



Australian Government

The Treasury

2 November 2008

Mr Chris Hamilton
Chief Executive Officer
Australian Payments Clearing Association
GPO Box 4893
SYDNEY NSW 2001

Dear Mr Hamilton

APCA's leadership in identifying the opportunity to make improvements to Australia's low value payments system, and in providing a broad range of stakeholders with the opportunity to make well informed contributions to the discussion is welcomed.

Your consultation paper considers whether the banking industry should move from the current bilateral settling and clearing relationship between Authorised Deposit-taking Institutions to a more centralised arrangement, and proposes a number of benefits to making such a move. A particular benefit such a change would bring would be to improve switching options that could be implemented to support customers switching financial institutions. In this regard, APCA should include consideration of switching arrangements that would become options for Australia, should industry move to a more centralised approach. Specifically it would be useful if APCA could consider the costs and benefits of moving to arrangements such as those in place in the United Kingdom and the Netherlands as part of this exercise. I note APCA has included capacity to switch as an element to be considered in this exercise.

It would be a substantial cost saving if switching arrangements were fully enabled by any new IT architecture developed for the low value payments system. Failure to do so could result in substantial costs in the future. While the Netherlands has had a centralised approach to clearing and settlement for a number of years, switching enhancements were not built in from the start, and building them in resulted in an additional expenditure of €10-20 million.

More broadly, it is anticipated that considerable benefits will flow to consumers through improved efficiency in the clearance and settlement of transactions, better international connections, and improved safety. Low value payments make up a little under 50 per cent of all payments and are an integral part of the Australian economy. Their smooth operation is critical to a well functioning marketplace. The best outcomes for consumers are generally generated through a competitive market.

Continued progress on this important issue is welcomed, and we would appreciate your keeping us informed of future developments.

Yours sincerely

A handwritten signature in black ink, appearing to read 'V. Ingram', with a long horizontal flourish extending to the right.

Veronique Ingram
General Manager
Financial System Division