



Trusted, Open and Ubiquitous Innovation: New Models for the U.S.?

Charles M. Kahn
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Australia's NPP

- Exciting vision
- Compelling roadmap

Applicable to the U.S.?

- Payment System Innovation is Transformative
- Mobile payments in developing economies
- Internet payments (of course)
- Payment cards



An easy cost-benefit calculation

- Trusted open ubiquitous platforms foster transformation
- Coordination necessary for common infrastructure
- But coordination is not very costly
- Clear conclusion of Fed's 2015 study: "Strategies for Improving the U.S. Payments System"
- But is it implementable?

Australia / US comparison

- Similar payments usage characteristics and trends
- But low bank concentration in the US
- And weaker regulatory power



Sources of Tension in Implementation

- Rivalry between
 - Entrenched bank-associated payments arrangements
 - Entrant non-bank payment arrangements
- Rivalry between large and small banks

The immediate case for faster payments: real, but not big

Unmet end-user needs:

- Person-to-person,
- Emergency bill-payment,
- “Modern day petty cash”: Emergency business supplies or payroll correction
- FEMA

Faster payments is not pressing issue for entrenched providers

- “Users are likely to discover new benefits”
 - valid argument but only long-term effect.
- Many of the gaps imply only occasional use:
 - Emergencies not frequent enough to get customers’ attention
- P to P is the realm of start-ups
 - until one start-up gets traction, not worth worrying about for entrenched providers

Merchant immediate demand: not new services but existing rents

- For merchants, existing systems adequate
- Their complaint is about pricing
- Desire for new systems to put competitive pressure on cards



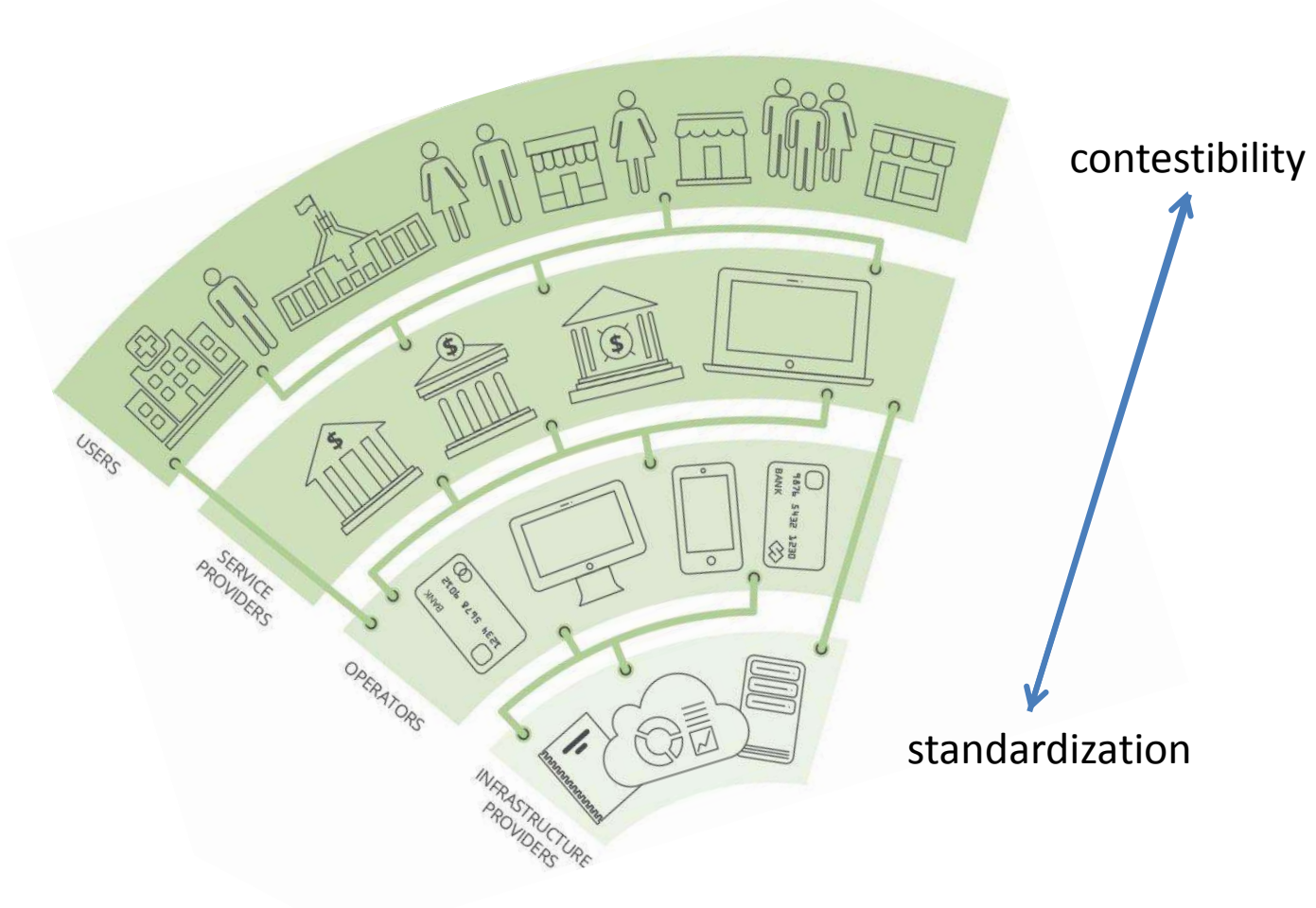
- Banks' goal: Innovation, but not coordination
- Little incentive for economy-wide coordination
- Innovation within bank platform
- Coordination limited to similar-sized banks

Result: trusted, ubiquitous... but not open

- Potential “nudges”
- Regulatory pressure
 - Populating a common directory
- Competitive pressure
 - Needs non-bank access
 - Provides new headaches!

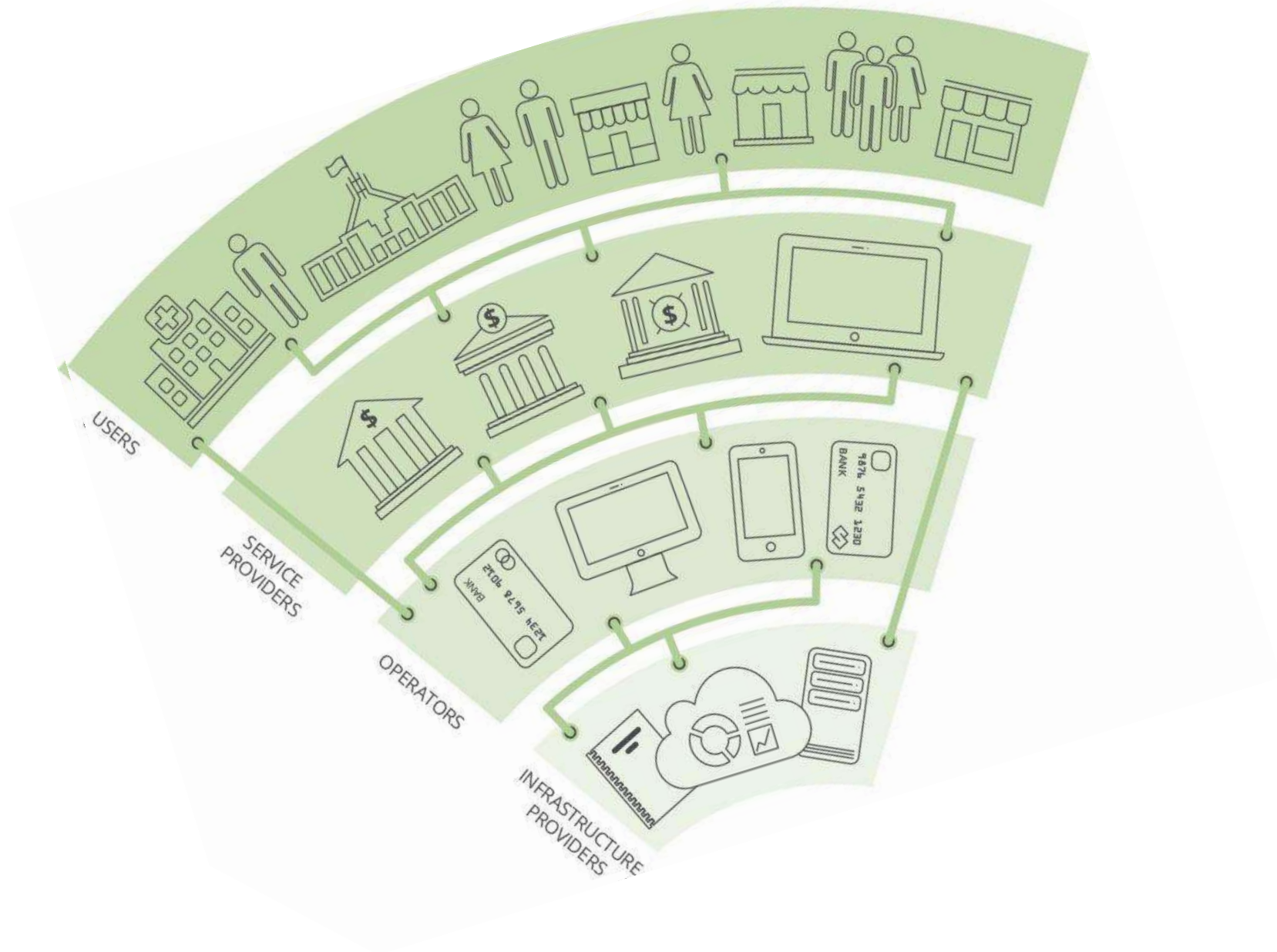


- NPP's layered solution

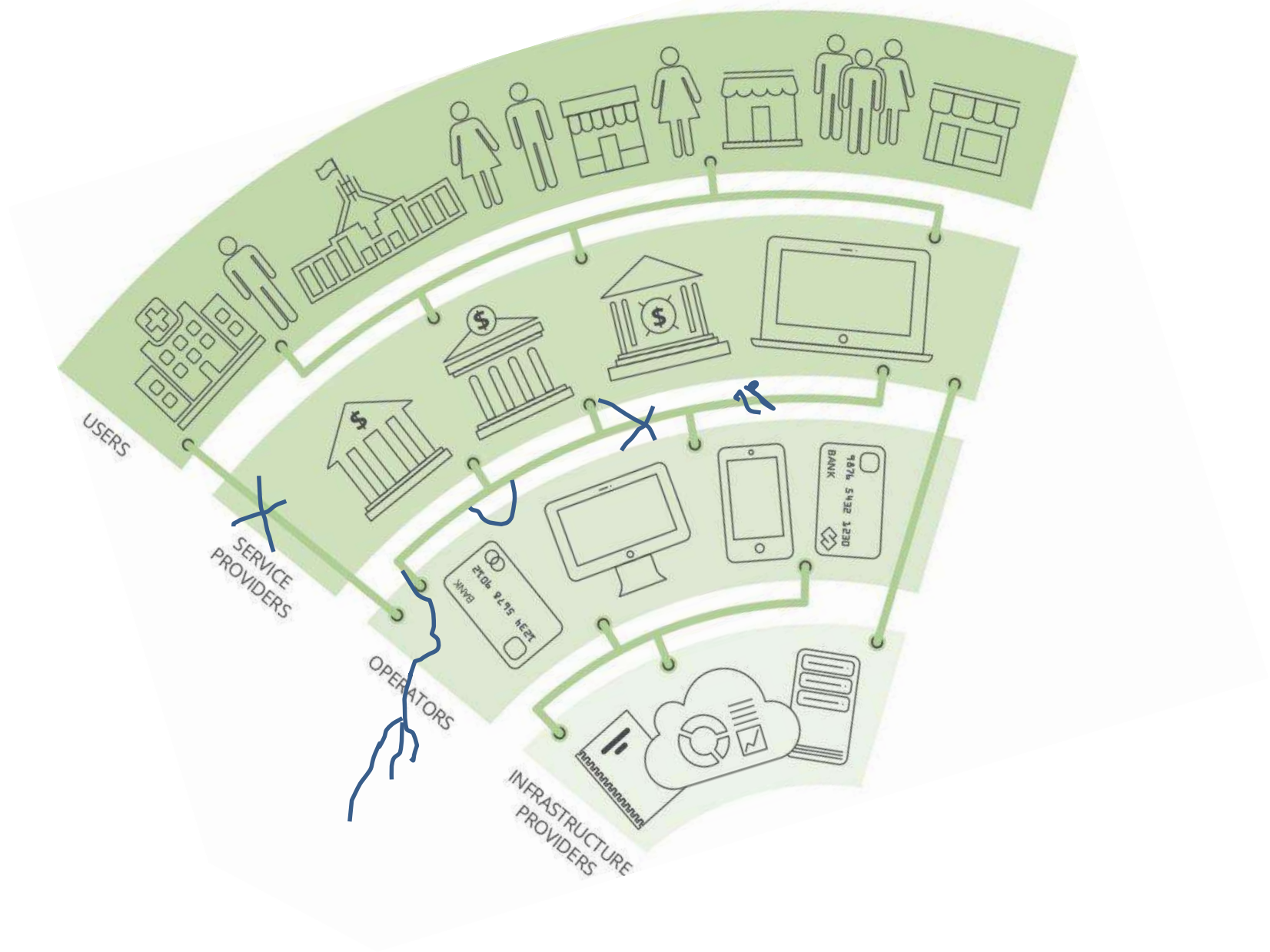


- Summary
- Australian model provides the opportunity for trusted open ubiquitous payments
 - One end of the stack provides trust
 - The other end provides openness
 - Then the market provides the ubiquity

- Australian Model



- US Model?



- Summary
- The US payments system can provide the innovation
- But will it induce the standardization?





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