



Australian Payments
Clearing Association

AUSTRALIAN PAYMENTS CLEARING ASSOCIATION
SUBMISSION TO THE COMMONWEALTH DEPARTMENT
OF HUMAN SERVICES

ON

**“BETTER DEALINGS WITH GOVERNMENT:
INNOVATION IN PAYMENTS AND INFORMATION
SERVICES” DISCUSSION PAPER**

OCTOBER 2009

1 Introduction

1. The Australian Payments Clearing Association Limited (APCA) welcomes the opportunity to make this submission on the *Better Dealings with Government: Innovation in Payments and Information Services* Discussion Paper, released by the Minister for Human Services, the Hon Chris Bowen MP, on 14 September 2009.
2. We strongly support the release of this Discussion Paper, in particular the strategic approach taken on the future use of payments and related information services by the Department and its agencies. By taking a strategic approach, we believe the Department can identify solutions within a framework that permits the integration of new and existing approaches, enabling overall improvements to service delivery and efficiency.

2 About APCA

3. APCA is the Australian payments industry's principal self regulatory body. It is the primary vehicle in Australia for payments industry collaboration, with a mandate to improve the safety, reliability, equity, convenience and efficiency of the Australian payments system.
4. APCA was established in 1992 as a mutual organisation for administering the technical and operational rules and standards between banks, building societies, credit unions and other payments organisations. APCA's role has since extended to managing and developing regulations, procedures, policies and standards governing payments clearing and settlement within Australia. It has around 80 members comprising the Reserve Bank, banks, building societies, credit unions and other participants in its five clearing systems.
5. APCA's clearing systems provide definitive, participant-driven sets of rules and decision-making structures governing the conduct of clearing and settling transactions of relevant payment instruments. APCA does not process payments. In general, individual institutions participating in each clearing system are responsible for their own clearing operations which they must conduct according to APCA's rules.¹ These systems clear approximately 98% of Australia's non-cash retail payment values.²
6. Historically, APCA's explicit strategic orientation was towards technical and operational matters within the five systems that it directly

¹ More information about APCA can be found at: www.apca.com.au.

² APCA Annual Review 2009.

administered. However, in its 2006 strategy review, APCA's Board adopted a new set of Core Principles focusing on a broader role: enhancement of the Australian payments system. The Core Principles articulate three core APCA activities:

- **Industry policy development and advocacy**, where APCA's role is to facilitate the development of industry positions and views on the evolution and regulation of payment systems, and to communicate those views to government, regulators and other stakeholders as needed;

- **Industry standards and self-regulation**, where APCA seeks to ensure that system participants decide how they will operate and be governed, and members collectively set the self-regulatory framework for the industry; and

- **Industry change management**, where APCA coordinates and facilitates payments system development programmes as required by its members.

7. APCA's role as standard-setter provides security and confidence for the Australian payments system, which creates a solid regulatory platform for innovation.

3 Relevant APCA Work

8. We note that our *Low Value Payments: An Australian Roadmap* (LVP Roadmap) is listed in the Further Reading Section of the Discussion Paper. A key theme within our paper is that payments developments occur both collaboratively and within a competitive space. Innovation and efficiency are driven by competition. However, the ubiquitous platform that enables this competition - physical network connectivity, interchange standards and settlement arrangements - requires coordination across system participants even as they compete to offer innovative payment services to users.

9. In pursuit of the strategic vision outlined in the LVP Roadmap, APCA is working with industry and the Reserve Bank of Australia (RBA) on key projects in this collaborative space. These include:

- **Enhanced networking** - working closely with industry stakeholders to develop a payments industry "COIN" (Community of Interest Network) which will provide next generation internet-based network connectivity for payments system participants. As well APCA is working with industry stakeholders to assist in the transition from legacy technology to the COIN;

- **Settlement** - working with the RBA on enhancements to the current settlement arrangements, creating opportunities for more frequent settlement of consumer payments; and

 - **Standards Mapping and Gap Analysis** – commencing work on message standards to provide more flexible payments and straight through processing, in particular analysing international developments in the ISO 20022 standards framework and its applicability within the Australian environment.
10. Another project outside the LVP Roadmap but relevant to the Department’s objectives is **Business Continuity Planning (BCP) in Cash Distribution**. This involves the development of an industry BCP for wholesale cash distribution.

 11. As well, APCA intends to commence work on LVP Roadmap projects on:
 - **The Future of Paper Payments** - development of a long-term strategy for the management of the decline in paper payments. This might include consideration of electronic alternatives and measures to reduce processing unit costs; and

 - **Direct Entry (DE) Refinements** - assessing system specific refinements to the current DE system, for example, to enable enhanced DE offerings that address authorisation and mistaken payment issues.

 12. The LVP Roadmap projects advance APCA towards proposed work on the **Feasibility of New Standard Payment Message Types**. Based on the standards mapping and gap analysis, APCA members will assess the feasibility of migration of Australian payment message sets towards globally compliant message standards.

4 Mapping Government Payment Objectives onto the Australian Payments System

13. The Discussion Paper raises a wide range of consultation issues in the context of improving government payment services. Some questions in the paper are relatively specific and short-term, relating to how better payments services can be provided to government within the context of existing Australian payment systems. Others raise the possibility that some modification to particular payment systems might be required in order to achieve the desired improvement. Finally, some questions have strategic, long-term implications relating to possible future payment

systems and the evolution of payments systems infrastructure.

14. APCA's particular interest lies in understanding how government payment services objectives are likely to shape the evolution of Australian payment systems generally, and how this evolution might be managed to deliver the best outcome for all stakeholders.

4.1 Better Payments Services to Government

15. Given our role as an industry body seeking to serve payments system participants generally and support the development of multiple payment systems, this is not an area where APCA can itself meet government needs. No doubt many of APCA's members have both the capability and interest to work with government as service providers to deliver enhanced services that use existing payment system infrastructure. The government already has well-developed guidelines of open, fair and competitive procurement processes.

4.2 Changes to Systems

16. Recent experience suggests that new services desired by government often involve not merely selecting a preferred provider but making changes to rules or business processes within a particular payments system. Medicare Easyclaim required coordination across issuers and acquirers of EFTPOS cards and modifications to APCA's Consumer Electronic Clearing System (CECS) rules. Although the BasicsCard has been delivered without requiring changes to APCA's rules or procedures, experience with technical issues suggests that scaling up such programs in the future may require coordinated systemic changes.
17. More generally, such future services may involve APCA in its role as providing administration and governance for five clearing systems and in particular the direct entry system. Alternatively it may involve discussions with other system operators such as BPAY or the card schemes.
18. Such system changes can be difficult to achieve, because they require collaboration across many or even all participants in the relevant payments system. Nevertheless, APCA strongly encourages the Department to factor such consultations into future programmes as the best way of minimising risk and addressing technical and operational issues early. For its part, APCA can assist the Department as a "first port of call" to help assess the broader system implications of ideas and proposals, and as a vehicle for industry consultation on specific technical or operational issues.

4.3 Industry-Wide Developments

19. As indicated, APCA's particular interest lies in projects with industry-wide, strategic and cross-system implications. Such matters may extend beyond government's immediate interests, but the sheer size and significance of the government as a user of Australian payments suggests it would be beneficial for both government and industry to secure departmental / agency involvement in the industry's longer-range planning work. In question responses below, we highlight particular industry work in which such involvement could be mutually beneficial.

5 Discussion Paper Questions and APCA Recommendations

5.1 Questions 1 and 2 – Additional Payment Methods and Capabilities to Eliminate Manual and Paper Processes / Government's Ability to Leverage off Industry's "Know Your Customer" Obligations and Processes

20. The APCA LVP Roadmap noted a number of projects that APCA would use to "...address near-term industry needs, and strategic proposals to lay the ground work for the vision". There are three LVP Roadmap projects that have the potential to address the requirements to reduce manual and paper processes and leverage off existing customer identification processes.
21. One is the **Standards Mapping and Gap Analysis** project. The Roadmap paper states that "APCA should develop a detailed mapping and gap analysis between the ISO 20022 message set and each message standard in use in Australia. This could identify opportunities for short-term enhancement, as well as provide input on future strategic development. The project should look at all alternatives including incremental enhancements to the current processes. The indicative timeline was that the project would commence in 2009 and complete by mid 2010."
22. This project is in its early stages, the first step towards assessing the feasibility of migrating Australian electronic payment messages to a unified set of globally compliant message standards. The initial focus is on the direct entry payment system which on average currently processes 4.3 million direct credit transactions and 2.2 million direct debit transactions per day with a combined daily value of \$37.8 billion. Centrelink is amongst one of the largest users of the direct entry systems. Comparing our data to the data in the Discussion Paper, we would note that the Department

and its agencies comprise 16.8% of direct credit volumes and 1.5% of direct credit values.

23. APCA has already brought together a number of stakeholders representing both the financial institutions and other major users of the system under a LVP Gap Analysis Working Group. The group's representatives are currently from the following organisations; the Australian Taxation Office, the Investment and Financial Services Association, the Association of Superannuation Funds of Australia, Standards Australia, Australia and New Zealand Banking Group Limited, Commonwealth Bank of Australia and Westpac Banking Corporation.

24. The project will look at all alternatives including incremental enhancements to the current processes.

Some of the objectives include:

- Document opportunities identified by payment participants that a new payments standard could address in the interim and the future;
- Identify the gaps between the current direct entry format and future opportunities;
- Identify the benefits of adopting the ISO 20022 standard for low value payments;
- Obtain stakeholder support for the findings identified in this project; and
- Map the resulting requirements to a draft ISO 20022 format that can be used to assess the cost/benefit of a potential move to the new standard for direct entry.

25. **RECOMMENDATION ONE: APCA would strongly encourage direct Departmental / agency participation in the Standards Mapping and Gap Analysis Working Group as soon as practicable.**

26. Another project of relevance is **The Future of Paper Payments** project that will likely involve consultation with stakeholders to further explore why cheques are still used and barriers to their replacement with electronic means. Consultations are scheduled to begin in 2010.

27. Cheque volumes and values have been declining in Australia for well over a decade. The Commonwealth Government remains a major user of cheques. Reducing usage of cheques would improve speed and security of payments as well as significantly reduce the high costs associated with cheques.

28. A number of Australian companies are choosing to move away from using cheques to pay out dividends, for instance. The Commonwealth Government could similarly choose to "lead by example" by reducing its

own cheque usage. This is recommended in the 2006 DCITA study, *Exploration of Future Electronic Payments Markets*, and would be a powerful motivating factor for broader industry cost minimisation and efficiency gain through migration away from paper products.

29. **RECOMMENDATION TWO: APCA would strongly encourage Departmental / agency input into the 2010 Future of Paper Payments consultation process, in particular perceived barriers to cheque replacement.**
30. **The Direct Entry Refinements** project is looking at more short/medium-term improvements to the direct entry system, in particular enabling enhanced direct entry offerings that address authorisation and mistaken payment issues. Other Government agencies, in particular, the Australian Taxation Office have expressed interest in participating in this work and are already providing feedback as to their needs as users.
31. **RECOMMENDATION THREE: APCA would strongly encourage Departmental / agency input into the Direct Entry Refinements consultation process, in particular identifying their needs as users of the current direct entry system.**

5.2 Question 4 – Emergency Payments – Industry Services and Assistance

32. APCA has developed an industry Business Continuity Plan (BCP) to support distribution of cash in the event of an emergency, including covering a natural disaster or a pandemic. This supplements the BCPs for the individual banks involved in APCA's Australian Cash Distribution and Exchange System (ACDES).
33. In the event of limited or unavailable power and telecommunications services, the industry will endeavour to provide cash to the affected areas, or to areas close to, but outside the main impact zone if the specific area is inaccessible.
34. Part of the plan may require close liaison with government and emergency services to, for example, identify safe alternative premises for storing cash should existing premises be inaccessible, or to ensure access by financial institutions to affected sites to replenish supplies when it is safe to do so.
35. One of the biggest challenges to the industry in such a situation is the fact that, although thousands of people may be reliant on the ability of financial institutions to provide cash in the event of an emergency, financial

institutions and supporting entities are generally not considered essential services by state or federal governments.

36. The Business and Finance Advisory Group (BFAG), part of the Government's Critical Infrastructure Project, has been liaising with the various state governments to address this particular issue and also to develop appropriate emergency services contacts in the event of such an emergency. Some aspects of the ACDES BCP are reliant on the contacts and agreements being developed by BFAG.
37. **RECOMMENDATION FOUR: APCA would be pleased to organise a workshop for the Department / agencies on current industry contingency plans for cash distribution in emergencies, with a particular focus on identifying areas for possible collaboration and coordination.**

5.3 Questions 8 and 9 – Medicare Easyclaim – Other Services and Further Use of Infrastructure

Questions 12 and 13 – Income Management – Improvement Compliance and Use of Additional Information

Question 28 – Electronic Benefit Cards – Future Use and Industry Developments Needed

38. Enhancements to Medicare Easyclaim, the BasicsCard or the introduction of any new electronic benefits card would ideally be addressed on a systemic basis. This would foster transparency and contestability.
39. Systemic changes involving the Australian EFTPOS and ATM networks would be done through APCA's Consumer Electronic Clearing System (CECS).
40. The Department of Human Services currently sits on the CECS Advisory Council, which will continue to provide a forum for external stakeholders to raise issues about improvements to CECS.
41. **RECOMMENDATION FIVE: APCA would encourage continued Departmental / agency participation in the CECS Advisory Council. We would note any suggestions for short-to-medium term systemic enhancements to CECS be brought to the CECS Advisory Council for discussion and possible consideration at the CECS Management Committee.**

42. While these short-to-medium term enhancements can be discussed with the existing CECS structures, the recent creation of a separate company - EFTPOS Payments Australia Limited (EPAL) - as the governance structure for EFTPOS may mean that this changes in the future.
43. Overall, card-based payment channels present considerable opportunity for the Department and its agencies, as identified in the Discussion Paper. However, this is a rapidly evolving area with the creation of EPAL. Further discussion about future opportunities with APCA, EPAL and our members may be of assistance in helping the Department / agency and industry work through possible future direction in the use of cards and related systems.
44. **RECOMMENDATION SIX: APCA would be pleased to organise a workshop involving APCA, key industry and Departmental / agency stakeholders to assist the Department develop its strategy with a focus on possible enhancement to CECS to better facilitate future initiatives.**

5.4 Question 33 – Industry Assistance on Rapid Implementation and Keeping Government Informed of Technical and Commercial Developments

45. The Department has indicated that the Discussion Paper is the “start” of the process. On this basis there remains considerable strategic work that obviously needs to be done within the Department / agencies.
46. APCA, as the peak payments industry body, is well placed to provide information about payments system developments, both domestically and internationally. APCA could keep the Department and agencies up to date on systemic work that it is doing or involved with that may be of interest – such as the COIN and settlement work. As well, APCA can provide feedback to the Department on strategic thinking as well as assist in industry dialogue.
47. **RECOMMENDATION SEVEN: APCA would propose regular quarterly meetings between APCA and the Department and agencies to share information and intelligence on payments system developments.**

5.5 Question 34 - Industry and Government Engagement and Dialogue

48. APCA believes that engagement between the Department and its agencies with industry is vital and should be promoted.
49. Ideally, industry and government stakeholders should share information on long-term public strategies and systemic developments in an open and transparent fashion. The current Department of Human Services consultation process as well as the development of the Low Value Payments Roadmap by APCA point towards such open and transparent processes. Such processes should continue and remain distinct from procurement processes and proprietary developments.
50. Long-term strategies and system developments can evolve and often change. It is therefore important that industry and government stakeholders consult with and inform each other on such changes.
51. APCA's role as the payments industry body and our role in managing industry collaborative and systemic developments makes us well placed to provide such a forum for government and industry stakeholders to come together to discuss future strategic and systemic developments in a collaborative environment.
52. The above recommendation for regular quarterly meetings would greatly facilitate this.

5.6 Question 35 – Government Adaptation and Driving of Innovation

53. It is important for the Department and its agencies to recognise that the sheer scale of its use of the domestic payments systems means that its user decisions have the potential to influence the overall direction of the payments system in Australia. As already stated, Centrelink is a major user of the direct entry system and indeed its continued use of direct entry for benefit payments contributes to the continuing vitality of the direct entry system.
54. It is not APCA's place to endorse any particular payment instrument, channel or provider. However, this scale needs to be factored into the Department's thinking about future use, in particular whether it believes it has a role in driving payments innovation. In this context, one important issue is whether the Department wants to further promote the use of

electronic payments, which have the benefits of being more efficient and often more secure than paper-based payments, through its decisions as a user. As well, department and agency decisions concerning card-based, contactless or mobile payments will undoubtedly expand or contract potential markets and need to be considered carefully. Such decisions have the potential to drive economy-wide improvements.

55. As a result, development and publication of the Department and its agencies long-term payments strategy is critical as it can assist the industry in making investment decisions and in its own strategic planning. Again, publication of such a vision can be done in an open and transparent manner, away from the commercial sensitivities of procurement.
56. The Department also needs to recognize that its decisions could help catalyse wider changes to the Australian payments system. By driving improvements to electronic payments or fostering industry-wide or systemic innovations, the Department and its agencies can deliver wider economic benefits and efficiencies to the benefit of the wider community.

5.7 Question 36 – Government and Payment Infrastructure

57. When systemic changes are needed, the Department or its agencies may wish to go through its payments service provider to seek systemic changes from bodies such as APCA. Though this option should remain available, we would suggest that Department and its major agencies, as a major user of the payments system, may see it as more appropriate to contact APCA directly when it is seeking or considering systemic changes, particularly if any changes are sought prior to procurement or engagement of a service provider. Continued involvement in the CECS Advisory Council and quarterly meetings would greatly assist this.

5.8 Question 38 – Government Funding, Investment and Procurement

58. Payments and information services will often be provided to government agencies on a proprietary basis. It is here that competition will generate innovation and efficiency. As a result, maintaining sound procurement processes remains important.

6 SUMMARY

59. We believe that the seven recommendations within this submission constitute an “action plan” that will help drive the Department’s discussions with industry and help catalyze the necessary discussions and collaborative work on systemic changes and industry development work to the Australian payments system.

Action Plan / Summary of Recommendations

1. Department of Human Services to Continue to Participate in CECS Advisory Council – Continuing
2. Join APCA’s LVP Message Gap Analysis Working Group – As Soon As Practicable
3. APCA Workshop on Current Cash Distribution Business Continuity Planning – Convene in Q4 2009
4. Quarterly Liaison Meetings between APCA and Department – Commence Q1 2010
5. Workshop on Future Cards Usage by the Department / Agencies – Convene in First Half of 2010
6. Participate in APCA’s “Future of Paper Payments” Consultation – Commence in First Half of 2010
7. Participate in “Direct Entry Refinements” Consultation – Commence in First Half of 2010