

# Strategic Review of Innovation

---

In June 2012 the Board released the *Strategic Review of Innovation in the Payments System: Conclusions* (Conclusions Document).<sup>11</sup> The Review, conducted over a two year period, sought to identify areas in which innovation in the Australian payments system might be improved through more effective cooperation between stakeholders and regulators and to identify possible gaps in the Australian payments system that might need to be filled over the medium term.

The Review concluded that removing some of the barriers to cooperative innovation had the potential to deliver significant public benefits over time. Two broad approaches aimed at improving cooperative outcomes were proposed – the creation of a new industry coordination body and the establishment of strategic objectives for the payments system by the Board. To this end, the Conclusions Document put forward an initial set of strategic objectives (see 'Box D: Initial Strategic Objectives').

The Board has welcomed the industry's responses to the Strategic Review, with the first of the strategic objectives being achieved in late 2013, and substantial progress being made on the others through a project to build a new real-time retail payment system – the New Payments Platform (NPP). In addition, the new industry coordination body sought by the Board has reached the final stages of formation and is expected to have its first meeting in October 2014.

## Same-day Settlement of Direct Entry

The direct entry (DE) system is used for the exchange of bulk electronic payment files between authorised deposit-taking institutions (ADIs). Payments occurring through DE include salary, welfare and dividend payments, as well as internet ('pay anyone') banking transfers and direct debits for bill payments. DE payments by households, business and governments average around \$56 billion per business day.

The first of the initial strategic objectives established by the Board was for same-day settlement of all DE payments by the end of 2013. This was achieved on 25 November 2013 when DE obligations between payments system participants began to be settled on a same-day rather than next-day basis. Previously, the settlement of DE obligations in ADIs' accounts with the Reserve Bank took place at 9.00 am on the business day following the exchange of payment instructions between ADIs. With the introduction of same-day settlement for DE, settlement now takes place in six scheduled batches throughout the day, consisting of the 9.00 am batch (which settles payments exchanged at 10.30 pm the previous business day) and five additional batches through the day which settle around 45 minutes after scheduled exchanges of payment instructions between ADIs.

---

<sup>11</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>>.

## Box D

# Initial Strategic Objectives

Based on its consultations over the course of the Strategic Review, in June 2012 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.
- 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. To the extent that this is provided by a new real-time system, it should be available by the end of 2017.

A benefit of this change is that financial institutions are in a position to make funds available to recipients on a more timely basis without the introduction of credit risk for the receiving financial institution. Under previous arrangements, if a financial institution wanted to make within-day funds available to its customers, it needed to provide credit to the funds recipient before interbank settlement occurred. This introduced a risk that the paying institution might not settle, or settle on time, even though the funds had already been credited to the receiving institution's customer.

In addition to the changes required to ADIs' systems, achieving same-day settlement of DE payments required significant changes to the operational and liquidity arrangements for the Reserve Bank Information and Transfer System (RITS), the Reserve Bank's real-time gross settlement system. This included changes to ensure ADIs' access to liquidity into the evening, after the close of the interbank cash market (see 'Open repos and same-day settlement of direct entry' under 'Oversight of High-value Payment Systems').

The Board congratulates the industry on achieving this significant step in the modernisation of the Australian payments system.

## New Payments Platform

The industry-coordinated response to the Conclusions Document proposed that the remaining Strategic Objectives should be delivered via a purpose-built payments infrastructure, the NPP. Consistent with the Strategic Objectives, the NPP will enable businesses and consumers to make payments in real time, with close to immediate funds availability to the recipient. In delivering on the objectives, the NPP will need to facilitate payments which can carry more complete remittance information and offer users more convenient addressing options.

The NPP will encompass three components: a basic infrastructure; overlay services; and a fast settlement service. The core of the NPP will be the Basic Infrastructure (BI), a central underlying hub which will connect

participating financial institutions and other approved entities, allowing payment and settlement messages to flow between participants.

The BI will be capable of supporting various 'overlay' services – tailored commercial payment services which participants can choose to make available to their customers. It is expected that overlays will offer features and services aimed at specific market segments, encouraging volume through the NPP. Work towards development of the first overlay service, the Initial Convenience Service (ICS), is underway. Over time, it is envisaged that multiple overlays will emerge, with the real-time and data-rich functionality of the NPP promoting competition and innovation in payment services.

The final component of the NPP is the Fast Settlement Service. The Fast Settlement Service will be 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 BI to the Reserve Bank.

The NPP project is being overseen by the NPP Steering Committee. The Steering Committee has an independent Chair and includes representatives from the major banks, smaller banks, the mutual sector, an alternative payments provider, the RBA and the Australian Payments Clearing Association (APCA). Progress is well underway to develop the business and technical requirements for the BI, the ICS and the Fast Settlement Service, and to select vendors to provide the BI and ICS. Many challenges remain ahead of the planned late 2016 launch, both in terms of developing the central infrastructure and the work needed to enable individual participants to connect to the NPP and process real-time payments.

The Board welcomes the industry's progress to date and looks forward to continuing a constructive relationship in delivering this new payments infrastructure.

## Australian Payments Council

The Strategic Review of Innovation called for the formation of an enhanced industry coordination body that is capable of dealing with the full range of cooperative issues that arise in the payments system, as well as being the principal voice of the industry in liaison with the Reserve Bank and the Payments System Board, including in respect of strategic objectives. The Bank and APCA, on behalf of the industry, have subsequently been working on establishing a framework for a new Australian Payments Council. A joint APCA-Reserve Bank consultation on a proposed framework was initiated in October 2013. This demonstrated strong industry support for the proposal. A participation agreement, in line with the framework presented for consultation, was developed and provided to potential participants for review in April 2014. Finally, potential members were given the opportunity to subscribe and appoint or nominate members in June and July.

The framework that has now been agreed involves a relatively broad Payments Community, consisting of all subscribers to the framework. Organisations with a significant interest in the Australian payments system are eligible to subscribe. This includes direct and indirect participants in and operators of payment systems; processors of payments; suppliers of devices for accessing payment systems; and network and technology providers to payment system participants and operators.

The Australian Payments Council will consist of 13 members drawn from the subscribing organisations, plus an independent chair. Members may be appointed by their institution, elected from a group of institutions, or appointed by the Reserve Bank, depending on the type of organisation. The intention is for the Council to reflect a broad cross-section of the payments industry, with the mix of members changing over time. Members are expected to be very senior within their respective organisations.

The organisations initially represented on the Council are outlined in Table 7.

The Board is grateful to these organisations – along with the others that will participate in the framework but will not hold a seat on the Council in the initial period – for their willingness to contribute to improved industry governance.

The first meeting of the Council is expected to occur in October 2014.

With the Council soon to be operational, attention will now turn to establishing a User Consultation Group, which will allow the Bank and the Board to gather views and insights on the operation of the Australian payments system from its users, including consumers, businesses and government agencies. Along with the Council, the User Consultation Group will provide valuable input when the Board next determines strategic objectives for the payments system.

**Table 7: Organisations Represented on Australian Payments Council**

<b>Organisation</b>	<b>Appointment Method for Member</b>
APCA	APCA CEO
Reserve Bank of Australia	appointed by Reserve Bank from an operational payments area
ANZ	appointed by institution
Commonwealth Bank	appointed by institution
National Australia Bank	appointed by institution
Westpac	appointed by institution
Cuscal	elected from 'other financial institutions' group
Suncorp	elected from 'other financial institutions' group
eftpos Payments Australia	appointed by the Reserve Bank from 'payment schemes' group
Visa	appointed by the Reserve Bank from 'payment schemes' group
Woolworths	appointed by the Reserve Bank from 'retail acquirers' group
First Data	appointed by the Reserve Bank from 'other' group
PayPal	appointed by the Reserve Bank from 'other' group