

# Responses to the Strategic Review of Innovation

---

In May 2010 the Board announced the Strategic Review of Innovation in the Payments System, which aimed to identify areas in which innovation in the Australian payments system could be fostered through more effective cooperation between stakeholders and regulators. Following two years of consultation, research and industry engagement, the Board concluded that the removal of some of the barriers to cooperative innovation in the Australian payments system had the potential to deliver significant public benefits over time. The Board's findings were published in the *Strategic Review of Innovation in the Payments System: Conclusions* (Conclusions Document) in June 2012.<sup>18</sup>

In the Conclusions Document, the Board put forward two key proposals designed to improve cooperative outcomes in the payments system – the creation of a new industry coordination body and the setting by the Board of strategic objectives for the payments system. The first set of strategic objectives was set out in the Conclusions Document. In response, industry proposed, and has now begun work to develop, a new payments system that will facilitate real-time retail payments in Australia.

## Australian Payments Council

To support its objective of fostering effective industry coordination and cooperation between the industry and the regulator, the Board proposed that there be more direct dialogue between itself and the industry. As part of this effort, the Reserve Bank has been working with industry to constitute a new, high-level industry coordination body – the Australian Payments Council. This body is not only expected to play a key role in helping the Board to identify and the industry to achieve strategic objectives but may also provide industry coordination for a range of issues not necessarily covered by the strategic objectives.

In the Conclusions Document, and over the course of the Strategic Review, the Board identified some features that it sees as particularly important for such a coordination body. These include:

- membership that is small enough to be effective, yet broad enough to be representative of those that have a genuine stake in the outcomes; membership should not be dominated by any class of participant
- representation of sufficient seniority to be able to promote a strategic approach and commit resources where appropriate.

Following the release of the Conclusions Document, the Bank engaged in a further period of consultation on this proposal. These discussions helped to refine views on the role and make-up of the body. The Bank has since been working with Australian Payments Clearing Association (APCA) to design a framework for the Australian Payments Council and a proposed plan for its establishment.

---

<sup>18</sup> RBA (2012), *Strategic Review of Innovation in the Payments System: Conclusions*, June. Available at <<http://www.rba.gov.au/payments-system/reforms/strategic-review-innovation/conclusions/index.html>>.

In contrast to the current membership of APCA, industry representation on the Australian Payments Council is expected to be significantly broader than financial institutions, potentially incorporating payment system operators, non-bank institutions with their own payments processing facilities ('self acquirers') and other innovators and payment facilitators. Given that the Payments Council cannot be too large if it is to have effective decision-making, considerable focus has been placed on the interaction between the Council and the broader payments industry. The proposed model provides for a broad range of organisations to subscribe to the Payments Council. Those organisations would become part of the 'Payments Community' and would receive briefing on Payments Council activities and the opportunity to provide input to its deliberations. At any time, a subset of organisations in the Payments Community would be represented on the Payments Council. A joint consultation process coordinated by APCA and the Bank will take place in the second half of 2013, and it is anticipated that the Australian Payments Council will begin meeting in early 2014.

## Strategic Objectives

In the Conclusions Document, the Board signalled its intention to set strategic objectives for the payments system. These would take into account the interests of all stakeholders, including end users, and would identify services or attributes that the Board believes the payments system should be able to provide. In general, industry will be expected to determine how these objectives can be delivered most efficiently. To that end, it is anticipated that the new Australian Payments Council will perform a key role in initiating and coordinating an industry response to the objectives. A review of the strategic objectives will be conducted from time to time, with the Board establishing new or revised strategic objectives, or confirming existing ones.

The initial set of strategic objectives was published as part of the Conclusions Document (see 'Box C: Initial Strategic Objectives'). The Bank then engaged in a further period of consultation regarding the objectives, seeking views on how they could best be delivered and time lines that had been set out. In response, the Bank received more than 30 written submissions. Overall, the responses were supportive of the objectives that had been set, suggesting the time frames proposed were challenging, but achievable. It was generally agreed that the objectives could largely be delivered through changes to the existing Direct Entry (DE) system and the development of a new real-time retail payments system – the New Payments Platform (NPP).

### Box C

## Initial Strategic Objectives

Based on its consultations over the course of the Strategic Review, the Board proposed the following as the initial strategic objectives for the payments system:

- All Direct Entry payments should be settled on the day payment instructions are exchanged by the end of 2013.
- There should be the capacity for businesses and consumers to make payments in real time, with close-to-immediate funds availability to the recipient, by the end of 2016.
- There should be the ability to make and receive low-value payments outside normal banking hours by the end of 2016. This would include availability of the Direct Entry system and any real-time system. Ideally, it would also involve the capacity for the settlement of card payment receipts during weekends and public holidays, so that receipts can be posted to merchants without generating interbank credit risk.

- Businesses and consumers should have the capacity to send more complete remittance information with payments by the end of 2016.
- A system for more easily addressing retail payments to any recipient should be available (see 'Box D: Addressing Solutions'). To the extent that this is provided by a new real-time system, it should be available by the end of 2017. This does not rule out earlier availability via other solutions.

## Changes to the Direct Entry System

Two of the initial strategic objectives are of direct relevance to the DE system. The first is the objective that all DE payments be settled on the day payment instructions are exchanged by the end of 2013. Currently, the DE system settles once a day, at 9.00 am on the business day following the exchange of payment instructions. The industry had nonetheless been working towards same-day settlement of three of the five daily file exchanges. The Board endorsed a move to same-day settlement of all five DE exchanges as a means of mitigating counterparty and operational risks and to allow end users to access funds in a more timely manner. Many of the system changes required to support this initiative are now complete; industry is currently working to amend the APCA rules to support this change, which is expected to be introduced by the end of 2013. In addition, as discussed in the 'Oversight of High-value Payment Systems' chapter, the Bank is making changes to its liquidity management arrangements to facilitate the settlement of DE payments near the end of the day.

Second, the Conclusions Document highlighted the desirability of payment systems being available when and where needed by users. Increasingly, this means consumers should have the ability to make and receive low-value payments outside normal banking hours. The initial strategic objectives suggested this need could be addressed in both the DE system and via a real-time payments solution. However, feedback from industry following the release of the Conclusions Document noted the cost of upgrading the DE system and indicated a preference for achieving out-of-hours retail payments via a real-time payments solution. Accordingly, the Board decided to defer this objective in respect of the DE system until the NPP is operational, at which time the need for out-of-hours DE payments will be reviewed.

## New Payments Platform

The initial strategic objectives identified that there should be the capacity for businesses and consumers to make payments in real time with close to immediate funds availability to the recipient by the end of 2016. Fast payments with immediate funds availability would enable government agencies to make immediate emergency payments electronically to those in need, individuals to make immediate personal payments and potentially allow businesses to make better use of cash balances. These types of payments are already offered in countries such as the United Kingdom, Mexico and Switzerland and are currently being implemented in Singapore.<sup>19</sup>

In response to the Conclusions Document, industry formed the Real-Time Payments Committee (RTPC). The RTPC's mandate was to agree, by the end of 2012, an industry-based project approach for the delivery of fast retail payments. Concurrently, the Reserve Bank began work developing core criteria, expanding on the initial

<sup>19</sup> Other countries which have been noted as having systems with similar functionality include Brazil, Japan, Nigeria, Poland and South Africa. Available at <[http://www.paymentscouncil.org.uk/files/payments\\_council/payments\\_council\\_response\\_to\\_hmt\\_consultation\\_-\\_opening\\_up\\_payments\\_-\\_25-06-2013.pdf](http://www.paymentscouncil.org.uk/files/payments_council/payments_council_response_to_hmt_consultation_-_opening_up_payments_-_25-06-2013.pdf)>.

strategic objectives, in order to provide industry with a more detailed set of expectations and also to serve as a tool against which it could assess any proposals.<sup>20</sup>

In February, the Board was briefed on the RTPC's proposal to establish an industry-based project to deliver a fast payments solution for Australia.<sup>21</sup> The RTPC proposal sought to address the strategic objectives by not only facilitating fast payments for consumers and businesses, but also by supporting payments with richer information, easier addressing and close-to-immediate funds availability to the recipient on as near to a 24/7 basis as practicable.

The industry's NPP solution will be based on a hub infrastructure capable of supporting the exchange of fast flexible payments messaging and will be linked to a Settlements Service built by the Bank. The NPP will support commercial 'overlay' services that can be tailored to particular payment needs. While multiple overlays could potentially be connected to the NPP, the first will be an 'initial convenience service' developed to support person-to-person mobile payments.

The NPP is intended to link all ADIs as well as other approved participants. The Board considers it important that there be fair, open and transparent access to the NPP and the Bank will continue to have close cooperation with industry to ensure that the NPP arrangements remain consistent with the Board's objectives and the public interest.

In June 2013, the NPP Steering Committee was established to oversee the development of the NPP. The Steering Committee has appointed a Program Director and engaged a consulting firm to manage the project. The next major step is the development of business requirements for the proposed platform, together with a detailed plan and budget for the next phases of development. It is anticipated that this will be completed by the end of the year.

To support the project the NPP Participant Group has also been established. The Participant Group is a broader group that will provide funding and expertise for the NPP Program, and will act as a forum for providing project updates to participants and an avenue for members to relay feedback to the Steering Committee.

In addition to the progress underway at industry level, the Bank has commenced work on developing the principles and requirements for the settlement component of the NPP. The Fast Settlement Service will be operated as a 24/7 RITS service, owned by, and located at, the Reserve Bank. It will provide a relatively simple model for the final and irrevocable settlement of each individual payment sent from the NPP. The Bank's timetable for the delivery of the Fast Settlement Service has been aligned with the proposed industry timetable. The Bank intends to consult further about the operation of the service with RITS members in coming months.

The Board welcomes the industry's willing response to the strategic objectives outlined in 2012. The industry's progress towards achieving same-day settlement of DE payments this calendar year and its commitment to providing a cutting-edge retail payment system that addresses key gaps identified in existing systems by 2016 are both landmark achievements. They suggest a renewed capacity for the industry to cooperate in the interests of providing a better payments system. The Board is hopeful that the creation of the Australian Payments Council in the coming year will help to maintain that progress in the years to come.

---

20 RBA (2012), *RBA Core Criteria for a 'Fast Payments' Solution*, November. Available at <<http://www.rba.gov.au/payments-system/reforms/strategic-review-innovation/201211-rba-core-criteria-fast-pay-solution/pdf/solution-112012.pdf>>.

21 Real-Time Payments Committee (2013), *Proposed Way Forward*, February. Available at <<http://apca.com.au/docs/real-time-payments/real-time-payments-proposal.pdf>>.

## Box D

# Addressing Solutions

A key element determining the ease of use of a payment system is the process by which the payee's details are provided by the payer. Currently, for a payment to be made into a bank account, the payee's BSB number and account number must be provided. Individuals may not always remember these details or may be reluctant to provide them. The need to enter up to 15 digits correctly is a further problem.

The Board concluded that an easier means of addressing payments could improve the efficiency of the payments system and may have an additional benefit of increasing competition in the provision of financial services to the extent that it makes it easier for customers to switch accounts between financial institutions. Industry has undertaken to provide an addressing solution as part of the delivery of the New Payments Platform.

Addressing solutions are being considered in other jurisdictions. In January 2013, the UK Payments Council announced a new service, the Mobile Payments Scheme. This scheme will enable secure payments to be made directly to or from an account without the need to disclose account details, but rather by using a mobile phone number as a proxy. Eight financial institutions – representing 90 per cent of UK current accounts – have already committed to offering the new service, which is scheduled to launch in 2014. A central database will enable banks to securely store their customers' mobile phone numbers and link them to their account details. Participation in the Mobile Payments Scheme is open to any payment service providers who have access to the UK Faster Payments system and/or LINK (the UK ATM network).<sup>1</sup>

In Sweden the infrastructure for electronic identification, BankID, also offers a secure electronic identification for mobile phones and tablet computers called Mobile BankID. Customers download the BankID app to their mobile phone or tablet, and request the Mobile BankID from the bank, using the app. Customers are able to use Mobile BankID to facilitate mobile payment services, mobile banking and a number of government services.<sup>2</sup>

---

1 Payments Council (2013), 'Countdown Starts to Mobile Payments for All', Press Release, 15 January. Available at <[http://www.paymentscouncil.org.uk/media\\_centre/press\\_releases/-/page/2378/](http://www.paymentscouncil.org.uk/media_centre/press_releases/-/page/2378/)>.

2 Available at <<http://www.bankid.com/en/Mobile-BankID/>>.

