

Thanks for the opportunity to provide evidence today.

- The NPP went live just over two years ago.
- Today, nearly 67 million accounts are connected to the NPP.
- About 1.2 million transactions occur on average daily. These are mostly single payments made by individuals, businesses or government, with a small amount of unstructured data, ie “Here is the \$100 for dinner last night”.

Late last year we published the first NPP Roadmap –setting out functionality that will be delivered in late 2020 supporting instant payments together with structured data for invoicing, superannuation and payroll. Later in 2021, we will support third-party payment initiation via the platform - the capability most often requested by fintechs.

There are a few misconceptions about the NPP in some of the submissions to this Inquiry. This is perhaps natural given the size & scope of the NPP reforms. I thought it might be useful to the Committee to address some of these at the outset.

- The NPPA Board has 12 voting Directors – three independent directors including the Chair, a director representing the Reserve Bank of Australia; four from small to medium banks and payment aggregators; and only four directors from the four major banks. Each Director has one vote – and collectively the directors appointed by the four major banks have only one third of the votes.
- Incumbent banks do not have a say in decisions about direct access to the NPP by their competitors. Applications for direct access are assessed by management, with the final decision made by a Board subcommittee made up entirely of independent Directors and the CEO. This same committee also determines wholesale transaction fees and oversees banks’ compliance with mandatory NPP functionality under our Mandatory Compliance regime.
- The NPP has been intentionally designed to be pro-access, encouraging broad participation across the payments ecosystem, while balancing this against the security and risk considerations implicit in connecting to a real time payments system and ensuring the ongoing protection of consumers. One of the three constitutional objectives of NPP Australia is to facilitate fair access to the NPP as mutually owned utility infrastructure.

We have – and we will – take steps wherever we can to open up access, without impacting on the safety and security of the system. For example:

- when the category of restricted ADI licence was created by Government, we gave this category the same access rights as a full ADI;
- we developed an NPP API framework to encourage standardisation in the API’s that banks make available to the market, together with an API sandbox that mirrors this framework
- we recently removed the ADI licence requirement for settlement-only Participants. These NPPA shareholders have another ADI perform the more sensitive clearing function.

The cost of NPP transactions has been raised by some as an issue. NPPA operates as an economically self-sustaining entity, recovering its operating costs from shareholders via wholesale operating charges. Ultimately NPPA will charge a wholesale fee per transaction – which will be published. As volumes grow, this fee will come down. The NPPA wholesale fee is one input cost of many – and what banks choose to charge their customers is a commercial decision – but as this fee comes down, all organisations seeking access to the NPP should benefit.

We take concerns about access seriously, but we believe that they are likely to subside over time, given 3 main factors at play.

Firstly – what we might call “supply-side” issues. The NPP is only two years old. There are 90 organisations connected to the NPP – 10 of them directly and 80 indirectly. Of these, five directly connected institutions provide access to third parties which are mostly financial institutions, and two indirectly connected non-ADIs (Assembly Payments and Monoova) specialise in providing third party access to other fintechs and non-banks. Over time, we think there will be more competition as more organisations (both directly and indirectly connected) deliver access services, including via APIs. We are aware of a number of fintechs in advanced stages of securing access as we speak. This issue is largely one of timing and maturity.

Secondly – there is a “demand-side” issue which is about the types of organisations seeking access, and the extent to which these are understood by those who are providing access. The market for providing financial institutions (like credit unions and customer owned banks) with access to payment services is well understood by the market, it is largely commoditised, highly competitive, and priced accordingly. In contrast, the kinds of services often sought by non-banks and fintechs (like cryptocurrency exchanges, blockchain-based services, or short-term lending) are very diverse. They may be less well understood, in some cases may be perceived as riskier, and the market is therefore less competitive for this kind of access. This too, will change over time – as familiarity grows with the kinds of services sought and as a broader range of organisations move to deliver them and develop capabilities that will enable them to do so.

We get asked “What steps can be taken to accelerate this market development on the supply-side and the demand-side?”. I think mostly, this is a matter of time – there are existing organisations that we expect will provide access via APIs but which are not yet doing so. We think that there may be a role for more education about the NPP, and perhaps about payments more generally, and to help fintechs anticipate the kinds of questions that they will be asked by access providers. We have run many of these sessions but we think there is room for more.

But by far the biggest improvement we expect in relation to discussions about access, is related to the third factor – which is about current functionality. From end 2021, “debit—like” or persistently customer-authorised payments will be introduced. This will allow non-ADI’s, either directly or indirectly connected to send instructions across the NPP

infrastructure for payments to be made from a customer's account - what we call payment initiation messages.

- There are significant controls in place today to safeguard the way that money moves in real-time from Bank A to Bank B. Our published Roadmap sets out how a third party can initiate a payment between two Banks with the Payer's permission which is obtained by their bank
- This could be a child care or music subscription service initiating a payment from my account with my permission (similar to how Direct Debit works today from a bank account)
- Or it could be a fintech – perhaps a micro-investment service like Raiz, or a cloud-based accounting software company like Xero – that I authorise to initiate payments from my account, with my permission.
- Importantly, unlike today, account holders and their account servicers will have visibility of and control over these authorisations. They will be able to view and modify the authorisations that they have given for third parties to initiate payments directly from their bank account – and even move these authorisations from one bank account to another if they change financial institutions.
- Far and away the biggest request that we get from the market is about this capability, which is planned for delivery in late 2021. With one connection, organisations will be able to initiate payments from any one of the 67 million NPP-reachable accounts, so long as the Payer has provided authorisation for payments.

Importantly, these payment initiation messages are less technically complex than existing NPP payments (though just as safe, as they are authorised by the Payer), they will be able to be submitted in a range of additional ways, either directly or indirectly. We anticipate that there will be a much more competitive market to submit payment initiation messages, including direct connection options that do not require an ADI licence.

So – in closing – while there are a large number of fintechs and others using the NPP today, as outlined in our submission, we think current observations about access are mostly about the few organisations currently providing access to the NPP and the less familiar business models of organisations who are seeking it. We think this will resolve itself over time.

But the capability which will have the biggest impact is third party payment initiation capability. This will be available from late 2021 and because of its specific technical nature it will be accessible via broader range of direct and indirect access points - than is the case for the NPP services available today.