

27 March 2009



Competition and Coordination in Australian Card Payments

Card Payments Forum

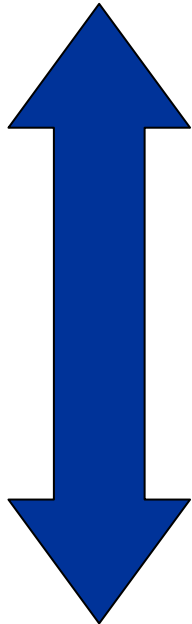
Chris Hamilton, CEO

- Disclaimer: for discussion purposes
- Last CPF asked for some thinking on competition v. coordination
- In network industries, a complex interaction between the two is unavoidable
- Is the Australian balance right?

Existing industry coordination



Structured
Greater Co-ordination



Organic
Less Co-ordination

**Government
Legislation**

Government imposes uniform laws and industry regulations to achieve public policy objectives
e.g.: APRA prudential regulation, EFT Code of Conduct, RBA Access Interchange Reforms (Competition Policy)

**Industry
Self-Regulation**

Industry develops universal standards and rules for network operation.
e.g.: APCA's CECS Rules, Visa and MasterCard Operating Rules

**Multilateral Service
Provision**

Industry develops multi-party initiatives to address operational and service needs.
e.g.: Cardlink Card Processing and BPAY Bill Payment Services.

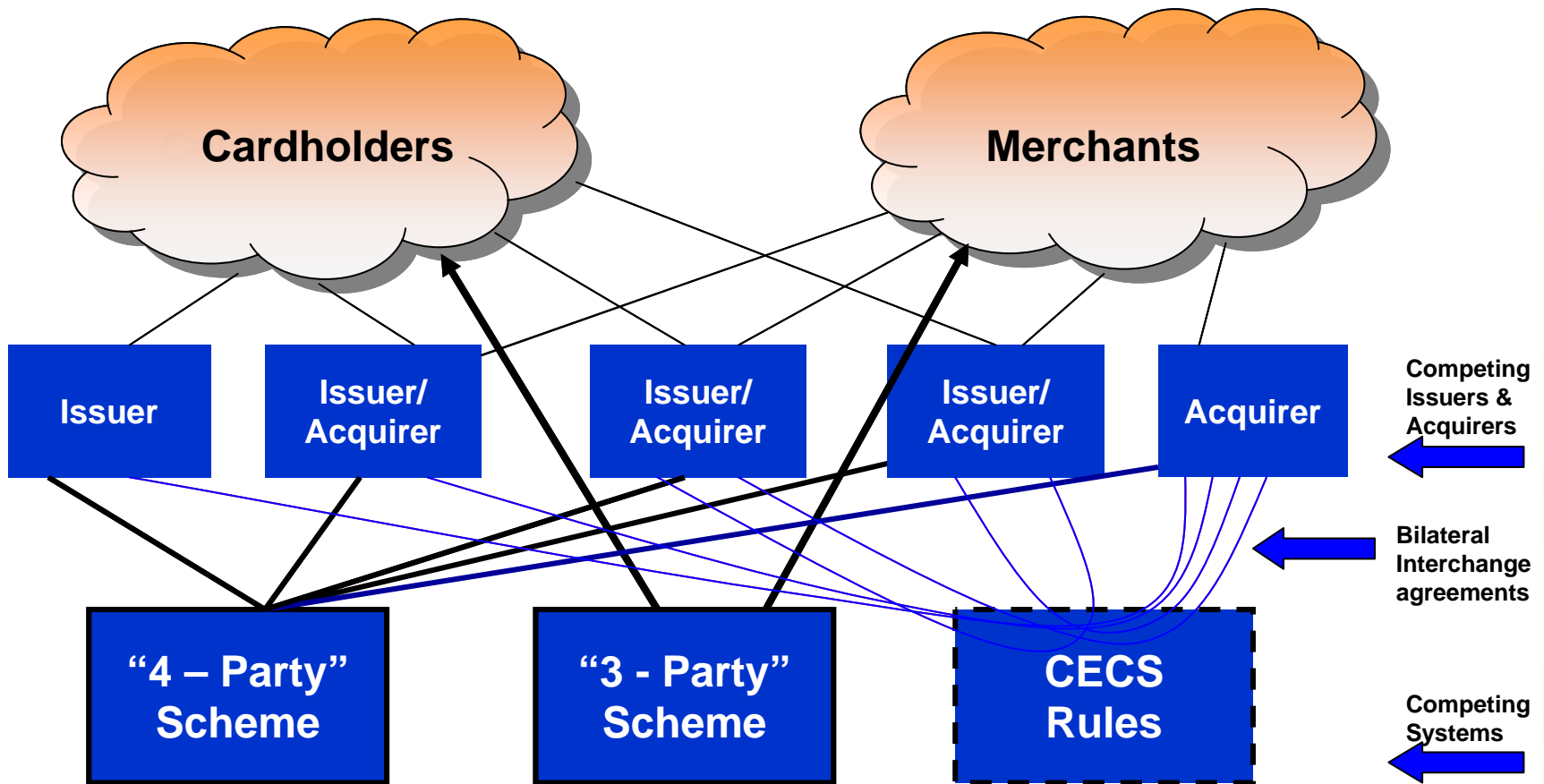
Joint Ventures

Industry form collaborative initiatives for particular services.
e.g.: Vipro Cheque Processing

**Commercial
Partnering**

Individual industry members engage in competitive commercial operations with organic development of initiatives.
e.g.: Internet Payment Services Developed by Financial Institutions

Industry structural layers



Network theory



Demands for Coordination:

- Basic efficiency and interoperability
- Network innovation
- Improved platform for competition
- Responding to public policy agendas

Challenges:

- Governance and decision-making
- Participant business incentives

Looking forward, there is a strong case to re-examine the balance that has been struck in the Australian payments system between competition and co-operation. Financial institutions have been very good at competing on developing payment products using the existing infrastructure, but they have not been so good at co-operating to ensure that the infrastructure is improved over time. ... These co-ordination issues are best solved by industry, however, if this cannot be done, other options will need to be looked at over the period ahead.

Philip Lowe, Assistant Governor (Financial System), 24 March 2009

RBA's view (2)



To a large extent, the future approach of the Payments System Board depends on the behaviour of industry participants. If industry agreement on further reforms can be reached relatively quickly, then the need for the Reserve Bank's co-ordinating role to be interventionist is limited. On the other hand, if, as on some past occasions, the industry is unable to carry forward reform and innovation by itself, the Reserve Bank would consider making more extensive use of the tools at its disposal.

Glenn Stevens, Governor, 25 March 2009

Other possible drivers



Increasing interoperability and changing industry structure

- As schemes and instruments compete more aggressively, how much coordination will be required between them?

Possible areas for review



- Network connectivity
 - Bilateral architecture
- Message and interchange standards
 - Range of standards supported
 - Future global evolution
- System integrity and fraud prevention
 - EMV/chip
 - CNP fraud
- System innovation
- Public policy engagement

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