

# Governor's Foreword

The payments landscape is changing rapidly. The Board has had a full agenda in evaluating these changes and overseeing the evolution of the Australian payments system in a way that promotes competition, efficiency and stability.

A major step forward over recent years has been the building of the New Payments Platform (NPP). Transaction volumes through the NPP have continued to grow steadily, although the full roll-out of NPP services by the major banks has been slower than expected. With some banks still focusing on building out their initial offerings, the development of additional NPP functionality is occurring more slowly than was hoped for. A review conducted during the year by the Bank and the Australian Competition and Consumer Commission made a number of recommendations to improve access to the system and to promote the timely roll-out of NPP services and new functionality.

The Board also continues to pay close attention to developments in card payments. One major focus has been the promotion of least-cost (or merchant choice) routing for contactless debit card transactions to help place downward pressure on payment costs. The Board is pleased to see that point-of-sale acquirers, including the major banks, have now begun to make this functionality available. During the year, the Board also approved some modifications to the existing interchange standards to improve the clarity and operation of the net compensation requirements. A comprehensive review of the regulatory framework for card payment systems will be undertaken in 2020.

The Board has been supportive of the industry's work to materially reduce fraud in card payments systems, especially for card-not-present transactions. It continues to place a high priority on this work. Looking ahead, the Bank will be working with the Australian Payments Council on the needed migration of payment messages in some payment systems to the ISO 20022 standard. This migration presents an opportunity to consider broader changes that would support the efficiency of the overall payments system. In addition, as the payments mix in Australia continues to evolve, the Board will be monitoring the industry's work on the future of the cheque system and the rationalisation of the ATM system. The Board is very supportive of the industry's efforts to address the challenges that people with disabilities can face when using modern touchscreen payment devices.

Over the past year, another priority of the Board has been its oversight of the staff's work with the Council of Financial Regulators (CFR) on its review of the regulatory framework for stored-value facilities. Given the innovation that is occurring in the payments system with new forms of digital payments, it is important that the regulatory regime is fit for purpose and appropriately balances competition and the protection of consumers.

Another major focus of the Board's work is the resilience of Australia's financial market infrastructures (FMIs), including central counterparties. Following a recent review of the Bank's approach to supervising clearing and settlement (CS) facilities, the Board has approved

a more graduated supervisory approach, with the degree of oversight commensurate with the CS facility's systemic importance to the Australian financial system. The revised approach will also allow for greater reliance on a foreign regulator where an overseas licensee's home jurisdiction has a sufficiently equivalent regulatory regime. More broadly, the Board has been closely overseeing the Bank's work with other CFR agencies to develop a framework to enable regulators to deal effectively with any situation where an FMI experienced major financial problems.

Finally, the Board has been paying closer attention to the reliability of retail payment systems. It has been concerned about the recent significant increase in the number of operational outages in retail payment services. These outages reduce confidence in the system and can cause great inconvenience to households and businesses. The Bank will be working with the industry and the Australian Prudential Regulation Authority on a standard set of operational performance statistics to be disclosed by individual institutions.

The Bank's dedicated staff support the Board with a high degree of 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.

A handwritten signature in black ink, reading "Philip Lowe". The signature is fluid and cursive, with a long horizontal stroke at the end.

Philip Lowe  
Governor and Chair,  
Payments System Board  
4 September 2019