

Retail Payments Developments

The Payments System Board monitors trends in retail payments. Developments in 2014/15 were consistent with the longer-term shift towards electronic non-cash payment methods. There was a sharp increase in fraud in the card-not-present environment.

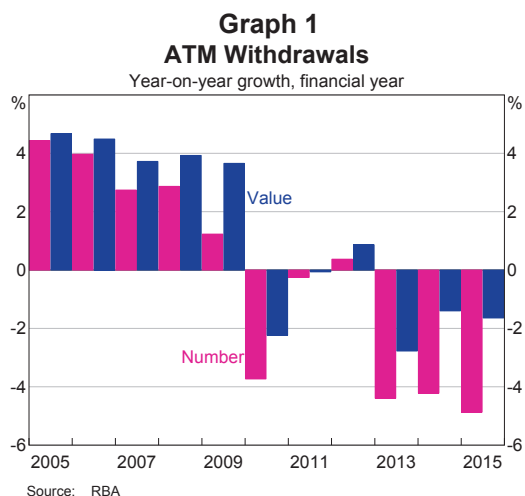
The Payments System Board monitors developments in retail payments relevant to its responsibilities to promote efficiency and competition in the Australian payments system.

Cash Payments

The number and value of ATM cash withdrawals (the main method individuals use to obtain cash) fell by 5 per cent and 2 per cent respectively in 2014/15, continuing the trend of recent years (Graph 1). The continued decline in ATM withdrawals is likely to reflect a number of factors, including consumers' adoption of new technologies such as contactless card payments that, like cash, provide for relatively quick transaction times. Growth in online commerce is most likely also a factor, with everyday transactions increasingly occurring online rather than in person. Recent trends in withdrawals are consistent with previous snapshots of consumers' use of cash for individual payments, with the results of a 2013 Bank survey showing that the relative use of cash for consumer payments had declined noticeably since earlier studies in 2007 and 2010. Nevertheless, cash remains an extensively used payment method, especially for low-value transactions.

Non-cash Payments

In contrast to cash, the use of most non-cash payment methods continues to increase – with



the exception of cheque payments. In particular, debit card use continues to grow rapidly (Table 1). Australians on average made around 400 non-cash transactions per person in 2014/15, with card payments accounting for almost two-thirds of these payments (Graph 2).

Debit and credit card payments

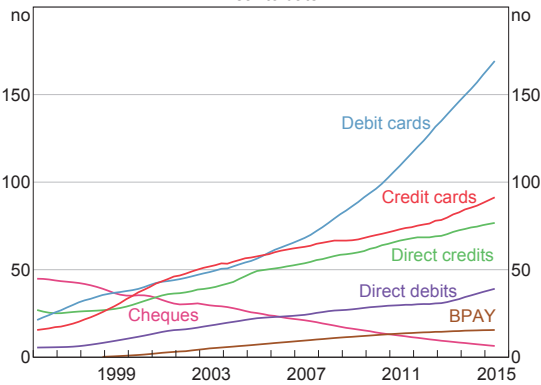
Debit and credit cards are the most frequently used non-cash payment methods. In 2014/15 Australian personal and business cardholders made around 6.2 billion card payments worth \$503 billion, up by 11 per cent and 7 per cent respectively from the previous year – similar to the increase observed in recent years. Growth in debit card use continues

Table 1: Non-cash Payments

	2014/15						Average annual growth 2009/10 – 2014/15	
	Per cent of total		Average value	Growth, per cent		Per cent		
	Number	Value	\$	Number	Value	Number	Value	
Debit cards	42.5	1.4	54	12.0	9.8	13.7	11.2	
Credit cards	22.9	1.8	132	8.4	5.2	7.2	5.2	
Cheques	1.6	7.7	7 998	-15.7	-0.9	-13.3	-4.0	
BPAY	3.9	2.1	884	3.5	11.1	5.9	11.0	
Direct debits ^(a)	9.8	35.9	6 137	12.3	5.3	8.0	1.2	
Direct credits ^(a)	19.3	51.1	4 444	5.0	5.7	5.8	4.7	
Total	100.0	100.0	1 675	8.9	5.2	8.7	2.7	

(a) In March 2014 reporting changes by two institutions resulted in series breaks for direct credit and direct debit payments; the series have been backcast to account for the break
Sources: BPAY; RBA

Graph 2
Non-cash Payments per Capita
Year to date

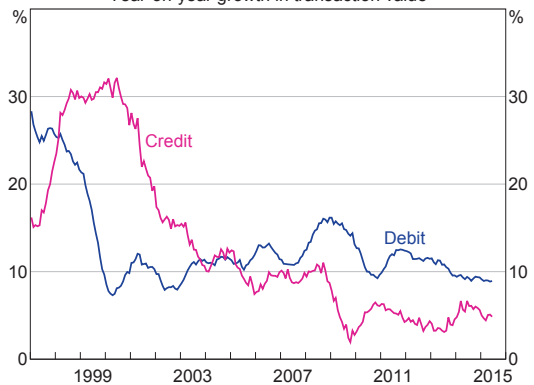


Sources: ABS; APCA; BPAY; RBA

to outpace growth in credit card transactions (Graph 3). The average value of card payments continues to fall, reflecting a greater use of cards for low-value transactions.

Within credit and charge cards, the combined market share of the three-party card schemes (American Express and Diners Club) was largely unchanged in 2014/15 at 19–20 per cent of the value of spending (Graph 4). For debit cards, the MasterCard and Visa debit systems continue to increase their market shares relative to eftpos.

Graph 3
Payment Card Transactions*
Year-on-year growth in transaction value

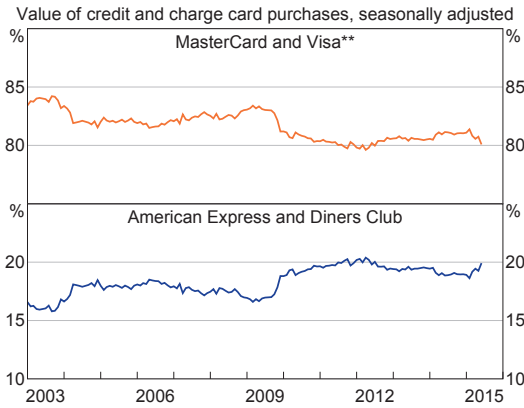


* Includes debit card cash-outs and credit card advances; RBA credit card data prior to March 2008 adjusted to remove BPAY transactions
Sources: BPAY; RBA

As discussed later in this chapter, during 2014/15 industry implemented an initiative that phased out signature authorisation for the vast majority of in-person card payments. Until recent years, cardholders primarily authorised international scheme debit and credit card payments by signing for purchases, while the use of a PIN (Personal Identification Number) was required only for transactions over the eftpos network and for ATM cash withdrawals. Under the recent

Graph 4

Market Shares of Card Schemes*



* Excludes scheme debit from March 2008; back data adjusted for break
 ** Includes Bankcard before 2007
 Source: RBA

initiative, domestic transactions on Australian-issued American Express, Diners Club, MasterCard and Visa chip cards now require a PIN to authorise point-of-sale purchases; contactless transactions are the main exception, with no authorisation required for transactions under \$100.

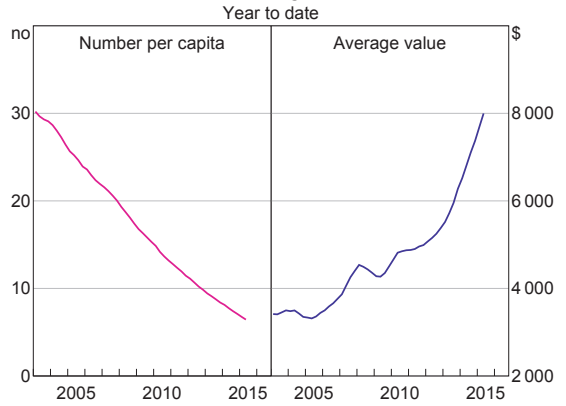
Cheque, BPAY and Direct Entry payments

The decline in the use of cheques has accelerated, with the total number of cheque payments falling by 16 per cent in 2014/15, to be 70 per cent lower than in 2004/05 (Graph 5). While the number of all types of cheque transactions – personal, commercial and financial institution cheques – has continued to decline, the average value of a cheque payment continues to rise, with a significant share of remaining cheque use related to commercial payments and financial institution cheques for certain types of transactions such as property settlements. Despite accounting for only a small share of the number of payments, cheques still account for a considerable share of their value (around 8 per cent of non-cash payments, i.e. more than debit cards, credit cards and BPAY combined).

In light of declining cheque use and rising unit costs, the payments industry has been seeking improvements in the efficiency of the cheque system. During the year, the industry implemented

Graph 5

Cheque Payments



Source: RBA

changes to clearing arrangements, which allow cheque details to be digitally captured and payments cleared between banks without the need for the physical exchange of cheques.

The number of BPAY transactions increased 4 per cent in 2014/15 and the value by 11 per cent. BPAY payments tend to be for relatively large amounts, with an average value of \$884, reflecting its use by consumers for payments such as utilities, education fees and investments, as well as some use by businesses. The value of payments processed through BPAY has slightly exceeded the value of credit/charge card payments for the past three financial years.

Direct Entry payments remain an important part of the payments landscape, used by consumers for internet 'pay-anyone' transactions, and by businesses, corporations and governments for a range of bulk payments, such as salary and welfare payments and bill collections. Reflecting the latter types of transactions, average payment values are significantly higher than the levels typically associated with 'consumer' payments. Accordingly, Direct Entry payments account for the bulk of the value of non-cash payments in the Australian economy. In 2014/15 growth in the value of direct debits and direct credits was slightly above the average for the past few years.

Online payments

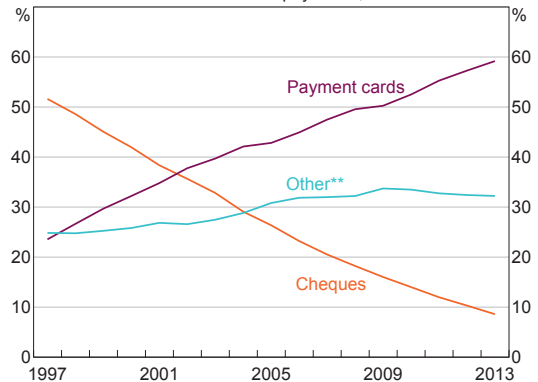
Online payment channels are an increasingly important element of the payments landscape, with users' needs serviced by a mix of well-established payment methods and some newer, more specialised providers. The use of BPAY and internet pay-anyone transactions continues to grow steadily and accounts for the bulk of online payments by value. However, the use of specialised online payments systems has continued to grow very rapidly, while the value of debit and credit card spending in online transactions grew at around twice the pace of card spending in other (largely point-of-sale) environments in 2014/15.

International Payment Trends

The longstanding trend observed in Australia of a substitution away from paper-based to electronic payment methods has been evident in most other jurisdictions as well, according to data published by the Committee on Payments and Market Infrastructures (CPMI) (Graph 6). Cross-country

data confirm that Australians are among the most frequent users of payment cards (Table 2). As in Australia, cheque use in other countries has fallen significantly; indeed, there are a number of continental European countries where the cheque system is now little used or has been closed down.

Graph 6
Non-cash Payments – International*
Per cent of non-cash payments, number



* Selected CPMI countries; data prior to 2009 have been adjusted for changes in reporting and membership

** Includes direct credit and direct debit transactions

Sources: ABS; BIS; RBA

Table 2: Non-cash Retail Payments in Selected CPMI Countries
Number per capita, 2013

	Cheques	Direct debits	Direct credits	Debit card	Credit ^(a) card	Total ^(b)
United States	52	43	29	177	89	389
Sweden	<1	33	93	207	43	375
Netherlands	0 ^(c)	81	103	162	7	354
Australia	9	35	75^(d)	146	83	347
Korea	7	34	68	69	160	338
United Kingdom	11	55	60	141	37	304
Canada	20	21	28	129	96	293
France	38	52	47		137 ^(e)	274
Germany	<1	121	76	36	9	242
Brazil	7	25	48	24	26	129

(a) Includes charge cards

(b) Excludes e-money

(c) Cheques have been abolished since 2001

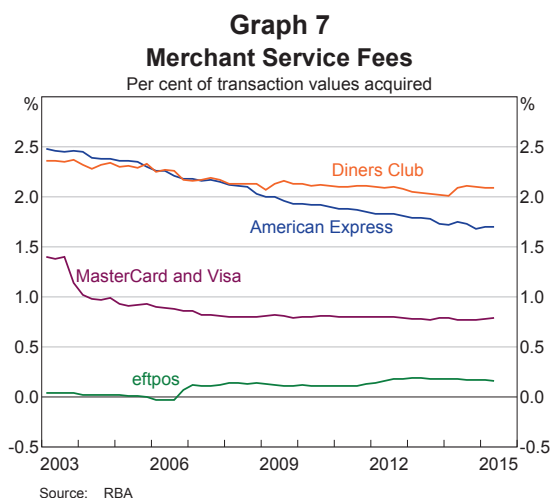
(d) Includes BPAY

(e) Split between debit and credit cards not available

Sources: ABS; BIS; RBA; United States Census Bureau

Merchant Service Fees

The average fee paid by merchants to their financial institution for transactions on MasterCard and Visa credit and debit cards has been largely unchanged in recent years at around 0.78 per cent of the value of transactions (Graph 7). These fees had previously fallen following the Bank's reforms to the payment cards system in the early 2000s. Fees for American Express and Diners Club cards have also declined since the early 2000s, with the average fee for American Express transactions falling by a further 4 basis points in 2014/15 to 1.70 per cent of the value of transactions. The average merchant service fee for eftpos transactions was unchanged in 2014/15 at around 10 cents per transaction. This corresponds to a rate of 0.17 per cent for the average eftpos transaction.



Interchange Fees

Interchange fees are wholesale fees paid between a merchant's financial institution and a cardholder's financial institution when a cardholder undertakes a card payment. As discussed in the next chapter, the Reserve Bank is currently undertaking a review of its card payments regulations, including the standards that cap the average level of interchange fees in the MasterCard and Visa credit card systems, the Visa debit card system and the eftpos debit card system.

Under the Bank's standards, the weighted average of multilateral interchange fees in the above systems must not exceed certain benchmarks on specified compliance dates – 1 November of every third year after 2006, and on any date the card scheme makes a change to its schedule of interchange fee rates.

The multilateral interchange fee benchmarks were unchanged in 2014/15, at 0.50 per cent of the value of transactions for the credit card systems and 12 cents per transaction for the debit card systems.² The Bank announced in March 2015 that, reflecting the review of card payments regulation (see 'Retail Payments Policy and Research') and the likely compliance costs involved in recalculating the cost-based benchmarks, it was waiving the recalculation ahead of the next scheduled compliance date of 1 November 2015.

Under the Bank's standards, card schemes have the flexibility to set different multilateral interchange fees for different types of transactions, provided that the weighted average of these fees for each system does not exceed the relevant benchmark on the compliance dates. Neither MasterCard nor Visa made changes to credit card interchange fees during 2014/15, after most recently making changes in June 2013. In the debit card systems, MasterCard and Visa made a number of changes to their interchange fee schedules in November 2014. Both schemes also amended their prepaid card interchange fee schedules at that time.³ eftpos Payments Australia Ltd left interchange fees for eftpos transactions unchanged in 2014/15, after most recently making changes in October 2012.

² All interchange fee benchmarks and rates quoted in this section are exclusive of GST.

³ While interchange fees applying to prepaid card transactions are not formally regulated, in September 2006 the Board noted its expectation that interchange fees for transactions on these cards would be published and set broadly in conformity with the Standard on interchange fees in the Visa Debit system.

Cheque and Card Payments Fraud

Total losses relating to fraudulent cheque and debit, credit and charge card transactions (where the card was issued and/or acquired in Australia) increased by 29 per cent to \$450 million in 2014, according to data collected by the Australian Payments Clearing Association (APCA). The fraud rate (the value of fraudulent transactions as a share of overall transactions) on Australian-issued cards increased from \$0.47 per \$1 000 in 2013 to \$0.59 per \$1 000 in 2014, to be above the previous peak of \$0.52 per \$1 000 in 2011. The increase reflected a 30 per cent rise in fraud on debit, credit and charge cards from the international schemes to \$421 million in 2014 (Graph 8, Table 3).⁴ Losses relating to fraudulent eftpos and ATM transactions also rose noticeably owing to a pick-up in card counterfeiting, but at \$23 million remain low compared with scheme card fraud. Cheque fraud declined by 14 per cent in 2014, to \$6 million.

Graph 8
Fraud on Cheque and Card Transactions
Calendar year

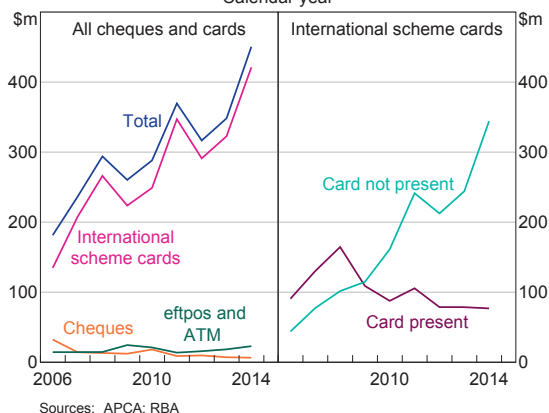


Table 3: Fraud Losses by Transaction Type
\$ million

	2013	2014
All instruments	348	450
Cheques	7	6
All cards	341	444
eftpos and ATM transactions	18	23
Scheme debit, credit and charge cards	322	421
<i>Australian cards used in Australia</i>	124	132
Card present	38	33
Card not present	86	99
<i>Australian cards used overseas</i>	149	232
Card present	25	31
Card not present	125	201
<i>Foreign cards used in Australia</i>	50	57
Card present	16	13
Card not present	34	45

Source: APCA, RBA

⁴ Fraud statistics for 'scheme' debit, credit and charge cards include transactions through the international card schemes – MasterCard, Visa, American Express, Diners Club and JCB.

The increase in scheme card fraud was driven by a 61 per cent increase in losses associated with Australian cards being used to make fraudulent purchases overseas in a card-not-present (CNP) environment (i.e. online, via telephone or via mail). CNP fraud losses on foreign cards used in Australia increased by around a third, while there was a smaller increase in solely domestic CNP fraud. Total CNP fraud losses amounted to \$345 million in 2014, accounting for over 80 per cent of all losses covered by APCA's collection.

In contrast to the large increases in CNP fraud, in 2014 there was a slight fall in losses relating to fraudulent card-present transactions on scheme cards. This reflected a decrease in fraudulent transactions acquired in Australia (on both Australian and international cards), offset by an increase in fraud on transactions acquired overseas.

As discussed above, during 2014/15 the Australian payments industry completed an initiative to phase out signature authorisation for most types of card-present transactions. This is expected to reduce domestic card-present fraud further. The Board observes that good progress has been made on addressing card-present fraud and encourages the industry to now turn its attention to addressing the growth of CNP fraud.

Fraud losses relating to eftpos and ATM transactions increased from \$18 million to \$23 million in 2014, largely reflecting an increase in counterfeit/skimming fraud. The ongoing rollout of the EMV chip standard at ATMs is designed to reduce counterfeiting activity in future.

