



SUBMISSION PAPER:

Submission to the Reserve Bank of Australia on the New Payments Platform

December 2018

This Submission Paper was prepared by FinTech Australia working with and on behalf of its Members; over 300 FinTech Startups, VCs, Accelerators and Incubators across Australia.



Table of Contents

About this Submission	3
Submission Process	3
Context: New Payments Platform	4
Issue for consultation	5
1. Access	5
2. Functionality	7
3. Services offers	8
4. Other issues	9
Conclusion	9
About FinTech Australia	10



About this Submission

This document was created by FinTech Australia in consultation with its Payments Working Group, which consists of over 50 company representatives. In particular, the submission has been compiled with the support of our Working Group lead:

- Rebecca Schot-Guppy, FinTech Australia

This Submission has also been endorsed by the following FinTech Australia members:

- TransferWise
- Bit-E
- MoneyTech
- EzyPay
- Up Bank

Submission Process

In developing this submission, our Payments Working Group held a series of Member roundtables to discuss key issues relating to the Data Standards.

We also particularly acknowledge the support and contribution of DLA Piper and K&L Gates to the topics explored in this submission.



Context: New Payments Platform

Australian businesses and consumers expect payment offerings that are secure, reliable, efficient and convenient while responding to new technology and market evolution. The New Payments Platform (**NPP**) gives consumers, businesses and government departments the ability to make fast, versatile and data-rich payments. However, the RBA needs to broaden access to the NPP, review the fees set by participants of the NPP and transaction fees set by New Payments Platform Australia Limited (**NPPA**), and improve functionality. Giving opportunities to fintechs to introduce new products, which the banks and fintechs can benefit from is the next step forward.

The NPP works through three important parts:

1. The 'Basic Infrastructure'

The Basic Infrastructure includes a network (which connects participants), a switch (which moves messages between participants via the network) and an Addressing Service which enables transaction accounts to be identified by a simpler payment address such as an email address, phone number or ABN number. The Basic Infrastructure will always be open for business, 24 hours a day, 365 days of the year.

2. The Fast Settlement Service

The Fast Settlement Service (**FSS**) is provided by the Reserve Bank of Australia. This world-leading capability enables every single payment made on the platform, regardless of its size, to be settled in real-time in central bank funds, across each financial institution's Exchange Settlement Account (**ESA**).

3. Overlay Services

'Overlay Service' is the name the industry has given to innovation that can leverage the benefits of the Basic Infrastructure. These products or services could offer vastly different experiences, or similar experiences, and in many cases could compete with each other. This is where the NPP breathes life into innovation and competition.



The first overlay service, Osko by BPAY, is a payment option available via participating authorised deposit-taking institutions (**ADIs**) digital banking channels on a 24/7 basis that enables funds and information to be rapidly transferred and made available to recipients.



Issue for consultation

FinTech Australia welcomes the opportunity to put forward its position on behalf of members in relation to NPP functionality and access. Our members believe that innovation will be fundamental to success and hope the RBA considers the current issues to ensure the NPP arms businesses with an opportunity to evolve.

We have highlighted below a selection of key issues which we believe are important for the continued development of the NPP.

1. Access

1.1 Participant's Access

There are currently five ways to access the NPP:

1. NPP Participant
2. Identified Institution
3. Overlay Service Provider
4. Connected Institution
5. User of the platform

Our members are facing significant challenges gaining access to the NPP in order to offer enhanced payments functionality. They have found considerable barriers to direct participation in the NPP (as a participant or overlay provider) and have also faced challenges in partnering with existing participants.

The NPP was set up, and is mutually owned, by 13 initial shareholder participants (including the major banks). Institutions that are not currently connected to the NPP can access it either through one of its existing participants or directly, by application to NPPA. It is, however, up to the board of the NPPA (which includes representatives of major banks) to determine whether or not to accept an applicant. This access model requires new competitors to be accepted by the initial participants, which could reasonably be expected to involve conflicts of interest. It is fair to say it is an exclusive club and the eligibility criteria disadvantages perspective entrants. The NPP requires more transparency around the process for access to avoid conflicts of interest.



Our members are concerned about aspects of the NPPs governance arrangements as described above, because of their potential to create additional systemic barriers. The NPP's board is largely comprised of representatives of large ADIs. Entities seeking to innovate the payments experience for consumers may be viewed as competitors by these entities and, as a result, the governance framework of the NPP may not be conducive to fostering such innovation and competition.

1.2 Cost of Integration

Our members have found that the cost of integrating with existing participants (such as banks and aggregators) present a substantial barrier to entry. Even where a Fintech entity uses the NPP's APIs for integration, it is still necessary for them to partner with a participant to address settlement requirements. The provision of settlement services is another product opportunity for ADIs, but represents a barrier to FinTechs as to date, the large ADIs have not even made the NPP available to all their end consumers and corporate customers.

Our members understand that several NPP Participants are ADIs that provide clearing and settlement sponsorship and that compete to provide indirect access to institutions that want to connect to the NPP. However, the fees charged to sponsored institutions and users of the NPP are excessive.

Our members noted that the requirement to be an ADI presents an onerous regulatory hurdle which excludes all but the largest of potential participants. Some members have been able to develop position relationship with ADIs, but this has required significant time and effort, as well as numerous false starts. This layer of intermediation has the potential to deter or prevent some innovations from reaching Australian consumers.

In addition, direct participants are required to purchase shares in NPP at a substantial cost. As there is no market for NPP shares, this is effectively a sunk cost and not something which many FinTech entities can afford. Furthermore, it is not clear how the share purchase price relates to the ongoing capital requirements of the NPP.

Provision of an overlay service has the potential to be a less onerous path to market for potential innovators. However, the need for the provider of an overlay service to obtain agreement from all NPP participants is a further structural barrier. Current Osko overlay service provider BPAY, has utilised relationships with its member financial institutions to obtain the required consensus, an arrangement that FinTechs will not have.



Regulators should act now to facilitate fair access to the NPP in its early days. This will determine whether the platform will generate positive innovation and competition.

2. Functionality

Independent of the functionality currently available within NPP, the current reach of NPP is limited. The slow rollout of NPP and Osko functionality significantly limits the usefulness of the platform. Until rollout has greater penetration, there is little incentive for FinTechs to innovate within NPP.

A priority identified by our members for additional NPP functionality are:

- the ability to request payments;
- automated recurring payments; and
- API access to the NPP infrastructure;

Our members are interested to see details of these initiatives in order to understand how to develop tools which make use of them. Particularly, members are interested to understand:

- how consent will be managed;
- how payment initiation will be sent;
- how PayIDs will be verified;
- impact of a PayID being associated with a new bank; and
- how the consent process will be managed.

In relation to payment requests (debiting accounts as opposed to consumer initiated credit payments), it was noted that Osko intends to roll out this functionality, but has been delayed. Our payment and direct debit aggregator members note that it would be crucial for a mechanism to bulk initiate automated recurring payments through the basic NPP infrastructure. Our members are concerned that this may lead to further structural barriers for FinTechs, which may need sponsorship by a direct participant to access this functionality.

In relation to APIs, our members would like to have access to the NPP infrastructure through APIs. This is key to unlocking the full benefit of the NPP, outside bank owned applications. For maximum benefit, these efforts should be aligned with the technical standards of the APIs under development by Data61 in relation to the banking phase of the Consumer Data Right implementation.



3. Services offers

As discussed above, the NPP does not currently allow for direct debit payments. Our members suggest that an in-between service, taking functionality from NPP and Osko, is required to ensure faster payments and 24-hour payments. Without a direct-debit equivalent, a large subsection of payments will still take three days to clear long after all other transactions have moved on to the NPP system.

Our members submit that the NPP should provide for tailored services, depending on the user's needs. The services currently offered cannot be tailored to a particular type of user. For example, retail merchants would want an instant acknowledgement of incoming funds, similar to a card payment, however not all users require this service offering.

4. Other issues

The current NPP sandbox does not allow testing of the payment request functionality. In order to develop tools built on this functionality, our members would like to see an expansion of the sandbox to allow testing of payment requests, and transparency on the rules relating to recurring payments.

Financial institutions will maintain databases of information creating a digital transaction record and overlay services have the potential to build on this. However, it is not clear which other players will gain access to this wealth of information.

Conclusion

FinTech Australia thanks the RBA for the opportunity to provide inputs and recommendations on the NPP. We would welcome opportunities to continue working with the RBA to enhance NPP functionality for Australian consumers.



About FinTech Australia

FinTech Australia is the peak industry body for the Australian fintech Industry, representing over 300 fintech Startups, Hubs, Accelerators and Venture Capital Funds across the nation.

Our vision is to make Australia one of the world's leading markets for fintech innovation and investment. This submission has been compiled by FinTech Australia and its members in an effort to drive cultural, policy and regulatory change toward realising this vision.

FinTech Australia would like to recognise the support of our Policy Partners, who provide guidance and advice to the association and its members in the development of our submissions:

- DLA Piper
- Baker & McKenzie
- Hall & Wilcox
- King & Wood Mallesons
- K&L Gates
- The Fold Legal