APCA Submission to the Financial System Inquiry

March 2014

APCA Improving Australian Payments

About this document

This document has been prepared on behalf of the Australian Payments Clearing Association Limited (APCA).

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Note

APCA is the industry association and self-regulatory body for Australian payments and has nearly 100 members. The views expressed herein represent the policy position of the APCA Board as appointed by its members. The views do not necessarily represent the individual views of members.

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Executive Summary

The Australian Payments Clearing Association (APCA), as the industry association and self-regulatory body for Australian payments, is pleased to make this submission to the Financial System Inquiry.

The payments system is the basic plumbing of the economy. Australian businesses and consumers expect payment offerings that are secure, reliable, efficient and convenient while responding to new technology and market evolution. This requires a continuous balancing of different public policy goals – financial stability, systemic efficiency, consumer protection and competition-driven innovation.

Australia has one of the most developed and dynamic payment systems in the world. The system performed well during the turmoil created by the global financial crisis, and rates well on global comparative measures such as increasing electronic payments, the range of payment methods and the speed and diversity of innovations.

In APCA's submission, this performance owes much to industry and the Reserve Bank of Australia (RBA) as regulator finding an effective and sustainable balance between competition and coordination. Australia's payment services markets are characterised by a large and diverse range of participants who have relatively open access to payments network infrastructure. Payments industry participants (including the regulator) have been able to work together to bring about necessary improvements to the network infrastructure underlying the payments system, including platform renewal and an enhanced industry-regulator dialogue. Current examples of this are the New Payments Platform and the Australian Payments Council, outlined in Appendix 4.

In 1997, the Financial System Inquiry's final report ("the Wallis Report") established financial stability as the overriding policy objective, recommending the creation of the Payments System Board (PSB) within the RBA as a specialist payments regulator with powers designed to encourage industry engagement and co-regulation.

In the main, the recommendations of the Wallis Report, and the ensuing regulatory regime for payments, have served the economy and the community well because of commitment and engagement from industry participants, including the RBA. **APCA believes the current regulatory structure for payments has worked well and radical surgery of payments regulation is unnecessary**.

However, new entrants, emergent competition and new technology are transforming the payments system and the payment services market. The sophistication and market impact of these changes go well beyond that of the store gift cards, loyalty programs and electronic tolls foreseen by Wallis. They now include a massive range of online and card-based payment offerings, mobile payment apps and even so-called crypto-currencies such as Bitcoin. It is reasonable to predict the decline of physical, utility paper methods in favour of a growth of commercialised and competitive payment alternatives tailored to meet diverse user needs. This is the "marketisation" of payments - the non-competing schemes and payment products that dominated the payments landscape in 1997 are now competing with each other and with new entrants.

In a rapidly changing technologically complex environment, the regulator cannot hope to predict technology winners, either amongst new entrants or amongst new payment methods. Equally, leaving public policy considerations solely to market forces may result in sub-optimal outcomes, particularly given public concerns for security and stability and the need for industry coordination. **APCA believes the co-regulatory approach adopted by the PSB and the industry has proved a sound and sustainable way of resolving these challenges.**

Within this overall framework, there are some emerging challenges where clear policy principles and focus would assist:

Principle 1

The diversity of new entrants creates increasing challenges in ensuring functional equivalence of regulation – that is, the same economic activity should be regulated in the same way, regardless of different participants and different forms. **APCA proposes that the Inquiry reaffirms the principle of functional equivalence, first articulated in the Wallis Report.**

Principle 2

Since Wallis, the Australia payments industry has evolved a three-step co-regulatory approach to payment system regulation and governance:

1. Following wide consultation, the PSB sets clear high-level policy objectives;
2. Through industry collaboration and self-regulation, payment system participants devise the best means to achieve the objectives; and
3. The PSB retains the ability to step in as a last resort if this does not deliver the required outcome.

APCA proposes that the Inquiry recognise and support co-regulatory responses to emerging challenges in the payments system.

Principle 3

The emerging digital economy provides an opportunity for all Australians by providing greater convenience, efficiency and choice. Promoting the use of electronic payments assists Australians in taking advantage of this opportunity. However, there are sectors of our community that continue to rely on paper payments and who may miss out on those opportunities. **APCA proposes that government work with industry and other stakeholders to actively promote the use of electronic payments**.

These principles inform a number of specific recommendations listed below.

Recommendations

This submission makes a number of recommendations in support of the above principles. The body of the submission provides supporting argument for these recommendations.

Recommendation 1: APCA believes the current regulatory structure for payments has worked well and radical surgery of payments regulation is unnecessary.

Recommendation 2: APCA believes that the co-regulatory approach of setting clear high-level policy objectives, supported by coordination and self-regulation by payment system participants to achieve them, is the best way to meet future challenges. The RBA should retain the ability to step in as a last resort if this does not deliver the required outcome.

Recommendation 3: That the proposed new Payments Council has a critical role in advising on how to deal with new entrants and new technologies to minimise the potential for premature or inappropriate intervention by public regulators.

Recommendation 4: That clear and consistent regulatory requirements be applied to all participants.

Recommendation 5: That the RBA's jurisdictional reach under the *Payment Systems (Regulation) Act* (PSRA) be reviewed to ensure that it can effectively respond to new entrants, increasing technological diversity and increasing marketisation of payment systems and networks.

Recommendation 6: That governments articulate a clear position on reducing the use of cheques and cash and on promoting electronic payments.

Recommendation 7: That the Attorney-General's Department prepare an omnibus bill to remove specific references to cheques. This issue should also be addressed at the Council of Australian Governments (COAG) to ensure parallel take up by state governments.

Recommendation 8: That the RBA work with industry to achieve a clear position on charging for cheques and other payment instruments.

Recommendation 9: That Government policy on coinage should recognise and encourage reduced use of coins, and in particular the Royal Australian Mint should accept the return of coins from financial institutions.

Recommendation 10: That governments support bridging strategies and education campaigns on the benefits of existing telephone, electronic and online payments aimed at those (typically older Australians, rural and regional communities, and small business) who, today, remain reliant on cheques.

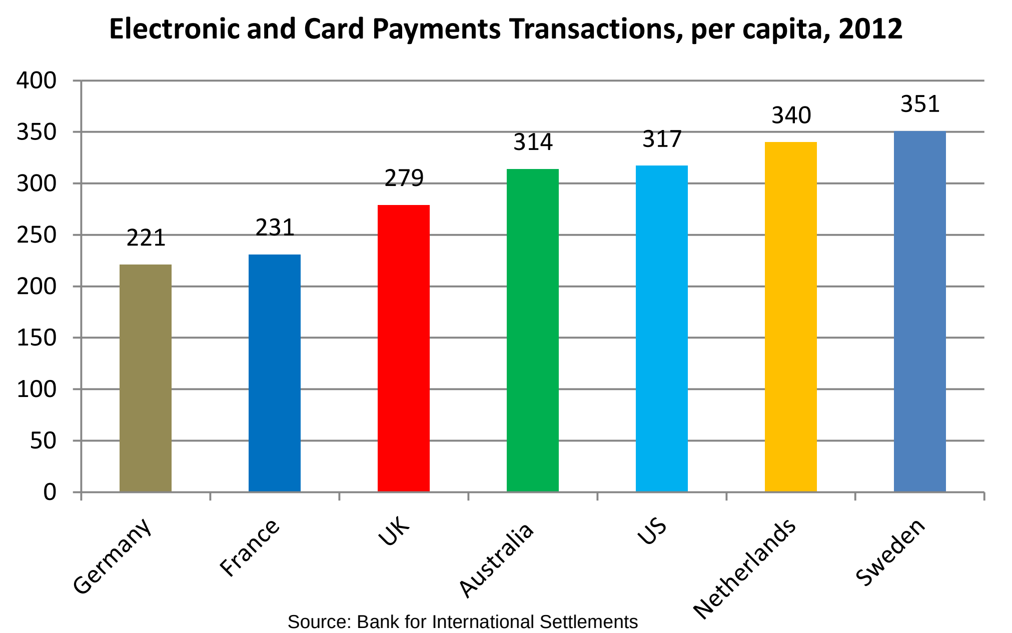
Recommendation 11: That inter-regulatory coordination protocols be reviewed in an effort to minimise the burden of regulated entities, particularly smaller organisations, having to deal with multiple regulators.

1. Australian Payments in a Global Context

Australia has one of the most developed and dynamic payment systems in the world. Competition has been a clear driver for this, while the RBA and industry have worked together to help achieve a system that is also efficient and secure.

Australia is one of the most highly banked nations in the world, with an estimated 99 per cent of persons over the age of 15 having an account with a formal financial institution, as well as 79 per cent having a debit card and 64 per cent a credit card.[1]

Australians have also embraced efficient electronic and card-based means of payment. Figures published by the Bank for International Settlements in December 2013 place the number of electronic and card-based payments per capita in Australia at 314 for 2012. This situates Australia slightly behind the United States, Sweden and the Netherlands, but well ahead of significant European markets such as the United Kingdom, France and Germany.[2]



Source: Bank for International Settlements

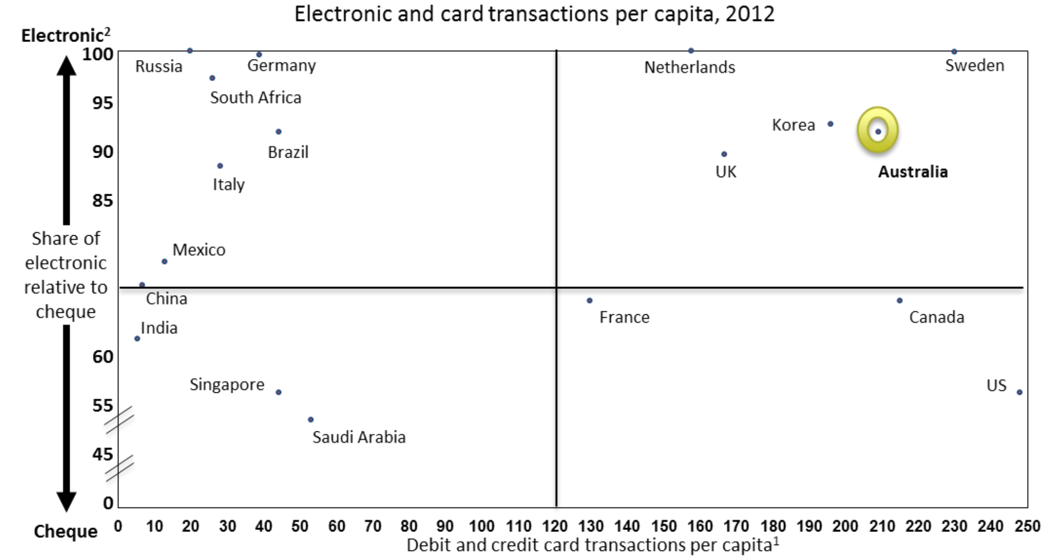
One aspect of this has been a shift away from cheques towards electronic and card-based payments in recent years. Cheque volumes in Australia have declined by 66 per cent over the past decade. The number of cheques per capita in Australia was 10 in 2012, less than that seen in similar markets such as Canada (22) and the United Kingdom (13).[3]

[1] World Bank Global Findex, http://datatopics.worldbank.org/financialinclusion/country/australia accessed 11 March 2014.
[2] Bank for International Settlements, *Statistics on payment, clearing and settlement systems in the CPSS countries - Figures for 2012*, December 2013. Table 7c.
[3] Ibid.

Recent reports have identified Australia as a leading market in the shift to electronic and card-based payments.[4] For example, in September 2013, MasterCard Advisors released its "Cashless Journey" Study.[5] Using World Bank data as well as other sources, the report examined 33 countries and assessed their readiness and trajectory to become "effectively cashless". The MasterCard report locates Australia, along with Belgium, France, the Netherlands, the United Kingdom, Sweden and Canada, within an elite group of "Nearly Cashless" countries – where use of non-cash alternatives is well-established and dominant.

The McKinsey Global Payments Map (below) similarly locates Australia among the top countries in terms of the adoption of electronic and card-based payments.

Electronic and card transactions per capita, 2012



1 Debit and credit card transactions, excluding ePurse and prepaid
2 Electronic consist of credit transfers and Direct (ACH) debits; for this purpose it excludes card transactions
Source: McKinsey Global Payments Map, Revised and Updated by APCA using BIS data, December 2013

The shift from paper-based to electronic and card-based payments has been a long-term trend. Cash, as a means of payment, has also been in decline even though cash in circulation is rising. More details about recent payment trends can be found in Appendix 1.

Online retailing is helping to drive the increase in online and mobile payments. According to NAB's Online Retail Sales Index, in the twelve months to June 2013, Australians spent up to $13.9 billion online. This represents about 6.2 per cent of total retail spending. The growth rates of online retailing are particularly impressive registering 14 per cent, with traditional retailing only growing 2.4 per cent for the same period.

Australian financial institutions are increasingly offering mobile banking and mobile payments. A number of financial institutions note that online banking sessions initiated

[4] *Getting Ready for Digital Money: A Roadmap* (2014) Imperial College London and Citi, January 2014.
[5] http://www.mastercardadvisors.com/cashlessjourney/

through portable devices such as smartphones and tablets now outnumber those initiated at traditional fixed PCs. Research from Google and IPSOS notes that Australia has the second highest proportion of smartphone penetration, with 37 per cent of all Australians owning a smartphone. (Only Singapore ranks higher.) Of those, 47 per cent have done banking through their smartphone.[6]

Australians are also embracing convenient new point-of-sale technology such as "contactless" cards. Typically used to pay for small purchases, contactless cards enable cardholders to simply tap their credit or debit card against the terminal. For transactions under a certain amount (usually around $100 for a single transaction), no further verification, such as a PIN or signature, is required. Most of Australia's point-of-sale terminals have also been upgraded to accept EMV[7] chip-based credit cards. The chip technology provides added protection against card fraud. September 2013 data from RFi found that 69 per cent of Australians owned a contactless card - an increase from 54 per cent in July that year.[8] Visa estimates that there are now 100,000 contactless terminals and over 1 million contactless transactions made per day, with contactless card transactions representing over 10 per cent of all card transactions. It has also been noted that Australia has one of the highest per capita uses of contactless cards in the world.[9]

To facilitate this, Australia's financial institutions are making significant investments into technology. On a capitalised software expenditure as a proportion of assets basis, Australia's four major banks are the most significant investors of the world's major financial institutions.[10]

The Australian payments system performed well throughout the global financial crisis. Paper, electronic and card-based systems all continued to operate seamlessly and met the needs of users throughout the crisis. The payments system proved both resilient and flexible, contributing to financial stability when it was most needed.[11]

Australian payment fraud levels, particularly in respect to card payments, compare well with other jurisdictions. For example, the rate of fraud on all Australian-issued payment cards was 43.5c in every $1000 transacted for the calendar year 2012, which is below the global average of 52.2c in every $1000 transacted, as estimated by the Nilson Report.[12] The United States, where magnetic stripe cards and signatures remain dominant over chip cards and PINs, accounts for about one-quarter of card transactions worldwide but nearly half of all the fraud. Indeed US legislators and the

[6] http://www.afasterfuture.com/australia-2nd-globally-for-smartphone-usage-google.html
[7] EMVCo (an international standard organisation overseen by American Express, Discover, JCB, MasterCard, UnionPay, and Visa) develops standards for secure payment card transactions.
[8] HP-RFi Australian Payments Research, Edition 5, September 2013, accessed at http://rfintelligence.com/downloads/HP-RFi-Australian-Payments-Research_Oct-13.pdf
[9] "Australia hooked on tap and go payments" 9 February 2014, www.news.com.au accessed on 10 February 2014.
[10] Goldman Sachs Research Report, *Australian Banks*, 5 February 2014
[11] "The Impact of Payments System and Prudential Reforms on the RBA's Provision of Liquidity" Speech by Guy Debelle, 16 August 2013. See also Tom Cusbert and Thomas Rohling "Currency Demand during the Global Financial Crisis: Evidence from Australia" Research Discussion Paper 2013-01, January 2013.
[12] APCA Fraud Statistics, available at http://www.apca.com.au/payment-statistics/fraud-statistics ; Nilson Report, August 2013.

card schemes are exploring a transition away from signature and magnetic stripe to chip cards and PIN, with the announcement by MasterCard and VISA of a liability shift in October 2015.[13]

The Australian card payments sector also compares well in respect to the costs for merchants offering these payment services. For instance, according to the RBA, the current merchant fees for VISA and MasterCard in Australia are 0.83 per cent of the value of the transaction, declining from 1.45 per cent in March 2003 following the introduction of interchange fee reforms by the RBA. This compares favourably to countries such as Canada where merchant fees remain around 1.5 per cent.[14]

[13] http://blogs.wsj.com/corporate-intelligence/2014/02/06/october-2015-the-end-of-the-swipe-and-sign-credit-card/
[14] "Credit card fees a hot button issue with voter appeal" CBC.ca, 10 February 2014, available at http://www.cbc.ca/news/business/credit-card-fees-a-hot-button-issue-with-voter-appeal-1.2530798

2. Australian Payments since the Wallis Report

2.1. Payments Regulation

Prior to 1997, payments regulation in Australia was centred on regulation of financial institutions, as providers of payment services (for example, through the *Banking Act 1959* and the then-EFT Code of Conduct) or in some instances through regulating the payment instruments issued by financial institutions (for example the *Cheques Act 1986*). In addition, only particular financial institutions could hold an Exchange Settlement Account (ESA) at the RBA and prior to 2000, APCA's own rules restricted membership to authorised deposit-taking institutions (ADIs).

Apart from the above, the payments system was also extensively self-regulated. This reflects the fact that payments, like telecommunications but unlike traditional banking, is a network industry. Service providers must coordinate on the efficient and stable operation of the payments network but compete to provide payment services to end users. With increasing levels of automation, this also requires continuously evolving specialist technical knowledge. In Australia and overseas, the required coordination has in the past been conducted through stable self-regulatory utilities such as APCA or card associations providing the "rules of the game" for each discrete payment instrument. However, this environment is changing: Section 3 provides further discussion on emerging challenges. More information about the unique features of payments is available in Appendix 2 and about APCA in Appendix 3.

The Wallis Report and the arising reforms located payments system regulation with the RBA through the establishment of the PSB and empowered the RBA under the *Payment Systems (Regulation) Act 1998* (PSRA).[15] This change was based on the notion that the payments system was related to, but distinct from, banking and that its regulation should have similar goals of financial stability, but also security, efficiency and promotion of competition. In this sense, Australian regulation was ahead of its time. Other jurisdictions, for instance the European Union and the United Kingdom, have subsequently embraced distinct regulation for payments.

The approach adopted in Australia meant that the RBA could designate a particular payment system and set standards for that system. Occasionally, the PSB has found it necessary to do so. It was through this regulatory structure that the RBA dealt with issues such as access, surcharging and, most controversially, interchange fees. Much more often, however, systemic issues and public policy concerns have been addressed more informally through a combination of wide consultation, then debate and decision in industry fora. Coordinating bodies like APCA have played an important role in

[15] ASIC, APRA and the ACCC all regulate and/or have jurisdiction over aspects of payments, though the RBA has taken on the role as primary payments regulator.

providing the venue for collaborative resolution. The designation power has been more relevant as a lever for coordinated action, rather than a tool for intervention.

Many challenging industry issues have been, or are being, addressed through industry collaboration, sometimes with the PSB playing a catalytic role. Some examples such as the New Payments Platform are provided in Subsection 2.2.

In addition, but far less obvious, is the “prudential gatekeeper” model. Relying on APRA’s ADI licensing regime, it is premised on the notion that somewhere along the payments chain there will be a prudentially regulated entity that is responsible for providing much of the network, protecting the public and maintaining systemic stability.

The PSB, as primary regulator of payments, together with APRA’s prudential gatekeeper role have, in the main, stood the test of time and served the industry and the community reasonably well. Internationally, this approach is a common response to the need for regulation in network industries and for maintaining financial stability, particularly where stable, utility-style payment systems that are extensions of well-regulated financial institutions prevail.

Since 1998, the RBA has demonstrated that as a payments regulator, it remains alive to the many unique challenges within payments, in particular, the need for industry coordination. The RBA has also placed considerable trust in industry regulation and collaboration (including through APCA), as well as the market, to help resolve issues, reserving regulatory intervention as a last resort.

Recommendation 1: APCA believes the current regulatory structure for payments has worked well and radical surgery of payments regulation is unnecessary.

Other efforts to deal with payments-related regulation have been somewhat less successful. Wallis identified the emergence of new forms of stored value, such as “travellers cheques, smart cards and electronic cash” and recommended an approach to their regulation that would become the “purchased payment facility / non cash payments facility” regime.

As noted by legal commentators, the legal definitions adopted for these facilities were potentially very broad.[16] There was concern expressed by government that offerings such as loyalty schemes, electronic tolls and even university photocopier cards would be captured and regulated as financial products with all the associated requirements and disclosures. In 2005, significant exemptions were provided by the relevant regulators under the *Refinements to the Financial Services Reform* process.

Today there is only one Purchased Payment Facility regulated by APRA, which is PayPal, and on 7 March this year, the RBA announced that it would vary the Access Regimes for MasterCard and VISA and seek the removal of the current specialist credit

[16] Alan Tyree, http://austlii.edu.au/~alan/payment-reg-4.html

card institution (SCCI) framework administered by APRA. As well, ASIC's activities relating to emerging payment systems appear to be focussed on encouraging subscription to the ePayments Code. The above examples point to the implementation challenges of providing a level playing field for new entrants and new instruments. The issue of RBA's jurisdictional reach is discussed in Subsection 4.3.

2.2. Outcomes for Industry

The current approach to industry self-regulation, through bodies such as APCA, has been in operation for over 20 years. This industry regulation has adapted and evolved, opening up participation to a wider group of stakeholders, particularly with organisations such as Cashcard, Coles, Woolworths and Tyro admitted as APCA members. Most recently, APCA has undergone governance reform, which will see the admission of an even wider group of payment system stakeholders and the addition of independent directors, with material voting power, to the APCA Board. The governance reforms were approved by APCA members in October 2013, and will be fully effective from 1 July 2014.

Industry governance will be further enhanced in 2014 with the proposed joint establishment by RBA and APCA of an Australian Payments Council to provide a more structured engagement between PSB and industry participants. More information appears in Appendix 4.

Since 1997, emerging systemic issues and public policy challenges have been successfully negotiated through a combination of market competition, network coordination and public regulatory guidance. Examples include:

- the development of BPAY, a global leader in bill and online payments;
- conversion of much of Australia's card system to the more secure chip and PIN technology;
- the development of online payments through adaption of the direct entry system, contributing to the substantial replacement of cheques with electronic alternatives;
- establishment of eftpos Payments Australia Limited to commercialise the eftpos network and increase competition amongst card schemes;
- implementation of reforms to ATM charging; and
- the development of new industry communications networks.

Direct public regulatory intervention has traditionally been seen by both the RBA and industry as a last resort answer to payments system issues. However, the regulator has played an important role by providing the right encouragement or acting as a catalyst and in partnership with industry efforts. This approach has seen good success, most recently with the implementation of the same-day settlement of direct entry transactions in November 2013, as well as the industry-led development of the

New Payments Platform following the RBA's Strategic Review of Innovation in the Payments System in 2012.

More information about the RBA Strategic Review of Innovation in the Payments System and the New Payments Platform Program appears in Appendix 4.

3. Challenges

3.1. The Impact of New Technology

Since the late 1990s, new technologies and new user demands have dramatically changed and have helped drive new payment offerings. Demands from customers for increases in reliability and functionality are driving an increase in the range of products and services offered, with an overall effect of increased innovation in the market place.

Technology has been an important factor in reducing barriers to entry for new payment service providers. Historically, it was the service provider that had to also deliver the customer interface (either physical branch network or through an ATM or POS device) and associated connectivity. This meant heavy investments in a branch or ATM network or POS devices and dedicated connectivity.

Today, consumers have their own devices (in the form of a PC, tablet or smartphone) and connectivity through the internet. These technology advances in particular have removed one of the traditional and most difficult barriers to entry for new entrants by making network connectivity much easier to achieve through ubiquitous pre-existing networks.

This has fostered a diverse variety of online offerings such as PayPal, PayMate, mobile POS providers (such as Square), mobile phone payments offerings (such as mHits), and even whole new currencies such as Bitcoin. Established payment providers are also extensively innovating with mobile payments and banking, mobile POS devices, online payment options, contactless cards and pre-paid debit cards, to name a few.

The growth in new payment offerings is expected to continue as technology advances and consumer demands for speed, convenience and integration continue. However, these new payment offerings are also expected to bring a number of specific challenges, including the ability to maintain stability and confidence in payments generally (for example, customer protection), and maintaining consistency of regulation.

With opportunities and choice come risks. Concerns over cyber security will need to be managed, given that online payments fraud, or an attack on Australian payment systems, can be perpetrated from anywhere in the world. A co-regulatory approach has proven flexible, robust and effective in addressing emerging risks to date and APCA believes this will continue to be the case in the future.

3.2. The Changing Marketplace

Competition has intensified within the payments environment since 1997. Wallis correctly identified intensified competition amongst financial institutions using established payment networks. Since then, it has become clear that payment schemes and networks are also competing against each other.

One notable development is that the international card schemes, VISA and MasterCard, are now publicly listed companies driven by increasing shareholder value, rather than mutual organisations owned and operated by their financial institution members. Similarly, the eftpos system in Australia, once a set of rules administered by APCA, is now a separate growth-oriented scheme operated by eftpos Payments Australia Limited competing against the international card schemes and potentially a range of new entrants.

The increasing competition is obvious in card payments, but it is reasonable to anticipate the same evolution in non-card payments, having regard to the widespread take-up of smartphones and cloud connectivity. BPAY and PayPal are examples of this.

Managed well, increased competition, both in payment services to end users and in payment networks and products, is highly beneficial to the economy. Competition amongst financial institutions and amongst schemes and networks has driven increased efficiency and both service and systemic innovation over the last 15 years.

However, increased levels of competition also create challenges for maintaining the network, providing a level playing field for competition and meeting community expectations of stability, security and reliability. Joint work by the PSB and industry participants suggests a way forward for meeting these challenges, as discussed in the next section.

3.3. Declining Use of Traditional Payments

APCA believes that cheques will continue to decline and eventually disappear at some point in the future. Without proper preparation, those sectors of the community who are dependent on cheques, including older Australians and those who live in rural and regional areas, will find it increasingly difficult to make payments.

The challenge for the payments industry, the government and the wider community is how to best manage the decline of cheques. It is necessary to ensure that those who currently have no clear alternative to cheques, do so in the future, and those who currently chose to use cheques are provided with sufficient information about alterative payment methods to make informed choices.

As well, cash use as a payment method is declining in Australia. The 2013 Payments System Board Annual Report noted that the value of cash withdrawals has been flat since 2009, despite household consumption rising at 5 per cent per annum over the same period. As well, the volume of ATM withdrawals has declined by 4 per cent between 2011-12 and 2012-13, while withdrawal values have similarly declined by about 3 per cent.

At the same time Australia has seen an increase in cash-in-circulation. Combined with the declines in payment use of cash this would suggest an upswing in cash hoarding in the wake of the global financial crisis. However, unlike cheques, which may one day no longer be used, cash will likely remain a default means of payment for the foreseeable future.

As cheques become harder to use and cash becomes comparatively more expensive than more efficient alternatives, it is important to prevent dysfunctions and inefficiencies in the payments system for individual and business users. Additionally, payments by cheque and cash are expensive to consumers, businesses and government relative to other payment methods while access to the digital economy allows greater efficiencies and lower costs.

To this end, in May 2012, APCA released *The Decline of Cheques: Building a Bridge to the Digital Economy* (the Bridge Report).[17] This report followed extensive community consultation and policy research undertaken by APCA on the use of cheques in Australia.

The Bridge Report recognised that Australians are moving towards a "digital economy" and payments have been, and must continue to be, a part of that. Continuing reliance on cheques (and cash) inhibits participation in the emerging digital economy. To address these issues, the Bridge Report included a number of recommendations and commitments.

APCA committed to further work on platform development (including the New Payments Platform) and to undertake further policy work and research. APCA also recommended that financial institutions review and consider customer access to new technologies.

The Bridge Report also recognised the role that governments can play. Governments are major users of the payments system, as well as regulators and service providers. APCA recommended that governments should develop cross-government policies that promote their use of electronic (and other alternative) payments.

[17] APCA, The decline of cheques: Building a bridge to the digital economy, May 2012 http://www.apca.com.au/docs/decline-of-cheques---consultations/the-decline-of-cheques.pdf

The efforts of industry and government to improve access to the digital economy are tracked in a series of six-monthly Milestones Reports, which are published on the APCA website.[18]

Opportunities in relation to promoting electronic transactions and cheque displacement are addressed further in Section 4.

[18] http://www.apca.com.au/policy-and-debate/public-consultations/decline-of-cheques

4. Shaping the Future of Payments in Australia

Although the existing regulatory regime has proven resilient, responding to future challenges will be a complex task for the payments industry and regulators. APCA believes a focus by the Inquiry on the following areas is warranted and has provided recommendations in support of this:

1. Supporting co-regulation in payments between the public regulators and industry;
2. Ensuring functional equivalence of regulation so that market participants engaged in the same economic activity are regulated alike;
3. Reviewing the current jurisdictional reach for the RBA as the main payments regulator;
4. Encouraging the use of virtual, automated and electronic payments that allow participants and users to take advantage of the digital economy; and
5. Efficient structuring of the interactions between regulated entities and regulators.

4.1. The Co-regulatory Approach

Payments system regulation must maintain a balance between stability, competition and efficiency and help ensure confidence in the system. It must respond to rapid advances in technology that drive changes in the marketplace, encourage the competition technology brings and protect users and system stability. Co-regulation, where the regulator and industry collaborate and share regulatory responsibilities, provides a basis for setting public policy goals, accessing industry expertise and responding efficiently to emerging issues.

A regulatory framework that recognises the increasingly competitive marketplace and embraces a co-regulatory approach should have the following characteristics:

a) Clear high-level regulatory objectives agreed following appropriate consultation with industry;

b) Implementation of agreed objectives through rules using a co-regulatory structure that engages the expertise and business commitment of service providers and network operators; and

c) Intervention powers reserved to the public regulator for use as a last resort.

APCA submits that the RBA remains best placed to continue in its role as the primary payments regulator in Australia and as such continues to work with industry to maintain the co-regulatory approach. The development of the new Payments Council[19] will also enhance the co-regulatory approach.

Recommendation 2: APCA believes that the co-regulatory approach of setting clear high-level policy objectives, supported by coordination and self-regulation by payment system participants to achieve them, is the best way to meet future challenges. The RBA should retain the ability to step in as a last resort if this does not deliver the required outcome.

4.2. Functional Equivalence and Ensuring a Level Playing Field

The emergence of new entrants, particularly non-traditional payment providers, creates challenges for existing regulation. For example, the ePayments Code, which provides for some consumer protection, sits with ASIC as a voluntary code. It covers a number of financial institutions and a number of new entrants, such as PayPal, but relies on moral suasion from ASIC for new entrants to subscribe. The current Anti-Money Laundering / Counter-Terrorist Financing requirements “deputise” financial institutions and regulated payment service providers offering overseas remittances, yet have no effect on informal networks, including crypto-currencies, which can flourish in the unregulated space.

In common with the approach taken in Wallis, APCA supports a functional regulation approach that ensures entities are regulated on the basis of what they do, not who they are. The best means of addressing the challenges of functional equivalence is through the co-regulatory engagement already outlined, ensuring that it expands to include new entrants as they emerge. As long as the PSB has the required jurisdictional reach to address new payment methods (see below), this will promote flexible, focussed and collaborative solutions to develop as technology evolves.

Ongoing dialogue and engagement between the regulator and industry will be critical as new challenges emerge. The proposed new Payments Council (see section 2.2 and Appendix 4) has been explicitly designed as a venue for such industry-regulator dialogue.

Recommendation 3: That the proposed new Payments Council has a critical role in advising on how to deal with new entrants and new technologies to minimise the potential for premature or inappropriate intervention by public regulators.

Recommendation 4: That clear and consistent regulatory requirements be applied to all participants.

[19] The new Payments Council is discussed further in Appendix 4.

4.3. Jurisdictional Reach of the Regulator

The RBA's primary means for payments regulation is power to designate individual payment systems. This works well in an environment where the number of different payment methods and schemes are stable and well-defined. New entrants, new technology and deepening competition in the scheme space expose some of the difficulties of this approach. On the one hand, imposing identical requirements on designated schemes is currently a time-consuming process. As well, non-designated schemes may have a competitive advantage.

Beyond this, entirely new payment methods such as cyber-currencies may not even fall within RBA's ambit. For example, it is not clear whether the PSRA definition of "payment system" as being "a funds transfer system that facilitates the circulation of money" would extend to a cyber-currency such as Bitcoin, and s9 of the *Currency Act 1965* appears to require all monetary activities in Australia to use national currency.

The public regulator needs the jurisdictional reach to encourage and support effective industry coordination not only amongst well-established payment methods and schemes, but also amongst new and alternative schemes and novel payment methods.

Recommendation 5: The RBA's jurisdictional reach under the Payment Systems (Regulation) Act (PSRA) be reviewed to ensure that it can effectively respond to new entrants, increasing technological diversity and increasing marketisation of payment systems and networks.

4.4. Building a Bridge to the Digital Economy

As noted in Subsection 3.3, managing the decline of cheques as well as promoting more efficient electronic methods of payment are challenges for the payments industry, government and stakeholders. It is important that users who currently rely on cheques (and cash) have their future payments needs met. Similarly, it is important that those who have a choice are educated and provided with sufficient information about alterative payment methods to make informed choices.

Recommendation 6: That governments articulate a clear position on reducing the use of cheques and cash and on promoting electronic payments.

There also remain instances where cheques are hard-wired into legislation or industry practice. APCA believes references to cheques as the sole payment method should be removed from such legislation and legislation should generally avoid prescribing cheques as a means of payment.

Recommendation 7: That the Attorney-General's Department prepare an omnibus bill to remove specific references to cheques. This issue should also be

addressed at the Council of Australian Governments (COAG) to ensure parallel take up by state governments.

A problem facing the community is that the cost of maintaining the extensive infrastructure that supports cheque processing is independent of the volume of cheques processed: it is largely a fixed cost. As cheque use continues to decline, the costs per unit will increase exponentially.

Currently, cheques are free to most consumers and those still using them are typically not aware of the costs associated with their provision. There will need to be an understanding that in order to continue to provide cheques, the payments industry will need to identify ways to recoup these costs.

The RBA has clearly articulated its views on, and regulated charging for, card payments. However, it has not provided clear guidance on charging for other payment methods notwithstanding RBA identifying the increasing costs associated with cheque usage.[20] APCA seeks clarity from the regulators, given the importance of price signals in changing behaviours.

Recommendation 8: That the RBA work with industry to achieve a clear position on charging for cheques and other payment instruments.

Cash use is similarly expensive to the community, though the costs are often hidden. These costs include transport and distribution costs borne by financial institutions, as well as security and physical handling costs borne by merchants and consumers.

Cash is progressively being used less as a means of payment, even though it remains popular as a store of value. While note printing and production in Australia are reasonably efficient, the Royal Australian Mint has a coin production mandate that appears to promote coin distribution and discourage return of coinage, despite declining coin usage within the broader community.

Recommendation 9: That Government policy on coinage should recognise and encourage reduced use of coins, and in particular the Royal Australian Mint should accept the return of coins from financial institutions.

Beyond their role as regulators, operators or payment system users, governments can show leadership by working through agencies and stakeholders to promote the use of electronic payments in the community.

Recommendation 10: That governments support bridging strategies and education campaigns on the benefits of existing telephone, electronic and online payments aimed at those (typically older Australians, rural and regional communities, and small business) who, today, remain reliant on cheques.

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[20] RBA (2011) *Submission to APCA's Consultation Paper on the Role of Cheques in an Evolving Payment System* pp 3-4 http://www.apca.com.au/Consultation/Submissions/Submission_RBA.pdf

4.5. Coordination between Regulatory Agencies

APCA supports the RBA retaining its role as lead payments regulator. However payment service providers are also potentially subject to regulation by ASIC for consumer protection, by APRA for prudential regulation and the ACCC for competition law. This promotes focus and expertise at each agency, but it creates particular challenges that need to be managed through “soft wiring”.

For example, if a small building society wanted guidance as to how to respond when a potential competing payment service provider wants access to the society’s online banking facility on behalf of a mutual customer – thereby raising potential security and liability concerns - the building society would need to deal with ASIC on the consumer protection and liability issues, ACCC on competition law implications, APRA on prudential standards and potentially RBA on access to the payments system.

One challenge of multiple regulators is ensuring that the regulators coordinate amongst themselves. The RBA is alert to the need for coordination, maintains Memorandums of Understanding with other regulators and participates in the Council of Financial Regulators. These activities are important and will come under increased pressure as the marketplace diversifies and becomes more technologically complex.

Consideration should also be given to how these interactions, as well as reporting requirements, might be rationalised and streamlined, particularly for smaller institutions.

Recommendation 11: That inter-regulatory coordination protocols be reviewed in an effort to minimise the burden of regulated entities, particularly smaller organisations, having to deal with multiple regulators.

5. Conclusion

Australia has an innovative, efficient, secure and stable payments system that meets the needs of Australian users. It performs well on most international comparisons. APCA believes the current regulatory system for payments has worked well and radical surgery of payments regulation is unnecessary.

However, challenges are emerging in respect to new entrants, new technologies, enhanced competition and declining use of legacy payment instruments such as cheques.

In APCA's view, the key to meeting these challenges lies in expanding and enhancing the co-regulatory approach that has evolved through the PSB's ongoing engagement with industry participants.

Appendix 1 Australian Payments Statistics

Decline of paper payments

Since 1997, Australian individuals and businesses have been moving away from traditional paper-based payments and embracing electronic and card-based payments. In recent years, Australians have shown a keen interest in adopting online, mobile and contactless payments.

Cash, including banknotes and coins, remains the most commonly used means of payment in Australia. However, cash is being used less often compared to card and electronic forms of payment.

Reserve Bank of Australia research found that the share of cash use as a percentage of all payment instruments used dropped from 70 per cent in 2007 to 64 per cent in 2010. Other research similarly suggests that the use of cash as a means of payment is declining with a rapid uptake of contactless cards for low value retail payments. Conversely, rising levels of cash-in-circulation suggests that cash has increasingly become a store of value in an uncertain world, even if it becomes less used to make payments.

While other forms of non-cash payments are being used more frequently, cheque use is declining. This decline has been significant over the past decade. Since 2003, the volume of cheques used has declined by nearly two-thirds. There are now less than a million cheques being used in Australia each business day, compared to nearly 4 million a day at the peak of cheque use in the mid-1990s. Cheques values have also declined significantly from a monthly peak value in Australia in 1997 of $549 billion, down to $94 billion in 2013.

Cheques are still being used for higher-value business transactions even as they are becoming increasingly rare in their use by individuals. Government and industry initiatives, such as SuperStream and eConveyancing, are targeted at displacing cheques from business transactions in the superannuation and real estate sectors.

Increased use of direct entry

The direct entry (bulk electronic) system remains the unsung workhorse for Australian payments. About 30 per cent of all non-cash value and 25 per cent of all non-cash volumes go through the direct entry system. This includes direct credits used for the vast majority of salary, wage and benefit payments in Australia, business payments, “pay anyone” features offered through internet banking, and direct debits used for regular bill payment such as rent.

In 1997, there were 1.8 million direct credits and 400,000 direct debit transactions per day in Australia. This rose to 5 million direct credit and 2.4 million direct debit transactions per day by May 2013. The values of these transactions have also risen significantly since 1997. In that year, direct credit transactions were worth $3.4 billion per day and direct debit transactions were worth $1.6 billion. In May 2013, the daily value of direct credit transactions rose to $23.9 billion and direct debit values rose to $19.2 billion per day. The value of transactions through the direct entry system significantly overshadow the approximately $2 billion per day through the various card systems.

Increase in use of payment cards

While direct entry continues to outstrip card transactions in terms of value, credit and debit card use has increased significantly in recent years. Credit card values and volumes have doubled in the past ten years, while debit cards volumes and values have tripled over the past ten years.

Growth is even more spectacular for debit card use since 1997, when there were 35.6 million point-of-sale transactions per month in Australia. By 2013, this had increased almost eight-fold to 279 million transactions per month. During the same period, the number of monthly ATM transactions has doubled from 32.9 million to 67.7 million, and the number of monthly credit card transactions has increased six-fold from 27.0 million to 162.6 million.

Similarly, the number of ATMs in Australia has risen from around 8000 in 1997 to over 30,000 today and the number of electronic funds transfer at point of sale (EFTPOS) devices has risen from around 200,000 to 800,000. Based on comparative data from 2012, Australia had 166 ATMs and 3319 POS devices per 100,000 adults. This is among the highest penetration rates for devices in the world, within only Canada (ATMs) and Brazil (POS devices) having more devices on a per capita basis than Australia.

Appendix 2 About Payments

Payments and the Financial System

The Australian payments system is part of Australia's financial system and supports the wider economy by providing a reliable process for the exchange of monetary value and associated data between parties. These value exchanges support activities in our economy ranging from simple, low-value cash purchases, to complex, high-value corporate transactions.

Australians engage with the payments system constantly: when they use debit or credit cards, when they withdraw cash from an ATM, when they pay for something, and when they are paid. Most people don't think about interactions with the payments system, particularly for small, every-day purchases. Other users, such as corporates, have specialised systems around the payments they make, such as payroll. However, all users of Australia's payments system have the same expectations: that the system will work and their payments will be completed successfully.

This expectation is based on the assumption that our payments system is stable, secure and efficient. As well as underpinning the financial system and the economic activity that benefits all Australians, the payments system provides confidence to those who use it.

As Australia's payments system has developed from offering a basic choice between cash and cheques a few decades ago, to offering multiple credit and debit card options including contactless cards, methods for electronic funds transfer, and mobile and online channels for making payments. Today most Australians have their salary deposited directly into their bank account; if they need cash they can access it immediately in most cases at an ATM, or they can usually make purchases, including online purchases, without using cash at all.

Payments as a Network Industry

The payments system operates as a network. Because it is a network, the more users the system has, the more value it can offer to users. Parallels to the payments system, where this positive network effect is at play, are telecommunication systems and the internet.

Network features such as the physical, technological, legal and regulatory aspects that support payment networks allow them to grow both on a national and international scale. The network character also help create standardisation in the way payment services are offered to users allowing some aspects of the system to become ubiquitous. ATMs are a good example of system ubiquity — a debit card issued in Australia will ordinarily work in any almost ATM, both here and overseas.

Need for coordination in the payments system

The network features also pose challenges for maintaining compatibility and standardisation, setting the rules and legal frameworks, enabling new providers to access the network, preventing monopolies and encouraging competition.

For the system to remain efficient certain aspects, whether physical equipment or the rules and procedures that underpin the interactions between payment providers, must be developed, accessed and used in an agreed manner, often requiring a level of coordination amongst the participants (financial institutions, merchants, service providers, etc.).

Significant system changes can only be achieved through the alignment of the diverse business interests of the different participants, and the ability or incentive for all participants to invest in a particular area at the same time. Public policy objectives for the system can assist with this coordination but also must balance the interests of payment service providers who fund and support the system.

Challenges for regulation

Network economies are complex and balancing the need for regulation and competition requires constant vigilance. While competition is needed to ensure that costs are minimised and service providers incentivised to meet customer demands, regulation is required to ensure that the business decisions made by competitors do not have a negative impact on the wider system and its users. Generally the role of the payments industry participants and the role of the regulator are interdependent.

This is reflected in the fact that payments systems around the world have a strong tendency to be industry-driven and self-regulated, but with support from and oversight by the relevant public regulator.[21] For example, regulation of the cards system in different countries involves varying degrees of self-regulation and legislative support.

The payments system's role as part of the financial system and its ability to impact financial stability has also influenced how payment systems have been regulated. As with other parts of the financial system, there is need to find the balance between efficiency, competition, security and the overall stability of the system. The need for stability may warrant the involvement of the central bank and careful consideration of the risks associated with who can participate in the system. The need for collaboration due to payments being a network industry warrants the support for mechanisms that enable collaboration. Government and regulators must be alive to these tensions and avenues should exist to ensure their efficient and effective resolution.

[21] Manning, M, E. Nier and J. Schanz (2009) *The economics of large value payments and settlement: Theory and policy issues for central banks*, Oxford University Press, Oxford, in particular chapter 9.

Appendix 3 About APCA

APCA is the primary industry vehicle for payments industry collaboration in Australia. APCA was established in 1992 to manage and develop regulations, procedures, policies and standards governing payments clearing and settlement within Australia. Historically, its focus has been on the administration of a number of clearing systems, notably the systems for cheques, “direct entry” (bulk electronic payments), aspects of ATM and EFTPOS transactions, high value transaction and wholesale cash.

These systems are critical for the secure and efficient operation of the Australian payments system by providing shared self-regulatory rules and procedures for system members. APCA supports these systems through providing secretariat, compliance and other support to member governance groups. Australia does not have the well-established centralised clearing houses seen in operation in other jurisdictions and institutions involved in the payments system have historically exchanged payment messages bilaterally.

As part of its role, APCA maintains device security standards and a number of key industry databases which support the efficient operation of Australian payments, including the BSB database. APCA collects payments statistics that inform member decision-making and provide critical information for stakeholders. This includes information about payment system volumes and values, the number of ATMs and EFTPOS devices in Australia and fraud statistics.

APCA provides information to the community about payments through the APCA website, publications and education campaigns. APCA engages with stakeholders bilaterally as well as through APCA-supported initiatives such as the Australian Payments Forum and APCA Stakeholder Forum. In 2012, APCA took on an operational role in the operation of the Account Switching Mail Box.

More recently, APCA has sought to develop a strategic agenda for Australian payments. This has been through the publication of *Low Value Payments: An Australian Roadmap* (the LVP Roadmap), policy submissions and discussion papers on issues such as the future of cheques, online payments and industry co-regulation.

APCA has supported the implementation of new innovation in payments through our industry projects, such as an enhanced communication network the Community of Interest Network (or COIN infrastructure network), and by providing thought leadership and opportunities for discussion about innovation within the industry, in particular through the New Payments Platform and the Payments Council, as well as coordinating the industry implementation of Direct Entry Same Day Settlement.

Most recently, APCA has begun a process of reforming its governance which will open up membership as well as opportunities to participate in APCA decision-making. This was approved in late 2013, and by mid-2014, APCA will have three voting independent directors. As well our membership will be opened beyond clearing system members to a wider range of payment organisations.

More information about APCA can be found at www.apca.com.au

Appendix 4 Recent Industry Projects

Innovation Review

In May 2010, the RBA announced its Strategic Review of Innovation in the Payments System (the Innovation Review), which culminated in the RBA's *Strategic Review of Innovation in the Payments System: Conclusions* (the Conclusions Paper) in June 2012. The purpose of the review was to identify areas where the payments system was not meeting end-user needs, and to identify the factors affecting innovation, particularly the inhibitors.

The RBA also wanted to identify how more effective cooperation between the payments industry and regulators could improve innovation in the Australian payments system. The review took a medium-term perspective, looking at trends and developments in payment systems around the world, identifying potential gaps in the Australian payments system and innovations to address these gaps over the next five to ten years.

Conclusions

While recognising the significant customer service innovations that were under way and likely to continue over the next few years, the RBA's Conclusions Paper looked at some of the perceived gaps in Australian payments, including person-to-person payments, faster access to funds, ability to make an electronic payment without account details and the ability to send more data with payments.

The Conclusions Paper identified the need for systemic innovation, but also recognised the impediments to the payments industry collectively delivering these solutions, such as industry coordination issues. It outlined an approach for ongoing engagement between industry and the RBA to set strategic objectives for the payments system through an industry coordination body that would build on APCA's role. APCA and the RBA have together started work to establish the Australian Payments Council, which is discussed below.

More specifically, the Conclusions Paper provided a set of initial strategic objectives for the payments system to address the gaps, with a focus on the development of new faster low-value payments in Australia by the end of 2016.

The way forward

The RBA asked for initial industry responses to the strategic objectives, particularly providing for new faster payments, and for a proposed way forward by the end of 2012, and encouraged the industry to respond collectively. The industry response to the Conclusions Paper is discussed below.

Same Day Settlement in Direct Entry

Historically, the direct entry system has settled once per day – at 9 am the next business day. Same day settlement of direct entry was one of the initial strategic objectives set out in the RBA's Innovation Review Conclusions Paper and was also a project already underway at the time. This was successfully implemented by the industry and RBA in late November 2013. This means that electronic payments are now settled faster, enabling financial institutions to provide their customers and businesses with faster access to funds. This convenience will further enhance the benefits of electronic payments over cheques.

Payments Council

One of the recommendations of the RBA's Conclusions Paper was to establish a senior-level payments industry body capable of taking a strategic perspective on issues of importance to the payments system, as well as enhancing dialogue with the Payments System Board.

On 21 October 2013, APCA and the RBA launched a joint consultation on the establishment of a new payments industry coordination body, the Australian Payments Council.

The proposed Payments Council will engage directly with the RBA's Payments System Board to foster collaboration between the regulator and industry on ongoing improvements to the Australian payments system. The new senior-level body will coordinate the dialogue between the industry and the Payments System Board on strategic objectives and other payment issues. It will work to generate common industry positions for action and adoption by the industry.

Stakeholder consultations are continuing in early 2014, with the expectation that the Payments Council will be operational by mid-2014.

New Payments Platform

After preparing an initial industry response to the RBA's innovation review Conclusions Paper (discussed above), APCA facilitated the formation of the Real-Time Payments Committee (the Committee) in September 2012. Establishing this Committee was a crucial step for the payments industry to collectively agree a way forward to achieve the RBA's objectives. The Committee comprised senior representatives from the Australian banking and mutual sector, including from all four major banks. Its task was to develop an agreed industry proposal (the Industry Proposal) for addressing the RBA's objectives, particularly for the provision of a new, fast, low-value payments infrastructure for Australia.

In developing the Industry Proposal, the Committee made two key assumptions about the future evolution of the Australian payments market: that there would be a wide demand for faster payment services tailored for particular communities of users and contexts, and that in response, payment systems, schemes and services would become more diverse and competitive over time.

While any new payment system developed through industry collaboration would need to maximise economies of scale and the network effects of having as many providers as possible accessing the same underlying infrastructure, it would also have to support a market environment where diverse payment schemes and services develop over time and use new technology to address the changing needs of many different end users. Australia needed a solution that was more flexible than the traditional utility-style clearing systems. The new system would need to support a range of alternative services and choices that were commercially orientated and competing for users.

The Committee agreed with RBA's opinion in the Conclusions Paper that open access to fast processing infrastructure was needed to support gaps in the payment landscape. It also agreed that the industry should build this infrastructure collaboratively to minimise cost and risk. However, having recognised that a wide variety of payments services that would be demanded in the future, the Committee saw that ADIs and payments schemes (both current and future) would need maximum scope to develop these new payment products and services.

The Committee concluded that in order to achieve these goals, and to meet the RBA's strategic objectives, new systemic infrastructure would need to be kept separate from customer-oriented products and services. The infrastructure would need to be developed and operated collaboratively by the industry and be accessible to as many participants as possible. However, it would also be necessary to provide an environment where attractive payment products and services could be developed and delivered to different groups of customers. The Committee proposed the development of a new payments infrastructure for Australia, based on a business architecture consisting of two layers:

- Firstly, a basic infrastructure layer to enable connection for all ADIs. This basic infrastructure would be designed to enable fast, flexible payments messaging between ADIs and to support the development of a variety of payment services.

- Secondly, a commercial layer to provide attractive, fast payments services (collectively referred to as "overlay services") promoting competition and innovation. These overlay services would use the basic infrastructure to provide payment services that ADIs could choose to offer to their customers.

The role of the basic infrastructure is to support the payments-related activity between ADIs. Importantly, it will not dictate the way in which ADIs provide commercial services, nor will it compel ADIs to provide any particular service to their customers. This approach ensures there is maximum scope for ADIs to develop diverse payment services for end users.

The Committee believed this was a more efficient and effective way to meet the RBA's objectives and to cater for the future of Australian payments, than developing a single new payments service for end users would be. The Committee anticipated that any approved entity, payment scheme, service or processor could seek to use the basic infrastructure as an Overlay Service on standard and equitable terms of access.

The basic infrastructure will provide hub architecture to which all ADIs can connect, and it will be developed as a new system, maximising economies of scale and network effects, minimising any impact on existing payment systems, and allowing the new system to be built for the long term. Component of the basic infrastructure would include a switch, physical network and an addressing service that would enable the use of identifiers other than a bank account number to effect a payment.

Also being pursued is an "initial convenience service" which will be available along with the basic infrastructure and be the first of many overlay services.

NPP process

The Payment Systems Board of the RBA accepted the Industry Proposal in February 2013 and soon after the New Payments Platform (NPP) Program was established. A Steering Committee for the NPP Program was convened — including representation from the RBA — and in June 2013 the Steering Committee selected KPMG as the NPP Program Manager.

The initial phase of the NPP Program included the overall planning and development of high-level requirements for the basic infrastructure and was completed in late 2013. The current phase is focussed on developing the materials required and engaging with the community of potential vendors and partners to undertake the design and implementation of the new system. The program manager has developed detailed plans and processes to manage this work and the future phases that will focus on establishing the governance frameworks required, working with the industry participants who will use the system and working with potential overlay service providers.

Timeframes and delivery

In its Conclusions Paper, the RBA called for the implementation of the majority of its initial strategic objectives by the end of 2016 and the NPP Steering Committee and Program participants are committed to meeting this timeframe, notwithstanding the challenges therein. There are currently seventeen participants in the NPP Program including all four major banks, regional banks, international banks, mutuals, an alternate payment provider and the RBA.

The current timetable envisages that technology and service providers for the Basic Infrastructure will be engaged during 2014. As of March 2014, the pre-qualification process for the basic infrastructure had been completed and was transitioning to a request for tenders, while pre-qualification had begun for the initial convenience service. Program and the Steering Committee is targeting the first participants to be up and running by the end of 2016. More information about the NPP can be found at http://www.apca.com.au/about-payments/future-of-payments/new-payments-platform.

Benefit

The New Payments Platform is being developed collaboratively by Australian ADIs to provide the Australian payments industry and the wider economy with a versatile, fast and data rich payments platform for the future.

The new infrastructure will be built to connect all ADIs in a standard way and allow them to process non-cash payments from one account to another at the very fast speeds required to meet the needs of the digital age. As well as making payments processing much more efficient, that platform will use a global messaging standard that will allow maximum flexibility in automated data processing, the potential inclusion of more data with payments, and the potential for a diverse range of payment products and services to be offered to consumers and businesses.

Glossary and Acronyms

Glossary

Acquirers	In relation to card payments, offers acceptance mechanisms (POS facilities, both physical and virtual) and services to merchants.
Issuers	Institution that make payment instruments available to users. For example, the Reserve Bank of Australia (RBA) issues banknotes in Australia, the Royal Australian Mint issues coins and financial institutions issue on-demand deposits and loans able to be accessed by various payment instruments and acceptance mechanisms.
Payee	The recipient of the money in a payment.
Payer	The party that pays the money in a payment.
Payment	An exchange of monetary value between two parties. It can range from purchasing coffee with a handful of coins, to paying an employee their salary, to a multi-million dollar business transaction.
Payment channel	The channel making a payment (for example face-to-face or electronic).
Payment instrument	Means of making a payment such as cash, cheques and cards.
Payments system	Encompasses all payment users, financial institutions, government bodies and underlying schemes, services and systems within a particular geographic context. For example, “the Australian payments system” is used to describe all payments activities in Australia. Our current legislation also uses the term “system” in a narrower sense, with the *Payment Systems (Regulation) Act 1998* defining a “payment system” as “a funds transfer system that facilitates the circulation of money, and includes any instruments and procedures that relate to the system”. This has been applied to “payment systems” such as VISA and

	MasterCard. To avoid confusion, this submission refers to individual systems such as VISA, MasterCard, or EFTPOS Payments Australia Limited (ePAL) as payment schemes or networks (except when referring to these systems as they are treated under the PSRA). The term clearing systems will also be used when referring to systems such as the cheques or direct entry systems, administered by bodies such as the Australian Payments Clearing Association (APCA). Payment schemes and clearing systems often have their own rules and instruments. They also have users, individuals and businesses that make payments through them. Importantly, payment schemes have participants, notably financial institutions and other qualifying bodies that participate in that scheme and issue or acquire its instruments. In respect to APCA clearing systems, organisations that participate are referred to as members.
Users	Payers and payees who use the payment system.

Acronyms

ACCC	Australian Competition and Consumer Commission
ADI	Authorised Deposit-Taking Institution
APCA	Australian Payments Clearing Association
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
ATM	Automated Teller Machine
COAG	Council of Australian Governments
EFTPOS	Electronic Funds Transfer at Point of Sale
EMV	International standard for chips on payment cards.

ePAL	eftpos Payments Australia Limited – the domestic debit card scheme in Australia
ESA	Exchange Settlement Accounts – accounts held at the RBA that facilitate settlement between financial institutions
FI	Financial institution
NPP	New Payments Platform
PCI	International standard for data security in card payments.
PIN	Personal identification number
POS	Point of sale
PPF	Purchased payment facility
PSB	Payments System Board
PSRA	*Payment Systems (Regulation) Act 1998*
RBA	Reserve Bank of Australia
RTGS	Real time gross settlement
SCCI	Specialist Credit Card Institution