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**RESPONSE TO RESERVE BANK OF AUSTRALIA
STRATEGIC REVIEW OF INNOVATION IN THE PAYMENTS SYSTEM**

GE Capital Finance Australasia Pty Ltd (“**GE Capital**”) welcomes the opportunity to make this submission in response to the Reserve Bank of Australia (“**RBA**”) Strategic Review of Innovation in the Payments System.

About GE Capital

GE Capital has several financial services businesses operating in Australia, including the consumer finance business. GE Capital has a significant and distinctive interest in proposed reforms affecting the regulation of financial services, and specifically consumer credit. Although GE Capital conducts a significant financial services business in Australia, we do not take deposits and our perspective on proposed reforms is unlike that of any other financial institution operating in Australia.

GE Capital is a division of the General Electric Company, a company that has provided financial services for 70 years. GE Capital is one of Australia’s leading consumer finance companies, offering an extensive range of consumer finance products, including personal loans, credit cards, insurance and promotional retail finance. The consumer finance business of GE Capital has ~3 million customers across Australia and New Zealand and its financial services are distributed through numerous sales channels, including over 12,000 retailers, 1,400 brokers, in excess of 100 branches, a direct sales channel and the internet. GE Capital’s Australian operations commenced in 1995 and have since grown rapidly through organic growth and major acquisitions. GE Capital now employs more than 3,500 people in Australia and has established its headquarters in Melbourne.

QUESTIONS POSED IN THE REVIEW PAPER

The following is GE Capital's response to certain questions posed for discussion. GE Capital has only addressed the issues most relevant to its business and which it believes it will be able to provide most value for the purposes of this review.

Certain questions and our responses to them are set out below, following the numbering in the review paper.

Question 8: Are there any impediments to the development and adoption of products to replace cash?

Yes. The number of contactless readers in use will need to reach critical mass to encourage widespread acceptance of using credit or debit cards for low value transactions.

We also believe that many merchants do not allow debit/credit under a threshold. Also, merchants may not have the ability to accept card transactions, or the cost of card readers may be too high. Finally, businesses' and customers' perception of security may be an impediment.

Question 12: Are there ways of altering current governance structures to make innovation easier?

In our view, improved communications between government bodies regulating the industry in order to understand the compounding negative impact on innovation that regulations affecting different aspects of the industry can have would assist.

Question 14: Could a new decision-making body with broad representation of payments system participants, service providers and end-users provide a better strategic focus for the payments system, taking adequate account of costs and the public interest?

A centralised decision making body would be beneficial; however, a local and global view of requirements and emerging technologies needs to be taken into account.

Question 18: What role should the Reserve Bank and the Payments System Board play in setting the reform agenda for the industry?

The Reserve Bank's role should be to facilitate communication between industry bodies, consumer group, suppliers and government. Specifically, with advancing technology and payment options, a broader representation than just traditional finance institutions (hardware/software providers, Telco's, internet payment service providers, etc.. should be encouraged.

Beyond that, we believe the Reserve Bank should be an independent body that consolidates industries' views and requirements and facilitates definition of standards based on these views.

Question 26: Could greater use of hubs improve efficiency, access and innovation in the Australian payments system?

Yes. In our view, greater use of hubs would enable efficiency and easier access for new entrants into the payments system. If a hub could provide a core set of functionality available to all participants (abiding to a set of standards) in which participants could create innovative solutions to complement the core systems, innovation and competition could flourish.

Importantly, improvements and advancements in standards would need to be "backward compatible", so that participants are not forced to change their technology/processes but rather can choose how quickly to adopt improvements. Security and safety of the standards and hub would be paramount to enabling effective innovation. A balance needs to exist between proprietary innovation and best practice sharing of innovations within the industry which fosters and strengthens innovation and progress as an industry.

For purpose of illustration:

Facebook - Created the API (standard set of functionality) to which developers (participants) can use some of or all the available functions to pass information, utilise existing systems/programs in new ways etc., Facebook (payment systems) flourishes by allowing and encouraging innovations by users/developers (financial participants) resulting in meeting or exceeding end user requirements and Facebook and the individual developers continue to innovate and both progress in a stronger manner than if each party attempted solutions in isolation.

Question 28: Should hubs be considered best practice for new payment systems? Should existing systems be migrated to a hub? Could hub services be offered in a way that allows participants to opt in, while providing full services to new entrants?

Yes, however this must be industry driven and agreed to in order for the full value to be realised. All members of industry must buy in, or risk creating further complications.

Question 31: Are there any specific impediments to that innovation occurring, e.g. barriers to entry, co-ordination problems, technological constraints?

Currently (and for some time) businesses' resources are being consumed by meeting regulatory reform requirements, including privacy law reforms and financial services/credit law reforms.

In addition, bilateral networks are complex and have a high cost of entry and ongoing usage, a hub would go a long way to simplifying and breaking down entry barriers.

Question 42: What form are mobile payments likely to take in Australia over the next five to ten years – SMS-based, mobile internet, contactless or some other form?

All three are likely to play a part, ultimately landing with contactless payments (two way interactions) from a mobile device and mobile internet payments, specifically transferring funds and online purchases.

Question 43: Are there impediments to the development of mobile payments in Australia? If so, what type of payments are being impeded and how?

Consumer perception of mobile payments is an impediment. Specifically, trust in provider and security concerns. Consumers display a slow adoption curve in the payments space when it relates to convenience vs. security. This can be seen in the rate at which consumers are using contactless payments. Consumers do not currently see the net benefit in mobile payments. The number of different players (Telco's, financial institutions, banks etc.) may lead to a number of different solutions which may hinder or slow the adoption and decision making process of consumers, specifically as it relates to trust and security.

The influence of individual players (or industry segments) needs to be balanced to ensure that innovation is not hindered due to the requirements of said influencer. Handset manufacturing, distribution, and costs are all inputs that could slow development of mobile payments.

Question 44: Are there security issues particular to mobile phones that may impede adoption of some types of mobile payments in the future? Are there likely to be issues with interoperability of mobile payment systems?

We do not predict there will be security issues in connection with mobile payments that cannot be adequately addressed (just as they have been addressed in connection with internet payments and contactless payments.).

Question 45: Are there adequate standards to support the development of mobile payments in Australia? If not, what standards are lacking, what types of mobile payments are affected, and who should be responsible for setting them?

Current standards exist in connection with mobile payments. However, Australia has been slow to adopt them due to conflicting, disparate views of players in the industry. Current mobile payment solutions are being built in isolation. In addition, certain key members of the industry are yet to form a clear vision on how to progress in this space. With regard to who should be involved in setting of standards, we refer to our response to question 29.

Question 50: Is there a case for greater industry co-operation on the setting of security standards for retail payments? If so, how should this be achieved?

We believe there is a need for greater industry co-operation on the setting of security standards for retail payments. The body responsible for setting the vision/standards of payments system (Hub) should ultimately be driving this. Please refer to our response to question 29.

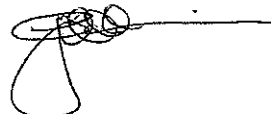
We thank you for the opportunity to provide a formal written submission on the consultation paper.

If you would like to discuss any of the matters raised in our submission, please do not hesitate to call Debra Kruse in the first instance on (03) 9921 6859.

Sincerely,



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GE Capital Australia & New Zealand



Greg White
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