2. The Evolving Payments Landscape

Monitoring trends and developments in retail payments informs the Board's policy work and strategic priorities.

Payments are increasingly made electronically

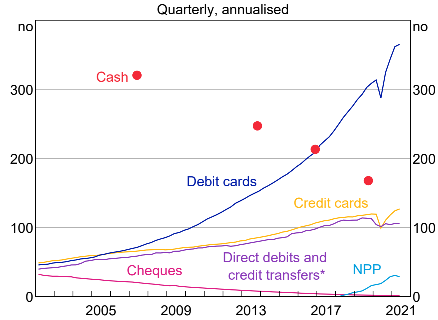
The way in which Australians make their payments has changed significantly in recent decades. An increasing share of payments is now made electronically rather than in cash, and cheques are rarely used (Graph 2.1). Throughout 2020/21, Australians made around 625 electronic transactions per person on average, compared to 275 a decade earlier. Payment cards are the most commonly used retail payment method in Australia, and debit cards are increasingly preferred to credit cards for many transactions. According to the Bank's Retail Payment Statistics, around 75 per cent of card payments in Australia were made with a debit card over 2020/21, compared to around 60 per cent 10 years prior (Graph 2.2).[1]

The COVID-19 pandemic has reinforced the long-run shift to cards and other forms of electronic payment. When the pandemic reached Australia in early 2020, many businesses encouraged consumers to use cards instead of cash for face-to-face payments and many preferred to tap their card or mobile phone to make a payment instead of inserting the card into a payment terminal.[2] According to the

Graph 2.1

Transactions per Capita

Quarterly, annualised



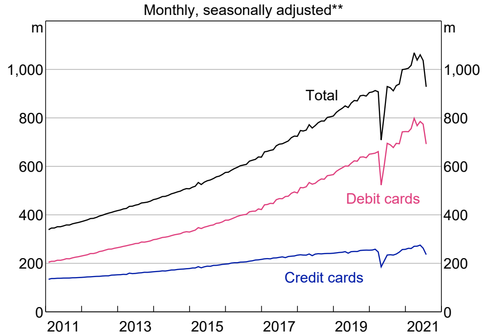
* Includes BPAY

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

Graph 2.2

Number of 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

[1] According to the Bank's 2019 Consumer Payments Survey, debit cards accounted for 44 per cent of the total number of consumer payments in late 2019, compared to 30 per cent in 2016. Credit and charge cards accounted for 19 per cent of consumer payments in 2019 and 22 per cent in 2016. 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 RBA, 'Payments Data'. Available at <https://www.rba.gov.au/payments-and-infrastructure/resources/payments-data.html>.

Bank's 2019 Consumer Payments Survey (CPS) – which was conducted in late 2019, prior to the onset of COVID-19 – contactless tap-and-go payments accounted for around 55 per cent of in-person transactions by number, following strong growth in preceding years. While most contactless payments were made using a plastic card, the use of mobile wallets had also been increasing. Industry data and anecdotal evidence indicate that the pandemic has accelerated the shift to tap-and-go payments, particularly via cards stored in mobile wallets on smartphones or other devices (e.g. watches).[3] For example, data released by a large card issuer showed that the value of monthly transactions made using mobile wallets more than doubled over the past 18 months.[4]

Another trend that has been reinforced by the pandemic is an increase in the share of retail transactions being made online, where cash is not an option. For example, Australian Bureau of Statistics data indicate that the share of retail sales conducted online increased from 6.6 per cent in the second half of 2019 to 11.1 per cent in April 2020 as the initial COVID-19-related restrictions were introduced. The online share remained elevated even as restrictions were eased in many parts of Australia, suggesting the pandemic may have induced a more permanent shift to online transactions for some consumers. More broadly, the share of card transactions conducted remotely has been trending upwards for the past decade.

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

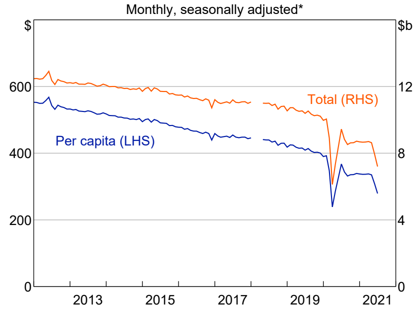
The use of cash for day-to-day payments has been declining steadily for many years. Prior to the pandemic, cash was used for 27 per cent of consumer payments (according to the 2019 CPS), compared to around 70 per cent in 2007. COVID-19 has accelerated this trend, with a range of indicators pointing to weaker demand for cash for transactional purposes since the pandemic began, including lower cash withdrawals from ATMs and subdued demand for low-denomination banknotes.[5] ATM withdrawals fell sharply in April 2020 as restrictions limited face-to-face retail spending and only partly recovered when most restrictions were lifted (Graph 2.3). Over the six months to June this year, the total value of ATM cash withdrawals was around 17 per cent lower than in the second half of 2019.

There are also indications that merchant acceptance of cash is starting to fall, reflecting the effects of the pandemic, the longer-term decline in the use of cash and the costs to merchants of continuing to offer cash as a

Graph 2.3

Value of ATM Withdrawals

Monthly, seasonally adjusted*



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

Source: RBA

[2] For a discussion of changes in payment behaviour in the early stages of the pandemic, see Bullock M (2020), 'Panic, Pandemic and Payment Preferences', Keynote address at the Morgan Stanley Disruption Evolved Webcast, Online, 3 June.

[3] The payments industry supported the shift to contactless transactions by temporarily increasing the no-PIN limit on contactless transactions from $100 to $200; after several extensions, the higher limit was still in place at the time of writing.

[4] See Commonwealth Bank (2021), 'Submission to the Parliamentary Joint Committee on Corporations and Financial Services Inquiry into Mobile Payment and Digital Wallet Financial Services', 21 May. Available at <https://www.aph.gov.au/DocumentStore.ashx?id=e767fe20-d59e-4fd6-acab-e2d6714141db&subId=707317>.

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

payment option. A survey commissioned by the Bank found that 45 per cent of consumers reported they had encountered a business that did not accept cash in the month of September 2020, compared to less than 25 per cent in April 2019.[6] Even so, the vast majority of retail businesses with a physical presence – more than 95 per cent according to the survey – continue to accept cash.

Despite the ongoing decline in the use of cash for payments, a significant minority of face-to-face payments are still made in cash and some members of the community continue to use cash extensively. In the CPS conducted in late 2019, 10 per cent of respondents made all of their weekly payments in cash, and more than half of the payments of Australians aged 65 and older were made in cash.[7] While these shares are likely to have fallen somewhat since 2019 associated with the effects of the pandemic, cash is still likely to be an important payment method for some people.

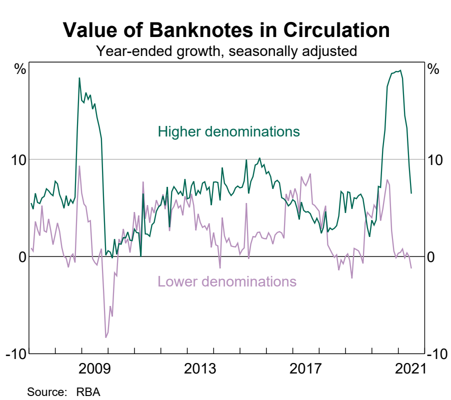
Moreover, while the use of cash for transactions has been declining, the overall demand for cash has remained very strong during the pandemic. The value of banknotes in circulation grew particularly strongly from mid March 2020, around the time that COVID-19-related containment measures were being imposed, with the annual growth rate reaching 18 per cent in January 2021 – triple the average annual growth rate over the previous decade. The year-ended growth rate has since moderated to 6 per cent in the year to June 2021. Measured as a ratio to GDP, the value of banknotes in circulation reached a historic high in the March quarter of 2021 at 4.8 per cent. Much of the recent increase in demand was in high-denomination banknotes ($50s and $100s), which, coupled with the reduced transactional cash use, suggests an increased desire in the community to hold banknotes for precautionary (i.e. emergency) or store-of-wealth purposes (Graph 2.4).

Innovation is shaping the payments landscape

Innovation and new technologies have had a significant impact on the payments landscape in recent years.

In some cases, new infrastructure has been developed – most notably, Australia's fast-payments system, the New Payments Platform (NPP), which was launched in 2018. The NPP enables consumers, businesses and government agencies to make real-time, information-rich payments 24 hours a day, every day of the year. The PayID service also allows NPP payments to be addressed to an account owner's registered mobile phone number, email address or Australian Business Number rather than to a BSB and account number. More than 105 entities, including some non-bank payment service providers, are now offering NPP payment services to their customers, and most bank accounts are now able to send and receive NPP

Graph 2.4



[6] For further details of the survey results, see Box A in Guttmann R, C Pavlik, B Ung and G Wang (2021), 'Cash Demand during COVID-19', RBA *Bulletin*, March.

[7] 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.

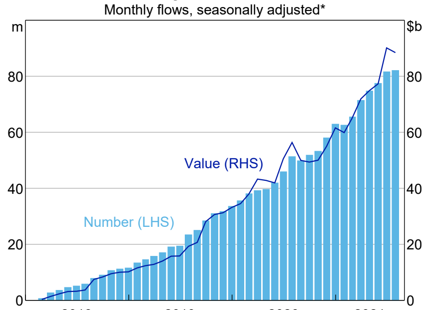
payments. Some payments that were previously processed via the Direct Entry (DE) system – particularly some direct credit transfers and certain government payments (including support payments such as COVID-19 relief) – have been migrating to the NPP, contributing to the strong growth in NPP transactions over the past few years (Graph 2.5). The NPP now accounts for over 20 per cent of the total number of account-to-account payments, while the number of DE payments has been declining over the past few years. The number of DE payments fell by around 2 per cent in 2020/21, although DE payments continue to account for the bulk of electronic retail payments by value. The NPP's new 'PayTo' service, scheduled to be launched in mid 2022, will bring direct debit-like functionality, which will likely drive further migration of DE payments.

New entrants that leverage existing payment channels (e.g. cards) are also widening the range of payment options available to consumers and businesses. As noted, an increasing share of payments are being made through mobile wallets offered by large technology companies, such as Apple Pay, Samsung Pay and Google Pay. These wallets enable consumers to store a digital representation of their debit and/or credit cards in their smartphone or other devices (such as a smart watch), which can then be used to make contactless payments at the point of sale and in some cases online payments. Apple Pay, Samsung Pay and Google Pay are now supported by almost all card issuers in Australia. The Bank's 2019 CPS showed that consumer use of mobile wallets had been growing strongly, accounting for 8 per cent of in-person card transactions in 2019. As noted above, industry data indicate that growth in the use of mobile wallets has picked up considerably throughout the pandemic period.

Graph 2.5

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

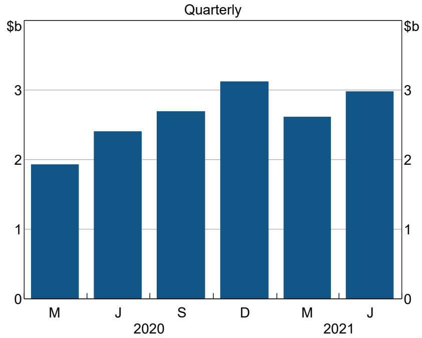
The emergence of 'buy now, pay later' (BNPL) services has been another notable development in retail payments in recent years.[8] BNPL services enable consumers to purchase goods and services by paying part of the purchase price at the time of the transaction and the remainder to the BNPL provider in a series of instalments. The customer receives their purchase immediately and the merchant is paid upfront by the BNPL provider. In most cases, customers use a mobile app to access these services and repayments are drawn from a customer's linked debit or credit card. While these services are often free or low-cost for consumers if payments are made on time, BNPL tends to be more expensive for merchants to accept than other electronic payments such as cards. BNPL transactions and customer numbers have grown substantially in the past few years and there has been a significant number of new entrants into the market. According to data collected by the Bank, BNPL providers processed around $11.5 billion of purchases in the year to June 2021 (Graph 2.6). BNPL accounts for a relatively small, though growing, share of payments in the Australian economy. The value of BNPL transactions was equivalent to 1.7 per cent of Australian card purchases in the year to June, although it accounts for a

[8] For further information on the BNPL market, see Fisher C, C Holland and T West (2021), 'Developments in the Buy Now, Pay Later Market', RBA *Bulletin*, March.

significant share of transactions in certain segments.

Graph 2.6

Value of BNPL Transactions



Source: RBA