General Manager, Policy
Australian Prudential Regulation Authority (APRA)
Via email: [redacted]

Australian Payments Network
Connect Inspire Thrive

21 October 2022

Australian Payments Network (AusPayNet) thanks APRA for the opportunity to respond to its Proposed Prudential Standard CPS 230: Operational Risk Management (the Proposed Standard). We support APRA's objectives to improve operational risk practices and business continuity planning to ensure that APRA-regulated entities are ready to maintain critical operations such as payments.

Introduction

This submission has been developed through consultation with AusPayNet's Members and seeks to present views on maintaining operational resilience specifically as it relates to payments in Australia. AusPayNet is supportive of APRA's goals in ensuring the resilience of the financial sector in Australia and is supportive of a standard that provides for such.

We agree with the draft CPS 230's principles-based approach to operational risk management that is outcomes-focused and flexible. As the payments ecosystem is rapidly evolving, new payment streams and rails are being adopted, and older, legacy systems are declining in use. In line with ensuring key stakeholders' access to real-time transactions, AusPayNet notes that any standards that place requirements on up-time or operation should not hinder work in payments modernisation and the retiring of legacy payment systems. We support giving the industry the flexibility to decide on the most appropriate and 'fit-for-purpose' operational resilience standard. Further, AusPayNet suggests that the more stringent requirements should only apply to Significant Financial Institutions (SFIs) and remain best practice recommendations for non-SFIs.

Current industry initiatives on business continuity in payments

The payments industry understands the importance of a resilient payments network and continues to strive towards best practice when it comes to business continuity, preparation, and testing. In addition to being supportive of the proposed standard, the industry is currently undertaking some of its own work in relation to operational resilience. This includes:

- Upgrading the Community of Interest Network (COIN) which supports a large percentage of domestic payments, covering eftpos transactions, Direct Entry, BPAY and cheque files. The COIN has been in place for over a decade and the upgrade will change the COIN from a single to a dual telecommunications network solution, providing greater redundancy and resilience for the payments that it supports.
- Increasing cyber incident response capability in collaboration with the RBA by reviewing and updating the High Value Clearing System Incident Response Plan to also consider cyber incidents.
- Regularly reviewing and updating Member Incident and Crisis Management Plans for industry incidents relating to AusPayNet frameworks.

Responses

Question 2. Are there specific topics on which guidance would be particularly useful to assist in implementation?

AusPaynet agrees with APRA's proposed definition of 'critical operations' as it relates to payments. We suggest the provision of guidance to clarify the understanding of 'critical' used in similar terms such as 'critical operations', 'critical functions', and 'critical infrastructure'. In the development of the Security of Critical Infrastructure Act 2018 (the 'SOCI Act'), there was careful consideration to ensure that the work of payments modernisation could continue alongside the management of risks to national security relating to critical infrastructure. As such, we suggest that this Standard also follow the same principle.

The payments ecosystem is evolving rapidly, with new payment streams and rails entering the ecosystem whilst older, legacy systems decline in use. This is true, for example, in the customer-led decline of cheques in Australia which has seen a significant reduction in the use of cheques as customers adopt digital payment methods. Similarly, the introduction of the New Payments Platform (NPP) has seen the Bulk Electronic Clearing System (BECS) decline in usage. The industry is actively working on modernising payment streams such as these and this payments modernisation work is very important to ensuring Australia's payments ecosystem remains world-class and fit for purpose.

Although AusPayNet members are supportive of the objectives of the standard in ensuring that there is a reasonable expectation of continuity of payment services for customers, AusPayNet would like to note that it is important that any standards or regulation enacted in Australia for the purposes of business continuity, does not impede the ongoing work of payments modernisation in Australia.
These considerations were also included in the creation of the Security of Critical Infrastructure Act, which limited the definition of critical payments to the key payment rails, eftpos, NPP, Visa, and Mastercard[1].
Acknowledging that the proposed standard has a different purview and scope than that Act, AusPayNet would still recommend that APRA makes it clear that although a bank may set tolerance levels in relation to the current operation of a particular payment stream, for example, the processing of cheque payments, this tolerance level should not and will not hinder any efforts by the ADI to modernise that payment stream or rails.

Question 3. How could proportionality be enhanced in the standard and is there any merit in different requirements for SFIs and non-SFIs?

Proportionality is important in the financial services sector and, whilst operational resilience and continuity is paramount, it is also important that the wide range of business sizes amongst Authorised Deposit-Taking Institutions (ADIs) be taken into consideration in the construction of any prudential standard.

[1] Security of Critical Infrastructure (Definitions) Rules (LIN 21/039) 2021 s. 10 (5)

This issue was recently acknowledged in the expanding of the SOCI Act to critical banking institutions; this expansion set the threshold for critical banking infrastructure to facilities belonging to ADIs with an asset base of $50B or more.[2] The rationale for this was that it would capture the largest banks whose large volume of retail customers meant that any disruption to services had the potential for "severe and lasting economic and security impacts."[3] In setting the threshold at $50B, the bill defined banking institutions that are "critical to the security and reliability of the financial services and markets sector due to their size".[4]

In a similar vein, making the new prudential standard mandatorily apply only to SFIs would capture those larger institutions that are critical to the reliability of Australia's financial market. It would also provide a framework for those smaller institutions to create operational resilience plans without the added burden of extra prudential requirements, whilst still supporting the goals of the proposed standard. For these reasons, AusPayNet suggests making the proposed standard compulsory only for SFIs and best practice for non-SFIs.

Conclusion

The industry is supportive of the objectives of the proposed standard and supports the need for business continuity practices. AusPayNet suggests that it be made clear in the Proposed Standard that it does not have any impact on industry's work in relation to payments modernisation and that, in line with APRA's goal of proportionality, it is mandatory only for SFIs.

If you have any questions, please contact [redacted]

Yours sincerely,

[redacted]

Andy White
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AusPayNet Membership and Role

AusPayNet is the industry association and self-regulatory body for the Australian payments industry. We manage and develop procedures, policies and standards governing payments in Australia. Our purpose is to enable competition and innovation, promote efficiency, and control and manage risk in the Australian payments ecosystem. AusPayNet currently has over 150 members, including financial institutions, operators of Australia's payment systems, merchants, and financial technology companies.

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[2] Security of Critical Infrastructure (Definitions) Rules (LIN 21/039) 2021 s. 12 (1)
[3] Australian Government Department of Home Affairs: Critical Infrastructure Centre, 2021 p. 13 (link)
[4] Ibid

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