Digital payments down under

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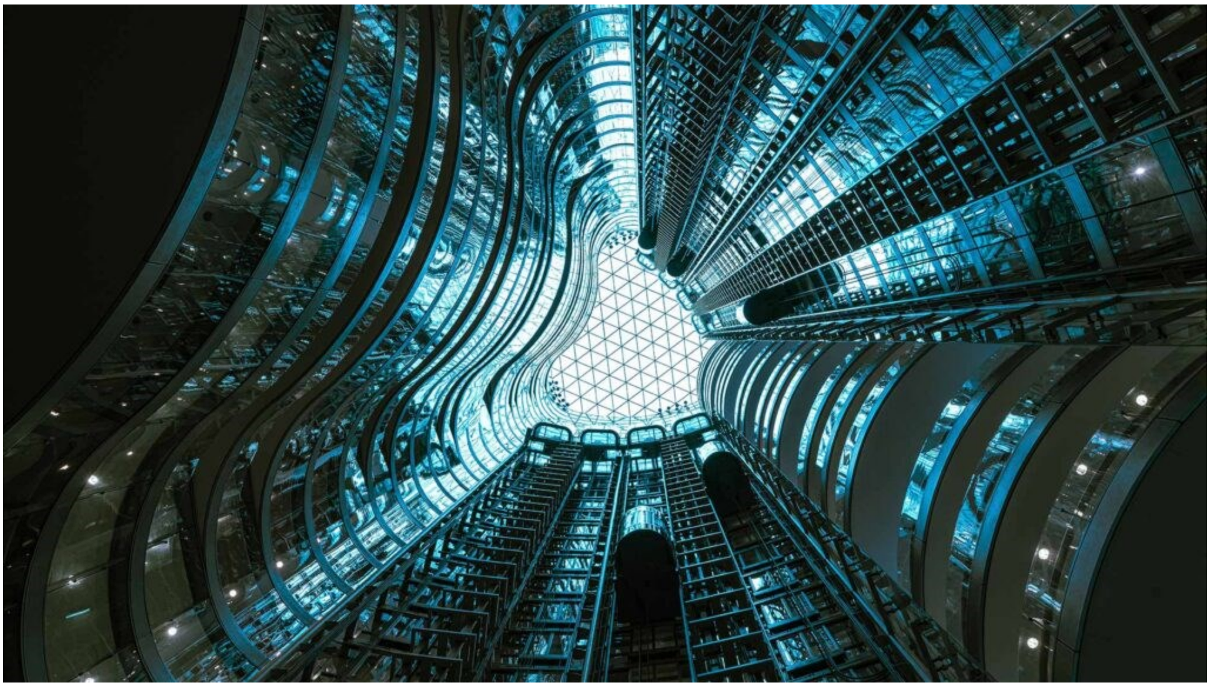
With digital payments methods proving increasingly popular among consumers, corporate treasuries need to stay ahead of the curve in ensuring treasury departments can cope with rising volumes.



The use of electronic payment instruments at the retail level in Australia has been growing rapidly, figures from the Reserve Bank of Australia show. In 2023, transactions (both purchases and cash withdrawals) undertaken using either credit or debit cards averaged about 540 per person, an increase of around 50% on the level of five years earlier.

The Bank's triennial Consumer Payments Survey (CPS), undertaken from October to early December 2022, revealed that new payment methods are emerging in the country, often enabled by mobile technology, while transactional use of cash is declining. The COVID-19 pandemic drove substantial changes in payment behaviour.

For example, most in-person card payments are now made using contactless functionality, including through the use of mobile devices. "In 2022, these payments made up 95% of in-person card payments, an increase of 10 percentage points from 2019," says the survey. "By contrast, when the CPS was first conducted in 2007, almost all in-person card transactions were made by swiping or inserting the card into a terminal at the store checkout (and providing a personal identification number or signature for verification). In 2022, these payments made up only 5% of in-person card payments."

At the Australian Payments Network Summit in Sydney in December 2023, Michele Bullock, Governor of the RBA, outlined how the Payments System Board is responding to the changing payments environment. Among the issues she addressed were the increased use of mobile wallets and of buy now, pay later (BNPL) services.

"Usage of mobile wallets has grown rapidly, but the costs associated with these services remain opaque and payment service providers can face barriers to access," she said. "We will need to consider whether regulatory action is needed in this area."

Previous reviews of BNPL systems had concluded that merchants should have the right to surcharge BNPL services, which are expensive means of payment, just as they have the right to surcharge card payments, she said. "The right to surcharge for payment methods provides an important incentive for payment schemes to keep their fees low. Formal regulation may be required to allow this. As part of the review, we look forward to engaging constructively with industry on these issues."

Among the Bank's priorities for 2024 is a review of retail payments regulation, says Bullock. The Payment Systems (Regulation) Act 1998 will be amended to ensure that newer players in the payments system – including BNPL, payment gateways, payment facilitators and mobile wallet providers – can be regulated by the RBA. "We expect these reforms to be in place sometime in 2024, at which point we intend to launch a holistic review of retail payments regulation," says Bullock. "This will be an opportunity to consult widely on current regulation as well as on areas where regulation might be required in the interests of safety, competition and efficiency."

Across the Tasman Sea, the Reserve Bank of New Zealand is also identifying a change in the method of payments and is conducting a review of the country's payment systems. "People are not using cash as much as they used to. Digital payments are becoming more common," states the Bank. "There are also new forms of money being developed – such as cryptocurrencies. These innovations in services and technologies present challenges and opportunities for the future of money."

In April 2023, the Bank noted that the monetary system "may need significant changes to meet these challenges" to ensure central bank money continues to provide a value anchor for private money, New Zealanders have financial and social inclusion, and can enjoy safe and reliable ways to pay and save. Among the changes being considered are the introduction of a central bank digital currency and new rules or service requirements for banks and retailers and for the providers of new types of private money such as digital currencies.

One of the main concerns for corporate treasurers in Australasia has been the significant increase in instant payments volumes, says Roland Brandli, Strategic Product Manager at financial software and managed services company SmartStream.

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Michele Bullock, Governor of the RBA, Reserve Bank of Australia

“In 2023, instant payments accounted for 24% of all electronic payments and this poses challenges on three levels,” he says. “First, the amount of different instant payment rails requires management and investment, even with the introduction of the ISO 20022 standard they are not the same and the emergence of regional payment rails will just add to the complications, so choices will have to be made as which rails are to be used and which ones are not,” he says.

The second challenge, notes Brandli, is the sheer volume of instant payments, which tend to be higher volume and of lower value. “In many cases, the systems currently in place can just not manage the throughput that is required, so systems that scale much better both horizontally and vertically, will be required.”

Brandli says the answer may lie in public or private clouds, but this in itself is a transition that needs to be made by both banks and vendors, and is accompanied by many decisions that need to be made around security, viability, integration and cost. “This will apply not only to the treasury and payment systems,” he adds.

The remaining challenge is that of managing customer expectations. “Transitioning to instant payments also changes the expectations of clients, as long as everything goes well the customer loves it, but as soon as there is a problem they will notice.” Previously customers were used to a payment taking one, two or three days to clear and if there were a problem there was the potential to fix it without the customer noticing, he says. “Now you don’t have that time anymore. Think of it as moving from a nice and comfortable saloon car with a soft suspension to a sports car with a hard suspension, suddenly you feel every bump in the road, it is fast, it is ‘state of the art’, but not always as comfortable.”

Digital payments bring with them expectations around real-time processing, Sean Devaney, Vice-President, Strategy for Banking and Financial Markets at business and IT consulting services company CGI. “Customers, suppliers and even internal departments that are using digital channels to interact with corporate treasury functions, expect their data to be processed in the same way that their payments are sent and received, that is, in real time. This makes the integration of real-time data channels that support treasury functions critically important, so that treasurers can make decisions based on current information," he says.

There are now more than 60 real-time payment schemes in operation across the world, with transaction volumes growing as more schemes are implemented, says Devaney. "According to the RBA the monthly volume and value of payments being processed through the real-time NPP scheme has more than doubled in the past two years and now regularly exceeds 120 million payments for a value of over AU$140bn."

There are benefits to the treasurers too, he notes. "Real-time payments mean that treasurers are able to make more efficient use of funds by managing liquidity more efficiently. Real-time treasury is no longer a nice to have for organisations that want to capitalise on potential capital efficiencies, it's a requirement. Corporate treasurers can leverage real-time payments and settlement to allow themselves to become more efficient in handling money in as well as money out."

Commenting in an article in the Australian Corporate Treasury Association's 2023 magazine, Leigh Mahoney, ANZ Bank's Head of Wholesale Digital, noted that banks are taking into account customers' unique needs, which is a shift from the past when their offerings sought to closely control the customer experience in order to enhance it. Digital banking aims to embed a bank in the activities of its clients to enable them to carry out their financial activities seamlessly.

Describing Australia's PayTo solution, Mahoney writes: "PayTo will change the way treasuries operate in the 24×7 environment created by real-time payments. Specifically, in Australia, we expect PayTo will bring a fundamental shift around how banks provide digital propositions to their consumers, and turn the whole direct debit model on its head." PayTo is a digital payment solution that enables real-time payments directly from bank accounts.

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Brandli says real-time treasury is a subject that is "finding more and more attention, especially with the advent of instant payments and the increased volumes of mobile payments and wearables". From a risk perspective of primary concern are that instant payments can lead to significant outflows, which require 24×7 monitoring.

"Most treasury departments are currently not set up to cover these times as payments predominantly to date have been conducted 5×8," he says. "In addition to the risk element comes the strict service level agreements that instant payment systems apply mean that accounts need to be sufficiently funded constantly to allow the payments to go through."

However, when it comes to mobile payments or wearables, risk is less of a problem because payments are pre-funded in the form of a wallet or are dependent on a credit card. “However, as the volumes increase this will also become of more interest to the treasury departments,” adds Brandl.

Devaney notes that digital payments, and more specifically real-time payments, have a significant impact on the way that treasury departments should be set up. “The real-time nature of digital payments means that treasury departments need to be able to access other sources of information, such as enterprise resource planning tools, treasury management and FX rates, in real time too. To do this effectively, treasury departments must look at greater automation in their process flows, which in turn frees up staff to focus on customers and their needs,” he says.

Globalisation drives the need to operate across multiple geographies and the development of digital, real time and ‘always on’ cross-border payments mean that it is no longer possible to require operations to wait until the local treasury function is online, adds Devaney.

“Better management of working capital and liquidity pools in different geographies and currencies allows for more effective use of funds across the business, freeing up capital for investment and growth.”

He believes that better management of working capital through the effective use of digital payments means that there is less dead time, where monies are in transit and therefore not being used effectively. Funds can be kept where they are needed, when they are needed, reducing the need for multiple liquidity pots in multiple currencies or multiple geographies.

“Corporate treasury departments that have invested in the right technologies to stay ahead of this demand for real-time data are also seeing their role in the business increasing. Rather than just being the money managers of the business, real-time treasury departments are able to provide strategic insight into how the business is performing and generate revenue through optimisation of investment and real-time currency risk management.”

Corporate treasurers are having to deal with the development of e-wallets for both payment processing and deposits, but more importantly the way that corporate treasury departments are accessing their own systems is changing with the rise of mobile devices, says Devaney. “It is no longer necessary for corporate treasurers to be in the office, they can access internal systems and make decisions on liquidity and capital assignments from their mobile devices, thus improving the speed of decision making.”