

Mandatory Industry Codes on Scams

RBA Submission to Treasury Consultation

January 2024

Introduction

The Reserve Bank of Australia (RBA) welcomes the Government's efforts to combat scams and endorses the need for a risk-based, whole-of-ecosystem approach. The introduction of a Framework that brings together regulators and government agencies, banks, telecommunications providers, and digital platforms in a coordinated manner is a key undertaking.

The RBA is the principal regulator of Australia's payments system with a mandate to promote the safety, efficiency, and competitiveness of the payments system. Consistent with this mandate, this submission highlights the potential effects of the proposed framework on the payments system.

The Australian payments industry is undergoing a period of significant, prolonged change. To meet the demands of an increasingly digitised economy, industry has been investing to transition away from legacy systems, reliant on aging technology, to more modern payment systems.

Consumers and businesses increasingly expect payment services to be fast, convenient and reliable.¹ This is reflected in consumers shifting to electronic payment methods, including online and more convenient payment methods (e.g. tapping their phone or cards).²

Addressing the threat posed by scams will enhance the security of the payments system. End users also need to be confident that a payment system is secure, so that using it does not expose them to losses due to fraud or scams. Left unaddressed, the increasing incidence of fraud and scams has the potential to undermine confidence in the Australian payments system and economy more broadly.

Modern payment systems and emerging risks

The functionality of older payment systems can render them increasingly vulnerable to fraud and scams over time. For example, Australia's primary account-to-account payment system, the Bulk Electronic Clearing System, was not built to support the verification of the payee's identity when the payer is initiating a transaction. This increases the risk that users are defrauded, with funds being sent to a scammer instead of a legitimate payee.

¹ See [A Strategic Plan for Australia's Payments System \(treasury.gov.au\)](https://www.treasury.gov.au/consultations/industry-codes-on-scams) (2023)

² See [Consumer Payment Behaviour in Australia | Bulletin – June 2023 | RBA](https://www.rba.gov.au/publications/bulletin/2023/june/consumer-payment-behaviour-in-australia)

The transition to more technically advanced payment systems can assist the security of payments by enabling more sophisticated approaches to the management of fraud risks, including scams.³ Modern payment systems carry richer data and thus more information regarding payments, which can support the use of fraud prevention tools. For example, more sophisticated fraud-detection systems can:

- Better leverage transactional data to trigger additional authentication measures
- Facilitate faster and more effective information sharing across the eco-system to enable coordinated fraud prevention
- Enable real-time verification of the payment recipient, which provides assurance to payers that the payment is being sent to the intended recipient.

Speed of payments

Real-time payment systems, such as the New Payments Platform (NPP), allow for near instantaneous 24/7 account-to-account payments and automated end-to-end processing. Customers benefit from having funds available almost immediately. However, fast access to cleared funds is also attractive to scammers and the speed of the transactions makes it difficult for financial institutions to perform fraud checks in the background. One way of mitigating this risk is to slow down processing of payments to allow fraud prevention measures to take place.⁴

The RBA recognises that introducing friction to slow transactions is one potential tool in the fight against scams. However, where possible, the introduction of friction should be calibrated to the risk of a payment, evidence-based and regularly reviewed so that low-risk transactions continue to flow as efficiently as possible.

Measures to slow transactions in modern payment systems could constrain the delivery of innovative new services to consumers and businesses. Slower payments could also reduce the incentive for consumers and businesses to use modern payment systems, undermining opportunities for them to benefit from the additional fraud mitigation features they offer. Measures to address scams will be most effective when used in a risk-based manner and in conjunction with sophisticated fraud-detection technologies.

Competition and access

The RBA has a longstanding interest in participants having competitive access to payment systems when providing services to their customers, while managing the associated risks. To ensure the ongoing competitiveness of the Australian payments system, it is important that the proposed sector-specific obligations, particularly for banks, do not have unintended consequences for non-

³ "There is a clear benefit to industry prioritising the transition of consumer-facing payments onto the NPP, both from an efficiency standpoint (for example, speed of transfers and 24/7 availability) and from a safety standpoint (the NPP enables payee confirmation through PayID)." P21 [A Strategic Plan for Australia's Payments System \(treasury.gov.au\)](#)

⁴ See [World Bank Group \(October 2023\)](#)

bank payment service providers that rely on banks for access to the payments system. If friction is introduced in payments processing, it should be risk-based and competitively neutral.

The proposed Framework will apply to banks, with the potential for it to extend to additional designated sectors, such as non-bank payments service providers in the future. It will be important that the scope of the proposed Framework is clear, particularly in the context of upcoming changes to industry standards and licensing for payments service providers.

Reserve Bank of Australia

29 January 2024