



6 September 2012

Dr Malcolm Edey  
Assistant Governor (Financial System)  
Reserve Bank of Australia  
GPO Box 3947  
SYDNEY NSW 2001

Dear Dr Edey

**VISA SUBMISSION ON PROPOSED STRATEGIC OBJECTIVES**

Please find attached Visa's submission in response to the Reserve Bank of Australia's *Strategic Review of Innovation in the Payments System: Conclusions* paper and your call for industry views on the strategic objectives you have proposed for the sector.

As a leading payments sector participant with a focus on innovation in payments, we appreciate the opportunity to provide our comments on these strategic objectives.

Should you have any further questions about the submission, please feel free to contact either myself or Adam Wand, Visa's Head of Public Affairs, Australia, New Zealand and South Pacific on 02 9253 8890.

Yours sincerely

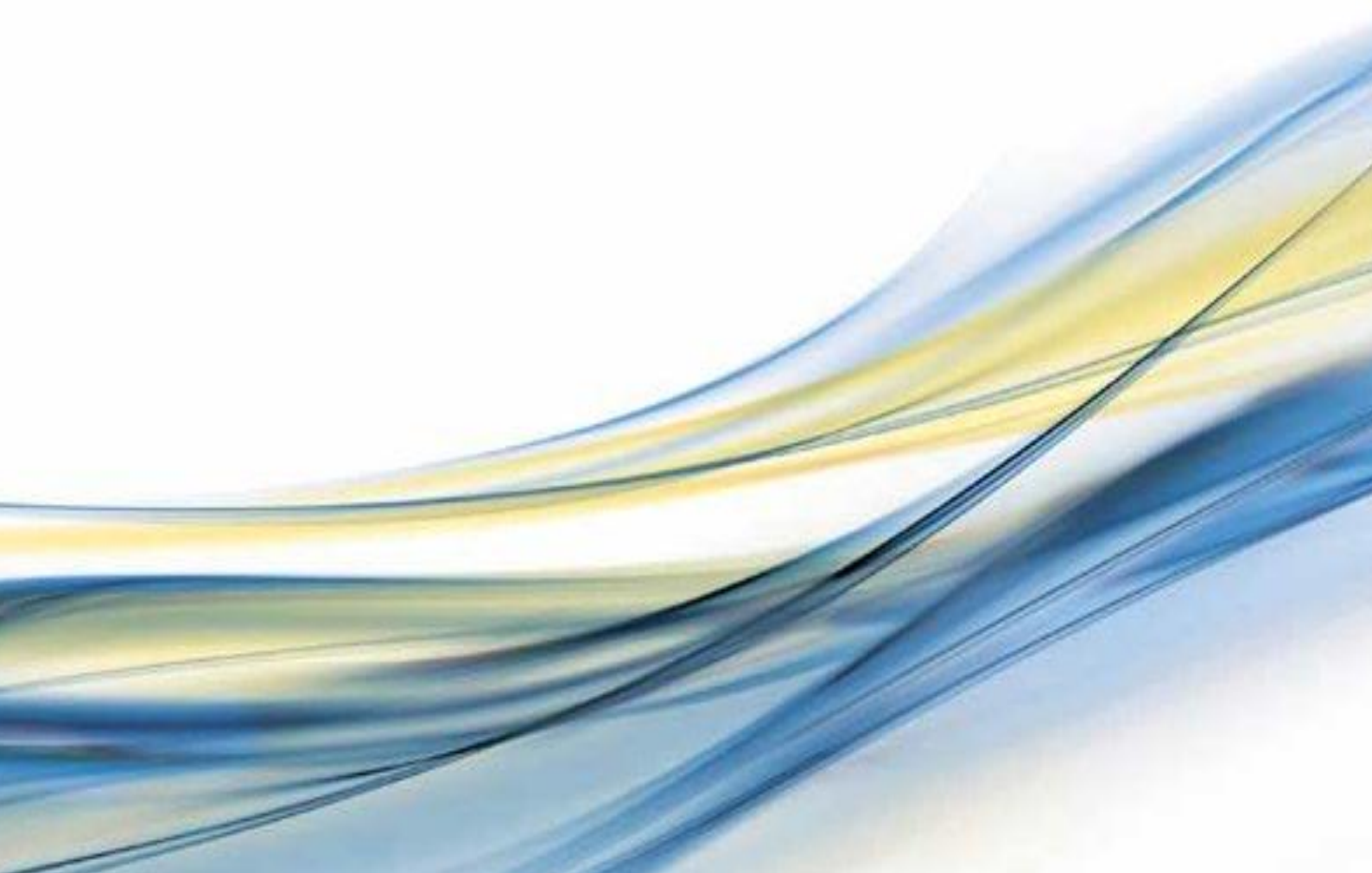
**Vipin Kalra**  
Country Manager



## Strategic Review into Innovation in the Payments System: Conclusions

Visa Submission on Proposed  
Strategic Objectives, Timeline and  
Hub

September 2012



# Strategic Review into Innovation in the Payments System

## Innovation in payments

### Strategic review of innovation in the payments system

In May 2010, the Reserve Bank of Australia (RBA) launched a strategic review of innovation in the payments system, which was aimed at identifying areas in which innovation could be improved through more effective cooperation between stakeholders and regulators. This involved the release of a consultation paper, entitled *Strategic Review of Innovation in the Payments System: Issues for Consultation* and was followed by the RBA's 2010 Consumer Payments Use Study and the *Strategic Review of Innovation in the Payments System: Summary of Consultation* paper.

In June 2012, the RBA released the *Strategic Review of Innovation in the Payments System: Conclusions* paper, which outlined the final conclusions of the Payment System Board's (PSB) two-year review. The PSB concluded that "there are some market failures that may prevent innovation in the [Australian] payments system" and, secondly, "that innovation is important to its [the PSB's] mandate, that is: controlling risk; promoting efficiency and promoting competition in the market for payment services".<sup>1</sup> In the PSB's view, these factors have meant "that decisions about the payment services provided by the industry have not sufficiently accounted for some key factors valued by end users".<sup>2</sup>

The PSB reached the following conclusions:

1. The PSB will establish high-level strategic objectives which it believes the payments system should be able to meet by a specified time.
2. The first set of strategic objectives for the payments system will reflect the gaps identified by the PSB during the Strategic Review. In summary, the PSB finds that the payments system should be able to do the following things:
  - All Direct Entry payments should be settled on the day payment instructions are exchanged by the end of 2013.
  - There should be the capacity for businesses and consumers to make real-time payments in, with close to immediate funds availability to the recipient, by the end of 2016.
  - There should be the ability to make and receive low-value payments outside normal banking hours by the end of 2016. This would include availability of the Direct Entry system and any real-time system. Ideally it

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<sup>1</sup> *Strategic Review into Innovation in the Payments System: Conclusions* (June 2012), Reserve Bank of Australia (Conclusions Paper), p 3.

<sup>2</sup> Conclusions Paper, p 3.

would also involve the capacity for the settlement of card payment receipts during weekends and public holidays, so that receipts can be posted to merchants without generating interbank credit risk.

- Businesses and consumers should have the capacity to send more complete remittance information with payments by the end of 2016.
  - A system for more easily addressing retail payments to any recipient should be available and to the extent that this is provided by a new real-time system, it should be available by the end of 2017. This does not rule out earlier availability via other solutions.
3. While the PSB intends to let the industry determine the approach to meeting strategic objectives, it sees merit in the establishment of hub-based architecture for providing real-time payments, including a real-time settlement hub provided by the RBA. If industry doesn't meet these goals, the PSB might seek to establish infrastructure itself, or use its powers under the *Payment Systems (Regulation) Act 1998* to require that the objectives be met.

### PSB's strategic objectives

The PSB has outlined a range of strategic objectives – as outlined above – that it believes will fill “existing or potential gaps that need to be addressed for the payments system to continue to adequately meet the needs of end users over the medium term”.<sup>3</sup> The PSB has identified evidence of some gaps in the Australian payments system and that there is room for improvement in these specific areas.

We do offer our in-principle support for the broad direction of the PSB's strategic objectives. As a global company, when we look around the globe for the elements of best practice payments infrastructure, we frequently see features such as those contained in the PSB's strategic objectives.

#### Flexibility is required

Visa urges the PSB to adopt a flexible approach to how it ultimately imposes these objectives on the payments system. We believe that the reforms should be pursued primarily through enhanced competition and, where appropriate, voluntary cooperation and collaboration by industry. The best way to deliver an innovative, evolving, end-user friendly payments system is to allow the market to deliver such outcomes through its free operation.

As we noted in our submission to the RBA's initial consultation paper, the Australian payments system is highly competitive, with strong competition occurring between both established financial institution participants such as the banks, credit unions and building societies, along with established card payment schemes such as Visa, MasterCard, American Express, Diners and eftpos Payments Australia Limited. Competition is also strong between these

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<sup>3</sup> Conclusions Paper, p 6.

participants and a range of new and emerging competitors, including PayPal, Google, Paymate, POLi, BPAY and Tyro Payments, among many others. Equally, retail merchants themselves are increasingly active competitors in relation to payment services.

In addition to these organisations, there is a potential additional set of new payments system competitors such as telecommunications companies, smart phone and other hardware manufacturers, as well as information technology and computing companies, many of which are actively developing and implementing mobile and ecommerce payments projects.

### Timing and costs

The PSB has indicated that it is going to be conducting ongoing dialogue with the industry on the deadlines that are set for the achievement of the strategic objectives. Visa supports this approach and notes the need to ensure that realistic deadlines are set so that they do not work to actually stifle innovation and the relevant benefits for end users.

This is particularly important in the context of the considerable likely investment that will be required by the payments industry in pursuit of these objectives. It is Visa's view that mandating innovation, particularly with difficult deadlines, could impose a significant financial burden on payment system participants and this would lead to increased costs for end-user consumers and merchants. It may also result in outcomes that do fail to meet the needs of end consumers and is therefore not successful.

### Hub-based architecture for real-time payments

The PSB has concluded that it sees merit in the establishment of hub-based architecture for providing real-time payments, including a real-time settlement hub that could be provided by the RBA. It envisages a number of ways that such a hub could be established and operated, including for it to be a commercial operation or for the RBA to build and run the hub itself on the basis of a possible tender process.

Visa supports the benefits that a real-time settlements hub would bring for the industry and notes that the technology behind Visa's payment network, known as VisaNet, is structured in such a way. However, we offer the following comments on the setting up of any such hub.

First, Visa would highlight that surely the most important matters to be considered here are outcomes rather than processes. It is achieving the strategic objectives proposed by the PSB that must be the main goal of this process, rather than necessarily the construction of a hub *per se*. If the PSB's public policy agenda can be achieved in ways other than a hub as currently perceived by the PSB, then we feel there should be no institutional barriers to that outcome.

In continuance of the above key principle, Visa does not believe that the building of a utility-based hub, or potentially any type of new hub, is necessarily the only way to deliver the strategic objectives proposed by the PSB. We believe that there may be commercial solutions either already or shortly available that the sector could deploy that would achieve these objectives and which would be significantly less costly and easier to implement and operate than any utility-based hub construction option.

Such an approach would be able to utilise the significant amount of existing experience, built up over decades within the payments industry, in establishing and operating payments systems. As such, we do not believe that there should be any barrier to a hub, or any other infrastructure that could deliver the strategic objectives, being privately owned and operated for a commercial return if it allows for open access and achieves the objectives stipulated by the RBA.

Commercial solutions would also likely prove much less costly for the industry and, if the RBA was called on to build and manage infrastructure, also less costly to the public purse.

As we outlined in our previous submission, Visa knows from its own experience the investment impositions that come from the creation, management, maintenance and constant improvement such infrastructure requires. The VisaNet system incorporates extensive functionality and operates in markets of varying complexity and stages of development.

#### Extent of coverage of new infrastructure

As we outlined in our previous submission to the Review process, regardless of the substantive direction of how innovation directions are to be implemented, it is important that they do not negatively affect existing payment systems that are already operating in a highly efficient manner.

In that light, we again repeat that we would strongly object to any proposal that established card payment Schemes, such as Visa, be required to in any way route via domestic hub or other new infrastructure, however it was created. Any such requirement would fundamentally diminish the advanced functionality that currently supports the wide range of Visa innovations enjoyed by end-user consumers and merchants and would significantly hamper future innovation and would be a radical and unnecessary departure from standard global practice. We do not believe that this is the intention of the PSB but feel it necessary to again stress this important issue.

#### **Sector governance**

Visa also takes this opportunity to note the PSB's views in support of reform of the governance of the Australian payments sector, including the possible creation of a Payments Council. Visa will actively participate in both RBA-led and industry-led discussions on this issue in the coming months.

## Conclusion

Visa appreciates the opportunity to make this submission to the Review and thanks the RBA for earlier opportunities to discuss a range of issues arising from the Strategic Review.

We offer our in-principle support for the broad direction of the PSB's strategic objectives. However, as we have outlined above, we urge the PSB to ensure it maintains a flexible approach to the reforms based on enhanced competition and, where appropriate, voluntary cooperation and collaboration by industry. It is also important that the PSB consult with industry to ensure that appropriate deadlines are set so that the innovation reform process produces the best outcomes for end users.

Visa supports the benefits that a real-time settlements hub would bring for the industry. However, we suggest that the building of a utility-based hub, or potentially any type of new hub, is not necessary to deliver the strategic objectives proposed by the PSB. There may be commercial solutions either already or shortly available that the sector could deploy that would achieve these objectives and which would be significantly less costly and easier to implement and operate than any utility-based hub construction option.

Finally, Visa again notes our strong objection to any proposal that established card payment Schemes, such as Visa, be required to in any way route via domestic hub or other new infrastructure, however it was created. This would diminish the advanced functionality that currently supports the wide range of Visa innovations enjoyed by end-user consumers and merchants and would significantly hamper future innovation.