

RBA19QW

In the application to the ACCC for the merger of the NPP, EFTPOS and BPAY it was noted in section 5 that the RBA would not seek to hold shares in the NewCo entity and that the RBA would divest itself of its shares in the NPPA.

(a) Does the RBA intend to divest itself of shares in the NPPA regardless of the outcome of the merger application?

(b) If yes:

(i) Why does the RBA believe that it needs to divest itself from the NPPA?

(ii) What measures does the RBA have in place to ensure the ability of all participants to access the payments rails?

Answer:

(a) *The RBA has conditionally agreed that it will divest in the event of approval and completion of the merger.*

The RBA has decided to divest its NPPA shareholding in the event a merger does occur because it is of the view that an on-going shareholding in the merged entity (which would provide much broader services than NPPA, including a debit card scheme) would be in conflict with its role as the regulator of the payments system (including of the card systems).

The RBA has not yet considered what it would do if the merger does not occur. The RBA would consider that issue when and if it becomes relevant, taking into account any relevant information in the ACCC's decision.

(b) (i) *See (a) above.*

(i) *The RBA has the ability to designate payment systems and set access regimes or standards if it considers that it is in the public interest. The RBA is continuing to monitor access issues with respect to the NPP. The RBA and the ACCC released a report on NPP access and functionality in 2019. That report did not suggest any access issues that warranted regulatory action. We expect that a follow-up review will be undertaken over the coming year.*

RBA20QW

The NPPA's October 2020 roadmap outlined that the NPP would be available to support international payments by the end of 2022. In their update to the roadmap in April 2021, the commitment to support international payments by the end of 2022 is deleted and instead has a commitment that it is "coming soon".

Is the RBA satisfied that the NPPA is progressing support for international payments to its satisfaction?

Answer:

Yes. Our understanding is that notwithstanding the comment in the April 2021 update to the roadmap, all NPP participating financial institutions are obliged to join the international payments business service and receive inbound international payments via the NPP by December 2022 as part of the platform's annual infrastructure release. However, while NPPA can provide the messaging standards and framework to provide this service, its implementation ultimately depends on the participants' systems being configured to accept such messages. NPPA has therefore designated this service as a mandatory compliance requirement coming into effect in April 2023. Direct participants that have not implemented the capability by that time will be subject to non-compliance charges.

RBA21QW

The October 2020 roadmap required that, "all NPP participating financial institutions are obliged to join the international payments business service and receive inbound international payments via the NPP by December 2022". This requirement is absent in the April 2021 roadmap.

- (a) Is the RBA satisfied that the NPPA has a plan in place with appropriate deadlines to implement and mandate international payments?

See answer to RBA20QW. As noted in that response, we understand that NPPA has a plan in place with clear deadlines to mandate receipt of these payments and an associated compliance regime to encourage members to meet this deadline.

- (b) Is the RBA aware of any impediments that would prevent the implementation of international payments through the NPP by the end of 2022?

The RBA understands that NPPA is committed to achieving the implementation of international payments through the NPP and is closely monitoring the progress of its participants and meeting with them on a regular basis. However, a key driver for the success of this project is how effectively the individual NPP participants complete the associated internal changes to enable the receipt and processing of these payments. There are some material challenges in the payments environment at the moment. There is a sizable project workload leading to competing priorities within the payments industry and a shortage of project staff. In addition, the COVID-19 pandemic has the potential to slow the pace of projects. Nevertheless, the RBA believes that this is a very important project that should receive a high priority from the industry and continues to emphasise this to NPPA and its participants.

- (c) What mechanisms does the RBA have to ensure that the NPP meets its stated public obligations?

As a participant in the NPP, the RBA's Banking Department is engaged with NPPA on this project and others. Its staff participate in various NPPA operating committees and so it has visibility of the NPPA's progress towards meeting its stated public obligations and opportunities to raise any concerns as required. Also, by virtue of the role of the RBA's Payments Settlements Department as operator of the Fast Settlement Service (FSS), the RBA is entitled to appoint a director to the NPPA board. The Head of the RBA's Payments Settlements Department currently sits on that board and staff from that

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Department attend a number of NPPA operating committees as an observer. This also provides the RBA with visibility over progress on the project. If the merger proceeds as proposed (see RBA19QW), the Head of the RBA's Payments Settlements Department will resign from the NPPA board on or before completion of that transaction and the RBA will cease to be entitled to appoint a director to the board of NPPA. The attendance of a representative of the RBA's Payments Settlements Department as observer at a number of NPPA operating committees will continue, reflecting the importance of the FSS to the NPP.

However, the RBA cannot make decisions unilaterally within any of those forums.

The RBA's Payments Policy Department independently liaises with NPPA on this project and its roadmap more broadly. In the event that it became concerned about NPP access or functionality issues, the RBA would bring forward a review (together with the ACCC) into these issues.

RBA22QW

Governor Lowe's speech to the Australian Payments Network summit in December 2020 described the area of international money transfers as an area where the RBA would like to see more progress, and that "we need to do more".

- (a) Will the RBA ask the NPPA to deliver timeframes and hold them accountable if they do not meet them?
- (b) Is there a need for Parliament to examine the operation of the NPP given it is an essential piece of the payments architecture in Australia?

Answer:

- (a) *The problems that the Governor referred to in that speech are far broader than any issues regarding NPPA.*

The Governor was referring to the issues highlighted in the Financial Stability Board's October 2020 report on Enhancing Cross-border Payments, which has been endorsed by the G20 Leaders. This report proposes a holistic approach to improving the cost, speed and accessibility of global cross-border payments, including making progress on 19 'building blocks' or workstreams that will be important for improving cross-border payments. The RBA is contributing to the extensive international effort, which includes contributions from central banks and other national agencies, plus international organisations including the Bank for International Settlements, the IMF, the World Bank and the Financial Action Task Force.

- (b) *We do not currently see a need for parliamentary review, although this is entirely a matter for the Parliament. The RBA considers that it has the appropriate powers to regulate if it was not satisfied with access arrangements. The RBA and the ACCC intend to conduct another consultation on NPP access and functionality over the coming year.*

RBA23QW

The Bulk Electronic Clearing System (BECS) is moving closer to end of life as a useful system for payments in Australia. Does the RBA have a concern that the NPP could effectively have a monopoly on the payments rails in Australia?

Answer:

The NPP does not have a monopoly on the payment rails in Australia. There are many different ways of making payments in Australia, using many different payment ‘rails’. These include card payment systems operated by international schemes (Visa, MasterCard, American Express, Diners Club), the domestic eftpos scheme, the BPAY scheme, the direct entry system, PayPal and a myriad of newer systems that often use established payment rails to facilitate payments.

In terms of ‘retail bank account to bank account’ payments (often referred to internationally as an automated clearing house arrangement), it is not uncommon for a country to have a single system. This is because the most efficient way to ensure that all banks can send customer payments between one another is to have a single clearing and settlement system for those payments. Prior to the establishment of the NPP, the Direct Entry (DE) system was essentially the single system in Australia for low value payments between bank accounts. While all financial institutions can use the DE system to send payments, some choose to do so through other participants in the system (known as indirect access) to avoid the costs of participating directly.

The NPP may gradually take over the role of the DE system as the workhorse system for processing retail bank account to bank account payments, but delivering payments in real time (rather than delayed as is the case with the DE system). It is important that the NPP offers a range of access options, with both direct and indirect access that is open to potential new entrants that can meet the technical requirements appropriate for the level of access that they are seeking.

The NPP was designed from the start to be open to new direct participants, and in 2019 NPPA implemented some changes to facilitate direct access. In addition, several of the 13 current NPP participants – including 2 major banks and 3 specialist payment providers – offer indirect access to the NPP. As a result, there are nearly 100 entities that now have indirect access, both smaller ADIs and some non-bank fintechs.

The RBA and the ACCC intend to conduct another consultation on NPP access and functionality over the coming year. The RBA considers that it has the appropriate powers to regulate if it was not satisfied with access arrangements.

Reserve Bank of Australia
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