



PAYMENTS MONITOR

ISSN 1321-7755

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

STRUCTURAL REVIEW OF APCA

The Board has initiated a review of APCA in the light of developments in the payments environment, with the aim of positioning APCA for the future. Andersen Consulting are undertaking the review which has involved extensive liaison with APCA member institutions, regulators and interested participants.

WIDER APCA MEMBERSHIP

Overall objective

APCA is investigating how parties with a relevant role in Australian payments systems, outside of APCA's current membership, may be involved in APCA decision-making in a way that is satisfactory to all stakeholders – including potential new parties, existing participants and regulatory bodies.

Seminar

To start the project off, a seminar was held in Sydney on 13 August 1998. The objectives of the seminar were to:

- i. facilitate a better understanding of APCA's role and responsibilities;
- ii. explore issues and options in regard to widening membership;
- iii. gain seminar participants' commitment to the project; and
- iv. agree a process for going forward.

The seminar was designed to encourage open discussion. Subsequent feedback from those who participated confirmed that the seminar successfully met its objectives.

Representatives from a wide range of organisations interested in further involvement

in APCA took part in the seminar – these included switch organisations, card issuers, industry service providers, retailers, telecommunications companies – organisations which, as a significant part of their business activities, issue payment instruments or are otherwise engaged in providing payment services. As well, representatives were present from the Reserve Bank, the ACCC, the Commonwealth Treasury, and the ABA.

Taskforce process for going forward

The seminar participants agreed with a proposal for going forward involving the establishment of a Taskforce to consider options for wider membership in APCA. Membership of the Taskforce was drawn from the organisations present at the seminar and from others unable to attend the seminar itself, as well as from the APCA Board and executive staff.

The Taskforce also links in to the wider company review currently being undertaken, and its work will feed into the work of the review.

The Taskforce is presently reviewing a range of options for broadening involvement in APCA decision-making and expects to be in position to report back in November with its recommendations to the wider group of interested parties who attended the seminar.

A TASKFORCE HAS BEEN ESTABLISHED TO CONSIDER OPTIONS FOR WIDER MEMBERSHIP IN APCA.

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THE JOINT APCA/ LAW SOCIETY FEASIBILITY STUDY WAS UNDERTAKEN BY A WORKING GROUP OF REPRESENTATIVES OF ALL APCA MEMBERS, AND THE LAW SOCIETY OF NSW.

AUTOMATING RESIDENTIAL PROPERTY CONVEYANCING

An edited version of a speech delivered by APCA's Director Project Management & Operations to the Registrars General Conference held in Darwin on 11 August 1998.

APCA, with the Law Society of NSW, has completed a study into the feasibility of automating residential property conveyancing, which has included the production of a positive cost/benefit analysis. Investigation is currently being undertaken into the level of support for the project from interested parties, and how the project might be further progressed.

There have been two previous separate initiatives in Australia to automate residential property conveyancing. These are the ESCROD and SEISIN initiatives of the Law Society of NSW, and ProSet, an initiative of the major banks also involving the Bank of Melbourne and the Victorian Land Titles Office.

The Law Society of NSW approached APCA late in 1996 to gain support for the adoption of ESCROD/SEISIN by financial institutions. Automating conveyancing settlement is consistent with a number of APCA's objectives, particularly with regard to improving the effectiveness and efficiency of payments clearing arrangements.

The joint APCA/ Law Society feasibility study which followed was undertaken by a working group of representatives of all APCA members, and the Law Society of NSW. For the ultimate success of the project it was considered important to include all parties involved in conveyancing. APCA's members have a particular interest in the settlement component of the conveyancing process.

Working group members had access to the work undertaken for ESCROD/SEISIN and ProSet and some working group members had been involved with these previous initiatives.

At a high level, the feasibility study covered a number of areas – the expected outcomes of the project (the project deliverables); how the project deliverables would be achieved, including the project methodology; an indicative cost benefit analysis and an assessment of the project duration; and identification of a number of important issues impacting the project.

It is expected that there would be four main deliverables under a project to automate residential property conveyancing.

First, a set of regulations would be required to cover the conveyancing process from exchange of contracts up to updating titles. The intention of these regulations would be to standardise, so far as possible, the conveyancing process across all states of Australia.

It is expected that any such regulations would borrow heavily from the work done for ESCROD/SEISIN and ProSet.

Second, another set of regulations would be required covering procedures for settlement. These procedures would be referable to all the payment flows attendant on conveyancing and to the update of the titles. Delivery versus payment would be a desirable outcome.

Third, a central computer system accessible by all conveyancing parties would be required to track the movement of documents between the parties. We have called this functionality a "central document status repository".

The computer system would also generate the necessary payments, and title updates.

Fourth, the project would establish the necessary administrative structures to operate the system, governing such matters as rules for membership, system ownership, operating fees, and ongoing management and day-to-day operation of the system.

It is envisaged that project development would take around 2 years, from commencement of a requirements study to completion of a pilot. This would be followed by a 12 months' rollout period to all parties.

The cost of the project, including full rollout, has been preliminarily estimated at just over \$8 million.

However, this would be more than offset by estimated cost savings to solicitors, conveyancers and financial institutions of around \$32 million per annum.

Estimated cost savings are predicated on eliminating the need for face-to-face meetings of the parties to a conveyancing settlement, and on the replacement of bank cheques with electronic payments. Under new automated arrangements, conveyancing settlements would largely be managed from the desks of the parties involved.

Further benefits from the project have not been quantified – such as improved efficiencies arising from lower error rates, and the benefits accruing to the land registries.

The main rationale for the development of a system to automate residential property conveyancing would be to improve the efficiency and effectiveness of the property conveyancing process. Clearly it follows that the more any such system were used, the greater would be its benefits.

It is important then that the system has wide membership among all the parties to conveyancing settlement. The parties identified include:

- ▲ banks, building societies and credit unions;
- ▲ mortgage originators;
- ▲ funding trustees;
- ▲ solicitors;
- ▲ licensed conveyancing firms;
- ▲ title insurance companies; and (of course)
- ▲ the land registries.

Many of these parties, or their industry bodies, have been contacted by APCA, and their involvement during any further project development would be important.

Automating residential property conveyancing is an idea, we believe, whose time has arrived.

The current system for residential property conveyancing settlement is archaic, cumbersome, and lacks certainty. The business case for automation is compelling.

UNDER NEW AUTOMATED
ARRANGEMENTS,
CONVEYANCING SETTLEMENTS
WOULD LARGELY BE MANAGED
FROM THE DESKS OF THE
PARTIES INVOLVED.

YEAR 2000 READINESS

The Year 2000 readiness project has reached the testing planning stage following endorsement by APCA's committees (as well as by the BPAY Management Committee) of the scope of Year 2000 Inter-organisational testing for their respective clearing streams.

A consolidated test schedule has been developed, together with test schedules for each clearing stream. The schedules provide for testing of multiple streams at the same time if participants wish to test in this way.

Planning is now underway for testing within all the clearing streams, with the first group of test participants (in the HVCS and BECS) to complete their tests in November 1998. The completion of testing for all participants across all clearing streams is targeted for June 1999.

APCA has also commenced contingency planning for Y2K with the formation of a Year 2000 Contingency Consultative Group which is representative of the APCA membership. The Consultative Group will identify potential risks to the continued operation of the clearing streams from the Y2K problem. It will also develop a high level contingency plan, as a guideline for development of detailed contingency plans and crisis management arrangements in individual clearing streams.

SHORTENING CHEQUE CLEARING

The project to shorten cheque clearing times is progressing well, albeit against a tight and challenging timetable. The industry is working towards the scheduled completion date of 30 April 1999.

The direct clearing members of the APCS are currently undertaking Group Testing of the electronic presentment and dishonour arrangements, which will be followed by Integration Testing. On completion of these testing phases, most direct clearing members will have tested the new arrangements with each other direct clearing member.

Testing is being done using test scripts compiled by APCA and agreed by the project managers of the direct clearing members' projects. The project managers are meeting approximately monthly at APCA to agree testing and implementation strategies, and to resolve issues.

A phased approach is being taken to implementation, with direct clearing members implementing electronic presentment and dishonour with each other on a bilateral basis. Ten of the twelve direct clearing APCS members have implemented electronic exchanges, a major step towards implementing electronic presentment and dishonour.

In a major milestone, the first implementation of electronic presentment and dishonour, between St George Bank and ANZ Bank, occurred on 9 October. Further bilateral implementations between direct clearers are scheduled to occur throughout October and November.

Y2K TEST SCHEDULES HAVE BEEN DEVELOPED ACROSS ALL OF APCA'S CLEARING STREAMS AND PLANNING FOR TESTING IS IN PROGRESS.