

First Data's submission to the Reserve Bank of Australia

Strategic Review of Innovation in the Payments System

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1. Executive Summary

During May 2010, the Reserve Bank of Australia (RBA) announced that the Payments System Board was undertaking a strategic review of innovation in the Australian payments system. The objective being to identify areas in which such innovation may be improved through more effective co-operation between stakeholders and regulators. It was to take a medium-term perspective, looking at trends and developments overseas in payment systems and at possible gaps in the Australian payments system that might need to be filled through innovation over the next five to ten years. The ultimate goal was to identify projects that the RBA and other stakeholders could work on co-operatively to enhance the payments system in Australia.

The RBA conducted a survey of consumer payment patterns in October/November 2010 and is participating in an international study of retail payments innovation being undertaken by the Bank for International Settlements (BIS). Based on information gathered from these sources, the RBA prepared a paper "Issues for Consultation" which it released on 30 June 2011, together with the results of its 2010 "Consumer Payments Use Study".

The RBA has called for formal written submissions on "Innovation in the Payments System" based on those papers.

Details of First Data and the global payment processing services the group provides are set out in Attachment A.

First Data supports the RBA in the development of key innovation within the payments system to enable greater payments options for consumers in a safe and secure manner, utilising existing infrastructure in place between payments system providers. The enhancement of existing channels, particularly focussed on person-to-person (P2P), "card-less" transactions and mobile payment options, will provide choice for consumers and ensure a greater level of flexibility.

First Data supports the use of APCA as a governance environment to continue to monitor payments infrastructure and security requirements and the management of payments provider requirements.

2. Document Scope

This document outlines First Data's views on:

- Governance and Infrastructure
- The transmission of data with payments
- The timeliness of payments
- Ease of addressing payments
- Person-to-person payments
- Mobile payments
- Electronic purse systems
- Standards
- Future trends

3. Views on Innovation

First Data shares the view put forward by others that meaningful innovation requires a clearly identified need or opportunity. The promotion of innovation solely for the sake of innovation is not a good thing. It is also true however, that innovation is a primary driver of a society's advancement and its prosperity. This also applies to a country's payment system. For this reason First Data considers that ongoing attention to innovation opportunities and needs for the Australian Payments System is vital.

At the same time, First Data concurs that innovation is not easy to achieve in payments systems generally and in Australia in particular:

- **Payments is a heavily regulated field.** The aim of regulation being, amongst others that the payments system does not fail. Expending a lot of effort in something to make sure it doesn't fail discourages experimentation, but experimentation has to be at the heart of any innovation process.
- **Payments is a highly networked form of economic activity.** It is networked in Australia in the most obvious sense that it is itself, a network. Participants in the payments system have to cooperate and coordinate, and have to be able to communicate efficiently. Additionally, in Australia we have a financial payments system that is networked in the sense that it doesn't have, or it tries to avoid having, a single hub through which all payments move, and it tries to work through bilateral relationships amongst financial institutions.

3.1 Governance and Infrastructure

Industry currently co-operates on payments issues through its involvement with APCA (Australian Payments Clearing Association), ePAL (eftpos Payments Australia Limited) and other card schemes, however this can sometimes be problematic when an individual participant wishes to implement an innovative idea that requires systemic support and other participants are incapable of, or do not wish to support, the innovation.

The RBA and the Payments System Board may want to consider playing a role in supporting new arrangements in the payments space where it is seen to be in the public interest. Such support could be provided in the form of representation at industry forums, adopting an innovative idea and providing financial support or incentives where the idea will provide some public benefit.

There is perhaps a case for the Australian Payments Industry to consider adopting a model similar to the UK Payments Council. It is envisaged that a similar decision binding group could be established locally with oversight across all areas of retail payments for the purpose of establishing common framework requirements across payment streams – for example such as a requirement to adopt real time settlement. Since definitions of such over-arching requirements are based at a strategic level rather than at a detailed 'how to' level – it would be necessary for this payments framework rule-setting body to also be the owner and developer of the Australian Payments system road map.

The RBA has mandated the introduction of the Low Value Settlement Service (LVSS) and the industry is currently working towards the implementation of this service in the direct entry, paper and debit card clearing systems. The ultimate goal of the LVSS is to provide participants in the payments system with the ability to conduct multiple, real-time settlements within-the-day. This should enable some mitigation of systemic settlement risk and should provide the ability for faster retail payments. Although this is an expensive, labour-intensive process for industry participants, it is occurring because mandated by the RBA. First Data is considering whether this reflects the necessity for regulator involvement in steering some innovation that has no business case for industry participants, but may provide benefits to the public.

3.2 The Transmission of Data with Payments

The RBA identified an issue in the RBA 2007/2008 Review of the Payments System Reforms and finally in the RBA 2010 Consumer Payments Use Study, that there has long been a need for additional data to be transmitted with direct entry payments. The lack of this facility has been a major factor in businesses relying on cheques (attached to paper advices) to enable easy reconciliation of payments and part payments of invoices. First Data views this as slowing the exit of cheques from the Australian market.

First Data supports the adoption of ISO 20022 messaging standards which will aid the carriage of additional data across the existing direct entry system. This transition would need to be managed carefully to provide sufficient time for all industry participants to migrate their systems.

3.3 The Timeliness of Payments

As mentioned under “Governance and Infrastructure”, the introduction of LVSS should enable multiple inter-financial institution settlements within the day. First Data, not being a financial institution itself, does not feel it appropriate to comment on how this functionality may flow through to financial institutions’ banking platforms to enable more timely payments.

First Data views the work currently underway at ePAL to move eftpos cards into the “card not present” domain as beneficial as it should facilitate a level of online payment access (for utility bills and other low fraud prone internet based payments), to compete against the services currently available to credit cards and other scheme debit cards, e.g. real-time confirmation of payments to merchants and cardholder availability of funds check.

3.4 Ease of Addressing Payments

The issue of incorrectly addressed payments in the direct entry system (including internet payments) and the associated problem of retrieving those “mistaken payments” has been considered at length by the industry through the auspices of APCA. Systems do not match names in direct entry fields and in fact, trying to match a name would be quite problematic unless the names entered (with initials or full first names) match exactly with the account name.

It is therefore relatively easy for a consumer to accidentally transpose numbers and forward a payment to an incorrect (but valid) account at the intended recipient’s financial institution or even to a valid account at another financial institution if the BSB is incorrect.

The BPAY and recently stalled Mambo schemes were to address those issues; recent publications seem to indicate that this avenue now appears unlikely. Another solution (or part-solution) is being proposed by ePAL in the revival of the Credit EFTPOS project that was placed on hold by APCA a few years back. This now appears to have industry support (including First Data) and is likely to emerge in at least a limited form within the next 12 months.

3.5 Person-to-Person Payments

The development of a secure method of P2P payments will ensure consumer acceptance of the channel and will enable additional choice for consumers relative to small transaction payment requirements. The implementation of smart phone technology as a standard on most mobile phones will create an opportunity to allow new payment options for consumers (e.g. purse/wallet) and allows new market participants to enter the payments arena. The experience internationally is that the payments infrastructure needs to be fully secured and provide ease of use to the consumer to be accepted.

Some considerable energies and considerable time will be needed in order to agree on and implement a common Australia wide available solution – such as we have with the payments today made by cash and cheques.

Ease of use and secure access and processing will be the key to ensuring that this functionality can be successful in the Australian market.

3.6 Mobile Payments

Telco’s, financial institutions, and others (enablers) are currently focused around the ‘killer application’ strategy, i.e. to get a solution to market and win relative market share by having the best ‘mobile payments’ tool in town. Due to present competition, the approach is fragmented rather than focused around an industry-wide all embracing solution.

Any successful payments channel (cash for example) needs universal acceptance/access and as such a more structured industry wide approach to roll-out of mobile payments should lead to a faster universal deployment of a capability and solutions. The Australian payments market needs a solution that works regardless of which phone service provider an end user chooses and independent of which financial institution an end user engages with.

First Data is supportive of APCA being currently in the process of publishing a Mobile Payments White Paper which may act as the catalyst for the uptake of a common industry approach to mobile payments.

3.7 Electronic Purse Systems

Commonality of standards and universal acceptance are critical to successful payments adoption. ATMs and EFTPOS works well in Australia since there is a common experience at the interface for the end user and there is universal access at the device regardless of which Acquirer or Issuer is participating in the transaction.

ePurse in Australia will only occur when a non-competitive solution is available for all participants to access – in the same way that all can access say, a credit card or debit card product today – that is universally accepted. The current approach to transit roll-out is fragmented.

It is First Data's view that it requires appropriate national level focus of industry group representatives to develop and agree on a common ePurse approach for Australia, which includes a business case model to attract appropriate providers and other participants.

3.8 Standards

The lead already taken by SWIFT, SEPA, CHIPS, Fedwire and the IPF is highly indicative that the Australian payments industry needs to follow suit. Within the domain of retail payments the various streams (cheque, bill pay, ATM/POS, direct entry and others) share considerable commonality across transmission, data content, clearing, settlement, execution, etc. - thus the reason that ISO 20022 was created.

Since Australia is at the point of needing to move payments solutions at pace to keep in line globally with technology and other real world developments, it is necessary to consider 'next generation' approaches in order to achieve economies of scale relative to the cost of change.

Independent redevelopment of payment sub-streams needs to be replaced by adoption of a strategic roadmap based approach to the future solution for payments within Australia.

It is First Data's view that adoption of, and movement to, an ISO20022 payments framework by 2020 needs to be given impetus now. The Australian Government should be providing incentives to the Australian payments industry to take up this challenge, so that Australia can keep pace in the provision of low cost payments services that offer international best practice.

Competition within the payments arena is practical only where the focus is "preferred service" driven. Since universal acceptance is one of the primary needs of successful payments acceptance, solution based competition is impractical in broad terms within the payments industry. Standards drive commonality of solution. It's a payments system participant's ability to deliver compliant, secure and reliable solutions at lowest costs to the end user that should be the focus of competition.

Traditional payment channels such as cash and cheques, converged on universal standardisation to maximise efficiencies. In the 'computer age', with the emergence of new payment channels, eg, ATM, EFTPOS, BPAY and so forth, standardisation by channel has been adopted. In the 'information age' a consolidation to a common over-arching payments framework looks considerably more attractive.

3.9 Future Trends

It is First Data's view that the paper presented has too little focus on two very important areas of payments systems: potential fraud and technology risk.

With every layer of payments innovation, an equal and perhaps greater level of fraud innovation occurs. The payments industry as a whole will be best served by adopting commonality of approach across all payments streams to protect against payments fraud and invasion of privacy.

It is not difficult to envision that by 2020, or certainly by 2030, the systems in place to service Australia's retail payments will be significantly different to those actively in use today. One thing is more certain, the 'next generation' of payments services will be fully technology dependant. In terms of payments history, 10 or 20 years is a considerably small window of time, and yet in this upcoming window we are likely to see the full or near replacement of two payments stalwarts, namely cheques and cash. Significant consideration therefore must be given in the adoption of 'next generation' payments solutions for the eventuality of a total technology failure. What would happen to 'next generation payments', if a successful attack on technology (e.g. the network backbone within Australia say), was taken out of action for a day or a week? What would the lack of an ability to use cash or cheques in such a situation mean?

4. Conclusions

First Data supports the need to develop new and innovative technology to allow growth and expansion in the payment channels available for consumers in the Australian market.

Particular focus should be applied to ensuring the development of new or enhanced payment technologies are security controlled and safe for consumers and payment companies as well as delivering real-time payment and ease of access for use.

Whilst it is difficult to determine what new payment offerings will be most accepted by consumers, it is imperative to the development of these new payment offerings that common standards are applied to enable a strong compliance management and ability for new participants to enter the payments arena with a thorough understanding of requirements and regulations.

As a multi-national payments company, First Data has had significant experience in the development and delivery of new technology to multiple markets. Success of new functionalities is driven by the delivery of safe and secure processing regulations and a clear consumer benefit definition. The future of payments innovations will be reliant on the delivery of solutions that clearly combat fraud and are based on strong rules and regulations adopted by all parties.

Appendix A: About First Data

First Data Corp. is a leading provider of electronic commerce and payment solutions for businesses worldwide. With operations in 38 countries, First Data serves over 5 million merchant locations, 1,900 card issuers and their customers. We power the global economy by making it easy, fast and secure for people and businesses around the world to buy goods and services using virtually any form of payment.

The company's portfolio of services and solutions includes merchant transaction processing services; credit, debit, private-label, gift, payroll and other prepaid card offerings; fraud protection and authentication solutions; receivables management solutions; electronic cheque acceptance services through TeleCheck; as well as Internet commerce, loyalty and mobile payment solutions. The company's STAR Network offers PIN-secured debit acceptance at 2.1 million ATM and retail locations.

For more information, visit www.firstdata.com.