Objectives of the Council

The objectives of the Council are stated as:

- Promoting cooperative industry strategy for the Australian Payments System; and
- Engaging in an ongoing dialogue with the PSB.

First Data agrees in principle with these objectives and sees this as an ideal opportunity for government and the private sector to work towards common goals that will benefit the public whilst not unfairly burdening industry.

5. Proposed Structure and Governance of the Council

5.1 Proposed Structure

It has been proposed that the framework will consist of two bodies:

- A Payments Community – to enable all interested parties to participate in an exchange of information related to strategic issues relevant to the payments system; and
- The Council – a more focused senior-level body with representative membership drawn from the Payments Community on a rotational basis.

Participation is to be by subscription to a Participation Agreement that incorporates the Council Charter and the engagement framework for the Payments Community.

5.2 Who may join?

The statement in the consultation paper that the “structure is broadly similar to the approach adopted for participation in the New Payments Platform Program (NPP)” appears sensible as long as it does not exclude organisations that are not supervised by APRA as does the NPP.

We believe it to be imperative that all participants in Australian payment systems, operators of those systems and others with a significant interest in Australian payment systems should be able to join the Payments Community regardless of whether they have a need to be supervised by APRA.

Both the Payments Council and Payments community should be reflective of the broader payments industry and take into account emerging payments providers.

5.3 Payments Community

The Payments Community will enable those not chosen for the Council to provide input and to be kept informed of strategic payments issues as they develop. The consultation paper anticipates that the Payments Community will also be open to other stakeholder groups – some that may not be considered for Council membership – this would expose the group to more wide-ranging views.

It has been proposed that the Payments Community would meet at least annually, but perhaps more often if required by the Council. Between meetings, Council information will be provided to the Payments Community and its views sought where necessary.

First Data agrees with this structure and believes that the opening up of this Community to a wide range of stakeholders (and therefore views) will certainly provide rich input.

5.4 Payments Council

It is proposed that Council members will be chosen from participants in the broader Payments Community.

First Data agrees with the need for the Council to be kept at a manageable size so that it can work effectively in engaging with the PSB. Full consultation with the broader Payments Community should ensure that it has access to the views of the broader industry.

5.5 Meetings and Secretariat

It is expected that the Council would meet at least twice each year. This appears to be an appropriate usage of time and all that could be expected from a group of senior executives.

First Data believes, however, that the Council would require comprehensive support, both from a secretarial and strategic viewpoint.

As the Payments Community is only scheduled to meet once annually (more often, as required), it is difficult to see the Council receiving comprehensive and well documented strategic ideas from that source alone. It would appear that a working group of strategic-thinking payments related participants is also

required – this could perhaps be achieved by using sub-groups taken from within the broader Payments Community as well as input from the proposed APCA Issuers and Acquirers Framework.

5.6 Chairman

First Data agrees with the appointment of an Independent Chairman.

5.7 Engagement with the PSB, Fees and Voting

First Data agrees with the suggested approach that the Council will enter into an understanding with the PSB, identifying how the two bodies will engage (e.g. joint meetings, issues to be discussed and communications, in general).

6. The Role of End Users

First Data believes it is important that the Council represents all participants in the payments industry, including system operators, service providers and facilitators – this should not simply be a “token” representation. First Data notes that the PSB will represent the public interest, including the needs of end-users.

7. Conclusions

First Data supports the RBA and APCA in their joint proposal to establish a new payments industry coordination body, the Australian Payments Council and also the broader Payments Community.

The proposed objectives and structure of both groups are sound; however the selection of members for both groups will require careful consideration.

The suggested rotation of representatives should bring fresh views to the Council, although the non-rotation of representatives from the major banks (whilst understandable due to their stake in the industry) may have the effect of creating an embedded nucleus of similar views that become part of the DNA of the Council. The proposal that each Council member will have one vote assists in dissipating this risk.

It is sensible for the Council to enter into a memorandum of understanding with the PSB, addressing how the two bodies will inter-relate. Neither body would wish to be over-burdened with joint meetings, however some regular interaction is certainly necessary to ensure that the industry’s views are being heard by the PSB and conversely, that the industry (via the Council) understands the PSB’s preferred path forward for the industry in the payments area.