

Response St.George Bank

Usage & Trends Commentary

Questions for All

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

There are some definite generational or comfort factors in the continued drawing of cheques by some consumers and businesses, that will not be easily shifted - "it's the way we've always done it" mentality. For some of these groups the behaviour will not change simply because other options exist, even if other options are cheaper/more efficient - the users are simply change averse.

For these groups, the change will require either the withdrawal of cheque as an option or the decease of the drawer.

Cheque payment offers the convenience of delays of when the funds actually leave the account, potentially benefiting the drawer with credit interest until the cheque is presented, but also assist in managing cash flow.

There are some consumer payments that are made by cheque only because the payee has no other convenient means for the payer to make the payment (school fees often cited as an example) and generally are infrequently occurring payer to payee payments.

In addition images of cheques can be kept for future reference (recording drawer details on reverse of chq), reconciliation and audit purposes.

To an extent, customer adoption of electronic payments is slowed by the perception that cheques are cheap and offer better control, while float (as mentioned previously) allows flexibility in payments.

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

Payments is a volume based business. When there are a large volumes, the process efficiencies can occur, driving lower costs. A smaller amount of any one sort of payment makes it more expensive to process on a unit costs basis. Any development that allowed transactions conventionally executed via cheque through electronic means in a guaranteed way, while still affording the customer a level of detail and confidence in the chosen technology, would be expected to lead to a hastened demise of cheques.

To support the move from cheques to other electronic means, electronic remittance capability should be included.

What additional commentary would you like to provide?

Diminished costs for data storage and telecom bandwidth and widespread access to the internet have profound impact on the payments environment. Other environment changes, like the evolution of retail power, the entry of non-financial entities (BPAY & PayPal) into the payment business and accelerating decline in cheque payments, pose formidable challenges in the payments landscape.

To a large degree the success of new payment options lies in the hands of the consumer, they choose how and when payments are made. While the shift from cheque to electronic payments is advancing, a number of customers stubbornly hang onto cheques.

Network Arrangements Commentary

Questions for Payment Services Providers

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

Security and common infrastructure

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

Resilience, speed and cost

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

Perhaps a dual carrier solution for boost resilience and competition ... again SECURE

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

PGP encrypted emails retained as backup, DVD/CD couriered as a last resort.

Consideration should be given to fallback, back-up and other business continuity planning to continue to provide services in the event of disasters.

Settlement Process Commentary

Questions for Payment Services Providers

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

Intra-day settlement will definitely reduce settlement risk. However there are concerns that liquidity risk will be increased (significantly on some days). This must be addressed and costed before any decision is made.

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?

Settling on a file-by-file basis will provide consistency and Bank's Liquidity areas will be able to manage this easier as they know when to expect these flows. There must be controls in place to ensure that banks consistently meet their obligations (e.g. no Bank holds back any payments) so that there is no distortion to market liquidity.

Rules of any failures need to be precise and clear. Liquidity areas must be allowed a reasonable amount of time (to be agreed at a later date upon consultation) to meet requirements.

Batch amounts **must not** coincide with any CLS payments. When there are large dividends payments (i.e. Telstra which is approx. 3bn) there are extra liquidity concerns as a concentration of flows can occur that may not find its way back into the market. The RBA must monitor this and act accordingly where required.

Questions for All

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

Only larger volumes need to be sent through to RTGS and not smaller volumes, which are predominately from your small retail area.

All Bank's Liquidity areas must be consulted and kept up to date with proposals, as there will be a strain on all Banks' Liquidity.

No Batch amounts should coincide with any CLS pay in schedules to help minimise Liquidity Risk

Settlement Risk will be reduced, but Liquidity Risk will be increased.

Transaction Reference Information Commentary

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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?

ISO20022 provides the financial industry with a common platform for the development of messages in a standardized payment format both for inter-FI and FI-customer services, it will save time & money on developing a new payment format specifically for Australia. This will also enable Australia to align our banking practices to the international standards. Furthermore, it will also address the current issue with the limited number of reference characters.

The alternative/ short-term solution prior to the possible implementation of ISO20022 payment format is to extend the existing reference field to allow more characters.

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?

There is benefit in introducing an interim capability on existing BECS messages before adopting eg. ISO20022. Since the BECS system is working well, modification to the system should be considered, saving banks cost on R&D and implementation. Modification to the existing BECS system is more realistic than implementing a new system, considering the potential cost & time involved.

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?

The adoption of an international standard will potentially make Australian banking operations more efficient and allow the banks to embrace new technology & practice quicker. The quicker we adopt international standard, the more competitive we are internationally.

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

Australia should question as to why we need to develop local standards for payments and payments integration, while the world is working towards adopting international standards.

Clearing Processes Commentary

Questions for Payment Services Providers

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

Payment service providers should provide the option to send notification of received payments to beneficiary and also facilitate a confirmation report of notification sent to recipient.

4-D3 What additional impacts would these concepts present?

These concepts will add to the volume/size of files being sent through BECS, which might potentially affect the operation of the BECS system and influence the service level of other payment files that is time critical.

Transactions Facilitation Commentary

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?

Aware of a number of offerings in the market. Successful characteristics of Finvoice (or similar e.g. eInvoicing) which we should consider - The invoicer generates a ready-made payment proposal in the invoice, enabling payment information to be forwarded unchanged and error-free through the entire invoicing and payment chain. Payer receives the invoice in electronic format. The invoice may be opened in a browser and processed in the traditional way without any additional investment. Fully automatic processing is possible.

Lessons to consider: Finvoice (or similar) is an application not widely used in other countries; Infrastructure allowing any company or public authority by contacting only its own service provider to send invoices to any of its customers regardless of their solutions; All stakeholders should be involved in the development and implementation;

Questions for All

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

Payment services should be a standard offering to customers but with the flexibility for customisation. The flexibility of the offering can potentially eliminate reconciliation issues and save time & money.

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?

Other segments that could take advantage of a transaction facilitation service coupled to payments are;

Trade industry – assist in streamlining the import/export distribution process.

Legal – potentially minimize physical documentations and process settlements more efficient.

Commodities – for the purpose of dealing real time.

Capital Markets – can settle deals without physical documentation.

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

This service proposition should be implemented as a priority to assist Australian businesses in processing transactions more efficiently. It will help remove the physical issue of distance barriers that might currently impact.

Direction and Priorities Commentary

Questions for All

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

Necessary to overhaul and standardise an IP based comms structure due to both carriers not supporting low speed lines by the end of 2009.

We agree on prioritizing the proposed concepts as stated before initiating any payment file modifications. Existing capabilities utilized overseas should be considered & tested e.g. ISO20022 prior to any further R& D of the Australian payment systems.

5-2 What is your view of the “emergence of convergence” in electronic payments?

The potential convergence of all electronic payment types into a common format will certainly create simplification. This will eliminate the existing file specification/compatibility issues that banks and clients experience.

5-3 What is your view of the future of the cheque as a payment type?

Believe that the volume of cheque use is directly correlated to a specific generation. With the younger generations becoming more and more IT savvy, thus the volume of cheque use will substantially decrease in the future. As volume decline cost will increase, hence business will migrate to the cheaper payment channel.

5-4 What final comments would you like to make on the future of Low Value Payments in Australia?

Standardise communications with a sound carrier and resilience.

Australia needs to ensure that we are not left behind and adopt the international standard e.g. ISO20022. We need to integrate with the international standards instead of creating a different payment channel in Australia and potentially experience complications in the future.

We need to ensure any alternative solution/s consider the six characteristics (as published by DCITA) for payment systems to influence choice, these are: capability, cost, convenience, coverage, confidence & confidentiality. In addition consider unmet demands such as real time payments, remittance of information, electronic means that allow rapid interbank transfers, notification of receipt of payment in particular for B2B payments.