Submission to the Australian Payments Plan Consultation: Shaping the Future of Australian Payments

by

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We would like to address three issues in our submission: (i) the proper meaning of 'resilience' when applied to payments systems, (ii) the potential benefits to federal and state governments of growth in electronic payments in Australia, and (iii) the need for an improved, streamlined regulatory regime for stored value payments in Australia.

1. The Meaning of Resilience When Applied to a Payments System

The Payments Council has rightly, in our view, identified resilience, efficiency, accessibility and adaptability as the desirable characteristics of the Australian payments system. Resilience, properly understood, needs to be one of the most important characteristics of our payments system yet when the term resilience is used in the context of financial systems, it is almost invariably used as a synonym for strength or robustness, and resilience and strength are different concepts.[2]

A system that is strong is able to withstand external shocks. A system that is resilient is either able to withstand external shocks or if the shock is so substantial that this is impossible, is able to reorganize itself in such a way as to continue to deliver the same essential services but in a different manner. Examples *par excellence* of highly resilient systems abound in the natural world. Nature prioritizes resilience over efficiency. There is typically a number of species in an ecosystem that each discharge the same function, so that if one species dies out, the entire ecosystem continues to function well. We explore this insight in much greater detail in the research paper in the Appendix. Applying that paper's insights to a payments system suggests the best payments system for Australia is going to include a number of different payments channels, for if one channel fails (or is not available)

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[2] Mary Dowell-Jones & Ross Buckley, "Reconceiving Resilience: A New Guiding Principle for Financial Regulation?", research paper – attached in the Appendix to this submission, as yet unpublished.

for a period of time alternatives will be required. Such thinking would argue, for example, for the retention of the ability to manually process credit card payments to accommodate periods when electronic processing is not available. As a general principle, the strengthening of channels is good unless it is accompanied by the exclusion of alternate payment channels so that the collapse of the dominant channel brings chaos.

2. The Potential Benefits to Federal and State Governments of the Growth of Electronic Payments in Australia

Some 45%, by value, of the currency in circulation in Australia is comprised by one hundred dollar notes.[3] Yet most Australians rarely handle a one hundred dollar note. These notes are being held somewhere and used for something. It may be that a proportion are under mattresses so that people can meet the various tests required for eligibility for the aged pension. However, one suspects that the great majority of these notes are used to make payments in the construction industry, particularly the flourishing trade in home renovations in Australia, or in other aspects of the black economy. Anecdotal evidence would suggest that some 15 years after the introduction of the Goods and Services Tax, Australia retains a sizeable black economy estimated to be of the order of $24 billion a year.[4] If cash payments were to stop being routine in daily life, sizeable cash payments for the purposes of avoiding taxation, both the Federal taxation on income, and the GST which accrues to States, would become far more apparent and easily traceable. Australia already has the world's highest take up of Pay-Wave (Tap-n-Go) technology in the world. It is already easier to make a minor payment by waving one's card in front of a register than it is to reach into one's pocket for coins and notes. It is somewhat surprising that governments at both levels have not embraced this change and thrown their robust support behind it, for it is government that stands most to benefit from efforts to shrink the black economy. It seems to us that the Payments Council has a potentially important educative function to fulfil here. The payments industry, and government, should be allies in the quest to move Australia towards electronic payments and away from cash.

Experience abroad suggests that stored value products have a central role to play in this evolution towards payments and away from cash. Already, in Hong Kong, the Octopus card enjoys an extraordinary 99% acceptance rate among adults and over 50% of the transactions paid for by Octopus are non-transport related.[5] Stored value cards, such as

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[3] As at end June 2014, see: Reserve Bank of Australia, "Banknotes: Distribution,": available at http://www.banknotes.rba.gov.au/production-and-distribution/distribution.

[4] Australian Payments Clearing Association, "The Evolution of Cash An Investigative Study (July 2014) Summary of Findings, 86: available at Http://www.apca.com.au/docs/policy-debate/evolution-of-cash.pdf: referring to the Australian Bureau of Statistics.

[5] "Adults" refers to 15 to 64 year olds in Hong Kong: OCTOPUS, "Corporate Profile" (January 2015), at 9, available at http://www.octopus.com.hk/web09_include/_document/en/company_profile.pdf; Ben Fung, Miguel Molico and Gerald Stuber, "Electronic Money and Payments: Recent Developments and Issues", Bank of Canada Discussion Paper 2014/2 (2014), at 27.

Octopus in Hong Kong, or the Oyster card in London, offer greatly improved levels of both convenience and efficiency for consumers. For instance the near universal adoption of such cards means that one can merely wave one's card to gain entry to a car park and then wave it again upon exit to have the appropriate fee debited against it. Yet today, in Australia, stored value products are potentially liable to be regulated under five different pieces of legislation administered by four different regulators. Which bring us to the final subject in our submission below.

3. **The Need for an Improved, Streamlined Regulatory Regime for Stored Value Payments in Australia**

Stored value products in Australia are principally regulated by a system of exemptions. This is understandable for, to date, they have mainly comprised road toll payment systems, retail gift cards and travel cards upon which intending tourists can load foreign currency. However, the result of the current regulatory regime is that we have seen very little innovation in the stored value space in Australia. Many potential entrants to the market, upon learning of the complexity of its regulation and the likelihood that, if their product goes to scale, they will be regulated as an Authorised Deposit-Taking Institution (ADI), simply do not enter the market. In our view, there is a strong need for a single regulator of stored value products in Australia applying a single set of regulatory rules. This would transform the marketplace. In the initial years the regulator's staff need not be large and it could well be a very small department housed within an existing regulator such as ASIC or the RBA. Precisely where it is located, is not of the greatest importance. What matters, immensely, is that there is one regulator charged with the efficient regulation of this sector of the marketplace applying one streamlined and coherent set of rules appropriate to the sector's current stage of development.

APPENDIX

This article under consideration by a journal, posting it will compromise the blind refereeing process. It will be reposted when it is accepted for publication.