

Australian
Payments Network
Connect Inspire Thrive

Submission to the Black Economy Taskforce:
Consultation Paper

AUGUST 2017

Reference

This submission is made by the Australian Payments Network (**AusPayNet**) in response to the *Black Economy Taskforce Consultation Paper – August 2017*. We thank the Black Economy Taskforce (**the Taskforce**) for the opportunity to participate in earlier discussions in relation to the *Black Economy Taskforce Interim Report – March 2017*. AusPayNet have been happy to provide assistance in reviewing Taskforce papers, and participating in stakeholder discussions. AusPayNet supports the aim of the Taskforce in fighting the black economy. Given our previous involvement, we have confined our comments to some broader issues and those specifically raised in the consultation paper.

AusPayNet notes that there are presently several other Australian Government inquiries which may also have future implications for the payments system, such as the recently concluded Productivity Commission (**PC**) inquiry into *Data Availability and Use*, the current PC inquiry, *Competition in the Australian Financial System*, and the Treasury Review into *Open Banking in Australia*. AusPayNet welcomes and supports the Government's desire to continue to actively consider and consult on the future of payments by taking a holistic approach to policy development.

AusPayNet notes that cash has use both as a store of value and a transaction mechanism. Our comments in this submission are in reference to cash as a transaction mechanism.

Introduction

AusPayNet is the industry association and self-regulator for the Australian payments industry. AusPayNet (previously known as the Australian Payments Clearing Association) was established in 1992 to manage and develop regulations, procedures, policies and standards governing payments clearing and settlement within Australia. In this core role, AusPayNet oversees clearing systems and frameworks covering cheques, direct debits and direct credits, aspects of card transactions, high value payments and bulk cash exchanges between financial institutions.

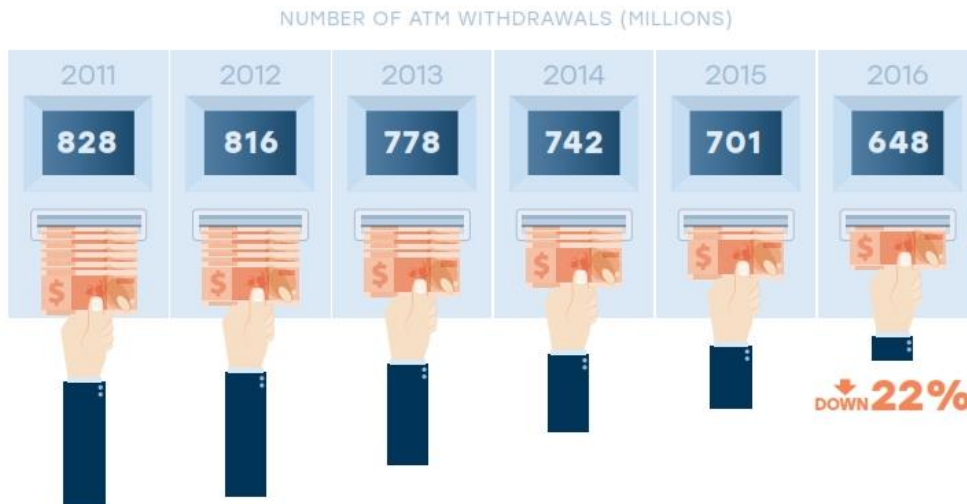
AusPayNet administers the Community of Interest Network (**COIN**) infrastructure system which provides network services and connectivity for retail payments.

AusPayNet also maintains the procedures and regulations that support the Australian Cash Distribution and Exchange System (**ACDES**). This provides rules for the exchange and distribution of currency between banks, including audit requirements and cash movement. ACDES is overseen by an AusPayNet Management Committee.

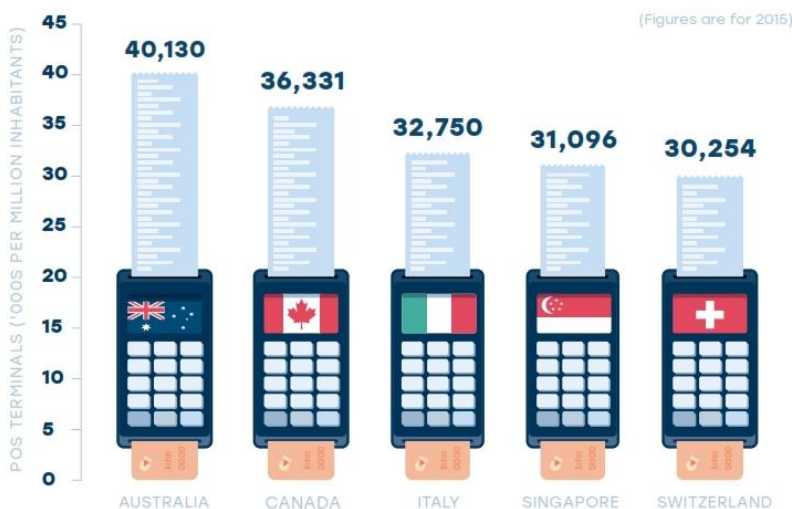
AusPayNet brings together industry, government, regulators and other stakeholders to improve the Australian payments system by promoting competition and innovation, delivering efficiency, and controlling systemic risk. We create a shared purpose that engenders confidence in the payments system.

Changes to the payments mix

AusPayNet has monitored the changing payments mix since 2012, with the release of our report *The Decline of Cheques: Building a Bridge to the Digital Economy*. AusPayNet's biannual *Milestones Report* looks at the payment choices Australians make. It's clear that the vast majority of Australians are moving away from cash and cheques faster than ever before. This is happening because widespread use of new technology combined with a strong preference for faster and more convenient payment options¹.



Australia's digital economy is also creating a less-cash society. In 2016, the number of ATM withdrawals dropped by 7.5% to 648.5 million. This follows a 5.5% drop in 2015 and 4.7% in 2014. Over the last five years, ATM withdrawals have dropped by 22%. In Australia, cash now accounts for just 37% of all payments.

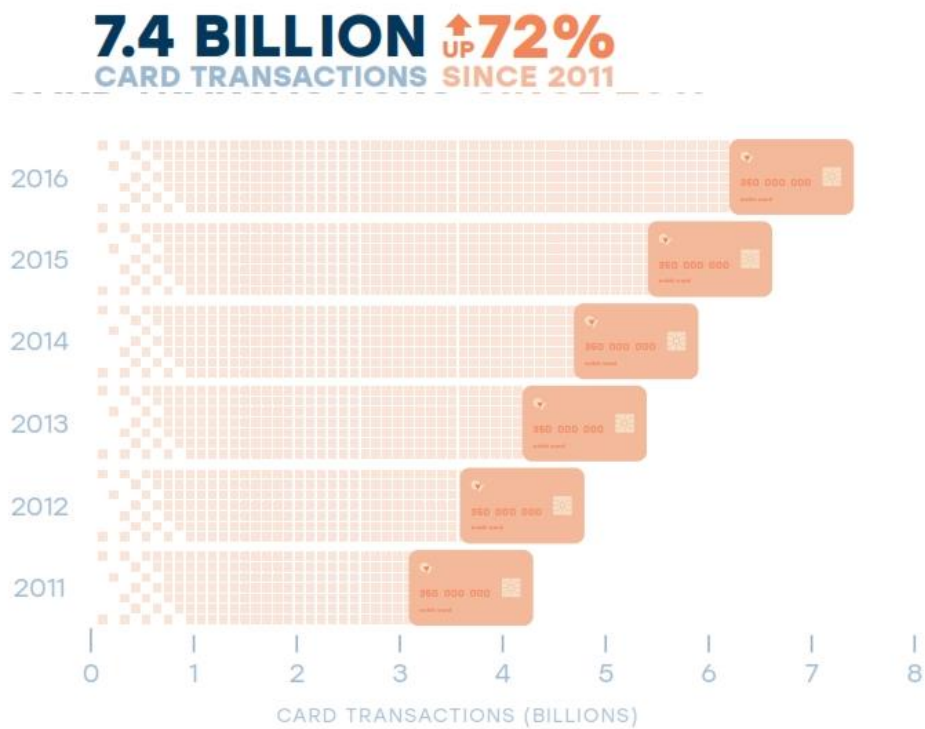
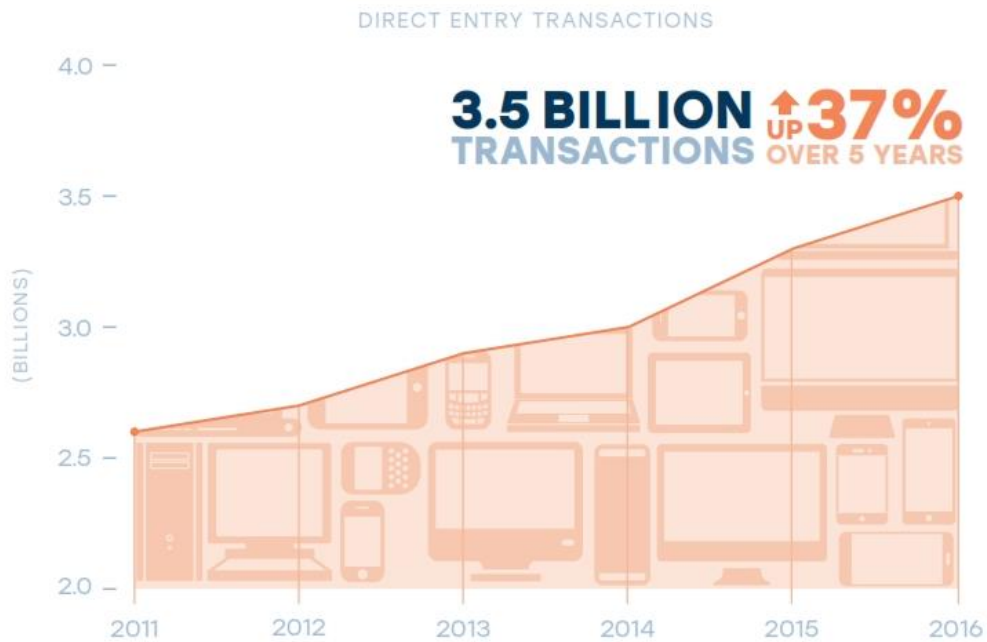


Australia's growth in digital payments is enabled by the high number of point-of-sale (POS) devices. Australia has the most POS terminals per million inhabitants of all Bank of International Settlements (BIS) member countries. The latest BIS figures show that in 2015, the top five were Australia (40,130), Canada (36,331), Italy (32,750), Singapore (31,096) and Switzerland (30,254). In 2016, Australian consumers had access to 954,174 POS devices.

¹ Statistics and infographics are drawn from Australian Payments Network, *Milestones Report: The Digital Economy*, [www.apca.com.au/docs/default-source/decline-of-cheques---milestones/towards-the-digital-economy-milestones-report-\(may-2017\).pdf](http://www.apca.com.au/docs/default-source/decline-of-cheques---milestones/towards-the-digital-economy-milestones-report-(may-2017).pdf)

Year-on-year the use of cards and direct entry transactions have shown continued strong growth. The number of card payments grew by 12.3% to 7.4 billion in 2016, and direct entry transaction by 8.6% to 3.5 billion. Over the last five years, card transactions grew by 72% and direct entry by 37%.

Individuals and businesses choose digital payments.



Increased smartphone penetration is a contributing factor to the decline of cash and cheques. In 2016 smartphone penetration reached 84%, up from 76% in 2014. Online retail spending continues to grow and was estimated to reach \$21.6 billion in 2016. Domestic spending by older Australians increased by 8.7% for those in the 55-64 age group, and 7.5% for the 65+.

International payment trends make for interesting comparisons on the domestic market. Sweden is well on the way to becoming the first cashless society with only 15% of payments made using cash, whereas in Germany, cash use is more resilient.

Notwithstanding this rise in digital payments, traditional payment methods including cash, continue to play an important role with certain segments of the community (for example, older Australians). Prior to making any policy proposals to mandate the phasing out of cash or move to alternative non-cash payment systems, it is important that the impacts on all segments of Australia society are properly considered.

Modernising the payment system

There are 4 policy ideas in the Consultation Paper that relate to the modernisation of the payment system, which are covered below.

[Policy idea #24: Requiring non-cash payment of wages](#)

[Policy idea #26: Non-Cash Wagering](#)

These two policy ideas go to the requirement to use (or forbid) certain payment methods in certain transactions. Policy idea 24 outlines a proposal to require all wages to be paid electronically, similar to superannuation payments. Policy idea 26 suggests that casinos and clubs should be released from the obligation to accept and payout bets in cash.

The foundation of policy idea 24 is that sufficient consumer alternatives exist so that it is possible to 'switch off' the use of cash payment methods for certain transaction types. The Taskforce should ensure that this assumption is rigorously tested. As noted above, while consumers are embracing digital payment options, traditional payment methods still retain substantial use in certain segments of Australian society. It is important that the impacts on vulnerable segments of Australian society are properly understood and accounted for.

Accordingly, an alternative approach is to consider the requirements and use-cases of individuals who are still using cash for wages (and, potentially, other types of transactions). Given that the move to digital and electronic payments has been consumer-led, alternative solutions may be available to encourage this movement. Identifying legitimate cash wage recipients will offer insight into paths to encourage adoption of (rather than mandate) alternative payment methods, and may provide further insight into the potential impacts of a mandate.

Policy idea #25: The \$100 Note

This section outlines an option of currency reform. Among the policy options contemplated, the section contemplates an organised changeover of \$100 notes, and the inclusion of tracking technology in new \$100 notes. The mechanisms of the changeover are not developed at this stage, although this would presumably include placing an expiry date on existing notes.

Given that an organised changeover of notes may have implications for ACDES, AusPayNet suggests that further industry engagement on these recommendations would assist the Taskforce in determining the costs and potential benefits of these proposals. Industry engagement would be assisted by more detail on the Taskforce's proposed mechanisms for this changeover.

Policy idea #29: Encouraging no-frills debit cards: an Australian Octopus Card

This policy idea draws on the experience of the Octopus Card in Hong Kong. This card was initially rolled out as a transport card, and has since evolved in use to become a general debit card for low-value transactions.

This proposal appears to contemplate two options:

- a. Australian state governments to expand the use of existing transport cards to allow for small transactions.
- b. Support to be given to existing commercial 'no-frills' cards.

With respect to option (a), AusPayNet notes that the trend in Australia is actually the reverse of option (a). Instead, the use of standard payment cards in lieu of transport cards is being actively explored, and indeed trialled. AusPayNet, representing the broader payments industry, has worked closely with the NSW state government to develop and implement a framework to support the use of open loop (in lieu of closed loop) contactless payments on public transport. From 6 July 2017, Transport for NSW has implemented a trial on the Manly ferry.² AusPayNet is currently working with four other state transport authorities looking to implement open loop contactless payments in the short to medium term. Such payments normalise the use of a consumer's standard payment card rather than necessitating an additional card.

Digital Identity

The consultation paper requests views on a national identity system. AusPayNet draws your attention to industry work on digital identity.

AusPayNet provides secretariat support to the Australian Payments Council (**APC**), which is the strategic coordination body for the payments industry. In December 2015, the APC published the

² Transport for NSW, *Contactless Payments on the Sydney Ferries*, <https://transportnsw.info/news/2017/contactless-payments-on-sydney-ferries-f1-manly-ferry>

Australian Payments Plan, which provides a roadmap for industry collaboration. One of the work areas identified in the *Australian Payments Plan* was to understand the opportunities presented by digital identity management for enhanced security and trust. The final report of the 2014 *Financial System Inquiry* recommended that Government work with private sector to develop a national identity strategy based on a federated-style model.

As a growing number of interactions for businesses and consumers move online, this increases the importance of identity management for both the private sector and Australian governments. The APC has developed a principles-based approach for digital identity management, and has submitted these to previous government inquiries.³ These principles were developed through a series of workshops and consultations involving 30 organisations drawn from both the public and private sectors. Industry continues to work to advance an identity solution.

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³ Australian Payments Council, *Submission to the Productivity Commission Inquiry into Data Availability and Use*, www.pc.gov.au/_data/assets/pdf_file/0008/202985/sub034-data-access.pdf