

31 August 2012

Tony Richards  
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GPO Box 3947  
Sydney NSW 2001

**Strategic Review of Innovation in the Payments System - Conclusions**

Dear Tony,

We refer to your media release dated 7 June 2012 announcing the Reserve Bank's release of its conclusions to the Strategic Review of Innovation in the Payments System. Our submission is focused on the four main areas of the Conclusions paper and we have provided comments on these as follows.


**The Payments System Board's (Board) Role in setting high level Strategic Objectives**

We support the view that the Board has a role to play in setting public policy with regards to how the payment system should evolve over time. To this end we believe the Board can set the key strategic objectives or direction that the payment system should move towards over time. This should generally focus on ensuring that the Australian Payment System continues to keep pace with developments in other markets and takes advantage of available technology that supports the greater efficiency and public benefit of the payment system. As foreshadowed in the consultation document, the Board in selecting these objectives or direction, should consult widely with the industry in order to set stretching but realistic objectives that not only take account of what technology can support, but does so with full acknowledgement of how the proposed enhancements may impact the risks associated with a specific payment product or stream.

While enhancing the payment system should be our goal, we would not support enhancements at the expense of prudent and appropriate risk management. While we are not suggesting that this is in dispute, we believe it is important that risk management feature prominently in the Board's consideration of how the payment system should evolve, and we should never advance the system ahead of our ability to appropriately manage the consequential risk.

As represented in the consultation paper, we also believe that consultation with the Industry is important ahead of setting any objective or direction for the payment system. We understand that this is not how the current set of objectives were formed which reflects more the stage of our evolution rather than an unwillingness by the Board to consult.

The importance of wide consultation by the Board for us is centred around reaching sensible objectives that can be delivered in realistic time frames. It also allows for consideration of our own unique set of circumstances which may determine that how we make use of technology compared to other markets may be different. By consulting first

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with the Industry, the Board can have the confidence that the goals set are achievable and that the targeted public benefit will be delivered.

### **Relevance of the Initial Strategic objectives**

Overall, we support the Bank's initial strategic objectives and agree that it would be more appropriate for the industry to develop its systems and capabilities to meet these objectives.

Notwithstanding this, with regards to objective number three, specifically the making of low value retail payments outside normal banking hours, we would question whether that should apply equally to both credit and debit transactions. We believe that the goal would be adequately satisfied if only credit transactions were able to be processed outside normal banking hours as this would be the main driver of benefit to consumers. With regards to debit transactions however, processing these (even for low value payments) outside normal business hours increases the potential for fraud and as such heightens the inherent risk of this payment system. Therefore we would ask the Bank to consider excluding debit transactions from this objective.

Lastly, with regard to objective number five, we ask what specifically is meant by creating the ability to address payments in a relatively simple way. In this case we believe the objective should be more specific about whether the intent is to deliver more simple architecture or whether perhaps it is about process simplification at the institutional level. We assume that the intent of the objective is for simplification of architecture.

### **Establishment of a hub-based Architecture for providing Real-Time Payments**

We believe that the provision of real-time payments should not suffer from the same complexities that characterise the current payment architecture. Central to this complexity is the bilateral architecture that requires each market participant to establish individual links with other participants in the payment system with whom they wish to directly exchange both value and non-value information. This complexity not only makes connecting with the system costly, it also makes it problematic for new entrants. In contrast the provision of real-time payments through a hub-based architecture offers a less complicated environment because it reduces the number of connection points. It also provides for a more efficient and cost effective system.

Given that such a system would need to be built, we are less concerned with who builds it and whether it operates on a commercial model or is owned centrally by the Bank. For us the important criteria is that such a system should at its core promote access, equally and fairly for all participants, both existing and new. Further we would expect that the hub administrator would not act to limit the introduction of innovative solution simply because of their greater goal to drive an acceptable commercial return.

Lastly, while the consultation document does not limit the central hub to any one payment product, we expect that its construction may promote the connection of all payment products to the central hub. While we accept that this may in time prove to be a wise objective, it is important to recognise that the goal of real-time settlements can be delivered by some systems already. What prevents the realisation of this however, is not so much the existing payment systems as much as the systems of the institution facilitating the payments. For example the payment systems of both Visa and MasterCard are capable

of delivering real-time settlements, however at the merchant level, the reason why they don't receive real-time value is more to do with the limitations of the acquirers own systems.

Our belief is that if a central hub is pursued, the initial focus should be solely on providing real-time settlements for those products whose current settlement and clearing systems do not allow for this. This more narrow focus will avoid unnecessary distractions which in the end serve only to delay the delivery of real-time settlements to consumers and retailers.

### **Governance**

To ensure that the industry can deliver on the Bank's strategic objectives, we believe there is a requirement for an effective governance framework that can establish an appropriate level of cooperation between industry participants to drive the necessary changes. We note the Bank's proposed governance framework and are supportive of the establishment of a new body that will work more closely with the Payments System Board. On this point we understand the Bank is undertaking a separate consultation process and will provide our feedback as part of that process.

Thank you for the invitation to provide a submission on the Innovation Review. Should you have any questions about our submission, please feel free to contact me on (07) 3258 4248.

Yours sincerely



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