

COVID-19 Stimulus Payments and the Reserve Bank's Transactional Banking Services

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Abstract

The Australian Government introduced significant fiscal support measures to limit the negative economic effects of the COVID-19 pandemic and support economic recovery. In its capacity as the banker to the Commonwealth of Australia, and importantly as transactional banker to the large agencies charged with delivering a number of these measures, the Reserve Bank facilitated the distribution of fiscal stimulus payments to households and businesses. Improvements in government processes to ensure bank account details are available when delivering large-scale economic stimulus programs ensured that the COVID-19 stimulus payments were delivered more quickly and efficiently when compared to the stimulus payments made during the Global Financial Crisis (GFC) in 2008 and 2009. This meant that there was little delay for the economic stimulus to be available to the recipients and the economic support to take effect.

COVID-19 caused an unprecedented economic shock and the Australian Government responded with a stimulus package

While the COVID-19 pandemic primarily had profound public health implications, it also caused a major economic contraction (Graph 1). Substantial

fiscal and monetary policy support measures were introduced from early 2020 onwards, initially to limit the negative economic effects on households and businesses and then more recently to support economic recovery. For its part, the Australian Government responded quickly with the largest fiscal support during peacetime, which was worth 7 per cent of GDP in 2020/21 (Graph 2).^[1] Among

other things, the fiscal measures included significant fiscal stimulus payments to households and businesses, including JobKeeper, Economic Support Payments (ESP) and the Coronavirus Supplement. Another aspect of the Reserve Bank of Australia's (the Bank's) role during the pandemic was in facilitating the disbursement of these payments.

As the banker to the Commonwealth of Australia, the Bank provides a range of banking and payment services to meet the needs of the Australian Government. This includes transactional banking services to more than 90 government agencies, including Services Australia and the Australian Taxation Office (ATO). The many services offered by the Bank include the distribution of electronic payments, which are processed in bulk and directly credited to recipients' bank accounts. The Bank

assists in the reliable delivery of fiscal support measures by ensuring payments can be provided directly to a large number of financial institutions in a timely way, especially during extraordinary times. The Bank has established more direct connections to financial institutions than is standard industry practice because of its involvement in the delivery of large-scale payment programs from time to time.

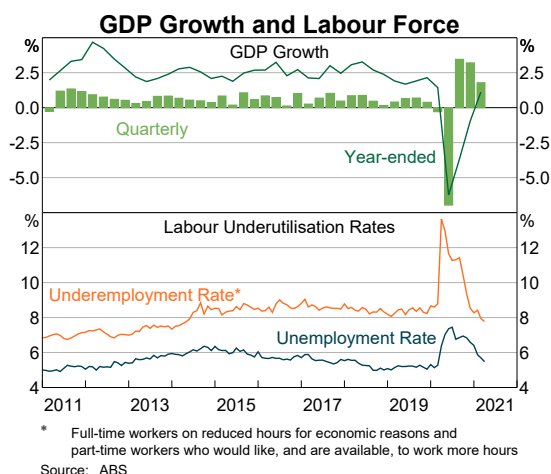
This article describes how the Bank supported the Australian Government and its agencies in disbursing COVID-19 stimulus payments, draws comparison to the stimulus payments delivered during the Global Financial Crisis (GFC), and discusses factors that enable the Reserve Bank to be a reliable banker to its government customers.

The Bank promptly delivered COVID-19 stimulus payments to affected individuals and businesses

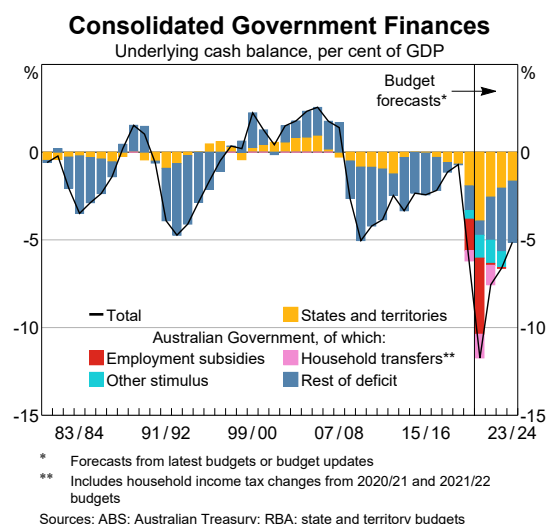
In 2020, the Reserve Bank processed more than 355 million payments on behalf of its government customers, almost all of them electronically transferred for direct crediting of the recipients' bank accounts. Generally, the number of payments made by cheques has declined markedly over recent years, while the use of real-time payments using the New Payments Platform (NPP) gradually increased since the NPP's introduction in 2018. (Graph 3) Overall, payment volumes and values processed by the Bank increased in 2020 due to the government's COVID-19 stimulus payments. (Graph 4)

Of the government's range of stimulus payments, the ESP (about \$12 billion), the Coronavirus Supplement (estimated \$20 billion), and the JobKeeper program (about \$90 billion) were the largest processed by the Bank.^[2] Services Australia administered the ESP and the Coronavirus Supplement. There were 4 rounds of ESPs with one-off payments made to eligible recipients of social assistance payments. The Coronavirus Supplement was an increase (or top-up) to the existing JobSeeker payments, made to those on eligible income support on a fortnightly basis. The ATO's JobKeeper program supported employers and sole traders that were significantly affected by COVID-19 by subsidising part of their employees' wages.

Graph 1



Graph 2



These large-scale programs to support households and businesses were announced in quick succession in March 2020 and implemented shortly thereafter (Figure 1). On 31 March 2020, 2 weeks after the first announcement of the first round of the ESP, the Bank began receiving bulk payment files for processing and disbursement to recipients' financial institutions. In April and May 2020, the Bank commenced the distribution of the fortnightly Coronavirus Supplement payments and the fortnightly JobKeeper payments to businesses.

As the ESP and the Coronavirus Supplement payments were processed alongside recipients'

usual benefit payments from Services Australia, payment values processed by the Bank significantly increased and payment volumes spiked on key dates for social assistance payments (Graph 5 and Graph 6). During the week in which the Bank commenced distributing the first round of the ESP, almost 9 million payments were delivered worth more than \$12 billion. The second round of the ESP coincided with the JobKeeper and the Coronavirus Supplement payments, which resulted in the highest number of payments the Bank processed in a single day, consisting of 4.3 million payments totalling \$4.6 billion.

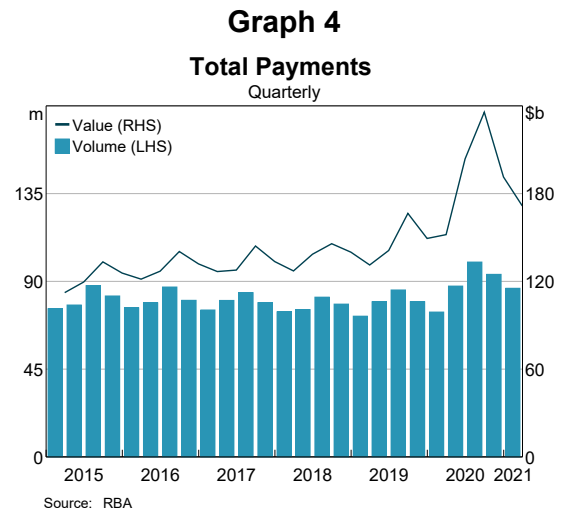
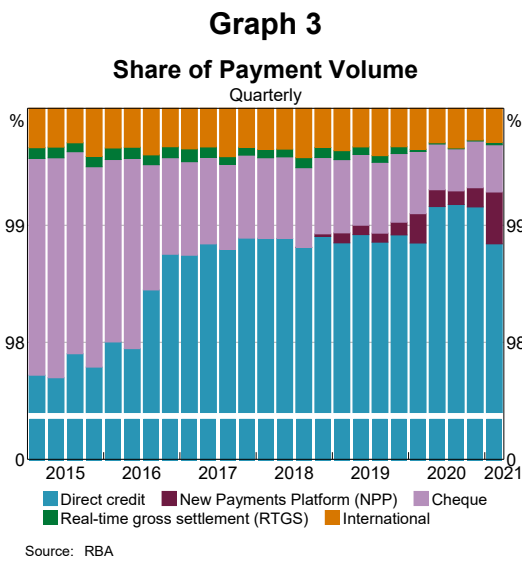
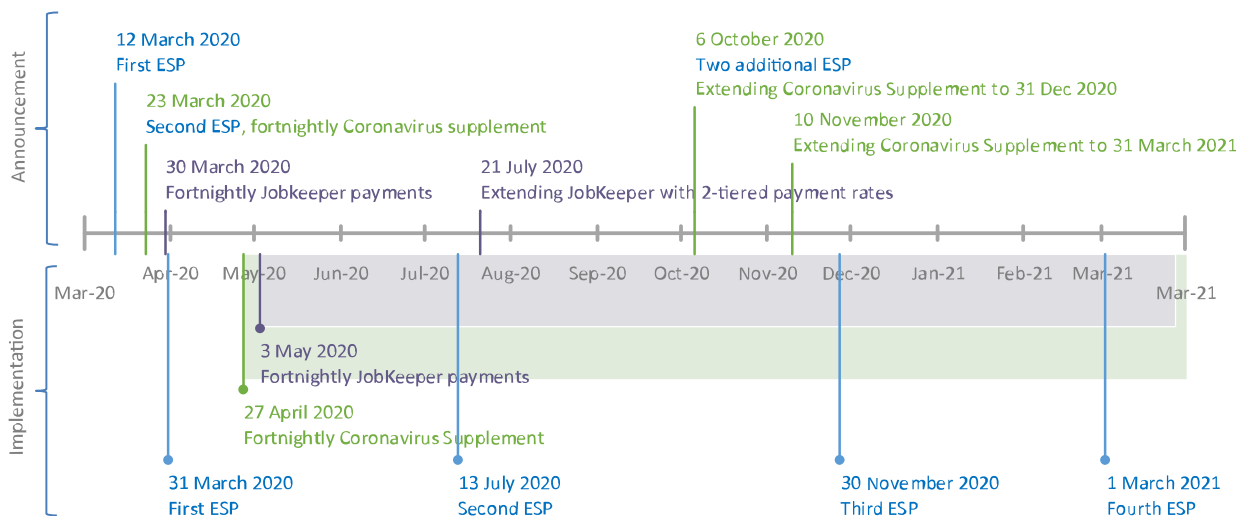


Figure 1: Timeline of Economic Support Payments



Source: Australian Taxation Office, Commonwealth of Australia, RBA and the Treasury

The Bank was able to deliver these stimulus payments reliably and swiftly, despite the daily payment volumes reaching record levels, with significant peaks in the volume of transactions. The key enablers that allowed seamless disbursement of stimulus payments included prior investments in building a robust foundation of information technology systems such as the new core banking system and the proprietary Government Direct Entry Services (GDES) system. GDES is used to make direct credit payments in bulk and is a well-established, robust system, ensuring payments are received by 9 am on the payment date. The Bank's systems and processes are regularly tested for their performance under varying circumstances. This

allowed for the delivery of the high volume of payments without requiring any process changes, despite the shift to working from home.

A heightened level of collaboration between government agency customers, internal and external stakeholders was essential to the successful distribution of the largest stimulus payment programs. Due to the accelerated delivery of these large volumes of stimulus payments, close coordination was needed between the Bank and the government agencies as well as the payments industry. The government agencies are responsible for determining the eligible recipients and payment values and generating bulk payment files, which are securely transferred to the Bank. Upon receipt, the Bank validates the information, ensuring the payments can be made reliably, and distributes the payment instructions to the recipients' banks. Once the payment instructions have been successfully sent to the receiving bank, the funds are required to be credited to the recipients' bank accounts by 9 am on the payment date. Because of the high volumes and values involved, the Bank coordinated these payment processes carefully with the government agencies as well as the commercial banks.

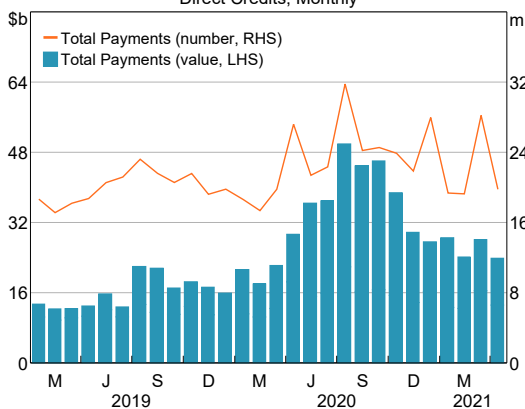
During times where large numbers of welfare payments are made, liaison and coordination with the financial institutions in Australia is vital so that there is sufficient cash available in their ATM networks to meet the additional cash demand from welfare recipients. To enable readiness for large payment days during the COVID-19 stimulus programs, the Bank advised the financial institutions of the stimulus payment values being disbursed in advance. This was particularly important as the pandemic led to a sudden and strong demand for cash and the commercial banks' currency holdings were quickly run down. This was coupled with fewer banknote deposits flowing into the banking sector (Guttmann *et al* 2021).

The COVID-19 stimulus was different to the GFC stimulus payments

In 2008 and 2009, the Australia Government also provided fiscal stimulus payments to the national economy during the GFC. Although there are similarities between the COVID-19 stimulus

Graph 5

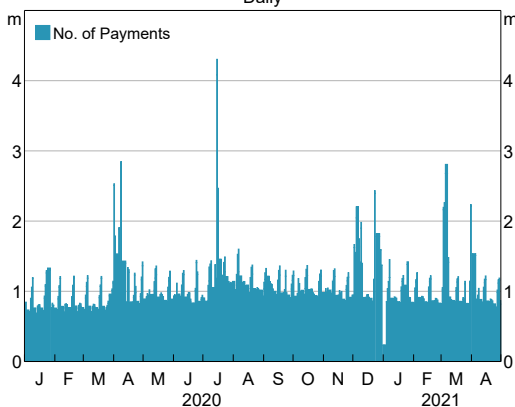
Government Payments to Households*
Direct Credits, Monthly



* Payments processed by the Reserve Bank for Services Australia welfare programs including Economic Support Payments, Coronavirus Supplement and ATO tax payments including JobKeeper
Source: RBA

Graph 6

Number of Direct Credit Payments*
Daily



* Payments processed by the Reserve Bank for Services Australia welfare programs including Economic Support Payments, Coronavirus Supplement and ATO tax payments including JobKeeper
Source: RBA

Table 1: Key Differences of the GFC and COVID-19 Stimulus Payments

COVID-19 stimulus	GFC stimulus
Size of the stimulus payments disbursed by the RBA	
> \$120 billion for ESP, Coronavirus Supplement, and JobKeeper	\$20 billion
Range of recipients	
<ul style="list-style-type: none"> • ESP: between 5 and 6.6 million households and individuals • Coronavirus Supplement: about 2.2 million individuals received fortnightly JobSeeker top-ups • JobKeeper: more than 1 million businesses received the fortnightly wage subsidy, supporting 3.6 million individuals 	<ul style="list-style-type: none"> • More than 5 million households and individuals received welfare payments • 8.4 million tax payers received a tax bonus
Payment methods	
28.5 million electronic, direct credit transfers for ESP and JobKeeper payment plus regular welfare payments including the Coronavirus Supplement	16.7 million payments: <ul style="list-style-type: none"> • 12.4 million electronic transfers • 4.3 million cheques
Operational efficiency	
Exclusive use of electronic, direct credit transfers (processed in bulk) enabled swift availability of funds to recipients. In the main, the delivery was as part of normal business operations.	The use of cheque issuance required more preparation to be operationally ready. Availability of funds to recipients lagged issuance by 9 days on average.

payments and the GFC stimulus payments, there are stark differences regarding the size and the range of recipients for each. Further, only electronic payment methods were used during the delivery of the more recent stimulus payments, which considerably improved operational efficiency (Table 1).

The COVID-19 stimulus value disbursed by the Bank was much larger than during the GFC

As the size of the economic shock differed, so did the sizes of the stimulus programs. During the GFC, the Bank assisted the Australian Government by disbursing almost 16.7 million payments totalling \$20 billion. The overall COVID-19 stimulus payments disbursed by the RBA are estimated to have been worth about \$120 billion – about 6 times the value of the GFC stimulus payments processed by the Bank in 2008 and 2009.

In terms of the peak volume of payments, on 15 July 2020, the Bank processed a record-breaking number of transactions comprising 4.3 million payments. This single day’s volume was equivalent to a quarter of the total number of stimulus

payments processed by the Bank during the entire 2008/2009 GFC period and equivalent to the number of cheques issued over a 5-week period.

The range of recipients was broader during COVID-19

Stimulus payments to households during the GFC consisted of 2 rounds of Services Australia payments to low-income households (5.5 million payments worth \$8.7 billion and 2.8 million worth \$5 billion respectively), and 8.4 million bonus payments from the ATO worth around \$7.3 billion. The ATO provided one-off payments worth \$950 made to every Australian taxpayer who earned less than \$80,000 during the 2007/08 financial year (Reserve Bank of Australia 2009).

During the COVID-19 pandemic, the government issued ESP and Coronavirus Supplement payments to households and individuals. While JobKeeper payments were made directly to employers and sole traders, they aided both businesses and households through support to incomes and job retention. For the 4 rounds of ESPs, it is estimated that there were between 5 and 6.6 million recipients

for each round of payments with an estimated total value of approximately \$12 billion (Commonwealth of Australia 2020). The fortnightly Coronavirus Supplement was estimated to be worth around \$20 billion and was provided to 2.2 million income support recipients as part of the regular welfare payments (Prime Minister of Australia 2020) (Commonwealth of Australia 2020). The JobKeeper program supported up to 3.6 million individuals in over 1 million businesses at the height of the program and is estimated to have cost \$90 billion (Treasurer of the Commonwealth of Australia 2020) (Commonwealth of Australia 2021).

The payments were delivered differently

Another important difference was in the composition of payment methods used to dispense the stimulus packages. The distribution of payments during the GFC was completed by issuing a relatively large number of cheques. The ATO issued the 'tax bonus' payments to eligible tax payers. However, not all the intended recipients had provided the ATO with their bank account information, making direct crediting arrangements not possible for a large number of eligible recipients. As a result, the ATO issued 4.3 million cheques over a 5-week period and the Bank prepared for their presentment at a future time by estimating the daily number of cheque presentments against the expected issuance profile. In comparison, 3.7 million direct credit transfers were made to recipients for whom bank account information was available to the ATO.

Over the past decade there has been a distinct trend away from cheque usage in government payments (Graph 3). This has enabled funds to be made available to recipients more quickly, presenting greater efficiencies for the government and the Bank. In 2020, the ATO was able to collect bank account information from businesses registered for JobKeeper, which enabled the exclusive use of electronic, direct credit transfers. Because stimulus payments were distributed electronically, this meant faster, secure and more cost-effective delivery of the stimulus payments. Importantly, the recipients received funds in their bank accounts by 9 am on the payment date.

Operational processes were much more efficient

Due to the extensive use of cheques during the GFC stimulus, the ATO, the Bank and broader industry had to ensure that there was a high degree of preparedness in order to handle the large volume of cheques being issued, printed, posted, presented and cleared. Specific operational arrangements had to be made across the industry to ensure that retail banks were prepared for the higher branch attendance of customers who were presenting their cheques. Special consideration also had to be given to the management of adequate cash supplies.

This created a considerable lead time between the policy decision to make stimulus payments and money arriving in recipients' bank accounts. The Bank had to ensure relevant banking systems were able to process such a large volume of cheques including the Bank's cheque fraud detection systems. Between April and June 2009, the Bank processed 7.9 million cheques,^[3] which was more than twice the amount processed over the same period in the previous year (3.6 million). Further, recipients had to wait until they received cheques in the mail and subsequently deposit the cheque at their local bank branch before being able to access the funds. On average, clearing of cheques took 9 days from issuance.

Because the timing of cheque clearances was not certain, the required amount in the government's core bank account on any given day had to be estimated. At that time, this required the Bank to estimate daily cheque presentment volumes based on the observed presentment behaviours over previous years. This information was then provided to the Australian Office of Financial Management (AOFM) to ensure sufficient funds were available in the government's core account at the Bank. For the COVID-19 stimulus package, the ability to exclusively use direct credit transfers and settle payments into the recipients' bank accounts on the payment date meant that the government knew the required funding amount in advance.

The government's quick action to announce and implement the COVID-19 stimulus combined with the fast delivery method meant that there was little delay for the economic stimulus to be available to

the recipients and the economic support to take effect. As estimated by the Reserve Bank, the JobKeeper program for example saved approximately 700,000 jobs (Bishop and Day 2020). Being able to efficiently and reliably distribute payments for the government improved the effectiveness of the government programs, which was vital during the COVID-19 pandemic and motivates the Bank to continually innovate and invest in its capabilities.

The Bank has made significant investments to support the efficiency of government payments

The nature of the transactional banking services offered by the Bank is continuously evolving, driven by changes in payments technology and government processes. The Bank seeks to involve its government customers in the latest developments in payments technology so that government agencies can meet the growing expectations of the community regarding reliability and the speed of payments. This approach has proved to be more important for the delivery of services during times with heightened needs such as natural disasters or the COVID-19 pandemic.

To support its transactional banking operations, the Bank recently completed a significant program of work to upgrade its banking systems. The project involved replacing the account maintenance system, as well as systems used to process government payments and receipts, and adopted a more modern programming language and architecture. This program, completed in August 2019, provides the Bank with a modernised platform that proved to be resilient, and effective in processing high volumes of government payments during COVID-19

The Bank has also recently invested in its capability to use the NPP. The Department of Finance uses the NPP to fund government agencies in real time on a 24/7 basis. This ensures that funds are available to government agencies at short notice, for example in response to emergencies such as floods, bushfires or for the procurement of medical supplies during the COVID-19 pandemic. Correspondingly, the implementation by Services

Australia of NPP payment capability in October 2018 enabled the government to make bushfire relief payments to affected individuals and households in real time, including on weekends, public holidays and after hours. This means that people affected by hardship can receive funding from the government without delay and irrespective of the day and time (Leung 2020).

One of the Bank's key objectives regarding its transactional banking services is to further develop NPP capabilities and to take further advantage of the NPP's superior functionalities such as the ability to include more information in the payment details,^[4] the ability to make payments on a 24/7 basis as well as the real-time settlement of the funds. The future vision for government payments is to utilise the NPP and deliver more payments in real time and irrespective of the day and time; whether they are for stimulus or emergency programs, or for regular payments.

The next innovation priority for the Bank is to build on the NPP's foundational capability by adopting a new payment mandate service, known as PayTo. PayTo is a new efficient way for people to pre-authorise real-time payments from bank accounts, providing full visibility to the payer and receiver, addressing some of the shortcomings of the current direct debiting processes (NPPA 2020).

Conclusion

The COVID-19 pandemic had major health and economic implications globally and in Australia. This led to the largest and most rapid economic response from the Australian Government in Australia's history. The Bank was able to assist the Australian Government in supporting Australian households and businesses by utilising improved transactional banking capability to rapidly disburse record levels of economic support. The Bank will continue to enhance and improve on existing payment infrastructures to ensure government payments are processed efficiently, securely and immediately when needed, supporting Australians as fast and reliably as possible when required. The delivery of the recent stimulus programs – when compared to the GFC's – highlights the efficiencies of electronic payment processes and how much

more quickly stimulus can be delivered where the government has accurate up-to-date bank account information. In the future, the Bank will continue to work with its government customers to further enhance the delivery of payments moving to more

payments cleared and settled in real time and on a 24/7 basis, further enabling the Australian Government to swiftly and effectively implement support programs during extraordinary times. ✎

Footnotes

[*] The authors are from Banking Department and thank Suzanna McDonald, Jared Griffiths, Kate McLoughlin and Rochelle Guttman for their valuable assistance and contributions.

[1] For a summary of the Reserve Bank's response to the pandemic, see: Supporting the Economy and Financial System in Response to COVID-19 | RBA.

[2] The data sources for this article are a combination of transactional data monitored and estimated by the Reserve Bank, based on the base amounts transferred, as well as official government sources. Because some stimulus payments are paid as supplements to regular welfare payments, the exact numbers and amounts are

not discernible and the Bank refers to official data published by the government.

[3] This included 4.3 million cheques processed for the ATO's tax bonus as well as the ordinary cheque volume processed by the Bank during that time.

[4] A payment via the NPP can include up to 280 characters of unstructured remittance information. In comparison, a direct credit transfer allows for a maximum of 18 characters, limiting the ability of the sender to include a useful payment description.

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