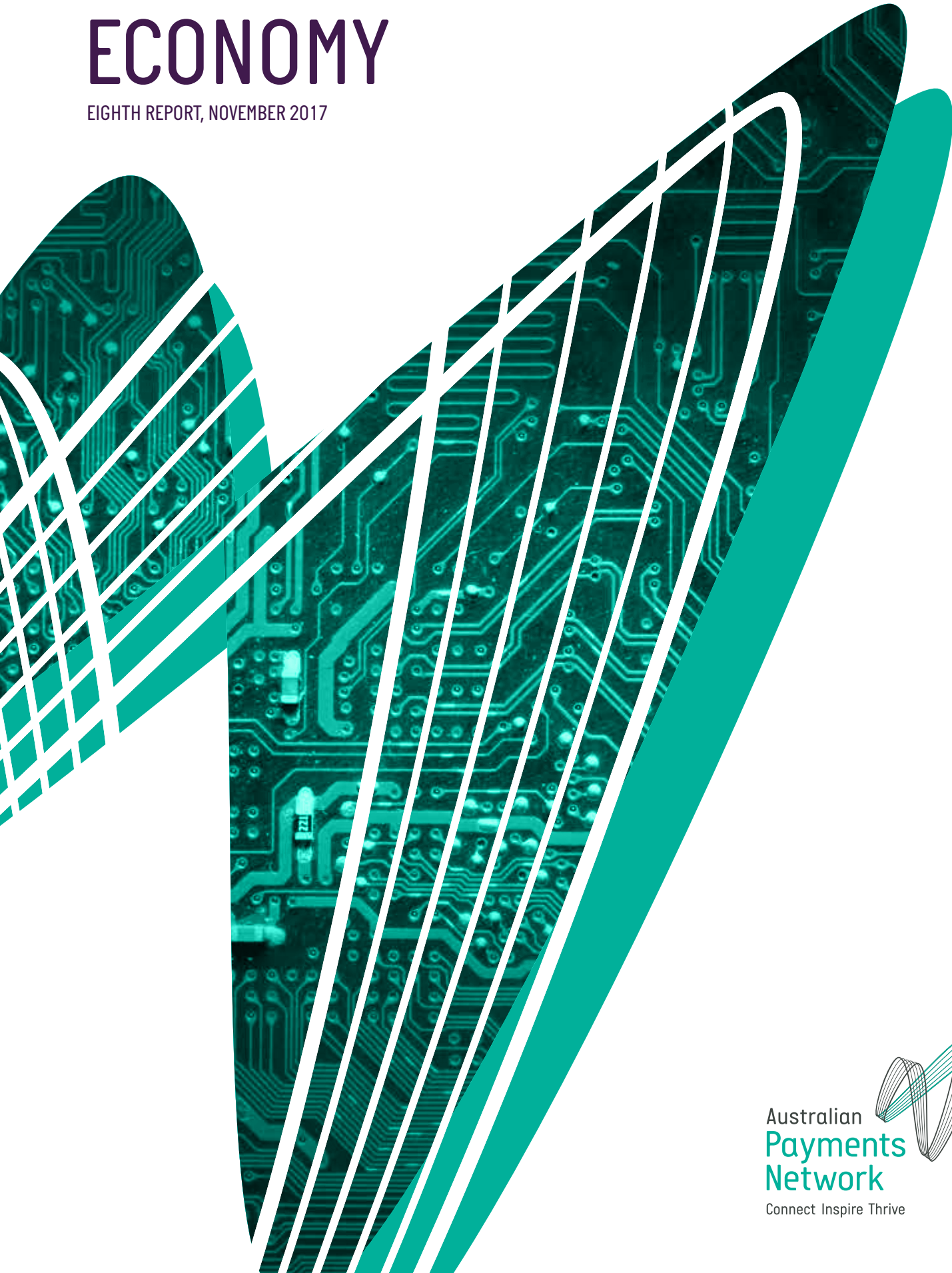


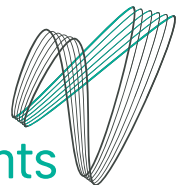
AUSTRALIAN PAYMENTS NETWORK REPORT

THE DIGITAL ECONOMY

EIGHTH REPORT, NOVEMBER 2017



Australian
Payments
Network



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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.



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1.0 KEY TRENDS

1.1 CHEQUE AND CASH DECLINE

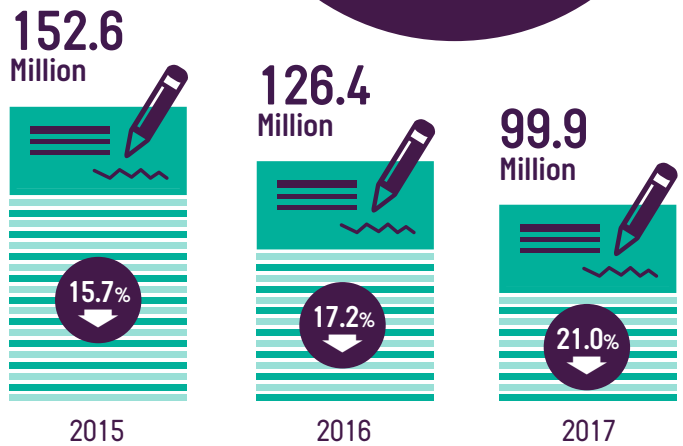
Australians continue to choose digital payment methods over cheques. The total number of cheques used over a 12 month period has for the first time dipped below 100 million.¹

- The total number of cheques has dropped by 73% over the past 10 years to 99.9 million.
- The rate of decline is accelerating with the total number of cheques plummeting by 21% in the 12 months to 30 June 2017 alone.
- Over the same period, the value of cheques written dropped by 4.22%. This compares to 1.76% for the year to 30 June 2016.
- Australians aged between 18 and 49 have all but abandoned cheques entirely and older citizens are also moving away from cheques.²

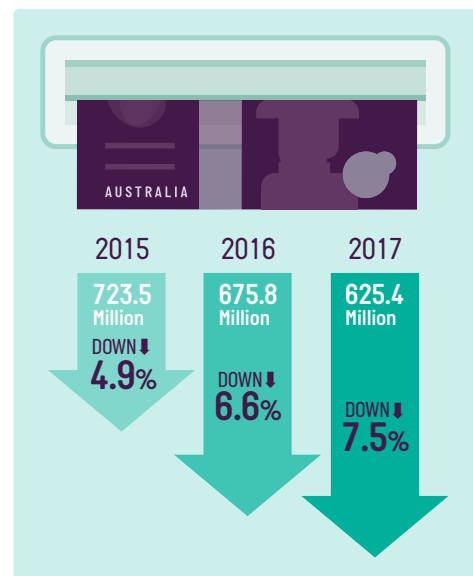
As the digital economy continues to gather pace, Australians are using cash less frequently and visiting cash machines on fewer occasions.

- The total number of withdrawals in the 12 months to 30 June 2017 dropped 7.5% to 625.4 million. Over the past five years, the number of ATM withdrawals has dropped by 25%.
- The value of ATM withdrawals dropped by 4%, the single largest ever decrease. Over the last five years, values have dropped 12% - a total of \$17.5billion.

INDIVIDUALS AND BUSINESSES ARE **ABANDONING CHEQUES** AT A RECORD RATE.

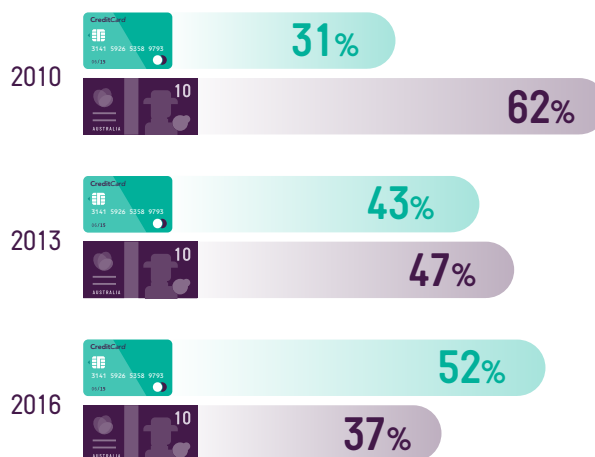


THE STRONG PREFERENCE FOR CARDS IS REFLECTED IN AN ACCELERATED **DECLINE IN ATM WITHDRAWALS.**



In September 2017, Australia's four major banks announced that they would no longer charge customers of other banks a fee to withdraw cash at their ATMs. This fee was introduced in 2009 as part of reforms to improve competition and transparency in the ATM system. Following implementation of 'direct charging', ATM withdrawals began to fall. Future Milestones reports will look at the impact of fee-free withdrawals on ATM volumes.

The continuing decline in cash use is highlighted in the recent Consumer Payments Survey conducted by the Reserve Bank of Australia (RBA). Participants made 37% of their payments in cash in 2016, compared with 47% in 2013, 62% in 2010 and 69% in 2007.³



CARDS DOMINATE RETAIL PAYMENTS AND ARE NOW MORE POPULAR THAN CASH.

1.2 INTERNATIONAL TRENDS

Cheques

The End-of-Year World Payments Report 2017 shows that cheque use continues to decline internationally, falling by 13.4% in 2015.⁴ This decline has occurred despite the progressive introduction of digital cheque imaging in countries such as Australia, the UK, France, China, the US and India.⁵

North America is among the regions with a significant change in the payments mix. In 2011, cheques represented 17% of the total non-cash transactions reflecting their popularity amongst small-to-medium sized businesses.⁶ By 2015, this had fallen to 9%.⁷ In Europe, the comparable decline was from 6% to 3%, and, for emerging Asia, from 11% to 3%.⁸ Globally, cheque use in the payments mix halved from 2011 to 2015.⁹

Cash

Sweden is one of the most cashless societies, with cash accounting for only 1% of all payments by value, and less than 20% of the total number.¹⁰ Increasingly, business owners are unwilling to accept cash from customers to minimise the risk of robberies and to speed up transaction times. According to Sweden's central bank, cash transactions have halved in the past five years.

Emerging Asian economies, and the Asia-Pacific are well-represented in the global trend towards digital transactions. The underlying drivers of this growth include growing financial inclusion and literacy, and regulatory initiatives.¹¹

Several countries in the Asia-Pacific region, however, have higher cash-in-circulation to GDP ratios which may hamper efforts to create less cash societies. For example, while Singapore has intensified its push for a cashless society in its step towards becoming a 'smart nation', a KPMG study found that consumers and businesses still rely substantially on cash and cheques.¹²

China still has a relatively low number of digital payments on a per capita basis, but move away from cash is accelerating. A study by TenCent and Renmin University indicated that 14% of people in China don't carry cash at all, and up to 40% carry less than 100 RMB (around \$20 AUD).¹³ By contrast, the RBA Consumer Payment Survey found that Australians carried an average of \$40 in cash, and around 20% of respondents held no cash at the beginning of the survey week.

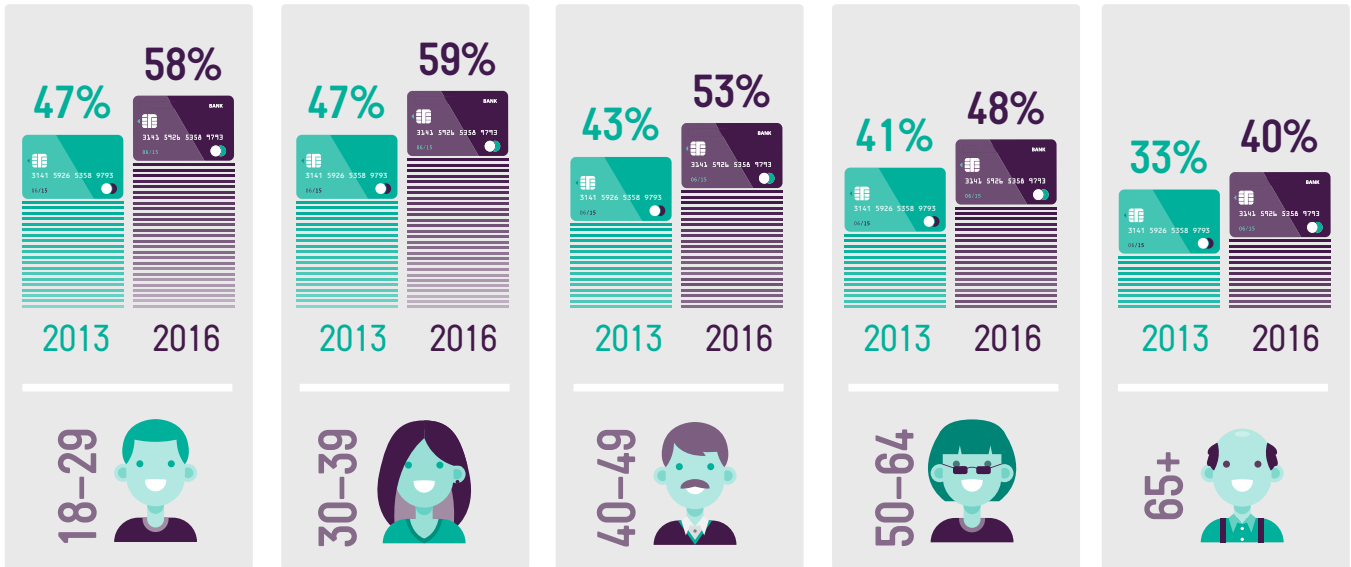
1.0 KEY TRENDS cont.

1.3 DIGITAL PAYMENTS GROWTH

Australians continue to rely on the convenience of cards, particularly contactless cards. This year, for the first time, cards overtook cash as the most popular payment method. Cards were used for 52% of payments in 2016, up from 43% in 2013. Debit cards accounted for 30% of total payments in 2016 [up from 24% in 2013] and credit cards 22% [up from 19% in 2013].¹⁴

In the 12 months to 30 June 2017:

- The total number of debit card payments grew by 14.2% to 5.2 billion
- Credit card payments grew by 9% to 2.6 billion

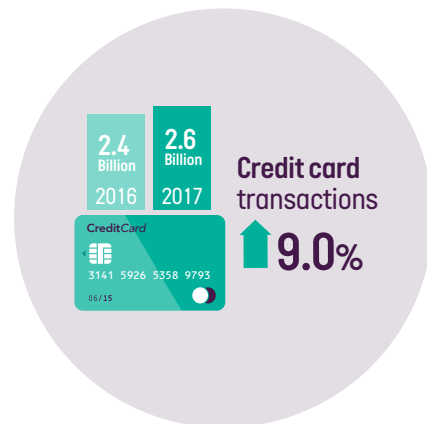
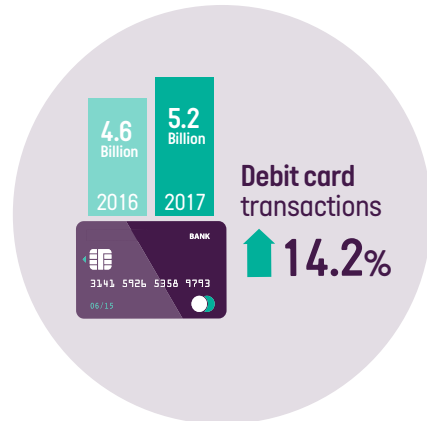


Percentage of card payments by age groups

Direct entry transactions also continue to show strong year-on-year growth as Australians move away from cheques and cash.

- Direct entry (direct debit and direct credit) transactions grew by 8.1% to 3.7 billion. This builds on 10.6% growth for the same period the previous year.
- The value of direct entry exceeded \$15 trillion for the first time, increasing nearly 50% over the past 10 years.

**DIGITAL PAYMENTS
CONTINUE THEIR
DOUBLE-DIGIT
GROWTH
- UP BY 11.5% ON
THE PREVIOUS YEAR
OVERALL.**



1.0 KEY TRENDS cont.

1.4 ENABLING DIGITAL PAYMENTS

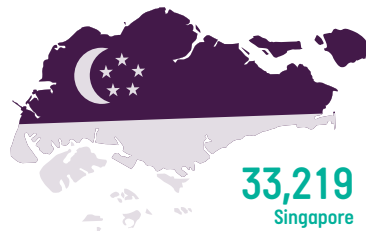
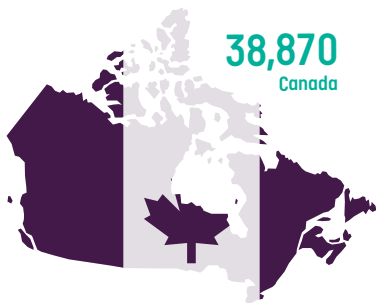
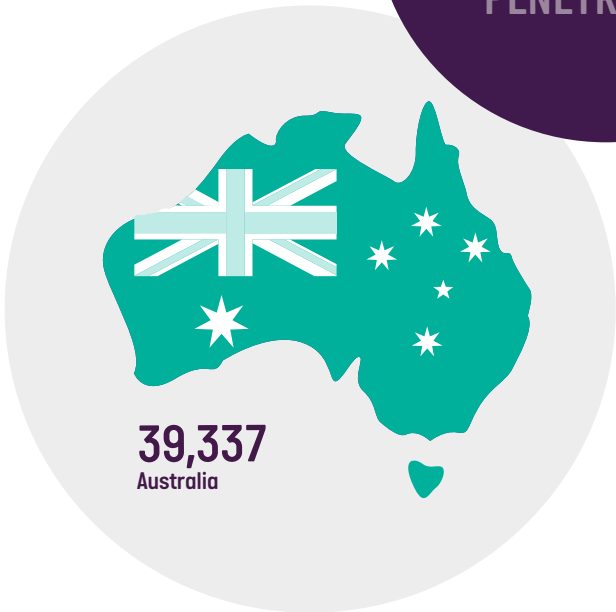
The strong growth in Australia’s card use has been supported by steady investment in infrastructure. Point-of-sale (POS) devices illustrate this well: 2016 statistics from the Bank for International Settlements (BIS) show that Australia [39,337] has the highest number of devices per million residents of all the 19 countries that report terminals statistics, followed by Canada [38,870], Italy [36,902], Singapore [33,219] and the United Kingdom [32,858].¹⁵

With a comparatively high smartphone penetration (estimated at 84% in 2016)¹⁶, Australia is well-positioned for the next wave of payment innovation which is predicted to be dominated by mobile. Some overseas jurisdictions have seen stellar growth in mobile payments:

- In China, 65% of mobile users use their phones as their wallet, the highest rate in the world.¹⁷ AliPay is expanding into South-East Asia, including Malaysia in April 2017,¹⁸ and has partnered with payment providers such as Indonesia’s Emtel, India’s Paytm, Philippines’ Mynt, South Korea’s KakaoPay and Thailand’s Ascend Money.¹⁹
- In India, Google recently launched a mobile payments app called ‘Tez’, which means ‘fast’ in Hindi. Tez includes a ‘Cash Mode’ to allow secure proximity payment to other Tez users, without sharing personal details. In a world first for payments, Google’s proprietary ‘Audio QR’ technology, allows the Tez apps to communicate using ultrasonic sounds.²⁰

The growth of FinTech is also driving digital payments. Investment in Australia’s FinTech industry has grown from \$US53m in 2012 to over \$US675m in 2016.²¹ The number of Australian FinTechs has increased from fewer than 100 in 2014 to 579 companies in 2016.²² Payments represents one of the largest sub-sectors within FinTech.²³

AUSTRALIA
MAINTAINS ITS LEAD
IN POS TERMINAL
PENETRATION.



2.0 THE DIGITAL ECONOMY

In September 2017, the Australian Government released a consultation paper on Australia's digital future. *The Digital Economy: Opening up the Conversation*²⁴ follows three broad themes:

- Enabling and supporting the digital economy
- Building on areas of competitive strength to drive productivity and raise digital business capability
- Empowering all Australians through digital skills and inclusion

By investing in infrastructure to improve connectivity, internet speeds, standards and cybersecurity, the Government envisages more opportunities for data sharing and innovation. In May 2017, Treasurer Scott Morrison announced the introduction of Open Banking, stating it 'will give customers greater access to their own data, empowering them to seek out better and cheaper services'.²⁵

The Government is also working to improve digital literacy and skills of older Australians including via Be Connected.²⁶ This initiative is aimed at increasing the confidence, skills and online safety of older Australians.

The Government's interest in the digital economy is driven, in part, by opportunities presented by the "Fourth Industrial Revolution". Developments in genetics, artificial intelligence, robotics, nanotechnology, 3D printing and biotechnology are all building on and amplifying one another, laying a foundation for future economic growth.²⁷

2.1 DIGITAL INCLUSION

The annual Digital Inclusion Index 2017 showed that, overall, digital inclusion in Australia continued to increase.²⁸ The Index, which is a composite score based on affordability, access, and digital ability, is rated at an average of 56.5 (out of a possible 100) across Australia. The report rates Australian digital inclusion as 'medium'. Lower-income households, older Australians, and people with a disability had lower levels of digital inclusion.

The number of internet subscribers continues to grow reaching 13.7 million at the end of June 2017, up 2.1% since December 2016.²⁹

2.2 DIGITAL CURRENCY

In July 2017, the Australian Government aligned the GST treatment of digital currency (such as Bitcoin) with money. This ensures purchases of digital currency are no longer subject to the GST. Previously, digital currency bore GST twice: once when purchased and again when used in exchange for goods and services.³⁰

In October 2017, three FinTech start-ups, through FinTech Australia and the Government's FinTech advisory group, approached the RBA with a proposal to create a 'Digital Australian Dollar' (DAD). The DAD would be pegged to the Australian dollar and support Australia's FinTech industry.³¹

2.3 ONLINE AND CASHLESS

In June 2017, NAB launched the Cashless Retail Sales Index, which provides data on retail spending.³² It measures all cashless retail spending by consumers including cards, online, BPAY and Paypal.³³ The value of cashless retail transactions grew more than 7% in the 12 months to 30 June 2017. Growth was strongest in household goods. The ACT, NSW and Victoria all recorded growth rates of over 8%.

2.4 E-CONVEYANCING

The continued transition to e-conveyancing is further reducing the use of cheques:

- South Australia requires all standalone mortgages and refinance transactions to be lodged online from the end of 2017.
- From May 2018, Western Australia requires that all transfer transactions, caveats, withdrawal of caveats and all combinations be lodged electronically.
- NSW has outlined a transition plan to July 2019, at which point in time, all transfers, mortgages and mortgage discharges must be lodged online.
- Victoria will require all transactions to be lodged electronically from August 2019.³⁴

3.0 INDUSTRY AND STAKEHOLDER INITIATIVES

3.1 NEW PAYMENTS PLATFORM

The NPP is a new platform for fast, data-rich payments on which a range of overlay services can be built. The first overlay service, Osko, will be made available to Australian consumers in early 2018.

Osko will leverage the NPP's addressing service, PayID. With PayID, consumers can use an email address or phone number to make and receive payments, rather than their BSB and account number. A customer of an NPP participating institution will be able to link a PayID to their account, via an online or mobile banking platform.

3.2 AUSTRALIAN PAYMENTS COUNCIL

As Australians continue to move away from cheques towards convenient payment options, industry is working to ensure that no Australians are excluded from the digital economy. During 2017, the Australian Payments Council conducted extensive research involving cheque users, industry stakeholders, and consumer groups. The results of the research will help industry better understand why some businesses and individuals continue to use cheques.

3.3 GOVERNMENT

The regulatory environment is continuing to evolve to support Australia's transition to a digital economy.

Black Economy Taskforce

The Black Economy Taskforce was established in December 2016 to develop innovative policies to combat the black economy in Australia, and explore opportunities for whole-of-government approach.³⁵

Following release of the Interim Report in March 2017, the Taskforce embarked on a national road show. Subsequently, a further 54 policy ideas were released for consultation in August 2017. Included were ideas to 'modernise the payment system' such as requiring non-cash payment of wages and possibly action around the \$100 banknote. The Taskforce is due to submit a final report and recommendations to Government towards the end of 2017.

Open Banking

In August 2017, Treasury released an Issues Paper into Open Banking in Australia.³⁶ The Australian Government expects that Open Banking will deliver substantial benefits for competition, innovation and productivity. The final report is due to Government by the end of 2017.

Surcharging reforms

The RBA's ban on excessive card surcharging was extended to small and medium sized enterprises in September 2017. In the view of the RBA, excessive surcharging may mean that users make fewer card transactions than is optimal, given their costs and benefits.³⁷ As part of the reforms, surcharges on card purchases must reflect the cost to the merchant of providing the transaction. The ban was applied to large businesses in September 2016, and is being enforced by the Australian Competition and Consumer Commission.

Cashless Debit Card

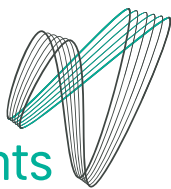
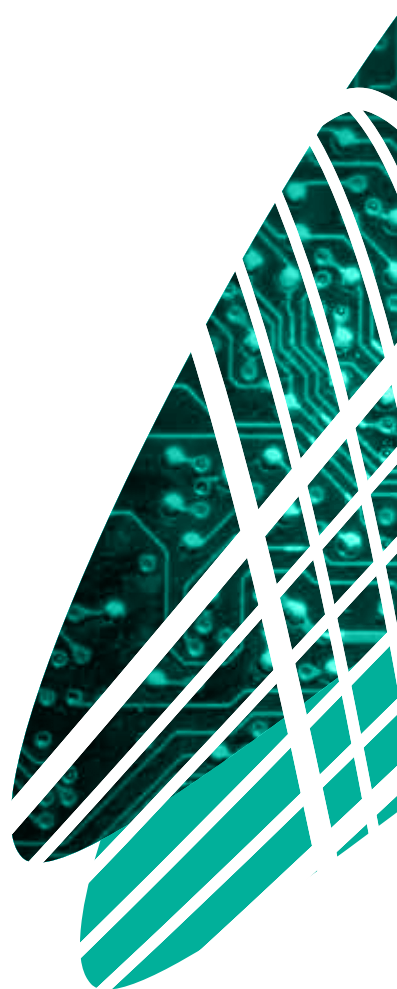
The Government announced in September 2017 that it will continue rolling out the Cashless Debit Card to welfare recipients in certain communities. The Card changes the way in which people receive their fortnightly payments, with 80% paid onto the Card and 20% paid into a regular bank account. The amount of money a person receives from Centrelink remains the same.³⁸ The Card's use will be restricted to certain merchants, with the aim of cutting down on alcohol and gambling. Ceduna, South Australia and the East Kimberly region of Western Australia have been using the Card since 2016.³⁹

3.4 GLOBAL REGULATORY INITIATIVES

The Reserve Bank of India's (RBI) decision to embark on a demonetisation program in late 2016 involved the overnight withdrawal of 500 and 1000 rupee banknotes. As these banknotes represented 86% of India's currency supply, this accelerated a shift to digital payments. The RBI then embarked on a remonetisation programme issuing a new series of banknotes. By the end of March 2017, people had reverted to using cash, with banknotes in circulation increasing 74%.⁴⁰

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