3. Payments System Regulation and Policy Issues

This chapter summarises the main regulatory and policy work the Bank has undertaken over the past year on retail payment systems in pursuit of the strategic priorities determined by the Board in August 2021. A key area of focus was completing the Review of Retail Payments Regulation that began in late 2019, and implementing a number of the policy actions stemming from that Review. With the ongoing transition away from cash towards electronic payments, the Bank has continued to examine whether there are any policy issues regarding access to cash services, as well as issues related to the cost, reliability and security of electronic payment services. The Bank also continues to monitor the rapid pace of innovation in the payments system and changes in market structure, and has considered a number of policy and regulatory issues associated with new players and innovations in the payments system throughout the year. Research on a CBDC has also been a key focus area.

Strategic priority: Support the shift towards digital payments

Australia's payments system is evolving rapidly, with the use of electronic payments continuing to grow. This has been driven by ongoing advances in technology and changing expectations of end users for convenient and safe payments. The Bank has an important role to play in ensuring that payment services remain efficient and meet the needs of users of the payments system.

Review of Retail Payments Regulation

A key element of the Bank's work to support the shift towards digital payments over the past year has been the completion and implementation of a major review of the regulatory framework for retail payments. The Bank conducts these reviews every five years or so, to ensure that regulatory settings remain appropriate in light of changes to the payments landscape. This latest review was completed in October 2021, with the publication of a Conclusions Paper setting out the policy decisions of the Board.[1]

A particular focus of this Review was on measures to support and promote the ongoing availability of least-cost routing (LCR), or merchant-choice routing, which is the ability of merchants to choose which debit network processes certain debit card transactions. This functionality helps merchants reduce their payment costs and increases competitive pressure between the debit networks, and so is important for competition and efficiency in the

[1] See RBA (2021), 'Review of Retail Payments Regulation: Conclusions Paper', October

debit card market. The main new policy measures in this area included:

- An expectation that larger debit card issuers will continue to issue dual-network debit cards (DNDCs). These facilitate LCR by allowing domestic debit payments to be processed via either the domestic scheme (eftpos) or one of the international debit networks (Debit Mastercard or Visa Debit). For these issuers, the Bank also set an expectation that both card schemes on DNDCs will be provisioned in all form factors, including mobile wallets (where the functionality is supported by the relevant schemes and mobile-wallet providers).
- An expectation that acquirers and payment facilitators providing card acceptance services to merchants offer and promote LCR functionality to merchants in the device-present (in-person) environment. Similarly, in the device-not-present (online) environment, acquirers, payment facilitators and gateways are expected to offer and promote LCR functionality to merchants by the end of 2022. The Bank also expects the industry to follow a set of principles regarding the implementation of LCR in the online environment.
- The introduction of a 'sub-benchmark' for interchange on single-network debit cards (SNDCs), such that the weighted-average interchange fee on SNDCs from a given scheme, must be no more than 8 cents. This limits the ability of schemes to use interchange rates to incentivise issuers to shift away from issuing DNDCs.

Other new policy measures included:

- a reduction in the cap on debit (and prepaid) interchange fees that are set in cents terms, from 15 cents to 10 cents, to lower the cost of some low-value transactions for smaller merchants
- measures to improve the transparency of scheme fees, including the collection of annual scheme fee data from the card schemes
- new initiatives to further improve the transparency of payment costs for merchants, to help reduce some impediments to competition in the acquiring market for smaller merchants.

The Board also concluded that it would be in the public interest for BNPL providers to remove their no-surcharge rules. However, the Bank's ability to impose standards to achieve this outcome is complicated by the current drafting of the relevant legislation, the *Payment Systems (Regulation) Act 1998* (PSRA). Following the government's response to the 2021 Treasury Review of the Australian Payments System, the Bank is supporting work by Treasury on possible amendments to the PSRA to clarify the Bank's ability to regulate all entities that play a material role in facilitating payments, including in relation to no-surcharge rules.

Following the conclusion of its Review, the Bank has been working with industry to implement and monitor the various initiatives. In particular:

- The Bank's revised standards for card payments systems, which implemented the changes to the debit (and prepaid) interchange framework noted above, took effect on 1 January 2022.
- Larger issuers have made good progress in meeting the Bank's expectation regarding DNDC issuance and the provisioning of both networks on DNDCs in mobile wallets.
- Acquirers, payment facilitators and gateways have more work to do to meet the Bank's expectations, and the expectations of users of the payments system more generally, regarding the provision of LCR.[2] In August 2022, the Board also announced that it expects the payments industry to develop LCR functionality for mobile wallet

transactions. The Bank continues to explore LCR-related issues with a range of industry stakeholders.

In the year ahead, the Bank will continue to monitor the implementation and impact of the various regulatory changes stemming from the Review, and will engage with end users and industry stakeholders on any additional policy issues that arise.

Data and research on payment trends

The Bank has continued to provide data on changes to the payments mix and conduct research on the implications for the efficiency of Australia's payments system. The Bank has undertaken a number of initiatives during the past year to expand the data it collects and publishes. For example, the Bank began publishing more granular data on the fees that merchants pay for accepting card payments. It also began collecting data on BNPL and mobile wallet transactions, and on the provision and use of LCR functionality. The Bank has begun preparatory work on its sixth triennial Consumer Payments Survey, with the survey to be conducted in late 2022 and the results to be published in mid-2023. The survey provides a comprehensive source of information on consumers' use of, and attitudes towards, different payment methods. Through the survey, the Bank is looking to understand how consumers' payments choices have evolved following the pandemic and the ongoing move to electronic payment methods.

NPP use and development

The Board continues to have a close interest in the adoption of the real-time payments capability of the NPP and especially the development of new functionality to meet the evolving needs of end users. As noted in the chapter on 'The Evolving Retail Payments Landscape', use of the NPP has continued to grow since its launch in 2018, and there has been an increase in the number and range of payment providers offering NPP services. NPPA and its participants have committed to a roadmap to extend the platform's capabilities.

A major roadmap initiative has been the launch of the NPP's PayTo service. PayTo provides a convenient and secure way for households and businesses to authorise third parties to initiate NPP payments from their bank accounts. This service can be used as a modern alternative to the direct debit system, giving payers greater control and transparency over their recurring payments. Payee businesses can also benefit from the increased speed, information and transparency associated with these payments. PayTo could be used in a range of other payment scenarios, including for in-app and e-commerce transactions, funding digital wallets and paying e-invoices. This will provide consumers and merchants with greater payment options and increase competitive pressure in the payment market.

While the PayTo service did go live in June 2022 as scheduled, it was disappointing that many NPP participants, including several of the major banks, were not ready to begin offering PayTo services to their customers by this date. These delays will limit the adoption of the service and the realisation of benefits for end users. Accordingly, the Bank has obtained assurances from the relevant banks that they will be ready to enable customer accounts to authorise PayTo agreements and respond to payment initiation requests as mandated in the NPP roadmap, by April 2023. The Board will be closely monitoring progress in the rollout and adoption of PayTo services.

The other major initiative on the NPP roadmap is the development of the international payments business service. This service will allow banks

[2] This is discussed in more detail in Gill T, C Holland and G Wiley (2022), 'The Cost of Card Payments for Merchants', RBA *Bulletin*, September.

and other payment service providers to use the NPP for the final Australian dollar leg of customer payments coming into Australia. Additional data about the sender will be carried with these payments, making it easier for payment service providers to meet their compliance obligations related to financial crime, resulting in safer and faster cross-border payments. NPP participants are currently scheduled to begin supporting this service during 2023 and the Board expects the industry to meet this commitment.

In addition to supporting these new NPP capabilities, the Board expects banks to take additional steps to increase the adoption and use of NPP PayIDs by their customers, including businesses. PayIDs, such as phone numbers and email addresses, are a convenient way of addressing payments. They are also safer, as the payer is shown the name of the person or business being paid before they confirm the payment. This can reduce mistaken payments, and also help prevent some types of scams (see discussion below).

As use of the NPP grows, it is important that the NPP services provided by financial institutions are reliable. Data disclosed as part of the Bank's retail payments service reliability statistics indicate that during the past year many providers of NPP payment services had multiple unplanned outages and elevated total outage time (see below). The Bank will continue to closely monitor these statistics and expects the industry to work on improving the reliability of their NPP services.

Enhancing cross-border payments

Having efficient and competitive cross-border payment services has become more important as international payments activity has grown. Yet the end-user experience for cross-border payment services often falls well short of that for domestic payments. This is particularly the case for retail international money transfers (IMTs), which tend to be relatively expensive, slow and opaque for end users.

Recognising these challenges, the G20 has endorsed an ambitious roadmap to enhance cross-border payments. The roadmap is a multi-year program of targets, milestones and responsibilities to address various frictions in wholesale and retail cross-border payment arrangements.[3] A foundational aspect of the program is a set of quantitative global targets for cost, speed, transparency and access in the cross-border payments market. The Bank is supporting this international effort, including through participation in a number of international working groups responsible for various aspects of the roadmap.

A key element of the international effort to enhance cross-border payments is the global adoption of the ISO 20022 standard for payment messages. ISO 20022 payment messages support enhanced data content, which can assist payment providers to implement automated straight-through processing of payments. The NPP already uses a version of ISO 20022. The Bank is participating in an industry-led project to update Australia's High Value Clearing System (HVCS) to this messaging standard. The HVCS is used by financial institutions to process high-value payments, correspondent banking flows and the Australian dollar leg of foreign exchange transactions. HVCS payments will begin transitioning to the ISO 20022 format from November 2022, with full migration expected by November 2024.

The Bank has also been discussing other initiatives related to cross-border payments with Australian regulatory agencies and industry participants. One area of ongoing focus has been monitoring prices and competitive dynamics in the Australian market for IMTs.

[3] For further information, see RBA (2021), 'Box A: The G20 Roadmap to Enhance Cross-border Payments', Payment System Board *Annual Report*.

Another priority is for the industry to begin making use of the NPP to enable faster and safer cross-border payments via the NPP international payments business service. The Bank also plans to explore with industry the feasibility of various initiatives in the roadmap that could increase the NPP's interoperability with fast payment systems in other countries.

Addressing accessibility and cost challenges faced by South Pacific countries in relation to low-value IMTs (i.e. remittances) and banking services is also an important focus of the Bank's cross-border payments work. The Bank, together with the Reserve Bank of New Zealand, other South Pacific central banks and multilateral organisations, recently concluded a review of the case for a regional electronic Know-Your-Customer (eKYC) utility to help support the flow, and potentially reduce the cost, of remittances to the South Pacific. Based on this review, the South Pacific central bank governors decided to prioritise countries developing strategies for delivering their own eKYC capability, as part of their respective national digitalisation, digital identity and AML/CFT compliance work programs.[4] The Bank remains committed to supporting South Pacific central banks in relation to the development of their eKYC capabilities, as well as other opportunities to improve the region's access to financial services and cost-effective remittances.

Access to cash services and the Review of Banknote Distribution Arrangements

As discussed in the chapter on 'The Evolving Retail Payments Landscape', there has been a long-term structural decline in the use of cash for transactions in Australia, a trend that has accelerated during the COVID-19 pandemic as people have made more electronic and online payments. Nonetheless, cash is expected to remain an important means of payment for the foreseeable future, particularly as some parts of the community continue to rely heavily on cash in their daily lives.

The Board has been continuing to monitor trends in cash use, and has been keen to see that the community retains good access to cash withdrawal and deposit services. While access to cash services overall remains reasonable, the declining use of cash for retail payments has been placing pressure on the wholesale cash distribution system. This is the process through which banknotes are obtained from the Reserve Bank and moved around the country by cash-in-transit companies, which is critical to facilitating the flow of cash in the Australia economy and ensuring people have access to cash when they need it.

In light of these challenges, the Bank launched a public review to determine what changes to Australia's banknote distribution system might be required to ensure that banknote distribution remains effective, efficient, sustainable and resilient in the face of declining cash use. Stakeholders were invited to make submissions in response to an Issues Paper published in November 2021 and Bank staff met with stakeholders during the first half of 2022 to discuss their submissions. The Board has been briefed on the issues raised in the Review and the options for bolstering the cash distribution system. A paper setting out stakeholder feedback and the Bank's conclusions to the Review was published in August 2022.

More broadly, the Board will continue to monitor access to cash services and trends in the use and acceptance of cash, including through the Bank's upcoming Consumer Payments Survey. The Board will also consider whether any additional policy actions by the Bank might be required to support the continued provision of cash services during the transition away from cash.

[4] For further details, see RBA (2022), 'Central Banks Committed to Economic Prosperity and Wellbeing in South Pacific', Joint Media Release, 29 June.

The future of the cheques system

Another trend the Board has been closely monitoring is the sustained decline in the use of cheques. There were less than 1.2 cheque transactions per person in 2021/22 and cheque payments accounted for less than 2 per cent of all non-cash retail payments. As cheque use declines, the per-transaction cost of supporting the cheque system, which is already high relative to other payment methods, will continue to rise. From an efficiency perspective, there will be benefits in winding up the cheque system soon given the high cost of maintaining it and the increased availability of electronic payment methods that can meet similar payment needs. Facing similar circumstances, a number of comparable jurisdictions, including New Zealand, have recently moved to close down their cheque systems.

In Australia, the Board has been monitoring the industry's efforts over the past few years to manage the transition away from cheques. There are a number of initiatives that still need to be progressed to prepare for the closure of the cheque system, including modifications to some legislation that requires or promotes cheque use in specific scenarios. Financial institutions also have an important role to play in assisting the few remaining cheque users to transition to alternative payment methods and giving reasonable notice of any plans they may have to transition away from providing cheque services. The Board is broadly comfortable with the approach the industry has been taking on this issue and would support an orderly wind-down of the cheques system at some point in the near future.

The future of the Direct Entry system

Another significant industry initiative the Board is monitoring is the development of plans to wind down and eventually retire the Direct Entry (DE) system. This system, also known as the Bulk Electronic Clearing System (BECS), is administered by AusPayNet. The system facilitates the clearing and settlement of bulk electronic transactions between financial institutions, such as payroll, recurring payments to merchants and one-off account-to-account transfers. DE is a safe, reliable and low-cost workhorse of the Australian payments system, which is heavily relied on by businesses and governments. The system processed more than 75 per cent of the value of non-cash payments during the past year. However, DE has various technical limitations that reflect the time when it was created, including a delayed settlement model and a restricted messaging format that is incompatible with ISO 20022. The industry has since invested in newer payment systems such as the NPP that offer faster, more flexible and data-rich payment options.

Given the potential cost of upgrading the DE system, it is appropriate that the industry is discussing how the DE system could be wound down and eventually retired. There are a number of challenges that will need to be overcome for this to occur, including ensuring there are viable alternatives for all of the transaction use cases currently serviced by the DE system. There will also be a lot of work required to support end users of the DE system during the transition. Many businesses and government agencies have DE heavily embedded in their payments processing systems, and so they will require adequate time and support to transition to more modern payments processes. Significant consultation with all key stakeholders will be required to develop a viable plan to retire the DE system. Given the opportunities and challenges associated with the migration of the DE system to more modern payment systems, the Board will be closely monitoring the industry's plans in this area.

Strategic priority: Promote the resilience and safety of payment systems

The retail payment system needs to be operationally resilient, safe and secure. Reliability and security problems can impose significant costs on end users, and can undermine public confidence in electronic payments. The Board considers it vital that participants in the retail payments industry invest in resilient and secure infrastructure, systems and customer services, and that efforts are made to minimise fraud and scams.

Reliability statistics for retail payment services

The reliability of electronic retail payment services has become crucial for day-to-day economic activity. Yet data collected by the Bank indicate that the frequency and duration of operational outages in retail payment services provided to households and businesses has increased in recent years. In response, the Bank recently implemented a new data initiative to improve the quality and transparency of information about retail payment service reliability. This initiative aims to raise the profile of this issue among payment service providers and their customers, and will enable improved benchmarking of operational performance. The initiative involved enhancing the Bank's existing quarterly data collection for retail payments incidents, and introducing a new requirement for individual payment service providers to publish quarterly statistics on the reliability of their services on their own websites.[5] The first disclosures for the September quarter of 2021 were published in November 2021.

[5] The disclosures are being made by a range of service providers, including large and smaller banks and more specialised payments providers. See RBA, 'Disclosures on Retail Payments Service Reliability'.

The new data show that online banking and NPP fast payment services were the least reliable retail payment services provided to households and businesses during the year to June 2022. Many providers reported multiple unplanned outages to these services during the year. The average cumulative downtime per provider during the year was around 18 hours for online banking services and 13 hours for fast payments, but a few providers reported total outages of over 50 hours (Graph 3.1). Some providers also reported elevated downtime for their card payment services. The Board will continue to monitor information on retail payment service outages and will consider whether any further policy actions are needed to enhance the reliability of retail payment services provided to end users.

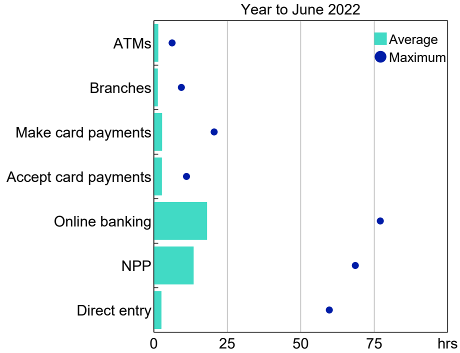
Application of the government's critical infrastructure framework to payments systems

Operational resilience in retail payments also depends on the underlying infrastructure and payment systems that facilitate payments. Operational problems at shared payments infrastructure could have a major impact on the electronic retail payment system, since all payment providers offering these services to customers would be disrupted at the same time. Accordingly, the Bank has been assisting the

Graph 3.1

Downtime per Service Provider

Year to June 2022



Source: RBA

Department of Home Affairs to apply the government's new critical infrastructure legislative framework to the operators of critical Australian retail payments systems. The systems that have been specified as critical are the Mastercard debit and credit card systems, the Visa debit and credit card systems, the eftpos card system and the NPP. The framework imposes several new obligations on the operators of these systems, including a requirement to maintain a risk management program for the purpose of mitigating significant threats to the reliability and security of their critical infrastructure assets.

Payment scams

Fraudulent activity associated with scams and customer data theft has grown considerably in recent years. Payment scams occur when people are deceived or manipulated into sending funds or personal information to criminals – for example, when scammers offer an attractive investment scheme that is fake, or send a falsified invoice from a legitimate business seeking payment. According to data collated and published by the ACCC, financial losses from all types of scams surged in 2021, to $1.8 billion (Graph 3.2). True losses are likely to be significantly higher because many scams go unreported by victims.

Payment scams commonly involve the transfer of funds to a scammer from a customer's bank account (although other payment mechanisms – such as crypto-assets and gift cards – are also commonly used). Banks have been investing more in measures to understand, detect and respond to possible scam activity conducted through bank accounts. The banking industry has also been working to raise customer awareness of scam risks and the ways people can protect themselves, such as by explaining the benefits of addressing account-to-account transfers using a PayID.[6] This method of addressing NPP payments allows the payer to check that the recipient's name matches their expectation before confirming the payment. This can help the payer avoid being deceived into sending a payment to a scammer's account rather than that of the intended recipient. The Board welcomes the recent efforts of the industry to help combat rising scam activity. Nevertheless, given the growing scale of the problem and the major impact that scams can have on people's lives, further measures may be needed. The Bank will continue to engage with the industry and other regulators about the work that is underway to tackle payment scams.

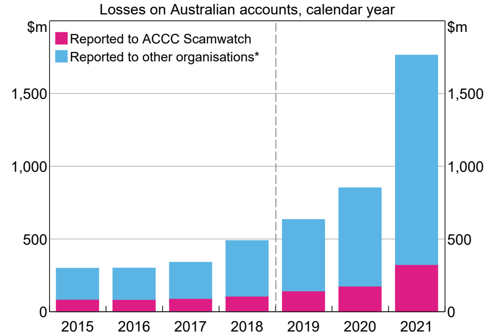
Strategic priority: Research central bank digital currencies and other innovations in payment systems

There is significant innovation occurring in the payments system, related to the emergence of new technologies and the broader digitalisation of the economy. The Bank has been seeking to

Graph 3.2

Total Scam Losses

Losses on Australian accounts, calendar year



* Includes ReportCyber, ASIC, ACMA, ATO and banks when available. Collection of individual bank data began in 2019 and expanded in 2020 and 2021; adjusted to take account of duplicate scam reports where possible.

Sources: ACCC; AusPayNet; RBA

[6] See Australian Banking Association (2022), 'Australian Banks Encourage Customers to Use PayID to Combat Scams', Press Release, 18 July.

understand these new technologies and innovations and any implications for the competition, efficiency and stability of the payments system. As we look to how the payment system could evolve in the future, a particular area of focus for the Bank has been on researching CBDC.

Central bank digital currencies

Many central banks, including the Reserve Bank, are investigating the potential use, benefits and other implications of issuing CBDC. A CBDC refers to a digital form of money that would be issued by a central bank and could be used by households and businesses as a medium of exchange, and function as a complement to existing forms of money (such as cash and balances in commercial bank deposit accounts). Consideration of CBDC has generally distinguished between two broad use cases: a CBDC for retail (or general purpose) use, which would be like a digital version of cash that is essentially universally accessible; or a CBDC for wholesale use, which would be accessible only to a more limited range of wholesale market participants (such as banks and large corporates) for use in wholesale payment and settlement systems.

To extend its research capabilities on CBDC, the Bank has established a cross-disciplinary team within the Payments Policy Department that is focused on researching the case for CBDC in Australia as well as technological, design and policy considerations. A number of research projects were completed during the past year. In December the Bank published a report on Project Atom, in which the Bank collaborated with a number of industry partners to develop a proof-of-concept for a wholesale CBDC using distributed ledger technology that could be used for the settlement and repayment of tokenised syndicated loans.[7] The Bank was also involved in a collaborative project with a few other central banks and the BIS Innovation Hub that developed a proof-of-concept for a common international platform that could be used to settle transactions in wholesale CBDCs across different jurisdictions and currencies (Project Dunbar).[8]

A question that has received less attention to date, particularly in countries like Australia with relatively modern and well-functioning electronic payment systems, is the rationale for CBDC and its potential economic benefits. To help address this, the Bank recently initiated a collaborative research project with the Digital Finance Cooperative Research Centre (DFCRC) that is focused on exploring use cases and business models that could be supported by the issuance of a CBDC, retail or wholesale.[9] The project, which is expected to take about a year to complete, will involve the development of a limited-scale CBDC pilot that will operate in a ring-fenced environment for a period of time. Interested industry participants will be invited to develop specific-use cases that demonstrate how a CBDC could be used to provide innovative and value-added payment and settlement services to households and businesses. The Bank and the DFCRC will select a range of different use cases to participate in the pilot, based on their potential to provide insights into the possible benefits of a CBDC. A report on the findings from the project, including an assessment of the various use cases developed, will be published at the conclusion. The findings

[7] See RBA *et al* (2021), 'Project Atom: Exploring a Wholesale CBDC for Syndicated Lending', December.

[8] See RBA *et al* (2022), 'Project Dunbar: International Settlements Using Multi-CBDCs', March.

[9] See RBA (2022), 'Reserve Bank and Digital Finance Cooperative Research Centre to Explore Use Cases for CBDC', Joint Media Release, 9 August. The DFCRC is an industry and government funded research consortium that has been established to undertaken industry-led research aimed at exploring the opportunities arising from the digitisation of assets and the real-time trading and exchange of those assets on digital platforms. The Bank is participating in the DFCRC as part of its strategic focus on supporting the evolution of payments, including research on CBDC.

will contribute to ongoing research into the desirability and feasibility of a CBDC in Australia.

Taking into account international research and developments in relation to CBDC and the Bank's research to date, the Bank's view is that there is not a strong public policy case for issuing a retail or wholesale CBDC in Australia at the moment. A key consideration in this assessment for retail CBDC is that, while cash use for transactions has been declining, the amount of cash in circulation remains at a historically high level in Australia and the community still has good access to cash services. The work the Bank has been doing to review the wholesale cash distribution system is also aimed at helping preserve access to cash services (see discussion above). Nonetheless, given the increasing digitalisation of the economy, the Bank maintains an open mind to the possibility that a case for CBDC in Australia could emerge in the future. The Bank will continue to pursue an active research agenda, including seeking input from end users and collaborating with industry participants and other central banks. The Board continues to be regularly briefed and is very supportive of the Bank's CBDC research program.

Innovation in retail payments and industry engagement

Innovation has been playing a significant role in shaping other aspects of the retail payments landscape in recent years. The Bank has devoted significant resources to understanding these innovations in the payments system. As part of this, the Bank has been seeking to enhance its engagement with innovative firms in the payments sector, such as fintechs, through a more structured outreach program.

One area of focus has been the BNPL sector. As discussed in the chapter on 'The Evolving Retail Payments Landscape', payments made using BNPL services have grown very rapidly over the past few years and there has been a significant expansion in the market for BNPL services. To better understand these developments, the Bank initiated a new data collection from large BNPL providers last year. Policy issues raised by the rapid growth in BNPL were also considered by the Bank in its recent Review of Retail Payments Regulation (see discussion above).

Another recent focus has been on the growing adoption of 'digital wallets' (e.g. Apple Pay and Google Pay). These are applications that enable consumers to make contactless (and in some cases online) purchases on their smart phones and other mobile devices using digital representations of their payment cards stored within the digital wallet. The emergence of digital wallets is a prominent example of the increasing involvement of multinational technology companies in the Australian payments industry. As part of its ongoing monitoring efforts, the Bank initiated a data collection on mobile wallet transactions during the past year. These data show that the share of consumer payments made via digital wallets has increased significantly in the past couple of years, to around one quarter of all card-based transactions (see chapter on 'The Evolving Retail Payments Landscape'). The strong growth in the use of digital wallets indicates that consumers increasingly value the convenience and security of making payments from their mobile devices. However, digital wallet services can also introduce new costs into the payments chain and raise other policy issues. The ACCC, for example, is currently investigating whether the restrictions Apple places on direct access to the near-field communication (NFC) chip in Apple mobile devices for third-party digital wallets raises any competition concerns. The Bank has provided assistance to the ACCC as part of this investigation.

Strategic priority: Identify and resolve any competition and efficiency issues associated with new technologies and players in the payments system

The structure of the payments system is evolving rapidly, with new entities becoming involved in the payments value chain and new technologies being used to facilitate payments. This is clearly providing benefits to end users of the payments system. However, it can also raise concerns in regards to access, competition and efficiency. Questions can also arise about how new players and technologies fit within existing regulatory structures and whether any changes to regulation are required to accommodate them.

The Bank has been assisting the Treasury and other regulatory bodies on a number of reforms to the regulatory framework for payments which are designed to accommodate changes to the payments ecosystem.

Reform of the payments regulatory framework

In December 2021, the government announced its response to a number of government reviews and inquiries into the regulatory framework for payments in Australia, including the Treasury Payments System Review that concluded in mid-2021.[10] In its response, the government committed to a comprehensive set of reforms to the regulatory framework for payments. The Bank has since been supporting Treasury in the process of implementing these reforms, some of which have implications for the Bank's regulatory powers and responsibilities in the retail payments system.

[10] See Treasury (2021), 'Transforming Australia's Payments System', Government Response, 8 December.

Revising the Reserve Bank's regulatory responsibilities

The government endorsed the Treasury Review's recommendation to modernise definitions in the *Payment Systems (Regulation) Act 1998* (PSRA) to enable the Bank to regulate in the public interest a wider range of systems and entities that participate in the payments ecosystem. Significant changes have occurred in the payments landscape since the PSRA was introduced over 20 years ago. Updating the definitions in the PSRA will help the Bank continue to fulfil its mandate to promote competition, efficiency and safety in an evolving payments ecosystem. The Bank is continuing to support the Treasury in implementing this part of the reform agenda.

Access to payment systems

The Bank has a strong interest in ensuring that payment service providers have reasonable and competitive options to access payment systems when providing services to their customers. Many payment providers connect to payment systems indirectly through a sponsoring institution. In the case of the NPP, payment service providers can also join the system as a 'connected institution', which allows them to initiate payments with other participants, but not be involved in the clearing and settlement of those payments. While indirect access options suit many providers, some payment providers may prefer to participate directly in clearing and settling payments on behalf of their customers without reliance on another financial institution. Currently, some payment systems have access criteria that make it difficult for non-banks to gain direct access. Payment system operators often rely on the risk management requirements imposed on banks and their supervision by APRA to mitigate risks to the payment system and its participants.

The Bank has started work to develop a set of common access requirements to help support access to payment systems, including access to clear and settle payments directly via the NPP. The intention is for these requirements to be incorporated into a new licensing framework for non-bank payment service providers. The Bank supports the development of the new licensing framework and common access requirements as a way to reduce barriers to entry and promote competition and innovation in the payments system. It will continue to engage with payment system operators, payments providers and other regulators as this work progresses.

The Bank had expected to consider issues around access to the NPP as part of a second review of NPP access and functionality that the Bank had planned to undertake with the ACCC.[11] The Bank and ACCC have decided not to proceed with a second review on NPP access and functionality at this stage, given the ongoing work with Treasury on developing the new payments licensing framework and common access requirements, and the need for industry to focus on implementing the functionality set out in the NPP roadmap.

Industry standard setting

The Bank is developing a new authorisation framework for industry standard-setting bodies as part of the payments regulatory reform agenda. Under this proposal, holders of the new payments licence would need to comply with certain 'core' standards set by an authorised industry standard-setting body. Given that compliance would be compulsory, the Bank would be provided with the power to authorise and oversee the industry bodies setting these standards. In fulfilling this new responsibility, the Bank would have regard to a body's governance and capabilities, and ensure that it performs its functions in a way that is consistent with broader payments policy objectives.

The Bank is working with Treasury on the design of the proposed new regulatory regime for industry standard setting, and consulting with industry stakeholders, including the Australian Payments Network (which currently sets various technical standards for its members).

Addressing de-banking of fintechs and non-bank payments providers

In recent years, numerous fintechs and non-bank providers of payment services have faced significant difficulties accessing banking services, including the ability to access payments infrastructure. Banks declining to offer or withdrawing their services is commonly referred to as 'de-banking'. This can have a significant impact on the affected firms and individuals relying on them for services. De-banking is often a consequence of how banks manage their financial crime risks. The issue highlights the challenge of balancing the objectives of controlling financial crime and promoting competition and innovation in financial services.

In early 2022, the Treasurer requested advice from the CFR on key trends in de-banking, its underlying causes and potential policy responses in relation to fintechs, digital currency exchanges and remittance providers. A working group consisting of representatives from the CFR agencies, ACCC, AUSTRAC and the Department of Home Affairs has been examining the issue. This process involved consulting with the industry on possible policy options, including measures to deal with banks' risk aversion around certain sectors and to improve transparency around banks' decision processes. The introduction of new licensing frameworks for payments service providers and crypto-asset secondary service providers could

[11] The Bank completed an initial review of NPP access and functionality with the ACCC in 2019: RBA (2019), 'New Payments Platform Functionality and Access: Conclusions Paper', June. At the time, the Bank indicated that it would conduct another review, but this was deferred in mid-2021 in light of the ACCC's consideration at the time of NPPA's proposed merger with BPAY and eftpos and also pending the outcome of the Treasury Payments System Review.

help alleviate de-banking pressures by providing banks with greater assurance of a licensed entity's risk management capabilities. Advice was provided to the government in late August.

Crypto-assets and stablecoins

The Bank has continued to monitor developments in crypto-asset markets and assess potential implications for the payments system and financial stability. During the year, a number of developments in crypto-asset markets, including significant price volatility and the failure of a number of players in the sector, highlighted the need for a robust regulatory framework for certain types of crypto-assets. Regulation in this area should support innovation while also providing appropriate consumer protection and guarding against potential financial stability risks.

A focus for the Bank has been stablecoins, a type of crypto-asset that aims to avoid the price volatility associated with 'unbacked' crypto-assets such as Bitcoin. Stablecoin arrangements are designed to maintain a stable value against one or more fiat currencies or assets (e.g. the US dollar or gold). Some stablecoins aim to achieve this by investing the funds received from buyers in a pool of high-quality liquid assets to back the coins on issue. However, some of these so-called 'asset-backed' stablecoins may only be partially backed, or may not hold high-quality assets or provide sufficient transparency about their assets. Other types of stablecoins, known as 'algorithmic' stablecoins, seek to maintain a stable value using complex algorithms that attempt to control the supply of the coins on issue to balance changes in demand. Depending on how their stabilisation mechanism is structured, stablecoins can be vulnerable to a loss of investor confidence, resulting in a 'run' on the coin and potential failure of the arrangement. This vulnerability was demonstrated in May with the collapse of TerraUSD, the largest US-dollar algorithmic stablecoin at the time.

Notwithstanding the recent market disruptions, demand for stablecoins has been growing over the past few years, mostly to facilitate trading in unbacked crypto-assets. There has been increasing interest in the potential for stablecoins to enhance a range of payment and financial services, and many companies, including banks, have been exploring issuing or supporting stablecoin arrangements. In Australia, one of the major banks recently conducted a number of pilots of an Australian dollar-denominated stablecoin, and other established participants in the global payments industry have announced plans to explore use cases for stablecoins.

Given the increasing interest in stablecoins and the risks they can pose, regulators globally have been considering how to appropriately regulate stablecoin arrangements. Regulators are particularly focusing on stablecoins that could become widely used for payments, as the failure of these arrangements could cause significant disruption to the financial sector and economy. Payment stablecoins will typically have features that make them attractive to hold as a means of payment or store of value, such as being fully asset backed and promising full redeemability at par and on demand in a national currency. At the international level, Bank staff have been involved in a FSB working group that has been reviewing a set of high-level recommendations on the regulation, supervision and oversight of global stablecoin arrangements in light of recent market and national regulatory developments. The Bank is also involved in the CPMI Future of Payments Working Group, which has been examining how well-designed and risk-managed stablecoin arrangements could improve cross-border payments.

Consistent with the international regulatory work in this area, the Bank has been working with other CFR agencies to develop an

Australian regulatory framework for payment stablecoins. These stablecoin arrangements bear similarities with stored-value facilities (SVFs) and so the CFR has been exploring options for incorporating them into the proposed regulatory framework for SVFs. The SVF framework was developed by the CFR a few years ago and is being implemented as part of reforms to the payments licensing framework.