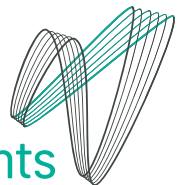


AUSTRALIAN PAYMENTS NETWORK MILESTONES REPORT

THE DIGITAL ECONOMY

NINTH REPORT, JUNE 2018



Australian
Payments
Network

Connect Inspire Thrive



Australian Payments Network Limited
ABN 12 055 136 519
Level 23, Tower 3 International Towers Sydney
300 Barangaroo Avenue Sydney NSW 2000
Telephone +61 2 9216 4888
Email info@auspaynet.com.au
www.auspaynet.com.au

This report has been prepared by the Australian Payments Network to monitor the continued decline of cheques as we move further towards a digital economy.

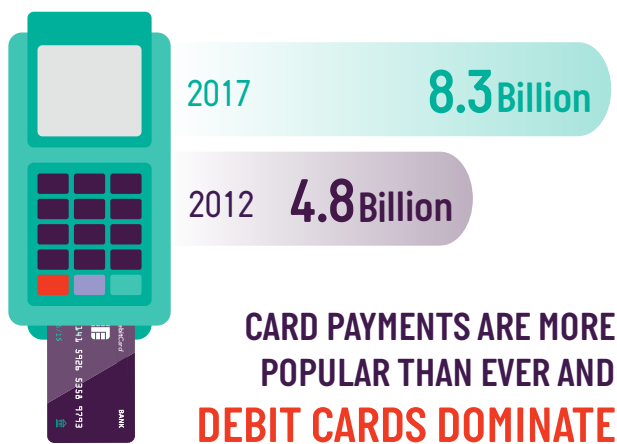
CONTENTS

1. THE DIGITAL ECONOMY.....	4
1.1. The Changing Payments Mix.....	4
1.2. The Evolving Customer Experience.....	6
1.3. Global Experience.....	7
2. ENABLING AND SUPPORTING THE DIGITAL ECONOMY.....	8
2.1. Payments Infrastructure.....	8
2.2. New Entrants and Emerging Trends.....	9
3. UPDATE ON INDUSTRY AND STAKEHOLDER INITIATIVES.....	10
3.1. Industry Initiatives.....	10
3.2. Government Initiatives.....	10
3.3. Global Regulatory Initiatives.....	10



1.0 THE DIGITAL ECONOMY

Businesses and consumers are embracing digital payments. Cards have overtaken cash as the most popular form of payment and cheque use is plummeting. This shift to digital payments provides a powerful base for innovation.



1.1 THE CHANGING PAYMENTS MIX

The majority of consumers prefer cards to cash, and Australia leads the world in contactless payments. Two in every three card payments at point-of-sale are now contactless.¹

Cards

In 2017, consumers made over 8.3 billion card payments – almost 23 million every day.² Nearly 7 in every 10 of these payments were made with a debit card.

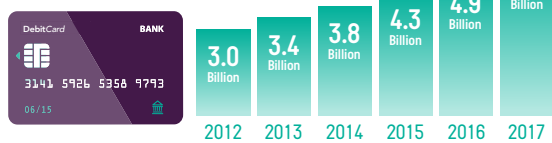
- Debit card payments grew 15.3% to 5.6 billion, an 87% increase since 2012. By value, this equates to \$290.6 billion – a 9.1% on the previous year.
- Credit cards are typically used for higher value items, reaching \$324.9 billion in 2017 – up 4% on the previous year. By number, these payments grew by 8.1% in 2017 to 2.7 billion, a 51% increase since 2012.

Direct Entry

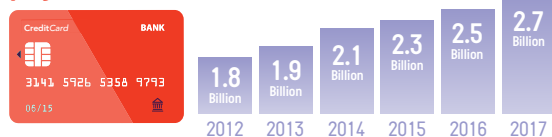
Direct entry continues to show strong growth. Consumers now make some 10.6 million transfers every day – 43.2% more than in 2012. By value, direct entry represent the lion's share of retail payments.

- In 2017, direct debits grew by 13.9% to 1.2 billion, and by 4.9% in value to \$6.2 trillion.
- Direct credits increased by 6.9% to 2.6 billion, and by 7.7% in value to \$9.5 trillion.

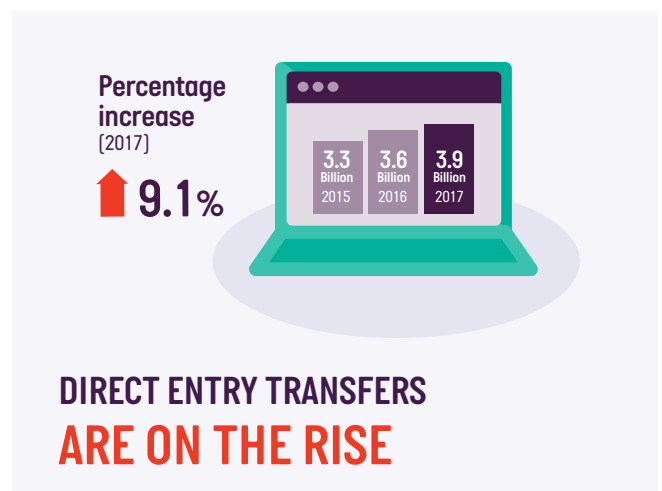
Debit Card payments



Credit Card payments



Source: RBA



Source: RBA

Cash

As cards and digital payments become increasingly popular, consumers are using cash less frequently.

- In 2017, the number of ATM withdrawals dropped by 5.9% to 610.1 million – down to 1.7 million withdrawals a day. ATM withdrawals have fallen 25% since 2012.
- The value of ATM withdrawals dropped 2.1% in 2017 to \$132.6 billion, and by 11.1% since 2012.

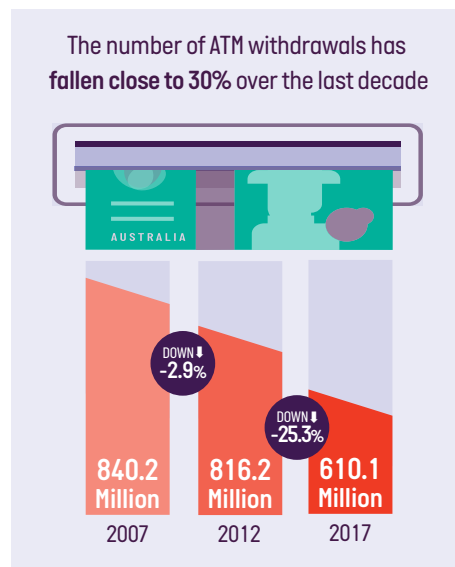
Early indications suggest that Australians are using ATMs belonging to other banks more often, following the removal of fees to non-customers from September 2017. In January 2018, 46% of all withdrawals were made at ATMs belonging to other banks, compared to 41% in January 2017. Future Digital Economy Reports will monitor changes over time.

Cheques

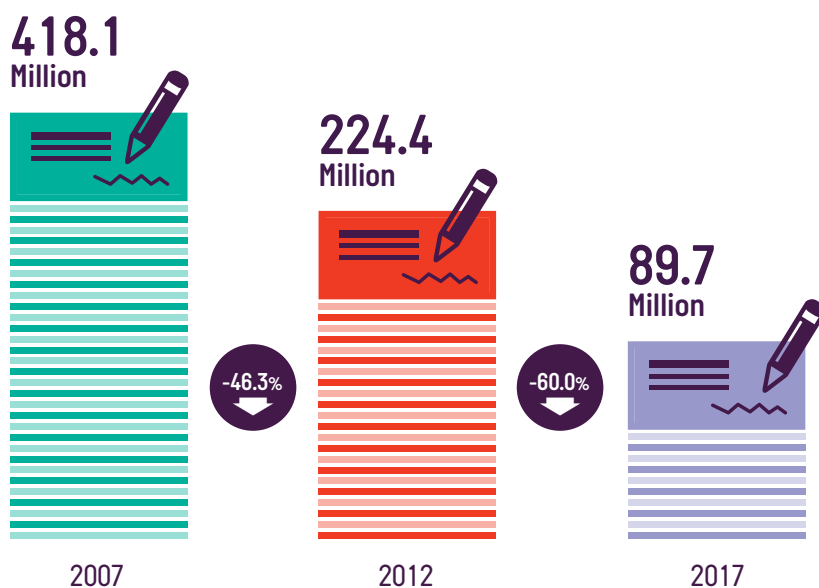
Australians continue to abandon cheques at a rapid rate.

- Cheque use plummeted by 19.7% in 2017 to 89.7 million. Since 2012, cheque use has dropped 60.0%.
- The overall value of cheques dropped by 3.8% in 2017, and by 8% since 2012.

AS CARDS AND DIGITAL PAYMENTS BECOME INCREASINGLY POPULAR, CONSUMERS ARE USING CASH LESS FREQUENTLY



Source: RBA



Source: RBA

INDIVIDUALS AND BUSINESSES ARE ABANDONING CHEQUES AT A RAPID RATE

1.0 THE DIGITAL ECONOMY cont.

1.2 THE EVOLVING CUSTOMER EXPERIENCE

Australians are highly connected and mobile, with 9 in every 10 people owning a smartphone.

Internet Activity

Almost all people aged 34 and under are internet users. Older people are also going online more, with 55% of 65s and over doing so in 2017 - up from 51% in 2015.³ A number of initiatives, such as the Government's *Be Connected* and *60+ Online*, were launched in 2017 to help older Australians become more comfortable with online services.

Across all age groups, banking, social networking and entertainment are the top three online activities.⁴

Online Retail

Consumers are embracing e-commerce, with 72% purchasing online in 2016-17, compared to 61% two years earlier.⁵ A record 14.4 million shopped online in December 2017, and online spending exceeded \$25 billion in the 12 months to February 2018. Moreover, spending in February 2018 was up 15.1% on the previous year.⁷

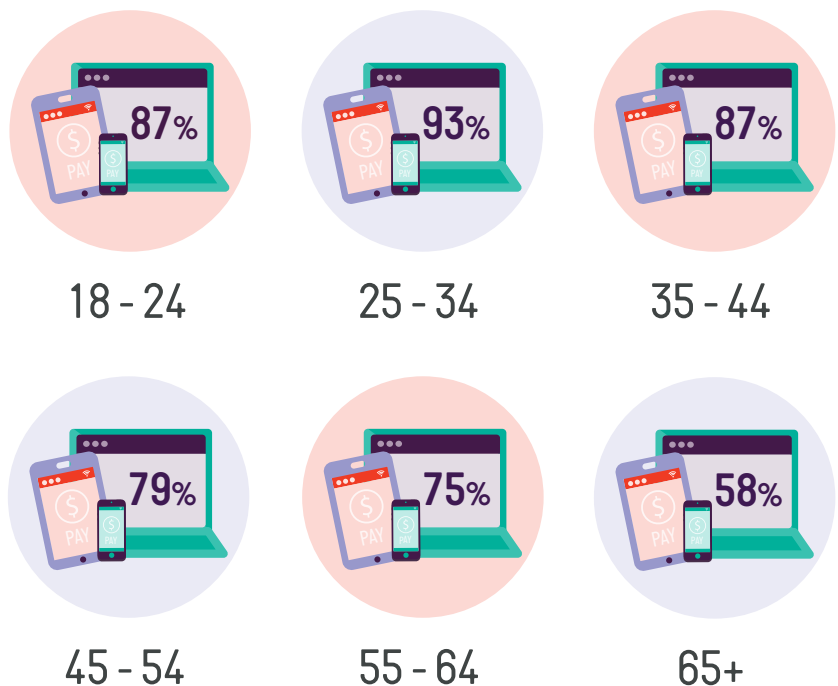
This growth is reflected in the fact that Australia is the fastest growing Amazon marketplace relative to its size. Having launched in December 2017, Amazon Australia had 10,000 sellers by March 2018, and expects to exceed 50,000 by the end of 2018.⁸



9 IN 10 PEOPLE OWN A SMARTPHONE

Source: Deloitte

ACROSS ALL AGE GROUPS, BANKING IS A KEY REASON FOR GOING ONLINE



Percentage of digitally active people banking online

Source: ABS

Mobile First

Australia is heading towards peak smartphone penetration with 88% of people owning a smartphone in 2017, up from 84% in 2016.⁹ Growth was strongest for the over 65s age group, with ownership jumping to 78% - up from 69% in 2016.¹⁰ Moreover, three in every five smartphone owners use them to make payments.¹¹

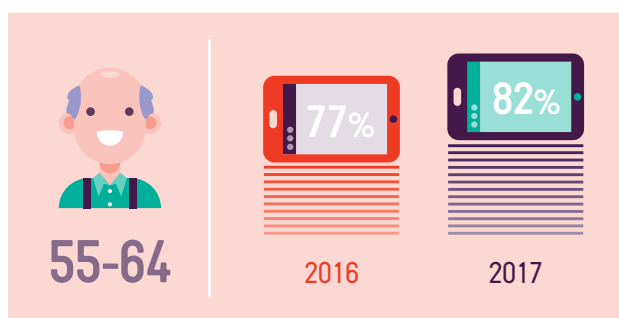
The widespread use of phones is driving the next wave of payments innovation. Recent examples include:

- Services built on the New Payments Platform (NPP) allow customers to make easier and faster payments via a mobile phone number, instead of a BSB and account number.
- Mobile apps, such as Uber, HeyYou and Foodora are providing a seamless payment experience and are quickly gaining popularity. For example, 18.4% of the population used Uber in 2017 – up from 5.1% in 2015.¹²
- QR codes are gaining momentum. More than 25,000 retailers across Australia offer Alipay and WeChat Pay to tap into an estimated \$10 billion Chinese tourist market.¹³

Wearables

The uptake of wearables is growing steadily. Smart watch penetration reached 9% in 2017 (up from 5% in 2016), and fitness band ownership grew from 18% to 20% over the same period.¹⁴ Wearables are expected to account for 20% of all proximity payments by 2020.¹⁵

OVER 55'S ARE DRIVING SMARTPHONE GROWTH



1.3 GLOBAL EXPERIENCE

Cash displacement is a consistent theme across the world.

Norway

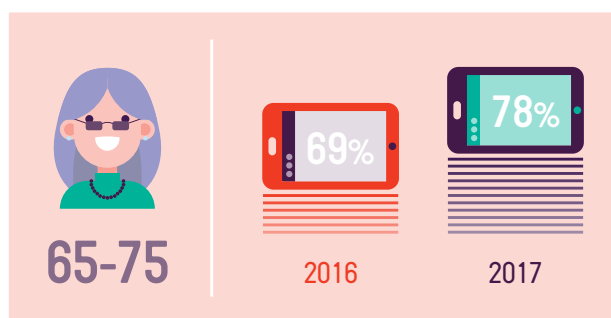
In April 2018, the deputy Governor of Norway's central bank stated that the country has effectively become the world's first cashless society. Cash now accounts for less than 10% of all transactions in Norway. According to the deputy Governor, cash could completely disappear globally within the next decade.¹⁶

Sweden

Sweden is fast becoming a cashless society, with cash payments falling to 15% in 2016.¹⁷ More than half of Sweden's bank branches no longer handle cash, many retail stores no longer accept cash, and even public toilets are going digital. While the majority of consumers (66%) say they can manage without cash, a growing number are concerned about how quickly cash is going away. Government officials have also cautioned about the effect of a cashless society on Sweden's payments infrastructure.¹⁸

Britain

In 2016, cash accounted for 40% of all payments and is predicted to drop to 21% by 2026.¹⁹ Like Australia, cards are overtaking cash as the most frequently used payment method. In March 2018, the Church of England introduced contactless payment terminals at more than 16,000 churches to make giving donations faster and easier.²⁰



Source: Deloitte

2.0 ENABLING AND SUPPORTING THE DIGITAL ECONOMY

2.1 PAYMENTS INFRASTRUCTURE

Payments infrastructure continues to evolve, driving our digital economy.

Real-time Payments

The launch of the New Payments Platform (NPP) in February 2018 was a landmark for Australia's payments system. The NPP enables fast, flexible, data-rich payments.

The first overlay service, 'Osko' provided by BPAY, offers customers a simple way to make instant peer-to-peer payments. Financial institutions have been progressively rolling out the Osko service since the February launch.

Accessibility and Acceptance Devices

Australia stands out with a high penetration of point-of-sale (POS) terminals and low number of ATMs.²¹ This highlights consumers preference for contactless and other card-based transactions. In March 2018, consumers had access to some 965,000 POS devices, 28% more than in 2012. By comparison, the number of ATMs has increased by 3% to 31,712.²²

Number of devices per million inhabitants

Point-of-sale	
Australia	39,337
Canada	38,892
Italy	36,902
Singapore	33,219
United Kingdom	32,858

ATMs	
Korea	2,368
Canada	1,888
Belgium	1,538
Russia	1,373
Australia	1,355

Source: Bank for International Settlements

**AUSTRALIA
STANDS OUT
WITH A HIGH
PENETRATION OF
POINT-OF-SALE
TERMINALS**

2.2 NEW ENTRANTS AND EMERGING TRENDS

Fintech

Globally, financial institutions see fintech organisations as a major part of the digital future. Enhancing the customer experience through partnerships with fintech organisations has been identified as a key strategic objective.²³

Australia is ranked in the top 5 countries globally for fintech activity.²⁴ Close to 600 fintechs are now operating in the country, almost double the number in 2015.²⁵ The category of 'payments, wallets and supply chain' is the fourth highest area of activity. More than a third of the digitally active population now use services provided by fintech organisations, with adoption expected to reach 43% in 2018.²⁶

Blockchain Technology

Since late 2017, blockchain technology and cryptocurrencies have featured more prominently in the digital economy discussion.

The Australian Stock Exchange (ASX) announced in December 2017 that it will replace the CHES clearing and settlement system with distributed ledger technology. The ASX released a consultation paper on the implementation plan in April 2018, with the new system expected to go live by early 2021.²⁷

Australia is also taking a lead role in the development of international blockchain standards through the International Organization for Standardization (ISO).²⁸

Globally, the discussion about the value of blockchain technology is ongoing.

Bank of Canada has determined that blockchain technology is not yet ready to support a wholesale interbank payment system, following a year-long experiment. The Bank sees concerns around the principles for financial market infrastructures for settlement finality, operational risk, access and participation requirements. Moreover, the Bank found that most of the proposed benefits of blockchain technologies come from conventional elements such as encryption and smart contracts, rather than elements unique to blockchain.²⁹

Like Australia, central banks around the world are investigating digital currencies including Sweden's Sveriges Riksbank, the Bank of England, the People's Bank of China and the European Central Bank.

Faster Payments

More than 30 countries have now switched on *faster payments* systems.

In November 2017, the United States' new Real-Time Payments (RTP) system carried its first payment. It is expected that by the end of 2018, banks holding more than half of all deposits will be using the RTP.³⁰ Hong Kong is also moving towards faster payments, with a SWIFT-designed system scheduled to go live in September 2018.³¹

With domestic faster payments systems increasingly ubiquitous across the globe, the next challenge is to speed up cross-border payments. A number of firms – including SWIFT, Ripple and Transferwise – are progressing solutions to increase the speed of international remittances.

3.0 UPDATE ON INDUSTRY AND STAKEHOLDER INITIATIVES

3.1 INDUSTRY INITIATIVES

Open Loop Transit

In March 2018, Transport for NSW expanded its Contactless Transport Payments Trial launched on the Manly Ferry in 2017.³² Passengers can now pay for transit on all Sydney ferries and L1 light rail using their contactless Mastercard, American Express or Visa card (or smartphone or wearable).

AusPayNet, in collaboration with the payments industry and transport authorities, has produced a national Open Loop Transport Payments Framework. In addition to ensuring a consistent consumer ticketing experience, the Framework can help transport authorities in implementing open loop contactless payments. The Victorian, Queensland and Western Australian State governments are also considering options for contactless payments for transit.³³

Digital ID

Digital identity plays an enabling role, underpinning a seamless and secure payments experience. The Australian Payments Council is drawing on overseas experience and local consultation to develop a framework for digital identity in Australia. The work has involved close engagement with Government and the fintech community.³⁴

3.2 GOVERNMENT INITIATIVES

Open Banking and Consumer Data Right

Open banking aims to create greater choice for customers by providing a means of safely sharing financial data with trusted third parties. Greater access to a wide range of data is expected to drive innovation and improve customer choice and convenience in the digital economy.

On 9 May 2018, the Government announced that open banking would be progressively implemented in Australia from July 2019, and agreed to the recommendations of an independent Treasury report released in February 2018. The recommendations

include that the UK framework be the starting point for Australia's data transfer mechanism, and that open banking be part of an economy-wide consumer data right (CDR). After banking, the CDR will be applied to other sectors such as energy and telecommunications.³⁵

Competition in the Australian Financial System

The Productivity Commission (PC) Draft Report into *Competition in the Australian Financial System*, released in February 2018, made positive statements about the growing digitisation of Australia's retail payments. The PC highlighted that Australians are strongly embracing electronic payments and that Australia has the fourth highest number of non-cash payments per person. The PC concluded that digital technology is driving innovation in payment systems.

The Draft Report's recommendations around payments include mandating the ePayments Code, and reviewing certain regulatory arrangements. The PC will provide a Final Report to Government by July 2018.

3.3 GLOBAL REGULATORY INITIATIVES

Other jurisdictions around the world continue to move towards open banking. In the United Kingdom, non-customer related data, such as ATM locations and product comparison information, came online in March 2017. The open banking regulation came into force on 13 January 2018, and most banks have since implemented live APIs.

The European Union's Payment Services Directive 2 (PSD2) came into effect in January 2018, and the General Data Protection Regulations (GDPR) came into effect on 25 May 2018. PSD2 seeks to mandate open banking, including payment initiation and account data retrieval. The GDPR will establish data protection regulations, including the right to transfer personal data.³⁶

REFERENCES

1. How Australians Pay: Evidence from the 2016 Consumer Payments Survey – Reserve Bank of Australia
2. Source for statistics in section 1.1 – Reserve Bank of Australia.
3. Household Use of Information Technology, Australia, 2016-17 – Australian Bureau of Statistics (ABS)
4. ABS
5. ABS
6. Retailers and Department Stores See Cracker Online Christmas Season
7. NAB Online Retail Sales Index: February 2018
8. Amazon Grows to Ten Thousand Sellers in Australia
9. Deloitte 2017, “Smart everything, everywhere Mobile Consumer Survey 2017, The Australian cut”
10. Deloitte 2017
11. PayPal mCommerce Index Australia 2017
12. Roy Morgan, “Uber soars and well-placed to tackle rising competition”, 16 December 2017.
13. Australia China Business Review, “Trillions move through mobile wallets”, 13 April 2018.
14. Deloitte 2017.
15. Tractica: Wearable Payments Report
16. Business Insider “Fewer than 10% of people in Norway use cash”, 25 April 2018
17. The Guardian, “Cashing out? Why notes and coins may become a thing of the past in Sweden”, 20 February 2018.
18. Bloomberg, “Sweden’s march towards a cashless society”, 19 February 2018.
- 19 The Guardian, “Revealed: Cash eclipsed as Britain turns to digital payments”, 20 February 2018.
20. Financial Times, “Church of England to accept donations by contactless payments”, 20 March 2018.
21. Bank for International Settlements Limited
22. Australian Payments Network Limited
23. KPMG Forging the future: Embracing fintech to evolve and grow
24. EY FinTech Australia Census 2017, “Profiling and defining the fintech sector”.
25. EY FinTech Australia Census 2017
26. EY FinTech Australia Census 2017
27. ASX Media Release: ASX outlines new features and timetable for DLT system to replace CHES
28. Standards Australia, “Australia to Lead International Blockchain Standards Committee”, 15 September 2016.
29. Bank of Canada: Blockchain Revolution Without the Blockchain
30. Finextra, “US banks launch real-time payments system”, 14 November 2017
31. Finextra, “Swift to support instant payments in Hong Kong”, 06 November 2017
32. NSW Minister for Transport, “Tap your credit card to pay for your journey”, 12 March 2018.
33. Australian Payments Network Limited
34. Australian Payments Council, Annual Review 2017.
35. Australian Government, “Australians to own their own banking, energy, phone and internet data”, November 2017.
36. What is Open Banking and PSD2? WIRED explains



Australian
Payments
Network

Connect Inspire Thrive

Australian Payments Network Limited

ABN 12 055 136 519

Level 23, Tower 3 International Towers Sydney

300 Barangaroo Avenue Sydney NSW 2000

Telephone +61 2 9216 4888

Email info@auspaynet.com.au

www.auspaynet.com.au

