

## **Bank bid in the post**

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AUSTRALIA Post is stepping up its push into the banking industry by applying to the Australian Prudential Regulation Authority for a special licence to expand its activities.

The head of Australia Post's financial services division Terry Stephens told BusinessDaily that the government-owned corporation wanted to expand its role in the local credit card and debit card markets.

"We are seeking a licence to process the payments associated with credit and debit cards in our own right," he said. "In other words, we don't want a bank to do that, we want to do it ourselves."

Financial services is now a big retail activity for Australia Post, generating annual revenue of more than \$300 million.

The proposal to apply for the licence was approved by the Australia Post board in February and Mr Stephens and other executives have since been in talks with APRA to secure the licence.

While Post is not seeking a full banking licence, APRA will require it to put aside at least \$3 million of regulatory capital to support its expansion in the payments industry.

"We don't have formal approval for it yet, but we're hoping to have that approval in time to launch around February or March next year," Mr Stephens said.

He said the corporation had sought the licence to reduce the cost of accepting card-based payments.

The licence will establish Australia Post as a "specialist credit card institution", allowing it to avoid paying banks millions of dollars each year in interchange fees when customers make payments through an Australia Post outlet or online service.

The corporation will be able to process all debit card and credit card transactions under the licence, but will not be authorised to act as an independent deposit-taker.

Post has built a substantial financial services business in the last decade by acting as an agent for more than 70 deposit-taking institutions, including most of the country's retail banks.

One of its fastest growing businesses is the Post BillPay platform which last year processed 170 million bill payments worth about \$68 billion.

"A large part of those payments were in the form of debit and credit card transactions, so it's important we have the lowest costs we can get," Mr Stephens said.

Post BillPay is the main competitor in the domestic bill payments market to the BPay service which is owned by the banks.

Mr Stephens said that Post BillPay was the largest over-the-counter bill payments service.

However, BPay is the dominant provider in the online environment, accounting for more than 30 per cent of bills paid by telephone or over the internet.

Mr Stephens acknowledged that Australia Post therefore had a strategic reason to reduce the role of the banks in the provision of the Post BillPay service.

However, Australia Post's ability to grow its share of the online market is hurt by the fact that it is unable to provide customers with direct online access to bank accounts.

"The banks own bank accounts and that is a competitive advantage we don't have," Mr Stephens said.

"But the reality for us is that the government doesn't want us to be a bank because it doesn't want the balance sheet risk."

Before regulators implemented a crackdown on interchange fees in 2002, Australia Post was a price captive to the banks in the payments market.

However, the Reserve Bank's move to reform the payments system in 2003 has paved the way for Post and other non-banks to expand their roles in the banking system.

So far, only a handful of non-banks, including MoneySwitch Limited and two arms of GE Capital, have secured special card payments licences.