



8 September 2011

Dr Christopher Kent
Head of Payments Policy Department
Reserve Bank of Australia
GPO Box 3947
SYDNEY NSW 2001

Dear Dr Kent

VISA SUBMISSION TO RBA INNOVATION REVIEW

Please find attached Visa's submission to the Reserve Bank of Australia's *Strategic Review of Innovation in the Payments System: Issues for Consultation* paper.

As a payments sector participant with a strategic focus on innovation and the benefits of innovation to consumers, we appreciate the opportunity to make this submission.

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.

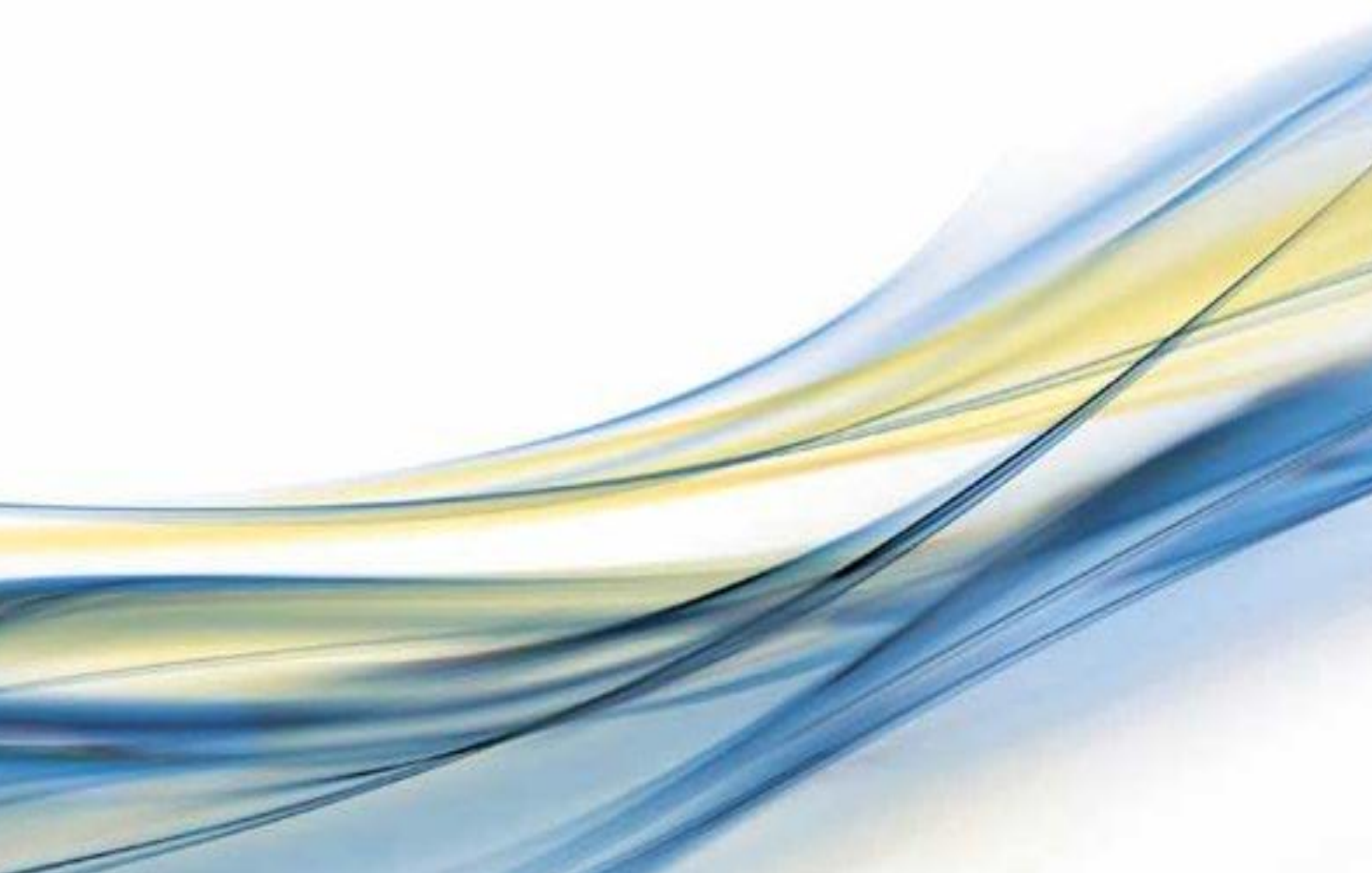
Yours sincerely

Vipin Kalra
Country Manager



Strategic Review into Innovation in the Payments System

August/September 2011



Strategic Review into Innovation in the Payments System

Executive Summary

- Visa is deeply committed to innovation in the Australian payments system and innovation globally.
- Australia's payments system is one of the world's best and features many innovative payments solutions.
- Australia's payments system is highly competitive, with strong competition occurring between both established participants and a range of new and emerging competitors.
- Directly or indirectly mandating innovations is unnecessary and will ultimately prove unsuccessful and costly to Australian payments system participants, including end-user consumers and merchants, as innovation needs to be sustainable in normal, free market conditions.
- Extensive "cooperative innovation" has and will continue to occur in the Australian and global payments system.
- "Proprietary innovations" make positive and important contributions to the overall standard of Australia's payments system and stand to greatly benefit end-user consumers and merchants.
- There are also no discernable "market failures" in the Australian payments system that would give rise to a need for market intervention by either a public agency or a new or reformed self-regulatory organisation (SRO).
- Whilst Visa is concerned about the substance, impact and content of several regulatory settings in Australia - including their impact on innovation - the overall current governance of the Australian payments system is tested and long-standing. As such:
 - the strategic planning and policy setting function should remain with the Federal Parliament, Federal Government and the Payments System Board (PSB), as set out by the relevant legislation, and not be devolved to any current or reformed SRO;

- industry participants should be able to continue, where relevant, operating successful self-governing and rule-setting sub-systems, such as the schemes managed by Visa, MasterCard and EPAL (collectively Schemes) with any issues between such Schemes to be determined by normal competitive forces and, where appropriate and permissible, commercial negotiations between them and between individual Schemes and their clients; and
 - pre-existing international standards and cooperation should remain operative and consistent to avoid Australia adopting approaches that could impact negatively on the international interoperability of our payments system.
- Whilst Visa sees no need for and does not support major reform of the Australian payments system industry governance arrangements, Visa has no issue with mechanisms that improve industry dialogue and discussion on key sector-wide matters.
 - As such, Visa supports the case for an effective, inclusive, representative and voluntary Australian payments industry association (IA) to facilitate discussion and debate on industry issues, subject to clear limitations on its mandate and role.
 - Schemes are currently not members of an payments specific IA and if any current IA wishes to play a more active role in Scheme-related issues, then the reform of the relevant IA's constitution, structure, membership base, decision-making processes and purpose is critical.
 - The work of any reformed IA must also, at all times, remain within the current legally permissible parameters of the *Competition and Consumer Act 2011*.
 - One area in which an IA could play a role is in the area of payments security.

Innovation in payments

Australia's payments system

Already delivering public benefit

The Reserve Bank of Australia (RBA) has recently stated that the Australian payments system has undergone substantial evolution and development over the last several decades which has increased access to efficient payment options for a wide range of participants and occurred in a way that has “undoubtedly provided considerable public benefit and is continuing to do so”¹.

Visa believes these statements form the positive basis upon which any assessment of the health of innovation in the Australian payments system should be undertaken. The RBA's *Strategic Review into Innovation in the Payments System* (Review) and the *Issues for Consultation Paper* (Consultation Paper) present an important opportunity to catalogue this record and analyse what is and isn't needed for future innovation. Visa's submission is drafted in this spirit.

No systemic innovation lag

The Consultation Paper also contains reference to concerns that “with the rapid pace of change that is occurring globally, a reduced willingness or capacity to embrace innovation in any country is likely to leave it lagging significantly behind other countries and failing to avail itself of the benefits that are achievable”².

Visa agrees that for a modern economy in a globally networked payments environment, the non-deployment of innovation in payments systems is a significant but avoidable risk. We do not however feel that this situation describes the innovation environment in Australia in most respects.

A thorough gap analysis of the Australian payments system may produce evidence of the need for some improvements in specific areas, just as there is always room for improvement and enhancement in any system and in any sector. However, we should recognise that there is no systemic innovation lag in Australia although as we have previously noted in submissions to the RBA, the existing and ongoing regulation of interchange does have the potential to diminish the deployment of certain innovations, as all relevant parties in the payments value chain are not adequately incented to provide new, unique and differentiated product offerings. This has been manageable to date but could deeply affect innovation should those interchange settings be made any tighter.

Australia's payments system is already one of the world's best and any gap analysis should be well targeted and aimed at producing guidance to industry on areas the public agency sees as important rather than requirements for particular actions or

¹ *Strategic Review into Innovation in the Payments System: Issues for Consultation* (June 2011), Reserve Bank of Australia (Consultation Paper), p 1

² RBA Consultation Paper, p1

investments. Any necessary solutions should rely on enhanced competition and, where appropriate, voluntary cooperation and collaboration.

Of course, investment, innovation, care and maintenance will all be required from industry participants to keep the Australian payments system strong and innovative into the future, but again, Visa feels that rather than mandating structures or outcomes to deliver one perspective of what 'innovation' looks like, the single 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. In certain circumstances (most notably, those situations where cooperation is required to ensure product interoperability) this will involve cooperation and below we outline several examples of where unprompted and substantial cooperation has occurred between market participants delivering important system benefits, such as standards for foundation technologies like EMV chips and Near Field Communication (NFC) devices, upon which a range of proprietary innovations have then been or are being built.

Ultimately the success or failure of any innovation - whether cooperative, proprietary, voluntary or mandated - will rest with what end-users are willing and able to utilise in a manner they feel increases the convenience, utility, efficacy, convenience and profitability of their transactions. We submit that when measured against these metrics the chances of success are significantly higher for an innovation that is market-driven as opposed to mandated.

Competition is strong

Australia's payments system is also highly competitive, with strong competition occurring between both established participants such as Visa, MasterCard, American Express, Diners and EFTPOS, now eftpos Payments Australia Limited or EPAL, and among our collective range of financial institution clients. Competition is also strong between these participants and a range of new and emerging competitors, including PayPal, Google, Paymate, POLi, BPAY and Tyro Payments, among many others.

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

All of these competitive forces are also supported by the health of the Australian financial system. Australian financial institutions have survived and even flourished during times when many of their counterparts across the world have failed, leading to a robust, competitive and efficient payments sector.

Mandating directions will only increase costs

It is Visa's view that any attempt to "create" more competition or more innovation through public agencies or SROs mandating innovation directions, whether by using

direct mandates, direct regulation or by raising the prospect of future regulatory imposts as a way to indirectly drive investment decisions in support of certain innovations, is a counter-productive path to follow. That approach is both unnecessary in Australia due to the level of vibrant organic competition already in operation and very likely to be unsuccessful when measured against the stated goals of such a plan.

Mandating innovation is actually likely to lead to increased costs for end-user consumers and merchants as the mandated development, management and maintenance costs of such 'compulsory' innovation will almost certainly be passed directly on to all end-users, regardless of the actual end-user uptake of the new offering. In fact, Visa would go so far as to submit that such a high-cost/low-uptake scenario would almost be a certainty as the new offerings are likely to come with limited organic interest market demand in light of the fact their deployment was unlinked to any normal market forces but rather driven by public agency or SRO intervention.

Types of innovation

The Consultation Paper develops a distinction between what is referred to as 'proprietary innovation' which is defined as innovation that "occurs largely at the discretion of a single commercial entity" and 'cooperative innovation' which is defined as innovations "that create change across all participants in a system and, therefore, rely on the cooperative arrangements between system participants to achieve change"³.

It is Visa's strong view that:

- innovation does not just occur in this two-fold way but in fact takes place across a spectrum ranging between purely cooperative and purely proprietary, with many mixed innovation types laying between these two positions;
- all types of innovation – including cooperative and proprietary – are important features of a modern payments system;
- from the perspective of end-users there is no inherent hierarchy of which approach to innovation is better or worse and public intervention should not seek to favour or mandate cooperative innovation as long as end-user outcomes are being preserved and built upon;
- extensive cooperative innovation has and will continue to occur in the Australian and global payments system and this has occurred not just within Schemes but also between payments system participants; and

³ RBA Consultation Paper, p11

- proprietary innovations make positive and important contributions to the overall standard of Australia's payments system and stand to greatly benefit end-user consumers and merchants.

Spectrum and value of innovation

Visa is deeply committed to innovation in the Australian payments system and innovation globally.

We do however adhere to a view that a typology of innovation that neatly splits innovative advances between what the Consultation Paper refers to as proprietary innovation and cooperative innovation is both challenging and not reflective of the nuances of the dynamic, global payments industry. Innovation does not just occur in this two-fold way but in fact takes place across a spectrum ranging from cooperative to proprietary, with many mixed innovation types lying between these two positions.

Equally, Visa would also challenge any view that is based on a 'proprietary versus cooperative' typology that implies proprietary innovation is in anyway intrinsically of less value than cooperative innovation. The Consultation Paper, in reference to proprietary innovations states that they can be "limited" in scope and uses other language that appears to imply that such innovations may not deliver as important or valuable innovative impacts as cooperative innovations. This is in contrast to the terminology used in association with cooperative innovation, where concepts such as "fundamental change"⁴ are used to describe the outcomes.

Visa holds the view that each innovation should be assessed on its merits and that typologies like the one described in the Consultation Paper are only of limited use. There are examples in all sectors where cooperative efforts have delivered little benefit to end-users, sector participants or the system as a whole and have resulted only in the imposition of costs. Equally, there are many examples of proprietary innovations that have reshaped large parts of modern economic activity. The merits of a particular innovation are best assessed through it being tested in an open-market and competitive environment.

So whilst Visa believes an effective innovation environment should foster the many forms of proprietary and cooperative formats, it is important to note that an optimal innovation market should openly and actively encourage proprietary innovation. As seen in the most effective innovation markets, truly game-changing forms of innovation are often fostered and developed via proprietary channels. As such even a slight market implication that collaboration is preferred over proprietary can risk private enterprise from investing in the (often significant) required level of research and development in order to reach deliver forms of innovation.

It is also instructive to note that many innovations have multiple features that range across the full spectrum of innovation. As outlined below, EMV chips represent both a deeply cooperative payments innovation (through the establishment and role of EMVCo) but also the basis of a set of proprietary innovations, such as Visa

⁴ RBA Consultation Paper, p11

payWave or MasterCard Paypass and mobile payments, among many others, that are fundamentally reshaping the entire payments landscape through improved transaction speed, greater security, the mobility of payments and numerous other advances.

Visa's commitment to cooperative innovation

In accordance with the above positions, Visa is committed to innovation across the full spectrum of innovation types.

Where relevant, voluntary and legally permissible, Visa is committed to engaging in cooperative efforts to encourage innovation and improve system security where such collaboration is the most efficient means available to progress a particular innovation.

Key examples of cooperative innovations in which Visa has been a founding proponent and/or prominent participant, and which have had (and continue to have) direct positive impacts on payments innovation in Australia, include EMVCo, the PCI Security Standards Council and the NFC Forum, among many others.

It is important to note that the establishment of none of these examples has resulted from regulatory compulsion – whether directly from public agencies or through SROs with devolved powers. Each of these examples of cooperative innovation has developed voluntarily as market-based cooperative solutions to particular technical, innovation or security challenges.

EMVCo⁵

EMVCo is a key example of Visa, along with competitor platforms, coming together to develop and manage an important systemic innovation.

As set out on the EMVCo website, EMV is a global standard for credit and debit payment cards based on chip card technology. The EMV microprocessor chip contains the information needed to use a card for payment, and is protected by various security features. As of the end of 2010, there are now more than 1.24 billion EMV compliant chip-based payment cards in use worldwide. EMV chip technology has become the 'backbone' of a wide range of payments system innovations in the last decade, including enhanced card security, contactless cards and now mobile payments.

EMVCo, LLC, was formed in February 1999 as a cooperative innovation of Europay International, MasterCard International and Visa International to manage, maintain and enhance the EMV Integrated Circuit Card Specifications for Payment Systems with the objective of ensuring interoperability and acceptance of payment system integrated circuit cards on a worldwide basis. The current members of EMVCo are American Express, JCB, MasterCard, and Visa. Each of these organisations owns an equal share of EMVCo and has employees who participate in the EMVCo

⁵ See EMVCo website www.emvco.com

organisation at the management and working group levels. All decisions are made on a consensus basis among the member organisations.

As a further illustration of the ability of this cooperative innovation to progress a broad level of collaborative involvement from across the payments system, particularly in relation to EMVCo's standard setting efforts, EMVCo also runs the EMVCo Associates Program as a means for interested members of the payments industry to actively engage in EMVCo activity.

PCI Security Standards Council⁶

A second example of Visa, along with competitor platforms, coming together to develop and manage an important systemic innovation is the PCI Security Standards Council (Council).

As set out on the Council website, its mission is to enhance payment account security by creating and maintaining PCI Security Standards, as well as fostering education and awareness across the payments system of these security standards.

To illustrate the level of cooperation entailed in the Council, its founders are American Express, Discover Financial Services, JCB, MasterCard Worldwide and Visa and the PCI Data Security Standard itself was initially created through the alignment of Visa's Account Information Security/Cardholder Information Security programs and MasterCard's Site Data Protection program. The Council's establishment was also funded by initial contributions by the founding payment schemes.

The organisation itself consists of an Executive Committee, a global Advisory Board to provide strategic and technical guidance, a Management Committee to run business operations and multiple Technical Working Groups to manage and evolve the various PCI Security Standards.

The scope of the Council extends to:

- developing and managing the PCI Security Standards, including maintenance, clarification and revisions of the standards;
- establishing and maintaining consistent approval processes for qualified security assessors, approving network scanning vendors and security laboratories, and routinely evaluating and approving qualified assessors, vendors and laboratories;
- publishing and distributing PCI Security Standards; and
- providing an open forum where all key stakeholders can provide input into the ongoing development of payment security standards and business practices.

The Council is established to involve the cooperation of many stakeholders and as such, merchants, payment device and services vendors, processors and financial

⁶ See PCI Security Standards Council website www.pcisecuritystandards.org

institutions are all encouraged to join the Council as 'Participating Organisations'. Participating Organisations are able to recommend changes, provide input on future Council initiatives, nominate representatives for election to the Council Advisory Board, and have access to and ability to comment on drafts of potential changes to security standards in advance.

NFC Forum⁷

Visa was also a founding member of the NFC, or Near Field Communications, Forum, which stands as another example of an important innovation-focused example of industry cooperation.

As set out on the NFC Forum website, the mission of the NFC Forum is to advance the use of NFC technology by developing specifications, ensuring interoperability among devices and services and educating the market about NFC technology.

The NFC Forum was formed in 2004 and Visa was a founding partner. The NFC Forum now has 150 members made up of manufacturers, application developers and financial services institutions who work together to promote the use of NFC technology in consumer electronics, mobile devices and PCs. The Forum has released 15 specifications to date, which provide a "road map" that enables all interested parties to create powerful new consumer-driven products.

The core goals of the NFC Forum are to:

- develop standards-based NFC specifications that define a modular architecture and interoperability parameters for NFC devices and protocols;
- encourage the development of products using NFC Forum specifications;
- work to ensure that products claiming NFC capabilities comply with NFC Forum specifications; and
- educate consumers and enterprises globally about NFC.

Other

In addition to EMVCo, the Council and the NFC Forum, Visa is also a partner of the GSM Association (GSMA)⁸, an international association of mobile operators and companies with a stake in the broader mobile ecosystem, and the Global Platform⁹, a cross industry, not-for-profit association which "identifies, develops and publishes specifications which facilitate the secure and interoperable deployment and management of multiple embedded applications on secure chip technology".

In 2010 Visa announced that a key aspect of the collaboration between Visa and GSMA will be the creation of standards for mobile money transfer, mobile payments and related services.¹⁰

⁷ See NFC Forum website www.nfc-forum.org

⁸ See GSMA website www.gsm.org

⁹ See Global Platform website www.globalplatform.org

¹⁰ Visa Inc. Press Release, *Visa Works with GSMA to Extend Access to Secure Mobile Financial Services Globally* (Feb 18, 2009)

Australian impacts

Each of these cooperative innovations has current or potential global reach but each also directly drives and delivers current and future innovations within Australia. They ensure cooperation on key issues such as interoperability and security for the benefit of the Australian market.

Visa's commitment to end-user friendly proprietary innovation

In addition to cooperative innovations, Visa very proudly invests considerable financial, technical and human resources in developing and deploying proprietary innovations. There are a wide range of innovative products and platforms, several of which are detailed below, that Visa has led to the Australian market.

Visa strongly believes that each of these have made a significant contribution to the broader Australian economy through the uptake of efficient electronic payments and the displacement of inefficient non-electronic payment methods. These have delivered marked improvements in cost, efficiency, speed and experience for end-user consumers and merchants.

The success of each of these proprietary innovations stems from the fact they meet demands in the market place and/or provided sustainable business propositions for our client financial institutions or merchant partners.

Debit cards

Visa has led innovation in relation to Scheme Debit in Australia, launching the first Scheme debit card in Australia in 1985. Visa Debit allows its end-user consumers to access their own funds in multiple environments domestically, internationally and online.

Domestically, Visa Debit use can occur in point of sale transactions and in the online ecommerce environment. Internationally, Visa Debit provides access to local currency cash withdrawals at foreign ATMs and allows for purchases in point of sale environments.

As the cardholder is effectively using their own funds, Visa Debit allows end-user consumers to manage their money in such a way that an electronic statement capturing all spend is accessible, allowing improved personal budget planning and management.

Visa is continuing the evolution of the Visa Debit product with the deployment of new tiers of Visa Debit whereby end-user consumers are offered a higher level of product amenity, such as travel insurance on their purchases. In addition we continue to innovate through enhancements to the Visa Debit product that improve functionality such as facilitating cash-out with purchases at point of sale terminals, which is now technically enabled via Visa.

Prepaid cards

Prepaid cards are another important innovation that Visa has deployed to the Australian market. Prepaid Visa cards provide a flexible platform for numerous uses across many sectors. For example Prepaid Visa cards have been used for:

- gift card purposes;
- travel card purposes, displacing expensive and out-dated travelers cheques and the need for foreign cash currency;
- emergency fund disbursement in events such as the Victorian bushfires and floods;
- multifunctional prepaid and student identification cards at Australian universities;
- staff identification cards that incorporate prepaid functionality and that allow employees to have a nominated portion of their salary directed to the employee prepaid Visa ID card for discretionary purchases;
- disbursing claims by insurance companies, with usage on these cards being restricted to certain merchant groups and no ATM (cash) access;
- a growing number of Employee Benefits/Salary packaging programs; and
- staff and customer rewards and recognition programs.

In addition, virtual Prepaid cards have now been offered in Australia. These are prepaid card numbers with no related physical plastic card and which are used for online or telephone transactions only.

EMV Chip rollout

As outlined above, Visa has played a leading role in the development of EMV chip technology and the cooperative innovation of EMVCo. In Australia specifically, Visa has taken a leadership position in the deployment of EMV cards and EMV enabled acceptance terminals.

Visa was the first organisation to deploy EMV devices and cards in Australia, commencing in 2001. The initial program included a financial incentive for both card issuers and card acquirers to deploy EMV, rewarding those EMV 'fast movers' and further illustrating the ability of proprietary-based innovation deployments to deliver important overall system benefits (here the commencement and growth of innovative EMV-based technologies).

The rollout of EMV technologies has also resulted in a significant drop in 'Card Present' fraud levels and enabled Australia to be a leading market for EMV security - both critical 'public goods' for the Australian payments system.

Contactless cards

Contactless cards are another important payments system innovation of the last several years. Contactless cards allow end-user consumers and merchants to benefit considerably from more rapid transactions bringing higher convenience to consumers and greater efficiency to merchants.

Visa commenced the rollout of contactless Visa payWave technology in 2008 and has made significant investments in assisting issuing and acquiring financial institutions to join with us in highlighting the importance of providing faster payments to their end-user consumers and merchants.

As of 2011, the majority of Visa card issuing financial institutions now issue Visa payWave cards or have an active development program underway. A significant number of key retailers have now also embraced the introduction of Visa payWave acceptance as a key way they can expedite payments whilst driving additional efficiencies through their business.

Mobile payments

The next frontier of innovative payments in Australia is what is referred to as 'mobile payments'. The Consultation Paper highlights that mobile payment interfaces take several forms ranging from Short Message Service based funds pushing through to smart phone based contactless transactions. In the Australian context, Visa's mobile payments approach has focused to date on the latter interface, which is reflective of the mobile usage profile of the Australian market.

Through cross industry partnership Visa implemented a leading contactless mobile payments pilot with Telstra and NAB in 2008. This pilot is recognised as one of the most advanced pilots in this area of innovation and the components are still seen to replicate the preferred commercial model.

Visa and ANZ also conducted a contactless mobile phone payment pilot in Sydney and Melbourne in 2011 where participants were given a special iPhone case with a secure microSD memory card that allows them to turn their phone into a payment device.

As mentioned above, Visa continues to invest heavily in building the contactless payments infrastructure as this is a key foundation for the deployment of mobile payments in the Australian market.

Mobile payments will bring a new era of services and capability to Australian consumers. They will also allow retailers to facilitate a rich interaction with customers that provides improved benefits and brand loyalty.

Mixed cooperative/proprietary

As outlined above, Visa doesn't believe innovations are necessarily exclusively either proprietary in nature or cooperative. Rather, innovation occurs along a spectrum and can feature elements of both.

Many innovations, such as EMV chips and associated standards, represent examples of layered and mixed cooperative and proprietary innovation. This approach is also apparent in a forthcoming key innovation recently announced by Visa, namely the 'digital wallet'.

Digital Wallet

In May 2011 Visa announced that it intends to introduce a „digital wallet’ technology.¹¹ Although introduced by Visa, the wallet will fully support integration of both traditional and emerging non-Visa payment types. That is, it is a proprietary platform (a proprietary innovation) but it will provide an open, agnostic mobile/digital tool for the facilitation of diverse payment options by a wide range of payment participants.

Key features of the digital wallet are expected to include:

- *Click-to-buy*: consumers can shop on-line by entering an email address, alias or online ID and password, instead of a billing address, account number and expiration date. In addition, Visa is exploring dynamic authentication technologies that will bring added layers of security to online purchases;
- *Cross-channel payments solution*: the wallet consolidates multiple Visa and non-Visa payments accounts and can be used in mobile, ecommerce, social network and retail point-of-sale environments;
- *Preference management*: a menu that enables consumers to set preferences for how their wallet will work, allowing them to customise and control the features of their personal wallet from privacy settings to designating which account will be accessed based on merchant type or purchase amount; and
- *Merchant offers*: a service that allows consumers to personalise their shopping experience by opting-in to receive money-saving discounts or promotions from participating merchants.

Again, a core feature of this major future innovation is that it is developing organically as part of a free market, competitive and demand driven response to end-user customer, merchant and financial institution client needs. It has not been mandated but will benefit from numerous aspects of the voluntary cooperative innovations outlined above, such as those being developed by the NFC Forum and those already developed through EMVCo.

¹¹ Visa Inc. Press Release, *Visa Unveils Next Generation Electronic Payments and Services* (May 11, 2011)

Specific Issues raised in the Review

Decline of 'tradition payment methods'

In accordance with the above clear principles, Visa's view is that as and when consumers move away from any reliance on or usage of what the Review terms 'tradition payment methods', specifically cheques and cash, no public intervention should be considered or deployed in support of the ongoing presence of such payment methods.

The operation of the market place for such traditional payment methods - driven by consumer demand and the related willingness of financial institutions and merchants to supply and accept traditional payment methods - should be the determining factor in their ongoing provision or eventual cessation.

Cheques

Visa appreciates that several industries and sectors have raised concerns with the possible prospect of the complete removal of cheques from the Australian payments system. These include the important not-for-profit sector. Visa understands and appreciates these concerns.

In accordance with the abovementioned principle of free market operation, Visa is supportive of the ongoing presence of cheques in the Australian payments system should that be the outcome of the freely operating marketplace of consumer demand, financial institution supply and merchant acceptance. As such, Visa would not support regulatory interventions to either expedite the decline of cheques or artificially manipulate their cost structure to make them cheaper (Questions 2 and 3).

Visa has several products that we feel would and could operate efficiently and cost-effectively as an alternative to cheques but we believe that the freely operating market place is the best forum for these to be assessed by consumers.

Cash

The Review raises questions concerning the possible presence of "impediments to the development and adoption of products to replace cash" (Question 8) and whether there "is any case for public intervention in cash replacement" (Question 9).

Visa is of the view that cash is an expensive, out-dated payment option that does not well serve the interests of a modern economy like Australia's, even in relation to smaller value purchases. It is a payment method that contains numerous embedded costs, including production, replacement, handling, storage, transport, security, higher fraud rates, lack of traceability and accountability, higher rates of tax evasion and costs linked to its ease of use for the black economy, money laundering and terrorist financing.

It has often been asserted that regardless of these factors, cash remains a cheaper payment option for lower value purchases due to comparative speed at point-of-sale when compared to card payments, however with the advent of contactless card payment options and their growing end-user usage, even this advantage is no longer apparent.

In *The Payments Industry in Canada: Understanding Efficiency Considerations in Two-Sided Markets*, prominent Canadian academic Professor Jack Carr refuted the premise that “credit card transactions are inherently more expensive for merchants than other types of payment”¹². Professor Carr outlined that:

“there is no credible economic evidence whatsoever to support this view. What is clear, however, is that explicit fees that merchants pay acquirers have become a lightning rod for challenges yet little focus is put on the many “hidden” costs of cash or cheques. Indeed, payment cards reduce or eliminate a number of significant costs for merchants that arise from using other payment methods (e.g., shrinkage/theft, handling cash, employee time to accept cheques, etc.).”¹³

Equally, the United States Government Accounting Office validated the tremendous benefits of governments accepting and using cards in relation to traditional alternatives such as paper-based payments like cash and cheques. These benefits included speed, streamlined accounting, reduced fraud and the ability to accept payments through alternative channels like the internet and phone. In total, the United States Government Services Administration estimated that administrative cost savings from card use in 2006 was alone \$1.7 billion.¹⁴

In light of the costs of cash and the benefits of card usage, Visa submits cash replacement is a good public policy outcome. However, applying our principles consistently, we see no case for public intervention to either support the ongoing presence and use of cash or to intervene to expedite its decline. We feel that the best policy setting is one of non-intervention and free market operation. That said, the public policy case for active decisions to be taken by Government agencies, for example, to continue and expedite the migration of a range of payments and functions to electronic card payments is a clear one and we would strongly encourage this to continue.

As part of this position of non-intervention, Visa raises concerns with some regulatory settings in the Australian system that we feel may be disincentivising Australians from increased electronic payments usage despite the fact that studies show that cash is the *most expensive* form of payment for society. These include (i) the rapid proliferation of both excessive and blended surcharging across credit *and* debit cards and (ii) the growth in market share of more expensive three-party card schemes driven by the unequal interchange regulatory settings that operate between such schemes on the one hand, and four-party card schemes on the other,

¹² Professor Jack Carr and Navin Joneja, *The Payments Industry in Canada: Understanding Efficiency Considerations in Two-Sided Markets* (Feb 2004)

¹³ Carr and Joneja

¹⁴ U.S. Government Accountability Office, *Credit and Debit Cards*, GAO-08-558 (May 2008)

which is pushing up system-wide costs for accepting electronic payments and driving some end-user consumers and merchants, particularly when combined with surcharging, to revert to cash payments.

Addressing these regulatory issues will assist in ensuring current regulatory settings are not indirectly supporting the continuation of expensive and inefficient cash transactions by artificially increasing the by-transaction (surcharging) and system-wide (interchange regulation) costs of electronic payments in Australia.

Need for new RBA payments cost and benefits study

In past RBA produced materials dating from 2007, it has been contended that the cost of cash is lower than the cost of electronic payments, again this is stated to be particularly the case in relation to lower value transactions. As mentioned above, with the advent of contactless payments Visa believes that such findings are no longer current. Visa also remains concerned that the costs analysis previously undertaken may not include the full scope of all sunken costs in the cash payment channel nor does it account for the substantial benefits provided by electronic payments¹⁵.

Furthermore, in terms of overall economic costs of payments, in the same RBA research asserted that “the annual costs incurred by financial institutions and merchants for payments made by individuals amount to at least \$8½ billion, or around 0.8 percent of GDP”¹⁶.

Visa’s concern with this research is that it focused only on the cost side of payments utilisation and did not factor in the substantial benefits that also flow from payments. We feel the impact of the absence of a benefits analysis is particularly acute when electronic payments are assessed. Ultimately, the proper assessment includes an analysis of *both* the costs *and* benefits of each form of payment, which is the only way to determine the overall value of respective payment forms.

In 2010 Moody’s Analytics conducted an assessment of the impact of electronic card usage on private consumption and GDP across 51 countries that collectively accounted for 93 percent of the world’s GDP. It found that the additional economic benefit from card payment usage was \$1.1 trillion in real dollars from 2003 to 2008¹⁷. In GDP growth terms this translates into GDP growing by an extra 0.2 percent a year on average beyond what it would have without card usage. Specifically, in relation to Australia, the report stated that our economy:

“experienced one of the largest effects—almost 1.5% in additional GDP. One possible reason is the confluence of positive factors in

¹⁵ *Payment Costs in Australia: A Study of the Costs of Payment Methods*, RBA Paper (November 2007)

¹⁶ *Payment Costs in Australia: A Study of the Costs of Payment Methods*, RBA Paper (November 2007), p

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¹⁷ Mark Zandi, Chief Economist, and Virendra Singh, Director, *The Impact of Electronic Payments on Economic Growth*, Moody’s Analytics (March 2010), p 1

Australia—a high penetration of cards to PCE (50%), coupled with robust growth in card usage (10%)¹⁸.

We feel that the time has come for a full costs and benefits analysis of payment options in the Australian economy. As such, Visa feels there is a strong case for an independent RBA-sponsored reassessment of the broad comparative costs *and benefits* of different payment channels, including cash and electronic payment options. This will significantly aid future sector dialogue on the decline of traditional payment methods.

Payments industry governance

As outlined above, Visa is deeply committed to innovation in the Australian payments system and also innovation globally. We practice this commitment to innovation on a number of levels and in various forms across a dynamic spectrum of cooperative, proprietary and mixed cooperative/proprietary innovation.

In answer the issues raised in the Consultation Paper (Questions 10-19), we do not see a case for public agency or public regulator intervention in Australia to guide or mandate innovation as we do not support the view that there is a systemic innovation lag in the Australian payments system or likely to be such a lag in the future if market competitive forces are allowed to operate freely.

Visa also believes that the same approach should inform an assessment of the potential place for any self-regulatory organisation (SRO) in the Australian payments system. That is, Visa feels that there are no discernable “market failures” in the Australian payments system that would give rise to a need for market or regulatory intervention by either a new or existing but reformed SRO.

Current governance arrangements

The Consultation Paper notes that decision-making in the Australian payments system takes place across several levels, namely:

- decisions taken by individual payment system participants;
- at the Scheme level;
- at the industry level, such as through the Australian Payments and Clearing Association (APCA) in relation to clearing; and
- at the systemic level, through the Payments System Board (PSB).

In relation to this schematic, we would also note that in addition to the central role of the PSB through its “overarching mandate for promoting safety, stability, competition and efficiency in the payments system”¹⁹, the other strategic planning and policy setting stakeholders under current governance arrangements are the Federal Parliament itself, and through it, the Federal Government of the day.

¹⁸ Zandi and Singh, p 3

¹⁹ RBA Consultation Paper, p 14

Furthermore, Visa notes specifically that the industry-level decision-making role of APCA is limited to clearing and does not extend to many other aspects of the payments system, particularly as that system relates to the work of Schemes.

Visa submits that whilst we remain concerned about the substance, impact and content of several regulatory settings in Australia – including, as set out above, their impact on innovation and on the uptake of electronic payments – the overall current governance framework of the Australian payments system is acceptable. This is an important distinction – on one hand is the *regulatory content*, on the other hand is the *governance framework*.

What we are being asked to form a view on in this part of the Review is our perspective on the governance framework, and whether changes to that framework that may involve the movement of elements of systemic-level and Scheme-level decision-making to a SRO would improve that framework. It is our view that such movements in decision-making authority are unnecessary, would not deliver improved outcomes, would potentially be counterproductive in terms of cost, innovation and Australian interoperability and could unfairly disadvantage some industry participants.

Unnecessary reform

The Consultation Paper sets out three types of functions performed by SROs, they being:

- system operation;
- rule-setting and coordination in decentralised systems; and
- strategic planning.

Visa strongly submits that the strategic planning and policy setting function in the Australia payments system should remain with the Federal Parliament, Federal Government and the Payments System Board (PSB), as set out by the relevant legislation.

Equally we submit that industry participants should be able to continue, where relevant, operating successful self-governing and rule-setting sub-systems, such as the Schemes managed by Visa, MasterCard and EPAL.

Visa sees no issue with APCA continuing in its rule-setting and coordination role in relation to clearing and settlement because this is a well established core APCA function and one where appropriate membership representation exists to ensure all stakeholders in the clearing and settlement area are included in necessary decision-making. This is also an area where a central party is technically required and where no alternative, successful, self-governing and rule-setting sub-systems exist or operate. This is not the case in relation to the payments environment as it relates to the areas in which Schemes currently operate.

Schemes currently operate successful payments sub-systems that do take into consideration the needs of end-user consumers and merchants, that do make important proprietary, cooperative and mixed proprietary/cooperative contributions to innovation in the Australian payments system and who also adhere to a range of pre-existing international standards that ensure global interoperability. Imposing a SRO with potentially sweeping authority onto this dynamic but already appropriately managed area would be unnecessary.

Should issues arise between individual industry participants, between Schemes or between Schemes and their clients (in the case of Visa and MasterCard) or Schemes and their members (in the case of EPAL) that do need resolution, Visa believes that these are best resolved by operation of either Scheme rules, or where the issues are cross-Scheme or non-Scheme, through normal competitive dynamics or where appropriate and permissible, commercial negotiation and discussion.

Should that normal market process not prove conclusive – and we note that to date industry participants and Schemes have been very successful in resolving such issues – then the current governance framework already provides an appropriate set of ‘next steps’ that can be considered and deployed as needed.

Risk to innovation

We also believe that a broad SRO may in fact *inhibit* the innovation. Although Visa appreciates that increased industry dialogue on some issues may be an appropriate goal, we are concerned that a SRO may in fact reduce innovation in the industry given its likely broad membership representing both potentially conflicting and competing interests that will be expected to drive industry progress.

Indeed, the risks of “consultative” associations to the development of electronic payments is already seen today in Australia through the challenges currently faced by APCA. The RBA itself has stated that the “cooperative” structure of APCA has created significant challenges for the introduction of new innovations. This stands in comparison to the effectiveness of the Scheme model. In this regard the Consultation Paper states:

“Co-operative innovations are those that create change across all participants in a system and, therefore, rely on the co-operative arrangements between system participants to achieve change. This is most clearly evident in Australia in the payments clearing systems operated by APCA, which underpin Australia’s key retail payment systems. Innovation in these arrangements requires agreement of the participating members. APCA’s structures have been designed to facilitate this, *but the very nature of the agreement required can make change difficult*. Fundamental change in these areas has at times been hard to come by.

Less problematic for innovation is the case where there is a single, commercially focused decision-making body for a payment system. One example of this is the international card schemes, which can implement

*innovations either through mandated rule changes or through commercial arrangements with participants. This sort of arrangement has been mirrored in the establishment of eftpos Payments Australia Limited (ePAL) to govern the eftpos system. This is already resulting in moves towards greater innovation in that system (emphasis added)*²⁰

Furthermore, as illustrated above, Visa and its competitor Schemes do already have a record of successfully delivering cooperative innovation through collaboration *between* Schemes and this has also occurred without the need for a SRO intervening to require such cooperation.

Risk to interoperability

A related corollary of the successful cooperative innovations between Schemes is the existence of a range of current and evolving pre-existing international standards, such as those around EMV chips or NFC devices. These standards have and will continue to produce important tangible innovation benefits for Australia.

To be most effective and to ensure Australia doesn't fall out of step with such global standards, we must ensure that these international standards remain both operative and consistent. If an Australian SRO were to step in and require a different approach to such standards we would run the serious risk of losing full interoperability, which for a medium-sized, globally-focused economic system such as Australia's, would be an unfortunate and avoidable risk.

Potential cost impacts

Whilst we acknowledge that SROs can come in different forms, we feel it highly probable that an Australian SRO would be likely to seek to guide or even mandate innovation directions for the payments sector. Indeed in the Consultation Paper industry self-governance is developed as a possible means to deliver such innovation directions. Visa submits however that just as when a public agency seeks to undertake such a role, the performance of such a role by a SRO is likely to be unsuccessful when measured against the same metrics set out above in relation to public agencies, including being costly to the payments system and therefore to end-user consumers and merchants.

As recognised by the International Council of Payment Association Chief Executives in their *Principles of Payments Industry Self-Governance* report, any payments industry self-regulation has the potential to create significant costs that may discourage investment in the industry.²¹ This concern was also contained *Industry Self-Regulation in Consumer Markets* report prepared by the Australian Taskforce on Industry Self-Regulation, which noted that “self-regulation does come at a cost to both the industry and the consumer” and that these costs “may be translated into higher

²⁰ RBA Consultation Paper, p 11

²¹ International Council of Payment Association Chief Executives, *Principles of Payments Industry Self-Governance* (Nov 2007), p 20; “Regulatory costs are not a trivial matter ... Excessive administrative and compliance costs will discourage investment in the industry and may prevent new entry into the industry.”

prices for consumers resulting in a poor market outcome for both businesses and consumers.”²²

As explained above, we have in fact participated in numerous cooperative innovation projects in the past and will continue to do so in the future. Many of these have been aimed squarely at developing and deploying standards that act to ensure compatibility.

Representation and governance issues

Visa notes that the Consultation Paper states that “APCA is the principle industry body representing the payments industry in Australia”²³. Whilst APCA is an important participant in numerous aspects of the payments sector in Australia, Visa notes that Schemes are not members of APCA today and historically have also not been APCA members. This obviously makes it challenging for Scheme entities to see APCA as representative of them or their interests. This should not be seen as a criticism of any current or past officers of APCA, but is merely a statement based on the reality of APCA’s current structure, membership, mandate and purpose.

The question could be asked – couldn’t a reformed APCA, or even a wholly new SRO, be developed so as to deal with our concerns. Visa view is that is an unlikely outcome. Such a SRO would need to rely on decision-making that would either employ a consensus modality, what the Consultation Paper refers to as “a committee style of decision-making”, or by incorporating voting rules that ultimately facilitate “majority voting”²⁴.

Visa is concerned that the consensus modality is not suited to a SRO (although, as set out below is likely to be a successful basis for a reformed industry association) and would, in the context of a SRO, deliver such a degree of compromise that the value of the outcomes would be questionable. Equally, Visa cannot see a pathway to a SRO where decisions are based on majority voting that would not run the very real risk of unfairly disadvantaging some industry participants.

Industry association reform

Whilst Visa sees no need for and does not support major reform of the Australian payments system industry governance arrangements - particularly if that was to entail the development of a SRO - Visa has no issue with mechanisms that improve industry dialogue and discussion on key sector-wide matters.

As such, Visa supports the case for an effective, inclusive, representative and voluntary Australian payments industry association (IA) to facilitate discussion and debate on industry issues, subject to the abovementioned limitations on its mandate and role.

²² Taskforce on Industry Self-Regulation, *Industry Self-Regulation in Consumer Markets* (Aug 2000), p 80-81.

²³ RBA Consultation Paper, p 14

²⁴ RBA Consultation Paper, p 13

We would take this opportunity to highlight the key differences between the SRO model and the type of IA we would support. As outlined above, whilst there are many types of SROs, an Australian payments SRO would most likely have a mandatory membership requirement, would have some degree of devolved regulatory and standard-setting powers over payments industry participants and would require internal decision-making processes that either delivered very low-level outcomes (the consensus model) or make decision by a majority voting process that stands to potentially unfairly treat certain participants.

By comparison, an IA could be structured to be voluntary in terms of its membership requirements, be open to a more inclusive membership base (including the possibility of membership by Schemes should they choose to join), becoming more representative as a result and increasingly effective. Importantly, such an IA would not seek to replicate or replace the role of a public sector regulator but would provide a forum for discussion and debate on industry views.

We do however again note that Schemes are currently not members of a payments specific IA and if any current IA wishes to play a more active role in Scheme-related matters, then the reform of the relevant IA's constitution, structure, membership base, decision-making processes and purpose is critical.

The work of any reformed IA must also, at all times, remain within the current legally permissible parameters of the *Competition and Consumer Act 2011* (CCA). The IA could not engage in any consideration of issues that could even be argued to be in violation of the CCA absent an explicit Australian Competition and Consumer Commission authorisation for such conduct.

One area in which an IA could play a role is in the area of payments security, which we comment on further below.

Systems architecture

The Consultation Paper raises the issue of whether the 'system architecture' of the Australian payments system needs to be enhanced through the creation of some form of centralised 'hub' (Questions 26-29).

The suggestion is made that such a hub could be a "centralised architecture through which payment messages are directed to the recipient... [and which] could remove the need for bilateral connectivity, security and testing and reduce the need for the same functionality to be built by all participants"²⁵.

First, Visa is unconvinced that the construction of such a hub is an end in itself. The network in support of a payments system - whether a series of bilateral linkages or a centralised hub - is but one aspect of that payments system. The full payments system includes numerous other participants and the need to account for their roles, their demands and their capabilities. Building a centralised hub will not in and of itself address issues or weaknesses that might be present elsewhere in a payments network.

²⁵ RBA Consultation Paper, p 20

As set out above in considerable detail, Visa does not think the setting of innovative directions by public agencies or SROs is an advisable course of action, regardless of whether this is via the option of “simply an expressed industry preference for newly established systems to utilise hubs, [through] to creating a hub that could be used by a range of systems, both existing and emerging”²⁶. If the ‘expressed industry preference’ was developed via commercial negotiations, this would be a different matter, however the Consultation Paper goes on to consider a mandated approach in more detail, outlining that:

“A possible model to take account of legacy arrangements could be to require participants in a system to be able to send and receive messages via a hub, but to allow them to retain existing bilateral arrangements where convenient”²⁷.

Visa is not contending that conceptually the use of hub structures in payments systems are a negative thing, in fact VisaNet, the technology behind Visa’s payment network, is structured in such a way. However, Visa questions the need for public agency and/or SRO intervention to require the creation of such a hub. Visa knows from its own experience the investment impositions that come from the creation, management, maintenance and constant improvement such a hub requires. We attach a more detailed document that sets out information on VisaNet and its capabilities to provide a full sense of the scale of what is required.

The Consultation Paper also considers that the management of such a hub:

“could be governed by co-operative industry arrangements mirroring those for the APCA clearing systems... Alternatively, the operator of a hub could be established as a separate entity that governs the terms of access to the hub, potentially centralising some of the bilateral business underpinnings of current systems, further reducing the cost of access and simplifying decision making.”

Again, Visa would make the point that mandating such measures is concerning on numerous levels, including the likelihood that such an approach is likely to lead to increased costs for end-user consumers and merchants as the mandated development, management and maintenance costs of such ‘mandated innovation’ will almost certainly be passed directly on to all end-users.

Further, when the concept of a payments hub is considered from a practical implementation perspective, it is almost certain that for it to have any chance of success, all *domestic* financial institutions would have to be hub members, meaning it is hard to see a hub model that doesn’t rely on compulsory participation of some kind. We would of course strongly object to any proposal that Schemes such as Visa could be required to have any involvement with a domestic hub, however it was created. Any such requirement would fundamentally diminish the advanced functionality that currently supports the wide range of Visa innovations enjoyed by

²⁶ RBA Consultation Paper, p 20

²⁷ RBA Consultation Paper, p 20

end-user consumers and merchants and would significantly hamper future innovation.

A further point of note in relation to transaction processing through hubs, Visa has an established record of providing access on commercial market terms to VisaNet for the use of domestic debit systems, having done this for up to 11 American domestic debit schemes for 20 years.

The VisaNet hub incorporates extensive functionality and operates in markets of varying complexity and stages of development, and Visa has made similar commercial offers to Australian domestic debit schemes. When such utility is already available we see no efficient purpose in mandating its recreation at considerable and ongoing cost to Australian financial institutions and ultimately end-user consumers and merchants.

Listed 'gaps'

In the Consultation Paper it is stated that in the context of possible 'gaps' in innovation the Australian payment system, "there may still be a need to determine an agenda for industry and set priorities"²⁸.

As set out above, Visa does not think the setting of innovation directions by public agencies or SROs is an advisable course of action. However, a thorough gap analysis of the Australian payments system is a worthwhile project to be undertaken and which may produce evidence of the need for some improvements in specific areas, just as there is always room for improvement and enhancement in any system and in any sector.

However, these outcomes should be available for use by industry to develop its own proprietary, cooperative or mixed of innovation responses. As the fundamentals of our payments system are sound and there is no systemic innovation lag, we feel that any areas for improvement are best addressed through open competition and, where appropriate, voluntary cooperation and collaboration.

Below we briefly submit our views on several of the areas raised in the Consultation Paper, including noting that within the Visa, solutions for many of the issues raised are either already deployed or under development (and we understand several of our competitors are developing or deploying similar technologies) and that such advances have occurred absent any guidance or requirements from a public agency or SRO.

Transmission of data with payments

The Consultation Paper outlines that stakeholders have raised the "difficulty in transmitting additional data with payments in Australia"²⁹ as a concern. The Consultation Paper focuses on possible changes to the Direct Entry (DE) system to address this issue.

²⁸ RBA Consultation Paper, p 22

²⁹ RBA Consultation Paper, p 22

Visa agrees that the ability to transmit richer data content with payment transactions, particularly for commercial-related payments, is a positive goal. As such Visa has developed a data matching program for certain spend categories which allow end customers to receive line item and ATO compliant tax data in an electronic format. This allows companies and government to reconcile transactions more efficiently and use the data for more detailed and relevant management reporting. The additional benefit can also be seen in the use of the data for enhancing supplier negotiations for example with a travel provider for better rates on high use airline routes. Visa is continuing to invest in new avenues to increase the provision of spend data to companies and government, in turn to facilitate better processes.

Another example that illustrates the ability of a system like VisaNet, as it is already structured and deployed, to deliver data rich transaction solutions, can be seen in the United States through what is known as the Real-Time Auto-Substantiation for Visa Healthcare Cards solution. Under this program, Visa made adjustments to VisaNet and financial institution card acquirers made adjustments to terminal software to enable the auto-authorisation of certain drug purchases by certain cardholders.

Cardholders and a list of qualifying drugs are enrolled into the program by the relevant United States health department with this data residing securely on VisaNet. When a cardholder presents their enrolled card at a pharmacy and the pharmacist enters an applicable code into their terminal to identify the qualifying drug, Visa is able to approve or decline the transaction based on this transmission of data.

Timeliness of payments

As the Consultation Paper notes, timely payments are important from numerous perspectives – such as for those needing to receive funds as quickly as possible and for merchants wishing to receive confirmation of payment in real-time to release goods or services to customers. The presence of weekends and public holidays can mean some payments, particularly certain transfers, are further delayed beyond even standard processing periods.

Visa has developed and deployed a range of product solutions that deliver on end-user consumer and merchant demands for faster payments. One such innovation is our person-to-person Visa Personal Payments product which is detailed below.

Another example is in our innovative design and deployment of emergency disbursement prepaid cards. Visa has extensive experience with real time disbursement of disaster response and assistance funds using prepaid cards with a Visa solution being used in both the response to Hurricane Katrina in the United States in 2005 and the large scale floods in Pakistan in 2005.

Visa is now working with government departments and insurance companies in Australia to deploy disbursements platforms which can be mobilised quickly and

easily at the time of a disaster or other emergency. This prepaid card deployment occurred most recently following the 2009 bushfires and the 2011 Victorian floods. There is also significant additional potential for efficiencies across a much wider range of government disbursement functions through the use of Visa's innovative card solutions.

In relation to the specific issue of real-time confirmation of payments, we note that the Consultation Paper acknowledges the successful innovations developed and deployed by Visa and similar Schemes in stating that:

“Card payments facilitate real-time confirmation of payment to merchants by checking funds/credit available to the customer and blocking that amount in the customer's account. This allows purchased goods and services to be released to the customer immediately. In some cases, most notably contactless cards, transactions are processed „off-line' (without checking funds/credit availability) up to a relatively low limit.”³⁰

The Consultation Paper then raises concerns that there is insufficient competition in the provision of real-time confirmed payments in the online environment, stating:

“Given the rapid take-up of online payments, the provision of similar functionality online is important. This functionality is available from the international card schemes, which dominate this space, as well as some specialist online payment providers. It can be argued therefore that there is no gap here, but the Board has been concerned that there is not greater competition in this area.”³¹

Visa agrees that no 'gap' exists in this area. We do not agree however that insufficient competition exists. There is ongoing and robust competition between Visa, MasterCard, American Express and Diners, which has now also been joined by PayPal. In addition, as the RBA is aware, EPAL has made it a publicly stated objective to develop and deploy online functionality for EFTPOS debit transactions. Taking this into consideration Visa believes more than sufficient competition is in operation to support diverse end-user consumer and merchant options to pay and received transactions in real time online.

Ease of addressing payments

Visa agrees that the more complex the process to address a payment, the more costly it is likely to be and also more likely that a misdirection of some kind may occur. As outlined in the Consultation Paper:

“Card payments could be thought of as the most user-friendly systems in this regard because neither the customer's nor the

³⁰ RBA Consultation Paper, p 25

³¹ RBA Consultation Paper, p 25

merchant's account details need to be entered manually; the customer's details are of course recorded on the card itself."³²

Visa agrees with this position. We would submit (as outlined below in relation to person-to-person payments) that the deployment of a range of Visa products, ranging from our core Visa Credit and Visa Debit products, through to new products such as Visa Personal Payments, together provide a diverse set of choices for end-user consumers and merchants to easily address payments.

Person-to-person (P2P) payments

The Consultation Paper notes the "absence of a user friendly, universal person-to-person electronic payment system in Australia" but notes that there are "some fledgling person-to-person systems now available"³³.

Visa has introduced a person-to-person payment product, known as Visa Personal Payments. Visa Personal Payments enables Visa cardholders to receive money quickly and easily by using their Visa card to send and conveniently receive a money transfer. End-user consumers can initiate a Visa Personal Payment through a variety of channels, including a bank branch, ATM, the internet/online banking site, a kiosk or mobile phone.

Not all Australians need or will use a P2P services so we are not convinced that developing or requiring the development of what is referred to as a 'universal' P2P payments system is necessary. Innovations like Visa Personal Payments and the PayPal functionality mentioned in the Consultation Paper are being actively deployed and constantly improved. For example, Visa is currently working on measures to make Visa Personal Payments truly real-time. Collectively such platforms also have very wide and/or potentially very wide coverage. It would seem unnecessary and premature for a public agency of SRO to intervene in this area at this time.

Mobile payments

As set out above, Visa has led and continues to the lead in the area of mobile payments and digital wallets as understood in the Australian market. We also note that our approach in relation to such innovations has been a mix of both proprietary and cooperative innovations.

We note with agreement that "to date the Board has taken the view that there are no particular impediments to the development of mobile payments in Australia". In answer to Questions 42-43, Visa would agree with the PSB's position and notes the active payments sector cooperation underway through EMVCo, the NFC Forum and others that are guiding global developments in relation to modern mobile payments.

Visa would however note that the potential intervention of a public agency or SRO to mandate Australian-specific innovation directions could pose a risk of putting in

³² RBA Consultation Paper, p 26

³³ RBA Consultation Paper, p 26

place an impediment to fully interoperable mobile payments unless it directly mirrored developing global standards, in which case it would seem unnecessary to have Australian-specific standards anyway. It is our view that developing international standards are more than suitable for the Australian payments system.

Standards

ISO 20022

In relation to messaging standards, the Consultation Paper notes that the Australian standard for card payment services, security and messages, AS2805 and then makes reference to the development of ISO 20022 as a “methodology for constructing message standards that are interoperable across industries and jurisdictions”³⁴.

Visa operates today with a global standard for all authorisations called ISO 8583. ISO 8583 is used for almost all credit and debit card transactions, including ATMs. Several hundred million ISO 8583 messages are exchanged daily between issuing and acquiring banks.

The benefit of this standard is that is already supported by all 15,700 financial institutions connected to VisaNet, including all Australian financial institutions. ISO 8583 is a recognised standard that provides real-time approval of purchases as well as services like real-time fraud protection scores that support financial institutions to protect themselves from fraud in real-time.

Visa does not support a shift from this standard to ISO 20022 in regards to authorisation messages. A movement to a new XML (eXtensible Mark-up Language) standard could reduce the speed of the transactions, due to the size (in bytes) of the transaction being larger, reducing the purchasing experience for cardholders and merchants. We note that this size difference is not due to the data being any richer or more valuable.

Visa is today focusing on increasing the speed for end-user consumers and merchants by deploying innovative contactless cards and terminals across Australia, and imposed the ISO 20022 standard would be a counterproductive step.

Security

Fraud prevention is a key priority for Visa and although fraud in Australia is low by world standards Visa has continued to lead security initiatives here. Since 2002 Visa has deployed a number of country specific projects including Visa’s Account Information Security Program in 2002, CVV2 in 2004, lobbying for Federal anti-skimming legislation in 2005, deploying line encryption in 2006, annual law enforcement training and the Visa Seven Point Security Plan initiated in 2009.

³⁴ RBA Consultation Paper, p 29

The Visa Seven Point Security Plan contains timelines for full EMV-chip enabled acceptance of domestic Australian transactions (by April 2012) and full EMV-enabled card issuance (by April 2013). This EMV backbone provides the basis for universal PIN at point-of-sale by April 2013. In addition to these measures, the Visa Seven Point Security Plan also includes Verified by Visa registration for Australian cards by April 2012 and CVV2 usage by all online merchants by the same date.

At present there is a degree of industry cooperation in relation to security issues. This is facilitated through APCA who manage a number of technical requirements relating to domestic debit card systems, gather and collate fraud reporting data from the international cards Schemes, aggregate the same and publish trend observations and explanations.

As mentioned, whilst Visa sees no need for major reform of the Australian payments system industry governance arrangements, Visa has no issue with mechanisms to improve industry dialogue and discussion on key sector-wide issues and notes that this could be achieved through an effective, inclusive, representative and voluntary Australian payments IA.

One area we have listed where an IA could play a role is in the area of payments security. As set out above, APCA currently plays a security-related role and we feel that this cooperative function is the kind of work that can be appropriately completed by an effective, inclusive, representative and voluntary IA.

Visa would be looking for such a forum to work at lifting overall industry standards to match those deployed by Visa.

In relation to the specific additional issue raised in the Consultation Paper that security standards set by Schemes “may impose obligations on third parties, who may have to bear a considerable cost in upgrading equipment, but have little say in the decision-making process”³⁵, Visa does not feel this is a full and accurate representation of how security standards are developed by Schemes.

For example, when Visa developed its Seven Point Security Plan we engaged with our clients, regulators and peak law enforcement bodies throughout early 2009 to obtain feedback and further tailor the then proposed plan. We also understand from media coverage that MasterCard undertook a similar process in the development of its recently announced security plans.

Finally, we would also repeat the fact that Visa has approached security standards issues globally from a cooperative innovation perspective through the creation of the Council and again note that the Council is established to involve the cooperation of many stakeholders and as such, merchants, payment device and services vendors, processors and financial institutions have joined to join the Council as ‘Participating Organisations’ and also provide advice and input through a range of other means.

³⁵ RBA Consultation Paper, p 30

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 Review and the Consultation Paper.

Overall, Visa submits that the Australian payments system already features a high level of innovation, with advances occurring in many ways, including proprietary, cooperative and mixed proprietary/cooperative innovations. None of these innovation directions are necessarily more worthy than others and each should be assessed on its particular merits.

As such, the Australian payments system is not marked by any discernable innovation lags or market failures. It is also highly competitive.

Taking these factors into consideration, it is Visa's view that mandating innovation directions in the Australian payments system - whether by a public agency or through a SRO - is unnecessary, will ultimately prove unsuccessful and will push up costs for end-user consumers and merchants.

The governance framework of the Australian payments system does not need major reform and strategic planning and policy setting functions should remain with the Federal Parliament, Federal Government and the PSB. As such a new or reformed SRO is not necessary, although an effective, inclusive, representative and voluntary payments IA may enhance industry communications.

