

Dr Tony Richards
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Via email: pysubmissions@rba.gov.au

24 January 2014

Dear Dr Richards

REVIEW OF CARD SYSTEM ACCESS REGIMES: VISA'S RESPONSE

Visa welcomes the opportunity to lodge this submission to the Reserve Bank of Australia (RBA) regarding the *'Proposed Variation to the MasterCard and Visa Access Regimes: Consultation Document (Consultation Document)'* dated December 2013.

About Visa Inc.

Visa Inc. is the world's largest retail electronic payments network. We operate one of the world's most advanced processing network – VisaNet - that is capable of handling more than 24,000 transaction messages a second, with fraud protection for consumers and assured payment for merchants. Importantly as outlined in our submission to the RBA on 12 July 2013, Visa is not a bank and does not issue cards, extend credit or set rates and fees for consumers. Visa's innovations, however, enable its financial institution customers to offer consumers more choices: pay now with debit, ahead of time with prepaid or later with credit products.

Access Regimes and Visa's Position

Visa has always, and continues to, strongly support robust and fair competition in retail electronic payments. Our approach to Visa membership in fact balances these two critical priorities.

In submissions, we have highlighted that the combined effect of the current Access Regimes and SCCI class may be acting as an unintended inhibitor of competition in electronic payments in Australia. This is not optimal and needs to change – this applies to both credit and debit access regimes.

Visa also notes the importance of regulatory frameworks that ensure financial stability, soundness and management of risk. These are all core elements when considering the RBA's current consultation document on access regimes and potential implications for retail payment systems, card schemes and potential entrants to such schemes.



In our submission to the RBA dated 12 July 2013, Visa outlined our position in response to the RBA's Consultation Paper dated May 2013, be:

Visa supports a hybrid reform based on Option 1 in the Consultation Paper (varying the Access Regimes to widen eligibility for participation) and Option 2 (revoking the Access Regime). This would enhance competition whilst maintaining an appropriate screening and monitoring role of proposed new entrants into card systems for APRA, although possibly against new lower minimum standards. Visa does not support Option 3 in the Consultation Paper which is to maintain the status quo.

RBA's Revised Consultation Document

In response to the options outlined in the current consultation paper, Visa offers the below responses.

RBA Option 1: Maintain the Status Quo

Visa does not support the maintenance of the status quo for access regimes for the reasons previously outlined in our submission from 12 July 2013.

RBA Option 2: Removing the APRA SCCI Regime, but retaining some controls via the access regimes

Visa notes that the RBA's December 2013 Consultation Document differs from the RBA's initial Consultation Paper and introduces a new policy option for consideration, which is outlined as the bank's preliminary preference. Namely, a newly amended Option 2 which would remove the APRA Specialised Credit Card Institution (SCCI) regime but retain some controls via access regimes.

Visa supports greater competition in the Australian cards markets on both the issuing and acquiring sides, leading to greater innovation. We also support greater freedom for card schemes to grant membership to new types of participants, however Visa has core concerns if the RBA progressed with revised Option 2.

In short, such a regime would see the SCCI class (currently regulated by the Australian Prudential Regulatory Authority (APRA)) revoked and the entire responsibility placed on card schemes to make determinations regarding which entities would participate in the Visa and MasterCard systems. SCCIs would no longer exist, APRA would not play any role and schemes would be responsible for the assessment and management of participant risk. This would lead to a quasi-regulatory role being performed by card schemes.

Whilst Visa maintains best practice risk management through our robust membership criteria for financial and non-financial institutions, these criteria link membership eligibility criteria to minimum regulatory requirements, where domestic regulation exists. In our view, despite the best and serious efforts of Visa and other card schemes to monitor and assess non-financial





institutions prior to entry into our membership, per our operating rules, the revocation of any form of prudential regulatory approval would lessen regulatory oversight to a potentially unsatisfactory level. In our view, some form of regulatory benchmark of approval of financial and non-financial institutions is required to ensure a sound payments system.

As discussed, Visa supports widening the range of entities eligible to participate in our system, however Visa has found no evidence of other jurisdictions internationally that do not include some form of regulatory and/or prudential approval associated with entry.

In outlining Option 2, the RBA also refers to the requirement for schemes to make public risk-based criteria for determining which additional entities would be eligible with publication of eligibility and assessment criteria. Such guidelines already in place at Visa, under our operating rules and procedures, are commercial-in-confidence. Further, Visa and MasterCard, as one would expect from fully competing entities, maintain differentiated approaches to their risk criteria applied their current and prospective client entities. Accordingly, full transparency as proposed by the RBA under Option 2 would in our view result in a lessening of competition in Australia. We believe for the points presented above this should be noted. This creates issues when considering the RBA's requirement for schemes to have transparent risk-based criteria for eligibility.

The RBA's *Attachment 1* also outlines the proposed draft variations to the access regimes. Visa has concerns regarding the transparency and assessment of applications via "continuous" publication on the Scheme's website of eligibility criteria, assessment criteria and decision timelines for applications.

The certification and reporting section refers to schemes being required to provide the RBA on or before 31 July each year a certificate certifying that applicants to the scheme met all risk-related eligibility and assessment criteria. Visa does not support this recommendation.

RBA Option 3: Removal of All Access Regulation

If Visa's preferred policy position for removal of the access regimes but with a minimum regulatory benchmark is not endorsed by the RBA, then in this scenario, Visa may submit that the RBA's Option 3, removal of all access regulation, is the next preferred step forward, reverting to access regime arrangements prior to 2004 and which would not involve the implementation of quasi-regulator reforms affecting card schemes.

This option would not include the oversight of entrants which we think is beneficial by regulators.

Ongoing Consultation

Visa again submits that the RBA's objectives to foster greater competition and efficiency in the payments system could still be achieved by lowering the current SCCI benchmark while congruously developing a minimum publicly-set and overseen regulatory standard.





As set out in Visa's 12 July 2013 submission we would welcome the opportunity to work with the RBA and APRA on the content of such an approach.

In summary, Visa supports the revocation of the Access Regimes but with a minimum publicly-set regulatory requirement for entrants into the system managed by APRA or some other appropriate public agency.

Please do not hesitate to contact Ms. Kristen Foster, Senior Director of Government Affairs and Public Policy, Australia, New Zealand and the South Pacific (krfoster@visa.com) for further information regarding Visa's position.

We look forward to further meetings and consultation with the RBA, ahead of the PSB's consideration, to ensure the right balance is achieved from a regulatory and market perspective and that competition is achieved.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Vipin Kalra", is positioned below the text "Yours sincerely,".

Vipin Kalra
Country Manager
Australia

