ROUND TABLE
HOW TO UNLOCK OPPORTUNITIES BETWEEN PAYTO AND CDR

October 2022

How to unlock opportunities between PayTo and the Consumer Data Right... The use cases are only just emerging

Regulators and payments industry professionals joined the Emerging Payments Asia Roundtable held at EY on October 27, 2022. Having these two groups in the one room might stifle open discussion .... this was certainly not the case – even Lance Blockley of payments consultancy The Initiatives Group, who moderated the Roundtable, was surprised by the openness!

Rewind – what are PayTo and the CDR?

Whilst “unlocking opportunities” appears a simple discussion prompt, with many moving parts and associated agendas for PayTo and the CDR, it is easy to make things rather complex, so let’s take a moment to revisit what each of them actually are.

Developed by NPP Australia in collaboration with the industry and to be offered by banks, financial institutions and payment service providers in Australia, PayTo provides a simple, safe and convenient way for consumers and businesses to authorise and control frequent and ad-hoc payments from bank accounts.

PayTo agreements (effectively “mandates” created by a customer) allow merchants to create a “request to pay” from the customer’s bank account, subject to authorisation of each individual payment by the customer. This requirement for transaction authorisation by the customer within PayTo makes a PayTo payment a “push” payment, even though the request is created from a merchant (or its service provider) which might be considered a “pull”.

These agreements are easy to set up – can be as simple as scanning a QR code – and they can all be viewed and edited within the customer’s mobile banking app and internet banking. Fewer forms to fill out and far easier to monitor and modify payments that are currently serviced by direct debit agreements.

Whilst bank accounts can still be identified by BSB/Account Number, it is likely that customers using PayTo will move to using their PayID as their account identifier.

For merchants, PayTo takes out the uncertainty and delays associated with receiving payments from bank accounts.

Click here for more information on PayTo

The CDR, launched in July 2020, gives consumers the right to access CDR data (data within a class of information within each sector) held by a data holder (could be a bank, utility or other business) and to direct that their CDR data be disclosed to them or an accredited person/entity. As an example, in the banking sector, an accredited entity could be a bank, a FinTech or other business that wishes to provide a product or service using CDR data from the banking sector.

It is an opt-in service that gives consumers the choice about whether or not to share which of their data and with whom, with full visibility of who it's being shared with and the purpose for which it is being shared. An example in the banking sector may be giving permission for your bank to provide CDR data to another bank with which you are applying for a loan, thus reducing the paperwork and time involved in proving income and expenses, as well as enhancing the loan approval process.

CDR has already been rolled out to banking, with the energy sector to follow next and telecommunications to follow as the third sector.

Ultimately it will provide data sharing across the whole economy, which is world leading.

Click here for more information on Consumer Data Right (CDR)

OK, but how are they going to be related?

In September 2022, Treasury released draft legislation to enable action initiation ("write access", as opposed to "read access" which already exists) in the CDR.

By creating a new channel for consumers to instruct a business to initiate actions on their behalf and with their consent, action initiation will expand the CDR from a data-sharing scheme to one that allows consumers to act upon insights they receive. These actions could include opening and closing an account, switching providers and updating personal details (such as address) across multiple providers and, most important for our Roundtable, making a payment.

Action initiation is made up of two parts: the instruction layer and the action layer. The instruction layer would sit within the CDR scheme and enable a consumer to give consent for a third party, known as an Accredited Action Initiator, to send an action initiation request to an Action Service Provider.

The Action Service Provider would then authenticate the consumer and carry out the action as they would if the request had come directly from the consumer. The Action Service Provider would carry out the action in the action layer, which would be outside the scope of the CDR.

Action initiation (in our case, "payment initiation"), included in PSD2 and UK legislation, was out of scope for the Australia's original CDR. It was believed that it would be covered by a request to pay (now branded "PayTo") service using the NPP. So, what has changed and why?

It is important to note that within the proposed action initiation legislation, payments is only one category of initiation, and within payments PayTo (account to account payments on the NPP) is only one category of payment.

"Open banking is only the start of the journey to an open data economy"

So, whilst it still can be argued that PayTo, today with the agreement/management platform to be enabled by a bank within its mobile and internet banking platform, is adequate without changes to the CDR, there's much more to initiation.

How can the CDR add to PayTo functionality (what can they do together that they could not do on their own) and adoption?

Think about how, as we move towards open data, many more cross industry use cases that could involve payments will emerge and then changes to the CDR make even more sense – it is worth emphasising that payment initiation in the CDR should not be seen to be in competition or as an alternative to PayTo on the NPP – the two systems may be viewed as interoperable and utilising the new possibilities presented by each could greatly improve payments experiences.

"Getting CDR and PayTo together gives us a better and bigger sandpit in which to explore innovation"

The collective jury in the room was "out" on what these experiences might be, beyond the functionality associated with the launch of PayTo. People felt it was hard to imagine the range of things that might be possible.

PayTo instances are likely to be linked with new industry opportunities, as will payments experiences on other payment rails such as the international card schemes and eftpos, although some attendees were unsure that much will be added at all, and what the role that Digital ID may play.

However, there was no argument that trust will be a cornerstone for the creation, and subsequent adoption, of use cases for payments initiation, particularly given that “Confidence” and “Confidentiality” are two of the six C’s that shape payment choice - even more important with the recent high profile data breaches in Australia!

Are there likely to be new players entering the payment initiation market in Australia?

A resounding “Yes”!

Competition will appear on multiple levels, but entrants will need to recognise that, on the global stage, Australia is a small, albeit growing, payments market. Undoubtedly there will be the creation of local and/or the entry of global payment initiation service companies.

Competition drives innovation, but recognising that -

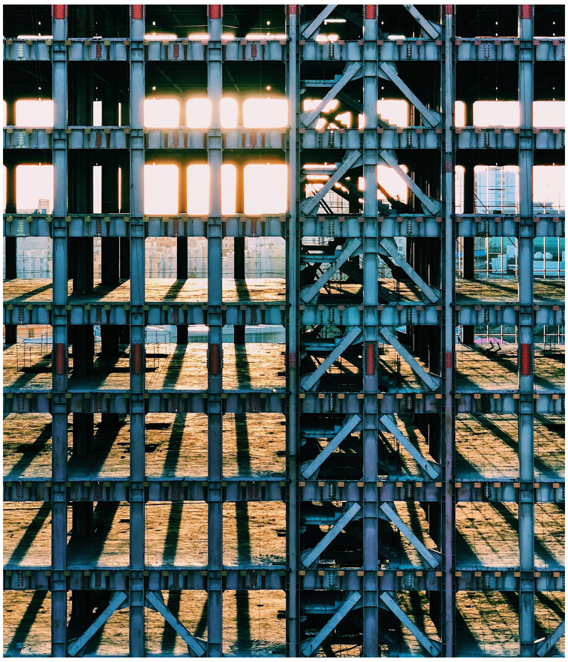
- It needs to be monetised, given the potential size of investment;
- Consumers won’t pay for payments; and
- There is always inertia counterbalancing adoption

Then the ROI for these new entrants may be difficult to achieve.

Also to be monetised are the significant investments that ADIs and ADI aggregators are making to deliver PayTo capability to their customers.

There are upsides ...

- The incremental revenue opportunity over and above organic growth, of releasing $$ to the economy by reducing scams, the costs of failed payments, savings on customer service and so on,
- Increased opportunities for banks to deliver new services through partnerships; and
- Depending on where you sit in the market, small FIs becoming more competitive as insights to switch become more readily available for banking customers



However, whilst Australia's ADIs, who are the backbone of the payments industry, have automatic or fast track CDR payments initiator accreditation, many of the new entrants will not. These non-ADI participants may not want the compliance overheads or administrative burden of the existing payments initiator licencing regime. Nor will these new entrants have had to have made the significant investment to deliver PayTo and its inherent security. In this light the CDR Payments Initiator accreditation becomes even more important to deliver a safe, secure and financially sustainable environment.

"Not possible to have too much competition, but it is possible to create competitive chaos"

A key issue was raised about the reputational risk associated with something going wrong with third party payment initiation: large encumbent players having far more to lose in terms of reputation than a small new entrant, which may not have yet built a reputation.

But the view from the regulators was that it was their task is to provide the enabling infrastructure, with innovation coming from "outside this room". The construction of the Sydney Harbour Bridge was put forward as an example of infrastructure that then enabled many different forms of economic advancement.

And to conclude, here's a sample of the "What's the number 1 takeout?" comments

"Great to hear the optimism in the room"

"Consumer needs to understand, but it is about what it allows you to do, not about what it"

"The CDR enabling open data economy wide is exciting"

"Never lose focus that this is for the customer"

"Importance of trust – knowing it's safe, particularly in the current environment of high profile data breaches"

"Learn from the UK experience"

"Devil will be in the detail, and potential unlimited ... have to get the foundations right"

"Beware of reputational risk"

About the author
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David has 40 years experience in financial services and over the last 6 years has specialised in payments as Partner at The Initiatives Group. His career includes being a founder of Pinpoint, that grew to provide loyalty programs to 25 banks, their 100 million customers and 50,000 merchants, eventually being acquired by Mastercard to become their global loyalty business. Prior to that David worked at Westpac and American Express.