



Commonwealth
Bank

A Strategic Plan for the Payments System

Response to Treasury consultation

6 February 2023



INTRODUCTION

CBA welcomes the Government's commitment to delivering reforms to update and strengthen Australia's payment system. We have observed rapid and ongoing shifts in the ways our customers pay. For example, the value of BNPL transactions increased by around 37 per cent in 2021/22 to \$16 billion, equivalent to around 2 per cent of Australian card purchases¹ and according to CBA data digital wallets represented 49 per cent of total debit card contactless transactions in November 2022, up from 40 per cent in November 2021. Both of these payment methods currently operate outside of payments regulation.²

As the Consultation Paper notes, the pace of change has accelerated in recent years and regulatory settings internationally are having to adapt to these trends. Many of Australia's peer economies are putting in place regulatory frameworks that address the issues Treasury has highlighted.³ An updated *Payment Systems (Regulation) Act*, along with new Ministerial designation powers and a new payments licensing framework will be critical to provide a more favourable environment for financial innovation and to mitigate the risks that come with embracing new technologies. A Strategic Plan that includes a clear timeline for regulatory change will assist to expedite these reforms.

A Strategic Plan will be essential to guide the development of modern payments infrastructure that maintains national sovereignty and serves the needs of all Australians. In the absence of Government's overarching vision for the Australian payments ecosystem, the design of Australia's future payments system will continue to be influenced by global multinationals and technology firms. A Strategic Plan will additionally assist to coordinate system-wide innovations at a time of unprecedented change that is placing considerable pressure on available Australian private sector skills and resources.

KEY PRINCIPLES

The proposed principles articulate desired objectives for the payments system that can be used to guide its future direction. CBA agrees with Treasury's principles and we suggest some additional detail to enhance their impact.

Trustworthiness

Trust and confidence in the payments ecosystem is paramount and underpins all the other principles. We suggest the development of the plan and assessment of new developments is primarily guided by this principle. As recommended in the Farrell Report, consumers and businesses that rely on and benefit from the payments ecosystem should be at the centre of policy design and implementation. Consumers and businesses should be confident that new developments in the system exceed minimum expectations for safety, reliability, and transparency.

Efficiency

¹ <https://www.rba.gov.au/publications/annual-reports/psb/2022/the-evolving-retail-payments-landscape.html#glance-1-3>

² <https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/conclusions-paper-202110/pdf/review-of-retail-payments-regulation-conclusions-paper-202110.pdf>

³ In Singapore, payment service providers require a license to provide specified payments services.. https://www.mas.gov.sg/-/media/MAS/resource/publications/consult_papers/2003/MASConsultationPaperonPaymentSystemsOversightAct.pdf; UK's Payment Services Regulations covers payment service providers. <https://www.fca.org.uk/publication/finalised-guidance/fca-approach-payment-services-electronic-money-2017.pdf>. The European revised Payments Services Directive (PSD2) covers all types of electronic and non-cash payments <https://eur-lex.europa.eu/legal-content/EN/LSU/?uri=CELEX:32015L2366>



In addition to speed and convenience, in efficient payment systems, payments are optimally priced to provide fair value for consumers and businesses while providing fair and reasonable returns on development and operating costs to operators. Real time data rich payments bring new opportunities to create value for users and come with additional costs to build and run. Fast and frictionless payments need to be balanced against safety considerations of scams, fraud and financial loss.

Innovation

Trust in the system is a precondition for an environment that fosters successful innovation. An innovative payment system provides commercial opportunities that enable businesses to invest in new products and continue to maintain and develop modern infrastructure. Regulation should enable safe, open experimentation of new technologies such as through the use of regulatory sandboxes. We suggest that innovation is best fostered through a conducive policy environment rather than through regulatory mandates.

Accessibility

Fair, reasonable and non-discriminatory access arrangements with clear security and safety obligations for key payments infrastructure is essential in a well-functioning payment ecosystem. It is critical that the access principle applies to all ecosystem participants equally, with infrastructure costs distributed fairly among all participants.

Available payment methods should be inclusive and physically accessible to consumers and businesses and provide them with the same minimum rights irrespective of how they choose to make a payment.

KEY PRIORITIES

CBA considers that the above principles should underpin all priorities equally. We have provided additional considerations for each priority to guide specific corresponding initiatives.

Promoting a safe and resilient payments system

Considerations beyond cyber, scams and operational resilience includes:

AML/CTF/Sanctions – the overall ecosystem must be protected from both financial and operational risks. As recommended by the Farrell Review, there is merit in closer coordination between AUSTRAC, DFAT and the community of payments regulators.

Insolvent providers – consumer funds must be safeguarded in the event of a payment service provider’s insolvency, particularly where the insolvency arises from the institution’s operational failings. Suboptimal insolvency processes have led the UK Government to introduce a special administration regime for payment and electronic money institutions.⁴

Mistaken /erroneous/duplicate payments - confidence in the payments system relies on payments working as intended with clear and consistent processes to resolve disputes across all payment types and across all parties. Consumers and businesses should not have to face complexity in navigating different regimes for different payment schemes when things go wrong.

Common technical standards - consumers and merchants should have certainty that payment solutions will consistently work the same way with the same levels of security e.g. QR code guidelines and standards for point-of-

⁴ https://www.legislation.gov.uk/uksi/2021/716/pdfs/ukxiem_20210716_en.pdf



sale device security and payments data protection are currently voluntary and do not apply across the entire payments ecosystem.

Ensuring the regulatory framework is fit-for-purpose and promotes competition

Amendment of the PSRA and the introduction of a tiered payments licensing framework are fundamental reforms that are urgently needed to support safe competition and innovation by unregulated payment service providers. Additional relevant and related initiatives include:

1. **Establish an Authorised Standards Setting Body (ASSB)** - as recommended by the Farrell Review to ensure adherence across the payments ecosystem to common mandatory technical standards.
2. **Update the ePayments Code** - as recommended by the Farrell Review, to extend expectations and processes for mistaken and unauthorised payments to all payments methods.
3. **Conduct an end-to-end payment ecosystem cost review** – an expanded remit under an amended PSRA will enable broader scrutiny and monitoring of the cost impacts on small business beyond LCR. As noted by the RBA, the cost to merchants of accepting BNPL payments may be significantly higher than the cost of accepting other electronic payment methods,⁵ and there are potential efficiency issues in the mobile wallet market.⁶

Ensuring alignment with the broader digital economy transformation

The initiatives and actions in the Strategic Plan should be aligned with the following adjacent Government initiatives:

CDR action initiation - to ensure payment action initiation is supported by appropriate protections and safeguards and that PayTo has sufficient time to develop.

Digital Platforms regulation – to consider complimentary measures recommended by the ACCC Digital platforms services inquiry fifth interim report and Treasury’s associated consultation in relation to scams, innovation and access.

ACCC National Anti-Scams Centre – to enable a whole of scams ecosystem approach, as any common scam prevention assets will need to be integrated with existing payments technology.

Security of Critical Infrastructure Act & Privacy Act – to address cyber risk, as increasingly data rich payments will become enabled through migration to the NPP, CDR payments initiation, and the introduction of ISO20022 messaging standards.

RBA & DFCRC CBDC Pilot – to assist Australia to keep pace with international counterparts in exploring and practically experimenting with potential use cases.⁷

⁵ <https://www.rba.gov.au/publications/bulletin/2021/mar/developments-in-the-buy-now-pay-later-market.html>

⁶ <https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/conclusions-paper-202110/pdf/review-of-retail-payments-regulation-conclusions-paper-202110.pdf>

⁷ Europe commenced investigation of a digital Euro in October 2021, and are well advanced in considering the potential design and implementation https://www.ecb.europa.eu/paym/digital_euro/shared/pdf/Digital_euro_project_timeline.en.pdf; Singapore’s Project Ubin+, commenced in October 2022, builds on existing work by the Central Bank to explore the use of CBDC for cross-border currency transactions <https://www.mas.gov.sg/schemes-and-initiatives/ubin-plus>



Modernising payments infrastructure

Additional considerations for the successful and safe transition to a more modern payments infrastructure include:

1. **Retirement of legacy infrastructure** – endorsement by Government and legislative amendments to support industry efforts to migrate payments from legacy systems to more efficient alternatives.
2. **Corresponding uplift of new infrastructure** – modern alternatives such as the NPP must be upgraded to ensure that they offer the same security, functionality and use cases as the legacy systems from which payments will be migrated from.
3. **Funding** - appropriate mechanisms to sustainably fund the ongoing investment, maintenance and modernisation of the payments system, with all participants bearing a fair share of the costs.
4. **Emerging technology** – alignment of payment reforms with the development of new forms of currency and technological advances, including by creating an appropriate environment for exploration of the policy rationales (for example, through the use of a regulatory sandbox).
5. **Cross border payments** – market led solutions to achieve the FSB objectives.

SUPPORTING INITIATIVES AND ACTIONS

The supporting actions proposed in Attachment B of the Consultation Paper should be reviewed to address the additional considerations in the key priorities that have been identified above. Regulatory and Government expectations should be technology-neutral and prioritise the achievement of outcomes, not process, while providing clarity for businesses as necessary on how they can meet Government expectations.⁸

Actions should be supported by correlating milestones on the Roadmap. CBA has proposed Roadmap milestones for each priority in Appendix A.

ROADMAP

CBA is supportive of the inclusion of a roadmap that articulates key deliverables, timing, and the roles of the Government, industry, and regulators. Key milestones will assist industry to understand expectations for industry mandated developments and provide certainty to enable planning and investment. Although target dates may change in relation to emerging technologies such as CBDC, a forward-looking roadmap with aspirational targets can assist to maintain focus towards the Government's vision for the future of the Australian Payments ecosystem.

The Roadmap should consider the overall capacity of industry and regulators to deliver the desired changes, and the trade-offs of moving fast versus delaying urgent reforms. Overall, the Roadmap should aim to provide all participants with the necessary context to plan and innovate.

Given the dynamic nature of emerging technology, roadmap milestones may consist of a combination of hard targets for delivery, and aspirational moveable timelines that are provided for the purpose of guidance.

CBA acknowledges that it will be difficult for the Government to accurately define events that need to occur in several years' time. Nevertheless, it will still be very helpful for the Government to articulate its expectation

⁸ See World Economic Forum Agile Nations Charter

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/942312/Agile_Nations_Charter.pdf



throughout the full five years as opposed to not specifying dates because of uncertainty. To facilitate this, we propose that the Government include two categories of dates on the plan:

- Expectation – where the Government is expecting a date to be met;
- Guidance - where the Government is providing guidance on when it believes a date could be met but is subject to change.

In classifying the dates this way it will help the Roadmap be more effective.

Current payments roadmap

As summarised below, the current industry roadmap is highly congested and places significant demands on industry over a short period of time. There are regulatory expectations to deliver a number of resource intensive initiatives in 2023, prior to commencement of the Roadmap. Pressure to deliver at pace risks second order effects such as substandard solutions or reliance on third party (and commonly offshore) vendors.

Current initiatives

Item	Description	Delivery Date	Source
PayTo	Develop PayTo system by the major banks	April 2023	RBA
LCR online	Develop LCR capability for non-tokenised online transactions	June 2023	RBA
ePayments Code	Implementation of ePayments Code changes from ASIC’s update of the code on June 2022	June 2023	ASIC
NPP IPBS	Develop NPP international payments business service to enable Australian banks and international payment service providers to send the final leg of an international payment coming into Australia via the NPP	Dec 2023	RBA
COIN migration	Migration of The Community of Interest Network (COIN) network from Telstra to TNS. COIN provides network services and connectivity for our frameworks for cheques (APCS), direct credit and debit (BECS), and cards (IAC) as well as BPAY bill payments	Dec 2023	Industry
ISO20022 migration	Migrate the messaging that underpins the High Value Clearing System (HVCS) to ISO 20022 that will enable richer messaging content that is harmonised with cross border & NPP formats	Nov 2024	Industry/RBA
LCR mobile wallets	Develop LCR capability for mobile wallet transactions	Dec 2024	RBA
AES migration	Migrate to AES (Advanced Encryption Standard) with Key Blocks (ANSI X9.143) to address security concerns associated with the emergence of quantum computing	TBD	Industry
CHESS replacement	Replacement of the legacy CHESS (clearing house electronic sub register system) platform	TBD	ASX / RBA
COP	Build Confirmation of Payee name checking service (based on UK model) for BECS	TBD	ACCC
CDR payments initiation	The development of new CDR action initiation functionality to facilitate payments	TBD	Treasury



Item	Description	Delivery Date	Source
Retire legacy payment systems	Decommission less efficient payment rails after developing equivalent functionality and alternatives using more modern electronic payments systems	TBD	Industry/RBA

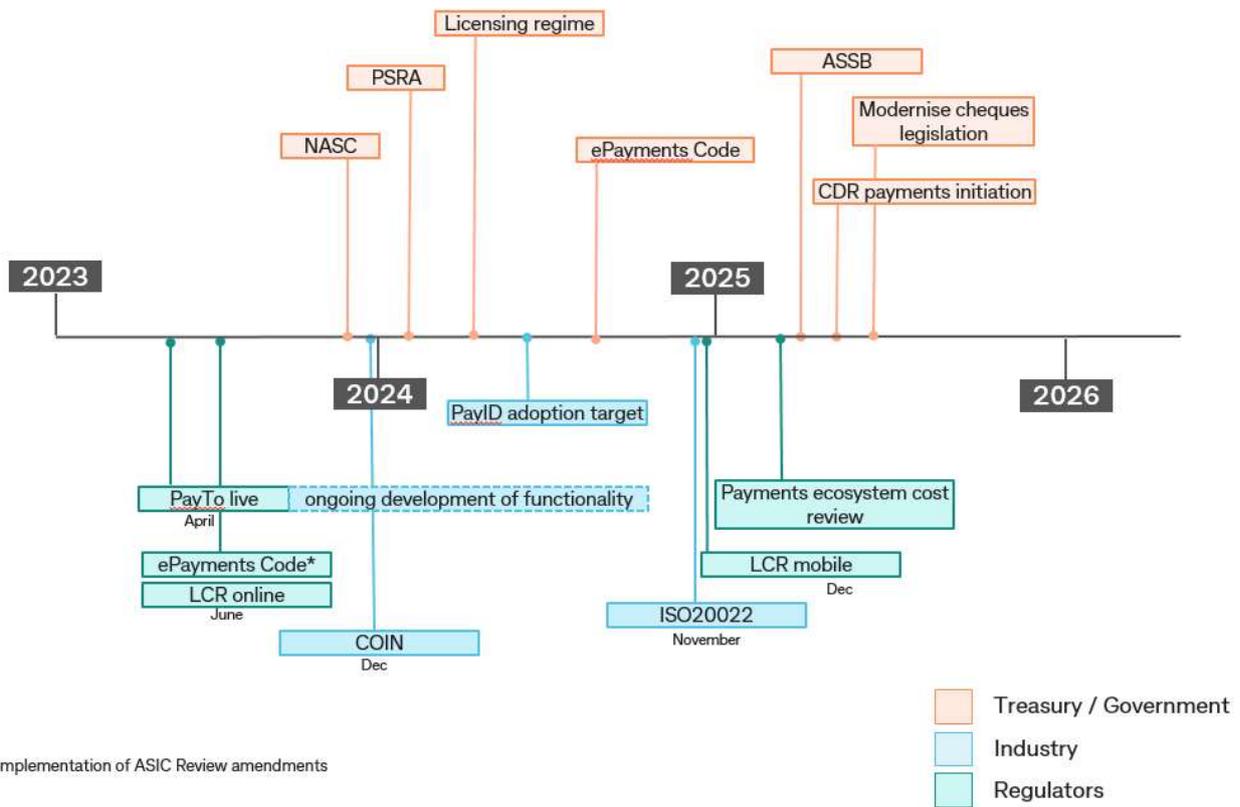
Strategic Plan Roadmap

Treasury has requested feedback on the key milestones from industry in delivering key initiatives.

We have included milestones for industry and regulatory projects that have been committed to and are well-progressed, which will need to be considered when developing the Roadmap. The industry milestones refer to completion dates, noting that many technology initiatives are multi-year projects e.g. ISO20022 migration is scheduled to commence in March 2023 and complete in November 2024.

We have also included potential timeframes and sequencing of Government reforms based on developments in the payments landscape and interdependencies between reforms, and with industry projects. The included Government/Treasury milestones refer to when legislation and regulations would ideally be passed to implement the Farrell recommendations, although we recognise that it is ultimately a matter for Parliament as to when and if this occurs.





If legislation is passed to implement the Farrell recommendations, we have set out the time frames we would suggest for achieving key milestones:

Milestone	Date after legislation taking effect
CDR payments action initiation	12 months*
Submissions due to RBA for interest in becoming the Industry Standards body	3 months
Designation of the Industry Standards Body by the RBA	6 months
All organisations that required any new licence have obtained that licence	12 months
Industry Standards Body is operational	18 months

* Planning, development of standards/rules and industry testing to occur in advance of commencement date

PROCESS FOR REVIEWING THE PLAN



CBA supports annual review and reporting on progress to hold responsible parties accountable and maintain momentum towards achieving the Government’s objectives. Although the Roadmap should have the flexibility to be amended in the event of new or unforeseen developments, the Roadmap should essentially remain consistent for the 5 year period i.e. the Review does not create a new Roadmap each year.

Engagement approach & review process

As the Strategic Plan is intended to support a shared vision for the payments system, a formal and transparent review process should be developed with clear criteria to determine amendments to the Plan. To assist with planning, the annual review should follow a consistent process with a regular cadence for consultation and reporting.

To enable co-ordinated decision making, the Review, similar to the development of the Plan, should involve public consultation of regulators, industry, consumer and business representatives. Stakeholders should be provided with the opportunity to make submissions requesting amendment of the plan up until a specified date. Stakeholders should also be given the opportunity to respond to proposed amendments that have been accepted by Treasury.

As part of the Review process, the inter-agency payments forum should publish an annual statement on progress and key areas of focus, similar to public communication by the Council of Financial Regulators and the Payments System Board.

Proposed process for stakeholder engagement and reviewing the plan:



As noted in the above summary of current initiatives, there are a number of major projects that do not yet have a specified delivery date. We expect these can be added to the Roadmap if indicated through the Review process.

Material changes to the Plan should require consideration of:

- › Overall industry capacity to absorb additional initiatives or adjust to changed timeframes
- › Critical dependencies from new or changed initiatives that require changes in sequencing
- › Progress against the existing Roadmap and the need to re-evaluate set timelines or milestones due to unforeseen developments
- › Changes in payment trends that require reassessment of regulatory focus and priorities.
- › Cost benefit analysis of proposed additions to the Roadmap

APPENDIX A.



Note: The table below proposes associated Roadmap milestones for the actions in Attachment B of the Consultation Paper. Additional actions may need to be included to address the considerations CBA has raised in relation to the key priorities.

Description of initiative	Actions	Roadmap milestones
Promote a safe and resilient payments system		
Reduce the prevalence of scams and fraud	<p>It is proposed that the Plan could:</p> <ul style="list-style-type: none"> continue to support and monitor Government and industry initiatives that share intelligence to disrupt scams and coordinate scam responses, recognising the private sector and broader ecosystem (telco, platforms etc...) is the first line of defence against scams. provide a roadmap for mandating the ePayments Code as part of the new licensing framework, including proposed timing for consultation. 	PayID adoption targets ePayments Code consultation date National Anti-Scams Centre (NASC) establishment date
Strengthen defences against cyber-attacks	<p>It is proposed that the Plan could:</p> <ul style="list-style-type: none"> highlight security and resilience as objectives for payments policy, and support Government's agenda on cyber security including through implementing the requirements under <i>the Security of Critical Infrastructure Act 2018</i>. 	AES delivery date
Supervision of systemically important payment systems		PSRA reform consultation date
Ensuring the regulatory framework is fit-for-purpose and promotes competition		
Implement changes to the Payment Systems (Regulation) Act 1998 (PSRA)	<p>It is proposed that the Plan could:</p> <ul style="list-style-type: none"> provide a roadmap implementing reforms to the PSRA, including proposed timing for consultation and legislation. 	PSRA reform consultation date
Introduce a payments licensing regime	<p>It is proposed that the Plan could:</p> <ul style="list-style-type: none"> provide a roadmap for the implementation of the new licensing framework, including proposed timing for consultation and legislation. 	Licensing framework consultation date
Enable greater collaboration between payment system regulators	<p>It is proposed that the Plan could:</p> <ul style="list-style-type: none"> continue to support and endorse the inter-agency payments forum in its efforts to strengthen collaboration and communication. 	Reporting dates for inter-agency payments forum
Promote competition by facilitating transparent access to payment systems	<p>It is proposed that the Plan could:</p> <ul style="list-style-type: none"> support the RBA's work with payment system operators to develop common access requirements for payment systems, 	Licensing framework consultation date



Description of initiative	Actions	Roadmap milestones
	with a view to implementation through the new licensing framework.	
Reduce small business transaction costs	<p>It is proposed that the Plan could:</p> <ul style="list-style-type: none"> • support the RBA’s approach in improving the availability and enablement of LCR. • note that the PSRA’s expanded regulatory perimeter could enable the RBA to mandate LCR for digital wallets. • note a range of policy measures to promote competition, innovation, and transparency. 	<p>Timeline of existing LCR commitments</p> <p>Timing of payments ecosystem cost review</p>
Alignment with the broader digital economy transformation		
Ensure the payments system is aligned with developments under the Consumer Data Right framework	<p>It is proposed that the Plan could:</p> <ul style="list-style-type: none"> • discuss the interlinkages between CDR and payments system, such as payment initiation. • note the importance of aligning with work underway to expand the CDR to enable action initiation. • highlight the importance for ongoing alignment between an evolving CDR framework and both existing and emerging payment systems and regulatory requirements. 	<p>Dates sequencing CDR and payments reforms as payments reforms are a critical consideration and input into CDR action initiation</p>
Explore the policy rationale for a central bank digital currency (CBDC) in Australia, including investigating the economic, legal, regulatory and technological considerations associated with an Australian CBDC	<p>It is proposed that the Plan could:</p> <ul style="list-style-type: none"> • provide an update on proposed work to explore the public policy case for issuing a retail or wholesale CBDC in Australia. 	
Modernise payments system infrastructure		
Support the transition to more modern payments infrastructure	<p>It is proposed the Plan could:</p> <ul style="list-style-type: none"> • support industry-led efforts to transition away from legacy systems where appropriate; raise public awareness and promote the use of safer and more efficient alternatives, particularly with consumers and businesses that rely on legacy payment systems to ensure a smooth transition. • provide details about steps the Government (in collaboration with its agencies and state counterparts) can take, as a large user of these payment systems, to drive 	<p>Government and industry targets for migration to modern payment solutions.</p> <p>Dates for modernisation of legislation that require cheques</p> <p>PayTo delivery date</p> <p>ISO20022 migration date</p>



Description of initiative	Actions	Roadmap milestones
	<p>migration of payments it sends and receives from legacy systems to alternatives.</p> <ul style="list-style-type: none"> • monitor the ongoing use of the systems, assess risks and report on progress in subsequent plans. 	
<p>Maintain adequate access to cash</p>	<ul style="list-style-type: none"> • articulate principles that will inform the Government’s response to providing consumers with adequate access to cash, which seeks to acknowledge the trade-offs between efficiency and accessibility. • align with work underway to support innovation being undertaken across the ecosystem in payment methods. 	
<p>Support international efforts to enhance cross-border payments</p>	<ul style="list-style-type: none"> • discuss Government priorities associated with the implementation of the G20 Roadmap. • highlight industry efforts to deliver on Australia’s commitment to the G20 to enhance cross-border payments. • support engagement with Pacific nations and foster financial inclusion. 	<p>Australia’s international commitments including commitments to G20</p>

