



NATIONAL AUSTRALIA BANK SUBMISSION

Strategic Plan for the Payments System:
Consultation Paper

February 2023

Introduction

NAB welcomes the opportunity to provide a submission to the Department of Treasury (Treasury) consultation on the Government's Strategic Plan for the Payments System (the Plan).

NAB's submission builds on previous submissions that NAB has made to Treasury regarding Payments, such as the January 2021 submission to the Australia Payments System Review.

NAB's response and focus is guided by the seven questions in the consultation paper. As a member of both the Australian Banking Association (ABA) and the Australian Payments Network (AusPayNet), NAB has also contributed to their respective submissions to the Review.

Key principles

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

NAB supports the four proposed principles – efficiency, innovation, accessibility and trustworthiness – as appropriate objectives to guide and inform the policy-making process in relation to payments. In relation to trustworthiness, NAB encourages the description of that principle to acknowledge the importance of trustworthiness for both consumer and business customers. In addition to the four principles, NAB proposes the inclusion of an additional fifth principle – sustainability.

Sustainability – additional principle

Australia's payments system needs to be sustainable – both in being robust and resilient from a technical perspective and able to be maintained economically at a certain level of service and functionality for consumers and businesses, and to encourage future innovation.

It is critically important that new and existing payment systems infrastructure receive the necessary investment required to be sustainably maintained and operated and permits adequate returns on that investment to be achieved. It is these returns which help fund innovation in the system, which can help make a wider range of services more widely available to users.

As a principle, NAB notes that contribution to the investment and use of payment infrastructure should be required on a proportional basis from all entities who access the infrastructure.

NAB believes that the four proposed principles do not fully capture this important point and that the Plan would benefit from an additional 'sustainable' principle.

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.

NAB supports the four proposed priorities and believes that they provide helpful guidance on the Government's priority areas. Particularly the focus on safety and resilience, modernisation of infrastructure, competition and the regulatory framework remaining fit for purpose.

NAB considers that these Government priorities should be aligned to planned industry initiatives and investment to give them the best chance of being achieved.

Further feedback on a range of identified initiatives in Appendix B that support each priority is provided below.

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.

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

NAB believes that cataloguing the list of initiatives under each priority is a critical part of the Plan given the wide range of future activities and importance of alignment with industry to achieve proposed priorities.

NAB believes that some initiatives documented in the Consultation Paper could benefit from a greater level of action from Government (for example supporting the transition to a more modern payments infrastructure) so all participants can best achieve the priority of modernising the payments system infrastructure.

NAB has provided feedback on some of the key supporting initiatives below.

Priority 1 – Promote a safe and resilient payments system

Reduce the prevalence of scams and fraud

NAB strongly supports prioritising the safety and resilience of the payments system, including using it to help protect consumers from scams and fraud. The scams challenge is increasing, with NAB figures showing scams reported to the bank increased by 38% year-on-year in 2022. The goal should be to disrupt scammers' business models and make Australia a more difficult place to perpetrate scams. This requires a comprehensive approach across sectors, across stages of the scam cycle and across different scam types.

As the consultation paper acknowledges, technologies such as PayID can help in tackling certain scam types. The 2021 Australian Payment System Review recommended that Government leverage its position as a large user of the payment ecosystem to support broader payment policy objectives. In its 2021 response, the then-Government committed to "consider how individual government departments engage with the payments system and explore the feasibility of transitioning key agencies to the New Payments Platform, including the use of PayID which can help reduce instances of scams, fraudulent and mistaken payments" as part of this Strategic Plan.

NAB would welcome further advice in the Plan on the Government's proposal in this regard and how it can help drive broader use of PayID.

NAB notes the Government's proposal to support government and industry initiatives to share scams intelligence and coordinate responses. The Australian Financial Crimes Exchange is at the core of efforts to do this. It should remain central to cross-sector collaboration, including as it relates to the proposed National Anti-Scam Centre.

As part of its approach to reducing scam losses for Australians, the Government committed to introduce industry codes. These codes may present an opportunity to develop fit-for-purpose scams guidance in a dedicated instrument, separate to the existing ePayments code.

ePayments Code – voluntary to enforceable code

NAB believes it would be helpful for the Plan to consider the scope and content of the ePayments Code and its incorporation in the payments regulatory ecosystem to transition it from a voluntary code to an enforceable code. As part of this key factors would need to be addressed which were deferred in the last version issued 2 June 2022. These may include providing consumer protections relating to biometric authentication, virtual digital debit and credit cards, digital wallets and tokenisation.

Priority 2 – Ensuring the regulatory framework is fit-for-purpose and promotes competition

Enable greater collaboration between payment system regulators

Given the range of participants and number of consumers interacting with the payments system daily, collaboration between payment system regulators is increasingly important. NAB has noted the intent to improve the coordination of the various regulators who oversee the payments system but would encourage further cooperation to give greater certainty and clarity to industry participants. One way of achieving this could be providing more visibility and transparency about the work and operation of the newly established inter-agency payments forum to demonstrate this collaboration, such as via the publication of meeting minutes as occurs following quarterly meetings of the Council of Financial Regulators since December 2018.¹

Promote competition by facilitating transparent access to payment systems

NAB notes that in proposing to open payments system access to non-ADIs that these entities would be subject to requirements to mitigate various risks. NAB urges that these additional requirements be expanded to include a requirement to contribute towards the innovation, foundational investment and maintenance of the enabling payment infrastructure. As NAB has previously noted, the initial private investment of established participants created the networks upon which all participants now rely.² Non-ADI participants, which benefit from these systems, should be required to participate and invest in system maintenance and uplift in order to support innovation, security and efficiency for end users.

¹ See the CFR's first statement available here <https://www.cfr.gov.au/news/2018/mr-18-02.html>

² See NAB submission to the Australian Payments Review, January 2021

If common access requirements are developed, then consideration should be given to offering controlled or scaled access to balance innovation with managing systemic stability, reputation risk and consumer protection (for example constraining volume, scope of services or target markets such as only to retail or wholesale payments).

Reduce small business transaction costs

While referred to in the Consultation Paper as least-cost routing (LCR), NAB believes the term merchant choice routing (MCR) is more appropriate as some merchant customers may not always choose the lowest cost solution and may instead prioritise other features such as the certainty of costs per transaction level.

In addition to MCR being available to merchants for card present transactions, NAB is in the process of making online MCR available to all merchants during 2023 as an opt-in option.

NAB encourages the Plan to identify that industry consultation and coordination is needed to facilitate the full availability of LCR/MCR for mobile wallets and the importance of sustainable solutions being developed to make LCR/MCR more broadly available rather than adopting interim or incomplete solutions.

NAB also notes that merchant choice routing is specific to the card acceptance part of the payments system. As payment acceptance methods change, along with business models, there may be other ways to reduce transaction costs for small business, for example, greater usage of PayTo. The periodic Reserve Bank of Australia (RBA) review of cost of acceptance across all payment methods is a useful resource for small businesses to determine the best mix of payment acceptance methods for their business.

Priority 3 – Alignment with the broader digital economy transformation

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

NAB agrees that alignment between the future expansion of the Consumer Data Right (CDR) with developments in the payment system is critical.

The proposed expansion to action initiation, with payment initiation a likely key feature, would create a new pathway for payments to be processed. NAB does not consider that it would be a new ‘channel’ as described in the Consultation Paper as much of the activity to process the payment would occur via the payments system rather than within the CDR regime.

NAB encourages the Plan to specifically include proposals for how the expansion of CDR to action initiation can be aligned to developments in the payments system, rather than simply highlighting the importance of this and noting the work underway to achieve it which is proposed in the consultation paper.

NAB has previously identified areas where such alignment could occur.³ Specifically, NAB believes that payments related reforms could be utilised by the CDR regime such as requiring Accredited Action Initiators (AAIs) to hold a licence under the new payments licensing framework. Rather than undermine the regulation of the ‘action layer,’ this would instead ensure that there are adequate protections for consumers and guarantee the maintenance of a level playing field in relation to obligations and risk allocation for participants in the ecosystem. NAB also recommends that payment initiation occurs within approved payment frameworks (such as the New Payments Platform), so that AAIs will be subject to the same due diligence processes, applicable rules, standards, and regulations that accompany initiating payments (and acting as a Payment Initiator) within these frameworks. NAB strongly believes that the risks to consumers and the overall resilience of payment infrastructure requires these features. Misalignment risks regulatory arbitrage and lack of clarity on consumer protections, security and liability which could lead to customer harm. NAB believes that alignment between the new payments licensing framework and AAI framework will create enhanced customer outcomes.

Priority 4 – Modernise payments system infrastructure

Support the transition to more modern payments infrastructure

NAB agrees on the importance of, and need for, the Government and industry to collectively address the futures of two legacy pieces of payments infrastructure in cheques and the Bulk Electronic Clearing System (BECS).

Decommissioning legacy systems, which have experienced substantial and continued decline in usage, or are not designed for a digital economy, will help create greater capacity to invest in other payments related innovation.

Legacy systems generally offer less secure, timely and reliable payments. For example, payments made by cheques require several days to clear from one account to another at a time where consumers are increasingly expecting real time settlement of payments informed by the capability experienced by the New Payments Platform (NPP).

Cheques

Of the two legacy systems, NAB believes that the terminal decline in cheque usage means it is the most pressing of the two legacy systems, where collective Government and industry action is needed on its future. In line with the declining use of cheques across the industry, NAB is experiencing declining cheque volumes of more than 20% year on year.

NAB believes that direction from the Federal Government and RBA on a timeline for phasing out cheques is needed in order to ensure an orderly exit across all service providers that is well-communicated and understood by consumers and businesses. It is difficult for individual participants to prompt and synchronise such an industry wide change and to make such a decision without a clear understanding of the intentions and desires of Federal Government, given the

³ See NAB submission to Treasury Consultation on the exposure draft legislation to enable action initiation in the Consumer Data Right, October 2022, p. 3. Some of that content is reproduced here.

significant usage of cheques by governments. The RBA Payments System Board recently noted it “would support an orderly wind-down of the cheque system at some point in the near future”.⁴

NAB encourages the Plan to detail how the Government, in partnership with industry, will work to actively encourage the transition away from legacy systems rather than simply support industry led efforts to do so (as is currently proposed). The Plan could include, for example, a list compiled by Treasury of all federal, state and territory legislation that currently requires or promotes cheques use which would need modifying to permit payment neutrality. The RBA has identified this as one initiative where further progress is needed to prepare for the decommissioning of cheques across the industry.⁵ It could also include a commitment by Government to cease making government payments to individuals via cheques, where legislation permits an alternative payment method to be used.

NAB has an open mind on how practically cheques could be decommissioned across the industry with a number of options available and would encourage extensive consultation between the government, regulators and industry on how this could occur. As the RBA has noted, a reasonable notice period for people to transition away from cheques services is also very important.⁶

NAB acknowledges the vital role of industry, particularly banks, to continue to encourage the adoption of new payments technologies and helping customers move away from legacy systems. There is also an important role for banks to assist customers still using cheques to transition to other forms of more secure and efficient payment methods.

The Federal Government could also seek to encourage the accelerated digitisation of key state and territory systems which otherwise rely on legacy instruments, in particular moves by Tasmania and the Northern Territory to develop and implement an e-conveyancing service, as well as to accelerate amendment of relevant state/territory legislation which currently requires or promotes cheque use. This could be pursued through the proposed new National Cabinet priority of ‘delivering government services that are fit for the digital age’.⁷

NAB believes that Government and industry efforts on transitioning away from legacy payments systems should focus on cheques initially before BECS given their relative volumes in the payment system. This sequencing could be acknowledged in the Plan. Such sequencing should not prevent individual participants from transitioning customers and volumes from these existing payment systems to more modern payments infrastructure.

⁴ Reserve Bank of Australia, Payments System Annual Board Report, September 2022, p. 27

⁵ Ibid.

⁶ Ibid.

⁷ See ‘A culture of cooperation: First Secretaries Group’s Review of Ministerial Councils’, National Cabinet Priorities, p.10 available at [First Secretaries Group's Review of Ministerial Councils \(federation.gov.au\)](https://www.federation.gov.au/first-secretaries-group/review-of-ministerial-councils)

Missing initiatives

In considering other initiatives that should be included in the Plan, NAB believes that the inclusion of Digital Identity (ID) is necessary as Digital ID is a relevant and enabling initiative that will help to deliver other priorities for the payment system such as greater confidence in payee addressing, authorisation and verification of identity and entitlement and enhancing payment transparency.

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?

Key milestones that NAB would like to see in the Plan include:

- Timeline for the introduction of CDR action initiation and the further expansion of the CDR to other sectors.
- Any international obligations committed to by Australia such as achieving the G20 enhancing cross border payments targets.

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

NAB agrees that reviews of the plan should be undertaken every 12 months. Given the expected volume of legislative and regulatory change in the payments system in future years, NAB suggests that consideration be given to undertaking a more thorough review every second year (utilising the proposed approach) and then a higher-level review be undertaken in alternate years (with a focus on progress and stocktake on actions). NAB believes that a detailed review every 12 months – which could take up to three months to complete – could divert Government and Treasury resources from progressing other important payments related reforms.

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

As mentioned in our earlier response to the proposed principles, NAB believes that sustainability should be inserted as an additional principle.

Conclusion

NAB appreciates the opportunity to contribute a submission to the consultation on the Government's Strategic Plan for the Payments System. We look forward to ongoing engagement with Treasury on this topic and other upcoming consultations on payments. NAB is more than happy to discuss any aspect of this submission with Treasury.