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Head of Payments Policy Department  
Reserve Bank of Australia  
GPO Box 3947  
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Dear Sir/Madam,

*Commercial-in-Confidence*

*Strategic Review of Innovation in the Payments System:  
Conclusions – June 2012*

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Hewlett-Packard Australia Pty Ltd (HP) thanks the Reserve Bank of Australia (RBA) for both the Strategic Review of Innovation in the Payments System and the opportunity to comment regarding the conclusions.

HP is one of the largest third party Cards & Payment processors globally and has performed integral roles in payments processing both within Australia and globally for decades. Since 2006, HP has operated an Australian based payments utility hub processing a significant proportion of Australia's EFT payment transactions. HP performs payment processing as a service and provides infrastructure to the payments industry globally touching one in two transactions across the globe. HP is keenly interested in the developments within the Australian payments industry and is more than happy to contribute our experience in operating a payments hub in Australia. Our main points in response to the Review are:

- Despite the best intentions of all parties, previous reforms in the payment system have not delivered on all

aspects of their stated agenda, particularly around access for new entrants, cost and efficiency;

- The main reasons for this are technological and structural impediments limiting access, innovation and ongoing investment, and
- A central processing hub with appropriate governance arrangements provides the best model for overcoming these inhibitors and providing a suitable platform to deliver true reform in the payment system.

While the breadth of HP's current payments processing does not cover all areas within the scope of this RBA review, its activities in payments are closely aligned such that there is a parallel interest and possible overlap.

### **General Comments**

HP welcomes the RBA's interest, involvement and ongoing engagement with the payments industry on strategic objectives. Similarly HP would welcome the opportunity to participate in the enhanced industry representation suggested by the RBA.

HP has followed the RBA's reform agenda over the past decade and is keen to see the the learnings of prior reform applied in any proposed changes that may occur.

One of the RBA's earlier and similar major reform activities, the Review of Card Payments Systems, was well intentioned, committed to, and given time to work.

However in some cases, this reform has failed to deliver the results expected by the review, in our view. The areas that did not meet the outcomes sought by the reform will provide guidance to future reform. We have listed below previous amendments, whose impact should be reviewed to ensure the changes proposed within the RBA's current review have the best chance of succeeding.

Mention is made of fair and open access within the review. HP's experience is that the previous reforms to provide access to the EFT payments streams have delivered some improvement. However, the EFT Access Code has not delivered the access it was meant to guarantee, with the COIN initiative only providing a small improvement to a technical component of connection for a new access seeker.

This is evidenced in the lack of new entrants - with the time, cost and other imposts of access continuing to be a significant barrier to entry.

Similarly, HP supports the RBA's intention to encourage low and transparent pricing to ensure the efficiency of the reform within commercial guidelines. Unfortunately, despite the previous reform efforts - case-by-case pricing and non-transparency remain the norm in EFT access.

HP's view is that despite the industry and RBA's best intentions many of the traditional payments industry players will continue to struggle to meet the requirements of the Payments Board. It is our belief that this is not through any deliberate intent - rather through the volume of work required to deliver to customer expectations in a highly competitive and fast moving market. This challenge is exacerbated by the cost and complexity of changing or modifying systems that are in many cases legacy and require renewal or replacement.

HP's view is that these inhibitors have prevented institutions meeting the access requirements of the previous reforms, and provide guidance in how to enable successful change in the future.

With regard the RBA's comment on tokenisation, HP has supported significant growth in tokenisation as a means of delivering wider consumer payment channels for many years. Such systems are available today, in large scale use and growing worldwide across a wide range of payments operations.

Should tokenisation be looked at HP is able to provide subject matter expertise to assist with the review.

### *Australian Payments Hub*

HP supports the RBA's view on the benefits of a central processing hub. Bilateral and paired arrangements introduce inefficiency in all but a two-party market, an inefficiency that grows per new participant.

The Australian payments system has grown over decades where this structure has been relied upon to provide safe and efficient connection and service. However our belief is the time is past whereupon a new construct is required to enable future efficient growth. The challenges referred to in the previous section result from, and are compounded by the large and complex nature of interlinkages that need to be maintained by every player in the Australian payments system.

Further, their breadth and complexity is a near impenetrable barrier to entry for new players and processors. The propensity for new payments players to seek their own transaction network beyond this system both for efficiency and to avoid partnerships with competitors is just one evidence of the broader impost on the system.

Again, HP does not suggest that this is intentional, rather an issue of legacy arrangements that have grown in complexity over decades, and now prevent all parties from operating efficiently, including the existing players.

Combined with the often dated nature of technology supporting this system, HP is not surprised to have encountered access problems, and it presents a significant impediment to successful reform. It is possible if not likely that this legacy technology will not provide the capability the RBA is seeking at a price that is commercially viable for either the provider or the parties using it. A change to a contemporary technology platform would provide a fundamental shift in the way in

which the industry can innovate and remain competitive in a global market.

HP is of the firm opinion that the establishment of a central processing hub is one of the few paths available for solving this situation, and represents the best option for current participants, new players, and end consumers. HP's successful operation of Payments hubs has demonstrated that significant efficiency and cost reductions can be achieved through establishing a central point, supported by the latest approaches and technologies with a sound commercial model and appropriate governance.

While the RBA has questioned the commercial proposition for a central hub processor, HP has successfully operated similar hubs for years with lesser volumes and clients. There is sufficient volume and commercial incentive within the Australian Payments System at present to support a commercial hub as a central processor. The key pre-requisites for the establishment of the hub are committed volume and access to the latest technology.

Private ownership of the Hub with appropriate governance from the Payment System panel allows for a more viable commercial operation without confused directives from a select panel of the industry.

There are successful efficient Governance and regulatory models in place worldwide where the private service is provided to multiple parties in critical processing areas that ensure clients are properly represented and the commercial interest of the hub is managed. These models can ensure that even the perception of loss of control or market force is avoided and the supplier managed to service.

Beyond this, the collected volumes centralised in a hub in this way provide the revenue and ability for the kind of innovation roadmap the RBA envisages to be realistically mapped out, co-ordinated and implemented. Once established, payments processing involves very high transaction levels, a need for

absolute certainty and precision. Because transactional requirements are relatively simple, costs are typically very low. As a consequence, high volumes are required to both pay for the service and also to ensure there is sufficient funding for ongoing investment and innovation. An appropriate balance of these factors will ensure the proposition attracts a provider with the appropriate size, capability, certainty and long term outlook that is required to entrust this critical processing requirement.

In the Australian context, processors have typically priced to process transactions only, to the detriment of investment in innovation or new product, and have not kept pace with global markets, falling behind in mobility, customer insight and security. Funding innovation through a central hub with many different players with differing profit targets as clients will mean that the innovation funding model will need to be addressed and agreed collectively.

HP has demonstrated a successful utility model that leverages shared client investment for mutual benefit, while still enabling competitive advantage for individual clients.

Key to acceptance of the Hub concept is that companies requiring payments services do not differentiate in the technical minutiae of processing, but rather do so in the "front end" of their product development and differentiation, marketing and delivery. Retaining payment processing services is only taking investment away from real competitive differentiation. This concept has been repeated through various expert opinions over many years and is starting to gain widespread industry acceptance.

In addition with the advances in technology, including Cloud computing, security, storage and infrastructure, a newly architected technology is required to drive innovation and maintain the competitiveness of Australia in global payments. We believe this will be key to assisting with the separation of processing from ownership which will be key to enabling the changes required in the Industry.

### *Conclusion*

HP applauds the RBA in its intent to drive a more competitive and innovative agenda within the Australian payments system. However we see challenges for both the RBA and participants in achieving the goals of this review within the current technical and commercial construct. The Hub concept proposed by the RBA is one that in our experience has delivered significant benefit where deployed. We believe it represents the next generation model that will enable Australia's payments system to develop most efficiently and innovatively into the future.

HP would welcome the opportunity to discuss any aspect of this paper further, and looks forward to further developments arising from the RBA's review.

Yours sincerely,

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