



# **New Payments Platform Functionality and Access Consultation**

**Submission to the Reserve Bank of Australia**

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## Executive Summary

The Payments Consulting Network (PCN), a team of experienced payments industry consultants, submits this response to the Reserve Bank of Australia's (RBA's) consultation regarding New Payments Platform (NPP) functionality and access. Our consulting team has worked with fintech and corporate clients which have explored the opportunity to become an Overlay Service Provider within the framework of the current NPP Regulations and the existing implementation of the NPP infrastructure. This document outlines some concerns and issues raised by these organisations.

The Payments System Board of the RBA, "... with support from the ACCC, is seeking views from stakeholders on issues relating to the functionality and access arrangements for the NPP. In particular, we are interested in views on whether the various ways of accessing the NPP, and their associated technical and other eligibility requirements, are adequate for different business models, or whether other forms of access or eligibility requirements may be justified."

A number of clients working with our consultants, over the past 18 months, have all concluded that it is premature and/or impractical to implement an Overlay Service at this time. During the course of this work a number of issues or themes have emerged, some of which are discussed in this paper as a contribution to the dialogue around the optimal arrangements for the NPP to allow it to fulfill its intended purpose as a modern, near real-time, ISO 20022 based, payment infrastructure which will encourage new entrants, drive innovation and competition, and stimulate the Australian economy.

The following functionality issues are discussed:

- NPP access to all accounts;
- implementation of ISO 20022;
- transparent infrastructure pricing; and
- real-time guarantee.

The following access issues are discussed:

- national utility or commercial enterprise;
- ownership and governance by financial institutions; and
- optional overlay participation.

PCN is happy to meet and discuss any aspects of this submission with the RBA as required.

## Payments Consulting Network

Payments Consulting Network is a team of experienced payments industry consultants based in Australia, New Zealand, India, Singapore, USA, UK and Canada. We bring together our network of specialists, on an as-needs basis, to provide meaningful advice that delivers results. Areas of industry focus include: merchant acquiring and online payments; ATMs; cards; real-time payments; mobile payments and the infrastructure that supports payments processing.

Our full range of services includes: strategy development, market research, business cases, market assessments, benchmarking, pricing tools, RFP/RFI support, training, industry round tables, facilitation, technical advisory, government relations and geospatial analysis.

Two key services provided by Payments Consulting Network to the industry are:

- Merchant Pricing Hub ([merchantpricing.com](http://merchantpricing.com)) - Australia's first independent website dedicated to helping merchants find the best in-store or online payments service provider for their business. The website provides merchants and service providers with a range of tools and resources including service provider profiles, pricing calculator, benchmarking reports and an industry newsletter.
- Australian ATM Round Table - the premier industry forum representing over 85% of the industry in terms of the number of ATMs. Members include all the major financial institution deployers, independent ATM deployers and service providers. The forum meets every six months (March and September) and covers data on over 27,000 ATMs.

Our client base covers all major Australian banks, many regional financial institutions, global and domestic card schemes, service providers to the payments industry, independent ATM deployers, merchants, corporates and international consulting firms.

## Introduction

Payments Consulting Network (PCN) consultants have undertaken consulting assignments over the past 18 months for entities wishing to explore the potential for building and operating a New Payments Platform (NPP) Overlay Service. In each case, these entities have taken the decision to defer these endeavours for various reasons. This submission briefly outlines some of the issues that have emerged from this work in the hope that some of the constraining factors could be addressed to make NPP engagement easier and more commercially viable.

PCN wishes to encourage, and to advocate on behalf of, fintechs and corporates that wish to make use of a modern, near real-time payments utility in Australia to create innovative and profitable Overlay Services.

## References

- *RBA Core Criteria for a 'Fast Payments' Solution*, Reserve Bank of Australia, November 2012
- *Regulations for NEW PAYMENTS PLATFORM (NPP)*, Commenced 1 July 2017, NPP Australia Limited

## Functionality

### NPP access to all accounts

The market expects that the NPP will deliver the ability to transfer funds from any account to any other account. The fact that the NPP does not currently deliver access to all Australian accounts held with all ADIs is a significant disincentive to invest at the present time to many organisations exploring Overlay Services. It would be helpful to publish a time line showing when this will be achieved, and to keep it regularly updated.

### Implementation of ISO 20022

#### Core Criterion S15

The Fast Payments Solution should provide the foundation for the introduction of future collaborative services with limited impact to the base service offering, i.e. it should be functionally scalable.

The NPP has not been implemented in a manner which allows full adoption of ISO 20022 schemas and message structures across the NPP infrastructure from the beginning. There are multiple schemas for ISO 20022 payment messaging applications that have been developed in various countries around the world (for example, a health payments schema), however the current NPP implementation does not currently allow these message types to be sent across the NPP infrastructure.

At present, the NPP only supports one payment message, a basic credit transfer. A limit of 280 characters is an improvement, but many features of ISO 20022 structured messages cannot readily be used. This restricted implementation does not meet the complex needs of today's business and commercial applications.

Furthermore ISO 20022 allows processing of multiple payment instructions while NPP is currently limited to a single payment instruction only. This restriction would prevent the NPP being used for a conveyancing overlay for example, where multiple parties must be settled together in a single transaction.

A payment message with additional features or functionality (e.g. a new data field or message type) is defined as an Overlay Service. The NPP Regulations make it clear at section 4.9, that where either Minor Changes or Major Changes are required for the operation of an Overlay Service, that the Overlay Service Provider will be required to pay the NPPA-determined cost of any and all required changes.

When prospective Overlay Service Providers realise that they will have to pay for the cost of implementing ISO 20022 schemas across the NPP infrastructure, and the associated time delay while this work is done, they have cause to re-assess the viability of their business concept and to delay any plans to proceed further. This inhibits the NPP's ability to quickly fulfill its role as the backbone of a modern payments system that delivers the full benefits of the ISO 20022 international standard as it is intended to be used. A published product roadmap for implementing additional ISO 20022 schemas to the NPP Basic Infrastructure would help to inform the market of the shape and pace of further scheduled developments.

## Transparent infrastructure pricing

### Core Criterion O5

The Payments Hub owner should have a transparent pricing model in place (for use of the collaborative components) that encourages fair and efficient use and addresses any issues of excessive market power in pricing.

Entities wishing to build and operate an Overlay Service will need certainty as to the wholesale transaction price to be applied across the NPP infrastructure to execute a payment instruction and transfer cleared funds to the payee, to process a payment request, or a direct debit in the future. This wholesale pricing structure needs to reflect the mutual utility approach of the NPP and also needs to be in the public domain so that it is completely transparent. This will then allow entities planning Overlay Services to negotiate access and pricing arrangements with participants and connected institutions in a free market for hosting Overlay Services, where the underlying costs are known.

This will also allow potential Overlay Service Providers to understand the long-term cost structure when constructing a business case that will necessarily extend several years into the future.

## Real time guarantee

### Core Criterion S12

The Fast Payments Solution should be capable of processing high volumes of messages while providing fast transit times for appropriate message types. The Fast Payments Solution and its participants should cooperatively honour prescribed maximum customer response times that are consistent with international best practice of similar retail payment systems.

When a payment is initiated and cleared across the NPP and then settled via the RBA's Fast Settlement Service, the receiving institution then must credit cleared funds to the payee's account. The rules of the NPP do not seem to mandate that the payee's account must be credited within a specified time frame. The time before posting cleared funds to the payee appears to be solely at the discretion of the receiving institution.

There appears to be no service level agreement amongst the NPP participants that cleared funds will be made available to the payee within a maximum time after receiving advice from the RBA that the transaction has been settled.

There may be a limited number of exception cases (such as processing for some International Funds Transfer Instructions), where the payee's account cannot be credited immediately after the receiving institution has received advice that the transaction has been settled. These exceptions can be included transparently in any SLA, however. Some form of real-time guarantee would give certainty to Overlay Service Providers as to the timing of funds availability to the payee for the vast majority of transactions.

## Access

### National utility or commercial enterprise?

#### NPPA Constitution

'facilitating fair access to the NPP as mutually owned utility infrastructure'

New Payments Platform Australia Limited (NPPA) is promoted as a mutually owned national utility, however there is a common perception that it is owned by its shareholders who have made a significant investment in the infrastructure, and these shareholders are likely to seek to gain a return on investment over time. This leads to uncertainty as to the basis of future pricing decisions and raises the possibility that the shareholders may be tempted to extract market rents by virtue of their monopoly position.

The question is how these shareholders will be able to achieve their return on investment. Will the wholesale pricing of transactions across the basic infrastructure be set at a cost-recovery level, and if so, how will this work during the early life of the infrastructure when transaction volumes are still low? Will there be a temptation to set pricing at a level which seeks to recover the investment already made?

Alternatively, will the shareholders be required to gain their return on investment by participating in the market for hosting Overlay Services? Or will shareholders develop their own Overlay Services and recover their investment from revenues earned via these services?

It would be helpful to publish some guidance as to how wholesale transaction pricing will be determined in the future, and by whom. There has been little information shared to date, as to how this will work in the future, and Overlay Service Providers are in for the long term, not just for the short term.

This uncertainty as to future transaction costs is one of the reasons for prospective Overlay Service Providers deciding to defer any decision to proceed.

### Ownership and governance by financial institutions

#### NPP Consultation document

NPPA's directors include four appointed by the four major banks, four representing small- and medium-sized institutions, two independents and one appointed by the Reserve Bank, with each director holding an equal vote.

#### NPP Regulations

4.9 (a) A person who satisfies the eligibility criteria in Regulation 4.8 may apply in writing to become an Overlay Service Provider. OSP Applications must be in the prescribed form. An OSP Applicant must:

(iii) subject to execution by NPPA and the OS Applicant of a confidentiality undertaking, provide to NPPA:

(A) a technical specification for the proposed Overlay Service, including details of any Minor Change or Major Change which the OSP Applicant considers necessary to support the Overlay Service;

4.9 (b) OSP Applications received by NPPA will be considered by the Board within 5 business days of receipt, and the Board shall accept an OSP Application which it reasonably determines satisfies the criteria in Regulation 4.8 and which complies with the

conditions specified in these NPP Regulations.

#### Annexure B – OSP Application

The following information is enclosed with this OSP Application to demonstrate that the OSP Applicant satisfies the requirements for participation as an Overlay Service Provider as set out in Regulation 4.8:

(d) business plan for the proposed Overlay Service, including summary of proposed Overlay Service, functional diagrams, description of customer value proposition and customer experience and details of key providers and/or third parties required for service delivery;

Consideration needs to be given to how a prospective Overlay Service Provider can gain access to the NPP infrastructure without exposing its business plans, intellectual property and other confidential information to any financial institution, either directly or indirectly. The Board of NPPA has 8 out of 11 directors employed by financial institutions leading to potential conflicts of interest when assessing new Overlay Services.

Some clients working with PCN consultants see themselves as being in competition with the financial institutions which are the NPPA shareholders. They have been very specific that their plans, ideas and intellectual property are not to be exposed to any of these financial institutions or any person that may be likely to transfer confidential information to these institutions.

This perception that information shared with NPPA staff and Board members could be passed on to potential competitors (e.g. financial institution shareholders) appears to be the reason why some entities hesitate to engage directly with NPPA staff during the process of exploring the viability of establishing new Overlay Services.

If Board assessment and acceptance of the Overlay Services Provider application could be completed by a Board committee made up of only independent directors, then this inherent conflict of interest issue could be addressed. Communicating how access to Overlay Services Provider information would be restricted, and articulating the confidentiality and governance arrangements in place, could also help to educate prospective Overlay Services Provider applicants. This could help to change current perceptions and lead to more open and transparent interactions with NPPA.

### Optional overlay participation

#### NPP Regulations

3.5 Nothing in these Regulations obliges any NPP Participant to be or to become an [Overlay Service] Subscriber or to become a member of an NPP Closed User Group for an Overlay Service.

The published NPP rules state that participants are free to choose whether or not to participate in any overlay that may be created to run on the NPP infrastructure.

This regulation has caused some uncertainty and uneasiness among a number of prospective Overlay Service Providers. The requirement to obtain consent from each individual NPP Participant to support an Overlay Service adds time and cost and has the potential to derail the business case for any new Overlay Service if universal access cannot be guaranteed. Given each NPP Participant's own priorities and commercial considerations, achieving universal access will be extremely difficult to achieve and so this regulation risks inhibiting innovation and the deployment of new Overlay Services.