

Australian Services Roundtable response to the Strategic Review of Innovation in the Payments System: Issues for Consultation Paper

The Australian Services Roundtable is the peak business body for the services industries in Australia. Sectors represented include financial services (banking, insurance, securities, fund management), professional services (accounting, legal, engineering, architecture), health services, education services, environmental services, energy services, logistics, tourism, information technology, telecommunications, transport, distribution, standards and conformance, audio-visual, media, entertainment, cultural and other business services.

The Payments System Board of the Reserve Bank is conducting consultation on its Strategic Review of Innovation in the Payments System around the Issues paper with the aim of issuing final conclusions around the end of 2011 or early 2012.

ASR considers that the strategic review is most timely and that the issues paper sets out the key issues well. An efficient payments system is fundamental to driving services productivity growth in Australia.

Without improvements to the timeliness of payments and the capacity for additional information to be transmitted with payments, the benefits the Government expects from its investments in e-health and the National Broadband Network will be much diminished.

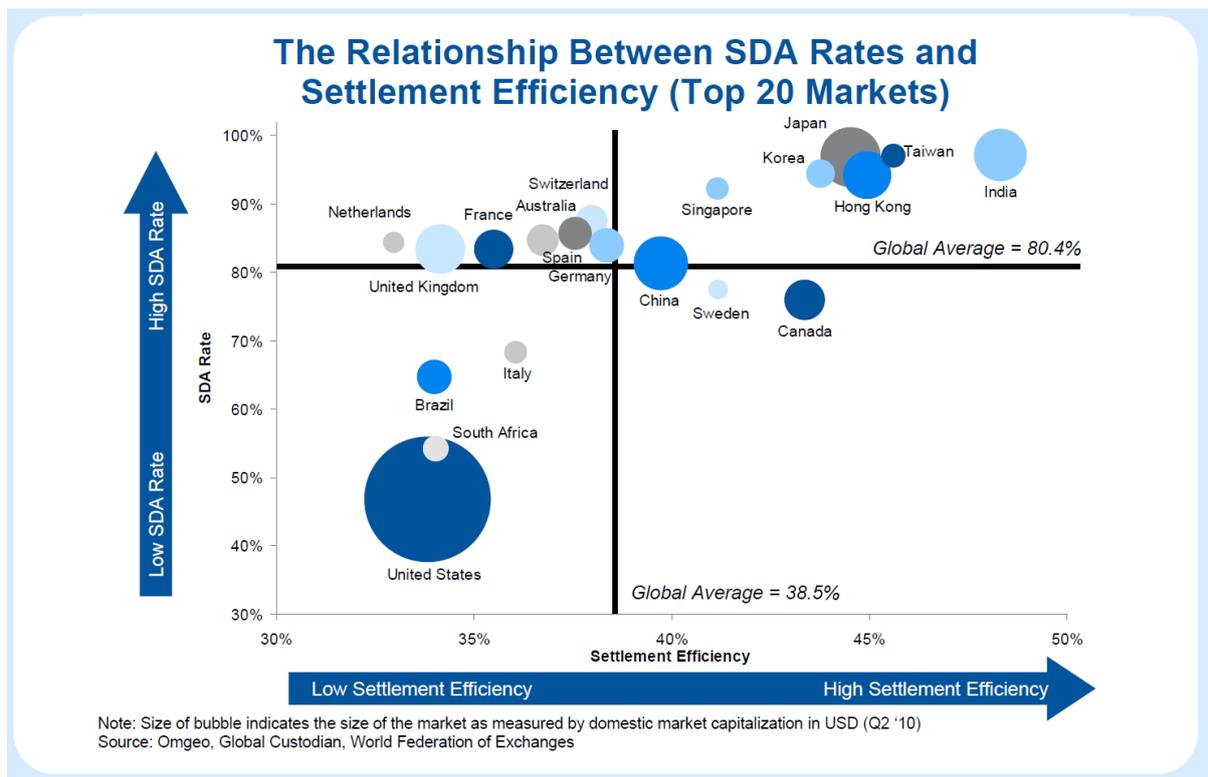
In ASR's response to the Productivity Commission's Regulation Reform Issues Paper, we made the point that international standards facilitate international trade and competition, and for this reason Australia needs to be more active in implementing international standards.

The adoption of ISO 20022 message standards would be a major step forward in addressing the identified problems in the Australian payments system. Indeed, it is possible that mandating a speedy timeframe for implementation of ISO 20022 is all that needs to be done by Government to set in train the innovation and competition needed to make the necessary improvements to the Australian payments system. The arguments that have delayed its implementation in Australia are increasingly looking like self interest, as the current system provides the major domestic financial institutions with advantages over both smaller domestic and foreign competitors.

Compounding its effect on competition in Australia's financial system, the failure of Australia to adopt ISO 20022 is hampering Australian financial institutions building the modern infrastructure and systems needed for success in international markets. Further success in global financial services markets is important; it is not commonly recognised that

financial services is a major top ten export for Australia, and bigger than any manufacturing sector. Newly available data from the Australian Bureau of Statistics shows that in addition to conventional cross-border financial services exports of \$1.3 billion, the total economic value of Financial, insurance and pension services provided by Australian companies financial services foreign affiliates was valued at \$38.9 billion and these affiliates earned \$6.5 billion profit during the year 2009-10.¹

The table below shows that Australian finance markets lag leading Asian competitors in Same Day Affirmation rates and Settlement Efficiency.



Lisa Ortner-Ghouze (2010) *Mitigating Operational Risk and Increasing Settlement Efficiency through Same Day Affirmation (SDA)*, Industry Discussion Paper²

Adoption of the ISO 20022 message standards in Australia would improve same day affirmation rates, settlement efficiency and boost the development of Straight-through processing (STP) applications in Australia. Straight-through processing (STP) enables the entire trade process for payment transactions to be conducted electronically without the need for re-keying or manual intervention. STP is considered by banking IT analysts to have the potential to drive step gains in efficiencies in banking and business more generally comparable to major banking technologies such as ATMs, EFTPOS and internet banking.

¹ <http://dfat.gov.au/publications/trade/australias-global-services-network.pdf>

² http://www.theasianbanker.com/assets/media/dl/whitepaper/OmgeoSDA_whitepaper_1010.pdf

Increasing the capacity for data carriage through the payments system and improving its speed are likely to generate efficiencies across all industries worth billions of dollars every year. For example, the GS1 Australia Data Crunch Report, a report for the retail grocery industry prepared by GS1 Australia in conjunction with IBM,³ found:

- retailers are working with data that is inconsistent more than 80 per cent of the time;
- Over the next five years, Australian grocery retailers and suppliers will experience over AU\$350 million in profit erosion and AU\$675 million in lost sales as a result of bad data;
- The total cost of bad data in the Australian grocery supply chain will be AU\$1.035 billion over five years.

The report highlights the importance of implementing data synchronisation which, through the elimination of manual processes and data errors, helps businesses reduce costs, speed up the order-to-cash cycle and improve trading relationships.

Similar issues occur in every industry sector. Of particular concern, the major e-health initiatives currently are not aiming to link patient information with the payment stream. This means that there is a strong likelihood that data synchronisation issues, manual processes and other inefficiencies that currently typify the medical payments system will continue. Adoption of ISO 20022 will enable these issues to be addressed efficiently and also link Australia to international developments in this area, both as a source of technology and capabilities and as a market for technology and processes we develop.

In the context of the \$42 billion investment in the National Broadband network it is clear that the current 20th century payment system will increasingly be an impediment to business effectively utilising its capacities. Real-time transmission of design and job data is of reduced value if payment authorisation takes two days. While of course there are longstanding processes to provide authorisation and credit for undertaking jobs, particularly when things are being done fast, these can lead to time consuming and costly disputes. When a job request is bundled with a payment it is clear that the request is properly authorised and there is a clear, undisputable link between the payment and the task.

³ http://www.gs1au.org/assets/documents/news_room/gs1/GS1_Australia_Data_Crunch_Report_23062011.pdf