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Australian Payments Plus submission to the Standing Committee on Economics

Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

Senate Inquiry “Treasury Laws Amendment (Consumer Data Right) Bill 2022 [Provisions]”

Delivered via email: economics.sen@aph.gov.au

Australian Payments Plus (AP+) welcomes the opportunity to make a submission to the Standing Committee on Economics inquiry into “Treasury Laws Amendment (Consumer Data Right) Bill 2022 [Provisions]”

AP+ brings together Australia’s three domestic payment organisations, BPAY Group, eftpos and NPP Australia into one entity. Operating in the public interest, AP+ focuses on meeting the needs of all payment users and representing the views of a diverse range of stakeholders. The Summary of proposed changes for the primary legislation states that expanding CDR to include action initiation “would empower consumers to authorise, manage and facilitate actions securely in the digital economy.” Payment initiation is expected to be one of the key ‘action types’ and was highlighted in the Future Directions of the Consumer Data Right report. AP+, as a network operator for key domestic payment systems, has existing third party payment initiation products and processes operating today, including eftpos card-not-present / online for debit card transactions and PayTo for account-to-account transactions.

AP+ supports the government’s intention, as reflected in Scott Farrell’s reports, of enabling payment initiation via a range of existing payment systems, including PayTo. However, in the case of payment initiation via the NPP, we see significant risk of introducing action initiation for payments **that does not significantly leverage** the 6+ years of development and investment by the financial industry and NPP Australia to support third-party payment initiation via ‘PayTo’, which was specifically created for this purpose and is operational



today. If payment initiation was made available via the NPP through the legislative framework, it may deliver duplicative/parallel payment initiation capability without any incremental benefit. Significant investment has been made in developing the NPP's liability and risk framework together with a customer experience that protects payer customers and financial institutions in the event that a payment instruction results in a payment that was either unauthorised or fraudulent.

AP+ agrees with the statement in the 'Inquiry into Future Directions for the Consumer Data Right that notes "...standardised APIs should be designed by the DSB in close consultation with banks, payment system operators, consumer groups, accredited persons and other stakeholders. This collaboration will ensure that the mandated APIs leverage the existing work undertaken by banks and payment systems and are able to interoperate with services beyond CDR payment initiation." In this spirit banks and payment systems should be able to leverage the investment in PayTo payment initiation capability, rather than having to support bespoke payment initiation capabilities using the NPP that do not leverage PayTo.

AP+ suggests, PayTo could be used in the Instruction and Action Layer for CDR Payment Initiation, as it adds value not covered by CDR. This value includes a liability framework, a commercial model, and consistent end user controls.

AP+ has not identified any gaps in use cases that CDR payment initiation is seeking to address over the NPP that cannot be achieved via PayTo.

PayTo

NPP Australia has been working with the financial services industry over the last six years to design a solution for third party payment initiation for account-to-account payments, PayTo, which is now live in market. Over 100 financial institutions are progressively rolling out PayTo and it is expected that a majority of Australian banking customers will have PayTo enabled on their accounts by mid 2023.

PayTo is a new, digital way for businesses to initiate real-time payments from customers' bank accounts and gives customers visibility and control over payment arrangements linked to their bank account. PayTo provides a safe, efficient, convenient, and secure way for third parties to initiate real-time payments directly from customers bank accounts.

The service is built upon NPP Australia's Rules framework, liability model and robust governance used to operate the NPP today. Specifically, PayTo has appropriate controls in place that ensures the ongoing protection of consumers and utilises existing features and



safeguards such as PayID, secure authentication practices, fraud prevention, liability allocation and risk management processes.

PayTo Use Cases

PayTo has been intentionally designed to support a broad range of use cases and different payment initiation scenarios. These include the wide range of use cases that we are seeing emerging in other markets with the development of Open Banking. These supported use cases include:

- Payments initiated by the **payee**:
 - Direct debit payments
 - Merchant-initiated ecommerce and in-app payments
 - Funding for other payment options such as digital wallets and BNPL services
- Payments initiated **on behalf of the payer**:
 - Corporate payroll
 - Accounts payable
 - Fintech applications (e.g. Personal Finance Management)

PayTo can be used for a range of payments including regular recurring payments, multiple ad-hoc payments or one-off payments. AP+ has not identified a CDR payment initiation use case via the NPP that cannot be achieved by PayTo.

PayTo and CDR Outcome Alignment

Payment initiation will play a critical role in driving innovation and delivering better experiences and outcomes for consumers and businesses. PayTo delivers a comprehensive solution for third party payment initiation for account- to-account payments and is aligned to some of the core CDR principles:

- **Consumer focused** – PayTo enables a more digital, secure and enhanced user experience, providing customers with more visibility and control over their payment arrangements. It also helps customers move bank accounts more easily between financial institutions, by enabling porting of their PayTo agreements.



- **Encourages competition** – PayTo can be used by a range of organisations, both financial institutions and others, to develop more seamless customer experiences and payment offerings. Connectivity to the NPP network has been built on ensuring a variety of access models tailored to cater to different commercial propositions.
- **Creates opportunities** – PayTo is transformative capability that will be the springboard for future innovation supporting a broad range of use cases, for both consumers and businesses.

PayTo and CDR Interoperability

As referenced in the Future Directions of the Consumer Data Right report, the delivery of the PayTo service could be one means by which financial institutions can meet any potential obligations to deliver payment initiation under CDR.

As significant payments infrastructure already in market with a fully developed rules framework and liability model, PayTo should be closely considered when the detailed design work is performed to extend the CDR framework to include payment initiation and when the accompanying legislation is developed. There are **two key areas** which should be a focus for ensuring there is interoperability between CDR (as the instruction layer) and PayTo (as the action layer):

1. Authentication Processes:

As part of PayTo, a common process for establishing customer authorisation for payments that can be initiated from a customer's bank account has been established. This authorisation process is being built and implemented by over 100 account servicing financial institutions.

This work has involved considerable effort and investment by financial institutions to deliver this capability in their mobile and internet banking channels. Where possible, this existing capability should be fully leveraged when considering the customer experience for CDR payment initiation and any changes minimised.

User testing conducted by NPP Australia during the design process for PayTo also revealed that customers felt a greater sense of security and reassurance in having to authenticate themselves within their banking channel and authorising these payments in their banking environment, given authorisation involves the actual movement of money from the customer's bank account.



Our perspective is that this authentication and authorisation approach is technically more secure, and less prone to phishing or enumeration attacks.

The separation of the instruction and action layer allows activities associated with payment authorisation to be specific to the action layer and not governed by the CDR framework. For example, the authorisation required for a PayTo payment must comply with the NPP rules and obligations as defined by that scheme. This allows for actions to differ between schemes and across industries.

2. **Third Party Access:**

Payment initiation under CDR will also need to consider what the appropriate level of accreditation is required for third parties to be able to initiate payments from a customer's bank account. A key feature of PayTo is that third parties require only one access point to the NPP infrastructure to initiate payments from any one of the 88m+ NPP enabled accounts which are eligible for PayTo payments.

This is a key differentiator to third party payment initiation in other markets, such as the UK, and removes the need for a fintech to integrate with each and every financial institution where their customers hold their bank accounts – or the need to use intermediaries.

Third parties wanting to use the NPP to initiate payments via PayTo have a range of access options, including the option to connect directly without the need for an ADI licence as a Connected Institution. An Accredited Action Initiator could be an NPP Participant, NPP Identified Institution, NPP Connected Institution, or have a commercial relationship with any one of the ~110 existing organisations from one of these three categories.

As well as providing access to third parties to support payment initiation, this would also support the creation of PayTo payment arrangements and the ability to view (and potentially, amend) existing payment arrangements that their customers are a party to.

AP+ is also broadly supportive of potential alignment between AP+ access requirements, CDR role accreditation, and a proposed new tiered payments licensing framework.

Specific feedback on draft legislation:

1. **The Bill:** AP+ does not have any specific feedback on the legislation, noting that it is largely in the form of enabling legislation only and that further consultation will occur on the Rules at a later stage.



2. **PayTo Agreements as a dataset:** with the ongoing rollout of PayTo this year, the current CDR data sets should be expanded to include PayTo agreements for Data Holders and Data Recipients. This has the potential to deliver enhanced and more integrated payments customer experiences.
3. **Aligning forms of consents:** future work may also include aligning the customer experience for consents provided by customers under the Consumer Data Right and payment authorisations for PayTo agreements. This work may consider how these two experiences interoperate and could best be combined. .

Consultation for designation and action declaration

AP+ notes that consultation is required before the designation of a sector or declaration of an action. This consultation should be broad and consider impacts to the payments ecosystems including risks associated with liability, fraud and customer experience.

AP+ looks forward to continuing to work closely with the Treasury CDR team as work progresses to deliver payment initiation under CDR, resulting in better customer experiences and promoting competition and innovation in the market.

Yours faithfully

Adrian Lovney

Chief Payments & Schemes Officer