

Friday, 15 September 2017

Competition in Financial Services Inquiry
Productivity Commission
GPO Box 1428
CANBERRA ACT 2601

Peter Harris AO, Chairman

RE: Competition in the Australian Financial System

This submission is made by the Australian Payments Network (**AusPayNet**) in response to the consultation paper released by the Productivity Commission (**PC**), as part of its inquiry into *Competition in the Australian Financial System*.

The PC has identified the payment system as a core component of the market infrastructure which underpins the key segments of the financial system. AusPayNet welcomes the opportunity to input into this consultation process. We note that the focus of the inquiry is to establish whether there are barriers to competition through innovation, and – where innovation does occur – whether its benefits are directed towards consumers.

As the PC notes, a number of recent inquiries have addressed competition in the financial services industry including *Data Availability and Use* and *Competitiveness and Efficiency of the Superannuation System*. AusPayNet draws the PC's attention to the following additional ongoing inquiries, which may also impact the future financial system:

- House of Representatives Standing Committee on Economics, *Review of the Four Major Banks (the Coleman Report)*
- Australian Prudential Regulation Authority (**APRA**), *Consultation on Phased Licensing for Authorised Deposit-Taking Institutions*
- Commonwealth Treasury, *Review into Open Banking in Australia*
- Commonwealth Treasury, *Black Economy Taskforce*

Each of these work streams will continue to encourage a more competitive environment. AusPayNet recommends that the PC ensure that any recommendations in its report to Government take a holistic approach to the Australian Financial System.

Background

AusPayNet is the industry association and self-regulatory body for payments established in 1992 to manage and develop regulations, procedures, policies and standards governing payments clearing and settlement within Australia. In this core role, AusPayNet oversees clearing systems and frameworks covering cheques, direct debits and direct credits, aspects of card transactions, high value payments and bulk cash exchanges between financial institutions.

For 25 years, AusPayNet has played a pivotal role in driving improvements to the payments system, leading to improved consumer outcomes.

AusPayNet's Role in Driving Innovation and Improving Consumer Outcomes

Network industries, such as payments, often require collaboration amongst participants. As AusPayNet (then APCA) outlined in our submission to the 2014 *Competition Policy Review*, this includes:

- Basic efficiency, security and interoperability may require agreement on common business process flows, technology, data standards, and allocation of liability
- Network development, necessary to support many payment service enhancements and innovations, usually requires a level of coordination amongst competitors
- Industry coordination may be needed to provide a platform for effective competition
- As network industries often deliver services that are important to the well-being and proper functioning of the economy, public policy objectives, such as financial stability, may need to be addressed through the coordinated efforts of the network members.

We create a shared purpose that engenders confidence in the payments system. Our network is open to financial institutions, payment systems operators, technology providers, major retailers and other organisations with a significant interest in payments. Our network currently spans in excess of 120 organisations, representing a wide range of participants with varying levels of involvement. AusPayNet's record in driving innovation includes:

A New Platform for Innovation

- AusPayNet has been instrumental in supporting the development of the Australian real-time New Payments Platform (**NPP**). We established NPP Australia Ltd in late 2014 to oversee the build and operation of the platform.
- The NPP is a collaborative industry initiative. Amongst other things, it will allow real time payments, allow customers to make payments to a PayID rather than a BSB/account number (eg. an email address or phone number).
- Once launched, the NPP will allow participants and third parties to develop further overlay consumer payment services on top of the basic infrastructure.

Fostering Innovation

- AusPayNet worked with the Reserve Bank of Australia (**RBA**) to establish the Australian Payments Council (**APC**). The APC is a strategic coordination body for the payments industry. It 'fosters the ongoing development of the Australian payments system to ensure it continues to meet the changing needs of Australian businesses and consumers with innovative, safe and competitive payment services.'¹ AusPayNet continues to play an important role as the secretariat to the APC facilitating work across three areas:

¹ About Us, Australian Payments Council, <http://australianpaymentscouncil.com.au/about-us/>

1. Security and Trust – where the focus is on improving the convenience and security for individuals and business.
2. Managing the Payments Mix – which has involved extensive consultation of users of the payments system to understand their changing needs
3. Enabling the Future – which saw industry come together to host a data hackathon, encouraging participants to Improve the Lives of Australians with applications using transactional data.

Enhancing Competition and Protection for Consumer Payments

- Formed EFTPOS Payments Australia, to foster competition and choice in consumer payments by enhancing the domestic debit card system.²
- Established the Australian Financial Crimes Exchange (AFCX) to bring together businesses, government, law enforcement agencies and industry groups to protect Australian consumers and businesses by providing leading security capabilities, technology and intelligence in one central platform. It is estimated that the annual cost to Australians of financial crime exceeds \$6billion.³
- Created 'Get Smart About Card Fraud Online', an education tool that provides useful information and practical tips for how small businesses to protect their customers and business from online card fraud.

Continuing to Drive Industry Collaboration

- Representing the broader payments industry, AusPayNet has worked closely with the NSW state government to develop a framework for open loop contactless payments on public transport (currently in trial stage on Manly Ferry). AusPayNet is currently working with other state transport authorities looking to implement open loop contactless payments in the short to medium term.⁴
- AusPayNet participates in international standards setting for emerging technologies. For example, the ISO committee developing global standards for blockchain.

Key Trends in Payments Innovation

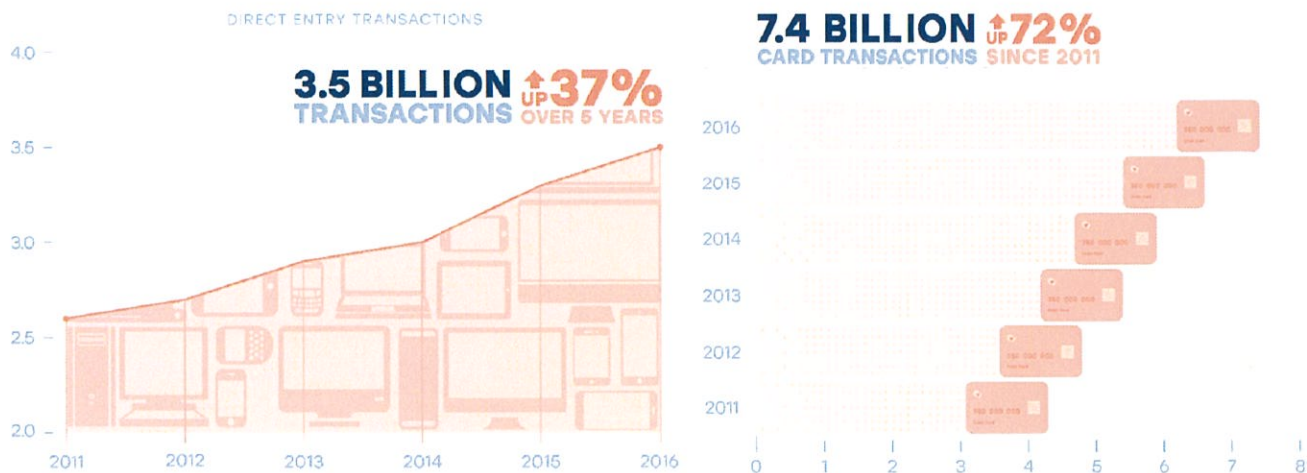
The last fifteen years have seen a steady increase in payment options available to consumers. For a long time, the dominant forms of payment methods Australians used were cash and cheques. However, increased card adoption and the introduction of internet banking, has resulted in consumers moving to contactless and digital payments. This has resulted in a steep decline in paper-based payments.⁵

² AusPayNet, *New Company to Manage Australian Debit Card System*, <http://www.apca.com.au/docs/2009-media-releases/new-company-to-manage-australian-debit-card-system.pdf>

³ Australian Financial Crimes Exchange, <http://www.afcx.com.au>

⁴ AusPayNet, *Contactless Payments Being Trialled by Transport for NSW*, <http://blog.apca.com.au/contactless-payments-trialled-transport-nsw/>

⁵ AusPayNet, *Milestones Report: The Digital Economy*, [www.apca.com.au/docs/default-source/decline-of-cheques---milestones/towards-the-digital-economy-milestones-report-\(may-2017\).pdf](http://www.apca.com.au/docs/default-source/decline-of-cheques---milestones/towards-the-digital-economy-milestones-report-(may-2017).pdf)



A similar trend has been seen in most other developed nations. As the development of technology continues at pace, this has resulted in an increase in levels of innovation, which in turn has driven consumer choice and convenience.

Today consumers can choose to pay in a number of ways, from contactless cards, mobile banking apps and via wearable payment devices. Technology has underpinned the entrance of new players such as Tyro, and global entities such as WorldPay, Stripe and PayPal. The forthcoming launch of the NPP will offer an additional platform for innovative payment services.

Payment technology is becoming more tightly integrated into everyday life. Apps and technology have continued to change the payment experience, with the process moving to a seamless relationship between parties (for example Uber and the Internet of Things (IoT)). Consumer pull and technology push are continuing to drive innovation and competition in payments. Continued investment in the development of artificial intelligence and deep learning will further accelerate this trend.

Consumer Pull

Consumers have embraced new payment technologies and, as a result, cheques and cash continue to fall out of favour with consumers:

- The number of Australians who no longer hold cash on them at a given point in time increased to around 20% in 2016, up from 8% in 2013.⁶
- Similarly, the total number of ATM withdrawals (a proxy value for the prevalence of cash in the consumer economy) fell from 861.7million in 2008-09 to 625.4million in 2016-17, a decline of around 28%.⁷

⁶ Reserve Bank of Australia, *How Australians Pay: Evidence from the 2016 Consumer Payments Survey*, <http://www.rba.gov.au/publications/rdp/2017/pdf/rdp2017-04.pdf>

⁷ Reserve Bank of Australia, *Payment Statistics, 2016-17*

- The use of cheques peaked in the mid-1990s, and has been in steady decline since.⁸ This decline has accelerated in recent years: in 2006-07, 436.8million individual payments were made using cheques, falling to 99.9million by 2016-17.⁹ This represents a decline of 73%.

In contrast, consumers prefer the convenience of newer, digital technologies:

- The number of direct entry transactions has more than doubled in the last ten years, increasing from 1.8million in 2006-07 to 3.7million in 2016-17.
- Debit card transactions have increased from 1.4million in 2006-07 to 5.2million in 2016-17.
- International card schemes estimate that around 75% of face-to-face payments are now made via contactless cards.

It is important to note that this shift has occurred despite financial institutions and central banks retaining existing payment mechanisms (ie. cheques have not been removed from the market, and central banks have not retired higher-value notes). Cheques and cash are still available for use, and cash acceptance is ubiquitous at most merchants.

Technology Push

Australian consumers have been able to switch to new payment technologies because of strong industry investment in research and development, and a sophisticated technological base (such as smartphone and POS terminal penetration, discussed below). This strong foundation has enabled the development and rollout of innovative payment technology.

Modern smartphones routinely include integrated biometric identifiers, such as fingerprint, iris scanners and facial recognition technology. There have been developments in sophisticated voice recognition software in order to enable log-in processes for digital banking. Strong biometric authorisation will continue to increase consumer confidence in mobile payments. The growth in mobile wallets has also allowed consumers to pay with a smartphone in the same way they would a contactless card.

Australia also boasts a relatively sophisticated technological base that helps to enable payments innovation, including:

- High smartphone penetration. 84% of Australians own a smartphone.¹⁰ It is likely that the final switch from GSM to 4G this year will provide an additional push towards smartphones.
- High internet penetration. 85% of Australians can access the internet at home.¹¹
- The most point-of-sale (**POS**) terminals per capita amongst Bank of International Settlement countries.¹² Unlike some similar jurisdictions (such as the United States), Australian POS devices are typically provided to merchants by their acquiring bank. This has allowed comparatively swift

⁸ Australian Payments Clearing Association, *The Decline of Cheques: Building a Bridge to the Digital Economy*, <http://www.apca.com.au/docs/decline-of-cheques---consultations/the-decline-of-cheques.pdf>

⁹ Reserve Bank of Australia, *Payment Statistics, 2016-17*

¹⁰ Deloitte, *Mobile Consumer Survey 2016*, <http://landing.deloitte.com.au/rs/761-IBL-328/images/tmt-mobile-consumer-2016-final-report-101116.pdf>

¹¹ LiveStats Data Aggregation, *Internet Users by Country*, <http://www.internetlivestats.com/internet-users-by-country/>

¹² Bank of International Settlement, *Statistics on Payment, Clearing and Settlement Systems in the CPMI Countries – Figures for 2015*, <https://www.bis.org/cpmi/publ/d155a.pdf>

roll-out of POS devices enabled with new payments technology, such as chip-and-pin and contactless.

As noted above, the introduction of the NPP will provide additional technical infrastructure for payments innovation.

Account Switching Services in Australia and Overseas

In 2011, the Australian Government commissioned an inquiry to assess the viability of bank account-number portability. The inquiry's final report, *Banking Services: Switching Arrangements*,¹³ found that a move to full portability was likely to be high cost, with little clear benefit. Due to similar factors overseas, no international jurisdiction had moved to account portability. Instead, the report recommended that industry build on existing initiatives, and develop a solution to enable banks to communicate on their customer's behalf, and transfer recurring debit and credit transactions from an old account to new.

AusPayNet led the industry to develop the switching solution to support this. The Account-Switching mailbox is a secure email service through which banks can communicate on behalf of their customers. A customer opening a new transaction account can authorise their new bank to facilitate transaction switching on their behalf. Through the secure mailbox, the new bank sends a request to the customer's old institution, requesting details of relevant direct debits and credits. The old institution provides those details to the new bank, within three business days.¹⁴ The new bank identifies third parties (merchants, employers, etc.) who have recurring transactions against the customer's account, and notifies them of the customer's new account details. The third parties then update their payment details accordingly.

Similar schemes have been introduced in other jurisdictions, such as the UK. While these schemes have improved the switching process for those individuals who use them, they have not led to a noticeable overall increase in levels of transaction account switching. Levels remain low when compared to some other industries, despite significant spend on above-the-line advertising to promote the service and incentives offered by financial institutions to switch providers. Despite this, there have been calls for further investment in account-switching services, or a re-examination of account number portability in this market.¹⁵

Assessing Levels of Competition in a Transaction Account Market

In many jurisdictions, the level of account-switching in transaction account markets has been considered as a suitable proxy to assess levels of competition. However, new research conducted jointly in the UK by Bacs¹⁶ and the University of Bristol¹⁷ suggests that a well-functioning transaction

¹³ Australian Government, *Banking Services: Switching Arrangements*, https://banking.treasury.gov.au/content/reports/switching/downloads/switchingarrangements_aug2011.pdf

¹⁴ Three-day SLA introduced as of 4 September (reduced from previous five-day SLA)

¹⁵ For example, see Recommendation 5 of the Coleman Report

¹⁶ Bacs is responsible for the schemes behind the clearing and settlement of UK automated payment methods, Direct Debit and Bacs Direct Credit.

¹⁷ Current Account Research Papers, Bacs, <https://www.bacs.co.uk/Resources/FactsAndFigures/Pages/ConsumerEngagementInTheCurrentAccountMarket.aspx>

account market is not necessarily represented by an increased level of switching. Rather, it is better represented by other factors, including:

- Levels of innovation within a market
- Customer understanding of their options
- Customer consideration of switching

Addressing Blockages Over the Entirety of the Customer Journey

Further to this, the research recommends that future industry action should address customer pain points across the breadth of the customer journey. This may include:

- Better product comparison tools, enabled through open data, to improve consumer education and understanding of their options within a market. This will improve consumer's decision-making process about the choice to switch.
- Simplified account opening procedures. Digital identity, and shared KYC, will simplify the account-opening process.

Importantly, the industry is progressing work on both initiatives.

25 Years of Payments Innovation

The Australian Payments System has seen steady innovation over 25 years that has led to improved consumer outcomes and increased payment choice.

This letter has provided some context on recent drivers of innovation and competition within the payment industry (both in Australia and internationally). As we have illustrated, AusPayNet has played a pivotal role in driving improvements to the payments system. We have highlighted the importance of consumer pull and technology push. We have also suggested more appropriate metrics for assessing the levels of competition in transaction account-switching.

Yours sincerely



Leila Fourie
Chief Executive Officer
Australian Payments Network