

3 February 2023

Director – Payments Strategy and Policy Unit
Financial System Division
The Treasury
Langton Crescent
PARKES ACT 2600

Via email: paymentsconsultation@treasury.gov.au

Dear Director,

Consultation Paper – Strategic Plan for the Payments System, December 2022

Coles welcomes the opportunity to respond to the *Strategic Plan for the Payments System* dated December 2022 (the **Paper**). Coles provides fresh food and grocery services, liquor, fuel and promotes financial services to approximately 20 million customers on average each week through its 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 such as Kmart, Target and Officeworks following the de-merger of Coles from Wesfarmers in 2018. As such, we also hold direct Scheme memberships, however Coles does rely on a 3rd party bank to access the RBA settlement accounts as part of our Acquiring service.

Given the unique nature of our business, we have sought to provide our comments in the context of Coles as the acquirer, whilst leveraging our experience as a retailer. In this role, we are also 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 is supportive of the Paper and how it addresses the Key Principles, Priorities and Initiatives in creation of the Plan. Regarding the initiatives and actions as set out in Attachment B in the Paper, Coles has the following responses:

Promote a safe and resilient payments system

Coles is supportive of the proposed actions outlined in the Paper and especially as it seeks to provide further confidence for retailers and our customers at the point of sale.

Ensuring the regulatory framework is fit-for-purpose and promotes competition

Coles is supportive of the proposed actions outlined in the Paper.

Considering changes to the PSRA and the licensing framework, we note the retail payments landscape has shifted significantly in recent years with technological changes, new innovations and changing behaviours of consumers. In order to achieve the Key Principles outlined in the Paper, it is Coles' view that changes to the PSRA and licensing framework should encompass all existing and new participants in the Australian payments ecosystem (including big tech mobile wallet providers). We believe it will be important to ensure that the framework is designed on a risk based tiering approach focusing on impact to market efficiency and consumers, rather than financial stability and capital under a traditional financial services prudential style framework.

Whilst Coles aligns to the need for a more flexible and inclusive regulatory framework to provide a robust and efficient payments system to ensure confidence by its users, we note that Coles has operated a Payments business for over 30 years with a strong record of data security, risk management and compliance with card schemes and the Australian Payments Network regulations. It also has a long standing focus on ensuring PCI compliance and has embedded robust systems and controls for managing compliance across our business. This leads us to believe that as the Treasury considers the licensing regime, it takes into account the level of risk and influence associated with the activities being undertaken and does not create over-burdened licensing requirements that may have the unintended consequences of making these activities inefficient and therefore potentially reducing competition.

Coles looks forward to participating in the proposed consultation on these matters.

As it relates to reducing small business transaction costs, ensuring Least Cost Routing (or Merchant Choice Routing) is accessible across instore and digital channels not only reduces payments costs for merchants and consumers, but ensures long-term competition in the Australian debit card market. Coles is encouraged by the governments support of this important capability in reducing costs and the scope enhancements to cover mobile wallet transactions.

Alignment with the broader digital economy transformation

Coles understands the proposed actions outlined in the Paper and looks forward to supporting the detail as appropriate. In particular we see the importance of ensuring an efficient and effective regulatory framework to connect payments with consistent customer authentication through interoperable digital ID. The need for all participants to securely and confidently share identification credentials has been shown to significantly improve the customer experience for digital payments in European markets. We believe this could be an option for consideration.

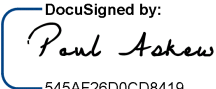
Modernise payments system infrastructure

Coles notes that it does not participate in the cheques system, BECS or cross-border payments and has no comments on these elements of the Paper.

With respect to maintaining adequate access to cash, Coles services the whole community and the demand for purchases paid with cash, and cash withdrawals remains significant and particularly in certain sectors/regions around Australia. We welcome the governments consideration of the cost impost to retailers who continue to provide this essential service to the community as part of the plan.

Coles welcomes further engagement with Treasury should you have any queries on the above response and we look forward to engaging on future consultations.

Yours sincerely,

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Paul Askew

General Manager, Financial Services