PAYMENTS POLICY : FROM HERE TO WHERE

It is jumping the gun to again write a plan for reforming the payments system before a consensus emerges about shortcomings to be corrected.

The slate is not clean. Payments system plans circa 1984&1998 folded unremarked. Contrary to what government said was intended, and what regulators promised to deliver, fundamental defects remain uncorrected and further entrenched.

Performance has not matched the rhetoric.

Common themes and catch-words in planned aspirations for payment-systems include safe, reliable, resilient, trusted, efficient, competitive, innovative, accessible – and so on. This semantic litany is trotted out whenever payments system regulators talk about plans for reform. Worse, these platitudes routinely colour later reports of regulators detailing what they have (not) been achieving – putting a gloss on much ado about achieving very little.

Writing another nicely worded plan for another regulatory venture down the road of good-intentions risks more circle work. Evolving the payments system will require community acceptance – a community both understanding its defects and accepting what correcting the defects will entail. The politics of payment systems is a minefield. The community has never been told the truth. The government or the regulators, or both, have never been candid about their intentions.

In the payments policy arena among others Australia appears to be a 'policy-taker' not a 'policy maker'.

The review of the RBA concurrently underway is illustrative of policy-taker realities. Beyond its process-focused terms of reference, nothing much else can be seen or said by a review panel. Much needs to be said about central banking miscues entrenched globally, not least in retail payments systems.

The following proceeds in the expectation that a new government, newly respecting its public service, will let the plan-writers have a proper crack at reforming the payments system. For decades past it has, apparently, been just too hard for regulators to see the flaws, to say what needs to be said, to do what needs to be done.

One prerequisite is to clearly see separately, to not confuse, change in the technology for making payments which contrasts with atrophy in regulating the retail banking and payments system.

- **Two proposals for immediate action**

The following assessment implicitly suggests sharpening the focus on two shortcomings to be addressed when planning to reform the payments system. Two initiatives could be taken immediately.

(i) publishing the value of bank deposits on which no material interest is paid

The major banks could be asked to report, as at December 2022, the value of deposits in customer transaction accounts on which interest is not paid as well as the value of deposits in transaction accounts on which interest is paid in the ranges – 0.0 to 0.1% p.a. – 0.1 to 0.25% – 0.25 to 0.50% -- 0.5 to 1.00 % --1.00% to 3.00%.

(ii) publishing the value of ad valorem fees paid for payment-scheme transactions

Summary data collections from payment-scheme operators – credit-cards, debit-cards, bnpl-cards – would report, for the month of January 2023, the value of ad valorem fees received for different classes of scheme network relationships and transactions.

There is a central banking maxim – never ask questions when you never want to know the answer.

Ask these questions – the answers will bear on writing a plan for the payments system.

HERE

Whatever may be planned to happen next it starts from here – where the payments system is now.

The story of the payments system getting to 'here' is not told candidly by the regulators that wrote it.

In a story that unfolded over almost a century the modern chapters flow from the1980s. In the 1980s, a globally fashionable, and very sensible, push to deregulate national financial systems gathered pace globally. The deregulation was bungled globally because a redundant regulatory foundation stone was left in place when it should have been removed.

That foundation stone was laid in the wake of the 1930s depression. A global agreement then precluded the payment of interest on at-call deposits in transaction accounts with banks. Precluding banks bidding aggressively for deposits repayable on demand, was to reduce risks of bank failures.

The rule endowed banks with 'regulatory rents': soft profits from investing free-deposits at market-rates in bonds and loans.

Banks used part of the soft-profit endowment to compete for deposits anyway – convenient branch networks and free-banking accounts and transactions. The coupling of free-deposits with free-banking was further underwritten by tax authorities turning a blind eye to the income-in-kind flowing, tax-free, to depositors.

Three free cards – free transactions bartered tax-free for free deposits -- remain in play on the global banking table. These cards are unfair to bank depositors and taxpayers. They are also destructive of competition and efficiency in retail payment systems. These cards should be taken off the table.

– a good intention paved a road to hell

Long story short – regulatory rents gifted to banks eventually rent the system asunder.

A longer telling of the story is a reflection on banking and payments policy regulators. A regulation conducive to instability in the financial system globally was apparently not recognised to be so. Nor has it been removed when the damage it did and still does is clear.

Considering the longer story:

- it was unsound to leave in place a policy that gifted major banks an income stream that properly belonged, as personal taxable income, in the hands of bank depositors and the public purse.

- in the high interest rate regime of the 1980s, the policy became a destructive force undermining the stability and competitive-efficiency of retail banking and payments systems.

- after the global crisis, with nominal rates falling to zero, the policy destabilised the banking system again.

- another chapter is being written now as higher nominal interest rates are restoring regulatory rents eroded by the zero-rate regime.

Nonsense on a grand scale, globally, for decades.

No institutions know better than central banks the business of taking deposits (issuing banknotes) on which interest is not paid and investing the funds in assets earning interest. It is a naturally profitable business. Central banks pay the net natural profit into the national coffers where it belongs.

The same process – commercial banks investing funds deposited interest-free – sees soft-profits left in banks hands where it does not belong. This is wrong, not natural on any objective assessment.

[**A digression to put regulatory-rent entitlements in context.** The numbers in play here are big. In Australia some $1.5 trillion is held in deposits repayable on demand. Of that, some $1 trillion (one-thousand billions) would be in accounts with the major banks on which no material interest is paid. Each one-percent in the net earnings margin delivers some $10 billion annually to be used at the discretion of the major banks. A 'normal' margin of 5% converts to $50 billion. If the margin was some 15%, as it was in the late 1980s, the annual flow would be $150 billion. Little imagination is needed to understand the destructive and destabilising consequences of volatile swings in major banks' entitlements to such regulatory rents. Rent-asunder.]

The payments system evolved. Banknotes, as a payments medium, have been steadily displaced by deposits in transaction accounts with banks as the currency of the realm. Tangible giving way to digital means large-value banknotes are now almost redundant for day-to-day payments.

Conversely, of course, the regulatory-rent endowment of soft-profit to banks became more valuable, more volatile and ever more inimical to the stability and competitive efficiency of retail banking and payments systems. What happened in Australia was illustrative of consequences globally.

Two local case studies:

- **one, part one**, in the mid 1980s, banks were deregulated as nominal interest rates were on track to reach 15%+. The flow of soft-profits from the free-deposit books of the major banks increased dramatically. The windfall profits were deployed in a competitive rampage that eventually left the 4Pillars controlling the retail financial system nationally. The Pillars took over or drove out all the state banks and all the new building-society banks as well as the then recently licensed foreign banks that the government expected to enliven the competitive environment. The Pillars' regulation-funded rampage flowed to dominate the life-insurance and retail funds-management industry and financial services well beyond. Rent asunder.

- **one, part two**, the Pillar rampage funded by the regulators ended with a banking crisis as two of the Pillars stumbled over burgeoning rent-endowments. There was only very polite, unspoken and deferred acknowledgement of this regulatory miscue. In 1989 the Secretary to The Treasury was appointed governor of the central bank. In 1998 the responsibility for prudential supervision of banks was transferred from the RBA to APRA, then a new regulatory agency.

Concurrently central banks globally had put in place the 1988 regulatory foundations for what would become a global financial crisis in 2008. The global brotherhood knew that deregulated banks taking on more risk would need to be properly capitalised. In another miscue, the capital-adequacy rules adopted in 1988 ensured the converse – disruption of financial systems and a global crisis…......... back to the main story.

- **part one of the othe**r case study in payments policy was a lingering consequence of the global financial crisis. Central bankers reviving shocked economies and destabilised financial systems reduced nominal interest rates to 'zero' and flooded financial systems with liquidity. Alas the regulatory-rent endowment saga, took a new twist. Banks grown used to a flow of soft-profits from the earnings margin on their free-deposit books were now unsettled as the margins were eroded. Regulators ever so politely saw the writing on the wall – the also eroded de-facto capital of major banks embodied in the takeover-value of future rents. The response, ever so politely again, was to contrive a financial system inquiry directed to find that banks needed to raise more actual capital.

- **part two of this other** case study is unfolding as a new payments policy plan is to be drafted. Nominal interest rates are being restored to more normal levels. Alas, it is as if the regulators have not understood what happened over the previous four decades as the rent-endowments gifted to banks swung erratically. The zero-rate regime offered the chance to fix the system, to withdraw from banks the regulatory-rents flowing from free-deposits. The opportunity was not taken. Now a rort is being resurrected that will be both destabilising and otherwise conducive to further concentration in the banking and payments industry. Bankers, stockbrokers and investment advisers have been quick to predict revaluations of bank stocks with the restoration of regulatory rents. Already Pillars are eyeing off prey. Worse, it cannot be ruled out that central banks globally are also welcoming the restoration of banks' 'rent margins'. When a failing bank needs to be rescued it greases the wheels if the takeover value is leavened with entitlements to additional rent endowments.

As noted, if some semblance of a durably competitive environment is to be restored to the payments system, the three destructive cards in play should be taken off the table. That said, what remains remarkable is that no statistics are collected and published to show the value of bank deposits on which no material interest is paid; no estimate is published of the tax not paid on the interest not paid or even the tax evaded on income paid in-kind as free services. Does no one want to know?

– free-banking is actually very expensive

The three-card hand played by the regulators has been destructive of competition and operational efficiency in retail payments systems. These consequences were conducive to retail banking becoming a de facto cartel in the hands of major national banks -- in Australia, the hands of the 4Pillars.

An easy way into this part of the story is through the door marked 'free banking for all'. It is this illusion of free-banking that is probably the main barrier to the three-cards being taken off the table. Apparently the community can pay proper prices explicitly for all other essentials but not for payments services.

The illusion of free-banking – users do not pay – has been nurtured in the minds of bank customers. Apparently the customers take for granted their apparent entitlement to free-banking. Apparently 'no one' is of a mind to expose the deception. In short, customers do not pay, explicitly, anything near the full-cost price for banking transaction services. Most payment transactions appear to be free of charge.

The reality is the converse – behind the illusion, the community is being grossly overcharged.

None of the regulators or major players even acknowledge, let alone discuss, the three-card defects in the payments system. Central banks and prudential supervisors take comfort in featherbedding the profitability and solvency of deposit takers. Major banks bask in the easy profits that underwrite excessive executive salaries. Funds managers and their members benefit from the reflection of easy profits in bank share prices.

One can only ask why anyone would want to disturb this consensus. This question apparently comes quickly to the mind of politicians and regulators. The implications for community unrest, of users paying explicit prices for payment services, are apparently political dynamite. Apparently this is known instinctively -- it is apparently not relevant that the issues are never discussed, that the questions never put. That's the way it is, apparently.

All more apparent than real – time's up on this nonsense.

It is time to flush out the philistines – to expose the hypocrisy of our best educated economists and public policy makers denying the role a proper price system should be playing to ensure efficient resource allocation in a major national industry. Cleansing sunlight would expose the hypocrisy of regulators proclaiming protection of the public interest while actually protecting to the commercial interests of major banks.

More Goliaths need to be shortened up. Where are our Davids?

– regulatory failure on a grand scale

Considering the regulation of retail payments systems, there can be no mincing of words in a frank assessment of governments presumably condoning the poor performance of central banks globally.

In Australia, since 1998, the focus is on the role played by the Reserve Bank and its Payments System Board. The sense of disappointment in this formally legislated arrangement only compounded the legacy of its predecessor, the Australian Payments System Council (1984 -1998).

It is remarkable that the evidence for this indictment has been so transparently documented by the RBA and its payments board. Mostly the story is simply a stark contrast between what is promised, repeatedly, and what is not delivered year after year. Words without meaning or consequences.

In large part the mistake was to give the RBA a responsibility it did not want and could not accept. A responsibility it subordinated to its responsibility, as the central bank, to protect and ensure the stability of the banking and financial system. The RBA and its payments board did not do the payments system job. In due course some historian can trawl through the documents of disappointment and detail the RBA-PSB story.

That mistake is hopefully being corrected -- starting with the transfer of payments policy responsibilities to the Treasurer and Treasury. We will see.

Whatever, a few elements of the longer sad story have enough 'here' relevance to be noted.

Obviously of overwhelming importance is the need to address the three-card nonsense – no more free-deposits, no more free-banking and no more tax-free bartering of free bank services for free customer deposits. Free has never been more expensive.

This three-card nonsense being the most of the iceberg, what is also to be exposed are particular components at the berg's tip.

Retail payment network schemes – scheme credit cards, scheme debit cards and afterpay-bnpl cards – are just guises of smoke-and-mirrors rent-rackets run by major banks with the protection of payment system regulators. Another regulator gift of rent endowments to major banks.

An easy way to appreciate rorts run by payment-schemes charging ad valorem transaction fees is to consider a very practical alternative – substituting eftpos-debit cards enhanced with an attached line of credit.

Consider the implications. Customers would pay immediately and directly and only for what they use in the way of transactions and for any credit required. Customers would take credit at competitively fair rates as needed – not compulsorily to be charged excessively for late-payments. There would be no need for deceptive illusions about 'gifts' of free transactions and free credit or more fancifully with bnpl, 'its not credit'. Retailers would not be forced to pay 'ad valorem' fees on card-sales and similarly excessive scheme-fees for accepting scheme-payments – fees that are recovered in higher sales prices from customers collectively. Talk about rackets.

Regulators long condoning scheme payment rackets have much to answer for.

BNPL schemes are the recent and topical illustration of regulatory complicity in the conduct of a payments system racket. The development of BNPL schemes exploited both the high-cost base of the racket run with credit-cards and the transitory nonsense of 'zero' nominal interest rates.

This, like crypto-money, has been market and regulatory failure on a grand scale only now being understood to be so. The greedy and beholden were fooled. The BNPL business is falling apart globally (as is the crypto hoax). A local pioneer named Afterpay, for example, bought for some $US30 billion, is now worth only a fraction of that.

Inexplicably our national regulatory team exempted customers' BNPL debts from the scope of credit rules. The RBA-PSB team similarly inexplicably welcomed BNPL schemes as a 'competitive innovation', promoters entitled to enforce scheme-rules precluding retailers surcharging transactions to recover the high costs.

[Note (i) This assessment contrasts with that given in the Scott Farrell report -- *Payments system review – from system to ecosystem June 2021:*

The emergence of this new ecosystem has already begun, with developments such as digital wallets, buy- now pay- later and cryptocurrencies <u>showing the way</u>.]

[Note (ii): a submission made to a Treasury review – *Regulating Buy Now, Pay Later in Australia* – will be published in that context.]

Showing the way! – spare my days!

Regulatory capture – the convicts are playing the warders off a break.

Disrespect shown to regulatory authority by major payments providers is a so-politely recurrent theme in commentaries published by the RBA/PSB. Payments policy developments planned by the regulators are routinely frustrated by major players' uncooperative and intransigent attitudes and behaviours.

Paraphrasing even recent commentaries, it seems the RBA is continually expecting, asking and even requiring cooperation to get things done. Apparently the cooperation needed and asked for is not given. Even when 'required' conformity is agreed major providers may simply renege.

In place now for some 25 years, on its own admission, the RBA/PSB, has not delivered what was promised or even what it eventually intended. Sadly the flagship achievement – building the new payments platform (NPP) over 2012-2018 – has been a practical disappointment. The NPP has not been embraced by some major players – they have not met expectations, complied with requests or made required changes. Deadlines die.

Frustration has reached the silly-point where the RBA is suggesting customers 'ask their bank' why promised fast-payment facilities are still not available.

Part of the explanation is about the RBA itself reneging on promises to the community – yielding to pressure from the major players. The RBA has promised 'penalties' for non compliance that have never been imposed when what it asked for was ignored. One can go back to the very formation of the PSB when the RBA said it intended to follow a 'light touch' strategy – with regulation as the last-resort.

Polite-request regulation makes no sense in this game. Routine displays of open disrespect by major banks and scheme-payment players is longstanding and legendary. It needs to stop – the politeness – the forbearance. What has not happened is an embarrassment.

It would be impolite to quote extracts detailing regulatory shortcomings. One that stands out was the 2001 proposed prohibition on ad valorem fees for credit card transactions – an intention abandoned in 2002 without explanation. The verbatim of what is on the official record is comedic.

Banknotes are mainly hoarded to rort age pension entitlements

The RBA is apparently unable to understand why there is some $100 billion of its banknotes on issue. The governor is fond of saying how too-many $50 and $100 notes are held, on average, by everyone else in Australia – a remark followed by a laconic comment that it is 'not him'.

This might be amusing if it were not serious.

Australians and New Zealanders have much in common. Someone may want to know why per capita holdings of banknotes in Australia, some $4,000, are three-times as much as in New Zealand. Someone might wonder if most of the explanation is about entitlements to age pensions being means tested in Australia but not in NZ. Who would believe that this penny has apparently not dropped with someone – or that such an insight cannot be mentioned when it clearly should be.

Tangible currency – notes and coins – is generally convenient for low-value purchases and it is beyond question that some groups in the community, the aged and the remote especially, will need easy access to cash for as far as the eye can see. No country will deny cash use and all will preserve the option to use it. Even Sweden.

That said, travellers are ever more aware that there is usually no need to use cash for even the smallest transactions overseas let alone any substantial in-person purchases. That awareness is replicated locally. Many retailers are now card-only to minimise COVID risks. In short, perhaps beyond a little cash for an emergency, there is no longer any real need for most to carry notes or coins.

The hard question is whether any real need remains for cash to be available in denominations larger than $20. The other half of that question is about the case for withdrawing $50 and $100 notes from circulation.

The issues being politically sensitive, neither question should be asked before building understanding and consensus through wide communication and consultation. A renewed commitment to dealing with the community more frankly, more respectfully and more honestly than has so far been been allowed.

Even in recent weeks, to say nothing of decades past, the RBA cannot bring itself to just say that the excessive demand for banknotes in Australia is mainly driven by 'rorting' eligibility for the means-tested age-pension and 'income tax evasion'.

The RBA's inclination to say all but these simple truths is becoming an embarrassment. We are led to believe the explanation is variously about anything else – precautionary holdings for emergencies, money laundering and other criminal activity, foreigners preferring $A notes and various 'unbanked' groups not trusting banks. There is a germ of truth in all of these suggestions which collectively partly explain holding banknotes as a store of value. A germ.

The RBA reliance on 'store of value' is just not anywhere close to the known whole truth. High denomination 'banknotes' could be recognised as 'zero-coupon bearer bonds'. Even that would not tell the full truth. The internal rate of return on hoards of banknotes can be high. Obvious enough if substantial income tax is evaded and entitlements to pensioner-concessions are enabled. Not so obvious is the 7% p.a. 'paid' when the means-tested pension taper rate gives $70 more pension for every $1,000 of assets hidden under the bed. in a hidden hoard.

RBA profits on the note-issue are swamped by 'losses' from the public purse flowing to hoarders of banknotes issued by the RBA. It is just not right to be robbing Peter and paying Paul less.

Talk about an embarrassment: why have we not done better than that – much better than that.

Treasury taking responsibility for the note issue would allow better management of the trade-off of associated profits and losses wholly within the budget context.

The operations of the RBA can be funded from the budget as are other regulatory agencies.

TO WHERE

Everyone has preferences about to-where they would like the payments system headed. These preferences misuse the familiar litany of happy-words – meaningless words unless fundamental flaws are corrected first. So far there is nothing on the record from the government or the regulators to suggest the flaws demanding to be fixed are understood or accepted by other stakeholders, not least a community with no inkling of what is being done to it or what's ahead.

Misgivings aside, the new government is on board with the 2021 report of review of the payments system.. As the review proposed, progress has been made on three fronts. The government has assumed the mantle of leader with the transfer of national payments policy responsibilities to the Treasurer and Treasury. An inter-agency payments forum has been established by Treasury to oversee collaboration across regulators responsible for the the payments system. The government has agreed to a simplified 'functions not institutions' framework for licensing payments service providers.

Presumably next steps are being taken to flesh out the practicalities – recruiting expertise to Treasury, formalising the forum of payments regulators and drafting legislation for simplified licensing.

These commitments imply revised roles for existing payments regulators, not least the Reserve Bank, its Payments System Board and the Council of Financial Regulators. Getting related developments and future roles sorted and legislated will take time. Confusion meantime brings risks.

While drafting an overall plan might proceed concurrently, addressing known defects now is critical lest another plan becomes another road to nowhere that anyone wants to go.

– planning to fix the payments system, or not.

As is the provision of payments services can only become ever more concentrated. Citibank and Suncorp leaving retail banking is a fresh warning. Survival-of-the-biggest will continue in retail banking until the fundamentals are fixed.

Government and regulators doing nothing materially different is the default position.

The game may well be lost and beyond redemption already. If so, best abandon any pretence that substantial reform can be credibly planned let alone delivered. Political sensitivities locally and operational realities globally, may leave Australia with little room to move. Treasury taking over payments-policy may not make much difference.

Semantics aside, the retail banking and payments system is now akin to a public utility – a nationalised cartel run by the major banks on terms to suit themselves. A clutch of interchangeable executives collaring regulated-rents and paid obscenely excessively. That rent money properly belongs in the hands of depositors and taxpayers generally. The community is on the hook for anything that may go wrong – a blank cheque on the public purse.

Even if the default position is basically 'no change', it should not preclude government modifying the regulator-rigged, 'free banking' policies now in place. Make no mistake, formalising present policies would concede a commitment to government continuing to subsidise the cost of providing banking and payments services. Made 'rational', the policy might allow banks to keep the soft-profit on free deposits up to a cash rate of say 2.00% – government could reclaim by direct levy any additional soft revenue otherwise flowing unfairly to the Pillars. Conversely, when cash rates are low, it would require paying subsidies to banks to make up a margin of 2.00% of their deposits in at-call transaction accounts.

Alternatively, bank customers could be deemed to have received taxable income at a daily rate being the cash rate over and above the 2.00% free-deposit concession. Better than doing nothing, a dirty-deal would be preferable to what is happening now.

Similarly with network payment schemes – credit cards, debit cards and BNPL cards – the fall-back position from the ideal of 'no ad valorem fees' might mirror the EU limits of 0.30% and 0.20% of credit and debit card purchases respectively. Concessions that would be coupled with comparable restraints on all other ad valorem charges for scheme participants, including BNPL operators.

Put bluntly, too much of what passes for assessments of the payments system is about regulatory recalcitrance -- regulators with conflicting agendas that don't and wont do what they should. There is very little attention given to what is plainly practically wrong. The system is shortchanging the community while unfairly benefiting major service providers shielded by a regulatory wall precluding competition.

– **reform: a fine line between courage and stupidity**

However necessary it may be to get about properly fixing the retail banking and payments system it is not a commitment to be made lightly. Proposed reforms and expected consequences would need to be presented and explained simply, candidly and transparently – initially for discussion and consultation only, with no commitment to give effect to them before a consensus was agreed. Even with that expectation met, a commitment could be given to phased implementation over, say, some five years.

However it is to be done, for pandemonium to be avoided the content of any 'simple, candid and transparent' proposals for reform 'in due course' would need deft drafting – by social psychologists as well as economists.

Best avoided is a shocked-reaction, circa 1963, when a three-pence charge for each cheque was mooted before being knee-jerked out of bounds. Check the newspaper archives.

A shocked-reaction to 'user pays' policies avoided, and protection of the disadvantaged promised, the community could be guided to accept the sense of reform. Not easily perhaps but the community as a whole would be much better of with retail banking and payments service providers operating competitively on a level playing field,. Customers would pay explicit, cost-related prices, for banking and payments services. Albeit, prices partly offset by interest paid on their deposits and lower retail prices no longer inflated by excessive merchant fees.

The more vocal display of emotional incontinence would likely come from the major banks and scheme payment operators – refresh the memory of the burglars reaction to the 2017 levy on banks intended to raise some $1.5 billion annually. Grown men and women at the ABA wept!

Taxing banks to reclaim and deny soft profits arising in collusive-practices and collusive-pricing is no new thing. With no corporate memory, counsel for the bankers had no recollection of the much higher tax-levy equivalents inherent in reserve-deposit requirements and other direct-regulation imposts on banks for some 50 years from 1940 to 1990. Nor was there any recollection of state government taxes on private bank issues of bank-notes from the 1850s until the federal government took control of the national note issue.

Lest there be no illusions of the issues to be covered in explanations given to the community and stakeholders, the following focal points are illustrative but probably not exhaustive.

A rough sequence of practical steps could be:

- a two-year program of brutally frank, wide and open communication and consultation;
- notice given to phasing out, over three years, regulatory-rents flowing to payments service providers – no more three-free card tricks;
- regulatory-rents denied, bank capital requirements would be reviewed;
- newly, banks could be required to issue substantial subordinated-deposits ranking for repayment only ahead of present equity and capital liabilities ;
- an inter-agency regulatory forum for the payments system could be coordinated by Treasury to outlaw collusive pricing in mature payment schemes;
- only authorised ad valorem fees could be paid for scheme-payment participation and transactions (e.g for travellers using foreign cards locally);
- a decidedly sceptical regulatory attitude would keep enthusiasm in check for innovations akin to crypto-currencies, bnpl payment schemes, central-bank digital currencies, stablecoin schemes et al
- the operation of the RBA would be funded directly from the budget.
- banknotes would be printed and issued by Treasury
- banknotes of $50 and $100 would be on-notice to be withdrawn from circulation, then after only redeemable at a discount.

Taken together – interest would be paid on all bank deposits at a market rate; the use of cash as a circulating payments medium would be limited to notes and coin in denominations of $20 or less; retailers and merchants would no longer need to inflate, or surcharge, retail prices to recover ad valorem scheme fees charged for participation and sales; social security recipients would have 'free of charge' access to basic banking and payments services with the cost covered from the budget;

END PIECE

Current arrangements have served the major banks well and the community badly.

There can be no reasonable justification for the present parlous state of the retail banking and payments system – not competitive, not efficient, excessively costly, excessively profitable. The major banks operate the system akin to a cartel on terms to suit themselves – all the while feather-bedded by regulator endorsed rents, rorts and collusive abuses of market power.

Compliant and forbearing regulators are yet to explain why this prevailing forlorn prospect remains their best bet. An official history of the RBA, circa 1975-200, is still routinely promised annually but is unlikely to ever be published. Meantime reports and other public commentary from the regulators and various coordinating councils continue to reveal a shameless tradition. Major defects are not even acknowledged while defects conceded are not corrected.

Denied a fair rate of interest on most deposits, bank customers and taxpayers are defrauded. The three free-card trick is a scandal. So are scheme-payment rackets charging ad-valorem fees. The conflicted nonsense of the banknote business is a corker – one which Treasury can take in-house and deal with.

As for another flirtation with a plan to reform the payments system, there are recollections of been there and not done that.

There were high-sounding hopes for the Australian Payments System Council (1984) and the formally substituted Payment System Board at the Reserve Bank (1998). Both these regulatory initiatives were nobbled from the start and never recovered the purposeful credibility intended. Neither made much material and beneficial difference to the operation of the retail payments system. Both, conversely, could be said to have passively overseen a bad situation becoming worse – problems evident in the payments system in 1984 and 1998 are mainly further entrenched.

Central banks are a protected species, albeit ever more endangered as a consequence. The RBA is never exposed to the light – beyond monetary policy, no inquiry is ever authorised to put the RBA in the dock to explain itself. Give the royal commissioner, Kenneth Hayne, a refreshed brief.

Sadly, the most likely outcome of present plans for another plan will again be no change of much consequence.

Peter Mair

18 January 2023