

March 2011

Low Value Payments Roadmap: Update on Progress

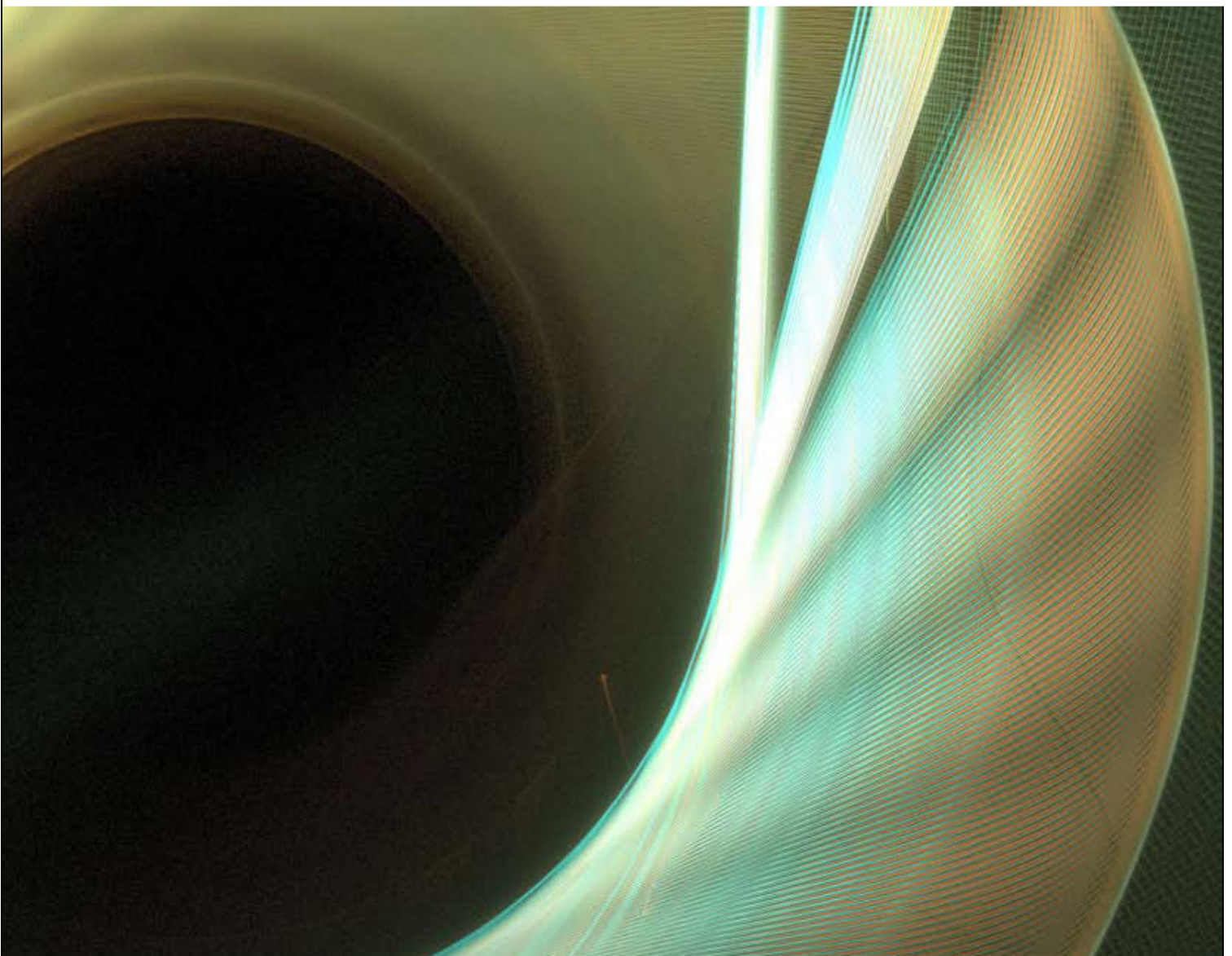


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1. Introduction

In December 2008, the Australian Payments Clearing Association (APCA) published **Low Value Payments: An Australian Roadmap** (“the LVP Roadmap”). The Roadmap provided a high level vision of Australian low value payments in 2018 and an industry solution path towards the vision. The solution path addressed network arrangements (with a focus on physical connectivity), settlement processes, transaction reference information & clearing processes, and the future of cheques.

This paper reviews industry progress against the solution path as at March 2011 for the benefit of APCA members and other stakeholders. It does not seek to readdress the high level vision at this relatively early stage in the 10-year timeframe of the original Roadmap.

2. Summary of progress

The urgent need for alternative **network connectivity** has meant industry resources have been directed towards the development of the Common Payments Network, comprising the Community of Interest Network (COIN), SWIFT and the Reserve Bank of Australia (RBA) clearing interconnector. This is progressing faster than anticipated with over 60 per cent of the 80-plus bilateral linkages migrated by the end of 2010. Throughout 2011, significant industry resources will be put towards completing the migration of mainstream payments traffic to the new network.

Work on renovation of **settlement arrangements** is progressing, but has taken longer than anticipated. Industry effort is now focussed on implementation of the Low Value Settlement Service (LVSS), a major systemic effort led by the RBA to replace existing settlement interfaces for all participants in all payment types. Implementation should be complete by the end of 2011. APCA has developed operational models for same day settlement in the direct entry system and analysed systemic risk implications, concluding that systemic risk was not a compelling driver for same-day settlement. The emphasis now is to explore how LVSS might be used to speed up funds availability to improve customer convenience and economic efficiency.

Work on **transaction messaging standards** and **the future of cheques** is progressing well, though somewhat behind the initially proposed schedule.

The outstanding issue from the 2008 Roadmap is **direct entry refinements** (project C.2). Apart from mistaken payments, for which a new framework has been agreed with ASIC, proposed refinements have been given low priority by members.

APCA anticipates reviewing the LVP Roadmap’s underlying vision and solution path in 2012.

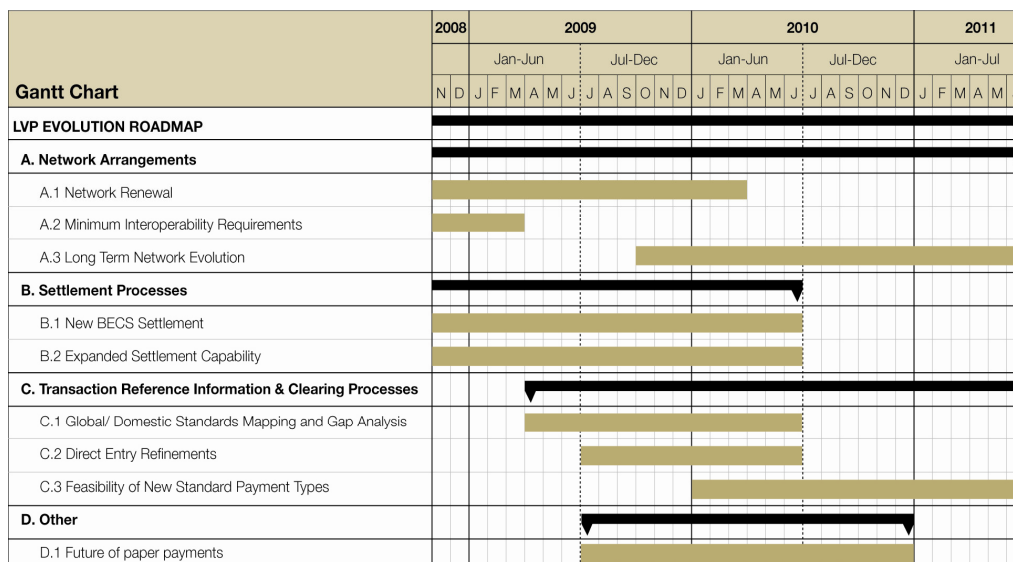
3. Background

“Low value payments” (LVP), which include direct credit, direct debit and cheque, underpin our economy. In Australia, although card volumes have increased rapidly in recent times, low value payments account for more than a third of all non-cash payment transactions by volume. In value, low value payments constitute slightly less than a third of all non-cash payments by value, significantly more than card-based activity.

The objectives of the LVP Roadmap are to:

- Present an informed view of the future evolution of Australia’s low value payments infrastructure and services;
- Guide industry project activity;
- Assist payment system participants and service providers to make important investment and payment service decisions; and
- Inform users of the payment system and other stakeholders about future industry direction.

The solution path outlined in the LVP Roadmap included a series of industry projects (see below). It reflected the long lead-times often required for significant change and was designed to assist industry participants with their own strategic and budgetary planning.



Section 4 sets out in italics the main projects outlined in the LVP Roadmap and then the status of those projects as at March 2011.

4. Progress of projects

4.1 Network Arrangements

4.1.1 Network Renewal (A.1)

Summary of Proposed LVP Project:

In response to the need for network technology redevelopment from X25 to Internet Protocol, develop an industry case for an optional Community of Interest Network (COIN)-based network solution to support one or more of APCS, BECS and CECS (i.e. electronic exchange of paper instruments, direct entry transactions and domestic debit card transactions).

Industry decision needed early 2009. If developed must be available for use end 2009 / early 2010.

Status:

On track, with increased scope.

Progress as at March 2011:

Following extensive industry debate and support from the RBA, the COIN was established in February 2010. APCA is the COIN Administrator, with oversight provided by a Management Committee of COIN members. Telstra was selected as the telecommunications provider for the COIN and the RBA has agreed to act as operational manager.

The COIN is part of a wider physical connectivity network for payments; the Common Payments Network (CPN). This comprises the COIN, SWIFT and the RBA clearing interconnector which enables payments traffic to pass between the COIN and SWIFT.

With the establishment of the CPN, APCA extended the scope of the project to encompass coordinated migration of traffic from 3 clearing systems onto the CPN. The members of the APCS (cheques), BECS (direct entry) and CECS (cards) systems are currently migrating traffic to the Common Payments Network with industry change coordination provided through APCA. This commenced in 2010 and will complete by the end of 2011. By the end of 2010, 60% of those links had migrated to the Common Payments Network.

4.1.2 Minimum Interoperability Requirements (A.2)

Summary of Proposed LVP Project:

APCA will review the rules frameworks for APCS, BECS and CECS to ensure that minimum objective standards exist for network connectivity in light of impending technology end of life issues.

Switch or hub operators (such as BPAY, Visa and MasterCard) may also need to consider their own network arrangements.

Project should be complete by early 2009.

Status:

Complete.

Progress as at March 2011:

APCA reviewed the rules of APCS, BECS and CECS in 2009 to ensure consistency with the COIN rules. The rules framework for the COIN was approved in February 2010 and was similarly designed to ensure consistency across the three APCA systems.

4.1.3 Long-Term Network Renewal (A.3)

Summary of Proposed LVP Project:

Once a decision has been made on Network Renewal, a longer-term, strategic feasibility and industry case should be assessed to explore the scope for convergence of underlying networks for all Australian payment systems, including direct entry, cards, BPAY and the High Value system.

Project should commence before end of 2009, with completion to be determined.

Status:

Not proceeding – project objective achieved by other means.

Progress as at March 2011:

The architecture and governance structure of the COIN already allows for the acceptance of traffic from any payments system. Enhancements to the COIN architecture and governance arrangements are being explored to provide greater flexibility in future COIN usage and participation. The COIN has also been designed to enable alternative telecommunication providers in the future.

The creation of the Common Payments Network utilising SWIFT and the COIN through the RBA clearing interconnector enables the future participation of new network alternatives, and provides scope for the addition of any and all Australian payments traffic as members and operators see fit.

In this way, the CPN has enabled the convergence referred to in the project scope without the need to undertake a separate exercise.

4.2 Settlement Processes

4.2.1 New BECS Settlement (B.1)

Summary of Proposed LVP Project:

APCA should develop a risk-based industry case for steps to reduce settlement risk in BECS and provide the capability for more timely settlement, clearing and funds availability options for customers. There may be a programme of different steps with different timing, costs and risk.

Program agreed by mid 2009.

Status:

Substantially delayed and rescope. Expected completion mid 2011.

Progress as at March 2011:

In 2009, APCA members developed a number of operational models for same day settlement in BECS. However, despite extensive industry debate they were unable to reach consensus on the risk and liquidity implications of the models, and therefore on the industry case for implementation of any one model.

In 2010, APCA commissioned a systemic risk analysis by Deloitte comparing existing arrangements with a model of intraday batch settlements after interchange. This analysis found that systemic and counterparty risks should reduce in an intraday settlement environment. However systemic risk did not itself make a compelling driver for same day settlement, since current systemic risk in low value payments were already being effectively managed. This remained true despite stress testing to allow for major structural shifts and increased volumes.

However, APCA and its members continue to explore more timely funds availability from the payments system as a means of delivering customer convenience and economic efficiency. The scope of current work covers utilising RBA's Low Value Settlement Service (see 4.2.2) and other measures to speed up funds availability.

4.2.2 Expanded Settlement Capability (B.2 - RBA Project)

Summary of Proposed LVP Project:

Industry should support RBA's development of enhanced settlement capabilities in RITS. (The new BECS Settlement project may take advantage of new capabilities provided by RBA.)

Status:

Progressing. Expected completion 2012.

Progress as at March 2011:

In May 2008, the RBA began consulting with industry on RITS low value clearing and settlement enhancements. These included the RBA clearing interconnector, noted above, as well as enhancements designed to deliver flexible settlement arrangements.

The RBA explored and consulted with industry on a range of issues concerning enhanced settlement arrangements and in November 2010 released detailed documentation for its Low Value Settlement Service (LVSS).

The LVSS represents an upgrade to the settlement capabilities in RITS. The LVSS will create a new submission means for the 9.00am settlement obligations as well as greater flexibility in settlement arrangements for existing and future payment systems and ultimately facilitate a move towards shorter settlement cycles. Testing and implementation of the LVSS is set to occur during 2011 and 2012 and will affect all settlement participants in all payments types.

APCA will assist this systemic effort by coordinating the industry's take up of the LVSS for APCS, BECS and CECS settlement processing.

4.3 Transaction Reference Information and Clearing Processes

4.3.1 Global / Domestic Standards Mapping and Gap Analysis (C.1)

Summary of Proposed LVP Project:

APCA should develop a detailed mapping and gap analysis between ISO20022 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.

Project complete by mid 2010.

Status:

Complete.

Progress as at March 2011:

In 2009 and 2010, APCA worked with members and stakeholders to identify opportunities for future messaging standards in direct entry. The Working Group identified gaps between the current direct entry message sets and possible future message sets that could be offered through the emerging global standard, ISO20022.

This work involved financial institutions, the RBA, the superannuation and funds management industry (represented by the Financial Services Council and the Association of Superannuation Funds of Australia), the Commonwealth Department of Human Services, the Australian Taxation Office, BPAY and Standards Australia.

The working group analysed the growing global developments utilising the ISO20022 standard (Single European Payments Area, Japan, China, USA etc) and the domestic requirements of payment participants. There was a general confirmation of the need to develop a capability to carry more reference data with a payment as well as a recognition that the current payment systems would continue to serve the industry for some time.

As a result, a recommendation to develop a non-binding initial ISO20022 schema for Australian payments was accepted by the APCA Board in December 2010.

4.3.2 Direct Entry Refinements (C.2)

Summary of Proposed LVP Project:

Assess system specific refinements to the current DE system, for example, to enable enhanced DE offerings that address authorisation and mistaken payment issues.

Project complete by mid 2010.

Status:

Delayed. Completion as regards mistaken payments anticipated mid-2011. Other refinements have reduced priority.

Progress as at March 2011:

In May 2010, BECS members agreed on a new framework for improving responsiveness and reducing risk where a consumer makes a payment in error and seeks to recover it. The framework is to be implemented in the BECS procedures in coordination with Australian Securities and Investments Commission's (ASIC) revision to the EFT Code of Conduct, anticipated by ASIC to be republished in mid 2011 as the Epayments Code.

In early 2010, APCA sought industry views on refinements of the current direct entry system through a detailed online survey of providers. In May 2010 BECS members decided that the scale and benefits of the proposed refinements were low priority.

4.3.3 Feasibility of New Standard Payment Types (C.3)

Summary of Proposed LVP Project:

Based on the mapping and gap analysis noted in C.1, APCA will assess the feasibility of migration of each Australian message set to a unified set of globally compliant message standards, beginning with direct entry.

Project complete by mid 2011.

Status:

On track, but with reduced scope.

Progress as at March 2011:

The project commenced in January 2011 with a technical working group being formed to define and publish an Australian ISO20022 schema for payment messages.

Although the definition of an Australian Schema for ISO20022 would be non-binding, it could potentially provide immediate benefits to those Financial Institutions currently mapping data received in the ISO format to payment systems such as BECS. It could also benefit those institutions building infrastructure solutions based on the ISO standard to improve internal efficiency.

APCA would also ensure the schema is as compatible as possible with global developments to promote future interoperability. APCA would also work with other sectors such as the superannuation industry as they develop their own standards for payments-related messaging, again to promote as much alignment as possible.

4.4 Other

4.4.1 Future of Paper Payments (D.1)

Summary of Proposed LVP Project:

APCA should consider 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.

Project complete by end 2010.

Status:

Progressing, but delayed. Expected completion end 2011.

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Progress as at March 2011:

APCA began work on the “Future of Cheques” in early 2010. This project involved industry and community consultation to assist in the development of an industry position. Two attitude surveys were undertaken in 2010; one of cheques users by Edgar Dunn and an industry survey of cheque issuers and processors.

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APCA members met at the end of January 2011 to review the two surveys and develop options for public consultation, which is planned to take place later in 2011.

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5. Next Steps

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The progress of the LVP Roadmap suggests that future evolution will have many twists and turns, and that it is neither plausible nor desirable to predict future developments step-Á by-step. Rather, the role of the Roadmap was and is to provide long-term evolutionary guidance. In APCA’s view, although progress have been varied and affected by subsequent market developments, the Roadmap has done this.

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Substantial systemic change is currently under way in Australian payments, both under the Roadmap projects and separately.¹ In APCA’s judgment, payment system evolution so far is broadly consistent with the Roadmap vision.

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Once the outcome of current systemic work is clearer, APCA anticipates the need to review the underlying vision. It is anticipated that this will occur in early 2012, three years after the original Roadmap.

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6. Further Information

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The following are available on the APCA website www.apca.com.au:

[Low Value Payments: an Australian Roadmap](#), December 2008

[APCA Annual Review 2010](#)

[COIN Media Release](#), 11 March 2010

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Individuals seeking further information on the LVP Roadmap can also contact Dr Brad Pragnell, APCA Head of Industry Policy at bpragnell@apca.com.au or on 02 9216 4888.

¹ For example, BPAY is engaged in development of a new payment service, MAMBO; Australian payment cards are in the process of conversion to EMV chip processing, and major renovation is planned for the domestic debit card system under the leadership of EFTPOS Payments Australia Limited.