



NPP Australia Limited's
response to the Reserve Bank of Australia's
Review of Retail Payments Regulation: Issues Paper

21 February 2020

This paper is NPP Australia Limited's submission in response to the RBA's review of retail payments regulation issues paper.

Introduction

The New Payments Platform (**NPP**) has been designed to support a 24/7 modern, digital economy. It provides a fast, flexible and data-rich payments system for Australian consumers, businesses and government agencies, enabling them to make real-time data rich payments between accounts at participating Australian financial institutions. The NPP is modern utility payments infrastructure commissioned and funded by NPP Australia Limited's founding shareholders¹ for and on behalf of the Australian payments industry.

NPP Australia Limited (**NPPA**) is a public company established to oversee the development and operation of the NPP. NPPA's Constitution (Article 2.1) provides that the NPP is to operate as a mutually owned utility, as an economically self-sustaining entity rather than profit-maximising or providing returns to its shareholders.

About our Submission

NPPA's submission to the RBA's issues paper is necessarily narrow in scope. There are only a few issues which are relevant to NPPA and we have focussed on these alone.

Q1 What major recent or prospective developments in the broader payments industry are particularly relevant to this review? More specifically, are there any gaps in functionality available to end users or any shortcomings in industry governance arrangements that require regulation of coordinated industry action?

Potential Rationalisation of Domestic Clearing Streams

The NPP is modern infrastructure that enables the real time transmission of data with payments between participating financial institution accounts. NPPA has published its first roadmap outlining the developments in NPP functionality which will be progressively made available over the next two years, that will, in our view, enable the industry and participants within it to:

- make broad ranging strategic decisions about retiring or simplifying the legacy clearing systems, and about the merits of further investment in those systems;
- develop innovative and competitive account-to-account payment services, including e-commerce and other payment solutions and services that meet consumers' needs and desires to make payments from their bank accounts using their own funds.

A number of NPP participating financial institutions are seeking to be able to move existing Direct Entry volumes over to the NPP according to their individual strategic objectives and timelines. In order to support this, NPPA is focused on ensuring the underlying capabilities are in place to support the migration of these volumes over to the NPP in a safe, secure and standardised manner. This programme of work includes continuing to expand on NPP account reach, operational readiness and platform performance, the development of common NPP message formats and mapping from existing Direct Entry file formats, a consistent approach to APIs and operational processes.

¹ Current shareholders: Australia and New Zealand Banking Corporation, Australian Settlements Limited, Bendigo and Adelaide Bank Limited, Citigroup Pty Ltd, Commonwealth Bank of Australia, Cuscal Limited, HSBC Bank Australia Limited, Indue Limited, ING Direct, Macquarie Bank Limited, National Australia Bank Limited, Reserve Bank of Australia and Westpac Banking Corporation.

Being able to move existing volumes over to the NPP will enable the industry to rationalise existing payment systems and realise cost reduction opportunities in their back offices with the elimination or reduction in back office processes which in many cases are manual (e.g. exceptions handling).

NPPA considers the Bank has a role, together with other organisations, in considering whether strategic direction and leadership on domestic clearing system rationalisation or consolidation is required. Having an agreed timeline for the retirement of the Direct Entry system would be useful in helping to prepare the wider ecosystem to migrate existing Direct Entry payments and to ensure consistency in messaging to corporates and other users of the Direct Entry system.

Q2. Are there aspects of retail payments regulation that lead to market distortions or that create opportunities for regulatory arbitrage? If so, what options should be considered as a means of addressing these? Are there gaps in the regulatory regime that need to be addressed or any element where regulation is no longer required?

Stored Value Regulation

NPPA agrees that there is a need for review of existing regulatory frameworks that relate to payment service providers which are principally currently regulated either as AFSL holders or as ADI licensees. We acknowledge that there are broader considerations relating to stored value facilities which have been the subject of detailed consideration by the Council of Financial Regulators (although we have not seen the detail of this analysis) and the demarcation of APRA's and ASIC's regulatory regimes for stored value facility providers.

From NPPA's perspective the issue of 'regulation gap' arises most frequently in discussions about access to the NPP, where it is asserted, specifically, that NPPA's eligibility criteria for direct connection to the platform for clearing activities (the 'ADI requirement') is unreasonable because payment service providers can connect directly to the UK Faster Payments System even though they are not prudentially licensed, regulated or supervised. We challenge that assertion: while payments service providers in the UK may not be required to hold a banking licence, they are subject to the Payment Services Regulations 2017 which establish a class of regulated entity that does not have a close equivalent in Australia.

Payment services providers under that regime are bound to comply with authorisation, registration and conduct supervision obligations which are considerably more comprehensive than ASIC's licensing framework for AFSL holders and narrower than APRA's full licensing framework for authorised deposit-taking institutions (which is itself modified in so far as it currently relates to Purchased Payments Facilities (PPF) Providers, of which there is only one, PayPal).

As we have stated previously², if at any point in the future, a new class of regulated non-ADI specialist payment service provider is created, then at that time, we would consider how this category of organisations would fit within the NPP access framework, as NPPA did for organisations with Restricted ADI licences when this category was created.

More generally, NPPA believes that the creation of an additional class of regulated entity could provide more confidence to existing NPP sponsoring organisations about the capabilities and compliance status of those seeking access, and for these reasons it would be a positive development which would be in the public interest.

² [NPPA Response to RBA/ACCC NPP Access & Functionality Review](#); [NPPA's submission to the Senate Select Committee on Financial Technology and Regulatory Technology](#)

Q9 What are the implications of the growing importance of mobile devices and digital platforms for the retail payments system in Australia? Are there issues that arise for the Bank’s regulatory regime for card payments or that are relevant for competition, efficiency, and risk?

The RBA has referred in its issues paper to the growth and dominance of mobile devices and platforms:

- There are ongoing relentless moves towards mobile devices as the primary channel through which financial services will be delivered (replacing branches, ATMs, call centres, or even other digital channels such as desktop-based internet banking)
- Most banks now adopt a “mobile first” approach to product and channel development and some newer banks are focussing only on the mobile device as a delivery channel
- There is significant concentration within the market for mobile handset share in Australia – the top two manufacturers have 78% share and the top three have 87% market share³.

The growth of digital payment platforms and payments through mobile devices in Australia and in other geographies reflect fundamental shifts in consumer behaviours and preferences. Payments through mobile devices in particular – through a merchant website, within an application on the device (such as a digital wallet or payment platform) or as a contactless payment at point of sale – have the potential to overtake traditional payment instruments, and are expected to utilise interbank payment systems in addition to card networks.

Payment platforms, which derive their user base from e-commerce and social media platforms, have the potential to fundamentally change the digital payments landscape in Australia. The exponential rates of growth of payment platforms in China, such as Alipay, which reported a 20% increase (to 1.2 billion) in its customer base internationally in the first half of 2019, provide an indication of the scope and scale of shift from traditional retail payment instruments and systems to platform payments, that could occur in Australia and elsewhere.

NPPA considers these shifts, and the importance of regulatory settings that enable future innovation, raise significant policy and public interest considerations for payments regulation. Specifically, NPPA suggests the Bank consider in the scope of its review whether its regulatory regime addresses aspects of mobile device based payments and payment platforms that have the potential to fundamentally shape Australia’s retail payments landscape: interoperability of applications on mobile devices, mobile device manufacturer restrictions on access to mobile device hardware and software features and functionality, restrictive commercial models and their impacts on end-users, transparency of payments made within platforms and rights to mobile device payments data (including data within digital payments platforms).

Some of these issues were considered by the ACCC in its Digital Platforms Inquiry: Final Report⁴ but are unlikely to be specifically addressed by the government’s implementation of the Commission’s recommendations, and the planned reforms which are intended to promote competition, protect consumers and support sustainable Australian media providers.

As the RBA notes, these issues have been considered previously, or informally, by regulators in other jurisdictions such as the UK, EU, and Switzerland, and we believe that they would benefit from exploration in Australia given the RBA’s expertise and leadership in payments policy issues.

³ <https://gs.statcounter.com/vendor-market-share/mobile/australia>

⁴ <https://www.accc.gov.au/publications/digital-platforms-inquiry-final-report>

We believe that these issues are too important to be left to adjudication by competition regulators in the context of specific disputes or negotiations between organisations on a case-by-case basis, but instead that the RBA should set out some guiding principles for consideration on this matter, consistent with its specific leadership position on payments system regulation.⁵

⁵ <https://www.rba.gov.au/payments-and-infrastructure/payments-system-regulation/mou/accc-and-the-rba/mou-accc-and-the-rba.pdf>