



Secretariat
Payments System Review
The Treasury
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NPP Australia's submission to Treasury's Payments System Review

NPP Australia welcomes the opportunity to provide a response to Treasury's Payments System Review into the payments system regulatory architecture. NPP Australia is the company established to oversee the operation of the New Payments Platform (**NPP**), the country's real-time payments infrastructure.

The NPP 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. More than 72 million accountholders can now make and receive payments via the NPP, and this number continues to grow. The NPP now processes around 2 million payments a day, or 25% of all account-to-account credit transfers in the market¹.

NPP Australia's perspective on the issue of regulatory architecture of the Australian payments system is that:

1. Overall, the current regulatory architecture is working well and meeting the core objectives of ensuring safety, security and stability in the payments system, whilst also working in the public interest to promote efficiency and competition:
 - Much can be achieved under industry self-regulation and the industry working together to drive change that is in the public interest. The creation of the NPP is an illustration of that in practice.
 - In NPP Australia's experience, driving competition and innovation is not a regulatory issue but rather one of capability deployment and creating the required network effect.
 - The development that will have the biggest impact on driving innovation in real-time account-to-account payments will be the delivery of the NPP's Mandated Payments Service, which will enable third party payment initiation. This capability is the most frequently requested capability that NPP Australia hears from the market.
2. However, there are opportunities to consider improvements and refinements to the current system:
 - There are opportunities to strengthen the RBA's regulation of the payments system by strengthening the Payments System Board and/or by elaborating the government's payments policy expectations of the RBA for areas within the RBA's purview and by elevating the role of Treasury in areas beyond the RBA's remit.
 - The main issue that needs addressing is one of licensing. This issue has been outstanding for some time now and the Stored Value Regulation (SVR) process provides some instructive insights in relation to this issue.
 - There would be benefit in some specific improvements relating to certain payments-related areas that would help remove current sources of friction.
 - Finally, although it does not relate to the payments regulatory framework, given the focus in the Terms of Reference for this Review on the Government's appetite to hasten the rollout of faster, data-rich payments in Australia, then we observe that one way to achieve that outcome would be for the payments industry to set a defined closure date for the BECS system. NPP Australia, among others, will continue to pursue this.

These areas are further elaborated on in the sections below.

¹ Source data: Reserve Bank of Australia's payments data Schedule C06-1 hist



1) Opportunities to enhance the current regulatory architecture

There are many positive attributes about Australia's current payments landscape and regulatory architecture, relative to other jurisdictions. The Reserve Bank of Australia, as the primary payments system regulator, tends to take a thoughtful, balanced and considered approach to their role, consulting broadly with the market to seek the views of a range of diverse stakeholders and signalling actively before making any changes or recommendations.

Introducing any radical change to the current regulatory architecture may introduce undue risks and undermine outcomes, without necessarily delivering a better result. In the view of NPP Australia, any likely upside appears somewhat limited and the preferable course of action may be to consider modifications to the current approach.

The Payments System Board, appointed by Government, is responsible for determining the RBA's payments system policy. NPP Australia would like to suggest some specific recommendations for Treasury to consider in strengthening the Payments System Board:

Recommendation 1:

- a) Government could consider appointing Payments System Board representatives with greater levels of payments knowledge, including of contemporary issues, and/or a more frequent cadence of meetings, which could provide more challenge and contestability to the RBA's thinking
- b) The use of other non-legislative instruments could be utilised to provide more specific direction about the policy outcomes being sought by Government. For example, a more detailed direction to the RBA, APRA and/or Treasury could be incorporated into the Government's Statement of Expectation process.

Refining the current payments regulatory approach in such a way is consistent with the approach adopted by Parliament and the RBA management of the inflation target. An overall direction about the outcome sought is provided to the RBA, who is then able to determine the best way to deliver that outcome given specific market circumstances.

2) Issue of licensing in the payments system

In contemplating any possible change to the payments regulatory architecture, focus should be on assessing the current licensing regime and addressing gaps that currently exist. The recent Stored Value Regulation (SVR) can provide some instructive insights into this issue.

The NPP was intentionally designed to be 'open access', encouraging broad participation while maintaining safeguards needed for a real-time payments system and the ongoing protection of consumers. The NPP access framework has a range of different access options, allowing for both direct and indirect connectivity. In applying this access framework, NPP Australia has taken the intentional decision to rely on regulatory licensing determined and supervised by the appropriate regulatory authorities. APRA and ASIC, as two regulatory bodies primarily tasked with licensing responsibilities in the market are well resourced and equipped with the systems and powers to perform this role effectively. NPP Australia has neither the resources nor the remit to establish its own licensing approach, nor would doing this make sense, when existing organisations have been established to perform this function. This approach is adopted by most other payment systems internationally.

NPP participation criteria are set on the basis that parties are bound to comply with all relevant laws, including prudential standards, conditions of licences, consumer protection and market conduct laws, AML and CTF



requirements and any standards or requirements imposed by the RBA or any other regulator for the effective regulation of the payments system. Eligibility and operating rules are essentially based on risk.

Regulatory oversight of entities providing payment services, particularly prudential supervision, provides a relatively high degree of assurance to NPP Australia and other participating organisations that NPP Participants are able to manage operational, financial, conduct and other risks relevant to participation in the NPP. Hence the requirement that directly connected NPP Participants (who clear and settle NPP payments), be prudentially supervised.

However, the current licensing framework in Australia has a gap between what is required to hold an AFSL licence and what is required to be an ADI regulated entity. Unlike other markets, there is nothing in between these two constructs in the form of some type of e-money licence. In the context of the NPP, this presents an issue for any organisation wanting to connect directly to the NPP and who does not hold an ADI licence.

In comparison, the UK has created a supervised regulatory framework for non-ADI specialist Payment System Providers (PSPs) and these PSPs are permitted to connect directly to the UK Faster Payments Service (under a pre-funded settlement model). While these organisations may not have a banking or ADI licence, they are subject to conduct, licensing and supervision as a class of regulated entity, which does not have a close equivalent in Australia.

This has been the subject of review for a number of years now, as far back as 2014 when it was first raised by the Financial System Inquiry² which recommended 'enhanced graduation' of retail payments regulation, but it has taken six years for a recommendation to be published in 2020, with implementation not expected until later this year. This pace of change is too slow, resulting in the regulatory licensing framework not keeping in line with market developments. It should also be noted that any change to the licensing regime requires legislative change and involves multiple parties including the RBA, Treasury, APRA and Government (hence the need for the CFR involvement in the SVR reform).

If the regulatory framework is to adapt to meet the needs of the market as the rate of market change accelerates in the future (which is highly likely), then the process and mechanisms for driving change have to be more efficient. As the payments market evolves, it will be important to ensure that the regulatory licensing regime can adapt as and when required in a timely manner to remain fit for purpose.

Another insight from the SVR process is that it is not immediately clear from the current proposal that it will result in the policy outcome that was initially intended. The reform proposes creating two categories of licensed SVFs – one category prudentially regulated and supervised by APRA and the other to be regulated by ASIC.

Whilst the category of SVFs to be regulated by APRA, as prudentially supervised entities required to meet specific standards and requirements, could be considered a category of non-banks that may be granted direct access to the NPP, it is not clear that implementation of the reform will actually result in a meaningful increase in the number of prudentially regulated entities³ compared to those already licensed under the current PPF structure.

On the other hand, the proposed requirements for the category of SVFs regulated by ASIC (primarily to comply with the ePayments code and to hold an AFSL license), do not appear to go far enough when considering granting non-banks direct access to a real-time payments system. In NPP Australia's preliminary assessment, for a non-bank seeking to connect directly to the NPP, the proposed category of SVFs regulated by ASIC would not provide sufficient

² Financial System Inquiry, Final Report, November 2014, at <http://fsi.gov.au/publications/final-report/>

³ Although Box C in the CFR paper on Regulation of Stored Value Facilities in Australia does allude to some potential evolution of APRA's prudential approach which may open up SVR regulation to more parties.



assurance to NPP Australia that the holder has adequate operational risk, financial risk, liquidity and governance controls in place.

These proposed reforms can be contrasted with the e-money licensing approach adopted in both Europe and Singapore, which have established specific standards relating to operational risk, governance and liquidity combined with lighter touch prudential supervision for this category of organisation.

In its access regime, NPP Australia primarily relies upon the Australian regulatory licensing regime and therefore relies on this to evolve in line with market developments. NPP Australia has called for an e-money licence to be created (between an AFSL and an ADI) on four separate occasions in responses to various regulatory reviews⁴. If a new class of regulated entity under the e-money licence is to be created in the market, NPP Australia stands ready to support these changes when they are introduced, as we did previously when APRA created the new class of regulated entity under the Restricted ADI license in March 2018. The NPP access framework is flexible enough or able to be modified to adapt to any changes in the broader licensing regime as that evolves.

Recommendation 2:

While the role of RBA in regulating areas within its regulatory remit is relatively clear, it is unclear how payments policy issues which are beyond the scope of the RBA are dealt with. The experience of SVR regulation suggests that there is a need for an agency to take overall responsibility for driving payments issues which are outside the RBA's mandate – in our view this should most logically be Treasury.

Payment Initiation

Under the NPP access framework, a Connected Institution is an organisation who can connect directly to the NPP for the purposes of sending payment initiation messages⁵. 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* transfer of value from payer to payee. Payment initiation messages only result in the transfer of value when they are acted upon by an NPP Participant.

The eligibility criteria for NPP Connected Institutions have been developed on the assumption that these parties are not ADIs, nor necessarily AFSL holders, and in this case, NPP Australia would conduct its own assessment (including through reliance on expert third party assessors) of an applicant's competencies and their ability to meet NPP Australia's technical, operating and security requirements.

Similarly, there are opportunities to more closely align future developments in SVR regulation, as well as accreditation under CDR, with the eligibility criteria for NPP Connected Institutions and payment initiation messages.

⁴ [Productivity Commission 2018](#), [RBA/ACCC Review into NPP Access and Functionality 2018](#), [Senate Inquiry into Fintech 2019](#), [RBA Review into Retail Payments Regulation 2019](#)

⁵ As Connected Institutions are not involved in the clearing and settlement of NPP payment messages and they do not themselves hold funding accounts, they do not need to be an ADI. For more information, see options for [Accessing the NPP](#).



3) Opportunities to remove specific sources of friction

Recommendation 3:

In NPP Australia's view, there would be considerable benefit in considering making changes which would help remove some current sources of friction in payments, specifically in the areas of:

- a) Sanctions
- b) AML/CTF Tipping off provisions
- c) Privacy

a) Sanctions

More clarity in general is required with respect to what the obligations of financial institutions are in terms of screening domestic payments in a high volume, real time system. Historically, domestic payments have not been sanctions screened on the basis of both domestic and international guidance (e.g. the ABA Sanctions Guidance, the Wolfsberg Group guidance on screening) which has suggested payments between domestic accounts present a low sanctions risk and that screening is not generally required. However, anecdotally we understand from financial institutions participating in the NPP that more recent advice from AUSTRAC and DFAT is less clear. This lack of guidance and clarity creates confusion, making it difficult for regulated institutions to have a level of comfort around what is expected of them and ensuring an accurate understanding of what their obligations are.

NPP Australia would recommend that consideration be given to moving responsibility for sanctions from DFAT to AUSTRAC as the latter organisation are better resourced and equipped to deal with this issue. It would also be valuable if AUSTRAC had the legislative power to be able to approve guidance issued by private sector bodies, such as the ABA⁶. It may also be useful to consider undertaking a review of which industries and professions need to comply with AUSTRAC reporting legislation as it relates to payments. Solicitors, Accountants and Real Estate agents are some examples of sectors considered under previous Government industry reviews that have not been completely solved for or progressed.

b) AML/CTF Tipping off provisions

It would be useful to consider explicitly exempting the exchange of interbank rejection and information messages (regarding holds and so on) from tipping off provisions of the AML/CTF Act where those messages are necessary to facilitate payments processing.

c) Privacy

In addition, it would be useful to consider explicitly exempting the exchange of PII in interbank payments messages from consent requirements where the PII is required to facilitate compliance with AML/CTF obligations as part of the payment processing flow and where the messages are otherwise subject to privacy and security obligations.

4) Achieving change and public interest objectives under self-regulation

Much can be achieved under industry self-regulation and the industry working together to adopt change that is in the public interest. Both the creation of the NPP and the more recent domestic payments consolidation discussions are illustrations of this in practice.

⁶ See <https://jmlsg.org.uk/guidance/>



In the right circumstances, industry-owned payments companies with a public policy objective can achieve outcomes which are in the public interest. For example:

- In the case of NPP Australia, a series of “pro-access” and transparency measures were adopted without the need for regulatory intervention, such as the NPP access framework, Board composition (where the four major banks have four votes from 12 despite contributing nearly 80% of the capital), publication of Board meeting records, certain decisions being delegated to independent directors and the establishment of a mandatory compliance regime to drive the take-up of certain functionality.
- The development of the NPP international payments business service is an example of the industry coming together to make better use of data to improve cross-border payments and more effectively address issues such as AML and financial crime risks.
- The consolidation of domestic payments companies proposed by industry will build on these features and incorporate further improvements in terms of governance by giving all shareholders equal rights regardless of their size and by enabling shareholding via a nominal capital contribution.

5) Driving innovation and competition – reflections on the NPP experience

The Terms of Reference for this Review poses the question of how to create more productivity-enhancing innovation and competition in the payments systems, including in relation to the pace and manner in which the NPP is being rolled out and enhanced by industry.

The NPP was launched nearly three years ago. Today, more than 72 million accountholders can make and receive payments via the NPP and this number continues to grow. Over 100 banks, credit unions, building societies and fintechs⁷ are connected to the NPP, 11 directly and over 90⁸ indirectly.

The platform now processes around 2 million payments a day, accounting for 25% of all account-to-account credit transfers in the market. The platform has processed close to \$1.5 trillion⁹ in payments since going live and the largest single transaction settled on the platform so far is \$19.8 billion. Close to 6 million PayIDs have been registered by individuals and businesses wanting to leverage this simpler and faster way to receive payments directly into their bank account.

An increasing number of organisations make and receive NPP payments, ranging from new neobanks, payment service providers, cross-border remittance companies and cryptocurrency exchanges, fintechs, corporates and government agencies. As participating financial institutions and third-party payment providers roll out NPP payment services, more and more businesses are benefiting from real-time payments from their customers, real-time payment validation and automated reconciliation.

Most consumers and businesses want to be able to make payments faster, more efficiently and with certainty. Based on NPP Australia’s experience, driving competition and innovation in payments requires the deployment of capability that supports the needs of consumers and businesses, and delivering the required network effect by ensuring enough financial institutions are participating.

NPP Australia is focused on enhancing the capability of the platform to meet the needs of participating financial institutions, payment providers and payment system users, whether for P2P payments or more complex B2B

⁷ See <https://www.nppa.com.au/find-an-institution/> for more information on who is participating in the NPP

⁸ Including subsidiaries and sub-brands

⁹ This includes payments between different government agencies which are not reported in the RBA’s C06-1 hist schedule



payments. The NPP Roadmap October 2020¹⁰ outlines the plans to further extend the platform’s capabilities that can be used by all parties in the payments ecosystem:



These capabilities will be delivered as NPP business services which have their own set of rules that define how the different payment messages are processed between participating financial institutions. Third parties can then use these business services in a variety of ways and incorporate them into their own product and service offerings outside of the platform (i.e. supporting competition and innovation ‘at the edges’). We are starting to see examples of this emerge in the market, such as the development of the AzupayID service, Earnd’s on-demand pay offering and real time payments receivables and payables solutions being implemented by payment service providers such as Assembly Payments, Monoova and Split Payments¹¹.

The delivery of the NPP’s Mandated Payments Service (MPS) is expected to be instrumental in driving innovation in the payments industry. The MPS 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 NPP Australia for the benefit of all market participants and is the capability most frequently requested by the market.

The MPS has been intentionally designed to support a broad range of use cases and different payment initiation scenarios 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.

Third parties that want to use the NPP to initiate payments using the MPS will have a range of access options¹². This includes the option to connect directly without the need for an ADI licence as a Connected Institution. 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 payments to be initiated, with the customer’s authorisation, from any one of the 72 million NPP enabled accounts.

As referenced in the recently released report on the Future Directions for the Consumer Data Right¹³, the MPS will deliver customer authorised, third party payment initiation for real-time, account-to-account payments¹⁴, without requiring any additional build or investment by the 100+ financial institutions participating in the NPP today. Moreover, it could be the means by which financial institutions can meet any potential obligations to deliver payment initiation or ‘write access’ under the Consumer Data Right.

¹⁰ See the [NPP October 2020 Roadmap](#)

¹¹ For more information, see the NPP October 2020 Roadmap or listen to NPP’s podcast series ‘NPP Soundbites’

¹² For more information on access options see <https://nppa.com.au/the-platform/accessing-the-platform/>

¹³ See <https://treasury.gov.au/sites/default/files/2020-12/cdrinquiry-accessiblefinal.pdf>

¹⁴ As distinct from payments which may be initiated using card rails which are also attached to accounts



Changes to the regulatory architecture are unlikely to have a significant impact on innovation in the market, which instead relies on the availability of certain core underlying capability, such as the widespread availability of APIs and payment initiation capability.

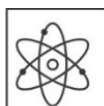
The proposed domestic payments consolidation should further assist with capability deployment and supporting innovation, with faster speed to market of new capability, more efficient allocation of capital and a more integrated industry payments roadmap.

Finally, although it does not relate to the payments regulatory framework, given the focus in the Terms of Reference for this Review on the Government's appetite to hasten the rollout of faster, data-rich payments in Australia, then we observe that one way to achieve that outcome would be for the payments industry to set a defined closure date for the BECS system. This would have the effect of changing the market's frame of reference and focus the ecosystem on actively looking to move corporate payments over to the NPP, sooner rather than later. NPP Australia, among others, will continue to pursue the goal that the payments industry settles on a defined closure date for BECS.



About the New Payments Platform (NPP) and NPP Australia Limited

The New Payments Platform (**NPP**) is designed to support a 24/7 modern, digital economy. It provides a fast, flexible and data-rich payments system that enables Australian consumers, businesses and government agencies to make real-time account to account payments.



Speed

Real-time movement of funds and immediate funds availability



Always on

Always available, processing payments 24 hours a day, seven days a week, 365 days a year with no cut off times



Data enriched

Extensive data capabilities with the ability to carry additional data with the payment using the ISO 20022 message structure.



Simpler addressing

An easy-to-remember identifier (a PayID) which has been linked to an underlying bank account. Also provides confirmation of payee.

Utility payments infrastructure

Operating as non-profit maximising utility payments infrastructure, the NPP is owned by 13 shareholders¹⁵ (both large and small financial institutions and including the Reserve Bank of Australia) for and on behalf of the Australian payments industry. NPPA is a public company established to oversee the development and operation of the NPP.

Open access philosophy

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

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 costs levied on NPP Australia's shareholders.

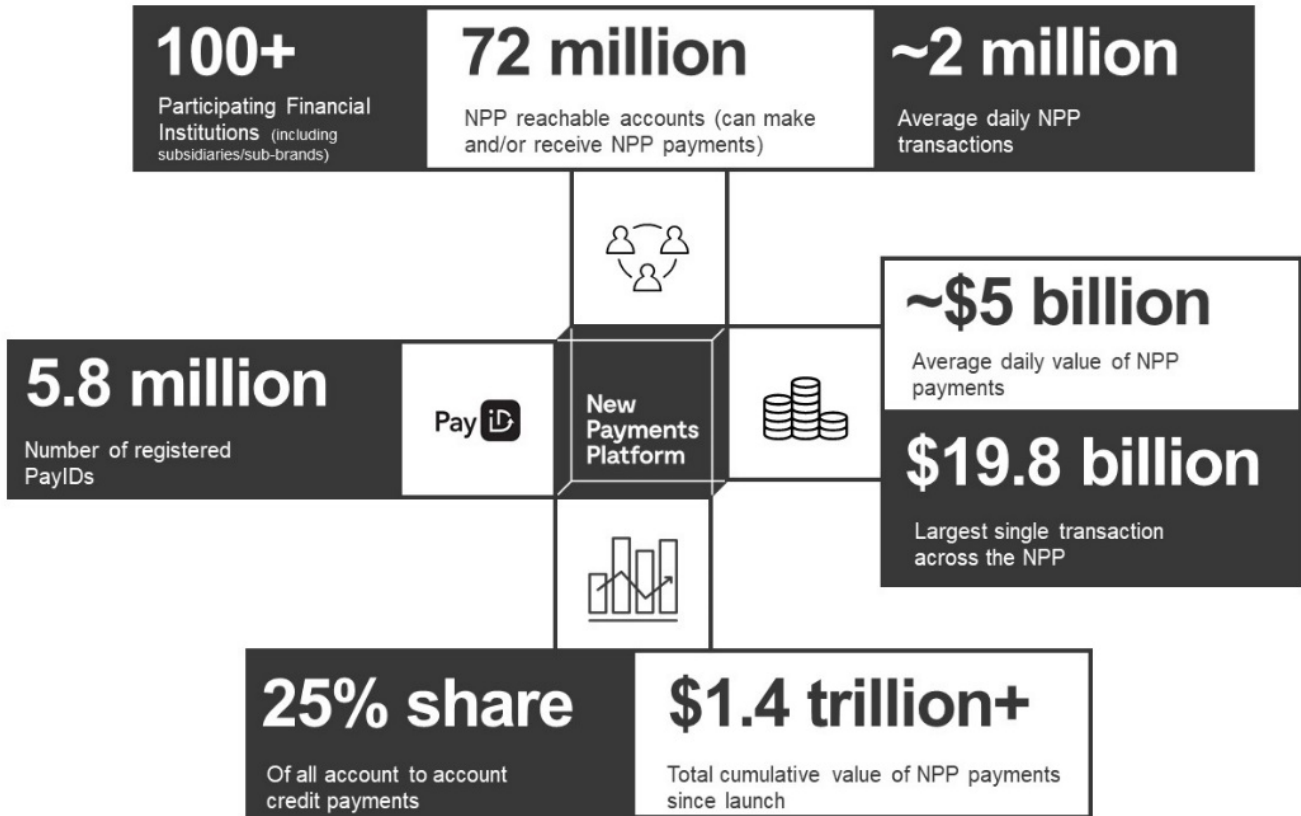
NPP Australia governance

The NPP Australia Board has 12 voting Directors including three independent Directors and the RBA. 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.

¹⁵ 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.



NPP Fast Facts



As of 20 January 2021

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