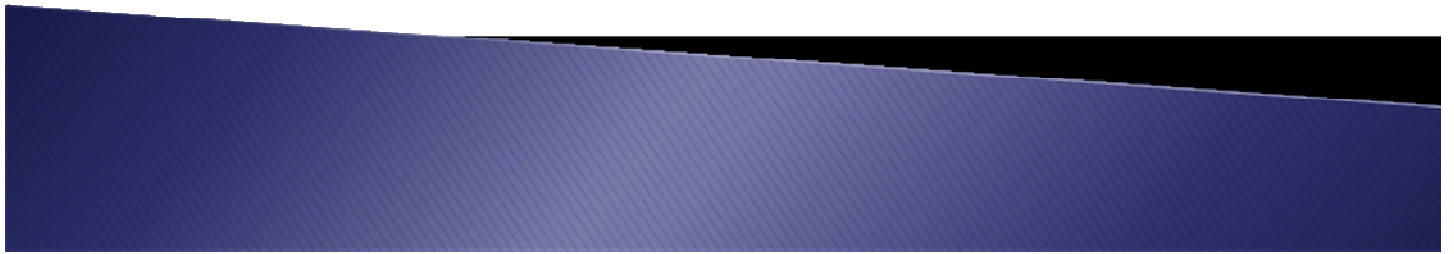




AUSTRALIAN SETTLEMENTS LIMITED

ABN 14 087 822 491

SUBMISSION ON THE POINTS RAISED IN THE LOW VALUE SEMINER WHITE PAPER



White Paper Responses

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1. Introduction

Australian Settlements Limited (ASL) is a Tier 1 member of the Bulk Electronic Clearing System (BECS) and performs an aggregation service for its members, building societies and credit unions.

ASL represents its members on the Management Committees of all the APCA clearing systems and has a representative on the Low Value Payments Industry Working Group to which this submission refers.

2. Usage & Trends Commentary

2.1 *Questions for Payment Services Customers*

3-1 How do you anticipate your usage of cheques in (say) 5 years time will compare to your usage today? What factors would influence this?

Our members do not foresee an appreciable decline in the number of cheques processed to what are currently processed. They believe that there has been reductions in usage but contend that this has now reached a plateau where the only reduction in cheque usage will be minor. However they do see that there may be substantial reduction if an electronic payment could also encompass the data that can be included with a cheque.

3-2 What is your view of the merits and shortcomings of direct credit as it is today in meeting your payments needs? Similarly for direct debit and BPAY if you are a user of these services, what merits and shortcomings do you see?

Currently Direct Credit would meet the needs of perhaps 60/70% (or even higher) of all transactions bearing in mind that these currently are either salary payments, social service payments, dividends or Pay Any One transactions and there is not a great deal of additional data required for these payments. However there is a need to be able to include more data with the balance of the payments so that both the beneficiary and the remitter can reconcile the payments.

In regard to Direct Debit, this appears to be a growing area with more and more companies embracing the concept as it gives them the ability to collect monies without the need to wait on their customer to pay them the funds. Accordingly, it is felt that this does adequately meet the needs for which it has been designed. Again with BPAY, it meets the need for which it was designed but would not meet the needs of companies receiving payment of invoices unless there is modification to

allow details of the payment. (Often companies do not pay the full invoice for a defined reason and this needs to be detailed with the payment)

- 3-3 What facilities associated with these electronic payment types would make them more attractive for you?

The ability to add meaningful data so that both the beneficiary and the remitter would be able to simply reconcile the payments

2.2 Questions for All

- 3-4 What is your view as to why cheques are used in preference to electronic alternatives? Do you anticipate these factors changing over time?

The continued incidence in the use of cheques is three fold. The first is that from a personal customer level the drop has reached a plateau and will not decrease further until there is a population change. From a company point of view, cheques are easier as meaningful data such as what part of an invoice is not being paid or even a string of invoice numbers can be included with the cheque. The final one is that some FI's have a cheque writing system that is sold to companies and the FI find this an attractive source of revenue. There may be changes but this will not happen in a short time frame unless there are changes made to accommodate the customers needs.

- 3-5 What additional aspects of the current situation would you wish to see considered in support of any case for change?

There is a need now to make changes to BECS to enable business customers to use DE in lieu of writing cheques. If this is to be delayed by more than one year then there will need to be steps taken in APCS to improve that clearing system such as truncation and destruction of the paper

- 3-6 What additional commentary would you like to provide?

See above comments

3. Network Arrangements Commentary

4-A1 What factors do you consider most important to the selection of network architecture for inter-FI payments traffic?

The architecture should be a sound, secure network that has an equal level of charges (no volume discounts) to all players. This network should be internet based and be able to carry all inter FI payments traffic including DE, EP/ED files, ATM and EFTPOS.

This network (or cloud) could be managed by say APCA and would also facilitate a simple connection for all new entrants to the individual Payments Systems

4-A2 What additional high level requirements would be important to assess between alternatives?

That there is equality of costs per transaction processed over the new network or this would leave an uneven playing field where the cost per transaction would differ according to volume. For example if SWIFT were proposed, the larger FI's enjoy volume discounts which do not apply to the smaller FI's which in turn would destroy competition in the market place as the smaller FI's could not compete on transmission costs. Also a fixed cost per year is preferable as this then reduces the marginal cost per transaction as more volume is processed

4-A3 Apart from transition, what other implications would there be if a change was made from bilateral network arrangements to COIN or VPN arrangements?

There could be problems during the transition but it must be completed before the end of 2009 as that is when the support for the FEP's ends. Otherwise it seems to be a very good move from the bilateral links to a COIN or VPN

4-A4 What do you consider to be the relative merits of a hub based service (the ACH model) vs a VPN type model?

One of the most important factor which has made the current DE so successful is its ability to continue to operate even if one member experiences connectivity / processing problems. This has been achieved by using decentralized systems and bi-lateral links which would not have been

achieved if a central hub was utilized. Further with each member having their own system allows for innovation and competition which could not be achieved if it was a standard system on a central hub. There is also a poor record of central hubs being successful in the Australian banking environment.

4-A5 What further suggestions or variations would you add for this component?

See above comments

4. Settlement Process Commentary

4.1 Questions for Payment Services Customers

4-B1 What proportion of your inwards payments would benefit from faster access to the funds received? Similarly, what proportion of your outwards payments would benefit from being recognised faster by the payee? Why? What specific timing issues or problems affect you?

N/A

4.2 Questions for Payment Services Providers

4-B2 Do you believe intra-day settlement would reduce your concerns over settlement risk satisfactorily?

We believe intra day settlement of files must be done as a priority after each official exchange using the current electronic methods of advising the National Collator.

4-B3 What respective merits do you see in being able to support real time file by file settlement versus adoption of (less frequent) intra-day settlement windows? What other dependencies do these alternatives introduce?

However, due to the abundance of bi-laterally agreed exchanges, (our last is at midnight) it would not be possible to have immediate settlement of all files by using either "Y" or "T" copy. A further problem exists in that whilst policies and procedures can be put in place for either solely credit or debit files, it would not be possible for the "mixed" files which many are.

The logical solution is to use the current electronic settlement file system that we are required to send to the National Collator at the end of each day, but instead send the figures say 30 minutes after each official exchange and these figures will include any bi-lateral agreed exchanges made since the last official exchange.

This would overcome the problems of credit, debit or mixed files and at the same time allow virtually immediate settlement of exchanged items. It also removes the inequality of SWIFT costs to different users.

4.3 Questions for All

4-B4 What further suggestions or variations would you add for this component?

See above comments

5. Transaction Reference Information Commentary

5.1 Questions for Payment Services Customers

4-C1 To what extent would extended transaction information improve operational efficiency for your business? Is STP (straight through processing) on your agenda?

N/A

4-C2 Would initiatives such as these encourage greater use of electronic payments in lieu of cheques?

N/A

5.2 Questions for Payment Services Providers

4-C3 What is your view of the potential offered by ISO20022 as a payments framework both for inter-FI and FI-customer services? What alternatives should be considered?

As far as we are aware ISO 20022 is not itself a payment message format but is a framework on which message formats can be constructed. Accordingly it should be used as the basis of the new electronic payment but it is important not to over complicate the message format otherwise it will not gain acceptance and also will seriously hinder STP.

4-C4 Do you perceive benefit in introducing an interim capability on existing BECS messages before adoption of (eg) ISO20022? Is this realistic for you?

We strongly believe that the current BECS formats need to be modified in the short term (1 to 2 years) whilst the new message formats are developed and built.

These changes could be as simple as adding a reference field at the end of the current format to cater for data which would be meaningful to the beneficiary of the payment. (Allow simple reconciliation in the same way that an advice with a cheque does now)

5.3 Questions for All

4-C5 What are your views regarding the adoption of international standards vs the development of local standards for payments and payments integration?

Any new payment format should be based on the ISO20022 format. Also any new BSB account number format should be expanded to 20 characters to accommodate payment of credit cards which can have up to 20 character account number

4-C6 What other commentary would you provide on this component?

See above comments

6. Clearing Processes Commentary

6.1 Questions for Payment Services Customers

4-D1 What advantages would real time or faster authorisation / notification processes provide you?

N/A

6.2 Questions for Payment Services Providers

4-D2 Are there other clearing related requirements you would suggest?

There is already a supposed Real Time credit system called RTGS or HVCS that can cater for those who need immediate value of funds transferred to

them. However, this can only be achieved if the receiving FI has the ability to post the funds to the beneficiary's account immediately funds are received.

There could be a facility to advise the beneficiary of the receipt of cleared funds (either through BECS or HVCS) but this should be a proprietary service that an FI could provide and should not be part of the clearing system

In regards to the concepts, only D-3 would have some appeal but we are not sure how it would impact on a customers account as it may mean that FI's would have to have the ability to "lock" funds and prevent them being applied against other debits (cheques) which have been presented first. (This is a very important aspect as traditionally an item can not be 'paid' until it is presented)

4-D3 What additional impacts would these concepts present?

All three concepts would require a radical rebuilding of most FI's transactional accounting systems

6.3 Questions for All

4-D4 What further suggestions or variations would you add?

See above comments

7. Transactions Facilitation Commentary

7.1 Questions for Payment Services Customers

4-E1 To what extent is electronic support for invoicing on your business horizon?

N/A

4-E2 To what extent would a service such as described attract you to adjust your business processes to take advantage of it? Would it influence take-up of electronic payments for commercial transactions for you? Why?

N/A

7.2 Questions for Payment Services Providers

4-E3 How familiar are you with the Finvoice model or equivalents elsewhere?

What additional lessons do you believe we could derive from these?

We are aware of the Finvoice model that has been used in Finland and we are also aware that it is being phased out due to SEPA. Realistically if a company wished to use electronic invoices and receive payment that way

there is currently BPAY and BPAY view which can accommodate these transactions. However there has been a very small take up of BPAY View by companies which would suggest that this service “whilst nice to think about” is not really on any company’s current vision.

7.3 Questions for All

4-E4 What is your view of wider services such as these being provided to customers through payment services providers?

There are currently matching services being provided to customers on a proprietary basis and these will possibly continue.

Also software suppliers are designing systems for sale to customers that will allow for invoices to be sent via the web and then be uploaded into the accounting software which will allow pre-population of reference data into the payment if it can be accommodated

4-E5 What other segment based solutions could take advantage of a transaction facilitation service coupled to payments? What would drive the case for action for these segments?

None

4-E6 What other comments would you like to make regarding this proposition or variations?

See above comments

8. Customer Interface Commentary

8.1 Questions for Payment Services Customers

4-F1 What are your views on the importance of the “standardised” integration of payments with customer software?

4-F2 What proportion of your payments would you see being enacted in real time as opposed to being batched for bulk submission?

8.2 Questions for All

4-F3 What other commentary would you provide regarding this component?

We consider that this should be a proprietary matter for each respective Financial Institution

9. Direction and Priorities Commentary

9.1 Questions for All

5-1 What is your view of the respective priority of initiatives?

There is an external need to proceed with some items as a matter of urgency and the major one is to change the network connections as support for the FEP's ends at the end of 2009. The other item which does need attention is the settlement of files to resolve the overnight exposure. This should be the second priority but is not so time critical as the network solution. Other changes would be driven as to what customers want and this seems to be the inclusion of data with the payment. Whether this is done as an interim measure first, needs to be determined and would be determined on when a revised or new system would be implemented

5-2 What is your view of the "case for action"? Where would you look for benefits?

There are different "case for action" scenarios for different drivers. For example, the network requirement is driven by the need to replace a network that will not be viable or supported.

In the settlement case, it is driven by the Rule that credits do not have to be posted to accounts until settlement is received. Whilst what is proposed might not be immediate settlement, it would be settlement before the overnight batch update that most FI's do.

The case for data would be driven by customers needs to include details of the payment and thereby reduce the incidence of cheques being issued. (However some FI's might not like this as they provide a cheque solution to their clients and it is a substantial income stream. However this could be mitigated by the ability to charge a higher fee if data is included.)

5-3 What is your view of the "emergence of convergence" in electronic payments?

There appears to be a continuing need for three types of electronic payments and these are simple payments such as salaries, (low cost) payments

including payment data and high value payments such as those which are used in settlement of AUD FX deals and are often in excess of \$100M. As there would be differing cost structures and needs for each of these types, it is doubtful if there will be convergence in immediate future.

5-4 What is your view of the future of the cheque as a payment type?

Whilst cheque usage is very slowly diminishing, there will be continuing use of cheques as a payment medium for the foreseeable future. For example, people in their twenties do not need cheques and currently use electronic payments, but when they get married and have school age children, they suddenly find a need for cheques for such things as school outings, etc. Consequently we hold the view that cheques will be around for a very long time yet

5-5 What final comments would you like to make on the future of Low Value Payments in Australia?

We can see the need for revision of the electronic payment channels in Australia and even to use them to attempt to reduce the number of cheques being issued. However this is a long term solution and we need to address some items in the immediate future such as network configurations and settlements. There is also a suggestion that the current DE format could be simply enhanced to cater for data in the short term and this then would give us an indication if companies will switch from cheques to electronic payments.

10. Conclusion

It is apparent that there is divergence of opinion on the way forward but that two items are seen as needing immediate attention and they are:

The network and
Settlement

We also contend that there is a third item that also requires attention, if not in the immediate category, then shortly thereafter and that is modification to the current formats to allow the inclusion of data. This could be seen as an interim step as to rebuild a completely new system will take some years before it is operational.

In regard to the first two items, there has been a strong push for the use of SWIFT FileAct and “Y” or “T” copy for the immediate settlement of the individual files. However this solution is discriminatory to the smaller users as the major FI’s receive volume discounts from SWIFT and this would thereby effectively lower their transmission costs which the smaller players could not match. We believe a better solution is a COIN or VPN with a settlement statement being sent to the National Collator say 30 minutes after each official exchange. (All Tier 1 have already built the ability to send files to the National Collator as mandated by the RBA)

In regards to the issue of needing an interim solution of adding a field for data at the end of the current message, this change would start to allow customers to avail themselves of this field and it should lead to a reduction in the use of cheques. (In reality the current BECS has been around for twenty years without major changes except for some tinkering on the peripherals which means that its design is robust and achieved what it was and is designed to do. The only major deficiency appears to be the lack of ability to send meaningful data with the payment and this can be achieved with the adding of one or two fields. BECS would then be viable for possibly another twenty years.