

6 October 2021

## Senate Select Committee on Australia as a Technology and Financial Centre

Delivered via email: [fintech.sen@aph.gov.au](mailto:fintech.sen@aph.gov.au)

Dear Senators

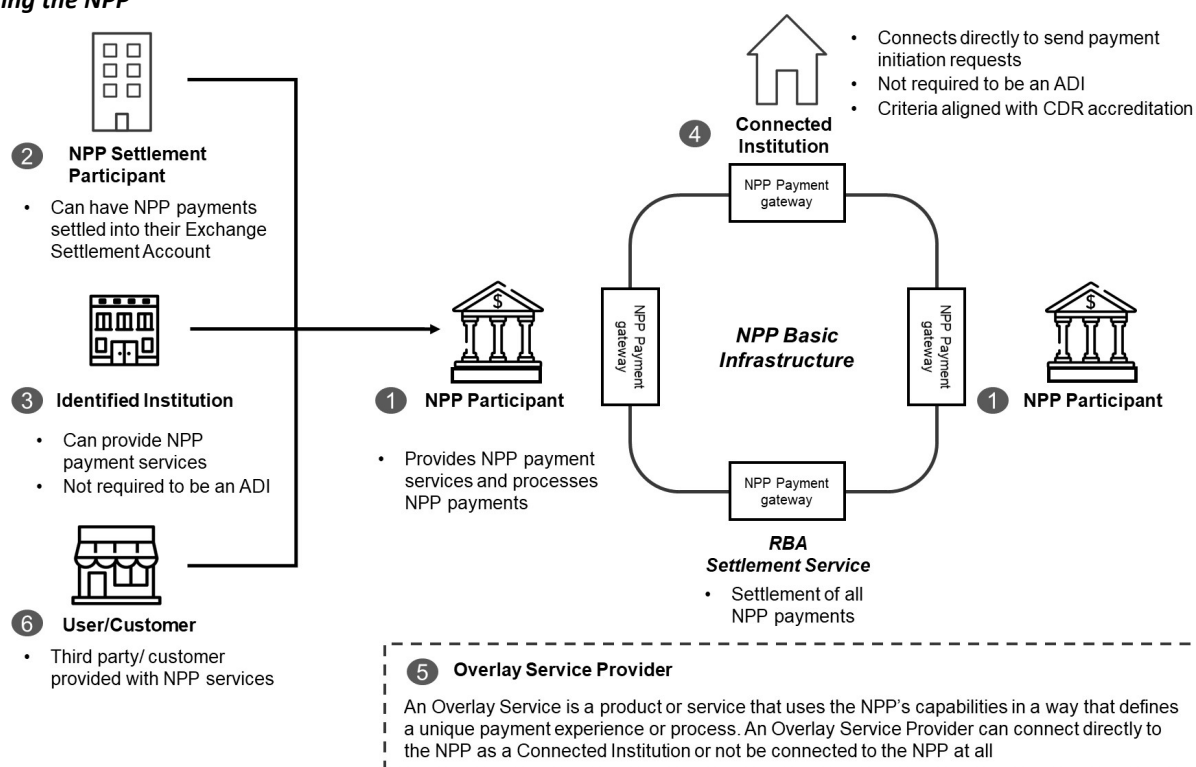
NPP Australia (NPPA) has been asked to provide the Committee with an outline of the initial and ongoing costs for a prospective organisation seeking to access the NPP at each of the following levels:

- i. a Direct NPP Participant.
- ii. an NPP Settlement Participant.
- iii. an Identified Institution accessing the NPP via an arrangement with a directly connected NPP Participant.
- iv. a Connected Institution.
- v. an Overlay Service Provider

### Options for accessing the NPP

The NPP is designed to be 'open access', encouraging broad participation while maintaining safeguards needed for a real-time payments system and the ongoing protection of consumers. The NPP access framework has a range of different access options, allowing for both direct and indirect connectivity, according to an organisation's business objectives and regulatory status<sup>1</sup>.

#### Accessing the NPP



Today there are more than 105 banks, credit unions, building societies and fintechs connected to the NPP.

<sup>1</sup> For more information on NPP access options see [Accessing the Platform](#)

The costs for accessing the NPP vary according to which access option an organisation chooses to adopt. Some of these costs are not charged by NPPA but are charged by organisations providing connectivity services or other parties involved in the provision of NPP services.

Access Option	Functions Performed	Initial upfront costs	Ongoing costs
<b>1) NPP Participant</b>	<ul style="list-style-type: none"> <li>Can clear and settle payments</li> <li>Offer NPP payment services to customers</li> <li>Can sponsor other organisations for NPP connectivity</li> </ul>	<ul style="list-style-type: none"> <li>Application fee (\$15k)</li> <li>Subscribe to shares in NPPA/ becomes a 'mutual-like' owner of NPP</li> <li>Amount depends on shareholder band which is determined by total resident assets as defined by APRA<sup>2</sup>; cost includes entitlement to NPP componentry required for NPP connectivity</li> </ul>	<ul style="list-style-type: none"> <li>Wholesale transaction charges from NPPA (see below)</li> <li>Charges by the RBA for use of its Fast Settlement Service</li> <li>Overlay service charges may apply</li> </ul>
<b>2) NPP Settlement Participant</b>	<ul style="list-style-type: none"> <li>Can use own Exchange Settlement Account at the RBA for settlement of NPP payments</li> <li>Use a sponsor organisation for clearing activities</li> <li>Can offer NPP payment services to customers</li> </ul>	<ul style="list-style-type: none"> <li>Application fee (\$15k)</li> <li>Subscribe to shares in NPPA/ becomes a 'mutual-like' owner of NPP</li> <li>Amount depends on shareholder band which is determined by total resident assets as defined by APRA<sup>2</sup> and is set at 50% of amount paid by an NPP Participant)</li> </ul>	<ul style="list-style-type: none"> <li>Wholesale transaction charges from NPPA (see below)</li> <li>Charges by the RBA for use of its Fast Settlement Service</li> <li>Overlay service charges may apply</li> </ul>
<b>3) Identified Institution</b>	<ul style="list-style-type: none"> <li>Can offer NPP payment services to customers</li> </ul>	<ul style="list-style-type: none"> <li>One off integration costs as charged by sponsoring participant</li> </ul>	<ul style="list-style-type: none"> <li>Pay fees charged by sponsoring participant</li> <li>Generally, "cost plus" transaction pricing (pass through of wholesale transaction charges plus margin)</li> </ul>
<b>4) Connected Institution</b>	<ul style="list-style-type: none"> <li>Can send payment initiation requests (does not clear and settle payments)</li> <li>Can offer payment initiation services under PayTo to third parties</li> </ul>	<ul style="list-style-type: none"> <li>Application fee (\$15k)</li> <li>Application fee<sup>3</sup> which covers: <ul style="list-style-type: none"> <li>hardware and software that constitutes an NPP payment gateway</li> <li>certification and accreditation costs (see below)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Wholesale transaction charges from NPPA (see below)</li> <li>May be charged an annual componentry maintenance fee (when applicable)</li> <li>Overlay service charges may apply</li> </ul>
<b>5) Overlay Service Provider</b>	<ul style="list-style-type: none"> <li>Can develop a product or service that uses the NPP's capabilities in a way that defines a unique payment experience or process which NPP Participants, Identified Institutions and Connected Institutions can choose to subscribe to</li> </ul>	<ul style="list-style-type: none"> <li>Application fee (\$15k)</li> <li>Charges may apply for any customisation required to the NPP platform and its capabilities</li> </ul>	<ul style="list-style-type: none"> <li>Annual administration fee (\$10k)</li> </ul>
<b>6) User/Customer</b>	<ul style="list-style-type: none"> <li>Use the NPP to make and receive NPP payments including using PayTo</li> </ul>	<ul style="list-style-type: none"> <li>Corporate or business customers may have some (minimal) integration costs</li> </ul>	<ul style="list-style-type: none"> <li>Typically charged a transaction fee (may not apply to retail banking customers)</li> </ul>

<sup>2</sup> Amount is not publicly disclosed; upfront subscription cost paid by new joiners will decline each year until 2027, when it will then be 75% lower than that which was paid by the original NPPA shareholders; amount may be paid in instalments

<sup>3</sup> Amount is not publicly disclosed; costs are passed on by NPPA on a cost recovery basis.

It should be noted that organisations may also incur other implementation costs depending on which access option they choose, and the amount of work required in their own back-office environment and to their technology systems.

### **NPP wholesale transaction charges**

NPPA is a mutually-owned utility and operates on the guiding principle of being economically self-sustaining (and not profit-maximising). The organisation seeks to recover its operating costs based on a wholesale unit transaction cost charged to NPP Participants (as shareholders in NPPA).

Given the NPP is still in a ramp-up phase, with transaction volumes increasingly rapidly, per transaction pricing has not yet been implemented, with revenue currently recovered on a fixed-contribution basis. Rather than paying on a per transaction basis, NPP Participants make equitable contributions to cover NPPA's annual operating costs.

For the last financial year (1 July 2020-30 June 2021), the implied break-even wholesale transaction cost would have been ~\$0.08 for the period<sup>4</sup>. As a straight average, this implied cost masks a number of variations:

- This figure is a straight average over a 12-month period during which transactional volumes were ramping up. The implied cost is trending downwards as transaction volumes increase. In the prior financial year, this implied wholesale transaction cost was \$0.14<sup>5</sup>.
- The implied wholesale transaction cost for each NPP Participant may be higher or lower than the industry average, depending on how many NPP transactions they have sent or received.
- The NPP wholesale transaction cost is one of many input costs for financial institutions, including those levied by Overlay Service Providers, in some cases by payment service providers, and also by the RBA for the usage of the Fast Settlement Service.

### **Costs for Connected Institutions**

Connected Institutions do not require an ADI licence but can connect directly to the NPP in order to submit payment initiation messages which are cleared and settled by NPP Participants. The upfront costs payable to NPPA by prospective NPP Connected Institutions relate to the purchase of NPP componentry and the costs of certification:

- (i) **NPP payment gateway**: a Connected Institution installs this gateway in their operating environment. This hardware and software are supplied to a Connected Institution by NPPA, on a cost recovery basis<sup>6</sup>.
- (ii) **Certification and accreditation costs**: these are the costs incurred by NPPA for certifying and accrediting a prospective Connected Institution (including certification fees levied by NPPA's retained third party assessor).
  - a. **Will be lower where CDR accreditation is in place**: We have sought to align NPP Connected Institution certification and accreditation requirements with the CDR ACCC accreditation model. If an applicant is already a CDR-accredited data recipient, they are likely to have already satisfied many of the criteria required by NPPA and therefore the certification and accreditation fee payable by that particular organisation will be lower.
  - b. **Will not apply for certain regulated institutions**: If an organisation is an ADI, Prescribed Payment Facility provider, or in the future a regulated Payment Service provider if the Government implements long-foreshadowed reforms, then additional certification and accreditation would not be required.

Once a Connected Institution has been set up, they pay transaction charges to NPPA, which are set at a wholesale level, are published to ensure transparency, and apply to all directly connected NPP Participants and NPP Connected Institutions equally.

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<sup>4</sup> Based on NPPA's sales revenue of \$43.6m and settled transaction volumes of ~543 million (defined as 'off-us' transactions occurring across the Platform) for the financial year.

<sup>5</sup> See NPPA's [Annual Report 2019-2020](#)

<sup>6</sup> Other costs apply to installing this payment gateway including vendor network partner fees

All other fees that NPPA charges are set on a 'time and effort' basis or are pass through costs if costs are incurred from a third party.

#### **NPP access and connectivity cost comparisons**

Finally, we would observe that evidence previously presented to the Committee has compared the upfront connection costs to Australia's NPP and the UK's Faster Payment Service. We clarified some aspects of this comparison in a previous submission to the Committee<sup>7</sup>.

Under the Australian model, NPPA's original shareholders paid up front for the *development of the capital asset* (the NPP infrastructure) and pay an equitably calculated share of NPPA's annual wholesale operating costs. Organisations who choose to become shareholders in NPPA pay a similar capital contribution to that paid by the initial shareholders (this is intended to prevent 'free-rider' risk). However, from 2023 until 2027, this upfront contribution reduces each year until it is 75% lower than that paid by the original shareholders.

Under the UK model, the capital asset was built by Vocalink (now owned by MasterCard) and subscribers to the UK Faster Payment Service pay for its ongoing use. While organisations pay a lower technical connection fee of £74,000, ongoing transaction costs are higher. Based on the published volumes for UK Faster Payments of 2.9 billion transactions in 2020, and the indicative published transaction price of 2.3p each, we estimate that UK banks and fintechs are collectively paying about 2.5 times (or about \$74m AUD more each and every year<sup>8</sup>) than the \$44m AUD<sup>9</sup> which would be paid by Australian NPP Participants for the same transaction volumes.

The analogy is paying zero dollars for a mobile phone upfront on a long-term contract. The upfront phone cost might be zero, but it may not be cheaper on a 'whole of life' basis.

If the Committee has any further questions or requires any additional clarification on the information provided above, I would be happy to assist.

Yours faithfully

#### **ADRIAN LOVNEY**

Chief Executive Officer

New Payments Platform Australia Limited

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<sup>7</sup> Supplementary Submission 24.1 to Senate Inquiry into Australia as a Technology & Financial Centre, 9 April 2021

<sup>8</sup> Based on exchange rates as of 8 April 2021

<sup>9</sup> See NPPA's Annual Report 2019-2020