



Response to Treasury on the Strategic Plan for the Payments System: Consultation Paper

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Group Country Manager Letter

6 February 2023

Taylor Black
Director – Payments Strategy and Policy Unit
The Treasury
Langton Crescent
PARKES ACT 2600

Via email: paymentsconsultation@treasury.gov.au

Dear Taylor

Visa submission to Treasury on the Strategic Plan for the Payments System: Consultation Paper

Visa welcomes the opportunity to share its perspectives on Treasury's Consultation Paper (the consultation paper) on "A Strategic Plan for the Payments System" (the Plan).

We share the Australian Government's commitment to maintaining a world-class payments system that serves the needs of its users and participants and supports the nation's economic growth. We are also committed to the Government's vision that the payments system uphold its reputation internationally as being safe and efficient and open to competition, while protecting Australians from scams and fraud.

In responding to Treasury's consultation, our submission focuses on several topics, including: a world-class payments system being best served if the regulatory system is designed to nurture a variety of domestic and international payments operators and providers; the Plan providing an opportunity to address the policy misalignment regarding the Consumer Data Right (CDR) and Merchant Choice Routing; and the importance of investment being addressed in the Plan's principles.

Visa has welcomed our engagement with Treasury over several years and via a number of consultations on the payments system as well as the CDR. Through the current consultation, we look forward to continuing this dialogue and we are available to provide further details on our submission if helpful to Treasury.

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'J Potter', is positioned above the printed name.

Julian Potter
Group Country Manager, Australia, New Zealand, and South Pacific

Executive summary

The following key points are addressed in Visa's submission to Treasury regarding the Consultation Paper (the consultation paper) on "A Strategic Plan for the Payments System" (the Plan):

- The Government's goal of ensuring Australia has a world-class payments system is best served if the regulatory system is designed to **nurture a variety of domestic and international payments operators and providers** with different technologies and attributes. Visa recommends this serve as the foundation for the Plan.
- We support the Plan being underpinned by a **principles-based approach**. However, we suggest that the principle, 'Efficiency', be replaced with 'Competition', given that increased competition in the payments ecosystem leads to greater efficiency (rather than efficiency leading to competition).
- The importance of **investment** in the payments ecosystem is not addressed in the principles, and Visa recommends that it be included.
- It is crucial that the Plan's **principles, priorities and supporting initiatives** are interlocking and aligned.
- Visa welcomes Treasury's priority to '**ensure alignment between payments regulation and broader digital economy transformation**', particularly in the context of the Consumer Data Right (CDR). The Plan provides an opportunity to address the current policy misalignment with regard to CDR and Merchant Choice Routing (MCR) (also known as Least-Cost Routing).
- On **modernising payments infrastructure**, we regard "creating an environment to enable a world-class payments infrastructure" as more appropriate and in line with the Government's commitment to maintain a world-class payments system.
- On the Plan's **actions**, some of the initiatives have detailed actions outlined, others less so and some initiatives have no actions listed. In terms of consistency, as much as possible Visa suggests a standardised approach to the detail outlined under each action.
- An industry approach through education and awareness is best to help prevent consumers and businesses from becoming victims of **scams**, and Visa would welcome this being included in the Plan.

- Visa strongly supports the Plan's focus on **strengthening defences against cyber-attacks**. We encourage Treasury to consider the use of existing best-in-class industry standards to guide any future requirements related to cybersecurity and fraud prevention.
- While we commend the inclusion of a roadmap for implementing reforms to the **Payment Systems (Regulation) Act (PSRA)**, Visa suggests that the actions for PSRA reform include the likely timing for consultation and legislation.
- The initiative on introducing a **payments licensing regime** should reference supporting a flexible, risk-based approach to licensing, while ensuring that licensed participants meet high standards for data protection and best-in-class cybersecurity and fraud prevention practices.
- On the **inter-agency payments forum**, public advice regarding the forum's membership and relationship between the forum and the Council of Financial Regulators would be beneficial.
- Inclusion in the Plan of planned timings for the pathway forward on the **common access requirements** would be worthwhile.
- Visa welcomes the Plan taking account of **reducing small business transaction costs**. However, **we suggest that the Plan not focus exclusively on MCR** as the only means to address such costs. **It should include the wide range of ways to decrease small business transaction costs**.
- We support the Plan focusing on **full availability of, and education about, MCR** (rather than MCR enablement), with merchants being able to choose to take up MCR if they believe it will benefit their business. This position takes account of merchants seeing advantages in choosing certain payment acceptance solutions based on a number of factors, such as system resilience, innovation, value and simplicity – and not just cost.
- To ensure MCR's consistency with the CDR, a solution would be to introduce **a standard pathway for payment routing authorisation, which would provide a visible opportunity for a consumer to provide advice** if they wish a payment to be routed in a specific manner whether in-person, online or via a digital wallet.
- As CDR is a consumer-driven framework, with consent as one of its central tenets, Visa recommends that any extension to **payment initiation** should maintain the principle of consent and choice.
- Visa is committed to evolving and supporting new forms of payments, including **Central Bank Digital Currencies (CBDCs)**, and thus welcomes the explorative work on CBDCs included in the Plan.

- On the initiative regarding **modernisation of payments system infrastructure**, we recommend distinguishing between **infrastructure** and **means of payment**.
- Rather than title an initiative “**Maintain adequate access to cash**”, we recommend “**Ensure all Australians have access to both physical and digital means of payment**”, which will give the initiative greater longevity in terms of the future evolution of payments.
- Visa encourages Treasury to take account of public and private sector partnerships as the key to successfully enhancing **cross-border payments** across three areas: 1) improving payment system interoperability; 2) aligning national legal, regulatory, and supervisory frameworks; and 3) improving cross-border data exchange and message standards.
- A thorough **roadmap** that outlines Treasury’s expectations and timing will provide direction for participants and help drive greater industry collaboration on common goals.
- We suggest that Treasury reconsider **annual reviews of the Plan**, including given that major industry investments supporting specific initiatives will require longer timelines.

Introduction: Building Australia's Payments System for the Future

Australia's payments ecosystem is evolving at an unprecedented pace, and is expanding "in size and complexity".¹ As a result, traditional payments are giving way to frictionless, digital experiences across a range of new connected devices and consumer journeys; while alternative and innovative methods of interbank and digital payments are emerging. Technological advances, fast-changing consumer behaviour and preferences, and open innovation and collaboration between organisations are driving this trend, with the appetite for using different payment platforms having increased further due to the COVID-19 pandemic. We anticipate an ongoing acceleration in the rate of change in the Australian payments environment in the coming years, including enabled by initiatives like the New Payments Platform (NPP) and the Consumer Data Right (CDR).

Against this backdrop and as Treasury finalises the inaugural Strategic Plan for the Payments System (the Plan), Visa would highlight that the Government's goal of ensuring Australia has a world-class payments system² is best served if the regulatory system is designed to nurture a variety of domestic and international payments operators and providers with different technologies and attributes. They may be established payments providers or emerging players, including payment network operators such as schemes, Buy Now Pay Later (BNPL), real time payment (RTP) or wallet providers (among others).

This approach provides Australia with a highly competitive and innovative payments sector which can support maintenance of a world-class payments system now, and into the future, and give choice to both consumers and businesses. By extension, this benefits the broader Australian economy. In addition, the resilience of Australia's payments system is heightened due to the variety of payments options available to consumers and businesses. In short, this approach balances the risks in the payments ecosystem and maximises competition and innovation.

At one level, this was a lesson of the COVID-19 pandemic: while the public's ability to use cash lessened, digital payments was a readily available alternative for consumers and businesses – thereby reducing the potential impact on the Australian economy if it had been reliant on a single form of payment and/or payment infrastructure. More specifically, the co-existence of multiple payment technologies offered through a variety of entities takes account of the unique attributes of different payment technologies and enables efficiency, innovation, access and trust, as well as competition. For example, unlike some traditional electronic payments infrastructure – which, in some instances can require a few days to settle a payment transfer – RTP infrastructure enables the fast and easy transmission and settlement of funds across accounts. However, with RTP, the immediate settlement of funds is a benefit, until an erroneous or fraudulent transaction is made. In such scenarios, users may be limited in their capacity to correct or contest transactions. Some

¹ Treasury (2022), "A Strategic Plan for the Payments System: Consultation Paper", <https://treasury.gov.au/sites/default/files/2022-12/c2022-343663-final.pdf>, p4

² Ibid., p5

consumers and businesses may prioritise speed ahead of such concerns. As a result, the availability of alternative payment options will be beneficial in serving differing consumer and business needs, as well as maximising economic growth.

Visa recommends that these considerations be taken into account as a foundation for the Plan as government and industry together continue building Australia's payments system for the future. The perspective Visa outlines above is in line with the principles currently set out in the consultation paper as well as seeking to nurture a competitive environment among payment providers and operators. In addition, this view is aligned with the specific initiatives in the consultation paper, such as the implementation of changes to the Payment Systems (Regulation) Act (PSRA). This initiative will "ensure appropriate coverage of all entities that play a material role in Australia's payments system"³ and should, therefore, support a level playing field in which multiple payment providers and operators can co-exist within a secure, accessible, competitive, and innovative payments ecosystem while facing the same domestic regulatory requirements. This will provide the best pathway forward to support Australia's ambitions to maintain a world-class payments system, a digitally-enabled economy, and the country's economic growth.

³ Ibid., p17

Part 1: Proposed contents of the Strategic Plan

Key Principles

Visa supports the Plan being underpinned by a principles-based approach. While we broadly support the principles as proposed in the Plan, we suggest that Treasury consider the following adjustments, including to take account of the complex and fast-moving nature of the payments system.

As a starting point, **Visa suggests that the principle, 'Efficiency', be replaced with 'Competition', given that increased competition in the payments ecosystem leads to greater efficiency (rather than efficiency leading to competition).** Alternatively, we recommend 'Competition' as an additional principle because its existence is paramount to a healthy, thriving payments ecosystem which benefits end users, whether businesses or consumers. If Treasury supports Visa's initial proposal above, then we suggest that certain topics addressed under Treasury's 'Efficiency' principle in the consultation paper be re-located to other principles, namely:

- Payments being processed in a seamless manner with minimal friction is best located under the 'Innovation' principle; and
- Promoting interoperability through increased use of risk-based (rather than rules-based) common standards should be placed under the 'Accessibility' principle, given that interoperability is an essential step towards a more equitable and inclusive payments system.

The importance of investment in the payments ecosystem is not addressed in the principles and we recommend that it be included. Investment in the ecosystem is particularly relevant regarding Trustworthiness but it is also applicable in relation to Competition and Innovation. We propose this inclusion because investment supports both security and innovation, which engenders trust and consumer/business engagement in the payments ecosystem, and encourages competition between payment providers and operators. In addition, government and regulators have a role to play in ensuring that measures and initiatives they introduce support sufficient investment in the payments ecosystem, enabling security, innovation and competition.

It is crucial that the Plan's principles, priorities and supporting initiatives are interlocking and aligned. That is currently the case in the consultation paper with the priorities and initiatives.⁴

⁴ In this regard, see for example Treasury (2022), A Strategic Plan for the Payments System: Consultation Paper, [Developing a Strategic Plan for the Payments System \(treasury.gov.au\)](https://www.treasury.gov.au/developing-a-strategic-plan-for-the-payments-system), p12.

Applying the same approach by mapping the principles and priorities⁵ would strengthen the Plan and reduce the prospect of the emergence of gaps or misalignment within the Plan.

Key Priorities

Visa broadly supports the priorities proposed for the Plan. We do, however, provide several comments and/or recommendations for Treasury's consideration, which are designed to enhance the Plan. These are detailed below:

- On "Promoting a safe and resilient payments system", Visa regards "Creating an environment to promote a safe and resilient payments system" as a more accurate description of the shared role of government, regulators, industry and consumer and business advocacy groups in this area.
- In respect to a regulatory framework that is fit-for-purpose and promotes competition, Visa welcomes the reference to participants being regulated "consistently based on the functions they provide".⁶ Alongside this text, **we recommend including a reference to regulatory entities being guided by a clear regulatory remit and using appropriate powers.**
- **Visa welcomes Treasury's priority to 'ensure alignment between payments regulation and broader digital economy transformation', particularly in the context of the Consumer Data Right (CDR).** As we address in more detail below, the Plan provides an opportunity to address the current policy misalignment with regard to CDR and Merchant Choice Routing (MCR) (also known as Least-Cost Routing), where the CDR gives consumers greater control over their data but MCR minimises it.
- On modernising payments infrastructure, we regard "creating an environment to enable a world-class payments infrastructure" as more appropriate and in line with the Government's commitment to maintain a world-class payments system⁷. Furthermore, 'infrastructure' appears to be used as a catch-all term that also covers means of payment, such as cheques (which should not be regarded as infrastructure). As a result, **we recommend that the details regarding this priority be adjusted to take account of both infrastructure and means of payment.**

⁵ What Visa recommends here is additional to what is outlined in the consultation paper on the priorities supporting and promoting the key principles. Treasury (2022), A Strategic Plan for the Payments System: Consultation Paper, [Developing a Strategic Plan for the Payments System \(treasury.gov.au\)](https://www.treasury.gov.au/developing-a-strategic-plan-for-the-payments-system), p10.

⁶ Ibid.

⁷ Ibid., p5.

Key Initiatives

Visa welcomes the detailed list of supporting initiatives outlined in the consultation paper. On the accompanying actions, some of the initiatives have detailed actions outlined, others less so and some initiatives have no actions listed. In terms of consistency, **as much as possible we would suggest a standardised approach to the detail outlined regarding each action.** We also suggest that **alongside each action the relevant government agencies and/or regulators should be listed,** as occurs with the United Kingdom's Regulatory Initiatives Grid (grid)⁸. There are other aspects of the grid that Treasury may wish to consider incorporating into the Plan, such as whether consumer interest is anticipated on specific initiatives.

Regarding the specific initiatives in the consultation paper, we share the following views:

Promote a safe and resilient payments system

Reduce the prevalence of scams and fraud

Visa strongly supports the continued focus on addressing the challenges faced by Australian consumers and businesses due to the rise in scams. Whilst payment card fraud in Australia has grown by less than 1 per cent (based on AusPayNet fraud data⁹), scams impacting Australian consumers and businesses have been on the rise over the past two years¹⁰.

Fraud occurs when a third party obtains unauthorised access to a consumer or business's payment credentials, typically through a data compromise. A scam, on the other hand, occurs when a consumer or business owner is misled to provide their payment credentials to someone they believe to be a trusted entity. These credentials are then used to perpetrate account takeovers or for unauthorised payments or transfers.

Visa believes that an industry approach through education and awareness is best to help prevent consumers and businesses from becoming victims of scams, and would welcome this being included in the Plan. We actively work with law enforcement agencies and across industry groups to drive messaging on what to look out for as well as common scams sources. Visa also works closely with our clients on delivering best practices in consumer education and ecosystem awareness to combat scams.

⁸ See [Regulatory Initiatives Grid - May 2022 \(fca.org.uk\)](https://www.fca.org.uk/regulatory-initiatives-grid)

⁹ AusPayNet Payment Fraud (2021) "Fraud Statistics Jan 2020-Dec 2020", <https://auspaynet.com.au/resources/fraud-statistics/2020-Calendar-year>

¹⁰ See for example, ACCC Scamwatch losses reported between 1 January and 19 September 2021: <https://www.scamwatch.gov.au/news-alerts/losses-reported-to-scamwatch-exceed-211-million-phone-scams-exploding> as well as <https://www.accc.gov.au/system/files/Targeting%20scams%20-%20report%20of%20the%20ACCC%20on%20scams%20activity%202021.pdf>

Visa's existing processes and rules aim to prevent our system from being used by scammers to monetise credentials. We maintain the Global Acquirer Risk Standards (GARS) that outline requirements for acquirers to manage the risks to their business and the wider payments ecosystem across onboarding, monitoring and working with third parties. This includes capabilities to identify merchants who may be driving scam activity or when merchants have become victims of scams. More specifically, Visa's global fraud and dispute monitoring programs help to identify and remediate any outlier merchants that may be driving scams.

In line with the proposed actions in the Plan, Visa will continue working with all stakeholders in the payments ecosystem and the wider economy to ensure that consumers and business are able to successfully minimise the impact of scams.

Strengthen defences against cyber-attacks

Visa strongly supports the Plan's focus on strengthening defences against cyber-attacks, including given that in recent times we have seen cyber incidents impact supply chains and infrastructure, governments, and large and small businesses in various parts of the world. In advancing such goals, **we encourage Treasury to consider the use of existing best-in-class industry standards to guide any future requirements related to cybersecurity and fraud prevention.** The nature and global reach made possible by our highly connected world continue to keep cybersecurity a top concern for both the public and private sectors. In 2020, 80 per cent of breaches globally were executed by organised crime, with the two most common targets being bank account and payment card data¹¹. In the first half of 2021, malicious or criminal cyber-attacks remained the leading source of data breaches in Australia, accounting for 65 per cent of notifications under the Notifiable Data Breach Scheme, with ransomware incidents increasing by 24 per cent¹².

Visa routinely identifies cyber threats to the payments ecosystem and updates our clients and the public through security alerts and our biannual threats report. These publications include indicators of compromise along with best practices and recommendations to identify, prevent and remediate cyber threats. Whether it's ransomware, eSkimming, Distributed Denial of Service (DDoS) attacks, or changes in the cybercrime underground, basic data security hygiene is underpinned by global standards. Global standards are the backbone of the payments industry. They both enable interoperability and scale, and are often developed in response to emerging risks. Two key initiatives Visa has strongly advocated as preventative measures against cyber

¹¹ Verizon (2021) "2021 Data Breach Investigations Report", www.verizon.com/dbir

¹² Office of the Australian Information Commissioner (2021) "Data breach report highlights ransomware and impersonation fraud as concerns", <https://www.oaic.gov.au/updates/news-and-media/data-breach-report-highlights-ransomware-and-impersonation-fraud-as-concerns/>

security threats are the introduction of tokenisation for payments¹³, and support for the Payment Card Industry Data Security Standards (PCI DSS).¹⁴ Both of these industry initiatives have provided industry participants with additional layers of security to protect against the potential compromise of sensitive data such as payment credentials. Visa strongly believes that global standards, such as tokenisation and PCI-DSS, enable interoperability and scale and should be the backbone of any local requirements.

Supervision of systemically important payment systems

The payments ecosystem's resilience is only as strong as its weakest link. As a result, Visa welcomes the Government's approach to the safety and resilience of financial market infrastructures and payment systems, and we regard the RBA as having a very important role to play in this regard. We articulated our support and appreciation for the continued government-industry partnership in our consultative feedback on the draft Critical Infrastructure Risk Management Program (RMP) rules provided to the Department of Home Affairs (Home Affairs) in November 2022.

The description of the initiative on this topic mentions plans for the RBA to broaden its work on safety and resilience to include additional payment systems, including the New Payments Platform.¹⁵ Visa welcomes this advice, including given that it supports a level playing field for both established and emerging entities and helps protect the payments ecosystem.

Ensuring the regulatory framework is fit for purpose and promotes competition

Implement changes to the Payment Systems (Regulation) Act 1998 (PSRA)

Visa welcomes the proposal that the Plan provide a roadmap for implementing reforms to the PSRA. As we stated in our submission on the issues paper to the Payments System Review¹⁶ (the review), the PSRA - and the regulation that has resulted therefrom - has generally performed well and largely enabled participants to provide secure and innovative payment services in Australia. However, as noted in both the review's terms of reference¹⁷ and by the RBA Governor, Philip Lowe¹⁸, Australia's regulatory architecture regarding payments has remained largely unchanged

¹³ To learn more about tokenisation, see Visa's Security Roadmap: 2021-23, available online at <https://www.visa.com.au/content/dam/VCOM/regional/ap/australia/global-elements/Documents/visa-security-roadmap-2021-2023.pdf>, p8

¹⁴ PCI Security Standards Council (2021) "Updated PCI DSS v4.0 Timeline" <https://blog.pcisecuritystandards.org/updated-pci-dss-v4.0-timeline>

¹⁵ Treasury (2022), "A Strategic Plan for the Payments System: Consultation Paper", <https://treasury.gov.au/sites/default/files/2022-12/c2022-343663-final.pdf>, p17

¹⁶ Visa (2021), "Response to The Treasury's Review of the Australian Payments System: Issues Paper", https://treasury.gov.au/sites/default/files/2021-02/147719_visa_0.pdf, p10

¹⁷ Treasury (2020), "Payments System Review: Issues Paper", <https://treasury.gov.au/consultation/c2020-129951>, p2

¹⁸ Reserve Bank of Australia (2020), "Innovation and Regulation in the Australian Payments System", <https://rba.gov.au/speeches/2020/sp-gov-2020-12-07.html>

for over two decades. The issues paper stated that “Given the passage of time and changes to the payments landscape, it is important to reflect on whether this structure and the mandates of individual regulatory bodies continues to deliver optimal outcomes for end-users.”¹⁹ In addition to the passage of time, the rapid pace and scale of innovation, changing consumer demands, and the heightened importance of data also make reform of the PSRA timely and relevant.

While we welcome the inclusion of a roadmap for implementing reforms to the PSRA, Visa recommends that the actions for PSRA reform include likely timing for consultation and legislation. Treasury’s consultation paper also notes that “A ministerial designation power was also recommended by the Payments System Review to empower the Treasurer to intervene where it is in the national interest to do so.”²⁰ This recommendation does not appear to be addressed in terms of potential actions for the Plan. We suggest that this be addressed.

Introduce a payments licensing regime

Visa supports regulatory frameworks that ensure financial stability and risk management, and foster competition and innovation in the payments sector. Such regulatory frameworks are most effective when they are commensurate with the risks posed by individual entities. In this regard, **we suggest that the initiative on introducing a payments licensing regime reference supporting a flexible, risk-based approach to licensing, while ensuring that licensed participants meet high standards for data protection and best-in-class cybersecurity and fraud prevention practices.** This approach takes account of the varied risk profiles of different payment system participants to properly address risk attributes. In addition, it would be appropriate if information on all categories of licences contained a full list of capabilities and obligations, as well as data on the products and services that may be developed by the holder of such a licence.

Enable greater collaboration between payment system regulators

Visa welcomes the establishment of an inter-agency payments forum²¹ to ensure effective collaboration between regulators. We see it as being most important for the forum to, as the Treasury consultation paper says, “improve consistency and certainty in regulatory outcomes, and better align with the strategic direction”. As a result, Visa recommends that a reference to these points be included in the actions for the Plan. This will assist regulators to: develop policies that are aligned; introduce initiatives that do not work at cross purposes; and finalise messaging to stakeholders that are based on an overall vision and strategy.

In addition, clarification for stakeholders regarding the membership of the forum and the relationship between the forum and the Council of Financial Regulators would be beneficial. Visa

¹⁹ Treasury (2020), “Payments System Review: Issues Paper”, <https://treasury.gov.au/sites/default/files/2020-11/c2020-129951-issues-paper.pdf>, p4

²⁰ Treasury (2022), “A Strategic Plan for the Payments System: Consultation Paper”, <https://treasury.gov.au/sites/default/files/2022-12/c2022-343663-final.pdf>, p17

²¹ Ibid., p18

believes that it may also be useful to consider mechanisms for dialogue between the forum and industry stakeholders – whether regarding the provision of updates on new payments technologies, engagement on private-public sector initiatives or and communicating with regulators on payments market developments. Among other things, this approach will ensure that industry (as the primary source of innovation) and regulators (as the creators of a regulatory environment that enables such innovation) are aligned and working towards shared objectives.

Promote competition by facilitating transparent access to payment systems

Visa has appreciated our engagement to date with both Treasury and the RBA regarding the development of the common access requirements, and we welcome opportunities to continue our dialogue on this matter. In this regard, **inclusion in the Plan of planned timings for the pathway forward on the common access requirements would be beneficial**. Adding this information to the actions would be in line with the consultation paper's actions on the related initiative of introducing a licensing regime, where there are currently references to proposed timings on consultation and legislation.

Reduce small business transaction costs

Visa is committed to helping small businesses thrive in the digital economy, enabling fast, seamless and secure payments that build and protect the trust between businesses and their customers. As a result, **we welcome the Plan taking account of reducing small business transaction costs. However, we strongly recommend that the focus on this topic in the Plan should take a broader and more complete perspective on the true costs of different payment methods available to small businesses in Australia**, including the benefits and protections they receive from these payment methods. A siloed, surface-level review of rates without context will ultimately hurt small businesses in Australia. For example, Visa's business model is specifically designed to level the playing field for small businesses. Irrespective of a merchant's size, every merchant that accepts Visa can transact with any Visa cardholder anywhere in the world. We also stand behind every transaction authorised on our network. For merchants, this means they are guaranteed to receive payment on Visa transactions authorised by the issuer in accordance with our rules. This protection extends through our clients to every merchant, irrespective of size or resources. Any true assessment of cost should take such significant benefits into consideration.

Furthermore, there are a wide range of ways to decrease small business transaction costs which are available now (and which may emerge in the future), rather than the current highlighting of MCR alone in the consultation paper. In line with this position, **we suggest that the reference in the consultation paper to "Reduce small business transaction costs, by supporting the availability of least-cost routing" be adjusted to read "Empower small businesses with better means to manage their transaction costs"**. If Treasury wishes to include a reference to LCR alongside of these words, we recommend that surcharging also be referenced, as follows: "Empower small

businesses with better means to manage their transaction costs, including least-cost routing and surcharging”²². An explanation for the inclusion of surcharging is outlined below.

In this regard, it is worth noting that the Joint Committee on Corporations and Financial Services (Joint Committee) report on mobile payment and digital wallet financial services said of MCR: “... the committee is not convinced of the scale of the purported benefits of least-cost routing advanced by some witnesses to the inquiry. ... [T]he committee notes evidence from the Reserve Bank that factoring in international fee components and payment plans may mean the difference in average costs between like for like card schemes may be less than currently estimated”²³.

This reinforces why other methods for reducing businesses’ payment transaction costs should be included in the Plan. Visa maintains a global policy of opposing merchant surcharging, given that surcharging discourages consumers from selecting their preferred payment method based on merit and convenience and does not support investment in new technology and innovation which benefits both merchants and consumers. While that is the case, we acknowledge that surcharging is expressly permitted by regulation in Australia. Given that context, Visa recommends that **surcharging be referenced in the Plan as a tool to reduce small business transaction costs**, while also recognising that attention on this topic should be maintained in effort to protect consumers from excessive surcharging.

Visa also suggests that the Plan should ensure that MCR is available to all merchants (rather than also focusing on enablement), and that they are free to adopt it if they wish. Education about the availability and features of MCR is critical to ensure that all merchants are able to make their own fully-informed decisions about whether to enable MCR as appropriate to help them manage costs and meet their overall business needs. Merchants may see advantages in choosing certain payment acceptance solutions based on a number of factors, such as system resilience, innovation, value and simplicity – and not just cost. This reflects a market trend wherein small businesses are selecting point-of-sale technologies that not only facilitate payments acceptance but which power payroll processes, inventory management and more.²⁴

In addition, we recommend that the Plan address the current policy misalignment between the CDR and MCR. As the consultation paper says, the CDR “gives consumers control over their data”.²⁵ More specifically, that control gives consumers the choice to select the security, privacy,

²² Treasury (2022), “A Strategic Plan for the Payments System: Consultation Paper”, <https://treasury.gov.au/sites/default/files/2022-12/c2022-343663-final.pdf>, p12

²³ Parliamentary Joint Committee on Corporations and Financial Services (2021), “Mobile Payment and Digital Wallets”, https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Corporations_and_Financial_Services/Mobileanddigitalwallet/Report, p85

²⁴ For example, a recent McKinsey survey of US merchants found that the average spending on value-added services ranges from US\$11,306 for a small merchant to US \$112,067 for a large merchant, with the most common services for small merchants by spend including insurance, marketing, and customer relationship management. See McKinsey (2022), “McKinsey 2022 Global Payments Report”, for further details: [The 2022 McKinsey Global Payments Report | Financial Services | McKinsey & Company](#)

²⁵ Treasury (2022), “A Strategic Plan for the Payments System: Consultation Paper”, <https://treasury.gov.au/sites/default/files/2022-12/c2022-343663-final.pdf>, p19

and other payment product features that best suit their diverse needs. But, with regard to MCR, the Joint Committee concluded: “Some consumers may consequently face additional costs or inconvenience associated with managing their finances if they are unable to control the route through which their payments are processed”.²⁶ We encourage the Government to rectify this misalignment between the two policies because **the current emphasis on MCR over CDR puts merchant preference ahead of consumer protection in such a way that could significantly erode trust and confidence in an open data economy.**

To bring these policy objectives back into balance and ensure MCR’s consistency with the CDR, one solution would be to introduce a standard pathway for payment routing authorisation, which would provide a sufficiently visible opportunity for a consumer to provide advice if they wish a payment to be routed in a specific manner whether in-person, online or via a digital wallet. If a consumer did not indicate a preference in this regard, then a merchant could route the payment as they wished. The introduction of this pathway would enable improved alignment regarding the co-existence of both MCR and the CDR than is currently the case.

This approach takes account of security, risk and operational profiles varying significantly by payment network, particularly in the online environment and at a time when consumers have heightened concerns regarding security, scams and fraud. For instance, when paying with Visa online, transactions are secured with additional data elements to facilitate consumer authentication – the in-store equivalent of a consumer entering their PIN.²⁷ The network additionally processes and validates these authentication elements on which issuers rely when deciding to authenticate a purchase. In some cases, transactions may fail if automatically rerouted to an alternative payment network for processing.

In this regard, consumers should be able to trust that their payment options will deliver the benefits and protections they expect from their provider regarding security, convenience, and overall value, and that payment networks’ respective capability sets are clearly delineated in the online environment. A May 2021 survey found that consumers residing in Australia place security-related benefits top of the list of features considered important while paying with a debit card. In addition, those surveyed wanted to know how their online debit card purchase would be processed (95 per cent) and 61 per cent believed that retailers should not decide for them.²⁸ Every time a consumer makes a payment, they make an intentional decision on how to pay. That decision is based on multiple factors, including security, convenience, and protections in areas like fraud. To allow that choice to be circumvented by a merchant, without any notice, is

²⁶ Parliamentary Joint Committee on Corporations and Financial Services (2021), “Mobile Payment and Digital Wallets”, https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Corporations_and_Financial_Services/Mobileanddigitalwallet/Report, p86

²⁷ In a card present environment, presentation of a physical chip enables encrypted data to be incorporated as part of the payment message (including the Cardholder Verification Method – such as a unique PIN) that is secured end-to-end, from the POS through to the Issuer.

²⁸ CLEAR (2021) ‘Uncovering preference for routing debit transactions in Australia’ research commissioned by Visa in May 2021. Based on a survey of 2,045 Australian debit cardholders aged between 18-75 years undertaken in an independent capacity.

inconsistent with the principles of consumer protection that otherwise underpin other areas of Australian policy law.

Alignment with the broader digital economy transformation

Ensure the payments system is aligned with developments under the Consumer Data Right framework

Visa agrees with Treasury's assessment that action initiation is a significant step in the ongoing process of strengthening and deepening CDR functionality and we see payment initiation as a natural evolution. As part of that evolution, we recommend that some key considerations be taken account of in finalising the Plan:

- Enabling a flexible, principles-based approach to action initiation, including payment initiation, will lead to greater innovation and competition. The CDR's success and the open data ecosystem hinge on a commercially competitive environment in which new business models can develop and thrive, encouraging developers, intermediaries, and financial institutions to invest in new and innovative financial services to meet consumer demand. Visa has observed that regulations which lack flexibility have hindered adoption and innovation of open banking regimes in other jurisdictions. At this early stage of action initiation in Australia, a prescriptive approach could stifle innovation, inhibit the emergence of different business models, and may ultimately result in delayed innovation and consumer adoption. We believe that CDR in Australia is best served by a framework that appropriately focuses on data security, transparency, and consumer choice.
- Consent requirements, including those relating to payment initiation, should be meaningful while ensuring appropriate flexibility. This flexibility should accommodate emerging business models, without deviating from key principles such as security of consumer data and interoperability.
- **Embracing a technology neutral approach, thereby enabling greater participation by different industry participants.** The focus of enabling payment initiation should be on the framework conditions for data access, not on the Application Programming Interface (API) or underlying payment-rails technology. This not only enables greater participation and innovation but locking into a specific technology risks it becoming outdated in the future.
- Consumer protection and choice should be a central theme. **As CDR is a consumer driven framework, with consent as one of its central tenets, Visa recommends that any extension to payment initiation should continue to maintain the principle of consent and choice.** Similarly, a consumer of a financial product or service should benefit from similar types of consumer protections irrespective of whether they are offered by a federally-regulated financial institution, a fintech, or any other entity. We encourage Treasury to seek synergies with existing domestic frameworks, given that the type of entity providing a service should not have implications on consumer protections for Australians.

Explore the policy rationale for a central bank digital currency (CBDC) in Australia, including investigating the economic, legal, regulatory and technological considerations associated with an Australian CBDC.

Visa is committed to evolving and supporting new forms of payments, including CBDCs, and thus welcomes including the explorative work on CBDCs in the Plan. Given Visa's collaboration with several central banks and financial institutions on pilot and prototype actual use cases and our long-standing expertise and experience in enabling retail and commercial payment flows for consumers, we look forward to supporting Australia's work across design considerations such as interoperability with other CBDCs or tokenised bank deposits. In addition, we welcome opportunities to engage on relevant use cases that are complementary and additive to existing private digital payments, including programmable capabilities.

Modernise payments system infrastructure

Support the transition to more modern payments infrastructure

On the initiative regarding modernisation of payments system infrastructure, we recommend **distinguishing between infrastructure and means of payment**. For example, cheques are a means of payment rather than a piece of infrastructure.

Maintain adequate access to cash

Visa recommends that the title for **this initiative should be "Ensure all Australians have access to both physical and digital means of payment" rather than "Maintain adequate access to cash"**. The benefit of this adjustment is that the title for this initiative will have greater longevity in terms of the future evolution of payments than the current description, which focuses on a specific point in time with regard to one form of payment.

More specifically on cash (and the detailed description of the initiative), Visa encourages the Plan to take account of a digital economy that works for all depending on everyone having the skills and tools they need to participate. This is a matter of both empowering consumers and businesses, and of responsible participants across every sector playing their part to make the transition to digital payments seamless and accessible to all. Visa is confident that the transition to digital payments works for the vast majority of people in Australia. For those for whom cash remains an important payment method, we continue to have a role through our support for the Automated Teller Machine (ATM) network across Australia, which is one of the most common ways to access cash and which is particularly important for people in regional and remote communities.

In addition, the issue of access to cash is broader than ensuring there are sufficient cash access points – Government and industry should work together to ensure there are no barriers to consumers transitioning to digital payments, should they wish to do so, and that this transition is

as smooth as possible, so no one is left behind. Without getting the latter right, there is the risk of exacerbating the former – especially given the impact of the COVID-19 pandemic on this transition.

Support international efforts to enhance cross-border payments

Visa supports the Financial Stability Board's (FSB) reprioritisation of the G20 Cross-Border Payments Roadmap (the G20 Roadmap) and welcomes the opportunity to work with Australia on the focus areas, including through the Plan. In developing the Plan, **we encourage Treasury to take account of public and private sector partnerships as the key to successfully enhancing cross-border payments across three areas: 1) improving payment system interoperability; 2) aligning national legal, regulatory, and supervisory frameworks; and 3) improving cross-border data exchange and message standards.**

We also recommend that implementation of the Plan should prioritise coordination and consistency of Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) and associated regulatory frameworks as a foundation for improving interoperability and improving data exchange and messaging standards. This is consistent with the private sector's position via the Institute of International Finance (IIF) which supported the prioritisation of the existing building blocks in the G20 Roadmap to address regulatory fragmentation associated with AML/CFT.²⁹

Finally, as Treasury's and industry's efforts to improve cross-border payments continue, there is an opportunity to give a voice to end-users and their needs, a perspective sometimes missing from these dialogues. In particular, the current approach to the cross-border targets in the G20 Roadmap risks not fully accounting for the varied improvements needed to address end-user needs by use case, corridor, and context. Visa welcomes the opportunity to share its perspectives with Treasury on the value in understanding end-user needs across a wider set of attributes and more granular use cases, particularly given the Government's focus on financial inclusion in the Pacific nations.

For Visa's further views on issues to take account of in enhancing cross-border payments, including with regard to the G20 Roadmap, see Appendix A.

²⁹ G20 Roadmap to enhance cross-border payments: IIF industry position paper, August 2022

Roadmap

Visa supports a thorough roadmap that outlines Treasury's expectations and timings. This will provide direction for participants and help drive greater industry collaboration towards common goals. For technical and/or major milestones, we suggest that Treasury ensure there is sufficient time for industry consideration and action from publication to implementation, so that we can communicate and coordinate with our partners and update relevant systems, processes, and operations. Maintaining regular dialogue with industry on realistic and achievable timeframes regarding any initiatives will be beneficial in this regard.

Part 2: Process for reviewing the Strategic Plan

Visa has appreciated Treasury's consultative approach over many years, and we look forward to maintaining this constructive dialogue as the Plan is implemented and subsequently reviewed. Specifically, we welcome the Plan's inclusion of bilateral industry stakeholder meetings to discuss progress and key future areas of focus. In addition, following the bilateral meetings, Visa would welcome opportunities for industry to provide targeted written feedback or submissions – should they see it as beneficial to the Plan's direction and success. We appreciate that, based on the timetable outlined in the process for reviewing the Plan, any such written feedback or submissions will need to be provided promptly.

Noting that the "Payments system review: From system to ecosystem" report (the report) did not set a specific timetable for review of the Plan³⁰, **we suggest that Treasury reconsider annual reviews of the Plan, including given that major industry investments in support of specific initiatives will require longer timelines.** Exceptions to this suggested approach would be major developments that require immediate review and updating of the Plan and/or major challenges with implementation of an initiative that would trigger the need for earlier engagement and review. Such situations could be handled on a case-by-case basis and are in line with the report.³¹

³⁰ Australian Government (2021), "Payments system review: From system to ecosystem", <https://treasury.gov.au/sites/default/files/2021-08/p2021-198587.pdf>, p15

³¹ Ibid.

Conclusion

As the Treasury consultation paper states, Australia's payments system is crucial for the economy's smooth operation and provides the link through which the country interacts with the global marketplace.³² Visa is honoured to play our role in contributing to economic growth, development and financial inclusion in Australia. This is central to our mission.

Our engagement with Treasury since the Review of the Australian Payments System (the review) commenced in October 2020 is an extension of our broader efforts to contribute to Australia's economic growth and ensure that the nation's payments system remains resilient, secure, innovative and accessible. More specifically, Visa has approached the review since it began with the belief that industry consultation helps determine the practical implications of regulatory reform and can contribute to the development of effective and commercially-viable safeguards for all participants in the payments ecosystem. In addition, such dialogue can contribute to ensuring that regulation is not only appropriate for the current environment but remains relevant for the foreseeable future.

As the Introduction to Visa's submission outlined, this assessment of the Australian payments system has been taking place at a time of great challenge and change which is likely to continue for a sustained period. It is against this backdrop Visa recommends in this submission that the Government's goal of ensuring Australia has a world-class payments system is best served if the regulatory system is designed to nurture a variety of domestic and international payments operators and providers with different technologies and attributes. This reduces the potential impact on the Australian economy if it were reliant on a single form of payment and/or payment infrastructure. Furthermore, the co-existence of multiple payment technologies offered through a variety of entities enables the principles outlined in the consultation paper - efficiency, innovation, access and trust - as well as competition.

Such an approach - which Visa encourages serve as the foundation for the Plan - provides Australia with a payments sector which can support maintenance of a world-class payments system now, and into the future, and give choice to both consumers and businesses. In addition and importantly, it balances the risks in the payments ecosystem and maximises competition and innovation.

Visa looks forward to continuing to engage with Treasury through dialogue on this submission and via further consultation processes to ensure that Australia's digital payments system benefits the nation's consumers and businesses and contributes to national prosperity.

³² Treasury (2022), "A Strategic Plan for the Payments System: Consultation Paper", <https://treasury.gov.au/sites/default/files/2022-12/c2022-343663-final.pdf>, p4

About Visa

Visa is one of the world's leaders in digital payments. Our mission is to connect the world through the most secure, reliable, and innovative payment network – enabling individuals, businesses, and economies to thrive. We facilitate global commerce and money movement across more than 200 countries and territories and among consumers, financial institutions, businesses, strategic partners, and government entities through innovative technologies.

In Australia, Visa has offices in Sydney and Melbourne. Together with our Australian financial institutions, fintech and business clients, and our technology partners, we are committed to building a future of commerce that fosters Australian economic growth, security and innovation. Since 2020, Visa has worked with Global Sisters to provide business mentoring and coaching to aspiring businesswomen who recently graduated from Global Sisters' small business education program. In the same year, we launched #WhereYouShopMatters, an initiative focused on supporting Australian small businesses through education and promotion. Prior to this, Visa partnered with Quest Payment Systems and The Big Issue, the independent magazine sold by homeless, marginalised and disadvantaged people, to enable Big Issue vendors to accept digital payments.

Visa continues to enable new payment flows and expand acceptance across the payments ecosystem, ensuring that every Australian can both pay and be paid in a secure and convenient way. We are realising this through Visa Fintech Partner Connect and the Visa Accelerator Program. The program provides Australian fintechs with access to Visa's technologies, networks and solutions, enabling businesses to scale for the benefit of consumers, businesses and the economy. Regarding security, over a five-year period, Visa invested nearly US\$9 billion in systems resilience, fraud management and cybersecurity, including tokenisation, Artificial Intelligence (AI) and blockchain-based solutions, to bring even more security to every transaction.³³ In 2021, Visa's AI-driven security helped financial institutions prevent more than AU\$354 million in fraud from impacting Australian businesses.³⁴ As commerce moves rapidly online, the threat landscape is also changing and, in response, Visa released its updated [Australian Security Roadmap 2021-23](#), given the increasing risk of cybercrime and scams facing Australian businesses and consumers. The roadmap highlights the steps that Visa is taking, together with industry, to continue securing digital payments in Australia.

³³ Visa internal data on global technology and operations investments, FY15-FY19. For further detail, see <https://usa.visa.com/visa-everywhere/blog/bdp/2019/12/24/investing-in-the-1577207091483.html>

³⁴ Visa (2021), "Visa's AI prevents more than \$350 million in fraud from disrupting Australian businesses", <https://www.visa.com.au/about-visa/newsroom/press-releases/visas-ai-prevents-more-than-350-million-in-fraud-from-disrupting-australian-businesses.html>

Appendix A: Enhancing Cross-Border Payments

Cross-border payments are inherently more complex

The operational challenges and settlement risks posed by cross-border transactions are significantly greater than domestic transactions. The risks and operational challenges posed by cross-border transactions also differ from country to country, including but not limited to settlement exposure, different message formats, varying operating hours, differing legacy technology platforms, and unique transaction fraud rates across corridors. These challenges should be considered when designing interoperable payment systems across multiple jurisdictions.

Additionally, differing legal, regulatory and oversight frameworks can pose significant challenges for establishing interoperability. As an example, the Committee on Payments and Market Infrastructures (CPMI) illustrated that divergent regulatory frameworks increase the legal risk of interoperable payment systems because of differences in default, settlement, netting, restrictions on data flows, and AML/CFT.³⁵

Application of legal, regulatory, or supervisory frameworks within a single payments ecosystem can have unintended consequences for other payment participants, including Pacific Island nations

Visa supports Australia's efforts to address challenges in de-risking and the promotion of consistent application of AML/CFT standards across the region, especially as it relates to financial inclusion in Pacific nations. However, international coordination and cooperation are needed to alleviate the frictions arising from differing regulations and policies across multiple jurisdictions.

As an example, regulatory fragmentation costs the global economy US\$780 billion a year.³⁶ Relatedly, a 2021 Financial Action Task Force (FATF) survey found that over 65 per cent of respondents identified divergent AML and CFT rules were one of the most significant cost drivers for cross-border payments.³⁷ Furthermore, uncoordinated regulatory policies across different jurisdictions have led some banks to shed their correspondent banking relationships and stop supporting certain emerging market payment corridors (e.g., "de-risking"). As an example, the Bank for International Settlement (BIS) highlighted that correspondent banking relationships contracted 25 per cent between 2011 and 2020.³⁸

³⁵ CPMI Interlinking Payment Systems and the Role of APIs – A Framework for Cross-Border Payments, July 2022

³⁶ International Federation of Accountants (IFAC) and Business at OECD (2018), "Regulatory Divergence: Costs, Risk, Impacts", <https://www.ifac.org/system/files/publications/files/IFAC-OECD-Regulatory-Divergence.pdf>

³⁷ Financial Action Task Force (2021), "Cross-Border-Payments", <https://www.fatf-gafi.org/publications/fatfrecommendations/documents/cross-border-payments.html>

³⁸ Bank for international Settlements (2021), "Correspondent banking trends persisted in 2020, even as payment landscape changed, new data show", <https://www.bis.org/press/p211213.htm>

The global cross-border data and messaging system needs to be open and interoperable

Visa supports the free flow of cross-border data based on international cooperation and standards. Well-designed and technology-neutral standards created by the international standards community are typically also more agile, flexible, and ‘future proof’ than rules-based regulation. This can be a powerful way to drive best practices, minimise risks, and build cross-border interoperability—both technical and legal.

More specifically, international standards form the backbone of the payments industry and, as a result, we recommend that the Plan follow the use of established standards-setting bodies and industry forums to enable the right expertise to develop and evolve industry-specific standards. This approach allows the market to innovate and evolve as end-user needs and technology shifts. This also helps ensure interoperability and a lower cost of investment for participants in the ecosystem.

In conclusion regarding this initiative, Visa welcomes the opportunity to work with Australia on the development and the implementation of the Plan, especially as it relates to the priority areas of the G20 Roadmap, with a focus on aligning regulatory frameworks. However, as Treasury’s and industry’s efforts continue to improve cross-border payments, there is an opportunity to give a voice to end users and their needs, a perspective sometimes missing from these dialogues.³⁹

In particular, the current approach to the cross-border targets in the G20 Roadmap risks not fully accounting for the varied improvements needed to address end user needs by use case, corridor, and context. Specifically, it risks combining frameworks for transactions that have almost nothing in common.

In the recent Visa Economic Empowerment Institute paper titled, “[Let’s give a voice to end users: Cross-border payments, attributes, and use cases](#),” we illustrate the value in understanding end user needs across a wider set of attributes (i.e., beyond cost, speed, access, and transparency) and a more granular set of use cases to help articulate how these policies will affect real people, real businesses, and the real economy. Assessing how well cross-border payment solutions are meeting those end user needs can then inform how both the public and private sectors should prioritise, implement, and monitor improvements.

³⁹ Visa uses “end users” broadly in this paper to encompass stakeholders such as consumers, businesses, and migrant workers sending remittances, among others.