

AUSTRALIAN PAYMENTS FORUM COMMUNIQUE¹

Monday, 22 November 2010

Payments Innovation at the Australian Payments Forum

The fifth meeting of the Australian Payments Forum was held in Sydney at the Intercontinental Hotel on Monday, 22 November 2010, and chaired by Professor Ian Harper. Fifty-three participants from twenty-nine organisations including merchants, financial institutions, card schemes and industry associations met specifically to consider the topic of innovation in the payments industry.

Representatives of the Reserve Bank of Australia and Treasury also attended as observers.

Participants heard from:

- Dr Christopher Kent, Head of Payments Policy Department at the Reserve Bank of Australia; and
- Professor Jonathan West, founding Director of the Australian Innovation Research Centre, University of Tasmania.

Mr Chris Hamilton, CEO of the Australian Payments Clearing Association (APCA), updated the Forum on the development of a financial fraud risk centre, which was discussed at the last Forum meeting. He noted talks were continuing between industry stakeholders and the Commonwealth Attorney-General's Department on a joint industry / Government proposal.

The first speaker of the Forum, Dr Kent, provided an overview of the RBA's Strategic Review of Innovation, first announced in July 2010. He reported on the results of the informal consultations with stakeholders undertaken to date, which identified the following issues that stakeholders felt were important in a review of innovation in Australia:

- Future of Cheques;
- Transmission of Data with Payments;
- "Faster" Payments;
- Mobile Payments; and
- Standards

Dr Kent then outlined the themes for the RBA review, including structure and governance for industry cooperation, stakeholder representation and the role of the RBA.

He outlined the expected timetable for the review, including the publication of a Consultation Paper in mid 2011.

During later questions and discussion, Dr Kent indicated that the RBA was keen to promote greater competition and efficiency in the payments system and believed that, while it is up to industry to innovate, the RBA can play a facilitative role.

¹ The Australian Payments Forum was established to promote industry-based and non-regulatory initiatives in the Australian payments system as a means of enhancing efficiency, security and competition in payments with minimal regulatory overlay. Participants include senior representatives from financial institutions, card schemes, merchants, consumer groups and industry representative bodies.

He anticipated that the Australian Payments Forum would play an important role during the formal consultation process of the Innovation Review.

In response to a question on identifying the criteria for success for the review, Dr Kent noted that the original intention was for the review to identify specific projects that the RBA could work with industry to complete. He observed that the RBA needed also to consider what kind of environment was needed to foster innovation.

Professor West spoke on the economics of innovation and noted the challenges facing the payments system deriving from its regulatory framework and highly networked nature. He noted that advances brought on by innovation are not just confined to high technology industries, such as telecommunications, but also occur in more established industries, such as agriculture.

He noted that innovation is driven by customer need. Innovative industries often achieve a balance between incentives and capacity for firms to innovate.

Professor West stated that innovation can occur on either a centralised or decentralised basis. Decentralised innovation sharpens incentives but often experiences coordination problems. These can be addressed through agreed standards.

Professor West used the example of the US pharmaceutical industry, where the Food and Drug Administration maintains regulatory oversight but standards development and testing are left to industry experts. He also identified the importance of intellectual property rights to maintain incentives and the desirability of interactions between industry and academia.

In answer to a question on the role of new entrants to a market, Professor West again drew on the analogy of the pharmaceutical industry to illustrate that established industries began to welcome the contribution of new smaller entrants in their market because they were sources of ideas, finance and/or candidate products, which they could allow to be developed to a certain level and then introduce into their own supply lines, either through acquisition or joint venture. He noted that the attitude of the large pharmaceutical firms began to change towards encouraging such firms, often by investing in them.

Professor West was asked how the FDA got around the problem of providing sufficient incentive to innovate in highly networked industries, and he answered that this was done essentially by not regulating pricing.

A transcript of Professor West's remarks will be available on the Australian Payments Forum website www.australianpaymentsforum.com.au.

After the departure of the RBA and Treasury representatives, Forum participants discussed the RBA's innovation review, the industry's response to the review and how the industry can promote innovation. Members agreed that the Payments System Board and the RBA be invited to the next Payments Forum meeting in mid-2011 following the release of the RBA's Consultation Paper to facilitate further consultation with industry.

Ian R. Harper
CHAIR