



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

30 October 2019

On 13 June 2019, the RBA issued its *NPP Functionality and Access Consultation: Conclusions Paper* which contained 13 recommendations following the RBA's review into the NPP. The key finding of the Conclusions Paper is that the NPP is enabling new payments functionality that largely address the gaps identified by the RBA in its initial 2012 Strategic Review of Innovation.

NPP Australia (NPPA) published its initial response to these 13 recommendations on 30 July 2019, which can be downloaded [here](#). NPPA has also provided the RBA and ACCC with a supplementary response which outlines the measures that address the specific recommendations relating to NPP participation eligibility, NPPA shareholding and governance (recommendation items #5 through to #8 and item #10), which can be downloaded [here](#).

This document provides a summary of all of NPPA's responses to the RBA's recommendations.

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 noted 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 world¹. The Platform is now processing an average of around 750,000 payments worth \$750 million each day. There are now 85 institutions connected to the NPP (either directly or indirectly) providing fast payment services to their customers, with more than 66 million accounts able to make and receive NPP payments.

It remains a priority focus for NPPA to continue to work with participating financial institutions to further rollout out NPP payment services and functionality. Plans are currently being implemented by various institutions to extend NPP functionality and to onboard institutions not currently participating in the NPP.

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 noted NPPA's ambitious agenda to build further capability including the launch and expansion of an [API Framework and testing sandbox](#) and the delivery of an [NPP QR Code Standard](#).

Following the RBA's recommendation to periodically publish a roadmap of future functionality, NPPA published its inaugural roadmap on 28 October 2019, which can be [downloaded here](#). The roadmap includes the development of foundational capability to enable third party payment initiation with the account holder's consent, the development of structured data capabilities and a business service to support the domestic leg of inbound cross-border payments.

In addition to the capability being centrally developed by NPPA, individual participating financial institutions are also developing capability to support NPP payments, in a number of areas, such as APIs and the conversion of bulk payment files, according to their own business objectives and implementation timing.

Collectively the development and delivery of the capabilities contained in the NPP Roadmap will significantly enhance the platform's functionality and drive further use of the platform by third parties.

¹ See Page 30, [Payment Systems Board September 2019](#):

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.

Prior to the release of the RBA's Conclusions Paper, NPPA had developed a framework and principles for a mandatory compliance regime similar to that recommended by the RBA. In June 2019, NPPA's Board approved amendments to the NPP Regulations to establish this framework.

The framework enables NPPA to designate core capability requirements and enforce compliance through non-compliance charges. Since creation of the framework, NPPA has designated a number of core capability requirements, including those contained in the inaugural NPP Roadmap, and will work with its operational governance committees to determine additional capabilities and requirements to which the mandatory compliance framework will prospectively apply.

In June 2019, the NPPA Board also approved the formation of an NPP Governance Committee, as a sub-committee of the Board. This committee, comprising the independent directors and CEO, gives 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.

NPPA 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 NPPA's management.

NPPA has published its process for assessing potential overlay service providers, which can be [downloaded here](#).

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 are deliberately structured to be inclusive. NPPA 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, while 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 (via a sponsoring Participant), 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 services². As noted earlier, there are now 85 institutions connected to the NPP, the vast majority of which have chosen to connect indirectly. Non ADI fintech payment providers such as Assembly Payments and Monoova are currently indirectly connected to the NPP as Identified Institutions.

The RBA's Conclusions Paper requested NPPA to review whether the ADI eligibility requirement for NPP Participants unnecessarily limits access, and if non-ADIs should be eligible to connect directly to the NPP as an NPP Participant under an appropriately tailored certification regime.

Having conducted this review, NPPA's position remains that the ADI eligibility requirement for an NPP Participant involved in both the *clearing and settlement* of NPP payments ('Full Participant') and an NPP Participant involved in just the *clearing* of NPP payments ('Clearing Participant') is both prudent and appropriate. At the core of our deliberations was, as the RBA noted in its Conclusions Paper, the need "to strike a balance between open access and protecting the security of the payments infrastructure and the data within it"³.

NPPA reached this conclusion for the following broad reasons:

- (a) ADIs are subject to ongoing oversight and are required to comply with prudential standards relating to organisational governance, capital adequacy, liquidity management, risk management, BCP and information security, that serve to support the existing NPP technical, operational and security framework. This external regulatory oversight reduces the counterparty risks to other Participants and relieves NPPA of the responsibility to oversee Participants in relation to those aspects of their business operations.
- (b) ADIs are bound also by industry codes of practice and obligations to consumers that do not apply to non-ADIs. The NPP rules framework aligns to those standards and requirements.
- (c) Alternative regulatory or supervisory frameworks, including AFS licensing and ESA holding, are not proxies for prudential or payment service provider regulation, as the RBA itself notes in its Conclusions Paper. In addition, alternatives to ADI-licensing, such as third-party certification are considered suboptimal for a number of reasons.
- (d) If further regulatory developments occur (for example, the creation of a supervised regulatory framework for non-ADI specialist Payment System Providers similar to that in the UK), then NPPA would consider additional amendments to its access framework (similar to when Restricted ADIs were incorporated into the NPP access framework in March 2018).
- (e) In the absence of an effective regulatory framework for non-ADI payment service providers that could support direct participation, we consider that non-ADI indirect participation in the NPP via one of the several NPP Participants offering agency services is appropriate. The NPP is relatively unique in terms of its participation base, with three NPP Participants whose business model is predicated entirely on offering wholesale indirect access to payment systems, and at least two others currently offering agency services on a highly contestable, commercial basis, with this number expected to increase. More than 75 ADIs and non-ADI payment service providers connect indirectly to the NPP via these Participants.

² See www.nppa.com.au/the-platform/accessing-the-platform/ for more information on the different ways to access the platform

³ Page 34, RBA [NPP Functionality and Access Consultation: Conclusions Paper](#)

On balance, we believe that the risks of admitting non-ADIs as either Full Participants or Clearing Participants, and the limitations of any third-party certification regime, outweigh any benefits that might flow from substantially altering the NPP access model⁴.

However, we do agree that an entity that wants to join as an NPP **Settlement** Participant does not present the same operational or legal risks as a Full or Clearing Participant. Settlement Participants do not connect directly to the infrastructure nor to the Addressing Service. Therefore, NPPA has amended its eligibility criteria to remove the ADI requirement for Settlement Participants (with the primary criteria being an Exchange Settlement Account with the RBA). In addition, Settlement Participants will only be required to subscribe to half the number of shares that are otherwise required as either a Full Participant or a Clearing Participant. Both of these changes are effective from 1 November 2019.

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

NPPA operates as a mutually owned industry utility which is intended to be economically self-sustaining. Becoming a shareholder in NPPA grants the right to directly connect to the NPP infrastructure and included in the shareholding cost is the hardware and software componentry required to connect via an NPP payment gateway. Preserving the mutual structure of NPPA ensures ongoing investment in the platform is both funded and aligned to the needs and interests of a broad range of end users.

NPPA's subscription requirements for prospective NPP Participants are based on their relative size and significance to the Australian payments systems. Requirements are defined by reference to three governance bands that use the same classification as used by APRA (total resident assets):

High Band Shareholders	assets more than \$100 billion
Medium Band Shareholders	assets between \$10 billion and \$100 billion
Low Band Shareholders	assets below \$10 billion.

Rather than introducing a new shareholder band, NPPA has approved Constitutional amendments to provide for an annual reduction in the Issue Price of new shares in the company from 1 January 2023, such that by end 2027, upfront costs payable by prospective Participants will be 75% lower than the costs currently payable, while maintaining parity between them and founder shareholders in the same governance band. As outlined above, NPPA has also reduced the number of shares that would be required to be subscribed to by Settlement Participants by 50%.

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.

NPPA has approved Constitutional amendments to enable the issuance of partly paid shares and to enable payment for shares to be made in four equal instalments over two years. New joiners that elect to subscribe for partly paid shares are entitled to exercise all the voting and governance rights attaching to them.

⁴ For more information, see NPPA's Supplementary response to the RBA's Conclusions Paper: <https://nppa.com.au/wp-content/uploads/2019/10/RBA-Functionality-and-Access-consultation-Supplementary-Response-30-October-final.pdf>

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.

Parity between shareholders within the same governance band is a core principle of the NPP governance model, as described in relation to recommendation 6) above. Hence the importance of each shareholder within a band holding the same number of shares.

The substantial reduction in the issue price of shares outlined in recommendation 6) above will reduce the costs payable by new joiners by 75%, by end 2027. Settlement Participants will only be required to subscribe for half the number of shares required for Full Participants or Clearing Participants, effective 1 November 2019.

Further, NPPA has approved Constitutional amendments to relieve new joiners, who were not part of the original NPP participation group, of any obligation to pay pre-programme design costs.

NPPA Governance

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

The NPPA 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 Australia⁵. 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.

NPPA anticipates announcing the appointment of a third Independent director before the end of 2019.

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 NPPA's view 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 NPPA's management under a delegated authority to the CEO. In practice, it is NPPA'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.

The NPPA Board approved the formation of the NPP Governance Committee, as a sub-committee of the Board comprising the independent directors and the CEO, to specifically consider and determine matters

⁵ The composition of the NPP Australia Board is available at: <https://nppa.com.au/the-company/board-and-leadership-team/>

that might otherwise raise perceptions of conflict, for example determinations of non-compliance with mandatory compliance requirements.

NPPA will extend the Terms of Reference for the NPP Governance Committee to enable it to function as an independent evaluation committee for the purposes of making first instance determinations of new joiner applications. The Terms of Reference for the NPP Governance Committee already enable it to appoint an independent advisor to assist with matters before it.

If required, decisions made by the NPP Governance Committee may be appealed by applicants to the full NPPA Board.

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.

NPPA 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 financial institution meets their needs.

NPPA will publish the number of applications for access received during a financial year as part of the information contained within the Company's Annual Report⁶, 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 NPPA in April 2019 (which is published on the RBA's website), NPPA 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 NPPA'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.

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

⁶ The Company's latest Annual Report can be seen here <https://nppa.com.au/wp-content/uploads/2019/10/NPPA-Annual-Report-2019.pdf>

As the RBA has noted extensively in its report, NPPA 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, NPPA 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)⁷.

⁷ The Company's latest Annual Report can be seen here <https://nppa.com.au/wp-content/uploads/2019/10/NPPA-Annual-Report-2019.pdf>