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NEW PAYMENTS PLATFORM TWO YEARS ON

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Amidst all the news created over the current global crisis, the anniversary of the New Payments Platform (NPP) quietly came and went in February this year. Just over two years ago, on the 13th of February 2018, the members of the newly formed NPPA, publicly launched Australia's new domestic payment clearing and settlement infrastructure.

A report published by the RBA in March 2020, provides some key insights to the journey that has occurred for the NPP since launch, a snapshot of the current processing statistics and uptake across the payments industry.

And as a broader reflection on the current crisis affecting the Australian economy, with many businesses closing their physical premises to customers and moving to online or phone based arrangements, electronic payments are becoming more important than ever.

Some organisations that need to release value quickly (insurance claims, workers compensation, etc) can now leverage this capability to support their business operations, particularly for community support or for vulnerable customers. And at the individual level, under social distancing and isolation measures, a secure, fast and user-friendly means of transferring value peer to peer has never been more relevant.

The NPP today enables customers of more than 90 financial institutions to make fast payments 24 hours a day, every day of the week with rich data. Individuals and businesses can, from within their banks electronic banking platform, send detailed information with a payment and nominate the payment recipient using a PayID.

This functionality is delivered by Osko, the first overlay service for the NPP provided by BPAY. Currently, NAB is the first bank to support NPP payments to a BSB and Account number via the NPP, so many of those are being processed in real-time.

420M+

Total cumulative volume of NPP

\$379B

Total cumulative value of NPP

\$940

Average transaction size

\$920M

Largest inbound Payment received
(a government related transaction)

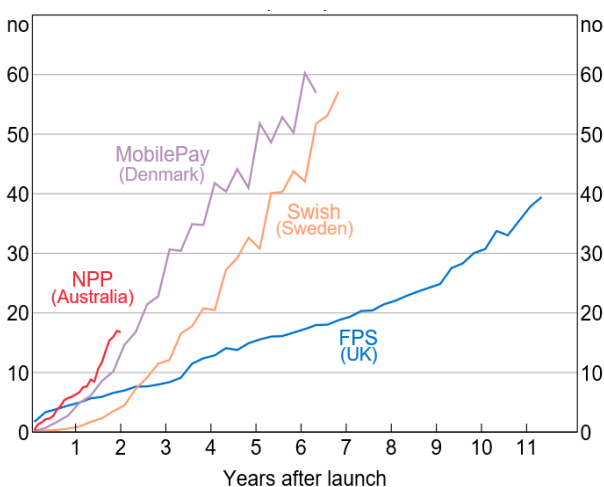
THE ROLLOUT A REFLECTION

Uptake of the NPP was gradual post-launch, as the banks rolled out NPP payment functionality to various customer segments and channels at different times (i.e. some banks prioritised retail customer segments ahead of business and corporate customers). Others banks had delivery schedules that meant a staged rollout of delivering core NPP functionality to customers after the industry go-live date.

The lower account reach initially did create some challenges as users found fewer opportunities to start using the service. As these rollout activities slowly wrapped up, growth in NPP activity began to accelerate and by the end of January 2020, the NPP was processing a daily average of more than 1.1 million payments worth \$1 billion. (*Two Years of Fast Payments in Australia, RBA 2020*)

Use of Fast Payment Systems

Transactions per capita, annualised



Sources: FPSL; Getswish; MobilePay; National statistics agencies; NPPA

The RBA report highlights that despite a slow rollout, ‘a comparison of per capita use of fast payment systems suggests that the adoption of the NPP in Australia is at least in line with other successful implementations.’ Comparisons with the UK’s Fast Payment Service (FPS) shows Australia is well ahead at the same number of years post launch.

Over the past two years, banks have now made over 66 million customer accounts reachable by the NPP. This represents a significant portion of Australian customer accounts – equivalent to around 78% of the accounts reachable by the traditional overnight settlement via the ‘Direct Entry’ system.

The remaining accounts are largely credit card accounts, loan accounts or term deposits, which mostly are dependent on further technology investment by banks to support value movement 24/7. For most of the economy today, all accounts that would typically be needed to be reached for real-time domestic payments, are now available.

“Over the past two years, banks have now made over 66 million customer accounts reachable by the NPP.”

PayID

A key innovation provided by the NPP is the option to address payments using a linked PayID, in addition to being able to use traditional bank account details (BSB and account number).

As at January 2020, 4.1 million PayIDs have been registered with banks in Australia, with a dominant preference for email address and phone number over the ABN option.

Transaction size

According to the RBA report, the average payment value has increased from around \$880 in 2018 to around \$940 in 2019.

Whilst there is no network limitation on the value that can be sent via the NPP, at the outset all participants had a combination of transaction and channel controls in place to throttle the network usage.

Stability, fraud and funding requirements were among chief concerns at launch. Steadily, banks have been increasing these limits as they gain greater comfort around these concerns, although many still maintain quite low limits when compared with traditional payment channels like DE.

As banks increase processing limits, more payments at higher values can be processed via the infrastructure, potentially beginning to move traditional Real Time Gross Settlement (RTGS) transactions to the NPP.

Application Programmable Interface (API)

Individual participants have also been developing capability in the areas of bulk payments, APIs and transaction value limits.

NAB clients can today use APIs to initiate a real-time payment without needing to log on a NAB banking channel. A range of clients and partners can use the capability to support their business needs. For instance Xero supports payments from within their own platform for their customers that have NAB accounts². This is triggered to NAB via API and payments sent via the NPP.

Earnd, a NAB customer, helps deliver employee pay as they earn it, triggered in payments delivered by the NPP via API connectivity. Earnd transfers funds instantly for nearly all users, providing almost zero wait time when funds are needed quickly or in an emergency. By giving employers the option to grant their employees access to their pay as they earn it, Earnd's aim is to help drive financial wellness across the country³.

Many other participants are working on their own partnerships and bespoke customer integrations to unlock the benefits of real-time payments.

“NAB is actively building our API integrations with clients and partners to create value in their businesses. Combined with our ability to process Fast Payments to a BSB and Account number, NAB is truly unlocking the power of the NPP for our customers.

Shane Conway – Executive, Transaction Banking & Enterprise Payments

Data

It's an often overlooked benefit that 280 characters of text can be carried via the NPP payment today, up from 18 characters in the traditional DE system. Yet most banks are still to implement reporting and services that help deliver this data for customers to truly leverage the benefits.

The NPP has been built to a global data standard for financial messaging, called ISO20022. This standard is commonplace globally and in Europe, but the NPP is the first real application of it domestically in Australia. This means that there is a framework in place to consider the transmission of a much wider set of data with the NPP between participants, not just a single field of 280 characters, but many more that are defined within the file specification.

If banks can agree on the fields to use and consume in this exchange it will open many more opportunities for the movement of trusted information between parties domestically.

The opportunities for using this secure, payment embedded data exchange function is far reaching and has the potential to dramatically reshape many facets of our economy from B2B payments, payroll, super, taxation, etc.

Use of ISO20022 may unlock other potential benefits such as, but not limited to:

- improved straight-through processing of international payments to domestic payment from harmonising messaging standards; and
- Mitigation of fraud and financial crimes through better payment tracking and verification from the enhanced data fields.

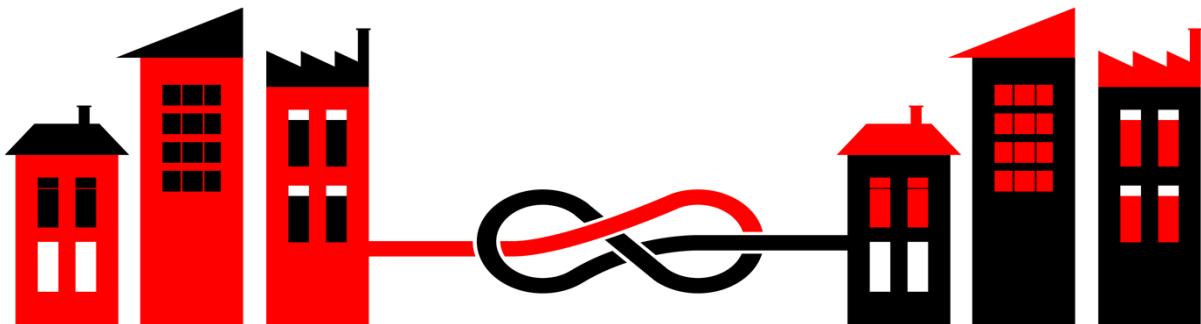
Where to from here?

Many banks are still to fully embed the core functionality of the NPP. For instance, some only offer a mobile phone PayID option. Many others, cannot support NPP payment instructions directly to a BSB and Account number. Some are still working on platform and channel changes required to ensure the customer payment experience is consistent.

The NPPA has developed an industry 'roadmap' for a wide range of new functionality that will enable innovative capabilities in the coming years:

- **Application Programming Interface (API)** – further updates to the framework for fintechs and third parties to connect and use the NPP.
- **International Funds Transfer Instructions Service** – potential to process the domestic leg of an international payment via the NPP.
- **Mandated Payments Service** – this service will enable a third party to 'pull' payments from a customer to a business, which is comparable to existing direct debit arrangements.
- **Basic Payment Initiation Service** – this service will enable a third party to easily initiate a set of payments from an account, potentially for distribution to multiple customer accounts.
- **QR Code Standard** – this standard will enable development of a point-of-sale payment, bill payments and online payment solutions.

Lessons learnt from the Day 1 rollout means that aligned industry participation in these innovations will be critical for success. Particularly for network-dependent solutions like the Mandated Payment Service, which needs full account and participant reach if it is to be a viable alternative to the ageing Direct Debit service.



THE ROLLOUT A SUMMARY

The launch of the NPP was a significant advancement in the Australian payment system, providing fast, flexible and data-rich payments infrastructure to support the needs of Australia's modern economy. The first 2 years of the NPP's life has been a rapid period of growth and investment by all participants in the network. The truly exciting aspect is the opportunities that exist in front of Australians with this capability.

Corporate Australia in particular is yet to benefit from the capability. In the years to come, real-time integration with systems, event based triggers for payment instructions and automated reconciliation using extended data will become the norm.

- Does the Corporate's ERP vendor support payroll records for an email format PayID?
- What does a supplier payment run look like for an increasing percentage of small suppliers that only provide an ABN PayID?
- Are there event triggers for payment release in the business that are more legitimate than a traditional batch payments file?
- Does a Mandate Payment Service deliver new receivables opportunity?

Corporate finance teams will need to consider the end to end implications (and opportunities) for their businesses in the coming years.

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