



Australian Payments Council

Australian Payments Plan Submission

7 July 2015

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

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Australian Payments Council:

With the recent establishment of the Australian Payments Council, we are delighted to see the industry-wide interest in developing a strategic direction for the Australian payments system. We are pleased to provide our input and response to the council's May 2015 *ViewPoints – Shaping the Future of Australian Payments* consultation paper.

We find both the articulation of the desirable characteristics of the Australian payments system, as well as the forecasted trends the payments system must contemplate appropriate to promote fair and better outcomes for the system and its many stakeholders. We hope you find our views useful to further advance the council's *ViewPoints*.

Kind regards,



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Contents

A.	Introduction	1
B.	Response to questions	2
	Question 1	2
	Question 2	4
	Question 3	5
	Question 4	6
	Question 5	7
	Question 6	9
C.	About Deloitte	10

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A. Introduction

The Australian Payments Council (APC) is proactively developing an Australian Payments Plan as a roadmap for industry collaboration to improve the Australian payments system. We commend the APC in consulting broadly on this plan which will provide strategic direction for the payments system in the coming 10 years. We find the observations, trends and implications identified in the May 2015 ViewPoints consultation document to be well framed and generally aligned with our own views on the future of the Australian payments system.

In the following pages Deloitte comments and makes some additional considerations to both support and add to the views presented by the APC.

In our view a roadmap for the future Australian payments system needs to focus on principles that promote public good and effectively balance the needs of all diverse stakeholders. We particularly commend calling out the need for resilience, adaptability, accessibility and efficiency as key principles.

As the commercial interests of different members are likely to challenge some of the proposals the APC will need to become a forum that builds trust and effective working relationships. In this way it will be more likely to ensure the industry takes a long-term 'public good' perspective and overrides any short-term commercial considerations. Transparency will be key in achieving this.

As the Australian payment system evolves the APC will also need to respond to significant changes in technology, customer needs and regulation. The technical infrastructure will need to maintain compatibility with digital advances and cater to customer needs. This will require an emphasis on innovation and accessibility for new entrants.

Similarly, the APC should ensure that the system evolves in line with broader global developments. In this way it can play an important role in ensuring alignment with global standards and regulation, effectively connecting payments systems globally and ensuring access to global innovation for Australians.

B. Response to questions

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?

i. Summary response

The Australian Payments Council and key industry stakeholders must continuously strike a balance across a variety of characteristics to achieve optimal outcomes from user, systems, economic and public policy perspectives. If the desire to be resilient, efficient, accessible, and adaptable, is balanced correctly, then there should be good public outcomes. The on-going challenge for the industry will be to strike the right balance when these characteristics are potentially in conflict (e.g. resilience might be at odds with accessibility and adaptability when granting access to less mature but innovative new entrants).

We would encourage the APC to be adaptive and responsive to voices beyond the immediate membership of the Council when considering where the right balance should lie on potentially contentious issues. The APC could also consider expanding on its desirable characteristics and building them out further into more comprehensive statements of principle on the strategic aspirations of the Australian payments system. In this way they could become more comprehensive foundational principles to be used as reference points to resolve any conflicts that might emerge.

ii. Additional considerations

The consultation document mentions key stakeholder groups and the fact that innovation needs to be encouraged to meet changing user needs. On balance, the discussion tends to be technology or system-centric. It is worth considering how customer-centric design principles might be brought more to the forefront. This could involve incorporating views of the customer, working with end-customers to better understand their various needs in different contexts. These may well extend beyond the immediate payment-related objectives and also need to consider the customer/user experience.

A further consideration may be to work through how the desired characteristics could be achieved in domains that are not governed centrally by the APC or related entities. For example innovations and developments occurring in customer interfaces and payment initiation mechanisms such as Apple Pay,

Android Pay, and block chain technology in particular, which are being led by non-APC members. The APC needs to consider to what extent it should seek to collaborate on topics that appear to be beyond the scope of the payments systems within its current purview. At a minimum, a holistic perspective that helps ensure full consideration of the broader context should be adopted.

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?

i. Summary response

APCA identified the shift from paper to electronic payments, new technology, infrastructure developments and globalisation as key current trends to take into account. We agree and believe it would be valuable to undertake further work outlining the detailed implications in each area.

ii. Additional considerations

Similar to question one, there should be further consideration of how the underlying needs of both consumers and business customers are changing. Not just as a result of the technology, paper to electronic and globalisation trends but also due to factors independent of the payments system. For example the increasing level of cross-border trade by small and medium businesses heightens the need for collaboration around global regulation, infrastructure developments and standards, as well as how the system and payment mechanisms need to adapt to address needs that cross over jurisdictions.

The Australian Payments Plan could give consideration to how the needs of end users are evolving in response to current trends, and consider the role of leaders in developing the global / cross-border payments system.

Question 3

What are your views on ‘digital disruption’ being the primary force for change affecting Australian payments over the next 10 years?

i. Summary response

- Deloitte believes that digital disruption will be the primary force affecting Australian payments and the broader economy over the next 10 years and has published extensively on this topic.¹ Digital disruption is transforming and materially re-shaping entire industries, and its impact is being felt by most industries more quickly and broadly than predicted². The term ‘digital disruption’ is also a useful way to capture several inter-related drivers such as technology change, business model evolution, innovation and the emergence of new competitors and competitive forces.

ii. Additional considerations

- National payments systems have historically developed with some sharing of learnings across jurisdictions, but are otherwise quite self-contained at the national level apart from cross-border payments mechanisms such as SWIFT. In the future, overseas developments are likely to have more immediate implications for the Australian system due to the increasingly virtual nature of digital advances and the internationalisation of business models. Considerable sums are being spent internationally to fund technologies such as new payments initiation mechanisms, digital wallets and distributed ledger-based protocols. This means that material elements of the future local payments ecosystem may well have been developed with little or no local input. Local adaptation and control has always been important, but it may well become more difficult or less possible in a digital world.

¹ Deloitte, “Short fuse, big bang,” 2012.

² Deloitte, “Harnessing the Bang,” 2014.

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?

i. Summary response

- The key trends on continuity and disruption are reasonable given the 10-year horizon discussed. However, while there might be some broad continuity at the macro level, the composition of the payments ecosystem could evolve in very different ways depending on how open the system is. Whether there is a profusion of new entrants, or the field remains limited to existing players, will depend on regulatory settings and the extent to which resilience is prioritised ahead of accessibility.

ii. Additional considerations

- The consultation document identifies new networks and payment market disruptions to be likely. Consideration should also be given to how end user behaviours and expectations might evolve. For example, there is the potential for users to shift away from payment mechanisms provided by traditional institutions, as consumer trust in new entrants increases. This is already the case in niche product areas or specific cases underserved by traditional financial institutions such as remittances. This is likely to be particularly pronounced in more digitally savvy demographics. In a recent report, Deloitte projects that by 2025, 75% of end-consumer spending will come from digital natives (Generation Y and Z) and the digitally-savvy (Generation X).³
- Demographic changes are also likely to drive shifts in patterns of consumption and usage. One change already underway is the shift to mobile platforms as the primary vehicle for managing consumers' financial lives, including making payments. We expect this trend to extend to businesses in many contexts as well. In addition the aging population also means that more people will be accessing benefits and drawing down on retirements' savings. This is likely to lead to new use cases as Australia's population ages and sufficient demand for formerly niche requirements develops.
- The assumption that accounts with regulated financial institutions will remain the main source and destination for Australian payments is self-fulfilling if limits to accessibility make it so. However, there will be segments of the population who are more comfortable banking with non-traditional players and should not have their access restricted.

³ Deloitte, "Digital Transaction Banking: Opportunities & Challenges," 2014.

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:

- a) digital identity, combatting fraud and network support? [See FSI]
- b) managing the range of payment systems (including the future of cheques and direct entry)?
- c) ensuring users have the information they need to make informed decisions in a complex market? [Murray: information imbalances,(providing info) behavioural biases (how info is presented).
- d) ensuring the domestic regulatory framework / standards setting remains responsive?

i. Summary response

- a) Digital identity is a laudable and necessary objective, but has elements and ramifications that extend far beyond payments. As such, it would be best approached holistically as part of a broader, national effort on digital identity. It is also worth considering a coordinated approach to fraud and financial crime, especially with the expansion of real-time payments through the NPP.
- b) An Australian Payments Plan could well provide a useful roadmap for the evolution of the various clearing streams active in Australia. In particular, it may be helpful to consider how legacy systems are decommissioned when appropriate to support efficiency and reduce complexity. Some mechanisms such as cheque systems may need to be proactively managed out by offering remaining use cases appropriate alternatives. Alternatively, process digitisation could radically re-shape the cost structures of cheque processing, making it viable on smaller scales.
- c) The Financial Systems Inquiry recognises that consumer outcomes are affected by cognitive limitations of individuals; there can be, in Chairman Murray's words, 'behavioural biases' and 'informational imbalances'. What they have in common is they lead to 'bad' financial decisions. Murray proposes a financial system that recognises and takes this irrational decision making into account in order to deliver better consumer outcomes. Responsible choice architecture is an important consideration, as are the evolution and enhancement of consumer protections such as the ePayments code to keep pace with international best practice.
- d) As the Australian payments landscape evolves in response to unfolding trends, so too will the regulatory framework need to adapt. While it is difficult to predict what the future will bring, regulation should be sufficiently flexible to be able to respond to changes in the payments environment.

Setting principles for regulation, rather than prescriptive guidelines, will help achieve this. The Wallis Inquiry advocated a principles-based approach to regulation, emphasising competitive neutrality, cost effectiveness, transparency, flexibility and accountability. Many of these principles were echoed in the recent Financial System Inquiry, which also raised the issue of technology neutrality. Sound principles should underpin any approach to the development of payments regulation.

However, this is only part of the picture. A principles-based approach must be translated into practice, which will partly be determined by the quality of supervision. This, in turn, crucially depends on the experience and the skills of the regulators themselves. Given the rapid speed and uncertain direction of change, regulators face challenges in understanding and keeping pace with developments. As important as it is to ensure that users have the information they need to make informed decisions in an increasingly complex payments market, it is similarly important for industry to help the regulators understand the businesses they regulate.

Question 6

What else might the industry do collaboratively to achieve the desired characteristics?

i. Summary response

- The APC needs to consider how it embeds a sufficient bias towards innovation to ensure that the system adopts new technology and at a rate that the authorities are convinced is appropriate. It is important to guard against the natural inclination of incumbent players to resist new entrants, particularly disruptive ones, especially when the system is self-regulated by those same incumbents. An Australian Payments Plan could set out a roadmap for innovation that would help with this, and should be supplemented with transparent feedback loops to ensure it can be adjusted iteratively, and incorporate non-member input.
- Integration of the global economy is driving ever greater internationalisation of payments. This already means collaboration on standards and regulation. The APC should consider how it can expand these collaborative efforts at an international level. This could address topics related to international connectivity such as payments between jurisdictions, globally relevant issues, including financial crime, and the international sharing of domestic learnings such as real-time payment platform implementation.

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