Australian Payments Network
Connect Inspire Thrive

Secretariat to Committee on Payments and Market Infrastructures
Bank for International Settlements
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Australian Payments Network (AusPayNet) welcomes the opportunity to respond to the Committee on Payments and Market Infrastructures' consultative report '*Extending and aligning payment system operating hours for cross-border payments*'.

About AusPayNet

AusPayNet is the industry association and self-regulatory body for the Australian payments industry. In this core role, AusPayNet manages and develops regulations, procedures, policies and standards governing payments clearing and settlement within Australia.

We bring together service providers, government, regulators and end-users to improve the Australian payments system. We do this by promoting competition and innovation, delivering efficiency and controlling systemic risk; this creates a shared purpose that engenders confidence in the payments system. We have over 140 members, including financial institutions, merchants, payment system operators, and other payments industry stakeholders.

In forming this response, AusPayNet has leveraged that membership in consulting financial institutions (primary respondents given the focus of the consultative document) and payment system operators on the specific questions raised in the consultative document, to provide a response on behalf of the Australian payments industry.

Summary Overview

Australia is uniquely placed in that it has two Real Time Gross Settlement (RTGS) systems. These are:

- The High Value Clearing System (HVCS) which has limited operating hours and does not operate on weekends or selected domestic public holidays. The HVCS is currently the principle clearing system for incoming cross-border payments settling in Australian Dollars; and
- The New Payments Platform (NPP) which operates 24/7 in the domestic retail payments domain. NPP does not currently support incoming cross-border payments, though it is expected to be able to do so from the end of April 2023.

AusPayNet will differentiate between the two systems in this response. To better represent Australian domestic arrangements, institutions have been further classified as being either large clearing institutions or small institutions.

Given this unique ecosystem in Australia, our respondents have indicated that there is room to explore the extension of RTGS operating hours within the context of each institution establishing their own business case and, where possible, the capability to opt-in where there is a sufficient business case using the most appropriate payment system.

1) **Can the extension of real-time gross settlement (RTGS) systems' operating hours materially contribute to achieving the cross-border payments targets endorsed by the G20, especially in terms of speed? Please explain.**

There is no doubt that extending operating hours would materially contribute to the crossborder payment targets. Clearly the speed target would be achieved. It is less clear that an extension of RTGS operating hours will have a material impact to access or transparency.

In order to meet the G20 roadmap objectives, local market infrastructures will need to commit to an uplift of their RTGS networks where they either do not have a real time payments channel or access to that channel is restricted. This will have a material cost impact.

Given that costs will be incurred, jurisdictions need to ensure that an extension of operating hours or technology integrations between cross-border payments and real time payment systems is adequately supported by business case and commercial returns.

Nonetheless, some AusPayNet members have indicated that there is room to explore the extension of RTGS operating hours within the context of each establishing their own business case and where possible, the capability to opt-in where there is a business case.

2) **What additional actions would be needed by the public sector and/or private sector entities, beyond those described in the G20 roadmap (see Annex 3 of the current report), to facilitate the extension of RTGS operating hours and realise the benefits that could result from extended RTGS operating hours?**

We counsel that there appears to be an assumption that all members of RTGS systems are fully capable of supporting extended operating hours. The document and related Annexes appear to be geared to large transactional banks but do not appear to consider the broad impact to much smaller institutions who are RTGS members.

With regards to small institutions who are solely members of the HVCS, the cost burden incurred in remaining competitive and compliant in cross-border payments will likely severely impact them in all the proposed end states. There is a risk that this may reduce the population of small institutions prepared to offer cross-border payments, which materially impacts both competition and choice in the sector (and would therefore work counter to the G20 roadmap's access target). Moreover, to retain their offering, small institutions may need to increase costs beyond the intended targets set out in the FSBs '*Targets for Addressing the Four Challenges of Cross-Border Payments*' Final Report.

There is a potential risk that if small institutions withdraw from offering direct cross-border payments services that this could further concentrate the number of cross-border payment providers. While established, dedicated payment service providers could fill the vacuum, providing them with an opportunity to build additional scale by replacing small institutions' inhouse offerings, this too may stifle innovation, reduce competition and raise the barriers to entry for new entrants.

Participants have indicated that Annex 3 should have an additional action that specifically assesses the impact to the number of correspondent banking relationships that any change to RTGS operating hours may have. CPMI analysis already indicates that the decline of correspondent banking relationships is a source of concern and may impact the ability of end-users to efficiently send and receive international payments. An action that accelerates that trend is counter to the overall objective of enhancing cross-border payments.

In addition, large clearing institutions have cited intraday liquidity as an area that will require additional actions by both public and private sectors. The actions required to support extended HVCS operating hours would require collaboration between the Reserve Bank of Australia, Austraclear and participant institutions in automating the intraday standing liquidity facility to ensure that participants have access to intraday liquidity. Failure to address intraday liquidity will impact payment processing, as once the Exchange Settlement Account that participants maintain with the Reserve Bank of Australia has a zero balance, no further payments processing is possible. This would also apply in the case of incoming cross-border payments being routed to the NPP. Coordinated action between public and private sector entities would be needed to resolve this and to allow all institutions the optionality to select the most appropriate settlement platform, be it the HVCS or NPP.

3) **What benefits for cross-border payments other than speed do you perceive would accrue from an extension of RTGS operating hours?**

What additional domestic benefits for a jurisdiction do you perceive?

Responses are very reflective of the various business models and market segments that participants engage in. The spectrum of responses covered all end states wherein some respondents indicated that there is no customer demand for 24/7 cross-border payment processing whereas others have articulated significant customer demand for 24/7 crossborder payment processing.

Nonetheless, those participants that were in support of extending operating hours identified the following benefits:

- a reduction in settlement risk
- a reduction in customer complaints due to delayed payments
- closer alignment to the Asia Pacific and EU settlement windows

The benefits of each will require a cost-benefit analysis to support any extension of the HVCS operating hours or integration with any other payments platform, such as NPP.

4) **How well do the three identified end states capture key scenarios that individual central banks/RTGS system operators should consider as they assess current RTGS operating hours and plan for the future?**

What additional end states or refinements to the end states would you suggest?

There is acknowledgment that the three identified end states are useful in driving discussions between participants and central banks/RTGS system operators in assessing any extension of RTGS operating hours.

We do note that there appears to be no consideration of business case justification in assessing the end states. This is an important consideration for all payment service providers and participants.

Further refining the end states based on business case, business model or jurisdictional RTGS ecosystem may introduce alternate end states that may be more practical for all participants in an RTGS system and achieve the desired outcome. For example:

- a participant in an RTGS system whose business model does not provide for crossborder payments would benefit from an opt-out to participating in extended or 24/7 RTGS operations.
- for those jurisdictions with multiple RTGS systems, participants should be able to choose the most appropriate system within their jurisdiction that satisfies their business model.

There is a range of views expressed by Australian financial institutions with respect to the identified end states. Small institutions noted that an extension of operating hours to end state 1 which applied to the HVCS will have material impacts to their cost base. Many of these small institutions receive cross-border payments via large clearing institutions using the HVCS. It was articulated by some that their preference is that these payments be despatched to them via the NPP. There was no support from small institutions for end state 2 or 3 being applied to the HVCS given the considerable ramp-up of operational costs associated with both.

For large clearing institutions there is a diversity of views on the three end states as they apply to the HVCS. For those large clearing institutions providing significant cross-border payment services there was ardent support for end state 3 utilising the functionality of NPP. Other large clearing institutions articulated a preference that aligns with the Asia Pacific region and the global settlement window which incorporates aspects of end state 1 and end state 2.

Respondents were supportive of an opt-out to any extension of operating hours of the HVCS. Prior to developing an opt-out, a review of payment flows would be needed to establish operating windows that broadly align with the regional settlement window, the global settlement window and any other settlement window that analysis identifies. Once these are established, then those institutions that wish to participate in any or all of these additional settlement windows could then do so optionally. This will allow all participants in the HVCS to establish their business case and address any operational changes that may be required to support the selected operating window which will deliver the maximum return on investment.

5) **Which end state, out of the three identified or another one you may want to consider, do you believe strikes the best balance between improving crossborder payments and managing the associated challenges?**

We are cognisant of the broad variety of participants in the HVCS, the principal RTGS system currently used for cross-border payments settlement. We believe that choosing a single end state to apply to all participants in the HVCS is not appropriate in the Australian context.

If there is business need for a minority of participants to support extended operating hours in the HVCS then options would need to be provided by the central bank/RTGS system operator that are both inclusive and equitable for all participants. These options would need to address the spectrum of specific needs and challenges faced by all participants and provide an inclusive and equitable mechanism to address their challenges.

Participant feedback suggests that a more bespoke approach – that is tailored to the unique attributes of the Australian payments ecosystem and considers differing member capabilities – would likely be more effective than selecting one of the end states. This is particularly relevant in the context of Australia being positioned at one end of the time zone spectrum which would therefore require significantly more investment to overlap with other jurisdictions at the other end of the time zone spectrum.

Furthermore, for those that have access to NPP, both small institutions and large clearing institutions have options that are not necessarily available in other jurisdictions, at least as it pertains to retail and remittance payments. It is however likely that wholesale and very high value payments will continue to be settled via the HVCS for the foreseeable future.

6) **If the RTGS system in your jurisdiction has not yet reached the end state signalled in the previous question, what time horizon (number of years from now) would you envision for reaching it?**

We note that Australia has two RTGS systems in operation. The principal RTGS system currently used for cross-border payments settlement is the HVCS.

The NPP, which is owned, operated and managed by NPP Australia Ltd (NPPA), provides 24/7 RTGS domestic payments functionality utilising ISO 20022 message schemas. It has indicated on its most recent roadmap the technical capability to support in-bound international payments by the end of April 2023.

The ISO 20022 migration by SWIFT allows institutions to assess their customers' needs, and where appropriate, utilise the functionality offered by NPP for their retail and remittance cross-border payment needs as an alternative to using the HVCS. This opportunity exists notwithstanding any other option available to NPPA to pursue interlinking with offshore domestic fast payment systems, or other opportunities, should they determine that there is a business case to do so.

7) **As a result of end state 3, which involves 24/7 RTGS operating hours, do you anticipate demand for 24/7 operations of RTGS systems in the future? If so, what do you expect to be the main drivers and over what time horizon do you expect this to happen?**

Most respondents have indicated that they are yet to see a requirement for RTGS crossborder payments being processed 24/7. However, one large clearing institution has indicated that they are seeing demand for 24/7 cross-border payment processing.

Respondents have indicated that extending Australia's current HVCS operating hours for cross-border payments should be demand-driven and where there is a business case. An annual or bi-annual review provides an opportunity for jurisdictions to validate any business case and may well be more effective than a mandatory requirement being imposed. This would allow participants in each jurisdiction time to analyse cross-border payment flows and establish the most effective response that achieves the best investment return and outcome for customers.

The Australian industry and its payments ecosystem is well placed to respond. It is well positioned to cater to participants' differing appetites with respect to the pace of delivery of extended operating hours.

8) **Would your organisation make use of and/or benefit from extended RTGS operating hours?**

Most AusPayNet respondents have indicated that they require additional time to perform detailed analysis to assess any benefits from utilising extended HVCS operating hours for cross-border payments. This would also enable a holistic impact assessment to be made on the cross-border payment frictions as they pertain to cost and speed.

In addition, it would allow participants in this jurisdiction time to assess the capabilities of NPPA's offering in the first instance before committing to extending operating hours of the HVCS.

9) **How useful do you view the global settlement window as a concept for considering the aggregate implications of extensions to RTGS operating hours in individual jurisdictions?**

What alternatives or refinements, if any, would you propose in order to consider the aggregate implications of extensions to RTGS operating hours in individual jurisdictions

There was broad agreement amongst respondents that the global settlement window was a useful concept in considering the implications of extensions to RTGS operating hours. Some respondents indicate that the global settlement window would be well received by their customers.

Respondents have indicated that further analysis of the specific needs of Australia's RTGS members is required to assess whether alternatives or refinements need to be made. In addition, respondents indicated that there was a need for analysis of operational and technical requirements.

10) **To what extent have the operational and risk considerations related to an extension of RTGS operating hours been adequately identified?**

What additional considerations would you consider relevant?

In general, the operational and risk considerations are relevant and considered. We do however believe that the Consultative Report is skewed towards larger banks in the discussion of operational and risk issues, in particular in terms of how they can be managed. Greater consideration should be given to the impact to significantly smaller cross-border payment providers who are also RTGS members.

Some concern was expressed that an extension of operating hours could accelerate fraud and money laundering activities and could limit the ability of defrauded parties to react in a timely manner to block or recall funds.

It was also noted that liquidity management will be a challenge, as there will be limited ability to anticipate currency flows and thus manage the funding of Nostro accounts in a timely fashion. This could increase the risk of overdrawing Nostro accounts, which has an associated penalty cost. Moreover, managing liquidity in a 24/7 model adds a distinct challenge to meeting the cost targets.

It was noted by another respondent that there will be pressure on sourcing human capability with appropriate payments, operational and technical expertise in the local market in extending operating hours.

11) **What would you identify as the top five considerations related to an extension of RTGS operating hours in your preferred scenario (Q5)?**

The top five considerations to an extension of HVCS operating hours are that:

- there is an appropriate business case for each participant
- consideration is given to an opt-in approach (i.e. additional operating windows be created where there is an identified business case and that participation is voluntary for those institutions that wish to avail themselves of particular operating windows)
- overnight and intraday credit is appropriately governed

- participants in extended RTGS operating hours have the appropriate technical and operational support in place
- any impact that creates a barrier to entry for new participants is addressed

All of the above will inevitably lead to an increase in operating costs.

12) **To what extent do the relevant considerations differ substantially depending on the end state being considered?**

Each of the considerations entail significant investment and cost as operating hours extend. The impact is even more profound for those organisations who, whilst managing their technology deficit, are unable to support extensions to operating hours until all layers of their payments stack have been upgraded.

In essence, the cost drivers of payment processing increment up as each end state extends hours further. Some of the cost drivers include

- Sanctions screening and fraud prevention staff costs increase
- Payment operations staff costs increase
- Management/leadership staff costs increase
- Reconciliation and exception management staff costs increase
- Treasury/liquidity management staff costs increase
- Technology support staffing costs increase
- Technology investment to support nil downtime will increase costs

In all cases the costs are transferred to customers which will impede the central target of reducing cost.

The reliance on the promise of new and unproven technology to mitigate the majority of risks and operational challenges may be unwise. Instead, a pragmatic approach should be entrenched that encourages individual jurisdictions to establish a business case to extending RTGS operating hours rather than pursue ambition alone.

13) **For the top five considerations that you identified in Q11, what mitigation measures could be taken to address them?**

Participants have indicated that the preference is for any change to HVCS business operating hours to be driven by a business case for each participant. When a business case is identified then extending operating hours can be considered by that participant. Regular validation of the business case and consideration of alternative solutions would be necessary to achieve the required objective of speed and cost.

It is further suggested that as business cases and windows of extended hours are identified, a voluntary opt-in approach be provided, without penalty, to members of the HVCS system.

This allows them to tailor their business model to their customers' needs. Moreover, it ensures that barriers to entry for new entrants are moderated.

Given the systemic importance of payments, participants in extended HVCS operating windows should certify that they have the necessary technical and operational support in place.

Naturally, overnight and intraday credit will need to be in place before any extension of operating windows is provided.

In the event that there is sufficient demand for an extension of operating hours of the HVCS, it would be prudent to adopt a multi-year phased rollout, be that by window or to full 24/7, so as to mitigate the risk in executing any change.

14) **In your view, to what extent will the above measures require coordinated action by industry participants and/or support/guidance from authorities, such as central banks, standard-setting bodies and supervisors (as opposed to actions by individual stakeholders)?**

AusPayNet participants have indicated that there needs to be significant collaboration between all stakeholders. The level of coordination amongst stakeholders will be dependent on the level of optionality. For example, a mandated extension of HVCS operating hours would facilitate investment prioritisation, while an opt-in model would require greater collaboration.

Central banks could also play a role in facilitating discussions on least cost channels for cross-border payments.

15) **If you are a stakeholder of an RTGS system that has extended its operating hours in the recent past, what were the key lessons learnt?**

Respondents encountered a number of challenges in implementing NPP. Observations of some of the challenges experienced are set out below:

- New payment system costs
- Difficulty was experienced by some to commit to delivery dates due to technology deficit in their respective payment stacks
- New liquidity management model required
- Additional operating costs
- Significant new technology investment
- Significant changes to operating models
- Competition for limited resources
- Competing business opportunities

The lessons learnt were that not all participants can move at the same speed and that any project of this scale needs to accommodate a multi-speed approach.