

AUSTRALIAN PAYMENTS NETWORK MILESTONES REPORT

THE DIGITAL ECONOMY

SEVENTH REPORT, MAY 2017



This report has been prepared by Australian Payments Network (previously APCA) to monitor the continued decline of cheques in our maturing digital economy.



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1.0 Key Trends

1.1 Cheque and Cash Decline

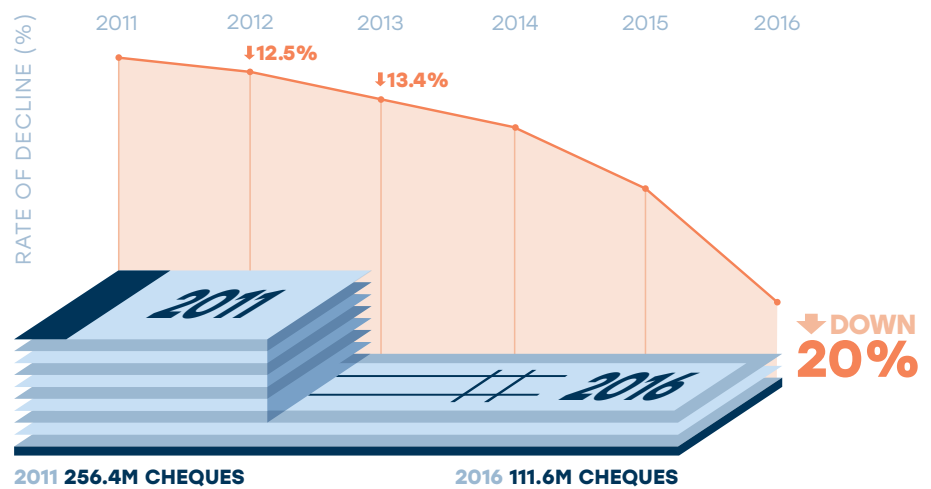
In decline for more than a decade now, the rate at which Australian's are rejecting cheques is accelerating as the digital economy takes hold.¹

- Cheque use plunged by **20%** in 2016 alone - the largest drop ever recorded. Over the last five years, cheque use has dropped by **56%**.
- **144.8 million** fewer cheques were used in 2016 than were used over a 12 month period five years ago. In 2016 **111.6 million** cheques issued – down from **256.4 million** in 2011.
- Significantly, the value of cheques dropped by **6%** in 2016, after largely remaining flat in previous years. This compares to no change in 2015 and a **0.6%** drop in 2014.

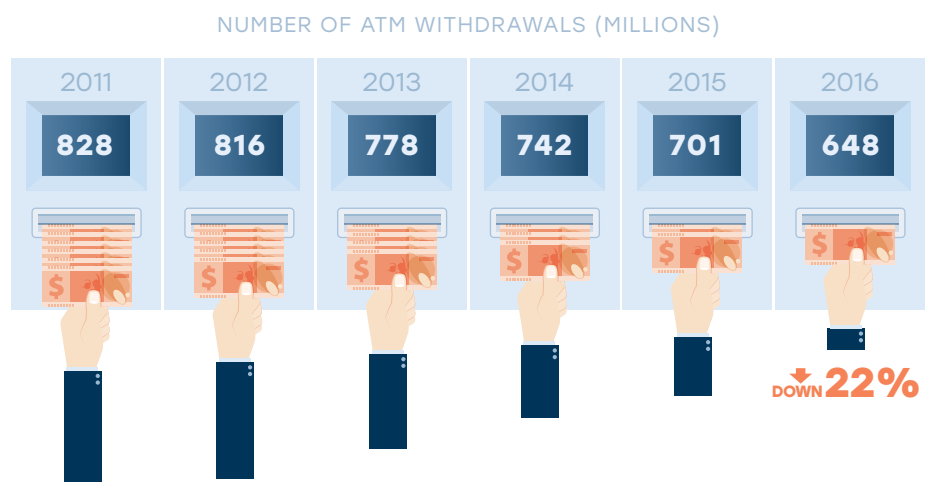
Australia's digital economy is also creating a less-cash society, with ATM withdrawals down in both volume and value.

- 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%**.
- The value of ATM withdrawals dropped by **3.8%** in 2016. This compares to a **1.7%** drop in 2015 and **1.6%** in 2014.

The decline in cheque use continues to accelerate, plunging 20% in 2016.



Australia is fast becoming a less-cash society. ATM withdrawals fell by 22% in the last 5 years.



¹ Source Statistics for sections 1.1 and 1.2 – Reserve Bank of Australia

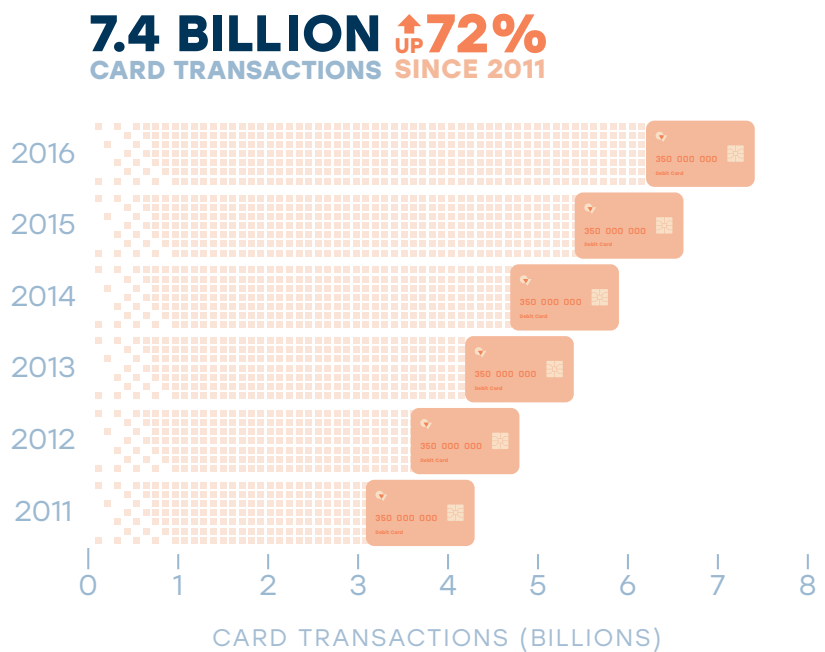
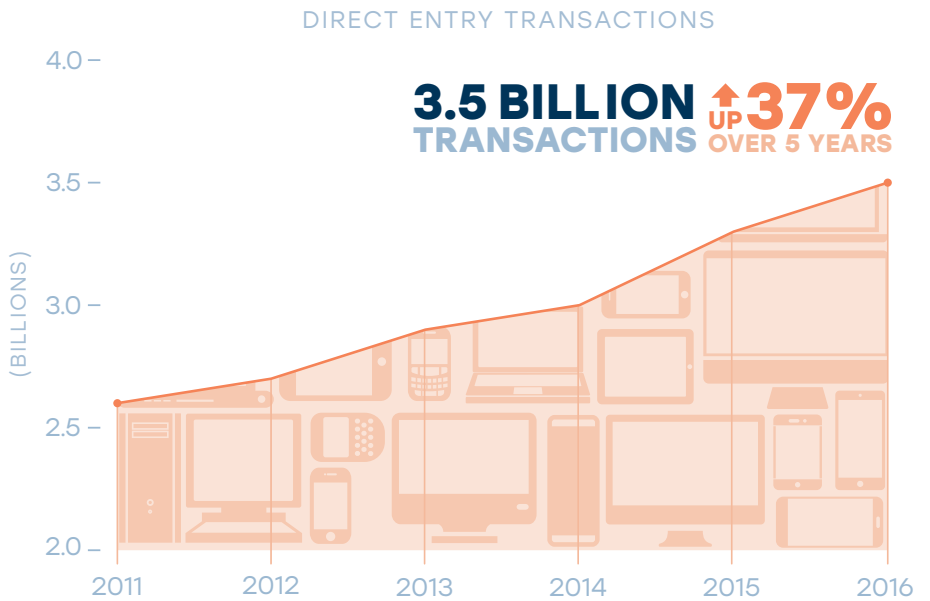
1.2 Digital Payments Growth

Direct entry and card transactions show strong year-on-year growth as Australians choose digital payment methods.

- Direct entry (direct debit and direct credit) transactions grew by **8.6%** in volume in 2016 to **3.5 billion**, building on an **8%** increase in 2015.
- Australians used their cards **12.3%** more in 2016, making **7.4 billion** card transactions.
- Over the last five years, direct entry transactions have increased by **36.5%** and card payments by **71.6%**.

Australians are embracing the convenience of contactless technology, which is contributing to the rise in card payments; the international card schemes estimate that more than **75%** of face-to-face payments are 'tap and go'. A recent consumer survey conducted by the Reserve Bank of Australia, shows that cards are now the most commonly used payment method for all transactions over \$10.²

Individuals and businesses choose digital payments.



² Reserve Bank of Australia *How Australians Pay: New Survey Evidence* (March 2017)



1.3 Enabling Digital 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).³

In 2016, Australian consumers had access to 954,174 POS devices. The number of ATMs by comparison was 32,879. An observation of just how accessible digital payments have become.⁴

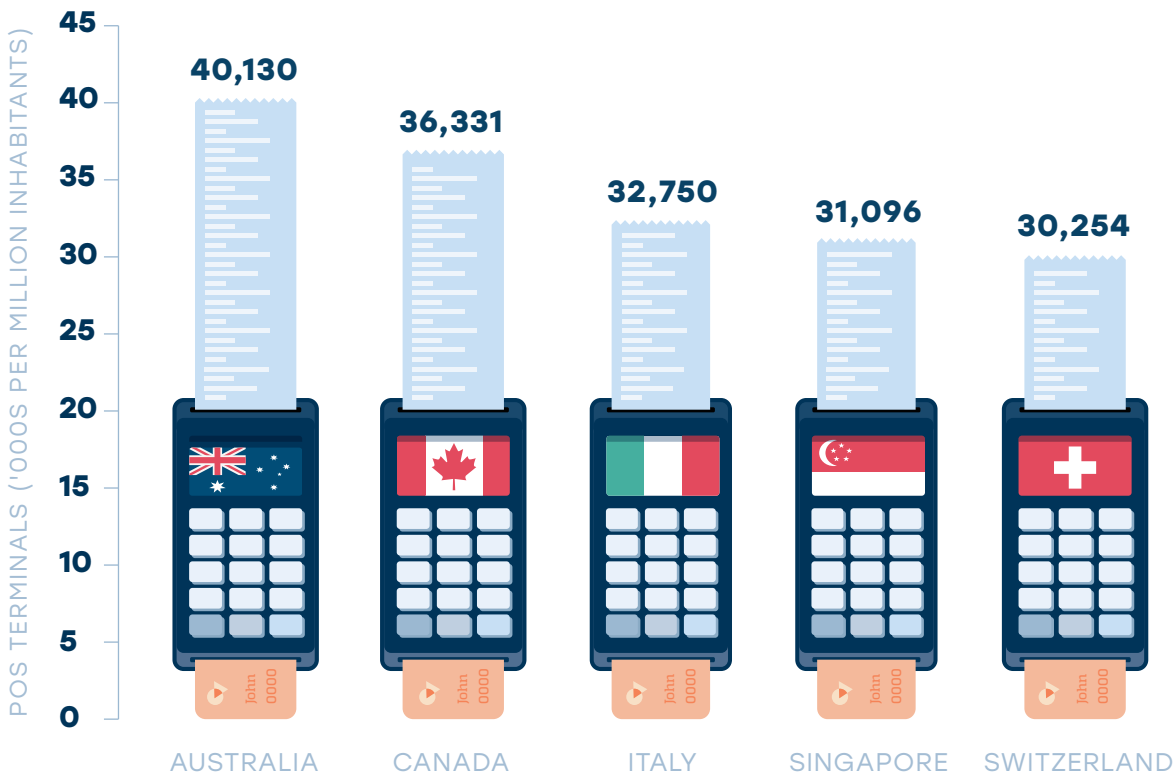
1.4 International Trends

The shift away from cheques and cash to digital payments is a global phenomenon. Indices published by BIS show that across member countries between 2011 and 2015:⁵

- Cheques issued fell **37%** from 30.8 billion to 19.3 billion.
- Direct debits transactions rose **20%** from 38.2 billion to 46 billion.
- Card payments rose **55%** from 155.5 billion to 240.4 billion.

Globally, Australia has among the highest penetrations of POS terminals.

(Figures are for 2015)



³ Bank of International Settlement, *Statistics on Payment, Clearing and Settlement Systems in the CPMI Countries – Figures for 2015*

⁴ Australian Payments Network

⁵ Bank of International Settlement, *Statistics on Payment, Clearing and Settlement Systems in the CPMI Countries – Figures for 2015*



	Number of cheques for the year – in millions					% change		Per person
	2011	2012	2013	2014	2015	YR 14/15	Yrs 11/15	2015
Australia	256.4	224.4	194.4	166.6	139.5	-16.3%	-45.6%	5.9
Canada	870.9	805.5	761.1	708.9	648.2	-8.6%	-25.6%	18.1
France	2,971.4	2,805.6	2,620.6	2,482.8	2,238.9	-9.8%	-24.6%	33.7
South Africa	53.7	42.2	30.9	22.9	16.9	-26.1%	-68.5%	0.3
United Kingdom	970	848	718	644	558	-13.4%	-42.5%	8.6
United States	20,378	18,334.5	16,319.7	14,338.9	12,287.1	-14.3%	-39.7%	38.2

Source: BIS

Cheques

In 2011, cheques represented **11%** of the volume of all payments made in the BIS countries. By 2015, this had declined to **5%**. The rate at which cheque use is declining varies from country-to-country. Between 2011 and 2015, Australia's drop in cheque use (-45.6%) exceeded that of most other BIS countries including Canada (-25.6%), France (-24.6%) and the United Kingdom (-42.5%).

Cash

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.⁶ In comparison, Australia is becoming a 'less-cash' society, with cash now accounting for just **37%** of all payments.⁷

More widely, governments around the world are exploring the economic regulatory implications of a less-cash society. Many are actively seeking to reduce the role of cash in their domestic economies.

In late 2016, India announced a demonetisation program. This involved the withdrawal of the 500 and **1,000** rupee notes, which decommissioned 86% of India's currency supply overnight. The rationale was to fight widespread tax evasion, and stimulate the digital economy.⁸

In 2015, Ecuador became the first government to formally issue a digital currency. In late 2016, Sweden's Riksbank launched a project to examine the challenges and opportunities for a central-bank backed digital currency. It will decide on the 'ekrona' in the next two years. Sweden's initiative is partly driven by the rapid decline of cash – the number of notes and coins in domestic circulation has fallen by **40%** since 2009.⁹

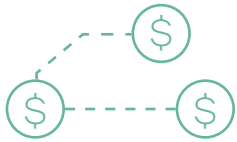
⁶ Reserve Bank of Australia, *The Future of Cash* (December 2016)

⁷ Reserve Bank of Australia, *How Australians Pay: New Survey Evidence* (Mar 2017)

⁸ Reserve Bank of Australia, *The Future of Cash* (December 2016)

⁹ Reserve Bank of Australia, *The Future of Cash* (December 2016)

Source: Reserve Bank of Australia



2.0 The Digital Economy

2.1 Digital Literacy

The Australian Digital Inclusion Index¹⁰ (ADII) measures the breadth and depth of Australian participation in the internet and digital services. The 2016 index found Australia has continued to become more digitally inclusive, the ADII score increasing from **52.7** in 2014 to **54.5**.

To further improve digital literacy and the confidence of older Australians, the Commonwealth Government has announced a **\$50 million** inclusion and online safety strategy.¹¹

Investment by the government and the private sector has improved Internet access in regional Australia.¹² In the four years to June 2015, the proportion of the regional population with a home broadband connection increased from **61%** to **80%**. During the same period, mobile internet access increased from **16%** to **37%**.

The global growth of connected devices was estimated to have reached 23 billion in 2016.¹³ This number is expected to more than double by 2020.

2.2 Mobile

Smartphone penetration in Australia reached **84%** in 2016, up from **76%** in 2014.¹⁴ One-third of Australians have a fingerprint scanner on their smartphone and 70% use it regularly.

When considering apps or browsers for payments activities on mobile phones, the browser is preferred for online shopping (**71%**) and booking travel (**70%**). Apps are the preferred option for online banking (**70%**) and booking taxis (**61%**).

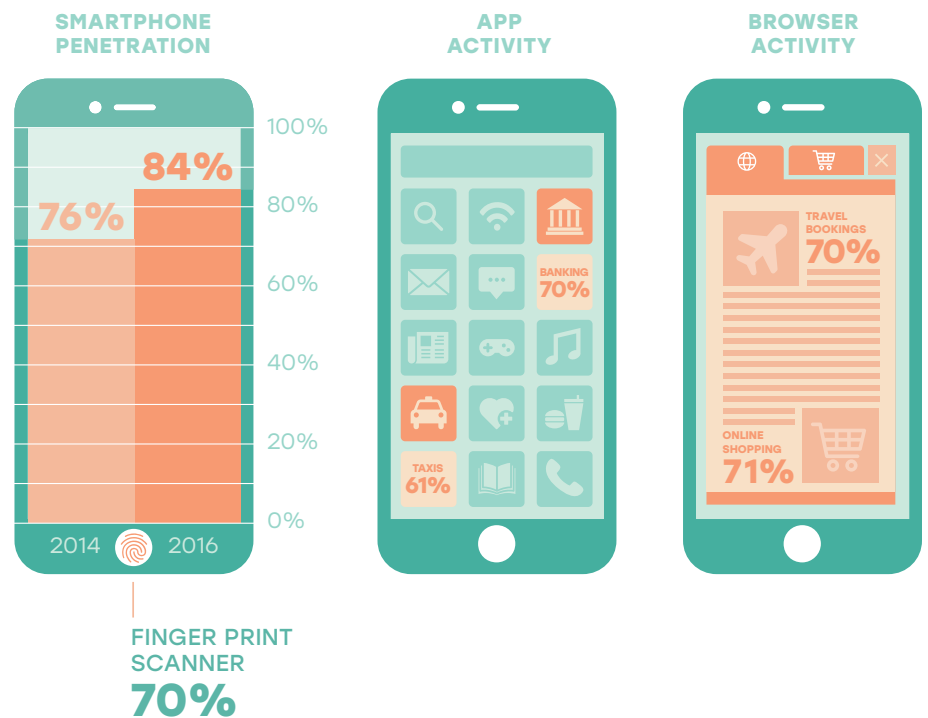
Deloitte reports that Australia is heading towards a 'peak smartphone' environment, with the final up tick expected as network operators switch off their GSM networks in 2017.¹⁵

Wearables

Sales of wearable devices have increased steadily over recent years. Recent estimates indicate that **14%** of Australians now have a smart **wearable** device, and forecast this will increase to **37%** by 2020.¹⁶

According to CCS Insight, global sales of wearables were estimated to have reached **\$14 billion** by the end of 2016.¹⁷ It is now common for Americans to own a wearable **device** such as a Fitbit or smart watch and other accessories, such as glasses, are in development. The wearables market is expected to grow to **162.9 million** units by the end of 2020.¹⁸

Consumers are smartphone savvy.



¹⁰ Australian Digital Inclusion Index, *Measuring Australia's Digital Divide* (Aug 2016)

¹¹ Liberal Party of Australia, *Improving the Digital Confidence and Skills of Senior Australians* (Jun 2016)

¹² ACMA, *Regional Australians Online* (Apr 2016)

¹³ Javelin Strategy, *Future Trends for Digital Banking and Payments – 2017* (Dec 2016)

¹⁴ Deloitte, *Mobile Consumer Survey 2016*

¹⁵ Deloitte, *Mobile Consumer Survey 2016*

¹⁶ telsyte.com.au

¹⁷ ccsinsight.com

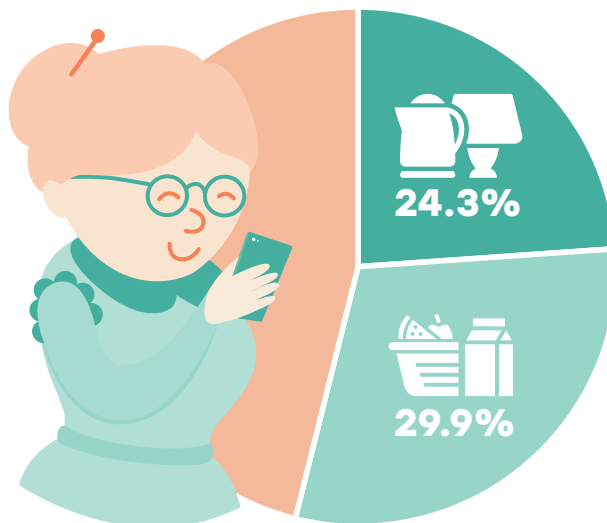
¹⁸ uk.businessinsider.com

2.3 Online Retail Markets

Australia's online retail spend reached **\$21.65 billion** in 2016 with Takeaway Food and Media remaining the fastest growing categories.¹⁹

Older Australians are using online shopping platforms more, with domestic online spending growing by **8.7%** for those aged 55-64 and **7.5%** for the 65+ age group. Two categories shared the highest spend for these age groups; *homeware & appliances*, and *groceries & liquor*.

ONLINE
SPEND FOR
65+
UP
7.5%



**Older Australians are using
online shopping platforms more.**

¹⁹ NAB, NAB Online Retail Sales Index – December 2016, (Feb 2017)



3.0 Updates on Industry and Stakeholder Initiatives

The evolution of the digital economy is supported by a range of industry initiatives. The aim is to ensure all Australians have access to digital payment methods.

3.1 New Payments Platform

The New Payments Platform is national infrastructure for fast, versatile, data-rich payments currently being developed by NPP Australia. It will support the sending and receiving of payments in near real-time and account holders will receive confirmation within seconds. Once account holders register for NPP Australia's addressing service, they will be able to pay each other using a mobile phone number or email address, rather than bank account details. The NPP is expected to further accelerate the decline of cash and cheques once it becomes operational in late 2017.

3.2 Australia Payments Council

The Australian Payments Council is the strategic coordination body for the payments industry.

Delivering on its Australian Payments Plan, the Council is working on areas that require collaborative action as Australians embrace an increasing digital world. Initiatives and activities in 2016 included:

- New research on the payment preferences of businesses and consumers to ensure an inclusive transition to digital payments;
- Foundational work on digital identity and cybersecurity to help secure the payments system; and
- Development of principles to support secure data sharing, to help meet the demands of an increasingly diverse payments landscape.

3.3 e-Conveyancing

Property Exchange Australia (PEXA) is Australia's property exchange network for online settlements.²⁰ PEXA is transforming the property industry to a fully digital conveyancing process. More than **\$40 billion** has been transacted electronically through PEXA since its formation. By December 2016, the network had the support of five state governments, **107** financial institutions and **3,400** legal and conveyancing practitioners. From 1 March 2017, all standalone discharges of mortgages and consumer mortgages in NSW must be lodged through PEXA. This requirement will further reduce the use of cheques for property exchanges.

3.4 Government

Government bodies are increasingly introducing initiatives to support Australia's transition to the digital economy.

State Governments

As reported in the Sixth Milestones Report, in 2016 the NSW Government announced it will stop making cheque payments and launched its Digital + 2016 ICT Strategy to promote innovation in government services. The NSW Government is aiming to use digital channels for **70%** of government transactions by 2019.²¹

Also in 2016, the Queensland Government launched a strategy to drive customer payments to the government through online channels. It plans to launch the "Advancing our Digital Future" strategy later this year to help ensure it "maximises the benefits of digital technology".²²

Black Economy

The Australian government is exploring ways of managing the 'black economy', which is estimated to make up **1.5%** of GDP, and be worth around **\$24 billion**.²³ The Black Economy Taskforce is expected to consider the role of the \$100 note. Recent research by the RBA shows that demand for higher denomination banknotes (\$50 and \$100) is growing, with these notes already accounting for around two-thirds of banknotes in circulation.²⁴

Identity Digitisation

Australian governments are examining how to migrate licences, passports and other identity documents into a digital format. NSW and South Australia are the most advanced in these programs.

In 2016, the Digital Transformation Office commenced a program to investigate the development of an Australia-wide digital identity solution. This work is ongoing.

The drive towards digital identity products is partially driven by changing consumer expectations. It will also likely boost the drive towards less-cash payment solutions, with digital licences giving consumers one less reason to carry a wallet.

²⁰ PEXA

²¹ govnews.com.au

²² govnews.com.au

²³ kmo.ministers.treasury.gov.au

²⁴ Reserve Bank of Australia, *The Future of Cash* (December 2016)



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