

Redacted by RBA

2024-10-21

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Input

G'Day,

Some, perhaps misguided, person suggested I respond to the "Questions for Stakeholders" (Appendix A of the "Review of retail payment regulation"). While there is a summary response to these questions (below), it appears a more sensible approach would be based on a statement of coherent and fundamental objectives. Indeed a useful question is usually "What is the objective?"

An approach based on 'adjusting' existing arrangements, largely established by existing 'stakeholders', which typically exclude the interests of citizenry, while including members of the banking cartel, 'schemes', various rent seekers (some newly arrived), spruikers of various 'technology' (phones, operating systems, some of which approach cult 'loyalty') and those who mint 'points' - 'rewards' on a selective basis, all effectively funded by other consumers, is relevant.

Some of the latter 'stakeholders' effectively increase the costs of goods and services to the unaffiliated others, by more than 20%. Airlines, petrol retailers, phone supplier based payments can of course be included. Asserting that those who are not members of the "Chairman's lounge" qualify as stakeholders, may be a departure from Canberra practice and perhaps more appropriately found in accountable democracies, such as Switzerland, however.....

An attempt at decoding the euphemisms appears a prerequisite.

"Stakeholders" That would be a sub-set of the self perceived 'elites', cited above and control the place, but excluding the citizenry, the consumers, cardholders and small scale merchants.

"Strategic Merchants" Those big and ugly enough to have some negotiating power with the cartel banking "industry".

"Non Strategic Merchants" Those who are under the delusion that their dollar should be worth same as that delivered to the fresh poker machine people. Such people tend to participate in "the economy" by way of engaging the local ponzi scheme of passive asset acquisition (aka 'real' estate) and hence venerable to "and how is your mortgage?". Due to the gouging of this sector, they have run off to foreign controlled Payment System Providers, who have just added to charges imposed on the citizenry (aka 'cardholders').

"Framework" An intellectual sounding term for the current ever morphing ad hoc-racy. Missing issues include the allocation of persons to a cabal of a bank, airline, fuel vendor, insurer, supermarket and sellers of consumer 'stuff'. The currency largely being devalued by replacement with allocation to 'flights' to less than desirable destinations, which were never scheduled.

THE core public interest criteria.

An electronic dollar should be at a value of 100 electronic cents, regardless of the identity of the consumer, merchant, acquirer, issuer or intermediaries. Having the value defined by 'the brand', the statues 'experience' or 'realising the potential' is best relegated to people who also need personalised car number plates. (Or have the membership of their offspring in the Chairman's Lounge, funded by the proletariat, who are associated with an inferior status than plutonium.)

The factors which established current fees no longer exist.

Dedicated physical networks are no longer required, nor is a dedicated network connection.

A card number base (EFT) transaction is about 1,000 bits (1/64 of a second of a phone call), well transmitted via the internet and hardly worth a tariff.

The technology required for secure transaction transport, has effectively been defined for decades. (Albeit not competently implemented by all relevant entities.)

Premiums demanded by credit providers, were justified in the days where transactions based cards with certain logos, were accepted without effective authentication or authorisation and involved risk.

The distinction between 'credit' and debit and 'scheme' attribution, has more to do with global entertainment, attendance at sponsored events, such as the Olympics, provided in exotic locations, to bank middle management than delivered 'value'.

The technology to copy card encoded information is of trivial cost.

In summary, the actual cost of transmitting and 'processing' a electronic transaction is trivial and its face value is now irrelevant to that cost. An essential element of money is its 'value' is self evident. (Albeit in some cases based on the effigies of the inbreed.)

We have been here before. Attached is a list of relevant utterances by the author of this outrage.

Since these utterances could be considered 'technical' they violate the Turnbull decree that "Australian laws trump the laws of mathematics". As a one time cryptographer, since encryption was the basis of this uttered idiocy, it is worth noting that "New Scientist" featured a photo of this 'tech savvy' lawyer looking at his hand with the caption "How many fingers Malcolm?".

The distillation of the cited is: **the business relationships are defined by the system architecture and that in turn is defined by the cryptographic architecture. ("End-to-end" is not a bad start.)**

Yours Sincerely,

A handwritten signature in blue ink, appearing to read "L. Raily".

The author of this discourse's education was limited to Physics, Computer Science (one of six chosen from four universities for the place's first computer science honours program) and Engineering. While a participant in the RBA's Payment Council (as CEO of a payment network) it was ascertained, he was not a banker. The retort is perhaps best not repeated.

After a decade with the American computer industry and other OS adventures, on return to Australia, he was joint founder of a start up taken to the countries largest EFT network serving 168 card issuers including 'foreign' banks, the only non-member Visa processor in Asia Pacific, originator of the planet's first international Visa ATM transaction and other disruptions.

In order to establish some sanity, he was appointed founding chairman of the committee that developed the Australian EFT standard and founding chairman of the security technology (crypto stuff). The developed technology was the basis of the largest EFTPOS network in the US (TNS) and across A/P, with HYPERCOM. As a participant in the International Standards Organisation equivalents, he helped formulate the global standards, including a solution to the challenge of effective security for non-physically secure devices.

He has been issued various (telco & crypto) patents, as well as being responsible for the design and implementation of some significant networks. That even included a little billion dollar adventure morphed into a different exercise. (Funded by foreign friends of course.)

Invited publications

1. "An Australian Electronic Funds Transfer Network"
Proceedings of the Seventh International Conference on Computer Communication. 1984 - Reilly C.
2. An address on EFT to the Australian Telecommunications Users Group Annual Conference 1984. - Reilly C.
3. "A Viable Architecture for A National EFT Network"
The First Pan Pacific Computer Conference 1985
Reilly C. (EFTEL) ; Houen C. (Coles Myer)
4. "Mercury - A Purpose Built EFT Switch."
The Australian Computer Conference 1987
Reilly C. Molloy-Johnson S.
5. "The Practical Constraints and Solutions to Large Scale EFTPOS"
Fifth International Conference on Computer Security 1988 - Reilly C.
6. "The Business Bottom Line of EFT Architecture"
IBC Conference on EFTPOS - The Competitive Advantage for the 1990's 1989
Reilly C.

1. Is there a case for lowering the level of interchange benchmarks or caps? Should the difference between the interchange fees paid by big and small businesses be limited in some way?

Of course. There is no justification for defining the value of an electronic dollar on the basis of who pays or benefits. Clearly goods supplied to the King under "royal appointment" should be exempt, given his appearance on the coins.

2. Should interchange regulation be extended to foreign card transactions in Australia?

There are obvious interesting options based on establishing some international bilateral arrangements. Some folks have even made it the basis of a business. There is even the odd central bank, that thinks it is 'their currency'.

3. Is there a case for reducing the complexity, and/or enhancing the transparency, of interchange fees? If so, how?

Simply eliminate all fees based on transaction value, which has no relationship to cost. A entertaining exception is the provision of 'rewards', which should be contained within the issuer. Going to Bunnings is irrelevant to going to Bali.

4. Is there a case for further transparency of scheme fees to promote efficiency and competition? If so, what additional information would be beneficial?

Simply allow card based transaction acceptors to purchase their own card accepting technology. (A relatively trivial cost. There are a few relevant authentication and security issues, but it is not rocket science.)

5. Is there a case for regulatory action to reduce the complexity or growth of scheme fees? If so, what form should this take?

On the basis of previous experience, extreme violence might be required, given the near religious nature of those associated with brands' and logos. Some have MBAs too. Or worse, even lawyers.

6. What other regulatory action should the RBA consider to increase the competitive pressure on scheme fees?

The card IINs are in fact issued on behalf of the International Standards Organisation. The days when a card acceptor was impressed by a 'scheme' logo, let alone placed value on it are long gone.

7. How do stakeholders assess the functioning and effectiveness to date of LCR for in-person transactions? Is further regulatory intervention needed? What might that look like?

LCR is just another ineffective measure in a 'system' which does not have a defined architecture.

8. Is there a case for greater transparency of fees, wholesale costs and market shares for some payment services? If so, what form should this take? What benefits or drawbacks might arise from implementing any of these measures?

Of course. Establishing a rational full value electronic payment system, would make almost all participant "stakeholders" animated. It would probably result in increased party political donations and deferment of any action until another election or two.

9. Should PSPs be required to provide individual merchants more detailed information on their regular statements (or through other channels)? How could this information be presented without creating additional complexity for merchants?

The only reason PSP even exist in the context of merchants is the egregious charges imposed on small scale ("non strategic") merchants by the cartel banks.

10. Should PSPs be required to publish standardised information on their pricing and services for merchants (in line with reforms introduced in the United Kingdom)?

Defining a coherent electronic payments system would be a better measure. The track record of the UK in this space is dysfunctional starting with the Committee of London Clearing Bank 11 year "study", which never processed a transaction in anger and the still born MONDEX. Like comparing "Yes Minister" with "UTOPIA".

11. What other regulatory measures should the RBA consider to improve competition between PSPs?

On what basis are PSP even required? It is simply a failure of the banking industry or more appropriately their predatory practices. The card schemes have always had provision for 'on us' transactions.

12. Is there a case for revising the RBA's surcharging framework? If so, which options or combination of options would best address the current concerns around surcharging? What other options should the RBA consider?

Eliminating them. :-)

13. What are the implications for merchant payment costs from changes to the surcharging framework? Could the RBA address these with other regulatory actions?

"Regulatory actions" are no substitute for a coherent system architecture.

14. Are there any other regulatory actions that the RBA should consider taking in response to the issues raised in this paper?

This "bottom up" approach is doomed to end in the lawyer and Canberra – bureaucratic parallel universe. A near irrelevant threat of some trivial adjustment in 2026, restricted to debit, after the election donor season, is the equivalent of threatening the use of a wet lettuce.

15. Are there any issues in, or implications for, the broader payments ecosystem that the RBA should be aware of when designing a regulatory response to any of the issues discussed in this paper?

Almost all relevant issues were identified decades ago.

It is the epitome of the dysfunction that pervades responses to almost any 'technical' challenge facing this country. Energy, telecommunications, even aviation. The response is dysfunctional. Regrettably the siloed (self perceived) 'elites' (Legal, political, bureaucratic,...) are technically, strategically and financially illiterate.

Control of the nation's electronic currency is effectively a definition of national sovereignty. Being the franchisees of a few foreign controlled logo owners and their friends, might be attractive to a inefficient, but highly profitable banking cartel, however.....

Economic efficiency is best attained when entities engage in their core activities, expertise and are managed by those who understand the core function. The result of Boeing being managed by accountants, can be applied to airlines and indeed the entire local small economy dominated by a few cross linked entities. The obsession of the banking cartel to anything and everything, but the support of productive capital investment relegates it to the class of rent seekers.