CommonwealthBank

Commonwealth Bank of Australia
ABN 48 123 123 124

Level 6
201 Sussex Street
Sydney NSW 2000
Australia

GPO Box 2719
Sydney

Telephone: (02) 9118 6545
Email: woodward@cba.com.au

Payments Representation
Cash Management & Payment Solutions
Institutional Banking & Markets

1 July 2015

Chairman
Australian Payments Council
Level 6, 14 Martin Place
Sydney NSW 2000

By Email to: *submissions@australianpaymentscouncil.com.au*

Dear Chairman,

Re: ViewPoints - Shaping the Future of Australian Payments

The Commonwealth Bank appreciates the opportunity to contribute to the Australian Payments Plan. The Bank is supportive of this initiative, instigated by the newly-formed Australian Payments Council (APC).

The Bank provides its views below on each of the questions raised by the APC in its ViewPoints[1] paper.

> ***Question 1:*** *Do Resilience, Efficiency, Accessibility and Adaptability as discussed in Section 2 address the desirable characteristics for the Australian payments system? Are there other characteristics that are more appropriate? Why?*

The characteristics listed are desirable traits for the Australian payments system.

In addition, it is important that the products and services offered by payments providers meet the needs and preferences of customers. This should be the primary focus for providers of payments products and services.

Trust is at the core of the payments system. Non-RTGS payments amount to a promise to provide funds in the future; these promises are only functional if users have trust in the underlying system. The payments system cannot function effectively unless the integrity of the core clearing and settlement systems is upheld. This requires each of the direct participants in clearing and settlement services to be certified as trustworthy.

The importance of the strict regulatory regime accompanying Authorised Deposit-taking Institutions (ADIs) and Exchange Settlement Accounts (ESAs) is underscored by comparison to Bitcoin. Bitcoin Wallet providers, the equivalent of banks in the real economy, have fallen victim to hacks in a number of high profile incidents. This has undermined trust in the Bitcoin network.

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[1] *ViewPoints Shaping the Future of Australian Payments*, Australian Payments Council, May 2015.

Question 2: *Are there any other current trends, aside from those outlined in Section 3, we need to take into account in developing the Australian Payments Plan?*

ViewPoints[2] appropriately recognises the unstoppable decline in cheque volumes. As evident in Figure 2[3], this trend has been apparent since statistics commenced in the mid-1990s.

However, it not enough to merely cite this well-entrenched decline. A prescription for managing the cessation of cheques as a payments instrument is necessary. It is often said that the last cheque will be very expensive. It is important for the APC to work collaboratively with industry to proactively manage the cessation of cheques, rather than allowing cheques to continue operating as a low volume - high cost, obscure relic.

Banks no longer issue cheque books with most new bank accounts; customers need to specifically request one. Numerous transaction accounts no longer allow customers to order a cheque book.

Banks have been leading the transition from paper to electronic payments. And customers have embraced this transition with vigour. For banks, the benefit is increased efficiency and lower costs, although many of the costs associated with cheques are fixed and will remain until cheques are entirely eliminated. For customers, convenience and faster payment execution provides a compelling proposition driving the transition to electronic payments.

Cheque usage has declined so significantly and for so long, that its demise must now be planned in detail. In our view, this requires:

- Public acknowledgement by the RBA that an end date for cheques is necessary.
- An end date for interbank cheque exchanges, jointly agreed by industry and Government.
- Development of an alternative non-electronic payment service to meet the needs of the small residual of cheque paying consumers.
- Development of alternative electronic P2P payment offerings to substitute for payment by cheque. The New Payment Platform (NPP) promises to address this.
- Leadership from all levels of government and public service in committing to eliminate cheque payments within their organisations and departments.

Question 3: *What are your views on "digital disruption" being the primary force for change affecting Australian payments over the next 10 years?*

Digital disruption is a considerable force influencing the future of payments. Others include:

- The New Payments Platform
- RBA regulation and global standards
- Capability of Financial Institutions and other participants to continue to invest in payments systems
- Customer preferences
- Competition
- Macroeconomic developments and trends in retail trade
- Fraud
- Cross-border payments innovation

Digital disruption will be a key driver of change in payments in the coming decade, but it is far from being the only driver of change.

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[2] Ibid.
[3] Ibid.

NPP becoming operational looms as the defining change in payments over the next 10 years. NPP is a high specification new payment system with ease of access, and as such it will revolutionise product offerings, alter business models, disrupt market incumbency and boost competition amongst providers.

It is important that digital disruption does not come at the expense of undermining the characteristics considered desirable in Q1. In particular, it is important that regulators do not allow digital disruption to be accompanied by lower security levels and a reduction of trust in, and ultimately the integrity of, the payments system.

> ***Question 4:*** *What are your views on our forecast of longer-term trends for Australian payments, outlined in Section 4? Are there other factors to consider?*

Forecasting payments trends ten years ahead is fraught with difficulty. Considerable technological advancements were made in the last 10 years, and are likely to occur in the next 10 years. To the extent generalised predictions can be made, those expressed in Section 4 seem reasonable. Other changes by 2025 could include:

- No acceptance of cheque payments.
- Online commerce has been steadily growing as a share of retail trade. This is likely to continue, which could alter the mix of payments.
- Large withdrawals and deposits of cash will come under increasing scrutiny for illegal activity, as legal trade increasingly migrates to electronic payments.
- ATMs will reduce in number; a consequence of reduced demand for cash. Cash demand is already declining; as observed from falling annual ATM transactions.
- Crypto-currencies are likely to make further inroads into mainstream commerce and public acceptance. Bitcoin does not support Anti-Money Laundering (AML) and Know Your Customer (KYC) compliance. It is important that growth in crypto-currencies does not come at the expense of AML and KYC standards.
- More non-traditional competitors are likely to emerge and successfully establish themselves as mainstream payments providers.

> ***Question 5:*** *To achieve the desirable characteristics for the payments system in the next 10 years, what should the Australian payments industry consider doing collaboratively on issues such as:*

Payment messaging standards offer considerable benefits for data rich payments such as taxation, superannuation and invoicing. Agreeing to payment message standards requires collaboration. Much work has already occurred to develop payment message types within ISO 20022. Further collaboration will be required, in the form of Overlay Services, once NPP becomes operational and allows for the exchange of ISO 20022 payment messages.

> *— digital identity, combatting fraud and network support?*

The newly created National Fraud Exchange is the appropriate body for enhanced collaborative efforts to combat payments fraud. It is a dedicated industry resource with representation from individual ADIs; allowing interbank sharing of information to maximise the benefits of collaboration.

Identification is a key service provided by banks. With the development of internet banking in the last two decades, increasingly banks have become involved in digital identification of customers.

A national digital identity standard is a desirable objective, but without a plan or owner to facilitate it. A helpful development would be to convene a workshop including key stakeholders such as AUSTRAC, State Government entities, the Federal Government, banks and card schemes.

Collaboration on online payment security should be encouraged. NPP will increase the speed of payments, and this could hamper fraud management. The payments industry must collectively focus on security developments to accompany NPP.

— managing the range of payment systems (including the future of cheques and direct entry)?

Before a payment system can be terminated, it is essential that the replacement or alternative payment system(s) do not represent a meaningful degradation in any of the key characteristics set out in Q1.

Cheques

NPP promises to be a superior payment system to cheques. However for a small remnant of cheque users, primarily technologically averse consumers, NPP may not offer a suitable replacement. Accordingly a basic non-electronic payment service, built upon an existing digital payment system, will likely need to be developed.

Australia Post is facing a similar dilemma to the decline of paper payments, with letter mail volumes rapidly declining. Australia Post has addressed this problem by raising the price of stamps, and will delay delivery of letters with 'regular' stamps by two days.

A similar approach for cheques would involve reducing the frequency of cheque clearing exchanges. This would encourage cheque users to transition to alternative payment systems. However a unilateral decision, as per Australia Post, is not possible to manage the decline of cheques; it requires a co-ordinated industry decision.

Ending a payments system requires collaboration from all participants and stakeholders. The APC is a suitable forum for industry to discuss the elimination of cheques; especially since it engages with the Payments System Board (PSB). The PSB's involvement will likely be required in managing this.

Direct Entry

At present there is no alternative for direct entry payments. NPP will provide a high specification alternative. The Bank expects data rich and high value DE payments to migrate to NPP, which is better suited to these payments. However, for bulk payment files such as payroll, dividends and government benefits, direct entry is well suited and will likely remain so.

At present, the unit cost of NPP transactions is unknown. Until the cost efficiency and stability of NPP is determined, it is impossible to know whether it is equivalent (or superior) to direct entry in these characteristics. Once this comparison can be made, APC is the appropriate forum for debating the merits of maintaining direct entry payments.

— ensuring users have the information they need to make informed decisions in a complex market?

Providers of payment services have done a good job of educating customers about industry-wide changes and new technologies, e.g. PIN@POS, EMV, contactless, mobile banking. There seems little need for additional industry collaboration, beyond the levels employed for these initiatives.

— ensuring the domestic regulatory framework / standards setting remains responsive?

Regulatory intervention should be commensurate with the extent, if any, of market failure. As a principle, we believe that erring on the side of less intrusive regulation, rather than more, is a preferable outcome.

It is important that any regulation and guidance from the RBA not only involves public consultation, but that its regulations either: reflect the consensus view expressed in consultation, or explains why it has taken a different approach to the consensus. Consultation by itself does not necessarily amount to a responsive regulatory framework.

The fastest moving components of the payments system pose the greatest threat to slow and measured regulation. Rapid advancements have been made in methods of fraud and digital payment services. It is important that regulators keep pace with these developments and adapt their regulations to preserve the trust and integrity of the payments system. In particular, cryptocurrency poses a considerable challenge for regulators.

Question 6: *What else might the industry do collaboratively to achieve the desired characteristics?*

NPP represents the largest ever collective investment in Australian payments, and as such is a landmark in collaboration by the payments industry. It is important that upon commencement of NPP, participants are allowed to focus on proprietary innovations using NPP in order to maximise its benefits.

The final cost to industry of building NPP will likely exceed $1 billion. Investment in collaborative payments innovation can be very costly. To allow innovation to continue, industry participants must have viable business models to justify further investments.

As a member of APC, Commonwealth Bank is committed to the objectives of the Council. Representatives of the Bank will be happy to discuss this submission with the APC at a stakeholder forum or otherwise. Please contact the undersigned, or Stephen Brewster (stephen.brewster@cba.com.au or (02) 9118 6639), to discuss any aspect of this submission.

Yours sincerely

[Signed]

Stuart Woodward
General Manager
Representation