



TOWARDS THE DIGITAL ECONOMY:

MILESTONES REPORT

Fifth Report, April 2016

A report on the decline of cheques and the transition of the payments system towards the digital economy.

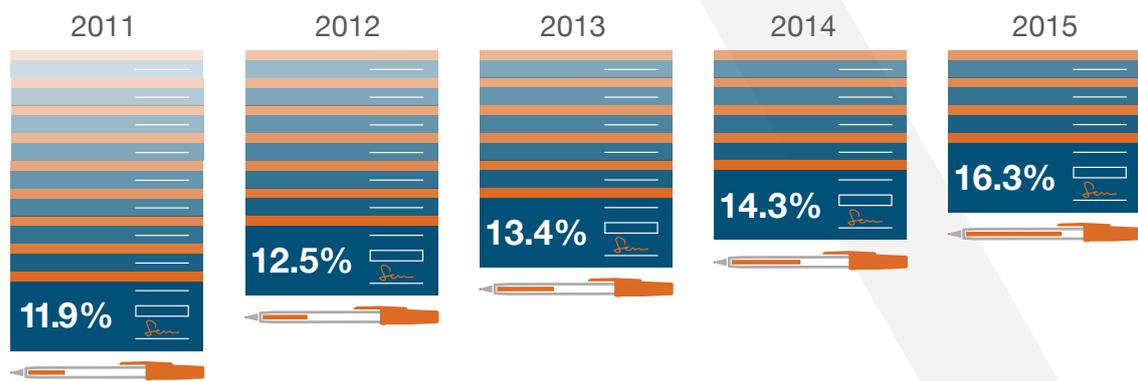
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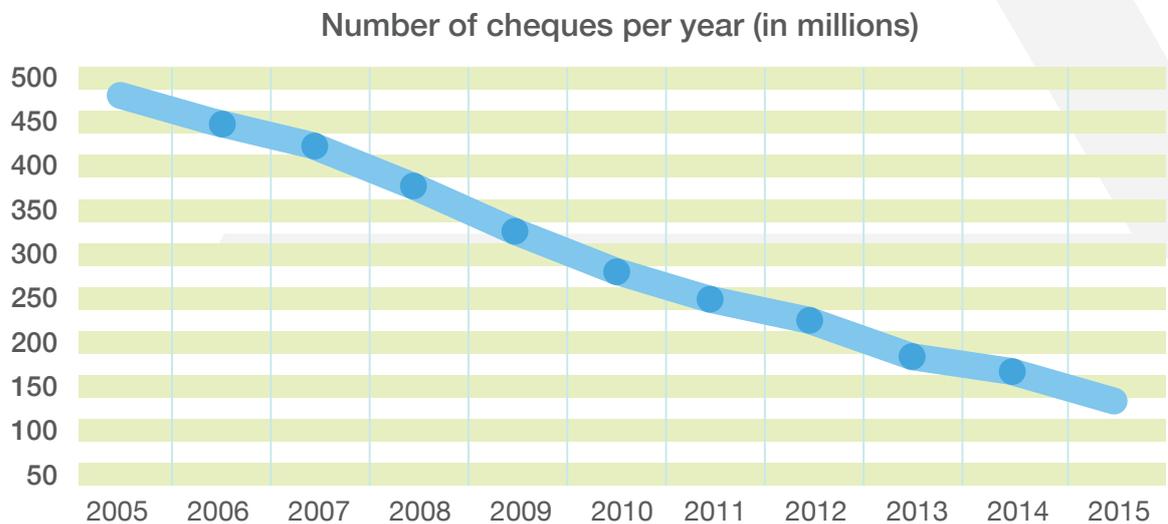
1 Key Trends

1.1. CHEQUES AND CASH DECLINE

The digital economy is accelerating the decline in cheque use with Australians using 16.3% fewer cheques in 2015 than 2014. This compares to a drop of 14.3% in 2014.¹



In the last 10 years, cheque use has dropped by a compelling 71%.



Source: RBA

Cash use is in decline.

- In 2015, the total number of ATM transactions reduced by 5.5% and by 1.7% in value compared to 4.7% and 1.7% respectively in 2014. Since 2005, ATM withdrawals have dropped by 11.5% but increased 5.1% in value.

¹ The Reserve Bank of Australia: Payments Data. The data reported takes into account RBA adjusted figures as at February 2016

1 Key Trends

1.2. DIGITAL PAYMENTS GROWTH

Australian businesses and consumers are choosing electronic payment methods in place of cheques and cash. Direct entry and payment card transactions have all increased in volume and value.

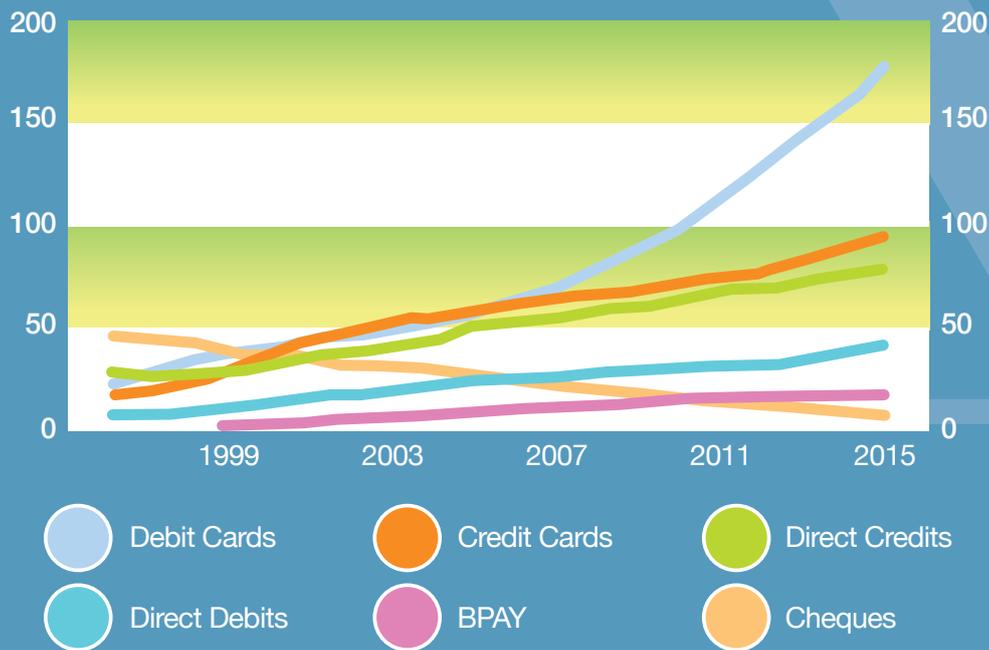
The volume of digital payments is increasing.

- Direct entry transactions increased by 6.3% in 2015, compared to 4.5% the previous year. Since 2005, direct entry transactions have increased by 87.7% in volume.
- Debit card and credit card transactions grew by 11.1% in volume in 2015, compared to 10.5% in 2014. Since 2005, payment card transactions have increased by 168.9% in volume.

The value of digital payments is accelerating.

- Direct entry values increased by 3.5% in 2015. Since 2005, direct entry transactions have increased by 70.2% in value.
- Debit card and credit card transactions grew by 6.8% in value in 2015, compared to 7.2% in 2014. Since 2005, payment card transactions have increased by 116.7% in value.

Non-cash payments per person



Source: ABS, APCA, BPAY, RBA

DIRECT ENTRY
transactions are up

VOLUME ↑ 6.3%
VALUE ↑ 3.5%

CARD PAYMENTS
continue to grow year-on-year

VOLUME ↑ 11.1%
VALUE ↑ 6.8%

ATM WITHDRAWALS
↓ 5.5%

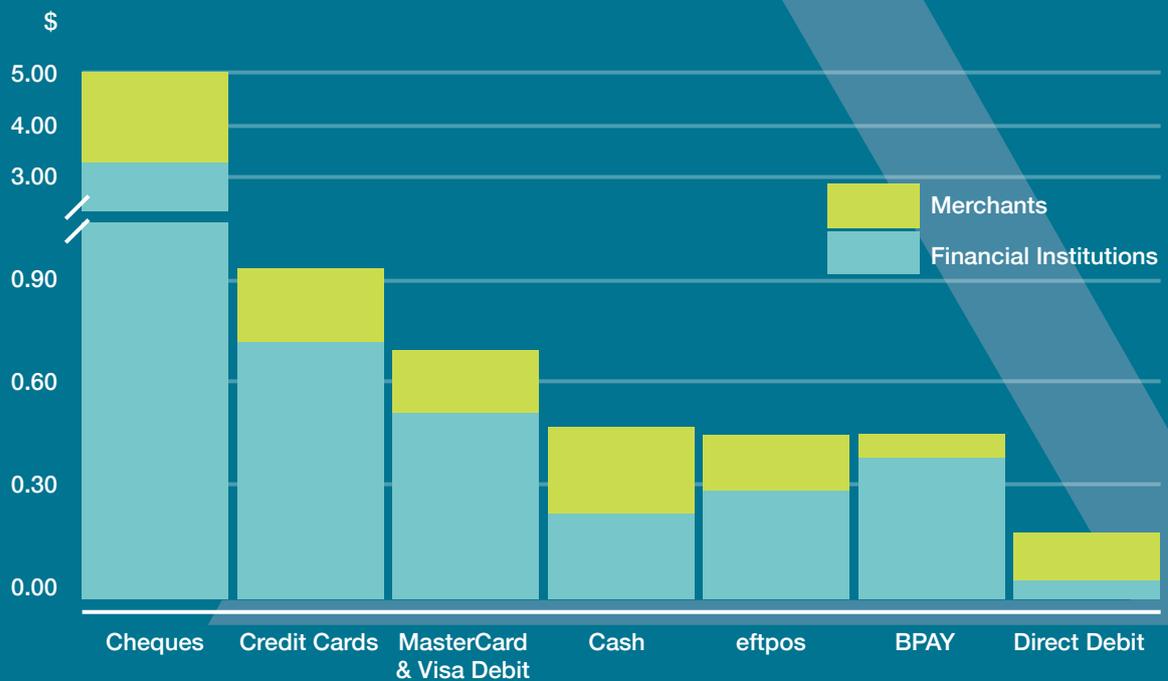
CASH USE
is in decline

1 Key Trends

1.3. COMPARATIVE COSTS

A study of the cost of payment in Australia shows that cheques are the most expensive form for users.²

Direct resource costs* per average-sized transaction for each payment method



Source: RBA

* Payment function only



² The Reserve Bank of Australia: The Ongoing Evolution of the Australian Payments System

2 International Trends in Cheques

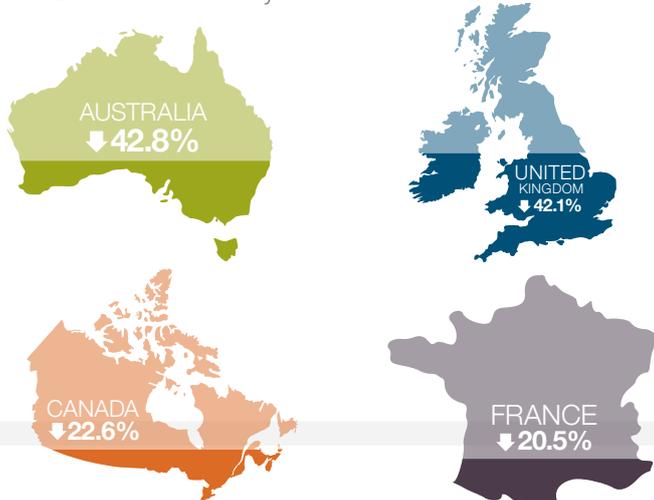
Cheque use is declining faster in Australia than many other nations although the decline in cheque use is a global phenomenon.

Change in cheque use per person
Percentage change, calendar year 2000 - 2014



Source: ABS, BIS, ECB, RBA

2015 Less-cash society indicators:



Cheque use is declining faster in Australia than many other nations

Figures show decline between 2010-2014

2 International Trends in Cheques

The Bank for International Settlement (BIS) released its 2014 payment statistics for 23 countries in December 2015.³ There are 18 developed and developing countries that continue to use cheques. Overall, in 2014 the number of cheques written by these countries dropped by 10.7% to 22.4 billion.

Some observations include:

- The United States accounted for 64% of the total cheques written in 2014. Cheque volumes in the US continue to decline dropping by 12.1% in 2014 and 36% over the last four years. There were still 14.3 billion cheques written in 2014.
- Other countries that have historically been heavy users of cheques are continuing to see steady decline in cheque use. Between 2010 and 2014, cheque use in France has declined by 20.5% and by 22.6% in Canada.
- The decline in countries that have near real-time payments systems has been marked. Between 2010 and 2014, cheque use in South Africa declined by 70.3% with less than one cheque written per person in 2014. Over the same period, cheque use in the United Kingdom declined by 42.1% with 10 cheques per person written in 2014.
- As a comparison, between 2010 and 2014, cheque use in Australia declined by 42.8% with just over seven cheques written per person in 2014.

| | Number of cheques for the year – in millions | | | | | % change | | Per person |
|-----------------------|--|--------|---------|---------|---------|----------|-----------|------------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | YR 13/14 | Yrs 10/14 | 2014 |
| Australia | 291.1 | 256.4 | 224.4 | 194.4 | 166.6 | -14.3% | -42.8% | 7.1 |
| Canada | 915.5 | 870.9 | 805.5 | 761.1 | 708.9 | -6.9% | -22.6% | 20.0 |
| France | 3122.8 | 2971.4 | 2805.6 | 2620.6 | 2482.8 | -5.3% | -20.5% | 37.7 |
| South Africa | 77.1 | 53.7 | 42.2 | 30.9 | 22.9 | -25.9% | -70.3% | 0.4 |
| United Kingdom | 1113 | 970 | 848 | 718 | 644 | -10.3% | -42.1% | 10.0 |
| United States | 22389.2 | 20378 | 18334.5 | 16319.7 | 14338.9 | -12.1% | -36.0% | 45.0 |

Source: BIS

³ Bank for International Settlements: Statistics on payment, clearing and settlement systems in the CPMI countries

3 Digital Economy

A strong consumer preference for electronic payments continues to expedite the decline in cheque use.

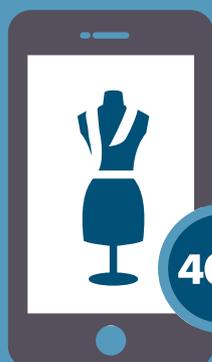
3.1. ONLINE RETAIL

The latest NAB Online Retail Sales Index indicates that year-on-year, online sales increased by 11.2% to December 2015.⁴ According to the Index, Australians spent \$19.1 billion on online retail in the 12 months to December 2015.

Omni-channel shopping is a defining feature of e-retail. Australia has the third highest appetite for digital engagement in the world following Canada and the USA. Digital interactions influence 40% of in-store visits in Australia, compared with 27% in the UK. Of these digitally-influenced shoppers, 65% use a digital device before and 31% during a shopping trip. Not only do consumers browse in-store and then go online in search of the lowest-cost option, but they also research online and buy in-store.⁵ The key driving motivations for Australian online consumers are convenience and cost, with the top purchases being travel, books/music/stationery, and groceries.⁶

Globally, online retail sales are expected to account for more than 12% of sales by 2019, nearly double the 2015 figures. Australia has the fifth highest uptake of cross-border shopping with 66% of online shoppers reporting that they have bought from overseas retailers compared to 52% in the UK and 29% in the USA. Italy has the highest at 79%.⁷

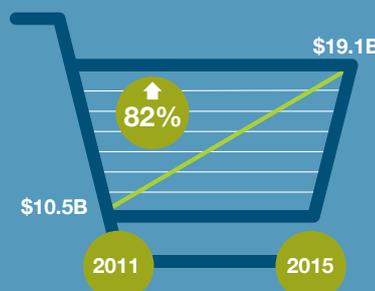
In-store shoppers are increasingly influenced by digital



40%

of visits are informed by digital interactions

Online retail continues to grow



⁴ NAB: Online Retail Sales Index

⁵ Deloitte: Navigating the New Digital Divide

⁶ Nielson: Global Connected Commerce

⁷ As above

3 Digital Economy

3.2. MOBILE USE

Australia is ranked fifth in the world for smartphone banking uptake with 60% of smartphone owners having participated in mobile banking activity.⁸ Of all Australians with smartphones, 45% have used their smartphone to purchase goods or services compared to the 2013 OECD average of 38%.⁹ Australia is ranked as the sixth most concentrated smartphone market globally.¹⁰

It is estimated that globally there are more than 1.75 billion smartphone users.¹¹ M-payment transactions are expected to increase by 60.8% per annum having increased from 6.4 billion in 2011 to an estimated 39.9 billion transactions in 2015.¹² Adoption of mobile banking is predicted to increase from 0.8 billion to 1.8 billion people by 2019.¹³

In developed markets smartphone access is reaching critical mass with around 65% of the global population having access to smartphones at the end of 2015. However, uptake varies by region with 59% of Europeans having smartphone access compared to 74% of North Americans. Meanwhile access in developing markets is expected to grow from 40% to 63% by 2020, accounting for 90% of smartphone growth.¹⁴

Australia is fifth in the world for smartphone banking uptake



⁸ Nielson: Global Connected Commerce

⁹ The Australian Payments Council: Fact Base

¹⁰ Deloitte: Navigating the New Digital Divide

¹¹ eMarketer: Smartphone Users Worldwide Will Total 1.75 Billion in 2014

¹² The Australian Payments Council: Fact Base

¹³ KPMG: Mobile Banking Report

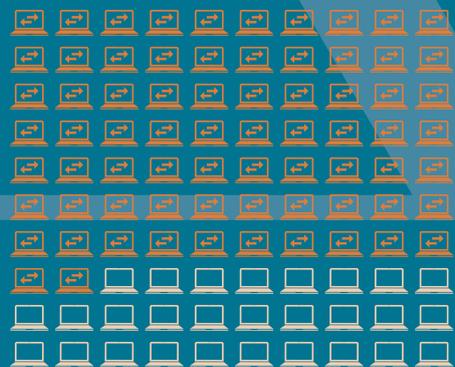
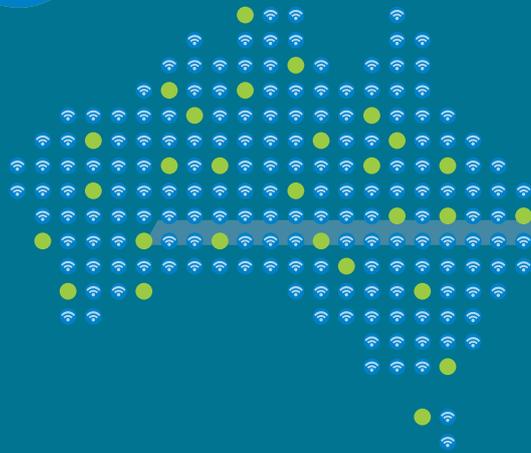
¹⁴ GSMA: The Mobile Economy

3 Digital Economy

3.3. INTERNET ACTIVITY

Online banking is the most popular web activity for the 86% of households with internet access in Australia. The Australian Bureau of Statistics reports that 72% of internet users access online banking which places it first equal to social networking (72%), and significantly above the purchasing of goods and services (61%), and general entertainment (60%).¹⁵

Of the 7.7 million households with internet access, 94% connected via laptops or desktop computers, 86% via mobiles or smartphones, and 62% via tablets. The most common reasons for having no internet access at home were having no need, lack of knowledge, and cost.¹⁶



¹⁵ Australian Bureau of Statistics: Household Use of Information Technology

¹⁶ As above



4 Updates on Industry and Stakeholder Initiatives

In 2012, APCA released “The Decline of Cheques: Building a Bridge to the Digital Economy”.¹⁷ This report identified key measures for managing the decline of cheques. The following are updates on the initiatives currently underway.

4.1. NEW PAYMENTS PLATFORM

The New Payments Platform (NPP) is a major industry initiative to develop new national infrastructure for fast, versatile, data-rich payments.

The industry is taking a layered approach. The NPP basic infrastructure will connect all financial institutions, and through them businesses and consumers so that payments can be made quickly between financial institutions and their customers' accounts. On top of the basic infrastructure, there will be numerous overlay services which individual financial institutions can choose to offer their customers to meet specific payments needs.

In October 2015, NPP Australia Limited selected bill-payment-system provider BPAY to design, build, and operate the first overlay service. This initial convenience service will enable person-to-person payments in real-time using a mobile phone.

New innovators and payment service providers are expected to join BPAY in using the NPP once it is up and running. This is expected to provide additional alternatives to cheques. The NPP is on track to being operational in the second half of 2017.

¹⁷ APCA: Decline of Cheques



4 Updates on Industry and Stakeholder Initiatives

4.2. AUSTRALIAN PAYMENTS PLAN

The Australian Payments Council is the strategic coordination body for the payments industry. It fosters the ongoing development of the Australian payments system to ensure it continues to meet the changing needs of businesses and consumers with innovative and secure payment services.

In December 2015, the Payments Council published the Australian Payments Plan¹⁸ to provide strategic direction for the payments industry over the next 10 years.

The Plan has identified a number of initiatives for industry to collaborate on across three key areas: Security and Trust, Managing Australia's Payments Mix and Enabling the Future.

Work has commenced on establishing digital identity principles and developing a strategy for managing the transition away from cheques. A key priority is to ensure that remaining cheque users have access to alternative payment options, before any decisions are made about an end date.



SECURITY AND TRUST

- Principles for Digital Identity and Data Management
- Cybersecurity Strategies



MANAGING AUSTRALIA'S PAYMENTS MIX

- The Transition away from Cheques
- Industry Strategy for a "Less Cash" Society
- The Efficiency of Existing Payments Systems



ENABLING THE FUTURE

- Enabling Technology Innovation

4.3. SUPERSTREAM

SuperStream is a government reform aimed at improving the efficiency of superannuation transactions. Under Superstream, employers must make contributions electronically instead of using cheques.

It is estimated that over 25 million super contributions will be processed using SuperStream in the financial year to 30 June 2016.¹⁹ Employers with 20 or more employees had to meet the SuperStream requirements by 1 October 2015. SuperStream for employers with 19 or fewer employees started on 1 July 2015, but employers have until 30 June 2016 to be fully compliant.

¹⁸ Australian Payments Plan

¹⁹ Australian Taxation Office: Media Release

4 Updates on Industry and Stakeholder Initiatives

4.4. DIGITAL CHEQUE IMAGING

The payments industry converted to digital cheque clearing in May 2015 to improve processing efficiencies. Images of cheques are now captured at branches and processing centres and exchanged electronically. This has ended the costly practice of physically transporting cheques around Australia and maintaining long-term storage and retrieval systems.

4.5. GOVERNMENT

In July 2015, the Federal Government established the Digital Transformation Office (DTO). Its purpose is to work closely with government agencies, users and private sector partners to create public services that are simpler, clearer and faster.²⁰

The DTO is working on a range of initiatives that will promote the digital economy and improve online government service delivery. It expects to release an initial prototype of an opt-in digital identity credential for government services by August 2016. The DTO has also acknowledged the importance of engaging with the private sector in the development of a national digital identity framework.²¹

As announced by the Department of Human Services, Centrelink stopped issuing cheques for regular and urgent payments from 1 January 2016.²² Furthermore, from 1 July 2016, all Medicare rebate and Pharmaceutical Benefit Scheme refund payments will be paid direct into customers' banking accounts.

4.6. PROPERTY SETTLEMENT

According to PEXA, (operated by Property Exchange Australia Ltd) as of 16 February 2016 over \$10 billion worth of property sales had been processed through the electronic conveyancing system. PEXA is now available in NSW, Victoria, Queensland and Western Australia, with South Australia due to commence in May 2016. Tasmania and the Northern Territory will follow. This service is expected to contribute to less cheques being used in property settlement.



²⁰ Digital Transformation Office

²¹ DTO: Digital Identity, early days in the Discovery process

²² Department of Human Services Efficiencies



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