



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

via email: paymentsconsultation@treasury.gov.au

06 February 2023

To whom it may concern,

PricewaterhouseCoopers (PwC) welcomes the opportunity to make a submission in relation to the Treasury Consultation Paper on: A Strategic Plan for the Payments System released for comment in December 2022. We are encouraged by the initiative to continue a focus on payments system reform by developing a Strategic Plan for the Future of Australia's Payments system as a response to the June 2021 Review of the Payments System. The Government has expressed its support for ongoing innovation in the payments ecosystem, and in the digital economy more broadly. We support this continued effort and acknowledge the importance of this work.

The payments industry is currently in the midst of a significant transformation, with digitisation and electronic payments being at the epicentre. Part of the urgency of reform sits with global developments and the entry of international players into the Australian payments ecosystem. The regulatory framework and practice will necessarily need to reflect the reality of large, sophisticated, and well-resourced new entrants to the Australian market, as well as fostering and rewarding innovation and competition from incumbents and providing fair access to newly formed ventures, ultimately creating a fair and safe payments industry that puts user needs first.

In framing this submission, we have been informed by our experience across government, regulators and participants within the payments ecosystem. In addition, we have considered global developments and roles governments are playing in other jurisdictions. Our comments and suggestions on the questions posed within the Consultation Paper are summarised in **Appendix A**.

We look forward to the opportunity of discussing our submission with you in further detail. In the interim, if you have any questions, please contact Amy Auster () or Noel Williams ().

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Amy Auster', written over a light grey rectangular background.

Amy Auster
Chief Economist, PwC Australia

A handwritten signature in black ink, appearing to read 'Noel Williams', written over a light grey rectangular background.

Noel Williams
FS Emerging Technologies Leader, PwC Australia

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo NSW 2000,
GPO BOX 2650 Sydney NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

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Appendix A

Executive Summary

Payments are becoming increasingly cashless, digital and global. Modern payment systems support the ongoing digitalisation of economic activity and are both driving and benefiting from innovation — all while functioning as a stable backbone for trillions of daily transactions. In recent years, consumers have adopted more digital behaviours, accelerating the proliferation of mobile-first digital transactions. In PwC's latest global survey of banking, fintech and payments organisations, 89% of respondents agreed that the shift towards e-commerce would continue to increase, requiring significant investment in online payment solutions. Respondents also agreed (97%) that there will be a shift towards more real-time payments.

Underneath the shift to cashless lies a larger, more profound change. Not only are traditional ways of paying for goods and services — including the humble paper check and analogue invoices — set for radical transformation, but the entire infrastructure of payments is being reshaped, with new business models emerging. That reshaping involves two parallel trends: an evolution of the front- and back-end components of the payment system (instant payments; bill payments and request to pay; and plastic cards and digital wallets); and a revolution involving huge structural changes to the payment mix and ecosystem of payment service providers (emergence of buy now, pay later offerings; global online retailers and social media platforms offering payment systems; cryptocurrencies; and central bank digital currencies).

Additionally, although transactions in cash are at historic lows, the value of cash in circulation remains high and cash still serves a purpose as a form of redundancy in the system when electronic payments are unavailable. The continuing need for cash has been recognised, as has the challenge facing the economics of the distribution model.

In response to all of this, multiple countries have undertaken wide-ranging reviews of their payments ecosystem to identify gaps and set up strategic initiatives to ensure their payment systems remain safe, efficient and stable while retaining the ability to continue to innovate. Governments have been leading the reviews into the payment ecosystem, all with different approaches, reflecting the unique variables (e.g., legislation, access, competition, regulatory architecture) each jurisdiction faces. Despite strategic objectives varying from country to country, a common focus on efficiency, innovation, payment system architecture and governance emerge across all countries. In addition, existing objectives such as consumer protection, interoperability and common international standards are all in the scope of national payments strategies.

The payments regulatory architecture in Australia, since the Wallis reforms of 1998, has largely remained unchanged and seeks to ensure safety, efficiency and effectiveness of payments. This architecture was designed at a time when regulating deposit-taking and payments systems meant payments were largely regulated through large financial services institutions. However, more recent changes to the industry suggest that the current regulatory architecture may also need to evolve.

Whilst the existing regulatory framework supporting the ecosystem is comprehensive, the evolution of change in the ecosystem have increased important risks around system stability and cyber security, and potential resulting consumer harm. A combination of self-regulation, goodwill and investment of incumbents has supported a robust payments system in Australia to date, but a consideration of future strategy is timely.



In response to specific questions:

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

The proposed key principles are sound; however, further consideration could be given to:

Centrality of the consumer:

The end user and the experience of the end user should be central to the Strategic Plan. A modern, resilient and safe payments system that enables competition, innovation, optionality and opportunity must be underpinned by security, safety and redress for the consumer as well as opportunities for consumers to realise the benefits of innovation. The low adoption rate of recent innovations, such as PayID, indicate that consumers may not be fully aware of improved payment options already available (in the case of PayID, greater payer protection from scams and fraud, and real-time funds availability for payees). Moving forward without engaging consumers (including individuals, businesses and merchants), risks

- Consumers choosing payment and currency systems outside of jurisdiction, putting consumer fairness and safety at risk
- New entrants being disincentivised from innovating within the Australian rule set
- Participants investing in functionality that does not meet the expectations or needs of the Australian market.

Transparency is also a key consumer-centric principle, as this further drives trust within the payments ecosystem and allows consumers (including businesses and merchants) to make informed decisions. Objectives could be stated to define and set guidance, standards or regulation on clear and concise information on fees, charges, exchange rates and use of personal data.

Consumer protection and recourse is an area that demands clarity, so as to ensure consumers are offered protection, confidence and consistency regardless of the payment type. For example, how will consumers identify where to raise disputes when operating in an embedded finance ecosystem? Is the end-provider the point of contact, or the bank (which may not be surfaced to a consumer)? Clarity on points of liability are also key for innovation, so that participants are clear on the risk they are accepting in offering payment services.

We recognise that *Accessibility* and *Trustworthiness* as key principles aim to address consumer considerations, however, we believe the Strategic Plan would benefit from a more explicit statement of the intention to ensure payment ecosystem participants are required pay due regard to the interests of their customers, and how the evolving regulatory framework will set rules, provide guidance, offer supervision and ensure compliance.

Competition:

A critical factor that ensures consumers will benefit from the evolving payments system is competition. While the Principles include efficiency, in our view efficiency alone as a principle does not guarantee competition. As stated in the Financial System Inquiry, 2014 (Murray Report), 'Competition remains the cornerstone of a well-functioning financial system...Competition drives efficient outcomes for price, quality and innovation...However, competition alone does not always deliver the best balance between efficiency, resilience and fair treatment'. Competition is a necessary condition to generate efficiency; efficiency without competition can also be anti-competitive.

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.

Key priorities cover the critical components of a payments ecosystem. We believe it is important that the following priority areas address the considerations described below:

Promoting a safe and resilient payments system:

As noted above, the Strategy would benefit from comprehensive coverage of consumer protection across all payment types / functions, and ideally would be included in roadmap developments to ensure consumers have appropriate channels to seek recourse.

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

Addressing known gaps in the regulatory architecture of the payments ecosystem e.g. in comparison to other areas of Financial Services is implicitly within this priority area, however, could be explicitly stated. Unlike banking, superannuation and insurance services, the current regulatory payment architecture does not provide for a graduated, nuanced approach to supervision, compliance or regulator action. Increased regulator agility and ability to engage with payment providers is warranted. Evolving regulatory architecture should ensure digital asset technologies and the digital payments ecosystem are developed, designed, and implemented in a responsible manner and are overseen by an agile regulatory architecture where specially authorised standard setting bodies inform appropriate regulators where there is a significant breach of standards or multiple breaches.

Promoting competition and providing clear pathways to entry must also recognise that to achieve infrastructure modernisation in an Australian context, funding may disproportionately impact incumbent providers whilst also increasing the risk of disintermediation from new entrants. The modernisation roadmap will require close collaboration with those participants to build and run the new infrastructure, while also promoting speed to market and market penetration.

Modernising payments infrastructure:

Optionality in payment methods should be maintained. Electronic or paper, instant or batch, single or bulk, one-off or recurring, domestic or cross-border payments all have a place in the ecosystem going forward and should be readily available to meet user needs.

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.

We support the initiatives outlined in the consultation paper as reasonable and appropriate. Additionally, the following could be considered:

- As noted above, we believe it is imperative to include customer recourse (for mistaken payments or otherwise) in the initiatives under *Promote a safe and resilient payments system*.
- A design phase where the definition of payments is set based on functionality rather than underlying infrastructure. Clear definitions are critical to other key initiatives such as the licensing framework.

Additionally, these definitions should not only define payments by functionality type (e.g. instant vs batch), but also where the function of payment begins and ends to define accountability and liability of participants.

- Collaboration between regulators is noted as a positive step, however, this is the time to redesign the regulatory architecture to enable innovation and empower Australia to be a leader in digital assets and payments modernisation. Clear mandates should be provided to multiple authorised standards setting bodies governing certain components across the ecosystem (e.g. AusPayNet: existing frameworks, AP+: NPP / PayTo, Data Standards Setting Body: CDR etc.). A tiered enforcement model where larger breaches (incl. recurring) are handled by major regulators including ASIC and/or the RBA is warranted.
- Ensuring incumbents are more inclined to meet payment ecosystem deadlines in modernisation as delays and slow innovation within the ecosystem (e.g. PayTo, Least Cost Routing, Open Banking, etc). Delays stifle innovation from new ventures seeking to innovate on the new functionality, which ultimately reduces options and consumer benefit from these developments.

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

We would support a timeline to accompany the proposed actions so it is clear when initiatives will be completed. An outline of anticipated dates would clarify for industry and consumers when they should anticipate future changes and position themselves successfully for these changes. In addition, further consideration could be provided to:

- Implementation of enhanced enforcement mechanisms over economic crimes (e.g. scams);
- Extending cyber security and data protection considerations beyond *the Security of Critical Infrastructure Act 2018* to include the risk perspectives of consumer data protections, transparency on retention and use of data and commensurate enforcement or penalties for participants who do not meet the required standards of practice. Additionally, as the participant and payment provider landscape extends further beyond incumbent banks, Australian-based organisations and traditional payment providers, the cyber protections afforded through existing prudential and industry standards (e.g. CPS 234 and PCI-DSS) may not apply, thus requiring cyber security and information protection considerations to be built into the payment licensing regime.
- The process under which accountability and liability for scams may be clarified, as well as developing further clarity on who is ultimately accountable for the customer relationship and data security; and
- Consumer education and awareness programs as part of the Strategic Plan and payments ecosystem journey.

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?

The linchpin for a range of these initiatives and milestones stem from the modernising the Payment Systems (Regulation) Act 1998, including RBA powers to designate new payments systems and services, the interaction between the RBA powers and a future ASIC licensing regime and how new designated payment system providers or services will be regulated. Further clarity on the critical steps and estimated time to complete these initiatives would be beneficial.

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



We encourage Treasury to broaden its engagement arrangements to consult with:

- Treasury departments and payments regulators in other jurisdictions globally;
- Leading technology organisations, in Australia and globally;
- Directly with businesses (across the spectrum, small business, start-ups, FinTech and major FIs) in addition to peak industry body groups; and
- End-users via focus groups.

This provides a voice, where applicable, to all ecosystem stakeholders where they can provide their views or obtain information on vision, strategy and initiatives. This would enable an iterative and collaborative design process to policymaking. Though the work is urgent, the velocity of developments and consumer impacts may require more time or ongoing effort relative to the 9 and 10 months outlined.

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

We have no other sections or topics to be added, except for what has been discussed in previous sections.