



**AUSTRALIAN BANKERS'
ASSOCIATION INC.**

Tony Burke
Director, Industry Policy & Strategy

AUSTRALIAN BANKERS' ASSOCIATION INC.
Level 3, 56 Pitt Street, Sydney NSW 2000
p. +61 (0)2 8298 0409 f. +61 (0)2 8298 0402

www.bankers.asn.au

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Head of Payments Policy Department
Reserve Bank of Australia
GPO Box 3947
SYDNEY NSW 2001
pysubmissions@rba.gov.au

Dear Head of Payments Policy Department,

Review of Card System Access Regimes: A Consultation Document

The Australian Bankers' Association (ABA) welcomes the opportunity to comment on the RBA's consultative document, *Review of Card System Access Regimes*.

The RBA considers that the access regimes applying to the MasterCard and Visa credit and Visa debit system may no longer be fulfilling their original objective of balancing competition and financial safety. The RBA notes two key concerns with the current access regimes:

1. They may be acting as a barrier to entry because they impose the regulatory burden of prudential supervision, which may be more onerous than necessary given the nature of the operations and financial standing of prospective participants; and
2. They transfer the costs of screening the soundness of participants to the prudential regulator.

Consequently, the RBA has identified three possible policy responses:

1. Varying the access regimes to expand eligibility to a larger range of entities;
2. Revoking the access regimes; and
3. Maintaining the status quo.

This submission does not seek to respond to the particular questions raised in the consultation document. Rather, it articulates the banking industry's preferred policy response.

Preferred option

The ABA and its members consider that, in determining the appropriate policy setting, the following objectives must be met:

1. Balancing competition in the payments system without materially causing or contributing to increased risk in the financial system;
2. Ensuring there is a level playing field for participants; and
3. Supporting the public interest.

Of the three options presented in the consultation document, the ABA and its members feel that Option 3, maintaining the status quo, is the most appropriate response to meet these objectives. The ABA's reasons for supporting Option 3 are set out in further detail below.

There are a number of important risks that must be considered for all options. These include:

- The RBA appears to have assumed that potential new entrants bring lower risk, by likely being net recipients of funds in settlement. However, the nature of acquiring risk is very much dependent on the acquiring operations model. All participants must be capable of bearing chargeback and fraud losses. With the market showing increasing movement from the traditional card present activity to card not present (eCommerce and mobile) there is exposure to a broader range of losses;
- It is a feature of the current payment environment that existing participants have a diverse mix of clients and are able to absorb losses arising from individual clients. A Self Acquirer is totally reliant on the success of its own business and its ability to meet its commitments. A lack of diversity could increase the risk of a market participant failing; and
- The ABA is concerned that, by opening up the market further to new and/or smaller participants, there is an increased probability that one or more market participants could fail given the complexities of the payments process. This would have an impact on stability and public confidence in the financial system.

In order to maintain the integrity of the card payments network, and confidence in the system, the ABA believes there should not be relaxation of current standards.

The ABA also considers that the current access regimes have sufficient flexibility to allow new participants to enter the market, under a variety of arrangements. One way in which existing participants have significantly reduced the barriers to entry has been the support of BIN sponsorship. While these arrangements do not give non-ADI participants complete control, they mitigate the risks associated with acquiring and enable non-ADIs to issue and acquire card transactions.

In this context, it is important to note that the international card schemes do permit participation of Non-Financial Institution (NFI) entrants under the sponsorship of existing members, relying on the NFI to assume and manage risk. These are typically referred to as wholesale acquiring relationships or issuing agents. Such arrangements balance increased participation in the payments system with appropriate risk management.

Impact on Australia's Domestic Payments System

The issues, as articulated in the consultation document and the proposed policy responses, appear to only apply to the Visa and MasterCard credit schemes. The consultation document does not appear to consider the impact on Australia's domestic scheme, EFTPOS Payments Australia Limited (ePAL) or the full impact on the Visa debit system.

ePAL is an important component of the payments system and any changes must ensure that it is treated equally alongside Visa and MasterCard. Debit requires an underlying deposit account, which means that the issuer must be an ADI.

The ABA considers that by widening or revoking the access regimes, the ePAL scheme could be excluded and an environment created whereby the international schemes will have a significant growth advantage over the domestic scheme.

If any changes are implemented, they should apply to all the different payment systems which include Visa, MasterCard and ePAL, to ensure consistent service and to retain customer trust in the payments system.

Regulatory Inconsistency

The ABA and its members are concerned that if the access regimes are varied or revoked, in order to enable participation by institutions that are non-ADIs, this will result in the creation of two significantly

different regulatory landscapes which could lead to system instability and competitive disadvantages. Consequently, ADIs would be competing with institutions that are subject to less rigorous (and costly) regulatory requirements.

Innovation in the Payments System

The ABA does not agree with the suggestion that the current standards and the absence of new entrants are inhibiting innovation. The Australian market, while not necessarily leading innovation globally, is a fast adopter. As an example, the local market is 100% EMV compliant and has the highest penetration of contactless capability in the world. Local issuers and acquirers are actively investigating near field communication and mobile advancements. In respect of mobile payments, the capability is in its infancy and suffers from conflicting standards and interoperability issues, for example in relation to varying authentication arrangements and the development of applications restricted scope of use. These need to be addressed before widespread adoption can be progressed. These issues are at the forefront of discussions between card schemes and their local membership.

It is the view of the ABA and its members that any review of the access regimes or discussion about policy settings should ensure that the payments system continues to achieve a balance between security, convenience and confidence, while maintaining domestic competition.

The ABA believes that the current access regimes provide sufficient flexibility for new entrants while being in the best interest of the public, and providing an effective framework for the management of systemic risk within the financial system.

Yours sincerely,



Tony Burke