

PayID and Osko: What the 24/7 New Payments Platform can do for you

While real-time payments have been available for high-value commercial payments over a decade, new technologies have made it economical to introduce near real-time payments for consumers and smaller businesses. high-volume, low-value payments now.

The New Payments Platform (NPP) launched to the Australian public on 13 February and is giving Australian consumers and businesses the capability to make and receive payments in near to real time. The NPP infrastructure that allows financial institutions to ‘instantly’ settle transactions between themselves, went live between employees at various financial institutions in November 2017 and is now open 24/7 to all customers of participating financial institutions.

The first service offered through NPP is branded “Osko” and will be managed by BPAY, providers of the billing service that was a world-first when it was launched 20 years ago. Osko allows bank account holders to transfer funds to any other bank account with a guarantee that those funds will post to the recipient’s account in under 60 seconds. In addition to the immediacy of retail payments, the NPP means that funds transfers can be addressed to mobile numbers or emails that have been registered with an addressing service called PayID, rather than having to use only BSB and account numbers. It will eventually also let you attach documents like receipts and invoices to the payment, which will be particularly useful for claims and government payments, and also to send a payment request, a boon for Australia’s mobile small businesses.

The NPP value proposition

The concepts underpinning the NPP are convenience, benefit and efficiency gains for consumers and businesses.

- **Consumers:** The biggest benefits will be being able to pay more conveniently and have immediate access to funds.
- **Businesses:** Will benefit both from immediate access to funds and more precise control over cash flow, as well easier and more accurate back-office reconciliation processes with the remittance information.
- **Financial institutions:** May be able to reduce back office costs due to managing payment exceptions more efficiently, as well as having reduced settlement risks and lower costs associated with them.

The way it works

On initiating a payment by a customer the following processes occur, enabled by what is referred to as the “basic infrastructure”:

- **Clearing:** Payment instructions are exchanged and payment obligations are calculated between the payer and payee’s financial institution.
- **Posting:** The recipient’s financial institution acts on the payment instructions and makes funds available to the recipient.
- **Settlement:** The payer’s financial institution transfers funds to the account of the recipient’s financial institution to ‘settle’ the obligation owed.

A unique aspect of NPP, which has led it to be described as the most advanced payments system in the world, is a flexible design that allows new, innovating services to be built on top of the basic infrastructure for clearing and settlement. These “overlay services” can be created by banks or other players and offered to everyone connected to the NPP.

The first of these overlay services is BPAY’s Osko service, which will enable:

- Real-time transfers with funds available within one minute (live today)
- Transfer of links to documents in a secure repository (in development)
- The ability to request a real-time payment (in development).

The NPP is designed as an open platform that will allow payment services providers to create new payment experiences and services over time.

Estimating the benefits – some examples

Benefits	Estimating the benefits	Beneficiary
24/7 Instant Payments		
Payers can transfer funds instantaneously and at any time	<ul style="list-style-type: none"> • Induced transactions – activity that would otherwise not occur 	Consumers and businesses
Payees can access transferred funds almost immediately	<ul style="list-style-type: none"> • Time value of money – interest earned from earlier access to funds 	Consumers and businesses
Settlement occurs in near real time	<ul style="list-style-type: none"> • Avoided costs of risk management, e.g. posting collateral, opportunity cost of voided transactions • Reduced settlement risk 	Financial institutions Economy / payments system
Simple Addressing		
Payers can initiate payments addressed to payee’s phone number or email address	<ul style="list-style-type: none"> • Cost savings (including time) from less effort spent on getting the right payment details • Avoided costs (including time) of managing errors from inputting incorrect payment details 	Consumers and businesses
Less hassle for customers to switch their financial institutions	<ul style="list-style-type: none"> • Cost savings (including time) from more efficient changeover, e.g. no need to inform payers of new payment details • Induced switching – customers, who would otherwise not have switched, benefiting from better goods and services (e.g. higher quality, cheaper) due to having switched 	Consumers and businesses
More easily trace/identify received payments	<ul style="list-style-type: none"> • Cost savings (including time) from more efficient business processes • Avoided costs (including time) of managing errors 	Businesses
Data-Rich Payments		
Easier and more accurate reconciliation of payments	<ul style="list-style-type: none"> • Cost savings (including time) from more efficient reconciliation processes • Avoided costs (including time) of managing errors 	Businesses
Avoided costs of separately transmitting related documentation	<ul style="list-style-type: none"> • Avoided costs (including time) of having separate process to transmit related documents (with future services) 	Businesses
Other		

More efficient payments system	<ul style="list-style-type: none"> • Cost savings from payers substituting (assumed) less resource-intensive NPP payments for other, more resource-intensive payment instruments, eg, cheques. • These cost savings represent a reduction in intermediate input costs into the financial sector, which boosts productivity and, hence, economic growth and employment 	Economy
Improved information for regulators	<ul style="list-style-type: none"> • Cost savings (including time) related to more efficient supervisory processes due to better information for regulators of the payments system, including AML/CTF • Greater system stability 	Economy
Consumer welfare gains from greater choice	<ul style="list-style-type: none"> • Option value ascribed by consumers being able to choose from alternatives that better suit their needs 	Consumers

Where to from here?

While the benefits of the NPP to Australia are manifest, this doesn't take into account the costs of transitioning to the new system. While the NPP's development and implementation costs are significant, at a national level they are likely to be outweighed by the efficiency gains over time and the innovations that are yet to be created through the overlay services. At an individual institution level, continuing to implement the enhanced features of the NPP will be important to deliver future value-added services and revenue streams as well as to prevent losing momentum and critical subject matter expertise. It should also be noted that the NPP represents a successful collaboration across banks, payments service providers and regulators in the national interest on a project of great complexity. All participants should be applauded for their efforts in bringing NPP to fruition and encouraged to continue their work to realise its full potential.

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