

## 2.3 Banking and Payment Services

The Reserve Bank provides banking and payment services to meet the needs of the Australian Government and to support an efficient and stable Australian financial system. These services support the government's actions to provide financial assistance to Australian households and businesses, by ensuring that payments are processed quickly and reliably. In addition to operating Australia's real-time gross settlement (RTGS) system, the Bank operates national infrastructure to support the settlement of real-time payments by households and businesses on a 24/7 basis.

### Transactional banking services

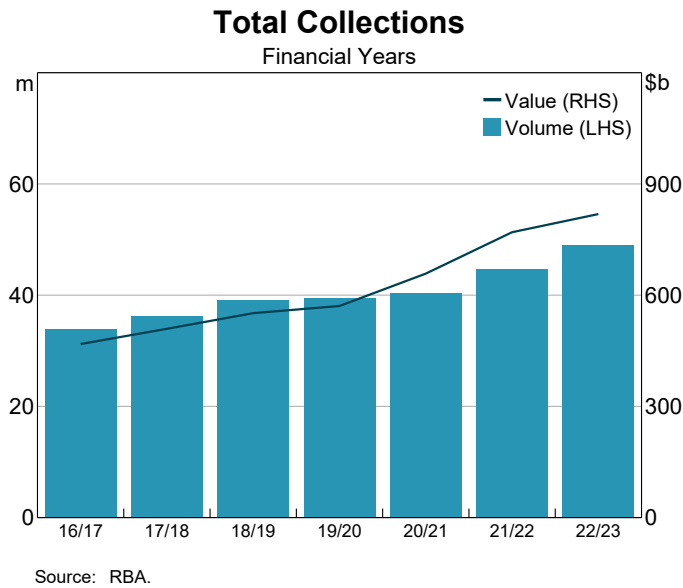
The Reserve Bank aims to deliver secure, reliable, cost-effective banking and payment services to the Australian Government and its agencies, consistent with the Reserve Bank's responsibilities under the *Reserve Bank Act 1959*. These services enable the government, through its agencies, to make payments and collect revenue. The Bank prioritises and resources these services commensurate with the criticality of payments made by the government, the vast majority of which are welfare and age pension payments. The Bank also works with industry to increase system resilience and minimise outages.

The Bank provides transactional banking services to more than 100 Australian government agencies. During 2022/23, the Bank retained its existing customer base and added several new customers.

The Bank provides a broad range of payment and collection services to its customers. At present, most payments are delivered using low-value, cost-effective, direct entry systems, both domestically and overseas. Other payment methods utilised by our customers include the New Payments Platform (NPP), RTGS, cheque and BPAY. For the collection of government revenue, payments are received by the above methods, as well as by card (either over the phone or via an online service), eftpos and, to a lesser extent, cash.

In 2022/23, the Bank distributed around 331.1 million domestic and 1.1 million international payments, totalling \$758.2 billion and \$16.7 billion, respectively. Domestic payments were somewhat lower than last year (in volume terms), when the numbers were inflated by payments related to the COVID-19 pandemic and natural disasters. The floods on Australia's east coast in mid-2022 resulted in temporary increases in emergency payments, most of which were made using the NPP. The capability to expedite and upscale the delivery of emergency payments reflects work undertaken in previous years by the Reserve Bank and Services Australia to provide timely financial support when needed.

In addition to processing payments, the Bank enables Australian government agencies such as the Australian Taxation Office to collect money owed from both domestic and international payers. In 2022/23, collections increased after the cessation of restrictions on activity related to the pandemic, and because of changes in economic conditions (such as higher commodity prices, a pick-up in wages growth, strong employment growth and high workforce participation). Overall, the Bank processed 49 million collections-related transactions for the Australian Government in 2022/23, amounting to \$818.7 billion.



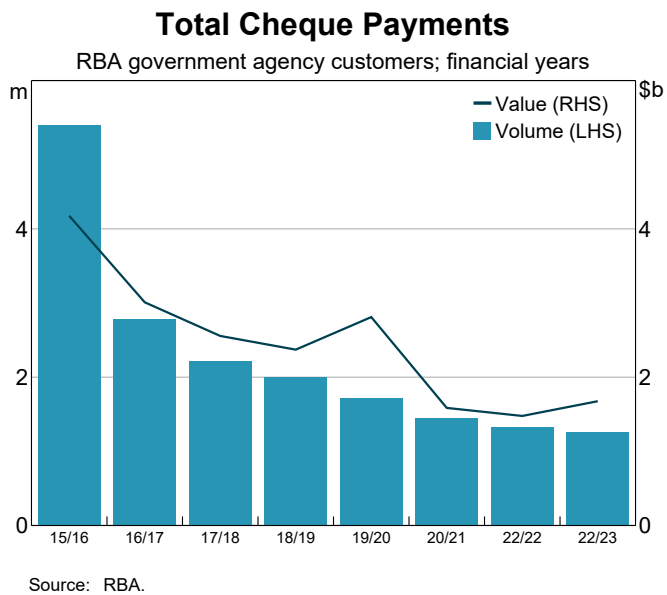
The transactional banking services offered by the Reserve Bank evolve alongside innovations in payments technology and business processes. The Bank continues to support the use of modern payments infrastructure and to facilitate migration away from legacy payment methods. Internally, this involves building new payment services and uplifting existing technology and processes. For example, significant work was undertaken over the past year to adopt modern payment messaging standards for various processes, both as standalone projects with customers and suppliers and as part of broader industry initiatives (see ‘Settlement Services’ below). The Bank is preparing to deliver new NPP payment capabilities over the coming year to allow its customers to receive cross-border payments, where the final domestic leg is sent over the NPP. It is also exploring the potential of cloud platforms to further enhance the resilience and performance of its banking and payments systems. Alongside enhancing its own capabilities, the Bank evaluates its third-party supplier arrangements to ensure they continue to offer modern payment solutions, meet the needs of users and remain cost effective. Notably, in 2022/23 the Bank approached the market to secure acquiring and payment gateway services and is in the process of transitioning to a new provider.

The Bank’s modern payment suite allows it to support government customers in the transition away from legacy, less efficient and potentially more costly services. Bank staff engage with the payments industry and policymakers to ensure that the government’s banking and payments needs are met. The Australian Government’s 2023 report, ‘A Strategic Plan for Australia’s Payments System’, will assist in prioritising work over the coming years.<sup>[1]</sup>

During 2022/23, the Bank continued to contribute to industry discussions and consultation processes around the future of the Bulk Electronic Clearing System (BECS), which is used for the delivery of direct entry payments. The Australian Government is a major user of BECS, and any transition to alternative payment systems – such as the NPP, which provides 24/7 real-time delivery of data-rich payments – will need to be managed carefully. The Bank will continue to work with its customers and industry to plan for the migration to more modern payments systems in a safe and cost-effective way.

[1] Australian Government (2023), ‘A Strategic Plan for Australia’s Payments System’, Final Report, June.

The Bank has continued to work with its customers to migrate away from cheque usage to more modern and cost-effective payment methods. The Australian Government issued around 5 per cent of all cheques drawn in Australia in 2022/23. The annual cheque payment volume for government customers fell by a further 5 per cent in 2022/23.



## Pro forma business accounts

The Reserve Bank's transactional banking services are subject to the Australian Government's competitive neutrality guidelines. The Bank delivers these services in competition with commercial financial institutions, including bidding for business at tenders. The Bank must cost and price the services separately from its other activities and meet a prescribed minimum rate of return. The Bank achieved its competitive neutrality target rate of return in 2022/23.

The following sets of pro forma business accounts for the Bank's contestable businesses have been prepared in accordance with competitive neutrality guidelines. These accounts do not form part of the audited financial statements.

After-tax earnings from the Reserve Bank's transactional banking services were \$6.8 million in 2022/23, \$2.1 million higher than the previous year.

## Transactional Banking

\$ million

	2021/22	2022/23
<b>Revenue</b>		
– Service fees	108.1	138.2
– Other revenue	1.6	4.6
Total	109.7	142.8
<b>Expenditure</b>		
– Direct costs	102.8	133.0
– Indirect costs	0.0	0.0
Total	102.8	133.0
Net profit/(loss)	6.9	9.8
Net profit/(loss) after taxes <sup>(a)</sup>	4.7	6.8
<b>Assets<sup>(b)</sup></b>		
– Domestic markets investments	2,739.2	3,804.7
– Other assets	21.6	21.8
Total	2,760.8	3,826.5
<b>Liabilities<sup>(b)</sup></b>		
– Capital and reserves	25.0	25.0
– Deposits	2,717.5	3,781.8
– Other liabilities	18.3	19.7
Total	2,760.8	3,826.5

(a) In accordance with the competitive neutrality guidelines, income tax expense has been calculated but no such amount is directly transferred to the Commonwealth. Instead, the amount is notionally captured within the Reserve Bank's annual profit distribution.

(b) As at 30 June.

Source: RBA.

## Central banking services

As part of its central banking services, the Reserve Bank manages the overnight consolidation of Australian Government agency account balances. This requires the movement of agency account balances, held with commercial financial institutions and with the Bank, into the Official Public Account (OPA). Daily payment instructions from the Department of Finance are processed to move funds from the OPA to agency bank accounts to meet their payment obligations.

While the Bank manages the consolidation of the government's accounts, the Australian Office of Financial Management (AOFM) has responsibility for ensuring there are sufficient cash balances to meet the government's day-to-day spending commitments and for investing excess funds in approved investments. A cash management account offered by the Bank assists the AOFM in this regard. The Bank also provides a very limited short-term overdraft facility to cater for occasions when there is unexpected demand for government cash balances. This overdraft facility is used infrequently and was not used during 2022/23.

The Bank also provides banking services to overseas central banks, and registry services to supranational organisations issuing Australian dollar-denominated securities. Eight organisations currently use registry services, with this number remaining relatively steady over recent years.

## Settlement services

The Reserve Bank owns, operates and manages Australia's interbank settlement system, the Reserve Bank Information and Transfer System (RITS). This system performs final and irrevocable settlement of interbank obligations arising from the wide range of non-cash payments in the Australian economy. This includes card-related transactions, electronic retail payments (including NPP and direct entry payments), cheques and high-value payments. These obligations are settled through the simultaneous debiting and crediting of Exchange Settlement Accounts (ESAs), held at the Reserve Bank on behalf of RITS member institutions.

RITS settles most high-value transactions individually in real-time through the process of 'real-time gross settlement' (RTGS). Many low-value transactions are also settled on an RTGS basis through the RITS Fast Settlement Service (FSS), which facilitates the real-time settlement of transactions initiated through the NPP. However, the majority of low-value payments are still settled on a net deferred basis in RITS via the RITS Low Value Settlement Service (LVSS) or in batches submitted by external batch administrators. The Bank also provides the Low Value Clearing System (LVCS) to facilitate file transfers for participants in Australia's low-value payments clearing systems.

On 12 October 2022, the Bank experienced a major technology incident that affected the FSS, LVCS and LVSS. The root cause was an operational error during a planned change to the software that manages the Bank's virtual servers. The incident disrupted a number of production and non-production servers, including some underpinning RITS and the FSS. As a result, processing of LVCS and LVSS files was impacted that evening. In addition, the settlement notifications that are typically sent to NPP participants by the FSS immediately following settlement were either delayed or not sent for several hours. This resulted in around 500,000 unique NPP payments (17 per cent of the daily average volume for a Wednesday) being delayed by between four hours and five days.

Following the outage, the Bank commissioned a comprehensive review of the operating environment supporting RITS, including information technology, operations and risk management. The review, which was requested by the Payments System Board and conducted by Deloitte, was published in May 2023.<sup>[2]</sup> The review concluded that the Bank has experienced and dedicated staff and a strong culture of care. It also concluded that the Bank needs to strengthen its systems and processes if it is to achieve the high standards of service availability that are required in operating critically important national payments infrastructure. The Bank is committed to implementing the recommendations in the review. These include: formalising the RITS operating model to ensure responsibilities are well articulated, investments are appropriately targeted, and resilience is enhanced; strengthening the risk management framework, with a focus on improving accountability for assurance activities; uplifting processes supporting the RITS ecosystem, including better use of automation and more effective change management practices; and developing frameworks to encourage feedback and constructive challenge in the areas supporting RITS, consistent with broader Bank initiatives.

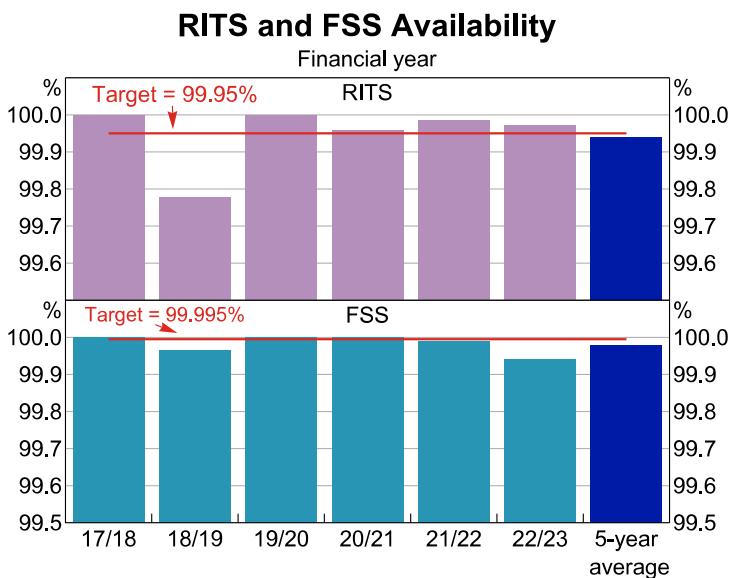
Learnings from the October 2022 incident and the Deloitte review are also reflected in the Bank's targeted assessment of RITS against the *Principles for Financial Market Infrastructures* (international standards set by the Committee on Payments and Market Infrastructures and the Technical Committee of the International Organisation of Securities Commissions).<sup>[3]</sup> This year's assessment, released in May 2023, focused on three key principles. The performance of RITS against the governance principle was downgraded from 'observed' to 'broadly observed', while the framework for the comprehensive management of risks and operational risk principles were both downgraded to 'partly observed'. The assessment considered specific opportunities to: uplift capabilities; embed accountabilities, processes, systems and controls; and better identify, monitor and manage risk.

[2] See Deloitte (2023), 'Independent Review of the October 2022 Reserve Bank Information and Transfer System (RITS) Outage – Final', May.

[3] See RBA (2023), 'Targeted Assessment of the Reserve Bank Information and Transfer System', May.

Improvement opportunities arising from the Deloitte review and the RITS assessment will add to the Bank's existing work to enhance the security, resilience and capacity of RITS. The Bank is nearing completion of a refresh of infrastructure supporting the FSS. It has also been restructuring the way it manages changes to RITS, to improve its ability to implement time-critical and small changes quickly and efficiently, recognising the increasing pace of vendor software updates and the dynamic nature of the payments system. The Bank has been examining the longer term IT strategy for RITS over the past 18 months, with the aim of simplifying system design where possible, improving cost effectiveness, and enhancing security and resilience. Work has also commenced on planning for an industry cyber exercise to test RITS members' response to a simulated cyber event involving RITS. The Bank remains actively involved in payments-related cyber and contingency exercises undertaken by the banking sector and other external organisations.

The Reserve Bank sets availability targets of 99.95 per cent for core RITS (excluding the FSS) and 99.995 per cent for FSS. As the major outage in October 2022 mainly affected systems after business hours, availability for wholesale settlements in core RITS was not heavily affected and RITS achieved its target for 2022/23 (with availability of 99.972 per cent). Owing to the October outage and other incidents, FSS availability for the same period was below target at 99.941 per cent. The Bank has commenced quarterly reporting of system availability statistics for RITS, LVCS and FSS on its website.<sup>[4]</sup>



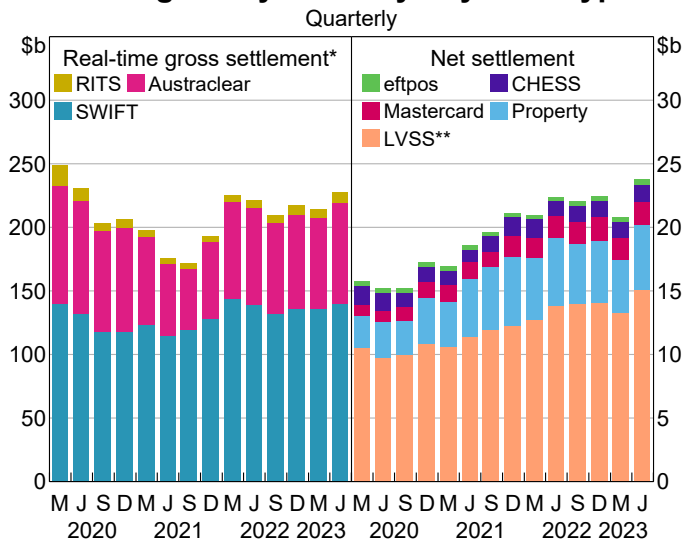
RTGS settlement activity in RITS has recovered from the subdued levels seen during the pandemic. In 2022/23, RITS (excluding FSS) settled an average of 53,000 transactions worth \$217 billion per business day – around 5 per cent more by volume and 9 per cent more by value than in 2019. Compared with the previous financial year, transaction volumes grew by around 10 per cent and values grew by around 7 per cent.

[4] See RBA (2023), 'System Availability Statistics', March.

The average daily volume of settlements in the FSS increased by around 20 per cent in 2022/23, reaching a daily average of 2.5 million transactions, worth a total of around \$3 billion, in June 2023. These were typically lower value payments. The NPP allows payments to be identified using unique identifiers (PayIDs) such as phone numbers, ABNs and email addresses, in addition to traditional account and BSB numbers. Future growth in FSS settlement volumes is likely to be supported by the ongoing rollout of PayTo functionality (which allows households and businesses to authorise third parties to initiate NPP payments from their accounts) and the migration of payments from the direct entry payments system to the NPP. Innovations in financial technology services built on NPP functionality will also contribute to growth.

While low-value payments continue to migrate to the NPP, resulting in FSS settlement, the majority of these payments are still primarily settled on a net deferred basis in RITS via the LVSS. This system collates interbank obligations arising from cheques, some debit and credit cards, BPAY, ATMs and direct entry payments that have not yet migrated to the NPP. LVSS net settlements totalled \$14 billion per day in 2022/23. RITS also facilitates the settlement of obligations submitted by external batch administrators on a net basis. These batches settle obligations arising from payments processed by eftpos and Mastercard, equities transactions processed by the ASX Clearing House Electronic Sub-register System (CHES), and electronic property settlement transactions processed by Property Exchange Australia (PEXA) and Sympli Australia.

### Average Daily Value by Payment Type



\* Excluding FSS transactions.

\*\* RITS Low Value Settlement Service, including cheque, direct entry, ATM and Visa settlements.

Source: RBA.

The Bank continues to support the implementation of an industry-wide program for the migration of High Value Clearing System (HVCS) payments to the ISO 20022 messaging standard – a format used to relay electronic messages between financial institutions. This has involved upgrading the Bank's back-office payment processing systems and transitioning the existing settlement messages used by RITS to the ISO 20022 messaging standard, as well as participating in industry governance forums. Live ISO-based messaging commenced on 20 March 2023, with the new ISO message type accounting for around 30 per cent of total messages sent in the initial months. During this coexistence phase, industry participants can send both the old message types and ISO messaging and must be able to receive and process both types. By the end of 2024, all financial institutions within the HVCS are expected to have fully

adopted ISO messaging for sending and receiving domestic payments. This will foster greater standardisation of cross-border messages, paving the way for enhanced transfer of information with payments and advancements in payment innovation.

In 2022/23, two institutions were approved as new RITS members, while six members resigned. This brought the total number of members to 161, of which 98 hold ESAs. Of these, 90 members are authorised deposit-taking institutions. Members without ESAs hold RITS membership in order to participate in the Bank's open market operations or administer batches in RITS. During 2022/23, five batch administrators submitted external batches to RITS for settlements and 13 RITS ESA members directly settled NPP transactions through the FSS.

The Reserve Bank offers correspondent banking services to other central banks and official institutions overseas, allowing for settlement of certain Australian dollar payments. The Bank also provides safe custody services to these overseas agencies; at the end of June 2023, the face value of securities held in custody was around \$122 billion. In addition, the Bank provides settlement services for banknote lodgements and withdrawals by commercial banks. ✎