Developments in Retail Payment Systems

Given its mandate to promote efficiency, the Board closely monitors developments in the Australian retail payments system. Developments during 2010/11 were consistent with the general trends of the past few years. The use of non-cash payment methods grew rapidly in 2010/11, with card use making a strong contribution, driven largely by debit cards, while cheque use continued to decline steadily. Survey data for 2010 suggest that cash use remains high in Australia, although its share of consumer payments has declined in the past three years, with debit cards being used for some low-value payments that had traditionally been made with cash. Other developments during the year included a further increase in credit and scheme debit card fraud for card-not-present transactions and a shift in the types of credit card products held following the automatic upgrade of gold to platinum cards by some institutions.

Trends in Retail Payments Use

Cash payments

In 2010, the Reserve Bank conducted its second major study into how individuals make payments (Consumer Payments Use Study) as part of its Strategic Review of Innovation in the Payments System.[1] One focus of the Study was the use of cash for consumer payments, for which little comprehensive data are otherwise available. The Study found that cash remains the most prevalent payment method for low-value transactions, accounting for 64 per cent of the number of consumer payments but just 34 per cent of the value.[2] This represents a significant decrease in both the number and value of payments – around 5 percentage points – from the 2007 Study.[3] While cash was used more frequently than all other payment methods combined for payments up to $50 at the time of the previous Study in 2007, the same is now true only for payments up to $40, suggesting that cash is increasingly being used mainly for payments of low values. Card payments – particularly those made with a debit card – are responsible for the bulk of this shift away from using cash. Card payments accounted for around 24 per cent of payments under $50 in 2010, up from 19 per cent in 2007.

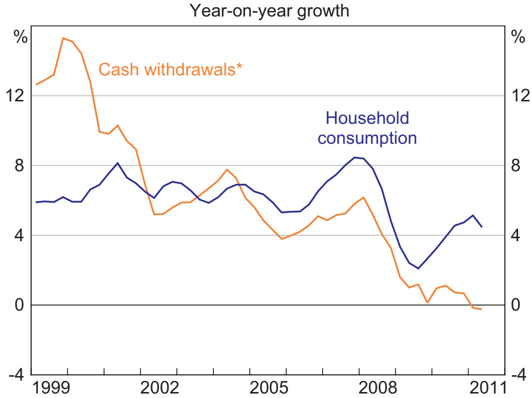
Consistent with the 2010 Study, data reported by financial institutions also suggest a longer-term shift away from cash payments. The value of cash withdrawals continued to contract in 2010/11, even as nominal household consumption grew by 4 per cent over the period (Graph 1).

1 Bagnall J, S Chong and K Smith (2011), *Strategic Review of Innovation in the Payments System: Results of the Reserve Bank of Australia's 2010 Consumer Payments Use Study*, RBA, June. The results of the Study are discussed further in the chapter 'Strategic Review of Innovation'.

2 These comparisons are based on payment methods captured by both the 2007 and 2010 studies. To ensure that data from the two studies are comparable, the comparisons exclude payment methods added to the 2010 Study, such as internet/telephone banking and transactions above $9 999. When all payment methods covered by the 2010 Study are considered, cash accounts for 62 per cent of the number and 23 per cent of the value of all payments by individuals.

3 Emery D, T West and D Massey (2008), 'Household Payment Patterns in Australia', in *Payments System Review Conference*, Proceedings of a Conference, Reserve Bank of Australia and Centre for Business and Public Policy at the Melbourne Business School, Sydney, 29 November 2007, pp 139–176.

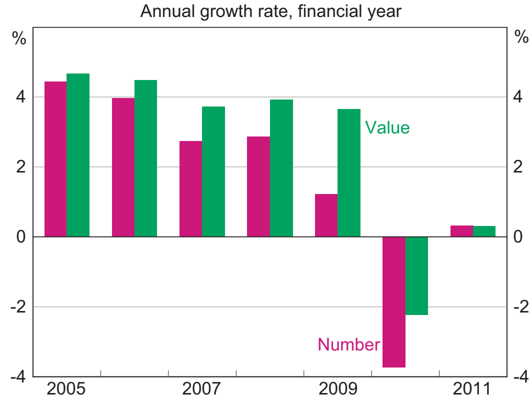
Graph 1
Value of Cash Withdrawals and Household Consumption
Year-on-year growth



* Data from September 2004 onwards include ATM, over-the-counter, eftpos cash-outs and credit card cash advance withdrawals; prior to September 2004, the data only include ATM withdrawals

Sources: ABS; RBA

Graph 2
ATM Withdrawals
Annual growth rate, financial year



Source: RBA

ATM withdrawals remained the most popular method for accessing cash in 2010/11, accounting for around 72 per cent of the total number and 61 per cent of the value of all cash withdrawals. Both the number and value of ATM withdrawals increased slightly in 2010/11 following sharp decreases in the previous year. Nonetheless, growth remains significantly lower than in the years preceding the introduction of direct charging in March 2009 (Graph 2). This suggests an ongoing effect of direct charging on consumer behaviour, with cardholders continuing to make less frequent visits to ATMs where they pay a direct charge, and making larger withdrawals on average, relative to the pre-reform period.

Obtaining cash with an eftpos transaction ('eftpos cash-out') is the next most frequently used means of accessing cash, accounting for 23 per cent of withdrawals. However, this accounts for only around 6 per cent of the total value of withdrawals since cash-outs – at around $58 on average per withdrawal – are one-third of the size of an average ATM withdrawal. The relatively high number and low value of eftpos cash-outs may reflect the fact that these withdrawals are typically free to consumers and generally follow the purchase of goods or services. In 2010/11, the number and value of eftpos cash-outs increased by 7 per cent and 6 per cent, respectively, continuing the strong growth of recent years.

Over-the-counter (OTC) cash withdrawals account for around 2 per cent of the number of withdrawals but 28 per cent of the value. In 2010/11 their use declined slightly in both number and value. Cash advances on credit cards also continued their trend decline as a means of accessing cash.

Non-cash payments

The number of non-cash payments has increased steadily over the past few years, and recent trends in the use of individual payment methods have largely continued during 2010/11 (Table 2, Graph 3). The total number of non-cash payments grew by around 9 per cent during 2010/11 – higher than its average growth over the past five years – while the value of these payments was little changed. The average value of non-cash payments has consequently fallen, largely reflecting a fall in the average size of direct credit transactions. On average, Australians made 308 non-cash transactions per person in the year.

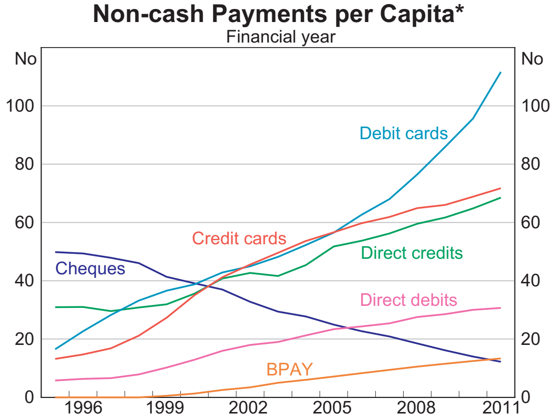
Table 2: Australian Non-cash Retail Payments

	2010/11					Average annual growth, 2006/07–2010/11	
	Per cent of total		Average value	Growth, per cent		Per cent	
	Number	Value	$	Number	Value	Number	Value
Cheques	4.0	10.6	5 146	–11.6	–5.2	–8.9	–4.4
Direct debits	10.0	37.9	7 387	3.6	2.6	5.4	3.5
Direct credits[(a)]	22.2	46.9	4 090	7.2	1.2	5.6	1.4
Debit cards	36.2	1.2	66	18.4	15.8	12.0	11.1
Credit cards[(b)]	23.3	1.7	145	5.7	5.7	4.5	5.5
BPAY	4.3	1.6	712	8.4	10.7	8.8	9.9
Total	**100.0**	**100.0**	**1 938**	**9.3**	**1.4**	**6.5**	**1.7**

(a) Excludes BPAY transactions; a reporting change by a bank caused a break in the series in 2009/10, increasing the number and decreasing the value of direct credits
(b) Excludes BPAY transactions
Sources: BPAY; RBA

Around 60 per cent of these non-cash transactions were card payments, with an average of 112 debit card transactions and 72 credit card transactions made per person in 2010/11. Strong growth in the use of debit cards, at around 18 per cent, was the main driver of the overall growth in the number of non-cash payments. Card payments, however, are mainly used for mid-sized transactions and, therefore, accounted for only 3 per cent of the total value of non-cash payments. Direct entry transfers were the next most frequently used payment method in 2010/11, accounting for around one-third of the number of total non-cash transactions, with an average of 69 direct credit transfers and 31 direct debit transfers per person during the year. These payments tend to be relatively high in value, making up 85 per cent of non-cash payments.

Graph 3
Non-cash Payments per Capita*



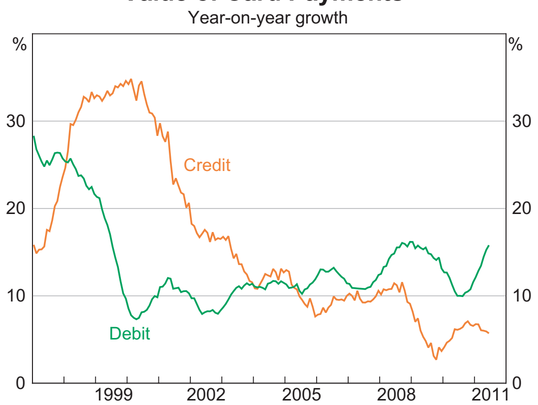
* Apart from BPAY, data from 2002 onwards are based on the RBA's Retail Payments Statistics. Data for earlier years come from APCA and the RBA, and have been adjusted for differences between these sources and the Retail Payments Statistics
Sources: ABS; APCA; BPAY; RBA

The number of cheques written has continued its trend decline, with an average of only 12 cheques written per person in the year, compared with 50 cheques in 1995. As the number of cheques written has declined by more than the value of cheque payments, the average per-transaction value has increased to over $5 000 per cheque, which suggests that they continue to be reserved for higher-value payments.

Card-based payments

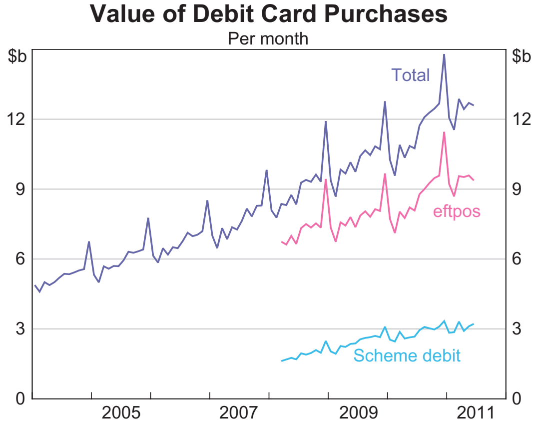
Around 4 billion card-based payments were made in 2010/11 for a total value of $400 billion. This was an increase in the number of card-based payments of around 13 per cent in the year and an increase in the value of 10 per cent. While the average value of a card transaction fell, this reflects the increasing share of debit card use relative to credit cards; the average transaction values of both credit and charge cards, and debit cards were little changed in 2010/11, at $145 and $66, respectively.

Graph 4
Value of Card Payments*



* RBA credit card data prior to March 2008 adjusted to remove BPAY transactions
Sources: BPAY; RBA

Graph 5
Value of Debit Card Purchases



Source: RBA

Growth in spending on debit cards accelerated to 16 per cent in 2010/11 from 10 per cent in 2009/10, while spending on credit cards slowed to around 6 per cent over the same period (Graph 4). The divergence may reflect households' continued caution in their borrowing behaviour.[4] It may also partly reflect the continued reaction by both consumers and merchants to the Board's card payment reforms; there have been further declines in average reward benefits to holders of credit cards and an increase in the share of merchants levying a surcharge on credit cards (see 'Pricing and product offerings to cardholders' later in this chapter and 'Surcharging' in the next chapter).

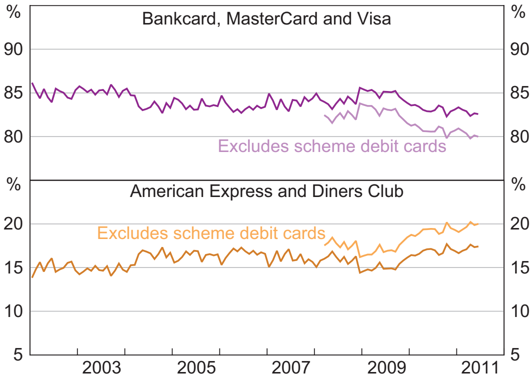
Also contributing to the divergence in debit and credit card use has been substitution of debit cards for cash over the past few years. According to the Reserve Bank's Consumer Payments Use Study, consumers made an average of 3.4 debit card payments per week in 2010 – a significant increase on the average of 2.0 payments per week in 2007. By contrast, cash payments were largely unchanged over the same period, at an average of around 9 payments per week. One of the drivers of growth in debit card use over recent years has been the increased adoption of scheme debit cards, with the proportion of individuals making at least one payment per week on these cards almost doubling from 18 per cent in 2007 to 35 per cent in 2010. Reflecting this, growth in scheme debit payments had been outpacing that of eftpos until 2010/11, albeit from a much lower base. During 2010/11, however, the number of eftpos purchases grew by 20 per cent and the value by 18 per cent, while growth in the number and value of scheme debit payments slowed to 12 per cent and 15 per cent, respectively. eftpos continues to account for around three-quarters of the total value of debit card purchases (Graph 5).

Within credit cards, the market shares of the three- and four-party schemes were little changed during 2010/11 (Graph 6). The combined market share of American Express and Diners Club has remained around 20 per cent, following a period of expansion in 2009/10 related to the issuance of 'companion' American Express cards to existing MasterCard and Visa cardholders by some of the major banks.[5]

4 For example, see RBA (2011), 'Household and Business Balance Sheets', *Financial Stability Review*, March, pp 43–57.

5 Some banks now offer their existing MasterCard or Visa credit cardholders a 'companion' American Express card on the same account, with cardholders able to earn more reward points on the latter card.

Graph 6
Market Shares of Card Schemes
By value of purchases



Source: RBA

Other electronic payments

The number of direct credits increased by around 7 per cent in 2010/11, slightly faster than the five-year average, while the number of direct debits increased by around 4 per cent, somewhat slower than the longer-term trend. The value of direct credits and debits remained broadly steady, and average transaction sizes declined.

BPAY transactions continued to grow strongly at a pace close to the recent annual average. The number of transactions increased by around 8 per cent, and the value of transactions increased by around 11 per cent.

Online payments

The use of the internet to make retail payments has increased in recent years, accounting for around 17 per cent of the number and 15 per cent of the value of all non-cash retail payments in 2010/11. These payments were made in several ways, including by means of credit cards, scheme debit cards, BPAY, internet banking and specialised online payments providers such as PayPal. Given their increasing importance, the Reserve Bank has been monitoring market developments in online payments closely, and recently started collecting data from some specialised online payments providers to complement its regular data collection from financial institutions.

Internet banking is the most heavily used online payment method, accounting for 51 per cent of the number and 88 per cent of the value of online payments (Table 3). This reflects the use of internet banking for a wide variety of transactions, such as wage and salary payments, personal transfers and some types of corporate payments. BPAY – used mostly for bill payments – accounts for about another 24 per cent of the number of online payments and 10 per cent of the value. While credit and scheme debit cards also account for a sizeable share of the number of online payments, they account for only 2 per cent of the value. The specialised online payments providers currently constitute a relatively small share of the overall market, by both number and value.

Table 3: Online Payments
Shares in the year to June 2011, per cent

	Number	Value
Internet banking	50.8	88.2
BPAY	23.7	9.8
Scheme credit and debit cards	21.6[(a)]	1.8
Specialised online payments providers	3.9	0.2

(a) Includes double-counting of some PayPal transactions
Sources: BPAY; RBA; specialised online payments providers

A distinct segment of the overall online payments market is the 'online retail' market for the purchase of goods and services. This market is largely characterised by the use of payment methods that provide real-time confirmation of payments to merchants and, as such, excludes BPAY and internet-banking transfers. This can be important for online purchases, where consumers often want to complete transactions quickly so that goods or services can be booked, downloaded or shipped immediately. Currently only credit cards, scheme debit cards and the specialised online payments providers allow for this real-time functionality in Australia.

The online retail market is estimated to have accounted for around one-quarter of the total number of payments made online in 2010/11, but only 2 per cent of the value. Credit cards are the dominant payment method in this segment, making up around 61 per cent of the number and 76 per cent of the value of all online retail payments (Table 4). Nonetheless, the use of both scheme debit cards and specialised online payments providers has grown rapidly in recent years.

Table 4: Online Retail Payments
Shares in the year to June 2011, per cent

	Number	Value
Credit cards	61.1[(a)]	75.5[(b)]
Scheme debit cards	23.8[(a)]	15.6[(b)]
Specialised online payments providers	15.1	8.9

(a) Includes double-counting of some PayPal transactions
(b) Adjusted for the double-counting of some PayPal transactions
Sources: RBA; specialised online payments providers

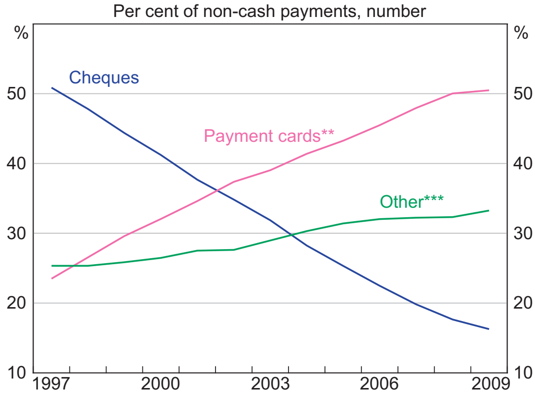
Cheques

The number and value of cheques fell by around 12 per cent and 5 per cent, respectively, in 2010/11, which continued the long-term trend of declining cheque use. Cheques accounted for around 4 per cent of non-cash retail payments in 2010/11, down from 5 per cent in 2009/10 and around 10 per cent in 2005/06. The value of an average cheque payment increased by around 7 per cent over the year, in line with the trend of recent years. Together, these data suggest that cheque use is declining for low-value retail payments (for which there are several suitable electronic substitutes) but continues for high-value retail payments.

Payment trends internationally

International trends in payment instrument usage over the past few years have been similar to those in Australia. Electronic payment instruments, particularly cards, continue to increase in importance while cheque use declines (Graph 7). In 2009 (the latest period for which data are available), card payments made up half of all non-cash retail payments internationally compared with less than one-third in the late 1990s. Other electronic means of payment, mainly credit transfers and direct debits, have not grown as quickly as card payments, accounting for around one-third of non-cash payments in 2009. Cheque use has declined consistently over the past decade: cheques were used for less than 20 per cent of non-cash payments in 2009, compared with just under half of all transactions in 1998. In response to this decline, a

Graph 7
Non-cash Payments – International*
Per cent of non-cash payments, number



* CPSS member countries; data before 2005 have been adjusted for changes in membership
** Japan payments data not available for 2009
*** Includes direct credit, direct debit and e-money transactions
Sources: ABS; BIS; RBA

phasing out of cheques has already occurred in the Netherlands, and other countries – such as Canada, Ireland and New Zealand – have initiated discussions on the future of cheques. In 2009, the UK Payments Council proposed closing the central clearing of cheques by 2018; however, in July this year, following extensive public consultations, the Payments Council announced that this was no longer planned.

While the trend towards increased use of electronic payment instruments is broad based, there are some significant differences across countries in the types of payment instruments used (Table 5). In particular, Australia, Canada, Korea and the United States remain relatively heavy users of credit cards, even though the use of debit cards has been growing rapidly in these countries over recent years. In France, Germany and the Netherlands, direct debits are used extensively, while in Belgium, Sweden and Switzerland, direct credits are widely used. Cheques are still used frequently in Canada, France and the United States, though use is falling. Cash remains dominant in China, India and Mexico, with 20 or less non-cash payments per person in 2009.

Table 5: Non-cash Retail Payments in Selected Countries
Number per capita, 2009

	Cheques	Direct debits	Direct credits	Debit card(a)	Credit card(b)	Total(c)
Australia	15	29	75(d)	90	67	277
Belgium	1	24	88	82	10	211
Brazil	9	22	37	12	15	96
Canada	34	22	34	115	79	284
China	1	na	1	3(e)	na	5
France	51	51	43	107(e)	na	255
Germany	1	103	71	24	5	205
Hong Kong	na	na	na	14	48	na
India	1	<1	<1	3	<1	5
Italy	6	10	20	15	10	66
Japan(f)	1	na	11	<1	41	61
Korea	19	27	50	22	97	218
Mexico	4	<1	7	4	4	20
Netherlands	na	77	90	125(e)	na	302
Russia	<1	1	14	5	<1	26
Saudi Arabia	<1	<1	<1	42	1	46
Singapore	16	11	6	41	na	84
South Africa	2	11	9	18(e)	na	40
Sweden	<1	26	97	143	39	305
Switzerland	<1	6	90	48	19	165
Turkey	na	na	na	2	24	na
United Kingdom	21	51	53	97	32	257
United States	82	36	23	125	73	340

(a) Includes scheme debit
(b) Includes charge cards
(c) Includes e-money and 'other' transactions
(d) Includes BPAY
(e) Split between debit and credit cards not available
(f) Figures for Japan are for 2008
Sources: ABS; BIS; RBA

Other Retail Payments Developments

Interchange fees

The Reserve Bank regulates interchange fees in the MasterCard and Visa credit card systems, and the Visa and eftpos debit card systems in Australia.[6] Under standards imposed by the Reserve Bank, the weighted-average multilateral interchange fee in each system must be at or below a specified benchmark for each system on specified compliance dates – 1 November of every third year after 2006 and the date that any interchange fee is introduced, varied or removed. The benchmarks were unchanged in 2010/11, at 0.50 per cent of the value of credit card transactions and 12 cents per transaction for scheme debit cards, paid by the transaction acquirer to the card issuer. Although there was no change to the Standards, for the first time the same benchmark will apply to both the eftpos system and the Visa debit card system after a new multilateral fee schedule was announced for the eftpos system (see below). There was also no change to the regulated range for bilaterally negotiated eftpos interchange fees, which are required to be between 4 and 5 cents per transaction (paid by the issuer to the acquirer), excluding transactions with a cash-out component.[7]

The approach adopted by the Reserve Bank allows the schemes significant flexibility to set fees for different interchange categories, provided that the weighted average meets the benchmark. MasterCard and Visa have established a number of interchange fee categories based on factors such as the type of account (e.g. consumer or commercial), the type of card (e.g. standard or premium), the type of merchant (e.g. government, charity or service station) and the type of transaction (e.g. chip, non-chip or contactless) (Table 6). Both schemes left these interchange categories and the fees applying to them unchanged in 2010/11, following the previous round of modifications on 30 June 2010.

eftpos Payments Australia Limited (ePAL) – the body established in 2009 to govern the eftpos scheme – announced a multilateral interchange fee schedule in March 2011, to take effect from October 2011. The schedule will reverse the direction of existing bilaterally negotiated interchange fees for the bulk of eftpos transactions. Both the issuer and the acquirer must have opted-in to the schedule by mid August 2011 before the new fees will take effect; members who chose not to opt-in will remain on their bilateral agreements until they expire or are terminated.

The new multilateral interchange arrangements are:

- *Purchases $15 and above without cash-out:* 5 cents is paid by the acquirer to the issuer. This reverses the current flow of interchange fees for most transactions. ePAL suggests this will encourage investment in eftpos enhancements, such as mobile and online payments.
- *Purchases below $15 without cash-out, charity payments and Medicare Easyclaim:* no interchange fee is paid. ePAL intends for this to provide an incentive for merchants to accept small payments on eftpos.
- *Purchases with cash-out and cash-out-only transactions:* 15 cents is paid by the issuer to the acquirer – the opposite direction to purchase transactions. Current bilateral interchange fees on cash-outs are around 20 cents, also paid to the acquirer. ePAL suggests this will retain the incentive for merchants to support cash-out transactions.

6 For debit cards, MasterCard has undertaken to voluntarily comply with the interchange fee benchmark in the Visa Debit Standard. All interchange fees quoted in this section exclude GST.

7 Multilateral interchange fees in the eftpos system are required to be at or below 12 cents per transaction paid to the issuer, while bilaterally negotiated eftpos interchange fees must be between 4 and 5 cents paid to the acquirer.

Table 6: Interchange Fees
As at 30 June 2011, excluding GST

	Credit card Per cent unless otherwise specified		Debit card Cents unless otherwise specified	
	MasterCard	Visa	MasterCard	Visa
Consumer electronic	0.35	0.40	6.0	8.0
Consumer standard	0.40[(a)]	0.45	19.0	0.30%
Consumer chip	0.35	–	12.0	–
Premium/platinum	1.00[(b)]	1.00	0.50%	0.40%
Premium chip	1.00	–	–	–
Super premium	1.60[(c)]	1.70	–	–
Commercial	1.27	1.28	1.27%	1.00%
Commercial chip	1.27	–	1.48%	–
Strategic merchant	0.25 or 0.34	0.25 to 0.35	3.6	4.0 to 60.0
Government/utility	0.30	0.30	7.0	8.0
Charity	0.00	0.00	0.00%	0.00%
Petrol/service station	0.34	0.32	4.0	6.0
Education	0.30	0.40	–	8.0
Supermarket	–	0.32	–	6.0
Insurance	–	0.40	–	8.0
Transit	–	0.30	–	6.0
Recurring payment	0.30	0.30	9.1	8.0
Quick Payment Service	0.40	–	4.0	–
Contactless payment	0.35	–	–	–
Micropayment	–	–	4.0	–
Large ticket[(d)]	–	$20 + 0.20%	–	$10 + 0.10%
Benchmark	**0.50**	**0.50**	**12.0**	**12.0**

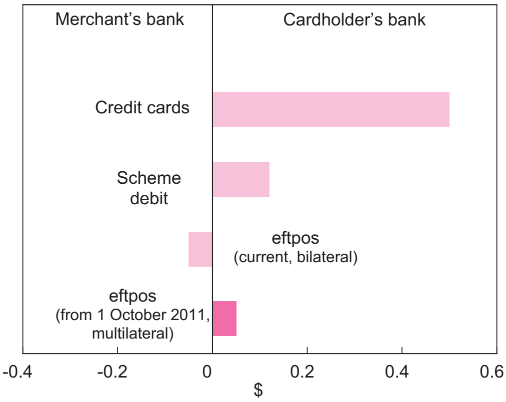
(a) May be 0.30% or 0.35% depending on use of MasterCard's SecureCode online authentication system
(b) May be 0.90% or 0.95% depending on use of MasterCard's SecureCode online authentication system
(c) May be 1.50% or 1.55% depending on use of MasterCard's SecureCode online authentication system
(d) Transactions above $10 000 excluding travel/entertainment purchases
Sources: MasterCard website; RBA; Visa website

These interchange fees remain lower than those for scheme debit and credit cards for the majority of transactions. For a $100 purchase, for instance, the new eftpos interchange fee will be 5 cents, compared with around 12 cents for scheme debit cards and 50 cents for credit cards on average (Graph 8).

Merchant service fees

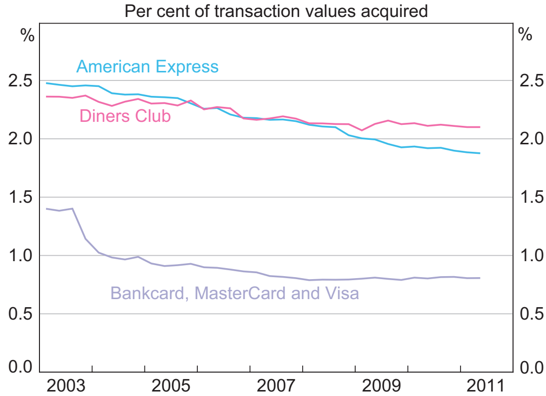
The average fee paid by merchants to acquirers for accepting MasterCard and Visa credit card transactions was little changed in 2010/11, at 0.81 per cent of the value of transactions (Graph 9). Indeed, the average merchant service fee, measured on a quarterly basis, has stayed within a narrow band of 0.79 to 0.82 per cent of

Graph 8
Interchange Fees on a $100 Payment
Excluding GST



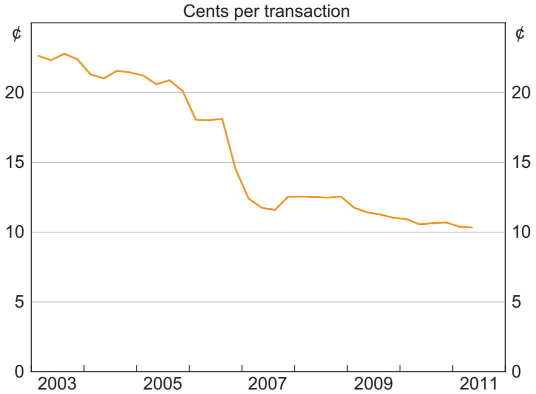
Source: RBA

Graph 9
Merchant Service Fees
Per cent of transaction values acquired



Source: RBA

Graph 10
eftpos Merchant Service Fee Margin Over Interchange Fee
Cents per transaction



Source: RBA

the value of these transactions for the past four years. The margin between the average merchant service fee and the interchange fee cap on MasterCard and Visa credit card transactions has remained stable at around 30 basis points over the same period, which is significantly narrower than the margin of 45 basis points in the September quarter of 2003 (just prior to the Board's reforms). This period of stability followed large falls in the average fee paid by merchants in the first few years following the Reserve Bank's reforms, which reflected an increase in competition between acquirers for the business of merchants.

The average fee paid by merchants for accepting American Express and Diners Club transactions declined slightly in 2010/11. The average merchant service fee for American Express declined by 4 basis points, to 1.90 per cent of the value of transactions; in 2009/10 it declined by 10 basis points. The average Diners Club fee declined by 2 basis points in 2010/11 and has changed little over the past two years.

In the eftpos system, the average merchant service fee continued its gradual decline, falling by 0.4 cents to 6.0 cents per transaction. Mirroring the credit card system, the decline in average merchant service fees in the eftpos system has been driven by increased competition among acquirers. In 2010/11, the margin between interchange fees and average merchant service fees narrowed slightly to 11 cents per transaction (Graph 10).

Pricing and product offerings to cardholders

Card issuers offer a range of card products, each providing a different mix of fees and benefits to the consumer. There are currently six main types of offering. These can be broadly grouped into cards that offer no rewards (including 'low-rate' and 'low-fee' cards) and cards with rewards programs (standard, gold, platinum and 'super premium') (Table 7). Low-rate cards are typically attractive to those cardholders who carry outstanding balances accruing interest from month to month ('revolvers'), as the average interest rate on these cards is around 6 percentage points lower than the interest rate on standard cards. Low-fee cards, on the other hand, are

Table 7: Typical Features of Personal Credit Cards, by Type[(a)]

As at end June 2011

	Average annual fee	Average interest rate	Average spending for $100 voucher[(b)]	Average rewards benefit	Range of rewards benefit
	$	Purchases, per cent per annum	$	Per cent of spending	Per cent of spending
No rewards					
Low rate	75	13.1	–	–	–
Standard ('low fee')	24	19.4	–	–	–
Rewards					
Standard	63	19.9	15 800	0.63	0.16–1.00
Gold	138	20.3	15 000	0.66	0.16–0.93
Platinum	252	20.3	10 800	0.93	0.58–1.23
Super premium[(c)]	563	20.7	8 100	1.24	1.16, 1.31

(a) The total sample comprises over 80 credit card products offered by 12 issuers; reported averages are calculated as simple averages of relevant products' features

(b) The value of spending required to obtain a $100 voucher assumes cardholders with a credit card product containing a companion American Express card spend equal amounts on their MasterCard/Visa card and companion American Express card; figures do not factor in the ability to earn bonus points at certain merchants, caps on earning points or reduced point accrual rates for spending above certain thresholds

(c) There are two super-premium card products: the Citibank 'Select' card with an annual fee of $900; and the CBA 'Diamond' card with an annual fee of $425

Sources: credit card issuers' websites as at 30 June 2011

more typically held by cardholders who pay off their credit card in full each month ('transactors') and do not desire additional benefits or rewards programs. Those transactors who use their cards more regularly may be attracted to standard, gold, platinum or super-premium rewards cards.

Average annual fees charged to customers have not changed substantially from a year ago for most card products. Platinum cards are the exception, with fees falling from $299 to $252 on average. As discussed below, this appears to be related to increased promotion of premium products to customers.

The higher annual fees (and higher interchange rates) on platinum and super-premium cards are associated with more generous rewards programs than standard or gold cards. The average expenditure required to earn a $100 shopping voucher is around $15 800 on a standard rewards card, representing an average rewards benefit of 63 cents for every $100 spent. By contrast, a platinum cardholder is required to spend, on average, around $10 800 to obtain the same benefit and a super-premium credit cardholder around $8 100, representing average rewards benefits of 93 cents and 124 cents, respectively, for every $100 spent; however, there is considerable variation in the range of rewards and benefits across cards.

Overall, there is evidence to suggest that rewards programs have become less valuable. In the year to June 2011, the average rewards benefit to cardholders fell by 4 cents for every $100 spent on standard cards, 5 cents on gold cards and 1 cent on platinum cards. This is in line with longer-term trends observed since the credit card reforms in 2003, in which average rewards benefits to cardholders have consistently declined.

In addition to the pricing faced by cardholders, some of these product types – notably platinum and super-premium cards – attract significantly higher interchange revenue per transaction for issuers. There is evidence to suggest that, over 2010/11, issuers have been seeking to alter their card portfolios to take advantage of these differentials. The clearest example has been banks reissuing standard or gold cards as platinum cards, either automatically or via an option for cardholders to consider. For a typical transaction, this implies an increase in interchange revenue for the issuer of around 0.6 per cent of the transaction value. Such 'upgraded' cardholders typically retain the same annual fees and reward structure of the original card, but have access to a range of 'premium' benefits not previously available to them (e.g. travel insurance and extended warranties). In a similar vein, new lower-fee platinum cards that are co-branded with some merchants do not have premium benefits, but offer more generous rewards programs and lower annual fees than traditional platinum products.

Overall, there has been a noticeable increase in the number of bank- and merchant-branded platinum credit card products available, many of which are priced to be more attractive to cardholders than previous offerings. This has led to an increased blurring of the distinction between gold and platinum cards. At the same time, the new super-premium category appears to be taking on the position previously occupied by platinum cards before they became more widespread. Super-premium cards, currently offered by only a small number of issuers, are characterised by having much higher annual fees than other credit cards but also more generous rewards programs and access to additional premium benefits. For example, the average annual fee for super-premium cards, at $563, is more than twice that of platinum cards.

The pricing arrangements for debit cards and deposit accounts to cardholders have remained largely unchanged over the past few years. Debit cardholders are typically charged an account-keeping fee of around $3 to $4 per month, which entitles them to an unlimited number of free electronic transactions, including eftpos, own-ATM and internet/telephone banking transactions. Some of these accounts also include unlimited cheque and branch transactions.

There is some variation across institutions in account offerings. Some institutions offer deposit accounts that have higher monthly account keeping fees but allow account holders to access benefits, including discounts at some retailers and complimentary insurance. Other institutions may charge a lower monthly fee but limit the number of fee-free transactions, while other institutions offer an unlimited number of transactions for a zero monthly fee. A number of institutions will also waive the monthly account keeping fee if the account holder maintains a balance above a certain threshold or makes sufficient deposits each month.

Fraud

Fraud rates in Australia remain below international levels, although they have risen in recent years. Total payments fraud – which includes fraud on cheques; scheme credit, scheme debit and charge cards; and proprietary debit cards – rose to 10.6 cents per $1 000 of payments in the year to December 2010, up from 9.1 cents in the preceding year (Table 8). The weighted-average fraud rate on payment cards rose 7 per cent to 35.6 cents.

Scheme credit, scheme debit and charge card fraud accounts for around 80 per cent of the total value of payments fraud. After declining slightly in 2009, the rate of fraud on these cards increased by 9 per cent in 2010, from 57.5 cents to 62.8 cents per $1 000 transacted (Graph 11). At the same time, the rate of fraud on proprietary debit cards fell from 9.4 cents to 7.9 cents per $1 000 transacted after rising sharply in the previous year, while cheque fraud increased to 1.3 cents per $1 000 transacted.

Table 8: Fraud on Australian-issued Payment Instruments
Cents per $1 000 transacted

	2009	2010
All instruments	9.1	10.6
All cards	33.3	35.6
Scheme credit, scheme debit and charge card	57.5	62.8
Proprietary debit card	9.4	7.9
Cheque	0.8	1.3

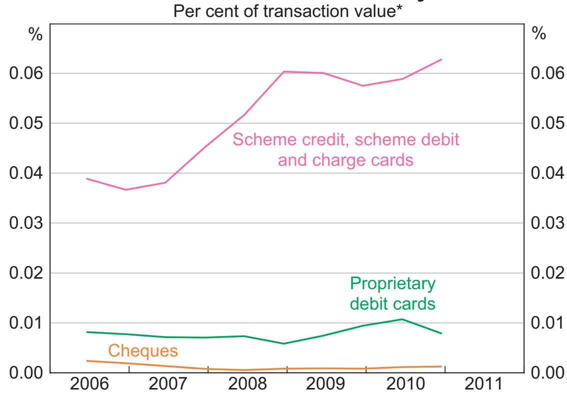
Source: Australian Payments Clearing Association

One of the main drivers of rising payments fraud rates in recent years has been card-not-present (CNP) fraud committed on scheme credit, scheme debit and charge cards. CNP fraud typically involves the theft of genuine card details, which are then used to make a fraudulent purchase over the internet, by phone, or by mail order. This type of fraud has grown substantially, rising from $32 million in 2006 to $123 million in 2010 for Australian-issued cards. CNP fraud now accounts for over 70 per cent of all scheme credit, scheme debit and charge card fraud on Australian-issued cards. Nearly two-thirds of this fraud was perpetrated overseas, reflecting the increasingly borderless nature of payments fraud (Graph 12).

Efforts to control rising CNP fraud have been undertaken by the card schemes at both the merchant and cardholder level. For online merchants, secure data storage is a prominent concern, as there have been a number of high-profile cases, both in Australia and overseas, where card details have been stolen from databases. In response to the risks of insecure data storage, the card schemes developed the Payment Card Industry Data Security Standard (PCI DSS) in 2004. The PCI DSS set data storage security standards to be met by any party that collects or stores data. If a merchant is found to be non-compliant, the schemes can impose a fine on that merchant's acquirer, which can then pass the fine onto the merchant. Any merchant that is not PCI DSS compliant can potentially be prevented from processing card payments.

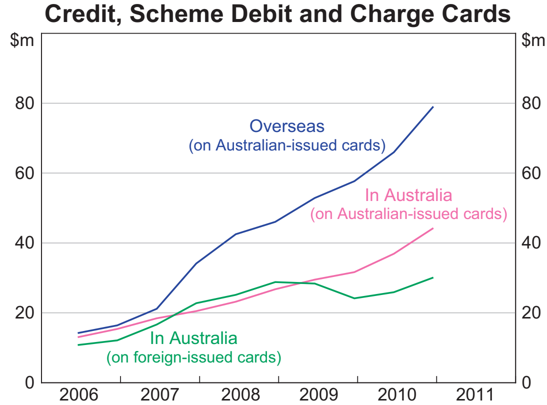
Another initiative of the card schemes at the cardholder level has been the introduction of online authentication services: Visa offers 'Verified by Visa' and MasterCard offers 'SecureCode'. Both systems add an extra level of security to a typical online transaction by asking registered cardholders

Graph 11
Fraud Rates on Australian Payments
Per cent of transaction value*



* Series break in December 2008 due to a change in reporting methodology
Source: APCA

Graph 12
Card-not-present Fraud on Scheme Credit, Scheme Debit and Charge Cards



Source: APCA

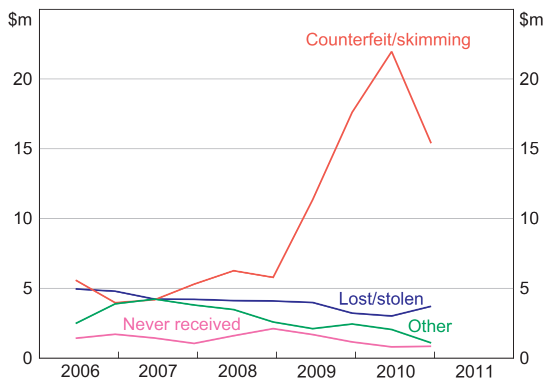
to provide a personal identification number (PIN). Use of these systems is likely to increase in Australia over the next few years, with Visa and MasterCard mandating that online merchants provide each system for cardholders by April 2012 and April 2013, respectively.[8]

In countries where CNP fraud has been a significant problem, the combined effect of merchant and cardholder strategies to control rising fraud rates has had some success. In the United Kingdom, for example, CNP fraud has declined by nearly one-third since 2008. The Financial Fraud Action UK group has attributed this decline to the increasing use of sophisticated fraud detection tools by merchants and banks, the use of online authentication services and consumer awareness campaigns. Successes overseas may have, in part, contributed to increased incidence of fraud in Australia.

Apart from CNP fraud, the other major component of payments fraud is counterfeit or skimming fraud. This type of fraud involves the theft of card details from the magnetic stripe of a genuine card, which is then used to create a fake card. As mentioned in the 2010 Annual Report, one response to these rising fraud rates has been the introduction of chip-based cards and terminals, and PIN authorisation at the point of sale (POS). These measures may be starting to have positive results. Since 2008, skimming fraud on Australian-issued scheme credit, scheme debit and charge cards has fallen around 36 per cent, from $50 million to $32 million. Over the same period, the value of skimming fraud on foreign-issued credit cards used in Australia has declined by almost two-thirds, from $78 million to $28 million.

Skimming fraud on proprietary debit cards also declined over the past year, after increasing rapidly over 2009 following a number of well-publicised skimming attacks at some ATMs and POS terminals. Skimming fraud on proprietary debit cards rose from around $6 million at the end of 2008 to as high as $22 million over the year to June 2010, but has since fallen back slightly to $15 million (Graph 13). Enhanced security around ATMs and POS terminals and greater merchant and consumer awareness may have contributed to this decline. The industry is continuing to develop ways of preventing skimming fraud and raising consumer and merchant awareness, such as through Australian Payments Clearing Association's (APCA) 'Protect Your PIN' and 'Safeguard Against Skimming' campaigns.

Graph 13
Proprietary Debit Card Fraud on Australian-issued Cards



Source: APCA

Operational outages in retail systems

A number of difficulties affected payments processing at some of the major banks during 2010/11. In late November 2010, National Australia Bank (NAB) experienced operational difficulties originating in its overnight processing of direct entry payments. Efforts to catch up on processing caused further problems. This was followed by another, unrelated, problem with direct entry payments in April 2011 at NAB. In March, the Commonwealth Bank experienced problems with its internet banking site, as well as its POS and ATM services, and in early May an operational difficulty at a data centre caused Westpac's eftpos, internet banking and ATM services

8 Visa is requiring all Visa cards be enrolled in the 'Verified by Visa' program by April 2012, while MasterCard is requiring online merchants to be able to provide 'SecureCode' or the equivalent for transactions over $200 by April 2013.

to shut down for a morning. The floods in Queensland in January also had a substantial effect on payments service providers in that state.

In all cases, the Reserve Bank was aware of and monitored the incidents closely, including via frequent communication with the affected institutions and industry bodies as appropriate. In light of these and other incidents, the Reserve Bank and the Australian Prudential Regulation Authority are discussing possible approaches to strengthen the handling of any future operational disruptions to retail payments systems.