



# Australian Settlements Limited

ABN 14 087 822 491

1 September 2011

Head of Payments Policy Department  
Reserve Bank of Australia  
GPO Box 3947  
Sydney NSW 2001

Dear Sir

RE: SUBMISSION – STRATEGIC REVIEW IN THE PAYMENTS SYSTEM

Australian Settlements Limited (ASL) is pleased to provide its submission in response to the Reserve Banks Consultation Paper.

In summary, ASL is supportive of continuing innovation and notes that innovation is encouraged where the cost / benefit equation is clearly positive.

What is positive, however, is at times difficult to articulate, it is paramount that the value created by innovation for consumers is balanced with the costs. In particular, the impact on efficiency, security and stability of the current payment processes.

ASL would be pleased to discuss any aspect of its submission.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'David C Jay', is written over a faint, light blue circular watermark or background.

David C Jay  
Chief Executive Officer

RESERVE BANK OF AUSTRALIA

STRATEGIC REVIEW IN THE PAYMENTS SYSTEM

No	QUESTION	RESPONSE
1	Are there aspects of cheque usage that are unlikely to be dealt with by industry initiatives currently underway or likely to be undertaken in the next 5-10 years?	<p>The decline of cheques should not be accelerated; many segments of the Community have limited access to other payment mechanisms. Some segments of the Community are demonstratively uncomfortable with alternative methods.</p> <p>Cheque usage is still very prevalent in country Australia and with older generations. SME's also prefer the use of cheques as it allows them to add data to the payment. As an example, the younger generations have need of cheques when their children start school to pay for excursions etc. As cheques are required by schools.</p> <p>Overall, ASL is however, supportive of the Cheques Project currently being run by APCA.</p>
2	Could the decline in cheques be managed by pricing cheque use in a way that provides better signals to users?	Other than creating angst in the public arena, we do not believe that this would impact cheque usage. Cheque usage should however be able to be priced reflective of cost (although, not a "loaded" cost).
3	Can a case be made for reforms to make cheques processing more efficient and therefore sustainable at lower cheque volumes?	A case can be made. This can be done through truncation and termination of the paper. UPSL floated the idea in a paper to APCA last year and now VIPRO are also raising the subject. Two of the largest costs in cheque processing is the exchange of the paper and storage. If an image file was exchanged with the data file, the paper exchange is removed and if paper could be destroyed after say 5 business days the storage cost is also removed. APCA has now formed a working group to review this proposal.
4	Could institutions unilaterally withdraw from the cheque system, leading to specialisation by a small number of institutions?	This may be an option but normally if a service is provided by one significant FI then all will provide it. It is more likely some smaller FI's may withdraw from issuing cheques.
5	Is there a case for phasing out cheque clearing over time? How could this be managed while ensuring that satisfactory alternatives are developed?	We do not see the demise of cheques over the short term (5-8 years) but may with the advent of better electronic payments be phased out by demand from the general public itself.



No	QUESTION	RESPONSE
6	Should Government Agency policies on payments be used to influence cheque change?	Yes. Government Agency policies would have an influence on the direction of cheques. If Government Agencies terminated cheque usage, we would see this as a driver for public opinion.
7	Should the approach to cheques be determined by individual institutions, determined collectively by the industry or determined by the Payments System Board?	The approach to cheques should be determined by the industry as a whole, based on individual cost / benefit decisions.
8	Are there any impediments to the development and application of products to replace cash?	There are none except the general public trusts cash and uses it as a means to budget its income.
9	Is there any case for public intervention in cash replacement?	We believe there will always be a cash component in the market. However, cash replacement could be assisted by the introduction of a contactless transit ticketing system along the lines of Hong Kong.
10	Do current government arrangements adequately promote payment system innovation?	Yes, however generally it is user demand that promotes innovation.
11	Are the needs of payment system users and non-ADI payment service providers adequately considered in decisions about the direction of the payments system?	Yes, payment system users' views are very much considered, particularly as a result of competitive pressures, and there are numerous forums to which non ADI payment service providers may be apart.
12	Are there ways of altering current governance structures to make innovation easier?	Generally no. There are international barriers that have influence on the current governance structure which will make easier innovation difficult to achieve.
13	Are there ways of altering current governance structures to take more account of the views of end-users?	We do have concerns regarding the governance structures at APCA and these relate more to the way the Board votes than anything else. However end users views are expressed through their ADI, and competitive market pressures bring end users view to the table.
14	Could a new decision making body with broad representation of payments system participants, service providers and end-users provide a better strategic focus for the payments system, taking adequate account of costs and the public interest?	This is a role that APCA should be filling but it could be distracted by its Members views which then inhibit innovation. APCA need foremost to manage the Clearing Systems and then play a governance role. We believe APCAs role should expand to include standard setting and monitoring against those standards.
15	How could such a body have the capacity to reach decisions across a diverse group of members?	The current APCA board structure represents broad interests of the payment system. 1 member on the Board should equate to 1 vote.



No	QUESTION	RESPONSE
16	Could such a group make binding decisions and how could they be enforced?	Yes and enforced by fines the same as card schemes do now.
17	Could formalisation of a broader mandate for APCA, coupled with broader representation, provide better industry wide outcomes?	As mentioned in question 15, the APCA Board could benefit from a more constructive approach by ensuring that each Board member holds one equivalent vote. We believe APCAs role should expand to include standard setting and monitoring against those standards.
18	What role should the RBA and the Payments Systems Board play in setting the reform agenda for the industry?	We believe that the RBA and PSB should upon request, provide guidance as to what they believe may be beneficial for customers of FI's going forward. The RBA and perhaps to a lesser extent the Payments System Board intercede if required, when international scheme rules may inhibit growth of innovation in Australia.
19	Have concerns about breaches of the Competition and Consumer Act (formally the trade practices act) prevented the industry from achieving greater co-operative innovation? What approaches are suggested to deal with this in a way that does not undermine the intent of the Competition and Consumer Act? What are the advantages and disadvantages of the Act?	No.
20	Does the current structure of clearing and settlement adequately allow for the introduction of new payment products? How could this be improved?	The current structure does allow for innovation.
21	Is the current structure of rules applied to payment systems, including the five APCA clearing streams, the most appropriate?	Yes, but it should also be binding on card schemes and ancillary players such as BPAY and PAYPAL.
22	How should clearing settlement rules change to take best advantage of upcoming functionality in RITS for same day settlement of bilateral bulk payment files (and existing functionality for same day batch settlement) Could rules be established for individual 'settlement streams', including for instance on the timing of availability of funds and the individual transaction values eligible for that stream?	<p>Current clearing system rules should be modified to promote the availability of funds to the beneficiary within 1hr of settlement.</p> <p>We are supportive of the evolution of settlement for low value payments.</p> <p>We acknowledge the general desirability for more frequent exchanges and settlement.</p> <p>We caution against 7 day exchanges, due to potentially unfunded positions with money markets closed.</p>



No	QUESTION	RESPONSE
23	Are there alternative models for clearing rules? For instance, could a set of generic (but narrowly focused) clearing standards cover multiple payment systems, with more detailed system rules applied at the individual system level? Should such clearing arrangements be mandatory for all payment systems, including those not currently party to APCA arrangements?	There are alternative models but it would require operational rule change of each clearing stream. Although APCS, BECS and HVCS regulations are similar in nature, CECS regulations and procedures are entirely different. The cost and scale of investment would be too significant for any resultant benefit.
24	What other ways are there of allowing providers of new payment products or systems easy access to clearing and settlement arrangements. Is there a case for establishing a standard minimum payment message type that participants are obliged to accept from agreed counterparties?	The current system appears to be adequate in its existing form. Perhaps the most important factor in allowing any new entrant is their ability to settle transactions processed and if they would have the ability to continue to be able to settle.
25	Do existing clearing arrangements allow sufficiently easy access for new participants? If not, what could be done to improve this?	Yes most APCA Clearing Systems allow for easy access bearing in mind some of the complexities of the various streams.
26	Could greater use of hubs improve efficiency, access and innovation in the Australian payments system?	<p>No. Hubs can provide a stable system such as BPAY but a side effect is that it appears to inhibit innovation. The biggest FI hub in the world is SWIFT and progress and innovation is done in line with the slowest member.</p> <p>New Zealand was also a complete centralised hub but it was removed as it was found to be unproductive to innovation.</p>
27	In what areas would a hub or hubs be useful – for instance, for transmission of clearing files, or for real time individual transactions? For what type of payments would a hub be useful? What functions could a hub or hubs provide? Could a hub be available for use by multiple payment systems?	The only useful type of hub would be the communications carrier (such as the COIN). Hubs otherwise detract from efficient innovative products. A further problem is if the hub is down, all FI's are down for the duration of the downtime and not just one FI.
28	Should hubs be considered best practice for new payment systems? Should existing systems be migrated to a hub? Could hub services be offered in a way that allows participants to opt in, while providing full services to new entrants?	No.



No	QUESTION	RESPONSE
29	What type of ownership, governance and management arrangements would be desirable for a hub?	We do not consider hubs are the best solution or the way forward.
30	How widespread is the demand for additional innovation and how significant would the impacts be?	There is a need for both immediate online real time payment for person to person and a need for inclusion of more data in B2B payments which would allow better reconciliation of payments.
31	Are there any specific impediments to innovation occurring eg: barriers to entry, co-ordination problems, technological constraints?	We do not believe there are any specific impediments to innovation, however there is the cost involved around technical or system costs.
32	Is there a case for public intervention?	Potentially, yes.
33	Possible solutions to the transmission of additional data with payments include: the use of existing free data fields in the DE system for a referencing system; the reconfiguration of the DE system to accept much larger quantities of free form information; or the use of another system for payments requiring the carriage of additional data. Are there other alternatives? What are the advantages and disadvantages to each? Which option is preferred? How should that option be implemented?	<p>We have long proposed additional field for data in a revised DE message standard. The current DE system does exactly what it was designed to do and does so very efficiently and cost effectively. Possibly better than any other comparable system in the world so that this should be retained for the simple payments such as payroll payments ( for which it was designed).</p> <p>Since its design, FI's have been trying to fit all manner of payments into DE when in reality a new system is required to run alongside the current DE (DEII). This would still provide the efficient low cost system for simple payments and DEII would allow for more complex payments and could be adapted in the design to allow for differing payment types such as superannuation payments, invoice payments etc.</p>
34	What role should message standards, such as ISO 20022, play in any solution for transmission of additional data?	This should be the basis for all new message stems being developed in Australia
35	The superannuation industry is working to address issues associated with transmission of data related to superannuation accounts and payments. Is there a contribution that can be made by the payments industry beyond the proposals discussed above?	See Q33 re DEII



No	QUESTION	RESPONSE
36	To what extent will systems already under development or discussion address issues related to the timeliness of payments? What gap will remain?	<p>We are concerned about the proposition of 24/7 funds availability in terms of:</p> <ul style="list-style-type: none"> <li>• Operational Capabilities (cost vs benefit);</li> <li>• Security, Fraud Potential; and</li> <li>• Access to Liquidity (money markets closed).</li> </ul>
37	What new systems or enhancements to existing systems would be required to achieve more timely payments? How could this be achieved?	<p>This depends on what is being sought. For Person to Person payments, there have been papers prepared and submitted that would allow immediate transfer and crediting of funds but this may now have some problems with PCI-DSS requirements regarding card numbers.</p> <p>If looking to Business to Business, then there needs to be a new DE system and all FI would need to have the ability to immediately post received items.</p>
38	Would multiple same day interbank settlements be sufficient to facilitate faster availability of funds?	<p>We do not believe so as the availability of funds is dependent on the beneficiary being able to see the funds in their account and therefore being able to use them. Currently not all FI's memo post received items and generally it is not a credit exposure that inhibits this. Hence immediate settlement of files is likely to have little impact</p>
39	Is there a case for real time settlement system for low value payments and how should it be provided?	<p>There is a case for immediate Person to Person payments but in reality there is not a real need for real time settlement in this area as the cumulative value would not justify the cost of such actions.</p>
40	To what extent would financial institutions own systems need to change to allow faster access to incoming payments to customer accounts? What would this involve and how could it best be achieved? Could the desired improvements be achieved by competitive pressures if financial institutions were forced to publicly disclose information on the timing actually achieved on payments? Would some form of mandated time limit for availability of funds be appropriate?	<p>We believe that FI's generally have the systems in place that would allow for the processing of immediate value payments certainly in the area of Person to Person payments. These could be done in possibly a time frame of 18 months provided that there was a driver for the change which could be legislative OR through competitive pressures.</p>
41	How strong is the demand for payment options that will provide availability of funds 24hrs a day, 7 days a week? What would need to occur to achieve this?	<p>We do not agree with 24/7 availability. We are concerned about the proposition of 24/7 funds availability in terms of:</p> <ul style="list-style-type: none"> <li>• Operational Capabilities (cost vs benefit);</li> <li>• Security, Fraud Potential; and</li> <li>• Access to Liquidity (money markets closed).</li> </ul>



No	QUESTION	RESPONSE
42	What form are mobile payments likely to take in Australia over the next 5-10 years? – SMS based, mobile internet, contactless or some other form?	We can foresee Contactless Cards, NFC, Mobile phone, Internet both wireless and fixed line and SMS based.
43	Are there impediments to the development of mobile payments in Australia? If so, what type of payments are being impeded and how?	<p>Potentially, impediments could include:</p> <ul style="list-style-type: none"> <li>• Risk of significant investment in rapidly changing technologies; and</li> <li>• Collaboration with device manufacturers / carriers.</li> </ul>
44	Are there security issues particular to mobile phones that may impede adoption of some types of mobile payments in the future? Are there likely to be issues with interoperability of mobile payment systems?	Minimum security standards required.
45	Are there adequate standards to support the development of mobile payments in Australia? If not, what standards are lacking, what types of mobile payments are affected, and who should be responsible for setting them?	We believe that there is adequate support to make sure that mobile payments are safe and secure and this would come under the body responsible for the payment APCA, EPAL, Visa, MasterCard or others.
46	What is the case for moving ISO 20022 compliant standards for Australia's retail payment system? What is the preferred process for doing so?	This should only be for new payment systems.
47	Should all new payment systems be required to adopt ISO 20022? Should existing systems be required to do so?	It would be beneficial if new payment systems adopt ISO 20022.
48	To what extent are other standards, such as device standards, an impediment to competition and innovation? Is this justified?	We do not know of any impediments to competition.
49	How should compliance with industry standards, both by new entrants and incumbents, be monitored?	<p>Compliance by both current and new participants is monitored by their peers and any deviance is very quickly brought to the FI's attention and usually corrected immediately.</p> <p>However, we favour an industry body, such as APCA, having responsibility for the monitoring and enforcement of standards.</p>



No	QUESTION	RESPONSE
50	Is there a case for greater industry cooperation on the setting of security standards for retail payments? If so, how should this be achieved?	APCA is ideally placed to perform this function but needs to adhere to world standards if they are in place and not add additional standards just for Australia that might have no real additional benefit. A good example is Australia have most ATM's being "noncompliant" with APCA standards but compliant with world standards.
51	Are there any significant changes in the payment landscape in prospect that have not been considered by this paper, for instance in terms of architecture or significantly different payment products? What will be the implications of these changes? Re there actions that should be taken now to take full advantage of these changes?	No.