Submission by Professor Steve Worthington, Swinburne University Business School, in response to the Australian Payments Council paper on Shaping the Future of Australian Payments.

In discussing the objectives for the Australian Payments System in Section 2 of the above paper, several user groups are identified as 'stakeholders' in the payments community and that these are supported by three groups of other industry stakeholders. I offer this submission as an individual user and as a representative of other individual 'consumers', who have a direct interest in a 'good' payment system, which meets the needs of users and industry stakeholders alike, as well as the economy.

In Section 3 of the paper, the 'snapshot' of Australian Payments describes Australia as one of the world's most highly banked nations; with a relatively 'secure' system, where payment frauds levels are contained and where consumers are 'early adopters' of electronic payment methods, for example contactless payment cards.

Question2, which is posed in response to the trends identified in Section3 asks, 'Are there any other current trends that we need to take into account in developing the Australian Payments Plan'? It is here that this submission offers a 'user' perspective and focuses firstly on the paradox of change and continuity in the payments arena.

Thus whilst cash in Australia is acknowledged to represent the vast majority of payment volumes (APCA estimates this to be 30 million transactions per day), the consultation paper forecasts a 'less-cash', rather than a 'cash-less' society, where cash will likely remain the fallback option for face-to-face payments. As evidence of this, the paper reports that research from the Reserve Bank of Australia (RBA), notes that cash as a share of all payments fell from 69 per cent in 2007, to 47 per cent in 2013. A similar story could be told for the United Kingdom, where the Payments Council reports that the percentage of transactions that are paid using cash has fallen to 48 per cent in 2014, if transactions include those made by businesses and financial organisations, as well as consumers. However when the figures for consumers are split out, cash remains the most popular way to pay, with 52 per cent of transactions made in cash, with debit cards in second place at 26 per cent.

A recent (2014) research discussion paper from the RBA, entitled 'The Evolution of Payment Cards in Australia', describes cash as ' the most widely used payment method in Australia for consumer transactions' and reports that cash transaction in 2013 were still by far the majority of the number of transactions. It is now over 100 years since the first series of Australian banknotes were issues, so why then is cash such a resilient payment option for consumers?

Suggestions as to why cash remains such a popular payment method include; it is visible; tangible; trusted; nearly ubiquitous in acceptance; convenient and anonymous. As the consultation paper states in Section 4, 'well established community attitudes can take decades or even generations to shift' and the attractions of cash are hence more likely to remain, than wither away. There are costs to consumers of holding and using cash; theft;

possible fees for access e.g. via 'foreign' ATM's; interest forgone and time lost in acquiring and paying using cash. There are also costs to the economy and wider society in cash payments; these support the so-called 'black' or 'grey' economy and who amongst us has never uttered the phrase "would that be cheaper for cash" ?

Consumers are however accessing less and less cash through ATM's. The first ATM in Australia was unveiled in 1977 and there are now over 30,000 such machines in Australia. However both the monthly value and volumes of cash accessed through the ATM network has fallen since 2013, as consumers use less and less cash and hence less frequently need to replenish their supplies. Indeed ATM's may eventually go much the same way as public telephone kiosks, which in 2003 numbered over 70,000, but by 2013 had been reduced to around 30,000.

Nevertheless cash may well have a resilience akin to that of bank branches, a distribution outlet for financial services whose demise has also often been predicted. The Australian Bankers Association (ABA) reported in June 2015, that since 2001 the number of bank branches has seen a net increase of 694 branches and that there has been only one year since 2001, when bank branch numbers have fallen.

The same ABA report also reflects that for the vast majority of bank customers, their most regular experience with banking is through their personal transaction account. In 2014 the ABA reported that Australian banks issued and processed 181 million paper cheques. The use of cheques is without doubt in decline in Australia and elsewhere in the world, but as with cash there will be resilience as some users still feel more at ease with payment by cheque, particularly when they feel the need to have proof of payment. As the consultation paper states, 'well established community attitudes can take decades or even generations to shift' and this may well apply to consumers continuing to use paper cheques.

So to answer Question 2, about current trends, this submission argues that even as there are changes afoot, the industry needs to be able simultaneously to also handle continuity. Yes there are disruptors in many markets; some of whom for example AirBnB and Uber, do not accept cash or cheques, but besides disruption there are constants and other new entrants in other markets e.g. Aldi, welcome cash, as it provides an 'always acceptable' payment option, plus it gives such retailers the opportunity to offer 'cash-out' to their customers, which both reduces their cost of cash handling and provides them with a useful income stream.

Section 4 of the consultation paper focuses on the changes that digital disruption will bring to the payments arena and then Section 5 raises the other paradox of collaboration and competition. The opportunities and challenges here are more systemic and in particular concern the volume, complexity and 'always on' future of payments. Digital disruption it is argued will make payments even more digital/virtual and create a world where mobility, "always on" and "big data" are the norm.

If "always on" is to be the new norm, then the payments industry needs to be able to deliver on that, for the peace of mind of all of the stakeholders in the payments arena and particularly for the user/consumer experience. A recent system outage from a major

Australian bank demonstrates what happens when "always on" fails to deliver and various stakeholders suffer inconveniences. On Tuesday 2nd June 2015, the major bank issued a statement to the merchants that it serves as a card transaction acquirer, that noted there had been 'ongoing' issues with their system in the month of May 2015, including 'log-in issues, time-outs and/or slow performance' and acknowledging that these issues are having flow-on effects for their customers.

Such 'outages' in Australia, which occur with some frequency with other major payment system providers, leave consumers with less confidence in the 'changes' that they are being offered and hence more attached to the continuity and certainty that 'older' forms of payment offer them. In the United Kingdom, the new Payments Systems Regulator (PSR), has called for more innovation in the 'pipes and wires' that make up the back-end infrastructure of payments in that country. The regulator has warned the industry that "she will step in if the industry does not up its game". The PSR is already investigating the potential for the major banks to act as sponsor banks, to provide indirect access to payment systems for smaller players, as well as the competitiveness and market structure of the payments 'pipes and wires'. The regulator is quoted as saying, "we may need to take action to change market dynamics and remove barriers".

This submission then attempts to represent the views of users/consumers, concerning the trends that need to be taken into account in developing the Australian Payments Plan. Fundamentally it argues that as well as adapting to change, the industry needs to be sure that it is also offering continuity. The options that are available to users/consumers for payment will continue to increase, but this does not mean that 'older' options will necessarily wither and die. The example of the resilience of the bank branch, should remind us all that consumers want to be able to make payments, When, Where and How it suits them best.

Similarly the user/consumer expects the payment options on offer to function both efficiently and effectively. This already does and will continue to require collaboration between the various stakeholders, as well as competition between them. The challenge facing the industry is to achieve the desired mix of co-operation and competition (sometimes known as co-opetition). Success in managing this seeming paradox will benefit all parties and give users/consumers confidence in the 'pipes and wires' that underpin the payments systems. Failure to achieve this will result in the payments systems regulators of whatever jurisdiction, becoming more involved and forcing collaboration upon the industry, to preserve user/consumer confidence in the payments systems.

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