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Senior Adviser  
Financial System and Services Division  
The Treasury  
Langton Crescent  
PARKES ACT 2600

Dear Sir/Madam,

### **Submission in response to the Financial System Inquiry's Final Report**

BPAY appreciates the opportunity to respond to the Financial System Inquiry's Final Report, and its recommendations for positioning the financial system to meet Australia's evolving needs and support Australia's economic growth over the next decade.

BPAY is Australia's leading payments scheme and operates for the benefit of all member financial institutions, covering 95 per cent of the consumer banking market. The BPAY Scheme was established in 1997 as a result of a group of banks working cooperatively and collaboratively to leverage existing and emerging technologies to provide a world-leading and efficient electronic payment service that saves banks, businesses and consumers time and money. Since then, we have continuously innovated to enhance our existing services and to introduce new services.

Today, the BPAY vision is to be the most recognised, trusted and utilised provider of easy to use payments and information capabilities. To this end, our purpose is to provide innovative payment and information services that enhance our members' ability to add value, and deepen their customer relationships.

BPAY strongly supports the Inquiry's aims in promoting the efficiency, resilience and fairness of Australia's financial system. We believe we are in a good position to assist in achieving these aims – particularly those related to innovation (discussed in Chapter 3), and the technology matters discussed in Appendix 1.

The rest of this submission outlines BPAY's response to a selected few of the Inquiry's specific recommendations.

#### ***Recommendation 14, Collaboration to enable innovation***

*Establish a permanent public-private sector collaborative committee, the 'Innovation Collaboration', to facilitate financial system innovation and enable timely and coordinated policy and regulatory responses*

BPAY agrees that collaboration is important to enable innovation in the financial industry and bring about positive system-wide effects as well as user benefits. Implicit (and sometimes forgotten) in the sustainability of that objective is the need to deliver commercially successful outcomes.

The BPAY Scheme itself is a prime example of a collaborative innovation that has delivered benefits for financial institutions, businesses and consumers. And an innovation that was achieved without the additional support that the proposed public-private sector collaborative committee might bring.

Since then, BPAY has continuously expanded the Scheme's coverage and provided new and enhanced services and features. Our services are now offered by over 150 financial institutions and more than 45,000 billers. BPAY continues to innovate and enhance its services. One specific enhancement was the introduction of BPAY View, a world leading presentment service that enables seamless integration of electronic delivery and payments through the trusted environment of a consumer's digital banking arrangements.

In the future, BPAY aims to increasingly encourage frictionless transactions.

***Recommendation 15, Digital Identity***

*Develop a national strategy for a federated-style model of trusted digital identities*

BPAY does not require the end-users of our services to establish a BPAY-specific digital identity. By making our services available to these users through their own financial institution's digital banking platforms, we have enabled consumers, billers and banks to leverage the significant work Australia's financial institutions have done in building well-trusted digital identity management and security systems.

We also continuously look for further opportunities to use linkages in the digital identity space to enhance consumers' frictionless access to payments services and information, while ensuring adequate protection of identity and personal privacy. For example, BPAY recently initiated discussions with the Federal Government about the potential to link its myGov portal to our BPAY View and other services.

***Recommendation 16, Clearer graduated payments regulation***

*Enhance graduation of retail payments regulation by clarifying thresholds for regulation by the Australian Securities and Investments Commission and the Australian Prudential Regulation Authority*

*Strengthen consumer protection by mandating the ePayments Code*

*Introduce a separate prudential regime with two tiers for purchased payment facilities*

In relation to the Inquiry's recommendation that consumer protection be strengthened by mandating the ePayments Code, we note that the BPAY Scheme is exempt from the mistaken payments regime of the Code essentially because of the high integrity of its elements and design.

***Recommendation 17, Interchange fees and customer surcharging***

*Improve interchange fee regulation by clarifying thresholds for when they apply, broadening the range of fees and payments they apply to, and lowering interchange fees*

*Improve surcharging regulation by expanding its application and ensuring customers using lower-cost payment methods cannot be over-surcharged by allowing more prescriptive limits on surcharging*

We note the Inquiry's comments in relation to the transparency and efficiency of interchange fees. However, we also note there are strong arguments in favour of appropriate interchange fees:

- First, interchange fees play an important role in balancing the relative cost and demand on the two sides of the four-party payments network (that is, the biller, the payer and their respective financial institutions). This balancing enables the network to process higher volumes than would be possible if its output was limited by the value proposition of the side with the lowest demand, and thus is critical to its efficiency.
- Secondly, interchange fees can play an important role in fostering the commercial investment in innovation that will lead to the desired increase in efficiency.
- Thirdly, interchange fees can be used to create appropriate incentives to encourage the take up and usage of the payment service. The commercial encouragements delivered by such fees are essential to achieve the desired network effect.

The achievement of the sometimes implicit commercial objectives of innovation are quite often encouraged by appropriate interchange regimes.

For example, the BPAY Scheme has had a well-established and well-accepted interchange fee methodology for the past 18 years. Under this methodology, scheme and inter-bank fees can be set flexibly and differentially over time as required to encourage financial institutions to become members of the Scheme, motivate them to drive usage of the services, and ensure cost recovery for scheme operations. However, end-user pricing is competitively set by the member financial institutions.

#### ***Recommendation 38, Cyber Security***

*Update the 2009 Cyber Security Strategy to reflect changes in the threat environment, improve cohesion in policy implementation, and progress public-private sector and cross-industry collaboration*

*Establish a formal framework for cyber security information sharing and response to cyber threats*

BPAY supports the Inquiry's discussion of cyber threats and recommendations in relation to enhancing existing cyber security measures. Strong security systems to protect operations, members, billers and end-users from cyber threats continue to be an important part of the Australian financial system.

#### ***Recommendation 39, Technology neutrality***

*Identify, in consultation with the financial sector, and amend priority areas of regulation to be technology neutral*

*Embed consideration of the principle of technology neutrality into development processes for future regulation*

*Ensure regulation allows individuals to select alternative methods to access services to maintain fair treatment for all consumer segments*

BPAY strongly supports the principle of technology neutrality and encourages the Government in its own efforts in that direction. In our experience, this facilitates competition, innovation and efficiency. We note that all BPAY services are technology neutral because they are integrated into and delivered through financial institutions' own digital banking channels.

This means they are not reliant on the functions or features of any specific channel technology platform. It also allows the financial institutions to integrate the services into their platforms in a flexible way, to tailor the end-user experience for their customers, and to add value on top of the base service.

Yours sincerely,



Trevor Dixon  
**Company Secretary**