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A Strategic Plan for the Payments System - Consultation Paper, December 2022

Introduction:

Revolut Payments Australia Pty Limited ("Revolut Australia") welcomes the opportunity to comment on Treasury's consultation paper. As a fast growing subsidiary of a significant international payments company, we are a direct stakeholder in the future of the Australian payments system.

About Revolut

Revolut Australia is part of the global Revolut group (Revolut), a financial technology group of companies offering financial services to both retail and business customers. Revolut was founded in 2015 in the UK. It now has operations in 39 countries, over 25 million retail customers globally, more than 500 thousand business customers and over 6,000 employees.

Revolut Australia received its Australian Financial Services Licence (AFSL) in May 2020 and has since been building its presence in Australia. It received its Australian Credit Licence in February 2022 and is in the application process for an Australian banking licence. Revolut Australia currently serves approximately 200,000 customers.

Revolut's core product offering in most of the markets in which it operates worldwide is a digital wallet and physical or virtual debit card. Money can be transferred electronically into the wallet where it is held as stored value either in local currency or another currency selected by the user.

This can then be used for domestic or international payments through a variety of channels (card scheme, direct entry, NPP, direct P2P payments, International Revolut to Bank transfers.)

Revolut also offers a number of additional products that connect with its core offering, which, in Australia, include the ability to take a stake in crypto or commodities or trade US shares.

We provide our responses to each of Treasury's key questions below.

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

Revolut Australia agrees that the four principles proposed by Treasury (Efficiency, Innovation, Accessibility and Trustworthiness) are suitable foundations on which to build a strategic plan. We would recommend, however, that "Competition" be added as an independent principle. We recognise that there are elements of supporting competition that attach to the first three principles, but we think that the benefits to the consumer of stronger competition make it worthy of forming a part of the foundation. There is a generational opportunity to transform the current regulation covering the payments system. That regulation was created in a very different market to today. It was not built to encourage competition and parts of it have the opposite effect, as we discuss later in this response.

The "Competition" principle should be based on enhancing competition in the payment industry through creating and maintaining a level playing field for participants of all sizes. This does not necessitate lowering standards of resilience or consumer protection but it does require removal of some requirements that embed the position of major banks within the payment system. (See response to question 4).

Including "Competition" as a principle also aligns well with Treasury's proposed priorities.

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?

We agree with the key priorities proposed by Treasury. We provide our comments in section 3 below on the actions to implement those priorities.

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.

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 have responded to questions 3 and 4 jointly below.

Promoting a safe and resilient payment system:

Reduce the prevalence of Scams and Fraud

We agree that this should be addressed as a priority. Fraudsters and scammers target some of the most vulnerable members of our community. Their resources and professionalism has been increasing. The introduction of faster payments makes it much more difficult for a financial institution to retrieve a payment once a fraud/scam is discovered. By that time the money has likely been through one or more domestic accounts and left the country.

As with the whole payments industry, Revolut has seen a substantial rise in scams since Covid lockdowns and we have been working to try to minimise these attacks through a combination of increased customer due diligence, transaction monitoring, customer warnings in app at time of transaction and customer education. Many banks and payment providers have taken similar measures.

While payment providers will continue to do what they can to reduce scams there are limitations. We agree an industry approach that looks at the end to end mechanisms by which these scams occur is required. This includes the customer due diligence used by Telcos and their ability to quickly block identified scam sources as well as mechanisms to force digital media providers to remove scam ads appearing on websites and social media. Financial Institutions also need the ability to quickly share information between each other to help trace scam sources. Current provisions in the Privacy Act make the widespread sharing of such data difficult.

Revolut supports initiatives which could involve wider and faster sharing of data between relevant suppliers and government agencies to identify and shut down scam attempts.

We think an appropriately amended mandatory e-Payments Code could go some way to reducing scams. We would support requirements on payment providers to introduce reasonable controls to prevent scams and alert customers. For companies that refuse to take reasonable steps we would support a shift in liability for scam loss from the customer to the processing provider - however, we do not support a default position where the financial services provider would be liable for scam loss. While that may be of benefit to individual customers, the financial burden on payment companies would fall back to all consumers in the form of higher services costs. The companies who invested to protect their customers against scams would get no benefit above the companies who spent nothing.

There is direct action which the government could take in the form of education campaigns to increase scam awareness. We believe that a combination of such general education, backed up by reasonable steps to be taken by all payment providers under an amended e-Payments Code, and facilitated by better sharing of data would, together, have a significant impact on reducing scams.

We also think that the introduction of a central digital ID (discussed further below) would help to reduce fraud and muling activity. Firstly it would establish a single consistent and secure means of identification at a potentially higher standard than some current providers. Secondly, if an ID has been established and is subsequently shown to be fake, then all providers who relied on that ID could be notified and the fake accounts closed. Currently a user could set up multiple accounts at different institutions with fake or stolen identity documents. If one institution identifies the account as fake the other institutions would continue to serve the customer until a fraud takes place affecting that institution.

Strengthen defences against cyber attacks

Revolut Australia supports a payment system plan which would strengthen the system's defences against cyber attack and its ability to recover quickly from the consequences of such attack, while minimising the impact of any data loss to consumers. We do not see the payments industry as being alone in this regard, however we could see a benefit in industry specific guidelines and standards for security. Some standards already exist (such as PCI-DSS accreditation) which may go some way to achieving this goal, though not all payment participants currently maintain that level of security. The need for adequate security should tie into the requirements for access to payment systems discussed below.

Ensuring the Regulatory Framework is Fit for Purpose and Promotes Competition

Implement Changes to the PSRA

Revolut Australia urges the Government to prioritise the introduction of recommendations to the regulation of the payments system made by the Council of Financial Regulators in 2019 (The CFR Recommendations). In particular the current regulation of providers of stored value is complicated and was not made in contemplation of the growth of customer demand for services involving stored value. In Revolut Australia's case we have had firstly to obtain an Australian Financial Services License from ASIC to conduct transactions involving stored value. This enabled us to hold stored value up to a limit of \$10 million, which is an extremely low level for any company offering any payment services - effectively limiting growth to a customer base of unprofitable scale (e.g. 10,000 customers with an average \$1000 balance.) To exceed this threshold we had to be licenced as an ADI (either under a PPSR licence or a full banking licence) or obtain a bank guarantee from an existing ADI covering the full amount of stored value held. Revolut Australia has chosen to apply for a banking licence but also to rely on a bank guarantee during the ADI licensing period, which is typically more than 18 months and can extend to several years for some applicants. A bank guarantee in respect of stored value is neither easy nor cheap to obtain, with only a minority of ADIs in the market to provide this offering. The current system also forces new competitors to rely on the services of existing ADIs without certainty of their ability to either maintain or continue to increase those guarantee facilities as their customer base grows.

We think that the current system is a hindrance to encouraging new competitors to both the

payments industry and to the banking industry. We believe the CFR Recommendations would reduce the cost and uncertainty of new competitors with stored value products while providing appropriate customer protections. Revolut Australia would strongly favour a firm implementation timeline for those regulatory changes.

Implement a Payments Licensing Regime

Revolut Australia supports a payments licensing regime as described in the CFR Recommendations and agrees that the planning for the introduction of such a system should be a priority.

Promote competition by facilitating access to payment systems

Revolut Australia has experienced the limitations on competition embedded in the rules and regulations of the current payment systems with access to major rails and services (e.g. NPP, BPAY) requiring either ADI status or the sponsorship of an ADI. This is in addition to the requirements of a bank guarantee discussed above. The requirement for ADI status potentially reduces the risk for the service suppliers as it assumes that APRA's prudential regulation and supervision requires enough checks and balances to minimise the due diligence that the individual system/network administrators need to perform on the system/network participant. However, this comes at the cost of competition since all new payments entrants must rely at least to some extent on existing ADIs. For some services there are few ADIs who offer the service. This puts payments and/or future banking competitors in the difficult position of relying on an incumbent to effectively provide services to them at a reasonable cost, when their business models are based on disrupting the incumbents.

We do not believe that access to the payments ecosystem should require ADI status. Some new entrants will have security and resilience controls that are at least as effective as many ADIs. The emphasis of rules should be on meeting standards of accreditation, at least as an alternative to ADI dependence. The rules on data recipient participation under the CDR is an example of a system with such accreditation.

Moreover, there is an opportunity to harmonise the entry / accreditation requirements across the different payment schemes and systems. At present, each of those schemes have determined requirements which are disparate from the others. This creates complexity, an additional resource and cost burden on new entrants, and reinforces the benefits of incumbency. By contrast, a single or tiered set of requirements across the major schemes and systems would reduce the burden and encourage more new entrants, and ultimately accelerate the benefits to customers.

Reduce Small Business Transaction Costs

Revolut Australia supports a system of card payment routing that provides an informed choice for both consumers and businesses. There are consumer protections offered by card schemes that are not available to transactions processed through EFTPOS. These include chargebacks for unfulfilled or badly fulfilled purchases and, for some cards, additional warranties or

insurance provided by the card issuer over purchased items or services. Fraud protection offered by the card schemes may also be a significant advantage for card holders, particularly in respect of on-line purchases. Customers may also wish the benefit of points or rewards from card issuers linked to card schemes. For many consumers, the benefit of a dual network card has been that they can use their scheme card for purchases but withdraw cash from their bank account.

Since the introduction of surcharging rules by the RBA, Australians have become accustomed to paying a merchant surcharge for the use of a scheme debit or credit card. The surcharges may be set by the merchant at a level to recoup their costs associated with scheme routing. From our perspective, this system appears to work as a fair choice for both consumers and merchants. Consumers can choose to pay a little more for the security provided by the card scheme and the merchant has no net cost increase.

We believe that considerations of further intervention into this system to promote least-cost routing should maintain customer choice as a clear principle.

Ensure the payments system is aligned with developments under the CDR

Revolut Australia strongly supports the prioritised introduction of the proposed legislation to extend the CDR to third party action initiation. Our experience in the UK has been that this type of third party access has seen the biggest benefit to our customers of open banking since the system was introduced there and has been a key driver for adoption and use.

The history of implementation of the first stage of open banking in Australia has shown that there is little motivation for the largest institutions to meet expected implementation timelines. We recommend that the introduction of further stages be carefully managed with substantial disincentives to participants not meeting a reasonable timetable.

Explore the rationale for a central digital bank currency

Revolut globally welcomes the introduction of a central bank digital currency although we see more value and lower risk in the case of wholesale CBDC's than retail CBDC's. We support the further development of the public policy case.

Modernise Payments Infrastructure

Revolut Australia supports efforts to modernise Australia's payments infrastructure. In particular we see no long term use case to retain cheques and believe it is appropriate to commence a transition plan with a relatively short completion target of a few years.

Support international efforts to enhance cross border payments

Revolut has built its global business around low cost international transactions and as a business we already exceed the FSB 2027 cost targets of 3% for remittances and 1% for cross border payments.

Revolut is involved globally with the FSB's five year Roadmap to enhance cross-border payments and we support the continuation of planning for Australia's commitment and greater interconnections between international payment schemes.

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.

As discussed above the key milestones we would like to see involve the following

- Introduction of the PSRA amendments.
- CDR mandated and authorisation policy concluded.

We believe both of these issues offer substantial benefits to competition that will ultimately benefit all Australians.

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

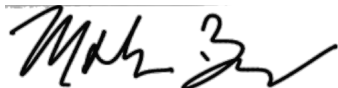
Revolut Australia supports the proposed review and engagement process.

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 further comments.

If you require further information or clarification on any of our comments, please contact Scott Jamieson at [REDACTED]

Yours Sincerely



Matt Baxby
Chief Executive Officer



Scott Jamieson
Chief Compliance Officer