



31st August 2007

Ms Michele Bullock
Head of Payments Policy Department
Reserve Bank of Australia
By Email: pysubmissions@rba.gov.au

Dear Michele,

BPAY Pty Limited (BPAY) welcomes the opportunity to provide comments to the Reserve Bank of Australia (RBA) in relation to the RBA's "Reform of Australia's Payments System - Issues for the 2007/2008 Review" paper, issued May 2007 (Issues Paper).

BPAY submits that there is no need or justification for any regulation of the BPAY scheme for the reasons set out below.

This submission is made by BPAY Pty Ltd on its own behalf as the operator of the BPAY scheme and may not reflect the views of individual members.

In this submission, BPAY addresses the issues that relate to the BPAY scheme and the particular areas where the Issues Paper makes express reference to BPAY. Except as specifically noted in this submission, BPAY makes no comment on other specific issues identified in the Issues Paper.

1 About BPAY

BPAY is a wholly-owned subsidiary of Cardlink Services Limited and is the operator of the BPAY scheme, which facilitates payments between Australian consumers and businesses. The BPAY service is provided by BPAY's members - that is, the financial institutions participating in the BPAY scheme.

BPAY operates within the Australian payments system and is one of the wide variety of means that may be used to effect payments within Australia. There are a wide variety of competitive pressures (both on the supply side and the demand side) that influence the payment methods that a biller may choose to make available, how a payer may choose to effect a particular payment, and what combination of payment methods may be offered by financial institutions to their biller and payer customers, and the terms on which these may be offered.

In this context, BPAY was established in 1997 to provide a new and innovative additional mechanism for bill payment in Australia. Since its inception, BPAY has always operated, and continues to operate, on the basis of the following principles that reflect the competitive pressures faced by BPAY in establishing and growing its business:

- that there should be open access to the BPAY scheme for those who wish to become members - there are currently over 170 members of the BPAY scheme;
- that BPAY's members should not be subject to any obligations (such as minimum volume commitments) to use BPAY's services as a pre-requisite for becoming (and remaining) a BPAY member - this means that BPAY and its services must be

competitive (in terms of both price and quality) if BPAY is to grow successfully both as a scheme and as a service offered by any individual member;

- that BPAY should provide a reliable, secure and convenient means for making and receiving payments;
- that Biller Institutions and Payer Institutions who are members of the BPAY scheme should determine their own downstream (end-user) pricing arrangements for use of the BPAY scheme by Billers and Payers; and
- that BPAY regularly reviews its pricing structures in order to ensure that the fees and charges imposed on its members (that is, BPAY fees) and between its members (that is, interbank fees) remain cost based and reflect changes in the costs of providing and using the BPAY scheme, as well as changes in the volume of transactions handled by the BPAY scheme.

By adhering to the above principles, BPAY has been very successful in building its business in a competitive market.

2 Response to Question 2.3 (paragraph 121): The extent to which the Bank's public policy concerns could be addressed through self regulation.

Self regulation that is properly implemented and followed is to be preferred because of its flexibility in reflecting commercial realities; responding to market changes; and in facilitating product change and innovation.

The example of BPAY itself, in the context of a strong and vibrant market for bill payments, demonstrates that self-regulation can deliver positive service outcomes for payer and biller customers of Australia's financial institutions.

3 Response to Question 2.6 (paragraph 126): The regulation of other payment systems, including American Express, Diners Club and BPAY

In relation to this issue, BPAY submits that there is no need for BPAY to be specifically regulated by the RBA.

The BPAY payments service operates in a competitive market. The competitive pressures on that service will continue to lead to both economically efficient outcomes (that is, growing volumes and scale in line with strong demand for electronic payment methods) and innovation (such as growing levels of internet based data entry, payment capture, and information exchange services like BPAY View).

BPAY comments below on three main areas that may be affected by regulation: interchange (interbank) fees, scheme access and innovation.

(a) Interchange fees

BPAY submits that regulation of BPAY interbank fees is unnecessary.

BPAY's interbank fee structure is regularly reviewed (as are the fees BPAY charges its members) to ensure that the system remains efficient (for example, to ensure that fees are reflective of costs). Since the initial interbank fees were implemented, BPAY has continued to refine its fee structure and fee levels to be consistent with costs, the evolution of BPAY payment options, and the competitive market.

BPAY conducted cost studies for 2001, 2003, and 2006 in respect of its capture reimbursement fee (CRF).¹ These measured actual costs have served as the reference

¹ A schedule of the CRF (and ad valorem) fees over time is included in the confidential Schedule 1.

points for changes to the level of the CRF that was initially established in 1997 based on estimated costs. As a result of those cost studies, the CRF has been reduced over time as actual cost data became available, scheme volume increased, data entry shifted from telephone banking to internet banking, and technology (and other) costs generally declined.

As part of ongoing cost studies, the data collection process has been refined such that costs that typically vary based on transaction volume are included in the CRF.

BPAY submits that it would be strongly counter to BPAY's interests if it were to implement increases in its CRFs that were inconsistent with costs. This is because BPAY's CRFs are paid by its Biller Institutions to its Payer Institutions, and it is the Billers who determine whether BPAY will be made available to Payers as a payment option. If BPAY were not priced competitively, Billers would choose not to offer BPAY and would rely on the many other payment options available to them.

BPAY also notes that it has voluntarily agreed to publish its CRFs which provides greater transparency of the charges in the BPAY scheme.

(b) Access

BPAY has always had open membership to authorised deposit-taking institutions (ADIs). BPAY has taken this even further by creating opportunities for participation by other non-ADI entities to ensure BPAY remains accessible to the maximum number of Australian bill payers.

In regard to open access to the BPAY Scheme, BPAY notes that it has recently implemented changes to the BPAY scheme designed to facilitate the entry of new players who are not regulated as ADIs to participate as members in the BPAY scheme. "Payer Institution Members", or PIMs, may be admitted to act as Payer Institutions within the BPAY scheme.

A PIM must be sponsored by an existing member that is an ADI, and must agree commercial terms with one of the members for its participation as a member (the relevant provisions are similar to existing BPAY provisions under which Associate Members also need to agree commercial terms with a Participant Member to act as sponsor – a PIM, effectively, is a non-ADI Associate Member). These provisions are designed to ensure that non-ADIs are able to have the benefits of membership without compromising the integrity of the BPAY scheme or detracting from the benefit that the scheme brings to payers.

There are now over 170 BPAY members in the following classifications:

14 Participant Members that are ADIs;

154 Associate Members that are ADIs;

8 Payer Institution Members (PIMs) that are not ADIs (with a number of further applications currently under consideration).

BPAY anticipates that non-bank financial institutions such as securitisation backed mortgage originators and charge card operators might wish to participate as PIMs in the BPAY scheme. This may allow such financial institutions to provide an improved level of service to their customers by offering them electronic bill payment functionality.

BPAY submits that there is therefore no case to implement any access regime in relation to the BPAY scheme and that there would be no benefit from doing so.

(c) Innovation

Within the current Australian regulatory environment BPAY is able to continue to innovate, such as by the introduction of the BPAY View service. BPAY also has under development a

number of further significant enhancements to its product offering which BPAY believes will lead to increased usage of its payment products; will provide efficient alternatives to some payment methods, including direct debit and direct credit; and will make possible new services being provided to Australian consumers and businesses, to the general benefit of Australian consumers.

Many of these innovations are expensive to develop and involve a risk as to whether they will be commercially successful. Those entrepreneurial judgments are not easily reconciled with any regulation of fees (or other arrangements) between BPAY and the members that use BPAY. Generally, regulation may jeopardise innovation by BPAY and limit the extent to which BPAY is able to leverage the use of its existing products and develop new products to meet or fill market demands and gaps.

The development by BPAY of innovative products adds to the utility and efficiency of the Australian payments market.

4 Response to Question 3.1(b) (paragraph 130): the adoption of a uniform approach to the setting of all regulated interchange fees

BPAY submits that a uniform approach to the calculation of relevant interchange costs for all payment options should not be adopted although the conceptual framework under which the calculation is made should be consistent.

There are a wide variety of payment options competing in the Australian market. Each has different benefits and disadvantages for the users of the payment option. There are likely to be significant differences in the costs of providing the various payment options depending on factors such as delivery channel and scale of activity. Implementing a “one size fits all” calculation approach would not give appropriate consideration to the circumstances of each payment option and the competition which it needs to meet.

Regulation should only be imposed where it is necessary.

Where regulation is imposed, interchange fees should be determined on a case-by-case basis. In each case, however, the calculations should be principles-based and consistent with (but not necessarily the same as) calculations undertaken in other cases.

5 Response to Question 3.2 (paragraph 131): setting all interchange fees to zero

BPAY submits that it would be inappropriate to set any interchange fee to zero (or any other level) before analysing the underlying economics of the relevant payment option.

In the case of BPAY, the use of cost-based interchange fees paid by BPAY’s Biller Institutions to its Payer Institutions ensures that the cost to the BPAY Payer Institutions of capturing and remitting billing and payment data to the Biller (via the BPAY Biller Institution) is recovered from the party for whose benefit the data is being captured – the biller. This underlying principle has guided the determination of BPAY interbank fees over time.

Yours sincerely



General Manager