

NEW PAYMENT PLATFORMS GLOBALLY. WHEN AND WHY?

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Legal Briefings - By **Donald Robertson and Hannah Glass**

The world is waking up to the need to implement fast, efficient and accessible payment systems.

The ability to make real time payments is a feature of large-value payment systems, but has not been possible in relation to high-volume, low-value payments such as consumer to consumer payments. With the increase in paperless transactions, both businesses and consumers need to process all payments in near-real time, regardless of volume.

Technological change has allowed this to occur, with businesses and consumers to receive and make payments with close-to-immediate funds availability – replacing high cost cheque payments. As transactions increasingly occur outside of business hours, and across international borders, there is also a need for more responsive and real-time transacting on the monetary, as well as the goods and services, side of the marketplace.

Australia has, as in many of these areas, been leading the way. In the past 2 months the Reserve Bank of Australia has awarded its new payments platform to SWIFT¹ and has stated that the roll out will commence by June 2015 with full real-time functionality for all electronic payments by 2017.

In **Europe**, the European Banking Authority published its final guidelines on security of internet payments² which must be implemented by payment providers by 1 August 2015.

Although behind its western counterparts, the **USA** has also recently published its report 'Strategies for Improving the US Payment System'³ (**Report**). The report, which is the result of 2 years of consultation, states that a new payment system must be fast, secure, efficient, international and collaborative. The Federal Reserve has identified the following 4 options for the new payment network:

1. enhance debit card networks,

2. leverage internet protocol architecture,
3. build new payment architecture for targeted cases leveraging legacy infrastructure, and
4. build new payment architecture which would also process legacy automated clearing-house infrastructure, cheque platforms and wire transfer platforms.

KEY PRIORITIES - FAST AND SAFE PAYMENTS

All economies recognise the importance of ensuring their payments systems are both fast and safe. Fast payments require real-time clearing (exchanging the payment instructions and calculating payment obligations between institutions) and posting (recipient's financial institution must act on those instructions and make the funds available) yet, settlement of the actual monetary obligations between the banks does not need to be instantaneous, allowing both real time and deferred settlement models of fast payment systems to arise.

To ascertain the most appropriate option for the USA, the Federal Reserve has established 2 taskforces: faster payments task force and the payment security task force.

Both taskforces will be made up of stakeholder representatives and representatives of the Federal Reserve. This is due in part to the Federal Reserve's preference that the payment platform be created by private sector with the Federal Reserve only stepping in if:

1. it believes it can recover all costs,
2. there is a significant public benefit to improve security and efficiency, and
3. no other operator can deliver the required outcomes.

The goal for the faster payments taskforce is to develop "ubiquitous participation, confirmation of good funds, timely notification of payment status to end-users and near-real-time posting to end users." According to the Federal Reserve, 29 billion transactions or 12% of all US annual transactions could benefit from faster more secure payments.

The safe payments task force has been established because protection of data security is not evolving as fast as cybersecurity threats. Nor are protocols for monitoring threats, implementing new security technology or even collection and reporting on fraud and data security breaches frequent or comprehensive. During the Q&A session held in response to the Report on 29 January 2015, Kansas City Federal Reserve Bank President Esther George explained that the safe payments task force was established because *“we want to ensure inside the Fed that we are giving just as much energy and enthusiasm on our security strategy as on our faster payments strategy.”*

INTERNATIONAL SOLUTION

International compliance is essential to process payments globally. The International Standards Organisation published ISO 20022⁴ in May 2013, to set the international standard for electronic financial industry messaging, which underpins payment systems. So far, ISO 20022 has been, or is in the process of being, adopted by 10 economies including Australia, the UK and Europe. The US Federal Reserves have also expressed a preference for the new payment platform to comply with ISO 20022. Implementing an ISO 20022 compliant payment system ensures compatibility with global payment systems, consistency of data, improves straight-through processing and reduces costs.

TIMELINE

Time is of the essence, to process payments and build the payment infrastructure itself. With Australia and Europe rolling out their systems, the US Federal Reserves' original intention to complete the payment platform by 2022 was deemed inadequate. Following initial consultation, both the Report and the Q&A session confirmed that the USA will roll out its faster payments platform as a priority.

Stakeholder consultation continues in the USA and further updates can be found on the Federal Reserve's payment improvement website.⁵

ENDNOTES

1. Australian Payments Clearing Association: [New Payments Platform](#).
2. European Banking Authority: [Guidelines on internet payments security](#).
3. [Strategies for Improving the U.S. Payment System](#).
4. [The ISO 20022 Standard](#).
5. [New on FedPayments Improvement](#).

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