

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

PRIVATE AND CONFIDENTIAL

Dear ~~Mr Birrell~~, ^{Mark,}

Submission - ViewPoints Shaping the Future of Australian Payments

National Australia Bank (NAB) appreciates the opportunity to provide a response to the ViewPoints Shaping the Future of Australian Payments paper dated May 2015.

Overall, NAB is supportive of the viewpoints expressed in the paper and looks forward to engaging with the Council over the coming months as it seeks to shape the future of Australian payments.

NAB participated in the Australian Payments Plan Industry Expert Group workshop and accordingly our individual response aims to highlight areas of greatest importance to NAB.

Payments criticality

While consumers and businesses do not seek a payment experience as their primary interaction, payments is nonetheless critical for the economy. A Payments System that is efficient, adaptable, resilient and accessible is essential for the smooth flow of commerce and government. Maintaining the integrity of the Australian Payments System requires a commitment to hold the line on core stability requirements and a willingness to embrace change on the part of participants in the system.

User perspective

Users expect the Payment System to work together with their other personal and business systems to receive a seamless, secure payment experience. Consumers generally perform 2-3 transactions a day which require a value and/or information transfer¹. They seek an

¹ The Changing Way We Pay: Trends in Consumer Payments; Crystal Ossolinski, Tai Lam and David Emery RBA RDP 2014-05



experience which is frictionless and represents a functional integration they perceive adds value to their lives. Over the coming decade NAB anticipates that change will continue to be largely consumer driven and that businesses will have to keep pace with the rate of consumer adoption.

However, in an ecosystem where the exchange of information becomes as critical as the exchange of value for business processes, business will also expect frictionless and seamless interactions that help to improve productivity. In the same vein, the adoption of change needs to be underpinned by efficiency and benefit for businesses and providers. In addition, NAB believes that Push payments will continue to rise along with the replacement of mandate/authority type systems with Request for Payment capabilities as users seek to maintain control of cash flow. Demand for mobility and global interoperability will continue to rise in all sectors.

Working with Regulators

NAB would like the Australian Payments Plan to encourage Regulators to work together and with the industry to create regulatory frameworks that are responsive to the changing landscape. To achieve this NAB recommends that Regulators seek to address core risks without imposing high levels of capital investment or cost of compliance on regulated parties, whether financial institutions or other providers. Historically much of the information Regulators have sought to cover has resided in financial institution databases. However, as payments carry more meaningful information and as more payment service providers and information brokers who are not financial institutions join the Payments System, consideration of regulation that addresses the party where the data is held will be important. This may require a policy or regulation review and a different set of rules and policies to ensure continuation of an efficient and responsive regulatory framework.

Encouraging innovation

A significant aspiration of the RBA Strategic Review of Innovation in the Payments System (June 2012) was to create an environment conducive to innovation. NAB supports the intention to encourage innovation in the Australian payments marketplace and the adoption of customer centric design processes in industry programs to help with this aim. It is possible financial institutions themselves may not be the primary source of innovation but rather the facilitators of products and features that assist consumers and businesses to adopt innovation. Arguably, adoption of innovation is as important as innovation itself and is the catalyst that leads to greater change. NAB encourages the Council to consider how best the Australian Payments Plan might foster adoption of innovation as well as an environment in which innovation can flourish.

Balancing collaboration and competition

The ability of participants to identify and work within healthy boundaries of collaboration and competition will be important in achieving an adaptable and resilient future for the Payments System. Broadly, competition is the engine room of innovation but collaboration



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can be key to its adoption. Collaboration is also crucial for the management of legacy payment instruments as they decline in both volume and relevance as Australia seeks to move to a digital economy.

As the worth of a transaction shifts from the exchange of value to the exchange of value plus information, the industry will need to seek new ways of achieving fairness and cost balance across the system.

Future Payments industry collaboration

As mentioned above, the management of legacy payment instruments will be a key area in which collaboration across the industry is required. For the long term stability and viability of the Payments System it is imperative over time to decrease the number of clearing streams. NPP will be the catalyst for this change. While the Council may not be able to specifically direct payment frameworks or their members to migrate to digital capabilities, it can create an environment in which permission is given to participants to exit legacy instruments. The Council can also encourage clearing streams to actively explore the opportunities provided by new capabilities. This may be facilitated by ensuring providers and financial institutions, as well as users have the information they need to make informed decisions in an increasingly complex market. Banks may no longer be the primary holders of payment information and change will not only be about payment instruments but also the rise of non-fiat currencies and increasing fin-tech capability.

Other potential areas in which collaboration across the payments industry would be beneficial are faster, easier international payments relative to now, the replacement of the correspondent banking paradigm and streamlining of conditional payments processes such as buying/selling a car.

NAB remains committed to advancing innovation within the Australian payments industry and looks forward to working with the Australian Payments Council and other industry participants to progress the Australian Payments Plan.

Yours Sincerely,

A handwritten signature in black ink, appearing to read 'John Murphy', written over a faint, vertical line.

John Murphy

Executive General Manager, Deposits & Transaction Services

National Australia Bank