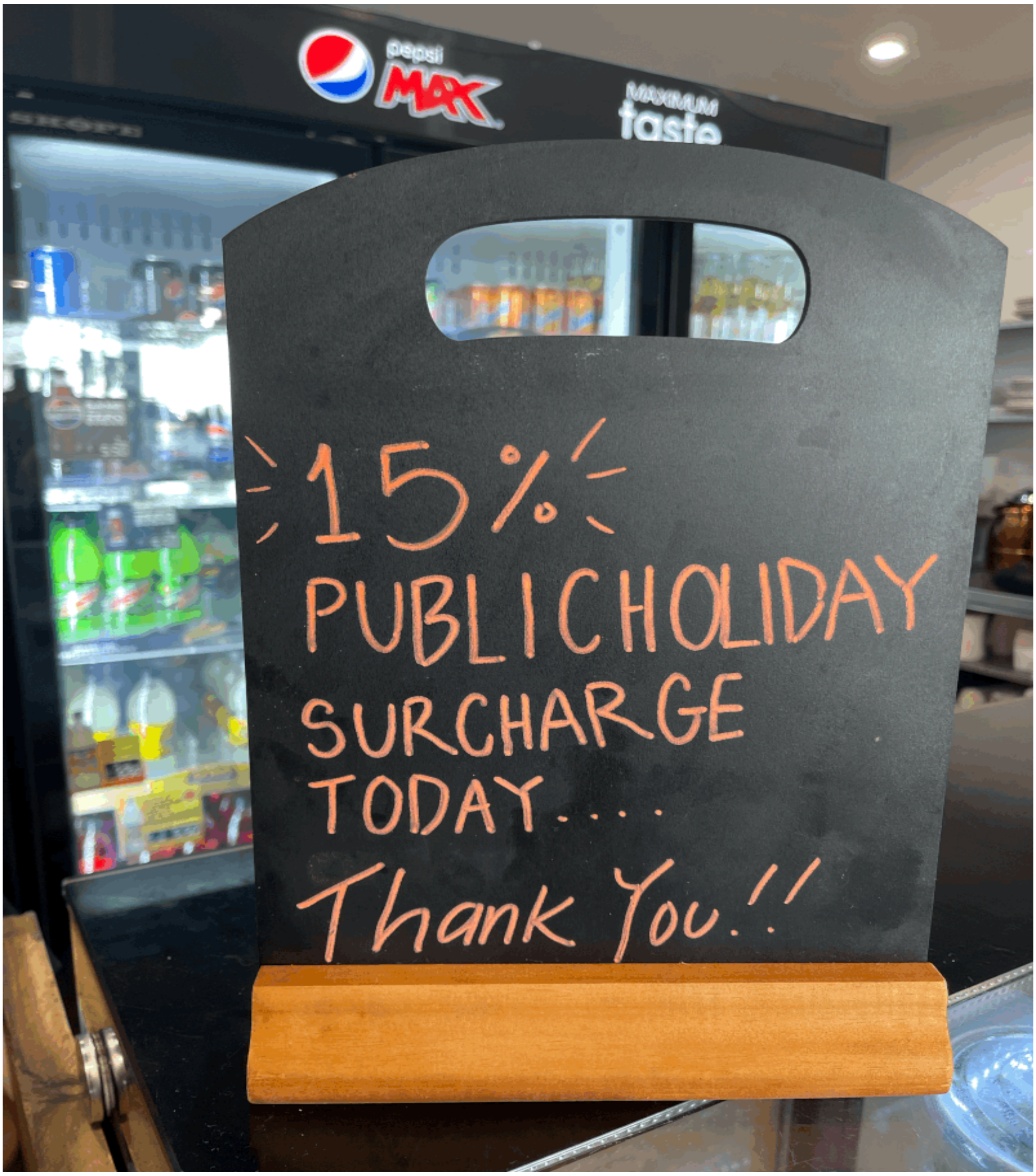
AUSTRALIAN PAYMENTS – SURCHARGING A TOTAL MESS?



A large family brunch on Sunday, only to be confronted with a $101 surcharge – a $675 'bill' quickly becomes $776!

This is the reality in Australia with excessive uncontrolled surcharging much of it illegal and inflationary – this is what consumers face every day!

SUMMARY OF SURCHARGING ISSUES

Australia is the only major OECD country with formalized card surcharging – no other country has followed Australia in 20 years…WHY?

EU has banned surcharges for years, UK after extensive work (including reviewing Australia) banned all card surcharges in 2018.

RBA has just set up 7th inquiry/study since 2000 – no effective action in 20 years!

Surcharge Act passed 2002 was challenged by Visa who lost, Act applied in late 2003 – so 20 years later….history documents the mess.

Consumers have no power and insufficient information to make informed decisions at point of sale - yet must absorb overpriced surcharges which also contribute to inflation.

Retailers/merchants are permitted to surcharge consumers only the actual cost of payments and no more – this was flouted from day one, with no enforcement creating a 'free for all'.

The ability to charge consumers surcharges, in many cases at excessive rates, removes any need for all merchants to seek out the lowest cost from acquirers.

Twenty years of history in Australia shows willful surcharging and robust gouging by merchant acquirers – they even brag about it!

The ACCC (plus no political will by successive governments) only acted to enforce surcharging in 2016. Thats 12 years after it was clear surcharging was a problem – the enforcement has been weak and ineffective, now it's trying to 'unscramble the egg'.

Surcharging estimates range from A$1-5 billion

Excessive surcharges estimates $1.5-2 billion

It's a major issue that the RBA & ACCC has never quantified the scale and dollars involved in all surcharging, as well as excessive types of gouging.

Acquirers sell flat rate plans 1%-1.85% which give them amazing returns – they even boast about it!

Least cost routing (LCR) will never work while surcharging allows merchants to recover the full cost (and more). Merchants have no incentive to seek out the lowest payment cost, they simply set a fixed rate, never review it and move on.

Fintech and other non-financial players are more than half of the acquiring market revenues, yet the RBA in a disturbing decision considers many of these players exempt – most are offshore tech or non-financial service companies who pay little or no tax in Australia.

Some argue surcharging is essential and removal would drive up inflation and penalize merchants and acquirers alike. Others say small retailers carry an unfair burden with higher prices, while others argue removing surcharge will impact businesses unfairly – none of this is true!

Surcharging

To understand the true impact of surcharging it's important to review the detail at transactional level.

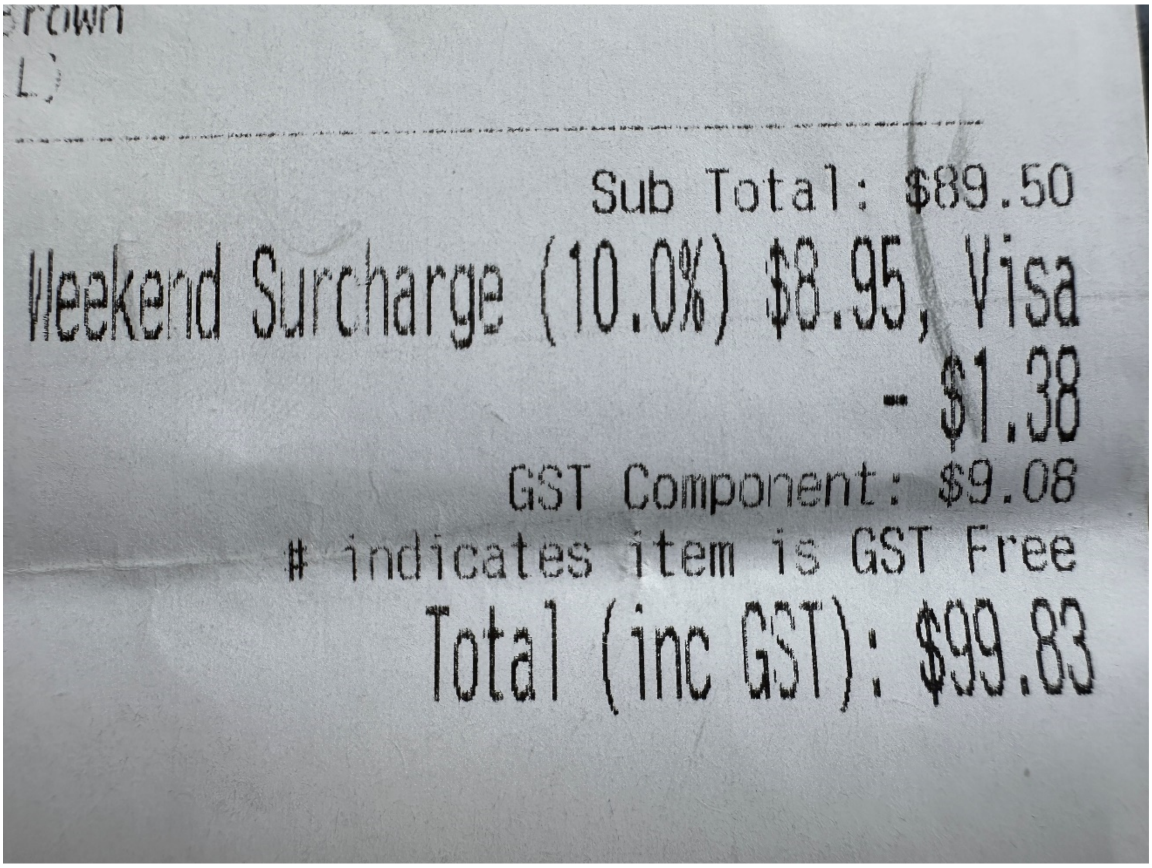
Retailers/merchants are permitted to recover only 'the actual costs of card payments' – there are no markups, no additional items e.g. salaries, flat fees, energy costs or averaging allowed – yet this is exactly what is happening in Australia for 20 years.

Australian research in 2019 across 5400 retailers show 90% used card surcharges.

When ask about the surcharge rate – 35% said they didn't know or 34% didn't care, a total of 69%. Clear evidence most merchants set a payment surcharge rate some time ago and had 'moved on' happy the issue is covered, and they are fully recovering costs.

Mastercard recent research, although a small study, highlights one third of merchants charging excessive rates (often with other charges). This is alarming and should cause the RBA and ACCC real concern – consumers are being gouged and bear this cost.

It's clear since the Covid pandemic and inflation surging retailers/merchants have increasingly turned to surcharges attempting to offset increased costs. It's not unusual to have an illegal 10% surcharge on many weekend purchases – this goes to 20% or 22% on Sundays and public holidays! The idea that is somehow OK and is not inflationary is of real concern.



NAB's new CEO raised the coffee surcharge as part of his discussion with a parliamentary committee – this trivializes the debate and was an effective ploy to divert attention from the real issues, including acquirer gouging. Subsequent media attention focused on coffee costs and didn't explore the self-interest involved in these remarks.

Yet, the perception is surcharging is a 'minor' issue and can be solved easily – least cost routing (LCR) is often spruiked as the solution. The reality is excessive surcharging is deeply ingrained and is being openly flouted, and the dollars involved are very significant.

Recent sheepish admission by the Federal Government and NSW state government confirming incorrect card surcharges, and this went undetected for years is further proof what mess card surcharges are. There has been no comment from all the other states – is this problem wider than we know?

It also shows how totally ineffective the RBA and ACCC have been in policy formation, consumer education, enforcement and compliance measures.

The following examples are across all business sectors and all types of merchants/retailers

Major issues –

Use of a card surcharge to recover other costs e.g. weekend or public holiday wage costs.

Least cost routing is not applied to most payments.

Non card payments are also now being surcharged.

Merchant contracts are broken by adding surcharges.

Two or more surcharges are often applied.

Incorrect higher rates are the most common issue.

No rates are often displayed which breaches the law.

Gouging – applying excessive surcharge rates is rampant and unchecked.

The Australian Productivity Commission called for a total ban on card interchange in 2018

"the case for interchange fees to fund reward programs or to redistribute benefits on a transactions basis from the merchant's bank to the customer's bank is feeble."

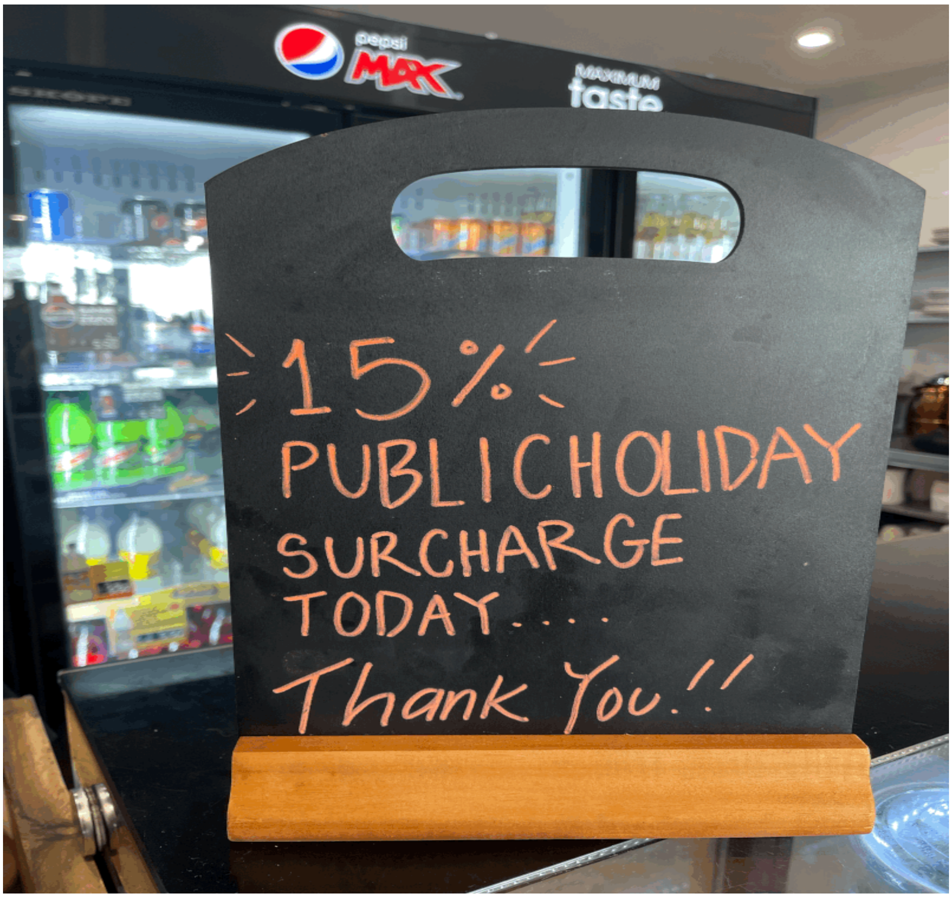
The RBA, Treasury and ACCC should now correct this mess.

ONLY REAL SOLUTION

All payment surcharges should be banned, and Australia should join the rest of the world (go back to pre-2002 days) with card payment costs considered just another business input cost.

Prices should not need to show any separate inputs (GST aside), and this will give a clear signal to all consumers.

SURCHARGE EXAMPLES



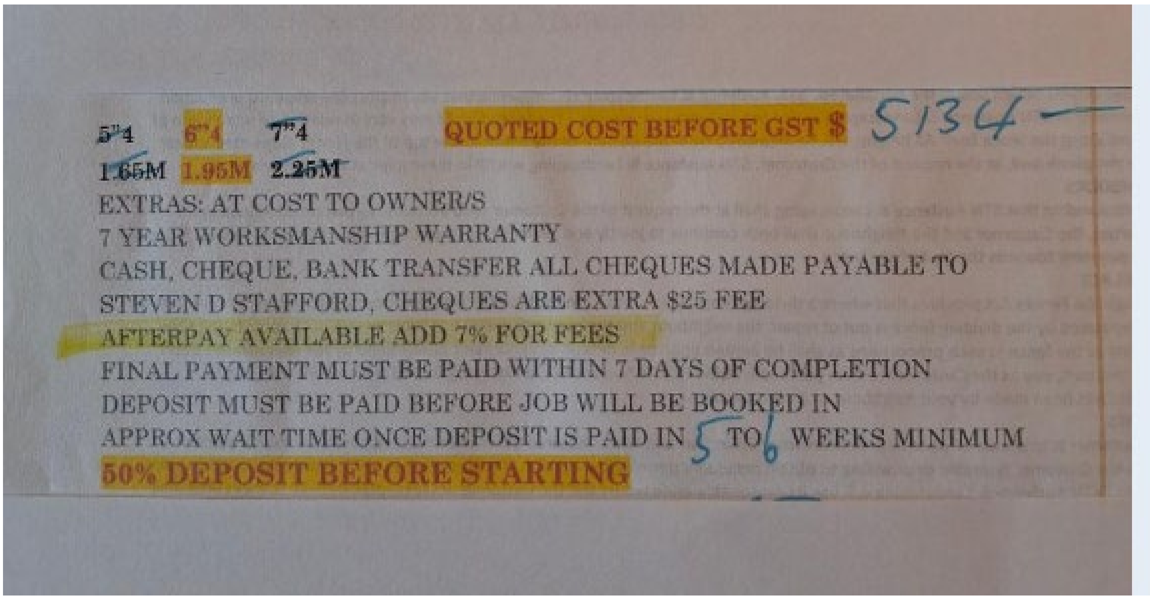
Salary costs included in as ‘payment’ surcharge are illegal yet are rampant in cafes/hotels/restaurants. Table for 6x at brunch can expect to pay $80-90 surcharge

Your Receipt Details	
Ticket Charges	**Amount**
Fare / Itinerary Taxes/Fees/Carrier Charges	1,415.60
Card Payment Fee	14.60
Total Amount Payable:	**1,430.20 AUD**
*Includes Taxes/Fees/carrier Charges	
Tax Information	
GST does not apply to international travel. No tax invoice will be issued.	**Issued by** **Qantas Airways**

Airfares with no Least Cost Routing – Qantas receipt for airfares charged on *eftpos* card which cost $4.53, yet Qantas bill $14.60 – a 69% increase to the airline

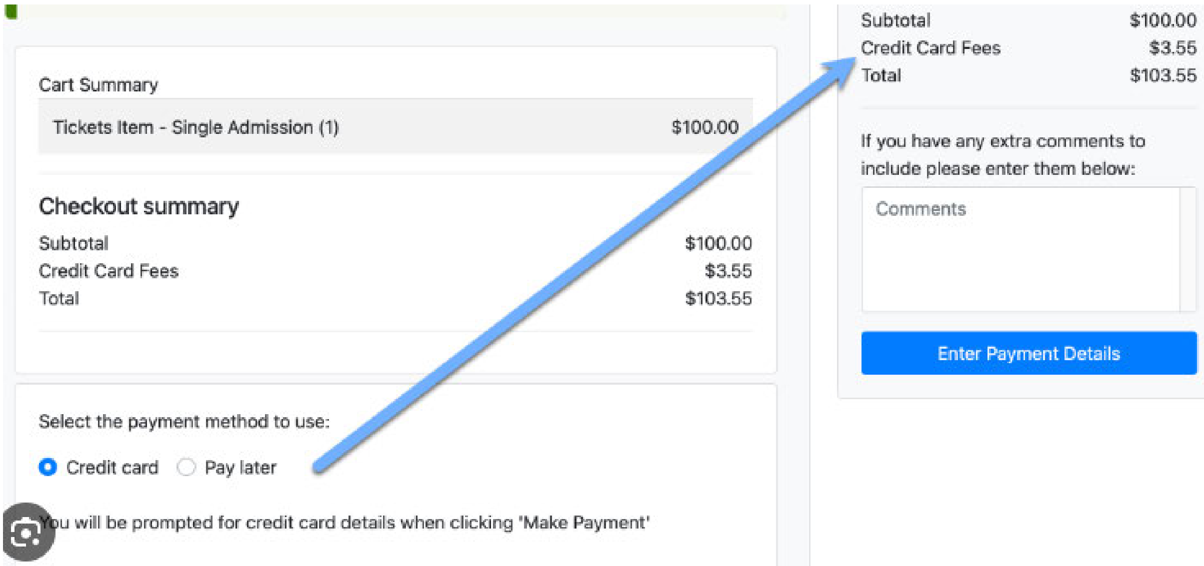
Payment Method	Fee
Direct Debit via Bank Account	No Fee
BPay	$1.00 inc gst
Direct Deposit - Bank Payment (EFT)	$2.20 inc gst
AustPost Billpay	$4.50 inc gst
Credit Card	1.5% surcharge
Online Billpay	1.5% surcharge

Surcharging and fees has spread to other non-card payments, a very disturbing development, which is widespread and illegal yet goes uncontrolled


5"4 6"4 7"4 QUOTED COST BEFORE GST $ 5134 —
1.65M 1.95M 2.25M
EXTRAS: AT COST TO OWNER/S
7 YEAR WORKSMANSHIP WARRANTY
CASH, CHEQUE, BANK TRANSFER ALL CHEQUES MADE PAYABLE TO
STEVEN D STAFFORD, CHEQUES ARE EXTRA $25 FEE
AFTERPAY AVAILABLE ADD 7% FOR FEES
FINAL PAYMENT MUST BE PAID WITHIN 7 DAYS OF COMPLETION
DEPOSIT MUST BE PAID BEFORE JOB WILL BE BOOKED IN
APPROX WAIT TIME ONCE DEPOSIT IS PAID IN 5 TO 6 WEEKS MINIMUM
50% DEPOSIT BEFORE STARTING

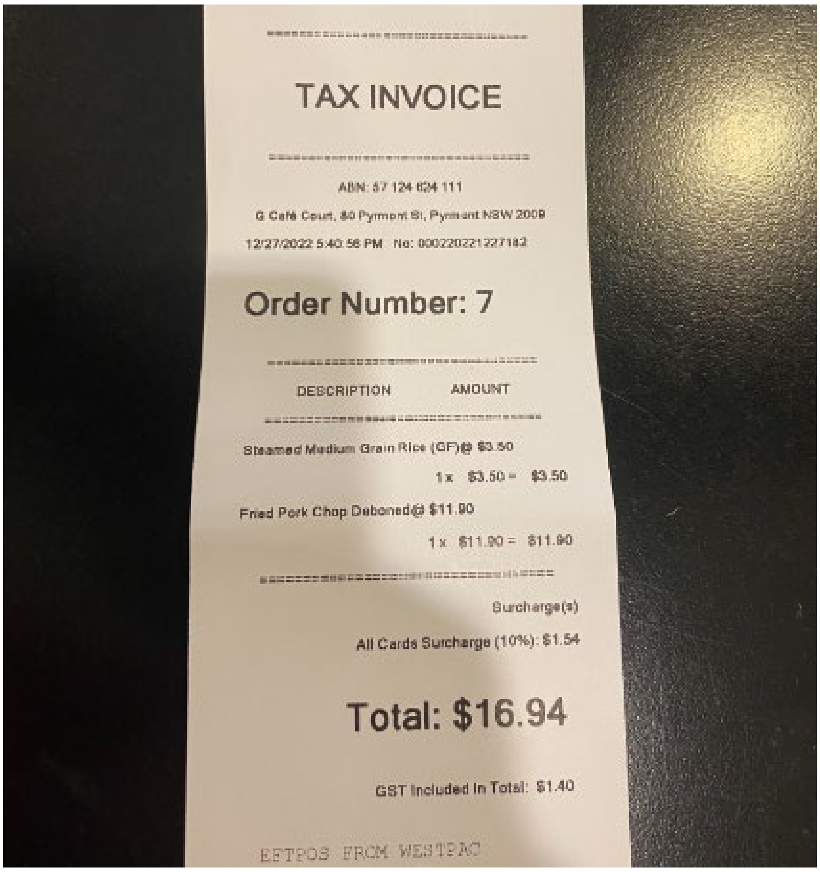
Trade Quote – 7% surcharge would mean $359.38 surcharge, final bill $5493.38 which breaches Afterpay T&Cs, not allowing surcharging

Weekend sandwich with 16.2% surcharge – card surcharge 1.2% on debit card plus 15%

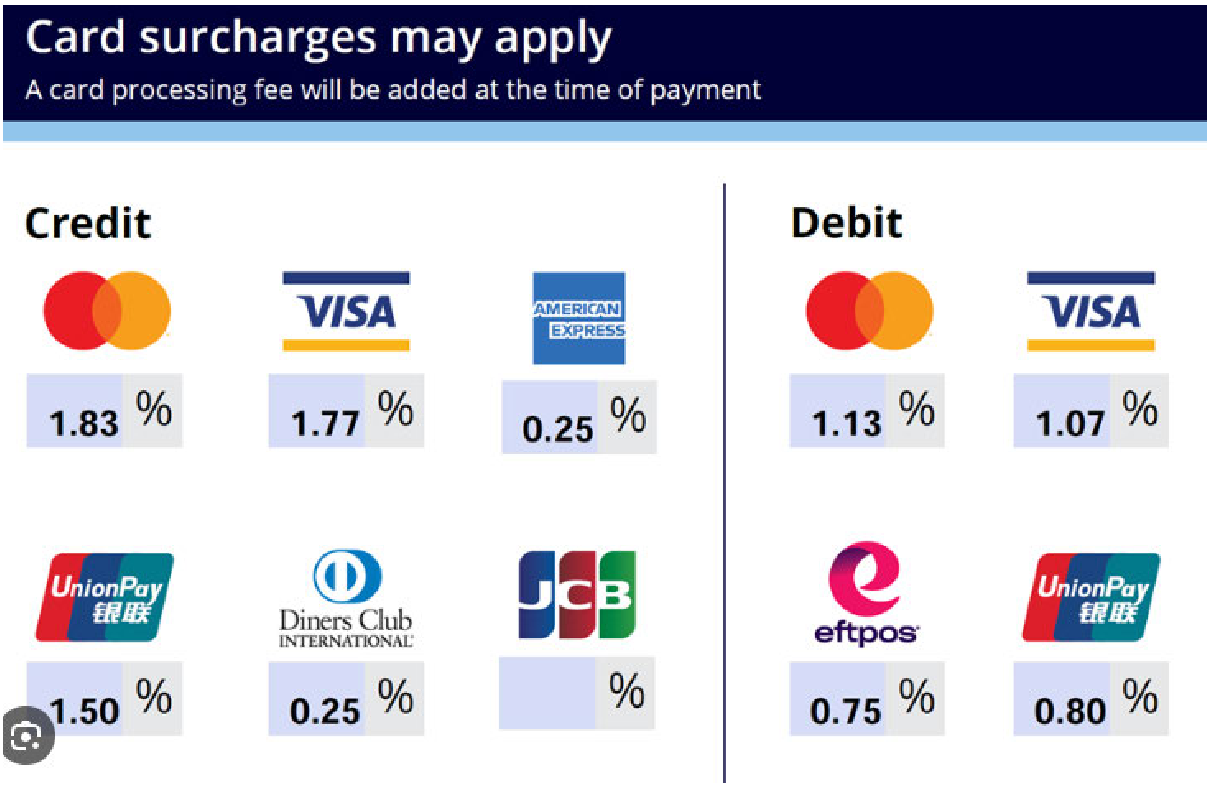


eCommerce payment surcharge 3.55% is wrong and illegal

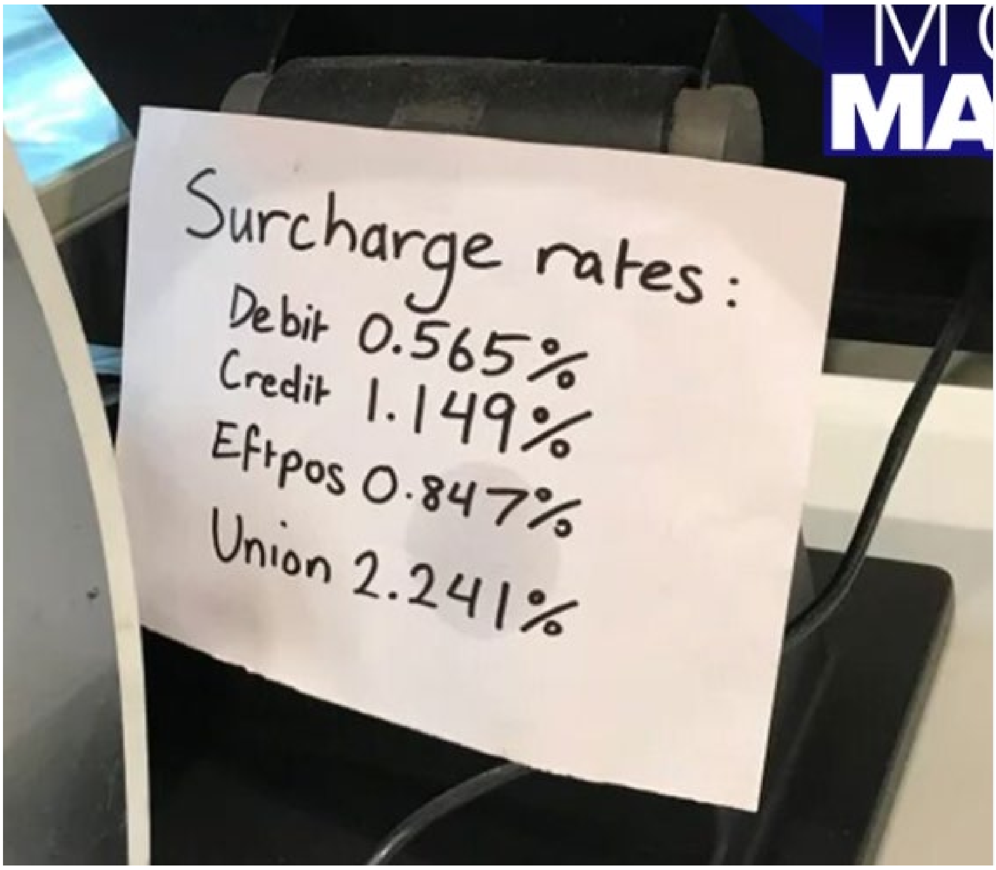
Weekend and public holiday surcharges of 15% plus another 1.5% gives 16.5% - both are illegal and are gouging on a significant scale



10% surcharge on take-out bill is illegal



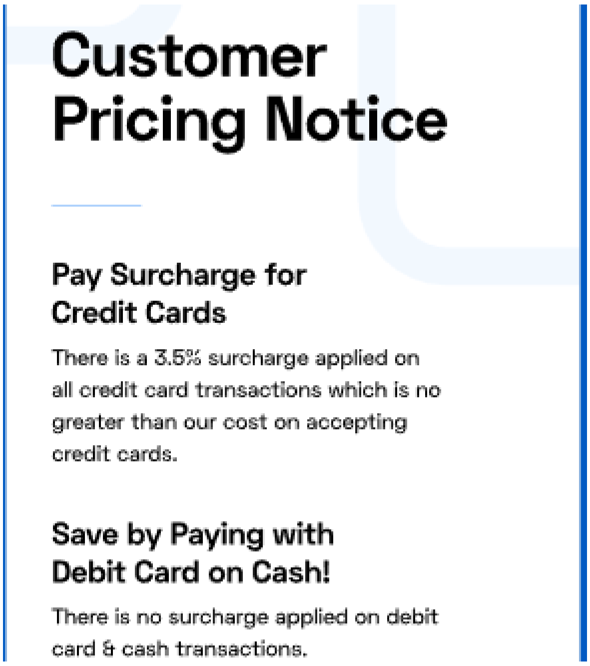
All these rates are wrong – including Amex & Diners should be 2.25% (avg merchant rate Amex 1.33 Diners 1.61)



Eftpos is half the price of Mastercard/Visa debit card – credit is high with avg interchange 0.85%

Flat fee of 1.5% is wrong and illegal

Retail rates look very high and therefore illegal



15% surcharge for weekday dinner. What can we do?

Go up to pay, didn't think the total was adding up but anyway just asked for a receipt and took off. Lo an behold, we'd got got. First of all, we were charged $3 on top of the menu prices for the drinks, and no we didn't ask for the top shelf stuff, there was actually no choice provided to us. 2% card surcharge, okay fair enough. 2% service fee, bit laughable considering the service but not out of the scope. And then the icing on the cake: 10% system surcharge!

Reddit Post July 2024

Restaurants, cafes, pubs and retailers are increasingly adding automatic surcharges to customers' bills

At the Lorne Hotel last weekend, after the town's annual open water swim event, a child's chicken schnitzel priced at $14 on the menu cost $15.71 when ordered through a QR code – the extra cost included a 10% venue surcharge of $1.40 and a 31¢ payment service fee.

At Brunetti Oro on Flinders Lane in Melbourne, a toasted focaccia last week priced at $14.50 cost $14.67 with a 1.2 per cent card surcharge. The cafe has signs at the register noting surcharges of 1.2 per cent for card payments, 10% for weekends and 15% for public holidays.

Frankie's Top Shop in St Kilda, there are no surcharges applied to customers' bills. Owner Michele Curtis said she regarded the payment fees as part of her business costs, the same as electricity and gas.

THE AGE Jan 24th 2024

Surcharge (Daily Surcharge)	$0.87
Card Surcharge	$1.00
GST	$5.43
Subtotal	$54.44
Total paid	**$59.87**

A payment surcharge along with a daily surcharge are illegal

Zeller a merchant acquirer promoting its flat fee – 1.4% is very high

Aldi introduced card surcharges on all purchase in 2020, the ACCC waived this past

Retail surcharge of 2% is excessive and illegal

Retail signage with no surcharge rates displayed is illegal

LEAST COST ROUTING (LCR)

LEAST COST ROUTING – This is how correct LCR would look – how is any consumer going to figure this out?? Prices for *eftpos,* Amex, JCB, Diners Club in this example are incorrect – how would any consumer know?

Aussie woman almost slugged with $150 card surcharge at her local mechanic: 'I was shocked'

- **Woman almost paid $150 card surcharge**

By DAVID SOUTHWELL FOR DAILY MAIL AUSTRALIA 16 October 2024

A customer at a local mechanic garage has saved herself $150 after she spotted a n exorbitant 16.5 per cent surcharge for using contactless payment.

Wendy Armitage saw the sign notifying of the charge just as she was preparing to use tap-and-go to pay $900 for a car repair bill in **Adelaide** this month.
'I was quite shocked, to be honest,' Ms Armitage told the **ABC**.

On a $900 bill, that would have cost her an extra $148.50, so instead she inserted her card into the reader and the surcharge was only 30 cents.

'I saved myself quite a lot of money to dine out on,' she said.

GOVERNMENT SURCHARGES

You know its big problem when the Federal Government and NSW state government cannot correctly apply card surcharges, and this went undetected for years! There has been no comment from all the other states – is this problem wider than we know?

It also shows how totally ineffective the RBA and ACCC have been in enforcement and compliance measures.

Australians illegally charged billions in merchant fees by the federal government

NINE By Emily Bennett Nov 22, 2024

The federal government is moving to put a stop to illegal merchant fees after revelations Australians have been charged billions of dollars in surcharges for government transactions.

Services including passport renewals, visa applications and tax bills attracted the charge when payments were made with a debit card.

Customers have paid the fees since the John Howard government era, 2GB Drive radio host Chris O'Keefe first reported today.

The issue was uncovered after a similar discovery was made in New South Wales in October, where [$144 million was collected illegally by the state government over eight years].

A multi-agency taskforce was set up to examine the issue at a federal level.

9News understands there are no plans to refund people who were charged the small merchant fee, due to the challenges of auditing across government services over many years.

Finance minister Katy Gallagher said laws will be introduced to make the fees legal retrospectively on Monday, but debit card fees will not be charged from January 1 in 2025.

A joint statement released by Gallagher, Treasurer Jim Chalmers and MP Andrew Leigh said the new legislation would provide the finance minister with the power to "quickly and efficiently amend Commonwealth surcharging policies".

Millions stung by illegal government fees

News Corp by Duncan Evans Oct 23rd 2024

The unlawful levies were collected from the Service NSW and Revenue NSW agencies across tens of millions of customer card transactions.

In a statement from Wednesday, the government said the issue was first identified by the NSW Auditor-General during settlement of the Department of Customer Service financial statements for 2023-24 and then brought to the attention of the current administration.

Typical surcharges on Service NSW transactions include 30c for a 1-year licence renewal, 29c for a marriage certificate and $1.92 to renew registration for a small car, such as a Toyota Corolla.

The average surcharge on a Revenue NSW payment in 2023-24 was 92c.

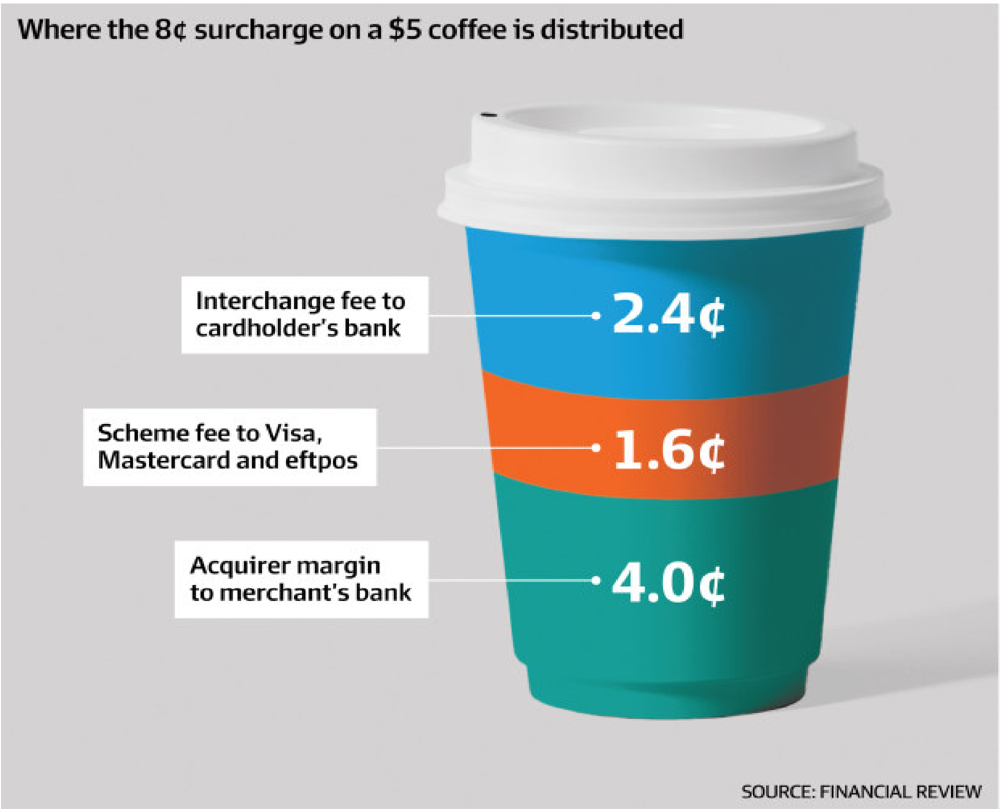
The government estimates some 92 million transactions unlawfully incurred about $144 million in merchant fees from 2016 across Service NSW and Revenue NSW.

Finance Minister Courtney Houssos said the government was now working to "switch off" payment methods that charged merchant fees.

COFFEE SURCHARGES –

NAB's new CEO raised the coffee surcharge as part of his discussion on card surcharging – this trivializes the debate and is ploy to divert attention from the real issues including acquirer gouging.

Financial Review ran a pce with examples of coffee surcharging in Sydney/Melbourne – ranges 4.65% to 0.98% - all of these are incorrect rates and illegal.



Coffee surcharges

Cafe	City	Surcharge (%)
Cafe Stretto*	Sydney	4.65
Local Folk	Melbourne	1.78
Santa Monica	Brisbane	1.77
Avenue on Chifley	Sydney	1.67
Mr Majestic	Melbourne	1.64
Publique	Melbourne	1.60
Herbert	Melbourne	1.56
Wild Sage Barangaroo	Sydney	1.56
The Grounds	Sydney	1.56
Batch Specialty Brew	Sydney	1.56

Page 1 of 3 >

Calculation is based on the cost of a cup of coffee
* Cafe Stretto charges a 20¢ flat fee

Source: Financial Review

Coffee surcharges

Cafe	City	Surcharge (%)
Mano on Kent	Sydney	1.56
Zuppa	Melbourne	1.46
Ini	Melbourne	1.45
Toby's Estate Barangaroo	Sydney	1.28
Devon Barangaroo	Sydney	1.28
Kings and Knaves	Melbourne	1.20
Light years	Melbourne	1.13
basil with thyme	Melbourne	1.09
The Local Enfield	Sydney	1.09
Let Minnow Cafe	Brisbane	0.98

< Page 2 of 3 >

Calculation is based on the cost of a cup of coffee
* Cafe Stretto charges a 20¢ flat fee

Source: Financial Review

The Retail Payments Market is Large and Growing

Retail consumer payments total $1.55 Trillion with revenues over $15 billion

The dominant consumer payment methods are bank transfers, debit cards and person to person transfers also known as real time payments (RTPs).

Australian Card Market Growth in 2024

Debit/pre-paid cards - 68.2 million cards +5.8% vs 2023

Personal credit cards - 14.8 million - 5.4%

Charge Cards 1.43 million -9.1%

Australia - over 1 million eftpos machines

Payment Revenues YE 2022

Card Issuing revenue $8.84 billion

Merchant Acquiring revenue $5.8 billion

TOTAL REVENUE $14.64 billion

Australian Payment Sales – Full Year Sept 2024

Payment type	**Volume in $ billions**	**CAGR %**
Debit Cards	605.0	7.6
Personal Credit Cards	331.3	5.5
Charge Cards	97.2	16.8
NPP/Osko Digital - *estimate*	268.25	19.6
ATM Cash	106.8	2.3
Corp/Commercial Cards	100.9	10.3
Buy Now Pay Later - *estimate*	20.2	12.1
Pre-Paid Cards	12.1	12.2
Cash – notes*	8.8	-5.8
Cheques*	4.6	-2.6
TOTAL	**$1,555.15**	**12.2%**

Data – RBA non-seasonal data Sept 2024 * private research

Merchant Acquiring

Australian acquiring market was worth $5.8 billion annual revenues in 2022, growing to $6.7 billion in 2023. A similar growth rate in 2024 would see revenues exceed $7.8 billion.

Bank acquirers account for 45% while non-banks and Fintech's account for 55%. This is not commonly understood and reflects the lack of timely, quality data available.

The RBA and ACCC need to understand the size and significance of this market – its growth rate and the role of Fintech's, non-banks and banks.

BANKS

CBA, Westpac or NAB acquiring revenues are hidden in financials, but an educated guess can be made comparing RBA/APRA data with bank revenues – estimate $1.7- $1.85 billion

ANZ/Worldline est $630 million in 2022, while Bendigo is now part of Tyro – plenty of rumours about NAB and Westpac exiting acquiring.

FINTECHS

Fintech merchant acquiring has been the most successful category since inception in 2008 with 30% of the Australia market in 2022.

REVENUES 2022

PayPal $954 mil +1%

AMEX merchants $785 mil +34%

Stripe $551 mil +34%

Tyro $435 mil +34%

Square $288 mil +62%

Adyen $184 mil +48%

ApplePay $110 million – all transactions appear in credit/debit card numbers.

Fintech has a long history in Australia

Stripe Australia started July 2014.

Adyen Nov 2015 opens first office.

Square March 2016 arrived targeting micro merchants.

Tyro founded 2003 markets categorise as Fintech.

KPMGs Australia Fintech directory lists 143 start-ups.

A further 128 payment companies can be identified as either small start-ups or offshore owned and not included in KPMGs analysis.

What systemic risk do all these 266 mostly unregulated Fintech's have?

Australia has already experienced the BNPL boom and bust with over 45 Fintech's closing, Contrast this with neo-banks, APRA applied license requirements and effectively managed the systemic risks.

Since both of these category's, risk has built with many new start-ups and billions more in investment across all areas of payments. This includes crypto, Saas, Baas, Alti-fi, embedded payments, FX transfers and others.

The systemic risks are worrying, and several Fintech collapses overseas are worth studying.

Synapse a USA based Banking as a software (Baas) provider is a good example – sitting between Fintech's with customers and regional banks who provided the licenses and product. The Baas provider was supposed to provide efficient processing including switching, tracking and full reconciling of all transactions. Alas none of this existed in any meaningful way and the collapse has left thousands of customers waiting, unable to access their own money!

What are the risks of a similar collapse in Australia?

What risk profiling has the RBA undertaken?

THE RBA

Its 20 years since RBA/Payments Board ‘reforms’ of credit card interchange effective in 2003 – Australia was the first OECD country to legislate reducing interchange and allow card surcharges.

The RBA ‘reforms’ centred on increasing competition and ‘opening up’ the sector and reducing interchange for Visa, MasterCard and Bankcard all third-party networks. Also reducing merchant commissions for charge cards American Express and Diners Club – so called ‘closed loop’ networks which own both the merchant and cardholder relationship.

Australia had two key regulators in the payments arena area: the Reserve Bank of Australia/Payments Board and the Australian Consumer and Competition Commission (ACCC). In 2000 the RBA decided to legislate, using the powers vested in it by the 1998 Payment Systems (Regulation) Act, and announced proposed reforms.

The proposed reforms had three main goals:

1. To provide open access to the card associations, namely Visa, MasterCard and the local Bankcard association, enabling non-banks to join and issue cards.

2. To reduce credit card interchange fees and make clear price signals to the payments market.

3. To withdraw the no-surcharging rule imposed on retailers by the card associations, to be effective January 2003.

The RBA targeted interchange to reduce by 40 basis points effective July 2003; this was delayed until September due to the Visa court case.

RBA in its press release in 2003 claimed $400 million would be reduced because of their actions – the court case delayed this and credit card sales on Visa/MasterCard/Bankcard in 2002 totalled $99 billion x 0.12% reduction in interchange equalled $118.8 million in savings in year one.

In 2003-4 the interchange reduction went from 1.40 to 1.28% average, by 2005 the $400 million per year was achieved when rates reduced to 0.97%.

Interchange for Visa and MasterCard (Bankcard scheme closed in 2006) has reduced by 47% while American Express 42% and Diners Club 24% while overall sales increased by 6.8% per year.

At the same time consolidation impacted the Australian credit card market with Bankwest and St George both active debit/credit card issuers purchased by CBA and Westpac resulting in decreased activity across the market. GE Money Australia was a casualty of the GFC in 2008 when the securitization market collapsed; the business was in maintenance mode until it was sold to private equity in 2015.

Surcharging become rampant in 2004 with many retailers, utilities, Telcos and airlines quickly adopting this ‘new’ revenue stream – belated Government moves to attempt to curb surcharging in 2007 and 2016 proved totally ineffective. Estimates vary widely as to how much revenue retailers generated – MasterCard’s own research said $1.6 billion per year while others put the figure as high as $5 billion per year for retailers.

The success of surcharging has also allowed some high street retailers, eCommerce providers and sellers of services to introduce split fee-based prices whereas pre 2002 the final price included all costs – for example airfares and eCommerce sites added cost components such fuel, ticketing or shipping on top the base price increasing margins.

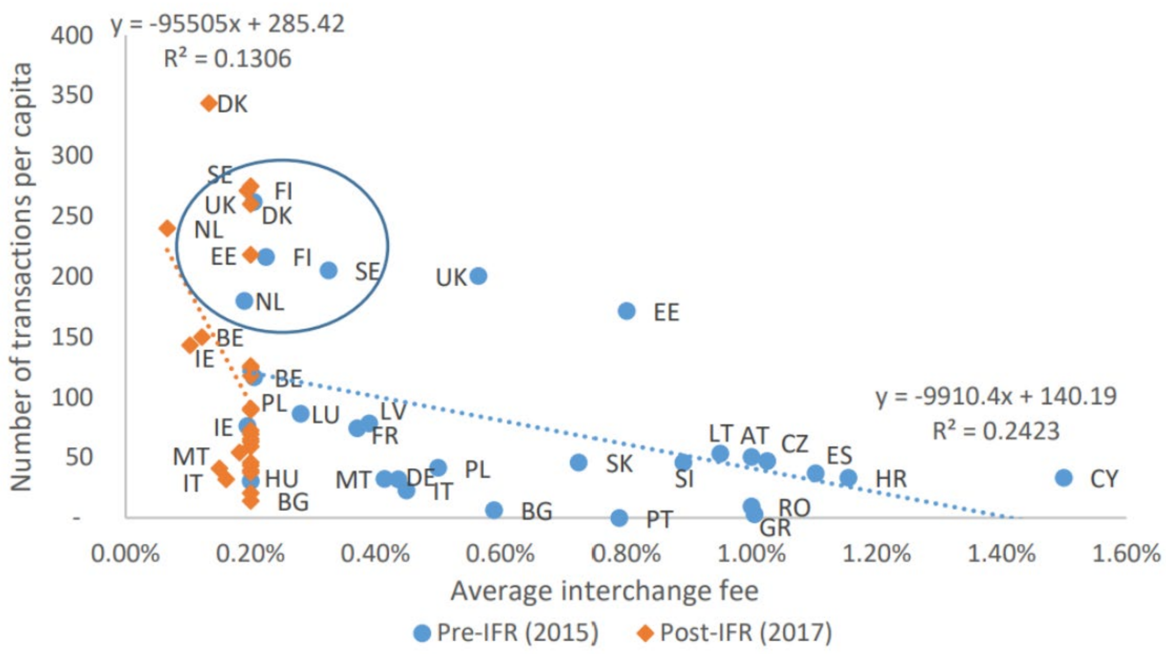
The other significant issue was the failure by the ACCC to educate consumers, supervise and require retailers to pass on the interchange savings to consumers. The net result retailers pocketed $118.8 million in year one, plus increased their revenues by starting to surcharge – rampant by those with market power, monopolies or special services e.g. Telstra, Qantas, Utilities and specialist retailers.

The ACCC and RBA fundamentally failed in their duty to compel all retailers/sellers to pass on these savings to consumers – in addition consumers then faced card surcharges.

Australia along with USA and Canada have some of the highest cost of retail payments globally, surcharging magnifies this in Australia

While Australia reduced interchange in 2003, it seriously lags other markets, the EU for example has interchange of 30 basis points or 62% below Australia. The EU has also banned card surcharges and has no issues with retailers exploiting surcharging.

Europe card interchange reduced without regulation

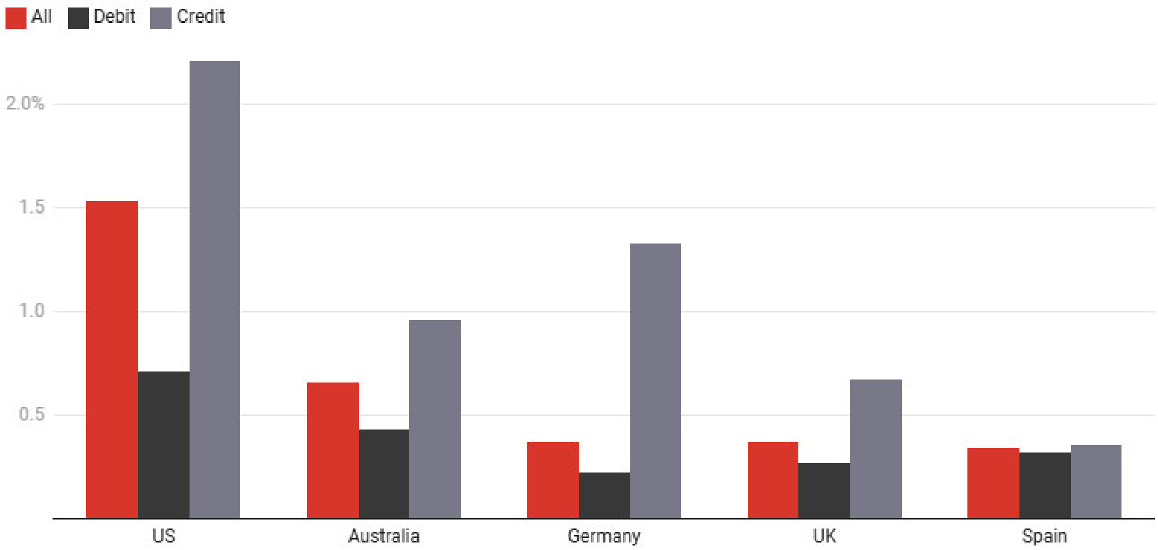


Source: The impact of EU price rules: Interchange fee regulation in retail payments[11]

A comparison chart shows how much higher the US and Australian rates are compared to Europe. It's important to note credit cards in mainland Europe have very low market share – Germany for example credit cards 5%, debit 19% while cash is 54%.

Merchant service fees by payment type

By percent of transaction values acquired, 2023



UK and Spanish data exclude three-party schemes. German data is for 2017, UK data is for 2022

Chart: The Conversation • Source: Banco de España; British Retail Consortium; Deutsche Bundesbank; Nilson Report; RBA • Get the data • Created with Datawrapper

THE ACCC

ACCC is consumer regulator in Australia

From 2004 until 2016 no effective action from ACCC, under Payment Act RBA allows ACCC to ‘explore’ an issue – why didn’t ACCC and RBA act much earlier?

“From 1 September 2017, a ban on excessive card payment surcharges will apply to all Australian businesses” The ban had applied to large businesses since 1 September 2016 ‘enforced’ by ACCC.

Even with suitable powers the ACCC has a dismal record of consumer education, compliance and enforcement of card surcharging.

TOTAL FINES ex ACCC $1,065,840   2016-2022

TV broadcaster Nine Fined $609,840

The ACCC’s infringement notices were issued to Nine in relation to payments made using MasterCard and Visa credit and debit cards between August and December 2020 which attracted stated surcharges ranging from 0.9% to 1.55%.

The ACCC alleged that these surcharges exceeded the actual cost to Nine by between 0.09 and 0.84 per cent, depending on the method of payment.

220,000 current digital and home delivery subscribers who paid by MasterCard or Visa credit or debit card will be provided a one-off cash adjustment of $1.92 $422,400 in 5 months

The Federal Court also ordered CLA Trading Pty Ltd (trading as Europcar) to pay penalties for excessive payment surcharges. Europcar paid $350,000 for breaches in card surcharging.

Other enforcement actions 2017- 2021

The ACCC has previously issued infringement notices for excessive payment surcharges to Red Balloon Pty Ltd, Cruisin Motorhomes Pty Ltd, Fitness First Australia Pty Ltd and Lloyds Auctioneers and Valuers Pty Ltd. The Federal Court also ordered CLA Trading Pty Ltd (trading as Europcar) to pay penalties for excessive payment surcharges.

Red Balloon - $43,000Cruisin Motor Homes - $12,600, Fitness First - $12,600, Lloyds Auctions - $37,800

That is the sum total of ACCC actions – which is a very serious issue and shows a total lack of effective effort.

RISK IN NON-BANKS, FINTECHS AND NETWORKS

As regulator, the RBA/Payments System Board (PSB) plays a role in working with many other regulators, businesses and consumer groups. Since 1998, when the Payment Systems Act took effect, regulation and review has taken place.

Key responsibilities are promoting the safety and efficiency of the payments system through the *Payment Systems (Regulation) Act 1998* and the *Payment Systems and Netting Act 1998*.

How does this operate and how effective is the RBA/PSB?

A key area to examine is Risk, according to Treasury the RBA/PSB has three categories of risk – 1. financial risks, 2. operational risks and 3. misconduct risks

Table 2: Key risks in the payments system

The RBA effectiveness is critical to the soundness and efficiency of the payments system.

It is helpful to examine examples of retail payment policy and performance, here are three examples to consider.

AMERICAN EXPRESS

Non-bank American Express (Amex) with 1.5 million cards yet has $97 billion in sales in Australia – that's $64,600 spend per card the highest of any player by some margin, for example BNPL has estimated sales $20 billion. This volume also makes Amex a major player in merchant acquiring, yet the RBA and most players pay scant attention to Amex.

The RBA used to report on Visa/Mastercard market share verse charge cards (Amex & Diners) – this ceased in August 2024, with no announcement or discussion…WHY?

Why should the RBA agree to allow Amex to delete the market share report?

It's also letting Visa/Mastercard off the hook – Visa/MC have lost 7.75% share since mid-2020. That's $98 billion in sales lost to banks/Visa/MC. Add that to $30 bn lost to *eftpos* with online in last 12 months - close to $130 bn in sales/GMV lost by Visa/Mastercard, now this cannot be considered going forward.

Credit and charge cards are reported in the same set of data by the RBA. Credit cards accounted for 77% of spend while charge cards 23% in August 2024. However, charge cards grew three times faster than credit cards with sales growing 17% vs 5.5% in 2023. Charge card growth is down from 34% in 2022.

Why should a US multinational be able to keep their data private? Australian banks must make much of their data public – it's nonsense!

The RBA should be making more data available not less.

The RBA should separate charge cards from credit card data, these are different products with totally different operational and risk requirements. The RBA decided to separate pre-paid debt from debit cards in 2018, a wise move, but has not followed this approach in other areas.

The lack of real data on BNPL, mobile wallets, Saas, Baas and many other areas is of serious concern. In 2024 the RBA should not be just providing data, it should also enhance that data by using modern tools and approaches, a set of XL spread sheets is not helpful as it is very difficult to understand and leads to confusion and misunderstanding – Australia lags badly behind in this area compared to other market regulators.

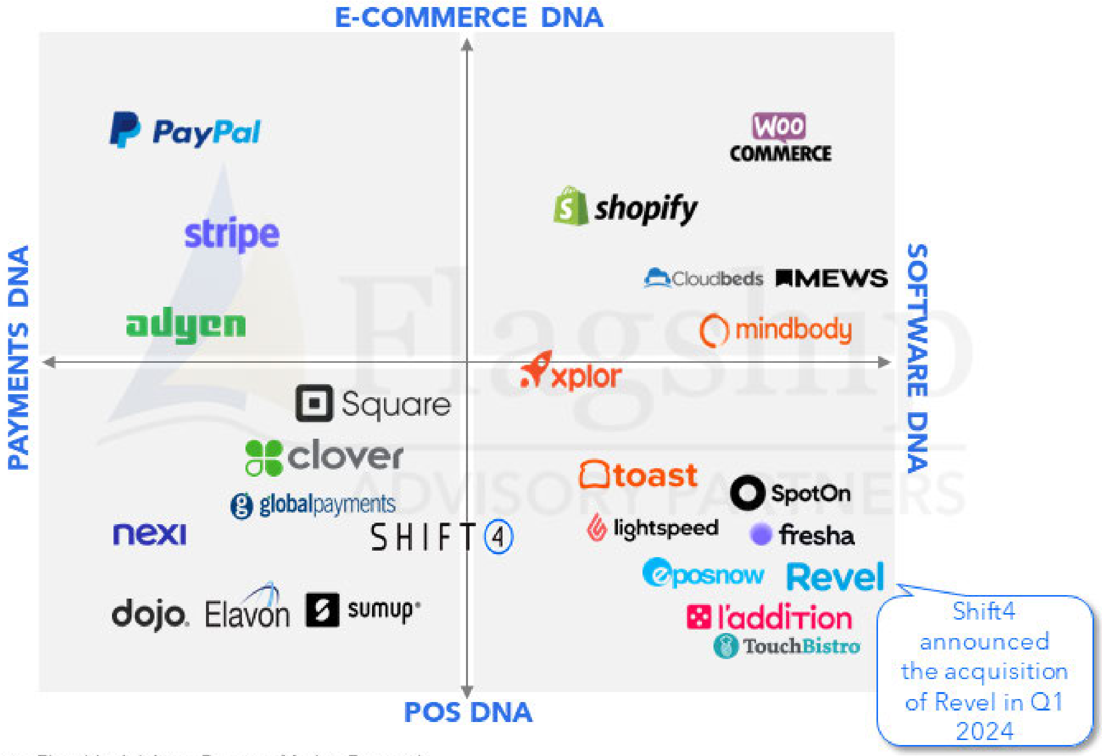
FINTECHS

Merchant acquiring has been one of the few success stories for Fintech. Even before Fintech's appeared in 2008, players like PayPal built significant global payment businesses.

Fintech's acquirers came from diverse origins and backgrounds and once volume was built expanded beyond the original niches. The foundations can be traced back to four major business areas: pure payments, ecommerce, software or point of sale.

Fintech and other non-financial players are more than half of the acquiring market revenues in Australia, yet the RBA in a disturbing decision considers many of these players exempt – what are the risks associated with these players?

Figure 1: Next-gen POS Supplier Landscape
(non-exhaustive; select players only)



Source: Flagship Advisory Partners Market Research
© Flagship Advisory Partners, May 2024

Fintech's always sought to avoid regulation using the Mark Zuckerberg/Facebook playbook. In this instance Fintech acquirers tell regulators and anyone else who listens that they have built unique 'platforms' and provide a huge range of 'services', including payments.

In Australia the RBA considers Fintech 'platforms' are exempt from regulations – so 32% of the acquiring market is unregulated.

Fintech's claim they sell lots of Value Added Services (VAS) which are not payments – however real statistics tell a different story

Major Fintech's who process payments vs VAS (value added services)

Global Revenue Numbers -

SQUARE - 79% payments revenue

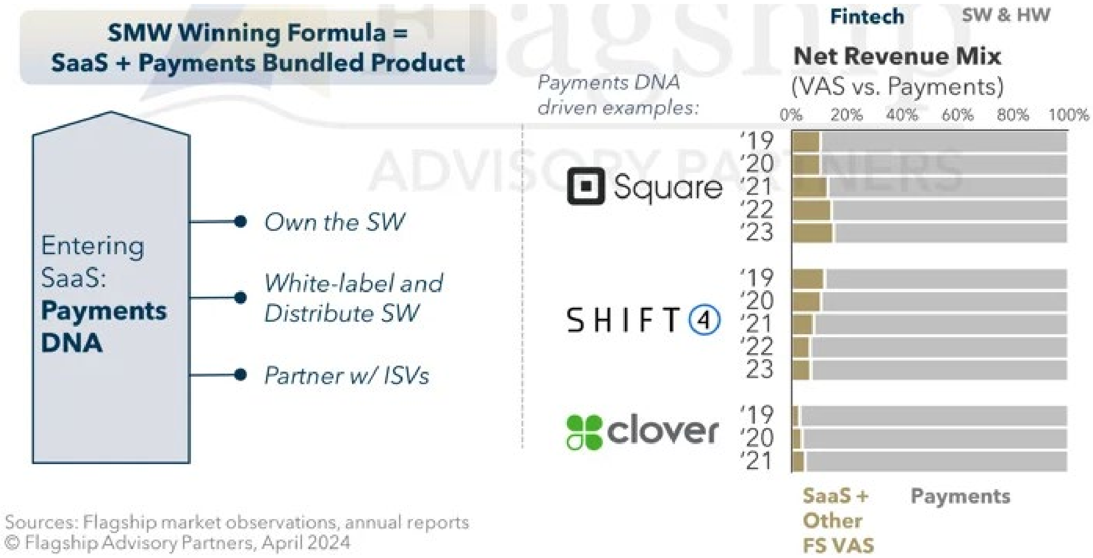
ADYEN - 78.5% payments

STRIPE - 76% payments

PAYPAL/BRAINTREE - 72.4% payments

It's yet again, the old 'duck' thing... if its looks a like a duck, swims like a duck.....'quack' 'quack', Fintech's are laughing all the way!!

Charts built on public accounts clearly show the range of payment revenue verses VAS – the key question is what risk is the RBA not managing by exempting all these Fintech's?



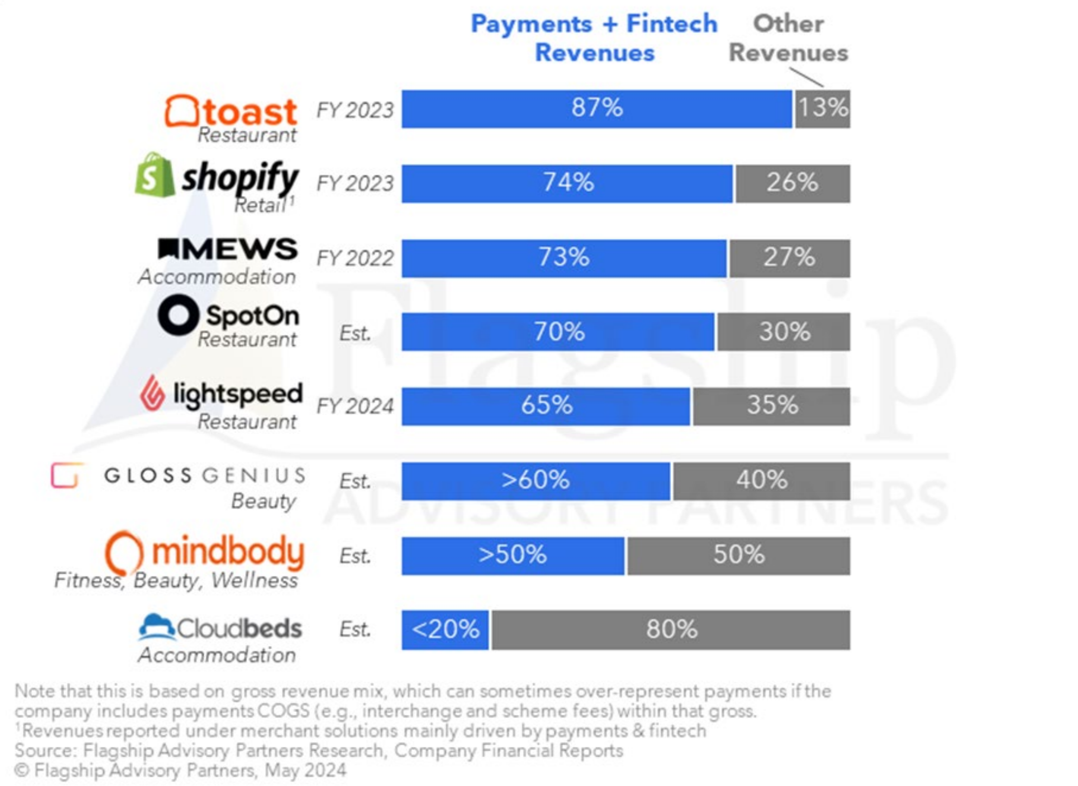
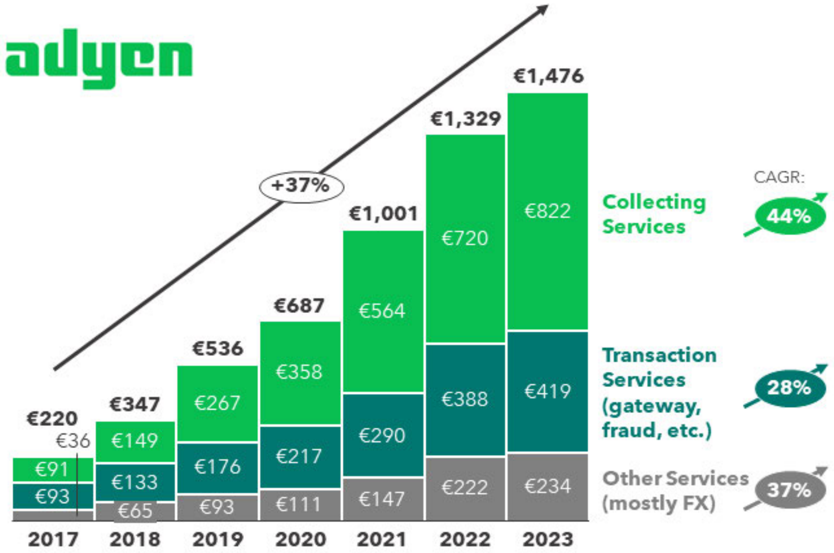


Figure 5: Gross Revenues from Fintech of Next-Gen POS SaaS (select C2B SaaS providers only; payments & fintech revenues incl. hardware)

Figure 7: Adyen Net Revenue Mix (€ in mil.)



Note: We estimate that c. 21.5% of Adyen's net revenue in 2023 comes from VAS. This includes all of Adyen's "Other Services" revenue which is mostly FX, but also issuing, and a guestimated 20% of "Transaction Services" revenue which we attribute to VAS (e.g., mostly fraud management)

Sources: Flagship market analysis, company website
© Flagship Advisory Partners, April 2024

EFTPOS – THE LOST OPPORTUNITY

The only Australian payment network *eftpos* was founded 1984 to support the new electronic payments and ATMs alongside Bankcard. The major banks co-owned the business with credit unions and several major retailers.

The strategic value of *eftpos* and indeed bankcard was dismissed by successive RBA Governors and bankers. In a world if increasing protectionism this could come back to haunt Australia.

In a series of truly stunning decisions *eftpos* was deprived of investment and quality management and allowed market share to drop from 96% in 1995 to 32% in 2023.

Banks and Credit Unions who co-own *eftpos* preferred to trash their investment in the company and issue Visa and MasterCard debit cards, which charge much higher merchant fees for exactly the same service in Australia. One of many examples - the Federal Government and Indue used the more expensive Visa debit cards instead of *eftpos* cards in a trial of social services payments to Aboriginals.

Bankcard was closed in 2006, *eftpos* lost 64% market share and BPay never for filled its potential.

The nature of these decisions needs to be understood – why did the four banks decide to 'ditch' Bankcard and become totally dependent on Visa and MasterCard?

Apart from the USA no other developed market has done this. Europe and Canada stand out as developed markets where domestic networks still thrive. Interac Canada is probably the best example – even with all the pressure and power of US banks and US card networks can exert, they been unable to destroy Interac. In fact, Interac has flourished.

The subsequent 'merger' of *eftpos* NPP and BPay was a deeply flawed strategy and has reduced competition. Also promises to the ACCC to develop an alternative to Visa and Mastercard have disappeared along with the Chairman:

"*An efficient merged entity will be better able to compete against the international card schemes who currently dominate the market. Visa and Mastercard have revenues of USD$21 and USD$15 billion[2] respectively. This compares to eftpos, BPAY Group and NPP who all have annual revenues of less than $75 million.*"

"*By bringing the three schemes under a single Board, they will be able to bring new payments solutions to market faster, continue to put pricing pressure on international card schemes and work in the best interests of Australian consumers and businesses of all sizes.*"

Chairman Robert Milliner July 7th 2021

What is the RBA and ACCCs response to this – the silence is deafening?

The global players all have strengths and weakness - Visa and MasterCard are the largest but are far from dominant. For example, Visa is weak in mainland Europe known as a debit card, both MasterCard and Visa have made no progress in China and limited progress in India.

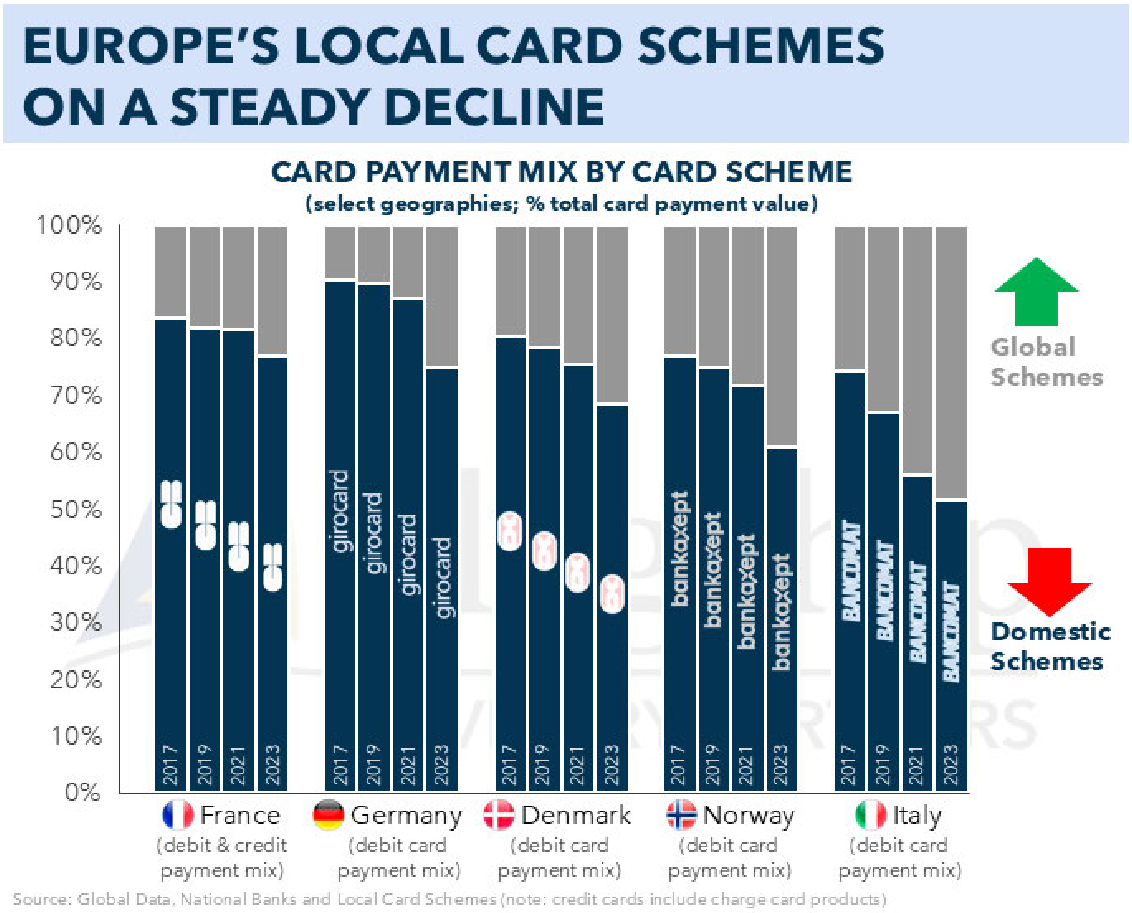
Other global payment players include American Express, Diners/Discover, JCB, Cetelem and China Union Pay. There is also a layer of local players who in many markets control 30-45% of a market – these include, domestic debit networks, retail store cards, conglomerate consumer cards and single purpose consumer offers.

Visa and Mastercard are the largest card schemes in Europe, but they are not the only ones. There are many local domestic schemes with good market share:

Cartes Bancaires in France over 70 million cards

girocard in Germany over 100 million cards, or

Dankort in Denmark over 5 million cards



China's mobile payment market is the world's largest reaching US$76 Trillion in 2023 vs Visa's $14 Trillion. China's mobile growth is staggering, from US$81 billion in 2012.

AliPay has 620 million active users and TenPay is in partnership with WeChat -- WeChat has 960 million active users 40% using payments. These two platforms share 85% of the mobile market and now threaten the government owned payment card China Union Pay. AliPay is in 32 countries and WeChat in 24. Chinese mobile payments use QR codes, this is currently not standard at point of sale globally.

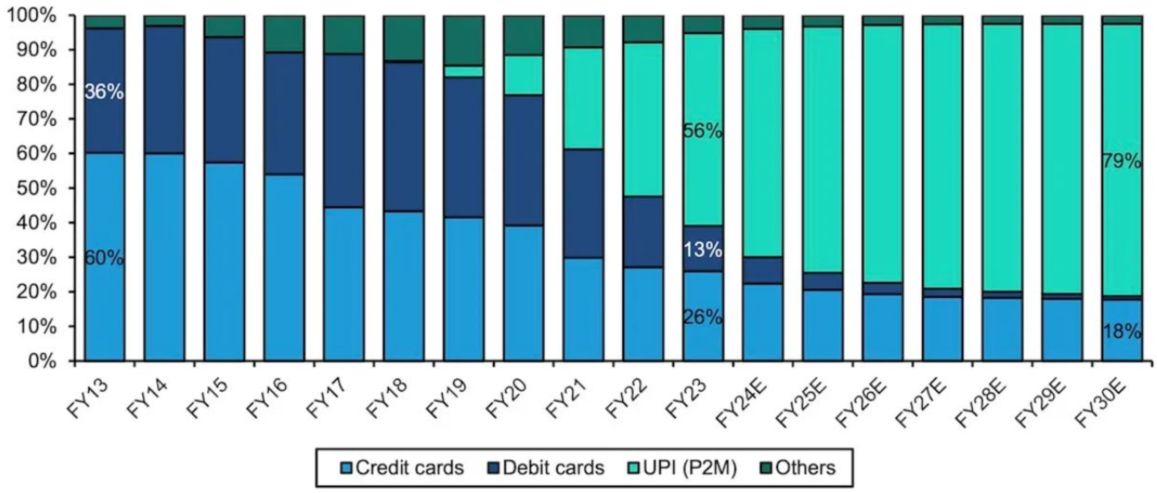
India has over 1 billion debit cards along with the digital UPI payment network is pressuring Visa and Mastercard. India has a domestic network RuPay, founded 2012, which is expanding internationally, including cross border deals with Discover/Diners, BC Card and JCB

There are 945 million active debit cards and 97.9 million credit cards

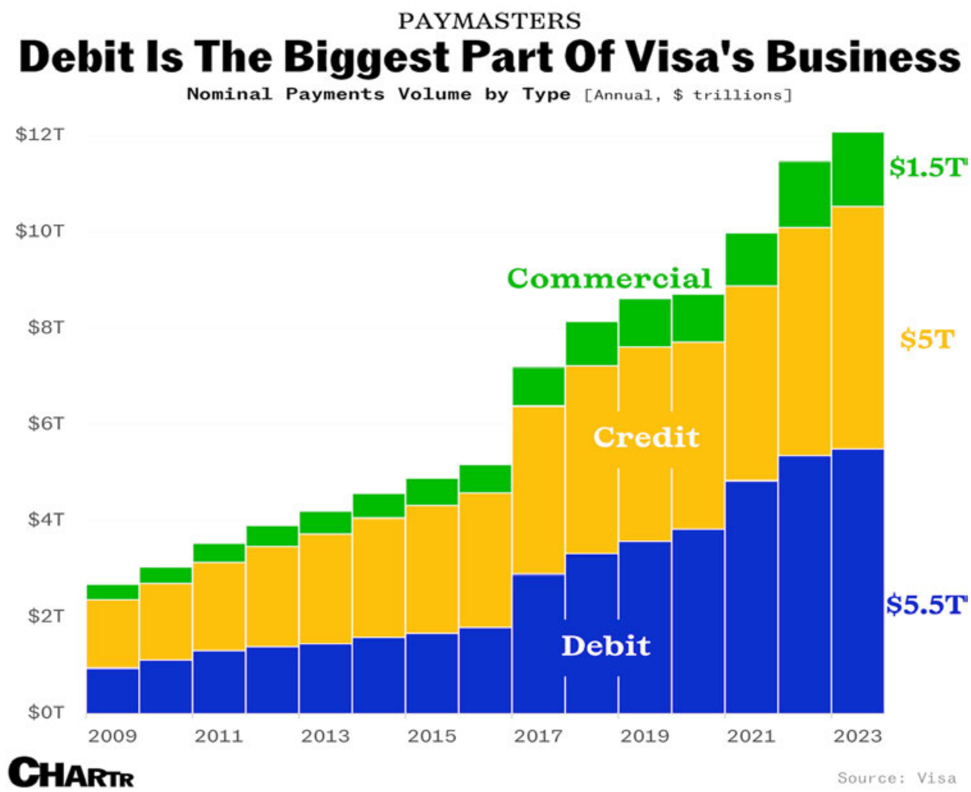
"Banks with more than 1 million outstanding cards—13 banks of 34 that issue credit cards—comprise 92% of the credit card universe. Of these 13, HDFC Bank, SBI Card, ICICI Bank and Axis Bank have nearly 70% share" ex BankBazaar India.com

Issuers of Visa and Mastercard are restricting from making 'exclusive' deals. They must also offer customers a choice of card network including the lowest cost transaction routing, starting Sept 2024.

RuPay already dominates the debit card market and now set its sights on Visa & Mastercard credit card share as this chart shows. UPI has become the dominant retail payment players in less than 5 years.



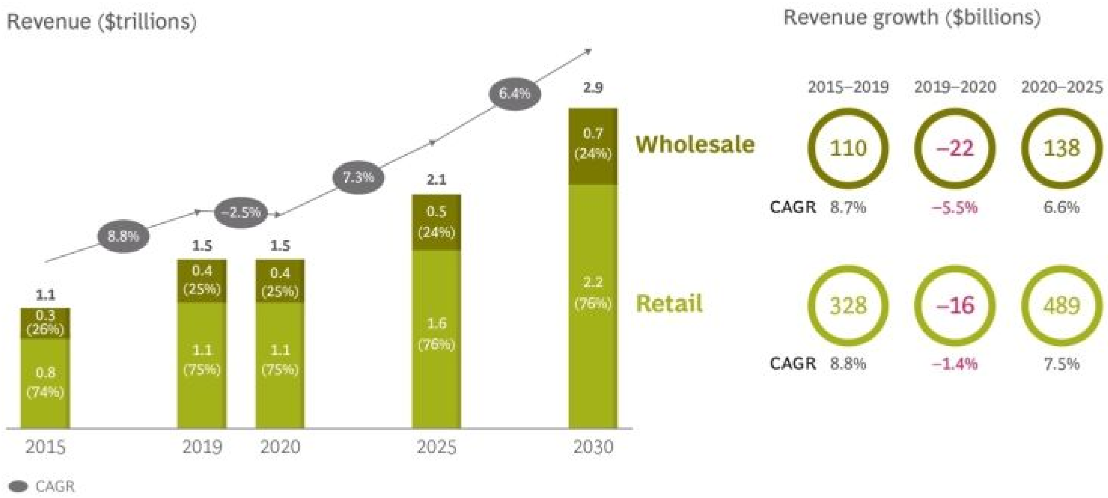
Visa and Mastercard face difficult challenges as credit cards fade while debit cards and RTPs grow. Both payment types deliver much less revenue for the associations, issuers and acquirers. This is apparent in revenue changes, note Visa revenues 2009-2023 and the rapid jump in debit card revenue, now the largest revenue source and from 2017 as Visa seeks to address its revenue issue by increasing debit fees.



APPENDIX

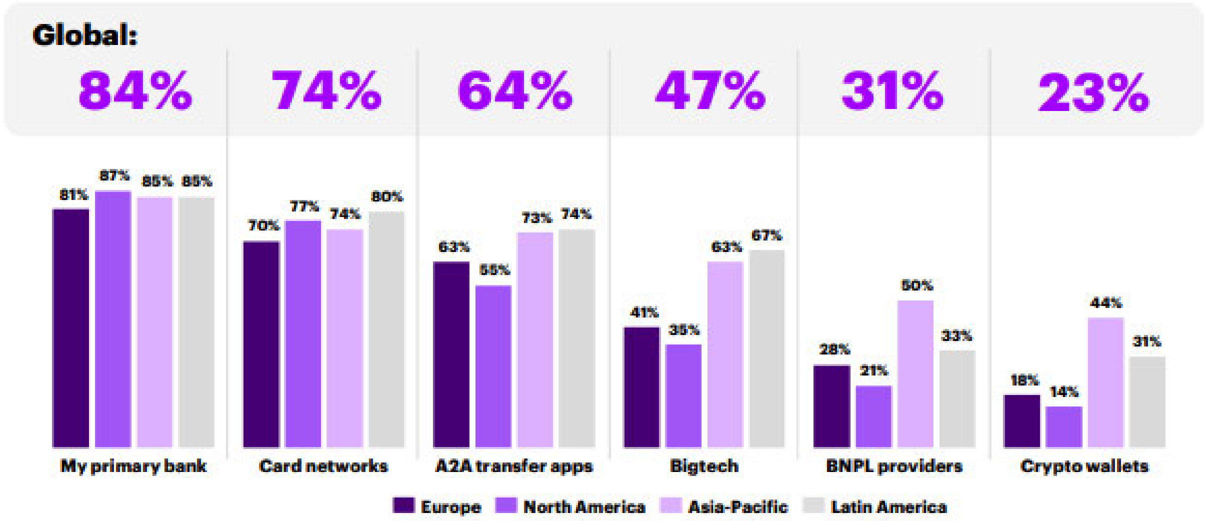
- **Charts, news clips and articles of interest on payments, success factors and key issues**

Exhibit 1 - Global Payments Revenue Is Expected to Grow to About $2.9 Trillion by 2030

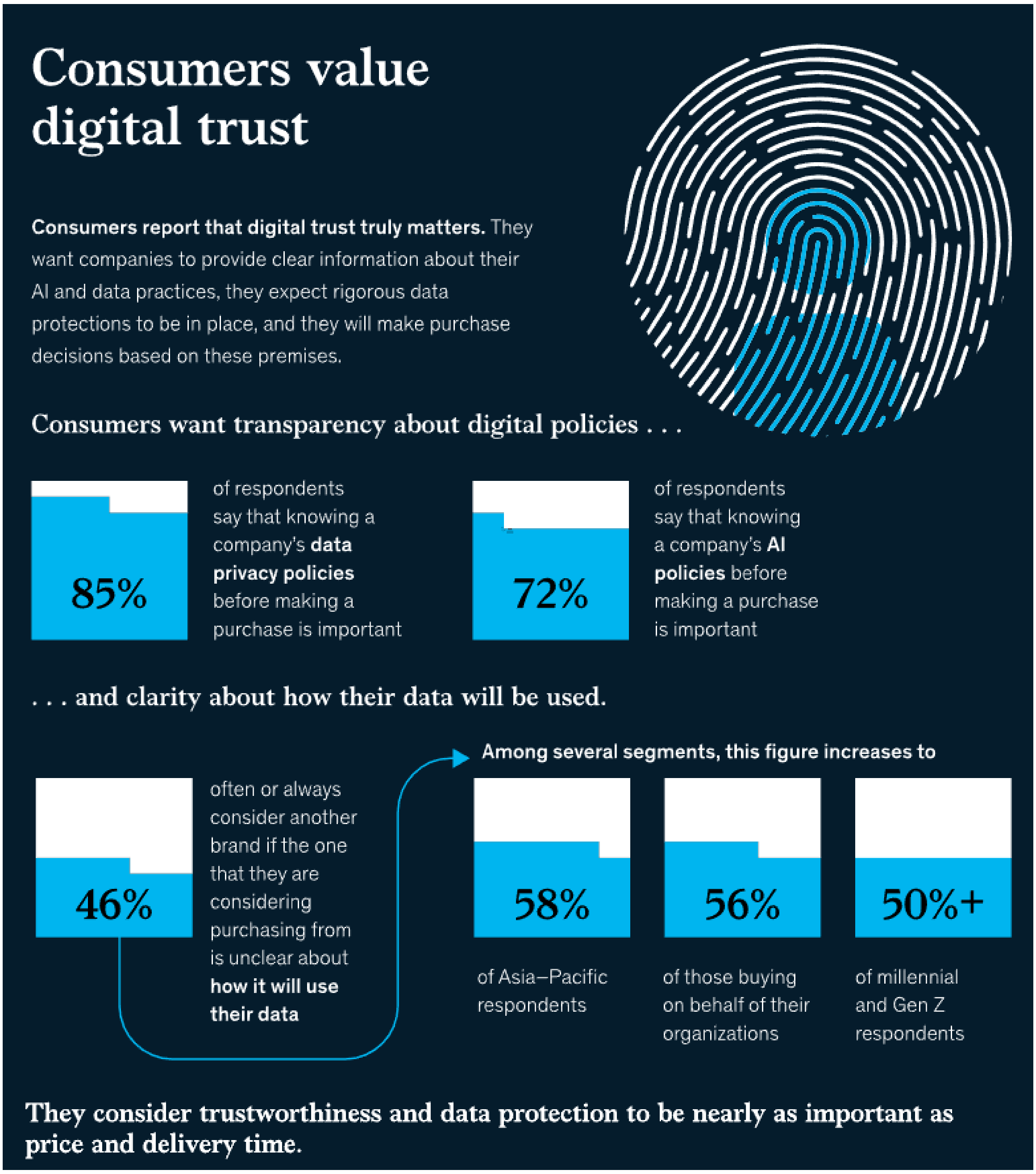


TRUST – The base pillar required in all payments

Percentage of consumers who trust organizations to provide a secure environment for payments and purchasing.



Source: Accenture Payments Survey, 2022


Consumers value digital trust
Consumers report that digital trust truly matters. They want companies to provide clear information about their AI and data practices, they expect rigorous data protections to be in place, and they will make purchase decisions based on these premises.
Consumers want transparency about digital policies . . .
85%
of respondents say that knowing a company's data privacy policies before making a purchase is important
72%
of respondents say that knowing a company's AI policies before making a purchase is important
. . . and clarity about how their data will be used.
46%
often or always consider another brand if the one that they are considering purchasing from is unclear about how it will use their data
Among several segments, this figure increases to
58%
of Asia–Pacific respondents
56%
of those buying on behalf of their organizations
50%+
of millennial and Gen Z respondents
They consider trustworthiness and data protection to be nearly as important as price and delivery time.

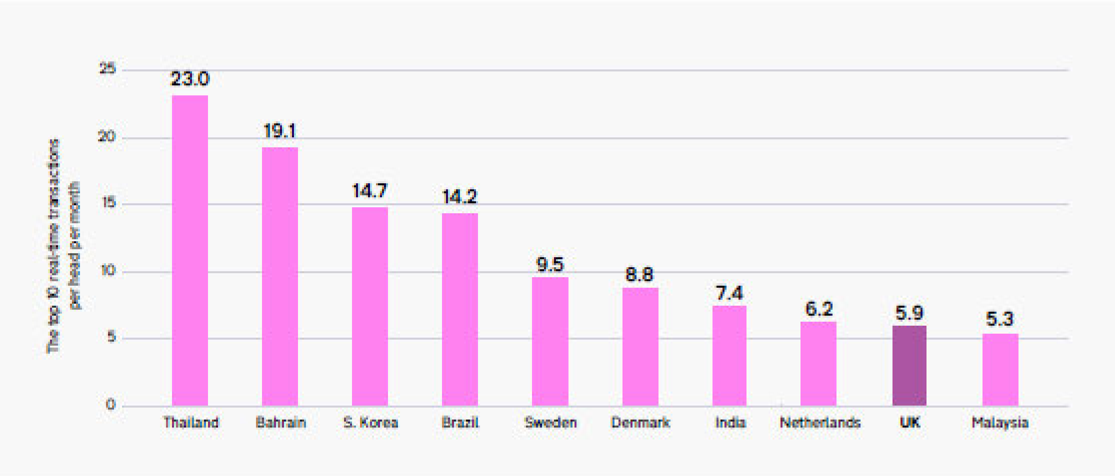
THE FORRESTER WAVE™
Merchant Payment Providers
Q1 2024

*A gray bubble or open dot indicates a nonparticipating vendor.

Source: Forrester Research, Inc. Unauthorized reproduction, citation, or distribution prohibited.

RTP's Global Top 10

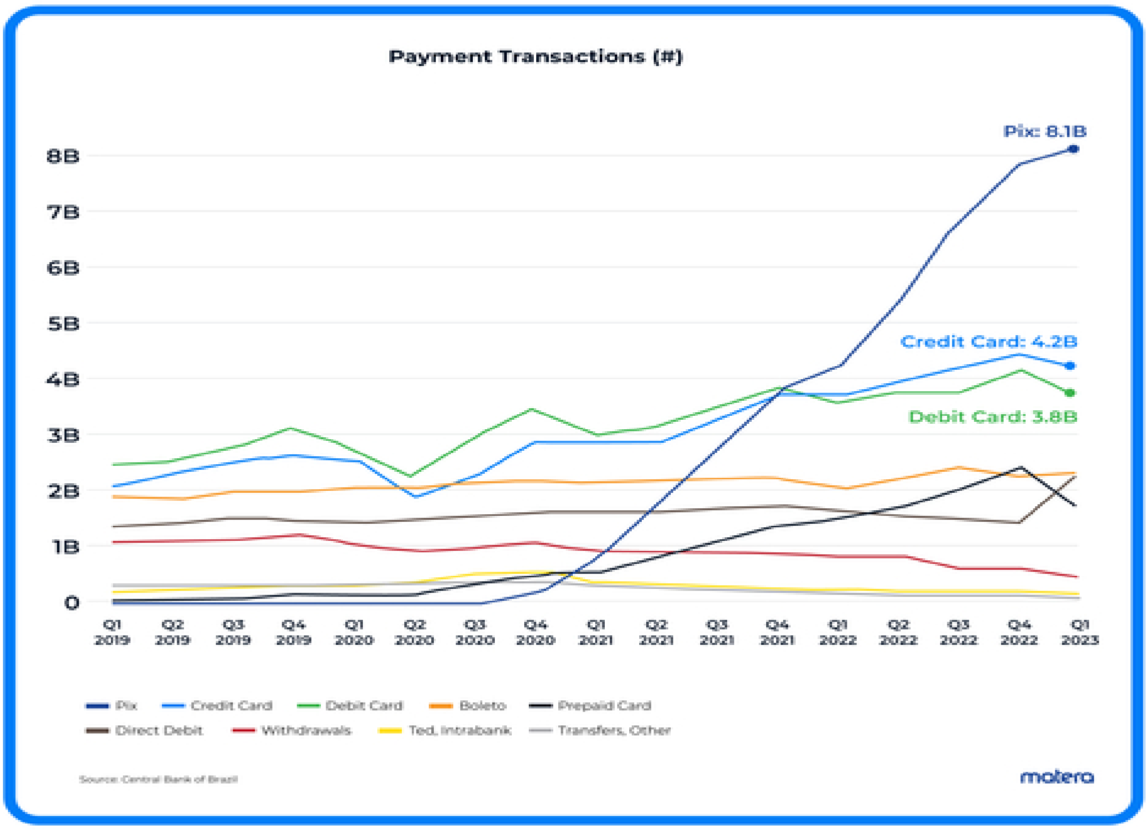
Figure 20: Real-time transactions per head per month – the top 10[91]

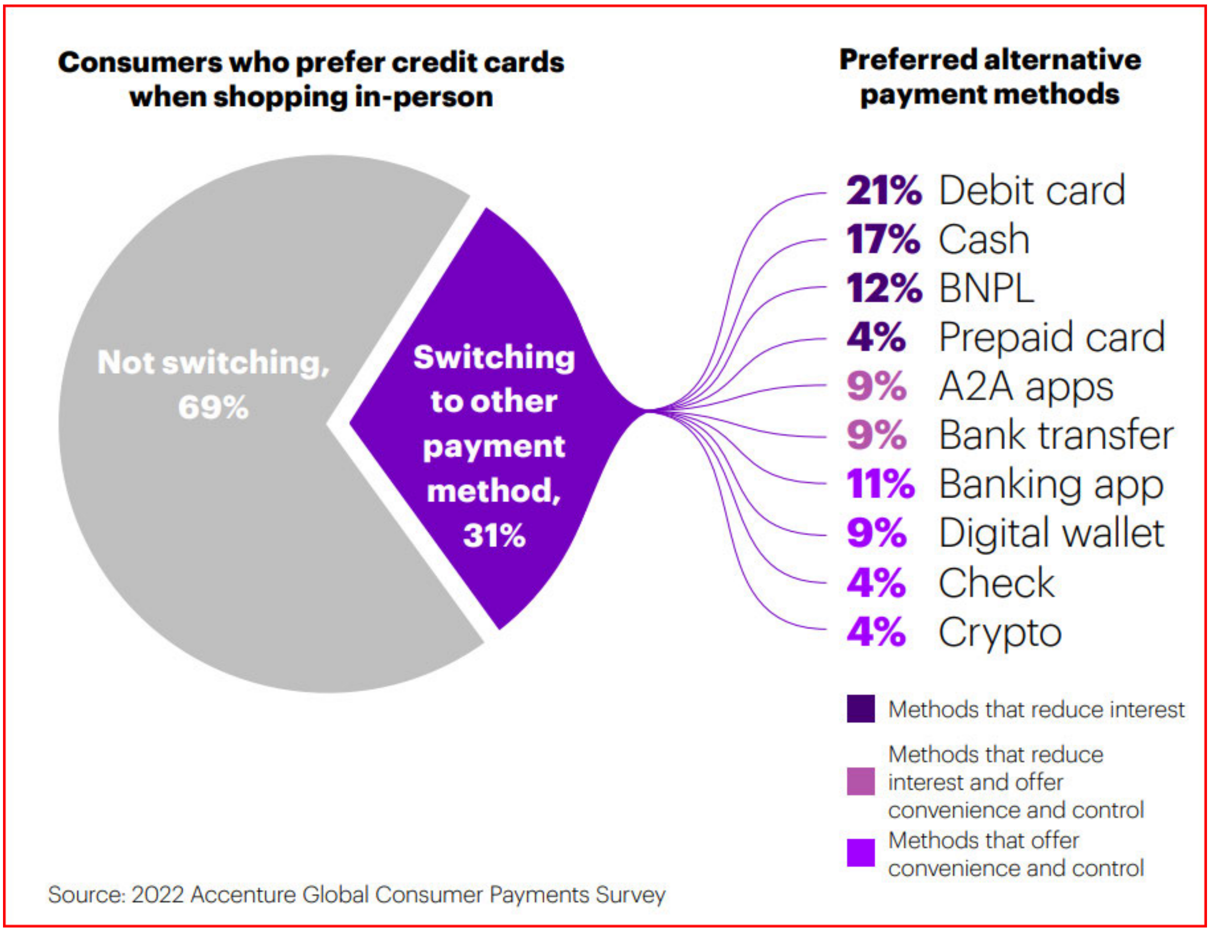


90 YouGov Research

91 ACI report: It's prime time for Real-time 2023

RTP example - Brazil impacts credit & debit cards



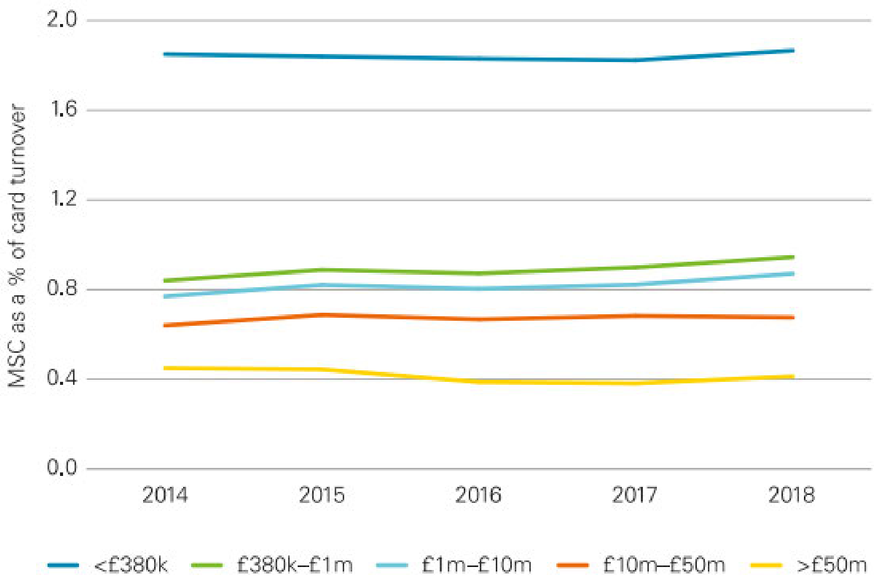


Online use by consumers – UK example

Unweighted base	**1,922**
Base	**1,922**
Debit Card	**48%**
Credit Card	**26%**
PayPal	**20%**
Buy Now Pay Later (e.g. Klarna, PayPal 'pay in 3')	**2%**
Other	**0%**
Not applicable – I have not bought anything online in the past 3 months	**4%**

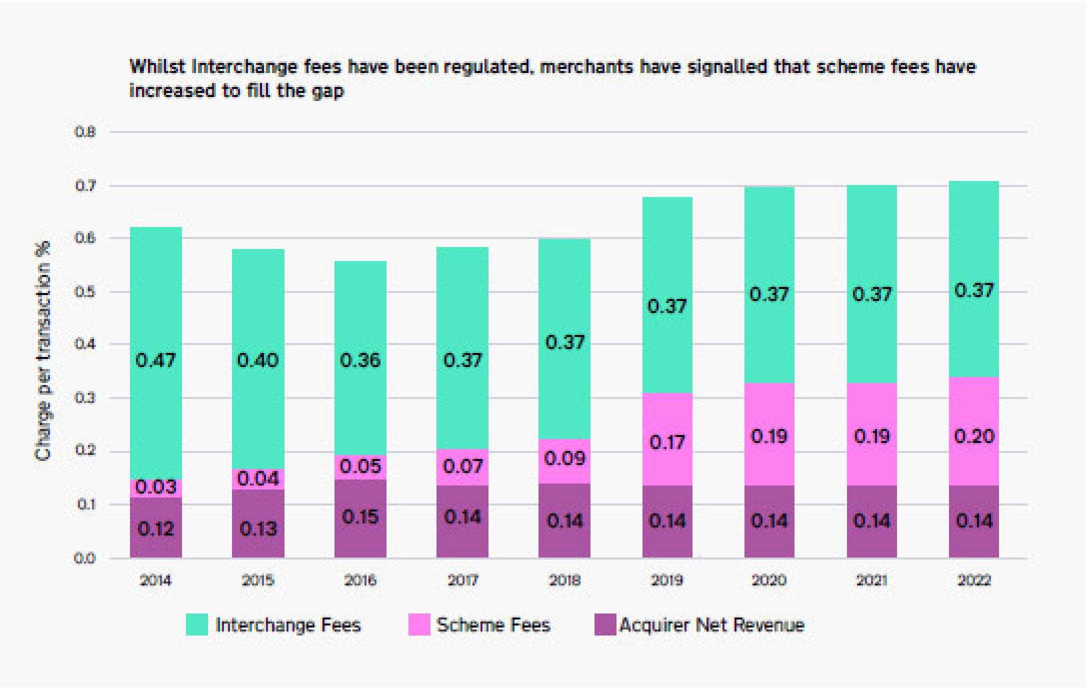
UK card interchange

Figure 10: Prices paid for card-acquiring services by merchants of different sizes



Source: PSR analysis of data provided by the five largest acquirers. The average MSC is calculated by dividing the total value of fees paid for card-acquiring services by the total value of purchase transactions.

Figure 25: Average Merchant Service Charge as a percentage of card turnover split by interchange fees, scheme fees and acquirer net revenue[110]



109 British Retail Consortium Payment Survey 2022
110 Axe the card tax coalition report: 2023

Public Financial Services Landscape By Sector

Companies	Category	# of Companies	Market Cap	% Drop	
stone, toast, cielo, shopify, 3 Verticals, lightspeed, paya, flywire, Block, evertec, cantaloupe, PagSeguro	SMB Payments	12	$97B	*55%*	Unproven Business Models
Duck Creek Technologies, Root Insurance Co, Hippo, Lemonade, Metromile, doma, Clover Health, oscar, bright Health	InsurTech	9	$6B	*49%*	Unproven Business Models
nu, Remitly, SoFi, Block, WU, Upstart, affirm, MoneyGram, Wise, Dave, MoneyLion	Consumer Finance	14	$189B	*42%*	Unproven Business Models
Robinhood, charles schwab, Envestnet, coinbase, AssetMark, InteractiveBrokers, LPL Financial	Asset. Mgmt. & Brokerage	7	$190B	*27%*	Premium Business Models: NIM + Payments (non-SMB) + Software
fiserv, global payments, FIS, ACI, EVO, Shift4, adyen, VISA, mastercard, d·local, PayPal, nuvei, Paysafe:	Enterprise Payments Infra.	13	$953B	*23%*	Premium Business Models: NIM + Payments (non-SMB) + Software
wex, coupa, Payoneer, intuit, avidxchange, bill.com, FLEETCOR	B2B Payments	7	$155B	*23%*	Premium Business Models: NIM + Payments (non-SMB) + Software
JPMorgan Chase & Co., Wells Fargo, ICBC, Erste Group, Bank of America, citi, SCB, BNP Paribas	Incumbent Banks	1,792	$7,156B	*19%*	Premium Business Models: NIM + Payments (non-SMB) + Software
Ping An, AIA, China Life, Allianz, MarshMcLennan, AON, Progressive	Legacy Insurance	668	$2,406B	*19%*	Premium Business Models: NIM + Payments (non-SMB) + Software
Alkami, jack henry, blend, Q2, green dot, meridianlink, ncino, Paycor, Paychex, ADP, Marqeta	Banking Software	11	$171B	*7%*	Premium Business Models: NIM + Payments (non-SMB) + Software
Total		**2,533**	**$11,323**	*20%*	

Source: Capital IQ, Coatue opinion and analysis as of Oct-22. Note: "% Drop" represents total market cap change in each category since NASDAQ peak in Mar-22. For illustrative purposes only and does not constitute investment advice.

KPMG FINTECH PAYMENTS DIRECTORY – 143 Players

Payments (1/3)

1Receipt	A2B Australia	ADVAM	Adyen	Airpass
Airwallex	Alpha Fintech	Anonyome Labs	Archa	Arkava
Ashop	Azupay	Bano Financial	Beam	BestExchangeRates
BidFin	Bleu	Blockbid	Blueshyft	BPAY
BZPay	Capital Guardians	Cardtronics	Cashrewards	Change Financial
ChargeDesk	CheckVault	Clever	Corum Group	Cuscal
digi.cash	Digital Mobile Money	DiviPay	DueToday	Easy Bill Pay
EFTlab	Eftpos	EFTsure	EML	Employment Hero
Enjoyabill	EonX	eWAY	Ezidebit	Ezswitch
Ezypay	Fat Zebra	Finteqa	Flash FX	Flexischools
Flo2Cash	Fluxpower	Foreign Exchange Central	Gobbill	Gpayments

Payments (2/3)

grapple	Hellozai	Hey You	HiveEx	INAMO
IncentiaPay	Indue	InLoop	Innovative Online Debt Management	InstaReM
iSentric	Lantern Pay	Latpay	Lifepay	Linkly
Littlepay	Live capital	Liven	Living Room of Satoshi	LOKE Digital
Marketboomer	Mint Payments	Mobile Embrace	MoneyBuddy	Moneytech
Monoova	mx51	NexPay	Nextround	Novatti Group
OFX	OneTick Technology	OpenSparkz	Ordermentum	Osko
Ozedi	Payapps	Paydock	PayHero	Paymate
PayNinja	Paypa Plane	Paypont	Payreq	Payright
PayVu	Pelikin	Peppermint Innovation	Plastiq.it	PokitPal
ProjectPAY	Promis	Qpay	Quest Payment Systems	Receipt Reliance

Payments (3/3)

Revex	RoyalPay	Sempo	Send	SimplePay
Skip	Sniip	Spriggy	SQID Payments	Surefire Systems
Surgical Partners	Tapp	Task Software	The Currency Shop	TidyHQ
Till payments	Topme	Tyro Payments	Verrency	WAIV
Wrkr	YourShare	Zeller	Zepto	Zii
Ziksu				

THE PAST DECADE TRANSFORMED PAYMENTS, BUT WAIT FOR THE NEXT 10 YEARS

March 13, 2024

***RETAIL BANKER INTERNATIONAL** By* **Hans Morris**, *Nyca Partners*

Almost exactly 10 years ago, we at Nyca Partners wrote a note announcing our formation, which was interesting to reread as we looked back at our predictions from a decade ago. Here's one section from our March 2014 memo:

Most of us can see that technology holds the promise to transform the way financial services are provided to individuals and businesses. Technology has improved financial services, but not *transformed* how we make payments, borrow, lend, and manage our investments. But the simultaneous availability of new data sets, ubiquitous smart phones, cloud computing, and even digital currency protocols fundamentally change how financial processes could be organized.

This prompted me to think about how much, in fact, has changed over the past 10 years. I concluded that while significant changes have occurred since 2014, specifically in payments, *many* problems remain to be fixed. Our current prediction, however, is that much of the infrastructure is in place today for the next decade to be transformational. Are banks ready for this?

To set the stage, let's paint a picture of the payments world in 2014 versus today:

- **Retail payments:**
  - In 2014, point-of-sale (POS) systems throughout the United States (and most of the world) were either Ingenico, Verifone or similar "brick" terminals. Stripe, Braintree (acquired by PayPal) and Square were only a few years old, so most merchants had to undergo a long onboarding process before accepting payments. Smart terminals and NFC (near field communication) tap-and-pay systems were rare, and virtually no retailers had integrated their POS systems into their ecommerce systems. At the time, ecommerce comprised 6 percent of US retail volume and was even lower globally.
  - In 2024, 90 percent of new POS systems are "smart" terminals, many with customized software for different industry verticals. And the retailer now either has *payments embedded* into its operating system (e.g., Toast), or the *payment system has effectively become its operating system* (e.g., Square, used by more than two million retailers). Vertical software systems and payment facilitators (Payfacs) have replaced independent sales organizations (ISOs) as the primary merchant-processing distribution systems. Onboarding now takes minutes for new merchants, and the lower onboarding friction and the explosion of smart terminals have greatly expanded the universe of potential users; micro merchants that were unacceptable risks or unprofitable to merchant processors now have instant global payment access. Verifone and Ingenico's combined share of the POS market fell from 58

percent in 2009 to 18 percent in 2021. And ecommerce now makes up 15 percent of total sales.

- **P2P payments:**

  - In 2014, P2P (peer-to-peer) payments existed, but volumes were tiny. Venmo—which had just been acquired by PayPal in 2013—had a payment volume of $2.3 billion in 2014. Cash App (then called Square Cash) was launched in late 2013, but the initial version was a bust. Visa Direct and Mastercard Send were both introduced in 2015, and Zelle was launched in 2017.
  - In 2022, 69 percent of US consumers used P2P payments. This included 57 percent of US adults using PayPal, 38 percent Venmo, 36 percent Zelle and 26 percent Cash App. In 2022, Venmo's volume was $244 billion, and Zelle's was $490 billion. Visa announced Visa+ in April 2023, enabling cross-network P2P transactions for the first time at scale.

- **B2B payments:**

  - Business payments used decades-old infrastructure in 2014, and both small and large businesses relied on inflexible, primarily paper-based systems. Virtual credit cards (VCCs), a one-time card number a business can use to pay an invoice, were still in their infancy, and ACH (automated clearing house) and SWIFT (Society for Worldwide Interbank Financial Telecommunication) allowed counterparties to swap only a limited amount of information, which meant that manual reconciliation was typically required. Different systems managed accounts payable (AP) and accounts receivable (AR). Corporate-card systems were decades old, required long lead times for onboarding and were matched with heavy expense-management systems for corporate users. In 2014, other than Fedwire (only available to members of the Federal Reserve System), there were no real-time payment (RTP) systems in the US. There were only 12 such systems globally, of which the Faster Payments Service (FPS) in the United Kingdom was the largest (launched in 2008). Transactions would take days (or longer) to complete.
  - In 2024, new platforms (e.g., Bill.com, AvidXchange, Payoneer, Brex, Ramp, Flywire) automate AP, AR, VCC issuance, marketplace payouts and cross-border payments. Data-enriched standards, such as Enhanced ACH and SWIFT 20022, are live, providing essential context for B2B payments. More than 50 countries have real-time payment systems, including every major economy. In the US, same-day ACH went live in 2016, The Clearing House RTP system launched at the end of 2017, and FedNow commenced in July 2023. While payment infrastructures are in place, volumes remain small, partly because *business* infrastructures aren't ready to manage real-time payments. There is still a long way to go; MasterCard has estimated that $20 trillion of payments are left to process digitally.

- **Open banking:**

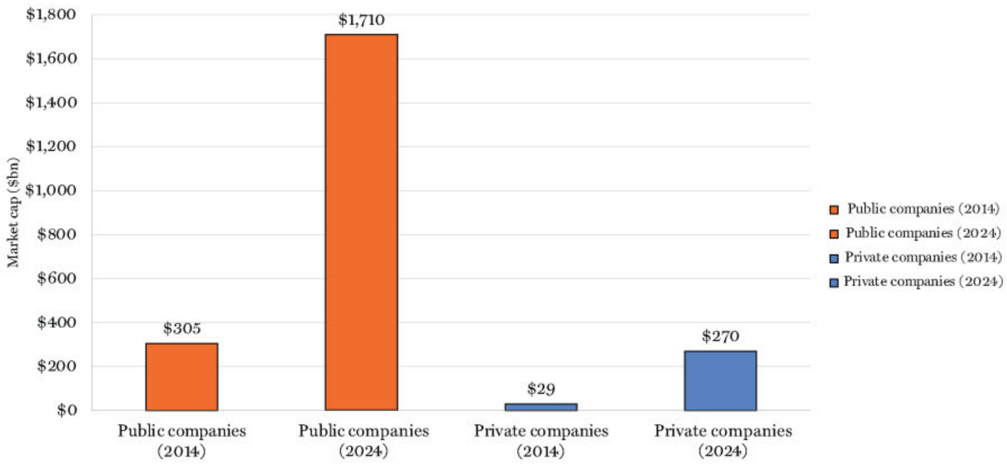
- In 2014, Plaid was one year old, and the European Union (EU) was still a year away from publishing its PSD2 (Revised Payment Services Directive), which did not take effect until 2018. While it was possible to initiate transfers digitally, doing so usually required manually entering account and routing numbers via an online form.
- Open banking is now ubiquitous and has changed the financial services landscape. Twelve thousand fintechs (financial-technology firms) use Plaid, and PSD2 has forced European banks to make customer data available in a standardized format. Account-holders find it much easier to transfer funds between different institutions. This was especially evident following the collapse of SVB (Silicon Valley Bank), with estimates suggesting the deposit beta of primarily digital banks was 40 percent *lower* than that of primarily brick-and-mortar banks. Section 1033 of the Dodd-Frank Act (Dodd-Frank Wall Street Reform and Consumer Protection Act) required that the CFPB (Consumer Financial Protection Bureau) create standards for US open banking; 13 years after its enactment, the CFPB recently released its proposal. While market forces have already made much of this new rulemaking a reality, standards for access should accelerate open banking even further in the US.

- **Transformation of payments in emerging markets:**

  - Mobile-money schemes in emerging markets were well on their way to mass adoption in several markets, even in 2014. More than 78 million Chinese consumers and businesses adopted Alipay and WeChat wallets in 2014; the volume was $97 billion. More than 90 percent of the Kenyan population used M-Pesa, the mobile-money service with a national network of agents that had launched in 2007. Yet many of the "faster payments" solutions in other markets had not yet been initiated, including India's UPI (Unified Payments Interface) (2016) and Brazil's Pix (2020), and wallet schemes in other countries were nascent.
  - Payments in emerging markets are dramatically faster and far more digital today than in 2014. Non-bank digital payments in China exceeded $40 *trillion* in transaction volume in 2022. Pix in Brazil is just three years old but already accounts for 30 percent of Brazil's electronic payments; remarkably, Mastercard has estimated that it has reduced the number of unbanked Brazilians by 73 percent. Across the world, the explosion of mobile wallets has enabled merchants to drive greater loyalty and created opportunities for new sorts of payments companies. In Southeast Asia, for instance, the mix of QR (quick response) code payment methods, prepaid digital cards and digital coupons has led to companies, such as Nyca's portfolio company PortOne (formerly known as Chai), that enable merchants to accept a wide range of payment methods and facilitate cross-border transactions. And this hasn't happened only in emerging markets; several advanced economies (e.g., Sweden, Finland, the UK, South Korea and the US) are more than 75 percent non-cash as a percentage of all transactions. What's next?

This represents an *extraordinary* amount of change in 10 years, but many things *didn't* change. Despite the hype and billions in investment, cryptocurrency is not used in payments in any material way outside the crypto ecosystem. And while BNPL's (buy now, pay later) annual volume is above $70 billion, it accounts for only 0.7 percent of ecommerce sales. The large incumbents, Visa and Mastercard, have become even more dominant.

Figure 1: Market Cap of Payments Companies, 2014 vs. 2024



Note: Nyca estimates based on data from CB Insights and public market data as of 1/24/24.

- Given the changes in underlying infrastructures and digital tools developed over the *past* decade, we believe the transformation in payments will be profound over the *next* decade. Here are five observations on the likely future of the payments ecosystem:

1. *Real-time payments will be ubiquitous, with many settlement options, transforming working capital but adding complexity.* The world of payment options will become much more diverse and difficult to navigate, with every country having at least one real-time system, and merchants, consumers and businesses will have many settlement alternatives for B2B, POS, ecommerce and bill pay. These already exist, but their use will explode and include innovations in push debit, P2P, A2A (account-to-account), wallets and "on-us" accounts sitting in marketplaces, *regulated* stablecoins, central bank digital currencies (CBDCs) and digital drafts (or payment "tokens"). Merchants and consumers will need tools to manage and mitigate this complexity, especially tools to optimize for risk, cost and speed of settlement. This trend will lead to greater downward pressure on interchange fees and more personalized digital rewards and incentives to drive consumer and business preferences.
2. *Business infrastructure must adapt to this new environment.* We expect all business payments to become digital over the next 10 years, reaching $25 trillion in annual volume in the US. As part of this shift, the walls between enterprise resource planning (ERP) tools, accounting systems and payments will come down, allowing enterprises to sync ERP tools (the source of truth for business operations) with real-

time cash positions. Businesses and marketplaces will also need to more effectively and securely manage the high volumes of transactions that are pending final settlement, as well as the large customer balances awaiting reconciliation.
3. *Risk systems must adapt to a real-time world with fragmented payment systems and sophisticated, continuously evolving fraud.* Current risk systems are inadequate for an ecosystem with much faster payments and potentially dozens of alternative settlement options. This speed, combined with the fragmentation of systems and rules, will benefit fraudsters, which may include state actors. AI (artificial intelligence) and quantum computing will add to the power and sophistication of these criminals. Businesses, retailers and financial-services companies will all need more sophisticated technology and, in some cases, fundamentally new approaches to establishing identity, monitoring business behavior and providing real-time transaction analysis.
4.Embedded payments will be everywhere. Virtually every industry vertical is adopting new SaaS (software as a service) systems to replace its core infrastructure, creating opportunities for software platforms to embed payments that are integrated into this core. Advances will continue in areas of what we call contextual credit, enabling more accurate and quicker credit decisions. Vertical software platforms will transform into financial operating systems, becoming hubs for various B2B payments. This will also enable B2B to be smarter, with "programmable money" automating many processes using real-time operating data.

*5.TAM (total addressable market) will continue to expand as more countries and specialized payments rails turn digita*l. Many segments remain paper-based and are hard to change (e.g., the US healthcare system), as are many countries (even rich countries such as Japan) with low digital penetration. Many other areas haven't been impacted by the digital revolution but are ready to embrace the future. As just one example, Nyca's portfolio company Forage enables online merchants to accept EBT (electronic benefit transfer) cards, allowing SNAP (Supplemental Nutrition Assistance Program, formerly Food Stamps) recipients to make purchases online.

How much value might be created? If we consider that the market capitalization of payments companies increased by more than $1.5 trillion over the past decade, we think a lot. Stay tuned.

ABOUT THE AUTHOR

Hans Morris is Managing Partner of Nyca Partners, a fintech VC firm in New York and San Francisco, founded in 2014. He is the Chairman of LendingClub's board and a board member of several private companies, including SigFig, Thought Machine, Fidel, SentiLink, Gr4vy and Necto. Previously, he was a Managing Director of General Atlantic, President of Visa Inc and also worked at Citigroup in several operating and management roles.

UK payment sector urged to develop system to bypass dominant card networks

Government-commissioned review also calls for alternative to ‘clunky’ Faster Payment Service

FINANCIAL TIMES Akila Quinio in London Nov 23rd 2023

The UK should develop ways to challenge the dominance of the big card networks and is “at risk of falling behind” other countries unless it builds an alternative to its “clunky” Faster Payment Service, according to a government-commissioned review into the competitiveness of the sector.

The report, led by former Nationwide chief executive Joe Garner, called on the payment sector to use open banking technology to create new routes between customers’ bank accounts and retailers that would bypass card intermediaries to challenge the dominance of the Visa and Mastercard networks.

“When we talk and listen to merchants and retailers, they say things like, we feel trapped because we have to take card payments,” said Garner, adding that giving retailers the option to charge without using a card network would create a “healthier” market, especially as the use of cash was falling.

The findings, which were published on Wednesday alongside the chancellor’s Autumn Statement, come as card networks are facing a probe by the UK Payment Systems Regulator into cross-border interchange fees. Mastercard and Visa together accounted for 99 per cent of all debit and credit card payments in the UK in 2021, according to the watchdog.

Garner’s report recommends creating a similar consumer protection mechanism for open banking to the card networks’ so-called chargeback system, which allows a customer to claim a refund via their card issuer if they did not receive a good or service.

The report also urged the payment sector to use open banking technology to bypass the traditional method of transferring money, which requires customers to enter sort codes and account numbers, mirroring initiatives in Brazil, Sweden and India.

The report said the widely used Faster Payment Service in the UK takes between 70 and 80 seconds on average to process a transaction. Alternative methods in Brazil, India and Sweden, which bypass the need for sort codes and account numbers, allow users to send money in under 30 seconds.

"The UK is kind of OK today [at account-to-account payments] but if we don't innovate, we will start to fall behind," said Garner.

He described the push by big tech companies into the sector as a potential "inflection point" that made the need for a national payments strategy even more urgent.

The use of digital wallets, including Google Pay and Apple Pay, has grown rapidly, accounting for 10 per cent of UK retail payments. Open banking technology, which Apple is experimenting with, would allow digital wallets to display account balances and risk making some customer interactions with their bank "obsolete", the report said.

In separate statements, Visa and Mastercard welcomed the recommendations and said they supported innovation and would work with the government. PayUK, which operates the Faster Payment Service, also welcomed the review, adding that innovation in digital payments was "vital for businesses and consumers" and that it was developing a new payment architecture for that reason.

Big Aussie banks warn Square they're ready for the challenge

AFR Paul Smith Feb 4th 2014

Australia's biggest banks have warned United States payments player Square that it will face a big task in cracking open the local market for card transactions, saying ongoing innovation and upcoming new products would make them more than a match for Twitter co-founder Jack Dorsey's company.

News of Square's upcoming assault on the local payments market broke last week, and led some to suggest it would loosen the grips of the major banks on the lucrative small business payments market.

Square offers businesses a gadget to attach to smartphones and tablets, which allows them to cheaply and easily accept credit card payments, making its money on transaction fees. It has been hugely successful in the US and has expanded to Canada and Japan.

National Australia Bank's executive general manager of customer payments and processing, Stephen White said the bank's personal banking division would be bringing out its own mobile point of sale product this year, which would compete with Square. He also warned that local market requirements for encrypted chips on credit cards could make it difficult for new players.

"There is an increasing preference in Australia to use chips in the cards rather than magnetic stripes and I don't think Square can handle that at the minute," Mr White said.

"There are some aspects to being the first in the market, but if you don't know the market all that well, or you aren't the best in the market, then the shine can wear off pretty quickly … we have got a pretty long history with our people and we think we are going to be taking the right steps in that direction."

Westpac Institutional Bank's head of innovation and implementation of global transactional services, Mike Baldwin, said his bank had fresh options of its own that would be unveiled this year. He said Square's eventual arrival would not catch them unprepared. "We are absolutely prepared in the mobile payment space. It didn't surprise us, as we expected them to announce that they were coming to Australia at some stage," he said.

"We keep up with what is going in the US, and the compliance regime there is not quite as strict as it is in Australia. I suspect that is part of what has prevented them so far. I haven't seen anything that is a Europay, MasterCard and Visa-compliant solution from Square, so it will be interesting to see how they manage that in the Australian landscape."

EMV requirements relating to the chips in cards will be mandatory in Australia from next year.

NAB's Stephen White, said work on the NAB Flik smartphone payments app had already showed the bank was innovating in payments, and he felt there was nothing to be feared from Square's local entry. "NAB's small business team will bring out a number of mobile point-of-sale items to the market this year. We have done a lot already," Mr White said.

"What I would say is that we will see more and more innovation but competition for NAB is a good thing because it ensures we are working with our customers and understand their business . . . we will obviously continue to watch new entrants with interest."

Commonwealth Bank of Australia has spent the past few years positioning itself as the tech leader in the financial services sector, pinned largely to its completion of its ambitious core systems modernisation program. It has already approached the business point-of-sale market, which Square is targeting, launching a system for retailers known as Pi, which uses a seven-inch tablet point-of-sale terminal called Albert.

CBA spokeswoman Siobhan Quinn said the bank was well positioned to take on any new - competition, as it was already dealing with customers that demanded new solutions.

She said the bank would continue to seek out new payments solutions and would look to make things faster and cheaper, while providing information rich, value added, services that traditional and new potential disrupters can't.

"Payments technology, processing and information analytics are thriving in Australia due to increased competition and our direct investments in new capacities – which is really exciting for business and ultimately great news for customers," Ms Quinn said. "The launch of our NFC-enabled CommBank app and PayTag, plus the continued expansion of real-time solutions for merchants, with Pi, Albert and Leo, are revolutionising the point-of-sale experience and cementing the bank as a leader in payments technology for consumers, businesses and peer-to-peer."

"Our customers are demanding more secure, hassle-free solutions in real time; they want to be able to complete any kind of payments anywhere, at any time and on any device.

A number of payments start-ups are viewing the RBA's upcoming New Payments Platform, which goes live in 2016, as an indication that the Australian market for nimble players will open up.

A spokeswoman for ANZ Banking Group, meanwhile, said the bank would simply look to expand its existing array of mobile payments options to counter any threat posed by newcomers like Square.

“ANZ FastPay has been very popular with customers, and we are working on making it even easier for customers to accept card payments using their own mobile devices,” she said.

Late last year ASX-listed Mint Wireless said it was in talks with three of the four big banks to launch a Square-like smartphone accessory that allows small businesses to accept credit-card payments.