

APCA MILESTONES REPORT

THE DIGITAL ECONOMY

SIXTH REPORT, NOVEMBER 2016



This report has been prepared by the Australian Payments Clearing Association (APCA) to monitor the continued decline of cheques in our maturing digital economy.



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1.0 Key Trends

1.1 Cheque and Cash Decline

The digital economy continues to drive the decline in cheque use, and the rate of decline is accelerating. Consumers and businesses continue to reduce their use of cheques:

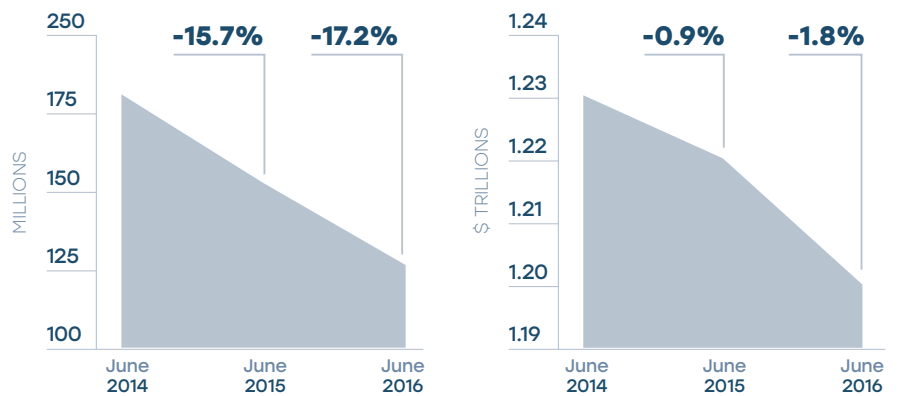
- In the year to June 2016, cheque use dropped by **17.2%**, the greatest annual drop in the last decade. This compares with a drop of **15.7%** in the previous financial year.
- Over the past ten years, cheque use has declined by nearly **73%**.

Cheque values, historically resilient to change are also now in decline:

- Cheque value declined by **1.8%** for the year ending 30 June 2016, compared with **0.9%** the previous year.¹



Over the past 10 years, cheque use has **declined** by nearly **73%**.



Cheque Volume

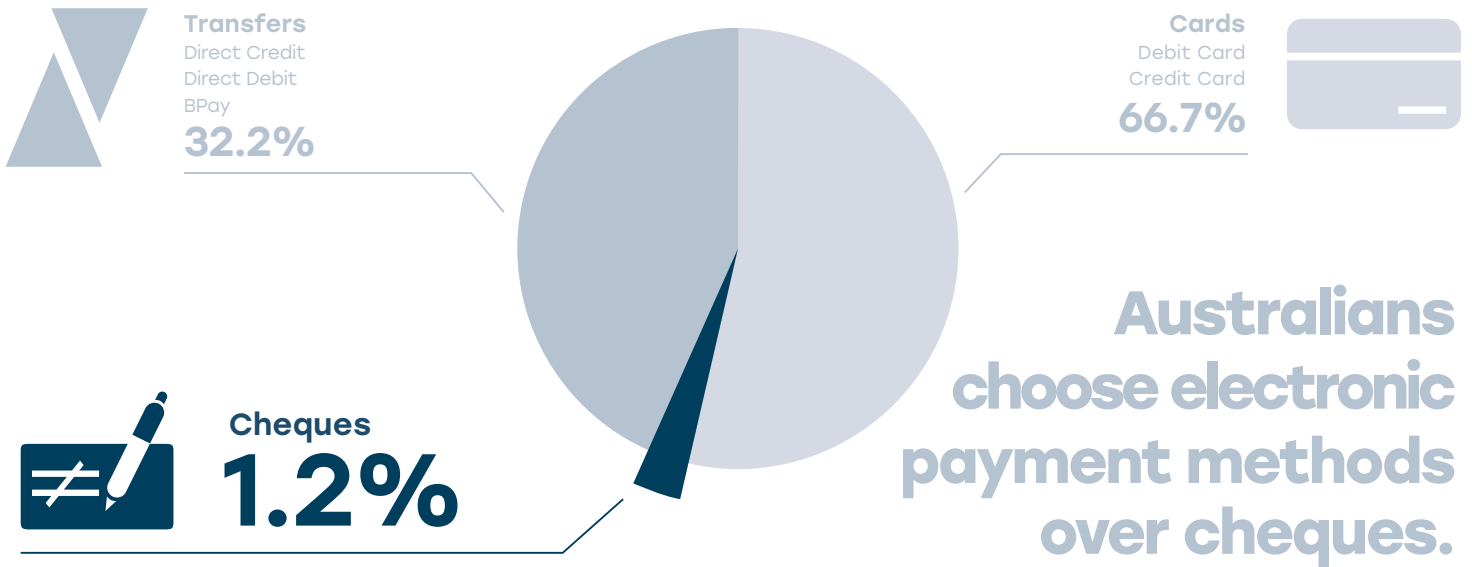
Cheque Value

Consumers and businesses continue to reduce their use of cheques.

¹ Payments Data, 2016, Reserve Bank of Australia
Where totals do not add up, the difference is due to rounding.



Non-Cash Payments



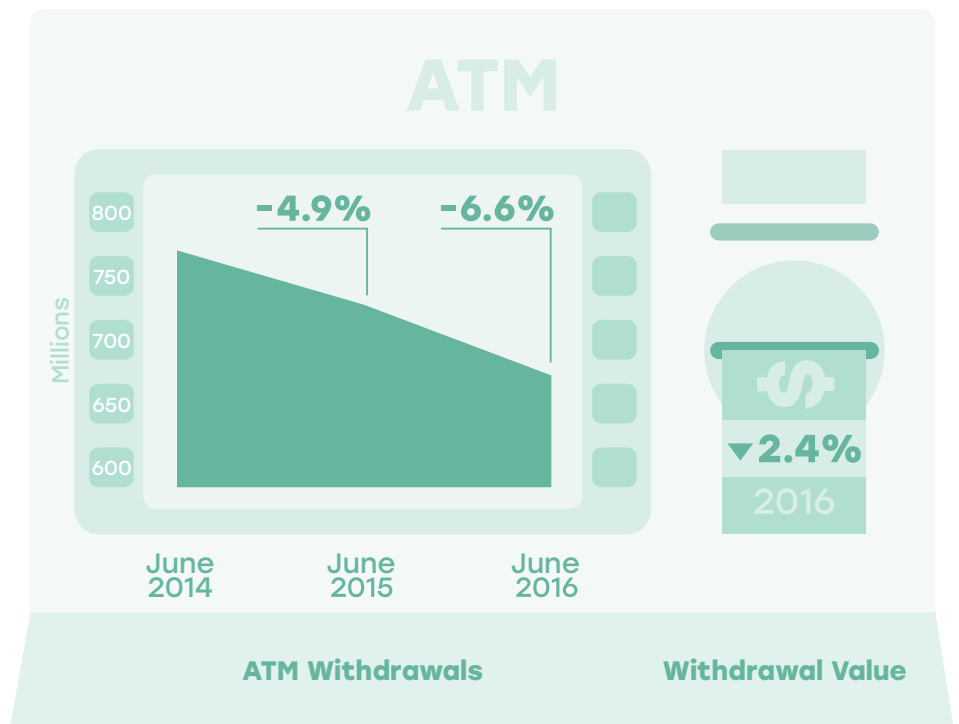
Cheques represent **1.2%** of all non-cash transactions, down from **1.6%** the previous financial year.²

As a measure of cash use, ATM withdrawals dropped by **6.6%** in the 2016 financial year. This compares to a drop of **4.9%** the previous year. The value of these withdrawals dropped by **2.4%** compared to **1.6%** the previous year.

1.2 International Trends

Cheque use internationally continues to decline, however Australia still outpaces many other nations in the rate of decline of cheques.

The UK reported a **14%** decline in the use of cheques for the year ending 30 June 2016, with values dropping by **11%**. At the same time, the UK has seen a **14%** increase in the use of their Faster Payments system.³



Cash use is declining in volume and value.

² Retail Payments Trends, 2016, Reserve Bank of Australia

³ Payment Statistics June 2016, Payments UK

1.3 Digital Payments Growth

The volume of digital transactions continues to increase. Direct entry (electronic debit and credit payment transactions) and payment card transactions have again increased in volume and value.

Direct entry use increased **7.2%** in the financial year to June 2016, compared to **4.4%** over the same period the year before.

Direct entry value grew by **2.6%** in the financial year to June 2016, compared to **1.3%** the previous year.

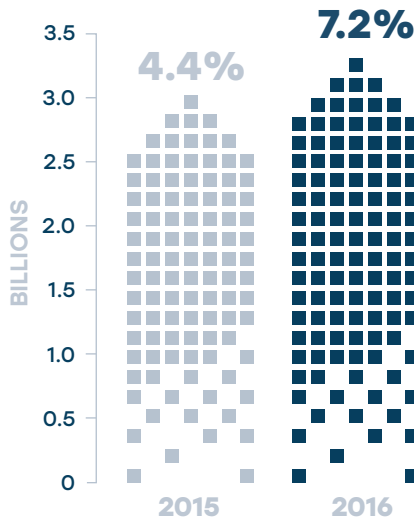
Payment by credit cards and debit cards also continued to grow:

- The use of credit and debit cards grew by **12.1%** to 30 June 2016 compared to **10.7%** the previous financial year.
- The value of credit and debit card transactions grew by **6.7%** to 30 June 2016 compared to **6.6%** the previous year.

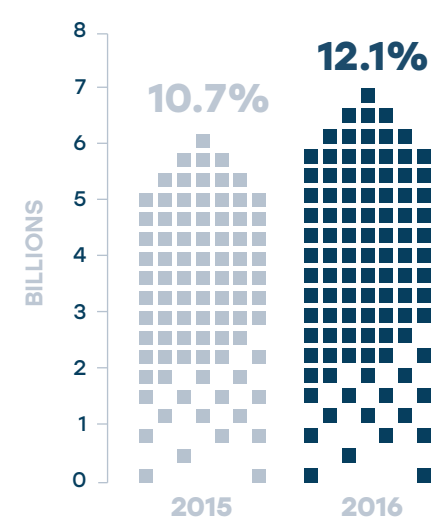
The overall trends in non-cash payments are shown in the graph below:

The rate of increase in digital transactions is accelerating.

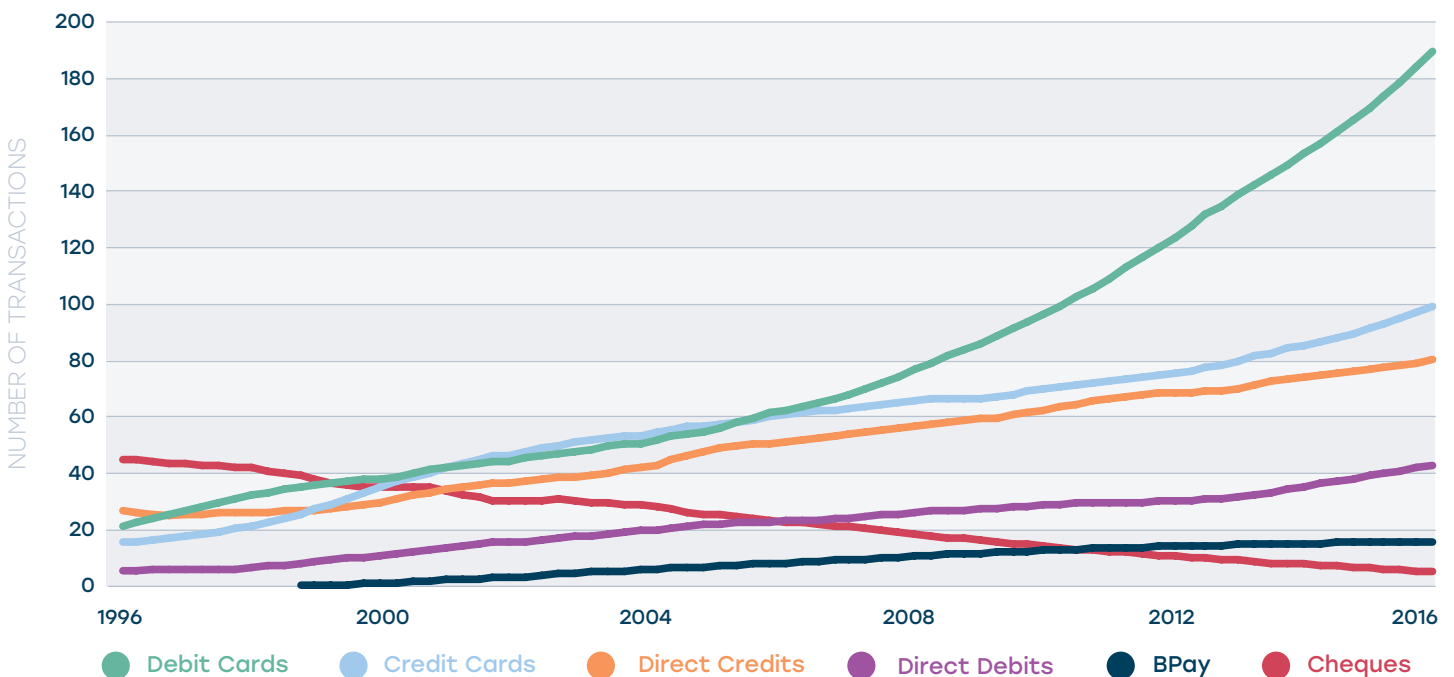
Direct Entry Volume



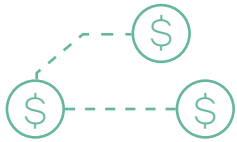
Credit & Debit Card Volume



Non-Cash Payments Per Person (Per Year)



Source ABS, APCA, BPAY, RBA



2.0 The Digital Economy

2.1 Digital Literacy

Digital literacy is on the rise. The vast majority of Australians aged over 65 are participating online. In the three months to June 2015, **79%** of older Australians reported going online.⁴

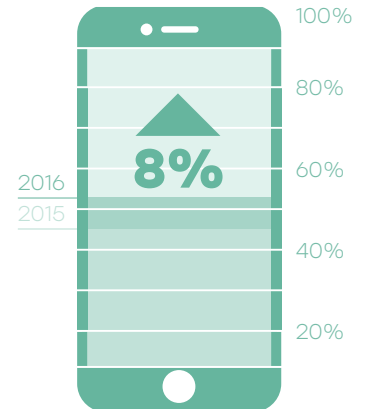
The Australian Government recently announced a funding commitment to improve the digital literacy of senior Australians and improve their safety online.⁵

More than half of older Australian internet users performed banking transactions online (**53%**) and just under a half (**48%**) paid bills online. Of these users, **40%** bought or sold something online.⁶ Tablets and mobile phones are replacing desktops and laptops as the preferred way for older Australians to access the internet, with use of both devices up by **8%**.

Moreover, Australia is ahead of the UK and US in terms of internet use among older citizens. Comparable international data indicates that **58%** of adults aged 65 and over in the US reported using the internet.⁷ In the UK, **70%** of those aged 65 to 74 and over reported having access to the internet at home or elsewhere.⁸



More than half
of internet users over the
age of 65 performed banking
transactions online.



Tablet and mobile
phone use among
older Australians
increased 8%.

Over 65s in Australia are embracing mobile and online banking.

4 Digital Lives of Older Australians, 2015, ACMA

5 Improving the Digital Confidence and Skills of Senior Australians, 2016, The Liberal Party of Australia

6 Digital Lives of Older Australians, 2015, ACMA

7 Americans' Internet Access: 2000-2015, Pew Research Center

8 Adults' media use and attitudes 2015, Ofcom

2.2 Online Retail

The latest NAB online retail report shows online sales are up **13.5%** for the 2016 financial year. While growth continues, the rate is slightly slower compared to the previous financial year (**15.7%**).

With a year-on-year growth of **56.1%**, Takeaway Food had the fastest annual online spend growth. Despite the significant growth it still only represents **5.8% of total online spend**.

Spending by Australians at small online retailers is estimated to be **22.2%** higher than a year ago. Smaller online retailers, with revenue of less than **\$2.5 million**, made up about **37%** of all online retail sales in the past 12 months.⁹

Year-on-year growth of domestic online sales continues to outpace international sales at **16.9%** compared to **0.9%** respectively.

Nearly all online Australians have used the internet to do some form of purchasing activity; and around **25%** purchase items online at least weekly.¹⁰

Takeaway Food had the fastest annual growth.

2.3 Mobile First

Australia is reported to be second in the world when it comes to smartphone use, with **77%** of the population owning a smartphone.¹¹

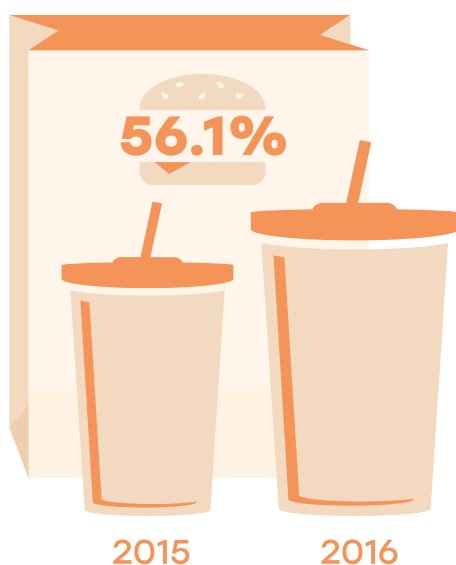
Mobile applications and services are rapidly overtaking the web to become the key digital channel.

In the last financial year, mobile devices became the device of choice for accessing financial services in many developing and developed nations. Globally, more than **50%** of interactions with banks were conducted through mobile devices.¹²

2.4 Internet Activity

The number of Australian households with access to the internet reached **7.7 million** in the 2016 financial year. This represents **86%** of all households across the country and is up from **83%** the previous year.¹³

There were approximately **12.9 million** internet subscribers in Australia at the end of December 2015. This is an increase of **2%** from December 2014.



Online spend is diversifying as it matures.

⁹ NAB Online Retail Sales Index: In depth report June 2016

¹⁰ Information Is Crucial For Online Australian Shoppers, 2016, Nielsen

¹¹ There's a Global Divide in Smartphone Use. But Some Countries Are Closing The Gap Fast, 2016, Lars Karlsson

¹² Millennials, Mobiles & Money: The Forces Reinventing Financial Services, 2016, Telstra

¹³ Household Use of Information Technology Australia, 2014-15, Australian Bureau of Statistics



3.0 Updates on Industry and Stakeholder Initiatives

In 2012, APCA released “The Decline of Cheques: Building a Bridge to the Digital Economy”. This report identified key measures for managing the decline of cheques and made recommendations for initiatives to deliver alternative payments options to cheques. The following initiatives respond to those recommendations.

3.1 New Payments Platform

The New Payments Platform (NPP) is a major industry initiative to develop new national infrastructure for fast, flexible, data rich payments in Australia.

The NPP will be open access infrastructure for Australian payments. All Authorised Deposit-taking Institutions (ADIs) will be able to connect to the NPP, either directly or indirectly through another member, so they can process a wide variety of fast data-rich payments for their account holders. ADIs can choose to join the NPP at any point.

The addressing service, an important part of the NPP, will be owned by NPP Australia Limited, the company formed by the payments industry to build and operate the NPP. Payers won't need to know banking account details to make a payment instead using the payee's mobile phone number or email address. To opt in for this service, payees will need to register details with their financial institution.

The NPP program is in the “build and internal test” phase and on track to become operational in the second half of 2017.

3.2 Australian Payments Council

The Australian Payments Council is the strategic coordination body for the payments industry.

The Council is working on three broad areas that will require collaborative industry action, as our increasingly digital world takes shape. These areas are:

- Managing the Payments Mix to ensure efficiency is maintained
- Security and Trust to ensure continued resilience
- Enabling the Future to ensure adaptability and accessibility as new technologies and new business models emerge.

3.3 SuperStream

SuperStream requires employers to send all super payments and employee information electronically in a standard format. Using it became mandatory on 1 July 2016.

SuperStream must be used by:

- Employers
- Self-managed super funds
- APRA-regulated funds.



3.4 Government

Historically, government bodies have accounted for a significant share of cheque use. This situation has started to change in a number of states.

NSW Government

The NSW Government has announced it will stop making cheque payments.¹⁴ It has also launched its Digital+ 2016 ICT Strategy to promote innovation in government services. The primary goal is to extend how the government uses information and communications technology to transform government service delivery, make it easier to do business with government and build a more productive public sector.¹⁵

One of the first outcomes of this work is an undertaking to provide an efficient and consistent payment process that is convenient, gives customers more choice, ensures data is secure, and boosts customer confidence and satisfaction with government services.

In August 2016, Service NSW became the first government agency in Australia to adopt Google's Android Pay service. This allows customers with Android Pay digital wallets to make payments at all Service NSW centres using their smartphone. The service is currently being rolled out to Service NSW's digital stores, website and app.

Queensland Government

The Queensland Government launched its "Customer payments to government strategy" in April 2016 which seeks to drive customer payments to the government through online channels.¹⁶

This is part of the government's Digital Economy Strategy and Action Plan.¹⁷ The plan recognises that rural and remote Queenslanders and those facing economic and social disadvantage are potentially most at risk in the digital age, and seeks to address this gap. The objectives are:

1. Economic growth powered by digital innovation
2. Digital-first delivery of better government services
3. Full community and business participation in the digital economy through collaboration
4. Create the conditions in which Queensland businesses can innovate and thrive in the digital economy
5. Attract, grow and retain talent into Queensland's digital sector and research institutions
6. Attract investment and global partnerships to grow Queensland's digital economy.

3.5 Property Settlement

Property Exchange Australia (PEXA) is Australia's online property exchange network.

PEXA is reducing the use of cheques in property settlement. It allows lawyers, conveyancers and financial institutions to lodge documents and complete financial settlements electronically.

Since it was formed in 2010, 2,861 members have signed up to the network and **\$21 billion** worth of property value has been successfully transacted electronically. Currently, 178,738 property transactions have been completed by members of the e-Conveyancing network.

¹⁴ NSW to no longer pay with cheques or fax machines, 2016, GovNews

¹⁵ Digital+ 2016: NSW Government ICT Strategy Final Update, NSW Government

¹⁶ Customer Payments To Government Strategy, 2016, Queensland Government Chief Information Office

¹⁷ Queensland Digital Economy Strategy and Action Plan, 2016, Queensland Government



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