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Productivity Commission Inquiry into Competition in the Australian Financial System – Views of PayPal Australia

The Financial System Inquiry (FSI) Final Report was released in December 2014. In commenting upon competition in the financial system the report stated:

“...the financial system should be subject and responsive to market forces, including competition.”

The FSI identified competition and competitive markets as being at the heart of its philosophy for the financial system; not as ends in themselves but as the primary means of supporting the efficiency of the financial system. To the extent that competition and competitive markets lead to scarce financial resources being allocated to the most productive ends they can further private and public utility. Government intervention, either directly or through policy and regulatory frameworks, can impact the efficient distribution of scarce resources by the financial system.

PayPal Australia Pty Ltd (PPAU) provides the PayPal core business process to Australian consumers and merchants. This process enables two parties, a sender and a receiver, to be party to an online payment using their existing financial instruments, such as credit cards, debit cards and bank accounts. In addition the PayPal digital wallet enables users to use a PayPal stored balance to make payments from their digital wallet. This balance will be created when a third party sends money to the PayPal user via a digital transfer. PayPal makes both domestic and cross-border online payments safer, faster and easier.

The PayPal core process utilises financial infrastructure already existing in the Australian marketplace and globally. It effectively provides a value-added service to this infrastructure that does not directly compete with the providers of the infrastructure or the underlying financial instruments. PayPal relies on the efficiency of Australian and global financial market infrastructure to deliver its service to users. Other providers of digital wallets and payment systems offer differentiated services which enable one party to transfer value to another via digital technologies (including mobile technologies) and compete with PayPal’s services.

As a consequence, it is the judgment of PPAU that the finding of the FSI in 2014 that competition in the Australian Financial System was ‘generally adequate’ is applicable to the market in which PPAU currently operates.

It is also PPAU's judgment that competition in this market has increased since 2014 with new entrants and existing financial services firms introducing new and hybrid payment options to Australian consumers. This outcome is the result of private investment in innovation in technologies, products and processes. PPAU is further of the view that the competition changes witnessed since 2014 have been substantial and will continue to grow as information and communication technologies are further developed and deployed.

The FSI sought to encourage competition by removing impediments to its development. It recommended enhanced graduation of retail payments regulation by clarifying thresholds for regulation by the Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA). PPAU supported this FSI recommendation.

Current regulatory frameworks, many of which were first developed in the 1990s, impose significant costs on entities seeking to provide competitive products to Australian consumers. In PPAU's view it should remain a principal goal that regulatory frameworks are directed toward and achieve a public policy goal that is transparent and clearly defined in terms of agreed objectives and to the least extent possible operate to distort otherwise competitive markets.

PPAU is aware that APRA has issued a discussion paper in respect of its approach to licensing new entrants to the prudentially-regulated segments of the financial system. This review will in part seek to address the questions of the desirability of graduated regulation as recommended by the FSI. PPAU will make a submission to APRA.

The further adoption and deployment of current and innovative information and communication technologies will over the next five years alter the risk profile of participants in the financial services sector. The challenge for regulators will be to both ascertain the implications for the system's overall financial stability of these technologies and to identify what if any objectives can be achieved via regulatory intervention. As the UK's Competition and Markets Authority Inquiry Chair told the BBA Retail Banking Conference in June 2017:

New services delivered digitally by new intermediaries open up new horizons for competition, but also new challenges for regulatory oversight. Customers must have confidence in the intermediaries to whom they grant access to their banking data.

The competitive implications for technology enabled financial service provider firms of regulatory systems are real. These implications are exacerbated by the capacity enabled by technology for consumers to rapidly shift their preferences as between product and service providers. Competition is not an end in itself but rather is and must always been seen as a means to economic benefit.

Maintaining and encouraging consumer empowerment is highly desirable. Limiting the burden of regulatory cost for every provider, based upon transparent risk assessments, should ensure the continuation of a consumer driven, highly competitive and effective financial services marketplace in Australia.

I trust these brief comments are of assistance to the Commission and PayPal looks forward to discussing this matter with the review team.

Sincerely

Libby Roy
Managing Director
PayPal Australia Pty Ltd