



31 January 2011

John Hawkins
Committee Secretary
Senate Standing Committee on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Mr Hawkins

Parliamentary Inquiry into Competition within the Australian Banking Sector

Recently, the Senate Standing Committee on Economics, as part of its current Inquiry into Competition within the Australian Banking Sector (Inquiry), heard evidence in relation to competition issues in the online payments market. Visa feels that several of the issues raised need a response.

This submission addresses the specific issue of access to online payments markets and whether there is sufficient competition to promote continued innovation and inexpensive services in online purchases of, and payments for, services and goods.

Visa's is a payments technology company with a long commitment to the Australian market. Its global network now includes more than 1.8 billion cards, 30 million merchant outlets, 1.7 million ATMs and 15,700 financial institutions. Total global volume on Visa credit, debit and prepaid products was \$5 trillion for the year through to September 30, 2010, with this payment volume being made via 68 billion separate transactions

We believe that our local and international success is built firmly on our commitment to payments system innovation delivered through our world-leading payments technology platform, known as VisaNet, which is now capable of processing data at a rate of more than 20,000 transaction messages a second. It is upon this sound, safe and reliable technological foundation that Visa also facilitates secure, efficient and innovative online payments.

Online payments in Australia

The current network systems that are in place to support successful online market places for products and services are working well. As Australian consumers move online with Visa and our partners, they can be confident that their interests are protected should there be any fraudulent activity.

Visa roundly supports a competitive market place for processing online payments – it is of course healthy competition that's driving Australians to purchase online in the first instance. But as was learnt clearly from the global financial crisis (GFC), this has to be balanced with the need for a stable, secure and safe financial system, including in relation to online payments.

To achieve this system safety, Visa, similarly to our four-party card competitors, requests internet acquirers to reach a minimum capital standard before they are permitted to become part of our network. Cardholders, merchants and the general community would expect nothing less when they place their trust in our brand each time they make purchases online.

This is no different to how, for example, retail banks are regularly required to meet important prudential standards so everyone can be sure they are safe and properly funded. It is also no different from the requirement that acquirers meet certain minimum technical, security and engineering standards to access the network.

Visa requires collateral from a client for a number of circumstances if it is deemed necessary and the collateral is set at a level considered sufficient to discharge the client's obligations to the Visa system if the client were subsequently unable to fulfill those obligations out of their own funds. This is in direct support of the indemnity that Visa offers to its clients globally.

Collateral for card issuing programs is calculated to cover the pipeline of transactions that have been negotiated at point of sale but not yet cleared and settled. Normal collateral for acquiring programs covers four months of chargebacks, which are rights established by Visa globally so that there are clear rules in place for efficient dispute resolution that balances the interests of all affected parties, as that is the typical risk to address if an acquirer defaults. However in the case of high-risk acquiring, increased collateral levels are sometimes required. Factors that may induce a higher collateral requirement include:

- if the client is operating in a country where the country rating is below investment grade;
- if the client's own institutional rating (whether from an accredited external agency or Visa's own internal assessment) is below investment grade; and

- if the client is engaging in high-risk activity such as signing high-risk merchants e.g. adult or gambling sites with higher fraud rates.

This is a global policy contained in Visa's Operational Regulations and reflects the borderless nature of online commerce. This is an entirely transparent policy, a copy of the Operational Regulations being available publicly on our website.

New entrants

These Visa policies are not in any way about market entry issues – they are concerned only with the maintenance of market safety. Nonetheless, at Visa we will work with new entrants which may not fully meet these standards to come up with alternative ways to allow them to receive online payments, as long as the core safety net can still be achieved.

These measures can range from seeking other kinds of business assurance from our client, working with new entrants to examine business plans to ensure risk is being mitigated and managed or facilitating connections with specific targeted merchants, all of which are aimed only at containing the risk level to a degree that would be acceptable to both Visa and, of course, the system more widely.

Regulation

Visa understands there has been suggestions made to the Inquiry that regulation may be needed to reduce these minimum collateral standards.

First, Visa thinks it would be extraordinary in the immediate post-GFC environment to seek to put in place any form of regulatory intervention that would actually *reduce* the level of financial system security and stability.

Visa strongly opposes unnecessary regulatory interventions but feels that fair market measures to ensure system security should be supported as they are in the national economic interest and should continue. The market-level measures undertaken by Visa and its competitors strike an appropriate balance between stability, security and competitiveness.

Secondly, additional levels of regulation that are aimed at giving any one participant an advantage over other participants, particularly when the system is working well, including being sufficiently flexible to meet the needs of innovative new entrants, will never deliver Australian online shoppers a better deal. There is no clear or demonstrated market failure that would justify intervening with regulation.

Conclusion

Visa always welcomes a truly open and competitive marketplace as we are confident that shopping with Visa is safer, faster and more convenient.

Visa would be happy to provide any additional information or briefings as the Committee may need. I can be contacted on 02 9253 8890 or awand@visa.com.

Yours sincerely

✓ **Adam Wand**
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