

# Banking and Payment Services

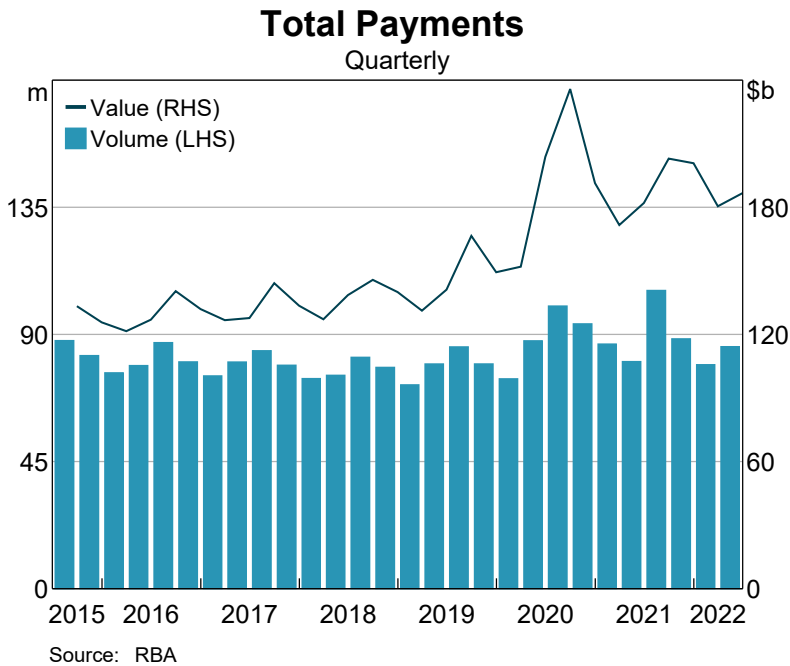
The Reserve Bank provides banking and payment services to meet the needs of the Australian Government and to support an efficient and stable Australian financial system. These services support the government's measures to provide financial assistance to Australian households and businesses, including during the COVID-19 pandemic and natural disasters, by ensuring that payments are processed quickly and reliably. In addition to operating Australia's real-time gross settlement (RTGS) system, the Bank operates national infrastructure to support the settlement of real-time payments by households and businesses on a 24/7 basis. These services provide the Australian Government with access to 24/7 payment capabilities, and are consistent with the Bank's strategic goal of providing innovative, high-quality banking and payment services to the Australian Government, its agencies and, in turn, the Australian public.

## Transactional banking services

The provision of transactional banking services to the government is consistent with the Reserve Bank's responsibilities under the *Reserve Bank Act 1959*, which requires the Bank, insofar as the government requires, to act as the Commonwealth's banker and financial agent. The Bank aims to deliver secure, reliable, cost-effective banking and payment services to the Australian Government and its agencies. These services enable the government, through its agencies, to make payments and collect revenue. A large proportion of government payments are made by Services Australia and relate to welfare and age pension payments. The Bank recognises the importance of these critical payment services and resources them accordingly.

During 2021/22, the Reserve Bank retained its existing customer base and on-boarded a number of new customers. Currently, the Bank provides transactional banking services to more than 100 Australian Government agencies.

The Reserve Bank provides a broad range of payment and collection services to its customers. The majority of payments processed by the Bank are delivered using low-value, cost-effective, direct entry systems, both domestically and overseas. Other payment methods offered and utilised by our customers during the reporting period included the New Payments Platform (NPP), RTGS, cheque and BPAY. For the collection of government revenue, payments were received by BPAY, card (either over the phone or via an online service), cheque, eftpos and, to a lesser extent, cash.



The Reserve Bank distributed an above-average volume of payments in 2021/22, comprised of around 357.9 million domestic and 1.1 million international payments, totalling \$753.2 billion and \$17.6 billion, respectively.

The increase in payment volume mostly related to the delivery of Emergency Welfare Payments and Disaster Recovery Payments made by Services Australia to households and businesses affected by the COVID-19 pandemic and other emergencies, such as the major flooding events on Australia's east coast in early 2022. The majority (96 per cent) of these support payments were made using the NPP. On Sunday, 15 August 2021, an unprecedented number of almost 700,000 COVID-19 support payments were processed and received by Australians. The capability to significantly upscale the delivery of near real-time NPP payments is built on work undertaken in previous years by the Reserve Bank and Services Australia to ensure the timely delivery of Disaster Recovery Payments. Overall, more than 60 per cent of NPP payments were made outside of normal business hours (i.e. after-hours or on weekends), allowing delivery of payments to recipients irrespective of the time or day. The delivery of COVID-19 and flood-related Disaster Recovery Payments via the NPP resulted in a significant increase in the total number of payments made by the Bank via the NPP; volumes were more than 20 times higher in 2021/22 compared with the previous year.

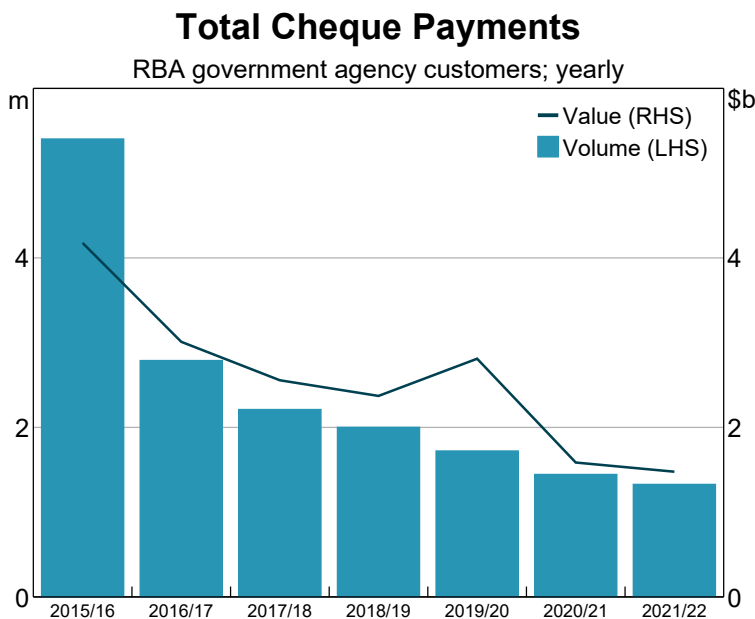
In addition to processing payments, the Reserve Bank provides Australian Government agencies such as the Australian Taxation Office with a number of services through which they can collect money owed from both domestic and international payers. The easing of restrictions on activity related to the COVID-19 pandemic saw an overall increase in government collections throughout 2021/22. Collection volumes were variable over the course of the year because of differing levels of COVID-19 restrictions throughout Australia. Overall, the Bank processed 44.6 million collections-related transactions for the Australian Government in 2021/22, amounting to \$769.8 billion. Card-based payments are a popular and convenient method by which individuals and businesses pay their debt obligations to government agencies. As part

of the Bank's commitment to providing cost-effective collection methods and to ensure the government's options for collecting revenue meet the needs of today's users, the Bank has prepared for a renewal of its third-party supply arrangements for card acquiring and payment gateway services. The Bank's current arrangements have been in place for a number of years and, given ongoing technological change and industry consolidation, the Bank is looking to enhance its current service offerings.

The nature of transactional banking services offered by the Reserve Bank is continually evolving alongside changes in payments technology and business processes. The Bank continues to support its government customers in the transition away from less efficient and more costly services (e.g. cheques) to newer technologies and processes. The Bank also continues to work with industry in preparation for significant changes in the payment landscape. Bank staff contribute to industry discussions, representing the interests of government as a significant user of payment services.

During 2021/22, the Reserve Bank contributed to the ongoing industry discussions and consultation processes to plan for the future closure of the Bulk Electronic Clearing System (BECS), which is used for the delivery of direct entry payments. Notwithstanding new payment alternatives such as the NPP, which provides 24/7 real-time delivery of data-rich payments, the Bank is mindful that the significant payment volumes of the Australian Government require careful engagement of BECS end-users to ensure ongoing security, reliability and cost-effectiveness of payment services.

The Reserve Bank has continued to work with its customers to reduce their usage of cheques, substituting more efficient and cost-effective means of payment. In line with industry trends, the annual cheque payment volume for government customers fell by a further 8.1 per cent in 2021/22. The Australian Government accounted for less than 5 per cent of all cheques issued in Australia in 2021/22.



Source: RBA

In 2021/22, the Reserve Bank commenced implementation of PayTo services. PayTo is an industry-wide initiative being built in conjunction with the New Payments Platform Australia (NPPA), using the NPP

infrastructure. PayTo will allow households and businesses to authorise third parties to initiate NPP payments from their accounts. Over time, PayTo is expected to replace the direct debit system; it will address many of the limitations of the current system by allowing for real-time receipting of payments as well as greater visibility and portability of agreements for all parties. The first phase of PayTo services – PayTo Payer – has been implemented by the Bank and will enable the Bank's government customers to enter into payment agreements with their creditors. The Bank will work with its customers in 2022/23 to assess requirements and commence the build of PayTo Payee services. Once complete, the Bank's government customers will be able to use this method to request payments from debtors.

## Pro forma business accounts

The Reserve Bank's transactional banking services are subject to the Australian Government's competitive neutrality guidelines. The Bank delivers these services in competition with commercial financial institutions, including bidding for business at tenders. The Bank must cost and price the services separately from its other activities and meet a prescribed minimum rate of return. The Bank achieved its competitive neutrality target rate of return in 2021/22.

The following sets of pro forma business accounts for the Reserve Bank's contestable businesses have been prepared in accordance with competitive neutrality guidelines. These accounts do not form part of the audited financial statements.

After-tax earnings from the Reserve Bank's transactional banking services were \$4.7 million in 2021/22, \$1.1 million higher than in the previous year.

### Transactional Banking

\$ million

	2021/22	2020/21
<b>Revenue</b>		
– Service fees	108.1	95.0
– Other revenue	1.6	0.5
Total	109.7	95.5
<b>Expenditure</b>		
– Direct costs	102.8	90.7
– Indirect costs	0.0	0.0
Total	102.8	90.7
Net profit/(loss)	6.9	4.8
Net profit/(loss) after taxes <sup>(a)</sup>	4.7	3.6
<b>Assets<sup>(b)</sup></b>		
– Domestic markets investments	2,739.2	4,205.1
– Other assets	21.6	25.2
Total	2,760.8	4,230.3
<b>Liabilities<sup>(b)</sup></b>		
– Capital & reserves	25.0	25.0
– Deposits	2,717.5	4,188.3

	2021/22	2020/21
– Other liabilities	18.3	17.0
Total	2,760.8	4,230.3

(a) In accordance with competitive neutrality guidelines, income tax expense has been calculated and transferred to the Commonwealth as a notional part of the Reserve Bank's annual profit distribution.

(b) As at 30 June 2021.

Source: RBA

## Central banking services

As part of its central banking services the Reserve Bank provides to the Australian Government, the Bank manages the overnight consolidation of Australian Government agency account balances. This requires the movement of agency account balances, held with commercial financial institutions and with the Reserve Bank, into the Official Public Account (OPA). Daily payment instructions from the Department of Finance are processed to move funds from the OPA to agency bank accounts to meet their payment obligations.

While the Reserve Bank manages the consolidation of the government's accounts, the Australian Office of Financial Management (AOFM) has responsibility for ensuring that there are sufficient cash balances to meet the government's day-to-day spending commitments and for investing excess funds in approved investments. A cash management account offered by the Bank assists the AOFM in this regard. The Bank also provides a very limited short-term overdraft facility to cater for occasions when there is unexpected demand for government cash balances. This overdraft facility is used infrequently and was not used during the reporting period.

The Reserve Bank also provides banking services to overseas central banks and registry services to supranational organisations issuing Australian dollar-denominated securities. Eight organisations currently use registry services, with this number having been relatively steady over recent years.

## Settlement services

Australia's interbank settlement system, the Reserve Bank Information and Transfer System (RITS), is owned and operated by the Reserve Bank. This system performs final and irrevocable settlement of payment obligations between financial institutions, which arise from non-cash transactions including card transactions, direct entry ('pay anyone') payments, cheques and high-value payments. Obligations are settled through the debiting and crediting of Exchange Settlement Accounts (ESAs), which are at-call accounts held at the Reserve Bank on behalf of RITS member institutions.

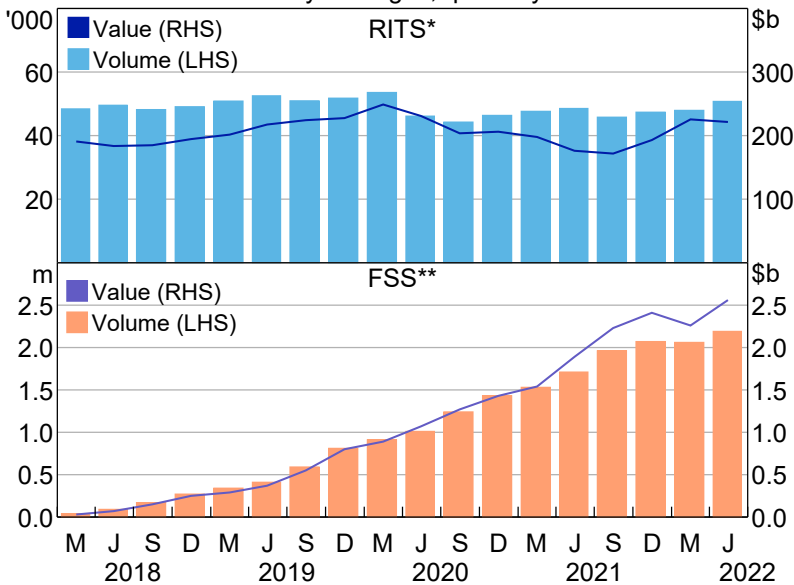
RITS settles most high-value transactions individually on a real-time gross settlement (RTGS) basis. These 'wholesale' transactions include customer, corporate and institutional payments, wholesale debt market transactions and the Australian dollar leg of foreign exchange transactions. In 2021/22, RITS settled an average 48,000 of these transactions worth \$202 billion per day. Transaction value has recovered strongly following a period of subdued activity relating to the COVID-19 pandemic, increasing by around 24 per cent over the past 12 months to be around \$227 billion per day as at June 2022. Transaction volumes have also recovered to around pre-COVID-19 levels over the same period.

RITS also provides the Fast Settlement Service (FSS), a RTGS service to support the NPP. The FSS typically settles lower value payments in real-time on a 24/7 basis. Payments can be identified using unique

identifiers (PayIDs), such as phone numbers, ABNs and email addresses, in addition to traditional account and BSB numbers. Compared with the previous financial year, transaction volumes grew by around 40 per cent and values by around 54 per cent, reaching an average of 2.2 million transactions worth \$2.6 billion per day in the June quarter. Transaction values declined briefly in early 2022 largely reflecting seasonal effects, but then recovered strongly in the June quarter. Growth in transaction volumes, while still strong, appears to have slowed slightly in the past year, and may be a reflection of most transaction accounts now being reachable by the NPP. Future transaction volume growth is likely to be driven by: a managed migration from other clearing systems; new functionality such as PayTo, which allows households and businesses to authorise third parties to initiate NPP payments from their accounts; or new uses for the NPP. For example, financial technology (fintech) firms are a growing source of transactions in FSS, and now process around 2 per cent of transaction volume, up from 0.01 per cent in 2019.

### Real-time Gross Settlement

Daily averages, quarterly



\* Excluding FSS transactions.

\*\* Excluding intrabank transactions.

Source: RBA

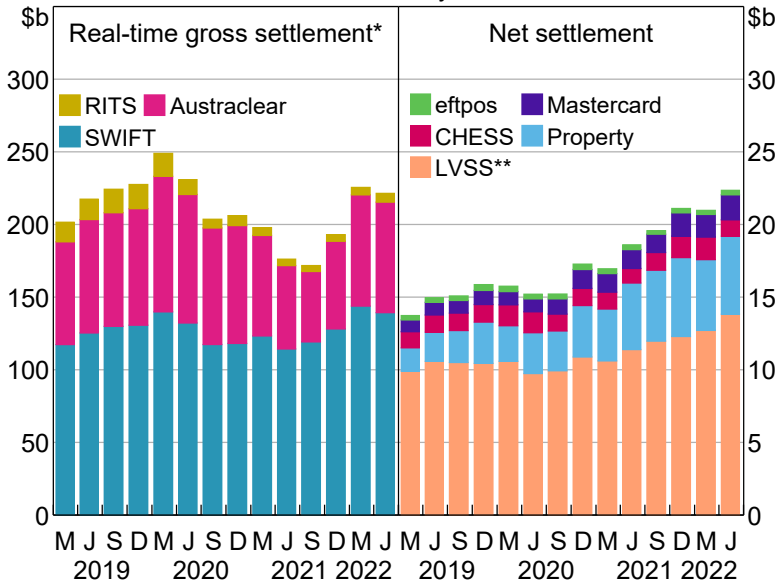
While FSS transaction volumes have grown rapidly in recent years, the majority of low-value payments continue to be settled on a net deferred basis in RITS via the RITS Low Value Settlement Service (LVSS). The LVSS collates interbank obligations, which arise from cheques, some debit and credit cards, BPAY, ATMs and direct entry payments that have not yet migrated to the NPP. RITS settles these obligations in five intraday settlement runs or at 9:00 am on the next business day. LVSS net settlements totalled \$12.7 billion per day in 2021/22, up around 19 per cent compared with the previous financial year. Net LVSS transaction values grew strongly in 2021/22 as a result of growth in underlying transactions and some loss of netting efficiency as the composition of transactions in the different settlement runs changed.

RITS also settles obligations submitted by external batch administrators on a net settlement basis. The batch administrators are external entities that net electronic transactions from upstream business

operators and then submit a 'batch' to RITS for simultaneous settlement. These batch arrangements settle obligations arising from eftpos and Mastercard payments, equities transactions processed by the ASX Clearing House Electronic Sub-register System (CHES), and electronic property settlement transactions processed by Property Exchange Australia (PEXA) and Sympli Australia. Growth in property settlements in RITS has been strong in recent years as electronic conveyancing (eConveyancing) replaces traditional paper-based methods of completing property transactions. Net value settled in the two property batches has grown by approximately 43 per cent compared with the previous financial year, reaching an average of around \$5.4 billion per day in the June quarter 2022.

## Average Daily Value by Payment Type

Quarterly



\* Excluding FSS transactions.

\*\* RITS Low Value Settlement Service, including cheque, direct entry, ATM and Visa settlements.

Source: RBA

Given its critical role in the Australian financial system, the Reserve Bank continually works to ensure that RITS remains secure, resilient and fit for purpose. The Bank has recently completed work to establish a third-site data bunker, helping to minimise the risk of data loss or corruption in the case of a major disruption to the Bank's settlement systems. Also, following a successful multi-year refresh of the RITS core infrastructure, the Bank has commenced work on a refresh of infrastructure supporting the FSS. The detailed design for this was completed in early 2022 and the build of new infrastructure is underway, with a production target date of mid-2023.

The Bank continues to support the industry-wide program for the migration of AusPayNet's High Value Clearing System to the ISO 20022 messaging standard – a modern and open messaging standard that encourages payments innovation through richer data and better interoperability. The program is currently in the testing phase, with the industry due to start migrating to the ISO 20022 messaging standard in November 2022. Complete migration to the new standard is due in November 2024. For the Bank, the

project involves upgrading back-office payments processing systems and migrating messages currently used by RITS onto the ISO 20022 messaging standard.

The Bank has continued its engagement in international payments initiatives, facilitating the Financial Stability Board's updated cross-border payments roadmap through participation in various working groups discussing the linkage of domestic fast payment systems. This international initiative aims to address the cost, speed, transparency and access issues that characterise existing cross-border payment arrangements.

The Reserve Bank's Payments Policy Department performs an annual assessment of RITS against the Principles for Financial Market Infrastructure, which are international standards set by the Committee on Payments and Market Infrastructures and the Technical Committee of the International Organization of Securities Commissions. The 2022 assessment found that RITS observes all principles except for operational risk, which is 'broadly observed'. In order to have operational risk as an 'observed' principle, the Bank needs to complete work currently underway to implement revised metrics to measure the operational resilience and stability of IT systems supporting RITS. These metrics will facilitate an assessment of whether initiatives implemented through the Bank's Technology Stability Improvement Program have delivered the outcome of reducing risks to the stability of RITS. The participant-default risk principle has returned to being 'observed' from 'broadly observed' in the 2021 assessment, as the Bank completed work on its framework for making decisions to suspend or terminate RITS members. A key area of oversight focus in 2022 will be monitoring the impact of staff resourcing challenges on RITS and how operational risks associated with staff turnover and difficulty in recruiting staff with the appropriate skills in the current tight labour market are identified and mitigated.

Staffing arrangements have also been a focus as the Bank continued to adjust its mix of work-from-home and on-site staff for critical operations in response to the changing pandemic situation. Following a rollback of government pandemic restrictions in early 2022, the Bank has returned to more normal working arrangements for the operation of RITS.

The Reserve Bank has availability targets of 99.95 per cent for RITS and 99.995 per cent for FSS. In 2021/22, RITS availability exceeded target with an uptime of 99.985 per cent. FSS availability was below target at 99.990 per cent, due to an incident that occurred in April 2022.

In 2021/22, three new institutions were approved as RITS members and five members resigned, bringing the total number of RITS members to 165, of which 101 hold ESAs. Of these, 93 members are authorised deposit-taking institutions. Members without ESAs hold RITS membership in order to participate in the Reserve Bank's open market operations or administer batches in RITS.

The Reserve Bank offers correspondent banking services to other central banks and official institutions overseas to allow for settlement of certain Australian dollar payments; it also provides safe custody services to these overseas agencies. The face value of securities held in custody by the Bank in this capacity was around \$107 billion at the end of June 2022. The Bank also provides settlement services for banknote lodgements and withdrawals by commercial banks. ✎