

APCA Submission to the Financial System Inquiry (Interim Report)

August 2014



About this document

This document has been prepared on behalf of the Australian Payments Clearing Association Limited (APCA).

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Note

APCA is the industry association and self-regulatory body for Australian payments and has nearly 100 members. The views expressed herein represent the policy position of the APCA Board as appointed by its members. The views do not necessarily represent the individual views of members.

Publication

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Executive Summary

The Australian Payments Clearing Association (APCA), as the industry association and self-regulatory body for Australian payments, is pleased to make this second submission to the Financial System Inquiry (the Inquiry).

APCA would like to acknowledge the work of the Inquiry Panel and Secretariat in consulting with stakeholders and distilling the large number and variety of first round submissions into a thorough and considered Interim Report.

This submission reiterates some important aspects from APCA's initial submission and also addresses additional areas upon which the Inquiry is now seeking views, including competition in payments, particularly the issue of interchange fee regulation; the regulatory perimeter for retail payments; and the emerging trends in payments.

The Interim Report, along with a wide variety of the submissions, concluded that the Australian payments system is reliable and stable while providing sound competition and innovation in customer services. In this submission we discuss how the co-regulatory approach, involving public regulators and industry, has contributed to this outcome. Importantly, we focus on the potential for a co-regulatory approach to address future challenges, such as emerging technology, new entrants and increasing competition, while maintaining a system that is innovative, safe and stable.

APCA has also included a number of recommendations from our first submission and additional recommendations that have been refined to address issues explored in the Interim Report.

Recommendations

This submission makes a number of recommendations. Some are carried forward from our initial submission to the Inquiry in March 2014, while others have been refined or added through the process of examining the areas that the Inquiry has requested views on in the Interim Report.

Recommendation 1: APCA believes the current regulatory structure for payments has worked well and substantive revision of payments regulation is unnecessary.

Recommendation 2: APCA recommends promoting competition between schemes over direct regulation. In the context of on-going RBA responsibility for payments policy, APCA further recommends RBA involvement in policy decisions about interchange fee regulation and that the Australian Payments Council could play a role in focussing any industry debate.

Recommendation 3: APCA supports consideration of a “graduated framework” approach for retail payment system regulation. As part of this, APCA would suggest a thorough review of the APRA / RBA purchased payment facility regime as well as the related ASIC non-cash payment facility regime.

Recommendation 4: APCA believes that the new Australian Payments Council has a critical role in advising on how to deal with new entrants and new technologies to minimise the potential for ill-considered intervention by public regulators.

Recommendation 5: APCA recommends that the RBA’s jurisdictional reach under the Payments System (Regulation) Act (PSRA) be reviewed to ensure it can effectively respond to new entrants, increasing technological diversity and increasing marketisation of payment systems and networks.

Recommendation 6: APCA believes that the co-regulatory approach of setting high-level policy objectives, supported by co-ordination and self-regulation by payment system participants to achieve these objectives, is the best way to meet future challenges. The RBA should retain the ability to step in as a last resort if this does not deliver the required outcomes.

Recommendation 7: APCA recommends that inter-regulatory coordination protocols be reviewed in an effort to minimise the burden on regulated entities, particularly smaller organisations, having to deal with multiple regulators.

Recommendation 8: APCA recommends exploring greater economic efficiencies associated with the management of cheque and cash use decline and the promotion of electronic payments including:

- A clear government position on reducing the use of cheques and cash and promoting electronic payments;
- A government policy on coinage to recognise and encourage reduced use of coins;
- Enabling the Royal Australian Mint to accept the return of coins from financial institutions;
- Government support for bridging strategies and education campaigns on the benefits of existing telephone, electronic and online payments aimed at those (typically older Australians, rural and regional communities, and small business) who, today, remain reliant on cheques;
- Preparation of an omnibus bill by the Attorney-General's Department to remove specific references to cheques in Federal legislation. This issue should also be addressed at the Council of Australian Governments (COAG) to ensure parallel take up by state governments; and
- The RBA working with industry to achieve a clear position on charging for cheques and other payment instruments.

Recommendation 9: APCA supports industry and government coordination on cyber-security and sees value in, and would like to be involved with, strategic work on this issue. APCA notes it is important to avoid unnecessary overlap in undertaking any such strategic work.

Recommendation 10: APCA would support the exploration of a national digital identity strategy and suggests that the Australian Payments Council and APCA are well placed to help develop industry-wide views on digital identity that balance security concerns with the need for competition, innovation and efficiency, and the need to promote security and trust for the consumer.

1. Interim Report Direction

1.1. Overview

In our submission of March 2014 to the current Financial Services Inquiry (the Inquiry), the Australian Payments Clearing Association (APCA) noted the important legacies of the 1997 Wallis Report. These included the emergence of financial stability as a central policy objective for the payments system and the creation of the Payments System Board (PSB) within the Reserve Bank of Australia (RBA) as the specialist payments regulator.

1.1.1. Current regulatory approach

APCA's view is that the regulatory architecture for payments, that developed out of the recommendations of the Wallis Report, has generally worked well. This approach has served the economy and the community, and does not require radical changes. This accords with the wider view for financial system regulation as expressed by the Inquiry at 1-21 of the Interim Report.

One key factor in the on-going suitability of this approach has been the commitment and engagement between industry participants, including the RBA. The co-regulatory approach taken by the PSB and industry has worked well. As noted by the Inquiry at 1-2 of the Interim Report, this approach of market-based and self-regulatory solutions remains preferable to direct intervention by the public regulator. APCA's view on the current regulatory settings for payments was similarly identified in our March submission to the Inquiry.

Recommendation 1: APCA believes the current regulatory structure for payments has worked well and substantive revision of payments regulation is unnecessary.

1.1.2. Emerging regulatory challenges

However, as noted in our previous submission to the Inquiry, the payments landscape is changing rapidly and in ways that could not have been predicted by the Wallis Report. These changes include new entrants, increasing competition amongst payment providers and schemes, and new and rapidly changing technology.

Together, these changes are quickly transforming payments and pose challenges for regulators to ensure stability, competition and efficiency within payments. In a rapidly changing and technologically-complex environment, it is not possible to effectively regulate for each new entrant or new payment method. However, leaving regulatory considerations solely to market forces may result in sub-optimal outcomes, particularly given public concerns for security and stability and the need for some level of coordination within the payments industry.

APCA believes that the co-regulatory approach taken by the PSB and the industry is a sound and sustainable way of addressing these challenges and is one of the three policy principles discussed in our previous submission, which we have reiterated below:

Principle 1

The diversity of new entrants creates increasing challenges in ensuring functional equivalence of regulation – that is, the same economic activity should be regulated in the same way, regardless of different participants and different forms. APCA proposes that the Inquiry reaffirms the principle of functional equivalence, first articulated in the Wallis Report.

Principle 2

Since Wallis, the Australia payments industry has evolved a three-step co-regulatory approach to payment system regulation and governance:

- 1. Following wide consultation, the PSB sets clear high-level policy objectives;*
- 2. Through industry collaboration and self-regulation, payment system participants devise the best means to achieve the objectives; and*
- 3. The PSB retains the ability to step in as a last resort if this does not deliver the required outcome.*

APCA proposes that the Inquiry recognise and support co-regulatory responses to emerging challenges in the payments system.

Principle 3

The emerging digital economy provides an opportunity for all Australians by providing greater convenience, efficiency and choice. Promoting the use of electronic payments assists Australians in taking advantage of this opportunity. However, there are sectors of our community that continue to rely on paper payments and who may miss out on those opportunities. APCA proposes that government work with industry and other stakeholders to actively promote the use of electronic payments.

1.1.3. The New Payments Platform

At 4-45 of the Interim Report, the Inquiry has acknowledged the work of the industry and the RBA as reflected in developments such as the New Payments Platform (NPP). As the Interim Report points out, a potential barrier to entry into the payments market has been the ability to build or access a network. The NPP will provide access and support innovation, which in turn will encourage and drive competition.

1.1.4. Account switching

As part of its discussion on competition in the banking sector in the Interim Report, the Inquiry looks at the payments-related issue of bank account switching and its potential to be an obstacle to improving competition. On this issue as well, the Inquiry sees payments industry developments and innovation such as the NPP as a way to assist. By enabling customer

details to be attached to a portable identifier (such as a telephone number or email address), the NPP will make switching easier in future.

APCA welcomes the Inquiry's acknowledgement of the positive impacts that the NPP initiative will have on competition and innovation for the payments industry.

1.1.5. Cash not necessarily a "lower-cost payment method"

At 1-13, the Inquiry identifies cash as a "lower-cost payment method". The evidence is that this is not always the case. For example, Commonwealth government-sponsored research from 2006 identifies that while cash is the cheapest payment method for very low values (for instance \$5); it actually has the highest economy-wide costs when used for higher dollar amounts (for instance \$60 and \$100).¹ Importantly, cash usage has significant operating costs; particularly if one considers the transport, storage and security costs associated with cash. Recent US research suggest the costs of cash are actually disproportionately borne by lower income individuals.² The RBA is currently undertaking research on payment costs and this will provide more current data on the relative costs of payment methods and instruments.

As we note in our recently released Milestones Report:

"APCA predicts a less cash, but not cashless society.

*"While acknowledging that cash will remain a "default" payment instrument (if all else fails) for the foreseeable future, APCA believes it should not be the first or only choice in any payment context, and as the industry works on payments system enhancement, it should aim to ensure that safe, convenient and cost-effective alternatives are available."*³

Declining cheque and cash use and the emerging digital economy are addressed further in Chapter 4 of this submission.

¹ Department of Communications, Information Technology and the Arts (2006) *Exploration of Future Electronic Payments Markets*, Canberra, p. 45.

² [http://apca.com.au/docs/decline-of-cheques---milestones/towards-the-digital-economy-milestones-report-\(july-2014\).pdf](http://apca.com.au/docs/decline-of-cheques---milestones/towards-the-digital-economy-milestones-report-(july-2014).pdf); <http://fletcher.tufts.edu/CostofCash/~media/Fletcher/Microsites/Cost%20of%20Cash/CostofCashStudyFinal.pdf> at page 11

³ [http://apca.com.au/docs/decline-of-cheques---milestones/towards-the-digital-economy-milestones-report-\(july-2014\).pdf](http://apca.com.au/docs/decline-of-cheques---milestones/towards-the-digital-economy-milestones-report-(july-2014).pdf)

1.2. Issues for further consideration

The Inquiry's Interim Report has also identified the following issues for further investigation in relation to the payments industry:

- **Competition:** particularly interchange fee regulation, which is discussed further in Chapter 2;
- **Regulatory architecture:** including data collection, retail payment systems regulation and regulatory structure and coordination, discussed further in Chapter 3; and
- **Emerging trends:** including technology neutrality in regulation, facilitating innovation in payments, digital identity and cyber-security, discussed further in Chapter 4.

2. Competition

2.1. Competition dynamics within ATM and cheque systems

At 2-24 of the Interim Report, the Inquiry seeks views on whether there are competition issues in respect to ATM, BPAY and cheques.

APCA is the administrator of the cheque and ATM systems, and accordingly offers some comments on those two systems. APCA submits that there is effective competition amongst service providers offering cheque services and ATM services to the public. In both cases, there is recent evidence of new competition, partly driven by co-regulatory activity:

- Following an opening up of access criteria in 2006, the number of ADIs with access to the cheque clearing system (through membership of the Australian Paper Clearing System) has increased to 70, with 15 new members joining since 2011;
- Following co-regulatory reforms to access and fees in early 2009, the number of ATMs in Australia increased by over 5% year on year in the period 2009-2011, although the ATM population is now stable with decreasing use of cash.

APCA undertakes its ATM and cheque activities, including administration of the relevant clearing systems, in a way which enables competition and innovation, promotes efficiency and controls risk. This includes the provision of appropriate access to these systems. APCA also believes there is robust competition between payment schemes and systems in Australia and this should remain a key focus for regulators.

2.2. Competition rather than regulation

At 2-32 of the Interim Report, the Inquiry seeks views on interchange fee and surcharging regulation.

The Interim Report notes that “(w)herever possible, the financial system should be subject and responsive to market forces.” (1-2) The Interim Report further notes that “(m)arket discipline, through competition or self-regulation, is generally preferred to Government intervention.” (1-2)

Interchange fee regulation represents a significant intervention into the operation of the market. As previously stated in RBA-convened policy reviews, APCA believes promoting competition is generally preferred to regulation. Specifically, neither theory nor evidence supports the unqualified observation made at 2-27 that “regulation of credit and debit card payment schemes is required for competition to lead to more efficient outcomes”.

Since 2000, payment card scheme regulation and economics have been subject to extensive theoretical and empirical study as well as markedly different regulatory approaches in many countries. There is nothing approaching a clear consensus on the optimal regulatory approach. As always in matters of competition policy, APCA submits that the need for regulation remains contingent on the evidence, and in particular on whether there is effective competition in each of multiple markets in the value chain.

The application of interchange fee regulation on particular schemes, but not on others, has created anomalies. As identified in the Interim Report, these are difficult for a regulator to resolve. Determining which schemes should be subject to a form of interchange fee regulation, beyond Visa and MasterCard, is fraught. If extended to American Express and Diners Club (as discussed in the Interim Report), the next issue is whether and when it should also be extended to China Union Pay or future new entrants.

Interchange fee regulation, as currently implemented in Australia, creates an unenviable choice for policymakers between regulating individual schemes, resulting in an uneven playing field for competing schemes, or regulating across all schemes and creating a new barrier to entry, by affecting the commercial attractiveness of Australia for potential new competitors. The Interim Report itself considers this dilemma by identifying that competition and choice are accelerating due to technology and related changes. We would suggest that, as a result, interchange fee regulation will increasingly become a problematic policy solution.

Implementing interchange fee regulation has been challenging and costly to industry. Further changes need to be properly considered to ensure that the benefits are not outweighed by the costs.

Importantly, interchange fee and merchant surcharging regulation has been subject to on-going policy review by the Reserve Bank of Australia. The RBA has developed expertise in these issues and has sought to balance competing interests. Given this and their likely on-going policy responsibility for payments regulation, the RBA will need to be directly involved in any policy decisions on changes in this area.

The highly contested nature of these issues means that any future regulatory changes in this area will require significant discussions between industry stakeholders and with the RBA. The newly formed Australian Payments Council provides one such forum and it could play a useful role in focussing discussions and supporting the RBA in its deliberations.

Recommendation 2: APCA recommends promoting competition between schemes over direct regulation. In the context of on-going RBA responsibility for payments policy, APCA further recommends RBA involvement in policy decisions about interchange fee regulation and that the Australian Payments Council could play a role in focussing any industry debate.

3. Regulatory Architecture

3.1. Data collection

At 3-97 of the Interim Report, the Inquiry seeks further information on regulation, including whether data collection processes could be streamlined and whether more could be made of existing data, including making more of it publicly available.

In its role as payments self-regulator, APCA collects data from its members. This includes information on the volumes and values of payments, which we collate and make available on our website.⁴ APCA also collects and publishes information about payments fraud.⁵

In carrying out our data collection and publication activities, APCA works continuously with the industry and RBA to find ways to be more efficient in how we collect and publish statistics. APCA remains open to discussions with other regulators to explore efficiencies in data collection.

3.2. Retail payment systems regulation

At 3-106 of the Interim Report, the Inquiry seeks views on payments regulation, in particular whether there should be no change to current arrangements or for there to be consideration of a graduated framework for retail payment system regulation with clear and transparent thresholds.

The Interim Report (3-103 to 3-106) provides a considered examination of retail payments regulation. APCA agrees with the observation made in the Interim Report that regulating for stability, and regulating for competition and efficiency may require different regulatory approaches to achieve the different policy objectives. APCA further agrees with the observation that payment systems and payment system participants undertake different activities and, as such, may need to be subject to different types of regulation.

3.2.1. Graduated framework

APCA supports a functional regulation approach that ensures entities are regulated on the basis of what they do, not who they are. We agree with the need to review the purchased payment facility regime along with the non-cash payment facility regime. As noted in the Interim Report, what has emerged in this area is inconsistent, complex and not adequately incorporating new entrants (such as virtual currencies) within the regulatory framework.

In this context, we support an examination of the “regulatory perimeter”, with the objective of managing the risks associated with new offerings that are currently outside of the regulatory

⁴ <http://www.apca.com.au/payment-statistics/transaction-statistics>

⁵ <http://www.apca.com.au/payment-statistics/fraud-statistics>

net. The number and diversity of new entrants is only likely to accelerate given commercial and technological developments.

A potential solution to this is what the Interim Report describes as a “graduated framework” to align risks and scale with compliance requirements. We agree, in principle, that this approach is worthy of further examination. In particular, we would support this examination on the basis of better incorporating new entrants within regulatory coverage.

In developing this “graduated framework”, care will be required in finding a balance between equivalence of regulation imposed and the risks that an entity poses within the system, as well as developing a regime that can be practically applied and sustained. In considering risks, it is important to consider the distribution of risks (not only between the provider and the user but throughout the system) and to ensure that those most able to control the risks are responsible and liable for their proper management. This distribution of risks, and responsibility for managing them within the system, could also inform any “clear and transparent thresholds” for graduating between levels of regulation.

Recommendation 3: APCA supports consideration of a “graduated framework” approach for retail payment system regulation. As part of this, APCA would suggest a thorough review of the APRA / RBA purchased payment facility regime as well as the related ASIC non-cash payment facility regime.

3.2.2. Australian Payments Council in consultative process

The Interim Report recognises that payments is a complex area and care needs to be taken in crafting new regulatory definitions and requirements. Some of the problems associated with the purchased payment facility and non-cash payment facility regimes came about due to definitions that necessitated class order exemptions which excluded many offerings.

We would note that the Australian Payments Council brings together a number of key payment stakeholders including financial institutions, schemes, merchants, new entrants and the RBA.⁶ The Australian Payments Council can play a critical role in advising on suitable regulatory responses related to payments, recognising other bodies and stakeholders will have an interest in prudential and conduct regulation issues.

Recommendation 4: APCA believes that the new Australian Payments Council has a critical role in advising on how to deal with new entrants and new technologies to minimise the potential for ill-considered intervention by public regulators.

3.2.3. Role of regulators and self-regulation

Any review of the regulatory framework will need to examine the respective roles of the regulators. As noted in the Interim Report, complexity in payments is compounded because in addition to the RBA, other regulators such as APRA, ASIC and AUSTRAC may be involved.

⁶ See www.australianpaymentscouncil.com.au

We believe that RBA will continue to play an important role in payments regulation and that the reach of the PSRA may need to be reviewed to support any new regime. This review might include the jurisdictional reach of the RBA and its ability to respond to new entrants and changes in the market.

Recommendation 5: APCA recommends that the RBA's jurisdictional reach under the Payments System (Regulation) Act (PSRA) be reviewed to ensure it can effectively respond to new entrants, increasing technological diversity and increasing marketisation of payment systems and networks.

As noted above, the Interim Report identifies a preference for competition and self-regulation over Government intervention. The Interim Report also identifies the benefits from industry and Government working together.

APCA believes that, in this context, co-regulation should be considered as one alternative to address particular policy concerns. As noted in an OECD Report, co-regulation can be a suitable alternative, particularly where there is a clearly defined industry with its own decision-making structures and processes; when the industry and community interest coincide; and where the regulatory outcomes are less ambiguous (i.e. technical decisions rather than social outcomes). Co-regulation brings certain strengths including access to industry expertise, sensitivity to market outcomes, responsiveness and often lower costs than public regulation. The main challenge for government policymakers is ensuring industry processes are widely supported and do not result in collusion or barriers to entry.⁷

One option for a co-regulatory "graduated framework" is for the RBA to be granted suitable powers, including determining which entities should be within the regulatory net. A co-regulatory framework could then flow from such determinations. Overseen and formally recognised by the RBA, those entities subject to regulation could be covered by codes and / or standards (with a focus on non-competitive issues such as integrity, fraud prevention and security) that are determined and applied by a body such as APCA.

Recommendation 6: APCA believes that the co-regulatory approach of setting high-level policy objectives, supported by co-ordination and self-regulation by payment system participants to achieve these objectives, is the best way to meet future challenges. The RBA should retain the ability to step in as a last resort if this does not deliver the required outcomes.

⁷ Glen Hepburn (2005) *Alternatives to Traditional Regulation*, OECD, Paris.

3.3. Regulatory structure and coordination

At 3-120 of the Interim Report, the Inquiry seeks views on the role of the Council of Financial Regulators, particularly around role, transparency and external accountability.

The Interim Report (3-117 to 3-120) explores enhancing coordination and transparency between the regulators. Coordination between regulators within the payments space is important particularly given the multiplicity of regulators involved including the RBA as the main payments regulator, ASIC for consumer protection, APRA for prudential regulation, the ACCC for competition law and AUSTRAC for anti-money laundering / counter-terrorist financing monitoring.

Better coordination and transparency between regulators through an enhanced Council of Financial Regulators is laudable and we would encourage greater involvement by the ACCC and AUSTRAC within this forum. However, beyond information-sharing, there is also a need for a clear mandate on the regulators to actively pursue better coordination. For instance, reporting requirements might be rationalised and streamlined, particularly for smaller institutions.

Recommendation 7: APCA recommends that inter-regulatory coordination protocols be reviewed in an effort to minimise the burden on regulated entities, particularly smaller organisations, having to deal with multiple regulators.

4. Emerging Trends

APCA endorses the observation made in the Interim Report that:

Technological innovation is a major driver of efficiency in the financial system and can benefit consumers. (4-45)

We noted in our first submission to the Inquiry that it is important to encourage a move to electronic (including online) payments to prevent future dysfunctions in the payments system, particularly as the availability and use of older, traditional payment methods decline.⁸

4.1. Technology neutrality

At 4-43, the Inquiry seeks views on amending regulation that specifies using certain technologies with the aim of becoming technology neutral. Amendments should enable electronic service delivery to become the default; however, they should include opt-out provisions to manage access needs for segments of the community. The Inquiry alternatively proposes the adoption of a principle of technology neutrality, for future regulation recognising the need for technology-specific regulation on an exceptions basis.

APCA believes it is important to enable consumers to have a choice in payments as a first step in promoting access to the benefits of a digital economy. We strongly endorse the promotion of technology neutrality across Government regulation, both for current and future regulations and in respect to payments in particular. Ideally government departments and agencies should be required to accept payments in any widely-accepted form and there should be no barriers to paying electronically. We also believe the Government should, at the same time, actively encourage electronic payments in order to promote efficiency and support the view that electronic payments should ordinarily be the default method of payment.

Since APCA's original submission, we have published the results of research into cash use in Australia⁹ in conjunction with our regular series of Milestones Reports on the digital economy, with a special emphasis on cash.¹⁰ These publications highlight the need for the community to prepare for an economy that is using less cash and cheques, with cheques in terminal decline and a "less cash" rather than a "cashless" society. Importantly we note that while cash will remain a default option for payments, it should not be the first or only choice. We also note the benefits from having access to electronic payments. This strongly suggests the benefits of a clear government position on electronic payments.

⁸ See APCA's FSI Submission at page 14

⁹ <http://apca.com.au/docs/policy-debate/evolution-of-cash.pdf>

¹⁰ [http://apca.com.au/docs/decline-of-cheques---milestones/towards-the-digital-economy-milestones-report-\(july-2014\).pdf](http://apca.com.au/docs/decline-of-cheques---milestones/towards-the-digital-economy-milestones-report-(july-2014).pdf)

At 4-44 the Inquiry asks what specific regulatory and legislative requirements should be prioritised for amendment in relation to technology neutrality.

In our research we identified state and federal legislation that specifically refer to payment by cheques, including one instance which stipulated cheques as the sole method of payment allowed. Some government agencies and services, more prevalent at the local and state level, provide for payments by cash or cheques only. We believe that the development of omnibus Commonwealth legislation which stipulates that any reference to a particular payment method should be taken as allowing payment by any widely-accepted method would effectively address legislation that was written when electronic payments were not available. APCA also believes that this issue should be addressed on a state level and urge that this be discussed in a joint federal/state forum such as the Council of Australia Government (COAG) to ensure a consistent approach.

In our cash studies (mentioned above), we noted that while less coins are being used, there is no capacity for the Royal Australian Mint to buy back surplus coinage. As the amount of coins in circulation increases, coins are used less as a means of payment, are presumably stockpiled in homes, and will increasingly lose their usefulness as a means of payment - potentially becoming an inefficient store of value. We believe it would be useful for the government to consider options to address this issue.

In our original submission, we raised the challenge of dealing with cheques which are rapidly declining in use yet still require a significant infrastructure to process. The reliance on cheques by certain sectors of society and the problems they will face when cheques are harder to use is potentially a social issue that will need to be addressed.

We believe industry and government need to work together to encourage consumers and businesses to move away from using cheques and this might involve measures to discourage the use of cheques. Clear guidance on the ability to charge for the actual cost of cheques to those insisting on using them could require further discussion between the industry, government and affected stakeholders.

Recommendation 8: APCA recommends exploring greater economic efficiencies associated with the management of cheque and cash use decline and the promotion of electronic payments including:

- A clear government position on reducing the use of cheques and cash and promoting electronic payments;
- A government policy on coinage to recognise and encourage reduced use of coins;
- Enabling the Royal Australian Mint to accept the return of coins from financial institutions;
- Government support for bridging strategies and education campaigns on the benefits of existing telephone, electronic and online payments aimed at those (typically older

Australians, rural and regional communities, and small business) who, today, remain reliant on cheques;

- Preparation of an omnibus bill by the Attorney-General's Department to remove specific references to cheques in Federal legislation. This issue should also be addressed at the Council of Australian Governments (COAG) to ensure parallel take up by state governments; and
- The RBA working with industry to achieve a clear position on charging for cheques and other payment instruments.

4.2. Facilitating innovation

At 4-51, the Inquiry seeks views on establishing a central mechanism or body for monitoring and advising Government on technology and innovation and establishing a whole-of-Government technology strategy to enable innovation.

The Inquiry seeks feedback on whether there are specific areas in which Government or regulators need to facilitate innovation through regulation or coordinated action and whether there are ways to improve how regulators monitor or address emerging technological developments.

The New Payments Platform represents an example of government and industry coordination for systemic innovation and indicates the success of such collaboration in the payments system.

APCA welcomes exploration of enhanced engagement between Government and industry on technology and innovation and believes that it is important that payments system stakeholders play an important part in this engagement. We have already expressed support for a whole-of-government approach to promoting electronic payments and suggest that this be an important element of any whole-of-government technology strategy.

As noted earlier, APCA sees the Australian Payments Council as playing an important role in looking for ways to address issues raised by emerging payment technological developments and new payment entrants.

4.3. Cyber-security

At 4-63, the Inquiry seeks further information on ways to work with the private sector for discussions on strategic issues, such as cyber crisis planning, improve cohesion in implementing cyber security policy and whether there are alternative mechanisms that could address these issues.

APCA is facilitating the establishment of the National Fraud Exchange (NFX), a service that will enable financial institutions and, ultimately, government agencies and law enforcement, to share data on a broad range of financial crimes.

APCA supports private-public sector cooperation in combatting cyber-fraud and promoting cyber-security and believes cyber-security efforts align with APCA's work on fraud and security. Indeed we see this work as related to any work being undertaken on digital identity (see below). However, it remains important that future work in this area should be well coordinated and avoid duplication.

Recommendation 9: APCA supports industry and government coordination on cyber-security and sees value in, and would like to be involved with, strategic work on this issue. APCA notes it is important to avoid unnecessary overlap in undertaking any such strategic work.

4.4. Digital identity

At 4-70, the Inquiry seeks views on the costs, benefits and trade-offs of developing a national strategy for promoting trusted digital identities, in consultation with financial institutions and other stakeholders.

APCA believes the promotion of trusted digital identities supports the move to electronic payments and the digital economy, and endorses exploration of a national strategy to promote a safe and secure system for maintaining digital identities.

APCA believes that any such strategy should include key stakeholders in the payments system. APCA and the new Australian Payments Council could be well placed to help develop industry-wide views on digital identity that balance security concerns with the need for competition, innovation and efficiency. APCA is willing to assist with the coordination of relevant payments system stakeholders in developing an agreed industry approach on digital identities that would promote safety and security and there may also be a role for the newly established Australian Payments Council.

An agreed approach for storing and safeguarding digital identities could be part of this strategy as well as promoting the use of biometrics. Both issues are worthy of further exploration.

Recommendation 10: APCA would support the exploration of a national digital identity strategy and suggests that the Australian Payments Council and APCA as being well placed to help develop industry-wide views on digital identity that balance security concerns with need for competition, innovation and efficiency, and the need to promote security and trust for the consumer.

Appendix 1 About APCA

APCA is the primary industry vehicle for payments industry collaboration in Australia. APCA was established in 1992 to manage and develop regulations, procedures, policies and standards governing payments clearing and settlement within Australia. Historically, its focus has been on the administration of a number of clearing systems, notably the systems for cheques, “direct entry” (bulk electronic payments), aspects of ATM and EFTPOS transactions, high value transaction and wholesale cash.

These systems are critical for the secure and efficient operation of the Australian payments system by providing shared self-regulatory rules and procedures for system members. APCA supports these systems through providing secretariat, compliance and other support to member governance groups. Australia does not have the well-established centralised clearing houses seen in operation in other jurisdictions and institutions involved in the payments system have historically exchanged payment messages bilaterally.

As part of its role, APCA maintains device security standards and a number of key industry databases which support the efficient operation of Australian payments, including the BSB database. APCA collects payments statistics that inform member decision-making and provide critical information for stakeholders. This includes information about payment system volumes and values, the number of ATMs and EFTPOS devices in Australia and fraud statistics.

APCA provides information to the community about payments through the APCA website, publications and education campaigns. APCA engages with stakeholders bilaterally as well as through APCA-supported initiatives such as the Australian Payments Forum (to be effectively replaced by the Australian Payments Council’s Payments Community) and APCA Stakeholder Forum. In 2012, APCA took on an operational role in the operation of the Account Switching Mail Box.

More recently, APCA has sought to develop a strategic agenda for Australian payments. This has been through the publication of *Low Value Payments: An Australian Roadmap* (the LVP Roadmap), policy submissions and discussion papers on issues such as the future of cheques, online payments and industry co-regulation.

APCA has supported the implementation of new innovation in payments through our industry projects, such as an enhanced communication network the Community of Interest Network (or COIN infrastructure network), and by providing thought leadership and opportunities for discussion about innovation within the industry, in particular through the New Payments Platform and the Australian Payments Council, as well as coordinating the industry implementation of Direct Entry Same Day Settlement.

This year APCA reformed its governance and opened membership and opportunities to participate in APCA decision-making to a wider range of payment organisations. APCA now has three voting independent directors. More information about APCA can be found at www.apca.com.au

Acronyms

ACCC	Australian Competition and Consumer Commission
ADI	Authorised Deposit-Taking Institution
APCA	Australian Payments Clearing Association
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
ATM	Automated Teller Machine
AUSTRAC	Australian Transaction Reports and Analysis Centre
COAG	Council of Australian Governments
EFTPOS	Electronic Funds Transfer at Point of Sale
NFX	National Fraud Exchange
NPP	New Payments Platform
PPF	Purchased payment facility
PSB	Payments System Board
PSRA	Payment Systems (Regulation) Act 1998
RBA	Reserve Bank of Australia