

10 February 2023

Payments Policy and Strategy Unit
Financial System Division
Treasury
Langton Cres
Parkes ACT 2600

Via email: paymentsconsultation@treasury.gov.au

To Whom It May Concern,

RE: Strategic Plan for the Payments System

The Financial Services Council (FSC) welcomes the opportunity to make a submission in relation to the Strategic Plan for the Payments System. FSC Members support a strong, world class payments system that encourages innovation and prioritises customer experience.

The FSC and its members are largely supportive of the key principles, priorities and initiatives contained in the consultation discussion paper with particular emphasis on the need for the payments system to remain agile and adaptive to technological innovation and providing efficiency for customers, with minimal friction points.

The FSC would like to submit some further recommendations for consideration regarding the future of the payments system. A fulsome response to the most relevant questions; one, two, and three are also outlined below.

About the Financial Services Council

The FSC is a peak body which sets mandatory Standards and develops policy for more than 100 member companies in one of Australia's largest industry sectors, financial services. Our Full Members represent Australia's retail and wholesale funds management businesses, superannuation funds, and financial advice licensees.

The financial services industry is responsible for investing more than \$3 trillion on behalf of over 15.6 million Australians. The pool of funds under management is larger than Australia's GDP and the capitalisation of the Australian Securities Exchange, and is one of the largest pools of managed funds in the world.

The Importance of Payments to the Financial Services Industry

The Payments System underpins the entire financial services industry. The types of payments being made in the industry vary from transferring of superannuation contributions from employers to super accounts, payments between investors and investment platforms, payments for investments, and pension payments to retired Australians.

Much of these payments are processed through the BECS payment rail, either through direct entry or occasionally through BPAY and other overlays, with some uptake of real time payments through the New Payments Platform (NPP).

The financial services industry relies on a payments platform that is resilient and reliable, efficient and easy to navigate. Given that the payments being made by the industry relate directly to Australian's personal wealth, it is important that interventions to protect customers

are balanced with both the need for timely payments and, in the case of superannuation, regulation and required service standards that prevent anti-competitive behaviour.

Ultimately, a modern and innovative payment system should make it simple for customers to access their wealth, make investment decisions, and encourage growth and competition by being open to innovation.

Payments in Superannuation

Superannuation payments include contribution payments, which may be from an employer or from a superannuation member themselves, benefit payments in the form of lump sum and pensions, and rollover payments from one superannuation account to another.

Whilst the payments themselves may seem simple, there is important accompanying customer data that may also be required to be sent with the superannuation payment. For inflows into or out of a superannuation account, this information may include superannuation member name and number as well as tax information. This information flows via a dedicated messaging network known as the Superannuation Transaction Network (STN). The STN transmits important superannuation contribution, benefit, and taxation information between employers, superannuation customers, superannuation funds, and the Australian Tax Office, with the assistance of Gateway providers in a timely and secure way.

There are a number of legislative and regulatory rules governing superannuation payments. Primarily, the legislated Data and Payments Standard, which specifies minimum requirements for dealing with payments and the information noted above, as well as SPG 280 which provides best practice standards for APRA regulated superannuation funds.

Further, the government has placed certain service level agreements on superannuation funds in regards to expected timeframes for transferring customer funds. For example, superannuation rollovers – the transfer of some or the full balance of a customer's super from one fund to another – is required to be completed within three business days of the fund receiving all the required information.

Payments in Wealth Management

FSC wealth management members offer a range of investment services from managed funds, investment platforms and wraps. Payments in these wealth management organisations include in and outflows into managed investment trusts with customer data such as asset purchases, custody information (depending on the type of investment service), and sales managed by individual systems. Although there is less specific regulation in regards to payments in the wealth management space, timely and reliable payments are a hallmark of a successful investment landscape where wealth customers should be able to access and move investment funds as seamlessly as possible.

The superannuation and wealth management industries are key stakeholders within the payments system and as such, their individual and distinct needs should be adequately considered by Government and regulators in crafting regulation.

Recommendation

1. Superannuation and wealth management should be considered a key industry stakeholder when considering changes to the Australian payments system.

Timeliness of Payments

The timeliness of payments is a key aspect for financial services. This requires a balance of allowing customers quick and easy access to their superannuation or personal wealth funds as well as managing the best interests of members. For example, without some friction in the processing of payments, investors may make rash investment decisions that are not in their financial interests. Conversely, if there are significant lags on the payments system, investors may miss out on investment opportunities. Customer frictions in payments are a well known and effective way to stifle customer switching by encouraging inertia, and in practice can significantly stifle competition.

There are already several requirements placed on financial services organisations (discussed in detail below) that place necessary frictions on payments in order to prevent fraud and economic crime. Introducing further frictions, which are not balanced appropriately with the risks they are trying to prevent, risks undermining the potential for Australian's in regards to wealth management. It is for this reason that the FSC encourages Treasury to carefully weigh up the benefits of regulatory interventions that may add friction to payment times with the costs to customer satisfaction.

Recommendation

2. Any frictions introduced into the payments system should be risk-based in principle. Mitigation tactics that add increased friction between industry and consumers should be weighed up carefully against the risks they are trying to mitigate.

Fraud and Scams in Superannuation and Investments

The most recent ACCC report on scam activity in Australia indicates that scam losses have grown to \$2 billion in 2021¹. FSC members acknowledge that holding a large amount of Australian's wealth makes them a potential target for scams and economic crime, and actively work to mitigate these risks.

In addition to members enacting individual policies and systems to monitor and manage fraud risk, FSC members are bound by AML/CTF "Know Your Customer" requirements that compel them to gather key customer information, prior to paying out customer funds.

As cyber-attacks become more frequent and larger in scale, such as the Optus and Medibank hacks which claimed a significant portion of Australian identity data, greater collaboration is needed by key industries to share information and intelligence such as known scam accounts that will make it easier for participant organisations to detect scams. The benefits of such information sharing cannot be understated and do not provide additional frictions to payment customers.

Recommendation

3. Government and regulators should work with industry to create more opportunities for cross-industry information sharing that will help mitigate the incidence of fraud and scams in the place of, or in addition to, added frictions on the payments system.

¹ (2022). (rep.). Targeting scams: Report of the ACCC on scams activity 2021. [Link](#).

Potential Innovations

Australia has a strong history of adopting new technologies and innovations, particularly in relation to payments and FinTech in general. With the growing scheme of payment service providers, as well as innovative investment asset classes that may eventually be able to be used as payment, the sky is the limit for potential methods of payment and exchange in the future.

The regulatory environment for payments should remain agile and adaptive to payments innovation, leaving the door open for new providers and new technologies. The policy settings should remain technology, industry, and organisation neutral to allow market participants to encourage competition and provide a level playing field.

Recommendation

4. From a principle perspective, innovation should be encouraged through agile and adaptive regulation and those innovation opportunities provided on a technology, industry, and organisation neutral basis.

Licensing and Regulation

Investment Platform and Wrap Product Licensing

Investment platforms are services that allow for a wide variety of investments to be purchased online, through a single interface. The products offered through these services are often managed investment schemes that allow their members to purchase a number of internally or externally managed investments such as exchange traded funds (ETFs), managed funds, or direct investments.

A wrap product is an investment administrative structure where a member's portfolio is managed by a professional fund manager.

As a payment gateway between investors and the investments they wish to purchase, without actually being a payment service provider, it is important that these services remain distinct when considering future licensing schemes of payment service providers. Any additional regulatory burden through the definition of payment service providers, should not unintentionally cover managed investment products.

Recommendation

5. Investment platforms and wrap services should not be unintentionally caught up in any definitions of payment service providers that may be considered for the purpose of introducing the proposed tiered licensing scheme.

Digital Assets

Digital assets such as central bank digital currency (CBDC), cryptocurrency, and stablecoin may well have a place in Australia's future payments landscape. As noted in the strategic plan, innovation should be encouraged in this area.

The financial services industry already has a significant regulatory load and any newly introduced regulation of, say, digital assets, should be contemplated within the context of the exiting financial services regime. That is to say that the regulatory landscape should not be

muddled by the introduction of digital asset specific regulation, but rather crypto assets, where appropriate, should be incorporated into the existing regime under a same risk, same rules approach.

This will ensure that the financial services regulatory regime remains accessible to consumers and ensure that there is no unnecessary increase in regulatory burden for financial services operatives.

Recommendation

6. Any regulation or licensing scheme for digital assets should be implemented with a same risk, same rules approach.

Responses to Specific Questions

Question 1 – Strategic Plan Principles

The FSC is overall supportive of the principles outlined in the Strategic Plan Discussion Paper.

Efficiency

The FSC emphasises the need for the payments system to remain as efficient as possible whilst providing a balanced approach to protecting customers from harms. There should be minimal frictions when initiating and receiving payments so that customers utilising the payments system can access their money quickly and organisations such as superannuation funds can meet their significant regulatory obligations.

Innovation

The FSC is supportive of the principle that the payments system should be open to new innovations and FinTech. The FSC emphasises the need to ensure that these innovations are offered in a technology, industry, and organisation agnostic way to allow for a competitive market.

Accessibility

The FSC is supportive of the principle that the payments system should be accessible, particularly that it avoids unnecessary restrictions on access and encourages innovation. The payments system should remain resilient and reliable to ensure that Australians have constant control over their significant wealth assets within institutional investments.

Trustworthiness

The FSC supports a safe, secure, reliable and resilient payments system. This includes ensuring that frictions placed on the system are commensurate with the risks they are trying to mitigate so that there are no unnecessary lags for customers utilising the system.

Question Two – Strategic Plan Priorities

The FSC is overall supportive of the priorities outlined in the Strategic Plan Discussion Paper.

Promoting a Safe and Resilient Payments System

As noted above, the FSC supports a safe, secure, reliable and resilient payments system that correctly balances risk with the efficiency and ease of use and access. One of the key

priorities of the plan is to reduce scams and fraud, these interventions should be adequately balanced with the risks of financial loss. Other potential tools for protecting customers that do not add frictions such as cross-industry information sharing should also be considered in addition to potential frictions that may need to be introduced.

Ensuring the Regulatory Framework is Fit-for-Purpose and Promotes Competition

It is important that industry be consulted about any regulatory measures that may be put in place to help the government meet its goal of reducing consumer harm from fraud and scams. This means ensuring that all industry users, including superannuation, be adequately consulted and considered.

Alignment with the Broader Digital Economy Transformation

The FSC is supportive of continued efforts by government to explore alternative payment forms, including CBDC as well as cryptocurrency. Any licensing framework considerations for the introduction of these should be adequately consulted on and restrictions, including consumer protections, should not add extra red tape to financial services operatives. This means that digital asset licensing regimes, as they extend to payments, should follow a same risk, same rules outlook and naturally align to existing AFSL and payments regulation schemes.

Modernising Payments Infrastructure

The FSC is supportive of the strategic plans priority to promote a modern payments system that is aligned to the growing digital economy and encourages competition.

Question Three – Strategic Plan Initiatives

The FSC is overall supportive of the outlined initiatives, noting the comments above as they relate to specific initiatives.

The FSC believes the following initiatives should be prioritised for their impact on consumer access to payments systems and their effect on creating an innovative and agile payments system in Australia (in order as they appear within the Discussion Paper):

- Reducing the prevalence of scams and fraud.

This should be achieved with a considered, risk-based approach that balances frictions with outcomes and also considers non-friction inducing actions like cross-industry information sharing.

- Promoting competition by facilitating proportionate, objective, and transparent access to payment systems.
- Explore the policy rationale for an Australian CBDC, including investigating the economic, legal, regulatory, and technological considerations associated with an Australian CBDC.

Innovation should be encouraged within the payments landscape, this includes new payment types and payment service methods. Any such innovation should be encouraged through a regulatory scheme that is technology, industry, and organisation neutral and should be incorporated appropriately into the existing financial services licensing scheme.

The FSC once again thanks Treasury for the opportunity to consult on the proposed Strategic Plan for the Australian Payments System.

The FSC supports a strategic plan that adequately considers the perspective of Australia's wealth management and superannuation industry, promotes innovation, and supports action on financial crime that is balanced and effective.

If you would like to discuss this submission or have any questions, please contact me.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Kirsten Samuels', written over a circular stamp or seal.

Kirsten Samuels
Policy Manager, Superannuation and Innovation