

Transactional Banking at the RBA in Extraordinary Times

Talina Leung^[*]



Photo: Stefan Mokrzecki – Getty Images

Abstract

The Reserve Bank of Australia (RBA) is the banker to the Commonwealth of Australia, supporting the Australian Government in its daily banking needs. During extraordinary times, such as the bushfires of the 2019/20 summer season or the current COVID-19 pandemic, demands on banking services are heightened as additional payments are made to Australians who require funds immediately. By modernising its products and service offerings and the underlying technology, the RBA has ensured payment and banking systems are fit to perform these tasks securely and reliably. In the past, additional payments during extraordinary times required additional effort and at times unconventional means. Today, government payments can be made seamlessly, even during crisis situations, ensuring funds are received without unnecessary delays.

Introduction

The RBA's Banking Department provides two key banking functions to the Australian Government and its agencies: core banking services and transactional banking services. Banking and registry services are also provided to a number of overseas central banks and official institutions. Core banking services are derived from the RBA's role as a central bank and its main function is the daily consolidation of account balances held by Australian Government agencies into the government's Official Public

Account held at the RBA. This happens regardless of which financial institution the various government agencies bank with. The RBA also provides the government with a term deposit facility as well as an overdraft facility in the event of unexpected demand for government cash balances.

Transactional banking services are similar to traditional banking and payment services offered by other commercial financial institutions.^[1] The RBA provides a range of products and services that allow government agencies to make and receive

payments. Around 90 Australian Government agencies use these transactional banking services and around 350 million payments are processed annually, with a total value of \$1.1 trillion. This includes payments received by government agencies and payments made such as welfare, health, payroll and vendor payments.

In recent years, the RBA completed a program of work to modernise its banking systems. It also participated in the build and launch of the New Payments Platform (NPP), a payment system to facilitate fast, data-rich payments. These improvements mean that the RBA is well equipped to support the Australian Government when circumstances require agencies to deliver either small or large targeted payment programs to the community.

Domestic Payment Systems

The key objective of the RBA's transactional banking function is to deliver secure and efficient services that meet the banking and payment needs of Australian Government agencies. This ensures government payments can be delivered in a reliable, timely and secure manner. Underpinning this are a number of payment systems and infrastructure that has been built specifically to handle the high volume and specific requirements of the government.

Direct Entry

Almost all government payments are processed via the domestic, low-value direct entry system. The majority of payments are regular social welfare and pension payments administered by Services Australia.^[2] Direct entry payment instructions are received in files and are processed in batches. Multiple batches are processed each business day. A large proportion of regular payments are processed through the Government Direct Entry System (GDES). The GDES leverages the industry's direct entry system but with specific rules for government payments, including the early delivery of payments to banks ahead of the payment value date. This makes government funds available in recipients' accounts by 9.00 am (AEST/DT) on the value date.

While direct entry payments are suitable for regular, recurring payments, there are other payment options available when there is an element of urgency.

High-value Payments System (HVPS)

In urgent situations, the government may make payments via the High-value Payment System (HVPS), which settles on a real-time gross settlement (RTGS) basis using the Reserve Bank Information and Transfer System. These payments are irrevocable and in most cases funds are available in the recipient's account within 15 minutes. RTGS payments are suitable for high-value transactions or where funds need to be received urgently and with certainty on the same business day. However, the processing of government payments using this system is limited due to its settlement hours being more restrictive and only available Monday to Friday. This system has been available since 1998.

The New Payments Platform (NPP)

A newer and more convenient fast payment option is the NPP, where government agencies can make fast, data-rich payments 24 hours a day, every day of the year (Fitzgerald and Rush 2020). NPP payments are settled irrevocably in real-time using the RBA's Fast Settlement Service. Funds are available in the recipient's account almost immediately. NPP payments can be made between bank accounts held at different financial institutions, provided both institutions are NPP participants.^[3] In addition to speed of the payments, the NPP also provides richer data with the option of including up to 280 characters of information, compared with the 18 characters allowed for direct entry payments.

The NPP was introduced in February 2018 and is still a new service offering in the payments industry. Initial uptake was slower than expected due to delays from some financial institutions in delivering core functionality to their account holders (Fitzgerald and Rush 2020). Consequently, rollout activities of some major banks were not completed until 2019. Since then, usage of the NPP has picked up as the number of reachable bank accounts has increased substantially.

Table 1: Cheques as a Percentage Share of Total Payments

	2013	2016	2019
Consumer Payments Survey ^(a)	0.4	0.2	0.2
Government Payments	3.5	1.7	0.6

(a) Source: 2019 Consumer Payments Survey (Caddy *et al* 2020)

While some financial institutions have started migrating direct entry payments to the NPP, it is expected regular payments, especially those with a recurring nature, will continue to be made via direct entry until the equivalent functionality for making frequent, recurring payments is available in the NPP (Fitzgerald and Rush 2020). This is also the case with government payments, where the majority are regular payments made via direct entry and only a very small number of payments are currently processed via the NPP (Graph 1).^[4]

Despite the low volumes, it is important to note the NPP has provided significant changes to the payments landscape in Australia. There is now more choice for making payments than ever before and payments are faster and more flexible (Lowe 2019). An example of how the NPP is directly benefiting Australians was evident during the recent Australian bushfires where the government was able to provide immediate funds to people who were impacted.

Cheques

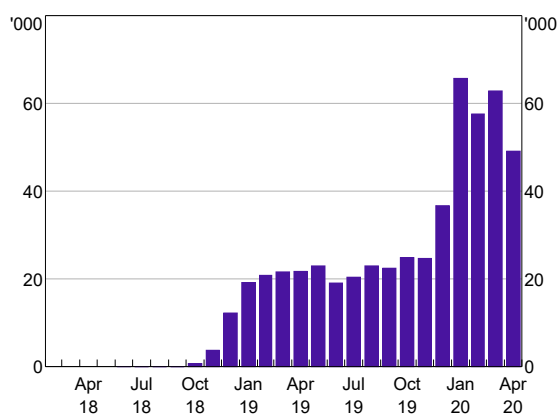
The RBA’s Consumer Payments Survey results show that Australian consumers have been switching to electronic payment methods for several years. The share of government payments made via cheque is now at a similarly low level as the government implemented substantial policy changes over the past decade (Table 1).

Since 2009/10, cheque payments have declined by more than 85 per cent (Graph 2). The most notable falls were in 2013/14 when the Australian Taxation Office stopped issuing cheques for personal income tax refunds, and in 2016/17 when Medicare stopped issuing cheques for paid claims. Instead, these payments are now made more quickly via direct deposits using the direct entry system with cleared funds received in recipient accounts.

There is general acknowledgement that it will be appropriate to wind up the cheque system at some point in the future (Lowe 2019). However, industry must provide an alternative payment method for those people who still rely on cheques. It is possible the alternative may be a new payment solution that makes use of the NPP infrastructure.

Graph 1

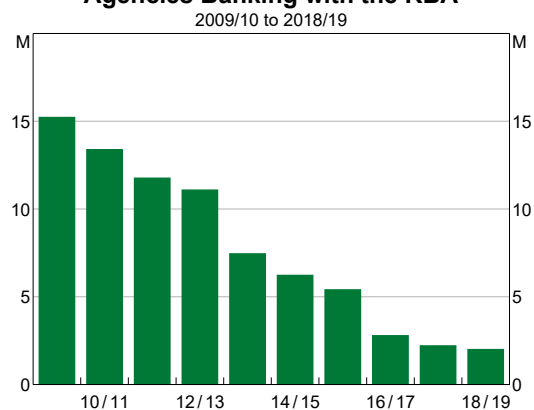
NPP Payments by Government Agencies Banking with the RBA



Source: RBA

Graph 2

Cheque Payments by Government Agencies Banking with the RBA



Source: RBA

System Modernisation

Transactional banking services offered by the RBA have evolved over the years with the emergence of new technology and payment capabilities. A key milestone is the recent completion of the RBA's program of work to upgrade its banking systems and infrastructure. The objective was to migrate mainframe-based systems to a more contemporary and flexible platform using modern programming language and architecture. The seven-year upgrade took place through several major releases and was completed in August 2019.^[5]

In addition to system improvements, the RBA has also been involved in other projects to adopt new payment capabilities, including those offered by the NPP. Significant effort was devoted to the build, test and implementation phases to ensure the government was in a position to process and receive payments using the new platform from day one. The RBA expects the NPP to provide further capabilities that can provide efficiencies and other benefits for government payments. An example is the 'Mandated Payments Service', which is scheduled for early 2022 and is expected to operate in a similar way to existing direct debit arrangements (NPPA 2019).^[6]

Banking Department has also worked closely with government agencies to support their payment modernisation initiatives and programs of work. This includes digital transformations that are taking place across the government and providing better-integrated solutions. One example is the use of Application Programming Interface capabilities for government payments. These capabilities enable full integration with government systems, facilitating real-time payments. The new technologies and 24/7 capabilities introduced by the RBA ensures the government can meet the growing expectations of the community around reliability and speed of payments.

Crisis and Disaster Relief Payments

The improvements to the business architecture and technologies that underpin the RBA's banking and related payment systems provide greater choice to agencies in the implementation of extraordinary

government programs in response to crises, such as natural disasters, bushfires or pandemics. To demonstrate the progress made, this section describes how the government provided urgent financial relief following some of the country's natural disasters.

For Cyclone Larry in 2006 and the Black Saturday bushfires in 2009, eligible claimants were provided a cashable cheque or authorised claim form in order to receive urgent funds. For Cyclone Larry, the claimant and a Services Australia staff member had to both be physically present at a bank branch in order to complete and authorise the claim before the claim form was presented to the bank teller and cashed. For Black Saturday, the recovery centres established near the disaster zones were used by Services Australia staff members to issue cheques for approved claims, which were negotiated for cash at the nearest bank branch or at a mobile cash unit trucked into the disaster zone.

These cash and cheque arrangements were cumbersome, inefficient and created security risks. As such, the government was frustrated at the lack of an electronic payment system that would meet the needs of the community in times of disruption. This frustration led to Services Australia expanding their use of the RBA's RTGS service. While RTGS is designed for large value market transactions and priced accordingly, there were no technical or legal limitations precluding low-value transactions by Services Australia. At that time, it was the only payment system that could provide payments to a beneficiary's bank account on the same business day. In 2009, Services Australia and the RBA undertook systems development work to enable Services Australia's welfare system to generate RTGS payments. Later that year, Services Australia was able to use the RTGS system to make urgent payments during crises as well as urgent welfare payments in normal times.

In January 2010, in response to fires in Western Australia and floods in Queensland, Services Australia used RTGS to make urgent disaster relief payments; making almost 13,000 payments using RTGS on 17 January. While this was a significant improvement on cash and cheque payment methods, the hours at which the RTGS system

operates restricted Services Australia to business days between the hours of 9.00 am and 4.00 pm (AEST/DT). At that time, Australia did not have a payment system that could deliver funds electronically and quickly to bank accounts outside of business hours observed on the country's south-eastern seaboard.

The launch of the NPP in February 2018 addressed significant gaps within the payments landscape including the ability to send funds to bank accounts within seconds – 24 hours a day, 365 days a year. Services Australia commenced sending emergency welfare payments through the NPP in October 2018, including Australian Government Disaster Recovery Payments, and has acknowledged the service has transformed the way financial assistance is provided to people facing emergency situations (Services Australia 2019). An individual can now see the funds in their bank account via their online banking service or mobile app before leaving the Services Australia office or ending their phone call, providing a vastly improved experience to those most in need.

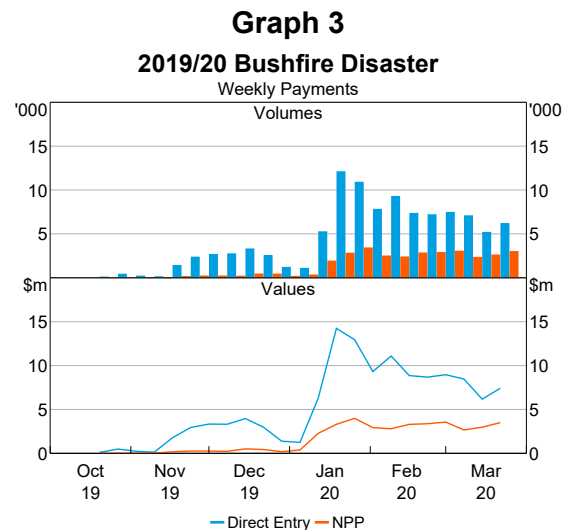
The Australian Government also uses the NPP to make real-time disaster relief payments, including during recent bushfires. The 2019/20 bushfires caused extensive damage across several Australian states and territories. More than 10 million hectares of land were destroyed in southern Australia, which is greater than the combined area burned in the Black Saturday and 1983 Ash Wednesday bushfires (CSIRO 2020). The impact was unprecedented and widespread with thousands of homes lost, 33 deaths and many communities were severely affected. The bushfire smoke was extensive and caused hazardous air quality levels across New South Wales, Victoria and the Australian Capital Territory, resulting in increased health issues being reported.

The number of bushfire relief payments processed was much higher than previous natural disasters. Payment volumes were more than the total number of disaster recovery payments made in the 2018/19 financial year, which included the far north Queensland floods and Northern New South Wales bushfires.^[7] During this period, the RBA processed more than 136,000 bushfire relief payments with a

total value of around \$163 million approved by Services Australia (Graph 3). Almost one in four payments were made via the NPP and only a small handful of payments were made via RTGS. It is worth noting more than 3,600 NPP payments were processed on a weekend or public holiday, which is something that was not possible only a couple of years ago. All of these payments were processed within the existing business as usual payment arrangements.

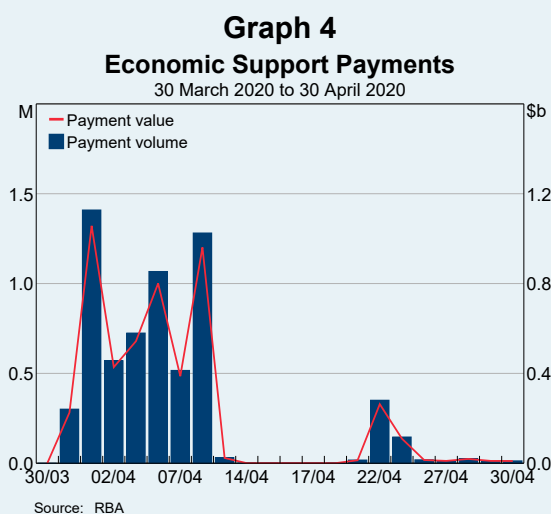
Conclusion

The emergence of new payment system capabilities has enabled the government to make immediate payments at any time on any day. This has made a difference to many Australians in need of urgent financial assistance. This was evident during the recent Australian bushfire disaster, which affected many households and businesses. The new payment infrastructure used to process government payments has also ensured the seamless processing of additional stimulus payments relating to the COVID-19 pandemic, along with other regular government payments to support the community. ✖



Box: COVID-19

The Australian Government is providing a number of stimulus measures to support households and businesses during the COVID-19 pandemic, which includes two \$750 Economic Support Payments (ESP). Between 30 March and 29 May 2020, Services Australia paid out close to \$5.3 billion during Phase 1 of the ESP. The highest daily volumes were processed the week before Easter, with ESP payments accounting for more than 50 per cent of regular payments. Graph 4 demonstrates payments made between 30 March and 30 April, the period in which most of the Phase 1 payments were made. Similar to previous relief payments, the RBA's upgraded systems were able to process the additional payments as part of normal business activities and deliver payments to people affected by the economic slowdown due to COVID-19.



Footnotes

- [*] The author is from Banking Department and thanks Stephanie Connors and Kristin Langwasser for their valuable assistance and contributions.
- [1] The provision of these services is consistent with the RBA's responsibilities under the *Reserve Bank Act 1959* and are provided in line with the government's competitive neutrality guidelines. This means the RBA competes with commercial financial institutions for business at tenders.
- [2] Services Australia was formerly known as the Department of Human Services and includes the Centrelink, Medicare and Child Support programs.
- [3] Bank accounts include accounts held at Authorised deposit-taking institutions such as banks, credit unions and building societies.
- [4] The increase in NPP payments from December 2019 to March 2020 reflects additional payments processed as part of the Australian bushfire relief.
- [5] The program's significance to the government and broader community has been recognised at an industry level, including being awarded a 'Project of National Significance' at the 2020 ITnews Benchmark Awards.
- [6] The 'Mandated Payments Service' will allow account holders to establish and manage standing authorisations (or consents) for payments to be initiated from their account by third parties.
- [7] Based on the number of claims finalised for the Australian Government Disaster Recovery Payment (Services Australia 2019).

References

Caddy J, L Delaney, C Fisher and C Noone (2020), 'Consumer Payment Behaviour', *RBA Bulletin*, March, viewed 27 April 2020. Available at <<https://www.rba.gov.au/publications/bulletin/2020/mar/consumer-payment-behaviour-in-australia.html>>.

CSIRO (2020), 'The 2019-20 bushfires: a CSIRO explainer'. Available at <<https://www.csiro.au/en/Research/Environment/Extreme-Events/Bushfire/preparing-for-climate-change/2019-20-bushfires-explainer>>.

Fitzgerald E and A Rush (2020), 'Two Years of Fast Payments in Australia', *RBA Bulletin*, March, viewed 13 April 2020. Available at <<https://www.rba.gov.au/publications/bulletin/2020/mar/two-years-of-fast-payments-in-australia.html>>.

Lowe P (2019), 'A Payments System for the Digital Economy', Address to the 2019 Australian Payments Network Summit, Sydney, 10 December.

NPPA (New Payments Platform Australia) (2019), 'New Payments Platform Roadmap 2019', October. Available at <https://nppa.com.au/wp-content/uploads/2019/10/NPP-Roadmap-2019_28-Oct-2019-final.pdf>.

Services Australia (2019), *Annual Report*. Available at <<https://www.servicesaustralia.gov.au/sites/default/files/annual-report-191019-v2.pdf>>.