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

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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?