

Governor's Foreword

The past year has continued to see significant change in the Australian payments system. A major landmark was the public launch of the New Payments Platform (NPP) in February. The NPP enables financial institutions to provide their customers with real-time payments, with immediate funds availability, on a 24/7 basis. This has been a major project for the industry over the past five years in response to the strategic objectives set by the Board in June 2012 in the conclusions to its Strategic Review of Innovation in the Payments System. Transaction volumes through the NPP have been growing steadily and are expected to pick up materially as the major banks complete rolling out NPP access to most of their customers.

It is noteworthy that so many small institutions have established connections to the NPP, with around 70 banks, credit unions and building societies now using the NPP to provide their customers with real-time payments. NPP Australia Ltd has plans to add significant functionality to the system so that it provides a platform for innovation. It is also working with external entities to encourage the provision of overlay services that leverage the ability to send real-time, easily addressed and data-rich payments. The Board expects that NPP participants will continue to commit resources so that the roll-out of additional services is not held up by a few slow movers. The Board will also be monitoring access arrangements to ensure that new entrants to the payments industry are able to take advantage of the functionality of the NPP.

The NPP will contribute to the ongoing shift towards greater use of electronic payments. Despite this, cash is still used frequently for many types of transactions and is likely to play an important role in the Australian payments system for some years to come. To ensure that Australians continue to have high quality and secure banknotes, the Bank is currently upgrading the existing banknotes. The new \$10 note was released in September 2017, and the new \$50 note will enter into circulation this October.

It is important that electronic payments are secure and low cost and that merchants and consumers have choice. Over the past year, the Board has strongly encouraged the payments industry to provide least-cost routing of debit card payments to merchants, as a means of increasing competitive pressure in the debit card market and thereby holding down payment costs in the economy. When a dual-network debit card is presented in a contactless transaction, it is important that the merchant is able to accept the payment via the lower-cost network. The major acquirers have provided assurances that they will offer this functionality. The Bank is continuing to monitor progress closely.

The Board has devoted significant effort to understanding crypto-assets, distributed ledger technology and related issues. There was a speculative mania late in 2017 around crypto-assets but this has now unwound to a significant degree. It seems unlikely that a privately-issued crypto-asset will replace money

as we now know it in Australia, especially given the electronic transfer systems that we have. But new technologies raise interesting questions regarding whether central banks should issue digital versions of existing national currencies. At the moment, the Bank does not yet see a public policy case to issue e-cash for household use, although there may be a case to issue a new form of digital money for use within some wholesale settlement systems. More broadly, while the Bank sees significant potential for the use of distributed ledger technology in many sectors of the economy, most of these are likely to use permissioned networks with some form of central governance, as opposed to the decentralised unpermissioned models seen in crypto-assets like Bitcoin.

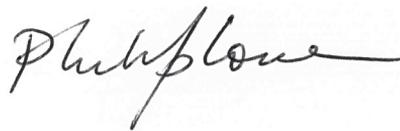
The Board continues to devote significant attention to the resilience of payment systems and financial market infrastructures. The Bank's oversight of central counterparties (CCPs) licensed to operate in Australia is now using new CCP Resilience Guidance that was developed by the international standard-setting bodies and published in July 2017. This guidance raises the bar in relation to financial risk management at CCPs, focusing on five key elements: governance; stress testing; the level of coverage of financial resources; margin; and a CCP's contribution of its financial resources to losses.

In addition, the Bank's oversight of clearing and settlement facilities (CS) and systemically important payment systems pays considerable attention to the management of operational risk. Over the past year this included an external review of technology governance, operational risk and control frameworks in markets and CS facilities operated by ASX Ltd. The Bank will be continuing to monitor the ongoing operation of the existing CHES system as ASX develops a new clearing and settlement system for cash securities transactions.

The Bank has also focused on cyber resilience. A number of incidents in recent years have highlighted the importance of strong security in systemically important networks and payment systems, including the individual participants in those systems. Over the past few years, the Bank has reviewed both our own real-time gross settlement system and the ASX CS facilities for consistency with international guidance on cyber resilience for financial market infrastructures. It has also contributed to the international policy work to reduce the risk of wholesale payments fraud.

Payment systems are networks and networks often work best when participants work together. The launch of the NPP has highlighted the benefits of industry collaboration. Another example is the work by AusPayNet (or the Australian Payment Network), the self-regulatory body for the payments industry, to develop an industry framework to tackle the growing problem of online payment fraud. It is also supporting the Australian Payments Council's work to develop a framework for an effective system for individuals and entities to prove their identity in the digital environment, both in payments and more broadly. This is an important issue in the transition to a digital economy and the Bank strongly encourages the payments industry to work together and to collaborate with other stakeholders, including government entities.

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 in thanking them for their contribution to the efficiency and stability of Australia's payments system.



Philip Lowe
Governor and Chair,
Payments System Board
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