

ABA response: A Strategic Plan for the Payments System Consultation Paper

1. Summary

Australian Banking Association (ABA) welcomes the opportunity to provide feedback to Treasury's consultation, A Strategic Plan for the Payments System. Australia's payments ecosystem continues to evolve, with a significant number of regulatory and industry initiatives currently underway. ABA agrees with the principles and priorities for the payments ecosystem. Building on these principles and priorities, the strategic plan is a unique opportunity for the Government and Treasury to work with industry to sequence major initiatives to enhance efficiency and consumer benefits. ABA proposes the strategic plan in its first iteration prioritises:

- implementing a payments licence and revising the *Payment Systems (Regulation) Act 1998* (PSRA);
- responding to scams: taking a cross-sectoral approach to disrupting scams, protecting consumers and providing educations and awareness;
- digital identity adoption; and
- migrating from legacy to modern payments infrastructure.

2. Creating the Government strategic plan

Current environment

Treasury's consultation paper describes the scale of change in the payments ecosystem: banks continuing to build out new payments infrastructure, innovations in ways to pay, and a significant and enduring shift in user behaviour towards online and digital payments. This has happened alongside significant digital economy initiatives and a heightened financial crime and cybersecurity threat landscape.

The change at industry level has been accompanied by a large number of legislative and regulatory initiatives, with decision making and accountability for these initiatives divided between Government, the central bank and a plethora of regulators. In addition, other industry initiatives not included in the consultation paper also support the proposed principles and priorities and require significant technology investment and/or resources.

This environment creates challenges for industry – as well as government and regulators. Regulatory deadlines are set without assessing potential conflict or duplication with other regulatory or industry initiatives, or whether prioritising some initiatives have dependencies on other reforms or can enable other reforms. Further, banks are delivering on these initiatives alongside major reforms to the financial services regulatory architecture. This lack of sequencing and regulator coordination creates a resourcing 'traffic jam' for banks in particular (who still bear the cost of building payments infrastructure), as well as inefficiencies for other participants and consumers.

Role of strategic plan

In this context, the Government strategic plan can:

- improve sequencing of payments and digital economy initiatives: Understand which initiatives have dependencies on others
- identify 'foundational' or 'enabling' payments initiatives: Identify key initiatives that enable further innovation or other regulatory reform, and therefore should be prioritised

- remove duplication: Identify where two or more proposals seek to address the same problem, understand their benefits and limitations (such as whether a solution leverages other capabilities, or requires manual intervention or bespoke solutions)
- realistic timelines to complete major initiatives and extract value for industry participants and payments users: this requires building in time and capacity to create new products or services on a new technology, support customers with the transition, review and address security, fraud and scams risks raised by the initiative. Doing this also helps to give banks (who are bearing the brunt of infrastructure costs) 'space to innovate'

This exercise would benefit from understanding the time and resources required for major initiatives, and the impact and benefits for payments users.

Strategic plan: four key initiatives

For the first iteration of the strategic plan, ABA asks government to prioritise four sets of initiatives.

Migrating from legacy to modern payments infrastructure

ABA strongly supports prioritising initiatives to modernise Australia's payments systems. ABA agrees the payments strategic plan can provide details about the steps that Government can take, as a large payments user, to drive migration, and asks Treasury to provide an indicative roadmap for this Government action.

In addition, ABA also proposes the strategic plan:

- clearly states the strategic direction that payments will migrate from old or legacy systems to modern payments infrastructure (which are more feature-rich, flexible and extensible)
- clearly states this means a Government policy of not requiring new investment in identified old or legacy systems, and instead asking industry to identify the steps required to migrate (including steps to support customers)
- related to above, clearly state that the strategic plan will create space for the program of work required to build new capability and migrate from legacy to modern payments infrastructure.
- set out an indicative roadmap for legislative reforms to remove legislative requirements to make or accept payment using old or legacy payments infrastructure

ABA also asks the Government to consider the role of domestic payments infrastructure in maintaining a world class payments system in Australia and migrating from legacy payments infrastructure.

Payments licensing and Reserve Bank of Australia (RBA) supervision

ABA strongly supports the strategic plan prioritising as a matter of urgency:

- implementing a payments licence and details of licensing obligations; and
- revising the PSRA.

Doing so would provide certainty to payments participants about the baseline standards that apply to future payments innovation. Completing these initiatives can also embed clear, consistent protections for consumers by ensuring risks from all participants in the payments ecosystem, many of whom are currently not regulated, can be managed.

Specifically on the link between payments licensing and scams: ABA proposes the licensing regime should include high level requirements to disrupt scams, with subsidiary legislation setting out the detailed requirements. The subsidiary legislation could be the ePayments Code or another instrument.

Scams disruption and response

Uplifting and embedding security is the foundation of payments innovation. The Government, Treasury and ACCC are focused on measures to disrupt scams on a whole economy basis, and ABA proposes that the strategic plan align with broader government policy to focus on measures to disrupt and respond to scams.

ABA suggests the strategic plan recognise that disrupting and preventing scams will require significant collaboration for multiple industries with varying accountabilities, and scams prevention under an ecosystem approach can also be a foundation for other digital economy reforms.

Adoption of digital identity

Against a backdrop of data and privacy breaches, a robust digital identity system is fundamental to a trustworthy and efficient payments system. More broadly, it is also a building blocks of digital economy resilience. ABA proposes the strategic plan identify actions that relates to security of payments:

- legislative reform to enable private sector participation in the Government's digital identity system and to clearly enable use of digital identity to meet know-your-customer (KYC) obligations. We note that other governance and commercial approaches for the private sector will address specific needs so legislation should retain flexibility.
- measures to enhance trust in the digital identity system, including improved identification of fraudulent documents in use across the industry and standards for the use of biometric data; and
- measures to facilitate wider adoption and use, which include credentials checking and verification.

3. Principles (Question 1)

ABA supports using principles to set out policy, regulatory and industry outcomes for the payments ecosystem. ABA agrees with the four principles, adding the further commentary below.

When translating these principles into initiatives or regulation, specific use cases or types of users have differing needs that require trade offs or different prioritisation between principles and related outcomes. ABA highlights the recommendation from the final payments review report that consumers and businesses to be at the centre of policy design and implementation. This is fundamental to the principle of trust.

Trustworthiness (or trust)

We consider trust and confidence in the payments ecosystem is paramount and underpins the other principles of efficiency, innovation and accessibility.

The concept of trust is an umbrella term that includes these components:

- accuracy
- availability: including operational resilience and timeliness
- transparency: transparency of process to the user (including as to redress and liability) and transparency for law enforcement
- safety: including scams protection and cybersecurity

Together, these components contribute to payments users' trust in the payments system. Trust is a foundation for innovation, as it contributes to payments users' trust that new service providers will give sufficient protection to consumers and business users.

Efficiency

ABA asks Treasury to consider whether the efficiency principle includes cost efficiency, being the cost to change and to maintain the payments system.

The efficiency principle should eliminate unnecessary friction for users. However some degree of friction is likely required to ensure trust; for example, enhanced monitoring, additional verifications or in some circumstances delays as part of fraud and scams controls. This means the efficiency principle does not create a sole focus on fast. It should not presume the best outcome for payments users is frictionless payments.

Accessibility

The consultation paper recognises accessibility can apply to the users and to ecosystem-level outcomes. Accessibility to payments infrastructure should remove *unnecessary* barriers to entry to payments infrastructure. It requires regulatory and process clarity, with the same substantive obligations applying to activities that introduce the same risks into the ecosystem.

While one aspect of accessibility is low cost and choice for payments users, another aspect is physical accessibility and ensuring payments services remain accessible to consumers with disabilities (ie, ATM pin on glass, POS pin on glass).

ABA also highlights:

- Payments technology and infrastructure requires ongoing investment to achieve trustworthiness and efficiency.
- Investment in payments infrastructure provides a modern platform that enables innovation by a wide range of participants and users. This is, in its own way, a form of accessibility that can also enhance user benefits.

Innovation

The innovation principle should seek to support competition from all participants of the payments ecosystem. Adoption of innovation often relies on network effect, and banks – as well as other entities with a large retail customer base – are well positioned to drive uptake.

Banks, in particular, bear the costs of building domestic payments infrastructure which enables others to innovate. This principle should recognise the benefits of banks having the capacity to innovate and develop new customer propositions. This means the payments strategic plan and timeline expressly creating ‘room to innovate’ and support banks contributing to a vibrant, competitive payments ecosystem.

Finally, ABA proposes that the Government prioritise migrating payments to the NPP, to build up a domestic payments infrastructure that will enable further payments innovation in Australia.

Other comments

ABA asks Treasury to consider how to recognise that the principles are not absolute, but are often required to be balanced against each other. The relative importance of each principle may depend on the use case. For example, accessibility should be balanced with other principles as trustworthiness, and considerations like availability and transparency, to enhance *overall* benefits for payments users. While some payments users prioritise low cost, others may place a premium on availability and reliability (ie, trust), convenience (ie, efficiency) or access to services that give the business a competitive edge (ie, innovation).

4. Priorities and supporting initiatives (Questions 2, 3-5)

ABA understands the key priorities articulate the Government’s current areas of focus for the payments system, and is a way to guide regulatory initiatives to achieve the key principles. ABA broadly agrees with the key priorities set out in the consultation paper subject to the commentary below.

As an overarching comment, while the consultation paper recognises the range of headline initiatives that support each priority (ie, scams), each headline initiative encompasses a range of regulatory and industry initiatives including initiatives under consideration but have not been agreed and scheduled.

It is important for Government and regulators to be aware of the full range of industry and regulator initiatives when making decisions about sequencing of regulatory initiatives or before adding a regulatory requirement. Not all initiatives will require new regulation; for some initiatives, some legislative or regulatory action may be necessary in order to support industry initiatives.

A safe and resilient payments system

Priority

Echoing ABA's comments about the trust principle, a safe and resilient payments system should encompass scams and fraud prevention, operational resilience and cyber resilience. It may also encompass accuracy of payments which requires capability to deal with mistaken or duplicate payments, common technical standards, and resilience in participants and a regime to deal with insolvent providers. All of these components can help to provide strong protections to consumers.

Initiatives

The safe and resilient payment system priority encompasses a very broad range of initiatives. ABA has proposed the strategic plan prioritise scams. ABA also sets out additional key or supporting initiatives that have not been included in the consultation paper.

Security and resilience

- Banks/APRA cybersecurity initiatives; APRA CPS230; ARNECC security review of practitioners' online security (which can help to reduce business email compromise)
- Industry initiatives include: AES, ISO20022 upgrade, tokenisation of online payments
- Data security requires legislative reform to the Privacy Act and potentially other legislation to enable information sharing

Scams

- Regulatory initiatives should include the workstreams under consideration by the NASC as well legislation: intel-sharing, obligations of telcos and social media.
- Industry initiatives include providing account name and number matching on the NPP such as by promoting PayID
- ABA suggests the strategic plan recognise, at high level, that scams and fraud are distinct types of financial crime, pose different challenges and as such often require different approaches or solutions.

Other initiatives: Anti-Money Laundering/Counter Terrorism Financial (AML/CTF) initiatives such as tranche two reforms.

Actions

- ABA refers to section 2 for proposed actions to address scams.
- Specifically recognise payment providers undertakes a range of activities to maintain a safe and resilience payments system.
- Refer to digital identity as a key initiative that can contribute to a safe and resilient payments system.

Ensuring the regulatory framework is fit-for-purpose and promotes competition

Priority

Reiterating ABA comments about accessibility, competition requires regulatory and process clarity, with the same substantive obligations applying to activities that introduce the same risks into the ecosystem.

It will be important to recognise PSRA review, tiered licensing regime and supervision of systemically important payment systems will help to create a safer, more dependable and accessible payment system.

Initiatives

ABA suggests including the establishment of an authorised standards setting body (ASSB), and updating the ePayments Code as part of payments licensing implementation.

ABA agrees the strategic plan should continue to support the RBA's approach in improving the availability and enablement of least cost routing (or merchant choice routing). As noted by the RBA, merchant costs continue to be relatively low in Australia by international standards and work continues to be done to enable merchants to choose payments services that suits their needs.

Actions

ABA refers to section 2 comments and otherwise agrees with the proposed actions for PSRA reforms and implementing payments licensing.

ABA suggests specifically referring to collaboration with AUSTRAC on AML/CTF regulation as part of the action on the inter-agency regulatory forum.

Ensuring alignment with the broader digital economy transformation

Priority

Based on ABA comments in section 2, this priority could be reframed as 'sequencing' – as well as alignment – of payments and digital economy reforms. For example, payments licensing being implemented and used for the accreditation of CDR participants by requiring Accredited Action Initiators to hold a payments licence.

Initiatives

Consistent with section 2, ABA asks the strategic plan include digital identity and scams as foundational or enabling digital economy initiatives.

Actions

ABA refers to section 2 comments about actions on digital identity adoption.

ABA also refers to section 2 comments about scams and for the strategic plan to seek to ensure alignment in outcomes with reforms arising from ACCC's Digital Platforms inquiry and government scams regulatory policy.

Modernising payments infrastructure

Priority

Modernising payment infrastructure should expressly include retirement of legacy payment systems. ABA reiterates our comments in section 2 about migrating from old or legacy infrastructure to modern payments infrastructure. This supports all key principles, and ABA considers this is a pre-requisite for other developments in order to maintain/increase efficiency.

Initiatives

To build a holistic picture of the effort required to migrate from old infrastructure to modern payments infrastructure, ABA asks Treasury to consider (in consultation with industry stakeholders) setting out any work that industry has agreed or regulators have proposed, which would further build out NPP capability and other digital alternatives.

This is to ensure equivalent functionality is available on modern payment systems before payments can be migrated away from legacy systems. Government leadership will be vital, not just to sequence industry initiatives but also to provide clear, consistent communications and support to consumers and businesses during the transition.

Actions

ABA suggests the strategic plan highlights the need for sequencing, as the payments industry will require adequate time and resources to uplift new payments infrastructure (if required) that will provide corresponding functionality.

Other priorities

Financial inclusion could be added as an additional priority supporting Accessibility.

5. Review of strategic plan and roadmap (Questions 6-7)

ABA welcomes Treasury's proactive approach to reviewing and updating the strategic plan. ABA seeks to engage further with Treasury to understand what will be in the plan and how it will be updated, for example, whether it will be a 5 year plan which is refreshed (as needed) annually, how the strategic plan will relate to regulators' priorities.

ABA asks Treasury to consider whether a 12-month review cycle may be too short, considering the time required to complete industry consultation, and for industry (and government) to review funding for initiatives as part of their respective budget cycles.

If Treasury maintains a 12 month cycle, the review should have flexibility to be expedited and with the expectation that the plan may require little by way of change or update.

If Treasury adopts a longer review cycle, it may be desirable to have some flexibility to consider significant changes or developments between cycles.