Australian
**Payments
Network**
Connect Inspire Thrive

Select Committee on Financial Technology and Regulatory Technology
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The Australian Payments Network (AusPayNet) welcomes the opportunity to respond to the Issues Paper published by the Senate Select Committee on Financial Technology and Regulatory Technology.

AusPayNet's submission provides some background information on our role, the Australian payments system and changes to the ways we pay. We also highlight some of AusPayNet's work to support fintechs.

About AusPayNet

AusPayNet is the industry association and self-regulatory body for the Australian payments industry. AusPayNet manages and develops regulations, procedures, policies and standards governing payments clearing and settlement within Australia. Through our network, AusPayNet brings together service providers, government, regulators and other stakeholders to improve the Australian payments system. We do this by promoting competition and innovation, delivering efficiency and controlling systemic risk; this creates a shared purpose that engenders confidence in the payments system. We have over 130 members, including financial institutions, card schemes, merchants such as Coles and Woolworths, new digital banks such as Volt, Xinja and Judo, and other payments industry stakeholders such as PayPal and Google.

AusPayNet also provides secretariat support to the Australian Payments Council (APC). The APC is the strategic coordination body for the Australian payments industry, and it engages directly with the Reserve Bank of Australia's (RBA) Payments System Board (PSB). The role of the APC is to identify strategic issues and emerging trends through constant scanning of the payments environment and to remove any barriers to innovation through collaboration.

The Australian Payments System

Australia's payments system is comprised of several individual payment systems, each of which has distinct characteristics and serves a particular need within the market.[1]

Debit and credit cards are the most common method of retail payment. Financial institutions issue debit cards and credit cards supported by the international card schemes (Visa and MasterCard), as well as debit cards supported by the domestic debit card scheme, eftpos Payments Australia. Charge cards are issued by American Express, Diners Club, JCB and others. Dual-network debit cards have point-of-sale debit functionality from the domestic debit card scheme network and an international card scheme network. The introduction of contactless cards has provided both consumers and merchants with more choice. Consumers in Australia now

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[1] A note on terminology. The term "payments system" is used to refer to the system as a whole – the sum of all individual systems. "Payment system" refers to an individual system and "payment systems" refers to the collective of individual systems.

make about 80 per cent[2] of point-of-sale transactions via 'tap-and-go'. Merchants are also increasingly able to send a dual-network contactless debit card transaction via the debit network of their choice.

The traditional payment methods of **cash and cheques** remain in use. However, they are both in long-term decline, as consumers increasingly show a preference for more convenient, digital payment methods: [3]

- In the financial year 2019, the number of ATM withdrawals dropped to 577 million, 20% less than in 2015. The RBA's 2016 Consumer Payments Survey noted that the "share of consumer payments made in cash has fallen markedly over the past decade or so to 37% of the number of payments in 2016 from 69% in 2007"[4] and that, for the first time, cards had overtaken cash as the preferred method of payment for small amounts. The RBA is due to release an updated survey in 2020, which is expected to show a continuation of these trends.

- Cheque use has rapidly declined in recent years. 2013-14 saw around 180 million cheques issued. By 2018-19 this had fallen to just over 60 million. On present trends, cheque usage will fall to near-zero in the near-future. The RBA Governor recently acknowledged this, stating "At some point it will be appropriate to wind up the cheque system, and that point is getting closer."[5]

Direct entry is a convenient, safe and reliable way to send and receive payments and is commonly used by consumers and businesses to make recurring, automated payments to and from everyday transaction accounts, via internet or mobile banking. Direct entry is the work horse of the Australian payments system , carrying average yearly values of more than $15 trillion.

Launched in 2018, the **New Payments Platform** (NPP) provides a real-time payments system. The NPP has been designed to support the digital economy and is operational 24/7, on average handling 1.2 million daily transactions. The NPP also offers data-rich payments incorporating the ISO20022 data standard, which could provide significant opportunities for innovation.

The **high value clearing system** is used by financial institutions, either for themselves or on behalf of corporate clients (including overseas banks). High-value payments total more than $100 billion every day, but only account for around 42,000 transactions.

Governance of the Australian Payments System

Australia's payments system is co-governed, with a role for both hard regulation and self-regulation.

Public regulatory authority for the Australian payments system principally lies with the RBA, although APRA and ASIC regulate some adjacent aspects which have an impact on payments, such as licensing. The *Payments System (Regulation) Act 1998* was designed to operate on a presumption of self-regulation, only imposing regulation where it is in the public interest and where industry has not solved through self-regulation.

As the self-regulatory body for payments, AusPayNet plays a role in payment systems governance. AusPayNet provides frameworks for direct entry, high-value payments, cheques, cash distribution, and cards. These frameworks contain rules and regulations that set out the requirements and processes for exchanging funds

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[2] A Payments System for the Digital Economy, https://www.rba.gov.au/speeches/2019/sp-gov-2019-12-10.html
[3] Statistical figures for cheques are financial year, based on RBA Retail Payment Statistics
[4] RBA Trends in Consumer Payments, July 2017 https://www.rba.gov.au/publications/rdp/2017/2017-04/trends-in-consumer-payments.html
[5] A Payments System for the Digital Economy, Speech by the RBA Governor Philip Lowe, 10 December 2019 https://www.rba.gov.au/speeches/2019/sp-gov-2019-12-10.html

between payments participants. Rules for cards are also provided by individual payment schemes and NPP Australia (NPPA) provides the governance framework for the NPP.

Self-regulatory initiatives also provide an important and proactive role in improving the convenience and security of the payments system. AusPayNet and the APC, through collaborative engagement, have delivered a number of significant projects over the past year. Notable examples include:

- *Card-Not-Present (CNP) Mitigation Framework.*[6] In addition to seeking to reduce the levels of online card fraud, which now represents almost 85% of all card fraud on Australian cards, the Framework is also designed to build consumer trust and support continued growth in e-commerce.

- *Guidelines for accessibility in PIN entry on touchscreen terminals.*[7] These guidelines, a world first, are designed to make it easier for people living with vision and/or motor impairments to make payments on POS touchscreens.

- *Created the TrustID Framework*[8]*.* AusPayNet supported the APC in creating the TrustID framework, which is an open, contestable framework designed to improve the security and convenience of online transactions between individuals and a wide range of private sector entities. The TrustID framework is not a solution in itself; it presents a series of rules and guidelines for organisations to adhere when designing and developing products and services. The framework ensures interoperability between different solutions, allowing a range of service providers, including fintechs to create a marketplace of services.

Given the strong consumer trend in Australia towards uptake of digital payments and fintech solutions, it could be assumed that stored-value facilities (SVFs), in particular digital wallets, will become ubiquitous. The Productivity Commission (PC) Inquiry, *Competition in the Australian Financial System*, stated that "[SVFs] face complex and potentially stunting regulation that can deter entry and expansion".[9] AusPayNet's view is that an opportunity exists for further clarity in this area and looks forward to seeing the recommendations put forward by the Council of Financial Regulators (CFR) as part of its review of SVF regulation.[10]

Supporting New Entrants and Innovation

As recognised by the PC in its Report, *Competition in the Australian Financial System*:

- *Payment systems are undergoing a wave of innovation driven by technology and the growing use of data. Incumbents are investing in innovation and there are growing opportunities for fintechs to provide complementary services to existing payment systems or compete against incumbents in their own right. New ways of authorising payments, such as blockchain, may reduce costs and improve efficiency of payment systems. And new platforms, such as digital wallets, are changing the way people pay and the market dynamics of the retail payments system.*

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[6] CNP Fraud Mitigation Framework https://www.auspaynet.com.au/insights/initiatives/CNP-Fraud-Mitigation-Framework

[7] Guidelines for Accessibility in PIN entry on touchscreen terminals https://auspaynet.com.au/accessibility

[8] TrustID Framework https://www.auspaynet.com.au/insights/Trust-ID

[9] Productivity Commission Final Report, *Competition in the Australian Financial System*, July 2018, https://www.pc.gov.au/inquiries/completed/financial-system/report/financial-system.pdf, p498

[10] Review of Retail Payments Regulation: Stored-value Facilities, CFR, September 2018 https://www.cfr.gov.au/publications/consultations/2018/review-of-retail-payments-regulation-stored-value-facilities/review-of-retail-payments-regulation-stored-value-facilities.html

Innovation has underpinned significant benefits to the end-users of the payments system, including consumers and merchants. AusPayNet recognises the importance of new entrants in contributing to payment innovation. As a network industry, payments often requires collaboration and agreement on non-commercial matters, such as security requirements and technical standards. The task for both government and self-regulatory organisations is to ensure confidence in the payments system through an appropriate balance between innovation and the security and operational resilience of the overall system.

Along with investments by existing players, new entrants (including neo-banks and fintechs) have acted as a key source of payments innovation. The 2019 EY FinTech Australia Census found that 17% of fintechs offered a solution in the category "payments, wallets and supply chain."[11] As noted above, several new digital banks are AusPayNet Members, including for example, as indirect members in the direct entry system.

The Australian Government has supported fintechs through various regulatory measures, which include simplifying eligibility criteria and processes, reducing regulatory costs and making data more available via the introduction of the Consumer Data Right. Other important initiatives include APRA's introduction of a restricted ADI licensing framework,[12] changes to the RBA's Exchange Settlement Account (ESA) policy,[13] and updates to ASIC's fintech regulatory sandbox.[14]

AusPayNet too has undertaken a number of initiatives to support fintechs. These include:

- **Better understanding fintech requirements of the Australian payment system:**

    o AusPayNet has engaged with new entrants and financial sector regulators (including RBA, APRA and ASIC) to better understand the needs of fintechs in the payments system.

    o We commissioned a survey of the Australian fintech community, followed by a focused workshop with members of that community. Primarily this highlighted a lack of knowledge about the payment system and clarity about where to obtain independent and trusted information on payments. Compounding this was the array of different payment systems, financial licensing requirements and access options on offer.

    o As a consequence of this finding AusPayNet is undertaking the creation of a non-technical, plain-English guide to payments, with the aim of assisting new entrants in navigating the payments system and access to it.

- **Changed our device approval process:**

    o Consumers' strong preference for digital payments is enabled by a high number of point-of-sale devices. Globally, Australia has among the most POS terminals per million inhabitants. Since 2015, the number of POS devices has increased by 10.1%.[15]

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[11] EY FinTech Australia Census 2019
https://fintechauscensus.ey.com/2019/Documents/EY%20FinTech%20Australia%20Census%202019.pdf
[12] APRA finalises new Restricted Authorised Deposit-taking Institution licensing framework
https://www.apra.gov.au/news-and-publications/apra-finalises-new-restricted-authorised-deposit-taking-institution-licensing
[13] RBA Exchange Settlement Account Policy https://www.rba.gov.au/payments-and-infrastructure/esa/
[14] ASIC Fintech Regulatory Sandbox https://asic.gov.au/for-business/innovation-hub/fintech-regulatory-sandbox/
[15] AusPayNet Annual Review 2019, Delivering the best customer outcomes,
https://www.auspaynet.com.au/sites/default/files/2019-10/AusPayNet_Annual_Review_2019.pdf

- o In 2017, AusPayNet created a pilot and approval process for non-standard devices that can be used where there is no relevant international standard for device security assessment.

- o AusPayNet has also commenced a detailed review of our payment's acceptance process and international payment security standards. In the interim, we have worked with companies developing payment acceptance solutions – including fintechs – on a case-by-case basis. Solution developers – including fintechs – can and have become Affiliate Members of AusPayNet; examples are Threatmetrix, Quest Payment Systems, Rambus and Pin Payments.

If you have any further questions about any information contained in this submission, please contact Pardeep Grewal, Head of Policy

Yours sincerely

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