

Australian payments

APCA delivers system improvements through industry policy development and advocacy, industry self-regulation and standards and industry change management.

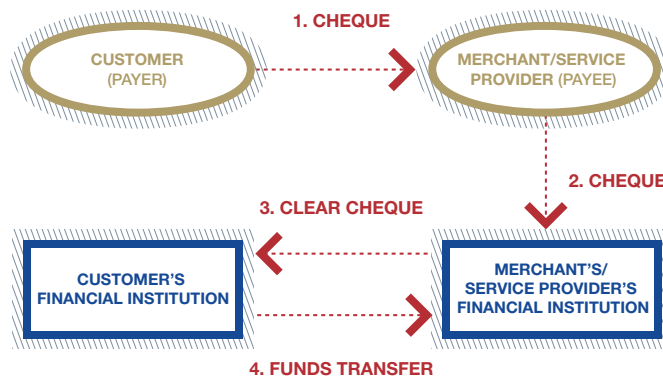
PAYMENTS SYSTEMS ARE TAKEN FOR GRANTED – THEY ARE FINANCIAL PLUMBING FOR OUR ECONOMY. IN THIS SECTION, WE PROVIDE SIMPLE, CLEAR EXPLANATIONS OF AUSTRALIA’S MAIN PAYMENTS SYSTEMS, AS A BASIS BOTH FOR REVIEWING THEIR PERFORMANCE IN THE LAST 12 MONTHS AND HIGHLIGHTING DEVELOPMENTS

Cheques

A cheque is a written instruction to a financial institution to pay a stated amount from a named account to a named recipient. Cheques are the oldest form of non-cash payment and are typically used to make payments by mail, however, they have become much less common in recent years as faster and more convenient systems have taken over. Cheques do not require the payee to have any special facilities or technology to accept them, and they are still used where immediate value is not required and where other payment systems are not available.

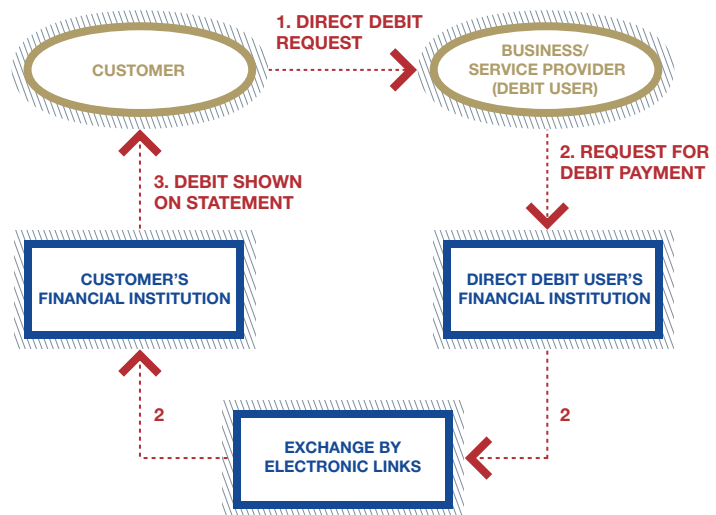
There are around 1.5 million cheques written every business day. Most payees deposit the cheques they receive with their own financial institutions. Usually, an electronic payment record containing details from the cheque is created and sent to the payer’s financial institution. The payer’s account is then debited and the funds credited to the payee’s account.

Procedures managing the flow and reconciliation of cheques are covered by the Australian Paper Clearing System (APCS). APCA also sets standards, such as paper standards for cheques and other MICR encoded payment instruments and laser printing equipment standards, to ensure the quality of cheque printing and to help combat cheque fraud.



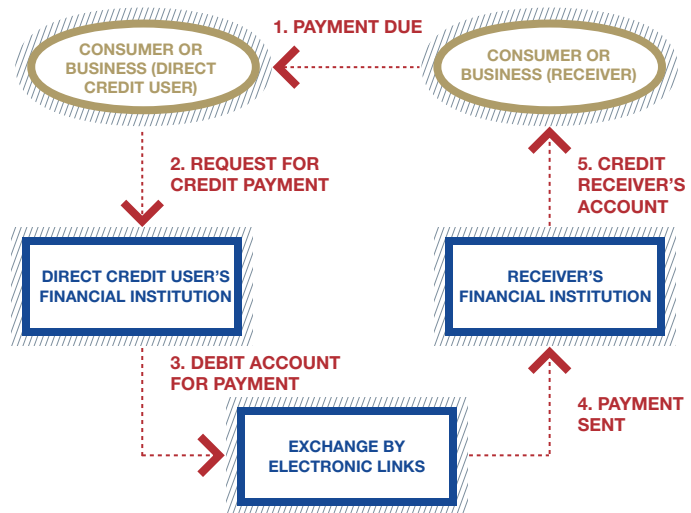
Direct debits

Businesses use direct debits to collect funds from their customers' accounts for the value of, for example, insurance premiums, utility bills and repayment of debt. The customer will give a Direct Debit Request (DDR) authority for a business (known as the Debit User) to draw funds out of the customer's account with a financial institution. The DDR will typically cover regular, recurring payments. Once the DDR is established, the Debit User initiates payment under the authority through its own financial institution. Currently, there are more than 16,000 Debit Users in Australia.



Direct credits

Direct credits are widely used by businesses and consumers alike as a convenient way to make a payment to anyone who has a financial institution account. Employers commonly pay their employees by direct credit and government departments use it for regular payments such as Centrelink allowances. Other common examples are dividend and interest payments. In recent years, direct credit is also being used to provide widespread access to internet-based (sometimes called "Pay Anyone") and phone-based banking services. Businesses initiating direct credits (either for themselves or on behalf of customers) are known as Credit Users. There are more than 223,000 Credit Users in Australia. To receive direct credit payments, account holders simply need to give their account details to the Credit User.



Direct credits and direct debits are covered by APCA's direct entry system, the Bulk Electronic Clearing System (BECS). Direct entry is a convenient, safe and reliable way to make and receive payments. The strength of the system is its cost-effectiveness and the convenience it provides businesses and consumers.

Australian payments (continued)

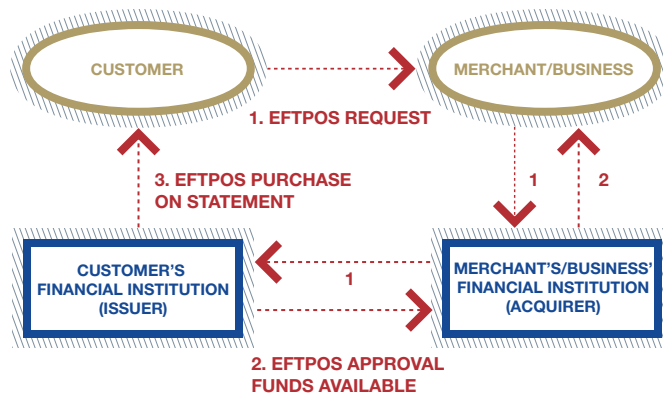
Card payments

Apart from cash for small purchases, by far the most common retail payment method is a debit or credit card. Australian financial institutions issue proprietary PIN-based (or ATM) debit cards, and Visa or MasterCard scheme cards. Scheme cards can be either credit (payment is made out of a credit account with the financial institution) or debit (payment is made out of a transaction account). Often, these scheme cards have PIN-based debit functionality on the same card. There are also charge cards such as American Express and Diners Club. Cards are used for in-store purchases (where the store has an EFTPOS terminal), to withdraw cash from an ATM, or for purchases over the phone or on the internet. There are more than 43 million plastic (debit and credit) payment cards on issue or about 2.5 cards for every Australian over 18 years of age.

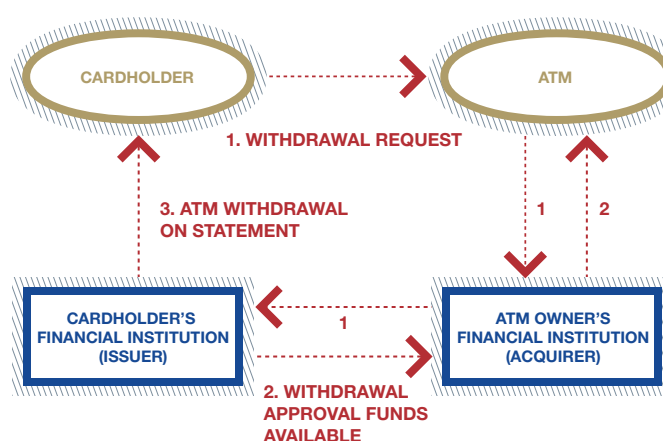
Transactions made on debit cards are customer withdrawals from accounts and as such, funds are taken out of the account immediately. Credit card transactions are credit advances and are repaid at the cardholder's convenience according to the agreed terms.

The Consumer Electronic Clearing System (CECS) governs the exchange of proprietary debit ATM and EFTPOS transactions. It provides policies and procedures to maintain the efficiency and integrity of the ATM and EFTPOS systems. This ensures security and reliability at more than 25,000 ATMs and 650,000 EFTPOS terminals used by millions of Australians every day.

EFTPOS



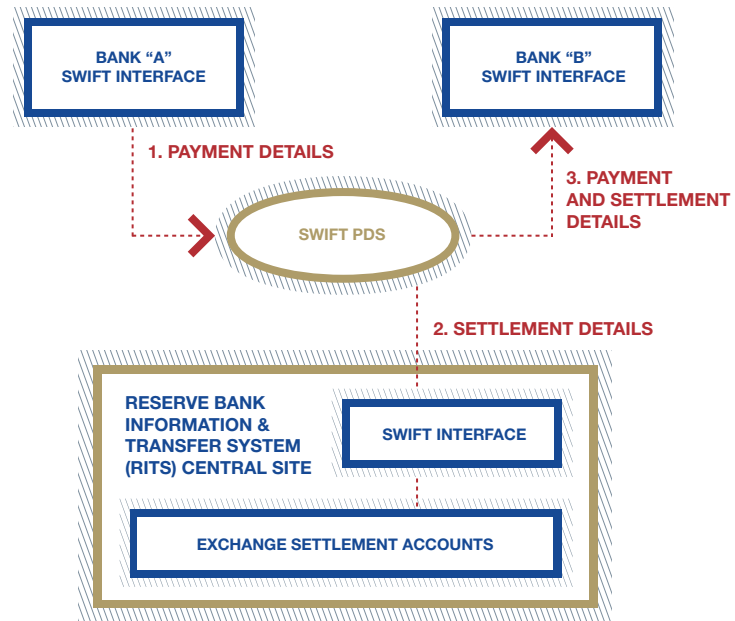
ATM



High value

Around \$100 billion, or 90% by value, of Australian payments are “high value” payments. These are generally made between financial institutions either for themselves or on behalf of corporate customers. High value payments are immediate and irrevocable. Payment details are sent and verified through the Payment Delivery System (PDS) provided by SWIFT and each payment is settled individually using the Reserve Bank Information and Transfer System (RITS). Each financial institution holds an exchange settlement account within RITS and payment is settled across these accounts on a real-time basis. As the funds are settled at the same time as the payment detail is transferred, the arrangements promote a more secure payments system and reduce settlement risk. With each payment averaging around \$4.7 million, this is critical.

High value payment arrangements are governed by APCA’s High Value Clearing System (HVCS) Rules and Procedures.



Cash

Cash is used in about 70% of everyday household transactions. However, due to their small value, cash transactions only comprise 38% of all payment transactions made by householders. Cash payments are commonly less than \$50 and cash is almost exclusively used in transactions of less than \$10.

APCA’s Australian Cash Distribution and Exchange System (ACDES) governs the trading and distribution of bulk cash between its six bank members. Financial institutions have long had responsibility for supplying cash to the community. While some financial institutions obtain their cash requirements “commercially”, usually from armoured carrier companies, ACDES members own and manage their own cash reserves and make them available to everyone else. Together and working closely with the Reserve Bank and the Royal Australian Mint, they predominantly supply Australians with the notes and coins they need to carry out daily economic activity.

