Re: Proposed amalgamation of BPAY Group Holding Pty Ltd, BPAY Group Pty Ltd, BPAY Pty Ltd (together, BPAY), eftpos Payments Australia Limited and NPP Australia Limited

Statement by National Australia Bank Limited in support of application for authorisation

Signed by: Shane Conway, Executive, Transaction Banking & Enterprise Payments
Date: 18 March 2021

This document contains confidential information which is indicated as follows:

[Confidential to NAB]

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A. INTRODUCTION

1 I am the Executive, Transaction Banking & Enterprise Payments, of the National Australia Bank Limited (**NAB**) and I am authorised to make this statement on NAB's behalf.

2 This document has been prepared in support of the application by Industry Committee Administration Pty Ltd for authorisation on behalf of the shareholders of BPAY Group Holding Pty Ltd (**BPAY Holdco**), the members of eftpos Payments Australia Limited (**eftpos**) and the shareholders of NPP Australia Limited (**NPPA**) who were members of Industry Committee at all relevant times, and by NewCo once it is incorporated, to acquire shares in NewCo and for NewCo to acquire shares in each of BPAY Group Pty Ltd and BPAY Pty Ltd (together **BPAY Opco**), eftpos and NPPA (the **Application**).

3 Exhibited to me at the time of swearing this statement are two bundles of documents, one marked "**Confidential Exhibit SC-1**" containing five confidential documents, and the other marked "**Exhibit SC-2**" containing thee non-confidential documents. NAB claims confidentiality over **Confidential Exhibit SC-1**.

B. NAB

4 NAB is a financial services group that provides a comprehensive and integrated range of banking and financial services including wealth management throughout Australia and New Zealand, with branches located in Asia, the United Kingdom and the United States.

5 Australian banking, including personal banking and business banking, offers a range of banking products and services to retail and business customers, ranging from small and medium enterprises through to Australia's largest institutions.

(a) Our personal banking products can be accessed through various channels including NAB, nabtrade and UBank.

(b) Our business banking products cater to customers' needs with specialist expertise in Agribusiness, property, health, government, education and community.

(c) Our corporate and institutional banking provides a range of lending and transactional products and services in Australia and globally, with specialised industry relationships and product teams, and also comprises Markets, specialised finance, debt markets, asset servicing and treasury.

(d) In addition, NAB's wealth management division provides superannuation, advice, investment and insurance solutions to retail, corporate and institutional clients, supported by a number of brands including MLC, JBWere, JANA, Plum and investment brands under MLC Asset Management.

C. NAB'S INTERFACE WITH THE SERVICES OF BPAY, EFTPOS AND NPPA

6 There are a number of different ways an individual can make a payment for goods or services in Australia, including:

(a) cash;

(b) cheques;

(c) eftpos;

(d) international card schemes;

(e) direct entry payments (including direct debit, direct credit and other internet banking payments);

(f) BPAY; and

(g) Real-time payments via the New Payments Platform (**NPP**).

Please see **Tab 1 of Confidential Exhibit SC-1** **[Confidential to NAB]**..

7 NAB is a shareholder in each of BPAY, eftpos and NPPA with appointment rights of a board director from NAB for each entity. NAB also participates in participant engagement committees where they exist at each entity.

8 NAB's payments capability for customers is broadly divided into six main areas each with an accountable executive:

(a) **Payments product** – develops and manages payment products and is part of the Corporate and Institutional Banking division. BPAY and NPP products are managed in this area.

(b) **Merchant acquiring** – develops and manages product solutions for merchant customers who require an ability to accept payments. This is part of the Business and Private Banking division (note Acquiring includes eftpos acquiring).

(c) **Card issuing** – develops card-based solutions for consumer customers (e.g. debit and credit cards) including customer experience for cardholders using eftpos. Consumer cards is part of the Personal Banking Division and business cards sits in the Business and Private Banking division.

(d) **Payments operations** – manages the execution of domestic and international customer payment instructions (e.g. messaging offshore correspondent banks, settlement, account reconciliations).

(e) **Payments technology** – manages the day to day running of and frequent changes to technology asset infrastructure that enables customers to send and receive payments to their accounts.

(f) **Financial Crime Operations** – manages financial crime risk by undertaking certain activities such as customer due diligence, transaction monitoring, sanctions screening and alert management.

(g) **Other supporting areas** – in addition, a number of other areas support the smooth operation of customers making payments with NAB, including digital channels, fraud detection, the retail branch network and business bankers.

9 Each of the accountable executives in these areas make decisions day to day to manage and develop NAB's payment proposition for its customers. Factors considered in making these decisions include: i) developing better customer experiences and propositions, ii) maintaining a high level of resiliency and service delivery, iii) available resource capacity, iv) managing business efficiency and profitability to support sustainable growth, v) competitive position and strategic alignment and vi) managing risk and compliance obligations.

10 NAB currently offers 46 payments products to customers across payments, cards and merchant acquiring via a number of customer channels (e.g. mobile, desktop internet banking, NAB Connect, retail branch, Direct Link, terminals, etc). There are over 89 technology assets directly involved in executing customer payment instructions.

11 **[Confidential to NAB]**

12 Direct revenue from payments products is not a key profit driver for NAB. The reasons for this include: i) the majority of customers are able to use the services free of charge (e.g. consumers may make pay anyone payments for free via the mobile banking app), ii) competitive pricing pressure, iii) the operating cost to manage and settle customer payments (including scheme costs), iv) the substantial and ongoing investment required in maintaining technology assets to achieve very high levels of resiliency, security and availability (>99% system uptime) and iv) ongoing costs of maintaining compliance with regulatory and payment scheme requirements. Traditionally the primary driver of value creation has been other customer activities such as lending and deposits.

13 Industry payment schemes (e.g. EFTPOS, BPAY, NPP, BECS and SWIFT) each have their own rules of operation, dispute management processes, technical protocols and ongoing compliance obligations. Participants are required to comply with these parameters in order to operate the service for customers. Compliance-related changes generally occur on at least an annual cycle and often require material changes to processes and technology systems. For example, eftpos has scheme compliance releases every April and October which include mandatory changes, NPPA have a minor and major release each year including mandatory changes and BPAY have regular compliance cycles across the year (e.g. biller code updates as well as scheme initiatives).

14 The schemes charge each participant to operate as part of the scheme. The costs and basis of calculation varies with the funds collected used to maintain and develop the assets of the scheme – for example, technology infrastructure and processes. NPP charges each participant a fixed amount each year and BPAY charges a fixed amount for the Osko payment service. EFTPOS, BPAY and the international card schemes charge each participant based on the volume of transactions that are processed.

15 **[Confidential to NAB]**

D. NAB'S INTERNAL DECISION MAKING PROCESSES

16 From time to time, the schemes will engage NAB (either directly or via industry forums) to present proposed new developments to the scheme service. The developments may be mandatory and are often quite varied in their purpose – for example enhancing the end customer experience, improving resiliency and security, meeting new regulatory requirements or improving the efficiency of the scheme operation. Scheme participants will also generally provide feedback and input into this development process.

Prioritisation criteria and process

17 Once the proposed developments have been presented, NAB then considers the merits of the proposal to derive a relative priority assessment. Factors relevant to this judgement typically include: i) business initiatives already underway, ii) the product and business strategy, iii) available resource capacity, iv) complexity and cost of implementation, v) benefits to and feedback from end customers and vi) commercial implications.

18 Each of the six payments areas within NAB described above undertake a prioritisation process for proposed developments. Subject to the outcomes of that process, those areas may request incremental funding and resources to implement the development in the timeline laid out by the schemes. The main source of incremental funding for initiatives is the enterprise investment slate. The overall investment slate amount allocated to each business

unit is set each year by the Executive Leadership Team, having regard to the relative priorities and opportunities across the bank and affordability of incremental investment. Please see **Tab 2** of **Confidential Exhibit SC-1** **[Confidential to NAB]**.

19 The amount of funding allocated within NAB for payments-related initiatives varies each year. Once the allocation is set, it may require each payments area to undertake further prioritisation to fit within the funding constraint. In general, mandatory compliance and technology security and resiliency initiatives tend to be prioritised over enhancing customer or business outcomes, given they are a foundational requirement to operate compliantly in the scheme.

20 Because of the variety of schemes and payment methods available, the diversity of its customer base and its role as a full service bank in Australia, NAB generally prefers to invest in and maintain all mainstream payment types. This has the benefit of supporting greater customer choice, however it can also mean finite resources have the potential to be spread more thinly than less diverse businesses. That said, certain payment methods may receive higher prioritisation if there is clear customer demand and benefit (e.g. 'tap and go' and online card functionality).

Oversubscription

21 As set out above, NAB has resource constraints and must prioritise development proposals for new and existing products. The decision to invest involves accountable executives balancing a number of (at times competing) compliance, customer and commercial considerations. This means that there is often a 'backlog' of initiatives which may be pursued as and when additional resources become available in the current year.

22 **[Confidential to NAB]**

23 Each scheme has a separate priorities and product development roadmap, with initiatives proposed to be delivered at different times. This means the available resources of the domestic schemes are spread unevenly and potentially thinly and each participant has to dynamically assess, prioritise and sequence those initiatives which are relevant in the context of their business objectives and situation. From time to time, it can result in a need to prioritise certain scheme initiatives over other scheme initiatives. Please see **Tab 3** of **Confidential Exhibit SC-1** **[Confidential to NAB]**.

24 It is also common to consider whether an initiative is likely to be a future ubiquitous payment method heavily demanded by customers or if it is a legacy payment method that may be declining in use or is as yet unproven in terms of customer usage. An example of this would be whether to invest in cheque processing versus enhancements to the digital channel

experience for customers. Another example might be whether to invest in an EFTPOS initiative on a new potentially attractive payment method – for example enabling customers to pay via Quick Response (QR) – versus improving the processing speed and resiliency of a bank's real time payment engine, which requires significant resources to run and is a likely ubiquitous future payment method of choice for Australians.

25 Further, the international players have from time to time developed payment innovations in advance of local schemes. This has meant that once a new initiative has been implemented and is being used by customers, it can be a challenge to prioritise a similar service from other schemes if there is uncertainty on customer appetite to switch or the commercial cost-benefit outcomes.

26 An example of this kind of competition of the international players impacting on the domestic investment environment is occurring in "push payments" (i.e. where instructions are given by one party to make a payment to another). Visa and Mastercard implemented the Original Credit Transactions (**OCTs**) service which enabled push payments to be made. Separately eftpos developed a service which enabled deposits and withdrawals from customer accounts, while eftpos has also entered the consumer to consumer payments market with their recently acquired Beem It service. Visa and Mastercard have made progress in ensuring card issuers are capable of receiving OCTs. This service would compete directly with the real time capabilities of NPP and eftpos.

E. POTENTIAL BENEFITS FROM THE PROPOSED AMALGAMATION

27 Customers are increasingly migrating their activity to faster, more efficient and digital payment services. For example, customer usage of cheques has declined significantly over recent periods, while usage of real time payments has continued to accelerate materially since inception.

28 A key driver of this behaviour change is the service proposition. For example, cheques take three days to process due to their manual paper-based nature, direct debit takes 48 hours for full assurance of payment, while real time payments via NPP are generally processed in less than 15 seconds. Customers fundamentally want payment services that are easy to use, fast, low or no cost and efficient.

29 However individual participant strategies and resource capacity varies and some aspects of regulation are fragmented across the payments ecosystem. Each participant, scheme and regulator acts in its own customer, community and commercial interests. This has the practical effect of the industry lacking a coherent and aligned high level strategic roadmap designed to foster efficient innovation and implementation.

30 Payments has a number of attributes which are unlike other areas of the financial services landscape, for example it is utility-like in nature, customer solutions require scale and ubiquity to be successful and participants are subject to vast infrastructure investment and ongoing maintenance costs for limited direct economic return.

31 The confluence of all of these factors means that: i) consistently driving greater efficiency and innovation across the ecosystem can be a challenge, ii) outcomes can vary significantly between participants across the ecosystem and iii) material change can take time to implement.

32 Better alignment of strategic roadmaps for non-competitive foundational initiatives across the industry is one way to improve available resources, efficiency of deployment of those resources and reduce some of the variability in outcomes. It would also better enable scheme participants to focus on and/or better sequence investment into initiatives which have the most benefit to customers, the economy and ultimately Australia.

33 The main benefit of the amalgamation is therefore the better alignment of a strategic development roadmap across domestic schemes including implementation sequencing and greater scale from the pooling of available resources. Greater scale and efficiency of resource allocation should lead to greater meaningful innovation for customers. For example, prior to discussions of the proposed amalgamation, there was no schedule for prescribed services. However, the discussions between industry participants in the context of the proposed amalgamation have enabled the industry to agree on what each entity should commit to implement by when. This provides valuable transparency, alignment and allows all participants to focus their resources on strategic initiatives which will benefit customers.

34 Developing and implementing new payments technology requires substantial investment and has a high degree of execution complexity. Ensuring customers want to adopt the new service at scale is crucial to justify and support the investment. **[Confidential to NAB]**

35 There are other substantial foundation infrastructure initiatives being contemplated for the future. **[Confidential to NAB]**

36 **[Confidential to NAB]**. Please see **Tab 4** of **Confidential Exhibit SC-1** **[Confidential to NAB]**.

37 The domestic schemes compete against a number of at scale competitors. The domestic entities should be given the best possible opportunity to compete by allowing the consolidation of entities to result in greater scale of resources. Greater resource scale enables more efficiency in initiative delivery which in turn will provide the consolidated entity greater ability to invest in customer focussed innovation. A fragmented industry with multiple entities

pursuing sub-scale initiatives separately reduces the benefits of scale and therefore blunts the innovation potential in Australia.

38 In addition, the proposed amalgamation will lead to greater operational efficiencies as there will no longer be three separate sets of boards and management teams. There will be representatives from across the industry on a single board, with clear lines of communication between the three entities to the new entity.

39 The amalgamation will also support efficient regulatory oversight as regulators will only have to deal with one entity.

40 Consolidation may also improve the resiliency of payment systems as there can be a better co-ordinated approach to resilience of retail payments infrastructure. This is of particular interest to regulators through the RBA's Retail Payments Incident Reporting regimes and to Government through the Critical Infrastructure Systems of National Significance program and Treasury's Modernising Business Communications consultation. A consolidated entity could assist with alignment of participant objectives and transmission of any regulatory policy objectives in future.

41 NAB does not consider there to be any significant detriments from the proposed transaction. The proposed transaction will not of itself change the underlying existing payments systems, render it more difficult for NAB to deliver its services, or give NAB less influence as a market participant.

42 NAB is a shareholder in each entity and under the proposed amalgamation, it still has representation on the board and the ability to provide influence and thought leadership, as NAB maintains its equity ownership and management presence.

43 **[Confidential to NAB]**

44 The three domestic schemes only peripherally compete with each other as they were set up for specific and different purposes. Customers will still have the choice of using existing payment methods post the consolidation.

45 A key risk for the industry is that over time separate entities investing in divergent initiatives are unable to build sufficient scale and ubiquity in emerging new payment methods. The clear trend is customers are increasingly demanding digital real time payments that are easy to use and support them in their everyday activity. This suggests legacy payments methods will need to be gradually de-commissioned in an orderly and considered way to ensure the payments system achieves progressive improvements in efficiency and scarce resources can be deployed in new technology and payment methods. A more fragmented approach to this

challenge will inhibit the ability of domestic schemes to pool resources and drive efficiencies of scale.

46 Alignment of the strategic roadmaps of the three schemes does not mean all initiatives will be implemented by NAB. NAB will continue to assess each proposed initiative from the schemes on their merits, having regard to the factors described previously. Better alignment does have the real potential to improve the efficiency of the assessment, prioritisation and implementation process for the reasons described above.

47 As a result of consolidation, it is possible that some strategic initiatives are not pursued by the combined entity. This does not necessarily reflect less competition or innovation; the objective should always be to consistently deliver incremental customer-focussed innovative initiatives in the most efficient way. More sub-scale initiatives implemented does not necessarily equate to more innovation or better customer outcomes overall. However, it is reasonable to expect that enabling greater scale of a single consolidated entity will support greater ability to invest in new innovation which will benefit Australian economic growth, including productivity and ultimately wages growth through the creation of new competitive and commercial opportunities.

48 The Australian payments industry requires better alignment, and an increased focus on important new innovations. For example, it would be better to have one coherent development of PEPPOL e-invoicing across domestic entities, compared to each entity developing its own scheme standards and infrastructure for e-invoicing initiation and payment. **[Confidential to NAB]**

49 There is no fundamental reason why customer-centred innovation would materially change under consolidation because all participants ultimately are interested and focussed on growing their customer base and providing a high quality service to existing customers. Sound innovative initiatives which help grow the market will continue to be supported.

F. DEAL RATIONALE

50 NAB has consistently expressed support for consolidation of the domestic payment schemes since the RBA Governor raised the possibility in his speech to the Australian Payments Summit in December 2019. Please see **Tab 1** of **Exhibit SC-2**. As noted above, NAB considers that we face significant and sometimes conflicting investment demands from the three different entities and notes the importance of a robust domestic payments ecosystem for the Australian economy. Please see **Tab 5** of **Confidential Exhibit SC-1** **[Confidential to NAB]**.

G. COUNTERFACTUAL

51 If the proposed transaction does not proceed, NAB will maintain service relationships with each of the entities and continue to offer existing services to customers. As business communications, including payments, continue to digitise, NAB will make decisions based on the offering that provides the best value and outcomes for customers, taking account of various government initiatives such as business transition to PEPPOL standard e-invoicing (ATO), modernising business communication (Treasury), Consumer Data Right (Treasury/ACCC) and other legislation and regulation. Given examples of success in other jurisdictions such as the UK, NAB will continue to recommend the development of a coherent national roadmap for payments infrastructure, to enable the domestic market to successfully compete with global players.

Ability to compete with international players

52 The present three entity system does raise the real prospect that subscale organisations are unable to develop at-scale innovations which will eventually become ubiquitous (in circumstances where ubiquitous adoption is necessary for the survival of a payment system).

53 **[Confidential to NAB]**

54 From a payments system resiliency perspective, a potential risk is over-reliance on the international schemes for payment services for Australians. If **[Confidential to NAB]** Australian consumers are limited to using products offered by the international card schemes such as Visa and Mastercard to purchase goods and services, analysis from overseas jurisdictions without viable domestic schemes consistently suggest sub-optimal outcomes (e.g. low bargaining power of remaining domestic payment methods).

55 CapGemini's 2017 report is an example of this analysis. While cards and invoicing are simply form factors to initiate a payment for a specific purpose (just as tokenised cards, e-invoicing, QR codes and API's are digital form factors), and NPP is front ended through banking and fin tech apps, it still holds that the presence of a robust domestic payment network offering ubiquity, convenience and value is important for economic well-being and productivity. Please see **Tab 2** of **Exhibit SC-2** for a copy of the Capgemini Report titled Domestic Payment Card Networks.

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(a) [Confidential to NAB]

(b) [Confidential to NAB]

H. COVID 19 / OTHER

64 The Covid 19 pandemic has shifted consumer preferences, behaviours and priorities. Contactless payment and online purchase and delivery have all increased significantly while cash payments have decreased. The use of QR codes for check in to support contact tracing is providing confidence in the technology which may be harnessed for QR payment initiation, and API initiation and enablement are being more broadly embedded into business processes to improve efficiency. Ultimately, the pandemic has shown how customer preferences change and the need to innovate more efficiently to deliver fast, secure and convenient digital payment services. More strategically aligned and focussed domestic scheme entities support this objective.

Signature on behalf of National Australia Bank Limited by

[redacted]

Name of authorised officer	Shane Conway
	Executive, Transaction Banking & Enterprise Payments
Date of signature	18 March 2021

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Domestic Payment Card Networks

Emerging opportunities and challenges

People matter, results count.

Contents

1 Overview

The current global payment card network industry is dominated by just a few players. Among these global players, Visa® and MasterCard® enjoy a dominant market share. However, recently there has been an increasing trend towards domestic processing of payment transactions in many countries. Since the launch and wide adoption of UnionPay™ cards in China, many other countries are also considering launching similar networks in their countries. The high costs of transaction settlement on international networks, uneven market pricing, and lack of competition are some of the key drivers being put forward by those promoting domestic processing of payment transactions. However, the inherent nature of the payment card network industry and its current dynamics pose some challenges and opportunities for these new domestic networks. Their launch is also expected to affect the cost structure of the industry and will have some deep implications for existing players in the market.

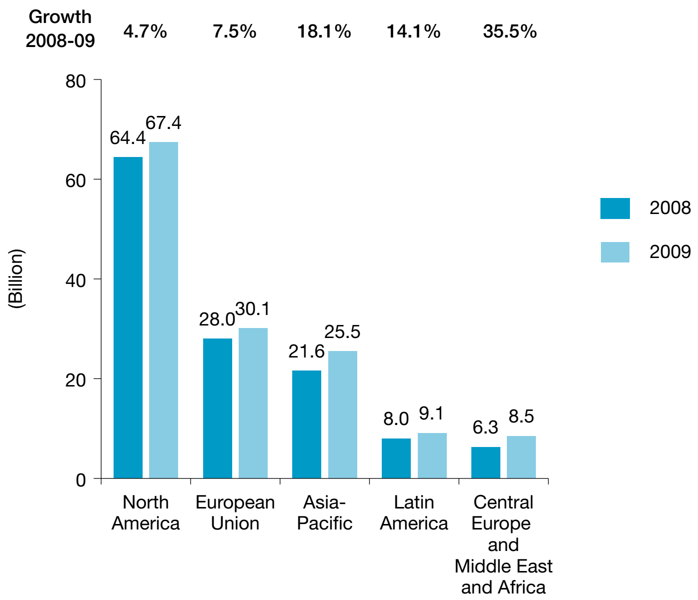
This paper discusses some of the key domestic payment card networks initiatives that have already started commercial operations while also covering some networks that are expected to commence operations soon. It then analyzes the key concerns arising from the new networks for existing global players and how they will have to alter their existing strategies to operate in this new environment. Finally, it analyzes the steps needed to be undertaken by these new domestic networks in order to succeed in an industry dominated by a few players.

2 Payment Card Network Landscape

2.1. Global Payment Card Industry

The global payment card industry is still in a growth phase across most regions. Payment card transaction volume is growing in both developed and developing countries, with the magnitude of growth being greater in the latter. While the benefit of increased convenience due to card payment is driving this growth globally, the accelerated growth in developing countries is largely a result of the rising proportion of middle income households and increased financial inclusion among the general population in these regions. Globally, the total cards transaction volume in 2009 was 9.7% higher than in 2008. The Central Europe, Middle East, and Africa regions combined recorded the highest growth in percentage terms while Asia-Pacific recorded the highest growth in the absolute number of transactions. Visa and MasterCard are the biggest transaction processing players globally, with Visa processing the largest number of transactions.

Exhibit 1: Growth in Cards Transaction Volume across Major Geographies



Source: *World Payments Report 2011*, Capgemini

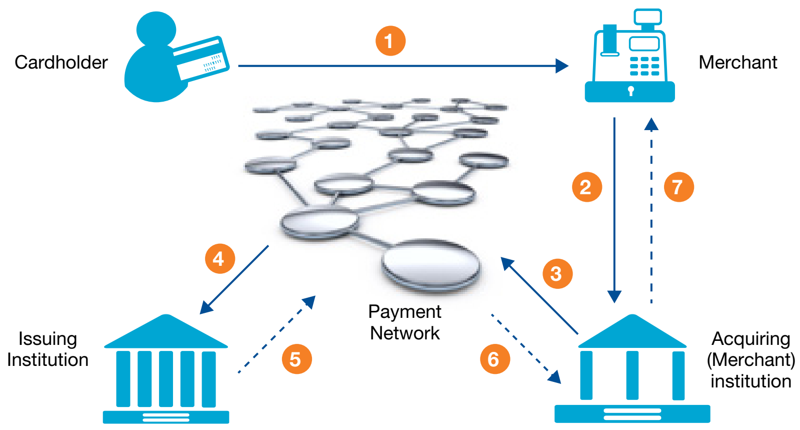
The payment network system is a two-sided industry, as it serves two distinct groups of users that provide each other with certain benefits. The needs and desires of both these groups need to be balanced.

2.2. Processing a Payment Transaction

A typical payment card transaction results in a two-way communication among multiple stakeholders. Each stakeholder has an incentive to be part of the payment network:

- **Cardholder –** Using a card increases the convenience for the cardholder since he or she does not have to carry cash all the time. This reduces the risk of theft or loss.
- **Merchant –** The merchant increases the chance of sale by accepting popular cards used by cardholders. Cardholders are more likely to spend in a store or channel that accepts cards.
- **Merchant's Financial Institution –** The merchant's financial institution charges a fee called "merchant discount" for every transaction at the merchant's point of sale. This means the financial institution receives revenue from every sale.
- **Card Issuing Institution –** The issuing bank charges a fee called "interchange fee" to the merchant's institution for every transaction. The more cards issued, the more revenue the issuing institution can make off this fee.
- **Payment Card Network Provider –** For every transaction, the payment card network provider charges fees for services provided to merchants and financial institutions.

Exhibit 2: Steps in a Typical Payment Transaction



1 User buys goods from the merchant and pays using his bank card

2 The merchant submits the purchase details to its financial institution (acquirer)

3 4 The acquirer then sends the purchase details to the cardholder's bank through the cards payment network (at this stage the merchant receives the "payment guarantee" and the card user receives his goods)

5 6 The cardholders financial institution then pays the acquirer the transaction amount less the interchange fee (a default fee set by the network provider or a customized fee negotiated directly between the two financial institutions)

7 The acquirer then pays the transaction amount less a "merchant discount" to the merchant (the merchant discount may include interchange fee, cost of transaction processing, cost of service, acquirer's profit margin, and any other cost)

Source: Capgemini analysis, 2011, www.visa.com

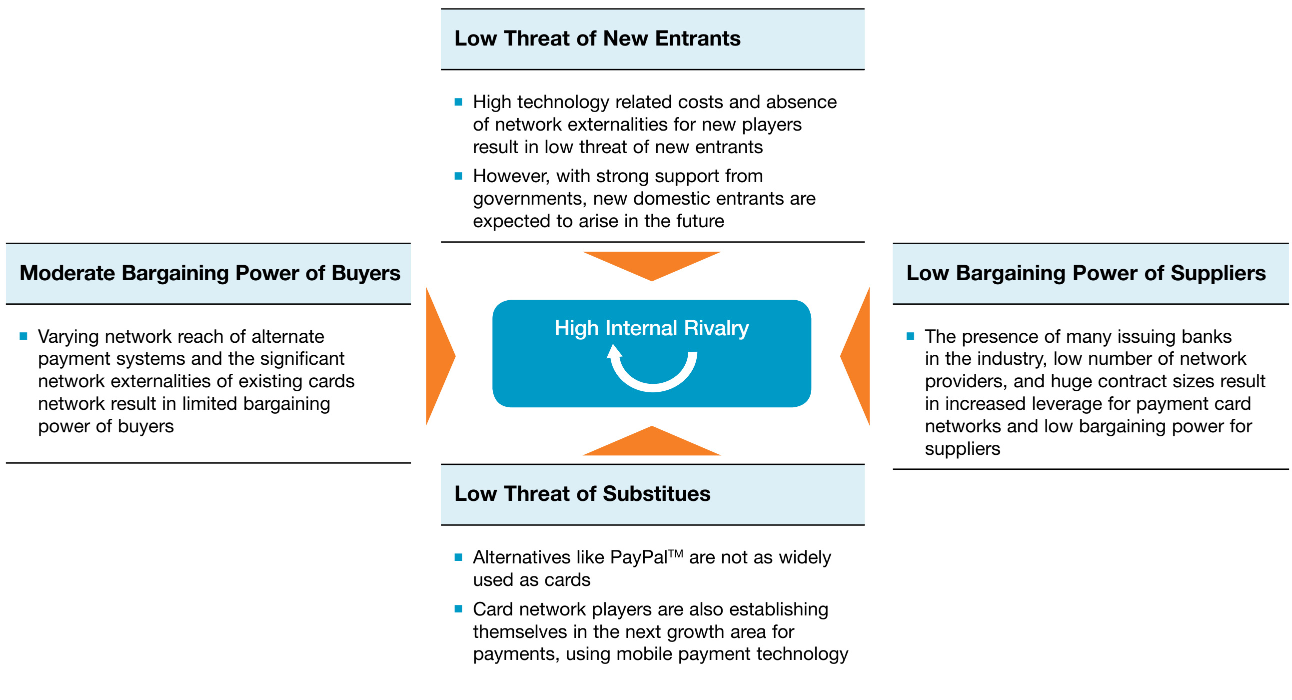
2.3. Nature of Competition in Existing Payment Card Network Industry

An analysis of the competitive dynamics of the payment card network industry (Exhibit 3) shows that it is oligopolistic in nature. One important reason for this is the role played by network externalities, which favors existing players in the industry. While consumers would like to use cards that are accepted by most merchants, merchants would themselves want to accept cards that are used by the majority of cardholders. This leads to a situation where existing players attract more cardholders as well as more merchants, while at the same time creating an uphill task for any new entrant.

Another reason is that there are significant barriers to entry due to the need for large technology infrastructure-related investments, which helps increase the convenience of using cards and also mitigates payment fraud-related risks. The existing players are also investing in mobile payment technology, which is expected to drive future growth in the payment industry.

Going forward, the industry is expected to witness the entry of new players that will primarily be domestic in scope and backed by the federal and local banks in their respective regions.

Exhibit 3: Porters Five Forces Analysis of the Payment Card Network Industry



Source: Capgemini analysis, 2011

3 Market Potential for New Players

Uneven pricing and fee structure across different groups of users sometimes result in introducing discrepancies into the existing payment networks.

3.1. Discrepancies in Existing Payment Card Networks

In spite of the wide reach of current payment card networks across major geographies and economies, some studies have found discrepancies in their functioning and pricing patterns[1]. Many of the new domestic payment card networks being launched are aimed at reducing these discrepancies so as to better promote the use of cards. The existing discrepancies include:

- **Higher fees on international payment networks** compared to those on domestic networks. On average, businesses are paying 30% to 40% lower fees for domestic debit card usage than for international debit card usage.
- **Higher fees for smaller merchants** as compared to larger merchants. On international networks, smaller merchants pay on average 60% to 70% higher fees than those paid by larger merchants. However, the difference between smaller and larger merchants was observed to be just 6-7% on domestic networks.
- **Higher fees for businesses in some sectors** compared to those in other sectors. A difference in price pattern for merchant fees has been observed across certain sectors. High margin businesses such as restaurants, florists, and car rental companies pay much higher merchant fees than those paid by lower margin businesses such as fuel companies and wholesale trade firms.
- **Direct correlation of merchant fees with interchange fees**. On average, countries with higher interchange fees also have higher levels of merchant discounts, which shows that interchange fees are passed on to merchants through higher merchant discounts.

Luxury retailers in the UK, Germany, France, and other European countries have reported double digit growth in online sales to Chinese customers after installing China UnionPay (CUP) terminals.

3.2. Tapping the Wealth of Affluent Customers in Emerging Markets

In some countries, domestic payment network cards are very popular and those issued by the international networks are not widely used. As such, customers in such countries cannot shop at merchant locations that accept only cards issued on international networks. Therefore, by accepting the domestic payment network cards, merchants can attract buyers from such countries and increase their sales, while buyers in these countries also benefit from increased options. Such a measure also helps tourist destinations around the world, as the increased convenience of using payment cards can make them more favorable to tourists. These strategies can help merchants tap into the rapid growth of wealth and cards in emerging markets.

Exhibit 4: Retailers in the UK Experience Increased Sales after Accepting China UnionPay Cards

Source: Capgemini analysis, 2011

[1] European Commission Interim Report 1, 2006

Increasing acceptance in many countries across the world is helping China UnionPay to become one of the key players in the global payment card industry.

3.3. Case Study: China UnionPay

While payment cards have been issued in China for more than three decades now, China's payment card industry only began to take off in 2001. The total number of cards in circulation increased from 320 million in 2001 to about 2.1 billion in 2009[2]. This growth rate corresponds to one of the highest rates amongst all major countries. Also, though credit cards are fast gaining popularity in China, the total number of these cards in circulation is much less than that of debit cards.

UnionPay is the only player allowed to settle domestic payment card transactions in China. Though some international card networks are allowed to issue co-branded cards along with UnionPay, any domestic transaction done using these cards will be settled by UnionPay while any international transaction would either be settled by UnionPay or by the international issuer, depending on specific terms and conditions. While enjoying a monopoly position in China, UnionPay has also rapidly expanded its operations overseas, and is now accepted in more than 110 countries across the globe. The total number of UnionPay cards issued worldwide is currently more than 2.3 billion[3]. As of July 2011, 65 institutions in 17 overseas countries and regions have issued UnionPay cards locally.

UnionPay embarked on a well designed strategy to enable rapid international expansion[4]. The company first focused on overseas travel patterns of Chinese cardholders. It then focused on leading acquirers, banks, and ATMs in these countries and identified institutions that would prefer a partnership with UnionPay for competitive and mutually beneficial reasons. This partnership allowed customers of these institutions to gain access to ATMs and point-of-sale terminals in China. After penetrating these regions, UnionPay then focused on promoting the issuance of local currency UnionPay cards in these regions. The company also focused on brand-building activities from the beginning. To increase the international appeal of these cards, the logo used on cards and merchant signage dropped the word "China" and simply referred to UnionPay – a neutral and non-nationalistic term.

[2] Bank for International Settlements (BIS) – Red Book
[3] www.unionpay.com, July 2011
[4] *The Rise of China UnionPay*, Edgar Dunn & Company, April 2009

4 Establishing Successful Domestic Payment Card Networks

Domestic payment card networks can integrate new technological innovations like mobile payments, "Google Wallet" etc., as a part of their offerings right from the beginning, instead of altering their strategies at a later stage as the existing payment network providers need to do.

Ability to sustain high technology infrastructure-related costs which in turn depends on ability to attract a wide user base will be a key factor in determining the success of domestic payment networks.

4.1. Existing Domestic Networks

Some countries already have their own transaction processing networks. While CUP is already successful in China, Singapore has its own network called Network for Electronic Transfers (NETS). Recently, India, Malaysia, and Russia have announced intentions to launch their own domestic payment card networks.

4.2. How Domestic Payment Card Networks Can Be Successful

Successful payment networks will need strong infrastructure and efficient regulation to ensure their success[5]. To attract users and merchants, domestic payment card networks will need to establish the following:

- **Telecommunication Network –** A robust telecommunication network that supports real-time authorization with minimum downtime, comparable with international networks, will increase the reliability and efficiency of the payment network.
- **Acceptance Network –** The network should establish enough point-of-sale terminals, an internet payment facility, automatic teller machines, and other such infrastructure to make its presence visible and make the network usage attractive to consumers as well merchants.
- **Credit Bureaus –** A well-functioning credit bureau should be able to provide the past credit history of consumers, which would help issuing banks to assess the trustworthiness and credibility of their customers and offer products accordingly.
- **Consumer Education –** Consumers across all regions will need to be educated on proper usage of the new payment network, and also taught important rules and regulations. This would help to promote safe usage habits and avoid exploitation of any card user or merchant.
- **Regulation –** The network should provide effective operating guidelines that are applicable across all participants and also fair to all stakeholders. The guidelines should also be such as to help prevent fraud and any other credit and financial risk in the network.

Achieving sufficient economies of scale while also managing complexity will be key criteria that will determine the success or failure of new payment card networks, as this will help to justify the economic and operational viability of the network.

[5] *Credit Card Market: Economic Benefits and Industry Trends*, International Trade Administration, March 2008

4.3. Case Study: The Importance of Incentivising Issuing Banks

Network for Electronic Transfers (NETS), launched to fulfill the need of a centralized e-Payment operator, is owned by three local banks in Singapore and is also the leading card processor in Singapore. Until late 2007, NETS was able to charge much lower merchant fees (ranging from 0.35% to 0.55% of transaction volume) than those charged by international players, as it did not pay any interchange fees to issuing banks. However, international players started luring away these issuing banks by paying them an interchange fee and started gaining market share from NETS. In spite of being the majority shareholders of NETS, some of these banks started issuing cards offered by international players due to higher revenue from them. Eventually NETS had to increase its merchant fees to a range of 1.5% to 1.8% of transaction volume, so as to be able to pay issuing banks and remain operational.

As the issuing banks can choose from a variety of options of cards offered by competing players, it is thus necessary to meet the needs of these banks to ensure success of a domestic payment card network.

4.4. Case Study: Establishing Domestic Payment Network in India

The Reserve Bank of India (RBI) announced its intention to launch a domestic payment card network in its document titled "Payment Systems in India – Vision 2009-12"[6]. As a part of this initiative, the RBI helped create the National Payment Corporation of India (NPCI), an organization that will overlook the launch of domestic payment cards called RuPay. The three important drivers behind this network, as mentioned by RBI, are:

- Indian banks have to bear high costs for affiliation with international card associations in the absence of a domestic price setter. In 2010, they paid more than $100 million to international network processors.
- The connection with international card associations results in the need for routing even domestic transactions, which account for 90% of the total, through a switch located outside the country.
- Currently, a large portion of the Indian population does not have access to the existing banking system and the RBI aims to make provisions to include them in the financial system with the help of RuPay cards.

While this initiative is ambitious in nature, it faces a number of challenges and opportunities.

[6] Published in July, 2009

RuPay has already issued about 10,000 debit cards with the help of rural and urban co-operative banks, and is well on the way towards achieving its stated objectives.

Opportunities

The sheer population of more than 1.1 billion people in India provides RuPay with the large user and merchant base required to be successful in the domestic market. Strong backing by the RBI will also help in early adoption of RuPay cards by Indian banks. The expected reduction in transaction settlement costs using RuPay will result in lower discounts charged to merchants and will also help attract merchants to accept RuPay cards. It can also attract traditional small retail stores in India, who still do not accept card payments because the current high merchant discount fees eat away a big chunk of their profits.

RuPay can also help the government realize its objective of greater financial inclusion among the Indian population. RuPay can tie-up with key government employment generation schemes (such as the National Rural Employment Guarantee Act) by offering cards to people receiving benefits from the government. The recent program of assigning all individuals in the country a Unique Identification Number (UID) will assist in offering RuPay cards to currently unbanked customers, and then provide them with other financial products and micro-finance solutions as well.

Challenges

All the above-mentioned opportunities are not without their challenges. While RuPay is expected to follow in the footsteps of China UnionPay, it will be facing stiff competition from existing players like Visa and MasterCard, who are already well entrenched in India. Creating brand visibility and gaining market share might prove to be a significant problem for RuPay, as customers already relate payment cards with Visa or MasterCard. Also, though RuPay will initially be routing domestic transactions only, it will still need to make the same technology infrastructure-related investments as required by other major global players to offer the same level of security and benefits provided by competing networks. There will be huge fixed costs related to the large communication networks and required fraud prevention techniques. This might make operations for RuPay economically unsustainable if it is not able to reach a vast base of users and merchants. Also, in many rural regions in India, merchants charge an extra amount called surcharge[7], for accepting payments made using cards. Though this practice is illegal, it is still prevalent in many regions and it hampers the increased adoption and usage of cards in such regions.

[7] Surcharge is an additional amount charged by merchants, over and above the actual transaction amount, to recover fees they need to pay to card network providers

5 Implications for Existing Players

International payment processors will need to adapt to any new competition that is being backed by governments and industry associations. Increased competition from new players is expected to alter the cost structures and revenue sources of existing players. They need to re-assess the whole industry to see how they are positioned in the current trend, and design a new strategy to help maintain their revenue and profitability growth. Key areas to be looked at by these players include:

- **Reducing interchange fees** –The higher cost of transactions settlement on international networks is one of the important reasons behind the launch of a domestic payment network. International players might need to look at ways to lower their interchange fees to remain competitive and also be able to attract merchants to their networks.
- **Increasing brand service fees** – The brand service fees that these players charge to issuing banks can be raised periodically to support revenue growth. Even though issuing banks might resist this move, the international network providers enjoy a high pricing power due to their highly visible and established brands.
- **Focusing on cross-border payments** – While domestic payment networks will focus on settling transactions within domestic borders, the international players will still remain dominant entities in settling cross border payments. An increased focus on this business segment, by making more products from foreign based merchants accessible in the domestic markets, can help increase their revenue.
- **Establishing domestic processing centers** – Regulations in some countries might force international players to establish domestic processing centers in these individual countries. For example, in its first draft law for payment networks, published in 2010, Russia made it mandatory to process domestic transactions within the borders of the country itself. Though this would mean setting up additional processing centers in addition to the existing ones, and also bearing the cost of increased fixed expenses, it would still be necessary to remain operational in such countries.
- **Partnering with new networks to provide the necessary technology infrastructure** – Some domestic payment networks may not be able to meet the critical mass of users and merchants required to ensure economic viability of the network. As such, they might not be able to make the required huge technological investments to increase the efficiency and security of their networks. Existing players can earn extra revenue by offering technology-related assistance to such networks.

6 Conclusion

Uncertainty over the launch of domestic payment card networks has been largely reduced in the first half of 2011. The question facing the industry is not “whether” new payment card networks will be launched, but “when”. Countries such as China, India, Malaysia, and Russia are at different stages of implementing their own payment networks, with China clearly being ahead. Even in Iraq, a small banking market, two of the biggest state owned banks, Rafidain Bank and Rasheed Bank, together launched a national credit card called ‘Qi Card’ in 2008.

While it will be interesting to see how the domestic payment card networks fare in the market, a few things can be categorically stated about the challenges they will encounter in the marketplace. Even though these networks face interesting opportunities, gathering a wide card user base and also an equally important merchant base will be a challenge initially. The next challenge will be to invest in the latest available technologies in the marketplace to remain competitive with the global players. As for the existing payment card networks, even though they are a facing an erosion in existing market share, it is highly probable that the new domestic networks would need to collaborate with these players on the technology front and also to quickly scale up their operations to an international level.

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RESERVE BANK OF AUSTRALIA

Speech

A Payments System for the Digital Economy

Philip Lowe [*]
Governor

Address to the 2019 Australian Payments Network Summit
Sydney – 10 December 2019

Thank you for the invitation to address this year's Australian Payments Network Summit. This summit has become an important fixture on the Australian payments calendar and this is the third time I have had the privilege of joining you.

A recurring theme across these summits has been the need to improve customer outcomes. I am very pleased to see that this focus has been continued at this year's summit. The focus on customer outcomes aligns very closely with the focus of the Payments System Board. The Board wants to see a payments system that is innovative, dynamic, secure, competitive, and that serves the needs of all Australians.

Increasingly, this means that the payments system needs to support Australia's digital economy. With the digital economy being an important key to Australia's future economic prosperity, we need a payments system that is fit for purpose. We will only fully capitalise on the fantastic opportunities out there if we have a payments system that works for the digital economy. The positive news is that we have made some substantial progress in this direction over recent years and in some areas, Australia's payments system is world class. However, in the fast-moving world of payments, things don't stand still and there are some important areas we need to work on.

In my remarks today, I would like to do three things.

The first is to talk about some of the progress that has been made over recent years.

The second is to highlight a few areas where we would like to see more progress, particularly around payments and the digital economy.

And third, I will highlight some of the questions we will explore in next year's review of retail payments regulation in Australia.

Progress Is Being Made

Over recent years there have been significant changes in the way that we make payments. We now have greater choice than ever before and payments are faster and more flexible than they used to be.

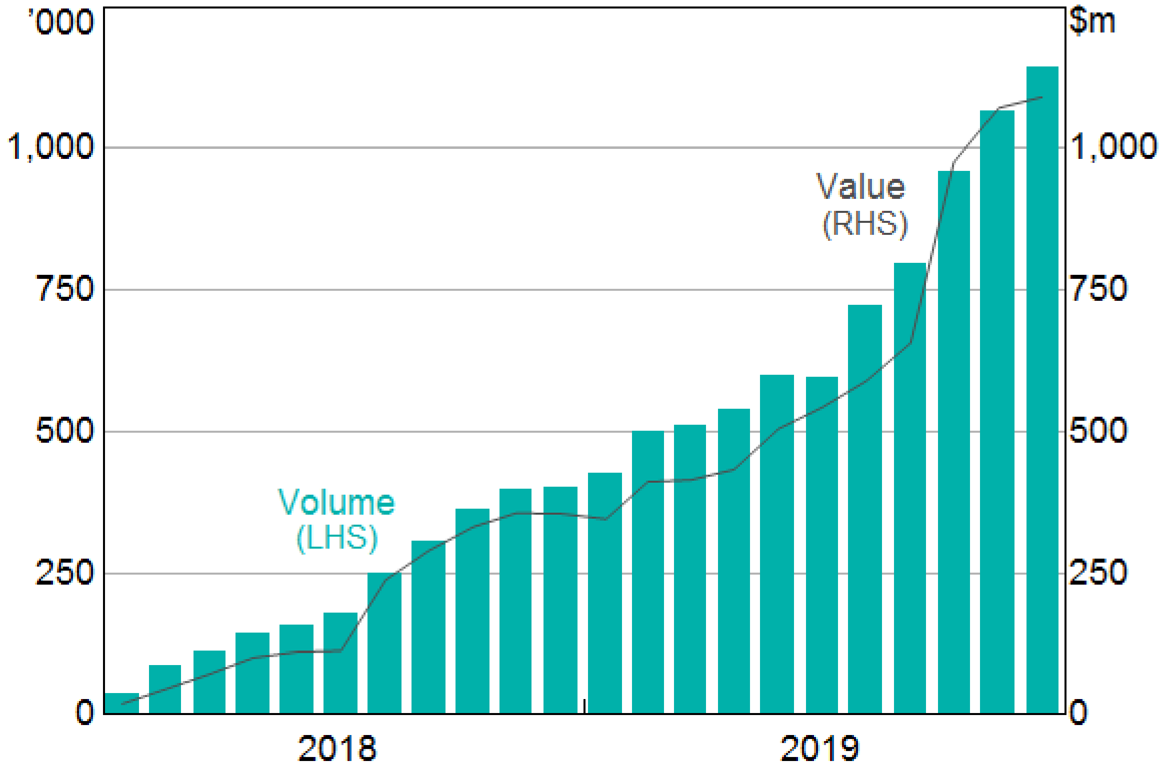
The launch of the New Payments Platform – the NPP – in early 2018 has been an important part of this journey. This new payments infrastructure allows consumers and businesses to make real-time, 24/7 payments with richer data and simple addressing using PayIDs.

After the NPP was launched, it got off to a slow start, but it is now hitting its stride. Monthly transaction values and volumes have both tripled over the past year (Graph 1). In November, the platform processed an average of 1.1 million payments each day, worth about $1.1 billion. The rate of take-up of fast retail payments in Australia is a little quicker than that in most other countries that have also introduced fast payments (Graph 2).

Graph 1

New Payments Platform*

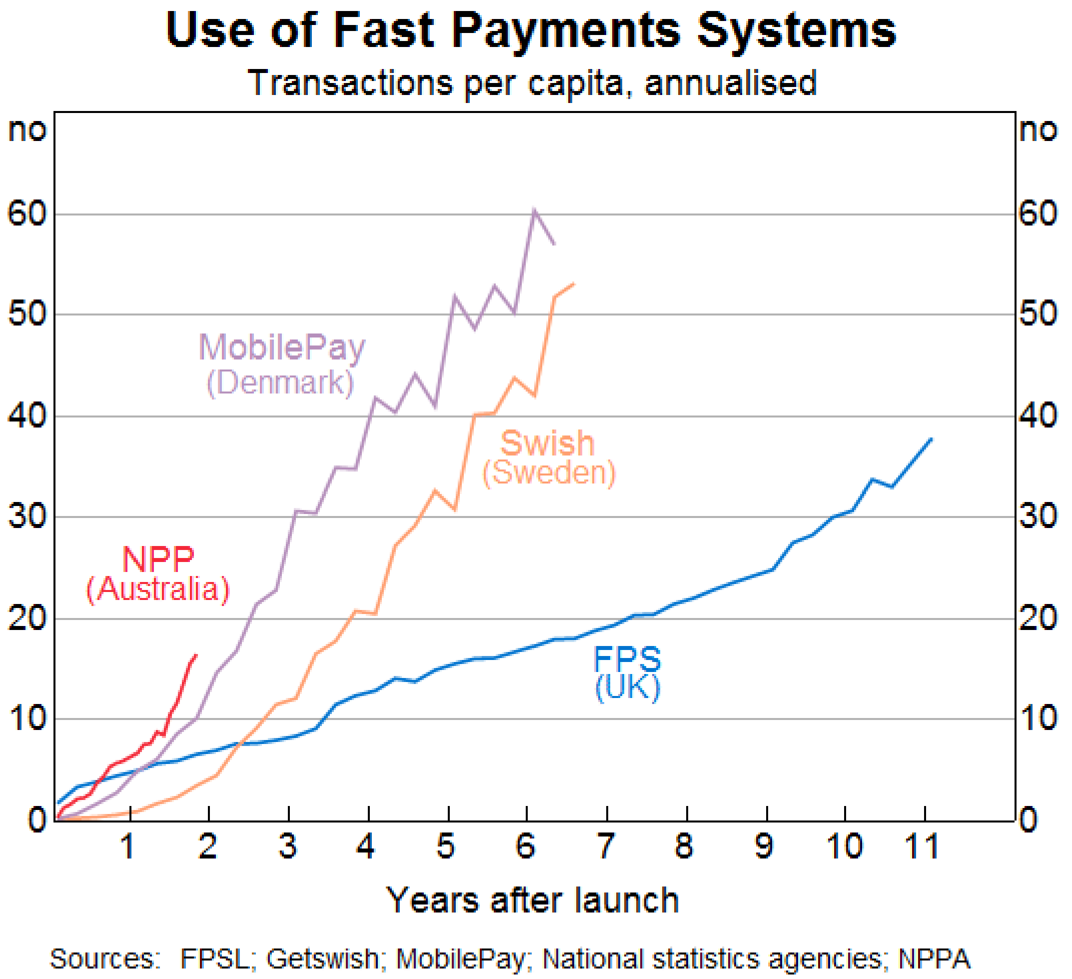
Daily average



* November 2019 observations are estimates based on Fast Settlement Service data

Source: RBA

Graph 2



I expect that we will see a further pickup in usage once the CBA has delivered on core NPP functionality for all its customers. The slow implementation has been disappointing and we expect the required functionality to be available soon.

There are now 86 entities connected to the NPP, including 74 that are indirectly connected via a direct NPP participant. There are at least six non-ADI fintechs that are using the NPP's capabilities to innovate and provide new services to customers. All up, approximately 66 million Australian bank accounts are now able to make and receive NPP payments.

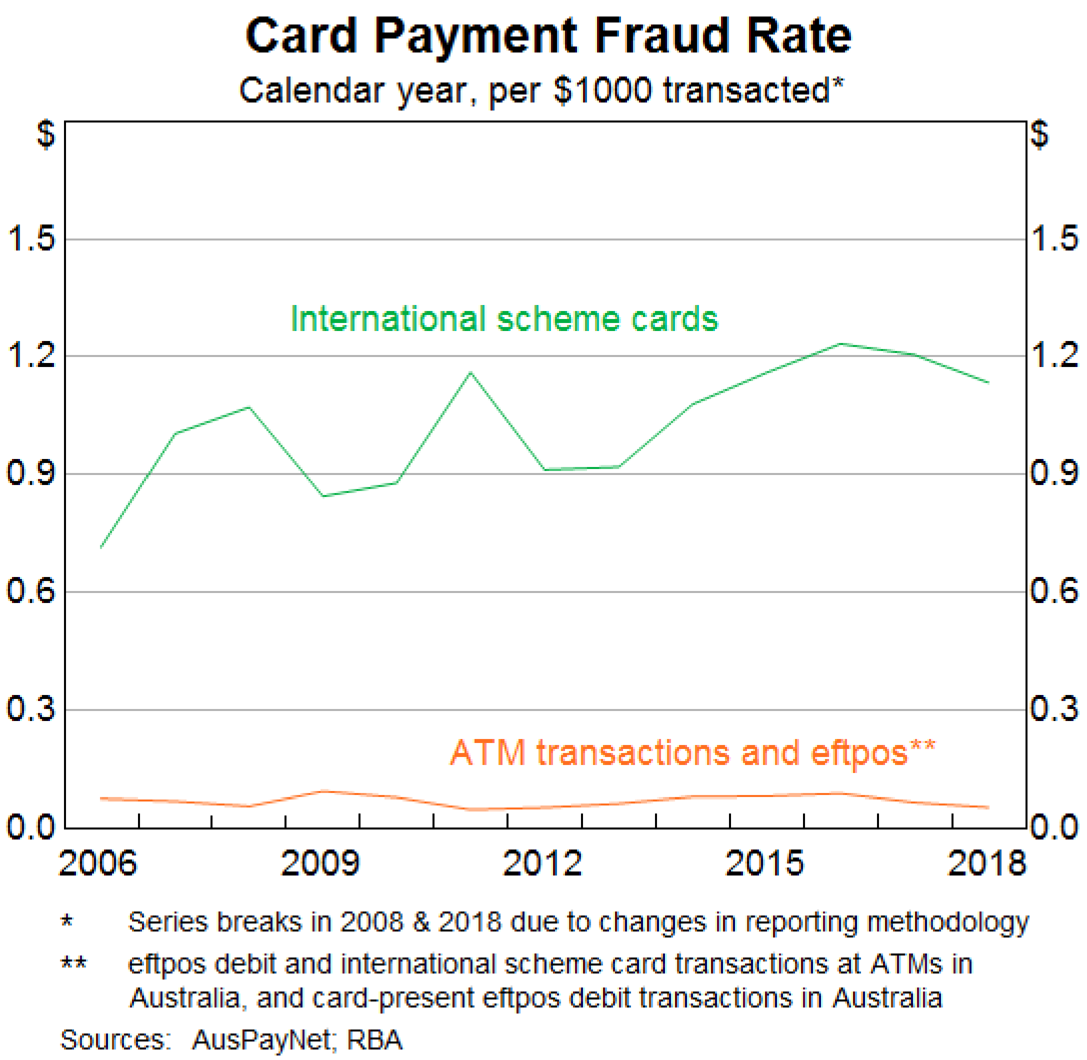
Use of the PayID service has also been growing, with around 3.8 million PayIDs having been registered to date. If you have not already got a PayID, I encourage you to get one. I also encourage you to ask for other people's PayIDs when making payments, as an alternative to asking for their BSB and account number. It is much easier and faster.

One specific example of where the NPP is bringing direct benefits to people is its use by the Australian Government, supported by the banking arm of the RBA, to make emergency payments. During the current bushfires, the government has been able to use the NPP to make immediate payments to people at a time when they are most in need, whether that be on the weekend or after their bank has shut for the night.

One other area of the payments system where we have seen significant change is the take-up of 'tap-and-go' payments. Around 80 per cent of point-of-sale transactions are now 'tap-and-go', which is a much higher share than in most other countries. This growth has been made possible by the acquirers rolling out new technology in their terminals and by the willingness of Australians to try something different. There has also been rapid take-up of mobile payments, including through wearable devices.

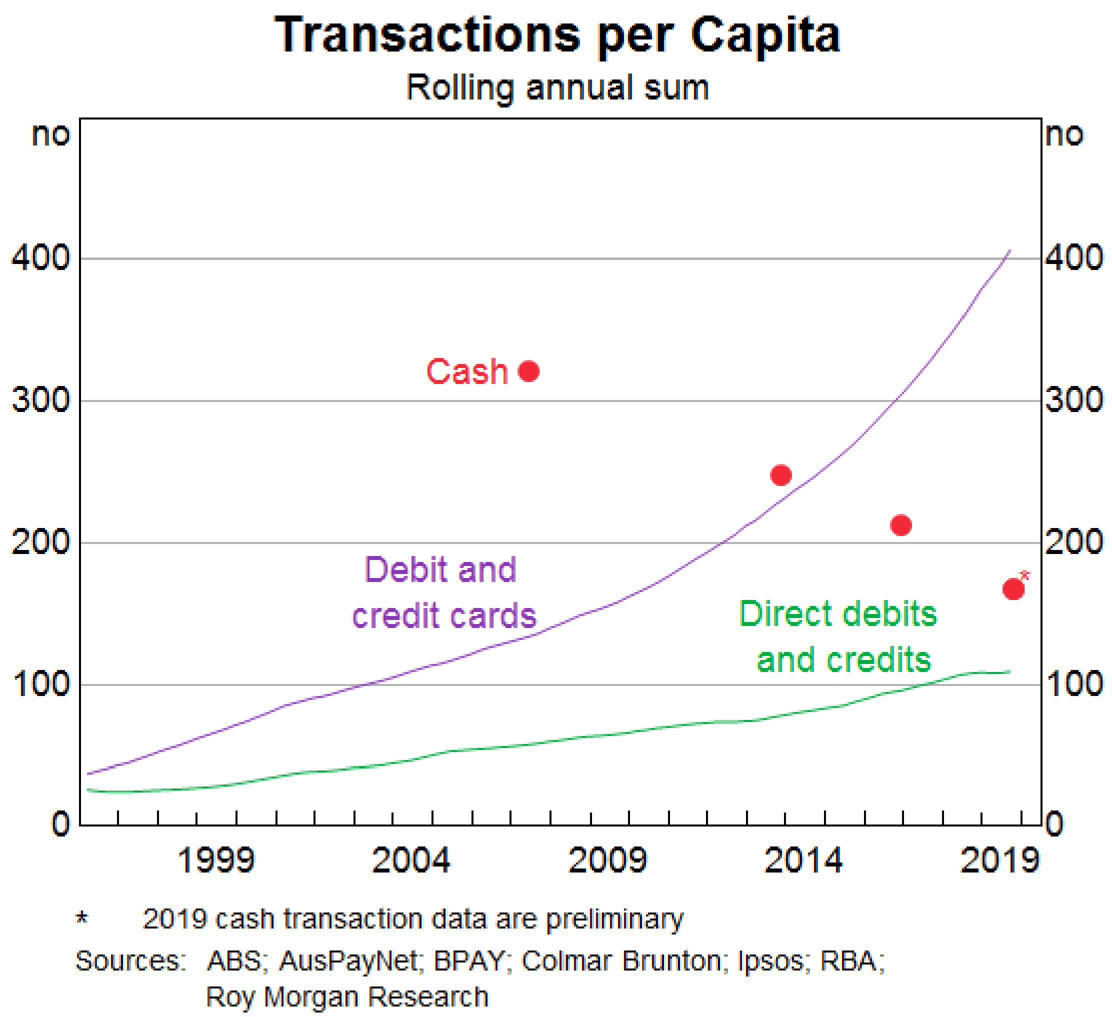
Progress has also been made on improving the safety of electronic payments, particularly in relation to fraud in card-not-present transactions. The rate of fraud is still too high, but it has come down recently (Graph 3). I would like to acknowledge the work that AusPayNet has done here to develop a new framework to tackle fraud. This framework strengthens the authentication requirements for certain types of transactions, including through the use of multi-factor authentication. [1] This will help reduce card-not-present fraud and support the continued growth in online commerce.

Graph 3



As our electronic payments system continues to improve, we are seeing a further shift away from cash and cheques. The RBA recently undertook the latest wave of our three-yearly consumer payments survey. We are still processing the results, but ahead of publishing them early next year, I thought I would show you the latest estimate on the use of cash (Graph 4). As expected, there has been a further trend decline in the use of cash, with cash now accounting for just around a quarter of day-to-day transactions, and most of these are for small-value payments. Given the other innovations that I just spoke about, I expect that this trend will continue.

Graph 4



Further Progress Needed

The progress across these various fronts means that there is a positive story to be told about innovation in Australia's payments system.

At the same time, though, there are still some significant gaps and areas in our payments system that need addressing and where progress would support the digital economy in Australia. I would like to talk about four of these.

NPP

The first of these is further industry work to realise the full potential of the NPP, including its data-rich capabilities.

The NPP infrastructure can help make electronic invoicing commonplace and help invoices be paid on time. It can also support significant improvement in business processes, as more data moves with the payment. Real-time settlement and posting of funds also enables some types of delivery-versus-payment, so that the seller can confirm receipt of funds and be confident in delivering goods or services to the buyer.

The layered architecture of the system was designed to promote competition and innovation in the development of new overlay services. Notwithstanding this, one of the consequences of the slower-than-promised rollout of the NPP by some of the major banks is that there has been less effort than expected on developing innovative functionality. Payment systems are networks, and participants need to know that others will be ready to receive payments and use the network. Some banks have been reluctant to commit time and funding to support the development of new functionality given that others have been slow to roll out their 'day 1' functionality. The slow rollout has also reduced the incentive for fintechs and others to develop new ideas. So we have not yet benefited from the full network effects.

The Payments System Board considered this issue as part of its industry consultation on NPP access and functionality, conducted with the ACCC earlier this year. As part of that review we recommended that NPPA – the industry-owned company formed to establish and operate the NPP – publish a roadmap and timeline for the additional functionality that it has agreed to develop. The inaugural roadmap was published in October and NPPA also introduced a 'mandatory compliance framework'. Under this compliance framework, NPPA can designate core capabilities that NPP participants must support within a specified period of time, with penalties for non-compliance. This is a welcome development.

One important element of the roadmap is the development of a 'mandated payments service' to support recurring and 'debit-like' payments. This new service will allow account-holders to establish and manage standing authorisations (or consents) for payments to be initiated from their account by third parties. This will provide convenience, transparency and security for recurring or subscription-type payments and a range of other payments.

Another element of the roadmap that has the potential to promote the digital economy is the development of NPP message standards for payroll, tax, superannuation and e-invoicing payments. The standards will define the specific data elements that must be included with these payment types, which will support automation and straight-through processing. We would expect financial institutions to be competing with each other to enable their customers to make and receive these data-rich payments.

Less positively, there is still uncertainty about the future of the two remaining services that were expected to be part of the initial suite of Osko overlay services. These are the 'request-to-pay' and 'payment with document' services. We understand there are still challenges in securing committed project funding and priority from NPP participants to move ahead, even though BPAY has indicated it is ready to complete the rollout. The RBA strongly supports the development of these additional NPP capabilities, which are likely to deliver significant value for businesses and the broader community.

Digital identity

A second area where the Payments System Board would like to see further progress is the provision of portable digital identity services that allow Australians to securely prove who they are in the digital environment.

Today, our digital identity system is fragmented and siloed, which has resulted in a proliferation of identity credentials and passwords. This gives rise to security vulnerabilities and creates significant inconvenience and inefficiencies, which can undermine development of the digital economy. These generate compliance risks and other costs for financial institutions, so it is strongly in their interests to make progress here. It is fair to say that a number of other countries are well ahead of us in this area.

The Australian Payments Council has recognised the importance of this issue and has developed the 'TrustID' framework. The Government's Digital Transformation Agency has also been working on a complementary framework (the Trusted Digital Identity Framework), which specifies how digital identity services will be used to access online government services. The challenge now is to build on these frameworks and develop a strong digital identity ecosystem in Australia with competing but interoperable digital identity services.

The rollout of open banking and the consumer data right should bring additional competition among financial services providers, and digital identity is likely to reduce the scope for identity fraud, while providing convenient authentication, as part of an open banking regime.

A strong digital identity system would also open up new areas of digital commerce and help reduce online payments fraud. It will also help build trust in a wide range of online interactions. Building this trust is increasingly important as people spend more of their time and money online. So we would like to see some concrete solutions developed and adopted here.

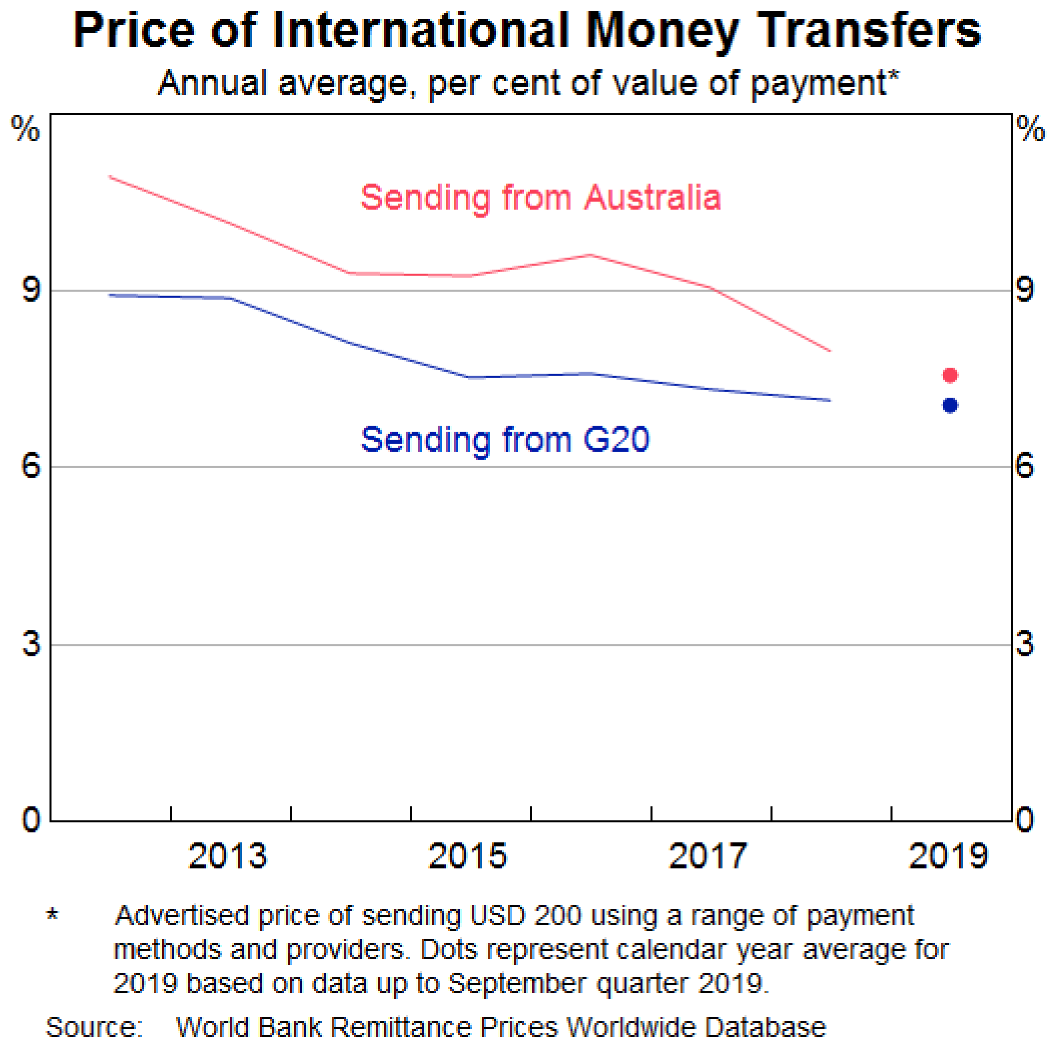
Cross-border retail payments

A third area where we would like to see more progress is on reducing the cost of cross-border payments.

For many people, the costs here are still too high and the payments are still too hard to make. It is important that we address this. It is an issue not just for Australians, but for our neighbours as well. I recently chaired a meeting of the Governors from the South Pacific central banks, where I heard first-hand about the problems caused by the high cost of cross-border payments.

Analysis by the World Bank indicates that the price of sending money from Australia has been consistently higher than the average price across the G20 countries (Graph 5). And a recent ACCC inquiry found that prices for cross-border retail payment services are opaque. Customers are not always aware of how the 'retail' exchange rate they are being quoted compares with the wholesale exchange rate they see on the news, or of the final amount that will be received in foreign currency.[2] There are also sometimes add-on fees.[3]

Graph 5

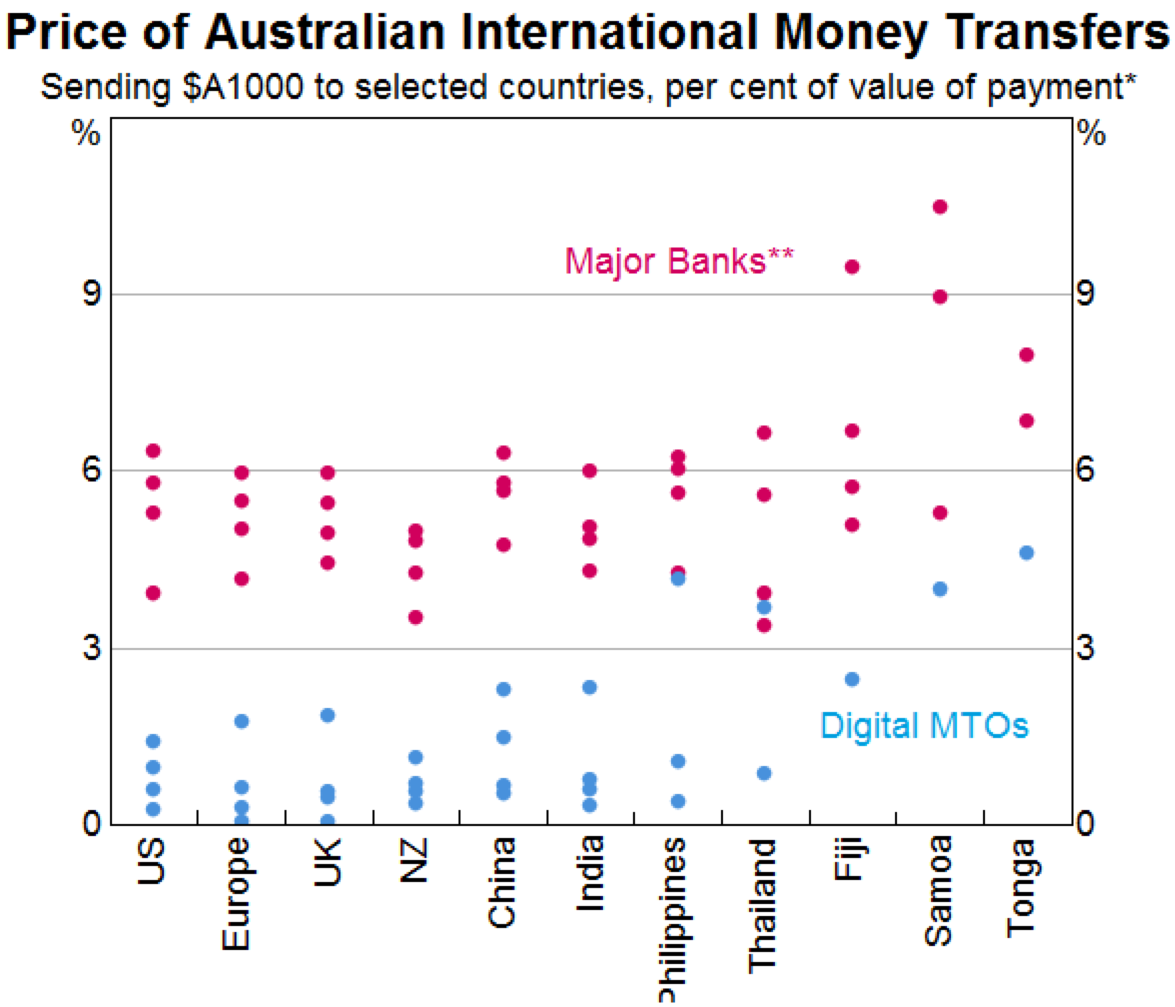


As part of the RBA's monitoring of the marketplace, our staff recently conducted a form of online shadow shopping exercise, exploring the pricing of international money transfer services by both banks and some of the new non-bank digital money transfer operators (MTOs).

This exercise showed that there is a very wide range of prices across providers and highlighted the importance of shopping around.

The main results are summarised in this graph (Graph 6). In nearly every case, the major banks are more expensive than the digital MTOs. For the major banks, the average mark-up over the wholesale exchange rate is around 5½ per cent, versus about 1 per cent for the digital MTOs.

Graph 6



* Average advertised price of transfer as at 2-3 October 2019. Based on information available on 4 major banks' and 4 digital MTOs' websites

** Excludes intermediary bank fees or fees charged to the recipient

Sources: RBA calculations based on providers' websites; XE

The graph illustrates why the cost of cross-border payments is such an issue for the South Pacific countries. These costs are noticeably higher than for payments to most other countries. This is a particular problem as many people in the South Pacific rely on receiving remittances from family and friends in Australia and New Zealand. In many cases, low-income people are paying very high fees and it is important that we address this where we can. As is evident from the graph, most digital MTOs do not service the smaller South Pacific economies, which limits customers' choice of providers.

In part, the high costs – and slow speed – of international money transfers is the result of inefficiencies in the traditional correspondent banking process. It is understandable why some large tech firms operating across borders see an opportunity here. Where people are being served poorly by existing arrangements, new solutions are likely to emerge with new technologies. This represents a challenge to the traditional financial institutions to offer better service at a lower cost to their customers, while still meeting their AML/CTF requirements.

Central banks have a role to play here too, and there is an increased focus globally on what we can do to reduce the cost of cross-border payments. One example of this is the promotion of standardised and richer payment messaging globally through the adoption of the ISO20022 standard. The RBA is also working closely with the Reserve Bank of New Zealand, AUSTRAC and other South Pacific central banks to develop a regional framework to address the Know-Your-Customer concerns that have limited competition and kept prices high.

Operational resilience

A fourth area where we would like to see more progress is improving the operational resilience of the electronic payments system.[4]

Disruptions to retail payments hurt both consumers and businesses. Given that many people now carry little or no cash, the reliability of electronic payment services has become critical to the smooth functioning of our economy.

We understand that, given the complexity of IT systems, some level of payments incidents and outages to services is inevitable. But it is apparent from the data we have that the frequency and duration of retail payments outages have risen sharply in recent years. In response, the RBA has begun working with APRA and the industry to enhance the data on retail payment service outages and to introduce a suitable disclosure framework for these data. These measures will provide greater transparency around the reliability of services and allow institutions to better benchmark their operational performance.

The 2020 Review of Retail Payments Regulation

The third and final issue I would like to touch on is the Payments System Board's review of retail payments regulation next year.

The review is intended to be wide-ranging and to cover all aspects of the retail payments landscape, not just the RBA's existing cards regulation. As the first step in the process, we released an Issues Paper a couple of weeks ago and have asked for submissions by 31 January.[5] There will also be opportunities to meet with RBA staff conducting the review.

The review will cover a lot of ground, including hopefully some of the issues that I just mentioned. There are, though, a few other questions I would like to highlight.

The first is what can be done to reduce further the cost of electronic payments?

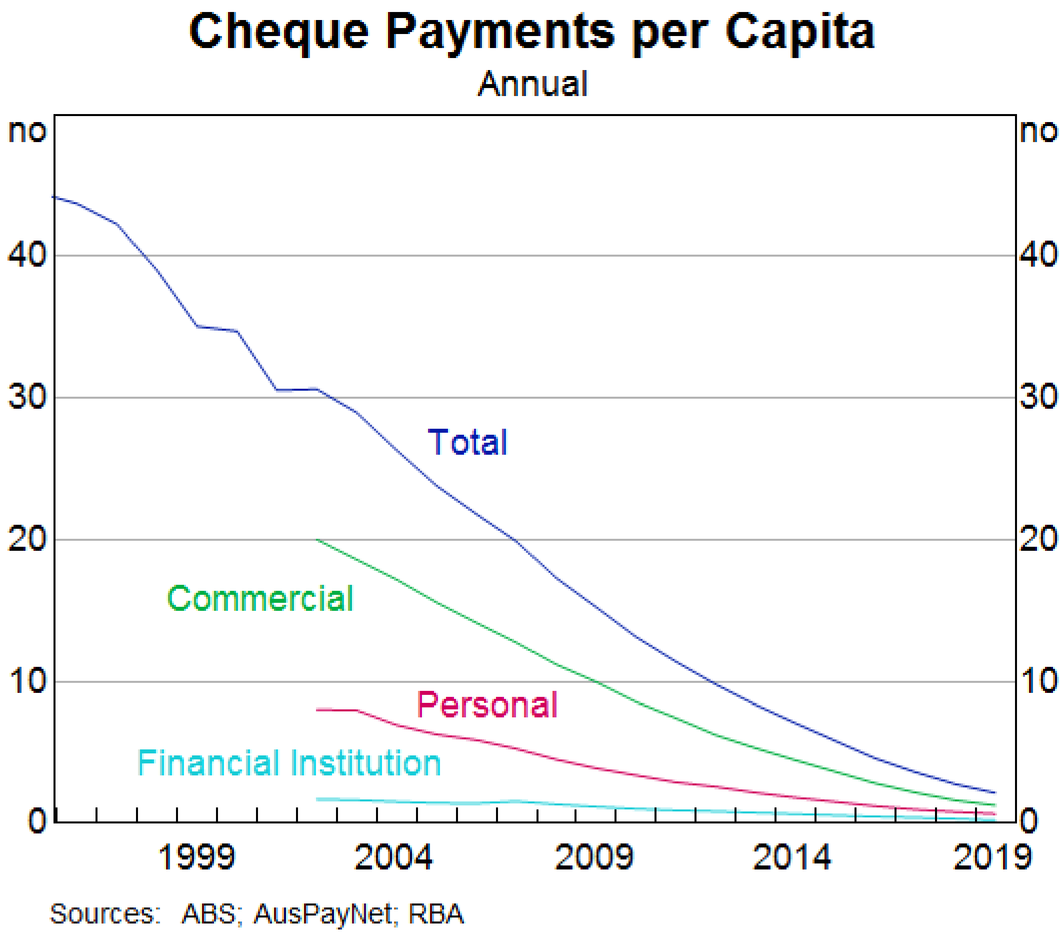
Both the Productivity Commission and the Black Economy Taskforce have called for us to examine this question. It is understandable why. As we move to a predominantly electronic world, the cost of electronic payments becomes a bigger issue. The Payments System Board's regulation of interchange fees and the surcharging framework, as well as its efforts to promote competition and encourage least-cost routing, have all helped lower payment costs.

At issue is how we make further progress: what combination of regulation and market forces will best deliver this? Relevant questions here include: whether interchange fees should be lowered further; how best to ensure that merchants can choose the payment rails that give them the best value for money; and whether restrictions relating to no-surcharge rules should be applied to other arrangements, including the buy-now-pay-later schemes.

A second issue is what is the future of the cheque system?

Cheque use in Australia has been in sharp decline for some time. Over the past year, the number of cheques written has fallen by another 19 per cent and the value of cheques written has fallen by more than 30 per cent, as the real estate industry has continued to shift to electronic property settlements (Graph 7). At some point it will be appropriate to wind up the cheque system, and that point is getting closer. Before this happens, though, it is important that alternative payment methods are available for those who rely on cheques. Using the NPP infrastructure for new payment solutions is likely to help here.

Graph 7



Third, is there a case for some rationalisation of Australia's three domestically focused payment schemes, namely BPAY, eftpos and NPPA? A number of industry participants have indicated to us that they face significant and sometimes conflicting investment demands from the three different entities. This raises the question of whether some consolidation or some form of coordination of investment priorities might be in the public interest.

Fourth, and finally, what are the implications for the regulatory framework of technology changes, new entrants and new business models?

The world of payments is moving quickly, with new technologies and new players offering solutions to longstanding problems. At the same time, expectations regarding security, resilience, functionality and privacy are continually rising. Meeting these expectations can be challenging, but doing so is critical to building and maintaining the trust that lies at the heart of effective payment systems. The entry of non-financial firms into the payments market also raises new regulatory issues. As part of the review, it would be good to hear how the regulatory system can best encourage a dynamic and innovative payments system in Australia that fully serves the needs of its customers.

So these are some of the many issues on our agenda. We are looking forward to receiving your input. For now, thank you for listening and I am happy to answer your questions.

Thank you.

Endnotes

[*] I would like to thank my colleagues in Payments Policy Department for assistance in the preparation of this talk.

[1] See AusPayNet's CNP Fraud Mitigation Framework, available at <https://www.auspaynet.com.au/insights/initiatives/CNP-Fraud-Mitigation-Framework>.

[2] ACCC (2019), ‘Foreign currency conversion services in Australia’, July.

[3] For example, bank customers may also incur additional fees charged by the ‘correspondent banks’ that intermediate the payment to its final destination on behalf of the sending bank. These fees may not be known at the point of the transaction and can result in less foreign currency being received than expected.

[4] See Bullock M (2019), ‘Modernising Australia's Payments System’, Speech to the Central Bank PaymentsConference, Berlin, 25 June.

[5] Reserve Bank of Australia (2019), ‘Review of Retail Payments Regulation: Issues Paper PDF’, November.

The Reserve Bank of Australia acknowledges the Aboriginal and Torres Strait Islander Peoples of Australia as the Traditional Custodians of this land, and recognises their continuing connection to Country. We pay our respects to their Elders, past, present and emerging.