An empirical study of international correspondent banking in Australia

Soon-Lim Chan
University of Wollongong


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CHAPTER THREE:
OVERVIEW OF THE AUSTRALIAN BANKING SYSTEM
AND PAYMENT SYSTEM

3.0 INTRODUCTION

This is the second of four background chapters for the core of this empirical research. The international dimension of banking and corbanking relates to (i) the currency denomination of the loan or deposit, independent of the location of the bank, (ii) services or products for customers of different nationalities to head offices of banks or (iii) services provided by foreign banks (Aliber and Demsetz, 1984). Therefore, the Australian banking system and payment systems are essential international and local media for intermediation, and transaction services leading to provision of corbanking services. This background chapter sets out an overview of both the Australian banking system and payment system as follows: the Australian Banking System and its players are outlined in section 3.1, the International and National Payment Systems in section 3.2 and summary and conclusion in section 3.3.

3.1 THE AUSTRALIAN BANKING SYSTEM

The Australian Financial System consists of an intricate network of markets and institutions that facilitate the flow of funds to and from the various sectors of the domestic and global economy. The Australian Banking System is a sophisticated branch banking system of predominantly private banks subject to central bank supervision closely resembling that of the United Kingdom banking system. The major intermediaries for the flow of funds in the Australian Banking Systems are divided into three main groups which are The Reserve Bank of Australia (Central bank) and Banks discussed in
paragraph 3.1.1, and Non-Banks discussed in paragraph 3.1.2. Australia has deregulated and modernised its financial system and banking system in the late 1970s (Saunders and Lange, 1996, major steps in the deregulation started from 1979). This was affected by the following factors: Domestic and international institution development; technological developments; competition; mergers and acquisition; economics and the Official Campbell Committee and the Martin review reports (Moore and Lyell, 1988), and improved the competitiveness of the industry. The differences between banks and non-banks have become blurred in terms of banking activities after deregulation. The distinction between the bank and non-bank sector is just a legal distinction. Under the Banking Act 1959, only those institutions licensed under the Act call themselves a bank. The Australian federal government is empowered to make laws with respect to banking, except state banking. Other financial institutions are often referred to as non-bank financial intermediaries.

3.1.1 Types of Banks

A bank is legally defined as a "body corporate authorized under Part II (of the Banking Act 1959-1979) to carry on banking business in Australia" and only such firms may use the words ‘bank’, ‘banker’ or ‘banking’ in their names, except with the written permission of the treasurer. The banks in Australia fall essentially into two groups:

(1) The Reserve Bank of Australia (RBA),

(2) Banks.

(1) The Reserve Bank of Australia

In post Wallis inquiry, the Australian Prudential Regulation Authority (APRA) will take over the prudential regulatory powers of the RBA and will eventually be responsible for
the supervision of all deposit-taking institutions, insurance companies and superannuation funds. APRA will provide both financial safeguards for ordinary Australians and international confidence in the Australian financial system. The new regulatory require was an immensely important initiative for the continuing globalisation of the Australian financial sector (Dwyer 18, March 1998, AFR, Page 1 and 4). Meanwhile, the RBA still operates under the existing regulation.

The RBA, as the Australia's central bank, is responsible for the regulation and supervision of Australia's monetary and banking system in order to regulate the Australian Economy and to protect depositors by using the discretionary powers of Prudential Supervision to monitor banking operations, maintenance of price stability, management of the note issue, performance of banking and other services for the government, acting as a banker to banks, and administration exchange control. The functions, powers and responsibilities of the RBA are specified in the Reserve Bank Act 1959 (Commonwealth), the Banking Act 1959 (Commonwealth), the Financial Corporations Act 1974 (Commonwealth), the Bank Integration Act 1991 (Commonwealth) and any regulations under these Acts. The amendments to the Banking Act in 1989 gave wider prudential supervisory powers to the RBA. In addition, the Reserve Bank also maintains the registries for Australian government loan stock, deals in foreign exchange, and manages a central pool of the nation's gold and overseas currency reserves. Though not responsible for production, the RBA also distributes Australia's coinage on behalf of the government. In addition to these central bank functions, its rural credits department assists in financing the export of Australian primary products by extending short-term loans to rural marketing authorities and primary producers' co-operatives. The Reserve Bank's monetary and banking policy responsibilities are set out in broad terms in Section 10 of the Reserve Bank Act:
"It is the duty of the Board, within the limits of its power, to ensure that the monetary and banking policy of the Bank is directed to the greatest advantage of the people of Australia and that the powers of the Bank under this Act, the Banking Act 1959 and the regulations under the Act are exercised in such a manner as, in the opinion of the Board, will best contribute to: (a) the stability of the currency of Australia; (b) the maintenance of full employment in Australia; and (c) the economic prosperity and welfare of the people of Australia." The RBA is an intermediary in the sense that it acts as the banker and the financial agent for the Commonwealth Government and provides banking services to some States and Territory Governments. For instance, the RBA handles the new issue of government debt securities. However, the primary role of the RBA is not one of intermediation but one of prudential supervision and regulations of banks.

(2) Banks

The total number of licensed banks excluding RBA is 52 banks or 43 banking groups with total assets of 507,199 millions as at 31 October 1996 (Source: RBA information, a list of individual authorized banks as at November 1996). Australia’s large established banks operate along similar lines to the commercial banks in the United Kingdom. The business of banking is financial intermediation at both retail and wholesale levels. Most banks conduct a wide range of activities to service different markets. Different financial institutions compete to provide services.

Banks are commonly grouped as: (a) major banks, (b) non-major banks and (c) foreign banks which are regulated by the Banking Act 1959 (Commonwealth) allowing only body corporates authorised by the Treasurer to carry in the business of banking. Although various banks involve in varying degrees of cross-boarder activities, non-major banks or
regional banks are relatively inactive in the international banking business such as international trade and finance, by comparison with majors and foreign banks.

Foreign banks are banks owned by foreign financial organizations. They established in Australia as a branch or subsidiary involving mainly international financial services in particular for countries of their parent banks although Citibank and Banker Trust do have significant market shares of the local market. Banks in Australia incorporated as Australian owned banking companies and foreign subsidiary banks can be universal banks without restriction and can provide a comprehensive range of financial services at both retail and wholesale levels - cheque accounts, credit card, savings and term deposits, corporate and personal lending, overdraft facilities, leasing, cash management services, foreign exchange, syndicate lending, money market operations, investment products, bank bill facilities, and fund raising for large corporations. Foreign banks with branch licenses are not permitted to collect deposits for less than $250,000 covered under Prudential Statement J2 (RBA, 1996) which in fact limits retail business for foreign branches in Australia.

(a) Major Banks (4 banking groups):

Major banks are Australian owned banks which are listed in Table 3.1. Major banks are big four Australian banks. Major banks or Majors have corebanking functions and provide most comprehensive financial services including cross border and correspondent banking.
Majors make up more than 65% ($331,921 million) of Australia total banking assets as at October 1996. Three of the majors are long established private trading banks incorporated by charter or by statute under the Corporate Law in each State or Territory with their shares listed on the stock exchange. CBA was just privatised its share holding. ANZ and NAB have significant operations and investments overseas. The Commonwealth and Westpac have smaller offshore interests predominantly based in New Zealand. The majors dominate the Australian banking system. These banks operate nationally through large branch structures. They are engaged in most classes of finance, operating within all sectors of the financial industry - trade finance, stockbroking, foreign exchange and merchant banking.

ANZ is Australia's most international bank with offices in more than 42 countries around the world, with a particular concentration in Asia. ANZ's traditional strength has been business banking-trade and project finance. ANZ expanded its international network by buying Grindlays Bank in 1984 which is the largest foreign-owned bank operating a large retail network in India. It also has an important presence in the Middle East and Africa, in addition to South and Southeast Asia. Its financial services group provides deposits, loan and payment services, investment banking, trade finance, stockbroking, general

Footnote 1: Since the completion of this search ANZ has sold its controlling interest in Grindlays bank.
Chapter Three

finance, life assurance and trustee and investment services. ANZ’s business banking strengths are complemented by a strong presence in the retail market. Its fund management is the sixth largest retail fund manager in Australia.

The CBA is the largest lender in Australia for personal housing. The bank was fully privatised in 1996 after the Federal Government sold its remaining 50% shareholding. CBA is developing its international banking networks.

NAB is Australia’s largest and most profitable banking group. It was formed in 1981 though the merger of the National Bank of Australasia, established in 1858, and the Commercial Banking Company of Sydney established in 1834. NAB provides a full range of banking services throughout Australia and in the UK, Ireland and New Zealand through subsidiary banks. Branches and representative offices in Asia and the United States conduct banking operations.

WBC is Australia’s first bank and oldest company. Established in 1817 to promote commercial growth and to bring some order into the monetary chaos that existed at that time, WBC is focused on the Australian and New Zealand markets as well as on local and overseas customers who have dealings with these markets. The WBC group undertakes a wide range of banking and financial activities including commercial and investment banking, personal and small business banking, finance company operations and retail and wholesale funds management and financial services. It recently expanded its local operation by acquiring the Bank of Melbourne for $1.4 billion.

(b) Non-Major Banks (11 banking groups)

Other Australian owned banks are Non-major banks or regional banks which consists of eleven (11) banking groups and are listed in Table 3.2. Most non-majors provide standard retail and domestic banking services and products except Macquarie bank, which is basically an investment bank. They are either not active or outsource their international
banking businesses to foreign banks or majors. Previous State owned Australian banks become regional banks via merger or acquisition by Majors or other Australian banks.

**TABLE 3.2 ASSETS OF NON-MAJOR BANKS (REGIONALS) AS AT OCTOBER 31 1996**

|--------------------------------------|

Non-major banks account for of $95,967 millions, which comprise 18.92% of the total assets of all banks in Australia. The two largest non-major or regional banks are Advance Bank and St. George Bank. Recent St George purchased the commercial banking and finance division of Barclay’s Bank Australia Ltd and established a subsidiary St George Partnership Banking, the purchase expanded the bank’s balance sheet diversifying its income streams and adding profitable commercial and private banking, and international trade finance arms to the St George Group. Macquarie Bank operates more like a global merchant and investment bank which has offices in major cities in Australia, Asia, London, New York and Johannesburg.

(c) **Foreign Banks(28 banking groups)**

Foreign banks are Non-Australian owned banks which consist 28 banking groups, further

Footnote 2: Several changes in the structure of the industry have taken place since this study e.g. St George Bank has been taken over by Westpac.
categorised into 5 groups and listed as follows: Most foreign banks are concentrated on international businesses related to their parent’s home country and global networking. They involve in corbanking at various degree such as American banks actively involved.

**TABLE 3.3 ASSETS OF FOREIGN BANKS AS AT 31 OCTOBER 1996**

Source: RBA Bulletin December 1996
Notes: * a subsidiary of Bank of Scotland; B: Branch status; S: Subsidiary;
There were 31 foreign banks or 28 banking groups in Australia as at October 31, 1996. Total assets were $79,311 million. Foreign banks were further classified into five groups. Many foreign banks have avoided becoming very involved in retail branch operations since their principal field of operation is niche in areas of commercial lending, trade finance and treasury. According to RBA prudential statements J1 and J2, foreign banks are now allowed to open branches, but only for wholesale banking purposes. If they wish to pursue the retail market, they are still required to form a subsidiary in Australia. Many foreign banks such as Midland Bank PLC and Citibank NA have opted to conduct their wholesale banking business in the form of branches because branch banks can utilize their parent's balance sheet for both funding and credit creation. The change in status of foreign banks is expected to intensify competition in corporate lending, particularly in relation to major loan syndications. Foreign Banks have substantial shareholdings in finance companies, which offer services like lease financing, hire purchase and consumer loans.

Looking at foreign banks from the perspective of asset sizes, American and British bank groups were leaders of foreign banking businesses with assets comprising 63.44% of total foreign bank assets, followed by European, Japanese and Asian bank groups. American banks had the largest asset size of foreign banks - $25,498 millions, 32.15% of the total foreign bank assets and 5.03% of the total bank assets of Australia, and seven (7) banks - the greatest number of banks. Citibank was the largest foreign bank in Australia, which is acknowledged as the best foreign retail bank. All American banks in Australian are well established multinational banks which actually followed American economic development and the expansion of multinational corporations and thus entered the Australian market. Citibank and the Bank of America could even compete with local
bonds for retail and domestic banking business. In particular, Citibank concentrates on
domestic lending, and the deposit and home loan market. American banks were very
strong in corporate lending, especially multinational lending. Most American banks are
lead managers of international syndication loans. All American banks are active in
foreign exchange dealings and US dollars deposits. In regard to Asian business,
Australian banks are not as active as American banks. Citibank uses its connection with
Asia through 115 branches within 20 Asian Pacific countries to conduct Asian businesses.
British banks [asset size $24,817 million: 31.29% of the total foreign bank assets and
seven (7) banks] were also very close to American banks. Hongkong bank becomes a
British bank by moving its head office to London. Bank of China contributes to the
development of trade and investment between Australia and China or Asia.
All Japanese banks in Australia are listed as larger international banks. Most Japanese
banks still concentrate on businesses related to Japanese corporations and Japan. Tokyo
bank merged with Mitsubishi bank has a large global network of branches for
multinational banking businesses, which do business not just with Japan but also with
international businesses.
Banque Nationale de Paris is the largest bank in the European bank group. Most
European banks deal more with wholesale banking. In addition to trade finance, other
areas are foreign exchange dealing, syndication and global security transactions.
Three out of four Asian banks are Singaporean banks, which reflects the status of
Singapore as an international financial centre and the close economic relationships
between Singapore and Australia.
Table 3.3 lists foreign branches and subsidiary banks in Australia. These are large
multinational banks, which mainly provide complete commercial banking services.
Nevertheless, overseas parents of certain foreign banks are full commercial banks in their home locations but their branches or subsidiaries in Australia focus on specialist banking and finance services such as investment or security. For instance, German banks specialize in security trading, consultancies and analyses. Certain overseas parents like IBJ Bank are specialist banks providing in banking services to industrial corporations, and fund raising for foreign, multinational and government organisations. Their subsidiaries in Australia also concentrate on the similar market segment. The diversified business conducted by foreign banks in Australia are international network and global financial management; fund raising; global custodian services; trade finance; retail banking; home loans and so on.

Special characteristics of the business conducted by foreign banks are:

(i) Strong racial background: most foreign banks have racial and national characteristics like the Arab bank of Jordan. Although it is grouped under Asian banks, it is the only Middle-East bank in Australia. It started as a finance company in NSW. The CBA has provided cheque services for the Arab bank since 1990. The Arab bank in Australia also known as Middle-East Migrant bank, has almost all its business connected with middle-east countries including retail banking and trade finance. The Japanese bank stresses on business related to Japan and the Bank of China focuses on import and export business from the People Republic of China. Hong Kong and Singaporean banks concentrate on business related to East Asia. American and European banks look at global business, but they have to execute the strategies and directives from their head offices.

(ii) Dense international transaction network and strong in international operations: Foreign branches and subsidiaries in Australia from part of larger multinational banks.
These foreign banks open branches worldwide in order to exploit and explore global business. Strategically, deploying global competitive networks has three implications: Firstly, significance of funding adjustment; fund transfers to parent countries are useful for exploration and development of parent markets, however, fund transfer to a third country fulfills the head office arrangement for starting or developing business in the third country. Secondly, tax benefits; Australian tax rates are higher than other countries so re-deployment of fund can achieve the purpose of tax avoidance. Thirdly, Global network strengthens banks’ competitive positions in international trade and finance business; for instance, Citibank’s credit card business does not just permit it to get other banking business but also establishes business co-operation with MNC and sales networks. Another example is the Hongkong bank. It stresses global business, in particular Asia business, by setting up an “Asian Business Unit”. Many foreign banks also have a related security business or analysis unit whose analysts and dealers expand the business operation worldwide.

(iii) Specialization in certain business or in certain regions and countries: most foreign banks are rich in special resources because of their different backgrounds. Thus they are strong in doing different types of business. Foreign banks try to pull strings for customers in the regions they come from. For instance, Singaporean banks solicit customers from South East Asia. StandardChart takes other banks’ low priority business like currency dealing in Spanish peseta, Portuguese escudo, Thai baht, Indonesian rupian and Philippine peso, and correspondent banking since it has a very large international branch network providing timely and good intelligence.

3.1.2 Non-Banks

Some non-banks inevitably become involved in international banking because of the need of their customers for overseas payments. Although the number of transactions and
amounts may not be large, customers still require corbanking services. For instance, foreigners purchasing residential properties and borrowing from Building Societies which have to use their corbanks to transfer fund. Merchant banks participate in international banking activities require corbanking extensively. The non-bank sector mainly includes the finance companies, permanent building societies, merchant banks, credit unions, life insurance companies, superannuation funds, friendly societies, unit trusts, intra-group financiers, and other financial corporations.

3.1.3 Representative Offices

Representative offices may play a key role in internal bank operations and monitoring and coordinating corbanks in foreign countries. Representative offices cannot engage in deposit taking, financing and collections. Instead, their services tend to be more personal and developmental – establishing good relations with contacts important to the parent bank, seeking out and setting up investment and business opportunities, negotiating mergers and acquisitions, setting up business deals, advising on business opportunities in the home country, and similar activities. Generally, banks choose this institution option for three reasons. First, the host country may prohibit any other type of physical presence. Second, a representative office does not take much investment to set up and does not pose a major loss in high-risk countries if the government seizes assets. If capital were required, the amount is usually small. Third, they are a good interim step for a bank exploring the option of a more intensive involvement in country such as a branch. There are fifty-four (54) representative offices of foreign banks in Australia mostly located in Sydney and/or Melbourne (KPMG, 1997 financial institution performance survey). CoreStates Bank NA and Bank of New York are two very active corbanks operating as
representative offices where the formal strength is trade finance and the latter has more involvement on global payment and treasury services.

3.1.4 Bank Regulation and Supervision

The APRA will be responsible for supervision of banks under the Wallis Inquiry Reform. However, the existing regulatory framework is still valid till the new regulatory arrangement implemented in near future. Bank regulation and supervision are under the jurisdiction of the federal government. The basic law covering Australian banking is the Banking Act of 1959-1979, which covers establishing a bank, reporting requirements and other obligations to the Reserve Bank. Since its introduction, the Act’s basic powers have been further defined by a wide range of more detailed regulations concerning foreign exchange, advances, gold, interest rate policies and statistical information. Other federal bank-related laws include the Reserve Bank Act 1959-1973, which established the central bank (The Reserve Bank of Australia), set out its organisation, and defines its responsibilities in central banking, note issue and specialised advances to the rural sector; the Primary Industry Bank Act 1977, which sets the operations framework for the Primary Industry Bank; the Bills of Exchange Act 1909-1958, which covers bills of exchange; the Cheques and Payment Orders Act 1986, which regulates cheques and payment orders; the Banks (Shareholdings) Amendment Act 1985, which prohibits the acquisition of 15% or more of a bank’s voting stock without prior permission from the treasurer; the Commonwealth Bank’s Amendment Act of 1984, which defines the function of the Commonwealth Bank of Australia and its affiliates; and the regulations covering the federal bank account debit tax. Apart from state legislation concerning state-owned financial institutions, a number of state acts affect all local-banking operations. Of these,
the Stamp Duty and Financial Institution Duties Acts are the most significant. Consumer
credit regulations are also important in personal lending and hire purchase contracts.
The RBA effected prudential supervision prior to the deregulation of the Australian
financial system and the legislative powers given to it under the Banking Act 1959. The
Reserve Bank is responsible for “the encouragement and promotion of carrying out by
banks of sound practices in relation of prudential matters” (Banking Act 1959, section
11B). Moreover, the Reserve Bank considers that it is directly responsible for “the
integrity of the payments system and overall stability of the financial system” (Standing
Committee on Finance and Public Administration, 1991: p.1). There are two major
aspects to the current prudential control requirements: Liquidity provisions and Capital
Adequacy guidelines. There are also five approaches to supervision: (i) the structural
approach; (ii) the regulation of portfolio structure, type of business and the pricing of
business; (iii) supervision; (iv) the market based approach provision of information; and
(v) deposit insurance.
The environment in which the banks operate has changed over the last decade, with a
strongly regulated banking system giving way to more competitive forces. Deregulation
has seen an influx of foreign banks into the system, as well as a number of locally owned
banks establishing operations. This dynamic environment, powered by deregulation, has
forced the financial system to evolve into a more customer-orientated and internationally
competitive industry. These changes continue throughout the 1990s, as the banks adjust
to further deregulation, new competition and the aftershocks of the recession.
The existing prudential supervision arrangements are the RBA for banks, money market
dealers and payments settlement; and other government agencies for non-bank financial
institutions. However, as recommended in the Wallis Inquiry’s report (1997), a single
prudential regulator, the Australian Prudential Regulation Commission (APRC) under
commonwealth jurisdiction will be established to undertake prudential regulation functions of the RBA and other supervision commissions. Combining prudential regulation in a single regulator will better accommodate the emergence of wide ranging financial conglomerates and enable a more flexible approach over time to changes in the focus of prudential regulation.

3.2 THE INTERNATIONAL AND AUSTRALIAN PAYMENT SYSTEM

The payment of accounts in Australia and internationally is a major business for corbanking services. All major banks are leading clearers of Australian dollar. The payments system is the set of arrangements for transferring funds among members of the community. Banks, as intermediaries, are important players in the payments system because they are the source of the legal currency and they facilitate the transfer of funds between agents. A payment system consists of the infrastructure, which facilitates the several million payments made each day in Australia. Denial of access to payments can be used as an entry barrier in banking. If a payment system extends across national boundaries, it becomes a global concern. Typically, major banks act as clearing agents not only for individual customers but also for other banks. There is a high degree of automation in the international banking system. This section describes interbank settlements, the important entities relevant to, and the major types of the Australian payment system, and key systems of international payments.

3.2.1 Inter-bank Settlements and the Gross settlement System

Understanding the interbank settlement process requires an understanding of correspondent banking, in this regard, the feature that distinguishes commercial banks as financial intermediaries is their unique role as issuers of liabilities - demand or call money deposits - that are widely accepted as payment. Interbank settlement obligations arising
from customer payments, and from direct dealings between banks, can be settled in three basic ways. First, a creditor bank can, but certainly does not in the modern world, accept transfers of currency from another bank wishing to discharge its interbank obligation. Second, creditor banks can agree to accept increases in the balances they hold in Nostro accounts with debtor banks, which essentially involves the substitution of one form of indebtedness, a contractual payment obligation, for another, and an equivalent increase in the “Due From” deposits held with the other bank. Reliance on correspondent banking arrangements for settlement can involve a chain of commercial banks, in which case the number of reciprocal accounts and the amount of balances that must be held by any one institution may be lower than what would be necessary if bilateral account relationships were established with each potential counterparty. Settlement through a chain of accounts, however, can introduce operational inefficiencies and additional settlement risk considerations. Moreover, the banking and payment systems in market oriented economies will be characterized by many participants, large interbank obligations, and a desire to achieve final settlement on a timely basis intra-day. In such a system, incentives are created to use balances held in accounts with the central bank to discharge inter-bank obligations. The reason is twofold. First, as suggested above, it is inefficient for commercial banks to maintain a large number of bilateral Nostro account relationships, which would also require holding sufficient funds on deposit in a multitude of Nostro accounts to meet settlement obligations. Alternatively, relying on a lengthy chain of intermediaries, while perhaps permitting a reduction in the total amount of settlement balances that would need to be held in numerous bilateral relationships can increase the number of steps and time needed to settle a payment. The central bank contributes significantly to the efficiency of the inter-bank settlement process by serving as a common
Nostro bank to all deposit taking institutions. Second, an important method used by banks to control their inter-bank credit risk is to require payment for inter-bank obligations through final transfers of central bank money. The deposit liabilities of the central bank, referred to here as "central bank money," are attractive as a settlement medium because of the unique attributes of central banks and the money they issue. Central bank money is free of credit risk - the central bank cannot fail. Further, central banks do not pose liquidity risk - the central bank has the power to create high-powered money. Central bank money is therefore ideally suited to serve as a risk-free but not costless settlement medium. Australia is in the progress of implementing a gross settlement system.

3.2.2 The Australian Payment System

The Australian payment system can be briefly divided into as Low-value transactions and High-value transactions systems. The formal system include cheques, automatic teller machines (ATM), electronic funds transfer at point of sale (EFTPOS), internet, telephone banking and to a lesser extent, home banking. The latter system include cheques/bank warrants or paper clearing system, real time gross settlement (RTGS), Reserve Bank information and transfer system (RITS, a system to provide registry, depository, and trading facilities for Commonwealth Government securities), the SWIFT payment delivery system (PDS) and Austraclear (a system to provide registry, depository and trading facilities for private sector and semi-government securities).

All high-value and time critical payments conducted between banks will be made and settled at the same time under RTGS. Inter-bank payments become certain on a real time basis and not the next day (KPMG, 1997 financial institutions performance Survey, and
Chapter Three

APCA, 1996 annual report). Due to technological advancement, the clearing process has also changed dramatically over the years. With the introduction and implementation of SWIFT throughout the world, payment systems such as CHIPS in USA and CHAPS in UK have become highly automated and less expensive for users. This results in an ever-changing relationship between costs and volume. Correspondents can thus benefit from these decreasing costs and surging volumes. Clearing and in particular the new systems of Electronic Fund Transfers (EFT) and internet are at the forefront of innovations as major banks compete with one another to produce the speediest and most efficient method of moving money worldwide.

Parties currently involved in payment systems are the Australian Payments Clearing Association (APCA), Australian Payment Systems Council (APSC) and RBA; and financial institutions of various grades of memberships of APCA which will be discussed paragraphs (1) to (3)

(1) The Australian Payments Clearing Association (APCA)

The APCA was established in 1992. It is owned by the major providers of payment services viz.: banks, building society and the credit union industry associations and the RBA. The APCA is to establish four clearing streams to deal with: paper (cheques and other paper instruments); bulk electronic (direct entry); consumer low-value electronic such as EFTPOS & ATM; and high-value electronic clearings. The APCA is responsible for the clearing operations for each stream and for the standards, rules and procedures governing clearing arrangements. The bulk direct entry system is to unite the systems previously operated separately by banks, building societies and credit unions.
Chapter Three

(2) The Australian Payments System Council (APSC)

The APSC was established in 1984 by the federal government to oversee the development of Australia’s payment system. The tasks for the APSC include: (i) monitoring the development of domestic payments systems; (ii) fostering the interconnection between payment systems; (iii) promoting the implementation of standards for electronic funds transfer systems; and (iv) assessing how best to facilitate access of financial institutions other than banks to the cheque clearing system. Membership of the APSC is drawn from banks, building societies and credit unions as well as groups with a close interest in the domestic payments system.

(3) The Reserve Bank of Australia (RBA)

The RBA is responsible for the stability of the financial system as a whole. It has a major interest in the integrity and efficiency of the payment systems. Generally, technology makes the Australian Payment System more efficient but risk management needs to be further improved by closer monitoring and oversight of inter-bank exposures; having better control of risk; and reducing reliance on less efficient, paper-based transfers. The RBA has attempted to reduce risks in the payment system by speeding up settlement of payment obligations. The RBA and APCA also have determined procedures for the paper clearing system to ensure that the payments system has sufficient liquidity in the event of a default by a participant on settlement. Furthermore, RBA owns and operates a netting system for its high-value payments arrangements through a settlement risk control module known as PRESS (payment registration and electronic settlement system). It will proceed only if the resulting net obligation of the paying institution to all other institutions remains within a pre-set limit. This limit will be covered fully by the pre-commitment of all other
participating institutions to share the loss, in the event that an institution is unable to settle its PRESS obligation.

### 3.2.3 International Payment

Most popular forms of payment systems are Telex with testkey, SWIFT (Society for World wide Inter-bank Financial Telecommunication), FEDWIRE and CHIPS (the Clearing House Interbank Payments System) of US, and CHAPS (The Clearing House Automated Payments System) of UK. International Payment systems of other countries are linkages between SWIFT (and/or Telex) and local payments systems where necessary. SWIFT is the most popular electronic fund transferring system because it is widely used by most banks. It offers RTGS 24 hours a day and is a cooperative, non-profit-maximizing system. Furthermore, a number of large global banks run their own electronic payments systems, primarily to facilitate internal global payments. These systems are run alongside SWIFT and other public systems. The internal systems are also used to attract corporate business. For instance, Chase Manhattan and Citibank offer a relatively cheap transfer service for their corporate clients.

### 3.3 SUMMARY AND CONCLUSION

This chapter provides an overview of the Australian Banking System and Payment Systems due to they are essential media for corbanking services. The banks involved in corbanking services are mainly majors and foreign banks due to their activities in international banking. The Australian banking system is a sophisticated branch banking system of banks subject to the RBA supervision more closely resembling that of the UK rather than the US unit banking system. The domestic corbanking system is smaller in Australia than US. All banks operating in Australia must be authorised or licensed under
the Banking Act 1959. The services offered between banks and non-banks have become blurred and the banks now offer a comprehensive package of financial services and each major bank operates through its group network. Banks are essentially classified as the Reserve Bank and banks. The RBA operates as a central bank and an intermediary in particular for governmental transactions, which are administrated under the Reserve Bank Act 1959, whereas banks provide intermediation and transaction services except foreign banks, which hold branch licenses. Most foreign banks can only conduct wholesale banking which is governed by the Banking Act 1959. 43 group Banks are further categorized as majors (4 banks), non-majors (11 banks) and foreign banks (28 banks). Majors with their non-bank arms provide comprehensive banking services including international banking which is worth $331,921 million and 65.44% of the total bank assets as at October 31 1996. Non-major banks are worth $95,976 million and hold 18.92% of the total bank assets. Many of them are regional banks. They focus on retail business, in particular home lending which indicates their original strength as ex-building societies, except for the Macquarie Bank which is an investment bank. Parents of all foreign banks are large multinational banks. Foreign banks are worth $79,311 million and hold 5.03% of the total bank assets. They are seven (7) American banks, seven (7) British banks, four (4) Japanese banks, five (5) European banks and four (4) Asian banks. Both American and British bank groups are worth $25,000 millions of bank size and about 30% of the total foreign bank assets. Foreign banks operate as subsidiaries dealing with retail businesses, or as branches by taking advantage of their worldwide balance sheet, or as both forms of entities except bank of China and bank of New Zealand are allowed to operate retail business by branch licenses. Involvement in retail banking for most foreign banks is limited because of their local restriction and probably their own and their
Chapter Three

parent's global strategy. Their principal business areas are commercial lending, trade and treasury. Special characteristics of businesses of foreign banks are strong racial background, dense international transaction network and strength in international operations, specialization in certain business or regions and countries, in particular in the domicile of their parents. Future strategies of most foreign banks tend to provide complete services. Non-banks mainly include finance companies, building societies, money market corporations (merchant banks), credit unions, superannuation funds, life insurance companies, unit trusts and friendly societies. They specialise in certain businesses or market segment but are not active in multinational banking and hence corbanking except for merchant banks. They have 54 representative offices of financial institutions established in Australia and supply services, which tend to be more personal and developmental, like establishing good relations with contacts. This is important to their parent banks, as is the establishing and monitoring of corbanking relationships.

Payment services are an important corbanking product. The Australian payment system mainly consists of low-value transactions and high-value transactions. It is also in the process of implementing RTGS. APCA, APSC and RBA are the managers of the national payment system. The Wallis Inquiry report recommended replacing APSC by the Payment System Board (PSB) within RBA in order to better coordinate payment settlements and to ensure that the Australian payment system complies with international standards. Most commonly used international payment systems are SWIFT, Telex with Testkey, FEDWIRE and CHIPS for US dollar settlement and CHAPS for sterling pound settlement.