



5 March 2021

Select Committee on Financial Technology and Regulatory Technology
PO Box 6100
Parliament House
Canberra ACT 2600
By email: fintech.sen@aph.gov.au

Dear Chair,

Re: Financial Technology and Regulatory Technology

We attach a brief submission which deals with interoperability using applications programming interfaces.

We would be very pleased to amplify any of the points made in this submission either by email, phone or video conference.

Yours faithfully,

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Introduction

We welcome the opportunity to contribute to the Senate Select Committee on Financial Technology and Regulatory Technology on further options for the rollout of the Consumer Data Right (CDR) into additional sectors within financial services.¹

This short and non-confidential submission proposes a further rollout of the CDR framework to financial services platforms, including the New Payments Platform (NPP).

Extension of the CDR framework into current and future payments platforms would improve access in two ways: by establishing an open and transparent access model; and by mandating a standardised and extensible method for financial service providers to transfer data. This would promote greater use of the platform by new entrants like fintechs and impede further entrenchment of incumbent financial institutions. Through greater competition, payments platforms can be expected to have reduced operational costs, increased quality of services for end users, greater switching between providers and more innovation.

Access to the New Payments Platform

The NPP is the leading payments platform in Australia because of its ability to offer safe, real-time, data-rich payments. It is overseen by the New Payments Platform Australia Ltd (NPPA). As noted in the Productivity Commission's 2018 Report, the NPP is expected to become the primary method for payments in Australia, making fair and open access to the NPP integral in determining whether the platform "will become a hotbed for innovation and competition or yet another payment system subject to the market power of incumbents."² Currently, institutions can access the NPP either directly on application to the NPPA or indirectly through services offered by directly connected participants.

This model has been criticised for relying on a process that allows incumbent banks the ability to restrict new entrants.³ This can be seen in both the application process and the market for providing NPP access services, which relies on a small group of direct participants granting access to a larger group of indirect participants. Concerns over a lack of transparency, the

¹ *Competition and Consumer Act 2010* (Cth) pt IVD.

² Productivity Commission, *Productivity Commission Inquiry Report (Final Report no 89, 29 June 2018)* 29.

³ *Ibid*; Reserve Bank of Australia, *NPP Functionality and Access Consultation: Conclusions Paper* (Final Report, June 2019) 28.

potential for conflicts of interest and the high costs of access have been noted amongst fintechs.⁴ These issues may have contributed to the slow uptake of the NPP, evidenced by the NPPA receiving no direct access applications in 2019 and 2020.⁵ Furthermore, the perceived influence by incumbent financial institutions may worsen given the proposed merger of the NPPA, eftpos and BPAY, all of which are owned by the major banks.

In response to these concerns, the NPPA formed the NPP Governance Committee, a sub-committee of the NPPA Board, comprised of independent directors and the CEO.⁶ The NPP Governance Committee is responsible for first instance determinations of new joiner applications.⁷ However, appeals are still made to the NPPA Board. This is a limited response to the concerns of the industry that only addresses perceived or actual conflicts of interest and fails to address the structural issue of gaining access through incumbent participants.

Furthermore, institutions that obtain access are limited in their ability to switch between providers. There are currently only five organizations that provide third party access services, and there are no mandated technical standards for providing access.⁸ While the NPPA has released the NPP API Framework, which provides guidance on recommended technical approaches and mandatory data elements, it is not a required standard. This increases the cost for access and limits the ability for end users to switch between providers, thereby reducing incentives for direct participants to provide innovative services at a reduced price.

Rollout of the CDR into Payments Platforms

The CDR framework has been a success for its ability to guarantee access to information through safe and efficient data transfers based on extensible technical standards. The lesson

⁴ Reserve Bank of Australia, *NPP Functionality and Access Consultation: Conclusions Paper* (Final Report, June 2019) 28; Senate, *Select Committee on Financial Technology and Regulatory Technology* (Interim Report, September 2020) 117.

⁵ New Payments Platform Australia Ltd, *Annual Report 2019-2020* (Report, 30 June 2020) <<https://nppa.com.au/wp-content/uploads/2020/10/NPPA-Annual-Report-2020.pdf>>; New Payments Platform Australia Ltd, *Annual Report 2018-2019* (Report, 30 June 2019) <<https://nppa.com.au/wp-content/uploads/2019/10/NPPA-Annual-Report-2019.pdf>>.

⁶ New Payments Platform Australia Ltd, *NPP Australia Limited's Supplementary Response to Reserve Bank of Australia's NPP Functionality and Access Consultation: Conclusions Paper* (Submission, 30 October 2019) 6-7.

⁷ Ibid.

⁸ Senate, *Select Committee on Financial Technology and Regulatory Technology* (Interim Report, September 2020) 117-118.

learned from this success is easily transferable to payments platforms like the NPP and can resolve issues with access and lack of interoperability.

The CDR facilitates open access through an independent and transparent accreditation process. Accreditation applications must be lodged with the Australian Competition and Consumer Commission (ACCC) and evidence the institution's ability to comply with initial and ongoing obligations to protect CDR data. These obligations include having internal dispute resolution processes; being a member of the Australian Financial Complaints Authority; being a fit and proper person; and having adequate insurance.⁹ Applicants must also meet the Privacy Safeguard 12 requirements, which include a formal governance framework for managing, detecting, recording and responding to information security risks.¹⁰ Application decisions may be reviewed by the Administrative Appeals Tribunal or the Federal Court.¹¹

Once accredited, institutions can send or receive data through published technical standards based on application programming interfaces (APIs). APIs can provide secure, extensible and consistent standards that ensure both a positive consumer and developer experience. These standards are developed by the Data Standards Body (DSB) in a collaboration between Government, industry and consumer groups.¹² By actively engaging with community participants, the resulting API standards are consistent, allow for innovation and meet international banking standards.

This framework can be easily adapted to current and future payments platforms. Access to fast payments infrastructure would be conducted through an independent accreditation process with clearly defined costs and data security obligations. It would also create a transparent mechanism for review. This would improve transparency and mitigate concerns over conflicts of interest.

The accreditation scheme would be ideally operated by the RBA but could also be led by another independent entity like the ACCC. The RBA should tailor initial and ongoing obligations to payments platforms by collaborating with industry stakeholders. This should

⁹ *Competition and Consumer (Consumer Data Right) Rules 2020* (Cth) r 5.12.

¹⁰ *Ibid* sch 2.

¹¹ *Ibid* r 9.2.

¹² Consumer Data Standards Australia <<https://github.com/ConsumerDataStandardsAustralia/standards>>.

include consideration of a tiered accreditation process to allow for varying levels of costs, use and access.

Technical standards based on APIs should also be required across the platform. As noted in the Future of the CDR Report, APIs should be consistent across the industry to reduce the cost of access for accredited entities.¹³ The DSB's success in developing API standards in collaboration with stakeholders should therefore be continued into payments platforms, including by leveraging the existing NPP API Framework.

The success of the CDR framework's accreditation scheme and mandated data standards would therefore open access to critical national infrastructure. It would establish open and transparent mechanisms for access and encourage new entrants like fintechs, thereby reducing operation costs and driving innovation in payment services. It would also mitigate fears of further entrenching the market power of incumbent financial institutions.

¹³ Treasury, *Future Directions for the Consumer Data Right* (Report, October 2020) 85.