2. The Evolving Retail Payments Landscape

Over the past year, the share of transactions made electronically has continued to rise as cash and cheques are used less frequently. New technologies and new participants in the payments ecosystem are also widening the payment options available to consumers and businesses. These trends have been reinforced by changes in payment behaviour through the COVID-19 pandemic.

Australians increasingly prefer to make payments electronically

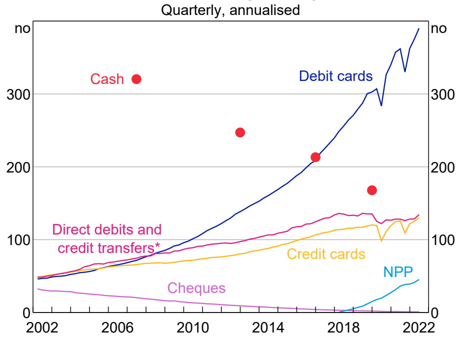
The way Australians make payments has changed significantly over recent decades. The majority of transactions are now made using electronic payment methods rather than cash, and cheques are rarely used anymore (Graph 2.1). In 2021/22, Australians made around 650 electronic transactions per person on average, compared to about 300 a decade earlier. Around 75 per cent of these transactions by number used debit and credit cards, which are the most commonly used retail payment methods in Australia. When measured by the value of transactions, direct debits and credit transfers processed through the direct entry system account for the bulk of non-cash retail payments (Table 2.1). The long-run trend to electronic payments reflects innovation in the payments ecosystem and changing payment preferences in the economy. This trend has been reinforced by changes in payment behaviour through the COVID-19 pandemic.

Strong growth in card payments over the past decade or so has been driven by the rising popularity of debit cards. According to data from the BIS, the number of debit card transactions per person in Australia is among the highest in the world.[1] Around 75 per cent of card payments in Australia were made with a debit card during 2021/22, compared to 62 per cent 10 years ago (Graph 2.2). Growth in debit card use accelerated during the pandemic, with spending on debit cards (by value) around 40 per cent higher in the first half of 2022 than in the second half of 2019. By contrast, the value of credit card spending was only 6 per cent higher over the same period.

Graph 2.1

Transactions per Capita

Quarterly, annualised



* Includes BPAY.

Sources: ABS; AusPayNet; BPAY; Colmar Brunton; Ipsos; RBA; Roy Morgan Research

[1] Compared to the 27 jurisdictions reporting data to the Bank for International Settlements Red Book Statistics for 2020. See BIS (2020), 'CT6C: Use of Payment Services/Instruments: Volume of Cashless Payments Per Inhabitant'. Available at <https://stats.bis.org/statx/srs/table/CT6c>.

Table 2.1: Non-cash Retail Payments

	2021/22					Average annual growth 2011/12 to 2021/22	
	Per cent of total		Average value	Growth, per cent		Per cent	
	Number	Value	$	Number	Value	Number	Value
Cards[(a)]	74.1	4.3	64	4.8	10.5	10.8	7.1
– Debit cards	55.7	2.5	50	5.9	12.1	13.0	11.3
– Credit cards	18.4	1.8	108	1.8	8.4	6.2	3.2
Direct Entry[(b)]	17.1	77.8	4,994	1.1	12.8	4.8	4.4
– Direct credits	11.1	55.0	5,445	–1.6	12.7	3.2	4.9
– Direct debits	6.0	22.7	4,159	6.6	13.1	8.9	3.1
BPAY	2.3	3.0	1,424	–0.3	15.1	2.2	9.0
Cheques	0.2	1.8	11,832	–22.0	–9.7	–19.1	–12.1
PEXA[(c)]	0.0	6.8	376,372	21.5	52.6	–	–
New Payments Platform[(d)]	6.2	6.3	1,104	39.8	53.9	–	–
Total	**100.0**	**100.0**	**1,100**	**5.6**	**16.2**	**9.5**	**5.1**

(a) Card purchases using Australian-issued cards; debit card series includes prepaid cards prior to 2018.

(b) Data prior to a reporting change in May 2018 have been adjusted downwards to be more consistent with the current definitions of the direct debit and credit series.

(c) PEXA is an e-conveyancing platform used for property transactions.

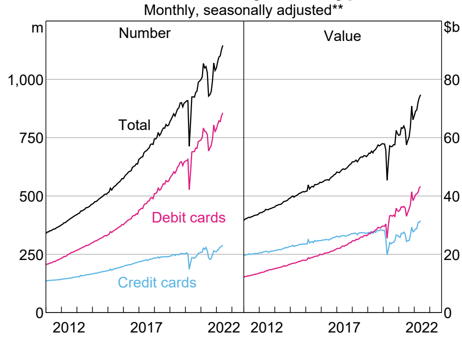
(d) The NPP was launched to the public in February 2018.

Source: RBA

Another long-run trend that has been reinforced by the pandemic is an increase in the share of retail purchases being made online. The share of retail sales conducted online increased sharply during periods of pandemic-related lockdowns, and remains higher than it was prior to the pandemic (Graph 2.3). Data from the Australian Bureau of Statistics show that just over 10 per cent of retail sales were conducted online in the June quarter of 2022, compared to around 7 per cent at the end of 2019. This suggests that the pandemic may have induced a permanent change in shopping preferences for some consumers, which reinforces the trend increase in the use of electronic payment methods.

Graph 2.2
Transactions by Card Type*

Monthly, seasonally adjusted**



* Includes all transactions made using Australian-issued cards; excludes transactions made by foreign-issued cards.

** Series break due to changes in reporting methods in May 2018.

Source: RBA

More Australians are using mobile wallets

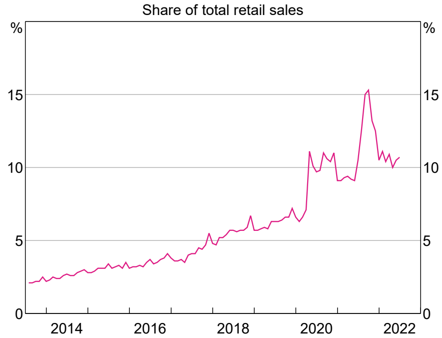
Over the past few years, there has also been a marked shift to card payments being made with mobile wallets offered by large technology companies, such as Apple Pay, Google Pay and Samsung Pay. These wallets enable consumers to store digital representations of their debit and/or credit cards in their smartphone or other mobile devices (such as a smart watch). These can then be used to make contactless payments at the point of sale and, in some cases, online payments.

The Bank has recently begun collecting data on mobile wallet use in Australia from major card issuers. The share of debit and credit card transactions made via mobile wallets more than doubled between the March quarter of 2020 and the March quarter of 2022, from 10 to 25 per cent (Graph 2.4). A higher proportion of debit card than credit card payments are made using mobile wallets. For example, 27 per cent of debit card transactions (by number) were made via a mobile wallet in the March quarter of 2022, compared to 21 per cent of credit card transactions.

Graph 2.3

Online Retail Sales

Share of total retail sales

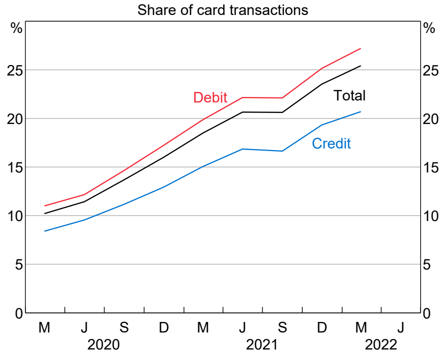


Source: ABS

Graph 2.4

Mobile Wallet Transactions

Share of card transactions



Source: RBA

'Buy now, pay later' transactions grew strongly through the pandemic

Another prominent development in consumer payments in recent years has been the strong growth in purchases made using 'buy now, pay later' (BNPL) services. BNPL transactions involve customers paying part of the purchase price at the time of the transaction and the remainder to the BNPL provider in a series of low- or zero-interest instalments. The merchant receives the full amount of the purchase price upfront from the BNPL provider, as is the case for other forms of payment such as credit cards. These services are a form of borrowing that enable consumers to purchase items without paying the full amount upfront.

Based on data collected by the Bank from a sample of BNPL providers, BNPL transactions have continued to grow strongly through the COVID-19 pandemic. The value of BNPL transactions increased by around 37 per cent in 2021/22 to $16 billion (Graph 2.5), equivalent to around 2 per cent of Australian card purchases.[2] The number of active Australian BNPL customer accounts also increased, from 5 million to around 7 million accounts over the year to June (though some consumers hold accounts with multiple providers). Over the past year, a number of new providers entered the Australian BNPL market, and some larger existing payment providers have introduced BNPL options to their existing payment services. The range of merchants accepting BNPL transactions has also increased, including as a result of some BNPL providers leveraging existing card acceptance arrangements to enable BNPL purchases at almost any merchant that accepts card payments.

[2] By comparison, the value of overall debit and credit card payments grew by 9 per cent over the same period to $710 billion.

Cash is used less often for payments but is still important for some people

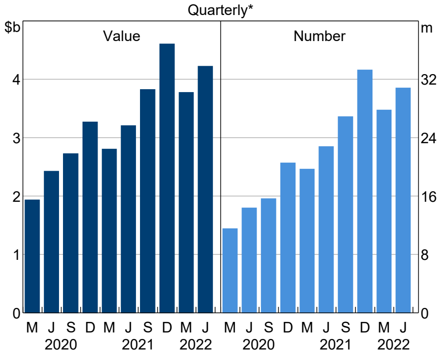
The use of cash for day-to-day payments has been declining for many years. This trend accelerated during the pandemic as consumers and businesses preferred to use electronic payment methods for in-person transactions – particularly contactless cards and mobile wallets – and more transactions were conducted online, where cash is not an option. For some consumers, this shift is likely to be enduring. For example, in a recent survey commissioned by the Bank, around a quarter of respondents reported that their reduction in transactional use of cash over the pandemic was likely to be permanent.

Nonetheless, as pandemic-related restrictions have eased, some indicators point to a partial recovery in the use of cash for transactions. For example, the Bank's survey found that cash was used in 27 per cent of in-person transactions in 2021, compared to 23 per cent in 2020. Similarly, ATM cash withdrawals and banknote lodgements in cash depots (which indicate how much cash is moving between retailers and financial institutions) have increased from their lows during the pandemic-related lockdowns (Graph 2.6).

Graph 2.5

BNPL Transactions

Quarterly*



* Includes transactions at partner and non-partner merchants.

Source: RBA

There are indications that merchant acceptance of cash also declined through the pandemic, although it remains high overall. Surveys conducted by the Bank indicate that cash acceptance by retailers with a physical presence fell to 94 per cent in June 2022, from 99 per cent in February 2020.

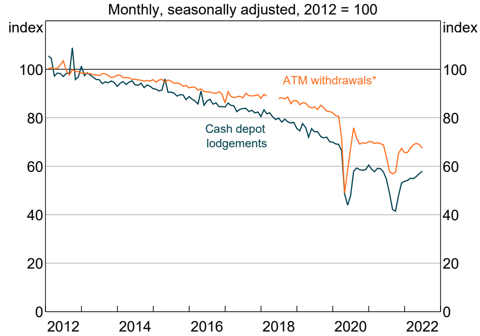
Despite the ongoing decline in the use of cash for transactions, a significant minority of face-to-face payments are still made in cash and some members of the community prefer to use cash for their everyday payments. Older Australians, for example, tend to use cash more frequently on average than people in other age groups.[3] One of the main sources of information on cash use in the economy is the Bank's Consumer Payments Survey, which provides detailed data on cash use and holdings across the Australian population. The next survey will be conducted in late 2022.

While Australians are using cash less frequently for transactions, overall demand for cash remains strong. The value of banknotes in circulation grew particularly strongly during the

Graph 2.6

Indicators of Cash System Activity

Monthly, seasonally adjusted, 2012 = 100



* Series break between February 2018 and May 2018 due to changes in collection and reporting methodology.

Source: RBA

[3] See Caddy J, L Delaney and C Fisher (2020), 'Consumer Payment Behaviour in Australia: Evidence from the 2019 Consumer Payments Survey', RBA Research Discussion Paper No 2020-06. See also Delaney L, N McClure and R Finlay (2020), 'Cash Use in Australia: Results from the 2019 Consumer Payments Survey', RBA *Bulletin*, June.

pandemic, with circulation growing by 23 per cent from December 2019 to December 2021. Much of the increase in demand was for high-denomination banknotes ($50s and $100s), suggesting that many people in the community continue to view holding banknotes as desirable for precautionary (i.e. emergency) or store-of-wealth purposes, especially in times of economic uncertainty (Graph 2.7). This experience is not unique to Australia; most advanced economies experienced strong precautionary demand for cash coupled with weaker transactional cash use during the pandemic.[4]

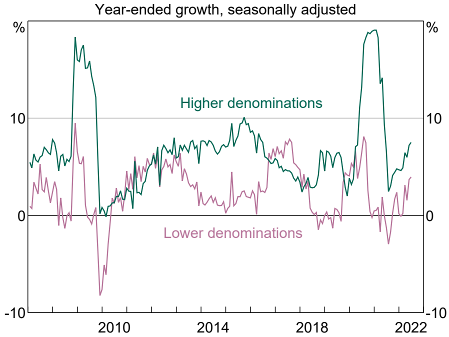
More account-to-account transfers are happening in real time

Use of Australia's fast account-to-account payments system, the NPP, has continued to grow since its launch in 2018. The NPP enables consumers, businesses and government agencies to make real-time, data-rich payments 24 hours a day, every day of the year. Over 100 payment providers, including some non-bank payment service providers, now offer NPP services to almost 90 million customer accounts. Over the past year, the NPP processed more than a billion transactions worth more than $1 trillion (Graph 2.8). The NPP now processes more than 25 per cent of the total number of account-to-account payments, up from around 22 per cent a year earlier.

Graph 2.7

Value of Banknotes in Circulation

Year-ended growth, seasonally adjusted



Source: RBA

At the same time, there has been increased uptake of the NPP's PayID service. This service allows NPP payments to be addressed to a payee's registered mobile phone number, email address or Australian Business Number rather than to a BSB and account number. By addressing a payment to a PayID, the payer can check the account name of the payee prior to completing the transaction, which can help in avoiding mistaken payments and some types of scams. In mid-2022 there were around 11 million registered PayIDs in Australia, up from around 8 million a year earlier. While the share of payments made using PayIDs has been increasing, the majority of NPP payments are still addressed to BSB and account numbers.

In the past year, some payments previously processed via the direct entry system have migrated to the NPP. This has included some types of government payments, with the NPP utilised to provide disaster relief and COVID-19-related support payments to affected households in near real time, including on weekends. The number of direct entry payments has been broadly flat, increasing by around 4 per cent over the year to July. The NPP's new PayTo service is expected to accelerate this migration of direct entry payments. PayTo provides direct debit-like functionality, allowing consumers to pre-authorise standing arrangements for businesses to initiate fast payments from their bank accounts. The service will act as a modern alternative to the current direct debit system, providing customers with greater visibility and control over their PayTo agreements. PayTo could also be used as an alternative payment method for in-person or online transactions, and to streamline certain business payments such as payroll. While the service went live in July 2022, consumer uptake

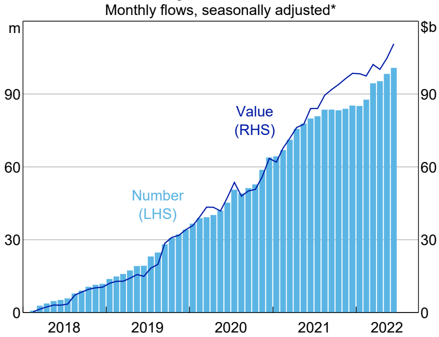
[4] See Guttmann R, C Pavlik, B Ung and G Wang (2021), 'Cash Demand during COVID-19', RBA *Bulletin*, March.

will take time as many banks are yet to enable the service for their customer accounts. ✠

Graph 2.8

New Payments Platform

Monthly flows, seasonally adjusted*



* Excludes transactions between accounts held at the RBA for the purposes of intra-government funding transfers.

Source: RBA