

EFTPOS Access

It was reported in the previous issue of *Payments Monitor* that APCA was giving priority to developing practicable and equitable EFTPOS access rules. This work is continuing and progress is being made.

Through the work of EAWG (a working group comprising representatives of the Reserve Bank, large and small banks, building societies, credit unions, commercial EFTPOS switches, and the retail and petroleum industries) the shape and coverage of access rules has been broadly identified.

The legal firm Gilbert & Tobin (G&T) has been brought in to assist in designing access rules. As a first step G&T and APCA management have conducted one-on-one interviews with all of the institutions represented on EAWG. The purpose of these interviews has been to gather additional information and insights on the character of the whole interconnected EFTPOS network and on the proprietary networks that make up the whole.

Analysis of the results of the interviews together with the output of EAWG will form the basis for further steps towards designing access rules.

A good deal of complex work remains to be done. This has been captured in a project plan and schedule, approved by APCA's board on 4 December.

The project plan and schedule have been provided to the ACCC in keeping with APCA's commitment to keep the ACCC informed of progress. At this stage, the schedule points to APCA completing the development and preparation of access rules in November of next year. However this date is a challenging target date and subject to review as the project proceeds.

A view has been put to the ACCC that APCA is not well placed to progress EFTPOS access because the technology and structure of EFTPOS is not under consideration. What APCA is doing is getting on with the job of facilitating access to EFTPOS as it stands. The technology and structure of EFTPOS will undoubtedly change over time. Moreover, APCA's access rules may provide a helpful environment for such change. But essentially this kind of change is best left to the commercial marketplace. So far as possible, APCA's access rules will be technologically neutral. This is a proper and productive approach.

It would appear from the Reserve Bank's submissions to the ACCC and from the interest the ACCC is taking in APCA's progress that both regulators are comfortable with APCA conducting the work. This is sensible. APCA is an experienced rule-making body and has all of the relevant parties around the table.

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Discretionary Seats

"Any unrepresented member of a clearing system can apply for representation through one of two available discretionary seats."

APCA's clearing system Regulations currently provide for the appointment by directors of management committee members (two members on MC1, MC2 and MC4 and one member on MC3 and MC5) to represent the interest of those clearing system participants unable to attain (either individually or collectively) the required 5% of transaction volume to enable appointment of a management committee representative in their own right.

Amendments have been made to all clearing system Regulations to provide for the appointment by the Board of up to two such members to all clearing system management committees, and to ensure uniformity in the manner by which such appointments are made.

The Board has adopted a policy that provides a transparent framework for determining the allocation of discretionary seats.

In summary, the policy is that any unrepresented member of a clearing system can apply for representation through one of two available discretionary seats. When allocating a discretionary seat the Board will be mindful of:

- i). the desirability of there being a degree of community interest among participants represented through any one seat; and/or
- ii). the expression of any preference by a participant for being represented collectively as part of a specified group.

The appointment of a representative to represent the interests of a group of institutions occupying a particular discretionary seat will be determined on the basis of transaction volume, i.e. the institution with the highest transaction activity (within a particular group) would be entitled to provide the representative to the management committee.

APCA Statistics – September 2003

Numbers of ATM & EFTPOS Terminals in Australia

	ATM Terminals*	EFTPOS Terminals
Year	September	September
2000	12,458	352,334
2001	13,139	391,261
2002	17,146	422,019
2003	20,899	446,111

* Figures prior to 2003 do not include white label terminals, so there is a break in the figures between 2002 and 2003.

New Guidelines for Direct Debit Users

APCA is developing new customer identification guidelines for direct debit users. The purpose of these guidelines is to provide businesses with best practices for establishing, and accepting the lodgement of, Direct Debit Requests (DDR) over the Internet.

Direct debits are the most cost-effective way for businesses to collect regular payments and premiums. Data show that over the last decade the number of direct debits has increased fivefold to an average of 1.3 million transactions a day. The number of debit users has increased tenfold to more than 10,000 businesses¹.

As referred to in the last *Payments Monitor* edition, a recent review of emerging practices in the direct entry system found that some debit users are offering the Internet as an alternative means to the traditional written direct debit authority form for their customers to lodge DDRs. While electronic DDRs are not widely used at present, the direct debit growth trends outlined above and the rapid uptake of online banking suggest that this practice is likely to grow and become more widespread. According to statistics released by the Market Intelligence Strategy Centre, more than 7.26 million Australians are now registered to bank over the Internet. In terms of general Internet access, 52% of the population has access at home².

A small working group, comprising BECS Management Committee and Advisory Council members, has been considering how the changing needs of debit users and consumers might be accommodated while ensuring security and confidence in the direct debit system.

As part of this process, the group considered whether it would be feasible to also lodge DDRs by telephone. However this option was quickly discounted when it became clear that complying with BECS Procedures would be problematic. First and foremost, debit users are required to satisfactorily verify a customer's identity at the time the DDR is lodged. Clearly this would be difficult to do by telephone. Consequently, the scope of the customer identification guidelines was restricted to lodgement of DDRs over the Internet.

The overall objective of the guidelines is to ensure that the practice of lodging electronic DDRs does not undermine the security of the direct debit system. To mitigate the possibility of identity fraud, the new guidelines stipulate that debit users should only accept electronic DDRs from established customers. Identity could then be verified over the Internet by way of an existing membership or customer number.

Appropriate purposes for which electronic DDRs would be acceptable might include payments for services being provided by utilities and payment of insurance premiums. On the other hand, services that might be considered high risk include transfers to credit or charge cards and for one-off payments for goods that could be easily converted to cash.

Amendments have been made to the BECS Procedures, which require sponsoring financial institutions to ensure that debit users use their best endeavours to comply with the new guidelines. APCA expects to finalise and publish the new guidelines early in 2004.

"The new guidelines stipulate that debit users should only accept electronic DDRs from established customers."

1. APCA Statistics – May 2003.

2. NOIE Statistics – Australia Online – 1st Quarter 2003 Statistics

Declining Cheque Usage

Cheque transactions are declining in Australia. A similar trend is evident in the United Kingdom and Canada. Data is from 1994 to 2002.

In all three countries, the number of daily cheque transactions has declined over that time by around 25 to 30 per cent.

The decline in the usage of cheques is more marked in each country when compared with electronic based payment instruments. The table below shows the percentage share occupied by cheques in a "total" market of cheques, direct entry (credits and debits), credit cards and EFTPOS*.

Market Share of Cheques in Australia Canada & the UK

% share by number of transactions

	Australia	Canada	UK
Year	%	%	%
1994	49.6	57.2	39.8
2002	19.2	23.1	17.0

The proportion of the number of cheque transactions to total reduced by over half in each country. The number of people using cheques on a daily basis has been falling quickly as electronic payment methods have increased in popularity.

At one level the decline in the use of cheques is impressive. But looked at another way it is perhaps surprising that the decline has not been more pronounced. The number of cheque transactions in Australia remains substantial at around 2.3 million each business day.

The Wallis Inquiry in 1997 pointed to the high costs to financial institutions of running the cheque system compared with alternative electronic means of making payments. On a per item basis the disparity in costs has probably widened. Because of this financial institutions have incentive to promote the use of electronic payments over cheques. The convenience of electronic payments provides an equivalent incentive for individuals and business to also move from using cheques where this is feasible. At issue therefore is why cheque usage is as high as it is.

For the most part, the overall use of cheques is being held up by business-to-business payments. In this area the need for remittance advice accompanying the payment continues to favour the use of cheques. The decline in the use of personal cheques undoubtedly accounts for most of the fall in overall cheque usage. While no hard data is available it seems probable that personal cheques are now mainly used to pay for home services or to pay club subscriptions, school fees and the like, where the acceptance of plastic cards is less prevalent.

Looking ahead it seems likely that personal cheque usage will become increasingly marginal as the penetration of plastic cards grows. On the business front however any wholesale switch away from cheques will require the development and widespread use of electronic payment methods that provide for the simultaneous carriage of comprehensive remittance information.

* Australian figures for cheques and direct entry are based on APCA statistics showing business day averages for the month of May in each year. The figures for EFTPOS and credit cards are based on the month of May in each year and are sourced from Tables C1 and C2 of the Reserve Bank of Australia Bulletin. Canada's figures represent annual figures as shown on the Canadian Payment Association's website www.cdnpay.ca for all statistics apart from credit cards, which are sourced from the Canadian Bankers Association. The UK statistics represent annual figures as compiled from the Association for Payment Clearing Services' "Yearbook of Payment Statistics 2003".