



Australian
Payments
Clearing
Association

Annual Review 2013



Collaboration
for a better payments system

The Australian Payments Clearing Association is the self-regulatory body set up by the payments industry to improve the safety, reliability, equity, convenience and efficiency of the Australian payments system.



Every day, the Australian payments system moves more than \$150 billion across the economy for consumers, businesses, government and non-profit organisations.

2/3

Two out of every three non-cash payments made in Australia are transferred across accounts using one of APCA's various systems.

24/7

Australians have access to some 30,000 ATMs, 780,000 POS terminals and online, telephone and mobile banking facilities 24 hours a day, 7 days a week.



Australians are among the heaviest users of electronic payments in the world ranking ahead of the United States, United Kingdom, France and Germany.

CONTENTS

NAVIGATING THIS REPORT

- | | |
|---|-----------------------------------|
| 2_ About APCA | 10_ Improving Australian payments |
| 3_ A snapshot of the payments environment | 20_ Board of directors |
| 4_ Key milestones | 22_ Governance framework |
| 5_ Chairman's report | 23_ Decision-making bodies |
| 6_ CEO's report | 24_ Our Team |
| 7_ The Australian payments environment | 25_ Membership |
| | 26_ Glossary |

-  Go to contents
-  Go to next page
-  Go to previous page
-  Go to page
-  Go to external link

APCA exists to advance the common interest of our members and the interests of the Australian public in improving the Australian payments system.

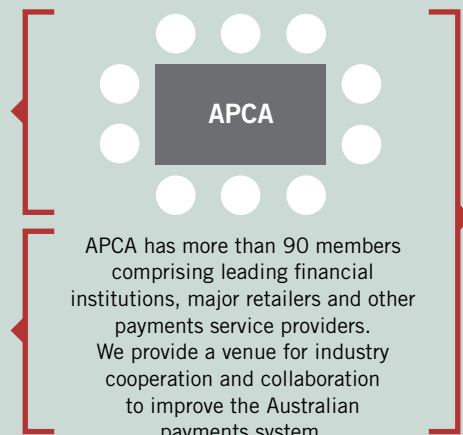
APCA DOES THIS THROUGH:

- enabling competition and innovation;
- promoting efficiency; and
- controlling risk.



OUR ROLES INCLUDE PROVIDING:

- thought leadership and advocacy;
- industry collaboration;
- self-regulation; and
- system-wide standards.



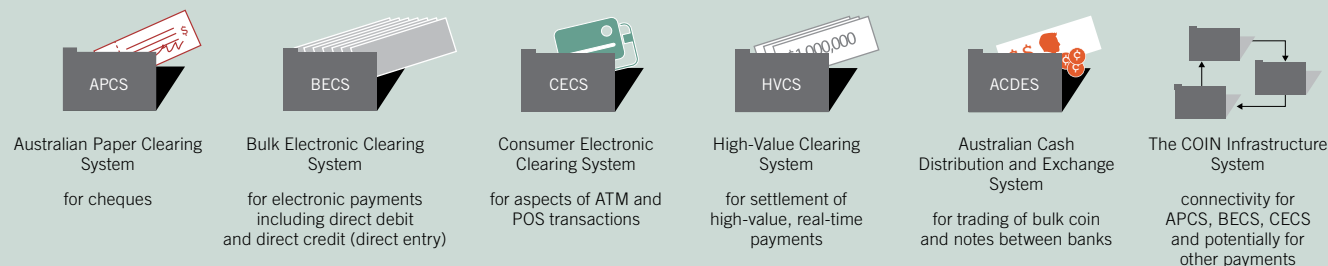
We work with government and public regulators and undertake our activities with transparency, fairness, rigour and integrity.

APCA AND THE AUSTRALIAN PAYMENTS SYSTEM

Australia's payments system is financial plumbing for the economy. It is the infrastructure – payments instruments, organisations, technology, procedures and rules – that ensures the smooth transfer of funds from one account to another.

APCA has a pivotal coordinating role in the payments system. We manage various systems for the efficient exchange and settlement of funds among financial institutions and other payments providers.

APCA SYSTEMS

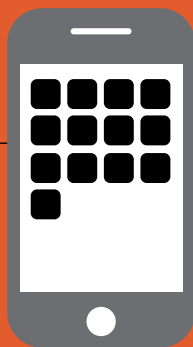


A snapshot of the payments environment

The world is changing and so are payment systems. New user demands, new technology, competition, and regulation are all evolving. These drivers are bringing about more convenient, secure, faster and valuable ways of paying.

MOBILE PHONES

There are over 8 million smartphone and 4 million tablet users in Australia. Of those, over 2 million Australians paid a bill or made a purchase using their smartphone by mid-2012.



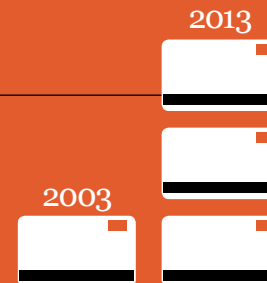
1.5%

GDP



CASH ECONOMY

The “cash economy” in Australia is equivalent to about 1.5% of GDP or about \$20 billion.



DEBIT CARDS

In 2013, there is the equivalent of three debit card transactions per week for every Australian. Ten years ago, this was only one debit card transaction.

45^M



JUN 03

<15^M



JUN 13

CHEQUES

In the month of June 2013, less than 15 million customer cheques were used in Australia. Ten years earlier, in June 2003, the figure was 45 million.



CREDIT CARDS

In December 2012, Australians made \$22 billion worth of purchases on their credit cards. The first time Australians spent more than a billion dollars in a month was December 1987, when \$1.1 billion worth of purchases were made on credit cards.

DIRECT DEBITS AND CREDITS

Direct entry is the workhorse of the Australian payments system. Average daily values of direct debits and credits (\$40 billion per business day) are twenty times greater than those of debit and credit cards (\$1.7 billion per day).

20^X

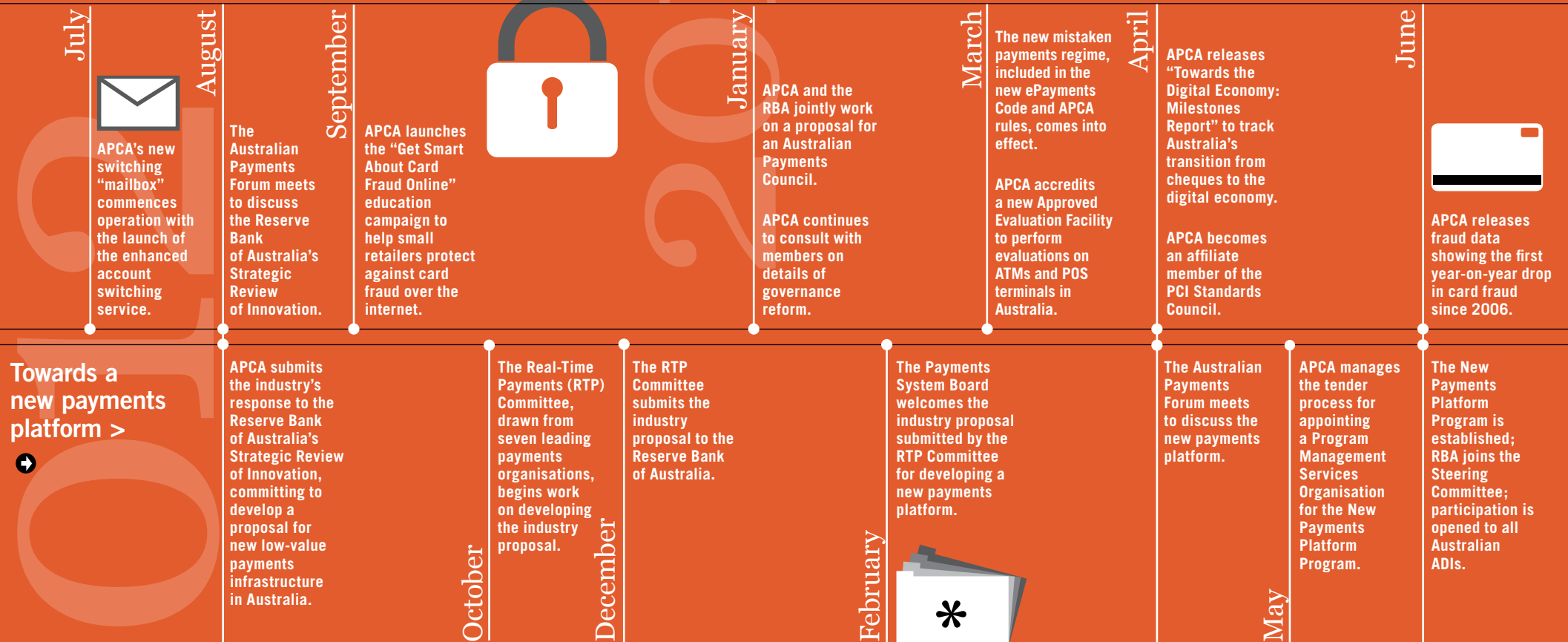


ONLINE SHOPPING

In the 12 months to June 2013, Australian online retail spending totalled \$13.9 billion – equivalent to 6.2% of “bricks and mortar” retailing (excluding restaurants, cafes and dining). Online sales growth was 14% for the year to June 2013.

Key milestones

The market-driven evolution of payments is creating an environment that is increasingly complex and challenging. Our world has become “real-time”. For APCA, this has meant a whole new stream of real-time payments work alongside our other activities.



Structural reform

A year ago, I observed that the stars may be aligning for the structural reform of payments. It is a pleasure, if a little surprising, that such a prediction comes true – particularly as promptly as this one has.

The Reserve Bank's Conclusions to its Strategic Review of Payments Innovation, released in 2012, presented APCA with a big opportunity. That is to broker industry consensus on the development of an entirely new payments platform for the economy – something that only happens every 20 years or so. The result has been an industry-wide program to design a new payments platform, as described elsewhere in these pages. This program has led to the commitment of sharp minds and significant resources from the leading payments organisations of Australia, including the Reserve Bank itself. Such a commitment is testament to our ability to collaborate for the overall enhancement of the Australian payments system – thus validating APCA's mission.

Industry Governance

There has been good progress on holistic reform of the industry's collaborative framework for setting overall payments system direction – although my optimism on timing in last year's report was not quite so well-placed.

APCA and the Reserve Bank have developed a proposal for a new, high-level Payments Council to consult with the Bank's Payments System Board on strategic direction of the payments system. We will continue to consult on the proposal over coming months.

In parallel, the board has resolved to put major reforms to APCA's constitution to members at this year's Annual General Meeting. As described in last year's report, these reforms are designed to recognise the diversity of interests in payments arising from structural and technological change. They will also provide a more inclusive, more truly representative association. I commend the reforms to members. They have been developed carefully and thoroughly.

Our community

I express my thanks and appreciation to member executives who have found time in already crowded diaries to work on major and time-consuming industry projects – this year more than ever. If the payments system is the plumbing of the economy, we rely on these expert "plumbers" not only to ensure that today's economy is supported seamlessly and efficiently, but also to ensure that the economy of the future is equally well served.

My board colleagues figure significantly in this community. Typically they provide a vital junction between their own organisations and APCA, as well as contributing to the definition and realisation of our mission. I thank them for their contributions.

During the year, David Heine left the board and was replaced by Adrian Lovney; in August 2013, John Murphy was replaced by Steve Baric. The Reserve Bank appointed Lindsay Boulton to the board in June 2013. I express the thanks of the board to David and John for their contributions; and a warm welcome to Adrian, Steve and Lindsay.

Our staff, too, have laboured mightily this year, and can reflect with satisfaction on significant collaborative achievements. As always, the board is in debt to them. I express my deeply felt appreciation of the vision and leadership of our CEO, Chris Hamilton, in a demanding year.

I retire as chairman at the end of December 2013. It has been a challenging six years. I wish the APCA board and management well for the future. I have no doubt that APCA's mission will continue to evolve and develop, fruitfully; and that the Australian economy will be the better for it.



RUSSELL RECHNER
CHAIRMAN



The Australian payments community is living through challenging times



From an era of stable, utility payments networks supporting competitive markets for payment services, we are increasingly faced with changing end user demands and expectations, rapid technological change, greatly increased regulatory and public policy interest, structural change to networks and new kinds of competition. Our overview of the changing payments environment in the following pages adds some statistical flavor to these general observations.

With this changing environment as background, the board's strategy work has elaborated on our core purpose – advancing members' interests and the public interest in improving our payments system – into four strategic objectives that define APCA's "key result areas". We have taken these objectives as thematic signposts to report on our activities this year. In the pages that follow, you will find information on:

- Enhancing payments infrastructure;
- Supporting a competitive payments marketplace;
- Improving public awareness of and trust in the system; and
- Promoting self-regulation and self-governance.

This Review demonstrates, I hope, that in each of these areas collaborative effort by APCA's members is yielding enduring benefit for members' own payment businesses, for our community and for our economy.

I think the Review also shows how much more there is that we can do together, even as the competitive landscape becomes more demanding for competing payment organisations. As always, a balance must be struck between aggressive competition in services and products that gives customers what they want at the best price, and collaborative work that enhances the underlying platform for competition.

For me as CEO, continuously finding that balance defines APCA's success.

CHRIS HAMILTON
CEO

Russell Rechner has announced that he will step down in December 2013 after six successful years in the chair at APCA. As Russell noted in his report, David Heine, our deputy chairman, resigned from the board during the year. I express my sincere thanks to both of them for their support and direction.

The Australian payments environment

The payments system serves every aspect of the economy. Changes in economic activity drive structural changes in the payments system. Identifying economic trends and drivers is always the first step in strategic decision-making for the payments system.

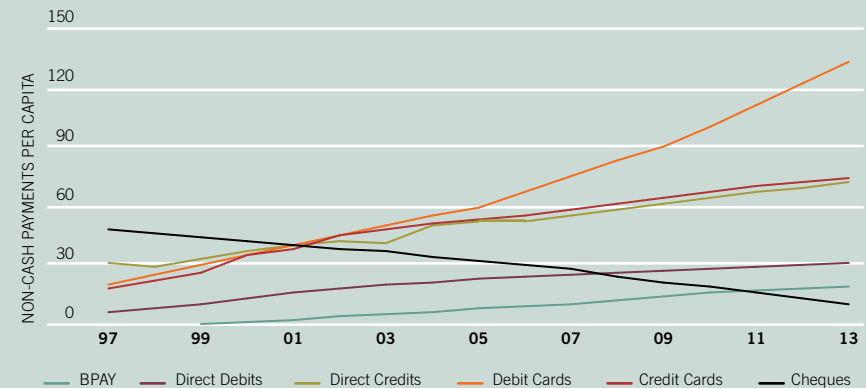
The world economy struggled throughout the 2012–13 financial year. Following the economic crisis in Greece, the Euro area spent most of the year in recession, with a glimmer of growth emerging in mid-2013. The United States economy clawed its way out of recession with annual GDP growth for the year reaching 1.4%, with similar modest growth rates seen in the United Kingdom. China had single digit growth rates closer to 7% rather than the heady days of 14%, while Indian growth drifted below 5% in 2013.

Australia's economic growth continued to be strong when compared to other developed economies; however, it has slowed compared to previous levels. GDP growth for the 12 months to March 2013 was 2.5%, well behind the impressive 3.7% GDP growth seen in the 2011–12 financial year.

Consumer payment trends

Despite an uncertain economic environment, Australians continued to embrace electronic and card-based payments and to increasingly abandon the use of cheques. Cheque volumes continued to decline as they have done over the past 15 years. Industry-specific initiatives, such as SuperStream and eConveyancing, will help drive cheques out of industries such as superannuation and real estate where they remain in use.

OVERVIEW OF CONSUMER PAYMENTS
Source: APCA, RBA



Direct credit and direct debit usage declined slightly. Though direct credit values have increased steadily over the past 10 years, a modest decline was similarly observed between 2008 and 2009. This suggests that the reduced direct credit values may be a reflection of depressed economic conditions.

ATM usage was similarly muted, likely as a result of economic conditions as well as a reflection on system maturity and, potentially signalling a longer-term move away from cash.

Cards remain popular amongst Australians. Credit card values and volumes have doubled in the past 10 years. Debit cards

have shown even more spectacular growth, with volumes and values tripling over the same period. The annual holiday shopping frenzy saw December 2012 shatter previous records with monthly credit and card charge purchases at 171 million, worth \$22.5 billion.

According to BPAY, one of Australia's successful online payment offerings, 75% of Australian adults use BPAY, with 870,000 BPAY payments being made every day. This year, BPAY introduced new offerings such as QR Codes.

QUICK FACTS

- In December 2012, the Government, financial institutions and independent ATM providers moved to address special banking needs of remote indigenous communities by committing to fee-free ATMs in these communities.
- Changes to RBA's standards effective March 2013 allow card schemes to limit surcharging in cases where merchants are clearly charging consumers more than it actually costs to process a card transaction.
- The RBA continued its discussions with the card schemes on the regulatory treatment of "multi-function" or "combo" cards. A voluntary resolution was announced in August 2013, providing for the continued issuing of combo cards and choice for merchants over routing.

Cheques

Cheque volumes in Australia continued their long-term decline in 2013, with less than a million cheques now being used each business day. Over the past decade, cheque volumes have declined by nearly two-thirds.

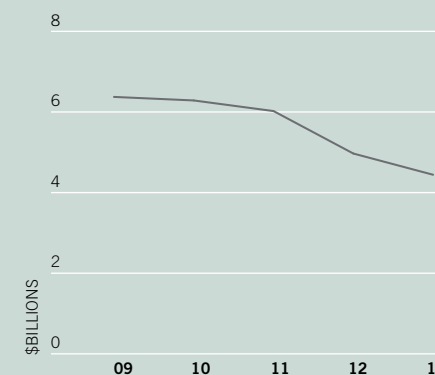
The dramatic decline in cheque values first seen in 2011–12 has continued, strongly suggesting the beginning of long-term decline in cheque values. The daily value of cheques declined from \$4.7 billion in May 2012 to \$4.1 billion in May 2013. APCA will continue to monitor the decline of cheques through the publishing of a regular Milestones Report and undertaking related policy and research activities.

AVERAGE NUMBER OF CHEQUES PER BUSINESS DAY IN MAY
Source: APCA – www.apca.com.au



No. of cheques
↓20%

AVERAGE VALUE OF CHEQUES PER BUSINESS DAY IN MAY
Source: APCA – www.apca.com.au



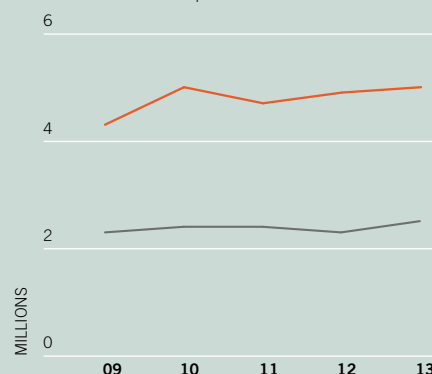
Value of cheques
↓12.8%

Direct debits and direct credits

Direct credit volumes rose slightly, from 4.9 million items per day in May 2012 to 5.0 million in May 2013. Direct credit values, however, declined slightly from \$25.3 billion per day in May 2012 to \$23.9 billion per day in May 2013.

Direct debits volumes increased from 2.2 million items per day in May 2012 to 2.4 million in May 2013. Direct debit values, like direct credit values, declined during the same period from \$20.7 billion per day in May 2012 to \$19.8 billion per day in May 2013. This decline in value is likely linked to slightly depressed economic conditions in May 2013 when compared to the same period in 2012.

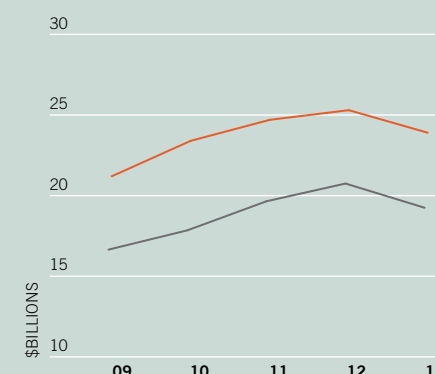
AVERAGE NUMBER OF DIRECT ENTRY TRANSACTIONS PER BUSINESS DAY IN MAY
Source: APCA – www.apca.com.au



Direct credit
↑2%

Direct debit
↑9.1%

AVERAGE VALUE OF DIRECT ENTRY TRANSACTIONS PER BUSINESS DAY IN MAY
Source: APCA – www.apca.com.au



Direct credits
↓5.5%

Direct debits
↓7.2%

EMERGING CONSUMER PAYMENTS

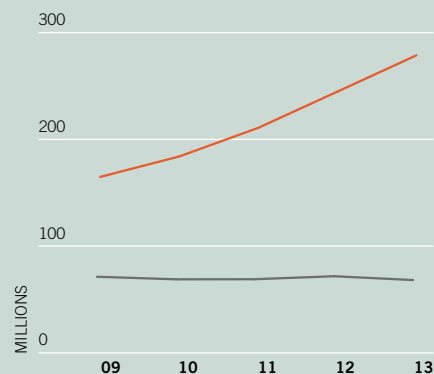
- Australia has the highest open-loop contactless transactions per capita of any country. There are now over 120,000 contactless terminals and over 10 million contactless cards on issue.
- Closed-loop contactless card systems are gaining traction. All mainland Australian state capitals now have smartcard transit ticketing systems.
- In January 2013, 20% of Australian smartphone users used their smartphones for online banking, a rise of 17% from January 2012.
- Visa has announced it would launch its digital wallet, V.Me in Australia, by the end of December 2013.

Debit cards

The number of point-of-sale and other non-ATM debit transactions using eftpos and scheme debit cards leapt from 245.5 million in May 2012 to 279.6 million in May 2013, an increase of nearly 14%. This is now equivalent to 12 debit card transactions per month for every Australian. Monthly values jumped by 10.6% from \$15.1 billion in May 2012 to \$16.7 billion in May 2013.

ATM withdrawals, in terms of both the number of withdrawals and the value withdrawn, declined moderately between May 2012 and May 2013. Overall ATM withdrawal volumes and values in Australia have remained stagnant since 2007. This is consistent with a relative decline in cash usage as consumer payment activity becomes increasingly online and mobile and as non-cash methods increase in significance.

TOTAL NUMBER OF DEBIT (SCHEME AND EFTPOS) CARD TRANSACTIONS IN MAY
Source: Reserve Bank of Australia – www.rba.gov.au



POS terminal transactions
↑13.9%

ATM withdrawals
↓5%

TOTAL VALUE OF DEBIT (SCHEME AND EFTPOS) CARD TRANSACTIONS IN MAY
Source: Reserve Bank of Australia – www.rba.gov.au



POS terminal transactions
↑10.6%

ATM withdrawals
↓3.1%

Credit and charge cards

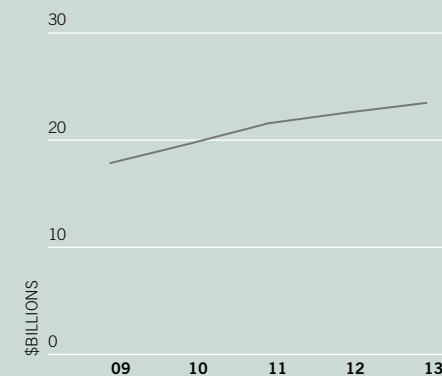
Credit and charge cards have also seen significant growth over the longer term with volumes and values doubling over the past decade. The number of credit card transactions rose by 6.9% between May 2012 and May 2013, while growth in values was up 4.0% over the same period.

TOTAL NUMBER OF CREDIT/CHARGE CARD TRANSACTIONS IN MAY
Source: Reserve Bank of Australia – www.rba.gov.au



Purchases and cash advances
↑6.9%

TOTAL VALUE OF CREDIT/CHARGE CARD TRANSACTIONS IN MAY
Source: Reserve Bank of Australia – www.rba.gov.au

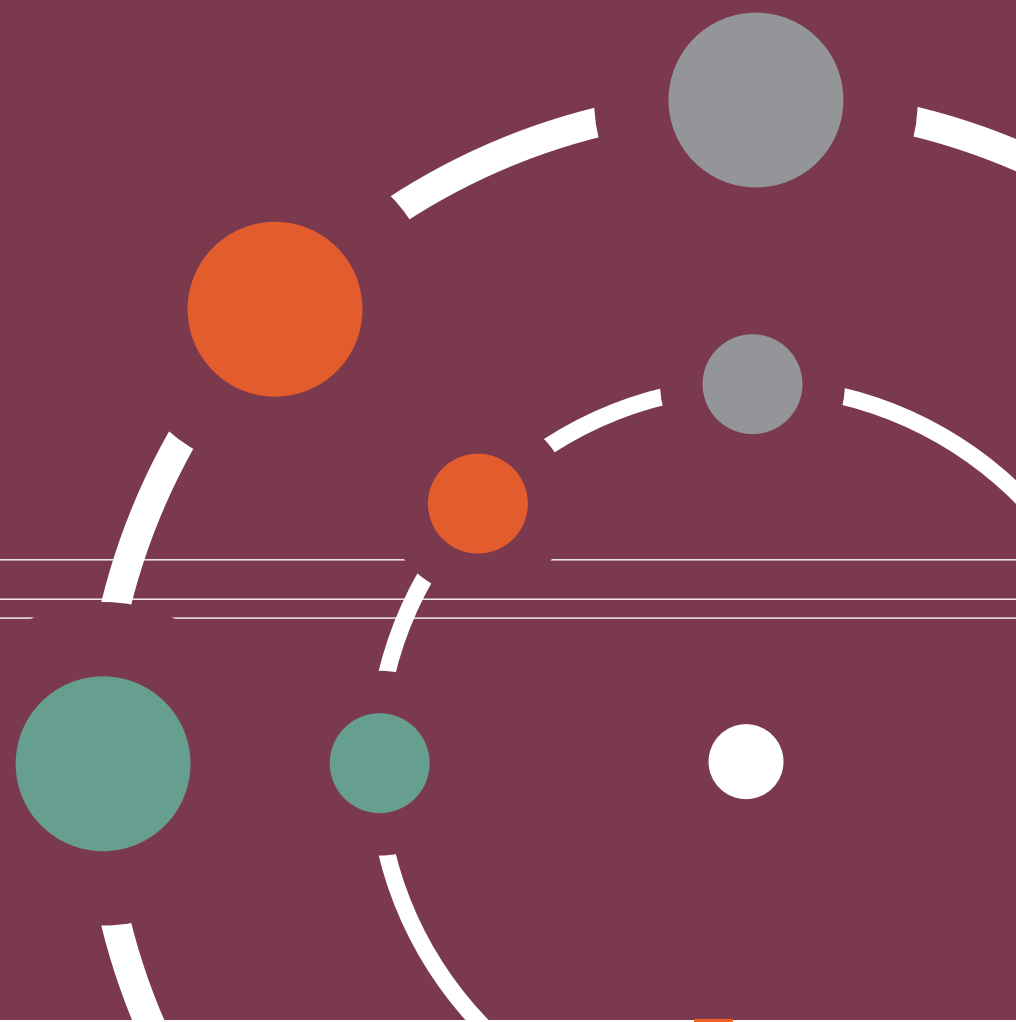


Purchases and cash advances
↑4%

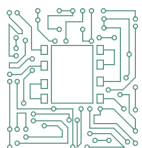
Improving Australian Payments

In the following pages, we catalogue APCA and industry activity to support and enhance the Australian payments system in 2012–2013. We present this work in four outcome categories:

- Improving payments infrastructure
- Supporting the payments marketplace
- Improving awareness of and trust in the payments system
- Promoting self-regulation



APCA is the place where the payments industry comes together to work on improving the system we share. Like all network industries, payments requires “coopetition” – asking payments participants to collaborate on systemic improvements of common (and public) interest, while still expecting them to compete in payment services to customers. When, as now, major systemic change is on the agenda, this can be a difficult balance, and the right level of regulatory encouragement is vital.



Improving payments infrastructure

One of APCA's main initiatives throughout the year has been supporting the industry response to the Reserve Bank of Australia's (RBA) Strategic Review of Innovation in the Payments System. This response has evolved to become the New Payments Platform (NPP) Program that began in June 2013.

The RBA released its Conclusions Paper in June 2012 which outlined a list of initial strategic objectives. The RBA also articulated the need for close collaborative work with industry to enhance the basic platform and network to support these new services. As part of this, there would be more direct dialogue between industry and the Payments System Board (see “Promoting self-regulation”). ➔

APCA coordinated a broad industry response to the RBA's Conclusions Paper harnessing previous work and debate within the industry including in the 2008 Low Value Payments Roadmap. The response was lodged in August 2012.

As foreshadowed in the submission, the Real-Time Payments Committee (RTPC) was formed in September 2012 to develop a preferred industry approach for addressing the initial strategic objectives. The RTPC comprised seven senior representatives from the Australian banking and mutual sector, the APCA CEO and an independent chair.

In November 2012, the Payments System Board released “Core Criteria” to provide more detail on how proposed solutions would be assessed. The final industry proposal was lodged with the Reserve Bank on 8 February 2013 and was welcomed by the Payments System Board at its meeting the following week.

RESERVE BANK OF AUSTRALIA'S INITIAL STRATEGIC OBJECTIVES FOR AUSTRALIAN PAYMENTS

- Same-day settlement of all Direct Entry payments (by end 2013)
- Real-time retail payments (by end 2016)
- Low-value payments outside normal banking hours (by end 2016)
- Send more complete remittance information with payments (by end of 2016)
- Address payments in simple manner (by end 2017)

The New Payments Platform

The proposal outlined new business architecture for the future of Australian payments. Now known as the New Payments Platform (NPP), the system will enable fast, data-enriched and simply addressed payments services for consumers and businesses. This meets the Payments System Board's initial strategic objectives.

The NPP will comprise basic infrastructure, which all financial institutions, and through them businesses and consumers, connect to. This will allow payments to be made quickly between financial institutions and their customers' accounts. The system will enable funds to be accessible almost as soon as payment is received – even when the payer and payee have accounts at different financial institutions.

As well as being fast, the NPP will be versatile. The basic infrastructure will support various “overlay” services – specially tailored services which individual financial institutions may choose to offer their customers.

This multi-layered infrastructure has been designed to promote competition and drive innovation in payment services. It ensures the NPP will be equipped to meet the market-driven evolution of Australians payments.

IMPROVING AUSTRALIAN PAYMENTS

The NPP Program

APCA is administering the collaborative industry program to develop the NPP. The NPP Program commenced with the first meeting of the NPP Steering Committee on 20 June 2013. The Steering Committee now comprises senior representatives from the Australian banking and mutual sector, an alternative payments provider and APCA. An independent chair was appointed in September 2013.

The initial six-month phase of the Program aims to develop business requirements for the proposed platform, together with a detailed plan and budget for the next phases of development. The Steering Committee has

appointed KPMG as program manager to ensure a well-resourced, highly collaborative industry program.

In order to make the Program as open and comprehensive as possible, other account-keeping institutions have been invited to participate in the Program. By the end of August 2013, an additional nine organisations had joined the initial eight participants in the Program.

Settlement arrangements

In December 2012, APCA adopted an industry policy on the evolution of settlement for low value payments in Australia. Originally identified in APCA's Low Value Payments Roadmap, the APCA endorsed policy envisages five same-day settlements in the direct entry system by the end of December 2013. This reform accords with the objectives articulated by the Payments System Board in the Innovation Review Conclusions from June 2012.

Five same-day settlements will enhance a critical element of the Australian payments system. Currently, the direct entry system settles once a day, at 9.00am the next business day. Once implemented, settlement will follow the first five official exchanges. Moving value during the day will mitigate counterparty and operational risks as well as create a platform for innovation.

Securing the card payments infrastructure

Standards are a critical part of payment systems providing for industry-wide interoperability and security. Automated payments literally run on standards.

PCI-Plus evaluation

In August 2012, we introduced an optional PCI-Plus evaluation for vendors who have already achieved PCI device approval. PCI-Plus allows them to test against a subset of the APCA requirements to obtain approval under the APCA rules. This

evaluation pathway has been well used by global vendors with more than 20 new devices approved during the year. Financial institutions now have access to an expanded range of secure, leading-technology devices.

KIF assessment

Key injection facilities (KIFs) load cryptographic keys into POS terminals and are critical to the security of these devices. To ensure strong security, KIFs must certify compliance with CECS rules and PCI rules. Last year, we began offering a new KIF assessment service for members covering compliance with both sets of requirements. This streamlined certification process is proving efficient, saving time and effort for CECS members and for the KIFs themselves.

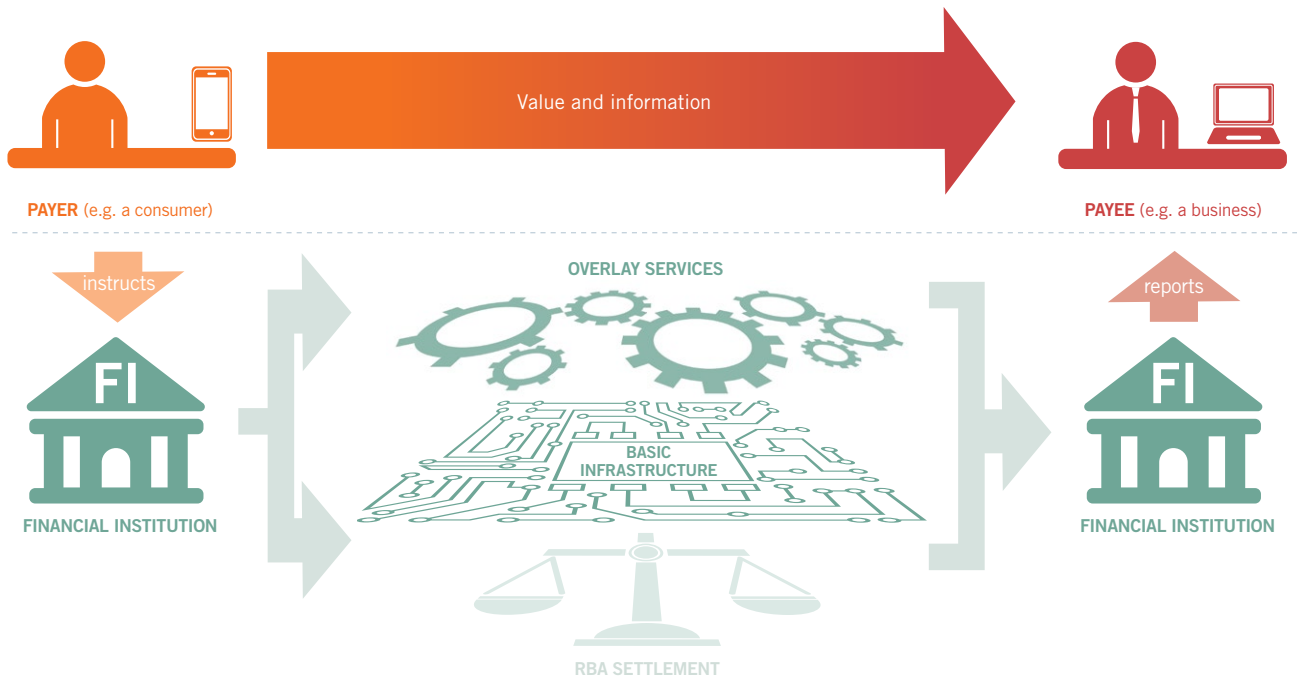
New AEF

In March 2013, for the first time since 2009, we accredited a new Approved Evaluation Facility (AEF): EWA-Canada. AEFs are test laboratories that have been accredited by APCA to perform evaluations of ATMs, POS terminals and other cryptographic devices in Australia. There are now six such AEFs: one in Australia, three in Europe and two in North America.

PCI SSC membership

On 1 April 2013, APCA became one of three affiliate members of the Payments Card Industry Security Standards Council (PCI SSC). This new class of membership is open to regional and national organisations that define standards and influence adoption by their constituents who process, store or transmit cardholder data. Through this membership, APCA, along with Cartes Bancaires of France and Canada's Interac Association, is participating in the working group that designs and administers standards such as the PCI PIN Transaction Security standards for PIN entry devices.

New payments platform – a new business architecture for Australian payments



As well as working to improve the payments system infrastructure, APCA aims to promote effective competition and continuous enhancement in payment services that rely on the system. These three goals – better infrastructure, effective competition and enhanced services – are mutually reinforcing, and much of our work supports all three.



Supporting the payments marketplace

Account switching made easier

The enhanced account switching service announced in August 2011 by the then-Treasurer, the Hon. Wayne Swan, began operation on 1 July 2012. As outlined in our Review last year, APCA proposed key elements of this service to the Fraser Review and worked closely with financial institutions and Commonwealth Government on implementation.

From 1 July 2012, it became easier for account holders to switch from one financial institution to another. Under the enhanced service, account holders who want to switch can do so through their new financial institution. This addresses the hesitancy of those account holders who may not wish to deal with their old institution. It also aligns incentives by placing the onus for switching on the new financial institution who is gaining a customer.

According to statistics released by the Commonwealth Treasury, 15,500 people had used the enhanced switching service in its first eleven months. We continue to consult with members and stakeholders on the service, including exploring further improvements.

The account switching service is supported through an electronic “mailbox service”, which is operated by APCA. The mailbox enables financial institutions to exchange documents related to account switching with each other. Currently, there are more than 130 financial institutions connected to the APCA mailbox.



**FROM 1 JULY 2012, IT BECAME
EASIER FOR ACCOUNT HOLDERS
TO SWITCH FROM ONE FINANCIAL
INSTITUTION TO ANOTHER.**

Industry Support

APCA assisted the superannuation industry with the implementation of the Government's SuperStream initiative, which introduced electronic transmissions of superannuation rollovers on 1 July 2013, through participation on a number of industry working groups. APCA also represents payment system service providers on the recently formed ASX Forum for the Code of Practice for Clearing and Settlement of Cash Equities in Australia.

ePayments Code

APCA has worked closely with the Australian Securities and Investments Commission (ASIC) on revisions to the EFT Code of Conduct, now known as the ePayments Code, to simplify the process for recovering mistaken internet payments. These can occur when customers make an error in entering the BSB or account number when using internet-based facilities such as "pay anyone".

The new Code, which came into effect on 20 March 2013, includes requirements to ensure financial institutions give their customers clear information about how to avoid mistaken payments and how to report them in the event they do occur. It also details how a financial institution should go about recovering funds and within what timeframes once it is satisfied that a customer has made a mistaken payment. These requirements have also been implemented in the BECS procedures.

Financial Claims Scheme

The Government's Financial Claims Scheme (FCS) gives qualifying account holders certainty that their deposits, up to a capped value, will be recovered in the event their financial institution becomes insolvent.

The Australian Prudential Regulation Authority (APRA) issued a Discussion Paper in November 2012 setting out further proposals for implementation of the FCS. In its submission, APCA advocated that arrangements for FCS payouts should be based on existing payment channels and should not require financial institutions to establish new facilities for this purpose. This was supported in the response paper released by APRA in June 2013 with electronic payments remaining the preferred payout option and RBA cheque the residual.

We also worked closely with financial institutions to provide a set of guidelines to assist authorised deposit-taking institutions to meet the requirements in the event that the FCS is triggered.

SHAPING INDUSTRY STANDARDS

APCA plays an important role representing the industry on domestic and global standards bodies.

- ISO 20022 Payments Standards Evaluation Group
- ISO 20022 Registration Management Group
- ISO / TC68 / SC2 / Working Group 11
- ISO / TC68 / SC2 / Working Group 13
- ISO / TC68 / SC7 / Working Group 10
- Standards Australia Committee IT/5
- Standards Australia Committee IT/5/3
- Standards Australia Working Group IT/5/4
- Standards Australia Working Group IT/5/8
- SWIFT Australia National Member Group
- SWIFT Australian User Group
- Payments Card Industry Security Standards Council (PCI SSC) (Affiliate member)
- PCI SSC PIN Transaction Security Working Group



Part of APCA's service to the community is helping to ensure that people know what they need to know about the payments system, and why it is important for the economy. An important element of that relates to security and fraud resistance.



Improving awareness of and trust in the payments system

Countering payments fraud

APCA facilitates cooperation between financial institutions on industry-wide efforts to counter payments fraud. We also liaise with the Australian Crime Commission, the Australian Federal Police and the Commonwealth Attorney-General's Department on payments fraud matters.

APCA has been publishing cheque and card fraud data twice a year since November 2006 to help raise awareness among the broader community of fraud risks. Figures published in June 2013 for the 2012 calendar year showed a year-on-year drop in payments fraud for the first time since publication began. This reflects the sustained effort and cooperation of card schemes, financial institutions, merchants and law enforcement agencies. Australia's migration to chip card technology and the extensive use of PINs has reduced the risk of card skimming. This has allowed the industry to devote more preventative effort to online fraud, which continues to be a challenge as the internet becomes an ever-larger part of daily life.

Vigilance in combating payments fraud remains a key priority for industry. An important development this year has been Visa and MasterCard announcing an alignment of dates for moving to full PIN at point-of-sale on their Australian-issued cards by 30 June 2014.

Get Smart campaign

In September 2012, APCA launched the *Get Smart About Card Fraud Online* training to help small merchants protect themselves and their customers when doing business online. The training provides video case studies showing real-life examples of how credit card fraud can occur and the resulting impact on a business. It also sets out simple steps on how merchants can detect and protect against online card fraud.

Get Smart About Card Fraud Online is publicly available at www.apca.com.au/getsmart. We continue to work with financial institutions, retail associations and forums, and government departments to promote this industry initiative among small retailers and businesses.

Managing the decline of cheques

Consistent with international trends, cheque use in Australia continues to rapidly decline. A key objective for the industry is to ensure a smooth transition to electronic payments as cheques become scarcer and inevitably more difficult to use, particularly for those who still rely on cheques.

On 30 April 2013, we published the first in a series of planned reports entitled "Towards the Digital Economy: Milestones Report". These reports will review progress against the action plan released by APCA in May 2012 as part of the outcomes of the public consultation on cheques.

The Milestones Report highlighted initiatives and actions being undertaken by financial institutions, government and other stakeholders to provide alternatives to cheques and improve access to the digital economy. These included roll-out of the National Broadband Network, a new nationwide electronic property settlement system through National E-Conveyancing and the payments industry's proposal to develop a new payments platform. The next milestones report is scheduled for release by the end of December 2013.

The payments environment is changing fast. Competition, changing technology, changing user demands and government regulation all present challenges. APCA's strategic conviction is that self-regulation and self-governance have critical roles to play, now and into the future. Public regulation can set high-level strategic objectives and requirements for the system, but to realise them into the network efficiently, participants need to work together and support self-regulation.



Promoting self-regulation

Governance reforms

Australian Payments Council

APCA has been working with the RBA to establish the Australian Payments Council. This new body will enable high-level engagement between industry and the Payments System Board, a decision announced by the PSB in the Innovation Review Conclusions from June 2012. The Council will engage with the PSB on strategic objectives and provide the framework for industry engagement to support outcomes developed as a result of those objectives. A formal joint RBA/APCA public consultation process is expected to commence in October 2013 with a view to having the Council in place by early 2014.

APCA corporate governance

We are in the final stages of a governance reform package that aims to align the way in which APCA is managed with its increasing focus on industry policy and strategic issues. The Constitutional amendments will be brought to the Annual General Meeting in October 2013.

As part of the board's proposed changes, APCA's traditional clearing system participant membership will be opened up to all participants in the Australian payments system, including operators of non-APCA payment systems. This would enable them to influence the development of industry strategy and policy.

The way in which directors would be selected and the votes they would each hold would more accurately reflect levels of participation across the various payment systems. Moreover, independent directors with voting rights would be appointed to ensure public interest and broader community benefits are more effectively considered in Board decision-making.



**SELF-REGULATION AND
SELF-GOVERNANCE HAVE
CRITICAL ROLES TO
PLAY, NOW AND INTO
THE FUTURE**

This would bring APCA into line with best practice corporate governance.

The proposed changes are expected to better position APCA to support whole-of-industry initiatives while increasing regulator confidence and enabling industry self-determination.

Supporting the card system

Australia's debit cards and credit cards are governed by the rules of the domestic and international card schemes (eftpos, MasterCard, Visa, AMEX and Diners) as well as APCA's CECS rules. To support the rapid evolution of the cards system, APCA is exploring how best to manage those areas of card payments that are non-contestable or cover all the card schemes. These include ATMs, card and PIN security (e.g. PIN pads and key injection facilities), fraud and terminal statistics and settlement. The objective is to establish effective self-regulation within the cards payments industry.

Submissions

APCA frequently makes submissions to government departments and regulators, seeking self-regulatory and market-based outcomes that are in the interests of members and the public. This year, submissions were made to the RBA and the Commonwealth Consumer Affairs Advisory Council (CCAAC), to ASIC and to the United Kingdom Treasury.

Regulating the excessive surcharging of card transactions by merchants

The CCAAC was examining the regulation of excessive surcharging by merchants through enabling the card schemes to limit surcharges to the reasonable cost of acceptance. APCA accepted that excessive surcharging by merchants warranted examination and that self-regulatory solutions were preferred over government regulation. However, the need to work through the card schemes for a self-regulatory solution identified the limitations of the current regulatory regime.

Australia's National Financial Literacy Strategy

ASIC was undertaking its review of Australia's National Financial Literacy Strategy. APCA's response highlighted the desirability of financial literacy to promote inclusion in the digital economy and the benefits of considering payments (as an everyday interaction with the financial system) within financial literacy.

"Opening Up UK Payments"

The UK Treasury issued a Discussion Paper proposing that "utility-style" regulation be introduced, effectively sidelining self-regulation in UK payments. APCA pointed to the Australian experience, noting the benefits of robust self-regulation and the need for a clear relationship between the industry self-regulator and the public regulator.

Local and international industry forums

Australian Payments Forum

APCA supports the Australian Payments Forum (APF). First established in 2008, the APF brings together key payment stakeholders including financial institutions, merchants, schemes and industry and consumer bodies. The APF fosters industry discussion and the identification of areas for industry collaboration. Professor Ian Harper has been the Convenor of the APF since its inception.

The APF met in August 2012 to discuss the RBA Innovation Review Conclusions and in April 2013 to discuss the industry's Real-Time Payments Proposal.

APCA Stakeholder Forum

APCA has many other stakeholders including system users, service providers and technology providers. Many of these stakeholders participate in the APCA Stakeholder Forum (ASF), which meets at least annually.

In mid-2013, Paul Lahiff was appointed as independent chair of the ASF, following the resignation of inaugural chair Ms Anne Hurley. Mr Lahiff chaired his first ASF meeting on 29 July 2013 when participants met to discuss the New Payments Platform Program.

ICPACE

APCA is a founding member of the International Council of Payment Association Chief Executives (ICPACE). This peak body, which includes payment associations from Canada, Ireland, New Zealand, South Africa, United Kingdom and the United States, provides a valuable forum for information sharing. The annual meeting of ICPACE organisations for 2013 was held in July in South Africa. Topics discussed included regulatory challenges post-GFC fall-out, platform enhancements underway and the need for strategic industry planning.

International Liaison

APCA frequently hosts international visitors who are interested in Australian payments. This year, we hosted a group of senior officials from Payments and Clearing Association of China, Peoples Bank of China and China Union Pay.

APCA responded to queries about Australian payments and hosted government and industry visitors from India, Indonesia, Malaysia and South Korea, as well as NGOs with an interest in financial inclusion such as the Bill and Melinda Gates Foundation.

Stakeholder engagement

For APCA, engaging with non-member stakeholders is important. We seek stakeholder views, inform and brief them on payments issues and seek public policy outcomes that are in the best interest of our members and the public interest. A diagram of APCA's activities is provided on the next page.





Engagement for
improving the payments system

- **Community**
Consumers and businesses
- **Payments stakeholders**
Vendors, suppliers, consumer representative bodies, merchants, government departments
- **Payments system**
RBA, financial institutions, card schemes, industry associations, major retailers & service providers
- **Regulators**
RBA, ASIC, ACCC, APRA, Treasury



Corporate Governance

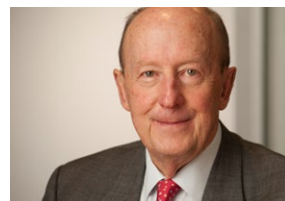
In this section, we provide the “information of record” for APCA in 2012–2013.

- Board of Directors
- Governance framework
- Decision-making bodies
- Our Team
- Membership

Board of Directors

There were a number of changes to the board during the year and up to September 2013. David Heine resigned from the board in February 2013 and was replaced by Adrian Lovney. The RBA appointed Lindsay Boulton to the board in June 2013. John Murphy resigned from the board in August 2013 and was replaced by Steve Baric.

The names and details of directors in office as at September 2013 follow.



RUSSELL J RECHNER
B EC (HONS), FCPA, FCIS
(Non-executive director)
Chairman

Mr Rechner has over 17 years bank experience with the Australia and New Zealand Banking Group Limited and National Mutual Royal Bank Limited. He retired as Director of Major Projects, ANZ in 2002 and was previously Senior General Manager, ANZ. Mr Rechner held senior management positions at Myer and Coles Myer prior to moving into the banking industry. He served as Chair of the Trustee of the ANZ Australian Staff Super Scheme for 12 years ending March 2013 and served as a member of the Code Compliance Monitoring Committee immediately prior to appointment as APCA Chairman. Mr Rechner was appointed a director and Chairman of the Company in January 2008.

Chairman of the Remuneration Committee.



STUART A WOODWARD
BA (HONS), F FIN, GAICD
(Non-executive director)
Deputy Chairman

General Manager, Representation, Credit Cards, Payments and Retail Strategy, Retail Banking, Commonwealth Bank of Australia

Mr Woodward has over 35 years experience within the Commonwealth Bank Group, including retail and corporate banking, payment systems and merchant acquiring. He is a director of BPAY Pty Ltd, Cardlink Services Ltd, Charge Card Services Ltd, EFTPOS Access Australia Ltd and eftpos Payments Australia Limited and a Councillor on the Northern Sydney UnitingCare Ageing Council. Mr Woodward was appointed by the Commonwealth Bank of Australia as a director in February 2005.

Chairman and member of the Payments Policy Committee. Chairman of the Fraud Committee and the COIN Management Committee.



PAUL J APOLONY
F FIN, FIPA, MAICD
(Non-executive director)

Deputy General Manager – Operations, The Bank of Tokyo Mitsubishi UFJ, Ltd

Mr Apolony has over 31 years experience in the banking industry including roles in Operations, Product Development and Strategy, specialising in Payments. Mr Apolony was appointed by the Other Banks Owner Member Electoral Group as a director in June 2007.

Chairman of the High Value Clearing System Management Committee. Member of the Audit, Risk and Finance Committee, Remuneration Committee and Payments Policy Committee.



STEVE BARIC
(Non-executive director)
General Manager, Transaction Payments and Products, Everyday Banking and Payments, National Australia Bank

Mr Baric has over 30 years experience in financial services working in commercial lending, cash management and transaction banking. He is a director of EFTPOS Access Australia Ltd and alternate director of BPAY Pty Ltd. Mr Baric was appointed by National Australia Bank as a director in August 2013.

Member of the Consumer Payments Committee and the Payments Policy Committee.



LINDSAY F BOULTON
BA (SOC. SC.), B EC (HONS), GAICD
(Non-executive Director)
Head of Banking, Reserve Bank of Australia

Mr Boulton has over 30 years experience in central banking covering economics, financial markets, banking services, and risk management. He is a director of Note Printing Australia Ltd and the Reserve Bank Health Society Ltd. Mr Boulton was appointed by the Reserve Bank of Australia as a director in June 2013.

Member of the Audit, Risk and Finance Committee and the Remuneration Committee.

**TIM F BUCKETT**

B COM, CPA, MBA, GAICD
(Non-executive director)

Executive General Manager,
Customer Development,
Suncorp-Metway Limited

Mr Buckett has over 19 years experience in financial services working in strategy, marketing and product management. Mr Buckett was appointed by the Retail Banks Owner Member Electoral Group as a director in February 2011.

Chairman of the Australian Paper Clearing System Management Committee. Member of the Payments Policy Committee.

**CHRIS G CAMPBELL**

B EC, M BUS (FINANCE),
MAICD

(Non-executive director)

Head of Payments Policy and Strategy, Westpac Group

Mr Campbell has over 22 years experience in banking and economics, including payments policy, finance, product management, operational risk and related areas. He is a director and chairman of EFTPOS Access Australia Limited and a director of BPAY Pty Ltd and Cardlink Services Limited. Mr Campbell was appointed by Westpac Banking Corporation as a director in April 2003.

Chairman of the Consumer Electronic Clearing System Management Committee. Chairman and member of the Consumer Payments Committee and the Payments Policy Committee.

**CHRIS J HAMILTON**

BA, LL.M., AAICD
(Executive director)

Chief Executive Officer, APCA

Mr Hamilton has 20 years experience in financial services, particularly financial markets infrastructure, and six years experience in securities law. Mr Hamilton was appointed Chief Executive Officer and executive director in January 2006.

Member of the Audit, Risk and Finance Committee, Remuneration Committee, Payments Policy Committee and Consumer Payments Committee.

**PAUL A INGLIS**

B EC (HONS), MAICD
(Non-executive director)

Head of Payments Industry, Australia and New Zealand Banking Group Limited

Mr Inglis has over 25 years experience in the banking industry in payments and economics; and five years in government service, including Federal Treasury. He is a director of EFTPOS Access Australia Limited and a member of the global Payments Market Practice Group and SWIFT Payments Maintenance Working Group. Mr Inglis was appointed by the Australia and New Zealand Banking Group Limited as a director in July 1998.

Chairman of the Bulk Electronic Clearing System Management Committee. Member of the Audit, Risk and Finance Committee, Remuneration Committee, Consumer Payments Committee, Payments Policy Committee, Consumer Electronic Clearing System Management Committee, High Value Clearing System Management Committee, COIN Management Committee and Governance Sub-Committee.

**DAVID C JAY**

B EC, MBA, FCPA, F FIN,
FAMI, MIIA, MAICD

(Non-executive director)

Chief Executive Officer,
Australian Settlements Limited

Mr Jay has over 25 years experience in the banking industry with various ADIs which has included roles in financial markets, internal audit and retail banking. He is a director of the Australian Rugby League Referees Association and alternate director of eftpos Payments Australia Limited. Mr Jay was appointed by the Building Societies Owner Member Electoral Group as a director in August 2010.

Chairman and member of the Audit, Risk and Finance Committee. Member of the Remuneration Committee, Payments Policy Committee and Governance Sub-Committee.

**ADRIAN LOVNEY**

LLB (HONS), MBA, AMP
(Non-executive Director)

General Manager, Product & Service, Cuscal Limited

Mr Lovney joined Cuscal in 1999 and is responsible for all product management and operational functions, marketing, sales, and customer service. Prior to this, he was General Manager, Strategy & Communication, where he was responsible for leading the successful migration and transition of Cuscal's customers to a new and innovative payments platform. Before 2008, Mr Lovney was the Chief Executive of Abacus Australian Mutuals from 2006 to 2008. His background lies in policy development and public affairs, and he has worked with the Queensland Treasury, ATO and Queensland Department of Premier and Cabinet. He was appointed by the Credit Unions Owner Member Electoral Group as a director in February 2013.

Member of the Payments Policy Committee and Consumer Payments Committee.

Governance framework

The board of directors

The board, comprising an independent chairman, the chief executive officer and non-executive directors appointed by the company's owner members, is responsible for setting the company's strategic direction and corporate governance.

The chairman is a non-voting director and holds office for two years from the date of appointment. The term of the current chairman, Russell J Rechner, ends on 31 December 2013.

The CEO is a board-appointed, non-voting, executive director. The CEO manages the company's affairs under the broad guidance of the board. The CEO's performance against agreed goals is assessed on an annual basis by the board.

Reserve Bank of Australia (RBA) liaison arrangements

Senior staff of the RBA and APCA consult on a regular basis on issues of industry policy. The RBA has automatic rights to appoint representatives to the board of directors and management committees. In June 2013, the RBA chose to rejoin the board.

Management committees

In accordance with the company's constitution, the board has established a management committee for each of the company's five clearing systems and its infrastructure system (COIN). Acting under delegated authority from the board, management committees are responsible for the efficient operation and management of each clearing system.

Board and management committee self-assessment

Directors, management committee members and the internal management team participate in an annual self-assessment process. This process is conducted through anonymous surveys and designed to identify areas for improvements in performance.

Other board committees

The board is empowered to establish other committees as it sees fit to assist in managing the company's affairs including the Audit, Risk and Finance Committee and the Remuneration Committee for good corporate governance, the Payments Policy Committee and the Fraud Committee.

The Audit, Risk and Finance Committee's primary functions are to review the company's internal financial practices and audit results, monitor the effectiveness of the company's financial controls

and administrative policies, monitor various risk exposures and statutory compliance matters, and review the company's budget and monitor expenditure against it.

The Remuneration Committee comprises the chairman and the members of the Audit, Risk and Finance Committee. Its responsibilities are to establish remuneration policies and practices for the company generally and to recommend remuneration levels and contractual arrangements for the CEO.

Code of Conduct

All directors, management committee members and senior executive staff must comply with a Directors' and Officers' Code of Conduct. The Code was developed using a model from the Australian Institute of Company Directors. Directors and management committee members review adherence to the Code annually.

Ethics, policies and procedures

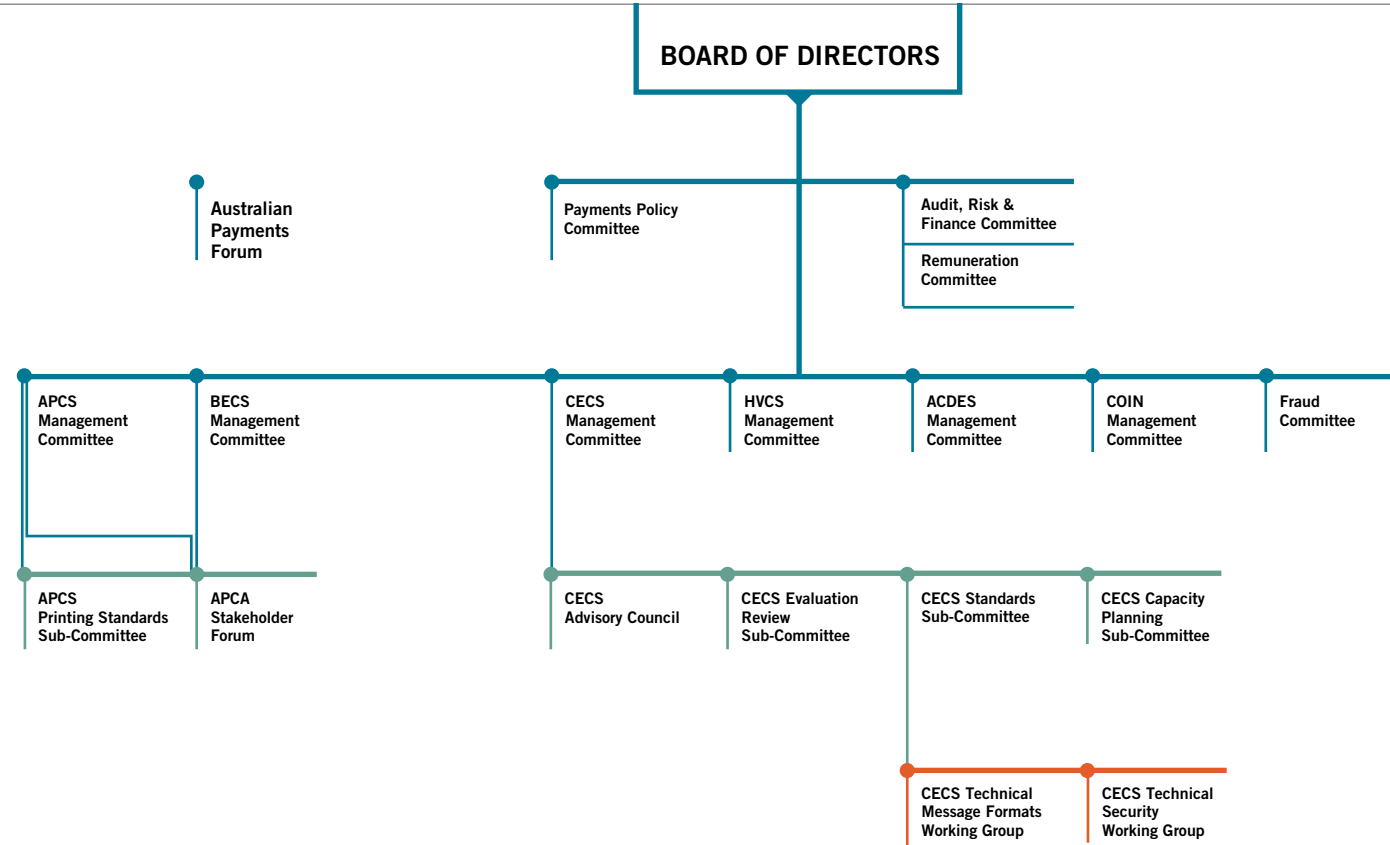
APCA promotes adherence to best practice and a high professional and ethical standard. A framework of management policies covers human resources, technology, external matters, finance and general management. It is reviewed by the Audit, Risk and Finance Committee and supported by management procedures that cover detailed implementation.

Risk management

APCA has a well-defined risk management framework which is overseen by the board. Key risks are regularly reviewed and APCA's risk appetite is accessed annually. During 2013, APCA engaged Lawler Partners on a three-year contract to provide internal audit services, which has further enhanced APCA's internal control environment.

Decision-making bodies

APCA maintains a transparent decision-making structure designed to ensure member oversight at multiple levels. The board is the top-level decision-making venue, supported by management committees, technical committees, working groups and advisory bodies.

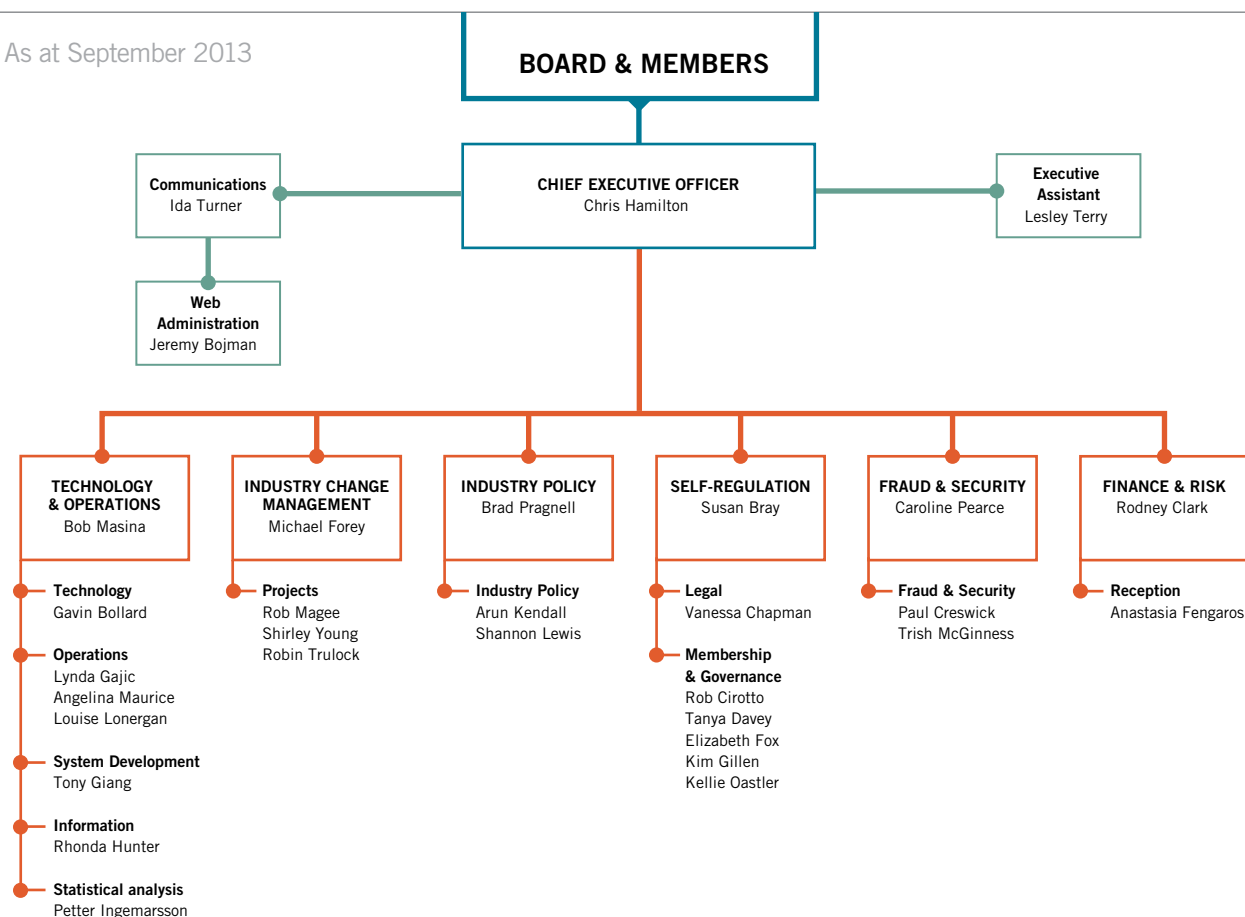


Our Team

Our organisational structure reflects APCA's unique role and purpose as the payments industry's self-regulatory body. Our key activities are divided into six business units, each with clear goals and responsibilities:

- **Industry Change Management:** oversees payments industry projects that introduce change and evolve Australia's payments environment.
- **Industry Policy:** leads industry policy development and advocacy activities to improve Australia's payments system and to enhance the value of members' payments related activities.
- **Self-Regulation:** is responsible for development and operation of payments system and self-regulation, APCA's broad constituency and legal advice.
- **Technology and Operations:** provides critical support for industry-wide activities including operation and maintenance of databases, statistics collections and website developments. The team also provides internal support to staff.
- **Fraud and Security:** is responsible for developing APCA's role in combating fraud, for reducing risk and ensuring technical compliance across the payments systems.
- **Finance and Risk:** oversees the finance and reporting function as well as assesses, manages and monitors APCA's risk exposures.

As at September 2013



Membership

APCA has five categories of members: owner members, clearing system members, infrastructure system (COIN), advisory and associate members. Details of the membership categories are available on the APCA website. 

As at September 2013, APCA had 92 members who directly participate in the five clearing systems (owner and clearing system members) and 14 COIN members.

OWNER MEMBERS

AMP Bank Limited

Arab Bank Australia Limited

Australia and New Zealand Banking Group Limited •

Australian Settlements Limited (ASL)

Bank of America, National Association

Bank of China Limited

Bank of Queensland Limited

Barclays Bank plc

Bendigo and Adelaide Bank Limited

Cashcard Australia Limited

Citigroup Pty Limited

Commonwealth Bank of Australia •

Cuscal Limited •

Deutsche Bank AG

HSBC Bank Australia Limited

Indue Ltd

ING Bank (Australia) Limited

JP Morgan Chase Bank, National Association

Macquarie Bank Limited

Mizuho Bank, Ltd

National Australia Bank Limited •

Oversea-Chinese Banking Corporation Limited

Reserve Bank of Australia •

Royal Bank of Canada

OWNER MEMBERS

Standard Chartered Bank

State Street Bank and Trust Company

Suncorp-Metway Limited •

The Bank of Tokyo-Mitsubishi UFJ, Ltd

The Hong Kong and Shanghai Banking Corporation Limited (Australia Branch)

United Overseas Bank Limited

Westpac Banking Corporation •

CLEARING SYSTEM MEMBERS

Australian Defence Credit Union Limited

B & E Ltd

Bananacoast Community Credit Union Ltd

Bank of China (Australia) Limited

Bank of Communications Co., Ltd Sydney Branch

Bank of Scotland plc, Australia Branch

Bank of Sydney Ltd

BankVic

Bankwest (a division of Commonwealth Bank of Australia)

BNP Paribas

BNP Paribas Securities Services

CLS Bank International

Coles Group Limited •

Community First Credit Union Limited

Community Mutual Ltd

Credit Union Australia Limited

CLEARING SYSTEM MEMBERS

Delphi Bank (a division of Bendigo and Adelaide Bank Limited)

ECU Australia Limited

Gateway Credit Union Limited

Greater Building Society Ltd

Heritage Bank Limited

Hume Building Society Ltd

Hunter United Employees' Credit Union Limited

IMB Ltd

Industrial and Commercial Bank of China Limited

ING Bank NV (Sydney Branch)

Investec Bank (Australia) Limited

Lifeplan Australia Building Society Limited

Lloyds TSB Bank plc, Australia Branch

Maitland Mutual Building Society Limited

mecu Limited

Mega International Commercial Bank Co., Ltd

Members Equity Bank Pty Limited

Newcastle Permanent Building Society Ltd

Police Bank Limited

QT Mutual Bank Ltd

Queensland Police Credit Union Limited

Queensland Professional Credit Union Limited

Queenslanders Credit Union Limited

Rabobank Australia Limited

Glossary

CLEARING SYSTEM MEMBERS

Rabobank, Australia Branch (Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.)
Railways Credit Union Limited
Select Credit Union Limited
SGE Credit Union Limited
Southern Cross Credit Union Limited
State Bank of India
Sumitomo Mitsui Banking Corporation, Sydney Branch
Summerland Credit Union Limited
Taiwan Business Bank, Sydney Branch
Teachers Mutual Bank Limited
The Capricornian Ltd
The Rock Building Society Limited
The Royal Bank of Scotland N.V., (Australia) Branch
The Royal Bank of Scotland, plc Australia Branch
Tyro Payments Limited •
UBS AG (Australia Branch)
Uniting Financial Services
Victoria Teachers Mutual Bank
Warwick Credit Union Ltd
Wide Bay Australia Ltd
Woolworths Limited

COIN MEMBERS

Cardlink Services Limited
eftpos Payments Australia Limited
First Data Resources Australia Limited
Strategic Payments Services Pty Ltd
Unisys Credit Services Pty Limited

- Also a Coin Member

ACCC	Australian Competition & Consumer Commission
ACDES	Australian Cash and Distribution Exchange System
ADIs	Authorised Deposit-taking Institutions
APCS	Australian Paper Clearing System
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
ATM	Automatic Teller Machine
BECS	Bulk Electronic Clearing System
BPAY	see www.bpay.com.au
CECS	Consumer Electronic Clearing System
COIN	Community of Interest Network
Direct Entry	Payments system for direct debits and direct credits
eftpos	Domestic debit card system
GDP	Gross domestic product
HVCS	High Value Clearing System
ISO	International Organization for Standardization
NGOs	Non-government organisations
PCI	Payment Card Industry
PIN	Personal Identification Number
POS	Point-of-sale
PSB	Payments System Board
RBA	Reserve Bank of Australia
SWIFT	Society for Worldwide Interbank Financial Telecommunications

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Gilbert + Tobin, Sydney

Auditors

Deloitte, Sydney