



Using the New Payments Platform

How the NPP and its overlay services will work together to create great customer experiences

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How the NPP and its overlay services will work together to create great customer experiences

Starting in 2017, the New Payments Platform (NPP) will transform the way Australians make payments. For the first time, it will be possible to transfer funds quickly and easily, 24 hours a day, 7 days a week – even between accounts at different banks. This initiative promises to bring value to financial institutions, consumers and businesses alike, and is expected to be rapidly adopted.

Among the NPP's key features available at launch will be a centralised real-time addressing service allowing payments to be delivered to a user-friendly alias such as a mobile number or email address rather than the BSB and account numbers used today. Another important feature will be the Initial Convenience Service (ICS), the NPP's first overlay service that will make it possible for consumers to send and receive payments in real-time.





While there's already a lot of information available about the NPP (including Cuscal's recent white paper "New Payments Platform: How the NPP can help you win the war for customer relationships"), it's important to understand how its core functionality – what's often referred to as the Basic Infrastructure – differs from the ICS and the other overlay services that will help bring the NPP to life. These overlay services will not only add tremendous value to the NPP for end-users, but also create considerable opportunities for financial institutions and fintech companies.

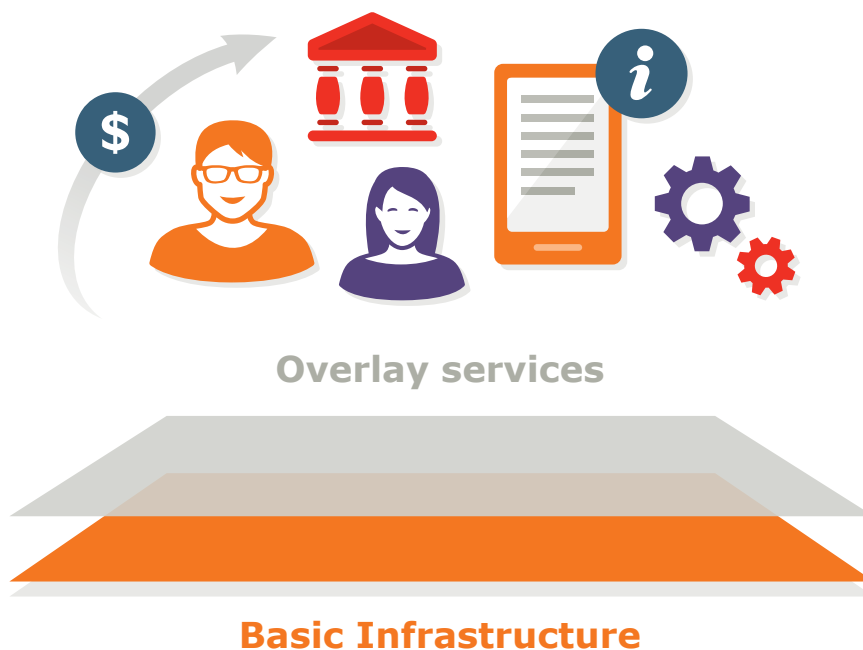
In the pages that follow, we'll take a closer look at the different types of overlay services and the role they will play in driving NPP usage. This includes a variety of scenarios where financial institutions and businesses will try to create more seamless customer experiences. We'll also explain some real-life applications of the ICS, along with its benefits and how it differs from the NPP's Basic Infrastructure. Finally, we'll outline several ideas for overlay services which you might see launched in the months and years following the NPP's initial release.

Understanding how the NPP and its overlay services interact is critical to taking advantage of the many opportunities that the NPP will bring.

Understanding overlay services

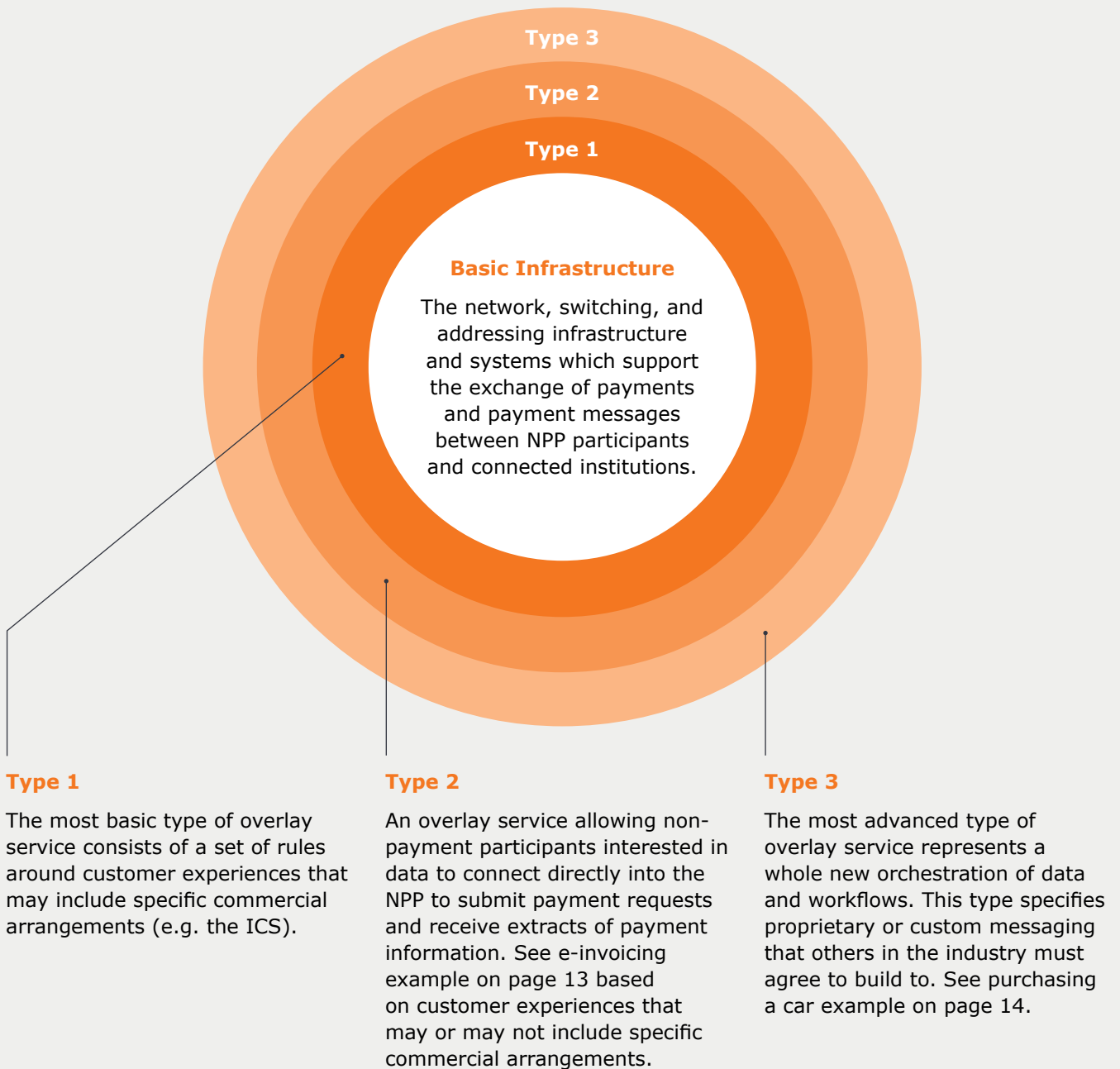
To help understand how the NPP and its overlay services fit together, think about the high-speed internet connection you have at work or at home. While most of us experience the internet through websites, portals, apps, and other online tools, none of these things would exist without the underlying infrastructure that makes them all possible.

Similarly, the NPP's Basic Infrastructure is the banking framework necessary to make real-time payments possible for financial institutions. The overlay services that get added on top of it, however, are what will create better payment experiences for consumers. The ICS is a great example. It will allow financial institutions and their customers to make payments between individual accounts faster than ever before, while also facilitating enhanced data and operational support. When the World Wide Web went live in 1991 nobody could have ever imagined the myriad of digital applications today, including mobile apps and Software-as-a-Service (SaaS). That gives you some idea of how the NPP might develop in the future when the creative possibilities of overlay services are explored.



As Figure 1 illustrates, there are three different types of overlay services, each building upon the Basic Infrastructure and becoming increasingly sophisticated.

Figure 1: The Basic Infrastructure and the types of overlay services that build upon it




How overlay services can create seamless payment experiences to improve your life and work

Overlay services are important because they represent a significant opportunity to improve the lives of consumers and bring additional benefits to businesses and financial institutions.

For consumers the benefits start with the convenience of sending and receiving payments in real-time, wherever they can get mobile reception, and then extend to additional overlay services. For businesses and financial institutions the benefits are a bit more complex.

That's because although payments and the commerce associated with them have historically been kept separate, there are huge advantages to bringing them together. The convenience of third-party apps such as digital vaults and wallets, for example, are beginning to solve user experience challenges such as abandoned eCommerce shopping carts, incomplete online subscription forms, low volumes of repeat business, and negative customer ratings – all of which can negatively impact business performance.





In an increasingly mobile-app-centric world, overlays could handle interactions between a customer's app and a retailer's point of sale environment to assist loyalty programs, rewards, and gift cards, all working in conjunction with digital and mobile wallets. Designed and integrated in the right way, overlays will help to overcome many of these friction points, bringing certainty to every transaction for users and merchants and making the entire payment experience seamless.

Initial strategic objectives of the Reserve Bank of Australia's Strategic Review of Innovation in the Payments System:

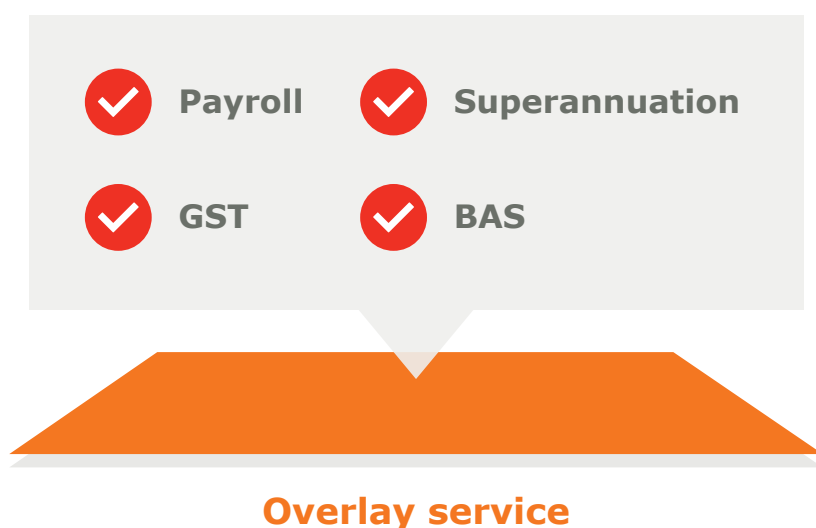
- Same-day settlement of all DE payments
- The ability for businesses and consumers to make real-time retail payments, with close to immediate funds availability for the recipient
- The ability to make and receive low-value payments (Direct Entry, real-time payments and crediting of card payment receipts) outside normal banking hours
- The ability to send more complete remittance information with payments
- The ability to address payments in a relatively simple way

For consumers the benefits start with the convenience of sending and receiving payments in real-time, wherever they can get mobile reception, and then extend to additional overlay services.

How overlays can create more efficient business transactions

Overlay services could potentially also be developed as commercial solutions for transactions in business.

Imagine, for example, how a process as time-consuming and laborious as managing payroll and superannuation contributions could be simplified by a single overlay with all payments and data consolidated. For small businesses, think of the time that could be saved by the automated submission of GST and BAS payments through an NPP-based overlay service.



Commercial opportunities like these are just the tip of the iceberg. Banks, fintechs, and digital service providers will be vying to leverage the NPP's real-time data and capabilities to create better experiences for their customers. As a result, a steady stream of new overlay services will arrive on the scene. Importantly, to create overlay services providers will need to adhere to certain participation criteria and operational procedures, while also adopting an agreed-upon commercial model.

Fundamentally, overlay services are stepping stones on the journey toward greater value creation across the economy. The very first step along that path is the Initial Convenience Service (ICS).

Understanding the ICS (Type 1 Overlay Service)

The ICS is an industry-sponsored Type 1 Overlay Service that's designed to bring immediate payments to consumers and small businesses.

Available at the time of launch through BPAY, the ICS will be the crucial element which gives end consumers tangible benefits from Day 1, while also adding capability to the NPP and increasing customer awareness and early transaction volume. These capabilities include payments with close to real-time guaranteed processing of funds to recipients, mobile-centric solutions, payments with linked documents (e.g. remittance advice) and, perhaps most coveted of all, payment requests.

Most of the immediate uses of the ICS are widely described elsewhere and focus on how it will enable person-to-person payment requests. A classic example is a group of friends going to a concert. If one person buys for the whole group then today he or she has to physically ask for cash from each person or else pass on BSB and Account Number, relying on friends to transfer the money. With the ICS however, the person could use a banking app to send a payment request to each friend's email address or mobile number. Each friend could

then make the payment with a couple of clicks – a simpler, faster, safer process all round.

As useful as this functionality will undoubtedly prove to be, it's worth noting that the ICS's payment request capabilities could easily be leveraged for more commercial applications. A plumber is a good example. With the right ICS-based solution, a plumber could generate a payment request in real-time through his job management system then get paid immediately after completing a job, before even leaving the premises.

What this example illustrates is that in the case of relatively simple payment requests (ones where there's no need for a formal, itemised invoice) the ICS could easily provide a solution. In other words, small businesses may not have to wait for the more complex Type 2 and Type 3 overlays to emerge in order to derive business value from the NPP.

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Understanding the ICS (Type 1 Overlay Service)

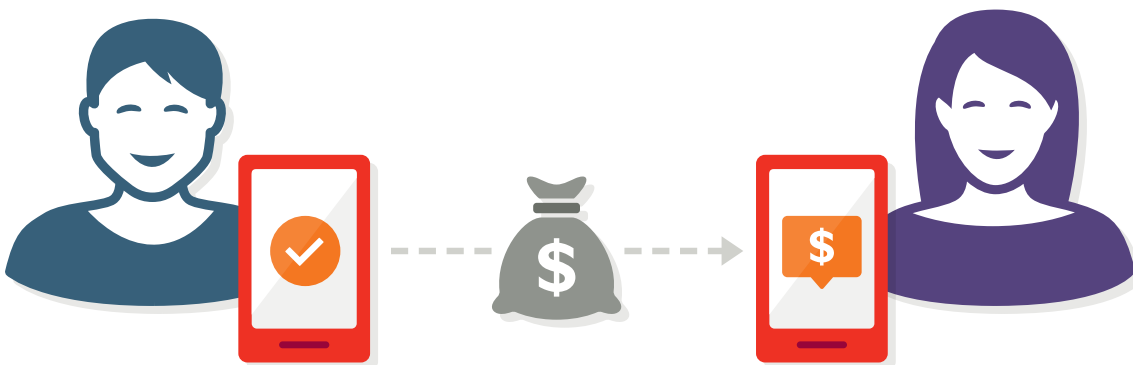
The benefits of the ICS

One of the ICS's many benefits is that it sets forth the end-to-end rules necessary to bring immediate payments to consumers, while also creating better and more consistent customer experience.

As the first overlay, and therefore one of the keys to the NPP's overall success, it's important that the ICS works properly. Fortunately, with its considerable expertise, BPAY is an excellent choice to operate it. That's because BPAY is a trusted partner, with the necessary experience in collaboratively developing and promoting a payment solution with other Australian financial institutions. That's just what's needed to help ensure the ICS gets to market faster, more smoothly, and with the greatest chance for a speedy take-up.

In addition, BPAY is experienced at influencing consumer habits. It has already been successful at moving the payment of invoices and bills to internet and mobile banking models, and this experience will be very useful in helping people understand and adopt new concepts like payment requests and immediate payments. Plus, BPAY's expertise will be useful in designing a well-branded ICS that resonates with users and encourages habitual use, as well as setting up shared industry marketing schemes which each financial institution will be able to use to drive adoption among their customers.

Last but not least, all Australian financial institutions are already members of the BPAY scheme and are used to working within its rules to develop payment interfaces. This fact should alleviate some of the potential implementation challenges.



Mind the gaps

A final point about the ICS is that it deliberately leaves opportunities that other overlay services can take advantage of in the future, incrementally adding extra functionality as the NPP evolves. This will be good for competition and help meet the objectives set out in the Reserve Bank of Australia's Strategic Review of Innovation in the Payments System (2012).



These three examples illustrate the potential of the NPP



1. Achieving greater operational efficiency with e-invoicing (Type 2 Overlay Service)

Invoicing is an administrative burden no matter how you look at it.

For vendors, suppliers, and purchasers, there are two main reasons:



Adhering to the individual **purchasing and invoicing standards** that suppliers or customers mandate



Managing the hassle of **emailing invoices and chasing them up** to ensure they're properly settled

Meanwhile for the customers who receive the invoices, the hassle comes when they have to make payment by Direct Entry and then email a remittance to clearly identify what the payment relates to.

Yes the system works, but it's not very efficient.

Fortunately, within the next couple of years, we're likely to see the rise of **an overlay service that will allow e-invoicing via the NPP**. Such an overlay service would facilitate NPP transactions that include payment data along with line items for the invoice and/or remittance. In other words, it would make **end-to-end, automated, and integrated** invoice transactions a reality.



✓ GST ✓ BAS

To make things even easier, eventually cloud accounting providers like SAP or Xero will be able to link into the NPP directly as a non-payment participant. In doing so, they'll submit payment requests with corresponding invoicing data on their clients' behalf, increasing **speed and efficiency**. Importantly, since the invoicing data will include GST amounts broken out, it would also save small businesses from having to do a lot of BAS reporting. In fact, it could lead to a major transformation whereby GST becomes a pay-as-you-go proposition.

2. Simplifying the onerous process of purchasing a car (Type 3 Overlay Service)

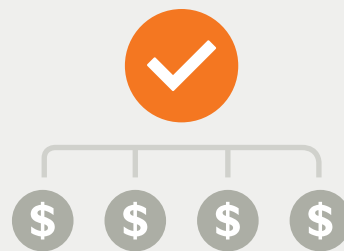
Any time that you buy or sell a car, you have two choices: you can go to a dealer or conduct a private trade directly with an individual.

While **private trades** generally yield better prices, they come with obstacles including ownership checks, registration transfers, and fund transfers – not to mention the pitfalls of blindly putting your faith into someone you don't necessarily trust.



As a result, most people go to a **dealer**, who will charge a premium for handling all of these steps on their behalf. Yet even for the dealer it's a costly and time-consuming task involving multiple processes and parties that can take between 24 and 48 hours to complete.

The solution may lie in a **multiparty, data-rich, workflow-based overlay** that integrates with the dealer's sales platform. Such an overlay would allow the dealer to complete the transaction, and the many steps that go with it, within a matter of minutes – ensuring that payments get split up appropriately so that each participant in the process gets paid their portion of the sales price.



3. Unlocking the power of payment requests for professional service providers (Type 3 Overlay Service)

Professional service providers offer another example of how a Type 3 Overlay Service could create value.

Take graphic designers who work on tight deadlines and often complete work prior to invoicing or receiving payment.

While they may use online project management software, there's no real-time payment solution that links their outputs with their client's workflow, particularly when it comes to client approval, invoicing, and payment before progressing to subsequent stages of work.

When it comes to each project, the service provider will want **automated multi-party payments** as well as **a clear view of all the records** for associated fees/expenses. These include:

- Third-party management fees to the lead originator of the project e.g. Airtasker, Freelancer.com, Expert360, etc.
- Revenue for services rendered
- BAS and GST
- Subcontractor fees



An overlay service that a service provider's financial institution has endorsed could generate **new efficiencies** around workflow management while also ensuring **faster cash flow**. The powerful combination of payment request, auto-approval, and immediate payment by the client for each deliverable means that service providers can focus on what they do best, rather than spend their time fumbling around with the administrative burdens of issuing invoices, reconciling payments, and paying taxes.





The NPP, ICS and beyond

The NPP and its overlay services represent a significant opportunity for those who understand them and can take advantage of what they offer.

While you don't need an overlay service to get business value out of the NPP (as much of the value comes from the immediacy of payment and the ability to process a payment request that's part of its Basic Infrastructure), good overlay services will add even greater functionality and security. The first overlay, the ICS, is a great start and it will bring significant value to financial institutions and consumers alike by creating seamless customer experiences.

Those organisations looking to create their own overlays should note that it's a substantial undertaking, and one with a variety of potential hurdles. Having an experienced partner that understands how the NPP and its overlay services work and can help you navigate the process will be immensely helpful.



Much of the value comes from the immediacy of payment and the ability to process a payment request that's part of its Basic Infrastructure.

About the co-authors



Nathan Churchward

Nathan Churchward joined Cuscal in April 2014 as Senior Manager, Payments and is responsible for Cuscal's payment product management and operations as well as championing product innovation and management training.

Nathan brings over 25 years' experience working in financial services and telecommunications in product design and management roles. His portfolio at Cuscal oversees the management of payment services including Direct Entry, BPAY and chequing products and responsibility for operational delivery. His team is actively working on the development of innovative new payment solutions for Australia's New Payments Platform (NPP). Throughout his career Nathan has been passionate about successfully identifying consumer behaviour patterns and harnessing eCommerce platforms to maximise operational efficiency.



Natalie Yan-Chatonsky

Natalie is an experienced product innovation leader, creative entrepreneur and trained designer who connects the dots between ideas, businesses and people. She uses a customer-centred design approach to uncover market opportunities in the payments industry and commercialise ideas through a product development process.

With the development of the New Payments Platform (NPP), and as part of Cuscal's payments products team, Natalie is currently identifying opportunities where Cuscal can make payments simpler and more meaningful for financial institutions, businesses and their customers.

To find out more about Cuscal, our NPP Solutions and view our educational resources on the NPP please visit

www.cuscal.com.au/npp

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