

Governor's Foreword

The past year has been a very eventful one for the payments industry as it dealt with the challenges of the COVID-19 pandemic and significant ongoing changes in technology.

The Payments System Board has been closely monitoring the effects of the pandemic. Financial market infrastructures (FMIs) operating in Australia have generally dealt well with the resulting operational and financial risk management challenges, including those presented by the sharp increases in volatility and turnover in the early stages of the pandemic. The Bank is following up on some issues, but this episode has shown the benefits of recent reforms to strengthen the resilience of the system. Similarly, providers in the retail payments system have coped well with their changed operational arrangements and other changes induced by the pandemic.

The Bank's most recent Consumer Payments Survey (CPS) was carried out in late 2019, providing further evidence of the decline in the use of cash for consumer payments, with households increasingly choosing to use electronic payment methods. The pandemic has accelerated this shift, with increased use of contactless card payments and online payments. At the same time, some people continue to use cash heavily and it is important that the payments industry continues to support access to cash, including to withdrawal and deposit services.

Given its remit to promote a safe, competitive and efficient payments system, the Board is

paying close attention to this shift towards electronic payments, especially as it relates to the cost and reliability of electronic payments. It has actively encouraged acquirers to provide merchants with functionality for least-cost routing (LCR) of contactless debit card transactions as a way to increase competition and hold down payment costs. It has also stressed the importance of banks ensuring that LCR is made available to a wide range of merchant customers and that merchants are provided with information about the full range of payment options. The Board has also focused on operational outages in retail payments occurring over recent years, which can cause significant inconvenience for households and businesses – even more so as people use and carry cash less. It has endorsed the staff working with financial institutions to improve the reporting and disclosure of data on the reliability of retail payment services as a way of increasing transparency.

The Board is considering a wide range of policy issues in the context of its Review of Retail Payments Regulation. The Review was formally put on hold in March due to the pandemic. Prior to that, over 50 written submissions were received in response to an Issues Paper. Industry consultation is likely to recommence later this year and the Board expects to complete the Review next year.

Transactions through the New Payments Platform (NPP) continue to grow strongly. The Board expects NPP Australia to make further

progress towards the delivery of its capability development roadmap. Doing so will support further innovation in the payments system and the provision of better payment services to households and businesses. The Board is taking a keen interest in exploratory work on wholesale central bank digital currency that Bank staff are conducting in the Bank's Innovation Lab. The Bank is also working closely with domestic and overseas regulators to ensure that all regulatory issues associated with private sector 'stablecoins' are addressed prior to any launch.

Another significant focus of the Board's work has been the resilience of Australia's FMIs, including central counterparties. Over the past year, the Council of Financial Regulators completed a public consultation on a package of reforms to the regulatory framework for FMIs, with advice being provided to the Government. The package includes a formal framework for the resolution of a failing entity if that became necessary in a crisis situation, as well as changes to modernise the regulatory framework for domestic clearing and settlement facilities, including enhanced supervisory powers.

Over the past year, the Bank has also undertaken a thorough assessment against international standards of the systemically important FMIs and payment systems in Australia – most notably the clearing and settlement facilities operated by the ASX and the Reserve Bank's real-time gross settlement system. The Bank published these assessments on its website. The Board is closely reviewing ASX's progress towards the completion of the replacement for its CHES clearing and settlement system for cash equities. It has also endorsed the adoption of the new ISO 20022 messaging standards in some parts of the Australian payments system as a strategically important project for the payments industry.

The Bank's policy staff support the Board with a high degree of professionalism and carry out their work to a very high standard. The Payments System Board joins me in thanking them for their contribution to the efficiency and stability of Australia's payments system, as well as all the staff in the Bank's operational areas who have ensured the ongoing operation of the Bank's important payment infrastructures and services in very challenging circumstances.



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