



Payments MONITOR



ISSN 1321-7755

THIRD QUARTER 2002

New Constitution Expands Membership

APCA is now a public company limited by guarantee rather than by shares and guarantee, and with more open and inclusive membership requirements. The impact of this is already evident in so far as both Coles Myer and Cashcard, as members of CECS, are now eligible to take up owner membership of the company if they wish. This would not have been possible under the previous institutionally based constitution and it is only the start. It is likely that other organisations will take up membership as the payment system evolves and as APCA's new membership requirements become better and more widely understood.

As part of the transition process, on 16 August all of APCA's directors and management committee representatives resigned and reappointments were made under the provisions of the new constitution. For the most part, representation on the board and on management committees remains unchanged. The old 'A class' banks (regional banks) and the old 'B

class banks' (mainly foreign-based banks) have remained intact as groups, albeit under different group names. The new constitution entitles owner members to representation on the board if individually, or as a group, they have 5% or more of clearing volume measured across any three of APCA's clearing systems.

One important change, flowing from this, has been that St. George Bank has taken up an entitlement to a board seat in its own right, resulting in a corresponding increase in non-executive board directors from 10 to 11. Expanding membership and representation serves the purpose of making APCA a more inclusive organisation. At the same time, within this more fluid membership structure, the new constitution preserves the important check and balance that large players acting collectively can neither outvote nor be outvoted by the smaller players acting collectively. This ensures that APCA's decisions are broadly supported across its membership.

'It is likely that other organisations will take up membership as the payment system evolves'...

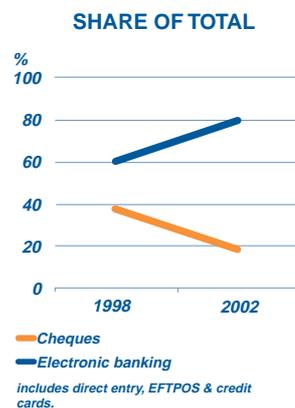
Electronic Banking Displacing Cheques

The latest APCA payments statistics collection shows that electronic banking continues to grow at the part expense of cheques.

Over the last financial year, the number of direct entry transactions per business day increased by 10% while the number of cheque transactions decreased by 7%.

This is consistent with the trend over recent years. Since 1998, direct entry (credit and debit) has grown by 116% while cheques have declined by 53%.

Consumer electronic transactions at point of sale have also been growing strongly.



The number of daily EFTPOS transactions increased by 11% over the past year and the number of credit card transactions by 21%. For a complete table of APCA Payments Statistics collection 1998-2002 see page 4.

Published by
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EMV and Regulation in the “Cards Marketplace”

**Extract from
APCA CEO
Peter Smith’s
‘opening remarks
from the chair’
at Cards
Australasia 2002
Darling Harbour,
Sydney. Day
Two, Tuesday 20
August 2002.**

At APCA we deal in areas where our members, mainly financial institutions, see advantage in cooperation. Where, in other words, there are network benefits. When we intrude into areas where members’ strategic and commercial interests outweigh, in their view, any potential network benefits, it doesn’t work. APCA is not welcome - and our members tell us so. It is interesting therefore to monitor changes in the way APCA’s members view particular payment products, as a guide to where they are in the development cycle.

A payments product is not like most products. It becomes most effective when it is widely offered. Otherwise it has limited utility for customers. This means that network benefits usually and eventually predominate over the rent that organisations can earn by offering a product that their competitors cannot offer. So if you like, I see things being brought to APCA as a signal that the payments product in question is reaching a more mature stage of its development, as distinct from the earlier jockeying for commercial advantage stages.

In terms of EMV, we have moved at APCA from taking it off the table a year or so ago to now considering the utility of developing inter-operable exchange standards. To me this suggests that the issuance of EMV chip cards has more impetus to it now than it had a year or so ago. Mind you, being on the APCA list of things to do is not an infallible guide. We certainly have examples of things being put on the agenda, like say the potential use of PIN with credit cards, and being taken off again. However the current APCA straw in the wind is positive for the likelihood of EMV chip cards gaining ground on an industry-wide basis. Turning to regulation, if the APCA straw in the wind is positive, perhaps the current regulatory environment adds a measure of uncertainty to the outlook. I should say at the start that APCA has no involvement in commercial pricing and accordingly has had no involvement in, and has no view on, the issue of regulating interchange pricing, as it applies to credit and/or debit cards.

Nor do I have any brief to enter the debate. What I would like to say is something in general terms about regulation and the potential impact it can have on product development because of the uncertainty it can sometimes create.

Regulation can be categorised in numbers of ways. But often it is useful to identify whether its directed at the source of a perceived problem or at the symptoms and whether it is being applied during the formative stages of the development of a particular market or whether the market in question has matured. I think it’s clear that regulation is likely to be more beneficial if it’s directed at the source of a problem than at the symptoms. But more to the point, it is also the case that regulating symptoms often can result in unintended and hard to predict consequences.

Equally the imposition of regulation on a mature market has the potential of creating unintended and hard to predict consequences. This is quite simply because markets fashion themselves to the environment. Exactly what they would have looked like in a different regulatory environment is always hard to say and it’s hard to say how a particular market will respond to new regulation. Clearly the impending regulation within the ‘cards market’ is in part directed at symptoms and is occurring in a mature market. This unavoidably creates uncertainty.

The uncertainty about the way the ‘card market’ will respond to interchange regulation has flowed into some of the things we are doing at APCA even though we are at a distance from it. It will, I think, have the potential of affecting the way in which EMV chip cards will develop in Australia. Whether good or bad, new regulations, and the uncertainty that they bring, influence market responses. One of those initial responses might be to impart some hesitancy in the pace at which new products are introduced. And this potentially could be the case for EMV chip cards.

SWIFTNet FIN Migration

SWIFT has announced a program to migrate FIN messages from the current X.25 network to its new IP network SWIFTNet. SWIFTNet is SWIFT's advanced IP-based messaging solution providing secure and reliable communication of financial information and transactional data.

The Australian SWIFT National Members Group has endorsed SWIFT's planned schedule to install the new services for Australian-based interfaces in July 2003,

with migration for the majority of HVCS members to be completed during the third quarter 2003.

APCA, in conjunction with the Reserve Bank, has established a working group to ensure a coordinated approach to Australia's migration efforts. This working group will form a focal point for Australian banks in HVCS to obtain information from SWIFT about the proposed changes and to orchestrate testing and migration.

'APCA in conjunction with the Reserve Bank has established a working group to ensure a coordinated approach'...

BECS Messaging Proposal

As reported in the *Payments Monitor* 4th Quarter 2001, APCA hosted a strategic workshop in April 2001 to identify potential enhancements to the direct entry system.

One proposal that came out of that review is directed towards developing conventions that will allow both debit and credit users of the direct entry system to make better use of the fields within the current message format. Effectively the aim is to facilitate the provision of more complete and meaningful information within a direct entry payment message, so that it can be recon-

ciled with more surety and precision with the underlying transaction.

The issue of payment reconciliation was identified as a high priority at the National Office for the Information Economy (NOIE) "Interoperability Workshop" in April this year and NOIE has coordinated an industry working group to take "Payment Reconciliation" (PREC) forward. APCA is participating in this group to carry investigation of its direct entry messaging reconciliation proposal further.

For the Record

Specially Printed Cheques & Deposit Forms Workshops

As foreshadowed in the last issue of *Payments Monitor*, workshops were held in Sydney, Melbourne, Brisbane and Perth in July to provide information to financial institution staff and printers on the printing standards, as set out in APCA's publications 11.5 and 3.3, dealing with approval of specially printed cheques and deposit forms.

The workshops were conducted by members of APCA's Document Printing Standards Sub-Committee, both bank and printing industry representatives. In all, 105 financial institution staff and 84 printing industry staff attended the workshops. Feedback has been positive.

Payments Statistics

	Source	1998	1999	2000	2001	2002
Number of payment transactions and ATM withdrawals						
Business day average for month of May - millions of items						
Cheques	APCA	3.7	3.2	3.1	2.7	2.5
Direct entry credits	APCA	1.9	2.1	2.3	2.7(b)	2.9
Direct entry debits	APCA	0.6	0.8	0.9	1.1(b)	1.3
Monthly total for May - millions of items						
ATM withdrawals	APCA	42.9	41.9	48.4	64.0	65.4
EFTPOS(a)	RBA	44.5	48.6	52.0	57.5	63.8
Credit cards(a)	RBA	32.8	42.9	57.7	66.4	80.6
Value of payment transactions and ATM withdrawals						
Business day average for month of May - \$ billions						
Cheques	APCA	14.6	12.3	9.7	8.3	7.3
Direct entry credits	APCA	3.6	5.3	7.1	10.2	10.3
Direct entry debits	APCA	2.4	4.0	5.4	7.9(b)	8.9
HVCS transactions(c)	RBA	64.1	65.5(d)	72.6(d)	83.2(d)	80.9(d)
Monthly total for May - \$ billions						
ATM withdrawals	APCA	6.2	6.8	7.3	9.4	11.0
EFTPOS(a)	RBA	2.4	2.8	3.1	3.5	4.0
Credit cards(a)	RBA	3.6	4.3	6.4	7.5	9.0
Number of accounts / cards						
Monthly total as at end of May in millions						
Customer payment						
accounts	APCA	29.7	26.9	27.1	32.7	28.1
Debit cards	APCA	16.4	15.7	17.8	19.4	19.7
Credit & multifunction cards	APCA	10.3	12.1	13.2	15.6	16.7
Number of ATM and EFTPOS terminals						
As at end of June						
ATMs	APCA	8,814	9,387	10,818	11,915	14,714(e)
EFTPOS	APCA	218,330	265,391	320,372	362,848	402,084

Notes

(a) From Reserve Bank figures showing credit card and EFTPOS transactions acquired from merchants each month (see Table C.3 of the Reserve Bank of Australia Bulletin).

(b) These figures have been revised.

(c) HVCS figures are values exchanged and do not include 'own items' (ie intra-bank items). Note also that a full picture of RTGS transactions would require HVCS transactions to be supplemented by Austraclear and RITS transactions that are not captured in these figures

(d) From Reserve Bank figures showing Real-time Gross Settlement Statistics each month, (see Table C.4 of the Reserve Bank of Australia Bulletin). APCA HVCS transactions figures are taken from the SWIFT PDS column of Table C.4.

(e) This figure does not include all third party ATMs.