Brad Jones: Panel participation at the Regulators 2024

Speech by Mr Brad Jones, Assistant Governor (Financial System) of the Reserve Bank of Australia, at The Regulators 2024 "Navigating Trans-Tasman financial challenges", organised by FINSIA (Financial Services Institute of Australasia), Sydney, 8 November 2024.

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Good afternoon, and thank you to FINSIA for the opportunity to discuss some of the RBA's regulatory and supervisory priorities in our payments policy and financial stability work.

Australia has a payments system that we can be proud of. By global standards, it is fast, efficient and reliable. At the same time, the Australian payments landscape is rapidly evolving, and there is always room for improvement. Alongside opportunities for new business models and technologies to emerge, there are also some challenges for the system. Regulators are leaning into these challenges and industry will need to as well.

The Payments System Board is focused on fostering competition and innovation in a regulatory environment that promotes the ongoing safety and security of the Australian payments system. In overseeing the activities of clearing and settlement facilities with our colleagues at ASIC, RBA staff and the Payments System Board (PSB) are equally focused on ensuring that these critical operations are run in a way that supports the stability of the Australian financial system. With this in mind, let me share with you the PSB's five strategic priorities that were set out in the recently released Annual Report.[1]

Priority #1: Promoting the safety and resilience of payments and market infrastructures

Australians increasingly depend on the availability of electronic payment systems, and our financial system is reliant on the smooth functioning of market infrastructures.

The orderly migration of Bulk Electronic Clearing Service (BECS) payments to more modern payment rails, such as the New Payments Platform (NPP), is of critical importance, recognising that BECS has been Australia's primary system for account-to-account payments for over 30 years (facilitating most salary, welfare and pension payments). The industry target date of 2030 is ambitious and will require a concerted and coordinated effort by industry to meet. This effort must include close engagement with a wide range of stakeholders. In the meantime, the RBA is conducting a risk assessment to identify and understand how the transition risks are being managed.

Beyond BECS, and in light of the worsening cyber and geopolitical risk environment, the operational resilience of Australia's payment systems is a principal focus for the PSB. RBA staff are closely monitoring the ability of market infrastructures to upgrade their technologies and manage these risks, including relating to third-party service providers.

Priority #2: Supporting reforms of the regulatory framework for payments and market infrastructures

As regulators need to have the powers to address emerging issues in the payments system, the PSB continues to strongly support the Government's ongoing reforms to modernise the regulatory framework. RBA staff are also operationalising our new crisis management and supervisory powers for clearing and settlement facilities that featured in the recent reforms to financial market infrastructure regulation.

Priority #3: Lowering the cost of card payments for merchants, especially small businesses

The RBA recently launched a review of merchant card payment costs and surcharging. Options under review include those aiming to reduce the level and complexity of wholesale fees in card payments and promoting greater transparency for merchants. The review is also examining whether limits need to be placed on surcharging. Stakeholder submissions on these issues are invited by early December.[2]

Priority #4: Improving cross-border payments, which remain expensive, slow and opaque

The PSB is encouraging the adoption of internationally harmonised messaging capabilities and enhanced functionality for cross-border payments. A recent example was the launch of the NPP's International Payments Service, which will significantly speed up incoming cross-border payments. RBA staff also continue to examine options for linking fast payment systems across countries.

Priority #5: Actively shaping the future of digital money

This is a clear priority for the PSB and also features in the RBA's Corporate Plan. In September, we published a paper with Treasury that set out our assessment of the case for central bank digital currency (CBDC) in Australia, and for the first time laid out a three-year roadmap for future work.[3] At present, we assess the benefits to the economy as more promising, and the challenges less problematic, for a wholesale CBDC compared with a retail version that would be available to the general public.

As I recently discussed, the RBA has made a strategic commitment to prioritise our applied research on the role that CBDC could play in lifting the efficiency and resilience of wholesale markets in Australia.[4] To that end, we are about to invite responses to a consultation paper on a new research project, Project Acacia. With industry partners, we look forward to exploring how innovations in digital money and infrastructure could increase the efficiency and resilience of wholesale markets where money and assets are tokenised.

Broader financial stability risks

Before I turn the floor open to questions, it would be remiss not to briefly mention that our focus on financial stability extends beyond the areas of payments and market infrastructure. As I discussed last year, and as set out by recent editions of the Financial Stability Review, we see risks to financial stability as taking two broad forms.[5]

Traditional cyclical risks generated from within the financial system

These include the effects of higher interest rates or an economic downturn on the resilience of households, firms and banks. These types of risks have long featured in our surveillance work and will continue to do so.

Non-cyclical risks generated from outside the financial system

These have become more prominent in recent times and there is generally little historical precedent to guide us in navigating them. Foremost here are geopolitical risks, operational risks (including but not limited to cyber risks) and the risks associated with climate change.

Our assessment is that this second category of risks continue to build in troubling ways. They not only have the potential to be systemic, but could also cut across the financial system, economy and society in complex ways. For these reasons, the RBA and other member agencies comprising the Council of Financial Regulators are stepping up the intensity of work in these areas. At the same time, the worsening threat landscape – which is more structural than cyclical in nature – requires industry to actively prepare for a much more challenging operating environment in the years ahead.

Thank you.

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[1] RBA (2024), 'Payments System Board 2024 Annual Report'.

[2] RBA (2024), 'Merchant Card Payment Costs and Surcharging', Issues Paper, 15 October.

[3] RBA and Australian Treasury (2024), 'Central Bank Digital Currency and the Future of Digital Money in Australia', September.

[4] Jones B (2024), 'Financial Innovation and the Future of CBDC in Australia', Speech at the Intersekt Conference, Melbourne, 18 September.

[5] See, for instance, RBA (2024), 'Financial Stability Review', September; Jones B (2023), 'Emerging Threats to Financial Stability – New Challenges for the Next Decade', Sydney, 31 October.