

# Banking and Payments

The Reserve Bank provides a range of banking, registry and payment settlement services to participants in the Australian financial system, the Australian Government, and other central banks and international bodies. These include services associated with the operation of the Australian Government's principal public accounts; transactional banking services to government agencies; custodial, registry and related services; and the operation of the real-time gross settlement (RTGS) system for high-value Australian dollar payments.

## Banking

The Reserve Bank's banking services are provided by Banking Department, with the common objective of delivering secure and efficient arrangements to meet the banking and payments needs of the Australian Government and its various agencies. In addition, the Bank provides banking and related services to a number of overseas central banks and official institutions. Services are of two broad types.

Core banking services are provided to the Department of Finance and Deregulation on behalf of the Australian Government and the Australian Office of Financial Management (AOFM). These services derive directly from the Reserve Bank's role as Australia's central bank. They require the Bank to manage the consolidation of all Australian Government agency account balances – irrespective of which financial institution each agency banks with – into the Government's Official Public Accounts (OPA) at the Reserve Bank on a daily basis. This involves 'sweeping' each agency's balances from accounts with their transactional bank to the OPA at the end of each business day and back again the following morning. The Bank also provides the Government with a term deposit facility for investment of its excess cash reserves, as well as a short-term overdraft facility to cater for occasions when there is unexpected demand on Commonwealth cash balances. The overdraft facility has been used only infrequently for many years; it was used last in August 2010.

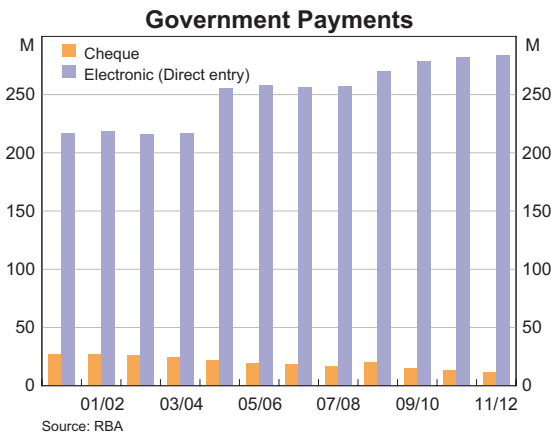
While the Reserve Bank manages the consolidation of the Government's accounts, the AOFM has day-to-day responsibility for ensuring there are sufficient cash balances in the OPA and for investing excess funds in approved investments, including term deposits with the Reserve Bank.

The Reserve Bank's transactional banking services involve the provision of services that are associated with more traditional banking and payments-related activities. Principal among these is the delivery of direct entry payments from government agencies to recipients' accounts – some 285 million direct entry payments, totalling \$215 billion, were delivered by the Reserve Bank in 2011/12. The Government also makes payments by cheque, though its use of cheques has fallen in recent years relative to electronic payment methods. Cheques now make up less than 4 per cent of agency payments. In addition to payments, the Bank provides its government agency customers with access to a number of services through which they can collect funds, including BPAY, over-the-counter, phone, internet and card-based payment facilities.

In common with the core banking services, the provision of transactional banking services is consistent with the Reserve Bank's responsibilities under the *Reserve Bank Act 1959*. The principal difference between core and transactional banking services is that the latter are offered on a commercial basis in line with the Australian Government's competitive neutrality guidelines. To deliver these services, the Bank must compete with other commercial financial institutions, in many instances bidding for business at tenders conducted by the agencies

themselves. It must also cost and price the services separately from the Bank's other activities, including its core banking services, and meet a prescribed minimum rate of return. Pro Forma business accounts for transactional banking are provided with the Financial Statements in this Report, on page 115.

Some 90 government agencies are transactional banking customers of the Reserve Bank. The Bank typically works closely with these agencies to ensure that they have access to services that are consistent with their needs and those of the public. In recent years, as the banking requirements of the government and its agencies have broadened, the Bank has done this by combining its specialist knowledge of the government sector with specific payments services and products from commercial providers. During 2011/12, for example, the Reserve Bank assisted one customer, the Department of Human Services, to reduce its reliance on cash in favour of electronic transactions through a debit card network as a way of making real-time over-the-counter payments. The new arrangements are expected to reduce the Department's processing costs without its customers losing the convenience typically associated with receiving payments in cash. The Bank expects to make greater use of combined service arrangements as the Government's banking needs continue to evolve.



The Reserve Bank also continued to work closely with other payments industry participants to improve important elements of the payments system infrastructure that will benefit all users, including the Bank's government clients. The 2011 Annual Report noted that the Bank was working with industry participants to develop a service, known as the Low Value Settlement Service (LVSS), to facilitate improved arrangements for settling low-value payments. The first phase of this project, which allows industry participants to provide settlement instructions for low-value clearings around the same time that clearing activity takes place, was completed in May 2012. Additional information is provided in the 'Settlement Services' section of this chapter.

In common with other financial institutions, the Reserve Bank relies heavily on information technology and systems to deliver banking services to its customers. These systems require changes and improvements over time to ensure that they provide the highest levels of service, reliability and efficiency. During 2011/12, the Bank completed a significant upgrade of its online banking systems – RBAnet and ReserveLink – combining them into one platform that allows customers to access a broad range of banking services. The Bank also completed scoping the requirements for a major program of work to upgrade its remaining banking systems. The redevelopment work – which formally commenced in July 2012 and will occur in stages over a number of years – will use a combination of in-house development staff and external providers to migrate the existing systems to a more contemporary programming language and architecture. A Steering Committee, comprising senior Reserve Bank staff, is overseeing the program.

After-tax earnings from the Reserve Bank's transactional banking services were \$4.8 million in 2011/12, similar to the previous year.

## Registry

The Reserve Bank has for many years provided registry services to the Australian Government. The services are undertaken under agreement with the AOFM and include registration of new issues of Commonwealth Government securities (CGS), ongoing maintenance of ownership records, distribution of interest payments and redemption of securities at maturity. After a review of arrangements last year, the AOFM announced that it will commence purchasing its registry services for CGS from a commercial provider during the course of 2012/13.

The Reserve Bank also provides registry services to a number of foreign official institutions that have Australian dollar debt programs. These services are not affected by the move in the CGS registry.

Earnings after tax for the registry business were \$0.1 million in 2011/12, similar to earnings in the previous year.

## Settlement Services

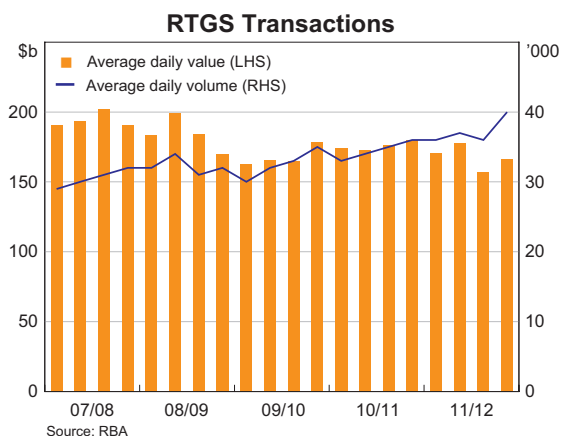
The Reserve Bank owns and operates the Reserve Bank Information and Transfer System (RITS), which provides a real-time settlement service for institutions approved to operate an Exchange Settlement Account (ESA) with the Bank. At end June 2012, there were 59 such approved institutions; 23 other institutions hold an ESA but have appointed another ESA holder to act as a settlement agent in RITS. A further 32 institutions were Non Transaction Members of RITS in order to participate in the Bank's domestic open market operations.

Payments between institutions are settled in RITS across their respective ESAs. By value, about 90 per cent of these payments are settled individually on a RTGS basis. These include time-critical customer payments, all wholesale debt and money market transactions and the Australian dollar legs of foreign exchange transactions. The latter includes Australian dollar trades involved in continuous linked settlement (CLS), for which net amounts are paid to and received from CLS Bank International each day.

In addition to RTGS payments, RITS settles batches of payments where many underlying transactions are either netted or settled simultaneously. One batch settlement is for payments arising from cheque, direct entry and retail card transactions that are cleared through low-value systems prior to settlement across RITS, currently at 9.00 am on the next business morning. Another daily batch is for settlement of payments arising from equity transactions, and is managed by the Australian Securities Exchange as Batch Administrator.

The average daily value of RTGS transactions settled across RITS fell by 4.5 per cent in 2011/12, to \$168 billion. This compares with an average of \$194 billion in 2007/08 before the global financial crisis. RTGS transaction values have fallen in three of the past four financial years. By contrast, the daily number of RTGS transactions has grown strongly in recent years and averaged 37 100 in 2011/12, around 20 per cent higher than in 2007/08.

The RITS Low Value Clearing Service (LVCS) allows RITS Members to exchange low-value payments files (such as for the direct entry system used for payroll credits) across different networks, either SWIFT or an industry Community of Interest Network (COIN). This means that an institution preferring to use one network for file exchanges does not need to connect to the other network to exchange files with



participants preferring to use the other network. The LVCS has been operational since June 2010 and is used by nine institutions to exchange files for 13 RITS Members.

Reflecting the critical importance of RITS to the Australian financial system, the Reserve Bank invests significantly in its technical and business infrastructure and operational resourcing. This is to ensure that RITS operates to extremely high standards of availability and resilience, and that its settlement services evolve to meet the changing needs of the payments system. In managing RITS, the Bank aims to recover its operating costs from RITS Members. Capital and development costs of major upgrades and functional enhancements, such as the examples below, are absorbed by the Bank as a policy-related expense.

As part of the ongoing program to maintain and enhance the RITS technical architecture, the SWIFT infrastructure that supports RITS and the Reserve Bank's own high-value payment transactions and that of its official customers was replaced in 2011/12. The new infrastructure has resulted in a significant improvement in performance. On 12 June, the highest volume day during 2011/12, throughput rates were equivalent to processing the day's total SWIFT payments volume in less than one hour, an 80 per cent improvement on that recorded on a similar peak day during the previous financial year.

Major infrastructure work planned for completion in 2012/13 includes an upgrade of the RITS certificate authority, which provides security credentials for accessing and operating the RITS user interface. Work will also commence on the replacement of the core RITS platform, which provides the RTGS queue and related ESA settlement processing.

The 2011 Annual Report described work to develop the RITS LVSS, which enables RITS Members to provide settlement instructions to RITS for low-value clearings (such as the direct entry system and cheques) at around the same time as clearing activity takes place between institutions. The LVSS builds on the technical infrastructure for the LVCS. Changes to RITS for this service were implemented in stages during 2011/12.

The LVSS replaces legacy arrangements whereby the settlement instructions for all clearing information exchanged during the day is aggregated and sent to the Reserve Bank on the evening of exchange, prior to settlement across RITS at 9.00 am on the next business day. In May 2012, settlement instructions for the direct entry system commenced using the new arrangements and it is expected that remaining low-value clearings will migrate to the LVSS by October 2012.

Initially, settlement of all these clearings will continue to be at 9.00 am on the business day following exchange. However, the changes made to RITS for the LVSS will also enable settlement for these low-value clearings to occur on the same day as clearing files are exchanged. This 'same-day settlement' for the direct entry system is one of the objectives noted in the conclusions of the 'Innovation Review of the Payments System Board', and is expected to be implemented by the end of 2013.

Over the coming year, the Reserve Bank will be considering further enhancements to RITS and related payments services to assist in meeting some of the objectives of the Innovation Review. These will include improvements in the Bank's LVCS to provide the capability to split and sort bulk files and produce a settlement instruction for the LVSS.

The Reserve Bank also provides settlement services for banknote lodgements and withdrawals by commercial banks and for RTGS settlement of (mainly high-value) transactions undertaken by the Bank and its customers, including the Australian Government, overseas central banks and official institutions.

The Reserve Bank provides settlement and safe custody services to around 50 overseas central banks to settle their Australian dollar transactions. Reflecting increased overseas demand for Australian dollar investments, the amount held in custody by the Bank for these institutions increased by \$21.3 billion to \$62.2 billion over the year.