Global Payments 2020-30

A seismic shift in the next ten years

Australia's challenge – to keep up

AUSTRALIA'S PAYMENT CHALLENGE

Australian payments will see more change in the next 10 years than the last 30 years combined.

Considering the economic and strategic importance of payments this Inquiry is critical, as it sets up the next two decades.

It is most concerning that such a key Inquiry is being undertaken with such haste – announced in October 2020, with a completion date of April 2021 is unnecessary haste given the size and scale of the issues.

Legacy Systems

Australia has an expensive US/Anglo legacy based payments system which will be challenged by new technology, new data uses, new players and the need to protect consumer rights and data. The need for updating systems and change comes at a cost, who will pay?

Competition

The need for real competition is the single biggest issue – yet barely rates a mention. The UK made competition and consumers major requirements in 2013 which has resulted in major changes in competition with a flood of new players.

COVID-19

Covid-19 has seen many consumers move to a 'digital' way of life accelerating key trends – both positively and negatively. Covid-19 lockdowns combined with many consumers realising it was safer working at home, have changed spending habits and usage. The question is will these habits remain as permanent behaviour once Covid-19 is over?

Digital Challenge

Since 2004 rest of the world has moved to innovate by using instant, low cost, real time 'digital' payments based on the global ISO 20022 standard.

The US Federal Reserve digital payments in 2015 report classified Europe as having "mature adopters" while Japan, India, South Africa, Singapore, and Switzerland were "growing adopters" and Australia, Canada, New Zealand and UK "interested adopters"

Interesting that Treasury only see fit to consider New Zealand, Singapore and UK as models - astonishing not considering the leaders in this area are mainland Europe.

Technology

Technologies influence on payments will expand dramatically in the next five years. The IoT, AI, biometrics, autonomous computerised cars and transport, all need to be understood and regulated.

Risk

Risks across the payment sector are elevated as governments responded to Covid-19. The stimulus combined with central bank actions will have unintended consequences as asset bubbles have been created and need to monitored closely.

Fintech is an area of key risks, Wirecard's dramatic collapse in June 2020 should be viewed as a warning for politicians and regulators – can a similar collapse happen in Australia? What is being done to prevent such a collapse?

Innovation

The Treasury Issues paper also fails to mention or consider key global innovations, for example the success of Alipay and WeChat (TenPay) who have created true ubiquity in 9 years across 28 countries with annual sales of US$41 Trillion.

The other major issue is cost - the 'china mobile' model is 70% cheaper than the expensive legacy Visa/MC model. This would mean annual savings of $22-23 billion per year in Australia - not insignificant!

Innovations around cryptocurrencies, Saas banking and payment models, shifting liabilities using shared risk will all be features of payments in the next decade.

The Future

Payments in 2030 will revolve around fully portable 'digital' consumer and business IDs which are supported in cyberspace and do not require a card, watch or phone --- rather a consumer 'calls up' the ID at any point of sale and confirms the sale using bio-metrics and security features which work in person or remotely for digital and 'eCommerce' transactions.

Portability and convenience will be the key drivers while service levels, data and ID protection are critical deliverables. This future poses key challenges for regulators who must be aware of the changes and react quickly to pre-empt excesses.

PAYMENTS - A GLOBAL REVIEW

To fully understand the next decade payment regulators need to have a global view – not entrenched views based on past local or regional activity. The world has 7.8 billion people and 241 countries and territories with payments a key tool.

Covid-19

Key trends before the pandemic have in many cases accelerated – both positively and negatively.

Covid-19 has seen many consumers move to a 'digital' way of life. Lockdowns combined with many consumers realising it was safer working at home and staying close to home have changed spending habits and usage.

Consumers over the last nine months have found new ways of working, shopping, staying connected with family, friends and colleagues and paying remotely. Food, household goods, clothing and even renting of homes or apartments become 'digital'.

These trends are more developed in markets with high or very high Covid-19 rates – success in Taiwan and New Zealand for example have seen lower rates of digital adoption, while the US, UK and Sweden have had very high digital adoption rates.

The question is will these habits remain as permanent behaviour once Covid-19 is over? Past experience in payments would suggest not – however this is an open question given the expected time still to run.

Developed Markets are Not All the Same

Developed markets have two major themes, a small number of strong credit card markets with high cash and cheque use -- 72% of global credit card receivables are in only 5 countries - USA, Canada, Japan, Korea and UK - Australia is part of this expensive mix.

Mainland Europe with 540 million consumers is the world's largest consumer market is an EDI/debit card market with little cash or credit card use and virtually no cheques. A number of EU countries have all but eliminated cheques over the last 15 years replacing them with EDIs, well before 'digital' became fashionable.

Both of these models are expensive and regulators need to understand the true costs as compared to new less expensive alternatives.

Emerging markets are about Cash, the Unbanked and Mobile

Emerging markets make up 78% of the world population and are heavily dominated by cash. The unbanked population is estimated at 2.4 billion or 45% of working adults.

Mobile payments have limited impact in most emerging markets; however a number of pioneers developed very efficient and wildly used mobile payments - Philippines since 2000, South Africa in 2001, and Kenya in 2007 all created new payment infrastructure where none existed.

Bangladesh, Brazil, China, India, Nigeria, Mexico and Pakistan are all examples of emerging markets that are developing mobile payments.

The key drivers of success are factors such as the international remittance flows in the Philippines, drive for social cohesion in South Africa and Kenya or eCommerce in China. China is now the world's largest mobile market with AliPay and WeChat totally dominant. India launched its own debit card scheme - RuPay to reduce payment costs and avoid being dependent on Visa or MasterCard debit.

Future Growth in population and GDP will drive payments

The world's population is estimated to reach 9.1 billion by 2030 – most of this expansion is in Asia, Africa and Latin America. Population by itself is not a key driver of payments. However when added with GDP this becomes a key.

Asia with 60% of the world's population is already a key payment driver. Africa with 16% is a future market, while Europe with 10% and USA with 3% are in danger of becoming 'legacy' markets.

The next decade will see significant shifts in global GDP with growth in 'developing' economies. The USA is projected to lose its preeminent position as the world's largest economy by 2030. The rise of China, India, Indonesia, Turkey and Brazil will have a profound impact on current economic and political norms.

Payments will be impacted as growth in consumer and business use drive new forms of payments.

Payments of Vital Strategic Importance

The European Union (EU) states that 'Payment Systems are the 2nd or 3rd most important infrastructure/network in any member country outside national security and military issues'.

Payments impact every government, business and household as well as every import and export transaction, every consumer and business payment transaction which make payments truly ubiquitous. Payment systems must be fast, reliable, secure, offer data protection and inexpensive to operate – an exciting and challenging task.

Comprehensive National Strategic Plans are a Priority

Given the strategic importance of payments the critical question is does every country have a comprehensive payments plan? If there is a plan why isn't it public?

Unfortunately the vast majority of countries do not have comprehensive, public plans and therefore savings and efficiencies are not being pursued and maximised. Nor is public scrutiny available to act as key driver. Australia is one of the countries without a public payment strategy – this is the key area public policy which should be developed.

The Cost of Payment System is a Key Issue

The cost of retail payment systems is a major impost in all economies running at estimated average 1.2% of GDP. The EU estimates the range for retail payment systems in Europe is 0.6% to 1.6% of GDP. These costs blow out when emerging economies are considered - India recently changed its banknote policy to try to reduce cash use.

South Korean has tenaciously developed credit cards in an attempt to eliminate the 'black' cash economy. The Irish National Payment Plan reflected the EU view -- they estimate their payment system is 1.4% of GDP and set clear goals and actions to try to reduce costs.

'Same Day' digital transactions are essential

Since 2002 Payment Regulators in developed countries have targeted digital 'same day' transactions as the next key development - much of this has centred on ISO 20022 to provide the key architectural basis for digital payments.

The first ISO 20022 standard was issued in 2004. It took ten years to have it widely deployed at an international scale with 38 countries and thousands of banks using it for cross-border credit transfer and direct debit applications.

The cost of debit and credit card networks continues to be a major issue for regulators regardless of attempts to rein costs in. While 'wholesale pricing' interchange has reduced this has been more than compensated by banks/issuers and franchises increasing retail fees: annual fees, other fees - for example a 3% fee plus FX rates.

Other real time digital platforms run at 30-40% of the cost of association payments while new mobile offering in Asia are 65% cheaper.

Banks Profits and Payments

Banks and independent card issuers are the prime drivers of consumer and business payments. However, major payment networks also exist within Governments and Business environments and can be used to create change. The ability of banks to service these three sectors efficiently and effectively is critical.

Payments across institutional, wholesale and retail are a key part of most banks – "In 2016, the global payments industry accounted for 34 percent of overall banking revenues — up from 27 percent just five years earlier. For the next five years annual growth will average 7 percent, making payment revenues a $3-trillion-dollar-industry by 2025," according to McKinsey.

Technology is Critical to Payments

Technologies influence on payments will expand dramatically in the next decade - the growth in computing from edge computing to quantum computers along with data service beyond the current 'cloud' will aid significant improvements. Add AI, the IoT, biometrics, autonomous computerised cars and transport, all of which need to be understood and regulated by payment regulators.

The payments industry has been an early adopter of technology; one key example is ISO 8583, early in 1980s the industry adopted electronic switching, which quickly developed into electronic charge submission to eliminate manual authorization phone calls and expensive paper charges. Today ISO 8583 underpins all consumer payment systems globally – a new standard ISO 20022 is progressively being adopted with 38 countries now using it.

Technology is part of the back bone of payments and is implicit in its efficiency. However, not all technology is well used and adoption rates can be low e.g. the US EMV program is a disaster, 6 years after the deadline only 74% of merchants are fully compliant and 18 years behind other developed markets due to the size of its installed base. The current market developments revolve around fast payments, wider adoption of social media payments, P-P payments, multi-currency payments with netting and better use of internet/eCommerce payments.

Mobile is Soaring in some 'Emerging Markets'

The rapid growth in mobile in key emerging markets has been largely ignored by Western economies. Yet the figures make eye catching reading – in just 9 years China's mobile has reached US$41.7 Trillion while Visa/Mastercard and other credit and debit cards combined have taken 60 years to reach annual volumes of US$24.5 Trillion.

China Mobile is the innovative model – but a regulatory nightmare.

It combines payments, eCommerce, social media, games, dating, music and entertainment with a Telco in one ecosystem. In other words the China Mobile model effectively combines: Visa/MC, Amazon, Facebook, EA Games, Match.com, Spotify along with Telco services – a very powerful and alluring offering.

China Leads the Way with Mobile

China's mobile payment market is the world's largest reaching US$41.7 Trillion in 2019/20, from US$81 billion in 2012. AliPay has 1 billion active users globally and TenPay is in partnership with WeChat -- WeChat has 1.2 billion active global users 45% using payments. These two platforms share 85% of the mobile market and now threaten the government owned payment card China Union Pay.

Key to the initial rapid development and growth is Nov 11th 'Singles Day', which is a rebranding of Batchelor's Day, a 90s student tradition – Alibaba sales for one day in 2020 totalled US$74.1 Billion with weeks total US$155 billion (US Black Friday weekend totalled 58 billion)!

Mobile has also expanded overseas to support the 190 million travelling Chinese tourists: AliPay is in 38 countries and WeChat in 27. Chinese mobile payments use QR codes, this is currently not standard at point of sale globally - there are some concerns about the security of QR codes.

Chinese regulators have recently moved to challenge the rapid growth, ordering new rules and also investigating anti-competitive, antitrust behaviour – this is a wakeup call for other regulators, it is much easier o create and enforce rules early rather than trying to 'unscramble the eggs' later.

Third Generation Mobile P2P Show Potential

Zelle, Venmo, PayPal Cash, Square Cash and Dwolla are all 3rd generation US P2P transfer apps on smart phones primarily aimed at 15-35 year olds -- these apps have zero cost for consumers and are a quarter of the cost to operate vs debit/credit cards and present a major threat to the card schemes for smaller transactions and social media interaction.

Zelle (re-branding of ClearXchange) owned by 7 US banks, Venmo owned by PayPal with combined volumes expected to be used by 275 million users spending US$1 Trillion by 2021 year end. These are a threat to other payments notably debit cards, BNPL and P2P transfers.

Mobile Payment Wallets in Developed Markets are a Dud

Mobile wallets have been totally unsuccessful in building critical mass quickly in developed markets. Attempts made by banks, card issuers, Google, Apple, Microsoft, Amazon, Visa, MasterCard, Amex, Telco joint ventures include WPS in Canada and ISIS (rebranded Softcard in 2014) in USA all have been resounding failures in attracting mass consumer use. Expensive contactless payments have quickly become the default point of sale payment in most developed markets despite being 'legacy' technology, reaching 60-90% consumer usage in 3-5 years.

Apple Pay is a good example of the 2nd generation mobile product which is performing poorly – due to poor strategy and implementation. Apple Pay was launched 8 years ago in the USA just as the entire payments market was distracted with EMV implementation. Apple's low market share in many markets combined with the fact that two thirds Apple phone users couldn't use Apple Pay also created considerable dissatisfaction among existing Apple consumers.

Card Networks Proliferate in Developed Countries

The global players all have strengths and weakness - Visa and MasterCard are the largest but are far from dominant. For example Visa are weak in mainland Europe known as a debit card, both MasterCard and Visa has made no progress in China and limited progress in India. Other global card players include American Express, Discover/Diners Club, JCB, Cetelem and China Union Pay.

There is also a strong layer of local players with 30-40% shares – these include, domestic debit networks, retail store cards, conglomerate consumer cards, single purpose consumer offers e.g. car finance, airline cards, consumer finance offers, buy now pay later, instalment loans as well as budget services, payday lenders, pawn brokers and traditional lending practises e.g. family loans which vary in many markets.

Neo/Challenger Banks – Promise of a Rerun?

'Neobank' (or Challenger banks in USA) is the new label given to digital banks that launched a two decades ago. This is the third attempt by start-up banks to take on incumbents, starting with 'digital' banks in early 2000's

Digital banks like UK ‘egg’ founded in 1996 delivered primarily via the internet while Neobanks deliver via a smart phone app. The ‘Neobank’ term rules out subsidiary app-based banks launched by bigger banks that operate using the existing bank’s legacy banking system.

Neobank founders love to talk about how dissatisfied consumers are with the big banks. Someone needs to tell the consumers. While the neobanks made gains in primary bank status during the first half of 2020, they’ve done so predominantly at the expense of community banks and credit unions.

Online Payments – eCommerce has grown during Covid-19

Europe combined is currently the world’s largest ecommerce market – in 2021 China will overtake Europe and control 50% of global online retail with US$2.6 Trillion.

The current eCommerce rankings are – with economic ranking in brackets.

1. China (2)

2. USA (1)

3. UK (7)

4. Japan (3)

5. Germany (4)

The other top 10 markets are, in order: France, South Korea, Canada, Russia and Brazil.

The payment issues in the online market are totally different than in high street retail and with new technologies and the growth expected, market distortions and consumer issues will feature heavily in the next decade

Amazon is a major player in 4 of the top markets: USA, UK, Japan and Germany – its reputation is far bigger than its actual share.

Bitcoin is a Non-Starter for Mass Payments

Bitcoin has been attempting for a decade to convince markets of its ability to provide timely payments. Shortly after its launch in 2007 a number of experienced payments experts reviewed the capabilities of Bitcoin. The review concluded that Bitcoin and or blockchain had no possible role in global mass consumer or business payments.

The concept of a global peer to peer network was simply not feasible given the current and future volumes. Bitcoin processes 7 transactions a second with an average transaction time of 12 mins – but with peak delay of up to 3 days. Visa and MasterCard process 16,000 transactions per second with a peak of 24,000.

No amount of 'tweaking' will take bitcoin to this level. Bitcoin has also had 2 systems outages in 10 years requiring the total network to backup transactions for 2 days – if this was to occur in the global payments market the result would be catastrophic. The ability of blockchain to work in other high volume segments such as corresponding banking or foreign remittances is also unlikely given the global spread of these products and the volumes.

Cryptocurrencies have Potential – Maybe?

There are over 2900 cryptocurrencies, most aimed at investors brave enough to invest in them and risk never getting their money back. The number of 2020 fraud cases grew to US$325 million, while the US$4-5 billion OneCoin ponzi scheme was additonal. This activity is not limited to cryptocurrencies but certainly creates media headlines.

The other area of development is sovereign cryptocurrencies which has been quietly developing over the last 5 years. A number of countries and technology companies have been exploring the potential to replace cross border payments with cryptocurrencies which would avoid the need to use reserve currencies – much is yet to play out and it's not a case of will the technology work, but rather how will the geopolitical issues play out.

Central Bank Digital Currencies have been discussed – however this brings central banks face to face with AML and KYC issues. Banks simply cannot comply and pay fines while struggling to service clients, how will central banks do?

Fintech Revolution Has So Far Failed

Fintech - the buzz word invented in 2008 was to herald the 'total destruction' of banking, payments and insurance by fledgling start-ups - however a decade on Fintech has yet to reach this goal with investment levels insufficient to build true competitors to banks.

Total Fintech Investments 2008-20 are US$106.9 billion which includes Venture Capital and other investors including private equity and crowd funding, representing only 6.9% of total start-up funding.

The key question is whether this level of investment is sufficient for major disruption. Uber, for example, has raised US$11.5 billion in funding and debt in 18 funding rounds since March 2009 and has success in some taxi markets, a much smaller segment than Financial Services.

Today most Fintech's are seeking to sell or create partnerships with banks in the hope of being acquired - hardly an enthralling prospect for many of these young entrepreneurs.

Regulator's Challenge

This high level overview needs to be understood and the considerable detail unpinning this must be known by any payment regulator – this is a huge task especially for any inexperienced, new entrant. How board members and associates are educated is a major issue for regulators and politicians.

THE AUSTRALIAN RETAIL PAYMENTS MARKET

Total Australia payments market processes $265 billion payments per day or 13% of GDP – split between government, business and retail consumers.

The dominant payment types are bank transfers and cash while cheques, debit/credit cards and person to person transfers play supporting roles.

Consumer annual retail payments total $1.24 Trillion, while SME's and Corporate payments used in retail payments totalled $134.6 billion, giving a total of $1.37 Trillion.

Number of Consumers October 2020

Payment type	**Number of Consumers**
Debit Cards	40.4 million
Credit/charge - personal	16.6 million
NPP Osko	6.5 million
Pre-Paid	10.5 million
BNPL* estimate	4.8 million*

Data – ex RBA 2020 * Company numbers

Australian Payments by Consumers – Full Year to October 2020

Payment type	Volume in $ billions
NPP/ Osko Digital	477.9
Debit Cards	381.4
Credit/Charge Cards	245.1
ATM Cash	110.2
Buy Now Pay Later estimate	8.9
Cash – notes*	8.8
Pre-Paid Cards	4.8
Cheques*	4.7
TOTAL	$1241.8

Data – ex RBA 2020 * private research Feb 2020

'Cash' Related Transactions Dominate

While bank notes are fading, cash use is growing and is expected to continue to grow as new types of cash use proliferate.

RBA data clearly shows this priority – cash and cash-related payments make up 79% of retail payments. It is the fastest growing segment and has the most consumer usage with 8.8 trillion transactions or 83% of all transactions. This is the segment that requires the most policy action and one key deliverable being much lower costs.

Consumer Cash Use vs Credit – 12 months to Oct 2020

Payment Type	Annual Volume billions
Osko NPP	$477.9
Debit Card	$381.4
ATMs, cash notes, prepaid, cheques	$128.5
TOTAL	**$987.9**
Credit cards – consumer only	$245.1
BNPL	$8.9
TOTAL	**$254.1**

This chart excludes Corp Cards, Corp cash and cheque use – RBA data at Oct 2020

Review of Payment Types: Digital NPP/OSKO

Registered Consumers 6.5 million with annual spend $477 billion to October 2020, however growth rate is slowing. October volume $48.3 billion with average transaction $1120 – increase of $16.4 billion or 51% over a year ago

Debit Cards

Debit cards are the major transaction payment type used by 40.4 million consumers with 38% share; while volume is 30.4%. October spend totalled $34.1 billion up 11.25% vs September.

Annual average spend was $9438 per card -- up 9.8% vs prior year, while annual spend totalled $381.4 billion - up 10.1%. Domestic purchases dominate $370.2 billion – or 97%

Foreign use $11.3 billion - October overseas $921 million down on previous year.

Consumer Credit/Charge Cards

Consumer credit/charge cards make up 19.7% of volumes but are in serious decline as consumers moved to debit and NPP. Covid-19 has accelerated the decline as overseas travel and purchases decline.

Australian credit card trends are like no other mature market - credit cards continue to decline vs most other markets are growing. Cards issued are 16.68 million – down 1.86 million from a year ago. Australian consumers have cancelled 5.63 million cards since July 2016. The last time Australia had 16.6 million credit/charge cards was December 2006.

Annual consumer spend to October is $245.1 billion - down 10.2%. Overseas spend is down 65%

Average annual spend $14,695 per card -- down 6.9% vs prior year. Total average balance owing has dropped below $20 billion while the average balance per card is an incredibly low $1181 or US$844 (USA average balance US$6870, UK US$4860)

ATM Usage

ATM cash use, while in slow decline has significantly increased as a result of lock-downs.

Annual ATM withdrawals fell to $110.2 billion – down 15.3 % in October 2020. Monthly withdrawals – $9.2 billion vs $10.9 billion last year - a 15.4% decline.

Overseas cash withdrawals by Australians – $70.4 million - down 81% demonstrating the impact of Covid-19

Pre-Paid Cards

10.5 million pre-paid cards on issue Oct 2020 – decrease of 3% over Sept 2020

Prepaid annual spend $4.87 billion – decline of 30% while average spend per card $463 per year

Total stored value on cards - $1.0 billion.

BNPL

The only official RBA data was released in a Review of Payments November 2019 – stating BNPL sales for 2018/19 totalled $6 billion (page 29 of report).

This includes all BNPL operators in Australia. This number is different from BNPL press and PR numbers which include New Zealand for both sales and consumers – significantly changing any conclusions that can be drawn.

BNPL at $6 billion vs total payments of $1.24 trillion = 50 basis points.

Estimates from company reports are – $8.9 billion in Australia or 70 basis points which simply makes BNPL a tiny niche.

Online eCommerce

Retail sales in 2019 - $285 billion - online estimate by ABS $34 billion or 11.9% (up from $27 billion in 2018).

Online currently represents a very small market - Australia is rated 15th globally, well below its size as an economy and well below household income.

Debit card stats show October card not present was 23.2% of transactions YTD 21% - while this is not a total, debit cards used with PayPal and independently are the major online payment.

Independent eCommerce Study June-July 2020 – online payment types

	2020	+/- 2019
PayPal	52.1%	+3.3%
Credit Cards	23.3%	-1.1%
Debit Cards	14.5%	-1.0%
BNPL	5.2%	-0.5%
Other	4.9%	-0.7%

SME's and Corporate Using Retail Payments

The payment products offered to SMEs/Corporate are different and have totally different terms and conditions, different payment terms, different costs and in some cases different regulators. For example - it is confusing to have Corporate T&E Cards, Commercial Cards and Purchasing Cards included in credit card statistics which are then considered part of 'consumer' use and debt.

It is also important from a policy point to consider future developments and growth of mixed payments – that is payments with consumers, SMEs and large Corporates all participating.

Current RBA data only shows SME/Corporate use across a limited number of categories as the table below shows - this should be expanded to include Debit Cards, ATM use and other categories.

Australian Payments by SMEs/Corporates with retail payments to Oct 2020

Payment type	**Volume in billions**	**% increase over 2019**
Corporate Credit/Charge Cards	$61.6	-6.5%
NPP – none Osko use	$42.9	70%
Corporate cheques*	$23.1	-2.4%
Cash – notes*	7.0	-4.5%
TOTAL	$134.6	12.6%

Data – ex RBA at Oct 2020 * private research Feb 202

CURRENT PAYMENT REGULATION

Australia is similar to most developed economies with the central bank (RBA) responsible for payments.

These responsibilities are set out in legislation namely -

The 'Reserve Bank Act 1959' gives the Payments System Board (PBS) responsibility payments system policy.

PSB's Key responsibilities:

1. Controlling risk
2. Promoting efficiency (cost)
3. Promoting competition
4. Overall stability of the financial system.

The PSB legislative responsibility and its powers to promote efficiency and competition in the payments system are unique in Australia.

This responsibility was broadened from high-value wholesale payments to include retail and commercial payments.

'Payment Systems (Regulation) Act 1998' sets out actions available:

1. 'Designate' a particular payment system is subject to regulation.
2. Determine rules for participation in that system, including rules on access.
3. Set standards for safety and efficiency for that system – including technical requirements, procedures, performance benchmarks and pricing
4. Direct participants in a designated payment system to comply.
5. Arbitrate on disputes within the system

The Payment Systems (Regulation) Act 1998 gives the RBA extensive powers to gather information from payment system/s.

The RBA/PSB can request the ACCC to assist with market assessments or projects – this requires the RBA to request such action.

The Payment Systems and Netting Act 1998 gives the RBA a role in removing two important legal uncertainties in the Australian payments system:

- Under the 'zero hour' rule, a court may date the bankruptcy from midnight before the bankruptcy order is made. Such a rule would threaten the irrevocable nature of payments in the RTGS system
- Some payment systems settle on a multilateral net basis paying netted amounts to some parties – this could be threaten other parties in a bankruptcy allowing 'cherry picking' of payments. Solvent parties would then receive little in

return for their payments to the failed institution, putting them under liquidity pressures and threatening their own solvency.

The Payment Systems and Netting Act 1998 removes these uncertainties. The Act exempts RTGS transactions from a possible 'zero hour' ruling and ensures that approved multilateral netting arrangements cannot be set aside. The Act provides the RBA with flexibility and the power to approve RTGS systems and multilateral netting.

The Cheques Act 1986 was amended in 1998 to provide that cheques that are settled in a recognised settlement system can be deemed dishonoured. The Reserve Bank has been given responsibility under the Cheques Act 1986 to determine that a system for settlement of cheques is a recognised settlement system.

These legal constructs would seem clear and have been used to determine major changes in the payments system e.g. the interchange regulation 2001-3.

It is interesting to note that the payments system is now being referred to as -

"*The payments system is regulated by a range of self-regulatory bodies, independent regulators and the federal government, and each interacts closely to achieve broader system objectives"* Payments Systems Review - Issues Paper November 2020.

Payments by Australian governments, businesses and consumers make up 14% of GDP – since 2004 38 countries have implemented digital changes using new standards the major one ISO20022.

The US Federal Reserve in 2015 report classified Europe as having "mature adopters" while Japan, India, South Africa, Singapore, and Switzerland were "growing adopters" and Australia, Canada, New Zealand and UK "interested adopters"

Interesting that Treasury only see fit to consider New Zealand, Singapore and UK as models - astonishing not considering the leaders in this area mainland Europe.

The critical question is what level of strategy and supervision is provided and who is ultimately responsible?

THE REGULARITY CHALLENGE IN AUSTRALIA

Australian payments will see more change in the next 5 years than the last 30 years combined.

Australia has an expensive legacy US/Anglo based payments system which will be challenge by new technology, new data uses, new players and the need to protect consumers.

Payments are a very high volume, low margin business with even the smallest changes in revenues or margins delivering significant changes in actual dollars.

The key catalyst for change in the payments industry should come from open competition. It must be encouraged in all aspects, for consumers, businesses and institutions.

Competition is the seed to foster innovation, it drives change, lowers costs and forces decision making. It is the most important spark in creating a better deal for consumers and businesses.

Yet there is less competition in the Australian payments industry than 15 years ago and this should be a major concern for a critical piece of national infrastructure.

Payments are Strategically Important

The EU states that 'Payment Systems are the 2nd or 3rd most important infrastructure/network in any country outside national security and military issues'. Payments impact every government, business and household as well as every import and export transaction, every consumer and business payment transaction which make payments truly ubiquitous.

Strategically the retail payment network is far more important and has a wider reach than mobile phones, broadband, 5G coverage and fixed line phones – yet receive scant coverage by comparison. The NBN when complete will only reach 70% of households at best.

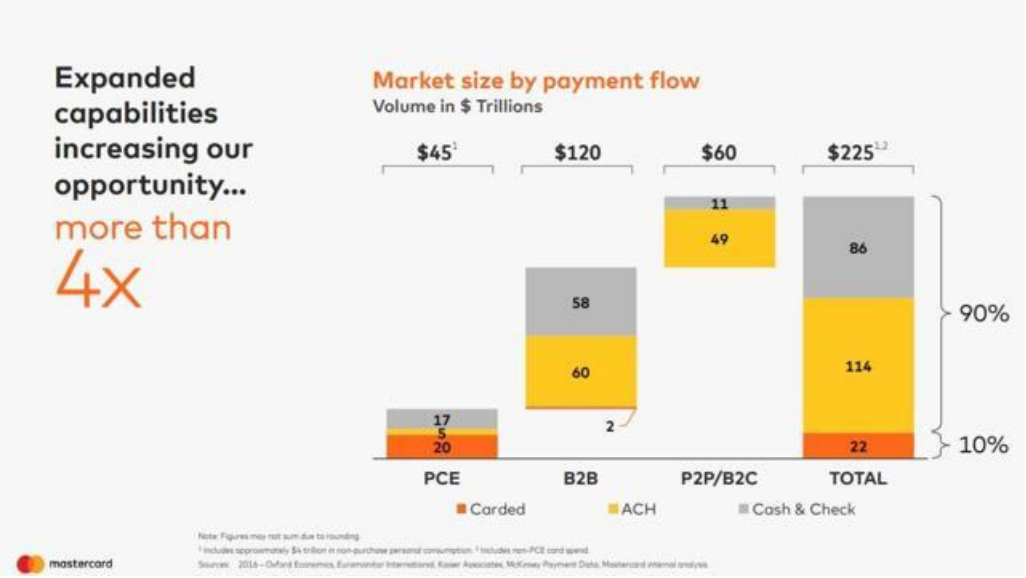
The Inquiry should consider how payments can be more widely discussed and how the public debate around payments should be encouraged.

Current payment policy thinking in Australia can be summarised by this quote – "the retail payment system accounts for the majority of payments – about 99% of the number (not value) of payments" APCA2015b.

This thinking totally ignores all Government payments, business to business payments as well as business to consumer payments which are much more than 1% of payments.

Within the retail payments sector business and government payments are largely ignored by regulators and are not separated within key market data – one example Commercial Cards with $61 Billion. The structure, usage and liability of these products which include travel spend, purchasing business items and procurement of key inventory has nothing to do with consumer spending - other examples also exist.

It is very apparent payment markets will evolve and payment providers will seek to gain new growth and new markets. A chart from MasterCard's annual report demonstrates this, as they begin targeting non card payments in SMEs, larger businesses and government sectors.



Visa and MasterCard will attempt to bring their high fee, low utility formula to other payment markets and this should be avoided. The regulatory challenge is to understand how markets will evolve and change the regulation as this is happening and not to get caught behind the curve.

Australia's current retail payments products are expensive verses other payment options available including EDIs, P2P mobile payments, 'China mobile', digital cash and other cash transfer systems.

Any discussions about future strategic directions must include the cost of payments. Australia's current retail payment mix includes cash, cheques, debit/credit cards with a very small share of P2P and mobile payment products. The sector is dominated by the four major banks that have engaged in little innovation and by key acquisitions have in fact reduced competition.

The last cost of payment study in Australia was in 2014 – which is light years away from the 2020 reality and a different universe from 2030. This is a serious strategic and structural issue which directly impacts policy and resource issues - this needs urgent attention at the highest levels of Government.

Total Payment Costs are Significant

The EU estimates retail payment systems in Europe range from 0.6% to 1.6% of GDP. Australia is similar to the UK and Ireland with a high mix of debit & credit cards, cash and cheques – Ireland has higher cash use and lower electronic payments than Australia. Ireland with EU assistance developed a payment plan which detailed retail payment costs at 1.4% of GDP.

If we assume Australian retail payment costs are therefore lower, at say 1.2% of GDP it is then possible to estimate the full cost of retail payments - 2019 Australian GDP was A$1.89 Trillion x 1.2% in payments costs would equal A$22.6 Billion in costs per year.

If Australia could reduce retail payment costs to 0.6% as Sweden, Denmark, Norway, Belgium and others have done -- costs per year would equal A$11.34 Billion -- a significant annual saving of $11.26 Billion.

To reduce annual payment costs in Australia by 49% would have enormous economic benefit by improving speed of payments and improve cash flows for businesses and consumers.

This type of strategic objective should be the cornerstone of future Australian payment policy. Future efforts should be detailed in a strategic plan with clear goals and reviewable actions.

The development of real time digital payments and mobile ubiquity has the potential to massively change the cost of payments well beyond current estimates. Figures from markets with high digital payments or high mobile payments suggest savings of 65-70% are available, that would equate to savings of $14.6 – 15.8 billion per year.

Systemic Risk

Risk management in the financial sector has changed substantially over the past ten years. The regulations that emerged from the global financial crisis and the fines that were levied in its wake triggered a wave of change in risk functions.

These included more detailed and demanding capital, leverage, liquidity, and funding requirements, as well as higher standards for risk reporting, such as BCBS 239. The management of nonfinancial risks became more important as the standards for compliance and conduct tightened.

The 2020 pandemic and the avalanche in liquidly, run away share markets and bond issuance have created accelerated risk around financial assets. Combine this with unregulated lending plus fast growing Fintechs and it’s apparent regulators need to be fully aware of the systemic risks going forward.

The European Banking Authority (EBA) estimated 31 per cent of Fintech firms in Europe were not subject to EU or national regulation, a third of which were payment service providers. EBA rules also state that any firm or service receiving 50% or more of revenues from financial services should be classified as a financial service and be subject to all regulations. Australia has no such definition or methodology which is certainly needed urgently.

A Lack of Competition

Consolidation has been the major theme of the retail payments market since 2000. This is a major failure in regulation and needs to be closely considered by this Inquiry.

The "GFC' provided the 'unguarded' opportunity for more consolidation with Bankwest and St George purchased by CBA and Westpac, resulting in decreased activity across the market.

GE Money, a sizable competitor to the 4 banks, was a casualty of the 'GFC' in 2008 when the securitization market collapsed. The business lost its market share, sold its mortgage portfolio and was in 'maintenance' mode until it was sold to private equity in 2015 – today it is a minor player.

There have only been two major credit card launches in 15 years – Virgin Money and Aussie who 'launched' cards – the back office for both entrants was provided by Westpac and ANZ respectively with no significant product variations.

A number of small acquirers have attempted to launch - these include Distra in 2001 (now owned by ACI) and Tyro 2003. Today Tyro is a niche acquiring/switch player reporting $20.1 billion in transaction value which equates to 3.1% market share of the debit/credit card market.

US acquirer/POS provider Square, launched in 2016, now has 65,000 merchants and $4.6 billion in sales - less than 1% of debit/credit sales. Other new entrants are rumoured to be following Amazon's launch in 2018 but have yet to eventuate.

Buy Now Pay Later (BNPL) is lauded as a major innovation with mobile apps targeting younger consumers. While this sector has created plenty of hype/spin its real impact on payments is minimal. Launched in 2014 BNPL still does not equate to more than 1% of retail payments after 7 years – at this rate of progress it will take 70 years to get to 10%.

The National Payment Platform (NPP) launched in 2018 was hailed as a 'major breakthrough' - in reality it has mostly moved EFT volumes and replicated this volume on its digital platform. The development of new products is the key issue as the NPP has very limited earnings – only creating $10 million in 2019.

No major overseas player has entered the payment market and those who did evaluations went to other international markets considered more favourable – the lack of positive credit reporting, the interchange issues and the size of the Australian market were seen as key factors for not proceeding.

The lack of competition in payments should be of great concern as it prevents innovation and cost reduction. It will also prevent the development of some newer technologies over the next decade.

Competition – The Key to Change

The need for robust competition is almost completely overlooked in Australia.

The Australian competitive landscape is in stark contrast to other markets - this quote from the UK demonstrates this "*given the importance the Government attaches to*

improving competition… arguments now lie in favour of a full utility-style regulator". This UK thinking resulted in the appointment of a new regulator in 2014. This model should be considered in Australia.

The UK report was very clear in its findings that "*the banks dominate the decision-making, own the payment schemes… there is considerable opportunity for these banks to manipulate their involvement in the process for their own benefit*." In another section the report notes the "*difficulties faced by both new entrants and existing small challengers".*

The Irish Government developed a comprehensive payment plan supported by the EU in 2013 and the UK Government's "Opening Up UK Payments" issued by the UK Treasury issued in the same year. The UK Treasury report provoked considerable debate in the UK in relation to opening up access and competition in the payments industry, the response in Ireland was more muted.

The difference in implementation is key – the UK regulatory body reports to parliament and has a board and advisory board which are considered key to the success of the UK in developing more competition and a vibrant Fintech industry.

The UKs Treasury conducted a review in June 2020 – the Governments goals were:

1. *UK payments networks that operate for the benefit of end users, including consumers.*
2. *A UK payments industry that promotes and develops new and existing payments networks.*
3. *UK payments networks that facilitate competition by permitting open access to participants or potential participants on reasonable commercial terms.*
4. *UK payment systems that are stable, reliable and efficient.*

Australia's hands off approach is at odds with the RBA/PSB powers – clearly when required the approach can be different.

One example - the major payment policy change in the last 17 years was the RBAs three pronged 'reforms' of credit card interchange. The objectives of increasing competition and enabling new entrants to enter the market have not eventuated. The desire to create open and transparent pricing has only been partial met, interchange reductions have been achieved at the 'wholesale' level while the industry has more than recovered the 'lost' revenue at the retail level.

At the same time Australian consumers have endured massive increases in fees and charges for no increase in services and faced the arrival of uncontrolled surcharging.

The other significant issue was the failure by the ACCC to supervise and require retailers to pass on the interchange savings to consumers. The net result was retailers pocketed $118.8 million in year one, plus increased their revenues by starting uncontrolled surcharging – rampant by those with market power, monopolies or special services e.g. Telstra, Qantas, Utilities and specialist retailers.

Why Ask the Regulator To Lead in Strategy Development?

As regulator, the RBA/Payments Board plays a role in working with many businesses and consumer groups that are involved in payments. Since 1998, when the Payment Systems Act took effect, regulation and review has taken place.

The RBA/Payments Board has performed the de-facto role of developing the strategy for payments in Australia.

The inquiry should question this role - is this the right place to develop the strategy?

Does the Payments board have the right structure, people and tools to undertake a comprehensive strategy development?

The Payments Board operates under the imprimatur of the RBA. The Payments Board has five independent Non-Executive Directors with RBA and APRA representatives and is advised by RBA staff. The independent board members are respected business leaders; however a review of their CVs shows none of them have payments industry experience nor do they have the benefit of consulting with an Advisory Board.

This is an untenable situation for independent directors and should be reviewed – payments are a specialised industry and given the strategic importance some Board members should have industry experience and all Board members should have access to a range of views both at Board level and consult with an Advisory Board to provide independent views to ensure good policy is created and implemented.

The UK for example has two Advisory Boards covering the new RTGS roll out and payments regulation. The PSR Advisory Board Chair Dr Ruth Wandhofer had previously chaired the RTGS Advisory Board - both having been established by the PSR's Banking Act 2013.

Additionally the UK had a Payments Strategy Forum from 2015-17 to assist "…led on a process to identify, prioritize and help to design initiatives which make payment systems work better.."

A critical question is who reviews the RBA/PSB – this should be clear, consistent and within the public domain.

The RBA has several conflicts of interest which have gone unchallenged – for example the NPP which has been developed in conjunction with banks. Yet the RBA is also the regulator responsible for making the regulations. As a 'shareholder' in the NPP the RBA has also suggested changes in policy and the merging of payment companies – this has serious connotations and needs to be questioned.

Collaboration is not Competition, What about the Industry Bodies?

Sometimes collaboration within an industry can be seen as a way to create benefits for customers. With four banks dominating, collaboration is a non-starter in fact it is an oligopoly.

Collaboration across the wider payments industry should a broad objective detailed in the regulators operational objectives. The Australian Payments Clearing Association

(APCA) and Australian Payments Council's (APC) roles and positions must be reviewed.

Both organisations are controlled by the banks, effectively for the banks. APC's 15 page 'Australian Payments Plan' clearly demonstrates its limited horizon and is clearly hampered by lack of resources and money.

APCAs annual fraud report is one example of key data that is needed to ensure the debate in Australia is driven by facts and not opinion and nebulous research. There are numerous topics which should receive similar treatment. If real change is to be created in payments the make-up of regulators, industry and consumer bodies need to be fully representative of all wider market - this was a key driver in the UK.

UKs Card Association and Payments Canada – the rebranding of The Canadian Payments Association provide important models for Australia. Both these organisations reflect the wider views of the industry and also provide detailed factual data and research which improves the level of the debate in their markets.

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‘CASH’ IS STILL DOMINANT IN AUSTRALIA

Bank note use has declined further during Covid-19-dominated 2020. However ‘cash’ related transactions dominate Australia with 83% of all consumer transactions using: debit cards, Osko/NPP, ATM cash, cash-out services, bank notes/coins, prepaid cards and cheques.

The cost of these services varies widely

Debit Cards are Not all Equal

The debit card market needs a major overhaul – it is a high priced relic from a past era and is now used to gouge consumers and overcharge retailers. Debit cards were created as the expansion of cheque guarantee cards in the 1980s by providing consumers access to their own cash at ATMs. Consumer research confirms that “access to my own cash” and “convenience of use” are the two most powerful attributes of debit cards.

Local debit cards providers’ morphed into local associations and then Visa and MasterCard entered the market. The market today has two price structures delivering similar offerings. Visa and MasterCard claim they offer global acceptance which justifies their much higher price – yet only 3% or $11.1 billion transactions are used overseas or for off-shore eCommerce. Consumers typically pay 3% on these foreign transactions which is certainly not justified and results in consumers paying $335 million in fees per year to access their own money.

The Inquiry should compare all cash-based payment costs and look to reduce debit card costs to retailers ensuring there is genuine competition among cash payments. There is no justification for dual pricing and Visa/MasterCard prices should be reduced to at or below current *eftpos* levels.

Cheques, Cash, Cards… What about Bank Transfers and P2P Payments?

There is no doubting the benefit of electronic payments. Payments occur at every level of Government, business and consumers. One of the clear themes in Australia is the rapid growth of debit card and Osko usage while credit cards have negative growth.

While such “modern” payment methods can help to replace cash and cheques, the idea that cards can be the sole electronic alternative to cash and cheques is not the case. For many businesses the cost and some of the scheme terms imposed are onerous. And beyond issues of costs, there are real and valid concerns about fraud and security – the rapid rise of contactless fraud is one example. Card acceptance has its place and when they work, they work extremely well and provide a superb network that enables trade. But it is important to recognise that non-card based payments can be implemented with equal success and much lower costs.

For Australian consumers and businesses, access to their core payment account, often their ‘current account’, has been restricted to internet banking services using BPay. More recently the banks have launched 2nd generation mobile apps for consumers but for businesses who wish to be paid or pay, their online offerings are limited. The most effective, low cost and low risk way to pay is by credit transfer. The ability to be paid or pay directly from any account has been made a reality by new

technology. Such functionality can be delivered online but also via integrated interfaces (APIs).

USA P2P Market – Example of Rapid Innovation

USA P2P cash transfer market is growing at 36% per year with 230 million users

USA digital payments totalled $790 billion in 2019 and will reach $1.12 trillion in 2020

In 2019 $394 billion was transferred by P2P apps – in 2020 this will reach $535 billion with 60% of users aged between 18-35.

USA P2P Market

US$	Consumers	Sales 2020	Sales 2019	Increase
Zelle	145 million	265 billion	187 billon	42%
Venmo	53 million	140 billion	101 billion	39%
Square	32 million	130 billion	106 billion	23%
TOTAL	230 million	535 billion	394 billion	36%

Major players are Zelle, Venmo and Square – others include Dwolla, Boku, WePay, TrailPay and Tipalti.

Zelle is owned by seven USA banks - operated as Early Warning Co – used by 766 of 11,200 banks and credit unions.

Venmo is owned by PayPal – purchased 2009 start-up in for 2013 as part of Braintree purchase costing US$800 million – a bargain in todays frenzied investment world.

Square cash is part of payments company Square.

This product category has been very slow to reach Australia and this should be reviewed. Fintech players in Australia are developing these products and regulators should understand the issues they face and how the market can be encouraged.

Is the National Payments Platform the answer?

The development of the New Payments Platform (NPP) has been heralded as a breakthrough for low value instant digital transfers for individuals and businesses using mobile apps and internet banking applications.

Based on ISO 20022 the Swift/Fiserv development is not new - having been implement in 38 other countries (54 countries claim some part of ISO roll out) – Australia has lagged well behind in this area.

The launch was delayed several times before finally starting in February 2018.

While the costs of use by businesses will be a major issue - banks changed their terms and conditions to allow fees to be charged when products are developed.

The Swift/Fiserv development will cost around $1 Billion and is considered by many to be expensive for what it delivers. The lack of openness of the NPP to new entrants and start-ups is still a major issue and it has yet to be proven that it will be open and inclusive – which simply restricts competition - exactly what the four major banks want.

Past Behaviour is a Good Predictor of Future Behaviour

The ultimate ownership of the NPP also needs to be reviewed as with no intervention it will become yet another 'zombie' payments company owned and run by the banks. Currently the NPP is being developed by the RBA is conjunction with banks and other deposit taking institutions.

This has been the model for a series of stunningly unsuccessful payment companies e.g. Bankcard – now closed, eftpos which has lost 45 per cent market share – BPay which has never fulfilled its potential – these are but three examples.

The nature of these decisions needs to be understood – why did the four banks decide to 'ditch' Bankcard and become totally dependent on Visa and MasterCard. A stunning decision and probably the worst strategic blunder in Australian payments history. Apart from the USA no other developed market has done this. Europe and Canada stand out as markets where domestic networks still thrive.

Interac Canada is probably the best example – even with all the pressure and power that US banks and US card networks can exert, they been unable to destroy Interac. In fact Interac has flourished - yet the four Australian banks closed Bankcard in 2006. India launched its own debit card – RuPay to ensure competition is achieved in 2012.

A similar situation applies to *eftpos*, the only Australian POS network, which the four banks co-own with banks, credit unions and retailers. In a series of truly stunning decisions *eftpos* was deprived of investment and quality management and has been allowed to go from 86% market share in 2003 to 36% by 2019. Banks and Credit Unions who co-own *eftpos* have preferred to trash their investment in *eftpos* to issue Visa and MasterCard debit cards which charge much higher merchant fees for exactly the same service in Australia. One of many examples - the Federal Government and Indue are using the more expensive Visa debit cards instead of *eftpos* cards in a trial of social services payments to Aboriginal communities.

The constant delays in rolling out of least cost routing is a blight on the RBA/PSB – with annual savings of $550 million this should have been implemented 5 years ago when the issue was first raised. The CBA bank has finally complied late in 2020 while Westpac are pleading for more time well into 2021.

Contrast least cost routing with AML issues – Westpac is feverishly working to fix these issues – why? I would suggest the AML regulator AUSTRAC with a combination of fines, enforcement and constant follow up has ensured Westpac comply – while the RBA/PSB with its softly, softly 'let's not stir the pot' approach is ignored.

The consequence of these decisions is very significant as without any real competitors Visa and MasterCard are able to wield monopoly power in Australia.

The NPP Governance

The NPP has mostly been developed behind a wall of secrecy with little public disclosure of this key asset using public money.

The recent developments involving the RBA/PSB strongly suggesting a merger take place between NPP, *eftpos* and BPay warrants close inspection by this Inquiry.

The RBA has a conflict of interest and should not be making these suggestions.

Other issues involve the business logic of such a move – there is little synergy between the three companies – NPP a digital transfer business, *eftpos* a debit and payment switch and BPay a Utility payment mark.

One Board to service three 'independent' companies with different shareholders and different CEOs raises all sorts of governance, compliance and potential conflicts of interest.

The critical question is how will a combined NPP/eftpos/BPay actually assist in developing a fully digital payment platform and who will fund this?

The Global Activities of Visa and MasterCard should be reviewed

Given the monopoly Visa and MasterCard enjoy in Australia any hint of collusion or insider fixing needs to understood and reviewed by this Inquiry.

The world's six largest card companies – Visa, MasterCard, Amex, JCB, Discover/Diners Club and China Union Pay now run a closed 'Association' called EMVCo.

EMVCo was established in 1999 and has positioned itself as "the representative" of the global card and payments industry. EMVCo claims to produce technical "definitions and specifications" needed to ensure global card interoperability. However a number of claims have now been made that these specifications become de facto standards with implications far beyond the initial 'limited' technical compatibility.

A number of credible bodies claim EMVCo has a "collusive relationship" with its card company owners. The claims involve a "systemic pattern by the card companies to use EMVCo to develop anticompetitive standards that protect the interests of its owners and pre-empt competition in the market that could lower costs and improve security for businesses and consumers alike."

This serious claim, if true, results in increased prices to merchants and consumers alike, as well as an inefficient payment system.

The investments in Fintech start-ups by all card associations should also warrant RBA attention. Many of these investments are in infrastructure start-ups and some will become critical in new payments.

CASE STUDY – INTERCHANGE REGULATION

It is 17 years since RBA/Payments Board 'reforms' of credit card interchange effective from January 2003 – Australia was the first country to legislate such a change.

The RBA 'reforms' centred on increasing competition and opening up the sector as well as reducing interchange for Visa, MasterCard and Bankcard all third party networks. Also reducing merchant commissions for charge cards American Express and Diners Club – so called 'closed loop' networks which own both the merchant and cardholder relationship

Australia had two key regulators in the payments arena area: the Reserve Bank of Australia/Payments Board and the Australian Consumer and Competition Commission (ACCC). In 2000 the RBA decided to legislate, using the powers vested in it by the 1998 Payment Systems (Regulation) Act, and announced proposed reforms aimed at opening up the credit card system and increasing competition.

The proposed reforms had three main goals:

1. To provide open access to the card associations, namely Visa, MasterCard and the local Bankcard association, enabling non-banks to join and issue cards.

2. To reduce credit card interchange fees and make clear price signals to the payments market.

3. To withdraw the no-surcharging rule imposed on retailers by the card associations, to be effective January 2003.

The RBA targeted interchange to reduce by 40 basis points effective July 2003; this was delayed until September due to the Association court case.

RBA in its press release in 2003 claimed $400 million would be reduced as a result of their actions – the court case delayed this and credit card sales on Visa/MasterCard/Bankcard in 2002 totalled $99 billion x 0.12% reduction in interchange equalled $118.8 million in savings in year one.

In 2003-4 the interchange reduction went from 1.40 to 1.28% average, by 2005 the $400 million per year was achieved when rates reduced to 0.97%. The summary of key data after 17 years is detailed in the table below -

	RBA INTERCHANGE DECISION – KEY FIGURES			
Credit/Charge cards	Total Sales	Visa, MC, Bankcard interchange	Amex merchant fees	Diners merchant fees
2003	$116.6B	1.40%	2.51%	2.36%
2020	$245.1B	0.80%	1.33%	1.80%
Reduction		-0.60%	-1.18%	-0.56%
% Change	**+110.5%**	**-43%**	**-47%**	**-24%**

Surcharging become rampant in 2004 with many retailers, utilities, Telcos and airlines quickly adopting this 'new' revenue stream – belated Government moves to attempt to curb surcharging in 2007 and 2015 proved partially successful.

Estimates vary widely as to how much revenue retailers generated – MasterCard's own research said $1.6 billion per year while others put the figure at $3-3.6 billion per year of new revenue for retailers.

The 'success' of surcharging has also allowed some high street retailers, eCommerce providers and sellers of services to introduce split fee based prices whereas pre 2002 the final price included all costs – for example airfares and eCommerce sites now add cost components such fuel or shipping on top the base price thereby increasing their margins.

The other significant issue was the failure by the ACCC to supervise and require retailers to pass on the interchange savings to consumers. The net result was retailers pocketed $118.8 million in year one, plus increased their revenues by starting surcharging – rampant by those with market power, monopolies or special services e.g. Telstra, Qantas, Utilities and specialist retailers.

The ACCC, RBA and ASIC fundamentally failed in their duty to compel all retailers/sellers to pass on these savings to consumers – in addition consumers then faced credit/debit card surcharges.

The debit card market has grown much faster than credit cards – debit card sales in 2002-20 grew at 11.1% CAGR while credit/charge cards grew at 3.2% CAGR.

This explains why card issuers and associations have focused on increasing debit card pricing while regulators have not been paying attention. The fact that debit card contactless payments have also exploded and the regulator did not pay close attention resulted in the switching bonanza for the card issuers which has still to be changed.

The impact of the RBAs three pronged 'reforms' in Australian has been insignificant and needs to be reviewed.

2020 Visa and MasterCard credit card sales totalled $208 billion – the reduction in interchange since 2003 is 0.60%, which equals $124.8 million in 2020.

American Express and Diners Club have reduced merchant rates to a combined blended rate of 1.42%, with sales of $46.5 billion in 2020. The savings calculated at a rate of 0.96% equal $44.7 million reduction in merchant fees for 2020.

How have the card issuers recovered these monies since 2003?

- Annual fees – increased from $24 average in 2002 to $94 in 2020 (that is despite 3.6 million zero fee cards in Australia) or $1.01 billion.

- New 3% FX fee on all foreign charges by credit/charge cards and debit cards including eCommerce – plus inflated exchange rate at $1.26 billion.

- Some statement dates reduced by 2 days x reduced funding average $315billion in sales and $52 billion in receivables.

- Frequent Flyer fee increases average $35
- Other fees that did not exist pre 2003 – late fees, over limit fees, increases in cash advance fees e.g., lotteries, gamble fees etc
- This does not include debit card revenues increasing by $735 million

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This type of holistic overview is required by regulators if they wish to understand any payment market segment. At its heart payments are a very high volume, low margin business with even the smallest changes in revenues or margins measured in basis points deliver significant changes in actual dollars.

The biggest loser has been the Australian consumer – the annual impact is staggering

- Fees have gone from $24 average 2002 to $94 average in 2020.
- Interest rates on credit cards have remained excessively high – 2020 still average 16.5%pa
- All fees and charges have increased by estimated $180 per card since 2002
- All foreign spend is now subject to 3% fee plus an inflated FX rate
- Most cardholders have 2 days less to pay their bills or incur interest.
- Frequent Flyer benefits have been cut by 75% in 15 years
- Other new fees have been implemented – late fees, over-limit fees etc
- Surcharged by numerous main street retailers and eCommerce providers
- New split fee based prices and charges which are the new form of surcharging – estimates have this at $1-2.5 billion even after action on surcharging.

This can hardly be the outcome that regulators or Government wanted or expected.

The consumer has received no benefit from the RBA reforms, yet has faced significant increases in costs while the credit card industry and retailers have benefited.

Conclusion

The impact of the RBAs three pronged ‘reforms’ in Australian has been insignificant to banks and retailers while consumers however have endured significant increases in fees and charges.

- There has been no substantial upswing in new Visa or MasterCard issuers or acquirers.
- Allowing surcharging and the ‘free for all’ pricing was a disaster and has had long term consequences for the Australian retail market.
- The interchange reductions at wholesale level reduced issuer revenues - these have been recovered by banks/issuers increasing retail price levels.

- Debit card sales have grown but revenue has grown much faster.

- Merchants have enjoyed reduced merchant fees, but have seen other fees and charges increase and not all of these have been passed to consumers.

The RBA/Payments board may have been too tightly focused on the 'wholesale prices' of interchange and frequent flyer programs and have not reviewed retail fees and charges. This is clearly seen by the results of interchange 'reform' which has result in reductions, however the industry quickly moved to recover all of the lost revenue. Other significant issues in the payments market have received no action – for example the rapid rise of contactless payments resulted in the switching bonanza which has yet to be fixed.

The policy to allow uncontrolled surcharging was an intellectual exercise in policy making which proved to be an initial disaster. The lack of understanding of how the payments market works led to unlimited surcharges being applied with no supervision from any regulator and no government action to change what was untenable for 5 years. This surcharging change has also allowed split fee pricing to become mainstream which has boosted retailer margins.

It is significant that Australia was the first to adopt this stance on interchange – yet no other country has followed – why?

A review of the interchange regulation process is needed with the benefit of hindsight – how can future regulation be improved?

Are the roles of the various regulators clearly defined and do they work?

Is there the correct span of control over all parts of the retail payment system?

This policy stance shows what not to do when the focus should be on consumers.

CREDIT CARDS – SINKING LIKE A STONE

The Australian consumer credit and charge card market is in decline with the key data all going backwards – average balance per card, revolve rate, consumer use and number of cards are all going backwards. The only growth is occurring in Corporate Cards a sector which receives little focus.

Credit card balances earning interest are now only 1.4% of consumer lending including mortgages. The share of unsecured lending has declined to 12% - an all-time low.

The decline of credit cards started in 2009. As a result of the 'GFC' consumer attitudes changed and spend levels fell dramatically – this led to increased card cancellations from 2015 on – well before the NPP and BNPL had any volumes.

Unsecured Lending and Payments

Australia has a small unsecured credit market compared to mortgages – APRA reports 1.7 Trillion in mortgage lending and $108 billion in unsecured lending by banks and other licensed deposit takers. The unsecured lending market includes many non-banks that lend $55 billion to consumers and businesses and their activity is largely unreported.

These include retail store cards, conglomerate consumer cards, single purpose consumer credit offers for example - car finance, airline cards, consumer finance offers, buy now pay later, instalment loans, budget services, payday lenders, pawn brokers and traditional lending practises e.g. family loans. The size of the market and the segments is detailed below:

Unsecured Lending Segments	**Market Size 2020 A$ billion**	**CAGR 2010-2020 %**
Credit cards	19.0*	- 2.8
Retail store cards	18.5	5.0
Revolving credit	15.0	6.0
Auto lending	45.0	9.0
Student loans	4.5	6.0
Personal loans	38.0	9.0
Retail instalment loans/BNPL	16.0	15.0
Total	157.5	7.2

* Credit card receivables earning interest only Source – McLean Roche

Regulation of unsecured credit falls partly under APRA, partly under ASIC while the payment policy and regulation falls under the RBA/Payments Board and the ACCC is also involved. This is extremely inefficient and cumbersome and does not allow the required skills and industry knowledge to be developed to ensure supervision across the entire unsecured credit market.

Consumer lending has inherent risks in the quality of lending as well as consumer rights and obligations. The number of internet offerings is staggering with little or no documentation, even less about whom the lender is and what are their bona fides, what regulations they comply with and their dispute resolution processes.

The options for regulators involve building the right level of skills and market knowledge in one organisation to ensure this group has the skills to review the total industry and not the current piecemeal approach.

Positive Credit Reporting – the Backbone for Effective Consumer Lending

Positive credit reporting should be an essential tool, creating a vibrant, competitive consumer/SME lending market if regulators implement the correct policy settings.

Benefits exist for consumers, SMEs and lenders by providing a much deeper picture of an applicant's financial health. This enables better credit decisions to be made with higher loans to SMEs and consumers with good credit history and avoids many loans made to SMEs and consumers who would be unable to service the debt.

The major banks have always had major concerns about positive credit reporting fearing it would allow competitors access to their customer's data. The trade-off is banks stand to benefit the most from better credit decisions and gaining a 'total' view of customers who apply for credit.

The second issue is banks do not want 'risk based' pricing to start in Australia as this could increase customer churn rates. Experience in the USA and UK with positive credit reporting did allow new competitors to gain a foothold – however it also allowed existing banks to expand.

In the mid-1990s advances in technology and the internet allowed the '60 sec' loans to rapidly develop. The key requirement is each individual's credit score -- pricing of a mortgage, credit card, personal loan etc is determined by consumer's credit score, so the price is different for each consumer. In the US the credit score is called FICO (named after Fair Isaacs who invented it) which is the range of scores from bad to good.

Australia has decided on a watered down version of credit reporting – even New Zealand has gone with a broader concept. This will inhibit competition and dull the true impact which full positive credit reporting would deliver.

The key policy issue is, will positive credit reporting enhance competition and will it bring new entrants into the Australian market?

Frequent Flyer Card Programs – Pure Greed or a Loyalty Tool?

Since the inception of credit cards linked to domestic airlines in 1991, Australian consumers embarked on an initial spending spree. Diners Club and Ansett Australia introduced the first domestic credit card program in 1991, followed by American Express in 1992 and, belatedly, the banks in 1993-1995.

From the outset, the richness of the programs attracted consumers. A Sydney-Melbourne-Sydney return flight required 17,000 points or A$11,000 of spend. The cost to credit card companies of airline points was very cheap by international standards - 30 basis points average.

Twenty-seven years on, the marketplace has changed substantially. Costs of airline points have increased five-fold as Qantas and Virgin have used their market power – reflected in their frequent flyer customer bases 10.2 million for Qantas, 4.5 million Virgin and 2 million for international programs.

The Australian banks' love affair with airline rewards had been a feature of the card market. The concept of rewarding part of your customer base in return for "loyalty" is not new. In essence, credit cards have evolved into an unsecured loan product with customers who revolve as the prime revenue source. Airline rewards, however, appeal to high volume transactor customers - many of whom never pay interest.

With 40% of spend now made by transactors, Australian banks are in a sense rewarding the wrong customers. The major banks have limited data-mining capability needed to identify which transactors have other key relationships with their bank. This makes it difficult to target transactors and recover the ever-increasing cost of reward points.

In 2020 most frequent flyer card programs are in trouble given no overseas travel and limited domestic travel. With caps on points and high annual fees – the Sydney-Melbourne return flight ranges from $50,000 card spend to a massive $147,000 spend. Consumer interest has declined and research in June 2020 showing 72% of consumers do not believe airline programs are relevant.

Data, Data and More Data – What is Important?

Payment regulators need to ensure they collect the right data and that it is accurate – they have the right to request and receive data. The RBA collects and publishes data on debit cards, credit/charge cards, NPP, prepaid cards, cheques and EFT’s.

There is very limited data on the other retail payment types for example there in no BNPL data.

The RBA has improved its data set over the past 5 years – but much more can be done regarding how this data is presented and explained.

There are a number of key data points that are not collected or made public by regulators. These include – the number of consumers using each product, average balances, average annual spend, credit losses, the number and size of contactless and/or mobile payments and the spending across various channel types.

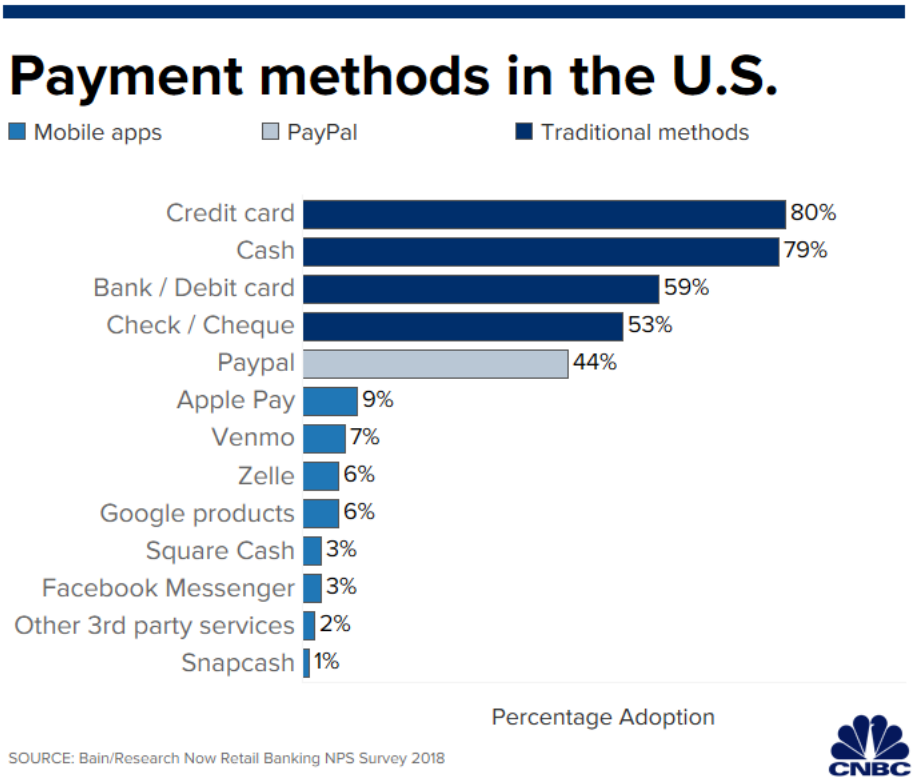
MOBILE PAYMENTS - THE ALLURE OF SUCCESS?

Mobile wallets have been totally unsuccessful in building critical mass quickly in Australia. Attempts made by banks, card issuers, Google, Apple, Microsoft, Visa, MasterCard, American Express and the Telcos have been resounding failures in attracting mass consumer use.

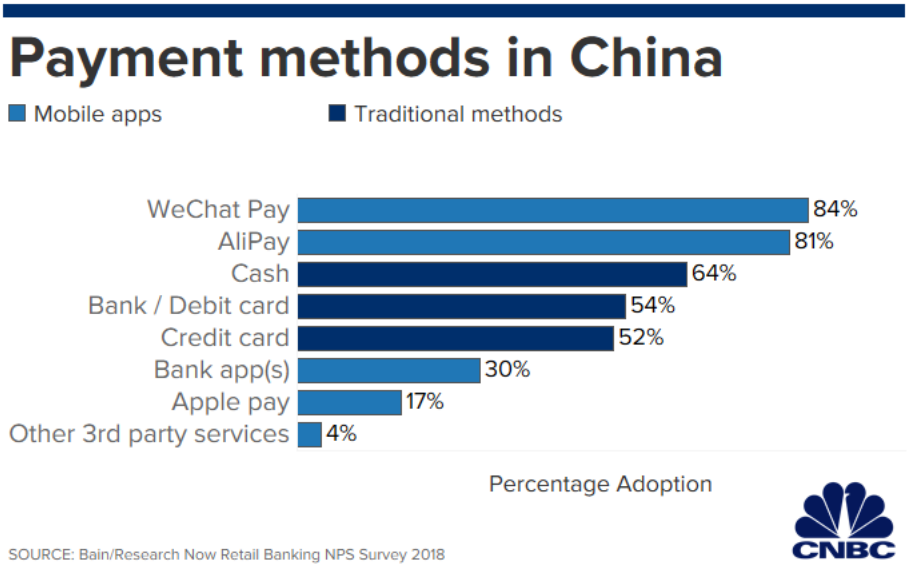
Contactless payments have quickly become the default point of sale payment, despite being 'legacy' technology, reaching 70-80% consumer usage in 7 years. Market figures for mobile wallets and contactless payments are not published nor is the total data – industry sources say mobile is less than 3% of total debit/credit card spend.

ANZs Apple Pay is a good example of the 2nd generation mobile product which is performing poorly – due to poor strategy and implementation. Apple Pay was launched 4 years ago in Australia and has underperformed. Apples market share of 38% of mobiles and the fact that 75% of existing Apple phone users could not use Apple Pay created dissatisfaction with many Apple consumers.

It is a similar issue in the US market with all mobile options reaching a low 16% usage figure. In the USA credit cards, cash, debit cards and cheques still dominate



It is worthwhile comparing China's mobile market structure with the USA – the differences are compelling and show considerable potential for mobile payments and cost reductions.



China's mobile payment market is the world's largest reaching US$41.7 Trillion in 2018/19 according to POBC figures. This is a staggering increase from US$81 billion in 2012.

AliPay, part of the Alibaba Group, has 1 billion active users globally and TenPay, part of Tencent, is in partnership with WeChat. WeChat has 1.2 billion active global users 45% using payments. These two platforms share 85% of the mobile market and now threaten the government owned payment card China Union Pay as well as the bank issued debit cards.

The rapid growth in mobile in key emerging markets has been largely ignored by Western economies. Yet the figures make eye catching reading – in just 9 years China's mobile has reached US$41.7 Trillion while credit and debit cards combined have taken 60 years to reach annual volumes of US$24.5 Trillion, while global auto loans and Instalments/BNPL are small by comparison.

GLOBAL SCALE – US$ SPEND IN KEY LOAN SEGMENTS 2019

China Mobile	$41.7 Trillion
Credit/Debit Cards	$24.5 Trillion
Auto Loans/Leases	$8.5 Trillion
BNPL/Instalments	$80 billion

China Mobile is the innovative model – but a regulatory nightmare which would be unlikely to be allowed in most OEDC countries. It combines payments, eCommerce, social media, games, dating, music and entertainment with a Telco in one ecosystem. In other words the China Mobile model effectively combines Visa/MC, Amazon, Facebook, EA Games, Match.com, Spotify along with Telco services – a very powerful and alluring offering which drives very high consumer involvement.

BUY NOW PAY LATER – 'SPIN NOW COMPLY LATER'

Buy Now Pay Later (BNPL) has been hailed as one the great Australian innovations, 'successful' due to unfulfilled demand in unsecured consumer credit in Australia and New Zealand.

BNPL OVERVIEW

How BNPL operate – $100 purchase earn $4 in merchant revenue, late fees the another key revenue source.

Many BNPL also offer lines of credit and fixed instalment loans – yet all of the players are unregulated. Since when is offering up to $20,000 credit line not lending?

When the consumer makes $100 purchase – in most cases prepayment of $25 is required others it is a loan for the full $100 – then 3 instalments of $25 over 6 weeks.

AUSTRALIAN BNPL MARKET

Eight BNPL platforms have floated on the ASX since 2016 - all unregulated financial products.

Afterpay, Flexi-Humm, OpenPay, Laybuy (NZ), Sezzle (USA) Splitit (US, UK) Zip and Zebit (US) -- only 4 actually operate in Aussie.

There are another 7 start-ups : *Brighte, CreditLine, Deferit, Payright, Roar, Inkpay, PayitLater* - with more about to launched

Other established players include global leader Klarna, the Swedish start-up and Latitude with its 'LatitudePay'.

The 8 listed stocks make no profits – yet have combined market cap of $35.75 billion

Total Revenues - $891 million with 16.2 million 'customers' in 11 markets.

Bad Debts – $267.8 million – or 30% of revenues and they say they do not lend? Bad debts are BNPL's largest expense – second largest expense is ESOP shares!

Accumulated losses total $396 million and counting

Other possible entrants include - PayPal with 'Pay in 4', Citibank US has a partnership with Amazon and American Express launched 'Plan It' in US market in April 2020.

BNPL's using credit checks are Flexi-Humm, Klarna, Latitude Pay, LayBuy NZ, Brighte, Zip Money

Two banks, NAB and CBA, launched very poor 'no interest cards' – with substantial fees.

There are 6 DIY platforms who claim to support white label BNPL - *Limepay, EasyPay, PreCredits, Douugh* etc

Of equal concern are the copycats in other sectors -

Beforepay - a payday lender who only charges 54% - again claims to be unregulated.

Flexibond - allows rental bonds to be paid in instalments charging 32% interest - again they say they are unregulated.

Bricklet – real estate start-up breathlessly described itself as "dynamic micro-investing platform *Bricklet* is providing buyers the opportunity to become an independent part owner of their chosen residential or commercial dwelling via BNPL as of this weekend"

BNPL Exploiting a Legal Loop Hole

BNPLs exploit a current loophole in the Credit Acts in Australia and New Zealand.

The Australian National Consumer Credit Protection Act 2009 (NCC) - The NCC does not apply to certain loans, including: low-cost short-term credit (less than 62 days), insurance premiums paid by instalments, bill facilities and staff loans. ASIC belatedly has applied for 'urgent action' to close this loophole – action is next week with a report into the 'industry

New Zealand has a Credit Contracts Act which currently exempts Lay-buy programs – a review of the current Law started in 2019 and has not taken any action.

BNPL is effectively unregulated with ASIC and the RBA declining to act. As a result, BNPL apps are not regulated and they have no legal requirement to offer hardship programs nor do they have to register with a dispute resolution scheme, like the Australian Financial Complaints Authority.

There is also evidence BNPL apps are only paying merchants after goods are dispatched, which can be days or even weeks post-purchase. Debit and credit cards are required to pay merchants on receipt of the transaction.

BNPL – Yet To Achieve Critical Scale

BNPL still has no substantial scale in Australia - its 'king market' after 7 years.

October RBA numbers show credit/debit/prepaid cards had sales of $54.05 billion

Afterpay for example has monthly estimated Australian sales of $550 million – or 1.01%.

Using total retail sales - $98.3 billion which includes the NPP - market share in Australia for total October payments is 50 basis points!

Compare these figures with 'China mobile' and BNPL's size is laughable. China mobile (Alipay and WeChat) have reached annual sales of US$41.5 trillion in 9 years and are now in 28 countries.

Regulation

ASIC has avoided regulating BNPL sector despite its own research in 2018 which clearly showed these apps lead to financial stress, write offs and promote increased spend among young consumers.

The BNPL profit model is highly questionable – a $100 sales earns $4 in merchant revenue with 56 cents in late fees = $4.56.

Expenses are $4.75 – of which $1.00 are credit losses, 16 cents funding, 34 cents share purchases and $3.25 in marketing, operations and salaries.

It is clear from these numbers that BNPL companies will never make huge profits – they are very high volume, very low margin businesses.

The regulators need to consider the business risks and operational model used by BNPL.

- Consumers used as "off balance sheet" securitized borrowings.
- Very high bad debts - averaging 30% of revenue.
- Very high 'late fees' which, when converted to APRs, are up to 68%.
- Small 'loan' amounts over a short period.
- BNPL typically do not assess a consumer's ability to repay.
- Majority do not use credit bureau for new applications or update performance.
- Majority do not report payment obligations or default to credit bureaus.

The RBA has not moved on the key issue of surcharging – stating BNPL is currently too small to 'designate'

"Dr Lowe said the stance was in recognition of the innovation the instalment products brings to customers and the relatively small overall volume transacted compared to existing payment methods" AFR Dec 7th Afterpay Benefits Outweigh Harm :RBA.

RBA/PSB should find that BNPL contracts cannot stop retailers surcharging consumers if consistency in payment policy is to be maintained. Retailers will then surcharge to recover margins – 6% for online 4% in high street stores which is consistent with all other payment types. This will totally undercut BNPL's claim that consumers pay no fees or charges and consumers habits will adjust as with other changes in the payment market.

BNPL BAD DEBTS – THE REAL RISK

Australian BNPL apps have excessively high bad debts and this is the key risk, along with longer term funding risks. The Australian sector has average bad debts of 30% of revenue which is four times higher than European BNPL's.

BNPL Fintechs do not use retail bank measures for bad debts - which use receivables as the key measure - as applied to personal loans, credit cards or auto loans. BNPLs instead use bad debts as a percent of sales, as this measure lowers bad debts substantially – yet bad debts are the biggest single expense.

BNPLs 'bill' customers every two weeks, with 26/27 'statements' a year - similar to debit cards, ATM cards, P2P transfers. All these business models have short-term usage and industry measures are in days and months - not years as stated by BNPL.

Afterpay has bad debts/collection costs for F20 of $111.6 million representing 25.7% of core revenue. This is high for any BNPL product and is four times higher than European players.

Afterpay's accumulated bad debts since 2014 total $213.8 million or 23% of revenues.

CBA by comparison has revenues of $23.9 billion while actual bad debt write-offs total $1.01 billion or 4%. Even including all loan provisions, most of which are business banking at $1.5 billion, total bad debts are $2.51 billion - only 10.5% of revenues.

Bendigo Bank with a market cap of $3 billion has annual revenues of $1.61 billion and bad debts of $41 million – or 2.5% of revenue.

BNPL Market Cap, Revenues, Bad Debts and Revenue per Customer

BNPL - A $	Market Cap –3 month average	Revenue	Bad Debts	%	Revenue per customer
Afterpay	29.64b	433m*	111.4m	25.7	44.74
Flexi/Humm	.510	98m	49.1m	50.1	54.44
LayBuy (NZ)	.175	12m	4.8m	40	25.53
Open Pay	.340	18m	8.0m	44.4	56.42
Sezzle (USA)	.655	48.6m	14.7m	30.2	34.71
Splitit (USA,UK)	.580	6.1m	1.3m	21.1	12.06
Zebit (USA)	.100	115m	20.1m	17.4	172.34
Zip Money	3.75	161m	53.1m	32.9	76.66
TOTAL	**35.75b**	**891m**	**262.5**	**29.5**	**55.68**

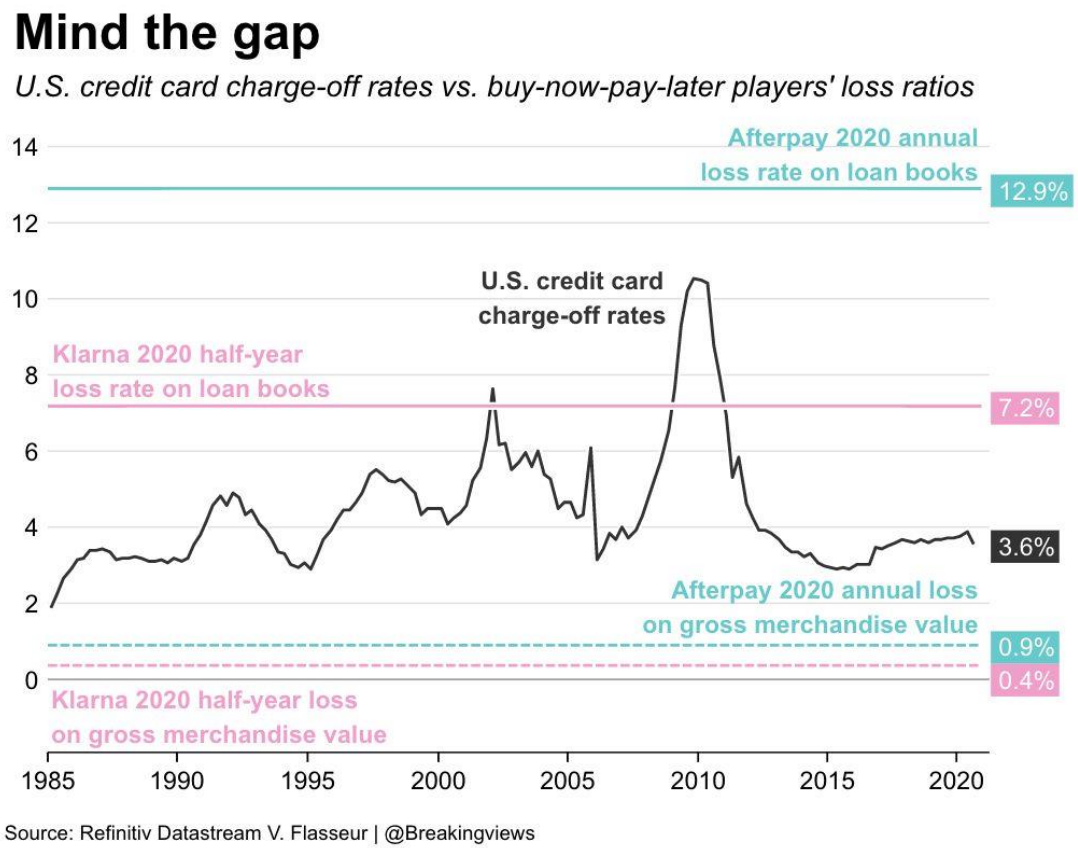
The best performing BNPL ASX company is Zebit, a US subprime ecommerce player!

BNPL define active customers as any customer who has one transaction in 12 months – another retail bank measure which inflates customer numbers. Actual BNPL usage numbers range from 2-6% active customers per month – this is very low with revenue per customers of $40-$50.

BNPL annual spend in Australia is very poor at $1100-$2750 while debit cards total $9580, credit cards $14,850 and pre-paid $491. Frequency of use leads to loyalty and that in turn leads to profit – something no BNPL app has achieved.

A key issue for regulators is the unregulated lending and the number of young consumers who are now having their credit ratings impacted – UBS estimates 9% or 450,000 consumers have defaulted on Afterpay loans in just 3 years.

A comparison of BNPL with US credit card charge-off rates clearly demonstrates the excessive risks currently being taken. The excesses of the 2010 GFC charge-offs are well below current levels of bad debts by Afterpay – surely a major concern.



OVERSEAS EXPANSION – US MARKET IS CRITICAL FOR MARKET VALUATION

US PAYMENT MARKET

US Federal Reserve 2018 figures detailed total payments of US$97 Trillion including US$64 Trillion in ACH and US$25 Trillion in cheques (checks), credit cards contributed US$3.98 Trillion, with debit cards contributing US$2.75 Trillion (2020 estimates show total payments reaching US$105 Trillion) USA has 642 million credit cards and 320 million debit cards.

Amex has 55 million cards in USA - with annual sales of US$820 billion or 19% of the credit card market. PayPal has expanded its BNPL offer to 8 countries with PayPal credit and 'Pay in 4' in USA and France. PayPal has 285 million active US accounts (375 million globally).

.**US BUY NOW PAY LATER MARKET**

BNPL sales estimated by Oliver Wyman are US$24 billion – sales do not even reach 1 basis point which requires US$97 billion

Klarna has estimated US sales of US$5.25 billion, Affirm US$4.7 billion, Afterpay US$4.1 billion with another 20 plus companies offering BNPL – together all make a tiny 1 basis point of all payments.

BNPL is not a recent development - Affirm launched in 2012 with ex-Paypay founder Max Levchin at the helm. Klarna launched in the USA in Sept 2015 and relaunched in 2018 - a similar time to Afterpay Australia which launched in May 2018.

Other BNPL providers include: Acima Credit, Bread, Divido, Easypay, eLayaway, Extendcredit.com, Four, FuturePay, GoCardless, J2store , Kiva, Laterpay, Layaway247, Laybuy, Quadpay/Zip, Splitit, Sunbit, Viabill, Zebit.

Also important, grocery sales now comprise 16% of all online sales - no grocer accepts BNPL.

Amazon's share of online sales has increased to 55%. Amazon does not accept any BNPL apps and their partnership with Citibank is possibly a bigger threat than PayPal. Affirm has a partnership with Walmart – the No.2 in online sales - locking out other apps. Amazon and grocery together make up 71% of the online sales market - which BNPL players cannot access. This leaves only 29% of the market accessible to BNPL.

BNPL RISKS

BNPL apps process payments far quicker than traditional banks while also offering client loans and services to manage their risk and use customer's data.

Technology giants like Amazon and Google (parent Alphabet) are also increasingly offering financial services yet operate largely outside regulation.

Australian BNPL apps have revenues of $891 million, receivables of $1.76 billion, bad debts of $262.5 million (30% of revenues) and accumulated losses of $396 million and counting. This sector is far from assured and needs to be closely monitored and regulated as a financial services provider.

FINTECH AFTER A DECADE

2020 marks 12 years since “Fintech”, the buzz term for financial technology start-ups, entered the lexicon and threatened to totally upend banking as we know it.

It hasn’t yet. But will it?

Total Fintech Investments 2008-20 are US$106.9 Billion which includes Venture Capital (VCs) and other investors including private equity and crowd funding, representing 6.7% of total start-up funding.

The key question is whether this level of investment is sufficient for major disruption. Uber, for example, has raised US$11.5billion in funding and debt in 18 funding rounds since March 2009 and has success in some taxi markets, a much smaller segment than Financial Services. Uber has raised the equivalent of 11% of total Fintech funding. AirBnB raised US$2.95Billion and Snap (SnapChat) raised $2.63Billion – this is more than any Fintech has raised.

The Major Start-Up Phases

In order to establish the health and likely success of Fintech it is necessary to review the major phases of investment – which include Angel Investing, VC start-up investing, Unicorn phase and Exit through IPOs or M&A sale.

The Major Fintech Start-up Investment Categories	US$ Total Investment - %
Crypto Currencies - cyber or digital assets designed to work as a currency or as a value exchange.	$28.85B or 27%
Peer to Peer Lending - lending to consumers using online, mobile and social media that matches lenders directly with borrowers	$22.24B or 21%
Digital Banking – retail banking using social media, mobile and web based services often supported by tools and rewards e.g. budget tools.	$10.5B or 9.8%
SME and Business Lending – mobile, online and social media lending services targeted at small to medium business	$9.83B or 9%
Student Loans – direct lending to tertiary students using mobile, online and social media channels	$8.93B or 8%

Point Of Sale/ Online Payments - tech services targeting online payments, point of sale payments and related services	$8.89B or 8%
Local and International Remittances – remittances services for local person-to-person payments and international transfers using social media, mobile and the web.	$7.67B or 7%
Wealth/Investment and Related Tech – investment and pension products using mobile, social media and the web.	$6.4B or 6%
Insurances and Tech – insurance and tech services using web, mobile and social media.	$5.24B or 5%

Source – McLean Roche

The leading segments of cryptocurrencies and P to P Lending with US$51.09 Billion followed by 4 segments: Digital Banking, SME lending, Student Loans and POS/Online Payments. It is significant that these six segments total 83% of VC Fintech investment. It is likely therefore that any major disruptor will emerge from these segments.

Australia has no major representation in any of the top five categories – only featuring in point of sale with BNPL.

Unicorns

Unicorns are start-up companies that achieve valuations of US$1 Billion dollars or more. US research house CB Insights lists 502 Unicorns worth US$1.57 trillion – of this 65 are Fintechs – just 13%. In the Top 20 list there are only 4 Fintech Unicorns.

The No1 Fintech Stripe with a valuation of US$36 billion was founded in 2010 and still appears no closer to an IPO. The other Fintechs in the top 20 are: One97Communications from India founded in 2000, Chime a US start up founded in 2013, RobinHood a US start up founded in 2013.

Just outside the top 20 are Klarna founded in 2015, NuBank founded in 2013 and Ripple founded in 2012. A review of the 65 Fintech shows 74% were started before 2015 – which raises the key question where to from here?

The situation has become more extreme during Covid-19 with VCs having to ‘defend’ their investments in large Unicorns to ensure their survival at the expense of early stage Fintechs. This is likely to have an impact in 2021/2 as fledgling start-up struggle.

Major Fintech Collapses since 2008

Wirecard fraud lost US$12.5 billion

Lending Club stock collapse lost US$9.8 billion

Ezubao fraud lost US$7.6 billion

Greensky Inc stock collapse lost US$4.2 billion

On Deck Capital stock collapse lost US$ 1.8 billion

Funding Circle stock collapse lost US$1.5 billion

Other 'smaller' collapses have lost US$13.7 billion

Giving US$51.1 billion in losses!!!

Important to note these figures only reflect the losses from public companies.

The vast majority of Fintechs are not public and 9 out of 10 start-ups fail - so actual sector losses would be 4-5 times higher. These losses are hidden from public view as VCs do not report on them - yet another example of the 'wild west' of investing.

Regulators need to be very aware of the risks and act accordingly.

WIRECARD – An Important Case Study

Glamour Fintech Wirecard collapsed in June 2020, costing investors US$12.5 billion dollars over fraud and auditing issues.

Prior to its collapse Wirecard was feted by German politicians, was in discussions to buy Duetushe Bank and was seen as Europe's leading Fintech.

It has emerged since that collapse that German regulators did not act soon enough – despite repeated calls to act much earlier.

Does this collapse display a growing blind spot for regulators of the world's financial system? How do you regulate a firm that acts like bank, but isn't really a bank?

For years, Germany's supposed fintech star escaped strict scrutiny because financial watchdog BaFin was focused only on its German banking unit rather than Wirecard as a whole

Wirecard was not classified as a finance company in previous assessments by BaFin and other institutions. While its German bank and its UK unit were supervised by local regulators, oversight of the group company was essentially limited to whether it met the disclosure obligations to the German stock exchange – since when do share-brokers and stock markets become regulators?

The Wirecard scandal has undermined Germany's reputation (and auditor EY) as a place to do business; the broader question is raised who regulates the Fintech industry?

EUROPE REGULATION

The European Banking Authority (EBA) estimates 31% of European Fintechs are unregulated including: BNPL, cryptocurrencies, 'white labelling' of loans and credit cards, Saas banking models and pre-paid cards.

According to the EBA, in Europe a company crosses the line into finance - and all the regulatory scrutiny that entails - when more than 50 per cent of its business is associated with financial activities such as lending and taking deposits.

To get a payment licence companies like Wirecard need to provide documentation on governance to national regulators and are required to keep their customer funds separate from their own revenues. Management also need to be screened by regulators and the banking arms need to maintain a certain level of financial strength.

For some, the debate about changing or increasing regulation is a distraction from the failure by authorities like BaFin to enforce existing rules much earlier.

CHINA REGULATION OF FINTECHs

The Chinese Government and its regulators have sent a powerful reminder about who runs the Fintech marketplace in November 2020.

The 11 hour 59 mins intervention totally destroyed Ant Financials partial IPO float, which was expected to be the world's largest at US$34 billion.

Ant Financial with its key mobile payment brand Alipay has been on a real tear for the past 9 years - its last 12 months' sales figures were US$17.5 billion from 1.2 billion consumers in 28 countries.

This crack down comes hard on the heels of the P2P cash issues China had with other Fintechs.

This is a salient warning to any Fintech who cares to take note - beware of regulators. It is part of many Fintech pitches that they are 'new innovative forces' who 'challenge existing players (ie banks) and regulations'

CHINA REVENUE MODEL

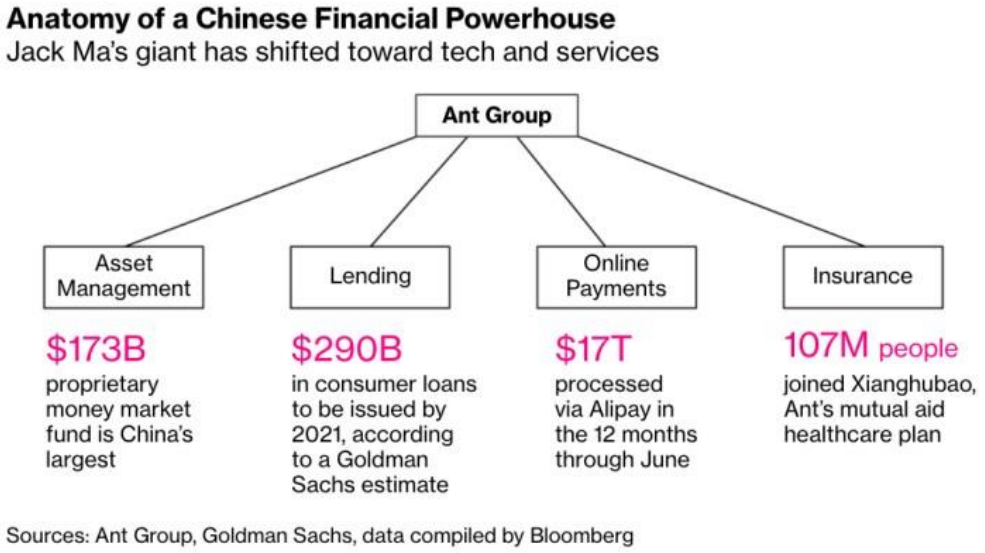
Alipay and WeChat offer an online ***escrow*** system.

The consumers' payment is made and held by Alipay until they receive the product. The merchant has confidence the cash is there before dispatch, and only receives payment if consumers do not complain within 7 days of delivery. Real-time payment and delivery information are tracked and shared with both consumers and merchants.

Unlike PayPal, Alipay is **free** for smaller users of its platform. Alipay is operating as a facilitator and effectively "subsidizing" smaller users.

It profits mainly from cash flow (consumers pay to Alipay once an order is placed and Alipay pays to merchants weekly or monthly), advertisement and other value-added services.

However, due to rapid growth Alipay and WeChat have had to source other revenue. This has been achieved by partnerships with banks (mostly small regional players), asset management, insurance and online players.



This is seen as risky hence the move by Chinese regulators and intervention has followed - this is late and some would say too late given the size of these two behemoths.

CRYPTOCURRENCIES

Cryptocurrencies have Potential – The Questions are When and If?

There are over 2900 cryptocurrencies, most aimed at investors brave enough to invest in them and risk never getting their money back.

A cryptocurrency is defined as ‘virtual’ or ‘digital money’ which takes the form of tokens or ‘coins.’ While some cryptocurrencies operate in the physical world using credit cards or other payments, the large majority remain entirely intangible. The “crypto” in cryptocurrencies refers to cryptography which allows for the creation and processing of digital currencies and their transactions across decentralized ledger systems.

Cryptocurrencies are almost always designed to be ‘free’ from government regulation and control. As they have become more popular this foundational principal has come under question by some.

The currencies modelled after bitcoin are collectively called ‘altcoins’ and have often tried to present themselves as improved versions of bitcoin. While some of these currencies are easier to mine there are significant trade-offs, including greater risks of fraud, acceptance and levels of liquidity.

2020 The Year Institutions Climbed Aboard.

Whether critics like it or not, bitcoin’s status as an asset class is now much harder to dispute. The cryptocurrency remains relatively dysfunctional as a medium of exchange outside of the ‘dark markets’. Bitcoin and other crypto currencies value has instead become linked to something more profound: its incapacity to go to zero despite having no central point of support or guarantor.

For many years institutional investment in bitcoin was hampered by strict investment mandates and regulatory compliance. Now that bitcoin has been formally recognised by many regulators, and regulated accordingly, this issue is far less of an obstacle.

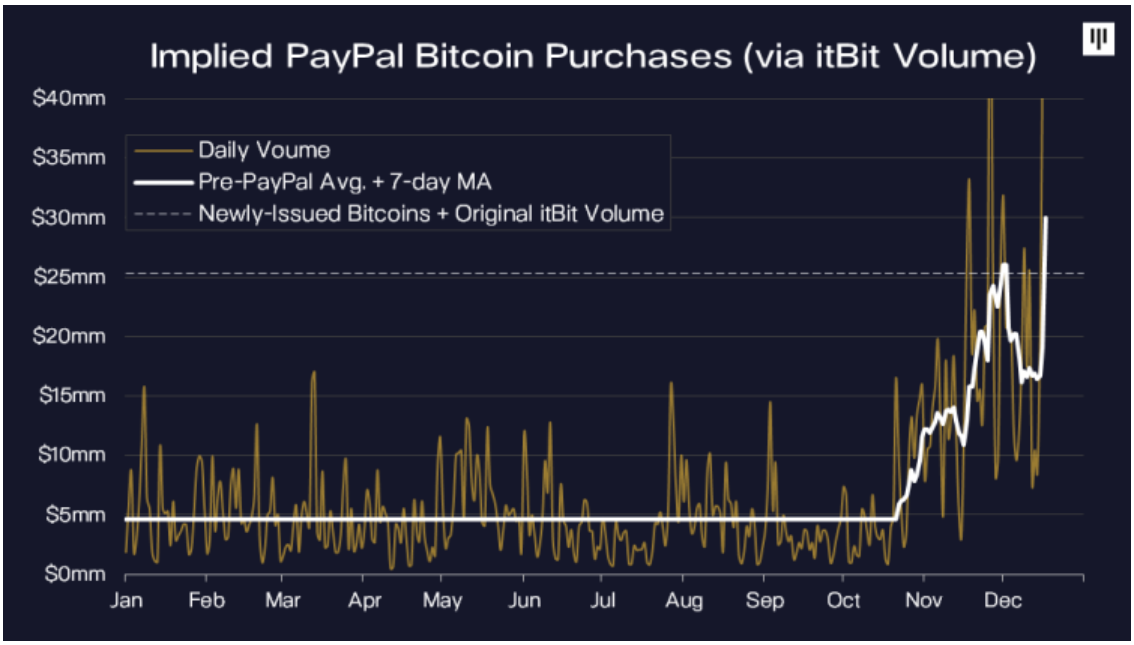
2020 has seen a massive plunge on bitcoin and many other crypto currencies with resulting price movements - bitcoins price chart shows this:

In 2020 Bitcoins volatility factor has not gone away and remains bitcoin's biggest nemesis with respect to wider public adoption (especially as a form of money).

From a trading and asset perspective, there is some justification in embracing the idea that bitcoin's volatility is also an important window into market forces that are otherwise being suppressed.

The entry of PayPal, Square and range of Fintech's including NeoBanks has also pushed up prices.

PayPal with 285 million US consumers allowed its customers to trade Bitcoin from October 2020. This has already had a significant impact on Bitcoins price as the chart shows:



Excluding Bitcoin, the top 10 Cryptocurrencies provide a very useful snap shot of the sector and encapsulate many of the issues and concerns raised. Their individual stories chart to cryptocurrency journey.

Top 10 Cryptocurrencies After Bitcoin.

1. Ethereum

Ethereum a decentralized software platform that enables 'smart contracts' and 'decentralized applications' to be built and run "without any downtime, fraud, control, or interference from a third party". The applications on Ethereum are run on its platform-specific cryptographic token called 'ether'. Ether, launched in 2015, is currently the second-largest digital currency by market cap after bitcoin as of January 2020, ether's market cap is roughly 1/10 the size of bitcoin's.

Ethereum value January 2020 - market cap US$15.6 billion - per-token value of $142.54 – December per token value US$550.45

2. Ripple

Ripple is a real-time global settlement network that offers “instant, certain and low-cost international payments”. Launched in 2012, Ripple “enables banks to settle cross-border payments in real-time, with end-to-end transparency, and at lower costs.” Ripple’s consensus ledger (its method of conformation) is unique in that it doesn’t require mining. Ripple, claims to sets itself apart other altcoins. Since Ripple’s structure doesn't require mining, it should reduce computer usage, power use and minimizes network latency.

Ripple value January 2020 - market cap US$9.2 billion - per-token value of $0.21 December value $0.62 per token.

3. Litecoin

Litecoin launched in 2011, was among the first cryptocurrencies to follow bitcoin and has often been referred to as “silver to bitcoins gold.” It was created by Charlie Lee, an MIT graduate and former Google engineer. Litecoin is based on an open-source global payment network that is not controlled by any central authority and uses "scrypt" as a proof of work.

Litecoin value January 2020 - market cap US$3.0 billion - per-token value of $46.92 – December per token value $133.36

4. Tether

Tether was one of the first and most popular of a group of so-called ‘stable coin’ cryptocurrencies which aim to peg their market value to a currency or other external reference point to reduce volatility. Tether and other stablecoins attempt to smooth out price fluctuations in order to attract users who may otherwise be cautious. Launched in 2014, Tether describes itself as "a blockchain-enabled platform designed to facilitate the use of fiat currencies in a digital manner.”

Tether value January 2020 - market cap US$4.6 billion - per-token value $1.00. December token value $0.99

5. Bitcoin Cash

Bitcoin Cash is one of the earliest and most successful ‘hard forks’ of the original bitcoin. In the cryptocurrency world, a fork takes place as the result of debates and arguments between developers and miners. Due to the decentralized nature of digital currencies, wholesale changes to the code underlying the token or coin. When different factions can’t come to an agreement, sometimes the digital currency is split, with the original remaining true to its original code and the other copy beginning life as a new version. Bitcoin Cash started in August 2017 as a result of one of these splits.

Bitcoin cash – value January 2020 - market cap US$4.4 billion - value per token of $240.80. December 2020 value per token $834.86.

6. Libra

One of the most-hyped cryptocurrencies in the category when rumours circulated in 2018 that social media giant Facebook was developing its own cryptocurrency. With Facebook's global customer base and its platform, the cryptocurrency world had long speculated that the social media company might launch its own digital token.

Facebook released the white paper for Libra in June 2018. The tentative launch date for the token is later in 2020, as Facebook has committed to sorting through regulatory barriers before launch. Libra will be overseen in part by a new Facebook subsidiary, the financial services company Calibra.

Libra has failed to gather the necessary support and looks like a project that has failed.

7. Monero

Monero is a secure, private and untraceable currency. This open-source cryptocurrency was launched in April 2014. The development of this cryptocurrency is completely donation-based and community-driven. Monero was launched with a strong focus on decentralization and scalability, and it enables complete privacy by using a special technique called “ring signatures.” Transactions appear with a group of cryptographic signatures including at least one real participant, but since they all appear valid, the real one cannot be isolated. As a result of this security mechanism Monero has developed a dubious reputation and linked to criminal and operations.

Monero value January 2020 - market cap US$994.0 million - per-token value of $57.16. December 2020 price per token $165.25

8. EOS

Launched in June of 2018, EOS was created by cryptocurrency pioneer Dan Larimer. As EOS is designed after ethereum it offers a platform for developers to build decentralized applications. EOS’s initial coin offering was launched in 2019 with US$4 billion through crowdsourcing. EOS consists of EOS.IO, similar to the operating system of a computer and acting as the blockchain network for the digital currency and EOS coins. EOS differs because of it lacks a mining mechanism, producers generate blocks and are rewarded with EOS tokens based on their production rates. EOS has a complex system of rules to govern this process allowing a more ‘democratic’ and ‘decentralized’ currency.

EOS value January 2020 - market cap US$2.7 billion and a per-token value of $2.85. December 2020 value per token $3.76.

9. Bitcoin SV

Bitcoin SV, with "SV" standing for "Satoshi Vision," is a hard fork of Bitcoin Cash. A planned network upgrade for November of 2018 resulted in a protracted debate between mining and developing factions in the Bitcoin Cash community, leading to a hard fork and the creation of Bitcoin SV. Developers of Bitcoin SV claim that this cryptocurrency restores Bitcoin developer Satoshi Nakamoto's original protocol, while also allowing for new developments to increase stability and to allow for scalability.

Bitcoin SV value January - market cap US$2.1 billion - a per-token value of $114.43. December 2020 price per token $171.26.

10. Binance Coin

Binance Coin (BNB) is the official token of the Binance cryptocurrency exchange platform. Founded in 2017, Binance has quickly risen to become the largest exchange of its type globally. The Binance Coin token allows users to trade in dozens of different cryptocurrencies efficiently on the Binance platform. BNB is used to facilitate transaction fees on the exchange and can also be used to pay for certain goods and services, including travel fees.

Binance value January 2020 - market cap US$2.3 billion - per-token value of $14.71. December 2020 price per token $38.35.

Cryptocurrency Fraud and Hacks are still major concerns

Cryptocurrencies (and their blockchains) are particularly attractive to criminals as fraudulent transactions cannot be reversed as they can be in traditional financial systems. In addition it has long been understood that just as blockchains have unique security features, they have unique vulnerabilities. Marketing slogans and PR headlines that called the crypto technology “unhackable” were simply wrong.

The number of fraud cases grew in 2019 to US$300 million as did the amount of alleged fraud with the US$4-5 billion OneCoin ponzi scheme and BitClub Network US$722 million mining scam. This activity is not limited to cryptocurrencies but certainly creates media headlines.

Covid-19 and working form combined with retail investor interest in all asset classes has provided a unique opportunity for criminals, bad actors including sovereign nations to continue fraud and hacks.

Major cases include: Ohio man was arrested for running the Helix Bitcoin mixing service.

An estimated US$300 million was laundered in January 2020.

A software engineer was convicted of stealing over US$10 million from Microsoft.

In April US$25 million in cryptocurrency was stolen from the Lendf.me

New Zealand law enforcement froze US$90 million in BTC-e assets as part of a money laundering investigation in June.

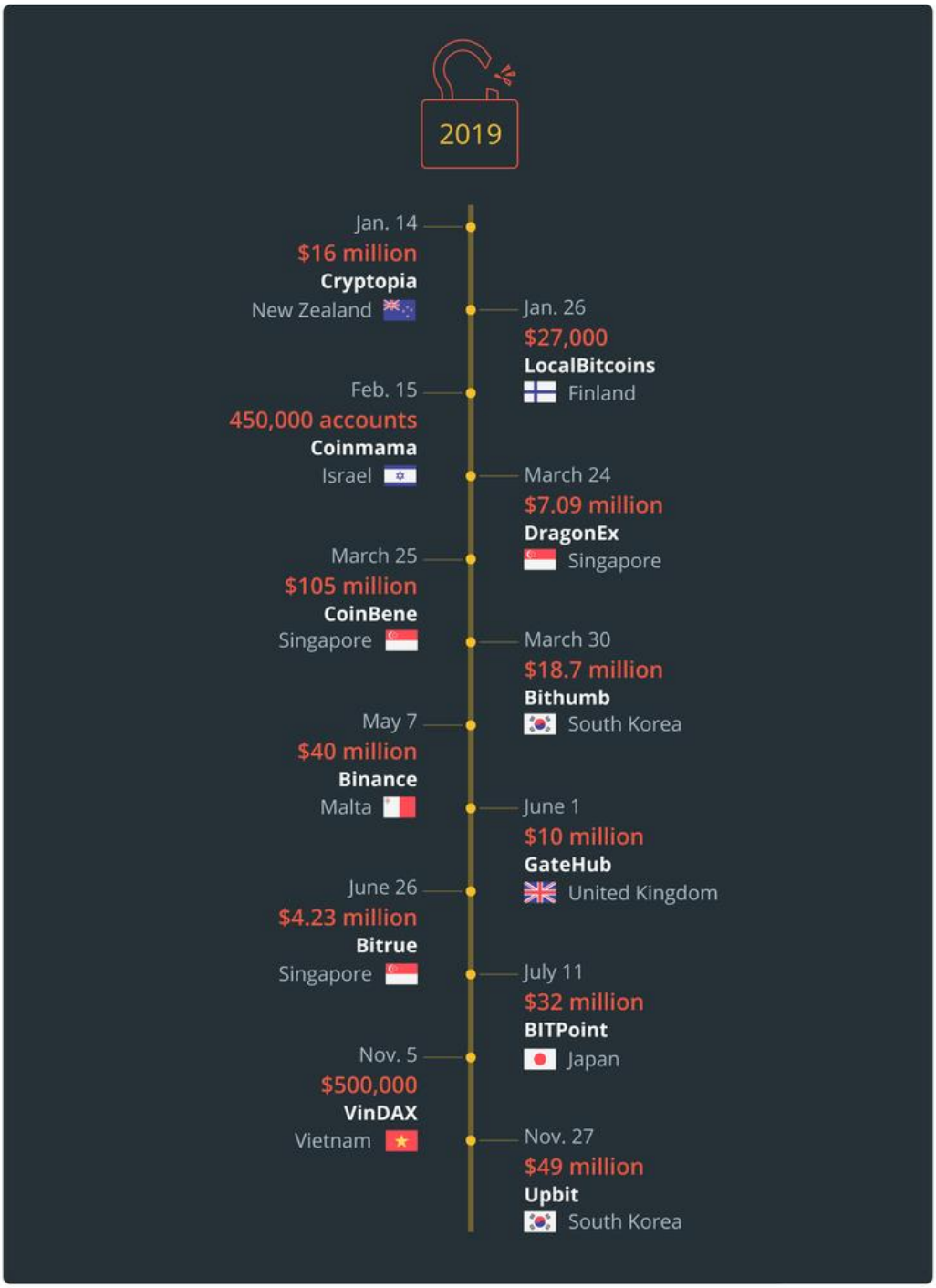
Researchers said that the CryptoCore hacking group has stolen at least US$200 million in cryptocurrency from online exchanges in June.

The CEO of VaultAge Solutions went into hiding after allegedly scamming investors out of US$13 million.

Kucoin lost US$150 million in cryptocurrency was stolen by a cyberattacker after being stored in hot wallets

US and Brazilian law enforcement seized US$24 million in cryptocurrency from individuals allegedly connected to an online investor fraud scam.

Hacks on crypto exchanges in 2019



cointelegraph.com

source: *Cointelegraph analytics*

Cryptocurrencies as Sovereign Currencies?

Sovereign cryptocurrencies or CBDC's have been quietly developing over the last 6 years. A number of countries and technology companies have been exploring the potential to replace cross border payments with cryptocurrencies which would avoid the need to use reserve currencies – much is yet to play out and it's a case of will the technology work and how will the geopolitical issues play out?

The key issues revolve around who owns the risks?

How will central banks deal with KYC and AML issues?

Do CBDC's involve a liability transfer from banks to central banks?

CHINA

The crypto yuan, which may be on offer as soon as 2021, will be fully backed by the central bank of the world's second-largest economy.

The consensus is that the token will be a private blockchain, a peer-to-peer network for sharing information and validating transactions, with the People's Bank of China in control of who gets to participate. Initially the currency will be supplied through the banking system and replace some part of physical cash. That won't be difficult given the ubiquitous Chinese QR code-based digital wallets such as Alipay and WeChat Pay

The digital yuan could disrupt both traditional banking and the post-Bretton Woods system of floating exchange rates that the world has lived with since 1973.

China's "One Belt One Road" policy and its Central Bank Digital Currency could work together. The idea that the RMB will "replace" the US dollar or Euro in home markets isn't the stated goal – this is disputed.

All that has to happen is for China's Belt and Road partners to start using the digital RMB and you've got a sizeable market. Will Belt and Road countries such as Italy trust China sufficiently to engage in large scale infrastructure projects?

China isn't the first to tie development and currency together. The post WW2 Marshal plan allowed the US to export its currency. In 2018 dollars the Marshal plan is valued at $130 Billion while One Belt One Road commitments are already over $300 Billion.

SINGAPORE

Faster cheap cross-border payment settlement is one application of JPMorgan Chase & Co.'s Quorum, an Ethereum-based platform on which the Monetary Authority of Singapore is running Project Ubin, an exploration into central bank digital money.

If blockchain technology shows promise in handling a large number of transactions simultaneously, then digital currencies could become substitutes not just for physical cash but also for bank reserves.

USA

The US Treasury Department is concluding a series of tests of a blockchain-based platform which monitors and tracks grant payouts.

The agency has almost completed a proof of concept program which is planned to track letters of credit issued to recipients of financial grants. Electronic federal letters of credit are sent out to grant recipients to help track the grant payments made to grant recipients, which will be tokenized in the hopes that this strengthens the security of the transaction and provides better monitoring.

KEY ISSUES

Token transactions would be pseudonymous - if the central bank wants to see who's spending where, it can. Anonymity disappears when cash does. While that will make life difficult for money launderers and terrorists, it could also become a political issue used as tool delivering punishment and stifling political activism.

Key design features of central bank money — Table 1

	Existing central bank money		Central bank digital currencies		
	Cash	Reserves and settlement balances	General purpose token	accounts	Wholesale only token
24/7 availability	✓	×	✓	(✓)	(✓)
Anonymity vis-à-vis central bank	✓	×	(✓)	×	(✓)
Peer-to-peer transfer	✓	×	(✓)	×	(✓)
Interest-bearing	×	(✓)	(✓)	(✓)	(✓)
Limits or caps	×	×	(✓)	(✓)	(✓)

✓ = existing or likely feature, (✓) = possible feature, × = not typical or possible feature.

That's when the game potentially changes - reserves at a central bank are maintained by deposit-taking lenders. A digital yuan — or Singapore dollar or Indian rupee — could bypass this system and allow any holder of the currency to have a deposit at the central bank, potentially making the state the monopoly supplier of money to retail customers.

But why would central banks want to demote their own banking systems?

Looking at Europe and Japan, is that negative interest rates are doing that anyway. Lenders are starved of profit because while the central bank charges them for keeping money on deposit, they can't as easily pass on those negative interest rates to their own depositors. If the global economy gets mired in long-term stagnation, official digital currencies could be one way of monetary easing without involving banks.

The other major issue is technological is making the status quo untenable. It's no coincidence that China hastened its national cryptocurrency after Facebook announced the Libra project. Perhaps all of this is fanciful, and as Libra has hit a wall of regulatory concerns, the changes won't end current banking and monetary arrangements.

eCOMMERCE a Major Growth Area During Covid-19

Online shopping and purchasing online services received a massive boast in 2020.

With many businesses and consumers in lockdowns online commerce was the only or became the preferred option. This allowed many consumers to test online purchasing for the first time.

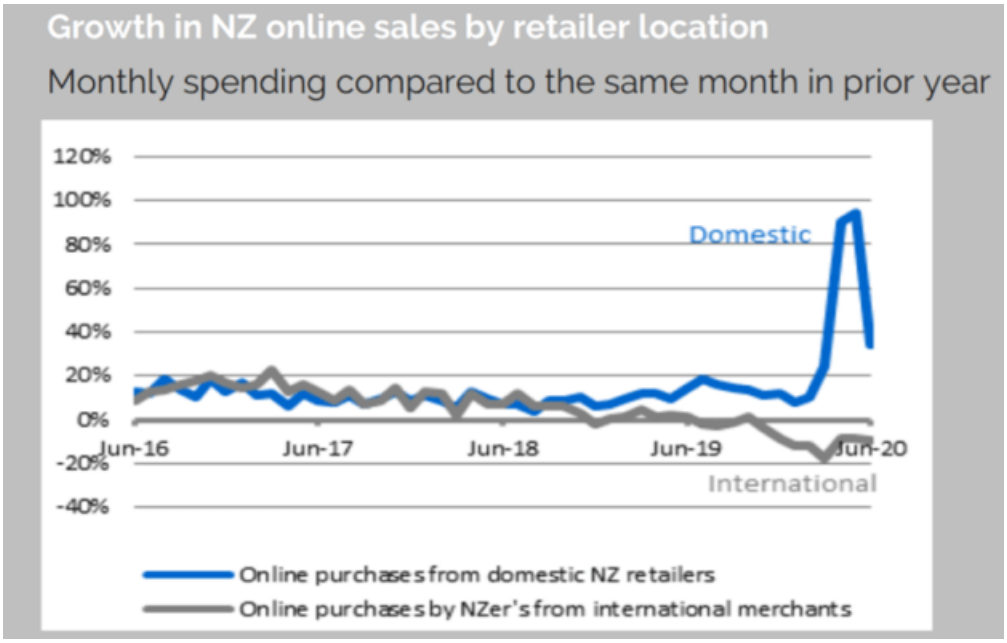
In most economies pre-covid online purchases represented 10% of retail sales with other services averaging 5%. During peak lockdowns this doubled and in more servery impacted economies online has remained elevated.

The key strategic question is will these new levels of online spending continue – or will consumers go back to 'normal' payment patterns once the pandemic is over?

Typically, when payments are interrupted for extended periods by natural disasters or wars, temporary payment patterns emerge. Studies show once life returns to normal past practises return with minor changes – this is certainly the experience in New Orleans USA, Japan, Christchurch New Zealand and Italy.

The nature of the online 'boom' varies with the worst affected countries spending the most time and money online e.g. USA, UK and Sweden all have major Covid-19 out breaks.

In contrast, success in Taiwan and New Zealand for example has seen lower rates of digital and online use with an initial boost only.



Global Rankings

The current eCommerce rankings are – with economic ranking in brackets.

1. China (2)
2. USA (1)
3. UK (7)
4. Japan (3)
5. Germany (4)

The other top 10 markets are in order: France, South Korea, Canada, Russia and Brazil.

Europe combined is currently the world's largest ecommerce market – in 2021 China will overtake Europe with over US$2.4 Trillion in online sales or 20% of retail sales.

Amazon is the leader in 4 of the top markets: USA, UK, Japan and Germany – its reputation is far bigger than its actual share.

Australia Ranked 15th in 2020

Australia has slipped to 15th globally because of structural issues, poor digital execution and the inability to deliver a majority of packages within 1 business day.

Online purchasing pre Covid-19 was 10% of retail sales in Australia according to ABS surveys. The Australia Post Online Study – 2019 report estimated online sales in 2018 of $27.5 billion and increase of 24.4% over prior year. The payment types used are: PayPal dominates at 48.8%, Credit Cards 24.4%, Debit Cards 15.5% and BNPL 6.7%.

The Australia Post 2020 study included data up to a April which reflected the peak of lock-downs with online spending up 15.5% of February. ABS survey figures have a peak of online sales in June/July with declines in September.

Execution Issues

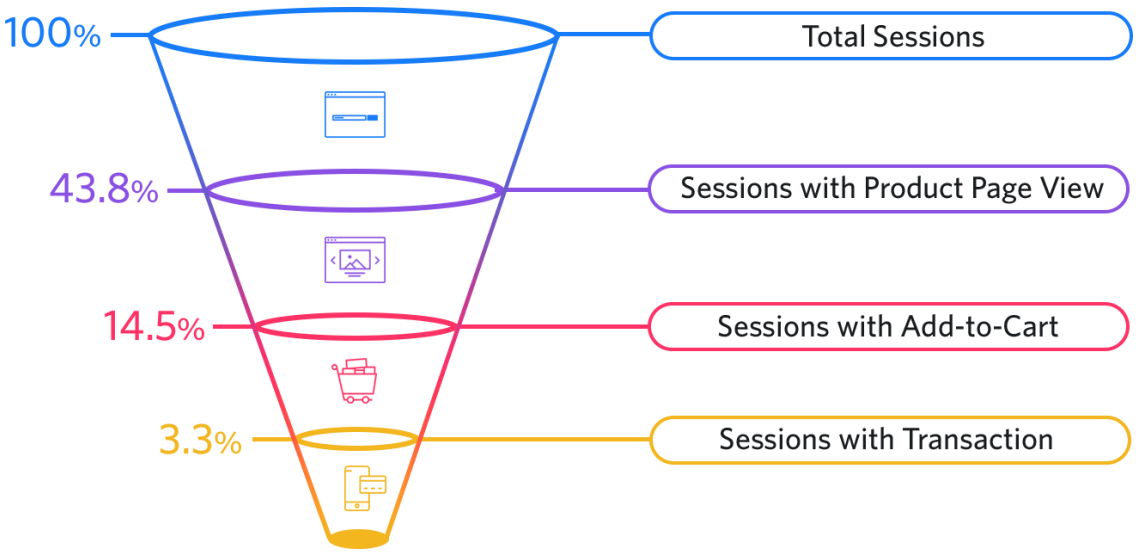
Online purchasing requires a different set of skills – the 'digital' nature of consumer interaction also requires new skills and different supply chains.

Online eCommerce is the opportunity to make money and develop a powerful online brand.

A website is the 'shop front' no different to a high street shop – it must make money and geared to entertain, excite and sell product or services.

The key to websites and eCommerce is firstly attracting target consumers and then entertaining them with a creative website that funnels consumers to your shop to buy beer.

Typically website budgets/targets are geared to key targets at critical points –



Therefore, from 100 clicks a site+shop should get 3 orders.

A summary of execution issues with just web sites starts to demonstrate some of the issues.

- The average cart abandonment rate is 67.91%.
- Over a year, approximately US$4.6 trillion worth of merchandise is abandoned.
- Checkout optimization can recover US$260 billion in ecommerce sales.
- 34% of potential shoppers will abandon their cart because they aren't ready to buy.
- Slow delivery or poor returns policy cause 27% of consumers to abandon their carts.
- 24% of shoppers have abandoned carts because site navigation was too complicated.

- 28.3% of all ecommerce revenue comes from successful abandoned cart emails.
- The non-profit industry has a 56.84% average open rate of recovery emails.
- Retargeting ads are 76% more likely to get clicks than regular display ads.
- Retargeted ad has 10x the CTR of a typical display ad.

There are similar issues at each step in a successful order including returns, stolen goods, fraud, abandoned orders and non-payment issues.

Digital Marketing Skills

A successful digital marketing plan involves clear objectives at every point – the key to success in 'digital' are skills and measurement.

It's all about getting messages and a product or service in front of the target audience.

Digital marketing has the big advantage over traditional broad scale marketing mediums because you get to choose who sees your messages and you get to adjust, test and change many more things in the process.

The other advantage is digital is its scalable – businesses can grow as investment allows.

A first principal of digital marketing is that you have to make your offers at the right time and in the right place. When your target customer is online, just hanging out or looking for something you are there too, in the same channels, available to always make an offer and make a sale.

This activity also allows learning more about target customers and engaging with them in other ways that enrich the contacts.

Digital marketing is built to accommodate modern connected customers – very focused, very flexible but always measurable.

FACTORS IN A SUCCESSFUL BASIC DIGITAL MARKETING PLAN

1. Understand target audience
2. Plan with key targets/dates
3. Mobile friendly website/shop
4. Apply Search Engine Optimization (SEO)
5. Incorporate all social media used by target consumers
6. Use content marketing

7. Use targeted emails, TX, videos

8. Apply conversion rate optimization (CRO)

9. Analyse, test, retest and analyse

10. Scale and measure return – should be 3:1 or more

To be successful all businesses needs to action all of these steps – it's not a mix and match or arbitrary choice.

In large organisations 'digital' is usually part of the general marketing mix – in most companies digital marketing suffers badly because most senior marketers have never got to grips with the core 'digital' detail required.

In small businesses websites are either in-house kits such as WIX/Squarespace or outsourced with web design. The issue is how does a SME run its web site on a daily basis – it's not 'set and forget' option.

Clearly this will take time and the right resources – however, a successful strategy starts with identifying the opportunity – Amazon started in 1994 in Jeff Bezo's garage in Seattle – today's market cap US$1.56 Trillion 26 years later.

Online Payment Issues

The payment issues in the online market are totally different than in high street retail and with new technologies and the growth expected market distortions and consumer issues will feature heavily in the next decade. Australia has a retail high street payments system therefore more innovation in payments is required to match the growth expected.

In China and the USA online markets major players dominant and this issue should be considered as a strategy and policy issue by the RBA. The total domination of any market should be avoided and real competition should be considered essential to ensure efficiencies are achieved – especially in payments.

The Inquiry needs to consider how new payment technologies can assist in the development of online payments. What roll can the NPP/Osko play in this market – both in consumer payments and business to business payments including overseas payments?

About McLean Roche

McLean Roche is a specialist retail banking and payments consultancy established in 2001.

Grant Halverson - CEO McLean Roche Consulting with CEO experience in Financial Services and Financial Technology and has been an investor in Fintech.

Grant has 34 years' experience in retail banking and payments, has been a CEO for 24 years in 4 organisations and has held senior executive positions in Asia, Australia and New Zealand

Specifically, our Group specialises in the following services:

- Strategic development and planning of retail banking and payment services
- Global research and development of payment systems
- Detailed knowledge and experience in Mobile Payments
- Advice on development of e-commerce and cyber strategies
- Identification and development of potential Strategic Partners
- Specialised assistance in the development of loyalty/reward programs
- M&A advice and detailed project work
- Product research and development
- Strategic advice, coaching and mentoring of senior executives within the financial industry

Our experience in Mobile Payments covers developed markets and emerging markets. We have also been involved with a number of the Mobile Payment vendors in North America, Europe, Asia and the Middle East/ Africa

We have assisted a number of payment and technology companies with M&A advice. This also involved in pitching to Venture Capitalists for funding as well as advising VC run companies in the US, Europe and Asia.