



NPP Australia Limited's
Response to the Reserve Bank of Australia's
NPP Functionality and Access Consultation: Conclusions Paper

30 July 2019

NPP Australia welcomes the opportunity to respond to the recommendations outlined in the RBA's *NPP Functionality and Access Consultation: Conclusions Paper* issued on 13 June 2019.

The Conclusions Paper is a thoughtful and comprehensive analysis of the many different stakeholder views about Australia's New Payments Platform and is in line with our shared commitment to operate the NPP in a way that promotes the public interest. The key finding of the Conclusions Paper is that the NPP is enabling new payments functionality that largely addresses the gaps identified by the RBA in its initial 2012 Strategic Review of Innovation.

The RBA's Conclusions Paper outlined 13 recommendations in relation to NPP Functionality and Access. NPP Australia's initial response to these 13 recommendations are outlined below. Further information in relation to specific recommendations will be released in due course according to the timelines stipulated below.

Functionality and Overlay Services

1. NPP participants should prioritise the roll-out of NPP services to their entire customer base and address any functionality gaps that currently exist in their customer offerings.

The Conclusions Paper notes the significant progress made by Participants in delivering the Platform and the success in growing adoption at least as fast as other similar fast payment systems around the world. As the report states, the Platform is now processing an average of around 600,000 payments worth \$500 million each day (page 13). There are now 80 institutions connected to the NPP (either directly or indirectly) who are providing fast payment services to their customers with more than 65 million accounts able to make and receive NPP payments. Transaction volumes are growing strongly as Participants continue to roll-out their NPP services to their customers.

It remains a priority focus for NPP Australia to continue to work with participating financial institutions to further rollout out NPP payment services and functionality. We have been advised by Participants of plans and associated timings by which they anticipate extending NPP functionality to further channels or customer segments, resolving specific implementation issues, or extending services to additional identified institutions. We also expect additional Participants to extend services to their customers in the next 6-12 months.

2. Starting no later than end September 2019, NPPA should periodically publish a roadmap of the additional NPP functionality it has agreed to develop and the expected time period over which it will be delivered. The roadmap should be updated at least semi-annually.

The RBA's Conclusions Paper also noted NPP Australia's ambitious agenda to build further capability including the launch and expansion of an [API Framework and testing sandbox](#) and more recently the delivery of an [NPP QR Code Standard](#). Work is also underway to develop data and message usage guidelines for NPP messages and third-party payment initiation messages.

It's our view that the development and delivery of these capabilities will significantly enhance the Platform's functionality and drive further use of the Platform by third parties. NPP Australia will continue to work with Participants to prioritise the timely delivery of these capabilities.

NPP Australia supports the RBA's recommendation to periodically publish a roadmap of future functionality and intends to publish this roadmap before the end of October 2019 following a meeting of NPP Australia's Board.

3. By end December 2019, NPPA should introduce a power for its Board to mandate that specified NPP core capabilities must be supported by NPP Participants within a specific period of time, with an enforceable sanctions regime (including possible financial penalties) to apply if Participants do not comply.

Over recent months, NPP Australia has been developing a framework and principles for a mandatory compliance regime similar to that recommended in the RBA's Conclusions Paper (page 19). In June 2019, NPP Australia's Board approved amendments to the NPP Regulations to establish the mandatory compliance framework, with immediate effect.

The framework will enable NPP Australia to designate core capability requirements and enforce compliance through non-compliance charges. NPP Australia will work with its operational governance committees to determine the capabilities and requirements to which the mandatory compliance framework will prospectively apply. As an ancillary activity the Board of NPP Australia approved the formation of an NPP Governance Committee, as a sub-committee of the Board, comprising the independent directors and CEO, to give effect to the framework, in terms of determining non-compliance and applying non-compliance charges.

4. By end September 2019, NPPA should publish its process for assessing potential overlay services, including how confidential information on the plans of potential overlay service providers will be controlled and the respective roles and responsibilities of the NPPA management, independent directors and the NPPA Board in approving overlay services.

NPP Australia believe there are fair and transparent processes currently in place to support the assessment of potential overlay service applications including the protection of confidential information under NDA and proprietary intellectual property as specified in the NPP Regulations (Regulation 4.9(a)(iii)). The assessment and determination of overlay service applications where the applicant requires no material changes to the NPP message set or processing rules is delegated to NPP Australia's management.

NPP Australia will publish its process for assessing potential overlay services as suggested by the RBA by end September 2019.

Access to the NPP ADI Requirement

5. Direct access to the NPP should be open to a range of payments services providers. NPPA should assess and report on options for amending the NPP Regulations, and other arrangements, to allow for an entity that is not an ADI to potentially become an NPP Participant. The participation of non-ADIs would be subject to requirements appropriately tailored and calibrated to the key risk and operational considerations essential for participation in the NPP. NPPA should:
- by end October 2019, submit to the Bank and the ACCC an assessment of options for revised participation requirements for non-ADI participants
 - by end March 2020, implement any revised participation requirements for non-ADI participants.

Access arrangements for the NPP have been deliberately structured to be inclusive. NPP Australia has established graduated, risk-based, eligibility criteria for a range of different access points to the infrastructure, intended to cater to the needs of different organisations whilst simultaneously ensuring the safety and security of the real-time payments system, payments data and customer accounts. Non-ADI entities can currently interact with the NPP in a variety of ways including connecting indirectly as an Identified Institution, connecting directly as a Connected Institution with the ability to send Non-Value Messages, such as payment initiation messages, or as an end-user of a financial institution's payment services¹. As noted earlier, there are now 80 institutions connected to the NPP, the vast majority of which have chosen to connect indirectly.

The RBA's Conclusions Paper notes (page 26) that NPP Australia is expected to review access and subscription requirements for new joiners after two years' of operation. This review commenced in May 2019. As part of that broader review, we are committed to reviewing the eligibility criteria for participation and identifying opportunities to further liberalise access without materially introducing new risks.

As recommended by the RBA, NPP Australia will submit its assessment of options for revised participation requirements by the end of October 2019. At the core of our deliberations will be, as the RBA notes, the need "to strike a balance between open access and protecting the security of the payments infrastructure and the data within it" (page 34).

Shareholding Requirement for Participants

6. By end December 2019, NPPA should introduce more gradation into the shareholding requirement by creating at least one additional lower band, so that subscription requirements can be more closely tied to an entity's size or expected contribution to NPP transaction volumes

As part of the review of access and subscription requirements for new joiners, NPP Australia will consider the merits of creating an additional governance band and refining subscription requirements, particularly for directly connected participants that may have lower expected transaction volumes. Once finalised, NPP Australia will publish the outcome of this review.

¹ See www.nppa.com.au/the-platform/accessing-the-platform/ for more information on the different ways to access the platform

7. By end December 2019, NPPA should establish an access route for direct participation that is based either on acquiring shares in instalments or on periodic subscription or membership fees, rather than the upfront purchase of shares.

NPP Australia will assess this recommendation as part of the work underway regarding shareholding requirements as outlined in point 6 above.

8. By end December 2019, NPPA should consider allowing NPP participant applicants that did not exist when the NPPA was being developed to subscribe to a lower amount of shares than usual.

NPP Australia will assess this recommendation as part of the work underway regarding shareholding requirements as outlined in point 6 above.

NPPA Governance

9. NPPA should appoint a third independent director by end September 2019

The NPP Australia Board currently has two independent directors, including the Chair of the Board, out of a total of 11 voting directors. The other directors are: representatives from the four major banks; four representatives from small to medium banks and aggregators; and a director representing the Reserve Bank of Australia². The CEO of NPPA also sits on the Board as a non-voting director. Unlike other similar payment organisations in Australia, the voting rights of directors are equal, and are not proportionate to the nominating or appointing shareholders' shareholding size.

NPP Australia's Constitution was amended in October 2018 to enable the Company to appoint a third independent director. The process for selecting that director has already commenced and it may be completed by September 2019, subject to the completion of the usual recruitment processes. NPP Australia will announce the appointment of that third independent director in due course.

² The composition of the NPP Australia Board is available at: <https://www.nppa.com.au/our-company/new-payments-platform-board/>

10. By end December 2019, NPPA should review its arrangements for applications for access as a participant, connected institution or overlay service provider. Where an application has been rejected by the NPPA Board, or by NPPA management during its initial assessment, the applicant should be able to ask for a review of the decision by an Evaluation Panel. The Evaluation Panel should be comprised of three independent directors and two independent external experts appointed by the three independent directors. The Panel should have the binding power to overturn the earlier denial of an application if it decides that the applicant has met all of the eligibility requirements and also the power to ask NPPA to review the access criteria if it believes the criteria impose unreasonable conditions.

It is the view of NPP Australia that there are fair and transparent processes in place to support new applications for access as a Participant, Connected Institution or Overlay Service Provider. Access decisions for new Participant, Connected Institution and Overlay Service Provider applications, are in most instances determined by NPP Australia's management under a delegated authority to the NPP Australia CEO. In practice, it is NPP Australia's view that there are unlikely to be any circumstances in which a potential application would be rejected without material flaws that would be objectively clear to an applicant.

As noted in point 3 above, in June 2019, the Board of NPP Australia approved the formation of the NPP Governance Committee, as a sub-committee of the Board, comprising the independent directors and CEO, to specifically consider and determine matters that might otherwise raise perceptions of conflict, such as, for example determinations of non-compliance with mandatory compliance requirements.

In addition to the safeguards already in place, NPP Australia will consider how the terms of reference for the NPP Governance Committee might be augmented and strengthened along the lines proposed by the RBA and will publish further information regarding these arrangements by end December 2019.

11. At least once a year, NPPA should publish a report of the number of applications for access that it received during the preceding year, the outcomes of those applications, and a summary of the key reasons in cases where applications were ultimately not supported by the NPPA Board. The first report should cover the financial year ending June 2019.

NPP Australia has interacted with more than 500 organisations individually and in groups over the last two years about how they can best access the NPP infrastructure. No applications for direct access have been received during that time. We believe this is because many of these organisations are finding indirect access as an Identified Institution or as a customer of a bank meets their needs.

NPP Australia is supportive of the recommendation to publish the number of applications for access received during a financial year and will aim to do so by October each year, at or around the time of publication of the Company's Annual Report, noting that publication of detailed reasons for rejection of an application will need to be considered in the context of the applicants' right to confidentiality and the propensity for published information to identify them.

12. NPPA should notify the Reserve Bank's Payments Policy Department within one week whenever an application for access to the NPP (as a participant or connected institution) is not supported by NPPA's Board.

As broadly agreed under the Memorandum of Understanding executed by the RBA and NPP Australia in April 2019 (which is published on the RBA's website), NPP Australia will notify the Reserve Bank's Payments Policy Department within one week whenever an application for access to the NPP (as a Participant or Connected Institution) is not supported by NPP Australia's Board.

NPP Transaction Fees

13. From its first pricing review after July 2019, NPPA should publish data on its wholesale transaction pricing. Prior to the introduction of full cost-recovery pricing, NPPA should publish the wholesale transaction fee that would be implied by full cost-recovery pricing. Following the introduction of full cost-recovery pricing, it should publish its wholesale transaction fee and the methodology it has used to determine that fee.

NPP Australia is a mutually owned utility and operates on the guiding principle of being economically self-sustaining (and not profit-maximising), aiming to recover its operating costs based on a wholesale unit transaction cost which is charged to NPP Participants.

As the RBA has noted extensively in its report, NPP Australia has not established a wholesale transaction fee on a per transaction basis as current transaction volumes do not support the determination of a fee that would incentivise usage of the platform.

Pending the determination of a wholesale unit transaction cost at some future point in time, NPP Australia will, as suggested by the RBA, clarify in its Annual Report what the implied break-even wholesale transaction cost would have been (noting that the implied wholesale transaction cost for each NPP Participant will either be higher or lower than this published figure, depending on how many NPP transactions they each send or receive; and that NPP transaction fees are one of many input costs for financial institutions, including those levied by Overlay Service Providers, in some cases by payment service providers, and also by the RBA itself for the usage of the Fast Settlement Service).