



Strategic Plan for the Payments System: Consultation Paper

The Treasury

Westpac Banking Corporation
February 2023

WE ARE

 GROUP

Overview

Westpac Group (**the Group**) welcomes the opportunity to provide comments on the Government's consultation paper on the strategic plan for the payment system (**the Plan**).

We strongly support a strategic plan for the payments system that is a comprehensive, long-term strategy that provides clarity on the Government's policy objectives and priorities.

We highlight the following key considerations:

1. **The need for Government prioritisation of initiatives** – the planning, consulting and implementation phases of payment system initiatives across Government would benefit from greater coordination to ensure that initiatives with the greatest benefit to consumers are prioritised and built optimally. A sequencing of reforms would allow participants to better manage the change burden and ensures that investment is being made in initiatives that will offer the best outcomes for consumers.
2. **Shared cost of investment and maintenance across participants in the payment's ecosystem** – Our payments system requires ongoing maintenance and investment, which needs to be shared across entrants utilising existing payment rails. If existing payment system participants continue to solely cover these costs, then this will reduce the capacity to invest in new technologies and services that can better support consumers and achieve the government's digital economy agenda.
3. **Commencement of action initiation in the Consumer Data Right** – the expansion of the Consumer Data Right to action initiation (**CDR**) introduces new fraud and scams risks. In addition, it remains unclear what functionality gap in the market the designation of payment initiation is intended to resolve. Any designation should be considered alongside other payment system reforms to avoid duplicative functionalities. Overall, both CDR and PayTo should be given time to mature, and these fraud and scams risks appropriately considered and managed before payment initiation is designated in the CDR.

We note and support the positions outlined in the Australian Banking Association's submission to this consultation.

Outlined below is our response to the questions in the consultation paper.

Thank you for the opportunity to provide comments on this consultation.

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

The payments system is closely interconnected to our economy and financial system. Ensuring ongoing stability, security and reliability is therefore critical. Australian consumers and businesses need to trust that their payments will be made in a timely, safe and secure way. The regulatory settings for payments innovation must support continued investment in secure and reliable infrastructure.

The Group supports principles that are designed to guide the development of a more safe, reliable, accessible, innovative, equitable, simple, and efficient Australian payment system ecosystem. We suggest the following changes to better support the payment ecosystem.

Equitable

A new principle should be introduced that recognises the need for equity and fair value of investment and maintenance across all participants in the payment system.

Our payments system requires ongoing maintenance and investment which needs to be shared across entrants utilising existing payment rails. If existing payment system participants continue to cross-subsidise the costs incurred by new service providers, it will reduce the commercial incentive to maintain existing infrastructure and critically weaken the business case for building new infrastructure. These costs will also reduce the capacity to invest in new technologies and services that can better support consumers and achieve the government's digital economy agenda.

As a growing number of new entrants utilise existing payment rails, the payments infrastructure will become increasingly burdened. To remain sustainable, consideration needs to be given to how a fair and proportionate contribution to the costs of building and/or operating payments infrastructure is spread across providers in the system.

Trustworthiness

While the consultation paper notes that this principle encompasses the underlying values of safety, security, reliability, and resilience, given their importance to the overall confidence and functionality of the payment ecosystem, these underlying values should be key principles in their own right.

Safety and Security

Scams and fraud have risen over the years, with consumers in Australia losing around \$1.8 billion in 2021¹. Recent data breaches impacting a number of organisations in the Australian market have further exposed consumers and businesses to greater scam and fraud risk. Given the rise of these risks, and the significant consumer and business harm that can eventuate, safety and security is critical, *i.e.* all players in the payments ecosystem should maintain a high standard of security and have the necessary processes and systems in place to protect consumers from harm. For example all financial institutions should monitor higher risk inbound payments in order to minimise money-mule flows.

¹ Targeting scams – Report of the ACCC on scams activity 2021, July 2022, pg 1.

Stability and Reliability

The payments system is vital for the effective functioning of our economy. Poor interconnections have the potential to cause instability within the financial system - stability and reliability is therefore an important underpinning principle. This principle should clearly set out the need to ensure that the payment infrastructure and processing is stable and reliable.

Simplicity

The Plan should include a simplicity principle that is standalone and separate from the accessibility principle. This principle should be focused on simplifying the regulatory framework for providers, look to identify opportunities for consolidation of different payment systems and ensure that new reforms/initiatives are not duplicating existing functionalities in the market.

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.

Prioritisation of initiatives

The regulatory agenda over the last five years has been ambitious and expansive. As the implementation of the Hayne Royal Commission recommendations come to a close, there is an opportunity for government and industry to determine priority reforms for the emerging issues facing consumers and the Australian economy.

Over the years the banking industry has made significant investment in Australia's payment system with around \$2 billion invested on the New Payments Platform (**NPP**), around \$300m on PayTo, and around \$1 billion on the CDR. In addition to this, the industry is facing several large-scale initiatives both internationally and domestically, such as the ISO20022 SWIFT migration, continued development of the NPP, the expansion of CDR to include action initiation and ACCC's calls for 'confirmation of payee'.

As highlighted above, these projects are significant investments in terms of costs and resources, and without the necessary prioritisation by the Government, will impose significant pressure on industry to build, test and rollout these initiatives concurrently. A lack of sequencing and prioritisation could delay the implementation of these key initiatives while introducing risks that solutions are poorly developed.

The Government, regulators and industry need to work together to identify and prioritise those initiatives that offer the greatest benefit to consumers. Such an approach would allow participants to better manage the change burden and ensures that investment is being made in initiatives that will bring the greatest value to consumers.

One suggested mechanism is the development of a payment initiative regulatory grid (similar to the UK's Regulatory Initiatives Grid) that would outline key reforms and milestones for implementation. This grid would assist industry in planning resourcing and cost allocation and ensures the measures designed to provide the optimal customer outcomes are implemented as quickly and efficiently as possible.

Shared cost of investment and maintenance

The Plan should include a key priority – a level playing field across payment providers with costs associated with the investment and maintenance of payment rails spread across all providers. This would be analogous to the way in which essential facilities (such as airports, railways, gas pipelines and ports) may be ‘declared’ under Part IIIA if they satisfy the declaration criteria in the *Competition and Consumer Act 2010* (Cth).

If other users of the payment infrastructure contributed to the costs, then this would allow banks to prioritise other investment into new technologies and services that support consumers and assist with delivering the government’s digital economy agenda.

Regulatory coordination

Another key priority should be improving co-ordination between regulators and government to ensure a nationally coordinated approach to payments regulation. Such an approach would harmonise digital reforms, provide consistency and ensure the avoidance of duplicative obligations on the industry. As part of this coordinated approach, the Government should consider how best to amalgamate compliance and reporting obligations that are duplicative across the various regulatory bodies of the payment system.

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.

Consumer Data Right

The Group continues to invest heavily in fraud and scam prevention measures to protect consumers, including investments in new behavioural technologies. These technologies use a range of technical markers to assess the risk of transactions in real time, thereby protecting consumers from loss. These technical markers include data elements like IP address, customers’ device type, and customers’ historical behaviour.

The expansion of CDR to action initiation (the use of third parties by customers to deliver instructions on their behalf) is complex and could impair the ability of the bank to use the tools mentioned above. This materially increases the risk that these transactions cannot be adequately assessed for their validity, impeding the ability of the bank to protect its customers. Without such an ability, there is a risk that the CDR could be used as a fraud and scam mechanism, which would impact consumers detrimentally and lead to an overall loss of trust in the ecosystem. This would be inconsistent with the principle of promoting a safe and secure payment system.

We recognise that the CDR regime offers greater protections and is a more secure mechanism for data sharing than other data sharing practices such as screen scraping. However, under the current system, action initiation is not offered in either the CDR nor through screen scraping. The introduction of this new functionality would introduce new fraud and scams risk that would otherwise not be present.

If the Government is committed to the expansion of the CDR, one particular use case that should be considered before the expansion to action initiation is the inclusion of consumer data held by governments. For example, enabling the inclusion of taxation data in the CDR would enable a comprehensive picture of a consumer’s financial position and could support a range of use cases, for example, streamlined credit applications for small business. The inclusion of this data would significantly enhance the uptake of the CDR and would offer great utility to the ecosystem.

Regulation of digital assets

We note the Government's intention to conduct a token mapping exercise for digital assets, introduce a regulatory licensing regime for crypto asset secondary service providers, and consult on the regulation of stablecoin. These initiatives should be included in the Plan given the potential interlinkages with the payments system.

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

Reduce the prevalence of scams and fraud

We note the Government's intention to provide a roadmap for mandating the ePayments Code as part of the new licensing framework to provide greater clarity to consumers, businesses, and payment service providers and to level the playing field between current signatories to the Code and other providers. We support extending the existing code to other participants and look forward to engaging through the consultation phase.

Enable greater collaboration between payment system regulators

We support greater collaboration by payment system regulators and the establishment of the inter-agency payments forum. To improve transparency, we suggest that forum outcomes are formalised and publicly reported. This could also be an opportunity to review and assess compliance and reporting obligations currently in place across various regulators to harmonise and amalgamate any repetitive or redundant requirements.

Promote competition by facilitating transparent access to payment systems

While we support competition in the payment system, it should be highlighted that the industry has made significant investments to build the payment infrastructure. Many ADIs have existing relationships with payments service providers in place and any subsequent regime intended to be put in place should be assessed in light of those commercial relationships already established. Any further investment and maintenance in the system should be spread across all providers within it.

Reduce small business transaction costs

We support the direction of this initiative, but note the following:

- the Reserve Bank of Australia (**RBA**) has publicly noted that merchant costs continue to be relatively low. See Box C: The cost of debit transactions in Australia². In particular, the RBA notes "... the available evidence suggests that the cost of debit card transactions in Australia is amongst the lowest in the world".
- Least Cost Routing (**LCR**)/Merchant Cost Routing (**MCR**) is a complex concept that is not widely understood by merchants or cardholders and the benefit to individual merchants varies considerably. To date the work by the RBA and banks has led to reductions in scheme pricing variance. Accordingly, the key benefits arise from the competitive benefits of LCR, as measured by its availability to, rather than by the actual take-up, by merchants.

² <https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/conclusions-paper-202110/dual-network-debit-cards-and-least-cost-routing.html>.

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- Further, the recent market direction where acquirers offer single rates for transactions (using routing to minimise wholesale costs) has added competitive tension via the transparency arising from public offered pricing. This simple option is desirable for small merchants and is a good example of how the market can be competitively structured to allow banks to innovate for the benefit of merchants.

Ensure the payments system is aligned with developments under the Consumer Data Right framework

The Plan outlines the need for the payment system to align with the developments in the broader data ecosystem such as CDR. However, this supporting initiative should rather be focused on ensuring CDR alignment with developments in the broader payments system.

Our payment system is mature and is a cornerstone of a functioning economy that is used to make 55 million transactions every day with a value of around \$650 billion³, while the adoption of CDR continues to remain low⁴. It is important for CDR action initiation (payment initiation) to be considered alongside other payment system initiatives to ensure a streamlining of regulation and the avoidance of duplicative functionalities. Given the overlap between PayTo functionality and CDR payment initiation, any designation of payment initiation should only occur once PayTo is well-established, and where utility gaps have been carefully identified. If the Government intends to designate payment initiation, then it must be designed in such a way that it leverages and augments the functionalities of PayTo and enables banks to continue to use existing fraud and scam prevention measures to protect customers from loss.

Support the transition to more modern payments infrastructure

Banks are investing heavily into new systems such as the NPP and in upgrading global 24/7 systems such as SWIFT's ISO migration and the security of cards systems. Over time we expect that customer use of legacy systems such as BECS will be reduced. Given this, we encourage the Government to support the sunset-status of these legacy systems and ensure no further functionality is mandated so that banks can efficiently bring Australian customers the most modern systems.

Additionally, we note AusPayNet's plan to phase out of cheques by 2025. With fewer and fewer consumers and businesses using cheques (due to their expense, inconvenience and the lack of security), the costs of providing cheque payment infrastructure is becoming increasingly expensive per cheque. Given this, we are supportive of a more ambitious timeline, with a view to the complete phasing out of cheques by 2024. This phasing out will need the support of both government and industry to ensure a smooth transition of consumers and businesses to the less expensive and more convenient forms of payments.

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?

We propose the following milestones to be included in the Plan:

³ Payments System Board (PSB), Annual Report (2020), available at <https://www.rba.gov.au/publications/annual-reports/psb/2020/pdf/2020-psb-annual-report.pdf>, p.39.

⁴ As at December 2022, Westpac Group has only around 10,000 customers actively data sharing across all Westpac Group brands (with a total customer base of over 10 million).

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- By May 2026 – undertake a review of the policy rationale for action initiation (payment initiation) in the CDR before any implementation. By then:
 - PayTo would have been live for 3 years which will allow for an adequate assessment of any utility gaps that exist that CDR could fill.
 - CDR is broadly implemented across the market and has had time to mature. This would allow for a proper assessment of whether the consumer benefit and demand outweigh the regulatory burden of building for payment initiation.
 - Industry would have greater clarity on Digital ID.
 - *Payment Systems (Regulation) Act 1998* - should be reviewed every 5 years by Treasury to ensure it remains up to date with emerging technologies and risks.
 - End of 2024 – AusPayNet should develop criteria that, when met, will allow the payment industry to consider closure of BECS. The Government should work with industry to develop a roadmap for the smooth migration away from BECS.
 - May 2025 – Note AusPayNet’s ACCC authorisation for the cheque clearing system expires in May 2025.

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

We support the proposed review process and engagement arrangements. Such a process will ensure the Plan continues to be relevant and is adaptable to emerging technologies and risks.

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

It is unclear how the Government intends to use the Plan to facilitate a coordinated approach between the government, regulators, industry, and consumer and business representatives. This should be clarified with greater detail in the finalised Plan.