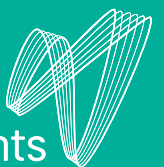


FUTURE STATE OF PAYMENTS ACTION PLAN

Conclusions from
AusPayNet's Consultation

August 2020

Australian
Payments
Network
Connect Inspire Thrive



Contents

Introduction	3
Overview	3
Payments in Australia	4
Scope and Purpose	4
The Strategic Context	5
The Changing Strategic Landscape	5
What makes an effective payments system?	8
Building a Better Payments System	11
Key Points	11
Deep Dive: HVCS	12
Deep Dive: Cheques	13
Deep Dive: Cash	14
Deep Dive: BECS	15
Concluding Section	16
Acronyms	17

Introduction

Overview

The payments system is a foundational component of Australia's digital economy. Driven by changes in customer demand, technology availability and the regulatory context, it has evolved significantly in the past decade. As we move into the 2020s there is significant choice for consumers and businesses who can choose from a wide range of functionally rich payment options.



Customer uptake of newer payment options that offer greater convenience and security has naturally led to a decline in use of older systems; we are now at the stage where we can seriously consider the future of these older systems. This is particularly important given the requirement to ensure the continued resilience, efficiency, adaptability and accessibility of the payments system.

With efficiency front of mind, the continued evolution of the payments system requires modernisation and rationalisation of old infrastructure. This will help deliver a better payments system, allowing industry to focus attention and resources on the core systems required to enable Australia's digital future.

Payments in Australia

The payments system in Australia is governed by a legislative framework that favours self-regulation by the industry; the Reserve Bank of Australia (RBA) imposes regulation in a narrow range of activity. Within this context, AusPayNet was founded 28 years ago "to develop and manage regulations and standards governing payments clearing and settlement within Australia".¹

Over time, AusPayNet's role has evolved and, as the industry association and self-regulatory body, its broader purpose is to promote confidence in payments. A key part of this role entails facilitating collaboration between payments industry participants (including financial institutions, retailers, payment systems operators and technology companies) to deliver on a vision of convenient and secure payments for all.

Scope and Purpose

Building on AusPayNet's detailed consultations with stakeholders, this document aims to highlight some of the major developments in the evolution of Australia's payments system as a whole and identifies some key actions for AusPayNet in the short to medium term. It is designed to complement other ongoing work:

- The Australian Payments Council's (APC) 2019 strategic agenda, *Payments in a Global, Digital World* outlines five priority areas for industry collaboration: *Systemic Resilience, Combatting Financial Crime, Interoperability, Financial Inclusion and Accessibility and Sustainable Innovation*
- The RBA's *Review of Retail Payments Regulation* focuses on policy and regulatory settings
- Implementation of the first phase of the Consumer Data Right ("open banking") and consultation on future directions
- Other roadmaps published by payment schemes to upgrade the functionality of their own systems

Informed by this broader context, this document focuses on several core systems (or frameworks) governed by AusPayNet: HVCS, BECS, cheques and cash distribution. This document does not include detailed consideration of card systems, which are covered under AusPayNet's Issuers and Acquirers Framework.

This document outlines key priorities and associated actions. Further consultation with a range of stakeholders is envisaged as part of their implementation.

¹ Payments System Regulation, [RBA.gov.au](https://www.rba.gov.au)

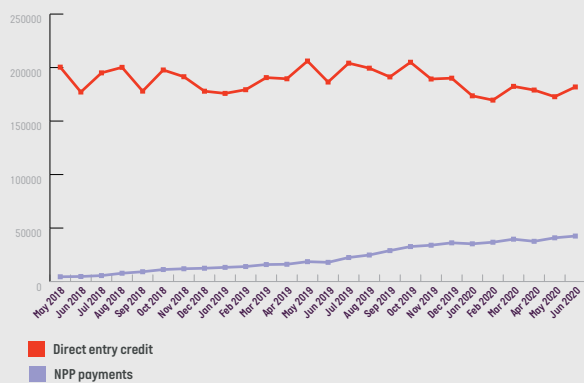
The Strategic Context

The Changing Strategic Landscape

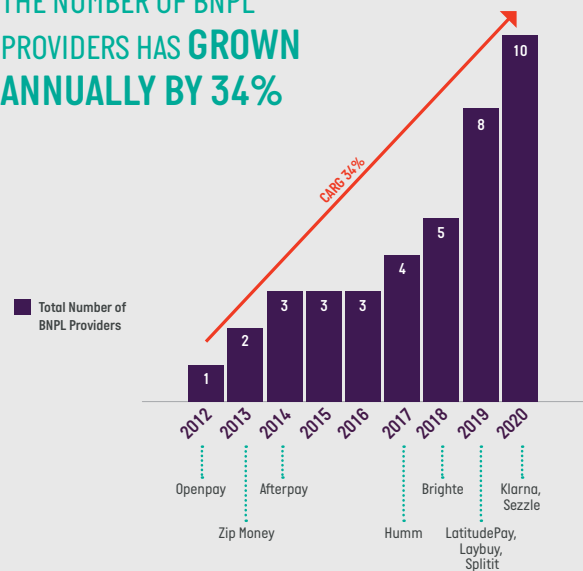
The change in payment behaviour displays a customer preference for faster, data-rich payment methods, with 24/7 availability. This is a long-term trend which has been further accelerated by the uptake of smart phones, richer card functionality, the introduction of wallets and the development of APIs:²

CHANGE IN DIRECT CREDITS

THOUSANDS

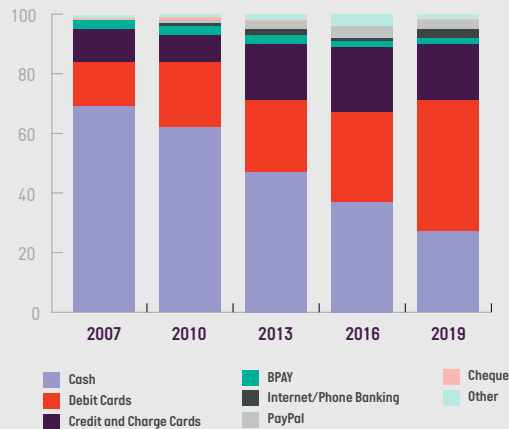


THE NUMBER OF BNPL PROVIDERS HAS GROWN ANNUALLY BY 34%



CHANGING CONSUMER PAYMENTS

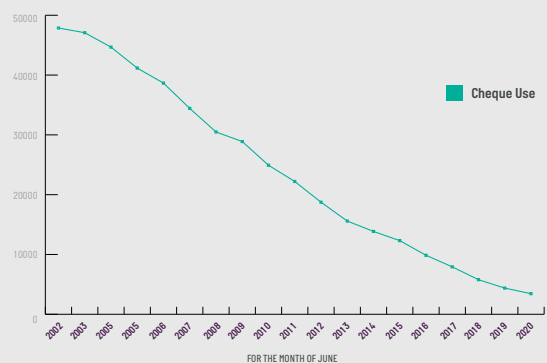
PERCENTAGE



Expressed in percentage of consumer payments under \$9,999

CHEQUES BY MONTHLY VOLUME

THOUSANDS



² Sources: RBA Payment Statistics, RBA Consumer Payment Survey, AfterPay submission to the RBA Retail Payments Review

Anticipating that this trend will continue to accelerate, there are some key considerations for AusPayNet and its frameworks.

Less cash society

While the use of cash has been in steady decline, the recent issuance of contactless cards to older Australians and the temporarily increased contactless PIN limit are likely to further reduce the use of cash as a retail payment method in the long term. Over the medium term this may require industry to consider the impact of the decline of cash on the broader payments system and, if needed, develop an appropriate strategy to manage it. For example, cash is considered a fallback mechanism for digital payments in many retail outlets and by some consumers. Detailed consideration must be given at an industry wide level regarding viable alternatives.

AusPayNet in conjunction with the RBA is closely monitoring the situation with regard to cash withdrawals, access to cash and cash handling volumes to ensure market stability.

Migration to ISO20022

As a platform for innovation the NPP plays an increasingly important role in Australia's digital economy. Compared to the older direct entry system, the NPP offers real-time settlement of individual payments and supports data-rich ISO20022 messages. Since it launched in February 2018, the NPP has seen steady increases in payment volume, with the vast majority of "pay anyone" transactions now occurring via the platform and increasing usage for business and corporate payments. The NPP now accounts for approximately 20% of all bank account-to-account credit payments in the market.

New functionality supporting a wider set of use cases such as debit-like payments, subscriptions, scheduled recurring payments, payroll and accounting, and scheduled developments by NPP participants will accelerate the transition from BECS to NPP. Banks and other NPP participants are exploring options to make it easier for institutions to process batch payment files and submit payments via APIs using systems other than direct entry.

In September 2017, SWIFT launched a study into the use of ISO20022 for cross-border business on the SWIFT network. The following September saw the announcement that SWIFT would facilitate an industry migration of cross-border payments. Throughout 2019, the APC and RBA jointly consulted on an approach to Australia's migration path for domestic SWIFT payments, releasing a conclusions paper in February 2020. Australia's high value payments will migrate to a rich data format, and this comes with the strategic opportunity to harmonise messaging formats across domestic high value payments, cross-border payments and real-time payments (NPP) to ensure interoperability.

Digital ID

A successful digital economy demands convenient, secure and privacy-enhancing ways for people and businesses to build trust online. Global attention has increased in recent months, driven by the requirement to ensure greater confidence in payments. In Australia, the need for this is clear in the context of a 34% increase in scams since 2018³ and a 25% increase in calls to ID Care⁴ since March 2020.

The payments industry is at the forefront of the digital economy and in reviewing its responsibility to engender confidence in the payments system, the APC led the creation of the TrustID framework.

The TrustID framework enables service providers to improve the security, privacy and convenience of accessing online services and reduces the sharing of personally identifiable information. The framework is not a solution in and of itself; it presents a series of rules and guidelines for organisations to adhere to in their design and build of products and services. The business rules and technical specifications ensure interoperability between different service providers. Importantly, the framework is designed to support multiple and competing service providers, offering customers choice. The framework could provide an important cornerstone of the data economy and is open to all parties that meet the accreditation requirements.

The TrustID framework is currently being managed by AusPayNet and work is progressing on three fronts:

- Accreditation: involving the design of an accreditation process.
- Governance: defining the appropriate governance structure.
- Brand development: creating a trust mark to create confidence in accredited solutions and to support consumer recognition.

Given the increased focus on this topic, there may be a requirement to accelerate this work.

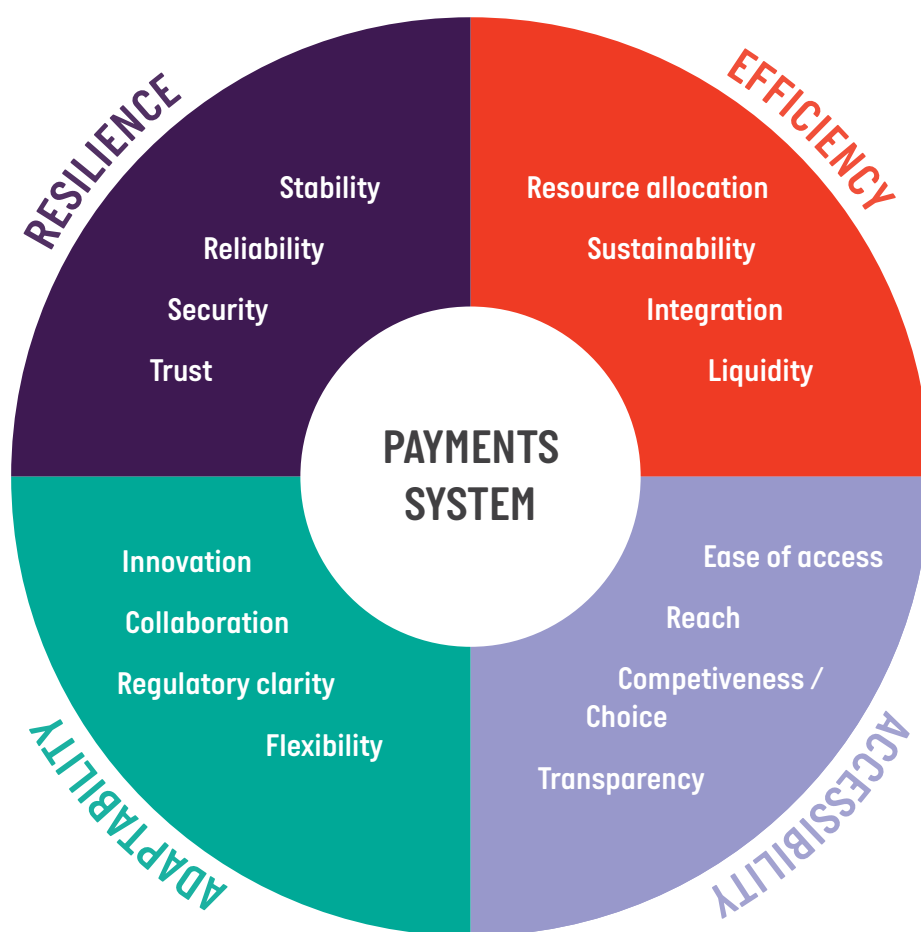
³ Australian Competition and Consumer Commission, [Targeting Scams Report](#)

⁴ <https://www.idcare.org/>

What makes an effective payments system?

Our vision for an effective payments system is driven by four key characteristics of resilience, efficiency, adaptability and accessibility.

The Australian Payments Council's [2015 Australian Payments Plan](#) identified the following desirable characteristics of the Australian Payments System and defined them as follows:



Source: Australian Payments Council

RESILIENCE	Stability	Payments infrastructure is certain and predictable and provides a basis for delivery of well-defined and valued payment services to users through operators and service providers.
	Reliability	Payment services are available when users, service providers and operators want them, and outages are minimised.
	Security	The system is structured to protect against unauthorised access to value and data.
	Trust	Users and participants maintain confidence in, and continue to use and participate in, the system.
EFFICIENCY	Resource allocation	Finite system resources are allocated for maximum stakeholder value.
	Sustainability	Operators and service providers are able to develop and maintain sustainable business models.
	Integration	Interoperability, standardised, automated processes and straight-through processing is sought to minimise costs and risk.
	Liquidity	Value circulates rapidly at minimal friction cost.
ACCESSIBILITY	Ease of Access	Consumers and businesses have access to a range of user-friendly payment services so they can choose how to make and receive payments.
	Reach	The payments system is widely accessible amongst users, so that payers can reach payees.
	Competitiveness / Choice	Service providers and operators have equitable access to underlying infrastructure so as to promote competition and choice throughout the system.
	Transparency	Users, providers and operators have visibility of the costs, rights and obligations associated with actions they undertake.
ADAPTABILITY	Innovation	Innovation in payment networks and payment services is encouraged, so that changing user needs are met over time.
	Collaboration	Where there are strong network effects, governance frameworks encourage operators and service providers to cooperate to bring about payments system improvements.
	Regulatory clarity	Regulation (including self-regulation and industry standards) is clear, up to date and supportive of both cooperation and competition.
	Flexibility	The system is responsive to the desire of service providers and operators to introduce new technologies and new business models.

Source: Australian Payments Council

Against this backdrop of the four key characteristics, the ongoing changes, described above pose several questions for AusPayNet, and the industry more broadly:




- The changing role of cash offers an opportunity to increase the **efficiency** of the payments system, while keeping in mind potential impacts on **resilience** and **accessibility**.
- The customer-led move away from paper-based systems raises questions about the long-term viability of APCS and presents opportunities to improve its **efficiency**.
- Investment in innovation and data-rich systems raises questions about the longer-term future of BECS. Migration to other systems raises questions about the benefit of potentially duplicative services and may offer an opportunity to improve the overall **efficiency** of the system.

The rest of this document outlines the industry's response to these strategic challenges.

Building a Better Payments System

Key Points

AusPayNet has reviewed its operations in response to the changing landscape and has identified the following key considerations.

	Strategic Challenge	Actions	Expected Outcome
	BECS While the technical capacity has been superseded, the significant user base and the bespoke nature of much of the development that sits on top of BECS means that migration to newer systems requires careful management.	AusPayNet will seek feedback from interested stakeholders (both members and non-members) to help inform a roadmap for the managed migration away from BECS.	The development of a clear roadmap and strategy for the managed migration away from BECS that is widely supported across all stakeholders.
	HVCS SWIFT is adopting the ISO 20022 message format for cross border payments from November 2022.	AusPayNet will provide PMO support for the industry ISO20022 migration, aligned to the cross-border change timeframe.	Australian banks will have migrated the appropriate systems to ISO20022 by the deadline outlined by the Industry Migration Program.
	Cheques Australian consumers have continued to move away from cheques, which now represent only a marginal percentage of payments.	AusPayNet will make any necessary changes to APCS to facilitate institutions making their own individual decisions in relation to cheques, while at the same time continuing community outreach and advocacy for the adoption of payments neutrality in legislation and the rules of industry bodies outside of the financial sector.	A competitive marketplace where individual financial institutions are empowered to make commercial decisions to tailor their product offerings to their customer base.



	Strategic Challenge	Actions	Expected Outcome
Cash	Consumers have moved away from cash as a payment method, although overall demand for cash as a store of value remains strong.	AusPayNet will review the cash distribution framework to ensure that it remains fit for purpose, and actively monitor cash access across Australia to assess whether there is a need for coordinated action at an industry level.	The development of a clear strategy and set of actions for industry to ensure that the transition to a less-cash society continues to be appropriately managed.



Deep Dive: HVCS

The 49 HVCS Framework Participants use the SWIFT Payment Delivery System to exchange clearing messages. Each payment is settled individually in real time using the Reserve Bank Information and Transfer System (RITS).

Currently, the HVCS system uses the older MT format, which was originally developed in the 1970s and reflects the technical limitations of that time. The newer ISO20022 standard provides a data-rich alternative. The APC and RBA outlined several of the benefits of this migration: efficiency, international harmonisation, futureproofing, and enabling competition and choice.

Migrating domestic systems to the ISO20022 messaging standard is a significant undertaking. To develop an agreed industry approach, the RBA and APC undertook a consultation in 2019. The consultation ultimately recommended that AusPayNet take on a central program coordination role, providing a program management office and secretariat support to the Steering Committee. The coexistence period for HVCS's current MT messages and the new ISO20022 messages will commence in November 2022 and end in November 2024.

The ISO20022 migration will support harmonisation with existing and future ISO variants used by the NPP and bring efficiency benefits in being able to re-use existing NPP ISO messages for HVCS. It seems likely that some participants will seek to migrate a subset of HVCS traffic to the NPP in the future, in cases where the additional functionality provided by the RITS system [such as liquidity saving features, e.g. auto offset] is not needed. A potential use case is the domestic leg of inbound cross-border, time critical payments, such as in Singapore.⁵

It would be reasonable to expect that MT103 volume will migrate to the NPP, which has been extended to cater for this with the establishment of the IFTI business service.



ACTIONS: AusPayNet will provide PMO support for the industry ISO20022 migration, aligned to the cross-border change timeframe.

⁵ Media Release, [SWIFT Sees Success With Instant Cross-border Payments](#)



Deep Dive: Cheques

Cheque use reached its apex in the mid-1990s and has been steadily declining since. In recent years, the rate of decline has accelerated and recently reached a year-on-year peak of 25%. The COVID pandemic seems to be accelerating this decline, with the RBA reporting a 15% decline in April 2020 alone.

If current trends were to continue, there would be no cheques in circulation within five years. Australia is therefore now at the point where the public conversation can focus on the inevitability of the end of the cheques system.

AusPayNet has been working with government and professional bodies to promote payments neutrality and remove regulations that impede such neutrality (e.g. by requiring specific types of payment method). The payment choices that banks offer to customers are ultimately a commercial matter. Some banks are already taking the business decision not to offer cheques: newer Australian digital banks often do not issue cheques, while some New Zealand banks have ceased to issue them.

If current trends continue and more institutions leave the cheque system, AusPayNet expects that a decision on the operational future of APCS will need to be made within two years.

Within this environment, AusPayNet's actions are as follows:

- Make any necessary changes to APCS to facilitate institutions making their own individual decisions in relation to cheques
- Continue work on legislation and clarify the obligations imposed by the Cheques Act
- Lead the community outreach/education
- Work with stakeholders to coordinate media outreach in support of public education

AusPayNet's work will be done through active collaboration with a range of affected stakeholders including representatives of older Australians, Australians with disabilities, Australians from rural and regional areas, government representatives as well as representatives from the legal sector.

AusPayNet will prepare to coordinate, when necessary, operational decisions that will need to be made as the use of cheques continues to decline, focusing on matters such as:

- Ongoing maintenance of cheque image archives
- Consideration of how to deal with disputes, unbanked cheques, overseas cheques, etc.
- Consideration of how to manage a period when cheques can be deposited, but may no longer be accepted by payees
- Efficiently processing minimal volumes



ACTIONS: AusPayNet will make any necessary changes to APCS to facilitate institutions making their own individual decisions in relation to cheques, while at the same time continuing community outreach and advocacy for the adoption of payments neutrality in legislation and the rules of industry bodies outside of the financial sector.



Deep Dive: Cash

Since peaking in the mid-2000s, cash has begun to decline as a payment method as consumers switch to online shopping and contactless retail payments. This trend has accelerated during the COVID pandemic, as businesses switched to card payments due to perceived risk of transmission. Notably, while cash is declining as a payment method, cash-on-issue continues to grow, indicating that demand for cash as a store of value remains robust.

Assessments undertaken by the RBA and APC indicate that access to cash remains strong. While distance to access points varies across the continent, Australia's cash access market is well served by a competitive and diverse marketplace. Furthermore, Australians are generally comfortable paying with non-cash payment methods, which are widely available.

AusPayNet's cash distribution framework was designed to facilitate the distribution of cash for use as a payment method. The broader changes in the composition of the demand for cash offer an opportunity to review the framework and ensure that it continues to meet industry and consumer expectations in the most efficient and effective way possible.

The APC considered this issue at its February 2020 meeting and agreed to ongoing monitoring. To date, Australian regulators have allowed merchants to choose not to accept cash. Industry could best support the Australian approach, which is working effectively, by proactively developing a strategic plan to assist the transition to a less-cash society.



ACTIONS: AusPayNet will review the cash distribution framework to ensure that it remains fit for purpose, and actively monitor cash access across Australia to determine the need for coordinated action at an industry level.



Deep Dive: BECS

Processing more than \$10 trillion in 2019, BECS is the safe, reliable and low-cost workhorse of the Australian payments system. Australian businesses and government rely heavily on its functions.

Over time, industry has invested in developing newer payments systems that offer faster and more flexible payment options. Conversely, BECS' technical capacity reflects the limitations of the time in which it was created. It is difficult to enhance or change, and its messaging format lacks data richness and is incompatible with ISO20022.

While acknowledging that there may be a potential role for redundancy, it would be prudent to start planning for BECS retirement. This will need to take into account the following:

- BECS supports some use cases that newer payment systems currently do not
- Stakeholders outside the industry have built systems on top of BECS

It is unlikely that newer payment systems will precisely replicate current BECS functionality. Instead, industry should focus on use cases and consumer outcomes. The migration away from BECS will ultimately benefit all stakeholders and will be assisted by early transition planning to simplify the process and allow for a prompt and orderly migration away from BECS at an appropriate time.

To facilitate this, AusPayNet will, in the second half of 2020 conduct a consultation to set out industry's views of the functionality of different systems and any use cases that need further consideration. Following publication of a draft conclusions paper, AusPayNet will consult further with a range of relevant stakeholders, representative of the diverse BECS user base: industry, government users, ERP providers, providers of APIs and other key software providers. These discussions will help inform a roadmap for BECS transition, including a timeframe, dates, identification of consumer needs and approach to overcoming any identified barriers.



ACTIONS: AusPayNet will seek feedback from interested stakeholders (both members and non-members) to help inform a roadmap for the managed decline of BECS.

Concluding Section



Over the next five years, AusPayNet will work with industry and other stakeholders to deliver the actions and outcomes contained in this document, while continuing to provide updates on the status of these actions.

Reflecting the foundational economic importance of the payments system, most of the actions contained in this document will require further engagement. As this engagement occurs, the pace of change within payments will almost certainly continue to accelerate. In particular, we expect to see services built on top of CDR, the continued development of the fintech sector and the development of new ways to pay.

Against this backdrop, we will continue to challenge our own assumptions and work proactively with all stakeholders to build a payments system that is able to service the next wave of development in Australia's economy.

Acronyms

ACDES	Australian Cash Distribution and Exchange System
APC	Australian Payments Council
APCS	Australian Paper-based Clearing System
API	Application Programming Interface
AusPayNet	Australian Payments Network
BECS	Bulk Electronic Clearing System
CDR	Consumer Data Right
ERP	Enterprise Resource Planning
HVCS	High Value Clearing System
IFTI	International Fund Transfer Instruction
ISO	International Organization for Standardization
NPP	New Payments Platform
PIN	Personal Identification Number
RBA	Reserve Bank of Australia
SWIFT	Society of Worldwide Interbank Funds Transfer



Australian Payments Network Limited
ABN 12 055 136 519

Level 23, Tower 3 International Towers Sydney
300 Barangaroo Avenue Sydney NSW 2000
Telephone +61 2 9216 4888

Email info@auspaynet.com.au www.auspaynet.com.au

