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Head of Payments Policy Department

Reserve Bank of Australia

GPO Box 3947

Sydney NSW 2001

Dear Board,

Please find attached a commentary in relation to your proposed approach to payments industry innovation. While this response is submitted as a private citizen, I have had many years working in the payments field in a consulting and advisory capacity. Please see these views as independent of the interests of any particular participant in the payments industry.

The Board is to be commended on the approach taken to consultation and review, and I trust that the focus which is emerging will lead to exciting developments in the near future.

Yours sincerely

(signed)

Michael J. Allsop

1. The Board will establish high-level strategic objectives which it believes the payments system should be able to meet by a specified time.

This is both strategically commendable and pragmatic. There has been a distinct absence of leadership in charting future direction for payments services in a form which can lead to service innovation across a wide spectrum of payment usages. In particular, economic benefits from payments innovation are more likely to be realised if there is broad based acceptance of new services across the user community irrespective of FI relationship. Specific objectives such as proposed provide clear guidance for the industry to focus its efforts, and in some cases perhaps even exceed the expectations set.

2. The first set of strategic objectives for the payments system will reflect the gaps identified by the Board during the Strategic Review.

a All Direct Entry payments should be settled on the day payment instructions are exchanged by the end of 2013.

- This is a good objective, providing benefit to “traditional” customer EFT transactions.
- It could be argued that priority should be applied to credit transfers rather than direct debit if that would aid implementation.
- Settlement in “good time” such as this is still likely to be satisfactory for a large proportion of transactions not requiring “real time”.

b There should be the capacity for businesses and consumers to make payments in real time, with close to immediate funds availability to the recipient, by the end of 2016.

- This is a sound objective, and very much in line with customer expectations.
- It would probably apply to credit transfers only.
- The real time payment “experience” should be designed to provide certainty to the sender of the payment that it had been applied correctly to the receiver account, with the receiver being advised through channels of choice.
- Such a service need not replace DE, rather complement it.
- Such a facility should probably be capable of delivery in a more ambitious timescale than 2016, certainly so if implemented via 3rd party applications rather than being defined and built from scratch.

c There should be the ability to make and receive low-value payments outside normal banking hours by the end of 2016. This would include availability of the Direct Entry system and any real-time system. Ideally it would also involve the capacity for the settlement of card payment receipts during weekends and public holidays, so that receipts can be posted to merchants without generating interbank credit risk.

- This is a sound objective. While such payments can be sent out of hours today, funds availability to the receiver is dependent on the provision of out of hours settlement services.
- This may initially apply to certain classes of payment only, eg to certain customer types and/or to value limits to be agreed by industry.
- This objective should align with b) above, and should probably be subject to a more ambitious timeline.

- The objective reflects that such a capability need not be applied universally to all payments, which again is sound. Customers could choose according to their payment context.

d Businesses and consumers should have the capacity to send more complete remittance information with payments by the end of 2016.

- This capability is essential, and not realistically deliverable through DE.
- A “new” payment type offering features noted in the objectives above should provide this capability by design. The Board has contemplated ISO20022 based messaging as being a potential foundation for such services.
- Progressive customer implementation of this capability could be planned by industry so that (eg) short messages may be implemented before structured remittance information or embedded attachments etc, as may be considered.
- The short message capability should be able to be implemented sooner than 2016.
- Full integration of advanced remittance information with customer business systems is more of a medium term proposition. This suggests that payment notification services offered by FIs to customers receiving such payments could compete on this feature in the medium to longer term.

e A system for more easily addressing retail payments to any recipient should be available. To the extent that this is provided by a new real-time system, it should be available by the end of 2017. This does not rule out earlier availability via other solutions.

- This again is a sound objective, and could be considered an overlay to the features noted earlier.
- The findings from the Board’s research identified a number of considerations behind this requirement, varying by customer segment.
- Implementation considerations would include a balance between simplicity (eg a phone number or email address as a proxy, as registered by the receiver) and inbuilt system integrity through an intelligent address, being able to detect errors at point of entry.
- Industry implementation should be such that agreed standards can be set in timeframes geared to the realistic needs and potential for take up by target customer segments.
- This suggests that while complex business needs may well take longer to meet than simpler p2p consumer needs, the industry should be encouraged to provide a solution to consumers well in advance of 2017.
- If a common means of addressing could be agreed which suits all customer segments, this could be overlaid on an account based credit transfer system having the various other features noted in the Board’s objectives.

3. While the Board intends to let the industry determine the approach to meeting strategic objectives, it sees merit in the establishment of hub-based architecture for providing real-time payments, including a real-time settlement hub provided by the Reserve Bank.

This recommendation is very sound. Implementation in conjunction with COIN services will be essential, and this would permit one or more “virtual hubs” to be implemented if so desired. In such a model “hubs” can be nodes on the COIN and may be addressed as per the needs of a specific transaction application rather than having all volume pass through a “single” hub.

A further advantage of the virtual hub model is that value added processing may be focussed on a service or service provider, permitting a competitive market for services under a common certification umbrella. This may be further stimulated through an access model which enables smaller FI players to access the services directly with “light touch” integration, leaving the larger FI players to opt-in to access services or to build their own. Customers of either type of institution should be able to see a common service experience as a result.

A real-time settlement hub provided by the Reserve Bank would be commendable. The notion of a comprehensive service hub being provided by the Reserve Bank, however, should very much be seen as a last resort in the face of intransigence by industry. It nonetheless should remain as an option until such time as industry demonstrates a willingness to progress along the lines the Board has outlined.

4. The Board recommends a review of industry coordination, with a view to constituting an enhanced industry body with which the Board will engage more directly.

A mechanism for enhanced industry co-ordination will be an essential element in the practice of sustainable innovation. This should not stifle individual competitive actions for dealings with customers, rather it should help to foster development of the foundation capabilities of our payments system (the “payment rails” as is commonly said). This body would need to be able to stimulate development and advocate actions and advances in the system as desired by the user community, as well as administer basic operating rules and compliance. The value in having a common view of future capability is that this is the only way to provide a level of ubiquity to services in the market, and the associated comprehension and trust that needs to be developed in the minds of the customers. A wider but manageable forum for bringing the supply side and demand side together in an informed manner should provide a basis for efficient operation and future responsive development of the payment system.