

6 February 2023

Director – Payments Strategy and Policy Unit
Financial System Division
The Treasury
Langton Crescent
PARKES ACT 2600

Submission by email to: paymentsconsultation@treasury.gov.au

EPA Asia Response to “A Strategic Plan for the Payments System Consultation Paper”

Dear Chair,

Please find attached the submission of the Emerging Payments Association Asia (EPA Asia) to the Commonwealth Treasury Consultation Paper on a Strategic Plan for the Payments System (“Consultation Paper”). EPA Asia has been a significant contributor to the 2020-21 Review of the Australian Payment System, chaired by Scott Farrell, and we are pleased that many of our recommendations are being taken forward.

EPA Asia’s goal is to unify the payments agenda in the region, drive business development and improve the regulatory landscape for all organisations within the payments value chain. We are a community of payments professionals whose goals are to strengthen and expand the payments industry to benefit all stakeholders.

Please note, that while we have consulted widely, any views expressed in this submission are the views of EPA Asia and do not necessarily represent the views of individual contributors, Ambassadors or Members.

1. What are your views on the proposed key principles? Are there other principles that should be included? Please provide an explanation.

We would strongly agree that principles are essential for the development of the Strategic Plan. The existence of strong, broad and agreed principles contributes to the legitimacy and focus of the Strategic Plan.

The four Principles outlined in the Consultation Paper look sound. However, we do have some comments on how these terms are defined and used.

Efficiency - We would agree that fast and seamless payments are desirable, and the competition can lead to better outcomes for end-users. Overall, costs in many parts of the payments systems continue to trend down for end-users. It also remains important that economic incentives exist for payment service providers to generate the supply of sufficient offerings to bring about this competition.

Innovation - Innovation is crucial and drives better outcomes for end-users. However, it is not always the case that innovation brings “increased trust” to the system, as new players and newly minted systems sometimes bring risk, which can undermine trust.

Accessibility - Accessibility for both end-users and participants is important. Transparency is an important component of this so that it is clear to end-users the costs, risks and responsibilities associated with the use of a particular payment are understood. However, improvements to transparency should not lead to making things unnecessarily complex for end-users. Similarly, access to payment systems by participants needs to be fair and equitable and the requirements to participate are similarly transparent.

Trustworthiness - We would strongly agree that Trustworthiness is an essential Principle - both in terms of end-users trusting the system broadly as well as payment service providers having confidence in the systems that they use. While scams and fraud remain important issues, no mention is made in the Consultation Paper of keeping the system safe from exploitation for money laundering and terrorist financing.

In considering these Principles, it is important to understand there can often be a trade-off between these Principles. For example, greater access to systems may bring new risks that affect trustworthiness. So for instance, while access should be promoted, it is also important to maintain and build defences to stop "bad actors" from accessing and using the Australian payments system. Those entrants also need to be carefully examined so that players connecting into the Australian payments system are not bringing with them weaknesses or enabling access by bad actors.

While not seeking to impose further complexity to the four Principles, there are also some concepts or objectives that cut across all of the above and should be reflected within the Strategic Plan. One instance would be "Global Competitiveness" where Australia has a globally competitive payments system that will ensure that in a global economy, Australians benefit from global innovations. This would include a regulatory framework which is flexible and can adapt to shifts in global trends and supports Australian economic growth through regional and global trade.

2. What are your views on the proposed key priorities? Do they provide enough certainty on what the key priorities are for the Government? Are there other matters that should be included? Please provide an explanation.

We would further agree that the Priorities outlined in the Consultation Paper are sound though care needs to be taken to appreciate that the payment system is actually a complex mix of public, collaborative, share and private initiatives.

While a more coordinated approach brings benefits, for instance reducing the number of clearing systems and message formats, the objective of such coordination should not be to create a single unified system. There are risk mitigation, efficiency and innovation benefits associated with certain systems being operated separately.

Clarity in respect to the relative roles to be performed by the Government, Treasury, RBA and other regulators remains paramount, as will be how these interact with the sector.

Another issue that should be considered as part of any refinement of the Priorities is how to create a system that can adapt and respond to external developments, be it technology, economic, social or otherwise. Any design decisions made now have the risk of becoming obsolete very quickly. A static end-state is unrealistic and the system needs to be able to respond and be upgraded from time to time to remain relevant and "fit for purpose". The Strategic Plan, in this sense, needs to jettison any thinking that payment infrastructure will be reviewed and upgraded every two decades. Rather a process to continual

refinement and upgrading needs to be incorporated. We have some comments below on the approach and timing of review of the Strategic Plan.

One thing to consider is how licensing can be an integral part of how the regulatory framework can respond in an effective way. We would not wish to see licensing become a “lift and shift” from other sectors or a blind adherence to a “level playing field” but rather a proportionate response to genuine risks created by particular activities. We also believe that other jurisdictions, such as Singapore, offer an approach to licensing and regulation that focuses on economic development and global competitiveness, though again recognising that a straight “lift and shift” may not always be appropriate for Australian conditions.

3. What are your views on the proposed key supporting initiatives? Are there other initiatives that could be included in the Plan? Please provide an explanation.

Australia needs a more coherent vision and roadmap for payment ecosystem development. The Supporting Initiatives that have been outlined are broadly sound, though they do centre around the public regulatory agenda.

There are a few gaps of related initiatives that either are directly relevant or have dependencies. For instance, there is no mention of the adoption of the ISO 20022 message standard, which is directly relevant to modernising Australia’s payment infrastructure. There should also be better acknowledgement of related developments by both Government and industry, for example, privacy, digital identity, the regulation of digital platforms as well as digital trade related initiatives. While these issues have relevance beyond the payments system, their trajectory will directly impact payment systems development in Australia.

Further, while the list of Supporting Initiatives is broadly sound, there seems to be more of a focus on the what and less on the “how”. This issue of process will be addressed below in our response to Question 6.

4. Do you have any feedback on the proposed approach for any of the initiatives (as outlined in Attachment B) Please provide an explanation.

Below is some specific feedback on the Supporting Initiatives as outlined in Attachment B:

While the Government is keen to progress least cost routing, its inclusion within the Strategic Plan feels somewhat oddly placed as it is a specific measure that is well-progressed, as opposed to many of the other Supporting Initiatives, which are more broadly described and have yet to begin.

A high priority should be placed on the licensing framework, as it provides the foundation for many other initiatives in the strategy. A related issue is providing clarity on the roles and responsibilities of each regulator as part of the licensing design/implementation. Related issues in respect to licensing include references to the CFR’s stored value reforms and a clear articulation of payments licensing being distinct from other areas of financial service regulation.

As well, we believe that it is critical that efforts to respond to recent high profile cyber security incidents are not simply left to financial institutions to manage and mitigate risks of financial loss. We believe a whole of economy policy solution is required to deliver greater cyber resilience within Australia's digital economy. In particular, the Strategic Plan could reference broader government processes underway,

including the Attorney General's Department's Privacy Act reforms, Home Affairs' reviews into cyber security strategy and data security.

EPA Asia is particularly pleased that cross-border payments receive a significant mention and we would strongly support Australia remaining actively involved in the cross-border payments agenda of the Financial Stability Board. However, we would recommend that efforts to promote cross-border payments interoperability extend beyond infrastructure and should also seek to address, as best as possible, data storage and security, Digital ID, privacy initiatives at a regional/global level to support the global competitiveness objective noted above.

5. What are the key milestones for particular key initiatives that you would like to see included in the Plan? Are there any conflicts between milestones or pressure points that need to be taken into account in revising the roadmap?

In addition to the observations made above, we would note that the Strategic Plan needs to better line up with work being progressed through AusPayNet and Australian Payments Plus (for example, ISO 20022, legacy systems, roll-out of the PayTo service etc). It will be important for the phasing and sequencing of these initiatives and milestones to be addressed in more detail within the Strategic Plan. As noted above, licensing may be an important precondition for other initiatives, for example supporting payment initiation through the NPP's PayTo service.

6. What are your views on the proposed review process and engagement arrangements? Please provide an explanation.

While we would agree that a combination of roundtables and bilateral engagement is broadly appropriate, more details are required as to how the Treasury intends to engage with industry stakeholders. Consideration should be given as to whether there needs to be a formal advisory group / industry convenor body to ensure the breadth of industry voices are heard.

We believe that whatever form this multilateral engagement takes, the emphasis should be to encourage greater collaboration with industry and ensure a wide range of stakeholder voices are heard. This could also include regular communication updates following meetings similar to the output provided from Payments System Board meetings and CFR meetings.

Lastly, while we see merit in an annual review, we would not want this to require the Strategic Plan be rewritten every 12 months. Consideration could be given to a process of lighter update-focussed reviews on an annual basis coupled with more thorough reviews happening less frequently, for example on a three or five year basis. These may be done on an "as needed" basis. That would give the Plan time to be implemented, while ensuring it is kept up to date and remains relevant over time.

7. Are there any other sections or topics that you would like to see added to the Plan? Please provide an explanation

In addition to more details on the review process / industry engagement as well as better integration / recognition of work being undertaken by industry, we would argue that there needs to be a clear articulation as to the consequences of failing to deliver on initiatives or meet particular milestones.

We also believe that the Plan should, if possible, go beyond merely being an inventory of initiatives and aspire to being a document that identifies interdependencies and provides the necessary detail of status so that it is able to be both a source of truth as well as function as a diagnostic resource when considering future policy and industry initiatives.

Conclusion

Overall, we would argue that the Strategic Plan is generally heading in the right direction. The Government and Treasury are to be commended, though clearly much more work is required. The EPA Asia stands ready to assist the Government and Treasury to better understand wider developments within the region as well as the concerns of a wider group of stakeholders that we have as Members.

We are more than happy to expand further on the items raised in this submission or to provide further information. If you do have any comments or questions, please feel free to contact our EPA Ambassador, Dr Brad Pragnell at [REDACTED]

Kind regards,

Camilla Bullock
CEO, Emerging Payments Association Asia