

14 July 2023

Head of Payments Policy Department
Reserve Bank of Australia
GPO Box 3947
Sydney NSW 2001

Via email: pysubmissions@rba.gov.au

Dear Head of Payments Policy Department,

Issues Paper – The Australian Debit Card Market: Default Setting and Tokenisation, June 2023

Coles Group Limited (**Coles**) welcomes the opportunity to respond to *The Australian Debit Card Market: Default Setting and Tokenisation*, issues paper dated June 2023 (the **Paper**). Coles is a national food and drinks retailer which also provides financial services to our customers. Coles sees approximately 20 million customers on average each week through our store network and online platform. Coles also operates as an acquirer with our own payments switch to process customer card transactions including for a number of non-Coles retailers. Coles holds direct scheme memberships with eftpos, Mastercard and Visa.

Given the unique nature of our business, we have sought to provide our comments in the context of Coles as an acquirer, whilst leveraging our experience as a retailer. In this role, we are a regular participant in industry groups and forums, such as the Australian Payments Network and the Australian Retailers Association while also being a shareholder in Australian Payments Plus.

Coles believes that as the Australian payments ecosystem continues to evolve, the Bank plays a critical role with Treasury, in ensuring a commercially balanced, efficient payments system. We believe this paper and the intent within goes some way to achieving this. We do however have feedback in some areas, which we have outlined.

Setting a default network on dual-network debit cards

Coles does not support the proposal to issue dual-network debit cards (**DNDCs**) without a priority scheme because:

- solutions in market today provide appropriate benefits;
- any solution would be costly to all participants to implement; and
- this approach may have unintended consequences.

Our response to this section of the Paper looks to address questions 1 to 3 and aims to elaborate on our views above.

- **Merchant Choice Routing is already widespread in market.** Coles and most Australian acquirers have built and offer their merchants the capability to Merchant Choice Route (**MCR**) in-store transactions, and shortly online transactions. In Coles' opinion, the removal of a 'default' network on DNDCs as proposed in the Paper, fails to add any new capability or benefit to merchants and consumers above what is available today.
- **Issuer cost implications and consumer disruption.** Based on our experience with issuing cards (albeit credit cards), we would expect the cost to card issuers for re-issuing their DNDCs, the timeframes to do so, and consumer disruption (eg. lost cards in mail, re-setting direct debits, uploading these into digital wallets, etc) will offset the proposed benefit

sought. One approach to lessen the impact to issuers and consumers is to manage re-issue through the existing DNDCs expiry re-issue process. However, this may take several years given card expiry periods, in which time we expect digital wallets to be the majority of in-store transactions. Therefore, the decline in use of physical DNDCs will significantly reduce any benefits that may be created with this change.

- **PINPad changes and the costs to merchants and acquirers.** The payment industry, including Coles, has invested significant capital, time, and effort over many years to build the capability to accept, manage and route DNDC transactions. Changing the structure of a physical card default scheme will likely create additional investment across the industry to accommodate. This includes significant updates across PINPad software (causing disruption to merchants), changes in processing rules and testing, amongst other impacts.
- **Growth in digital wallets.** Coles recognises considerable growth in the use of consumer mobile transactions in-store, a trend which we expect to continue such that this technology will represent an increasingly significant share of transactions over coming years.
- **Domestic card impacts when used internationally.** While the technical implications would require detailed assessment, one key consumer impact that requires consideration is to ensure, if a no-default card was to be rolled out, there would be no interoperability issues when consumers use these cards internationally.

Overall, we do not see any benefits for Coles, our merchants and our customers given we can already choose how we route DNDC transactions, with the exception of digital wallets.

Tokenisation of dual-network debit cards

Question 4: What is the relative importance of addressing the issues regarding token portability, synchronisation and visibility?

Token portability has been a key limitation for the Australian payments ecosystem and has only become more complex with the introduction of scheme tokenisation.

Coles believes that the schemes, with their scheme tokenisation solutions have all the right building blocks and components for the solution. The challenge is more that the industry or commercial drivers have not resulted in the need for a solution to date. On this basis Coles is supportive of continued industry consultation in this space, with a view to finding a low impact, workable solution for all parties.

Question 5: What are the potential solutions to these issues and their respective costs and benefits?

In addition to portability of scheme tokens, the proprietary tokens stored on the gateways, which are not yet tokenised by the schemes would need to be considered. It is Coles' view that the Bank and industry bodies (such as the Australian Payments Network) work with the schemes and payment gateways to develop and implement an industry solution. To achieve this, industry standardisation and guidance with appropriate oversight and principles set by the Bank, particularly regarding timings, will be required.

Question 6: What expectations could the Bank set for industry to address these issues, and the storage of PANs more generally, and what key details should be specified?

We believe a clear, detailed set of industry standards and guidance on timelines to align the industry will be required. Consultation on these points would be beneficial.

Question 7: Would the end of 2024 be a desirable and feasible timeline for the industry to support token portability, and to make substantial progress in removing PANs from the ecosystem?

As noted in our response to question 6 above, in the absence of standards and a solution, Coles is

not able to assess if this timeline is achievable.

Question 8: Should the Bank and the industry consider broader action to encourage the tokenisation of card payments and removing PANs, as seen in some other jurisdictions?

The Australian market is relatively sophisticated in this space, with proprietary gateway tokens, and scheme tokens well established. As such, no further action by the Bank is needed other than what we have mentioned above in response to question 6.

Conclusion

Coles welcomes further engagement with the Bank as you continue industry consultation around debit card default settings and tokenisation, and should you have any queries on our response, we would welcome a meeting to discuss.

Yours sincerely,

DocuSigned by:
Paul Askew 14-07-23
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Paul Askew
General Manager, Financial Services