Strategic Review of Innovation in the Payments System

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Strategic Review of Innovation in the Payments System

One year in...

• Consultation paper
• Formal stage of consultations
• Submissions due 31 August
• Followed by face-to-face meetings
• And round-table discussions
• Conclusions – early 2012
Key gaps in the system

• Faster payments

• More convenient payments
  – addressing
  – straight-through processing
  – inclusion of (rich) data

• Common message standards
Governance...

Another key priority for the review

- Challenge: develop a governance structure that supports innovation
- Two types of innovation:
  i. Proprietary
  ii. System-wide
Governance to support system-wide innovations...

Real-time payments in Australia...?

- Current shortcomings...
  - within-day options: cash, visit a branch, within-bank, RTGS?
- Not a lack of proprietary innovation...
  ...problem is guaranteeing timely throughput of payments...
  ...requires system changes and a degree of co-operation

Data with payments...?

- Cannot ensure receiving institution accepts message...
  ...requires system changes and a degree of co-operation
Why is co-operation so hard?

- Network externalities
- Devaluation of existing infrastructure
- Generating sufficient network size
- Synchronisation and competing demands for resources
- Competition laws
Co-operation

What can be done?

• Role for the Payment Systems Board and the Reserve Bank
• Role for APCA
• Role for others – new entrants, customers (private and public)
• Flexibility to deal with evolving issues and promote longer-term strategic objectives
• Existing commercial interests – expertise, incentives to innovate
• Payment hubs and centralised structures
Uncertainty and Innovation

Many sources of uncertainty and risk

• Technology

• Demand

• New suppliers/networks

• Regulatory landscape
Summary

• Strategic review
• Focus of consultations
  – meeting needs of end users – speed, convenience, standards
  – better governance – to help overcome factors inhibiting innovation
• Uncertainty is important factor inhibiting innovation
  – much of it is unavoidable, especially in a competitive environment
  – but some could be reduced for industry overall
• Cannot regulate innovation into existence, nor is it sensible for policy makers to pick winners
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by 31 August