

Annual Review 2018



Australian
Payments Council

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Australian Payments Council meets the Payments System Board at RBA headquarters, August 2018



Message from the Chairman



Robert Milliner
Chairman, Australian
Payments Council

I was delighted to join the Council in September this year. This is a time of significant change and innovation and I look forward to helping shape the future of payments through Council initiatives.

Payments Plan Review

The Australian Payments Plan, published in December 2015, has guided the strategic direction of the Council over the last three years. The changes and work programs that it outlined have been prescient.

Data-sharing is rapidly becoming a reality, following the Government's announcement to introduce open banking. The Council's work on managing the changing payments mix has positioned industry to support the consumer-led decline of cheques, which continues to accelerate. We have also made good progress on digital identity.

With the payments landscape, in Australia and globally, changing at a rapid pace, it is fitting that we now review the Payments Plan to ensure the payments system continues to meet the needs of the digital economy.

Recognising that the payments system touches everyone, everyday, and that our needs continue to evolve, the Council will be conducting a public consultation in early 2019.

We encourage all sections of the community to get involved.

Cheques Research

2018 marked a major milestone, with the Council's work on managing the changing payments mix becoming the first project that has moved from strategic analysis to implementation.

Consumers are continuing to rapidly move away from cheques. Recognising that cheques will eventually disappear from the payments landscape, the Council funded extensive research into the changing payments mix, with the aim of ensuring that as more and more consumers move to digital payment methods, remaining cheque users are not left behind.

The outcome of this research has now been passed to Australian Payments Network (AusPayNet), which is leading implementation of key recommendations.

"Recognising that the payments system touches everyone, everyday, and that our needs continue to evolve, the Council will be conducting a public consultation in early 2019."

Data Availability

With the Government's announcement of the consumer data right (CDR), open banking has moved from strategy to implementation.

Data-sharing was one of the core focus areas of the Payments Plan in 2015 and the Council is pleased with our role in shaping the national conversation.

This work included developing principles for data-sharing, holding a hackathon in 2017, and making submissions that assisted the Government to understand the potential uses for open banking.

With the project now moving to an implementation phase, the Council will take a watching brief.

Cyber Security

Building on our momentum from the previous year, we held a number of workshops with representatives of Council members and government agencies.

The primary focus areas have been the sharing of actionable information and generating cyber awareness.

We are in the process of identifying user requirements for an information sharing framework, and any possible legislative implications for participation of such a model.

Digital Identity

In January this year, we agreed on an Action Plan to create a trust framework that will support portable, economy wide digital identity.

Seventeen organisations from the Council and the wider Payments Community are now delivering on this Action Plan and have selected a model that will lead to the creation of an open and contestable framework to support a wide range of interoperable identity services. We are very pleased that the Digital Transformation Agency (DTA) is also participating in this work.

We are part way through the implementation of the Action Plan and anticipate that the development of the framework will complete in mid-2019.

I thank the Payments Community for its work in progressing our collective goals and look forward to another year of collaboration.

Highlights

Appointment of new Chairman

The Council announced the appointment of Robert Milliner as independent non-executive Chairman effective 10 September 2018. The Council thanks former Chairman Mark Birrell for his valuable three-year contribution to leading the Council.

Council endorsement of the Digital Identity Action Plan

The Digital Identity Action Plan outlines a program of work that will lead to the establishment of a trust framework. The framework will enable individuals and organisations to safely interact digitally, preserving privacy while ensuring each party has accurate and verifiable information about the other. Participating organisations have met to progress work to deliver on the Plan throughout 2018.

Successful transfer of the cheques strategy from the Council to AusPayNet for operational implementation

The Council oversaw the transfer of the cheques strategy to AusPayNet for implementation by its cheques issuing members. This is the Council's first project that has moved from strategic analysis to implementation.

Joint workshop with Joint Cyber Security Centre (JCSC) on information sharing

The Council's Cyber Security Task Force co-hosted a workshop with the Government's JCSC on 7 May on 'Actionable Intelligence'. More than 30 SMEs from the task force, community members, and federal, state and agency government representatives attended the workshop.

Meeting with the PSB

The Council and the Payments System Board of the Reserve Bank of Australia held their fourth joint meeting on 24th August 2018, at the RBA in Sydney.

Submission to the Review of National Arrangements for the Protection & Management of Identity Information

The Council provided a submission to the public consultation, detailing the scope and goals of the Council's work in developing a trust framework.

Submission to APRA on draft standard CPS 234 Information Security

APRA's draft standard CPS 234 aims at shoring up the ability of APRA-regulated entities to repel cyber adversaries or respond swiftly and effectively in the event of a breach. The Council provided a submission to the consultation, supporting the principles and intent of the draft standard and the quality of the guidance provided.

Reviewing the Australian Payments Plan

The Australian Payments Plan, published in December 2015, was the first major project undertaken by the Council. The 2015 Plan set out the core areas of strategic focus for the Council and has guided our thinking and approach in the three years since its publication. The Council's core areas of work – managing the changing payments mix, digital identity, data sharing and cyber security – were established by the 2015 Plan.

Identifying the rapid pace of change in the payments landscape, the Plan includes a recommendation for review after three years of operation. The triennial review is intended to ensure the Plan remains relevant and continues to effectively guide

collaborative industry efforts to deliver a Resilient, Accessible, Adaptable and Efficient payments system.

Over the last three years, the payments landscape has continued to rapidly evolve. Australians have increasingly adopted electronic payments, moving away from cheques and cash.

- In 2018, card use grew by a record 12.7% year on year; 90% of Australians own a smartphone, and of those, 70% make payments on their phone.
- The New Payments Platform commenced operation in 2018, providing the ability to make fast, versatile and data-rich payments.

- The Australian Government has announced the introduction of the consumer data right from 1 July 2019.

The Council is launching the first triennial review of the Payments Plan in early 2019. Recognising that the payments system is foundational to the Australian economy, the Council is seeking feedback and insights from all sections of the Australian community and business.

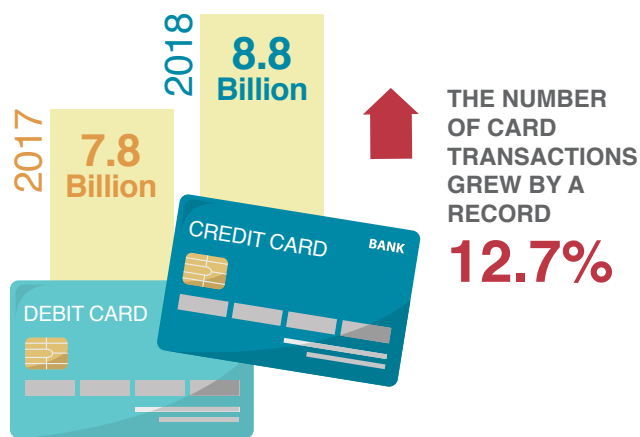
Full details on how to get involved in the review will be available on the Council website in January 2019.

Australians are increasingly adopting **electronic payments**

90%
OF AUSTRALIANS
OWN A SMARTPHONE



OF THOSE 90%
70%
MAKE PAYMENTS
ON THEIR PHONE



Source: Reserve Bank of Australia: Figures are for Financial Years



THE NPP'S ADDRESSING
SERVICE HAS MORE THAN

2,215,430

REGISTERED PAYIDS

Source: NPP Australia Limited

Sources: Deloitte Mobile Consumer Survey; Paypal mCommerce Index

Security & Trust

Digital Identity

Meeting the needs of individuals and organisations

One of the stand out lessons from overseas is that where there is no government mandate to support digital identity, it can be very hard to encourage adoption of services. This is because while many people want the privacy and security benefits that a digital identity service can offer, they do not prioritise signing up for a service – because more often than not, it's perceived as inconvenient.

To ensure that we create a framework for identity services that meet the needs of individuals and organisations, we have committed to a design led approach. Such an approach will ensure that what we develop is commercially viable, technically feasible and most importantly, desirable for people and organisations to use.

Digital Identity Trust Framework

A trust framework will enable different organisations to offer a range of identity services to individuals, as well as to public and private sector entities.

To achieve this, the framework will establish a set of principles as well as functional, operational and legal standards that guide the behaviour of participants in the framework.

On a practical level, a framework provides a baseline for trust between participating organisations. It provides assurance to an organisation (e.g. a retailer) that another organisation (e.g. the bank or post office) has done their due diligence identifying an individual or entity, and is appropriately (i.e. in line with requirements for security, privacy & data structures) handling information for that individual or entity.

The framework will specify the technical standards and appropriate governance for identity services. This is analogous to how payment cards work today. Thanks to managed standards, the software on our payment cards is able to communicate with the software on payment terminals and this is supported by a governance framework that guides all parties.

Because of the availability of standards and clear accreditation and approval services, a wide range of manufacturers can produce cards and terminals. And because there are clear rules about how liability is managed, it is easy for businesses and individuals to understand how they are protected by the payment networks terms of service.

Framework completion

We anticipate that the framework will be complete mid-2019. As we develop this framework, organisations are developing services that they will offer to businesses and consumers in parallel.

The following organisations have taken part in the creation of the Digital Identity Trust Framework:



**American Express
Australia Limited**

**Australia and New Zealand
Banking Group Limited**

**Australian Postal
Corporation**

**Bendigo & Adelaide Bank
Limited**

Coles Group Limited

**Commonwealth Bank of
Australia**

Cuscal Limited

**Digital Transformation
Agency**

**eftpos Payments
Australia Limited**

**MasterCard Asia/Pacific
(Australia) Pty Ltd**

**National Australia Bank
Limited**

NPP Australia Ltd

Optus

PayPal Pty Ltd

Reserve Bank of Australia

Suncorp-Metway Limited

Visa AP (Australia) Pty Ltd

**Westpac Banking
Corporation**

Woolworths Limited

The case for a digital identity trust framework



\$900 million

LOST ANNUALLY THROUGH
CREDIT CARD FRAUD,
IDENTITY THEFT AND SCAMS

Source: The Attorney-General's Department

More than \$435 million

ESTIMATED ONGOING ANNUAL COSTS TO INDUSTRY
TO MAINTAIN EXISTING KYC PROCESSES



Source: The Murray Report

IDENTITY SPOOFING ATTACKS IN
AUSTRALIA AND NEW ZEALAND ARE

up 71% since 2015

Source: Cybercrime Report, Threatmetrix Q4 2017



CARD-NOT-PRESENT (CNP)
FRAUD HAS A DIRECT
ANNUAL COST OF OVER

\$476 million



CNP FRAUD

**accounts
for 85%**

OF ALL FRAUD ON
AUSTRALIAN CARDS

Source: Australian Payments Network

Cyber

In 2017, the Council identified three areas of focus for the Payments Community:

- Awareness generation and education
- Timely sharing of actionable information
- Development and testing of incident management procedures

Collaboration with the Australian Cyber Security Centre (ACSC) and the Joint Cyber Security Centres (JCSC) forms a key part of the Council's engagement with government. By advocating for a national collaborative approach, the Council aims to ensure a consistent and robust approach to cyber security for the Payments Community.

Awareness Generation

Working collaboratively with the JCSC, the Council plans to hold

a workshop in 2019 to consider initiatives to increase knowledge, and the importance of taking preventative measures to increase cyber resilience across the community.

Actionable Intelligence via Information Sharing

In 2017, the Council considered a number of information sharing methods. These included utilising an existing industry body, building a bespoke solution or partnering with government. The latter was considered the best option.

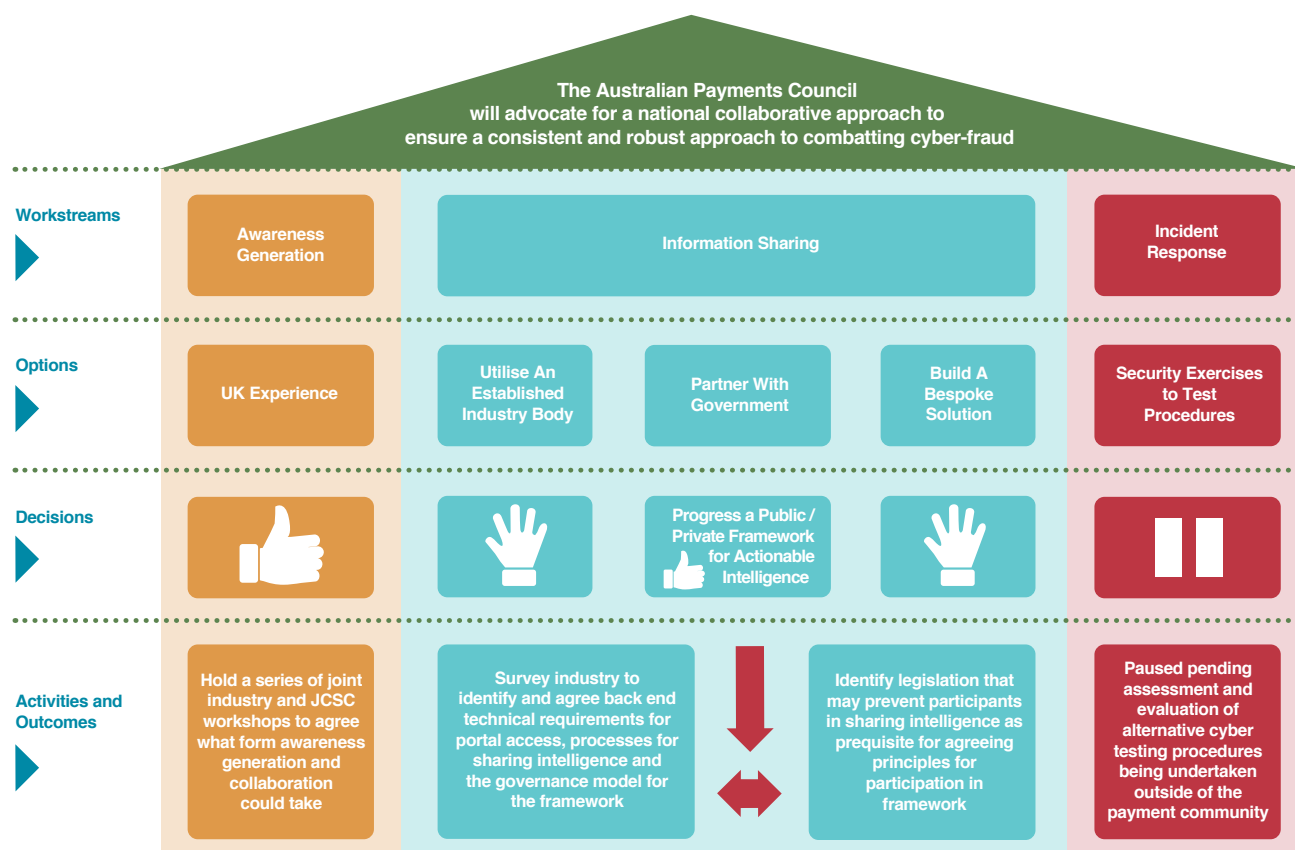
In May 2018, the Council, together with the Sydney JCSC, held a workshop to define the concept of 'actionable' and the types of data that could be shared. A number of user requirements were identified to progress a public/private framework for cyber information sharing. The workshop also highlighted that there may be legislative barriers to sharing this information.

The Council and the JCSC continue to work to elaborate the technical user requirements for participation in the joint framework, developing a governance model and exploring potential 'safe harbour' requirements.

Incident Response

In June 2018, the Council lodged a submission in support of the Australian Prudential Regulation Authority's (APRA) draft standard CPS 234 Information Security (the Standard). The final version of the Standard was released on 7 November 2018 and is designed to ensure resilience against information security incidents (including cyber attacks), and the ability to respond swiftly and effectively in the event of a breach. Compliance with the Standard is required from 1 July 2019.

Security exercises to test incident management procedures is pending assessment and evaluation of current similar initiatives.



Managing the Payments Mix

Reflecting longstanding trends, consumers continue to rapidly move away from cheques. In 2018, cheque use fell by 20%, from 99.9 million to 80.4 million. In its place, direct entry payments grew by 4.2%, to 3.9 billion and the number of card transactions grew by a billion, from 7.8 billion to 8.8 billion. Likewise, the value of card transactions grew 6.3%, from \$596.9 billion to \$634.8 billion.

Cheque usage is in long-term decline and cheques will eventually disappear from the payments landscape. This was reflected in a recent speech by the Governor of the RBA, Philip Lowe, where he noted that *"Given this trend is likely to continue, it will be appropriate at some point to wind up the cheque system, given the high fixed costs involved in operating the system. We have not reached that point yet, but it may not be too far away. Before we do, it is important that alternative payment methods are available."*

While there is currently no end date for cheques in Australia, the long term trends are clear.

The Cheques Taskforce made recommendations to help ensure appropriate alternative payment services are available prior to the disappearance of cheques. Australian Payments Network is leading work on these initiatives.

A report on cheques, covering the scope and key insights from the Council research will be made available on the Council website.

CHEQUE USE

plunged by 20%

2017
99.9
Million

2018
80.4
Million



THE VALUE OF CARD TRANSACTIONS

grew by 6.3%

2018
\$634.8
Billion

2017
\$596.9
Billion



DIRECT ENTRY TRANSACTIONS

grew by 4.2%

Source: Reserve Bank of Australia:
Figures are for Financial Years

Enabling the Future

Data-sharing in the banking sector took a major step forward this year, with the Government committing to the introduction of the Consumer Data Right (CDR). The CDR will give Australians the right to access their data in a machine-readable format.

The CDR will be progressively rolled out across different economic sectors, with the

Government announcing a go-live date for the banking sector of 1 July 2019. After banking, the CDR will be implemented in the telecommunications and energy sector.

The Council is pleased to have played a supporting role, positioning industry for this shift, with work in previous years including the

development of principles for data-sharing, a payments hackathon and submissions to government inquiries.

With the open data project now moving from strategic policy discussions to operational implementation, the Council will now take a watching brief.

Our Community

The Council continues to grow its Community membership across a broad range of organisations from financial institutions, card schemes, major retailers and other payments service providers.

The Council

In order to ensure the needs of a diverse group of payments stakeholders are reflected in the Council meetings, representation is shared across members, with varying tenures. We would like to acknowledge the following people for their participation on the Council during the last 12 months.

Robert Milliner	Chairman
Rob Allen	PwC
Michael Baumann	Commonwealth Bank of Australia
Mark Birrell	Chairman (resigned June 2018)
Lindsay Boulton	Reserve Bank of Australia
David Carter	Suncorp-Metway Ltd
Di Challenor	Westpac Banking Corporation
Robbie Cooke	Tyro Payments Limited
Corrina Davison	American Express Australia Limited
Nigel Dobson	Australia and New Zealand Banking Group Limited
Michael Eidel	Commonwealth Bank of Australia
Rob Ferguson	Tyro Payments Limited
Leila Fourie	Australian Payments Network
Tony Graham	Macquarie Bank Limited
Craig Kennedy	Cuscal Limited
Adrian Lovney	New Payments Platform Australia
Jan Mason	Quest Payment Systems Pty Ltd
Paul Monnington	Woolworths Limited
Rocky Scopelliti	Optus
Rachel Slade	National Australia Bank Limited
Rachel Stocks	American Express Australia Limited
Richard Wormald	Mastercard Asia/Pacific (Australia) Pty Ltd



We'd like to thank
all our members for
their commitment
to improving the
Australian payments
system in 2018.

Members

ACI Worldwide
American Express Australia Limited
Australia and New Zealand Banking Group Limited
Australian Payments Network
Australian Postal Corporation
Bank of Queensland Limited
Bendigo & Adelaide Bank Limited
Bluechain Pty Ltd
BPAY Pty Ltd
Citigroup Pty Limited
Coles Group Limited
Commonwealth Bank of Australia
Cuscal Limited
eftpos Payments Australia Limited
Global Payments
HSBC Bank Australia Limited
IBM Australia Limited
Indue Limited
ING Bank Australia Ltd
J.P. Morgan Chase, N.A Sydney Branch
Latitude Financial Services
Macquarie Bank Limited
Mastercard Asia/Pacific (Australia) Pty Ltd
National Australia Bank Limited
NPP Australia Ltd
Optus
PayPal Pty Ltd
Quest Payment Systems Pty Ltd
Reserve Bank of Australia
Suncorp-Metway Limited
Swift
Tyro Payments Limited
Visa AP (Australia) Pty Ltd
Westpac Banking Corporation
Woolworths Limited

If you would like to take part in developing Australia's future payments system,
please get in touch. We'd be delighted to welcome you to our community.



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