

# Governor's Foreword

Technological change is continuing to reshape Australia's payments system. New technologies are making new products available and changing business models. The Payments System Board has devoted significant time to understanding these changes as it carries out its responsibilities to promote efficiency and competition in the payments system and the overall stability of the financial system.

Over the past year there has been further progress on a major industry effort to modernise Australia's payments infrastructure, with the New Payments Platform (NPP) expected to commence operations around the end of 2017. This effort stemmed from the Board's 2010–12 Strategic Review of Innovation in the Payments System, which concluded with a call to the industry to develop a payment system that would allow Australians to make real-time and data-rich payments on a 24/7 basis with easy-to-remember addresses. The core NPP infrastructure is ready and participating institutions are now in a comprehensive industry testing program. The Reserve Bank is an NPP participant and has built the underlying settlements architecture, the Fast Settlement Service, which was completed on schedule and within budget. The Board recognises the significant effort by industry in developing this new world-class infrastructure.

The Board has also been monitoring developments in other technologies, including distributed ledger technology (DLT), digital currencies and payments-related financial technology (or fintech) more broadly. It is

important for regulation to facilitate innovation and remain technology neutral. The Board has taken a close interest in ASX Group's exploration of a DLT solution as a possible replacement for its CHES clearing and settlement system and has discussed the prospect that technological changes have increased the feasibility of competition in the settlement of cash equities transactions. The Board also discussed the benefits that could arise when customers are able to make their banking and payments data available to other entities and it has encouraged the payments industry to work collectively to facilitate the secure sharing of such data.

The Bank has recently undertaken its regular three-yearly Consumer Payments Survey to understand changes in payment patterns. The results of the survey showed that Australian households are continuing to switch from paper-based ways of making payments, such as cash and cheques, towards electronic payment methods, including 'tap and go' cards for many lower-value transactions. It is likely that this trend will continue for some time yet. Cash, though, still accounts for a material share of consumer payments, particularly for lower-income and older Australians and it remains an important part of the payments system. To ensure that Australians continue to have access to high-quality, secure banknotes, the Bank is upgrading the existing banknotes, with the new \$10 banknote to be released in September 2017, following the release of the \$5 note in September 2016.

The Board's regulatory policy work has focused on changing payment technologies and payment patterns. In December 2016, the Board initiated a consultation on competition issues associated with dual-network cards and mobile wallet technology. The Bank's concerns were addressed through commitments by industry participants, which should ensure that households have greater choice and convenience when making payments through mobile devices and improve the ability of merchants to encourage the use of lower-cost payment methods. The Board also considered the regulatory framework for access in the ATM industry in light of the technological and structural changes that are taking place in that industry. The Board has indicated that these changes may allow a greater role for industry self-regulation and has provided the industry with some high-level principles that could guide the industry in its deliberations.

Following the conclusion of the Review of Card Payments Regulation in 2016, new interchange standards took effect on 1 July 2017. In addition, the new surcharging standard is now in effect for all merchants, after being introduced for large merchants in September 2016. This new standard ensures that consumers will not face surcharging that exceeds the merchant's cost of acceptance. The Bank has been carefully monitoring the impact of these changes. There has been a significant change in surcharging practices in the airline industry, where the shift from dollar-based surcharges to percentage-based surcharges has resulted in a reduction in the fees that apply for most customers when they choose to pay by debit or credit cards rather than by other electronic methods.

The Bank has oversight responsibilities for clearing and settlement (CS) facilities and systemically important payments systems, jointly known as financial market infrastructures (FMIs). The

continued and safe operation of these entities is crucial for the overall stability of the financial system. A key focus of the Bank's oversight over the past year has been the governance of cyber risk. The Bank is committed to a high level of transparency and its annual assessments of the CS facilities are published. The Board also pays close attention to the oversight of the Reserve Bank Information and Transfer System (RITS), Australia's real-time gross settlement system, which is operated by the Reserve Bank and used by banks and other financial institutions to settle their payment obligations with each other. The most recent assessment of RITS was published in May 2017 and concluded that RITS had observed all of the relevant international standards.

The Bank continues to participate actively in international policy work for FMIs. The past year has seen the publication of international guidance on the resilience and resolution of central counterparties and revised guidance on FMI recovery. The Bank is continuing to work with other domestic agencies to develop a resolution framework for FMIs. While the main protections against an FMI failing are robust risk management and strong oversight, the possibility of such failure cannot be entirely eliminated. A formal resolution regime would support the actions taken by public authorities in the event of the failure of an FMI, so as to foster financial stability.

In carrying out its work, the Bank works closely with industry participants and other regulators, including the Australian Payments Network (previously known as the Australian Payments Clearing Association), the Australian Securities and Investments Commission and the Australian Competition and Consumer Commission. The Board appreciates the cooperation offered by the Bank's counterparts and also recognises the important work being done by the Australian Payments Council.

The Bank's dedicated staff support the Board with calm professionalism and carry out their work to a very high standard. The Payments System Board joins me thanking them for their contribution to the efficiency and stability of Australia's payments system.

A handwritten signature in black ink that reads "Philip Lowe". The signature is written in a cursive style with a large initial 'P' and a long, sweeping underline.

Philip Lowe  
Governor and Chair, Payments System Board  
25 August 2017

