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Sydney, NSW, 2000
23 March, 2018

Mr Peter Harris, Chairman
Productivity Commission
4 National Circuit
Barton ACT 2600
Australia

financial.system@pc.gov.au

Dear Mr Harris,

Submission on the Productivity Commission's Draft Report - Competition in the Australian Financial System

Ant Financial, as a leading TechFin group, welcomes the opportunity to provide this submission in relation to the Productivity Commission's Draft Report - Competition in the Australian Financial System.

About Ant Financial and Alipay

Alipay is a member of the Ant Financial Services Group (**Ant Financial**), a group headquartered in the People's Republic of China (**PRC**) dedicated to bring inclusive financial services to the world. Alipay holds a third party payment license in the PRC and operates Ant Financial's payment business, which was launched in 2004 and is now the world's leading third-party payment platform. For more information about Ant Financial, please visit: www.antgroup.com.

Alipay has evolved from a digital wallet to a lifestyle enabler. In the PRC, users can hail a taxi, book a hotel, buy movie tickets, pay utility bills, make appointments with doctors, or purchase wealth management products directly from within the app.

In Australia, Alipay is limited to supporting online and offline (or in-store) acceptance for Alipay users. This is achieved by working directly with some merchants but in the majority of cases by working through acquiring partners. Our main focus is to enable Chinese tourists who have an Alipay account to be able to use Alipay in Australia, as part of our cross-border tourism businesses.

Regulatory "gap"

Alipay and WeChat are specifically described on page 26 of the Draft Report as operating in a gap between the oversight of APRA, which regulates certain "deposit-like" purchase payment facilities (PPFs) and the RBA, which has regulatory responsibilities for other more limited PPFs. We would like to take this opportunity to clarify that this characterisation of Alipay is not accurate. The reason we are not regulated in Australia is that our products are issued to Chinese users, not Australian users.



This is similar to foreign banks issuing Visa and MasterCard credit and debit cards. It would be unconventional for any government to regulate a foreign product issuer in relation to a product it issues to foreign users.

Page 287 of the Draft Report contains the following additional statement about Alipay and WeChat:

PPFs originating from overseas, such as Alipay and WeChat, are redeemable on demand. However, because they are not redeemable for Australian currency, — they require a Chinese bank account to redeem stored value (box 10.1) — they do not fall under APRA's prudential regulation. These PPFs would fall under PSB regulation. However, the PSB has not regulated them, likely because they do not make up a sizeable portion of payments in Australia.

Again, we respectfully submit that the characterisation of these products is not accurate. Just as the *Payment Systems (Regulation) Act 1998* does not regulate Paypal, Inc. in respect of Paypal accounts issued to US consumers, that Act does not apply to Alipay PRC wallets issued to Chinese users. In both cases, those payment products may be accepted as a means of payment globally, including in Australia.

Ultimately, the *Banking Act 1959* (as amended for PPFs under the *Banking Regulations 1966*) and Part 4 of the *Payment Systems (Regulation) Act* seek to afford protection to those who entrust a prepaid balance to issuers of purchased payment facilities. It is beyond Parliament's intent under these statutes to extend such protection to foreign users who entrust prepaid balances to foreign issuers of purchased payment facilities.

Draft Recommendation 10.1 - Review Regulation of Purchased Payment Facilities

Alipay supports the Commission's draft recommendation that there should be a tiered prudential regime for purchased payment facilities to reduce barriers to growth. In particular, Alipay supports the recommendations that:

- (a) PPFs with total stored value below \$50 million would not face prudential regulation. However, it is submitted that the further threshold of \$500 for an individual's holding should instead be \$1000 to align this product grouping of PPFs with the threshold for cash withdrawable stored value facilities in the *Anti-Money Laundering and Terrorism Financing Act 2006*;
- (b) The lower prudential tier would maintain the current 100% liquidity ratio requirement but reduce other prudential requirements to lower compliance costs; and
- (c) The higher prudential tier would reduce liquidity requirements but strengthen other prudential requirements.

However, we respectfully submit that this recommendation should be aligned with APRA's own phased approach to licensing ADIs articulated in APRA's discussion paper dated 15 August 2017. In this regard, it is noted that since the definition of "banking business" in the *Banking Act* was extended by the *Banking Regulations* to include PPF activities, no *Provider of Purchased Payment Facilities* authorisation has been granted except to one pre-existing prepaid wallet business, namely that of PayPal Australia Pty Ltd.

Thank you again for the opportunity to make this submission. We are supportive of the Commission's initiatives to encourage entry into the financial services sector in Australia. We look forward to



participating further in the consultation process whether in writing or through a bilateral meeting with the Commission.

Yours sincerely,

George Lawson – Country Manager, Alipay Australia & NZ