

# Payment rules fit for digital age

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Page 42 | Section: Editorial&Opinion

608cm on the page



## Payment rules fit for digital age



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### Financial regulation

**If we do nothing to reform the framework, it will be Silicon Valley that determines the future of a critical piece of our economic infrastructure.**

Few Australians may understand the intricacies of our payments system, yet every Australian relies on it. About 55 million payments, worth about \$650 billion, are made in Australia every day.

Online purchases, tap and go, transferring funds, and receiving a fortnightly salary or a government payment all depend on the safety, efficiency and effectiveness of our payments system – a system that is being transformed by new technologies, new business models, new participants and changing consumer preferences.

These include digital wallets, buy now, pay later, cryptocurrencies and stablecoins. Individually, their impact is profound, collectively it's a revolution.

Yet, despite this disruption, the regulatory framework governing the payments system has not evolved. It remains largely unchanged from what the 1996 Wallis inquiry put in place.

That is why the federal government late last year commissioned lawyer and payments expert Scott Farrell to conduct a review of the regulatory architecture of the payments system. Supported by Treasury, he consulted widely, received submissions, and

has now submitted his report to government. His recommendations fall into three key areas.

First, he advocates for a stronger role for the federal government, through the treasurer, in setting the strategic direction of the system. This includes enabling the treasurer to “direct regulators to develop regulatory rules” and “give binding directions to operators of, or participants in, payments systems”.

He points out that given the number of regulators with responsibilities for the payments system, including the Reserve Bank of Australia, ASIC, APRA, AUSTRAC and the Australian Competition and Consumer Commission, there is a need for a consistent policy approach. This is all the more important as some regulators come under different ministers and portfolios.

Second, Farrell recommends the regulators strengthen their co-ordination and adopt a more functional approach. This requires a regulator to look at the nature of the service, not the entity that is providing it.

For example, digital wallets such as Apple Pay and Google Pay are used to make contactless payments just like debit cards issued by a bank, but the parties are subject to different regulatory settings.

A functional approach also makes sense in light of the disintermediation of the payments process that has accelerated over recent years.

No longer is a bank necessarily in control of your payment end-to-end, as was the case when cheques ruled the payments world. Now a bank may receive your salary deposit, but a separate payments system process such as Apple Pay sits on top of it.

Ultimately, if we do nothing to reform the current framework, it will be Silicon Valley alone that determines the future of our payments system, a critical piece of our economic infrastructure.

Third, to give effect to this redesigned regulatory system, Farrell recommends a single, tiered licensing framework. It follows overwhelming feedback that there is

confusion as to which regulator a new entrant applies to for authorisation.

The need to deal with multiple regulators is leading to delays that add to costs and increase barriers to entry for new players. For example, about a quarter of Australian financial services licence applicants took more than 150 days to be considered.

The solution he recommends is one licence that is scalable based on the payment function sought to be provided. This would mean a small new entrant would not face the same regulatory obligations as a larger, more established one performing a wider range of activities with a higher volume of payments.

The Farrell review makes a strong case for reform and its release offers the opportunity for further feedback before the government finalises its response by the end of the year.

I am committed to reforming our payments system in order to promote competition and support innovation. Just as the Consumer Data Right and open banking have increased choice with the exchange of personal data, and the regulatory sandbox is empowering businesses to trial new products, so too a modernised regulatory framework for our payments system will further drive Australia's digital transformation.

This will help create jobs, growth and a stronger economy.

*Josh Frydenberg is the federal Treasurer.*

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