



PAYMENTS MONITOR

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PAYMENTS MONITOR is published by APCA each quarter. Its purpose is to keep members and interested parties abreast of developments in payments clearing.

ELECTRONIC MEANS FOR
MAKING PAYMENTS WILL
GRADUALLY DISPLACE
MORE TRADITIONAL MEANS
SUCH AS CHEQUES.

DIRECTIONS IN PAYMENTS SYSTEMS: INFLUENCE OF TECHNOLOGY AND PUBLIC POLICY – an extract from a recent speech by APCA's CEO Peter Smith at the 8th Melbourne Money and Finance Conference on 20 February 1998.

The job of payment systems is to capture payment messages and transmit them speedily and with a high degree of integrity and security. Technology and public policy are the main drivers behind the direction that payment systems are now taking.

TECHNOLOGY

Technology is now becoming an integral part of payment systems. This has potential implications for the payments franchise of deposit-taking institutions (banks, building societies and credit unions) as it does for the evolving character of payment systems.

As a consequence of developments in technology, telecommunications networks now possess the ability to carry very large amounts of information and, with parallel developments in computing, to provide interactive services. Important too, is the explosive growth in the use of the Internet.

Retail Payments

Retail payment arrangements have been taking new directions for some time. Electronic forms of making payments, via EFTPOS and credit cards, are continuing to grow strongly while cheque transactions have remained broadly static in recent years.

Importantly, what we are now seeing is an increase in remote bill paying via the telephone and computer terminals. It would appear that these kinds of remote bill paying services,

particularly delivered via the Internet, will largely shape the future growth of payments systems in the retail area.

The Internet empowers consumers; it provides them with easy access to a wide choice of goods and services and has a wide and rapidly increasing reach and coverage.

Commercial Payments

Commercial payment arrangements are not changing to nearly the same degree as retail payments. Cheques and direct entry are still the predominant means of making payments.

High value payments traffic is expected to shift progressively to the new RTGS system. Financial EDI remains relatively underdeveloped but offers the prospect of integrating commercial payments of medium to large organisations into the development of electronic commerce.

It is certainly possible that small business will in the future increasingly use Internet payment options instead of cheques. But it's too early to say how quickly this will happen or to what extent.

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PAYMENT SERVICES
HAVE BEEN CAUGHT UP
IN THE WORLD-WIDE
DRIVE FOR EFFICIENCY
AND COMPETITIVENESS.

Payments Chain

The increasing use of communication networks and computers has drawn an increased range of organisations into the payments business.

A payments transaction can be described in terms of a chain of interconnected functions. Functions such as capturing, transmitting, processing and switching payments provides scope for organisations other than deposit takers – telecommunication companies, software companies and a range of other service providers – to find commercial advantage in undertaking particular payment functions.

Account keeping and settlement is likely to remain the preserve of deposit-taking institutions.

Deposit-taking institutions occupy a central position in the payments system in Australia and elsewhere. They have the unique advantage of providing a means of payment of 'undoubted value' (e.g. a bank deposit) and of being in position to provide credit and liquidity to their customers when these are required.

Their place and role in the financial system will therefore, to a significant degree, protect deposit takers' payments franchise. At the same time it is clear that they will no longer be able to keep the whole payments business to themselves. Technology and competitive forces have seen to that. Public policy will also reinforce the trend towards a more open competitive environment in the payments system.

PUBLIC POLICY

The provision of payment services has been caught up in the world-wide drive for efficiency and competitiveness as market barriers of all kinds have dwindled.

Public policy here and elsewhere has been directed towards increasing the contestability and efficiency of financial markets, including payment arrangements.

A succession of Inquiry's, beginning with Campbell at the end of the 1970's and ending recently with Wallis, gave expression to successive Australian governments' interest in the competitiveness and efficiency of financial markets.

The centrepiece of the Wallis Inquiry's recommendations as regards payment arrangements is the establishment of a Payments System Board (PSB) within the Reserve Bank. If the Wallis prescription is followed, the PSB will have quite wide and extensive powers in respect of access and performance standards.

It is likely however that the PSB will keep its regulatory powers in reserve and rely, in the first instance, upon a moral suasion as the Reserve Bank has largely done in other areas where it has jurisdiction and responsibilities.

Significant onus will fall on individual institutions which occupy central positions in the payments system - deposit takers in particular – and on industry self-regulation through bodies such as APCA, in order to meet community expectations.

NOTE: *A full transcript of the speech can be found on APCA's home page: www.apca.com.au*

THE VOLUME OF PAYMENTS MIGRATING TO THE SWIFT PDS HAS GROWN AS MORE FINANCIAL INSTITUTIONS HAVE JOINED THE PDS.

HVCS UPDATE

At end March 1998, 45 of the 51 organisations expected to become High Value Clearing System (HVCS) Participating Members had joined the HVCS. Of these, 39 had commenced transacting over the SWIFT PDS. A further two financial institutions have passed SWIFT PDS system certification and will commence transacting over the PDS early in April. Those financial institutions which have not yet joined the HVCS and/or are not yet transacting over the PDS are predominantly either recently licensed banks or current license applicants.

MIGRATION OF PAYMENTS TRAFFIC TO THE SWIFT PDS

The volume of payments migrating to the SWIFT PDS has grown as more financial institutions have joined the PDS. Of particular significance, the migration of payments from the Bank Interchange and Transfer System (BITS) commenced in early November 1997 and was successfully completed on 23rd March 1998. As expected, while the average daily volume of SWIFT PDS payments has increased as BITS traffic has migrated and additional

participants have joined the PDS, the average value has declined steadily. It seems likely that the average value of a PDS payment will approach that of BITS payments for the past several years.

Progressive volume and value patterns since the commencement of the SWIFT PDS can be determined from the table below.

FINALISATION OF RTGS

With the completion of the BITS migration, the RTGS project will shortly move to its final implementation phase - the setting and reduction of limits. The RBA has announced that initial limit setting should commence in late April or early May, with live RTGS commencing around mid-year.

	Aug'97	Sept'97	Oct'97	Nov'97	Dec'97	Jan'98	Feb'98	Mar'98
Volume	48	6,499	30,948	30,838	60,199	68,674	119,889	196,243
Value (\$M)	54.5	123,121	370,016	423,366	567,468	565,772	780,920	1,177,237
No. of Business Days	5	22	23	20	21	20	20	22
Average Value per Transaction (\$M)	1.1	18.9	12.0	13.7	9.4	8.2	6.5	6.0
Average Volume per Day	10	295	346	1,542	2,867	3,434	5,994	8,920

PAYMENT STATISTICS

The table below provides updated payment statistics to 1997.

	Source	1994	1995	1996	1997
1. Number of payments transactions					
<i>(Millions of items per day)</i>					
Cheques	APCA	3.7	3.9	3.7	3.7
Direct entry credits	APCA	1.6	1.9	1.6	1.8
Direct entry debits	APCA	0.3	0.4	0.4	0.4
<i>(Millions of items per month)</i>					
ATM withdrawals ^(b)	APCA	40.7	38.8	41.6	39.2
EFTPOS ^(c)	RBA	20.7	29.1	35.5	39.2
Credit card ^(c)	RBA	19.9	22.6	24.6	25.9
2. Value of payments transactions					
<i>(\$ billions per day)</i>					
Cheques	APCA	24.8	23.4	23.2	24.9
Direct entry credits	APCA	1.9	2.6	4.0	3.4
Direct entry debits	APCA	1.3	1.2	1.6	1.6
RITS, BITS & Austraclear ^(a)	APCA	n.a	60.0	n.a	n.a
<i>(\$ billions per month)</i>					
ATM withdrawals ^(b)	APCA	4.4	4.9	5.6	5.4
EFTPOS ^(c)	RBA	1.1	1.5	1.9	2.1
Credit card ^(c)	RBA	1.8	2.0	2.3	2.5
3. Number of accounts / cards					
<i>(Millions, as at 31 August except for 1997 where figures are for May)</i>					
Customer payment accounts	APCA	34.4	34.9	30.8	31.6
Debit cards	APCA	13.2	13.6	15.1	15.3
Credit & multifunction cards	APCA	9.1	9.9	9.8	9.7
4. Number of ATM and EFTPOS terminals					
<i>(as at December, except for 1997 where figures shown are for June)</i>					
ATMs	APCA	6,008	6,775	7,718	8,182
EFTPOS	APCA	43,950	85,234	136,645	164,199

NOTES TO THE FIGURES:

All figures for 1997 are given on a consistent basis, for the month of May except for the number of ATM and EFTPOS terminals where the figures are as at the end of June.

- The figures for the value of RITS, BITS and Austraclear transactions is based on a special survey over 65 days to end September 1995, adjusted for an estimate of own items. More complete high value transactions data will be available following the implementation of RTGS.
- ATM figures are based on data collected by APCA in August each year to 1996, and in May of 1997. The ATM withdrawals figures for 1995 may have been affected by devices that were out of service due to the security guards strike in August.
- The Reserve Bank publishes in its Bulletin figures showing credit card and EFTPOS transactions acquired from merchants each month (see Table B.16 of the Bulletin). The figures shown in the table above are for November up to 1996 and for May in 1997. The earliest available figures in the RBA collection are for May 1994.