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D23/17540

Director – Payments Strategy and Policy Unit
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The Treasury
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10 February 2023

Dear Mr Black,

INPUT INTO THE STRATEGIC PLAN FOR THE PAYMENTS SYSTEM - CONSULTATION PAPER (DECEMBER 2022)

The Victorian Department of Treasury and Finance appreciates the opportunity to provide input into the critical work being undertaken by the Commonwealth Treasury into reforming the Australian Payments system and has provided detailed feedback to this plan as detailed in attachment.

We welcome the opportunity to continue to engage with the Commonwealth Treasury and support the implementation of this important strategic plan.

Yours sincerely

Catherine McKean
Senior Manager, Balance Sheet Management

Response from Victorian Government to the *'A Strategic Plan for the Payments System Consultation paper, dated December 2022'*

Victoria's Department of Treasury & Finance endorses the Australian Government Treasury consultation process and appreciates the opportunity to contribute input into the modernisation of the Australian Payments System.

Key principles

1. What are your views on the proposed key principles? Are there other principles that should be included? Please provide an explanation.

Response

Victoria's Department of Treasury & Finance agrees with the principles outlined.

Our experience and observations of the modernisation of the payments system with respect to these principles are as follows.

- 'Efficiency': Interoperability and common standards are important for all participants particularly the end users. Increases in interoperability and standardisation are required to enable end users to compare products and service offered by providers whilst enabling greater capacity to move to more competitive solutions.
- 'Innovation': To promote the implementation of innovative solutions, the market requires clear and defined timelines to create momentum and increase the pace of the adoption of new solutions. Innovation is currently happening, albeit slowly. For example, a major card initiative, 'Least Cost Routing' ('LCR') was due to be operational by the end of 2022, but it is now only available for physical 'tap and go' whilst online capability is still unavailable.
- 'Accessibility': this is an important principle to support the development of a payments ecosystem that enables modernisation and does not push end users towards more expensive payment methods. Our observations of the current changes in the ecosystem indicates that this is a risk, especially with respect to card payment methods and their associated fees.

Other principles that should be elevated to enable end users to make informed decisions include the following.

- 'Transparency and Comparability': Ensuring price, terms and transaction data is consistent, understood and explainable to all market participants (e.g., suppliers, merchants and informed end users). This principal is important in driving comparability and facilitating competition, particularly when the quoted cost of products and services do not match the actual cost of products and services. Whilst there is a sector 'narrative' around the importance of data and level of data available in the payment systems, as bank customers, we do not consistently receive timely and complete data and there are instances of anomalies in the data on a regular basis.

- 'Regulation': Self-regulation and industry standards that are clear, up to date and supportive of both cooperation and competition. Regulation should drive required behavioural changes, such as transparency and compliance with industry standards and deadlines with appropriate consequences for those participants who seek to circumvent regulations or accepted standards.

Key priorities

2. What are your views on the proposed key priorities? Do they provide enough certainty on what the key priorities are for the Government? Are there other matters that should be included? Please provide an explanation.

Response

We support the proposed key priorities and share the following observations.

- 'Safe and resilient payments system': We support this priority and recommend a greater level of education across the sector, particularly merchants, to support better understanding of how organisations can work with their service providers to manage risks (e.g., the recent escalation of 'BIN' attacks/'card testing').
- 'Regulatory framework is fit for purpose': We support this priority and suggest that regulation needs to be strengthened, particularly where competition is not wholly effective in promoting innovation or containing costs such as:
 - Ensuring charging regimes are transparent, including system regulations that are readily accessible and understandable. Charging regimes should be able to be understood by non-subject matter experts (i.e., finance professionals);
 - Ensuring that charging regimes are supported by the requirement to provide properly formed accurate and comprehensible tax invoices (i.e., which include arithmetically correct data and uniformly include minimum information requirements such as the GST amount, addressee and entity name) which are supported with consistent, complete, standardised, and intelligible information (e.g., not product codes for instance). As the Commonwealth Government is promoting PEPPOL e-Invoicing, we would suggest that financial service providers are mandated to conform to PEPPOL standards; and
 - As an example of the issues outlined above, currently the card schemes publish interchange tables with 79 categories of interchange rates (53 for Mastercard and 26 for Visa) supported by an unknown number of scheme rates, which are not publicly available. Despite the interchange rates being published, acquirers do not provide merchant service statements with this level of detail making it impossible to validate fees being charged. This is compounded by the fact that the scheme fees are neither publicly specified nor properly detailed in the merchant service statement. For example, queries as to why there is an unusual concentration of high-cost interchange categories cannot be explained satisfactorily by the acquirer or the scheme operator, with each referring us to the other.

- 'Ensuring alignment with the broader digital economy transformation': A Digital ID would provide significant enhancement to the payment system. Currently the progress on a Digital ID appears disparate and lacks ubiquitous functionality and usage across the economy. We support the need for this to be further developed with government and regulatory leadership needed to create effective and ubiquitous capability for all participants.
- 'Modernising the payment infrastructure': We support the modernisation of the payment infrastructure with a strong focus on frictionless and ubiquitous technological solutions that give merchants and end users the ability to easily change providers without significant costs.

Key initiatives

3. What are your views on the proposed key supporting initiatives? Are there other initiatives that could be included in the Plan? Please provide an explanation.

Response

- We agree with the supporting initiatives, including the greater co-ordination and collaboration with regulators, the promotion of competition and the reduction of costs
- In terms of the promotion of competition/lower costs we believe there needs to be greater regulation of card schemes including making 'scheme fees' transparent and controllable by regulators.
- Congruent with the need to improve competition, interoperability, and transparency, barriers to transition from one service provider to another service provider need to be removed. Industry standards and procedures need to be developed such that service users can safely transition from one service provider to another in a timely manner with minimal risk and at a reasonable cost.

Key Initiatives

4. Do you have any feedback on the proposed approach for any of the initiatives (as outlined in Attachment B)? Please provide an explanation.

Response

- Regulatory guidance is required to overcome the inertia associated with the modernisation of the payments system including:
 - Being prescriptive about when legacy systems will be discontinued (e.g., introduction of LCR and discontinuation of cheques);
 - Incentivising service providers/industry participants to meet agreed timelines (e.g., the introduction and capability to enable LCR);
 - Standardisation in terminology associated with product descriptors and pricing methodologies to enable comparability of service providers offerings of products and services; and
 - Standardisation of data sets provided to customers.
- Providing regulators with powers to impose consequences on service providers that appear to be attempting to impede initiatives designed to improve the payments system.

Key Initiatives

5. What are the key milestones for particular key initiatives that you would like to see included in the Plan? Are there any conflicts between milestones or pressure points that need to be taken into account in revising the roadmap?

Response

- Definitive dates set for implementation of LCR and 'Pay To' for the New Payment Platform ('NPP') so that we have clear milestones to target.
- Definitive roadmap for the development of NPP for replacing 'BECS' (Bulk Electronic Clearing System) with feedback and input from end users in the design and development of the new capability.
- Definitive dates set for the elimination of cheques as a payment mechanism.
- Understand which Acts and Regulations will be updated.

Process for reviewing the Plan

6. What are your views on the proposed review process and engagement arrangements? Please provide an explanation.

Response

- Highly supportive of the review and consultation process.
- We would like to have regular engagement with Treasury to provide feedback on the implementation of the roadmap.
- Ensuring equal weighing of contribution and input from suppliers and end users into the process, to ensure that there is symmetry in pricing and terms.
- Ensure all voices are heard and valued including smaller fintech's and technology providers.

Process for reviewing the Plan

7. Are there any other sections or topics that you would like to see added to the Plan? Please provide an explanation.

Response

- We strongly believe that the road map needs to be accelerated, with key participants held accountable for their role in the process. We note that whilst innovation is happening, it is slow and creating expensive outcomes for merchants and the end users.
- We would like to see benchmarking of the Australia Payments System against other comparable countries such as New Zealand, Canada, Singapore and United Kingdom and improvements identified and implemented.

Dated 10 February 2023

CM D23/9605