

30 November 2018

The Reserve Bank of Australia
65 Martin Place
SYDNEY NSW 2000
Via email to nppsubmissions@rba.gov.au

Dear Sir/Madam,

RE: New Payments Platform (NPP) Functionality and Access: Consultation

Cuscal Limited (Cuscal) appreciates the opportunity to respond to the Reserve Bank of Australia's (the Bank) request for industry consultation, relating to the functionality and access arrangements for the NPP.

Background

Cuscal is a regulated Authorised Deposit Taking Institution (ADI) providing several specialised agency banking and payment services, in particular clearing and settlement for Australia's payment systems to bank and non-bank financial institutions.

These payment services further extend to challenger organisations¹ that are leveraging payments innovations to create new, customer centric business models. Cuscal is currently one of three Australian ADIs that operate in this capacity.

Cuscal's agency model fulfils an important role in the Australian payments system as it enables Participants and regulators to optimally balance the mix between the security and integrity of the payment system. The agency model supports competitive forces that ensure a broad range of organisations benefit from access and functionality to payments infrastructure. The benefit is inevitably passed on to customers using the NPP infrastructure to facilitate convenient fast payments. We note the NPP objectives set out in the original RBA review included:

- the ability for users to make real-time payments;
- send more complete remittance information with payments;
- address payments in a relatively simple way; and
- make and receive payments outside normal business hours.

It should be acknowledged that these objectives are all being met with the functionality of NPP today.

NPP and Cuscal's Participation

The NPP supports the model for sponsored access either through the likes of Cuscal, or any other Participant. Cuscal has enabled a range of businesses to establish services for their customers using NPP, by setting up organisations as Identified Institutions under the indirect access provisions of the NPPA regulations. An Identified Institution is an organisation that offers NPP payments to their customers through sponsorship and settlement arrangements with an NPP Participant.

¹ Challenger banks were originally termed in the UK to describe a relatively small retail bank set up with the intention of competing for business with large, long-established national banks.

The indirect model has been very successful for enabling competition and early adoption by smaller organisations, which otherwise may have required additional time and resources in establishing principle access to the NPP infrastructure.

At the launch of NPP in February 2018, Cuscal provided access to the NPP on behalf of 30 Identified Institutions covering 40 banking and financial services brands. This number has now increased to 40 Identified Institutions with more than 50 financial services brands, including a payment service provider that operates merchant accounts rather than bank accounts. This demonstrates access to NPP is available beyond the core structure of the Participants. It further demonstrates Cuscal's ability to provide access and functionality to Identified Institutions which account for a major number of overall Participants under the NPP regime.

NPP access and infrastructure

To provide new entrants, such as fintechs and payment service providers, with the optimal balance between cost and capability, it should be made clearer that Participants "form part of the NPP" ecosystem, as all infrastructure that is operated by NPPA does not result in Participants merely "connecting to" this infrastructure. Rather that Participants provide customers with a secure payments service.

Security surrounding the data and infrastructure must be maintained at the highest levels of resiliency to ensure the NPP infrastructure contributes to strengthening the integrity of the Australian payments system.

The access that new entrants seek is actually best served through a Participant, as opposed to directly attempting to access the NPP infrastructure. It is therefore appropriate to make it as simple as possible for third parties to connect through a Participant. Leveraging capability from an established Participant can potentially negate elements of the infrastructure setup and the ongoing maintenance and compliance resource and cost requirements. In doing so, this can provide new entrants with the optimal balance between cost, and leveraging capability from an established Participant.

One of the key challenges under the current NPP operating model, is not meeting the need for rapid deployment of the NPP infrastructure. Cuscal acknowledges competition rests not only in providing differentiated products and services to satisfy customer needs, but ensuring market deployment is executed to avert unnecessary delays, and risk of losing customer interest and/or confidence.

In light of this, Cuscal suggests that outcomes arising from this consultation also incorporate any opportunities in streamlining the rollout of future deployment by Participants.

NPP future developments

We are now seeing demand for new features in the area of 'payment initiation' and 'workflow'. These go beyond the conventional elements of payments and intersect with business and consumer expectations to be able to integrate payments with the software and services they use on a daily basis. To demonstrate use cases in ecommerce and billing, some of these new features include:

- the receipt of money initiated by the creditor;
- where such a request can be integrated with software; and
- including payment-with-document-services including receipts and invoices.

We are confident that this will be addressed by the Osko Request Service and other future overlays that use the Payment Request messaging.

To meet the expectations of the service providers and businesses that will be the major drivers of Payment Requests, it will be critical to ensure:

- capability to fully automate end to end processing without always needing a customer approval for each payment;
- customers must be given the ability to establish consent for fast payment recurring or ongoing requests; and
- making the NPP customer experience seamless.

Use cases in Enterprise Resource Program systems, especially for payroll and accounts payable where payment is initiated by the debtor form part of their business process rather than creating payments

for separate upload to the bank for processing. This is effectively a three-party processing model where the third party software provider is managing the payment process on behalf of the customer but is not a party to the financial transaction.

To meet the expectations of the service providers that customers use (e.g. payroll), financial institutions in the future must enable:

- process for authorised payments that are not initiated from their own online banking channels;
- then confirm the outcome of the payment between debtor and creditor; and
- for return to the initiator so that the system can be reconciled in real time.

Further use cases for additional overlay services include:

- e-invoicing;
- superannuation payments; and
- payment services which support capital markets trading and settlement activities.

We are firmly of the view that the slow roll-out of new features (that support capability beyond simply faster payments) is the root cause for the perception that NPP access is constrained, as innovators have not yet been able to create the services that are key to the future of NPP. The current model requires all Participants to update functionality in their own back office and customer channels to enable new capability. Timing and availability of business services and third-party payment initiation should be a key focus to achieve the goals of a distributed infrastructure with layered services that add value for business and consumers.

Summary of Recommendations

In closing, the following points summarise the recommendations highlighted in this consultation response and we trust this will contribute to the discussion the Bank and the ACCC in further improving NPP access and functionality:

- Supportive of the future Osko Request Service to further improve customer experience;
- Better awareness by NPPA to the industry of the benefits regarding third party model as a convenient access option;
- Cuscal believes access and functionality remain critical to the operational efficiency of the NPP, and equally believes streamlining deployment, ensuring future services are delivered to customers in a timely manner; and
- Support continued focus on security to further strengthen systems resiliency and integrity of the NPP infrastructure.

If we can be of any further assistance, please contact myself on kmckenna@cuscal.com.au or alternatively Nathan Churchward, Head of Product, Emerging Services, Nathan.churchward@cuscal.com.au.

Yours sincerely,



Kieran McKenna
Chief Risk Officer.