

18 November 2013

Australian Payments Clearing Association
(Attention Susan Bray)
Level 6
14 Martin Place
SYDNEY NSW 2000

Dear Ms. Bray,

Consultation Paper on Establishment of Payments Council

We refer to the Joint Reserve Bank of Australia (RBA) and Australian Payments Clearing Association (APCA) paper of 21 October 2013 on the establishment of enhanced advisory structures for the payments industry.

Why NBG/CabFare is an Interested Party

National Billing Group Pty Ltd (NBG) and its subsidiary CabFare Pty Ltd (CabFare) have been in the payment systems market since early 2008 offering EFTPOS and payment processing services to operators in the taxi and limousine (Hire Car) markets across Australia. NBG is an SME with a high exposure to EFTPOS as it underpins its primary business offering.

Our primary focus has been to offer simple, fast and secure electronic transaction services to our customers. NBG partners with Tyro Payments Limited (an APRA licensed ADI) providing customers with a fast and secure real-time EFTPOS payment system. It is the only payment system operating in Taxis in Australia that offers customers, drivers, and operators with real time online transaction reporting to better manage their business. The Taxi Industry is a high-risk industry prone to card fraud and identity theft via skimming and card not present fraud.¹ Accordingly it presents special challenges in the development and operation of EFTPOS systems.²

NBG's business is as a Merchant Network Service Provider (MNSP) servicing the Taxi and Limousine industry. Therefore NBG is not only a Merchant but also a Payment Service Provider. As such NBG provides service aggregation and payment services to a market segment characterized by parties who are:

1. Disenfranchised by the traditional banking systems; and/or
2. For whom there are specific payment system requirements and the cost of meeting these for an individual is too high; and/or
3. For whom the costs of regulatory compliance are too high.

¹ APCA Fraud Statistics Report for 2012 highlighted the growth of such fraud in Taxis.

² AMEX categorizes EFTPOS in Taxis as being high risk on a level equivalent to On Line Gambling and Personal Services (i.e. Sex Workers and Brothels) and prices risk accordingly.

NBG assumes these costs and risks and prices them into its service offering for drivers and operators in the Taxi and Limousine Industries.

Response to the Consultation Paper:

We have reviewed the paper and the matters on which APCA has sought views and make the following observations:

A. Merits of Establishing a Council and Payments Community

- i. NBG believes there is considerable merit in broadening the base of policy input into the payments industry.
- ii. The inherent dangers in “peak” councils are that they only draw membership from within the existing industry and thus miss the opportunity to embrace input from “disruptive” forces. The experience in a wide range of industries is that it is these forces that challenge the dominant paradigm in an industry which generate the greatest innovation and productivity growth.
- iii. In addition there is the potential for existing industry players with high investment in legacy infrastructure to use membership of “peak councils” as a mechanism to inhibit or slow down change. Whilst not explicitly stated this has the effect of lessening competition from new entrants unless they mimic the incumbent’s business models and cost structures.
- iv. To this end it is difficult to see how emerging payment mechanisms that challenge the infrastructure and business models of the existing industry are to be incorporated. (E.G. how will the innovations from Google, Apple, or a host of other innovators will be involved especially as their activities will challenge and force reform and innovation on the Council members. Or more controversially how will APCA and the PSB deal with a request from the “Bitcoin” payment system should it move out of the shadows and seek membership?).

Accordingly the final form of the proposed structures needs to address these issues

B. Membership and Voting Arrangements

- i. The existing Payment System regulatory structures suffer from a geographic concentration and intellectual capital risk. The dominance of Sydney based institutions and participants limit the perspective in the development of policy. (E.G. An analysis of the responses to RBA Payment Systems Board Consultations over the past 3 years highlights that at present almost all of the input is Sydney centric.). In some areas the educational background of the participants in the policy debate also aligns. The risk from such a concentration is “group speak” from participants networking and common analytic frameworks. Accordingly a perspective and diversity of participants from different regions and backgrounds can be lost in the policy formulation debate. NBG

believes that inclusion of participants from a wider perspectives and geographical mix is critical to innovation and change.

- ii. As outlined above, the question of “membership” needs to address how emerging payment mechanisms that challenge the infrastructure and business models of the existing industry are be incorporated.
- iii. In terms of the “voting” arrangements those incumbents with costly and inefficient legacy systems will have a natural incentive to seek to impose arrangements that inhibit innovation and change that threatens their own pace of change. Avoiding that natural tendency will be a challenge for both APCA secretariat staff and the Chair.

Accordingly the final form of the proposed structures needs to address these issues.

C. Engagement with the payment Systems Board

- i. There is limited material on which to comment. The paper states that it is intended that the PSB will represent “public interest, including the needs of end users in its interactions with the Council”. It is unclear how potential conflicts between the PSB in its “end user representative role” and the Council will be addressed in light of the significant membership the RBA will have on the council.
- ii. Memorandum of Understanding may not be an efficient mechanism for dealing with the conflicts of interest and inherent governance issues associated in the relationship between the PSB and the Council.

Accordingly the form of the proposed Memorandum of Understanding may need to be the subject of a separate consultation.

We are available to meet with the APCA officers to discuss any of the matters contained in this submission.

Yours sincerely



David Hamilton
General Manager
Strategy and Regulation