

APCA's activities and achievements

APCA uniquely combines a broad constituency across the Australian payments industry, a proven framework for industry collaboration and a commitment to improving the Australian payments system.

APCA'S "BUSINESS AS USUAL" IS THE ADMINISTRATION OF FIVE PAYMENTS CLEARING SYSTEMS THAT TOGETHER SUPPORT AROUND 98% OF PAYMENTS VALUE IN AUSTRALIA.

As well as managing the continuous evolution of these five systems, the changing dynamics of APCA's role has seen much greater activity this year in larger industry priorities: both in issues of public policy and in long-term industry direction issues. To support all these activities, we have sought to build on our engagement of the broad community of those interested in payments matters beyond APCA's membership. The following pages cover the main developments.

Clearing systems developments

APCA's clearing systems provide an integrated body of rules and decision-making structures for the efficient clearing and settling of payments between APCA members.

These rules are a combination of membership requirements, processing regulations and procedures and minimum standards for processing and technology.

Each clearing system is designed and administered to meet two broad industry objectives: efficiency, so that large volumes of payments can be handled across multiple parties cheaply and with minimum risk; and security, so as to protect processes, data and value from unauthorised interference. Each system also needs to provide the platform for adaptation and innovation by the competitors in the product markets served by the system.

The five clearing systems APCA currently administers, and the payment flows they support, are described under Australian Payments.

APCA's clearing systems are continuously evolving in response to market developments. We summarise the main operational developments below.

- \ To further strengthen data security within APCS and BECS, all bilateral links within these systems were upgraded to tripleDES line encryption by June 2008.
- \ Amendments were drafted to the BECS Procedures to ensure financial institutions adhere to the time frames set out in the account switching facilitation package for assisting consumers to re-establish their direct debit and credit arrangements.
- \ Woolworths Limited became the fourth non-financial institution member of CECS in November 2007, bringing a further retailer perspective to the decision-making processes for the EFTPOS system.

\ Business rules and technical requirements have been established for four types of "credit EFTPOS" deposit transactions, so that one-off payments can be made to proprietary debit card accounts through EFTPOS terminals. Implementation is scheduled for 2009. The four types of transactions are "Medicare Rebate", "General Purpose", "Gaming" and "Government".

\ Work has commenced on creating a new database to provide a central repository for accessing and managing information on domestic card identifiers, including routing and settlement instructions. In addition to improving processing efficiencies, a central repository will ensure CECS members have access to consistent and accurate data.

\ As part of the global migration to SWIFTNet FIN Phase 2, HVCS members have been upgrading to SWIFT's new security infrastructure. Migration is scheduled for completion in October 2008, when SWIFT's service for managing business relationships between financial institutions (RMA) has been adopted by all HVCS members.

\ New coin handling procedures were introduced during the year to ensure best practice for Australia's coin handling processes. Under the new standard, which came into effect across Australia in July 2008, no coin bag is to exceed 7kg in weight.

\ ACDES members' branches order and receive cash from each other. To ensure the quality of notes in circulation, new guidelines have been developed to assist branch staff in dealing with any damaged or unfit notes received in cash order deliveries.

Industry Priorities

Public policy and regulatory debates were a major feature of changing payments industry dynamics during the year. APCA was a committed participant in many debates, and the leader of some significant and long-term industry policy discussions.

The Reserve Bank (RBA) review of payment systems reforms

The RBA sought submissions on the review of its 2006 reforms and invited key stakeholders to a payments conference in November 2007 to engage with the industry. The RBA released its preliminary conclusions paper in April 2008, reflecting the submissions it had received and providing guidance on its views for the future regulation of Australia's card payment systems. The RBA is expected to hand down its final conclusions at the end of September 2008.

APCA lodged submissions both to the initial phase of the review and in response to the preliminary conclusions. CEO, Chris Hamilton, was also invited to speak at the RBA's payments conference. APCA's submissions argued for the withdrawal by government from direct regulation of the payment systems, in particular interchange fee regulation, arguing that the promotion of competitive efficiency would achieve better long-term policy outcomes. Many other industry participants voiced similar views.

The RBA's preliminary conclusions paper represents a major development, because the RBA expresses a preference for market-driven solutions and a willingness to step back from direct regulation on certain conditions.

The benefits and challenges of industry self-governance

APCA worked with fellow ICPACE members in publishing "*Principles of Payments System Self-Governance*" in November 2007. These five key Principles provide guidance on improving payment system governance arrangements through a co-regulatory partnership between industry participants and government regulators.

While the Principles are designed for use in many different payment systems, they proved particularly useful for facilitating industry debate on the design of the Australian governance structure in conjunction with the RBA's review of its payment system reforms. APCA issued a white paper titled "*Reinventing Co-regulation*" to the industry on options for governance of the Australian payments system in February 2008.

Implementing ATM reforms

Following a request from the industry and the RBA in late August 2007, APCA has been implementing major reforms to the access and charging arrangements for the ATM system. The reforms are designed to increase competition and innovation in ATM services by ensuring fair access to ATM networks and clear price signals to ATM users. The reforms will become effective in March 2009. To ensure readiness, industry participants have been undertaking development work to accommodate the changes.

Direct charging

Under the new ATM charging arrangements, the current system of ATM interchange fees will be replaced with direct charging by the owner of the ATM. New rules have been developed by APCA to ensure that the amount of the direct charge fee is disclosed to the cardholder and clearly visible on the ATM screen. The fee must also be shown at such a time that allows the cardholder to cancel the transaction, so as not to incur the charge. APCA is coordinating an industry-wide education program to inform cardholders of the impending changes.

Joining the global migration to chip

The Chip Payments Programme for Australia was established in January 2008 with 21 "stakeholders" comprising financial institutions, major retailers and international card schemes. The Programme provides industry wide coordination and infrastructure for Australia's migration from magnetic stripe to chip cards.

An early consensus emerged that a critical mass of issuers and acquirers in Australia will move to chip processing in order to support global interoperability, and that scheme and participant effort on this could be facilitated through some targeted industry coordination.

Through the collaborative efforts of stakeholders, work already delivered by the Programme includes industry guidelines on cardholder authentication and verification methods, chip fallback processing, and off-line declines; a new database to facilitate production environment validation; and a central repository for managing interoperability issues. As Australia's migration to chip gathers pace in the coming year, the Programme's priority is to focus on minimising risk of problems, failures and losses in the transition to chip, and ensuring the best possible customer experience for cardholders.

Helping customers make the switch

The industry had been working on implementing the account switching facilitation package agreed with Treasury in February 2008.

The package, which is aimed at improving competition, will make it easier for consumers to re-establish recurring payments, including direct debit and credit arrangements, when they switch their transaction account to another financial institution. From November 2008, when the package comes into effect, the old financial institution must provide the customer with a list of the direct debit and credit activity on the account over the past 13 months, and the new financial institution must be prepared to assist the customer in re-establishing these arrangements on the new account. Education materials for consumers, including generic guidelines on how to make switching easier, will be available on APCA's website and from financial institutions, prior to the commencement date.

APCA's activities and achievements (continued)

Industry Priorities (continued)

Promoting the EFTPOS system

Australia's EFTPOS system is one of the most extensive, widely used systems of its kind in any developed country; however, no single entity has a mandate for its promotion and business development. Since EFTPOS was established in Australia, the major card schemes, particularly Visa and MasterCard, have experienced rapid growth and have demutualised and adopted a commercial governance structure.

In order to equip EFTPOS to compete in this changed card payments landscape, APCA has been working on options for a better business development framework to promote and develop the EFTPOS system. The objective is to ensure an efficient, competitive payments card system over the long term. APCA expects to establish an "EFTPOS Scheme" to operate the EFTPOS system by the end of 2008.

The challenging evolution of low value payments

In May 2008, APCA published an industry discussion paper inviting debate on the basic infrastructure that supports Australian commerce: "*Low Value Payments: Challenges of Evolution*". There are around 9 million individual payments flowing through three main systems: cheques/paper instruments, direct entry (supporting electronic direct credits and debits) and BPAY. Growth is healthy, apart from cheques that continue their steady decline in volumes. Australia's infrastructure is robust, adaptable and cost-efficient, but there are emerging challenges of technological change in underlying networks, increasing systemic risks and new customer demands.

A well-attended seminar debated the issues in June 2008, with a resulting industry direction roadmap planned for the coming year.

Consultation and communication

APCA has for many years had a focus on effective consultation beyond its own membership community, principally through the advisory councils attached to its three retail payments systems. As APCA's policy formulation role expands in response to the dynamic payments policy environment, APCA has undertaken an expanded consultation and communication programme to ensure that it stays close to the needs and interests of the broadening community of payments stakeholders.

Liaison with regulators

Under the liaison arrangements agreed in 2007, APCA and the Reserve Bank (RBA) consult on a regular basis on issues of industry policy. APCA is also providing quarterly progress reports to the RBA on implementing the account switching facilitation package and ATM reforms. The reports are publicly available at www.apca.com.au and www.rba.gov.au.

In addition to the RBA, APCA liaises with the Australian Consumer and Competition Commission, Australian Securities and Investments Commission and the Australian Prudential Regulation Authority to communicate industry positions and views on payment systems developments as required. Work on the account switching facilitation package, in particular, saw a closer engagement with the Commonwealth Treasurer's Office and Treasury officials.

ICPACE

The annual meeting of the International Council of Payment Association Chief Executives (ICPACE) was held in Ireland in August 2007. The two and half day event was attended by payment association representatives from Australia, Canada, Ireland, South Africa and the United Kingdom. ICPACE provides an effective forum for members to exchange information and keep abreast of payment system developments from an international perspective.

Low value payments

APCA's industry consultation paper on the future of Australia's low value payment (LVP) systems sought broad industry views on the future evolution of cheques and direct credit and direct debit so as to ensure they continue to meet consumers' needs over the next decade. As part of the consultation process, APCA held an industry seminar in June 2008 attracting more than 150 industry participants.

Account switching

APCA released a public consultation paper on *Aspects of Account Switching* in mid-September 2007 seeking views on whether direct debit and credit arrangements deter consumers from switching accounts between financial institutions. Of the 11 submissions received, each indicated some degree of interest in making it easier for consumers to switch accounts. The outcome of a feasibility study to assess a number of possible options was used to inform the development of the account switching facilitation package agreed between the industry and Treasury in February 2008.

Preventing fraud

APCA and the Australian Bankers' Association (ABA) jointly hosted an industry workshop in February 2008 to identify the most important industry-wide initiatives for countering fraud in Australia. The workshop was attended by 40 decision makers from banks, building societies, credit unions, major retailers and card schemes. Key themes emerging from the day included the need for greater consumer awareness campaigns to combat the growing threat of identity fraud, new standards and guidelines for authenticating internet users, and co-ordinated approaches to combat the growing area of card-not-present fraud. The best way to progress the proposed measures will be considered in the coming year.

Corporate activities

APCA collects and makes public industry-wide data on payments fraud as part of the industry's commitment to improve disclosure and help protect consumers and businesses in Australia. The data, which is for cheque, debit card, credit card and charge card fraud across all financial institutions, is released in November and May each year. Since it was first released in November 2006, APCA's payment fraud data has generated increasing media attention and general interest in combating payments fraud. The entire fraud data collection is available at www.apca.com.au.

Submissions

On 12 June 2008, the Australian Competition and Consumer Commission (ACCC) issued a draft notice proposing to revoke eBay's notification that would have mandated near exclusive use of PayPal on the eBay website. Along with other industry bodies and stakeholders, APCA made a submission to the ACCC as part of the regulator's consultative process. In its draft determination, the ACCC made a number of references to APCA's submission.

Advisory councils

Advisory councils were established in APCS, BECS and CECS in 1999 to broaden consultation by taking into account the views of organisations with a significant role in these payment clearing systems. APCA's decision-making has been enhanced through the different perspectives and expertise the advisory councils bring from outside APCA's membership. Decision-making is better informed, more attuned to the interests of all clearing system stakeholders and more attuned to the changing payments system environment.

Industry conferences and other activities

During the year, APCA's senior management presented at more than 20 conferences and other forums, both nationally and internationally, to share information on Australia's payment systems. APCA also welcomed delegations from international central banks and payment associations including Indonesia, Thailand and New Zealand.

Publications

In addition to consultation papers, APCA keeps the community informed of payments industry developments through its annual reviews, the quarterly publication *Payments Monitor* and the website. For the second year, the Annual Review has been produced in an interactive, on-line format to make it easily accessible to the broader community.

Representing the industry

APCA participates on a number of working groups and committees developing technical and security standards for financial transactions including:

- \ Standards Australia Committee IT/5, developing standards for financial transactions systems.
- \ Standards Australia Committee IT/5/3, developing standards for message formats.
- \ Standards Australia working Group IT/5/4, developing standards for authentication and security.
- \ ISO/TC68/SC2/Working Group 11, developing international standards for banking and related financial services in particular triple data encryption algorithms.
- \ ISO/TC68/SC2/Working Group 13, developing standards for security in retail banking.
- \ SWIFT Australia: National Member Group; User Group; and National Member Group Standards Subcommittee.

Apart from the work we do to support the industry, APCA needs to ensure its own systems and teams are in good shape to carry out their functions.

Business continuity planning (BCP)

With the assistance of specialist BCP consultants, we have developed a sustainable business framework to ensure APCA's business is able to resume operation quickly after a disruptive event. The framework includes clear business continuity roles and responsibilities and detailed action plans for responding to a range of disaster scenarios. To maintain effectiveness, regular testing of plans and review of documentation will be incorporated into APCA's risk assessment process.

Integration of financial systems

Following a review of the finance function and related systems, a new accounting solution designed to automate and streamline financial processes was implemented during the year. The new system, which has integrated the accounting, reporting and payroll systems, meets all APCA's requirements and provides enhanced business processing capabilities.

Contacts database

The 2007 review of internal operational processes highlighted the need to redevelop APCA's contacts database. Accurate records of contacts are crucial for the delivery of services to members and for retrieval of confidential information by APCA's various committees and working groups. A business re-engineering project has been established to standardise and automate the contacts database and its underlying permissions system. The aim is to reduce maintenance cost and risk while introducing a modern, flexible and robust technical platform for the future benefit of members and staff.