

Access and Innovation on the NPP

Cuscal

NPP participation roles and flows, including Cuscal's enabling services

1 March 2022





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Agenda

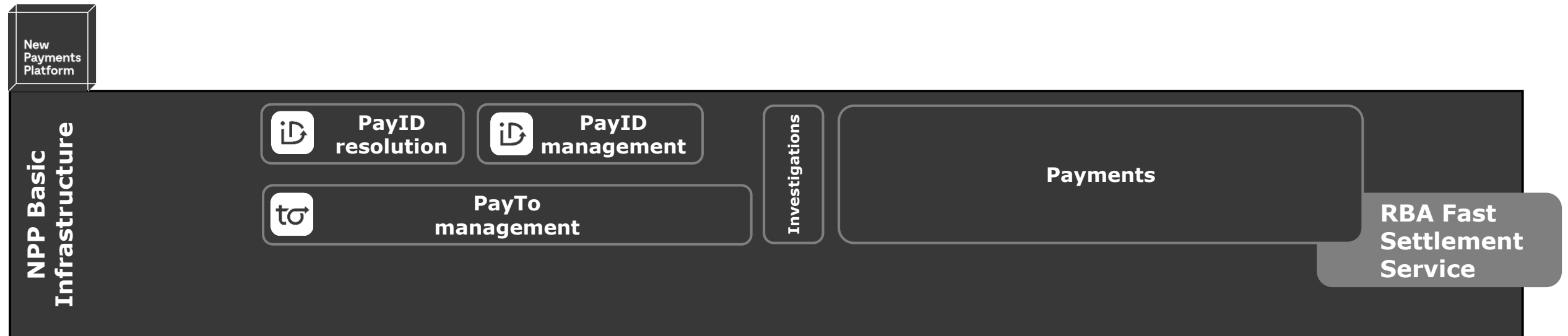
The objective of this webinar is to address the differences between the many roles that are being introduced to NPP and to highlight how Cuscal is supporting these for our clients.

1. NPP infrastructure level roles
2. Payments roles
3. PayTo roles
4. Managing NPP services
5. Cuscal's services
6. Use cases and examples

NPP Basic Infrastructure and the role of NPPA

The NPP BI is a combination of distributed switching for payment messaging, central services for PayID and PayTo management, and settlement messaging integrated with the RBA.

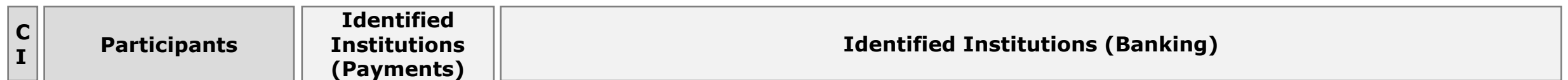
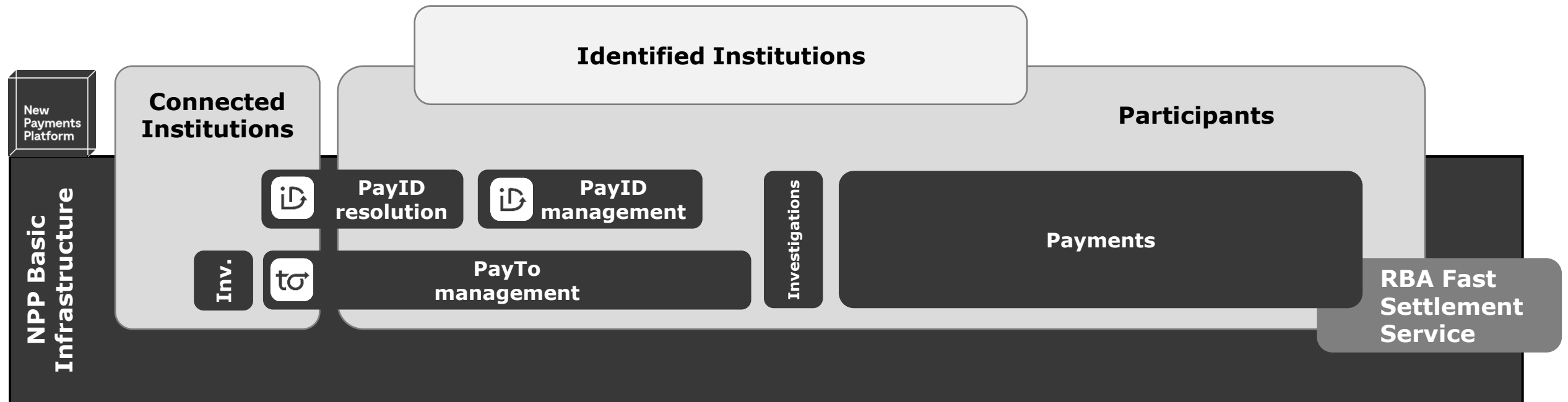
- ❑ NPP participating organisations license and build systems to operate the NPP Basic Infrastructure as a distributed switch.
- ❑ Participants and Connected Institutions operate the Payment Initiation and Payment Clearing infrastructure.
- ❑ SWIFT operates the PayID Addressing Service and PayTo Mandate Management Service on behalf of NPPA.
- ❑ The RBA operates the Fast Settlement Service.



Operating NPP Services and organisational roles

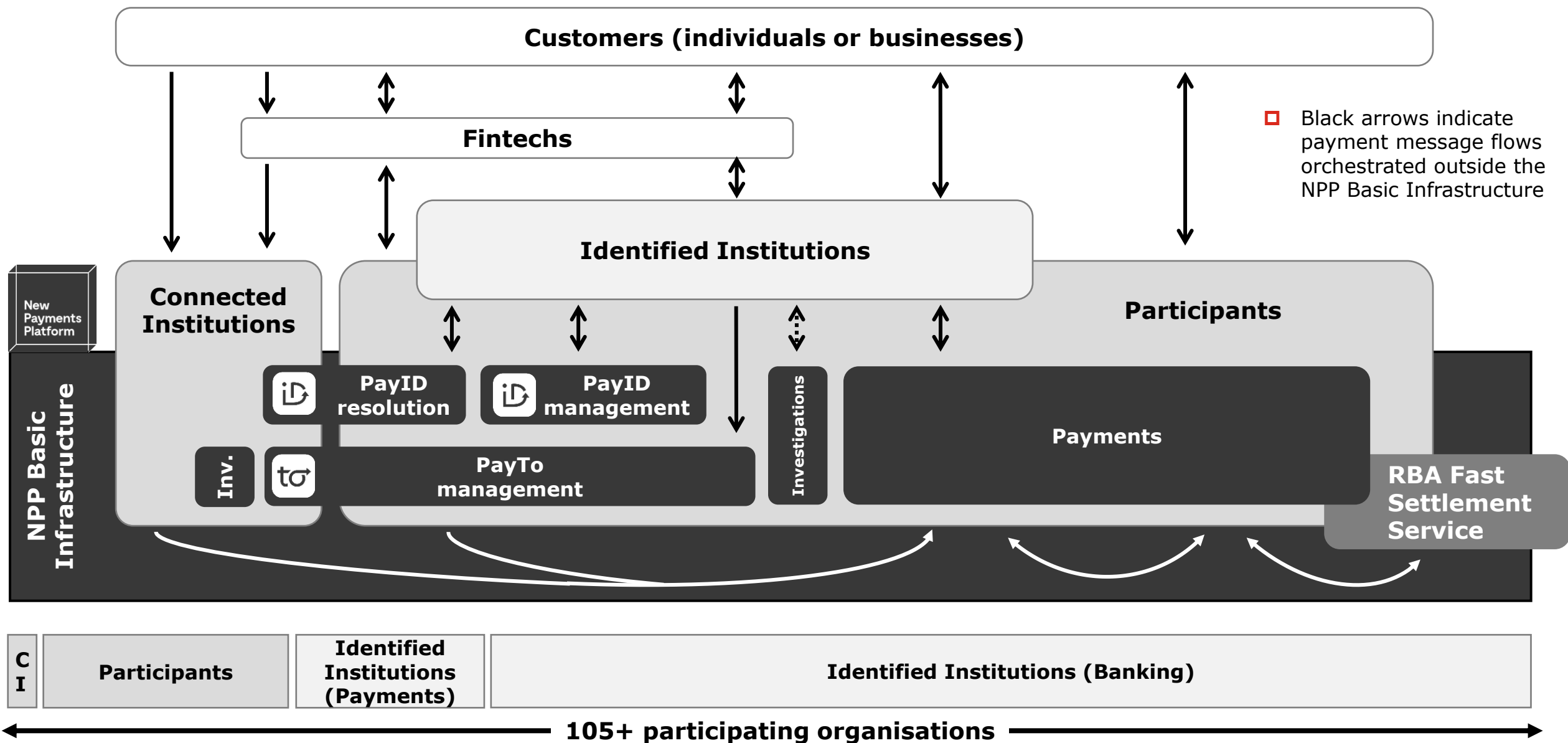
NPP supports both directly and indirectly connected organisations which enables a competitive landscape and opportunities for organisations to play multiple roles.

- ❑ Participants have the option to be indirectly connected through other Participants
- ❑ An Identified Institution can choose to also be a Connected Institution

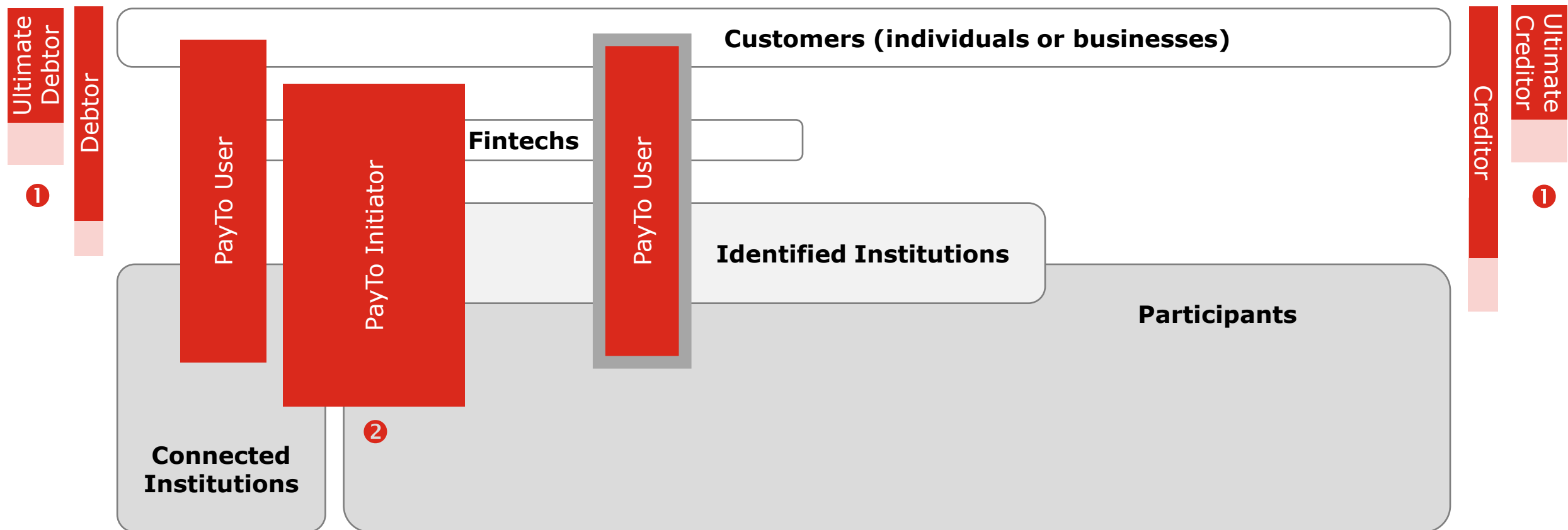


← 105+ participating organisations →

Accessing the NPP to provide payments for customers



PayTo roles and requirements



- 1 If payments are managed by a service provider, the message must include details of the underlying customer, not just the aggregator (applies for both for the payer/debtor and receiver/creditor).
- 2 Participants, Connected Institutions and Identified Institutions can all provide payment initiation services to their customers as PayTo Users.

- The PayTo Initiator provides the processing services to the PayTo User.
- The PayTo User establishes a payment agreement between the debtor and creditor.
- Participants and Identified Institutions can be PayTo Users on their own accounts as the debtor or creditor, and the ultimate debtor or creditor are always disclosed.

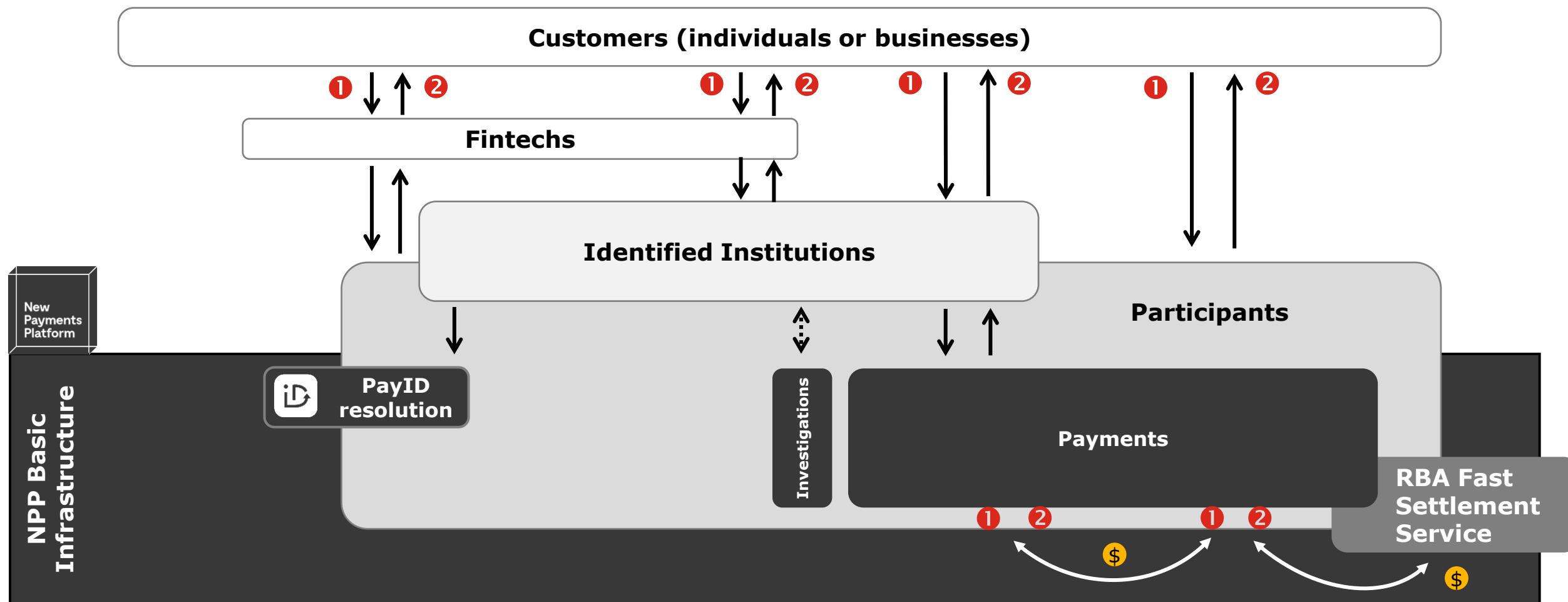
Comparison of participation types and sponsorships

With the introduction of Connected Institutions, it is worth comparing the differences with the existing Participant and Identified Institution models as well as the new PayTo Initiator and User services.

Feature/Service	Participant (P)	Identified Institution (II)	Connected Institution (CI)	Payment Initiator (PI)	PayTo User (PU)
Sponsorship ability	II, PI, PU	PI, PU	PI, PU		
Make/Receive Payments	Yes	Yes, via Sponsor	No	Sponsor dependent	Sponsor dependent
Payment Initiation	Yes	Yes, via Sponsor	Yes	Yes, via Sponsor	Yes, via Sponsor
Manage PayIDs	Yes	Yes, via Sponsor	No	No	N/A
Lookup PayID	Yes	Yes, via Sponsor	Yes	Yes, via Sponsor	N/A
Processing costs		Paid to Sponsor		Paid to Sponsor	Paid to Sponsor
NPPA obligations	Yes	Via Sponsor	Yes	Via Sponsor	Via Sponsor
NPPA costs	Fixed cost recovery (at least until FY23)	Cuscal recovers \$0.0175 per txn	\$0.05 per Payment Initiation		

- ❑ To enable full delivery of payment services, we believe that being an Identified Institution is a critical for a PSP and all the features available to Connected Institutions are available to Identified Institutions via Cuscal.
- ❑ As an NPP Participant and ADI, Cuscal provides our clients in the payment service provider market with the security, credibility, and regulatory frameworks that are important for the continuity of service and assurance that PSPs need.

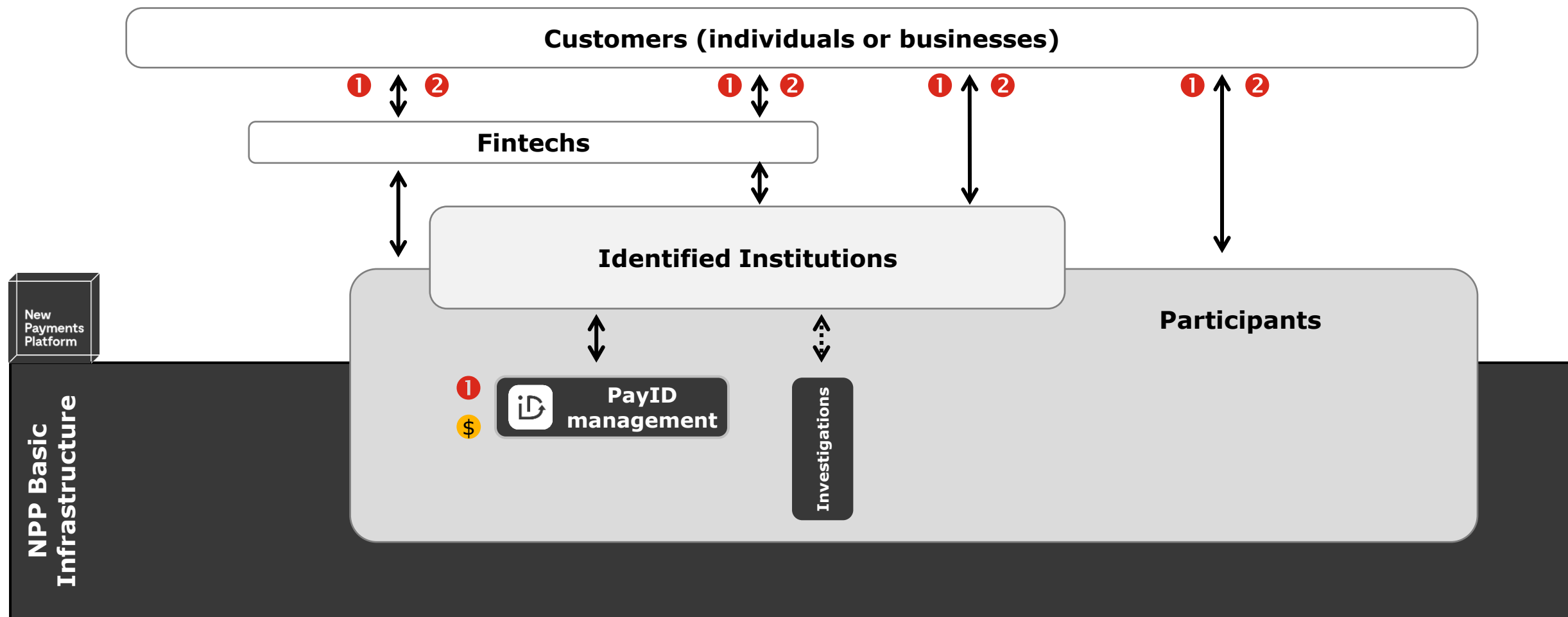
Making and receiving NPP payments



- 1 Customer makes a payment by submitting instruction and authorisation (for example in a digital banking channel. If using a PayID, the account details are resolved from the Addressing Service)
- 2 The customer who is being paid receives the funds to their account

- Confirmation of outcome of Payment Clearing and Settlement is provided to the requesting party
- NPPA charge for Payment Clearing messages. Participants pay as part of their annual cost recovery as shareholders.
- RBA charges for Payment Settlement messages

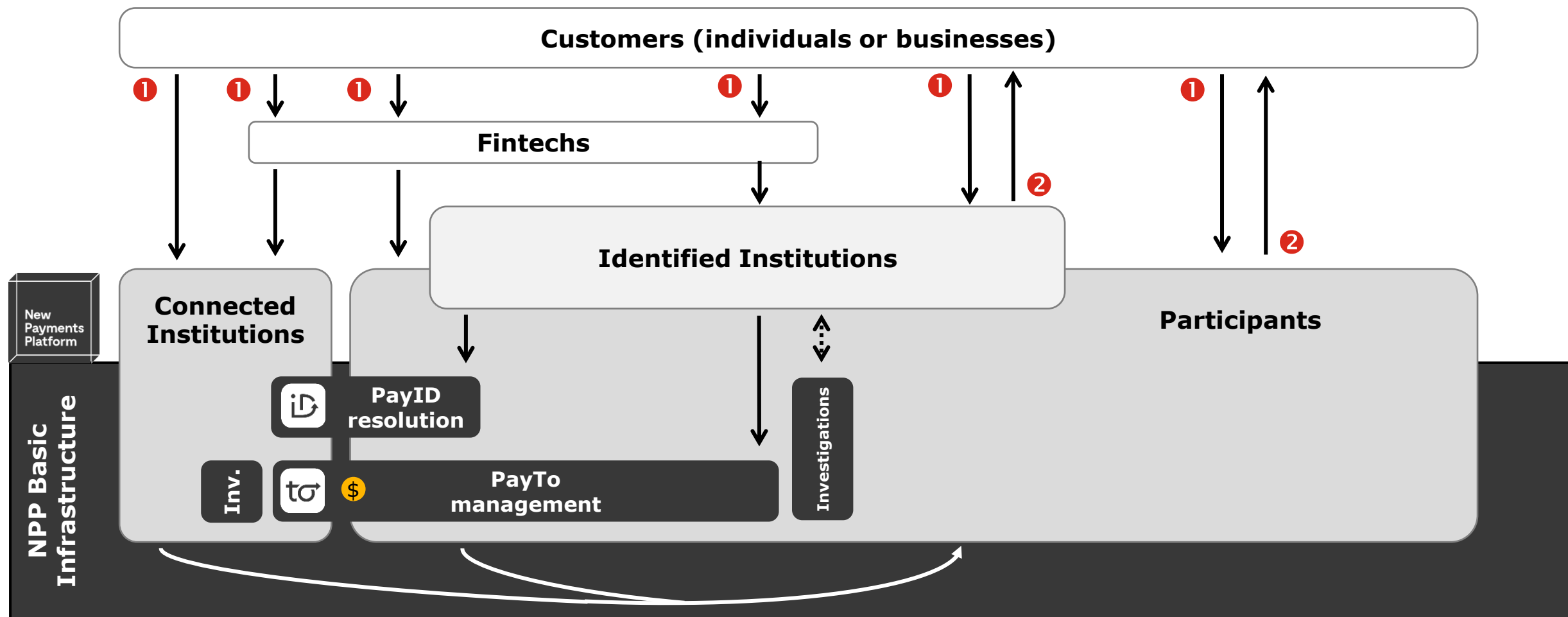
Managing PayIDs



- 1 Customer requests a PayID to be established – this can be created using their own details or details provided by the Account Servicer – and details are submitted to the PayID Addressing Service
- 2 If customer is using their own details for the PayID, confirmation of ownership is required

\$ NPPA charge when PayIDs are created in bulk

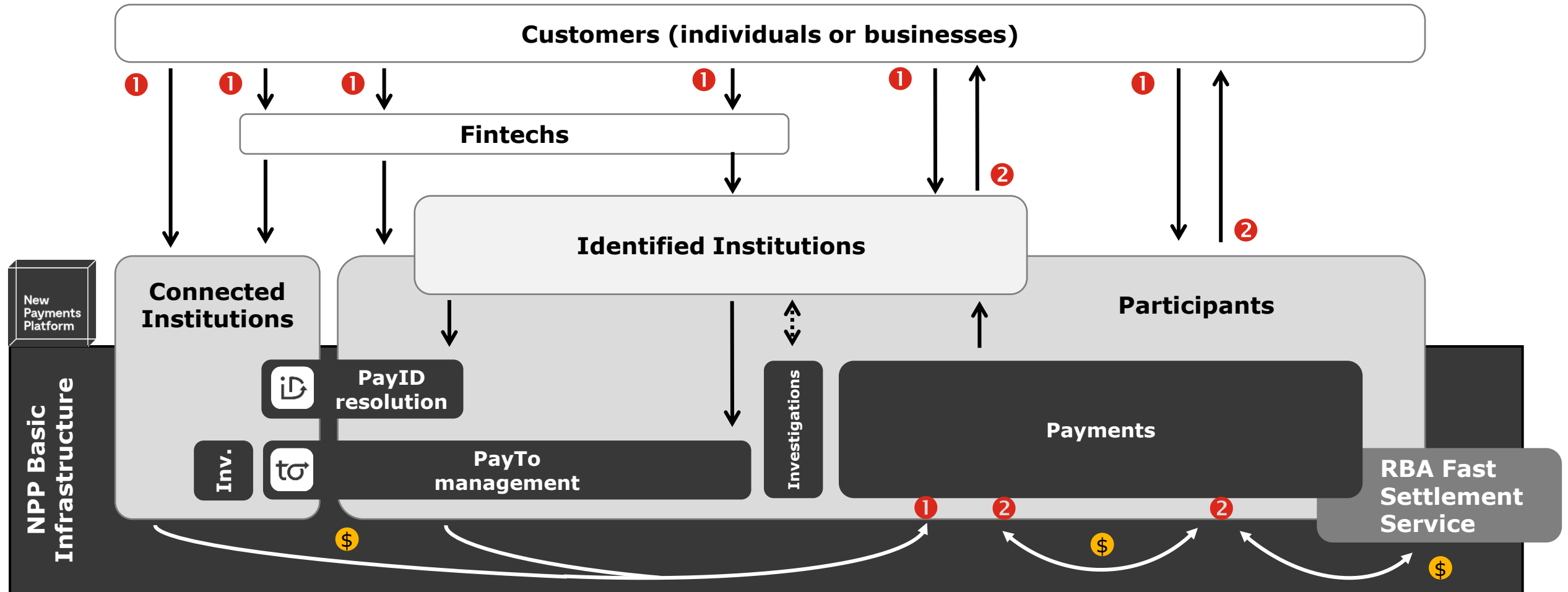
Managing PayTo agreements



- 1 Customer provides consent for collection of details by PayTo User and details of payment agreement are submitted to the PayTo Mandate Management Service.
- 2 Account Servicer (Participant or banking Identified Institutions presents PayTo authorisation request to customer (not required for migrated DDRs)

- Confirmation is provided to the requesting party once the customer actions the authorisation request in their digital banking channel.
- \$ NPPA charge for each record in the MMS. Connected Institutions currently pay directly and Participants pay as part of their annual cost recovery as shareholders.

Initiating payments using PayTo

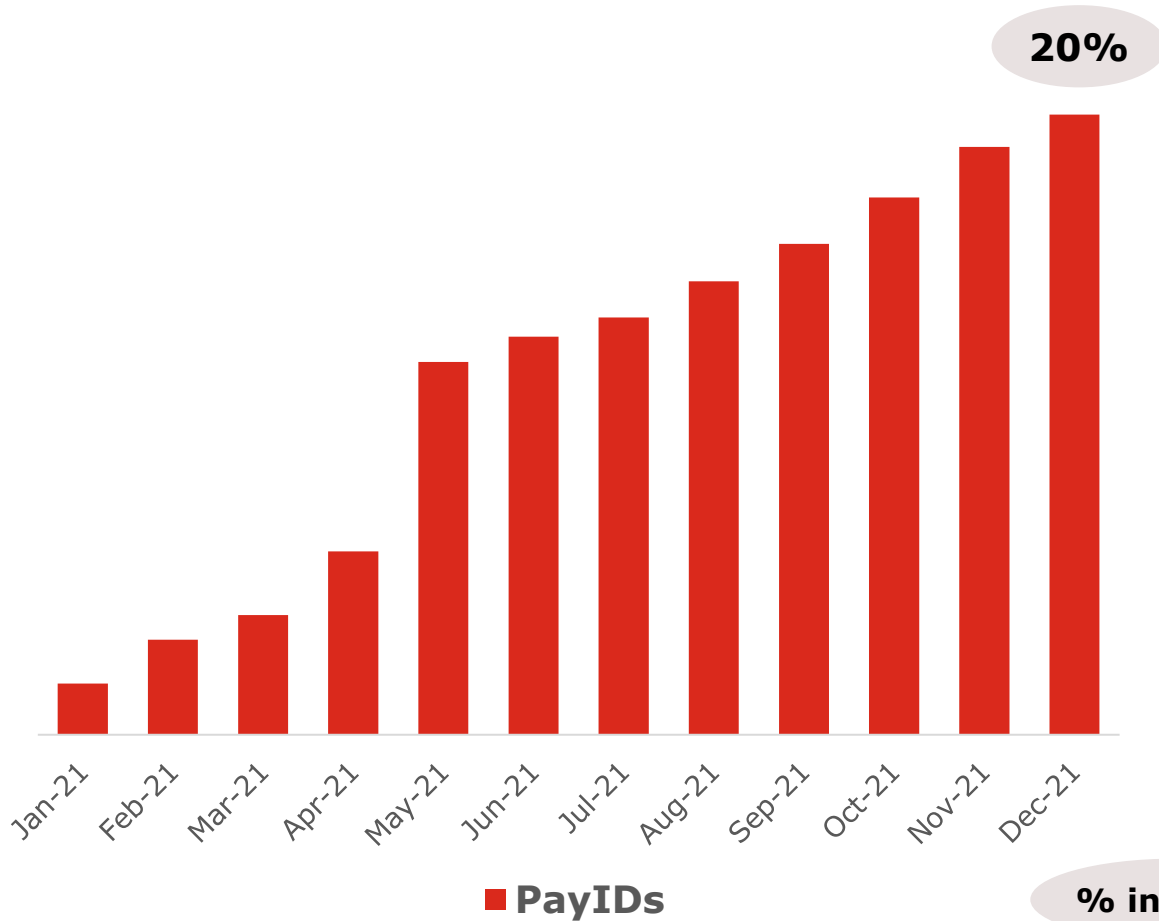


- 1** Payment Initiation Request is submitted using a valid PayTo agreement ID and validated against the PayTo Mandate Management Service
- 2** Account Servicer (Participant or banking Identified Institution) initiates payment from the customer account and creates clearing and settlement request to the account indicated in the Payment Initiation Request.

- Confirmation of outcome of Payment Clearing and Settlement is provided to the requesting party
- \$ NPPA charges for Initiation and Clearing messages. Connected Institutions pay \$0.05 and Participants pay as part of their annual shareholder cost recovery. As a factor of our total volume, Cuscal recovers \$0.0175 from Identified Institutions.
- \$ RBA charges Participants for Payment Settlement messages

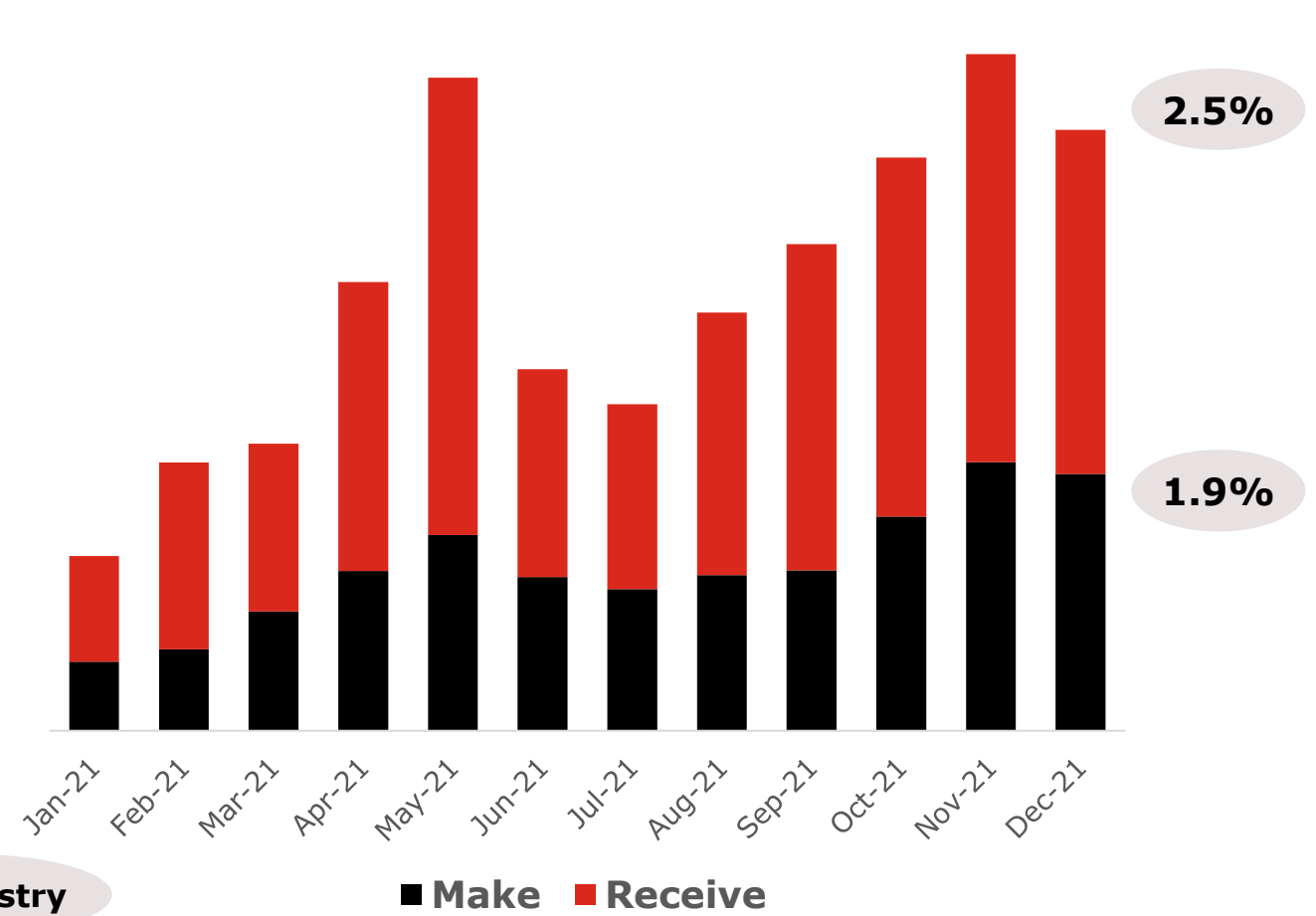
PSPs are significant and growing users of NPP services

PayIDs



- Cuscal's PSP Identified Institutions are significant users of PayIDs for creating solutions for receiving payments for their Fintech and business customers.
- Providing customer specific PayIDs is now a key part of their value proposition.

Payments



- 60% of volume and 49% of the value and payments received used PayID
- Using PayID to receive payments will remain relevant for the next few years while use of PayTo ramps up and customer accounts are enabled for PayTo.



Cuscal's services for Identified Institutions



We enable clients to use all NPP features cost effectively

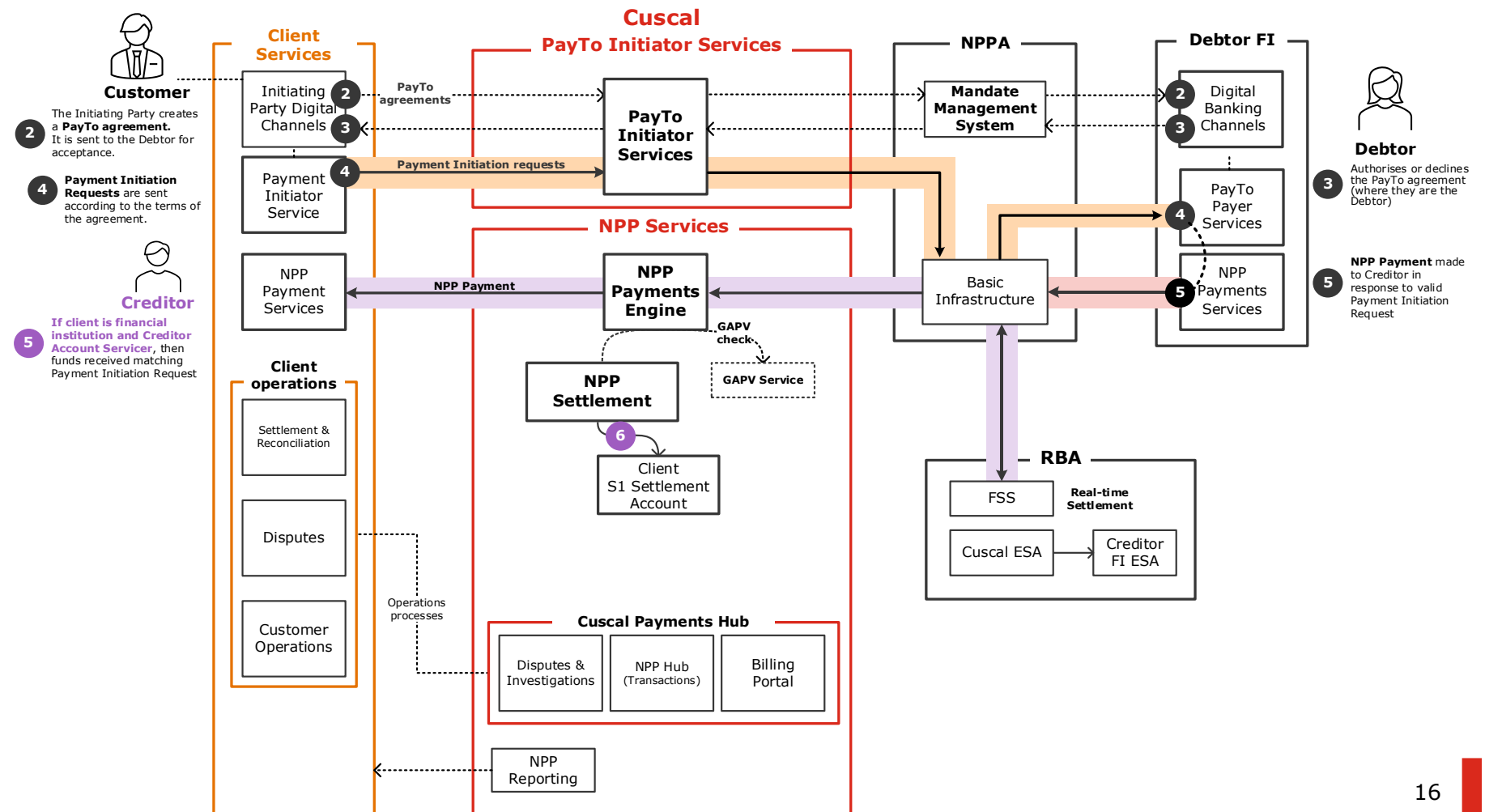
As a Participant, Cuscal has access to all flows and options for NPP messaging and services, and we expose all of these services to our Identified Institutions.

- ❑ The new message flows introduced to the NPP Basic Infrastructure for Payment Initiation enable Participants, Identified Institutions and Connected Institutions to submit instructions to move funds between debtor and creditor accounts even when the initiator is not a party to the payment.
 - The payment that results from a Payment Initiation must be cleared and settled between accounts of a Participant or Identified Institution.
- ❑ Participants and Identified Institutions (i.e. Cuscal clients) have the option to populate the creditor account details either with an account that they manage or one at another Participant or Identified Institution.
 - Cuscal calls the service where the Identified Institution receives settlement to one their own accounts a Receiver Service.
 - We refer to the service where the Identified Institution does not process payment value and only receives confirmation of the payment outcome an Instructor Service (this is the equivalent to the flow used by a Connected Institution).
- ❑ The Receiver Service has the advantage of using the same Participant and Identified Institution for both the Payment Initiation Request and the Payment Clearing and Settlement – this means that NPPA and Participant costs are not duplicated and can deliver a more cost effective service.
 - Our client pays a single Payment Initiation Request fee (the resulting Payment is not charged), plus NPPA cost recovery and Settlement fee.
- ❑ As there are some specific use cases where an Instructor service will be advantageous and it may make sense to unbundle the Payment Initiation Request from the resulting Payment Clearing and Settlement we also support this model.
 - Our client only pays for the Initiation Request and our NPPA cost recovery levy.

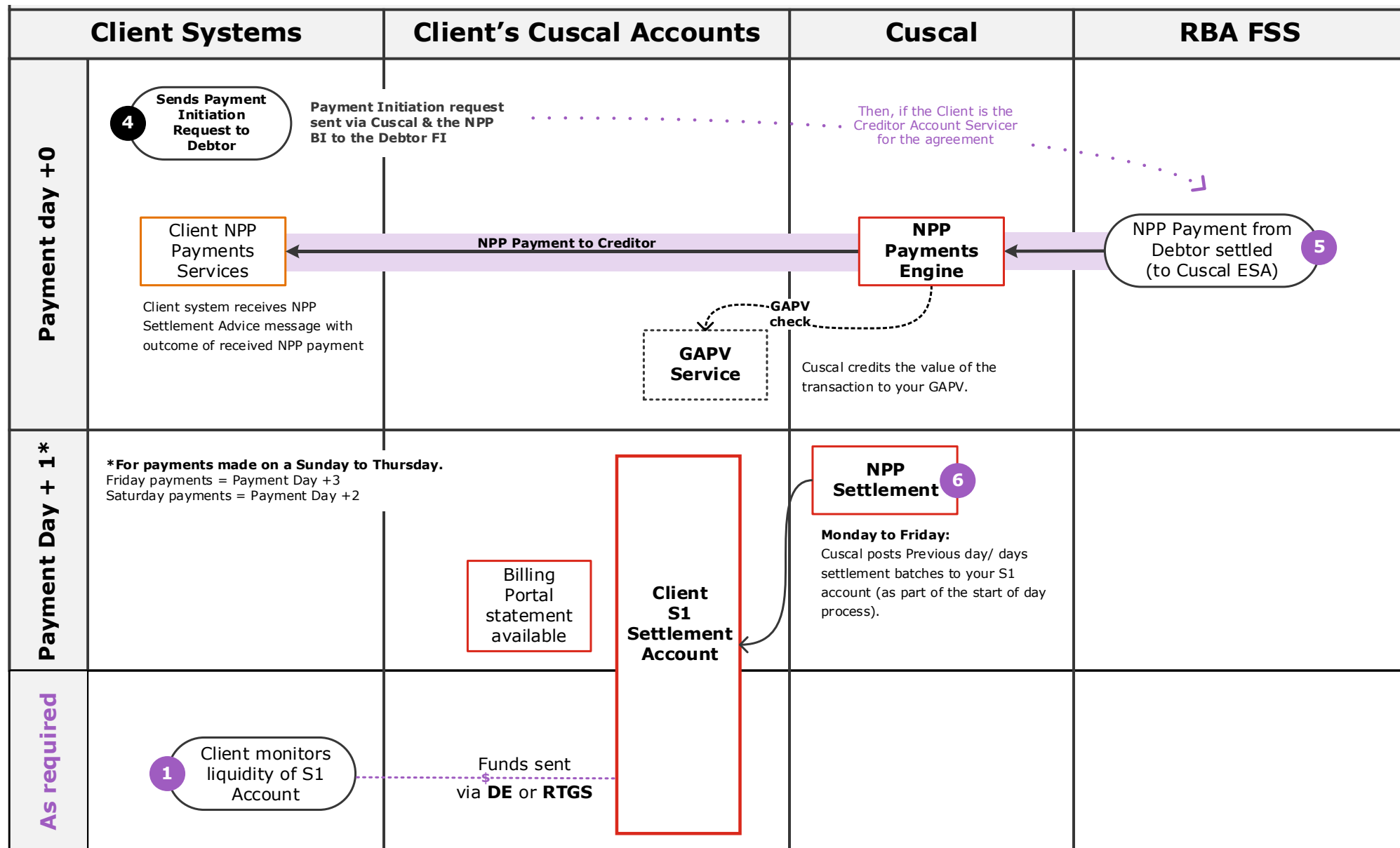
Cuscal PayTo – Receiving Initiator – functional overview

PayTo introduces a new way for payments to be initiated with new instruction messages and use of mandates to manage authorisation, but the payment messaging remains the same

- ❑ When the Payment Initiator receives the settlement of the payment to their S1 we refer to them as Receivers
- ❑ Receiver could be a bank that is using PayTo for the opening deposit of a new account
- ❑ Receiver could be a PSP that is managing PayTo services on behalf of their customers as an alternative to direct debit or a card based payment
- ❑ Receiver could be a corporate customer replacing their direct debit processing
- ❑ The benefit is that payments are the result of a push credit rather than the pull debit of card or direct debit payments
- ❑ The payment will not proceed if the customer does not have available funds or they have cancelled or suspended the PayTo agreement



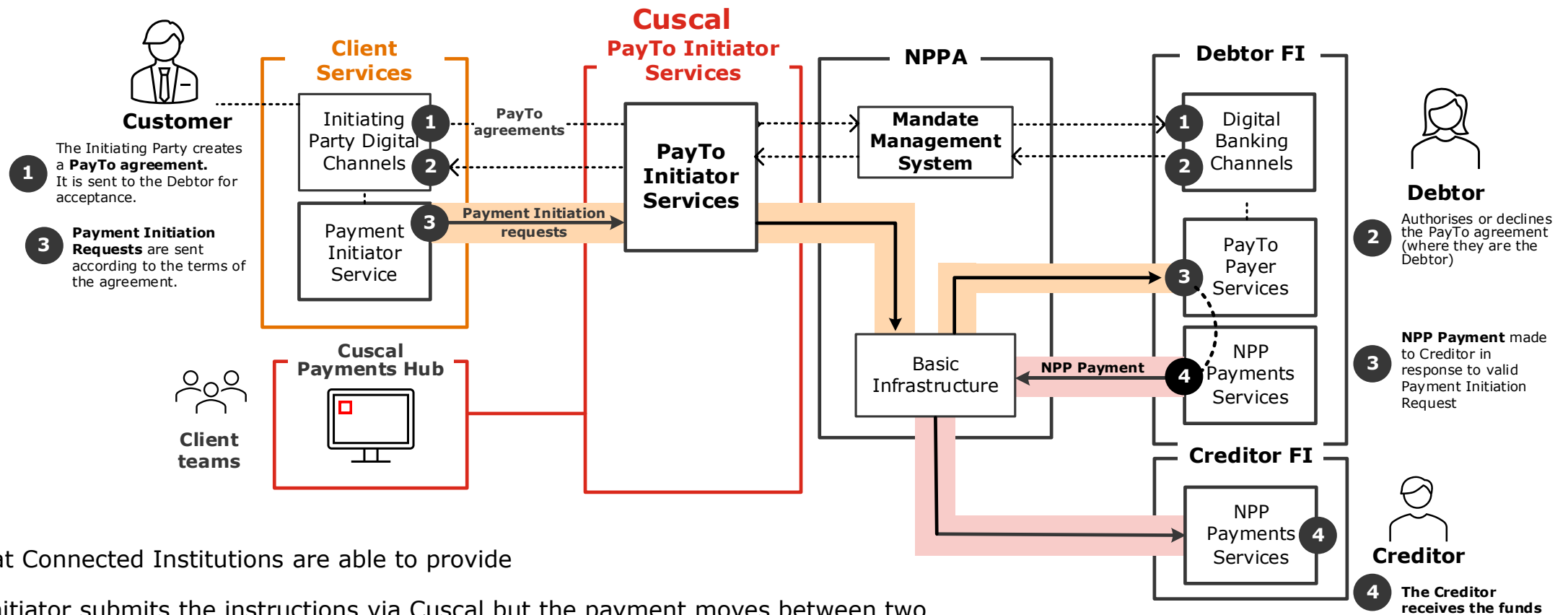
Cuscal PayTo – Receiving Initiator – funds flow



Once the payment initiation message is received by the bank, an NPP payment using all existing messaging and processes follows

Cuscal PayTo – Instructing Initiator – functional overview

PayTo also supports a method of payment initiation where the instructor is not a party to the financial transaction and funds are transferred directly between two customer accounts



- ❑ This is the service that Connected Institutions are able to provide
- ❑ When the Payment Initiator submits the instructions via Cuscal but the payment moves between two other bank accounts we refer to them as an Instructor
- ❑ Instructor could be a payroll or accounting system initiating payments on behalf of users from their accounts
- ❑ This model is similar to the way payment gateways work in card processing where the messaging is for orchestration only

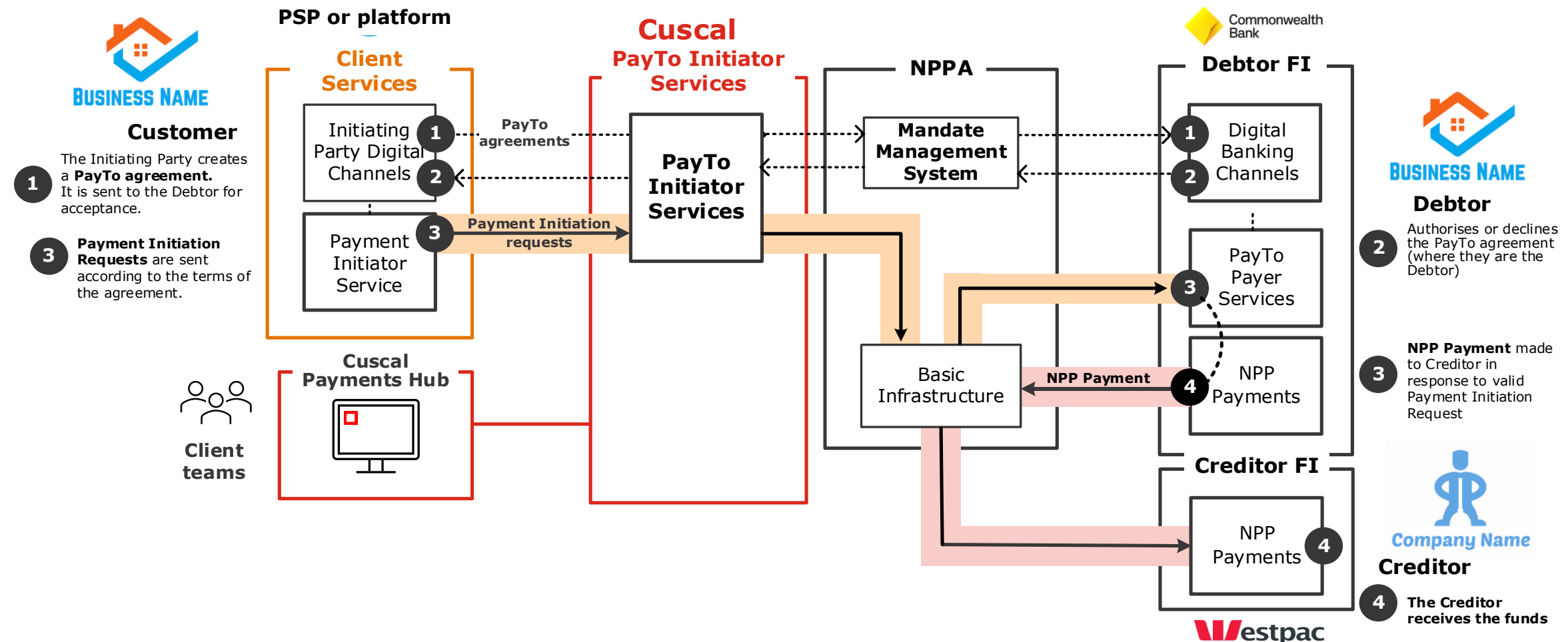


Use cases



Use case: invoice payments – account to account

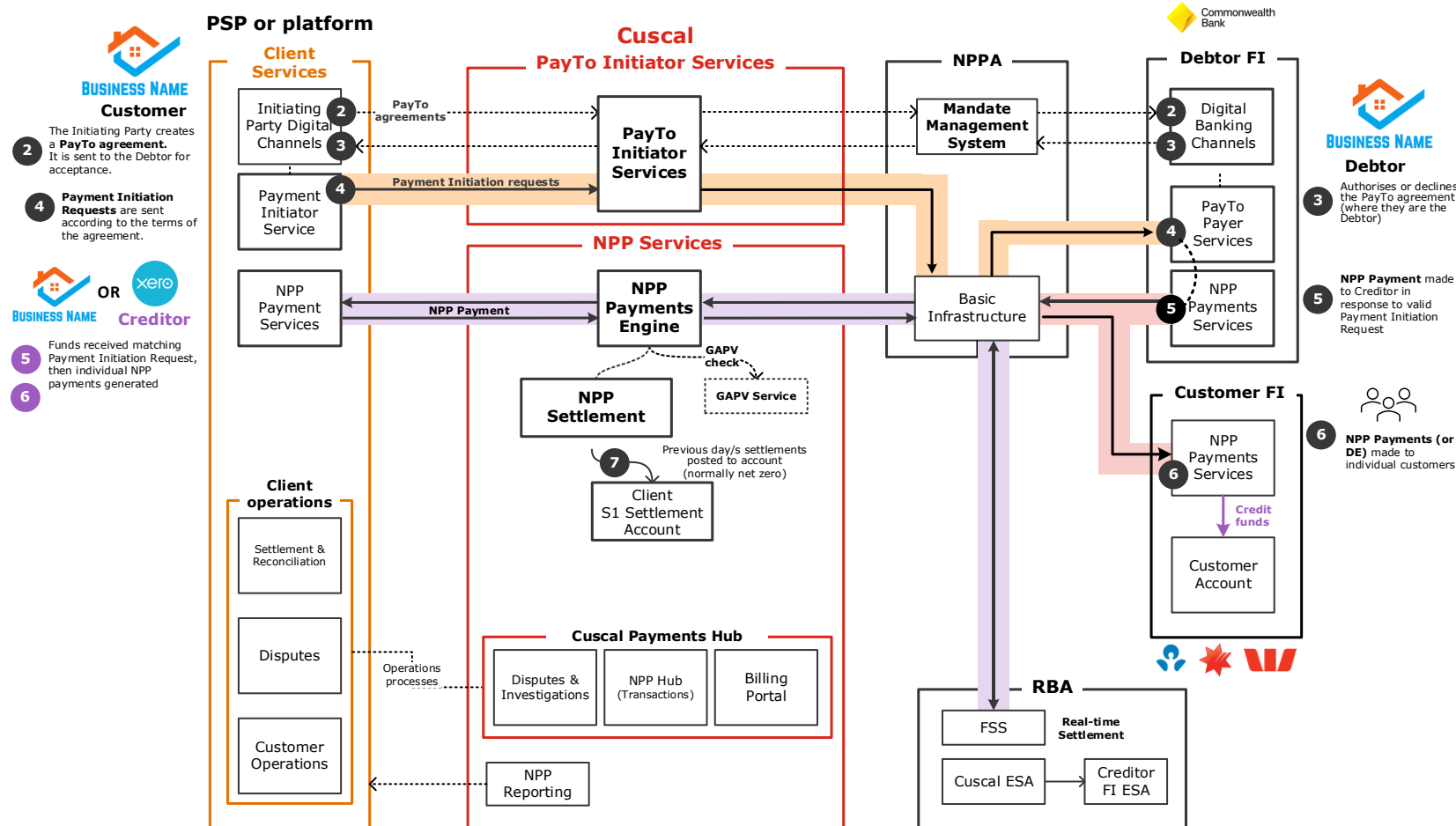
Under this use case, the client is either an accounting system where payments are initiated, or the payment service provider that is servicing the accounting system. The customer sets up an authority to have funds transferred from their account to pay directly to the creditor (no Cuscal settlement).



Use case: one to many payments (e.g. payroll)

PayTo can be used to create a single debit to a bank account which would then be used to fund the disbursement of multiple payments such as payroll. Our client could be the platform or a PSP that supports multiple platforms. Automates existing flows where the customer makes a payment first.

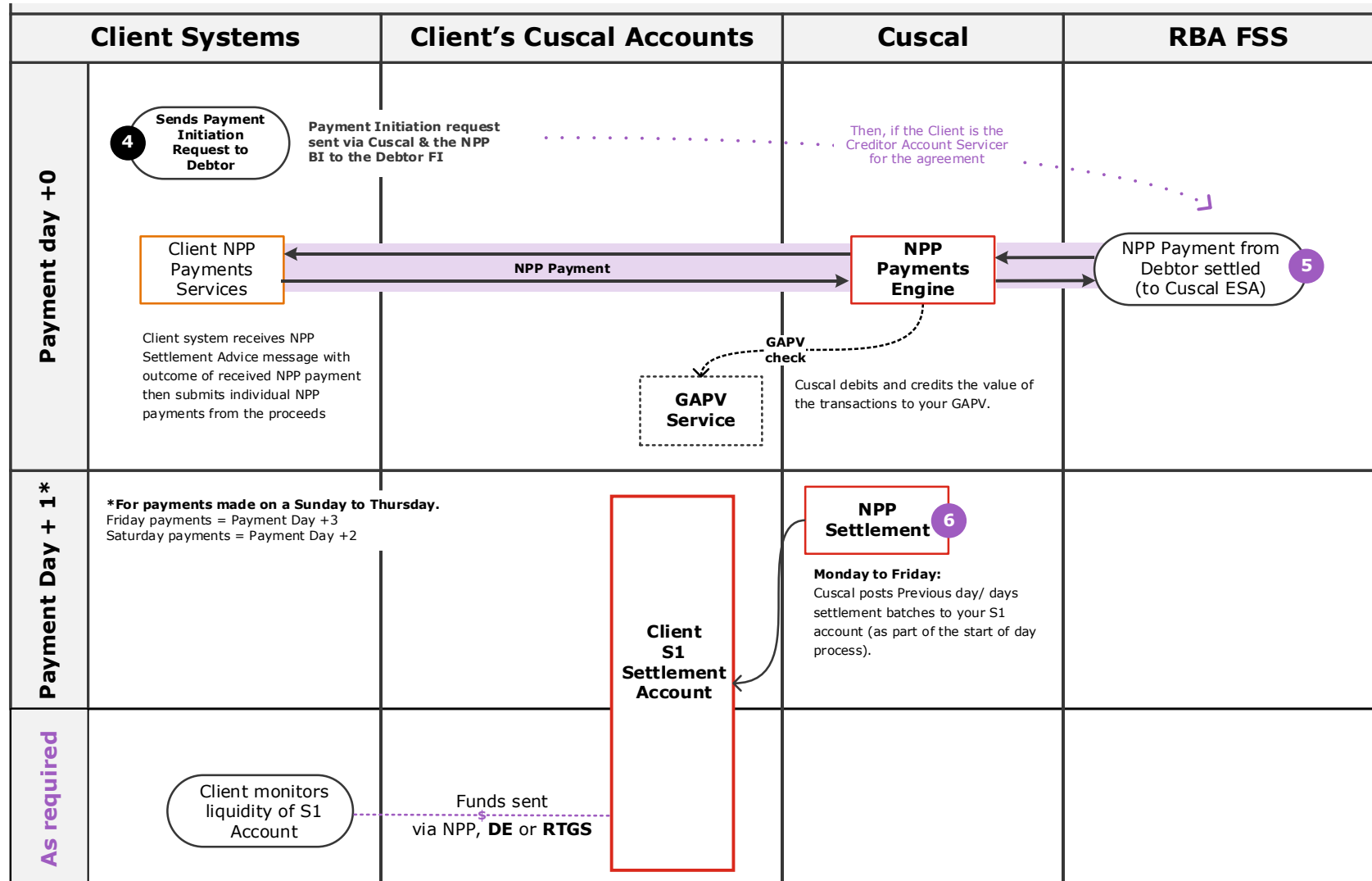
- ❑ User of the payroll platform establishes agreement to make payments from their bank account
- ❑ Credit received by Cuscal when PayTo Payment Initiation Requests are submitted by the payroll platform (cleared funds as made using NPP)
- ❑ Funds available for processing using GAPV once confirmation of credit is provided by Cuscal, the payroll platform processes salary payments



- ❑ Customer's bank presents the initial authorisation for the PayTo agreement
- ❑ End-customers will receive funds in their accounts once the payroll system processes the payments

One-to-many payments – funds flow

As the funding and outward payment transactions are processed in quick succession, the client's NPP settlements should net to zero.





Thank you

Cuscal

