FUTURE STATE OF PAYMENTS ACTION PLAN

2021 Update

This report provides an update on the actions to modernise Australian payments and should be read in conjunction with AusPayNet's Future State of Action Plan published in August 2020.

Australian
**Payments
Network**

Connect Inspire Thrive

Contents

The Strategic Context

Overview

The payments system is experiencing accelerated change, stimulated by a combination of increased customer demand, technology availability and revised regulation. In particular, customer demand for digital payments has intensified in the wake of the rapid digitisation of a wide range of services, from banking to healthcare, in response to COVID-19.

As public and private sector organisations adjust to ensure the best customer outcomes, there is increased focus on payments modernisation. AusPayNet is leading a modernisation programme that will ensure that the payments system continues to meet the four key requirements of efficiency, resilience, adaptability and accessibility.

Scope and Purpose

This document outlines significant initiatives that form part of the payments industry's modernisation programme, building on the Future State of Payments Action Plan, released in August 2020. It provides an overview of the changes in customer behaviour and describes the initiatives underway to ensure that individuals and organisations continue to have sufficient choice in the products and services that they use.
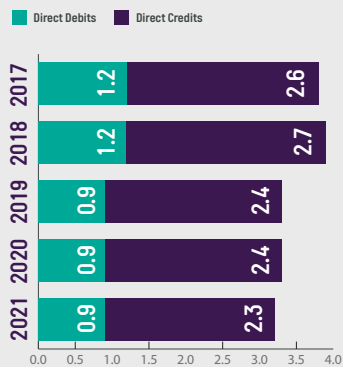
Coordination and consultation are foundational components of AusPayNet's approach to leading payments modernisation. Our robust processes ensure that the industry sets and meets achievable targets that meet the requirements of a diverse set of stakeholders.

We look forward to structured engagement with a wide range of users of the payments system as we execute this programme of change.
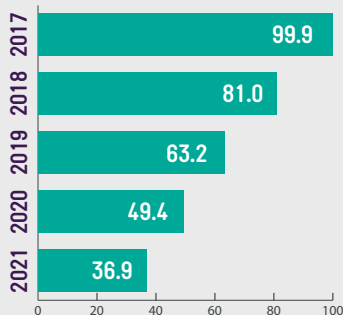
Payment Methods

The shift to digital and data rich channels is clearly reflected in the transaction volumes of the payment streams that AusPayNet governs.

NUMBER OF DIRECT ENTRY PAYMENTS
(Billions)

Legend: ■ Direct Debits ■ Direct Credits

| Year	Direct Debits	Direct Credits
2017	1.2	2.6
2018	1.2	2.7
2019	0.9	2.4
2020	0.9	2.4
2021	0.9	2.3

A decline in the volume of Bulk Electronic Clearing System (BECS) transactions is starting to become apparent, as providers move to alternative systems that offer improved availability and speed, as well as richer data functionality.

NUMBER OF CHEQUE PAYMENTS
(Millions)

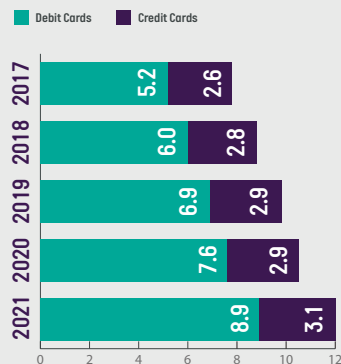| Year	Value
2017	99.9
2018	81.0
2019	63.2
2020	49.4
2021	36.9

Customers are choosing to use digital payment methods over cheques as they embrace digital channels for shopping and bill payment.

NUMBER OF CASH WITHDRAWALS
(Millions)

Year	Value
2017	625.4
2018	599.5
2019	572.7
2020	466.1
2021	394.7
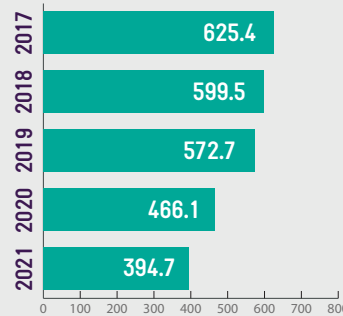
As cards and mobile phones dominate the retail payments landscape, customers are showing a clear preference for the convenience and security of non-cash payments.

NUMBER OF CARD PAYMENTS
(Billions)

Legend: ■ Debit Cards ■ Credit Cards

Year	Debit Cards	Credit Cards
2017	5.2	2.6
2018	6.0	2.8
2019	6.9	2.9
2020	7.6	2.9
2021	8.9	3.1

Source: Reserve Bank of Australia
References in the above graphs to a year are to a financial year.

Building a Better Payments System

BECS

In July 2021 AusPayNet and the Australian Payments Council consulted with large BECS members on the future of BECS. The feedback made it clear that setting an end-date for the retirement of the BECS Framework and the development of a clear roadmap for the migration of BECS transactions to more modern digital payment alternatives is widely supported. The key strategic drivers of innovation and efficiency will contribute to better outcomes for users of payments, including improved security.

Innovation

More modern payments systems such as card and real time payments offer capability and functionality that supersedes BECS. Capability such as 24/7/365 availability, ability to use a richer, structured data set, and individual transaction settlement is not available in BECS. Flexibility to accommodate innovations such as payment initiation under CDR (and supporting APIs), other payment initiation and acceptance methods (such as digital wallets and QR codes), and measures to address push payment scams (such as consent, identification and authentication mechanisms) are more accessible on modern, data rich payment alternatives. At the time BECS was implemented many of these innovations – which will enable the digital economy into the future – were not contemplated and are therefore not easily accommodated by this legacy payment system.

Efficiency

As Australian payment systems have been upgraded and established it has largely occurred without reducing or removing legacy systems. A managed rationalisation of legacy payments systems reduces the need to invest in, to maintain compliance of, and to modernise multiple payments systems. As these new alternatives have been established, we have seen increasing crossover of functionality to support payment use cases. Many of the use cases for BECS transactions can be met or improved upon by using more modern payment alternatives.

Better outcomes for end-users of payments

Payments systems that have richer capability, are better placed to be able to meet consumer and business payment-related expectations. By the mere fact that they have been established more recently, contemplating current payment trends and developments, they are also better placed as a strategic platform for innovation and an enabler of the digital economy. Payment habits have shifted toward digital alternatives, evidenced by the decline in the use of cash and cheques. BECS is a payment system that is built for transactions to be processed in batch Monday to Friday, with limited capability to confirm details of the counterparty to whom you are making a payment, and limited ability to provide data and information along with the transaction. Payment alternatives to many of the BECS use cases provide real-time processing, 24/7/365 availability, high levels of security and verification, and the ability to process payments accompanied by data and information that can improve customer experiences. Moving to payment alternatives with these characteristics, along with more focused attention and investment in fewer and more modern payments systems will contribute to better outcomes for end-users.

NEXT STEPS

Reflecting these strategic drivers, and subject to confirmation of the scale of the transition, member feedback suggested that a timeframe of between five and six years is potentially achievable for the closure of the BECS Framework. The timeline and any work to achieve the transition of BECS transactions to alternative payment systems will need to be tested through further, more comprehensive consultation and deep consideration of the scope of the task.

This further consultation will look at the significant current use of BECS and relationships between BECS users and their customers.

AusPayNet will coordinate a process, on behalf of the industry, to engage widely amongst BECS members, users and other stakeholders to work backwards from the proposed timeframe to consider and confirm a recommended date for retirement of the BECS Framework.

Considerations that will be addressed through this process include:

• Program of work and logistics;
• Identification of impacted and interested stakeholders;
• Transition approaches that minimise impacts to customers;
• Legal and regulatory approvals and considerations (a closure of the BECS Framework will be subject to regulatory authorisation);
• Coordination with industry and other interested stakeholders;
• Support required at the industry level;
• Communication plans; and
• Appropriate governance structure for such a program.

HVCS – ISO 20022 Migration Program

The ISO 20022 Industry Migration Program – the migration of all domestic HVCS traffic from SWIFT's MT format to ISO 20022 messaging – is proceeding according to plan under AusPayNet's central coordination.

The timeline for this domestic migration aligns with the timeline for the migration of cross-border payments to ISO 20022 being driven by SWIFT. The domestic migration timeline is comprised of four distinct phases:

• Planning and Design
• Build
• Industry Testing
• Coexistence

The first phase of the Program, Planning and Design, concluded on schedule at the end of March 2021. At that time a set of technical message specifications, and documented requirements and guidelines for back office operations were delivered to industry Participants.

Development of the Industry Test Strategy and Transition to Live Plan was completed in Q3 2021; both have been published to industry Participants and Stakeholders.
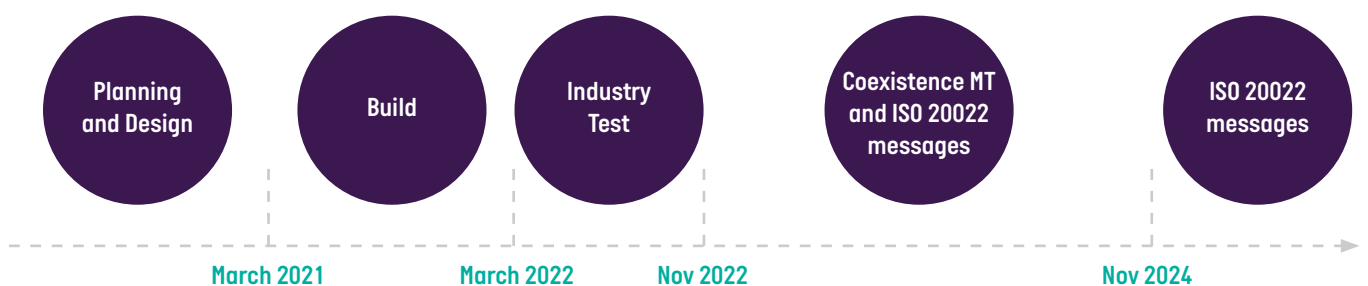
NEXT STEPS

AusPayNet will continue to drive the Migration Program through a number of industry work streams.

In Q2 2021 the Program entered into its Build phase: 12 months set aside for Participants to plan and build their system changes. All HVCS Participants must be ready for industry testing in Q2 2022.

Testing will conclude in September 2022. Industry will transition to live for the use of ISO 20022 in November 2022, the beginning of two years of coexistence of the existing format and new format payment messages. Coexistence for the domestic High Value system ends in November 2024, 12 months ahead of the end of SWIFT's coexistence for cross-border payments in November 2025.

Throughout the Program, AusPayNet is informing and educating Participants through a range of channels and live events to support its Members through their crucial build, test and implementation activities. At the same time HVCS Members are being engaged by the AusPayNet PMO, the Program's external Quality Assurance partner, PwC, and the RBA to ensure their readiness for the key stage gates within the timeline. As part of this, HVCS Members are self-reporting their readiness as well as being independently reviewed by the QA partner.

Planning and Design	Build	Industry Test	Coexistence MT and ISO 20022 messages	ISO 20022 messages
March 2021	March 2022	Nov 2022		Nov 2024

Cheques

As cheque use continues to decline (with a 27% year on year reduction from 2019 to 2020), AusPayNet is working with industry to ensure that customers are not left behind and that individual financial institutions are empowered to make commercial decisions to tailor their product offerings to their customer base.

In 2020 and 2021 AusPayNet updated the Australian Paper Clearing System (APCS) Regulations and Procedures in support of a financial institution's (FI) choice about cheques, considering any operational and practical impacts as FIs exit APCS and/or change their product offering. This has involved updating procedures that were out of date or had not contemplated the practical considerations of a financial institution leaving the framework.

Outreach work has continued through education on the customer-led decline of cheques of over 100 organisations representing industry bodies and segments that are relatively frequent cheque users. This has included working with the not-for-profit sector and government, increasing awareness of the decline in cheques and of payment alternatives. Many of these organisations are aware of the decline of cheques and have already adopted payment alternatives. Others have been grateful for the increase in awareness and opportunity to proactively plan.

Advocating for payment neutrality in legislation has also been a priority. It is important as cheque usage declines that consumers and businesses have payment choice. Cheques have been a focus of Prime Minister & Cabinet's Expert Panel on Modernising Business Communications. This focus led to the Treasurer and Assistant Minister Ben Morton's announcement of legislative reform aimed at addressing provisions in Treasury legislation where only non-electronic payment options are in place. An example of such reform was noted in the Budget, namely the amendment of the Health Insurance Act 1973 to replace the current Pay Doctor via Claimant Cheque scheme with an automatic electronic funds transfer to providers after 90 days. Our analysis is that this will solve almost 75% of the government-related cheques issued. AusPayNet is using such momentum at Federal Government level to engage State Governments; Federal Government is also engaging the States through the Council on Federal Financial Relations. This should see the removal of any payment specific reference in legislation as well as encourage changes to payment methods by the various government departments.

NEXT STEPS

AusPayNet will continue to monitor cheque usage into 2022. The aim is that with its continued outreach work, advocacy for payment neutrality and work with its members to promote the benefits of payment alternatives to their customers, that customers are not left behind and individual financial institutions are empowered to make commercial decisions about their payment products and services.

Cash

AusPayNet and the Australian Cash Distribution and Exchange System (ACDES) Management Committee have undertaken reviews of the Framework and related rules and regulations relating to cash distribution. The aim of the review was to identify any opportunities for efficiency gains in cash distribution in light of the reduced use of cash as a payment method. The review has confirmed that the Framework remains fit for purpose. Further work may be required as more information about the economics of cash distribution comes to light. Of note on this front is the RBA's Review of Banknote Distribution Arrangements Issues Paper, that was released in November, with responses due on 21 January 2022. AusPayNet will work with members on a consultation response and refer to its findings when assessing what work may be required by industry to address identified issues.

With the goal of ensuring that individuals and businesses that rely on cash are not disadvantaged by the decline of cash, AusPayNet is supporting the work of the Australian Payments Council (APC). The APC has recently commenced research to monitor levels of cash acceptance to ensure that the needs of individuals and businesses are adequately met.

NEXT STEPS

AusPayNet will continue to monitor developments in this space to ensure the decline in cash is appropriately managed.

Digital ID

To improve the security, privacy and convenience of accessing online services, the APC led the creation of the Trust ID framework. The framework addresses security vulnerabilities and related problems by reducing the requirement for sharing personally identifiable information. It presents a series of rules and guidelines for organisations to adhere to in their design, manufacture and operation of products and services.

During the last 12 months, industry has been focused on developing solutions that will offer interoperable services to consumers and businesses under the framework. In parallel, AusPayNet has led work with members on topics of branding and framework governance. The outcomes from these work streams will be announced in due course. Importantly, the potential role that the TrustID Framework could play in securing the data economy was acknowledged in the report of the Inquiry into the Future Directions for the Consumer Data Right (CDR). It is anticipated that, in due course, a number of interoperable digital identity services will become available in the Australian market.

NEXT STEPS

As commercial services become available AusPayNet will review the role that the TrustID Framework can play to ensure strong governance and interoperability between competing services.

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
HVCS	High Value Clearing System
ISO	International Organization for Standardization
PIN	Personal Identification Number
RBA	Reserve Bank of Australia
SWIFT	Society of Worldwide Interbank Funds Transfer

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