

Payments impasse needs to end

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Now the drama over whether the banks will or will not pass on the Reserve Bank of Australia's interest rate cut is over, attention can be given to whether there are better ways of fixing the banks than threatening their profits.

Around 100 million payments worth about \$220 billion are made each business day in Australia, through cash; cheques, payment cards and direct debits. Large-value payments are settled one by one on a real-time gross settlement basis through the Reserve Bank's information and transfer system.

For some time, Australian businesses have complained about a lack of real-time funds transfer capabilities and the inability to transfer significant information such as invoices and digital signatures. The lack of these capabilities is estimated to add direct costs to payment system users of about 0.2 per cent of gross domestic product. Increasingly, payments systems are being integrated with other business operations. Lowering the cost of this integration and providing business with added information

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related to purchases is a key feature of modern payments systems.

It is estimated that these indirect costs are about 0.8 per cent of GDP, or \$13 billion a year.

An international payment standard, ISO 20022, already exists, and is being implemented widely in Europe, Asia and elsewhere. The key impediment is the reluctance by two of the major banks - National Australia Bank and Westpac - to replace their legacy payment processing systems. Payments infrastructure is a network, and so some issues require a collaborative approach. Commonwealth Bank already offers its business customers real-time processing of payments, but while other banks lack that capability, the benefits to business as a whole are limited.

In submissions to the RBA, the suggestion that Australia adopt the ISO 20022 standard is widely supported by user industry groups, and by the CBA and ANZ.

Westpac is generally hostile to the RBA's suggestion, while NAB says the necessary core system replacement will take some time.

Asian economies typically do not have large legacy investments and are beginning to implement ISO 20022-compatible, real-time payments systems. Slow implementation would deprive Australian financial services and technology firms of opportunities to develop products and services that have potential application in the fast-growing Asian payments markets. To provide some substance to its populist rhetoric on interest rates, the government should explore with the banks how the impasse on introducing ISO 20022 can be overcome and a new wave of financial services productivity gains unleashed.

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