



15 May 2020

Secretariat
Inquiry into Future Directions for the Consumer Data Right
The Treasury
Langton Crescent
PARKES ACT 2600

Delivered via email

Dear Secretariat

This letter and attached paper are NPP Australia Limited's (**NPPA**) submission to the Inquiry into the Future Directions for the Consumer Data Right. NPPA is the company established to oversee the operation of the New Payments Platform (**NPP**) on a non-profit maximising utility basis.

The NPP was designed to support a digital economy. The platform is new payments infrastructure which enables Australian consumers, businesses and government agencies to make and receive data-rich payments in real-time between bank accounts, 24 hours a day, 7 days a week, 365 days of the year.

As at the end of April 2020, approximately 90 banks, credit unions, building societies and fintechs¹ have connected to the NPP (either directly or indirectly) to provide fast payment services to their customers. More than 67 million accountholders can now make and receive payments via the NPP (estimated at about 90 per cent of all accounts that will eventually be reachable) and this number continues to grow. During the month of April, an average of 1.3 million NPP payments worth an average of ~\$4 billion transacted every day on the NPP. This represents around one in five account-to-account credit payments.

NPP Mandated Payments Service

In October 2019, NPPA published its inaugural roadmap² which included the development of the Mandated Payments Service³ (**MPS**). This core foundational capability will enable customers to ***authorise third parties to initiate*** payments from their bank accounts using the NPP. This capability, governed by a rules framework and liability model, will be operated in the public interest by NPPA for the benefit of all market participants.

The MPS will provide the Australian market with a broad, scalable approach to third party payment initiation for real-time account-to-account payments (as distinguished from card-based payments which might also be attached to bank accounts). More specifically, it will deliver:

- Customer benefits in terms of greater convenience, more visibility and control over payment arrangements and ability to more easily move bank accounts between providers.
- A way for third parties to initiate payments in a safe and secure manner with appropriate controls to ensure ongoing protection of consumers and effective risk management.

¹ See <https://www.nppa.com.au/find-an-institution/> for more information on who is participating in the NPP

² See https://nppa.com.au/wp-content/uploads/2019/10/NPP-Roadmap-2019_28-Oct-2019-final.pdf

³ Mandated Payments Service is an industry working title. Work is currently underway to determine a market facing name and identity for the service

- A standardised approach to third party payment initiation with a common process for establishing persistent customer authorisation.
- Access for third parties in various ways but in all cases requiring only **one** access point to the platform.

Broadly accessible, third party payment initiation will enable a range of use cases including fintech applications and service offerings, merchant initiated ecommerce and in app payments, 'on behalf of' payment services offered by third parties, e.g. a cloud accounting software provider authorised by a corporate banking customer to manage their finance functions such as payroll, and a better alternative to current direct debit payments. The MPS, by delivering a comprehensive solution for third party payment initiation, will play an important role in enabling further competition and innovation in the market.

The attached paper, *Mandated Payments Service: Enabling third party payment initiation on the NPP*⁴, provides more information on the MPS, the most pertinent elements of which are highlighted here.

Customer control and an enhanced customer experience

Third party payment initiation will occur safely and securely using the MPS because the customer provides their explicit authorisation for payments to be processed from their bank account.

This authorisation is captured in the creation of a digital payment arrangement or a 'mandate' which serves as a record of the customer's authorisation (or consent) for payments to be initiated from their account by a specified third party, in advance of any payments being processed. Customer authorisation is likely to occur within a customer's banking channel which benefits from the bank's secure authentication practices, which are already in place today.

From a customer perspective, the MPS will enable a more digital and enhanced experience. Customers will be able to authorise, view, modify and manage mandates linked to their bank account. The MPS functionality will significantly increase the visibility and enhance the controls that customers have over their payment arrangements under the MPS.

In addition, customers will also be able to more easily move their mandate payment arrangements from one bank account to another account at a different financial institution. By more easily facilitating customers' switching their bank accounts to another provider, the MPS will resolve a significant pain point associated with these kinds of payment arrangements today.

Building on existing NPP infrastructure and capabilities

The NPP, as payments infrastructure in operation today, provides the mechanism for the secure and safe exchange of data between authorised parties using established, rigorous and robust security and authentication protocols.

With a comprehensive rules framework, liability model and robust governance, the MPS will support third party payment initiation in a safe and secure manner. Processes and controls have been designed to ensure the ongoing protection of consumers including data protection and privacy.

The MPS will leverage the existing features and protections built into the NPP that apply to clearing and settlement messages being exchanged by NPP participating financial institutions today, specifically fraud prevention, liability allocation and risk management processes. The MPS capability will build upon these existing fraud controls and fraud prevention processes and will not require fundamentally new processes and controls to be developed to manage issues relating to fraud and unauthorised payments.

⁴ See <https://nppa.com.au/enabling-third-party-payment-initiation-on-the-npp-an-update-on-the-mandated-payments-service/>

Range of options to access the MPS

Payment initiation messages, which are essentially only *instructions* for a payment to be made, are inherently less risky than a payment clearing message, which entails the *actual* movement of money. Payment initiation messages only result in the movement of funds when they are acted upon by an NPP Participant, which as an ADI, is a regulated entity.

Third parties that want to use the NPP to initiate payments using the MPS will have a range of additional NPP access options than exist today (as articulated further in the attached paper). These options include accessing the NPP indirectly as an MPS User via an NPP Participant, as a client of a Connected Institution, as an Identified Institution or directly as a Connected Institution (which does not require an ADI licence). Some of these options are similar to how existing payment services work today, but with additional risk controls. Indeed, the concept of an MPS User being sponsored to use the MPS is very similar in concept to a BECS Debit User when using the BECS system for payments to be processed. We anticipate that there will be a competitive market for submitting payment initiation messages with multiple options for non ADIs.

A key feature of the MPS is that third parties that want to initiate payments only require **one** access point to the NPP infrastructure. This one access point will enable them to initiate payments, with the customer's authorisation, from any one of the 67 million (and growing) NPP enabled accounts. This is an important difference to what has typically occurred internationally. Most markets, such as the UK, which have introduced third party payment initiation (or 'write access' under Open Banking) require third parties to integrate with *multiple* financial institutions in order to initiate payments from customers' accounts. Having one access point also removes the need for additional intermediaries to sit between third parties and accounts held at multiple financial institutions, which has positive commercial implications.

Based on the feedback that NPPA has received, the market generally, and fintechs in particular, are seeking payment initiation from customer bank accounts in some form. With the MPS capability, payment initiation messages can be used in a variety of ways and will be able to be submitted in a range of ways, either directly or indirectly. Third parties can choose the most appropriate access route according to their business needs.

Extending API capabilities

Third parties who want to use the NPP's capabilities are primarily interested in API connectivity. In 2018, NPPA released its API Framework which defines the key technical approach and mandatory data attributes for NPP APIs, aligned to ISO 20022 standards, including sample RESTful APIs in JSON format⁵. This API framework is intended to drive inter-operability, standardisation, and consistency in the development of NPP APIs and how they can be used by third parties to interact with the NPP. To support the delivery of the MPS capability, NPPA will be extending the NPP API framework to include sample APIs that will support MPS functions.

In March 2020, in collaboration with SWIFT, NPPA launched a new dynamic version of the NPP API sandbox, introducing additional features and capabilities to meet the evolving needs of the expanding NPP ecosystem. The sandbox provides third parties with access to an independent environment where they can build and test their NPP-based prototypes and solutions, using the NPP API Framework and sample RESTful APIs in JSON format. The sandbox currently has more than 100 registered users. NPPA will update the API sandbox to include the sample MPS APIs, enabling third parties to test these APIs in a sandbox environment.

NPP participating financial institutions are increasingly making APIs available in the market for use by third parties (NPPA itself is not exposing APIs for use on the NPP). Over time, these APIs will become more widely available and most participating financial institutions have provided indications to us that they expect to adhere to the NPP API framework when developing their APIs, thereby supporting a degree of consistency in how these APIs are

⁵ See <https://www.nppa.com.au/the-platform/api-framework-and-sandbox/>

developed. Greater availability of NPP APIs by participating financial institutions will provide more fintechs, corporates and businesses with the ability to utilise the NPP and its capabilities.

Incorporating best practices

Google initiates payments as a third party in a range of countries. In November 2019, Google published a white paper which provides its perspective on relevant best practice features for third party payment initiation frameworks⁶. The MPS capability incorporates all of these key features, among others:

Relevant best practice features	MPS capability
i. Use of customer-controlled mandates/authorisations	✓
ii. An addressing service using familiar credentials such as phone numbers and email addresses as a means to address payments	✓
iii. Access options to either submit payment initiation messages indirectly via financial institutions or via direct connection to the real-time payments system	✓
iv. Ability to initiate payments from multiple financial institutions via one access point being recommended in preference to an approach which requires multiple integrations with many banks	✓
v. Use of standardised APIs	✓

Alignment with CDR

In finalising requirements and best practice guidelines for the implementation of the MPS capability, NPPA will, where relevant, seek to align with the work that has been done to support the initial implementation of CDR in the market. This includes aligning, where possible, the MPS requirements and guidelines for the relevant customer related MPS processes, in particular the mandate authorisation (or consent) process, with the standards and requirements developed for customer consent for data sharing under CDR, for example consistency in language.

In further enhancing and extending the NPP API framework, NPPA will, where relevant, look at opportunities to align the NPP API framework to the CDR API framework, for example reviewing the opportunity to leverage the CDR API security framework.

In addition, we have aligned elements of our onboarding criteria for Connected Institutions wanting to use the MPS with accreditation criteria set by the ACCC for data recipients under CDR.

Mandatory implementation for NPP participating financial institutions

It is mandatory for all NPP participating financial institutions to implement technical and operational processes to support aspects of the MPS capability by 3 December 2021 (while this remains the scheduled delivery date it should be viewed in the context of the uncertainty caused by COVID-19). Specifically, this includes participating financial institutions being able to support their customers' authorisation of the creation of new mandates and receiving and processing mandate payment initiation requests.

Delivery of the MPS capability will deliver effective 'write access' in Australia in terms of payment initiation without requiring any additional build or investment by the approximately 90 financial institutions participating in the NPP today.

⁶ See *Real-Time Payment Systems and Third-Party Access: A perspective from Google Payments*, November 2019

In closing

In summary, the MPS capability that is being developed by NPPA will support customer authorised, third party payment initiation for real-time, account-to-account payments:

- Significant customer benefits in terms of greater convenience and control and enabling customers to more easily switch bank accounts.
- Third parties who wish to initiate payments from a customer's account can submit payment initiation messages via **one access point**, from one of the 67 million (and growing) NPP enabled accounts, with the customer's authorisation (or consent); they do not require arrangements with multiple financial institutions.
- A range of access options exist for third parties, both direct and indirect, enabling third parties to choose the most appropriate access route according to their business needs. Options include the ability to connect directly without the need for an ADI licence.
- The NPP provides a framework and infrastructure for third parties to initiate payments on a safe and secure system, which is already in operation today, in a standardised and consistent manner. Processes and controls are already in place to ensure ongoing protection of consumers and effective management of risks.
- The delivery of this NPP capability will result in effective 'write' access for payment initiation (as seen in other markets such as in Europe), without the need for additional infrastructure development by participating financial institutions.

NPPA is looking forward to working with the Inquiry, with Treasury and Government to further discuss opportunities to ensure close alignment of the NPP MPS capability with the rollout of CDR in the Australian market and to support the interests of Australian consumers, promoting competition and innovation in the market and ensuring a safe and efficient digital economy.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Adrian Lovney', written in a cursive style.

ADRIAN LOVNEY
Chief Executive Officer

About New Payments Platform Australia (NPPA)

Utility payments infrastructure

Operating as non-profit maximising utility payments infrastructure, the NPP is owned by 13 shareholders⁷ (both large and small financial institutions and including the Reserve Bank of Australia) for and on behalf of the Australian payments industry. NPP Australia is a public company established to oversee the operation of the NPP.

Open access philosophy

NPP's access framework has a range of access options, balancing broad participation while maintaining safeguards needed for a real-time payment system, and ensuring the ongoing protection of consumers.

As of April 2020, there are 90 connected organisations: 10 directly and 80 indirectly. A number of specialist wholesale payment service providers, banks, and non-ADI fintechs provide access to third parties - and this is only likely to increase with the introduction of the MPS. Availability of APIs is increasing, which will further support NPP access.

Operates on a cost recovery basis

NPP Australia operates on the guiding principle of being economically self-sustaining, aiming to recover its operating costs with wholesale unit transaction costs levied on NPP Australia's shareholders. The same unit transaction cost is applied to all shareholders equally regardless of volume. As volumes increase on the platform, the wholesale unit transaction cost will decrease.

NPP Australia governance

The NPP Australia Board has 12 voting Directors including three independent Directors and the Reserve Bank of Australia. Each Director has one vote – and collectively the Directors appointed by the four major banks have only one-third of the votes. Decisions regarding access, pricing and other governance related matters are determined by the independent Directors and NPP Australia management.

For further information, please visit www.nppa.com.au or email info@nppa.com.au

⁷ Current shareholders: Australia and New Zealand Banking Corporation, Australian Settlements Limited, Bendigo and Adelaide Bank Limited, Citigroup Pty Ltd, Commonwealth Bank of Australia, Cuscal Limited, HSBC Bank Australia Limited, Indue Limited, ING Australia, Macquarie Bank Limited, National Australia Bank Limited, Reserve Bank of Australia and Westpac Banking Corporation.