

# Strategic Priorities for the Reserve Bank's Payments Work

At its November 2016 meeting, the Payments System Board endorsed a set of strategic priorities to guide the Reserve Bank's payments policy work. These priorities reflect the Bank's assessment of trends and developments in the retail payments and financial market infrastructure (FMI) areas that could have the most significant implications for competition, efficiency and risk over the next few years. The Bank's medium-term payments and FMI work agendas are focused on these strategic priorities. The Board will periodically review the strategic priorities as the payments and FMI landscape evolves. The following areas, some of them interrelated, are the strategic priorities for the Bank's payments work over the coming few years.

## Technology and Innovation

The payments, clearing and settlement industries are going through a period of unusually rapid innovation and technology evolution that could have significant implications for the Bank's oversight and regulation work, and also potentially for the way the Bank operates. In the case of retail payments, the deployment of contactless functionality in recent years has supported innovation in how users interface with payment systems, including the development of mobile wallets and other form factors (such as wearables) to make payments. The rapid expansion of the 'internet of things', where everyday objects are connected to the internet, is encouraging the development of other payment interfaces, while the confluence of always-on connectivity, smartphone innovation and big data is driving the development of integrated and embedded payments that provide more streamlined and automated payment processes.

In addition, the large volume of data that is now generated by everyday electronic transactions creates opportunities for new platforms that help consumers to use this data to make more informed decisions.

Clearing and settlement facilities, and other types of infrastructure supporting financial markets, are similarly operating in an environment where technology is rapidly evolving. Distributed ledger technology (DLT), in particular, has attracted considerable attention in the finance industry as a potentially transformative technology. A large number of financial institutions in Australia are working on DLT-based applications, including in settlement systems and international payments.

Given this environment of rapid technology innovation, the Bank will continue to actively engage with innovations most relevant to its responsibilities to improve its understanding of new technologies and their implications for competition, efficiency and stability in payment

systems and FMs. This will require frequent liaison and possibly collaboration with innovators and other industry stakeholders, as well as user groups affected by new technologies. Working closely with other regulators and the Treasury, the Bank will seek to identify any changes to the legal and regulatory framework that might be required to accommodate new technologies, and will look to ensure that the environment remains conducive to competition and that any new risks that technologies introduce are appropriately managed.

The Bank will also seek to address any industry coordination challenges that may hamper the adoption of new technologies that improve the safety and efficiency of the payments system. This is the approach the Bank took following its 2012 *Strategic Review of Innovation in the Australian Payments System*, where the Board set out high-level strategic objectives for the industry to meet and encouraged the formation of the Australian Payments Council as an industry governance body that would take a strategic view and deal with the coordination challenges that had previously hampered innovation. The New Payments Platform (NPP), currently under development, was the industry's main vehicle for addressing the Board's initial set of strategic objectives (see Box B). At some point after the NPP is operational, it will be appropriate for the Payments System Board to assess how well the strategic objectives have been met and whether there are other areas where cooperative industry solutions may be needed.

## Changes to the Payments Mix

As discussed further in the chapter on 'Trends in Payments, Clearing and Settlement Systems', Australia's payments mix is continuing to evolve. The use of cheques and cash for consumer payments has been declining for some time

and the use of electronic payment methods has been rising strongly, including through the rapid adoption of contactless functionality for card payments in recent years. Recent innovations such as mobile wallets and the forthcoming operation of the NPP (see below) are expected to encourage a further shift towards electronic payments. Consistent with its mandate, the Bank has a role to play in overseeing the transition towards a more efficient payment system, while also ensuring that the needs of the users of the payments system are adequately met.

Managing changes in the payments mix is also a key focus of the Australian Payments Council, which is currently working with various stakeholders on a roadmap for the transition away from cheques and developing an industry strategy for the shift towards a 'less-cash' society. While it is appropriate that the industry continue to take the lead on these issues, the Bank will continue to monitor developments and contribute to debate through the provision of data and research on changes to the payments mix and the efficiency of Australia's payments system. In 2016/17, for example, the Bank undertook its fourth triennial survey of consumer payments with the results published recently (see Box A).

The Bank has also been examining the role that digital currencies might play in the future payments mix, including digital cash issued by a central bank. While the Bank currently has no plans to develop a digital equivalent of physical cash, it will continue to study the technical and policy issues associated with different models of digital cash, as well as the factors that could determine future demand for this type of instrument.

## New Payments Platform

Thirteen industry participants, including the Bank, are committing significant resources to develop the NPP, which is currently expected to commence operations around the end of 2017 (see Box B). The NPP will be a major upgrade to Australia's payments infrastructure, which over time is expected to deliver a range of innovative payment services to households, businesses and government. As the NPP is a large investment for the industry and the Bank, with significant implications for the future of retail and wholesale payment systems, it will continue to be a strategic focus of the Board over the years ahead.

As noted earlier, the Bank was heavily involved in getting the NPP project off the ground; the industry proposal to build the NPP was a direct response to the strategic objectives set by the Board following its 2012 *Strategic Review of Innovation in the Australian Payments System*. Since then, the Bank has been actively participating in the project, including in the design and implementation of the Fast Settlement Service and as one of the 13 institutions that have funded the central build and which will connect to the core infrastructure. Once the NPP is launched, the Board's focus will return to policy issues and ensuring that the arrangements put in place deliver on the intended outcomes. Some of the future policy issues the Bank may need to consider in relation to the NPP include: competition and access, security, fraud and operational resilience. In addition, if growth in transaction volumes and values results in the NPP accounting for a significant share of payments in the economy, the Bank may also need to consider a formal oversight role in line with the Bank's regulatory responsibilities for systemically important payment systems.

## Issues Involving New Entrants into the Payments System

The Bank's longstanding approach to regulation in the payments system is shaped by a presumption in favour of self-regulation by the industry, with the Bank only imposing regulation where the industry is unable to address a public interest concern. In practice, this means the Bank has imposed regulation in only a relatively narrow range of payments activities and many elements of the payments system, and the participants within them, remain unregulated by the Bank. However, the rapid pace of innovation and emergence of new players in recent years has increased the focus on the 'regulatory perimeter' and steps that could be taken to improve competition and better facilitate innovation and access by new entrants. There are several aspects of this that will have implications for the Bank's work over the next few years.

One aspect relates to the role of regulatory status as a means of facilitating market access. Some jurisdictions, such as the European Union, have introduced licensing regimes for payments institutions as a way of broadening access to payments systems, particularly for non-traditional players. A licence provides an official status that may make it easier for new entities to participate in payment schemes or conduct other payments business, with regulatory obligations that are tailored to the levels of risk involved in their activities. One possibility is that the Bank, together with other relevant agencies, could consider whether a European-style licensing and supervision framework for payment service providers would make it easier for new participants to compete in the Australian market and what the costs and benefits of such a framework would be.

Improving the ability of consumers to access their personal banking data and securely share it with third-party service providers also has the potential to promote competition and innovation in the payments system. Some jurisdictions, such as the United Kingdom, have imposed obligations on banks to build standardised interfaces that facilitate customers' ability to authorise read and write access to their transaction accounts by third-party service providers. In Australia, the government recently announced plans to implement an 'open banking' regime, with the framework currently being developed. Implementation of effective data sharing arrangements will require significant industry coordination and a number of challenges relating to privacy, data security and fraud will need to be addressed. Given the potential benefits for innovation, competition and efficiency in the payments system, the Bank is strongly supportive and will continue to engage with industry and the government on the development of a data sharing framework.

## Operational Risk, Security and Resilience

Against the backdrop of rapid innovation, digitalisation, increasing prevalence and sophistication of cyber crime and increasing centralisation of infrastructure, the security and resilience of payment, clearing and settlement systems is likely to remain a key focus of the Bank's work.

For both retail payments systems and FMIs, operators have strong incentives to manage operational risks. The Bank's oversight of how well these risks are managed varies with the nature of the systems. In the case of FMIs, security and resilience matters have always been a focus of the Bank's oversight and supervision, given these infrastructures have no ready

substitutes in the domestic financial system – they are the infrastructure on which much of the functioning of the domestic financial system relies. In contrast, the range of retail payments providers means that there are alternative systems if one system suffers an outage; the Bank's role therefore has mostly been focused on monitoring, collecting and publishing data to provide transparency and awareness around these issues.

Recently there has been increased industry focus on measures to enhance retail payment security and data integrity/protection. In several instances such measures have required cross-industry coordination to be successful – for instance the PIN@POS initiative, which has had a positive impact on fraud rates in card-present environments. As more transactions take place online, however, card-not-present payment fraud has been growing. The Bank will need to consider if there are any actions it can take to help facilitate or encourage industry initiatives to address this issue. The development of digital identity and other authentication systems, which have the potential to make a range of online interactions more convenient and secure, could help reverse the rise in fraud rates on card transactions, and so the Bank will be encouraging the payments industry to work collaboratively in this area.

The Bank may also have a role in supporting cooperative industry initiatives to enhance operational risk management and system resilience. Cyber-related issues will remain a focus for the foreseeable future in the Bank's oversight responsibilities. In the case of FMIs, the Bank's approach to supervision and oversight is closely informed by international guidance developed by the Committee on Payments and Market Infrastructures and the Technical Committee of the International Organization of Securities

Commissions. A key challenge for authorities and industry participants is to understand how the interdependencies between participants in a payments infrastructure ecosystem shape the risks and security of that system. The Board is supportive of cooperative efforts to ensure these interdependencies are not a weakness for infrastructure.

## FMI Industry Developments and Policy Initiatives

The Bank continues to monitor the evolution of the domestic and international FMI landscape. As noted above, technological developments could see the emergence of new competitors in payments, clearing and settlement services. Even among existing providers, competitive pressures have been evident over a number of years. For instance, the Bank currently regulates two foreign central counterparties, as well as the ASX Group clearing and settlement facilities, with these three groups directly competing against each other for at least some market segments. The Bank will continue to work with other agencies as needed to understand the policy implications of such technological and market developments.

The Bank has also been undertaking further work with other agencies to develop a statutory framework for FMI resolution in Australia. Since it is currently expected that the Bank will be the resolution authority for FMIs in Australia, the Board will need to consider in detail how the Bank implements this regime once it is in place.

