



**Parliamentary Joint Committee on Corporations and
Financial Services inquiry into Mobile payment and digital
wallet financial services - May 2021**

Google Response

Introduction

Google welcomes the opportunity to submit evidence to the Parliamentary Joint Committee on Corporations and Financial Services' inquiry into mobile payment and digital wallet financial services.

We believe that there is a competitive mobile payment and digital wallet landscape in Australia and that this competition is providing consumers with greater choice and faster new, innovative products. We believe there are three key opportunities to improve innovation and competition in the ecosystem going forward. First, we believe competition for mobile payments and digital wallets can be increased by enabling third-party access to the NFC controller on devices. Second, we believe a consistent 'user flow' should be ensured for payment initiation to support user adoption across the entire payments ecosystem. Third, we believe legal and regulatory frameworks should keep pace with technological change and broader trends in the payments ecosystem, particularly with regards to ensuring sustainable commercial models for Open Banking.

For the purposes of this submission, we will use the McKinsey definition of digital wallets: "an app or solution that can be used to store card or bank information to make purchases, pay for services, or make online payments to family or friends—that is, peer-to-peer (P2P)."¹ As such, we will focus our submission on Google Pay and our third party digital wallet transactions.

Google Pay in Australia

Google Pay is a simple and safe way for people to pay for things both online and in-store. We work with partners - both merchants and financial institutions - to extend the benefits of digital payments to their customers and make this accessible to all. Partnership is central to how we approach building and scaling our payments product globally. We want to work within the existing ecosystem by developing deep partnerships with banks, merchants and regulators to help them drive economic growth and boost financial inclusion.

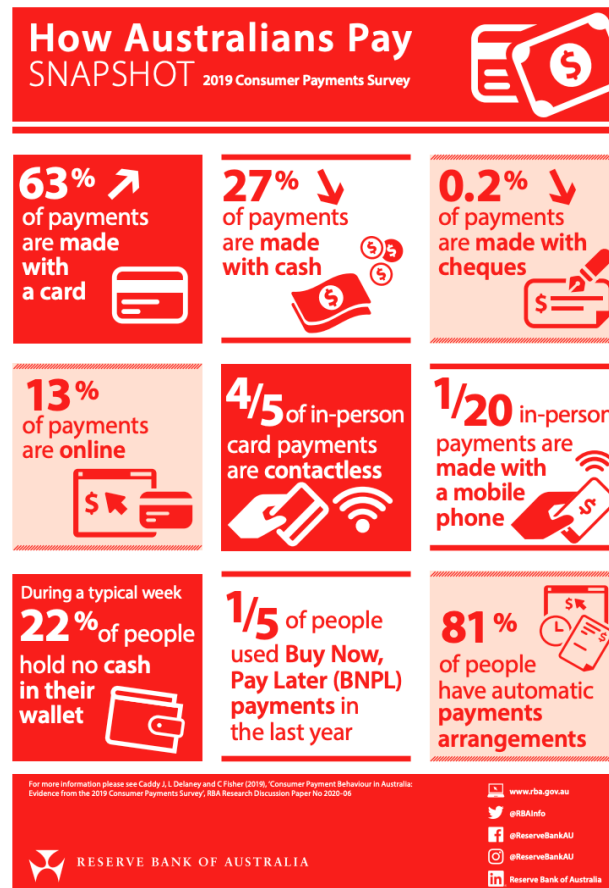
Google Pay launched in Australia in 2016 under the name 'Android Pay' and was subsequently rebranded to Google Pay in 2018. Google Pay in Australia supports contactless in-store payments and online ecommerce payments using card-based forms of payment, including virtual card transactions (also referred to as 'tokenised' cards). Tokenisation standards have been set by EMVCo and the respective credit and debit card networks and allow for transactions to be made in-store using the NFC chip within a phone to emulate a card transaction, whilst also allowing for technological and security enhancements.

Google's ability to support both standard and virtual card transactions provides our users with flexibility to use any device or operating system to make a payment, where supported by such device manufacturers or operating system providers. Over time Google will continue to explore ways to innovate in this field, taking account of local conditions and regulatory frameworks.

¹ [*Are convenience and rewards leading to a digital flashpoint?*](#), Insights from McKinsey's 2019 Digital Payments Survey, McKinsey & Company, October 2019

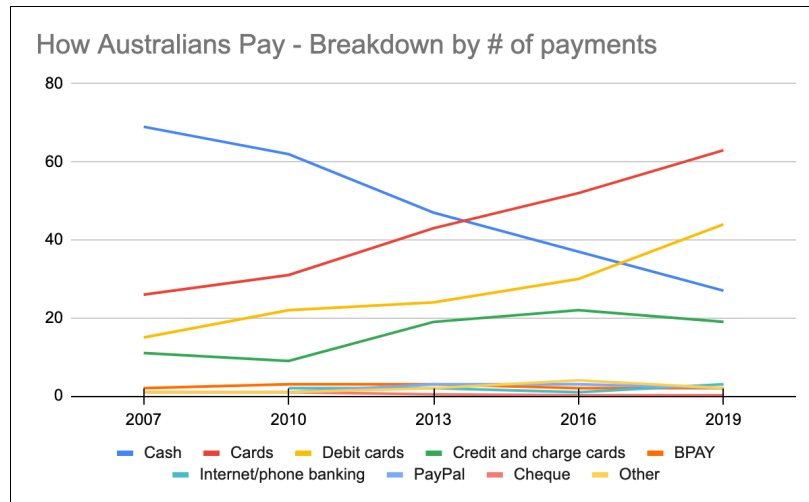
Payments in Australia

The Reserve Bank of Australia (RBA) conducts a triennial study into consumer payments. This was most recently run in October and November 2019. The study provides comprehensive data about how Australian consumers make their payments, as well as information about their payment preferences and attitudes.



[Snapshot of 2019 RBA consumer payment study](#)

Consumers have a variety of ways that they can pay today ranging from cash, debit cards, credit cards to phone banking and other forms of payment such as gift cards and welfare cards. The RBA consumer payment study provides a breakdown - by number of payments - of the forms of payment Australians use (see the following graph):

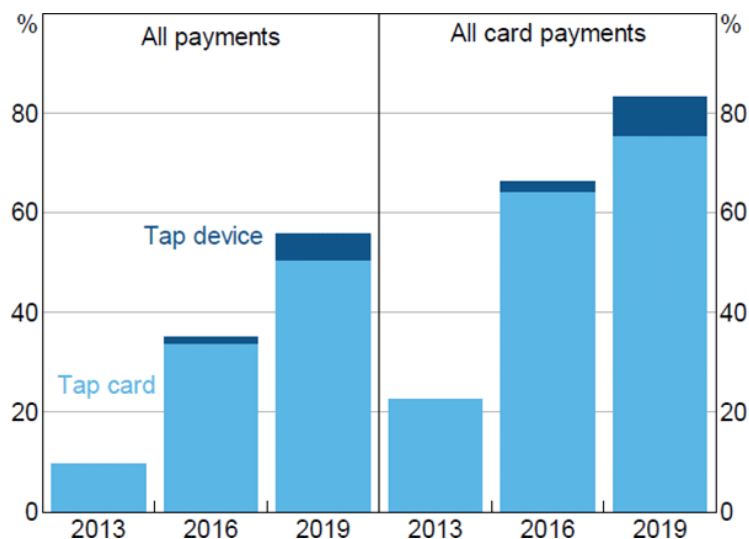


Source: [RBA Consumer Payment Study](#)

Instore

Some key statistics from [the RBA consumer payment study about mobile payments](#):

- Contactless payments are widespread in Australia. Today, most of these payments are made with physical cards rather than devices:



- Pre-Covid, payments with a mobile phone or other payment-enabled devices such as smart watches represented 5% (or 1 in 20) of all in-person payments. (Now, digital wallets account for 8% of POS payments and 24% of ecommerce payments in Australia.²)

² [The Global Payments Report](#), Worldpay from FIS, 2021

- ~20% of Australians had payment card details stored in a mobile wallet.

Question 1

“The nature of commercial relationships and business models, including any imbalance in bargaining power, operating between providers of mobile payment digital wallet services and:

- 1. providers of financial services in Australia;***
- 2. merchants and vendors; and***
- 3. Consumers”***

Providers of financial services in Australia

Android provides open access to its Host Card Emulation (HCE) technology which supports the ability to create digital versions of cards across Android devices. This open access enables any third party (including developers, banks, hardware manufacturers, fintechs etc.) to develop mobile payment functionality. It is this open access that has led to a wide range of options for consumers in digital wallets on Android, thus enabling the likes of Samsung Pay and bank apps to co-exist alongside Google Pay.

Android also allows users to select their own default digital wallet, or switch for one-time use. For example, this allows for a Commonwealth Bank of Australia (CBA) customer to use the “Tap and Pay” digital wallet within the CBA app for in-store purchases as a default and still use Google Pay in specific use cases, such as online, which is not currently supported by the CBA app.

Google Pay is supported by the majority of Australian banks on open, non-exclusive terms. The majority of our bank and card issuer partners offer more than one digital wallet for their Android customers. Google does not charge our bank and card issuer partners to enable their virtual cards for in-store or online transactions.

Merchants and vendors

When a payment transaction is facilitated between a consumer and merchant in Australia using Google Pay, Google Pay does not charge the merchant a fee. In addition, we do not charge acquiring banks or payment service providers (PSPs) for processing a Google Pay transaction.

For in-store payments, merchants have discretion to select which payment methods they will accept. For example, they decide whether or not to accept American Express cards or Afterpay. For online payments, merchants have similar discretion. For example, they decide whether or not to enable PayPal or Google Pay.

Internationally, there are instances where Google charges participating merchants a fee for

specific custom-developed features or services that generate significant incremental value for users and merchants alike. In such cases, Google Pay can be seen as an additional channel for merchants to attract new customers and generate incremental revenue. Examples include a 'mobile prepaid top up' service offered within the Google Pay app in India, or, a 'Pay at Pump' petrol service offered in the US.

Should any new merchant features be introduced to the Australian market with a commercial model similar to those mentioned above, merchants will choose whether or not to use our service. And any commercial offering would have to create added value for merchants in order to encourage adoption.

Consumers

Google does not charge users for the use of Google Pay in Australia, whether to shop online or contactlessly pay at stores. In other jurisdictions there are some examples where we charge users for specific functionality based on actual fees and costs incurred.

Given open access to the NFC chip on Android devices, there are multiple digital wallets that consumers can choose between. For example, Google Pay, Samsung Pay, CBA "Tap and Pay" and National Australia Bank (NAB) Pay for virtual card solutions and standard credit cards; or PayPal and Google Pay for mobile wallet online payments.

Question 2

"Differences between commercial relationships in Australia and other jurisdictions?"

As stated above, there are no commercial relationships in Australia directly related to the use of Google Pay.

As stated in Question 1, Google Pay in Australia does not charge merchants or consumers. In other jurisdictions, including India and USA, there are examples of where Google Pay does charge merchants or consumers either to cover significant variable costs related to specific functionality (such as certain P2P payments) or due to the creation of meaningful incremental value to specific parties via Google Pay as a channel for customer acquisition and/or incremental business. This is in line with industry practice in those markets.

Question 3

"The implications for competition and consumer protection?"

Competition

An open architecture for the Android ecosystem has fuelled innovation in Australia and globally. Enabling third parties to access the NFC controller has resulted in significant payments innovation, and we have seen this in Australia with ‘host card emulation’ based digital wallet solutions created by device manufacturers, banks and payments companies. According to public estimates, including App Annie, there are now millions of users on major apps with payment functionality such as Samsung Pay, CBA “Tap and Pay” and “NAB Pay”.

Options for phone-based Digital Wallet payments for in-store use in Australia

(Non-exhaustive)

Financial Institution and Card Issuer	Android Smartphones			iOS Smartphones
	Google Pay	Samsung Pay	Bank’s Own App	Apple Pay
CBA	✓	✓	✓ CBA ‘Tap and Pay’	✓
Westpac	✓	✓	X	✓
ANZ Bank	✓	✓	X	✓
NAB	✓	✓	✓ ‘NAB Pay’	✓
ING Direct	✓	X	X	✓
Bankwest	✓	X	X	✓
Suncorp	✓	✓	X	✓
Citibank	X	✓	X	✓

Sources: [Google Pay](#), [Samsung Pay](#), [Apple Pay](#)

Consumer Protection

Users in Australia have significant choice across a number of alternatives for Android-based mobile payments and digital wallets. Competition drives all mobile payment and digital wallet providers (including Google) to continually improve their product and invest in new features in order to create more value for users. For example, we have invested in Australia-only features such as improving the transit experience for users in Melbourne by digitising the myki card. Users no longer need to purchase or top up a physical card, thus saving them time.

Given all transactions conducted via Google Pay in Australia are currently card-based transactions, from a consumer protection perspective, it is also important to highlight that the scheme rules of the respective card schemes underpin all transactions and facilitate dispute resolution. Card-based fraudulent transactions can be reduced significantly by using virtual card numbers limited to digital wallets and bound to a specific device. At Google, we continue to expand our support for new security protocols that support a reduction in card-based fraud, including new forms of authentication methods for our bank partners when enrolling cards and new forms of virtual cards, including 'e-commerce tokens'.

Google Pay - Privacy and Security

Google is fully committed to protecting the privacy and security of our users across all of our products. As with other Google products, Google Pay will protect the privacy and security of the personal information of our users and offer them transparency, choice and control over their data. We have designed and developed Google Pay with a number of key safeguards.

How Google Pay protects user data:

- The personal information of Google Pay users is never sold to any third party.
- Transaction history is not shared with any other Google service for targeting ads.
- Users can find [key information](#), privacy and security settings in their Google Account. Our easy-to-use tools like Dashboard and My Activity provide transparency on what data is collected from a user's activity across Google services and powerful privacy controls.

How Google Pay provides secure transactions:

- Device authentication: Google Pay requires device authentication - via a pin, pattern or biometric sensor - for high value transactions.
- Payment tokenisation: when a user taps to pay in-store, Google Pay uses tokenisation, the industry standard for safe and secure contactless payments. The app sends a Virtual Account Number to the merchant instead of your actual card number, so your payment information stays private.
- Lost devices: in the event a user's device is lost, they can remotely wipe their device and any related payment credentials (unlike a traditional card).

Question 4

“The adequacy, performance and international comparison of Australian legislation, regulations, self-regulation, industry codes, standards and dispute resolution arrangements”

In the specific context of mobile payments and digital wallets, it is our view that Australia’s legislation, regulations, codes, standards and dispute resolution arrangements are broadly working for today’s card-based use cases.

We suggest there are **three key opportunities** to improve innovation and competition in the ecosystem going forward:

(I) Increase competition for mobile payments and digital wallets by enabling third-party access to the NFC controller on devices

(II) Ensure a consistent ‘user flow’ for payment initiation to support user adoption across the entire payments ecosystem. Payment initiation services are critical to enabling innovation and the provision of a range of high-quality payment-related services from a range of ecosystem participants.

As we understand it, there are two approaches under consideration in Australia that could address payment initiation: a possible extension of the CDR to include ‘write access’, and the extension of the NPP to allow third party access (which is planned in the roadmap for 2022).

From a user perspective, it is critical that the proposed user flows (i.e. the steps the user takes to initiate a payment) are consistent and that initiating a payment via either approach with any issuer does not have widely disparate authentication and consent management flows (while allowing for innovation such as the use of new and improved authentication mechanisms). User flow inconsistency can cause difficulties including user confusion and frustration during the payment initiation process, which in turn can lead to lower adoption.

(III) Encourage future innovation by ensuring legal and regulatory frameworks keep pace with technological change and broader trends in the payments ecosystem. This will be essential to ensure Australia’s global competitiveness in this space and help create economic opportunity for consumers and businesses, both large and small.

For example, in our forthcoming white paper on Open Banking (pdf attached), we outline four key areas where, globally, we believe central banks, regulators and market participants should focus their attention when designing Open Banking systems (API scope, the API framework, simple authentication and the need for commercial models). We would be happy to discuss any of these areas in more detail if of interest.

In particular, we encourage the adoption of an ecosystem-wide principles-based approach to allow sustainable commercial models to emerge. This means recognising that payment services providers need to cover at least their direct costs – by allowing room for

ecosystem fees, as well as innovation in business models and service delivery. At the same time, the approach must also respect policymakers' goals for Open Banking by ensuring that ecosystem-level costs remain low to stimulate adoption and drive innovation in other areas of financial and commercial service provision.

These ecosystem-wide principles should in our view include:

- *Competitiveness*: Overall system fees should remain competitive with existing solutions.
- *Financial scalability*: Fees to individual participants should reflect the actual incurred cost of provision - not scale linearly with payment volume.
- *Value for processing*: FSPs should be incentivised to invest in lowering costs and improving service levels, and to compete for greater processing volumes.
- *Fee parity*: No user or merchant should face different charges for payments made via a third party provider vs. a direct Open Banking participant. Rather, fees should primarily be borne by third party providers and payer FSPs.
- *Protected thresholds and classes*: Fees should not be levied on third party providers and FSPs below a minimum volume threshold, so as to support new entrants. Additionally, fee exemptions should be considered for low-value micro-transactions, and transactions with qualifying small enterprises and social entities, e.g. charities.
- *Clear standards on limits of liability, fraud responsibility, and dispute resolution* should be set between FSPs and third party providers, ideally by an appointed third-party body.

Question 5

“Any related matters?”

Google Pay white papers on digital payments infrastructure

Google is eager to be a constructive player in the development of digital payments infrastructure that benefits the whole ecosystem. As such, we have developed three white papers which summarise our recommendations Open Banking, third party initiation and real time payments:

1. [Real Time Payments Systems and Third Party Access Whitepaper](#) (published in 2019)
2. [Design principles for Third-party Initiation in Real-time Payment Systems](#) (published in 2021)
3. **Open Banking Whitepaper** (soon to be published , pdf attached)

In addition to publishing these white papers, we are keen to engage with governments, regulators, industry bodies and other key stakeholders on ways to improve the financial

ecosystem and drive plans for increasing economic opportunity and financial inclusion.

In Australia, our engagement to date has been largely focused on contributing through the Auspaynet Industry Body, of which we are an operating member. In addition, we have responded to requests for information from the RBA, ASIC and other relevant entities. We would like to extend our support on such matters to this Committee for any additional requests.

GPay perspective: Open banking system design

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Executive Summary

What is Open Banking?

Open Banking is the use of open APIs that enable consumers to use third-party products and services that communicate with financial institutions to manage their finances. So far, Open Banking APIs allow consumers to securely:

1. Share their financial data with non-bank third parties of their choosing (Account Information Services, or AIS).
2. Initiate payments from their bank accounts via third parties of their choosing (Payment Initiation Services, or PIS)

Open Banking holds the potential to drive innovation and spur competition across digital ecosystems, with user consent and high consumer protection standards. In the countries where it has been implemented, Open Banking is driving the creation of innovative products and services, which are enabling more choice and better financial options for consumers and small businesses.

Executive Summary

Open Banking models across the world

To date, a number of Open Banking models have been used in various markets. Two key examples are:

- **India's Unified Payments Interface (UPI)**, which enables third-party initiated payments (PIS) through a centralized API framework, has been used to drive the digitisation of payments and movement of money with phenomenal success. As of November 2020, UPI transaction volume had reached the 2 billion mark, representing 10% of India's GDP.
- **EU and the UK:** Open Banking has been implemented via decentralized API standards, spurring competition and innovation within the region's financial services sector. To date, over 500 entities have registered as third party providers (TPPs). Open Banking has not only led to rapid TPP growth but also catalysed consumer-focused innovation by incumbents, with 45% of financial institutions investing over 100M euros in Open Banking and 44% of financial executives quoting "Customer Experience" as the top driver for investment.¹

¹The investments and returns of Open Banking., Tink, 2020,
<https://resources.tink.com/hubfs/05%20Resources/Tink%20survey%20report%20-%20The%20investments%20and%20returns%20of%20open%20banking.pdf>

Executive Summary

Google's Open Banking recommendations

Alongside policymakers and industry partners, we share the belief that robust participation of the fintech ecosystem is essential for Open Banking to achieve its stated goals of innovation, competition and financial inclusion. This participation should ensure that the regulations and technical standards underpinning Open Banking reflect the practical needs of technology developers and avoid creating unintended barriers to participation.

As both a third party provider (TPP) and a partner to financial institutions, Google places a strong emphasis on solutions that reduce friction, both for our users and other developers that wish to connect into common infrastructure. In this white paper, we outline recommendations in four critical areas where we believe central banks, regulators and market participants should focus their attention.

Our recommendations are drawn from first-hand experience launching and scaling Google Pay (formerly known as Tez) across a wide range of ecosystems with diverse regulatory frameworks: in India with UPI; enabling first-party payments via local real-time payment rails in several markets (e.g. SEPA in Europe); integrating with banks via API aggregators in the US; digitising payments with PayNow in Singapore; and through active engagement with regulators and Central Banks around the world (e.g. UK, Europe, Brazil, Mexico, Canada, and more).

Executive Summary

Google's Open Banking recommendations (cont.)

The four areas on which we focus are:

API scope - this directly impacts the level of innovation and competition that will be enabled across the ecosystem. We recommend implementing both account information services (AIS) and Payment initiation services (PIS) from day one. This will provide the framework and foundation that will maximise participation, innovation and competition across the financial services ecosystem. AIS enables parties to innovate and provide services that can improve consumers' understanding of their financial position, while PIS allows users to take immediate action on the insights and helps improve their financial health.

API framework - this has a direct, practical impact on the cost to new providers of participating in the Open Banking ecosystem and therefore impacts the level of new competition and innovation. We recommend the use of a Centralized Nodal API framework with a defined API standard to minimise implementation fragmentation and the need for additional layers and associated costs in the payment stack, ensuring equal access to the real-time payment rails for FSPs and TPPs of all sizes. The API framework needs to be considered from both a technical and a functional lens and should be secure, reliable, inclusive, efficient and scalable.

Simple authentication - this defines the ease with which consumers and developers can engage with the benefits of Open Banking. Thus, it should be at the forefront of system design, with consistent standards enforced across all licensed participants. We recommend a model of embedded trust, whereby third-party providers (TPPs) manage user consent directly through their interfaces once trust is established between User, financial service provider (FSP), TPP and device.

Commercial Model - this needs to ensure that the right financial incentives are in place to encourage adoption, investment and maintenance of best practices by all market participants. We recommend an ecosystem-wide principles-based approach to allow sustainable commercial models to emerge. This approach is compatible with fee discounts for micro transactions and SMEs. We also recommend clear standards for liability, fraud responsibility, and dispute resolution between FSPs, TPPs and users.

Executive Summary

What is out of scope?

This paper does not attempt to cover the following topics:

- **Governance model:** We do not provide an opinion on governance policy as each market tends to have their own provisions for overseeing Open Banking with each involving costs and benefits. We do not provide details on the accreditation process for the participants mentioned in this paper.
- **Technical standard:** We do not outline a template for API specifications, business rules or a detailed system architecture. Instead, our goal is to suggest a high-level framework and address common concerns.
- **Benefits of Open Banking and third-party initiated payments:** We do not attempt to quantify the benefits of these systems and APIs for innovation and competition, which are widely recognized by policymakers and other experts.

Relevant documents

For other Google white papers related to payments please see:

- [Real Time Payments Systems and Third Party Access](#)
- [Design principles for Third-party Initiation in Real-time Payment Systems white paper](#)

Glossary of terms

Glossary

Account Information Services (AIS):

An online service which provides consolidated information on payment accounts held by a payment service user with financial service providers.

Application Programming Interface (API):

A computing interface that defines interactions between multiple software intermediaries.

Competition and Markets Authority (CMA):

The UK's competition and consumer authority, with responsibility for carrying out investigations into mergers, markets and the regulated industries and enforcing competition and consumer law.

Financial Conduct Authority (FCA):

The conduct regulator for financial services firms and financial markets in the UK.

Financial service provider (FSP):

An entity that provides financial services to consumers and other businesses.

Identification and Verification (ID&V):

A process to check and confirm the identity of a person or entity.

National Competition Authority (NCA): One or more entities designated by a Member State as having the necessary powers and allocated responsibilities for performing the tasks related to certification, oversight and enforcement in accordance with this Regulation and the delegated and implementing acts adopted on the basis thereof.

OAuth2: An authorization framework that enables applications to obtain limited access to user accounts on an HTTP service. It works by delegating user authentication to the service that hosts the user account, and authorizing third-party applications to access the user account.

Open Banking: The use of open APIs that enable third-party developers to build applications and services around the financial institution.

Open Banking Implementation Entity (OBIE):

The delivery organisation working to define and develop the required APIs, security, and messaging standards that underpin Open Banking in the UK.

Payment initiation service (PIS):

An online service which accesses a user's payment account to initiate the transfer of funds on their behalf with the user's consent and authentication.

Payment Service Providers (PSP):

A certified and trusted entity that connects third party providers to a centrally managed service.

Payment Services User (PSU):

A natural or legal person making use of a payment service as a payee, payer or both.

Glossary

Strong Customer Authentication (SCA):

Authentication based on the use of two or more elements categorised as knowledge (something only the user knows), possession (something only the user possesses) and inherence (something the user is).

Third party provider (TPP): Organisations or natural persons that use APIs developed to standards to access customer's accounts, in order to provide account information services and/or to initiate payments.

Unified Payments Interface (UPI): The real-time payment system developed by the National Payments Corporation of India (NPCI) facilitating inter-bank transactions in India.

Section 1: API scope

API scope

There are 2 types of API service covered within Open banking; Account information Services (AIS) and Payment initiation services (PIS).

Some Regulators and/or Central banks have stopped short of implementing Payment Initiation Services (PIS) as part of their first phase of Open Banking e.g. Australia² and Canada. Others have focused on enabling third-party initiated payments only e.g. India. We believe the full value of Open Banking can only be achieved by offering BOTH AIS and PIS as complementary functionality. While AIS enables TPPs to innovate and provide services that can improve consumers' understanding of their financial position, PIS allows users to take immediate action on the insights and help improve their financial health.

Account Information Services (AIS): Provide TPPs access through user consent to banking, transaction, and other financial data.

Allowing user controlled access to this data will drive innovation and spur competition across digital ecosystems, creating new innovative products and services. An example of this can be seen in the UK market, which launched AIS APIs in January 2018. Since launch, a large array of new products and services have been created, from; personal finance management, subscription management, KYC process automation, credit scoring, multi-banking, and many more³⁴. The impact can be seen in the number of third parties licensed to access AIS APIs, 219 as of February 2021 and the number of monthly API calls, over 631M in the same month⁵.

² It is worth noting that the AU regulator eventually decided to include payment initiation in their roadmap as of January 2020, as they have found it to be "the functionality most frequently asked for by fintechs and the market"

³ OBIE, [THE OBIE'S 2020 ROUND UP](#)

⁴ Tink, [The most popular Open Banking use cases in the UK. Tink, 2020](#)

⁵ OBIE, [Open Banking APIs Performance](#)

Recommendation

The scope of AIS should allow TPPs to provide financial services based on a comprehensive view of users' daily financial activity.

- **Account types** should include, at a minimum, current, savings accounts and credit cards
- **Scope of data and availability** should at a minimum match what is accessible from the financial service provider's (FSP) online channels (website and mobile application), or via incumbent screen scraping based-solutions.

Payment Initiation Services (PIS):

Enable TPPs to initiate payments with user consent from accounts held at financial institutions.

Like AIS, enabling users to initiate payments from third party services will drive innovation and spur competition across digital ecosystems, creating new innovative products, services and experiences within the payment space. An example of this can be seen in India, where UPI⁶ launched in 2016 and has spurred a variety of new products and services from third party providers. UPI now accounts for 22% of all payments⁷ and represents 10% of India's overall GDP.

⁶ NPCI, [Unified Payments Interface \(UPI\)](#)

⁷ Statista, [Share of payment systems across India in FY 2019](#)

Recommendation

The scope of Payment Initiation Services (PIS) should allow TPPs to provide native payment experiences that support a users' everyday needs.

We recommend PIS APIs should include the following capabilities:

Payment types (all domestic)	Key TPP use cases enabled (non-exhaustive)
Single immediate payments (including scheduled payments), typically submitted by the payer's PSP/FSP on local payment rails	<ul style="list-style-type: none"> • Online / offline merchant payments • P2P
Request-to-pay, allows a payee to request funds from a payer	Pull payments (payee-requested) including: <ul style="list-style-type: none"> • Online / offline merchant payments • P2P
Funds reversal, critical to track link with a previous payment order	<ul style="list-style-type: none"> • Customer disputes and refunds
Recurring payments with fixed beneficiary, but variable time and amount (i.e. mandate)	<ul style="list-style-type: none"> • Utility payments • Round-up savings
Recurring payments, with fixed time, beneficiary and amount (aka standing order)	<ul style="list-style-type: none"> • Utility payments • Subscriptions
Payment cancellation	<ul style="list-style-type: none"> • Scheduled and recurring payments

Section 2: API framework

API framework

The choice of API framework has a direct impact on the cost of fintech participation in Open Banking, which subsequently impacts the levels of new competition and innovation. One example of this can be observed in the UK, where a decentralized model has led to fragmentation of API implementations across FSPs - necessitating the creation of third party API aggregators to simplify connectivity for new participants. Smaller fintechs face the choice of navigating this fragmentation themselves, supporting only a subset of FSPs, or paying aggregators for access. These challenges create an unintended barrier to entry and thus reduce competition and innovation at the ecosystem level.

Types of API framework

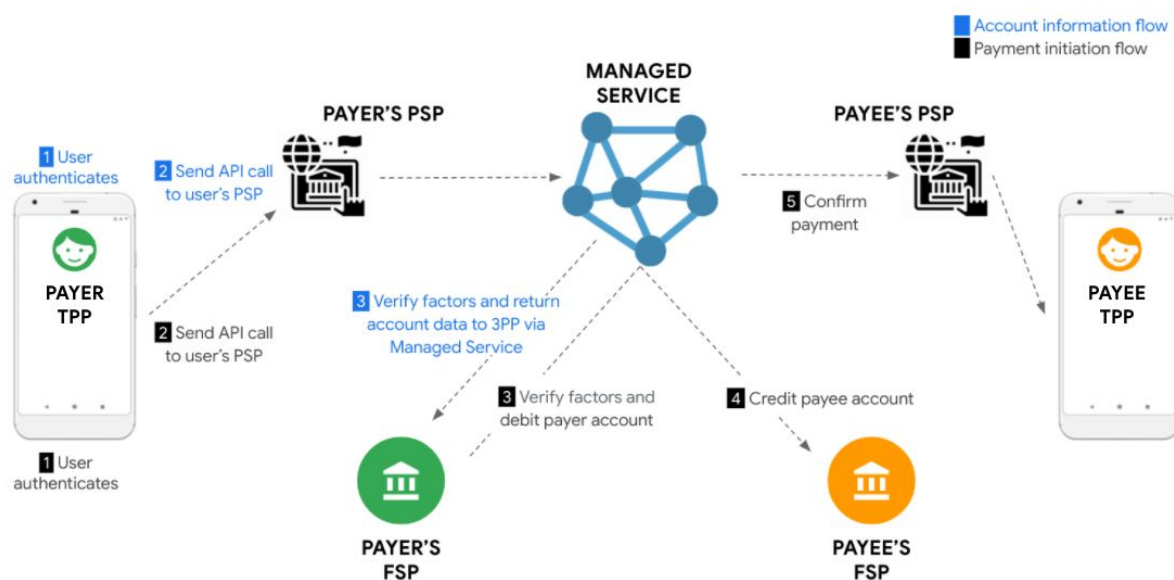
There are two API frameworks that have been used for open banking systems around the world:

1. **Centralized** - all participants (PSPs, FSPs, TPPs, etc) connect to a single system
2. **Decentralized** - all FSPs are responsible for providing a standard set of APIs and PSPs connect to each FSP individually.

API framework

In centralized systems

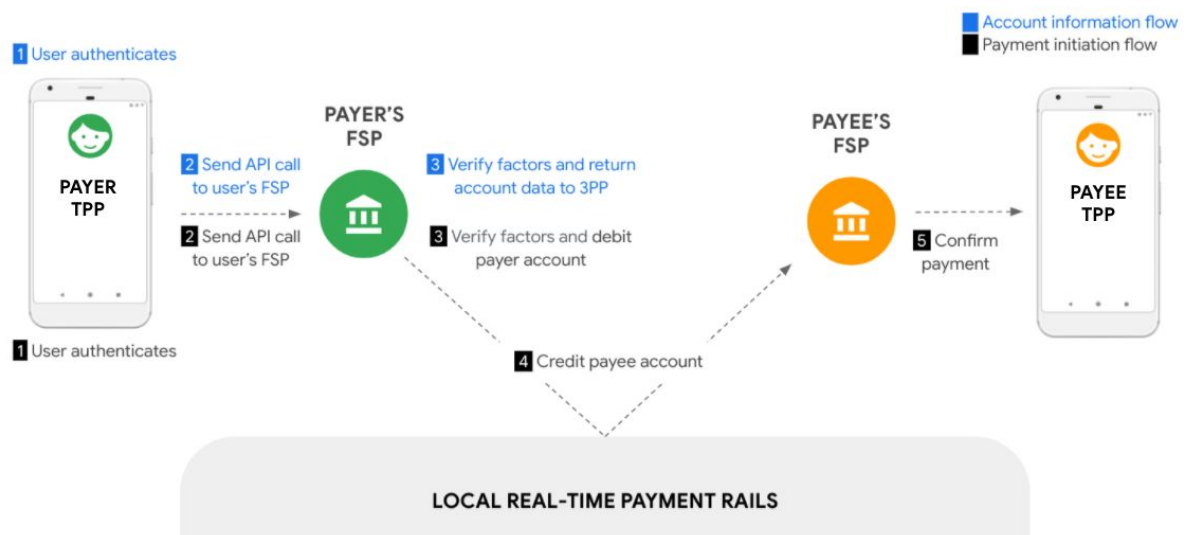
In centralized systems (e.g., India's UPI or Australia's NPP) a single API endpoint to a managed service acts as a central switch, shuttling requests and responses between participants (e.g., from PSPs to FSPs, and from TPPs to PSPs). This ensures that each participant needs no more than exactly one API integration. In addition, centralized systems provide the ability to more easily enforce at scale other system-wide policies such as those for security, billing, rate limits, and other request quotas.



API framework

In decentralized systems

(e.g., UK's Open Banking), a central regulatory body defines a set of API standards to be implemented individually by each FSP. This removes the need for centrally-run infrastructure. However, each TPP and/or PSP must then integrate directly with each of the FSPs via the API specification, which may itself have practical implementation differences from FSP to FSP.



API framework

The following table summarizes the key differences between centralized and decentralized systems.

	Centralized	Decentralized
Central Infrastructure	Required	None required
Policy enforcement	Handled centrally, full control	Handled by FSPs, audit only
Integrations for TPPs	1 per TPP	1 per FSP per TPP
Guaranteed consistency for all integrations	Yes, one implementation means no variation whatsoever for API clients	No, different implementations may have subtle differences in behavior (even with same API)
Leads to aggregators	No, central system is already an aggregator	Yes, aggregators have a viable business model which may create costs for TPPs
Allows competition on API specifications	Yes, new API methods can be routed through extensions in the central switch	Yes, FSPs can support additional API methods
Version fragmentation	No, single deployment means all bug fixes and new versions are fully controlled	Yes, changes rolled out across all FSPs on varying timeframes

** Color key: Green indicated that the rated model fares well on a topic, red indicated that it fares poorly, amber indicates it's good enough but less than ideal.*

API framework

Setting mandate vs standards

An NCA will need to consider whether to:

1. Set the mandate and objectives but refrain from setting the actual technical standards for implementation of Open Banking. In this scenario the NCA would expect market participants to come together to define standards and specifications for the implementation of the mandate. This was the approach taken by PSD2 in Europe.
2. Define the technical standards, albeit in an inclusive process involving all potential market participants. This was the case in the UK and Australia, where a designated implementation entity set the API specifications and Customer Experience guidelines, in consultation with market participants throughout.

Recommendation

We recommend the use of a Centralized API framework with a defined API standard. This:

- Prevents the API standard and implementation fragmentation observed in decentralized models
- Eliminates the need for API aggregators for TPP access (reducing ecosystem cost)
- Ensures equal access to connectivity for participating TPPs
- Enables TPPs to focus on building products/services, not account access (which Open Banking should guarantee)
- Provides transparency and oversight into API compliance and performance, as well as faster identification and deployment of debug fixes
- Leverages existing investments in real time payment (RTP rails) infrastructure and security protocols

While a centralized model requires an entity to oversee the development of the framework and enforce compliance to the standard, we believe the long-term benefits outweigh the additional cost. Furthermore, even jurisdictions using decentralized models usually require a standalone entity to govern access to the payments infrastructure (e.g. Pay.UK in the UK) and set API standards (e.g. the OBIE in the UK).

Section 3: Simple authentication

Simple authentication

Creating a low-friction and secure user experience is crucial to the adoption of Open Banking for both consumers and developers. This is particularly true in the authentication of a user in both AIS and PIS.

Open Banking systems that have developed high-friction user experiences have experienced slower adoption. For example, in the UK:

- **User adoption PIS remains low.** Authentication of the user is supported via a redirect to the FSP. At launch the design of these experiences was left to each individual FSP, resulting in many high friction flows. Since launch, the Open Banking Implementation Entity (OBIE) has issued UX implementation guidelines and legal mandates to address these problems. Despite these efforts, a recent OBIE report shows only 0.55% of API calls to FSPs were for payment initiation services⁸.
- **There have also been problems in the AIS authentication experience, particularly the requirement to re-authenticate the user every 90 days.** Third party providers (TPP) have reported **30% user drop-off at this point**⁹, and cited it as a significant barrier to product innovation, and ultimately their viability and ability to operate. The Financial Conduct Authority (FCA) has recently proposed a change to its regulatory technical standards¹⁰ that would remove the 90-day re-authentication via redirect, replacing it with a consent extension flow surfaced within the TPP experience.

⁸ Source: [openbanking.org.uk monthly API performance statistics](https://openbanking.org.uk/monthly-api-performance-statistics), accessed February 2nd, 2021.

⁹ Source: [Openbanking.org.uk](https://openbanking.org.uk): Options paper - reducing the negative impact of 90 days re-authentication

¹⁰ Source: FCA consultation, <https://www.fca.org.uk/publication/consultation/cp21-3.pdf>

Recommendation

Authentication should be built around the concept of delegated trust. This means that once trust is established between the user, TPP and FSP, subsequent user consent and authentication actions can be obtained and managed by the TPP, removing the need to redirect the user back to the FSP every time. These requirements should be specified within the system design and mandated across all participants.

Account Information Services (AIS)

- **Initial access consent:** The user, TPP and FSP establish trust via an Identification and Verification (ID&V) process performed by a redirect to the FSP surface. On completion, an access token is created (e.g., OAuth2) giving the TPP ongoing access to the user's account data. Strict technical standards should be mandated for this flow.
- **Consent management:** The user should be able to remove or extend access consent at any point, directly from the TPP or FSP surface. Defined user actions such as signing in to the TPP service or App should enable automatic consent extension. Users should be prompted to review and revoke or extend their consent on an ongoing time bound basis, e.g. annually.

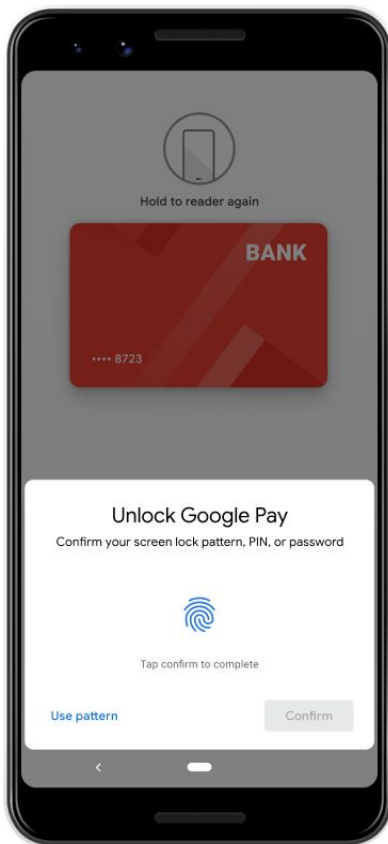
Payment initiation Services (PIS)

- **Initial consent (first payment setup):** The User, TPP and FSP establish trust via an ID&V process performed by a redirect to the FSP surface. (As in the case of AIS).
- **Transaction time:** The TPP uses the trust established to perform authentication of the user using Strong Customer Authentication (SCA) principles at transaction time. There is no ongoing requirement to redirect to the FSP for every subsequent transaction. For technical details see our 'Design Principles for Third-party Initiation in Real-time Payment Systems' whitepaper¹¹.

¹¹ Design Principles for Third-party Initiation in Real-time Payment Systems, <https://research.google/pubs/pub50087/>

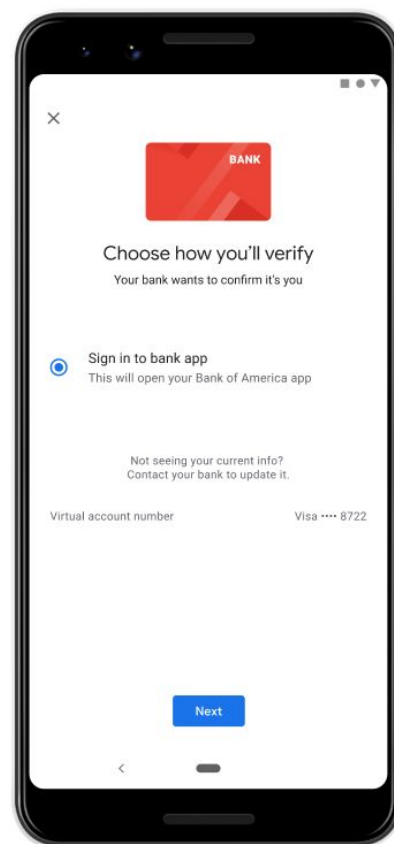
Recommendation

The recommended user authentication experience at time of payment with no redirect is already in place for tokenized card payments with mobile wallets such as Google Pay and Apple Pay.



Initial binding (Google Pay)

User performs one-time ID&V with the FSP, creating a key on the device



Time of transaction (Google Pay)

User re-authenticates via biometric or PIN/password; low friction and in-context

Section 4: Commercial model

Commercial model

Open Banking systems promise great benefits to consumers, merchants, financial providers, and the broader economy. However, they also entail costs to FSPs, namely:

- **Direct investment** to develop and maintain new technical infrastructure
- **Ongoing operational costs**, such as local real-time payment rail settlement fees, dispute management, and regulatory compliance
- **Opportunity costs** from the impact of Open Banking on existing business models - for example, growth in local real-time payment rails payments vs. network card transactions

A careful balance must be struck to ensure that Open Banking systems support the attractive end-user economics necessary for consumer and merchant adoption, while also providing an economic incentive for FSPs to continue investing in critical infrastructure. This will be required to encourage the growth of alternative payment solutions for end-users to compete with existing payment methods (e.g. cards).

Examples from existing Open Banking implementations can be instructive. In the UK, EU, and India, regulators have mandated that PIS services be provided free to users, merchants, and TPPs - exposing FSPs to both development and ongoing operational costs.

Commercial model

This has led to two undesired outcomes:

- FSPs have largely operated slowly and only invested to meet the mandated requirements¹². For example:

Several large UK banks implemented Open Banking with overly complex user-facing flows, such that the OBIE was forced to issue minimum Customer Experience Guidelines¹³.

Also in the UK, the Competition and Markets Authority (CMA) was required to issue direction¹⁴ to five banks who were found in breach of deadlines for app-to-app redirection functionality. This breach forced users to rely on cumbersome browser data sharing.

The UK¹⁵ (and the EU) has found the pace of Open Banking adoption and innovation (particularly PIS) disappointing, and is currently reviewing the Open Banking frameworks to try and accelerate adoption¹⁶. However, their proposals to date have focused on creating additional protections for consumers that would bring Open Banking payments closer to card payments (e.g. a chargeback equivalent), rather than on incentivising FSPs to actively promote the use of Open Banking.

- Reliability at scale is impacted. For example:

Users in India are experiencing increased rates of transaction decline and failure when paying through UPI¹⁷, as PSP investment in tech infrastructure has not kept pace with the rapid growth in UPI adoption.

¹² Source: <https://www.thebanker.com/Editor-s-Blog/Has-open-banking-reached-maturity>. Has Open Banking reached maturity

¹³ Source: www.openbanking.org.uk. Open Banking Customer experience guidelines, <https://www.openbanking.org.uk/wp-content/uploads/Customer-Experience-Guidelines.pdf>

¹⁴ Source: Competition Market Authority, <https://www.gov.uk/cma-cases/review-of-banking-for-small-and-medium-sized-businesses-smes-in-the-uk#retail-banking-market-investigation-order-2017>

¹⁵ Quote; Throughout the study, we have been surprised at the lack of innovation in this space, OBIE Report, A7 Root Cause Analysis on Consent Success

¹⁶ Sources: UK Payments Landscape Review: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/904140/2020_template_PLR_CfE_27072020_fina1.pdf, pp. 16-19; European Commission Retail Payments Strategy: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020DC0592&from=EN>, pp. 6-9.

¹⁷ Source: www.moneycontrol.com. As UPI grows leaps and bounds, transaction failures increase, too. October 29, 2020.

Recommendation

We encourage the adoption of an ecosystem-wide principles-based approach to allow sustainable commercial models to emerge. This means recognizing that PSPs need to cover at least their direct costs by allowing room for ecosystem fees, as well as innovation in business models and service delivery. At the same time, the approach must also respect policymakers' goals for Open Banking by ensuring that ecosystem-level costs remain low to stimulate adoption and drive innovation in other areas of financial and commercial service provision.

These principles should include:

- **Competitiveness:** Overall system fees should hew close to actual costs and remain competitive with existing solutions
- **Financial scalability:** Fees to individual participants should reflect the actual incurred cost of provision - not scale linearly with payment volume
- **Value for processing:** FSPs should be incentivized to invest in lowering costs and improving service levels, and to compete for greater processing volumes.
- **Fee parity:** No user or merchant should face different charges for payments made via a TPP vs. a direct open banking participant. Rather, fees should primarily be borne by TPPs and payer FSPs
- **Protected thresholds and classes:** Fees should not be levied on TPPs and FSPs below a minimum volume threshold, so as to support new entrants. Additionally, fee exemptions should be considered for low-value micro-transactions, and transactions with qualifying small enterprises and social entities, e.g. charities
- **Clear standards on limits of liability, fraud responsibility, and dispute resolution** should be set between FSPs and TPPs, ideally by an appointed third-party body.

Appendix

Learn more about Google Pay

[Google Pay for Business](#)

