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Australian Payments Council
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**Subject: Response to the Australian Payments Council's consultation document
"Shaping the Future of Australian Payments" of May 2015**

SWIFT has supported the evolution of payment systems around the world for more than 40 years, and is committed to helping the Australian payments industry meet the challenges faced within an increasingly complex and ever-changing digital age.

We are pleased to be a member of the Australian Payments Council and we welcome your invitation for us to share our perspectives on the questions raised in the consultation document. The following table summarises our views and we hope our comments will be useful to you in finalising the consultation process. Please do not hesitate to contact us, should you have any follow-up questions or wish to discuss our comments.

Sincerely,

A handwritten signature in black ink, appearing to read "Bill Doran", with a long horizontal flourish extending to the right.

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Questions raised in consultation document	SWIFT response
<p>Question 1</p> <p>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?</p>	<p>Modern payment systems are vital to both the domestic and global economy. SWIFT shares the vision described in section 2 about the desirable characteristics. In addition, SWIFT would like to share some experience related to resiliency, efficiency, accessibility, and adaptability.</p> <p><u>Resilience</u></p> <p>Availability, reliability and security are the key business drivers that participants seek in a modern payment system. We observe a focus on business and operational resilience. From an operational view point, all parties involved (payment system operators, network providers, and participants) need to be resilient enough to withstand a variety of threats such as: natural disasters, loss of essential services, data corruption, cyber-attacks, unavailability of staff, component malfunction, terrorism and war, etc. Today, we see threats increase in frequency and likelihood, especially the ones that trigger system integrity failure due to mishandling procedures, data or software corruption, and cyber-crime. The focus on risk assessment and management, including resilience and operational excellence, is a key part of the renewal of payment systems.</p> <p>Modern resiliency models and services often include the following features:</p> <ul style="list-style-type: none"> - a rapid cut-over to the contingency service when it is required; - the availability of the contingency service throughout the period of disruption; - technical diversity with a geographically remote facility; - a reduced dependence on local staff; - an ability to capture an accurate view of the key information at the point of failure to restart the contingency plan as fast as possible, or to recreate it rapidly once the primary sites have failed. <p>Resiliency can be expensive, and the affordability of solutions is an important consideration. The provision of contingency solutions to protect against rare and unlikely</p>



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	<p>events can benefit from shared approaches in which the cost of maintaining resiliency services is defrayed by a number of users with similar needs.</p> <p>Alignment of recommendations within an industry stakeholder group and between groups is a critical success factor to reduce risk within payment systems.</p> <p><u>Efficiency</u></p> <p>Cost efficiency is a critical requirement for the users of payment systems. This is achieved through the right balance between bringing value to the market and mitigating business and operational risk.</p> <p>From an operational aspect, utilising global messaging standards and adopting global best practice play a vital role to increase automation and interoperability. Limiting the number of exceptions at the same time increases the operational efficiency and reduces business risks. Australia is a good example of adopting the modern global messaging standards of ISO 20022 in the New Payments Platform (NPP).</p> <p>We have also seen a trend of leveraging shared services, and re-using existing infrastructure to optimise cost. An example of this is that the Bank of England and Hong Kong Monetary Authority (HKMA) have adopted SWIFT Market Infrastructure Resiliency Services (MIRS). MIRS is a 3rd site solution for Real Time Gross Settlement (RTGS) that processes payments when primary and secondary services are disrupted. The costs of deploying this service benefit from re-using existing infrastructures among the financial community.</p> <p><u>Accessibility</u></p> <p>A universal and/or easy reach to payment services is key to secure the on-boarding of the services by the community. The costs of accessing payment systems for financial institutions and other users are often reduced when the technology solution for accessing such systems are reusable across the many different payment clearing streams. In this regard SWIFT provides a range of globally standardised access solutions that allow reuse of</p>



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	<p>infrastructure and a significantly reduced technology footprint.</p> <p><u>Adaptability</u></p> <p>We see increasing market demand for flexible systems that maintain their value over the system lifecycle, while catering to the changes in their environments. The New Payments Platform (NPP) is an example of a scalable infrastructure which is being developed with the future in mind.</p> <p>Common requirements include:</p> <ul style="list-style-type: none"> - to be capable to adapt to changes in mission and requirements (e.g. real-time payment for high & low value payment, regulation); - to accommodate growth in capabilities (e.g. volumes, extended hours, etc.); - to rely on stronger resiliency and operational excellence practices to address changes in threats and environment; - and to easily leverage new technologies.
<p>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?</p>	<p>On top of the several trends that the Australian Payments Council has rightly highlighted in section 3, we believe that the Australian Payment Plan should take into account other trends that we are observing worldwide.</p> <p><u>High customer expectations</u></p> <p>As mentioned in section 4, we believe that the “always on” expectation of the end customer will increase. Customers now expect to be able to pay anywhere at any time and this is expected to drive further innovation around service quality and availability of payment solutions. Customers also expect additional services related to payments and the role of new standards such as ISO 20022, which is an information rich message format, is increasingly important globally.</p> <p><u>Business risk management</u></p> <p>Liquidity optimisation is getting more and more important</p>



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	<p>for central banks. They need to ensure the right balance between liquidity efficiency and minimum thresholds set by legal requirements which can only be achieved by having appropriate tools and analysis.</p> <p>Moreover, the management of interconnectedness of payment systems with other critical financial market infrastructure domestically and globally is becoming another main point of focus. The potential for spread of risk across financial systems such as CSDs or ACHs increases with further interconnectedness of systems, and must be carefully managed.</p> <p><u>Operational risk</u></p> <p>As discussed in question 1, the need to make payments ubiquitous and immediate increases the vulnerability of consumers and businesses to cybercrime and fraud. As widely reported in the media, the impact of this growing threat is significant. Banks and central banks will be expected to strengthen their security provisions, and continue to be ever vigilant.</p> <p><u>Regionalisation</u></p> <p>Economic and financial integration across markets is increasing. By way of example, regional financial integration helps countries group themselves to ease frictions for cross-border trade development. There are a number of major regionalisation initiatives occurring and include TARGET2 in Europe, the Single European Payments Area (SEPA) and the ASEAN Economic Community (AEC) economic integration agenda.</p> <p><u>Increased regulatory requirements</u></p> <p>Consumer data protection, transparency requirements, financial inclusion, financial crime compliance, regional harmonisation are all impacting the payment landscape. The growing international pressure on the financial market has a substantial effect on each financial institution that needs to adapt to local and international regulations or recommendations. We believe that with the globalisation and the interdependency between national markets, there may be an increasing potential for stronger global</p>



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	<p>regulation that would set the minimum requirements for best practices and processes for financial institutions. Compliance with these changing regulations is an increasing cost-burden for industry, and community or shared approaches to solving problems where there is no competitive advantage are increasingly being required in the marketplace. The KYC Registry developed by SWIFT is an important service provided as a shared utility to manage compliance risks and at the same time reduce the cost of compliance for industry.</p> <p><u>Globalisation through common standards</u></p> <p>More than 200 initiatives around the world have committed to ISO 20022, covering payments, cash management, treasury and securities. Many of these initiatives are payments related. They are driven by the introduction of new payments market infrastructures (PMIs) or payments schemes.</p> <p>The growing convergence of the payments industry on the ISO 20022 standard is a healthy development, because it brings a measure of consistency to a fragmented landscape of overlapping standards. For the payments industry, standards can vary widely in terms of their functionality. This makes it difficult for global banks to offer similar service levels in different locations, or to benefit from the economies of scale that stem from accessing FMIs via a single standard in every market where they are active. ISO 20022 offers the prospect of simplification, and interoperability between banks and FMIs in multiple jurisdictions. It streamlines the process of making and receiving payments on a global scale, enables institutions to reuse expensive skills and infrastructure, and provides them with a standardised platform from which to offer innovative services.</p>
<p>Question 3: What are your views on “digital disruption” being the primary force for change affecting Australian payments over the next 10</p>	<p>Digital disruption is affecting all industries globally, and the payments industry is no different. New digital technologies have an important role in introducing benefits of new technology such as speed, cost reduction, customer convenience etc.</p>



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years?	<p>Agile new entrants in payments can disintermediate incumbent industry players with new business propositions and an improved customer experience. Third party players are not hindered by existing legacy, and in some regions regulators are levelling the playing fields by allowing direct access to customer's accounts.</p> <p>New technologies are likely to drive benefits in key areas such as payment immediacy, cost reduction and the overall transparency of payment systems. At the same time digital disruption must continue to contribute to the safe, reliable and efficient operation of the payments system. Consistent global expectations have been developed within the CPMI IOSCO Principles for Financial Market Infrastructures (PFMI).</p> <p>The promise of new digital payments solutions is high and welcome. As these technologies develop they must be evaluated against their adherence to key expectations for payments systems including fraud mitigation, security, confidentiality, and regulatory compliance.</p> <p>Taking Security as an example, new payment system services must address:</p> <ul style="list-style-type: none">- Authenticity and identity management- Confidentiality of customers , i.e. must meet local privacy requirements and rules- Access control must ensure trust of different parties to transactions- Non repudiation through archiving and storing non-repudiable transactions. <p>The current payments and financial industry is built on the trust that comes from "bank grade" systems. The following features are important in all further digitisation of payments.</p> <p>Compliance:</p> <ul style="list-style-type: none">- Compliant with AML, KYC and transparency regulations (local and global)- Does not expose institutions to more compliance risks- Ability to control payments, allow to screen and



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	<p style="text-align: center;">select counterparties</p> <p>Addressing real challenges:</p> <ul style="list-style-type: none"> - Is there a customer benefit? - Are the economics good for participants? - Ability and capacity to send more complete remittance and remittance-related information with businesses' and consumers' payments <p>Clear ROI for industry:</p> <ul style="list-style-type: none"> - Reduced TCO for banks - Efficiency in operations such as allowing high STP rates, reduced manual intervention and meeting reconciliation needs - Supports data protection requirements - Maintains confidentiality and does not expose sensitive data - Secured network (prevention of cybercrime) <p>Scalability:</p> <ul style="list-style-type: none"> - Global reach - Global Standards - Network capacity and ability to interact with many users/end points
<p>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?</p>	<p>As mentioned in question 2, increasing regulatory demands will continue. Different national authorities are likely to continue developing domestic regulation, and this national regulation will be influenced by international regulatory pressure.</p> <p>As digital disruption continues the challenges of regulating new entrants will increase. Domestic environments will benefit from seeking alignment to international financial recommendations.</p>
<p>Question 5: To achieve the desirable characteristics for the payments system in the next 10 years, what should the Australian payments industry consider doing</p>	<p>The Australian Payments Council and Community plays a vital role in providing a framework and forum for industry and stakeholder collaboration to identify and introduce higher service levels for customers, whilst ensuring the integrity, security and the reliability of the payment systems in place.</p>



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<p>collaboratively on issues such as:</p> <ul style="list-style-type: none">– digital identity, combatting fraud and network support?– managing the range of payment systems (including the future of cheques and direct entry)?– ensuring users have the information they need to make informed decisions in a complex market?– ensuring the domestic regulatory framework / standards setting remains responsive?	<p>Australia now has a range of different payment systems for different instruments (e.g. bulk payments, high value payments, cheque, cards etc). The introduction of the New Payments Platform (NPP) provides an important opportunity to develop a national payments plan which addresses the future ways in which customers will pay. Any such plan should provide meaningful and achievable milestones for industry which accommodate the introduction of improvements to the payment system in such as messaging standards (such as ISO 20022), security, and resiliency.</p> <p>SWIFT has worked with over 100 payment system globally and a key success factor in change inevitably comes down to the levels of collaboration amongst industry and the broader financial community. The importance of ongoing consultation with industry cannot be overstated.</p>
<p>Question 6: What else might the industry do collaboratively to achieve the desired characteristics?</p>	<p>Overall, the Payments Council and Community is an exemplary forum for collaboration. Its role as a vehicle for industry planning and addressing changes impacting the payment system will only grow in importance.</p>