

13 January 2014

Dr Tony Richards
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By Email to: pysubmissions@rba.gov.au

Dear Dr Richards,

Consultation on Variations to the MasterCard and Visa Access Regimes

The Commonwealth Bank (the Bank) appreciates the opportunity to lodge this submission to the Reserve Bank of Australia (RBA), further to your 6 December 2013 Media Release and “Proposed Variation to the MasterCard and Visa Access Regimes: Consultation Document”¹. The Bank understands that this submission will be posted on the RBA’s website.

The Bank previously submitted on this matter as part of the RBA’s preliminary consultation exercise. Our letter of 5 July 2013² refers. At that time, the Bank identified that “Maintain the Status Quo” was the superior Option, noting that “*In our view it strikes the appropriate balance between ease of access and ongoing integrity of key infrastructure – to the public benefit.*”³

The Bank remains of this view and is thus supportive of Option 1 (“Maintain the Status Quo”) as articulated in the December 2013 Consultation Document.

We believe that greater consideration needs to be given to the risks inherent in other options.

As we argued in our July submission, maintaining confidence in the credit card schemes is essential – as for any efficiently functioning network. This is, we believe, best addressed by rigorous and independent prudential supervision. We believe that the Australian Prudential Regulation Authority (APRA) is best placed to do this – consistent with APRA’s mission of stability, efficiency and competition⁴. Indeed, prudential supervision plays a key part in supporting the confidence and stability that is crucial to a stable and efficient financial system. The Bank does not support initiatives that jeopardise confidence or stability.

¹ <http://www.rba.gov.au/publications/consultations/20131206-prop-variations-to-mc-visa-access-regimes/pdf/20131206-prop-variations-to-mc-visa-access-regimes.pdf>

² <http://www.rba.gov.au/payments-system/reforms/submissions/review-card-system-access-regimes/commonwealth-bank-australia.pdf>

³ Ibid, page 2

⁴ <http://www.apra.gov.au/AboutAPRA/Pages/Default.aspx>

The RBA has identified Option 2 - varying the Access Regimes – as the preferred way forward. We believe that this Option is sub-optimal for a number of reasons, including:

- The case for varying the Access Regimes has not, we contend, been made. We note the claims by a handful of aspiring specialist credit card institutions (SCCIs) that SCCI requirements are onerous. A superior interpretation is that a non discriminatory supervisory regime – applied efficiently and effectively – provides a necessary foundation to ongoing confidence in the card schemes.
- The argument that the existing Access Regimes are somehow inhibiting innovation is spurious. Innovation and underlying investment is demonstrably afoot in a marketplace that can only be described as competitive and responsive to end-customer requirements – as can be seen by the proliferation of cards on offer, mobile phone developments (such as PayTag and embedded near field communication devices), and travel money cards to cite just a few.
- RBA forms the preliminary view that the status quo *“is not in the public interest because the current constraints on access are likely to reduce competition and efficiency in these systems relative to the other options”*⁵. Neglecting the risks inherent in any move away from the status quo is, in our view, a substantial oversight.
- Giving discretion to Visa and MasterCard to grant scheme membership to unregulated entities risks scheme business development objectives outweighing the legitimate risk assessment of potential applicants. Requiring publication of a risk based approach to membership is not, in our view, a sufficient mitigant for such risk – nor is reporting to RBA on the use of such discretion. (Under this latter reporting scenario, RBA is effectively being asked to second guess the scheme’s assessment – a role which is effectively and efficiently carried out by APRA at present.)
- Assessment of potential scheme participant risk can hardly be described as a core competency for technology based card schemes. This contrasts markedly with the independent and efficient prudential assessment currently undertaken by APRA. As argued above, such public supervision is, we believe, appropriate and an important investment of public resources in pursuit of confidence and stability.
- Finally, expanding scheme membership to encompass unregulated entities effectively shifts the risk attaching to a settlement failure by such a (prospective) member to other scheme customers – by virtue of the settlement guarantees provided by the schemes. This has been, and continues to be, an important component supporting the confidence underpinning the schemes. (Scheme rules also currently contemplate lodgement of collateral or assignment of receivables by a scheme member – at the scheme’s discretion. In the event that scheme membership was expanded to include unsupervised institutions, it would be appropriate to insist that such security was lodged in order to safeguard the legitimate interests of all scheme members.) Such risk shifting is inappropriate and inequitable.

As noted in the December Consultation Document, RBA must have regard to the desirability of payment systems not materially causing or contributing to increased risk in the financial system⁶. The Bank believes that this can only be satisfied by maintaining the status quo – or Option 1 in the Consultation Document. Any other option is inappropriately risky.

At a number of points in the Consultation Document, reference is also made to potential RBA participation in the Visa and MasterCard schemes. The Bank’s view on this matter is public and well known – we do not believe that it is appropriate for a payment systems supervisor to be a competitor to institutions that it in turn supervises. For the sake of abundant clarity, our concern in relation to this aspect is not derived from any perception of risk that might be introduced by RBA participation therein. It is, as previously argued, more fundamental than that.

⁵ <http://www.rba.gov.au/publications/consultations/20131206-prop-variations-to-mc-visa-access-regimes/pdf/20131206-prop-variations-to-mc-visa-access-regimes.pdf> page 16

⁶ Ibid, page 16

In conclusion, the Bank strongly urges maintaining the status quo on the question of access to the Visa and MasterCard schemes. Any other approach countenances the introduction of inappropriate and unacceptable risks that threaten confidence in, and stability of, the schemes.

Thank you again for the opportunity to comment on the issues raised in the Consultation Document. We would be happy to discuss these comments at any time and to that end, please contact the undersigned.

Yours sincerely

[Signed]

Stuart Woodward
General Manager
Representation