

Friday, 22 September 2017

Scott Farrell
c/o Open Banking Secretariat
The Treasury
Langton Cr
PARKES ACT 2600

Via email: OBR@treasury.gov.au

Dear Mr Farrell

RE: REVIEW INTO OPEN BANKING IN AUSTRALIA

The Australian Payments Network Limited (**AusPayNet**) welcomes the opportunity to respond to the *Review into Open Banking in Australia, Issues Paper (the Issues Paper)*. The review and Issues Paper each have a broad context, including:

- the most appropriate model for Open Banking in Australia,
- a regulatory framework under which an Open Banking regime should operate, and
- a roadmap and timetable for its implementation.

This submission will focus on the potential regulatory framework for Open Banking, drawing upon our experience as the payments industry self-regulatory body.

About AusPayNet

AusPayNet is the industry association and self-regulator for the Australian payments industry. AusPayNet (previously known as Australian Payments Clearing Association Limited) was established in 1992 to manage and develop regulations, procedures, policies and standards governing payments clearing and settlement within Australia. In this core role, AusPayNet oversees clearing systems and frameworks covering cheques, direct debits and direct credits, aspects of card transactions, high value payments and bulk cash exchanges between financial institutions.

The diversity of the systems overseen by AusPayNet is illustrated below:¹

- **Bulk Electronic Clearing System (BECS)**. This system relates to electronic debit and credit payment instructions. The system coordinates and facilitates the exchange and settlement of batched payments

¹ Not including cash distribution and cheque systems. Descriptions of the systems are drawn from: Australian Payments Network, *Payment Systems*, <http://www.apca.com.au/payment-systems>

between participants. Common customer users are payroll and pay anyone (direct credits) and regular bills (direct debits).

- **Issuers and Acquirers Community (IAC).** The IAC provides a forum for discussions, establishes rules, standards and guidelines, and provides a range of speciality services for all card payments in Australia. The IAC also provides security rules and standards for the approval and operation of ATMs, accreditation of point-of-sale (POS) terminals and other PIN entry devices that accept debit card transactions in Australia.
- **Community of Interest Network (COIN).** The COIN is a high availability, managed network infrastructure system used for multilateral secure transmission of payment files and messages between payments participants.
- **High Value Clearing System (HVCS).** High value payments are generally made between financial institutions, either for their own needs or on behalf of corporate customers. HVCS is used to provide a best practice, efficient and highly secure electronic payments system.

Each payment system is overseen by a management committee, which reports directly to AusPayNet's Board. Committee membership is drawn from AusPayNet's member organisations, numbering over 120 organisations from across the payments industry, with Chairs drawn from our Board, including our independent directors.

AusPayNet works closely with industry, government, regulators and other stakeholders to improve the Australian payments system by promoting competition and innovation, delivering efficiency, and controlling systemic risk. We create a shared purpose that engenders confidence in the payments system. AusPayNet has a history of driving a collaborative approach to common industry issues. Among other matters, in recent years, we have:

- Established eftpos Payments Australia Ltd as an independent entity.
- Worked with the Reserve Bank of Australia (RBA) to establish the Australian Payments Council (APC), for which AusPayNet provides ongoing support.
- Following the Payments System Board's Conclusions to the Strategic Review of the Innovation in the Payments System, AusPayNet formed the Real-Time Payments Committee in September 2012 to develop a clear way forward for the Australian payments industry on real-time, low-value payments. This collaborative industry forum developed a proposal which evolved to become the New Payments Platform Program in 2013. Building on this early work, AusPayNet was instrumental in bringing industry together to support the creation of the now independent New Payments Platform Australia Ltd.

What regulatory framework is needed to give effect to and administer the regime?

The Issues Paper states that it will consider 'the extent to which an Open Banking regime could operate through a framework (including policies, legislation, standards and infrastructure) that achieves an appropriate balance between economy-wide standardisation and necessary industry-level adaptation'.

AusPayNet's practical experience of operating framework agreements for the payments industry points to the requirement for two distinct elements of a framework. Firstly, industry must come together to agree a governance structure and operating rules and secondly, there must be continuous management of the framework through an accreditation regime.

Governance Framework

An Open Banking regime should be underpinned by a robust governance framework. This will help to ensure that all parties (including consumers, data providers and third parties) have confidence in the system. The governance model should be adaptable to advances in technology, and to support new entrants.

At a minimum, an effective model must:

- Be transparent
- Be open to all participants, provided they are appropriately accredited and licensed
- Facilitate and adapt to new technologies and customer needs
- Champion customers interests

The Opening Banking Standards in the UK state that *“objective criteria to determine membership of each body should be established to ensure there are no challenges of discrimination in terms of who can be a member. A right of appeal against membership decisions should exist. A transparent approach should be taken to publishing all membership decisions, including any complaints about third parties being excluded”*.²

As a member-driven organisation, AusPayNet has extensive experience in managing the rules, standards and regulations pertaining to payment systems. Membership is open to any organisation that directly participates in at least one recognised Australian payment system and members have the opportunity to influence development of payment system strategy, policy and regulation. AusPayNet also provides a venue for industry collaboration on payments innovation. As such, we welcome the opportunity to participate in the development of an appropriate governance regime for data.

Accreditation Regime

As previously noted, a governance framework requires an effective accreditation process for participants seeking to receive customer data. In this regard, AusPayNet’s self-regulatory functions include administration of IAC Regulations and Procedures (**Code Set**). Among other things, the Code Set provides a procedure for the accreditation of POS devices. Both members and non-members are entitled to submit a device for approval. A detailed breakdown of this process is included as an example at Appendix A.

The POS accreditation framework is designed to reduce risk to the payment infrastructure and provide appropriate protections for customers. With this track record in managing device accreditation, we offer our support to Treasury in the establishment and operation of an appropriate regime for managing the accreditation of third parties seeking receipt of customer data.

Concluding Remarks

AusPayNet has a strong track record as an effective self-regulator, highlighted by our ability to find solutions to complex industry questions. We have established and supported innovative approaches to payments for Australian consumers via eftpos and NPP. We continue to oversee Australian clearing systems and participate in the development of standards relating to the payments system.

AusPayNet provides opportunities for future industry collaboration and we would welcome the opportunity to work closely with Treasury in the establishment and operation of a governance framework.

² Payments Forum UK, *The Open Banking Standard*, p58

Please do not hesitate to contact me if you require any clarification in relation to this submission, or additional payment related information.

Yours sincerely

A handwritten signature in black ink, consisting of several fluid, overlapping strokes that form a stylized representation of the name Leila Fourie.

Leila Fourie

Chief Executive Officer

Australian Payments Network

APPENDIX A: OUTLINE OF POS DEVICE ACCREDITATION

A simplified summary of how this self-regulatory accreditation scheme works in practice is outlined below:

1. The IAC Code Set requires that all Framework Participants who engage in interchange activities abide by its rules. This includes rules that only an accredited POS device may be connected to the interchange network.
2. Standards for POS devices are set independently, by international bodies. Specifically, this is the International Standards Organisation (**ISO**) and Payment Cards International (**PCI**).
3. Initial assessments of POS devices are performed by independent laboratories, which are audited by PCI. These laboratories produce an evaluation review, which takes the form of a checklist of whether the device meets the applicable standards.
4. AusPayNet receives applications for new POS devices. These applications must include an evaluation review from an independent laboratory (as outlined at 3).
5. The IAC's Evaluation Review Subcommittee assesses the evaluation review. The Subcommittee accredits devices that meet the standards, or meets the same standards but in a different way.
6. Accredited devices may then be connected.
7. All Framework Participants are subject to annual independent audits. While a Framework Participant may engage a third-party provider to perform interchange activities, the third-party must also meet the Code Set requirements. Regardless of the use of third-party providers, the onus for meeting Code Set rules rests with the Participant.