



Regulator fires warning shot at payments sector

By Nathan Lynch, head regulatory analyst, Australia & New Zealand

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The Reserve Bank of Australia's payments arm has warned the industry that it needs to improve innovation and stability in the country's payments infrastructure or face a new wave of regulatory intervention. In a report issued last week, the Payments System Board said there had been an unacceptable number of system outages during the past year. The board said it had been discussing the issue with the Australian Prudential Regulation Authority and was looking at whether a regulatory response was needed to spur the industry into action.

The Australian payments system experienced a number of high-profile payments outages in the 2010/11 financial year — most of them involving the major banks. In November 2010, the National Australia Bank experienced problems with its overnight processing of direct entry payments. Its attempts to resolve the issue led to further outages, with the entire episode running for a number of days. In April 2011 NAB suffered another outage, again with its direct entry payments system.

In March this year the Commonwealth Bank experienced problems with its internet banking site, as well as its point-of-sale and ATM services, according to the Payments System Board. In early May Westpac experienced an operational outage at a data centre which caused its EFTPOS, internet banking and ATM services to shut down for the morning.

In addition, the Payments System Board said that the Queensland floods in January this year had exposed weaknesses in the payments system, which had a "substantial effect on payments service providers in that state."

The board said it would continue to work with the industry and APRA to ensure that the problems with payments outages are resolved but it has not yet decided on whether regulatory intervention is required.

"The Reserve Bank and the Australian Prudential Regulation Authority are discussing possible approaches to strengthen the handling of any future operational disruptions to retail payments systems," the RBA said.

Jost Stollmann, chief executive at Tyro Payments, said the outages of the past year show the vulnerabilities in the payments system as it stands. He said the industry needed to address these problems urgently or face further regulation from the RBA and APRA.

Stollmann said that the Australian payments system handled A\$400 billion in transactions each year and needed to be robust enough to ensure that the system was reliable for consumers and met the standards of operational resilience that regulators expect.

"An EFTPOS outage results in abandoned sales immediately affecting the retailer's bottom line. Even a small retailer loses hundreds of dollars in no time, not to mention the havoc and customer dissatisfaction," Stollmann said.

Innovate or intervene

The RBA report also referred to the abandonment of the banks' A\$225 million Mambo project, which was designed to improve the payments infrastructure and introduce a real-time payments platform in Australia. Industry figures have said that the failure of Mambo would increase the likelihood of the RBA — which describes itself as a "reluctant regulator" of payments — as having to intervene in the market.

The Payments System Board said in its annual report that the problems it had identified in the payments space were even more pressing following the demise of Mambo. It said that Mambo "might have been able to address a number of the unmet needs of end-users identified by the [Payments System] Review."

"The demise of this project means that the need for solutions to fill the gaps identified by the review is even more pressing," the board noted.

Stollmann said the failure of the banks to deliver on the Mambo project proved that the RBA needed to become a more engaged regulator in this space.

"I think that Mambo was the only major innovation initiative in years by the banking community in the payments space. It was often used in discussions as the 'proof point' that the industry can deliver systematic innovation without the need for prescriptive regulation. The fact is that after A\$225 million and five years it has failed. We see that as a 'proof point' that the self-regulatory approach has also failed," Stollmann said.

Stollmann said the RBA should look at the example set by the major credit card schemes, which set clear timelines and incentives to force the major banks to innovate with their handling of credit card payments.

"They mandate standards, set timelines and include incentives that are irresistible to the banks. With that they drive the entire banking community to innovate — and it works," Stollmann said.

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