

## **ARA SUBMISSION**

# **RBA CONCLUSION PAPER: DEFAULT SETTINGS AND TOKENISATION IN THE AUSTRALIAN DEBIT CARD MARKET**

05 OCTOBER 2023

The Australian Retailers Association (ARA) welcomes the opportunity to make this submission to the Reserve Bank of Australia (RBA) Conclusions Paper on *The Australian Debit Card Market: Default Settings and Tokenisation*.

The ARA is the oldest, largest and most diverse national retail body, representing a \$420 billion sector that employs 1.4 million Australians – making retail the largest private sector employer in the country. As Australia's peak retail body, representing more than 120,000 retail shop fronts and online stores, the ARA informs, advocates, educates, protects and unifies our independent, national and international retail community.

We represent the full spectrum of Australian retail, from our largest national and international retailers to our small and medium sized members, who make up 95% of our membership. Our members operate in all states and across all categories - from food to fashion, hairdressing to hardware, and everything in between.

We wish to provide feedback from our members, some of whom have retail and e-commerce operations globally and have experienced tokenisation initiatives in other markets.

## **FEEDBACK**

### **Compliance with existing standards**

The ARA supports the RBA's position that sensitive card data, including Primary Account Numbers (PANs), should not be stored by merchants and payment service providers unless they comply with the Payment Card Industry Data Security Standard (PCI-DSS). Including PCI-DSS compliance as an option in the tokenisation framework allows merchants to choose from a range of solutions to protect customer and cardholder data while reducing risks and improving data security.

Considering the interests of all ARA stakeholders, including consumers and merchants, particularly small businesses, a flexible framework that offers multiple implementation options is more likely to yield positive results with fewer unintended consequences than a rigid framework.

### **Payment experience**

One of the primary goals for the RBA must be to have policy settings in place to ensure a secure and seamless end-to-end payments experience for both consumers and merchants. Ineffectively implemented tokenisation has the potential to disrupt this experience.

For instance, implementing dispute and chargeback processes in an environment where card data is not present could introduce complexity, lead to customer confusion and result in a negative experience.

The ARA believes that developing tokenisation solutions within the confines of a secure, PCI-DSS compliant environment meets the RBA's policy objectives, while providing merchants with the flexibility to implement solutions that meet their specific needs.

## Sequencing and timelines

Regarding the industry's ability to meet the RBAs' expectations by mid-2025, we draw upon the recent experiences of one of our members with operations in India, which have also been referenced by various parties in discussions with the RBA.

The Reserve Bank of India (RBI) implemented a mandate prohibiting merchants from storing customer card details on their servers starting from January 2022, and mandated the adoption of Card-on-File tokenisation as an alternative to traditional card storage.

In India, the merchant community, represented by the Merchant Payments Alliance of India (MPAI) and the Alliance of Digital India Foundation (ADIF), expressed concerns that the new RBI mandate could potentially disrupt their operations, lead to revenue loss, erode trust in digital payments, and shift consumer habits back toward cash-based payments.

MPAI and ADIF strongly advocated for a sequential process, emphasising the need for stable API documentation before going live with tokenised transactions. Additionally, merchants stressed that the digital payments ecosystem was not yet fully consumer-ready, and that implementing tiered timelines for compliance could minimise disruptions to consumer services.

We note that if regulated entities are not compliant, merchants would not be able to successfully process tokenised transactions. In cases where banks were unprepared, merchants could face significant revenue losses.

In response to these concerns, the RBI provided a six-month extension on implementation. The RBI's decision was informed by extensive evidence, revealing that less than 80% of banks were ready with token provisioning on one major card network, and less than 30% were prepared on a second network. Furthermore, other networks had made limited progress in token provisioning.

Whilst provisioning for tokens underwent a gradual transition in India, readiness for processing token transactions lagged provisioning. The inability to process these tokens is akin to having a secure wallet but being unable to deposit or withdraw money from it.

## CONSIDERATIONS

While the ARA is supportive of a shift to tokenisation, we affirm the following additional considerations:

- 1. Implementation complexity:** Implementing a tokenisation system can be complex and may require significant changes to existing infrastructure, systems and processes. This complexity can lead to higher costs and potential operational challenges during the transition. This complexity may have a disproportionate impact on medium and small retailers.
- 2. Interoperability:** Ensuring that tokenisation systems work seamlessly across different payment platforms, card networks, and payment service providers can be a challenge. Lack of interoperability can hinder the widespread adoption of tokenisation.
- 3. Regulatory compliance:** Complying with regulatory requirements, such as PCI-DSS, while implementing tokenisation can be demanding. Failure to meet compliance standards can result in penalties and reputational damage. Consideration needs to be given to retailers operating with existing cost of doing business pressures.

4. **Consumer confusion:** Tokenisation can introduce new elements into the payment process, potentially causing confusion for consumers. This includes understanding how tokenisation works and how to handle issues like disputes and chargebacks in a tokenised environment. Consideration needs to be given to an education campaign for merchants and consumers alike.
5. **Merchant adoption:** Smaller merchants, in particular, may face challenges in adopting tokenisation due to the costs and technical expertise required. Tokenisation may disproportionately impact smaller businesses.

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The ARA and its members thank the RBA for the opportunity to engage in this consultation. For any queries in relation to this submission, please contact [policy@retail.org.au](mailto:policy@retail.org.au)