

Payment processing

31 October 2016

We sometimes get complaints about how banks process payments. As we're not an industry regulator, we don't have the power to set rules about how banks process payments. The scheme can, however, consider complaints if banks make mistakes processing payments, like wrongly delaying or failing to make a payment, repeating payments, or giving the wrong information about payments.

In this guide, we explain how banks make electronic payments.

How long does it take to process a payment?

Electronic payments to accounts at the same bank generally take place straight away. However, electronic payments to accounts at other banks aren't instant and depend on the payment type, when the bank processes the payment, and when the payment was set up.

Payments to accounts at another bank can be broken down to the following basic steps:

- A customer instructs their bank (the sending bank) to make a payment.
- The sending bank checks the customer has enough money in their account for the payment¹.
- The sending bank then prepares an electronic file, with other transactions, for the bank whose customer is receiving the payment. This collection of individual transactions is called a 'batch'.
- The sending bank sends the batch to the Reserve Bank who transfers the value of the batch between the sending and receiving banks' accounts with the Reserve Bank. This is called 'settlement'.
- Once settlement is complete, the Reserve Bank forwards the batch to the receiving bank. This is called 'interchange'.
- The receiving bank then credits the payment to their customer's account.

¹ From the end of November 2016 all banks will check for sufficient funds in the senders account prior to making the payment.

How to contact us

When do banks process these transactions?

Historically, banks batched and processed payments overnight. Now, all banks are batching and sending payments multiple times during the day on business days². Making payments more often gives customers more timely access to deposits to their account.

However, as banks are processing payments more often, banks are likely to take the money for scheduled or future-dated electronic payments earlier in the day. If your scheduled or future-dated electronic payment isn't successful first time, for example you didn't have enough in your account then, your bank may try again during the day. Bank customers must make sure there is enough money in their accounts when payments are due, otherwise they may incur a fee if the payment fails. Check with your bank when it makes electronic payments and whether they retry unsuccessful payments. You may also want to think about whether you need to change any scheduled or future-dated payment dates if you rely on money coming into your account to make a payment.

Banks generally won't process payments to accounts at other banks over weekends or on public holidays. Payments made on a non-business day will generally be processed the next business day.

Also, if you set up a payment late in the day, the bank will generally send your payment the next business day. Banks stop sending payments at a certain time each night, so they can update your account and transaction information. The cut-off times for payments depends on the payment type and may vary bank to bank. Check with your bank.

If the bank doesn't send my payment instantly, why does the money leave my account straight away, and who earns interest on the funds in the interim?

Once you set up and confirm a payment, your bank will take the payment from your account and put that money into a batch waiting to be processed. This immediately secures those funds for the payment and reduces the available balance in your account.

If it is an interest bearing account, the account holder generally continues to earn interest up until the point the batch is sent to the receiving bank for processing to the recipient's account. The amount earned may be dependent on processing timings.

² "Business day" refers to Monday to Friday, 8.30am to 5pm.

How to contact us