

## **OVERVIEW**

The Payments System Board of the Reserve Bank was established on 1 July 1998, with a mandate to promote the safety and efficiency of the payments system in Australia. This marked a watershed in governance of the payments system. The new regulatory regime, introduced in response to the Financial System Inquiry (the Wallis Committee), was an acknowledgment of the importance of the payments system to financial stability and of the scope to reap significant gains in efficiency.

The Board has been given the backing of strong regulatory powers, unique among central banks. At the same time, the Government has indicated its preference for a co-regulatory approach and it has balanced the Board's powers with safeguards for private-sector operators.

To date, the Board's strategy has been to treat its powers as "reserve powers" to be exercised if other methods of persuasion and implementation prove to be ineffective. Its main priority over its first year has been to undertake a detailed stocktake of the safety and efficiency of the Australian payments system, as the basis for determining an initial work program.

Judged against international benchmarks, Australia has a very safe and robust payments system, particularly following the successful introduction of the real-time gross settlement (RTGS) system for high-value payments.

Assessments of efficiency, however, are more difficult. The Board's stocktake identified some areas in the retail payments system where the potential for improvement is obvious. One is the usage of direct debits, a highly efficient way of paying routine bills which has not found ready acceptance in Australia. Another is cheque-clearing times, where the considerable progress over the past year has yet to run its full



course. In other areas, however, inadequate data have made it difficult to benchmark performance against international best practice. To close this gap, comprehensive data on the costs of providing payment services will be collected from banks, other financial institutions and specialist payments firms.

This Report describes the Board's activities during its first year. As background, it outlines the origins of the Board and its responsibilities and powers. It also summarises the key findings from the Board's review of the Australian payments system that bear on judgments about safety and efficiency.

Steps the Board has taken include the widening of access to Exchange Settlement accounts at the Reserve Bank and strengthening the legal underpinnings of the RTGS system. The Board has also lent its weight to a number of initiatives designed to improve the safety and efficiency of the Australian payments system. On the safety side, the Board has pressed for the early inclusion of the Australian dollar in the CLS Bank, an important global initiative to reduce risks in the settlement of foreign exchange transactions, and has been overseeing Year 2000 preparations in the payments system. On the efficiency side, the Board has made it clear that it wishes to see a three-day cheque-clearing cycle become standard in Australia and it is exploring ways to encourage greater use of direct debits.

The Board and the Australian Competition and Consumer Commission have recently announced that they will be undertaking a study of arrangements for interchange fees and access in debit and credit card schemes. The study will seek to establish whether these arrangements are conducive to competition and efficiency in the payments system.