Visa Inc.'s Response to The Treasury's Review of the Australian Payments System Issues Paper

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22 January 2021

Mr Scott Farrell
Chair
Review of the Australian Payments System
The Treasury
Langton Crescent
PARKES ACT 2600

Via email: PaymentsReview@treasury.gov.au

Dear Scott,

Visa submission to Treasury: Issues Paper on Review of the Australian Payments System

Visa welcomes the opportunity to respond to The Treasury ("Treasury") Issues Paper ("Issues Paper") on the Review of the Australian Payments System ("Review"). We support Treasury's timely consideration of the regulatory architecture so that it is suitable and adaptable to a rapidly changing electronic payments system. Ensuring that the payments system continues to promote innovation and benefit consumers and businesses of all sizes is particularly important given the need for Australia to mount a strong post-COVID-19 economic recovery.

Visa has participated in a wide number of reviews and other consultations conducted by Treasury over several years. Among them, consultations on combatting the black economy[1], the introduction of Open Banking in Australia[2], and potential expansion of the Consumer Data Right (CDR) to action initiation[3]. In each submission, we have consistently highlighted the need for balanced, equally-applied, and innovation-enabling approaches to the regulation of electronic payments.

Visa agrees with Treasury when it indicates in its Issues Paper that: "To ensure Australia is well placed to safely leverage the benefits of new technologies, our regulatory architecture must be flexible, responsive to technological advances and capable of setting a long-term direction for payments policy in Australia."[4] The payments industry and regulatory bodies must work together to achieve this outcome, and it is in this spirit that Visa is contributing to the Review.

[1] Visa (2017), *Visa Submission to the Black Economy Taskforce*, https://consult.treasury.gov.au/tax-framework-division/black-economy-taskforce/consultation/view_respondent?_b_index=60&uuId=999103377
[2] Visa (2018), *Visa Inc's Submission to the Review into Open Banking in Australia – Final Report*, https://treasury.gov.au/sites/default/files/2020-07/visa.pdf
[3] Visa (2020), *Visa Submission to Treasury's Inquiry into the Future Direction of the Consumer Data Right*, https://treasury.gov.au/sites/default/files/2020-07/visa.pdf . Action initiation is also known as write access.
[4] The Treasury (2020), *Payments System Review Issues paper*, p7. https://treasury.gov.au/consultation/c2020-129951

Our submission consists of five main sections. First, we provide an overview, from Visa's perspective, of Australia's current regulatory architecture and provide examples of the rapidly changing trends the electronic payments system is currently experiencing. Second, we focus on overarching principles that can guide Treasury in creating a modern and next-generation regulatory architecture in Australia. Third, we identify specific issues that, until now, have presented some challenges but which can likely be remedied through a modern regulatory architecture. Fourth, we provide examples of regulatory architecture in other countries and lessons learned for purposes of comparison. Lastly, we make some closing remarks.

Following your review of Visa's submission and, as Treasury advances to the next stages of this Review, we would welcome the opportunity to provide any additional information or support to help ensure that the payments system has a vibrant future and continues delivering broad benefits to Australia's citizens, businesses, and the economy.

Yours sincerely,

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Overview

"The Government is committed to a modern payments system that meets the current and future needs of all Australians." – Terms of Reference, Payments System Review[5].

Treasury's review of Australia's regulatory architecture of the electronic payments system is both timely and responsive to the multitude of changes in the industry across the world. This global trend is evident in Australia where the electronic payments system is evolving at an unprecedented pace – and will continue to do so. As Treasury points out, a regulatory framework for the electronic payments system needs to be fit for purpose and capable of supporting continued innovation for the benefit of consumers, businesses and the broader economy[6].

Visa shares the Australian Government's vision of sustaining the nation's economic prosperity, including for consumers and businesses. This objective has heightened relevance as we work together to ensure that Australia's modern electronic payments system can support and catalyse the nation's post-COVID-19 economic recovery. Payment networks, such as Visa, help to:

- Boost economic growth, create jobs, and increase tax revenue;
- Drive innovation and the digital economy;
- Increase financial inclusion, including supporting small and medium-sized businesses (SMBs);
- Create transparency in transactions; and
- Deliver enhanced security for financial institutions, businesses, and consumers[7] [8].

In creating a modern regulatory architecture to support a vibrant and evolving electronic payments system and economic recovery, it is important to consider the depth, scale, and pace at which change is occurring. For example, among the most notable changes that Australia's electronic payments system is encountering is the transition from traditional electronic payments to frictionless, digital experiences across a host of new connected devices and consumer journeys – all while alternative and innovative methods of interbank and electronic payments are emerging. Technological advances, fast-changing consumer behaviours, open innovation and collaboration between organisations are driving this trend, with the appetite for using different payment platforms accelerating further due to COVID-19[9].

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[5] The Treasury (2020), *Payments System Review Issues paper*, p2. https://treasury.gov.au/consultation/c2020-129951
[6] Ibid.
[7] This includes Visa preventing more than $560 million in fraud from impacting Australian businesses in the 12 months ending June 2020. https://www.visa.com.au/about-visa/newsroom/press-releases/visa-prevents-more-than-560-million-in-fraud-from-impacting-australian-businesses.html
[8] For further details on the benefits of electronic payments to economies, see the Visa-commissioned report (2017), *Cashless Cities: Realising the benefits of digital payments,* https://usa.visa.com/dam/VCOM/global/visa-everywhere/documents/visa-cashless-cities-report.pdf and Moody's Analytics (2016), *The Impact of Electronic Payments on Economic Growth*, https://usa.visa.com/dam/VCOM/download/visa-everywhere/global-impact/impact-of-electronic-payments-on-economic-growth.pdf
[9] The Treasury (2020), *Payments System Review Issues paper*, p2. https://treasury.gov.au/consultation/c2020-129951

As technological developments have enabled consumers to buy products and services with their computers, tablets, phones and wearable devices, they rightfully expect the payments process to be as secure and reliable as it is seamless and convenient on the payment device of their choice. The needs and expectations of businesses have also heightened – with growing interest in new point-of-sale infrastructure and software as well as other technologies to drive and monitor sales. In addition, the number and type of new participants entering the electronic payments system is multiplying and diversifying at a rapid pace. This results in a progressively complex, competitive and dynamic landscape, with providers ranging from traditional financial institutions – large and small – to Big Tech and start-ups, including fintechs.

In evaluating whether Australia's current regulatory architecture is fit for purpose and tailored to the needs of the electronic payments system, we highlight how the next generation of Australia's regulatory architecture can appropriately reflect these changes. In this context, we note that the regulatory architecture that applies to traditional retail payment systems is generally robust and effective. The Reserve Bank of Australia (RBA) and the Australian Competition and Consumer Commission (ACCC) provide oversight and guidance to most payment system participants on a variety of issues. On the other hand, there are some emerging gaps when it comes to new participants in the system who are not subject to similar oversight. This is especially important to consider since the entry of new participants heightens resiliency and security risks, as well as privacy and data protection concerns. Visa has consistently managed these types of risks for many decades in Australia and markets around the world, and, if helpful to the Government, we are available to share our experience.

In addressing these issues and in designing the next generation of Australia's regulatory architecture, we recommend that Treasury be guided by several overarching principles including: continuous innovation and security; transparency and consumer choice; and balanced economics. In the following sections, we provide more details on how these principles can guide the next generation of Australia's regulatory architecture and be applied so that the nation maintains a vibrant, secure, reliable and modern payments system.

Section 1: A principles-based approach to developing a modern, vibrant regulatory architecture for Australia's payments system[10]

> Key Points
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> - The electronic payments system is experiencing unprecedented change and scale of innovation. Any future regulatory architecture should be designed to effectively respond to, and manage, current and future changes.
>
> - Future regulatory frameworks should be grounded in a principles-based approach that is technology- and sector-neutral.
>
> - To foster a vibrant and modern electronic payments system, policymakers should focus on continuous innovation and security, transparency and consumer choice, and balanced economics.

The future regulatory framework for electronic payments in Australia should be anchored in a principles-based, technology- and sector-neutral approach. In this regard, Visa recommends that the framework should be flexible enough to encourage innovation and allow different technologies and business models to emerge across all levels of the value chain, whilst at the same time ensuring a level playing field for competition across a growing range of services. In short, the goal should be to maintain a level playing field without removing incentives for innovation.

Governments across the globe are seeking to chart an appropriate pathway forward regarding Big Tech and fintechs, and Australia has an opportunity to be a leader in this regard, given the maturity of the country's regulatory institutions, experience in regulating traditional payments, and the robustness of its overall financial sector. That said, there is always the potential to evolve further, as set out below, in seeking to address these issues.

(a) Level playing field

In order to create a level playing field, there is value in regulatory bodies considering whether regulation is required as well as the scope of such regulation being focused more on the *nature of services* provided rather than the *form of organisations* providing them. As the RBA Governor, Philip Lowe, said in December 2020: "The legislation governing the Reserve Bank's regulatory responsibilities was put in place over 20 years ago. This legislation gives the Bank specific powers in relation to payment systems and participants in those systems. While the powers are quite

[10] This section includes responses to questions 5 and 6 in the Treasury Issues Paper.

broad, in practice the Bank has the ability to regulate only a fairly limited range of entities."[11] Such a regulatory framework inevitably results in some - but not all - entities engaged in payments being regulated.

Today, a diverse set of businesses provide payment services - from established financial institutions to Big Tech and fintech companies. As set out above, new participants in the payments system are often not faced with the same domestic regulatory requirements and, in some cases, their payments business is secondary to supporting expansion of their primary business lines.

One potential model to address the current situation is to define what is considered a *payment*, with any definition being technology- and sector-neutral. The Bank for International Settlements provides a good starting point, as it defines payment systems as a "set of instruments, procedures, and rules for the transfer of funds between or among participants; the system includes the participants and the entity operating the arrangement."[12] By focusing on the fundamentals of the payment or movement of money, rather than the attributes of the participants, this type of definition could help bring unregulated parties into the regulatory framework and level the playing field.

(b) Principles at the centre of a modern, vibrant regulatory framework

A flexible framework based on robust consultation and coordination among industry participants and various regulatory bodies can more easily adapt to future innovation and emerging technologies as well as accommodate a variety of business models and commercial incentives. By comparison, an overly prescriptive, top-down regulatory approach is unlikely to support the same variety and speed of innovation.

In considering Australia's regulatory architecture for a future payments system, in Visa's experience there are three principles that underpin a resilient, secure and innovative payments environment:

- **Continuous innovation and security:** Ensuring that regulations are well-balanced across the system and market-based will enable innovation and competition. Innovation delivers new forms of payments and solutions aimed at reducing risk as well as deterring fraud. Innovation must be coupled with security, interoperability and governance. This includes ***a policy approach which is forward-looking*** and takes into consideration both the payments environment as it is today and what it may look like in the future. In this regard, the ***regulatory architecture should be centred on innovation in products, services and security, resilience, supporting new entrants, and ensuring the vibrancy and competitiveness of the payments system.***

[11] Reserve Bank of Australia (2020), "Innovation and Regulation in the Australian Payments System", 7 December. https://rba.gov.au/speeches/2020/sp-gov-2020-12-07.html
[12] See BIS Glossary: https://www.bis.org/cpmi/publ/d00b.htm?&selection=170&scope=CPMI&c=a&base=term

- **Transparency and consumer choice:** Ensuring consumers are informed about products and services, and have the right to choose the products and services that best meet their needs is essential and should be the primary consideration regarding "end-users". This perspective aligns with the Australian Government's approach to the CDR[13]. This includes ***creating clear choice for consumers*** by allowing payments system participants to compete for business in their own right (rather than by regulatory fiat) and thereby encouraging innovation and competition.

- **Balanced economics:** Regulation needs to facilitate the establishment of balanced economics, a level of equilibrium, that enables the system to grow - balancing the cost of payment acceptance with the investment required to maintain payments system security and innovation. In this regard, ***policy settings should be designed to take account of the economic incentives necessary to deliver new products*** and solutions, mitigate risk/fraud for consumers, and not disproportionately advantage one party over another.

Alongside these principles, active and two-way engagement and consultation between industry participants and regulators is crucial so that policy-making is collaborative, adequately reflects marketplace dynamics, and is sufficiently flexible to adapt to new technological developments and evolving industry developments. It is equally important that systems and policies are in place to ensure the independence of decision-making and governance through the removal of any conflicts of interest – for example, when regulators also own or operate payments system infrastructure. Otherwise, there is the risk of disrupting the level playing field within the payments system.

[13] See, for example, Australian Government (2020), *Future Directions for the Consumer Data Right*, p6. https://treasury.gov.au/sites/default/files/2020-12/cdrinquiry-accessiblefinal.pdf

Section 2: A modern, vibrant regulatory architecture to enable the next generation of Australia's payments system[14]

Key Points

- Australia's regulatory architecture, which has been in place over the last two decades, has largely enabled an electronic payments system that is secure and innovative.
- However, the currently regulatory architecture also has a number of regulatory gaps that warrant attention and remedy.
- Additionally, the rapid changes in the electronic payments system – driven by new entrants and technologies and changing consumer needs and demands – require a regulatory architecture that is flexible and can adapt to current and future challenges.
- The current review is timely and presents an opportunity to modernise Australia's regulatory architecture in order to, among other things: ensure a level playing field; prioritise consumer choice, consumer protection and transparency; enable new participants to efficiently enter the system; and strengthen mechanisms so there is robust engagement between industry and regulators. Australia's regulatory architecture should also be focused on minimising risks and ensuring security in the system.

As already mentioned, a number of regulatory and government agencies provide the regulatory architecture that currently governs Australia's payments system. They collectively have ensured the sound regulation of payment networks in Australia. The RBA, for example, notes that it has "one of the clearest and strongest mandates in the world in relation to payments systems"[15].

This regulatory architecture - and the legislation and regulation that has resulted therefrom - has generally performed well and largely enabled participants to provide innovative and secure payment services in Australia. However, as noted in both the Review's Terms of Reference[16] and by the RBA Governor Lowe[17], Australia's regulatory architecture regarding payments has remained largely unchanged for over two decades. The Issues Paper states that "Given the passage of time and changes to the payments landscape, it is important to reflect on whether this structure and the mandates of individual regulatory bodies continues to deliver optimal outcomes for end-users." In addition to the passage of time, the rapid pace and scale of innovation, changing

[14] This section includes responses to questions 1, 3, 4, 5, 6, 7 and 9 in the Treasury Issues Paper.

[15] https://rba.gov.au/payments-and-infrastructure/payments-system.html

[16] The Treasury (2020), *Payments System Review Issues paper*, p2. https://treasury.gov.au/consultation/c2020-129951

[17] Reserve Bank of Australia (2020), "Innovation and Regulation in the Australian Payments System", 7 December. https://rba.gov.au/speeches/2020/sp-gov-2020-12-07.html

consumer demands, and the heightened importance of data also make this Review timely and relevant.

In this context, we wish to highlight the ways in which a principles-based approach – as outlined in the previous section – could result in a modern regulatory architecture that addresses a number of existing issues below which Visa has identified in the current regulatory architecture. These include, for example, gaps in the regulatory architecture and cases of regulators working at cross purposes.

(a) Regulatory architecture enabling a level playing field between established entities and new and emerging participants

During this time of significant change, a forward-looking approach to the regulatory architecture is critical, and must take into account the policy, economic and risk implications of new entrants in an expanding system. Historically, global payment technology providers, such as Visa, have evolved within the parameters of the banking system and been subject to high regulatory scrutiny. However, in many cases the motivations and business models of new entrants differ from traditional payments participants in that they may view payments as expanding their larger data-driven businesses. In addition, many of these new entities and platforms are in the very early stages of adopting best practices with respect to payments system security and resiliency. Therefore, it is important to note that placing additional regulatory requirements and pressure on economics in the payments system may have a negative and disproportionate impact on the ability of established and regulated participants to continue investing in infrastructure and technology to safeguard data and privacy in the digital world.

We anticipate an acceleration in the rate of change in the Australian payments environment in the coming years enabled by initiatives like the New Payments Platform (NPP) and the CDR, the latter of which will result in a cross-sectoral, consumer data-sharing system that includes financial data. Through both these initiatives, the Government has sought to expand the use of electronic payments and is encouraging the responsible development of the data economy. However, emerging gaps in the current regulatory architecture could undermine its mission to do both.

Consequently, in line with our overarching principles outlined in the previous section, Visa recommends that the future regulatory architecture focus more on designing measures appropriate to the *nature of services* provided rather than the *form of organisations* providing them. Such an approach should level the playing field for both established entities and new entrants, which will in turn serve to maximise competition and innovation as well as to balance risks appropriately for end-users across the system.

(b) Regulatory architecture ensuring that consumer empowerment, consumer protection and transparency underpin policymaking

Any future regulatory architecture should be designed to ensure that consumer empowerment, consumer protection and transparency underpin the policies that can have a broad impact upon the electronic payments system. In Visa's view, there are currently differing approaches that seek to balance the benefits and costs of different end-users but which, ultimately, potentially point to the need for improved coordination and stakeholder engagement.

As an initial point, the transparency underlying the CDR enables consumers to participate in a data-sharing system – and economy – so they can "share the data they have, with the businesses they select, for use as they choose"[18]. However, conversely, Merchant Choice Routing (MCR) (also known as Least Cost Routing) does not provide consumers with the same level of transparency when utilising payment credentials. There is the potential for improvement regarding regulator coordination of payments policy development as well as messaging to stakeholders that payments policies implemented across regulators are developed based on an overall vision and strategy regarding consumer transparency.

The education of end-users is crucial to ensure consumers have full awareness and free choice in selecting the security, privacy, and other payment product features that best suit their diverse needs. Visa has been actively working with our clients, governments, regulators, and other partners in Australia and globally on these issues for many years, including during the COVID-19 pandemic[19]. Through this work, we have found that raising consumer awareness of consent and privacy is key because consumers are less likely to be active participants in policy-driven innovation until they are aware of the benefits it can bring to them. At the same time, consumers need to understand and be comfortable with who is storing or holding their data, how they can assess whether it is being used responsibly, and their rights to maintain or withdraw consent. Successful consumer education campaigns and programs on these topics engender consumer trust and informed decision-making, leading to widespread adoption of secure and reliable electronic payments products and services.

(c) Regulatory architecture ensuring that requirements for fintechs and other small entities do not result in unnecessary entry and competition barriers.

Many fintechs[20] currently face challenges when seeking to enter the payments system. For example, fintechs often encounter a lack of clarity and uncertainty regarding what licensing requirements need to be fulfilled, which may lead to greater costs and time associated with seeking to service the Australian market. Recognising this challenge, the Issues Paper highlights a

[18] Australian Government (2020), *Future Directions for the Consumer Data Right*, p.v. https://treasury.gov.au/sites/default/files/2020-12/cdrinquiry-accessiblefinal.pdf

[19] For example, Visa published in 2020 *Digital Transformation of SMEs: The Future of Commerce*. https://www.visa.com.au/dam/VCOM/regional/ap/australia/global-elements/Documents/digital-transformation-of-smes.pdf

[20] Visa has close engagement with fintechs (both Australian and foreign with operations here) through our Fintech Fast Track Program and has developed insights regarding the constraints they face.

preference that "businesses – particularly new entrants – are able to meet regulatory requirements in a straight-forward and streamlined manner …"[21].

Australia's regulatory architecture should enable new participants – such as fintechs – as well as other small payments participants to have clarity about which entry requirements must be met to deliver services to consumers and businesses. This could be accomplished, for example, if fintechs are able to access advice from a designated single point within the regulator community regarding licensing and regulatory requirements[22]. If such an arrangement is already in place, we would recommend raising public awareness of this resource. If not, the Council of Financial Regulators may be a suitable entity to coordinate the advice which could be made available to new entrants through a number of means (e.g., website, engagement through fintech and other industry associations). There may also be an expanded role for the Australian Securities and Investments Commission (ASIC) Innovation Hub in this regard.

In addition, through initiatives such as the restricted Authorised Deposit-taking Institution (ADI) licensing program and regulatory sandbox, Australia has seen an unprecedented number of neo-banks enter the market. The Australian Prudential Regulation Authority (APRA) – as well as the new entrants – had a clear intent before the COVID-19 pandemic to graduate from restricted licensing arrangements, which require applicants to meet full prudential requirements, including demonstrating a sustainable business and funding model as well as sophisticated operational and risk processes and capabilities. However, good intentions to encourage innovation and new entrants to the payments system do not seamlessly flow through the current regulatory architecture – but instead in some cases inhibit competition from smaller participants in the payments system. For example, small financial institutions could benefit from greater clarity regarding their ability to issue Single Network Debit Cards (SNDCs). On SNDCs, the RBA recently said: "[S]ome smaller Issuers have recently indicated to the Bank that it is costly to them to maintain two networks on their debit cards and to carry out largely duplicative activities such as regular upgrades of cards to the standards of both schemes (for example in chip compliance) and investment to enable both scheme networks in mobile wallets"[23]. If small local and regional financial institutions are not able to issue SNDCs, it may limit their capacity to compete against other, larger payments system participants and to invest in bringing new innovations to market.

(d) Regulatory architecture enabling robust and continuous engagement and collaboration between industry and policymakers

The pace at which new payment technologies are being developed, and at which consumers are adopting them, is accelerating in Australia. In this rapidly shifting payments landscape, it is

[21] The Treasury (2020), *Payments System Review Issues paper*, p7. https://treasury.gov.au/consultation/c2020-129951
[22] AusPayNet has made a welcome contribution in seeking to provide information about entry requirements, publishing in 2020 its *Guide to the Australian Payments System*. https://www.auspaynet.com.au/resources/New-To-Payments-1
[23] Reserve Bank of Australia (2019), *Review of Retail Payments Regulation – Issues Paper*, p16. https://rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/pdf/review-of-retail-payments-regulation-issues-paper-nov-2019.pdf

important that regulators stay up-to-date on the latest technologies and their respective business models and can fully gauge the impact and benefits they may deliver to the market. There is, therefore, value in regulatory architecture more easily enabling and increasing regulators' knowledge in two key areas: (a) innovation and technology; and (b) awareness of emerging business models. On the latter, this would include an understanding of the underlying value that participants provide in payments and the economic models that support the innovation, security, resilience and protections afforded to participants and end-users as well as an understanding of the underlying risks that new participants may introduce.

One mechanism through which policymakers can gain a greater understanding of the rapidly evolving electronic payments landscape is via robust and continuous engagement with industry. Increased collaboration between industry and regulators can ensure that industry (as the primary source of innovation) and regulators (as the creators of a regulatory environment that enables such innovation) are aligned and working towards shared objectives. Robust and continuous collaboration and engagement should be a fundamental pillar of the next generation of Australia's regulatory architecture.

Moreover, it is critical that industry and regulatory bodies work together so that regulation is not only appropriate for the current environment, but also remains relevant for the future, while allowing industry to compete and innovate. In the case of the Australian Payments Council (APC), for example, Visa's view is that the APC has the potential to contribute further to facilitating the overall vision and strategy for the Australian payments system with certain enhancements. These include:

- More regular engagement (the Council currently meets annually with the RBA Payments System Board);
- Less formality and increased debate; and
- A forward-looking agenda, which is developed collaboratively with input from all stakeholders.

With respect to instances that are appropriate for self-regulation, Visa has found the current model to be effective where the industry is committed to working together to achieve a specific outcome (such as the increase in the contactless limit at the outset of the COVID-19 pandemic)[24]. We recommend that the current model continue to be employed and activated as and when industry collaboration will enable the best outcomes from the payments system.

[24] AusPayNet (2020), "Contactless card PIN limits to increase temporarily to help reduce the risk of COVID-19 transmission", 3 April. https://www.auspaynet.com.au/insights/Media-Release/ContactlessLimitsCOVID-19

Section 3: International comparisons[25]

Key Points

- International comparisons suggest that greater and clearly defined cooperation between regulatory agencies, rather than the consolidation of agencies, supports payments innovation and creates a more effective regulatory architecture.

In practice, Visa has found that the most appropriate framework for supporting payments innovation is a multi-faceted regulatory regime in which regulators have clear responsibilities based on their respective legislative authorities and areas of greatest policy expertise, as well as relevant analytical and enforcement capabilities. Even in countries where governments have established a standalone payment regulator, such as the United Kingdom (UK), coordination across regulatory bodies is still required for appropriate policy decisions to be effective and for innovation to take place. Consolidation does not appear to have resulted in the most desirable outcomes in this regard.

(a) The United Kingdom Model

After initially experimenting with the consolidation of regulatory bodies, most regulatory initiatives in the UK have required a multi-regulator approach. Recent initiatives suggest a further departure from regulatory consolidation, as financial regulators have identified the importance of improving regulatory coordination.

In 2015, HM Treasury created a new regulatory body, the Payment Systems Regulator (PSR), with the stated goal of promoting "competition and innovation in payment systems."[26] While the PSR is often seen as a standalone regulator, regulatory responsibilities for the payments system are, from a practical standpoint, shared across multiple bodies. For instance, while the PSR is responsible for setting standards for payment service providers, the Financial Conduct Authority (FCA) is the primary prudential supervisor for many financial service firms, including payments and e-money providers. Similarly, the Bank of England is additionally responsible for supervision and oversight for many payment providers.

[25] This section includes responses to questions 10 and 11 in the Treasury Review Issues Paper.
[26] Payment Systems Regulator (2016), *Market review into the supply of indirect access to payment systems: interim report*, p3.

In its *Future Regulatory Framework*, HM Treasury has identified improving regulatory coordination between financial regulatory agencies as a priority for payments system regulation and financial system regulation more broadly.[27]

It is noteworthy that much of the regulatory innovation in the UK originated outside of the PSR and has required coordination between multiple regulatory bodies. For instance, the UK's Regulatory Fintech Sandbox, which was the first of its kind globally and has included a number of innovative payment companies over the years, was created and overseen by the FCA due to recognition that encouraging payments innovation required a broader financial regulator system.

(b) The Singapore Model

The Monetary Authority of Singapore's (MAS) regulatory framework is underpinned by six fundamental tenets of effective regulation:

- **"Outcome Focused**" requires MAS to uphold sound regulation of a high standard and to give consideration to all of the tenets concurrently. Good regulatory outcomes can sometimes be achieved by prescriptive rules or by broad principles, with responsibility placed on financial institutions to deliver the regulatory outcomes. Rules can also be one-size-fits-all or differentiated, where appropriate.

- **"Shared Responsibility"** acknowledges that regulation alone is insufficient to deliver good regulatory outcomes. In many areas, good outcomes are most effectively achieved, with MAS, financial institutions, investors and consumers each taking on specific responsibilities for, and shared ownership of, regulatory objectives and outcomes.

- **"Risk Appropriate"** advocates that, while MAS establishes standard, baseline regulatory requirements for broad application, it should be able to exercise supervisory judgement to set higher standards or to grant exemptions where justified in the particular circumstances of an individual financial institution or transaction.

- **"Responsive to Change and Cycles"** recognises the need for the regulatory framework to be updated to keep pace with changes in the industry, technological innovation and as new risks emerge.

- **"Impact Sensitive"** requires that the costs and impact of major new regulatory initiatives be assessed and a judgement made on the balance of costs and benefits. Regulation should be targeted at specific and material risks to the objectives of financial supervision, and not unduly burdensome whilst consistent with established international standards.

[27] HM Treasury, (2019), *Financial Services Future Regulatory Framework Review.* https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/819025/Future_Regulatory_Framework_Review_Call_for_Evidence.pdf

- **"Clear and Consistent"** explains that regulation should be clear and consistent across like activities so that institutions have certainty and predictability regarding their legal obligations[28].

The MAS organisational structure supports the Singapore Government's mission to promote the country as both a sound and progressive financial centre. Hence, in addition to financial supervision (which includes payments policy and supervision), MAS has teams focused on market development, which includes fintech and innovation, artificial intelligence development, and payments development and data connectivity (overseen by a dedicated Chief Fintech Officer recruited externally). There are also other government entities, such as the Infocomm Media Development Authority (IMDA) and the Personal Data Protection Commission (PDPC), which collaborate with MAS and have clear areas of responsibility to support the development of the digital economy and digital transformation of SMBs and start-ups (among others).

The recently launched Singapore Financial Data Exchange provides a good example of an initiative that supports changes in industry and technological innovation. Developed through public-private collaboration, the data exchange is the first public digital infrastructure to use a national digital identity (SingPass) and centrally managed online consent system to enable individuals to access their financial information held by government agencies and financial institutions. This example also underlines Singapore's approach towards policy-making regarding payments. A consultative approach with industry participants has been adopted, whether through formal industry consultation or regular engagement with established payment providers, fintechs or other stakeholders via a Payments Council or Taskforce.

The recently signed Australia-Singapore Digital Economy Agreement (DEA) reflects and incorporates many of the regulatory principles described above with respect to payments and has some of the most comprehensive commitments on data flows for payments service providers. These commitments include "support[ing] the development of efficient, safe and secure cross-border electronic payments."[29] The DEA also has a specific consultation mechanism for ongoing dialogue and collaboration between government and the private sector[30], to ensure that rules and regulations remain current with technology innovation and other marketplace developments.

Visa encourages the Australian Government to continue: engaging with international partners on how to support and modernise the electronic payments system; seeking and securing ambitious bilateral and multilateral digital economy agreements; and ensuring these principles are upheld domestically moving forward.

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[28] Monetary Authority of Singapore (2015), *Tenets of Effective Regulation*, pp2-3. https://www.mas.gov.sg/-/media/MAS/News-and-Publications/Monographs-and-Information-Papers/Tenets-of-Effective-Regulation.pdf
[29] Australia-Singapore Digital Economy Agreement. Chapter 11.1. https://www.dfat.gov.au/sites/default/files/australia-singapore-digital-economy-agreement.pdf
[30] Australia-Singapore Digital Economy Agreement, Article 35, "Stakeholder Engagement", pp33-34. https://www.dfat.gov.au/sites/default/files/australia-singapore-digital-economy-agreement.pdf

Conclusion

Treasury's Review of Australia's regulatory architecture of the electronic payments system is both timely and responsive to the multitude of changes that the electronic payments system is currently experiencing across the world. This global trend is evident in Australia, with the electronic payments system evolving at an unprecedented pace. Among the most notable changes underway is the transition from traditional electronic payments to frictionless, digital experiences across a host of new connected devices and consumer journeys – all while alternative and innovative methods of interbank and electronic payments are emerging. Technological advances, fast-changing consumer behaviours, open innovation and collaboration between organisations are driving this trend, with the appetite for using different payment platforms accelerated further due to the COVID-19 pandemic[31].

As a result, the importance of examining Australia's regulatory architecture for electronic payment systems is at a critical juncture.

In assisting with the Review, Visa has brought to the table our experience in 200 countries and territories and over 60 years in enabling electronic payments across the world. Based on that background, we assess that **a principles-based approach** is conducive to a modern, next-generation regulatory architecture for electronic payment systems. This, in part, is because it will help remedy some of the challenges present within the current regulatory architecture. Among them, the need for a level playing field between established entities and new participants; a more central role for consumer empowerment, consumer protection, and transparency as part of the policymaking process; clearer access points for fintechs to enter the payments system; and greater two-way engagement between industry participants and policymakers.

Furthermore, Visa has found that the most appropriate framework for supporting payments innovation is **a multi-faceted regulatory regime**. This regime should include clear responsibilities for each regulatory body based on their respective legislative authorities and areas of greatest policy expertise, as well as relevant analytical and enforcement capabilities. Coordination across regulatory bodies, not consolidation, leads to some of the most innovative policy initiatives.

In contributing to the Review, Visa is driven by a desire to bring a collaborative approach to industry-regulator engagement, and we look forward to continuing to ensure that Australia's electronic payments system is secure, reliable and innovative for the benefit of the country's consumers, businesses and the broader economy.

[31] The Treasury (2020), *Payments System Review Issues Paper*, p2. https://treasury.gov.au/consultation/c2020-129951

About Visa

Visa is the world's leader in electronic payments. Our mission is to connect the world through the most secure, reliable and innovative payment network - enabling consumers, businesses and economies to thrive. Our advanced global processing network, VisaNet, provides secure and reliable payments around the world, and is capable of handling more than 65,000 transaction messages a second. The company's relentless focus on innovation is a catalyst for the rapid growth of digital commerce on any device for everyone, everywhere. As the world moves further to digital, Visa is applying our network, people, products and scale to reshape the future of commerce.

In Australia, Visa has teams of people working in both Sydney and Melbourne. Together with our broad range of partners and clients – from Australian financial institutions to businesses, fintechs, neobanks and technology partners – we are committed to building a future of commerce that fosters Australian economic growth and innovation. In the past few years, the payments system has evolved significantly, spurred by the rise of digital and technological advancements. Enabling this type of entrepreneurship and innovation, which benefits Australian consumers, businesses and the economy, is a core focus for our business in Australia.

In 2020, Visa saw rapid acceleration of several payments trends in key areas such as e-commerce, digital wallets, peer-to-peer payments and instalment solutions, among others. We recently:

- Launched our fintech accelerator program;
- Onboarded Australian fintechs to help them scale quickly through our Fintech Fast Track program;
- Announced Tap to Phone, which will provide Australian retailers with an innovative payments acceptance solution using their smartphone at the point of sale; and
- Rolled out Click to Pay, which transforms payments for Australian retailers and consumers in e-commerce.

With clear appetite for a digital economy for buyers and sellers, Visa also launched #WhereYouShopMatters, an initiative focused on supporting Australia's small businesses through e-commerce and designed to grow their customer base.