



SWIFT White Paper

In the context of the Consultation on the future of
Australia's Low Value Payments systems

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1 INTRODUCTION

*A contribution to
APCA's consultation on
the future of Australia's
Low Value Payment
systems*

The objective of this paper is to contribute to the Australian Payments Clearing Association's (APCA) consultation on the future of Australia's Low Value Payments systems.

Our purpose is to:

(1) share some views and observations derived from our involvement in other markets, and

(2) provide an outline of how we believe SWIFT's capabilities could support the evolution of Australia's Low Value Payments systems.

We hope APCA and its Members find this contribution of value. We look forward to engaging with APCA and its Members as the consultation progresses to gain a deeper understanding of the Australian payments industry requirements, and respond with a set of products and services, at the right price, for the benefit of APCA's Members.

Note: this document should be read in conjunction with the document entitled "Low Value Payments: Challenges of Evolution – A consultation document on the future of Australia's Low Value Payment Systems" issued by APCA on 1 May 2008, and with the document entitled "Same day Settlement of Low-value Payments in RITS – Industry Consultation Paper", issued by the Reserve Bank of Australia (RBA) in May 2008.

*Questions, feedback
and discussion*

We welcome questions, feedback and further discussion on the content of this document.

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2 EXECUTIVE SUMMARY

Towards more differentiation and higher levels of service, low costs and tighter integration with cross-border flows

Low value payment systems, having evolved from a single country perspective to serve a domestic customer base, are very diverse from country to country. This diversity is apparent across all dimensions, including standards, clearing and settlement arrangements, mix of payment products, service levels, technology and extent of direct participation.

In addition to a general trend towards a reduction or elimination of paper based instruments, we have observed three trends that seem to be common across a number of communities examining the evolution of their low value payments landscape:

1. A desire to introduce more differentiation and higher levels of service in payment products offered to customers (eg, intra-day low value payments, e-invoicing capabilities);
2. The obvious imperative of keeping costs low as systems evolve, through the use of cost effective technology, optimised processes and economies of scale;
3. The adoption of international data standards for domestic low value payments, to achieve economies of scale and better integration with cross-border commercial payment and remittance flows.

Supported by a set of products and services with the flexibility to adapt to the needs of domestic communities, yet offering the benefits of a global technology and standards platform

In response to these trends, and to serve our membership, we have developed a portfolio of services that communities can use for their low value payment systems. These include:

- A file transfer service, to transport files of payments with the security and reliability that customers expect from SWIFT. This service re-uses the SWIFT technology infrastructure that financial institutions have already deployed.

- A file header copy service, to copy summary payment information of a bulk payment file to a netting system or a settlement entity (eg, an RTGS system), to allow faster clearing and settlement of low-value payments.

- A multilateral netting system, for netting payment obligations between participants.

- A complete set of ISO 20022 message standards, covering credit transfers, direct debits and all other ancillary information flows, to enable the use of international standards in domestic environments.

These services are already used extensively by financial institutions for low value payments around the world, and in particular in Europe where the payments landscape is undergoing considerable change with the introduction of the Single Euro Payment Area (SEPA).

Although built on a shared infrastructure to achieve economies of scale, they can be implemented in a flexible way that best meets the need of any given system.

Our objective is to share our experience with the Australian payments industry and present the set of services that have been developed to support, in the most cost effective way, the next phase of the evolution of its Low Value Payment systems towards a world class structure.

3 SWIFT'S OBSERVATIONS AND VIEWS AS INPUT INTO THE CONSULTATION

The consultation document on the future of Australia's Low Value Payments systems highlights six main consultation topics. It focuses on network arrangements, the settlement process, transaction reference information, the clearing process, transaction facilitation and customer interface.

As a provider of messaging services and data standards to the global financial industry, we are pleased to share some insights and findings from our own experience in the field of low value payments.

3.1 Network architecture

The optimal solution often depends on the extent of direct participation in the system

(Question 4-A1)

As highlighted in the consultation paper, models adopted by various countries to exchange payment information range from bilateral network links to a functionally rich Automated Clearing House (ACH), that sorts and routes payments, calculates net positions and in some cases may perform other functions such as Anti Money Laundering (AML) checks. The key determinant in adopting a particular architecture is the degree to which participants in the system see value in sharing technology components. That in turn often depends on the extent of direct participation in the system.

The higher the number of participants (which can reach hundreds when all financial institutions in a country are direct participants, or thousands when corporate customers have direct access to the payment system), the more unwieldy and costly it becomes to manage bilateral links and arrangements.

With a limited number of participants, such as in Australia, bilateral arrangements can be managed effectively, and the value of investing in shared technology is less. Participants typically have the scale required, and process a larger proportion of "on-us" transactions that do not need to be exchanged through the system.

There is however a minimum level of common requirements the network architecture should support, regardless of the approach adopted.

A shared communications platform is the minimum level of shared technology to be adopted

(Question 4-A2)

Requirements such as the performance, reliability, contingency arrangements and security (eg, authentication, non-repudiation) of the chosen method for exchanging payment information should be common to all participants, regardless of the chosen network architecture.

The benefits of adopting a shared communications platform lie in the elimination of the overhead of managing bilateral links. The shared platform should include features such as access control, security, routing of files and messages, and transparent recovery from technical failures affecting one participant.

There are further benefits to be gained if such a communications platform can be leveraged beyond domestic low value payments. In that way, fixed costs for a given institution can be shared across all its messaging needs: payments and securities, high and low value, domestic and cross-border, transactions and reporting, corporate-to-bank and bank-to-bank, cheques, cards and direct debits/credits, access to multiple service providers.

Flexibility to meet evolving needs of the industry and foster innovation needs to be built in the design

(Question 4-A2)

We believe that, whatever the topology chosen:

1. The possibility for all players to access the platform is critical. Large banks, transaction banks, small and medium banks, financial institutions as well as payments processors such as ACHs or bill payment providers should be able to provide and use payments services without multiplying communication arrangements. This will lower barriers to participation in payments systems and enable value-added services in a cost effective way.
2. The communications platform should be flexible enough to cater for a variety of payment service levels (eg, batch, intra-day, real-time) and clearing arrangements (bilateral, through a clearing house). This will allow a variety of payment products to co-exist using the same platform.

Assessing the cost effectiveness of various options is difficult but necessary

(Question 4-A5)

In a high volume, low margin business such as low value payments, cost effectiveness of the platform is a key decision factor. However, assessing costs of different options can be difficult. Project, maintenance and operational costs will differ significantly between options, and a holistic approach should be adopted. The results may also differ between institutions, and a common way of estimating costs and benefits should be agreed amongst the community.

3.2 Settlement process

Customer requirements for a differentiated payment services offering should drive the choice of clearing and settlement arrangements

(Question 4-B4)

The need to examine alternative clearing and settlement processes is raised in multiple marketplaces around the world, especially at the time of technology upgrades. The requirements are generally twofold:

1. To reduce settlement risk, and,
2. To introduce more differentiation in payment services, ranging from near real-time payments and availability of funds to repetitive and predictable batch payments for next day settlement.

To address these issues, the Australian community would benefit from combining multiple intra-day file exchanges with multiple netting and settlement windows in RBA's RITS system. Net positions can be updated centrally in successive netting sessions. At the end of each session, settlement is done using net positions. Funds can then be made available to the beneficiary with no settlement risk.

Again, according to the service level required (batch payments, e-commerce payment, trade payment), the participants should be able to access different clearing and settlement channels, with distinct clearing and settlement frequencies (from once a day to multiple shorter sessions), possibly at adapted price levels. Real time execution of transmission, netting, settlement and clearing processes should also be offered, both on files and single transactions, in line with recent evolutions in mobile and internet channels.

The key consideration should be the range of payment products the members of the Australian payments industry might want to offer to their respective customers, depending on the evolving payment needs and habits of these customers. This, together with the cost of delivering these enhanced payment products, should drive the decision towards adopting none, either, or both of multiple netting and settlement windows and real-time settlement on a file by file basis.

3.3 Transaction reference information

A long standing issue Over the past decade corporate industry associations in several markets and regions have urged banks to improve transaction reference information to facilitate receivables and payables reconciliation. Very often the limited (and unstructured) remittance information that can be carried across clearing systems does not allow payment reconciliation without manual intervention. Furthermore, dealing with various counterparties around the world often means receiving remittance information in many different ways.

The ISO 20022 payment standards do not restrict the size of remittance information and provide a structured alternative. The structured remittance information component contains those data elements identified as necessary to enable straight-through processing (STP) and automated reconciliation of incoming payments. Besides the remittance information a number of dedicated references for both customer and bank parties allow for easier payment tracking, issue resolution and reconciliation.

The benefits of international versus domestic standards

(Question 4-C5)

Using international standards offers a wide range of benefits such as:

1. Increased efficiency in processing international payments (both from a customer and a financial institution perspective);
2. More choice in technology solutions provided by application vendors, resulting in less customisation, lower costs and faster implementation;
3. The ability for financial institutions and customers to design organisations, systems and processes with a global scale rather than restricted to the borders of any given country.

As highlighted in the consultation paper, there may be various paths to migrate from existing domestic standards to international standards that will differ from country to country, but the long term objective should be to use international standards.

ISO 20022 standards improves quality, costs and time to market

(Question 4-C6)

ISO 20022 or UNIFI (UNiversal Financial Industry message scheme) is the ISO-approved standard to develop messages in the financial industry. It is based on business process modelling and has been created to address concerns related to quality, cost of implementation and time-to-market of existing standards.

The *quality* is ensured by focusing on the requirements of end-to-end business processes and by involving industry experts to define and validate requirements and solutions. Open access to the ISO 20022 financial repository where full information on standards is stored (data dictionary and complete business process catalogue, including processes, transactions, messages and schemas) allows the reuse of information, increasing end-to-end automation capabilities. SWIFT is guardian of the financial repository as Registration Authority for the ISO 20022 financial messages.

The decoupling of the business standard from the physical standard improves stability and allows better control of the *cost of implementation*: users of the standard can base their implementation on the business standard, which will protect their internal applications from a further evolution of the technology as only the physical messages will be impacted and no revision of the underlying business standards will be required. It also allows the involvement of the business experts at the right time and for the right reasons, namely to discuss the business aspects of the standard and it results in an implementation- and representation-neutral definition of the standard.

ISO 20022 also addresses the issue of proprietary technology by using well-supported open standards such as XML and UML. The various benefits that they offer have led to their adoption as a base technology by many large software providers.

ISO 20022 addresses the *time-to-market* issue by letting the industry set the standards development agenda and priorities. The increased automation capabilities for development and implementation of the standards also decrease the time between the definition and real deployment of standards

ISO 20022 payment standards cover the full range of payment products

(Question 4-C6)

Existing ISO 20022 standards cover the full range of payment products (credit transfer, direct debit, high and low value, ACH and RTGS, single and multiple, urgent and non-urgent payments) and related information flows, whether exchanged between financial institutions, financial institutions and ACHs or financial institutions and corporate customers. A new working group was recently created to address card payments. The standards are the result of close cooperation between major standardisation organisations, worldwide financial industry players, corporations and vendors. The messages are global standards that the financial industry will be able to leverage in the relationship with their global customers.

The Australian community was an active participant in designing these messages. The message standards should cater for the Australian market requirements. The implementation of these standards can be fine tuned to the specific requirements of the Australian community.

3.4 Clearing processes

Clearing and settlement processes are interdependent

(Question 4-D4)

Please see 3.2 Settlement process above. We believe clearing and settlement processes are tightly linked and should be driven ultimately by the range of payment products and service levels the members of the Australian payments industry might want to offer to their respective customers.

3.5 Transaction facilitation

E-invoicing can bring considerable benefits to the economy

(Question 4-E4)

Offering an e-invoicing service represents an added level of service to the core banking service proposition that financial institutions offer to their corporate customers. Such services have the potential to become a significant differentiator in the market place and are an excellent complement to traditional payment services. Some recent estimates of the benefits of enabling e-invoicing point towards considerable savings amounting to 0.8% of GDP (Source: "SEPA: benefits at stake, Cap Gemini, August 2007").

Access and reach are key enablers

(Question 4-E6)

Recent experience in Finland has shown that financial industry participation can make the transition to e-invoicing happen quickly. Banks in Finland re-use their existing file transfer and e-banking channels to allow corporate customers to create, exchange, view and pay e-invoices.

One of the distinguishing characteristics of the Finvoice model is that it is a community-wide initiative. Inter-bank networks are utilised to extend the reach of the e-invoicing network beyond individual banks customer base. The combination of these two elements, easy access and wide reach, has removed many of the risks previously perceived by corporates. Today more than 30% of corporates in Finland have signed up for the banks' e-invoicing service.

A common standard is a prerequisite

(Question 4-E6)

Banks in Finland have agreed to use a commonly developed e-invoice format (Finvoice) in their service offering. Use of a common format has convinced software providers to implement e-invoicing as part of their off-the-shelf products – something which was not previously economically feasible due to many competing formats.

Our view, which is shared by many players, is that the lack of harmonisation and differences in national legislation present an obstacle to e-invoicing. Agreed standards, that are compatible with sector specific standardisation initiatives, will be key in developing e-invoicing services on a wider scale. The output of the working group addressing ISO20022 standardisation for the e-invoice message (an activity initiated by the Trade & Business Process Group of the United Nations Centre for Trade and Electronic Business (UN/CEFACT TBG5)) is critical to these developments.

3.6 Customer interface

A single front-end with global reach is a clear requirement expressed by multi-bank, multi-country corporate customers

(Question 4-F3)

As highlighted in the consultation paper, the customer interface can be understood as either a) an internet based, screen interface or b) a set of standards and specifications to allow customers to integrate the payment information flows with their software applications (treasury systems, ERPs).

Global industry trends as well as evolution in specific ‘domestic’ environments (eg, in Europe with SEPA), point towards three clear conclusions:

1. Customer interfaces are in the competitive space, if only to provide the diversity and choice to cater for the wide variety of the customer base;
2. Many corporate customers are demanding solutions that enable them to use a single set of standards and communication technology, irrespective of which banks they work with, on a global basis, and;
3. For corporate customers working with multiple banks, in multiple countries, and aiming to fully automate their payments processes, banks no longer see their electronic banking channels as a differentiator.

In view of this evolution, we believe it is imperative that the evolution of Australia’s low value payment systems does not preclude financial institutions from offering a standards based, multi-bank solution for the segment of corporate customers that requires such solutions. The solution should specify data standards, as well as technology and security standards that are multi-bank and global.

4 SWIFT'S SERVICES FOR AUSTRALIA'S LOW VALUE PAYMENT SYSTEMS

A community founded by and for the financial services industry

SWIFT is a community-inspired co-operative, founded by and for the financial services industry. SWIFT works globally with more than 8,400 organisations including banks, market infrastructures, securities institutions, corporations, network providers, business partners and technology companies to ensure the financial world can carry out its business operations with certainty.

SWIFT's role is two-fold:

1. To provide the platform, products and services that allow customers to connect and exchange financial information securely and reliably;
2. To act as the catalyst that brings the financial community together to work collaboratively to shape market practice, define standards and consider solutions to issues of mutual concern and interest.

8,468 customers

208 countries

80 payments clearing systems rely on SWIFT services

SWIFT is the messaging hub for an expanding number of clearing and settlement systems in payments, securities and foreign exchange. In payments, more than 80 clearing systems around the world rely on SWIFT for the secure messaging, connectivity and common message standards essential to their smooth operation. SWIFT services have been adopted by many communities for their Real Time Gross Settlement Systems (RTGS), and increasingly so in support of Low Value Payment Systems.

A specific portfolio of services is available to support the evolution of Australia's Low Value Payments systems. The following section provides a high level overview of those services. They make maximum reuse of existing infrastructure already in place at the majority of the participating financial institutions. For participants already connected to SWIFT, connecting to the additional service would imply little to no additional cost.

4.1 SWIFTNet Messaging Services

A single window to the financial industry

By using a shared technology platform to communicate with market infrastructures, counterparties and customers globally, SWIFT customers reduce the costs of implementing, maintaining and operating their communications infrastructure. They avoid the development costs of a proprietary solution and the complexity of operating disparate systems.

A complete set of messaging services

SWIFTNet is SWIFT's messaging platform. It offers four complementary messaging services that provide the security, reliability and availability required by the financial industry:

1. **SWIFTNet FIN:** SWIFTNet FIN is SWIFT's store and forward messaging service for MT messages.
2. **SWIFTNet InterAct:** SWIFT's interactive and secure exchange of messages. Financial institutions use SWIFTNet InterAct to send structured financial messages and short reports.
3. **SWIFTNet FileAct:** SWIFT's file transfer service, well suited to exchange large volumes of data in a reliable and secure way. The service supports any file format, multiple files and the generation of a delivery notification. Financial institutions use SWIFTNet FileAct to send batches of structured financial messages and large reports.

4. **SWIFTNet Browse:** The SWIFT service offering a secure interactive browsing capability based on Web / https technology.

SWIFTNet messaging services are provided via SWIFT's secure IP network (SIPN), a highly secure and reliable network. Full redundancy, advanced recovery mechanisms and 24 Hours by 7 first class operations and customer support services ensure continuous network availability for SWIFTNet services.

A range of value added features

Using SWIFT's messaging network offers several layers of added value over traditional network connections, including high availability and resilience, standardised secure message protocols, non-repudiation, message validation and store-and-forward capabilities. These features are typically required by payment systems, and already available, deployed and used with SWIFTNet.

A key feature of SWIFTNet is the possibility to form a Closed User Group (CUG) to exchange specific types of messages/files in a business community on SWIFTNet.

A CUG consists of:

- Sending and receiving institutions (also known as service participants)
- A clearing/settlement institution (also known as service administrator)

The membership and business rules of a closed group are 'owned' and administered by the designated authority (for example APCA). Institutions can be added to the CUG at any time.

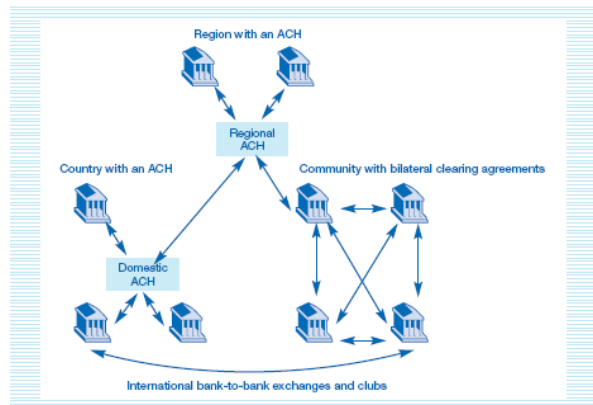
4.2 SWIFTNet for Low Value Payments

4.2.1 Messaging and File Transfer

A secure and robust capability for exchanging bulk payment files

The SWIFTNet FileAct service provides a secure, robust capability for exchanging bulk payment files with all parties in the payment chain. It can support any type of bilateral or hub-based payment clearing topologies. Payments can be centrally processed by Automated Clearing Houses (ACHs) or they can be exchanged and cleared bilaterally between financial institutions. Credit transfers and direct debits are the most commonly used instruments. All payment message formats can be used in the service, as well as ISO 20022 formats.

Figure 1: A shared platform for low value payments



SWIFTNet provides a common technical platform

4.2.2 Settlement tools

The file copy service for low value payments

A specific feature of SWIFTNet FileAct, SWIFTNet FileAct Copy, has been introduced specifically to support requirements for enhanced clearing and settlement of low value payment systems.

SWIFTNet FileAct Copy is proposed for initial implementation by the Reserve Bank of Australia to enable ESA holders the option of settling low value payments on an intra-day basis.

SWIFTNet FileAct Copy provides the necessary capability to deliver a copy of the file header to a central institution. The header contains summary information on the payments included in the file. That summary information can then be used for clearing and settlement.

Depending on the copy mode chosen, the central operator can authorise release of the file or just receive a copy. The copies at the central institution can be handled in real time or batch mode for intra-day or end-of day netting. The copy service supports all payment message formats, allowing it to be introduced in a flexible way limiting disruption to existing systems.

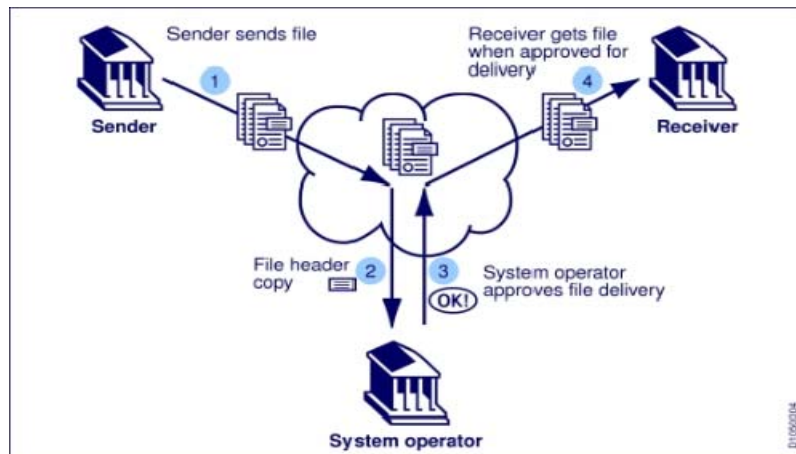
Authorisation using SWIFTNet Y-Copy Mode

In this mode, SWIFT does not deliver the file immediately. SWIFT copies the FileAct header to the copy destination of the *system operator*, that is, the user that receives the header copies. The system operator must then authorise or refuse the file transfer. The system operator authorises or refuses the file transfer based, amongst others, on the information in the copied header fields. If the system operator authorises the file transfer, SWIFT delivers the file to the recipient. If the system operator refuses the file transfer, then SWIFT sends a notification of refusal to the sender.

A market infrastructure would typically implement Y-Copy to clear and settle payment transactions between service participants. For example, the file would be released if the total amount of all payments in the file can be settled, enabling the receiver to immediately credit the beneficiaries.

The system operator uses the Y-Copy Authorisation or Refusal message to authorise or refuse the file transfer. When the system operator authorises the file transfer, it can convey specific information relating to the authorisation, such as clearing references. SWIFT includes this information in the Y-Copy authorisation notification that it sends to the sender, and also appends this information to the file transfer for the receiver. If the system operator refuses the file transfer, the sender receives a refusal notification which can contain a refusal reason. When using Y-Copy, authorisation notification and delivery notification options are available.

Figure 2: Y-Copy flow

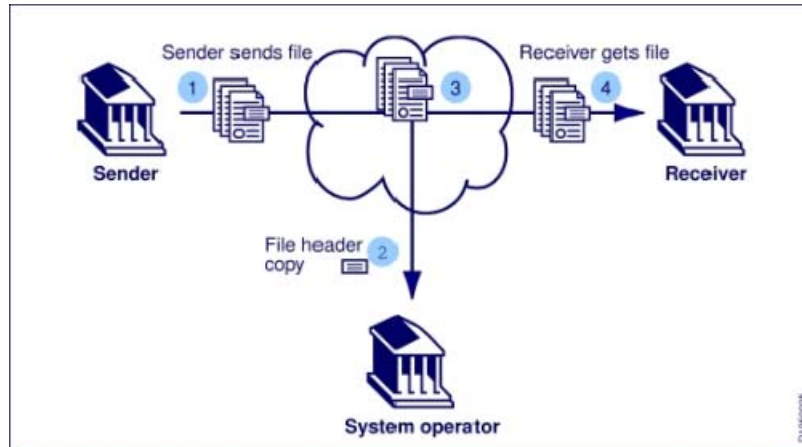


*Information using
SWIFTNet T-Copy
Mode*

In this mode, SWIFTNet delivers the file to the recipient, and, at the same time, provides a copy of the file header to one or more copy destinations of the system operator(s).

A market infrastructure, central institution, or regulatory authority would typically decide to implement T-Copy to obtain information about the financial transactions between service participants. In a low value payments clearing context, the information would typically feed a netting system.

Figure 3: T-Copy flow



4.2.3 Pricing

*SWIFTNet FileAct
pricing for low
value payments:
AUD 0.0011 per
payment instruction*

The pricing of SWIFTNet services when used for Low Value Payments is based on the number of payments exchanged, irrespective of the size of the file or the type of standard used. Other variables that affect the pricing are the total volume of payments exchanged within a system, and an individual financial institution's volume in that system.

*T-Copy mode:
AUD 0.0014 per
payment instruction*

The highest price per payment instruction exchanged is 0.07 eurocents (approximately AUD 0.0011 per payment instruction). The T-Copy feature price is an additional 0.0175 eurocents per payment, whilst the Y-Copy feature is an additional 0.035 eurocents. Depending on volumes, these prices can be lower.

*Y-Copy mode:
AUD 0.0017 per
payment instruction*

The example below illustrates the cost to financial institutions:

For a financial institution originating 10,000 payments a day, the cost would be approximately AUD 11 per day if SWIFTNet is used for bilateral exchange of payment files. If the T-Copy feature is used, the cost would be approximately AUD 14 per day. If the Y-Copy feature is used, the total cost would be approximately AUD 17 per day.

(approximate based on current exchange rates, rounded to the nearest 10 000th of AUD, non-repudiation and store & forward incur a surcharge)

The various summary reports would need to be added to the cost, but are not expected to represent a substantial amount.

SWIFT is open to engage in a discussion with APCA on specific ways to tailor a solution to best fit the need of APCA and its Members.

4.2.4 Other payment instruments

New services to support information flows related to other low value payment transaction flows are being assessed

SWIFT is currently assessing how its services can be extended to fully cover the processing requirements of information flows related to low value payments, and more specifically:

1. The transport of images (eg, cheque images) and other very large size files;
2. The authorisation flows related to card payments.

For these flows, SWIFT is assessing the opportunity to provide a Virtual Private Network (VPN) based service that responds to business critical communication requirements, whilst providing a competitive alternative to VPNs and leased lines. The purpose is to enable customers to further extend the re-use of their SWIFTNet platform.

4.2.5 Netting

The Multilateral Netting Module will be used by the end of 2008 by the EBA Step 2 system

SWIFT is currently finalizing the development of a Multilateral Netting Module (MNM) - delivery is planned by end of 2008. This engine will be first deployed to support the settlement of EBA STEP2 participants in Target2. Other low value payments communities and settlement systems will be supported in a later stage.

The module will be operated and maintained by SWIFT. Structured around netting sessions, the module derives multilateral net obligations from bilateral gross obligations between participants to the payments system. The net positions are then copied to Target2 for settlement.

If needed, the MNM module could be re-used to support the Australian low value payments community: copies of the file headers could be copied to the MNM, netted and net positions transferred to RBA's RITS for settlement.

5 SWIFT AS A TRUSTED PARTNER

5.1 SWIFT and the financial community

Engaging the community

It is the involvement of the customers as part of a dynamic community that gives SWIFT its unique strength. SWIFT is actively collecting constant input and feedback from the broader SWIFT community.

SWIFT has a new customer-centric organisation to be more in touch with the needs of the different geographical markets, while still maintaining the global scale that is fundamental to SWIFT business. Three autonomous regions – EMEA, Asia Pacific and Americas – have been created to change the service model and bring decision-making closer to the customers.

Close at hand

SWIFT Headquarters are established in La Hulpe, Belgium. It has a significant presence in the Asia Pacific region with currently 7 offices in the region, including an office in Sydney.

Pricing to maximise usage and benefits to the community

SWIFT's main business model is based on economies of scale. The lower the prices, the more traffic customers send and, because of economies of scale, the lower are SWIFT's unit costs. The lower the unit costs, the lower prices can be and the more traffic is sent.

Over the past ten years SWIFT message prices have been reduced by over 70%. In 2007 alone, prices have been reduced cumulatively by 25 percent, with a combination of reduced prices and a rebate on all messaging traffic. A further 5 percent price reduction has been applied in January 2008.

In addition, high-volume customers are able to opt for a fixed fee pricing scheme. This Fixed Fee pricing scheme will enable customers to increase their current volume base by 50% at no additional cost. The new scheme offers significant cost savings and meets customer demand for predictability. As a result, the average FIN message price is expected to drop by another 15.2% in 2008.

Unique resilience, reliability and availability

SWIFT consistently delivers quantifiable business value and proven technical excellence to its members through its comprehensive messaging standards, the security, reliability and 'five nines' availability (99.999%) of its messaging platform and its role in advancing STP. SWIFT prides itself on never having lost any of the 40+ billion messages sent as from its inception.

The results of a recent customer survey confirmed that SWIFT customers continue to place significant value on the core strengths of SWIFT – security, reliability and resilience – and that SWIFT continues to deliver to their high expectations in these areas.

5.2 A strong presence and history in Australia

- *Established in 1981*
SWIFT established a presence in Australia in 1981, and connected the first group of banks on 29 November 1982. Since then the usage of SWIFT has increased considerably to support the financial business, which has grown significantly in volume, complexity and diversity.
- *100 financial institutions connected to SWIFT*
There are currently 100 financial institutions in Australia connected to SWIFT, that sent in excess of 68 million messages over the SWIFT network in 2007, a 36% growth over 2006. Australia is currently ranked 11th globally in terms of FIN messages sent. In the Asia Pacific region, Australia's SWIFT message volume is second only to Japan.
- *Australia is SWIFT's 11th country globally and 2nd in Asia Pacific*
Currently, 14 of the 15 APCA tier1 banks and 16 of the 40 APCA tier2 banks are connected to SWIFT.
- *RBA's RITS system uses SWIFT messaging*
SWIFT actively engages in the Australian financial community through the National User Group, National Member Group and with annual business forums, where industry issues and trends are discussed and updates are given on SWIFT initiatives and developments in banking, securities and technology.
- *Representation of Australia on SWIFT's Board of Directors*
Australia is represented at the international Payment Market Practice Group and holds regular SWIFT standards meetings in Australia. Finally, Australia is represented on SWIFT's Board of Directors by virtue of its ranking within the top 16 countries contributing to SWIFT's global messaging revenue.

6 CONCLUSION AND NEXT STEPS

In summary, using SWIFT can provide significant benefits to the Australian community

The portfolio of services outlined in this document could contribute to the evolution of Australia's Low Value Payments systems by:

1. Offering a shared communication platform and services that can facilitate the reduction of settlement risk, allow faster clearing and settlement processes, and enable financial institutions in Australia to develop a broader and more differentiated payment product offering;
2. Saving the costs of developing, maintaining, deploying and upgrading the shared technology required to make these improvements, as the services proposed by SWIFT are already developed, tested and in use, and will evolve over time as technology changes require;
3. Allowing individual institutions to avoid the costs related to deploying and operating yet another communication infrastructure, as most financial institutions in Australia that participate in the Low Value Payments systems are already SWIFT customers.

These benefits need to be confirmed

We propose to engage with APCA and its Members to evaluate and quantify the benefits of re-using the SWIFT platform for low value payments in Australia compared to other solutions that will be envisaged. This evaluation could take the form of business case reviews undertaken with all or a representative set of Australia's financial institutions, comparing the costs of developing, deploying and maintaining the technology required to meet the requirements expressed by APCA.

And SWIFT's offering tailored for the Australian community

As APCA's consultation progresses, we would welcome the opportunity to discuss the contents of this document with APCA and its Members, understand better where SWIFT's offering meets the requirements of the Australian community and where improvements are required, whether in functionality, service or pricing.

In particular, we are keen to have a better understanding of the Australian community's expectations in terms of:

1. Pricing – whether SWIFT's solutions offer value for money in the context of the evolution of Australia's low value payment systems, and whether SWIFT's pricing structure works for Australia's market and competitive dynamics;
2. Customer services and support - whether SWIFT's customer service model would need to be enhanced (eg, with a local support presence) to support the implementation and operation of a low value payments system based on a SWIFT platform.
3. Roll-out and migration scenario – whether SWIFT's services can offer a smooth and gradual path from the existing solution towards the target solution. The migration from the current bilateral arrangements is one area which will require further significant consultation within the industry.

We plan to propose a more detailed and tailored offering to APCA and its Members as and when the requirements, timeframes and migration scenarios for Australia's future Low Value Payment systems are refined.

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