

Other Retail Payments Developments

In addition to monitoring trends in the use of retail payment methods discussed in the 'Trends in Retail Payments' chapter, the Board monitors other developments relevant to its responsibilities of promoting competition and efficiency in the payments system. This chapter outlines developments during 2012/13 in interchange fees and merchant service fees for card payments in Australia, pricing and incentives faced by cardholders and fraud related to cheque and card transactions.

Interchange Fees

The Reserve Bank regulates interchange fees in the MasterCard and Visa credit card systems, the Visa debit card system and eftpos debit card system.² Under the Bank's standards, the weighted average of multilateral interchange fees for each of these systems must not exceed specified benchmarks on 1 November every third year, and on any date on which there is a change to the system's interchange fee schedule. The multilateral interchange fee benchmarks were unchanged in 2012/13, 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, with these fees paid by the acquirer (merchant's bank) to the issuer (cardholder's bank).³

Under the various interchange fee 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 specified compliance dates. Over time, schemes have introduced fee categories based on factors such as the type of cardholder (e.g. consumer or business), the type of card (e.g. premium/platinum, super premium), the type of merchant (e.g. charity, government/utilities, 'strategic'), and the type of transaction (e.g. MasterCard's rates for contactless and low-value transactions). Reflecting this, the number of interchange fee categories, and the variability in the level of fees between categories, has grown over the years since the Bank first introduced interchange fee standards. However, such growth in the number of categories and the range of interchange fees has also occurred in some other jurisdictions, most notably the United States.

In 2012/13 schemes were required to ensure that the weighted-average interchange fees applying in the systems they operate were at or below the relevant benchmarks on 1 November 2012. MasterCard and Visa made changes to their fee schedules ahead of this compliance date, and further changes in late June 2013 (30 June 2013 was the last day on which compliance with the interchange fee standard could be assessed based on the mix of transactions observed in 2011/12). On 1 October 2012, eftpos Payments Australia Ltd

2 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.

3 In 2012/13 the benchmark for *bilaterally negotiated* interchange fees in the eftpos system was also unchanged, with fees for transactions excluding a cash-out component required to be between 4 cents and 5 cents (paid by the issuer to the acquirer). However, as discussed in more detail in the 'Regulatory Developments in Retail Payments' chapter, on 1 July 2013, a new interchange fee standard for the eftpos system came into effect. Under the new standard, bilateral fees must not exceed the benchmark applying under the Visa Debit Standard (currently 12 cents per transaction, paid to the issuer).

(ePAL) introduced new categories of interchange fees for certain types of eftpos transactions at particular merchants. The changes made by each scheme in 2012/13 are discussed in more detail below.

Table 3 and Table 4 show the interchange fees currently applying in the credit card and debit card systems, respectively.

Table 3: Credit Card Interchange Fees^(a)
Excluding GST; per cent unless otherwise specified, as at 30 June

	MasterCard		Visa	
	2012	2013	2012	2013
Electronic	0.35 ^(b)	0.30	0.40	0.30
Standard	0.40 ^(c)	0.30	0.45	0.30
Premium/platinum	1.00 ^{(b),(c)}	0.95	1.00	0.93
Super premium	1.60 ^(c)	1.59	1.70	–
Visa Rewards	–	–	–	1.50 or 1.70 ^(d)
Visa Signature	–	–	–	1.80
Consumer elite/high net worth	–	2.00	–	1.80 or 2.00 ^(d)
Commercial	1.27 ^(b)	1.00	1.28	0.97 or 1.20 ^(e)
Commercial premium	–	1.30 or 1.35 ^(f)	–	1.30 or 1.80 ^(g)
Strategic merchant	0.25 or 0.34	0.23 or 0.29	0.25 to 0.35	0.20 to 0.40
Government/utility	0.30	0.29	0.30	0.30
Charity	0.00	0.00	0.00	0.00
Petrol/service station	0.34	0.29	0.32	0.30
Education	0.30	0.29	0.40	0.30
Supermarket	–	–	0.32	0.30
Insurance	–	–	0.40	0.30
Transit	–	–	0.30	0.30
Recurring payment	0.30	0.29	0.30	0.30
Quick Payment Service	0.40	0.40	–	–
Contactless payment	0.35 ^(h)	0.29 ⁽ⁱ⁾	–	–
Large ticket ^(j)	–	–	\$20 + 0.20%	–
SecureCode	–	0.30	–	–
Benchmark	0.50	0.50	0.50	0.50

(a) Fees are paid by the acquirer to the issuer (i.e. from the merchant's financial institution to the cardholder's)

(b) MasterCard had a chip version of this category with the same interchange fee as the non-chip category

(c) May be 5–10 basis points lower, depending on use of MasterCard's SecureCode online authentication system

(d) The higher rate applies if an account is deemed qualified (if spending on that account exceeds a card-specific threshold)

(e) Visa has three types of non-premium commercial rates; the 'business' category attracts a fee of 0.97% while the 'corporate' and 'purchasing' categories attract a fee of 1.20%

(f) 1.30% for the 'commercial corporate executive' category and 1.35% for the 'commercial business executive' category

(g) 1.30% for the 'commercial premium' category and 1.80% for the 'business signature' category

(h) MasterCard *PayPass* transactions equal to or less than \$55

(i) MasterCard *PayPass* transactions equal to or less than \$60, excluding commercial cards

(j) Transactions above \$10 000 excluding travel/entertainment purchases

Sources: MasterCard website; RBA; Visa website

Table 4: Debit Card Interchange Fees^(a)
 Excluding GST; cents unless otherwise specified, as at 30 June

	MasterCard		Visa		eftpos	
	2012	2013	2012	2013	2012	2013
Consumer electronic	6.0	6.0	8.0	8.0	4.5	4.5
Consumer standard	19.0	12.0	0.30%	0.20%	–	–
Consumer chip	12.0	–	–	–	–	–
Premium/platinum	0.50%	0.50%	0.40%	0.40%	–	–
Commercial	1.27%	0.91%	1.00%	0.85%	–	–
Commercial chip	1.48%	–	–	–	–	–
Strategic merchant	3.6	3.2 or 3.6	4.0 to 60.0	2.0 to 60.0	–	0.0 to 4.5
Government/utility	7.0	7.0	8.0	6.0	–	–
Charity	0.0	0.0	0.0	0.0	0.0	0.0
Petrol/service station	4.0	7.0	6.0	6.0	–	–
Education	–	–	8.0	6.0	–	–
Supermarket	–	–	6.0	6.0	–	–
Insurance	–	–	8.0	6.0	–	–
Transit	–	–	6.0	6.0	–	–
Recurring payment	9.1	10.0	8.0	6.0	–	–
Contactless ^(b)	–	5.0	–	–	–	–
Quick Payment Service	4.0	6.0	–	–	–	–
Micropayment	4.0 ^(c)	0.4 ^(d)	–	–	0.0 ^(d)	0.0 ^(d)
Large ticket ^(e)	–	–	\$10 + 0.1%	–	–	–
SecureCode merchant	–	8.0	–	–	–	–
SecureCode full	–	10.0	–	–	–	–
Medicare Easyclaim	–	–	–	–	0.0	0.0
Benchmark	12.0	12.0	12.0	12.0	12.0	12.0

(a) Fees are paid by the acquirer to the issuer, except for transactions involving a cash-out component

(b) MasterCard *PayPass* transactions equal to or less than \$60

(c) Transactions with a value equal to or less than \$20

(d) Transactions with a value equal to or less than \$15

(e) Transactions above \$10 000 excluding travel/entertainment purchases

Sources: ePAL website; MasterCard website; RBA; Visa website

On 1 November 2012, MasterCard and Visa made changes to their respective credit card interchange fee schedules to ensure they complied with the Reserve Bank's standards. The schemes took a similar approach to previous resets in November 2006 and 2009, introducing and removing certain fee categories, and lowering rates for some existing categories while increasing others. On 28 June 2013, the two schemes made further changes to their schedules. The changes over these two resets included:

- Both schemes have lowered rates applying to 'electronic' and 'standard' categories, to 0.30 per cent.
- Visa introduced new interchange rates that differ based on cardholder spending characteristics. An account is deemed to be 'qualified', and will attract a higher interchange rate, if the cardholder has an annual account spend exceeding a certain threshold determined by Visa. 'Qualified' interchange rates are applicable for the 'super premium Visa Rewards' and 'high net worth' categories.
- Both schemes have increased the rates for cards attracting the highest interchange fees. MasterCard introduced a 'consumer elite' category that after the June reset attracted an interchange fee of 2.00 per cent, higher than its 'super premium' rate of 1.59 per cent. Visa's equivalent 'high net worth' interchange category attracts interchange fees above its 'super premium' category. When a cardholder is 'qualified' (as above), the interchange fee is 2.00 per cent for 'high net worth' cards and 1.70 per cent for 'super premium Visa Rewards'.
- Visa replaced its 'commercial' category with five new categories of fees ranging from 0.97 per cent to 1.8 per cent, compared with 1.28 per cent for its old commercial category. MasterCard reduced the rate on its 'commercial' category from 1.27 per cent to 1.00 per cent.
- Both schemes standardised the rates applying across merchant-based categories. For example MasterCard lowered the rate for its government/utilities, supermarket and petroleum categories to 0.29 per cent, with Visa's equivalent merchant rates all set at 0.30 per cent (compared with between 0.30 per cent and 0.40 per cent previously). MasterCard also reduced its 'strategic merchant' rates from 0.25 or 0.34 per cent to 0.23 or 0.29 per cent of transaction value. Visa also reduced its lowest strategic rate, but widened the range of fees that apply to its strategic merchants to between 0.20 and 0.40 per cent, compared with 0.25 to 0.35 per cent previously.
- MasterCard reduced the fee applying to certain types of consumer PayPass transactions by 6 basis points to 0.29 per cent.

Excluding charity payments, which attract a zero interchange fee, MasterCard and Visa credit card interchange fees currently range from 0.20 per cent to 2.0 per cent, compared with the weighted-average benchmark of 0.50 per cent of transaction value.

With the June 2013 resets, the number of interchange fee categories in the MasterCard and Visa credit card systems combined now stands at 42, up from 8 in November 2003 (as noted above, this increase in the number of interchange fee categories has also been observed in other jurisdictions). Although the benchmark has remained fixed at 50 basis points plus GST, the range between the minimum and maximum interchange fees (excluding charity payments) has stretched from 68 basis points in November 2003 to 180 basis points in 2013. The Board observes that the cost to an acquirer (ultimately passed on to the merchant) of the highest fee category is now nearly double the equivalent rate applying in November 2003, and that the cost of these higher interchange rates tends to fall on medium-sized and smaller merchants and other merchants that do not benefit from strategic rates; the same card when presented to a merchant with the lowest strategic rate will carry an interchange fee of 0.20 or 0.23 per cent, but will have a fee of 2.0 per cent for a merchant that doesn't benefit from preferential arrangements. It notes also that at the individual transaction level it may be

difficult for a merchant to identify when these high-cost cards are presented (making it difficult to differentially surcharge).⁴ This is especially so when the interchange rate that applies is determined by factors that are not observable from the type of card, such as the amount spent by the cardholder.

For debit cards, the two systems made changes to the interchange fee schedule once in 2012/13, at the November compliance date. These changes included:

- Both MasterCard and Visa significantly reduced some fee types. MasterCard lowered its 'consumer standard' fee from 19.0 cents to 12.0 cents while Visa cut its equivalent fee from 0.30 per cent of transaction value to 0.20 per cent.
- Both schemes reduced their commercial rates. MasterCard lowered its rate from 1.27 per cent to 0.91 per cent, while Visa replaced its 1.0 per cent commercial rate with two separate categories, both attracting a 0.85 per cent fee.
- MasterCard significantly reduced the interchange fee on its micropayment category from 4.0 cents to 0.4 cents per transaction (applicable for transactions under \$15, except charity payments). It also introduced a 5.0 cent per transaction 'PayPass' fee category for certain types of contactless debit card transactions under \$60, with this rate 1.0 cent lower than the alternative 'consumer electronic' rate for transactions where a debit card is inserted or swiped at a terminal.
- MasterCard and Visa each reduced their lowest strategic merchant rate to 3.2 cents and 2.0 cents per transaction, respectively.
- MasterCard introduced two new 'SecureCode' categories which provide an incentive for online merchants to incorporate SecureCode for transactions (the rate can be as low as 8.0 cents per transaction, compared with 12.0 cents for the consumer standard rate).

As discussed above, on 1 October 2012 ePAL varied its multilateral interchange fee schedule to introduce 'differential' rates for merchants that meet certain requirements as determined by ePAL – an equivalent approach to the strategic merchant rates used by MasterCard and Visa. For purchases at qualifying merchants, interchange fees range between 0 and 4.5 cents per transaction, flowing from the acquirer to the issuer (compared with 4.5 cents for the standard purchase rate). For purchase transactions with a cash-out component at qualifying merchants, interchange fees range between 13.6 and 22.7 cents per transaction, flowing from the issuer to the acquirer (compared with 13.6 cents for the standard rate for these transactions).

Merchant Service Fees

The average fee paid by merchants to their financial institutions for transactions on MasterCard and Visa credit and debit cards has been largely unchanged in recent years. In 2012/13 average fees fell by around 2 basis points to be 0.78 per cent (Graph 7). The average merchant service fee in the June quarter was around 62 basis points lower than it was a decade ago, just prior to the introduction of the cap on weighted-average credit card interchange fees.

Average merchant service fees for transactions on American Express and Diners Club cards have also declined since the 2003 reforms, falling by 67 basis points and 32 basis points, respectively, over the decade. In 2012/13, the average fee for American Express transactions declined slightly, from 1.85 per cent to 1.81 per cent, while the average fee for Diners Club transactions fell by 3 basis points to be 2.07 per cent.

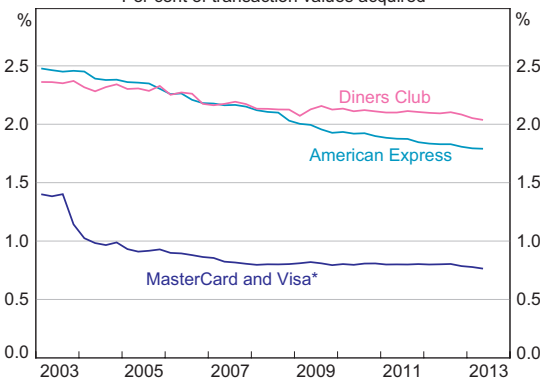
⁴ A related development is 'account-level processing', a means by which a card can be replaced and the interchange category can be changed without the card's Bank Identifier Number (BIN) being changed, meaning that a list of BINs is no longer a definitive indicator of the interchange rate that a card attracts.

The average merchant service fee for eftpos transactions was 10.3 cents per transaction in 2012/13, up by 2.7 cents per transaction from the previous financial year and representing around 0.18 per cent of an average transaction (Graph 8). This reflects in particular the move from bilaterally negotiated interchange fees to a multilateral interchange fee schedule set by ePAL for the system. The schedule, which took effect on 1 October 2011, reversed the direction of interchange fees on purchase transactions so that acquirers now pay, rather than receive, an interchange fee. Consequently, since then, acquirers have passed on part of the increase in their interchange fee costs to merchants in the form of higher merchant service fees. These transitional effects appear to have largely run their course, with the average eftpos merchant service fee largely unchanged in recent quarters.

Graph 7

Merchant Service Fees

Per cent of transaction values acquired

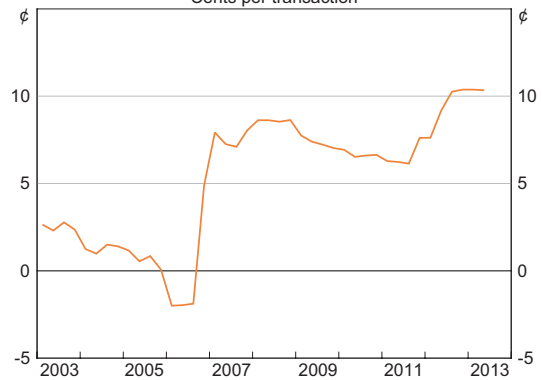


* Includes Bankcard prior to March quarter 2007
Source: RBA

Graph 8

eftpos Merchant Service Fees

Cents per transaction



Source: RBA

Pricing and Product Offerings to Cardholders

Credit cards

Cardholders can choose from a wide range of credit card products offered by card issuers. Each card has a different mix of annual fees, features and rewards to appeal to different customer types. Cards that offer rewards (*rewards cards*) are typically classified into 'standard', 'gold', 'platinum' or 'super premium' cards, with each successive category generally commanding higher annual fees but also providing more generous rewards and benefits. Consumers who use their cards frequently may be attracted to cards that offer reward points and other benefits, such as travel insurance and extended or enhanced warranties for goods purchased on the card. Other cards (*non-rewards cards*) do not offer reward points, but some gold and platinum non-rewards cards extend other benefits, such as travel insurance to cardholders. Within no-rewards cards, *low rate* cards may be attractive to cardholders who carry outstanding balances from month to month ('revolvers') because on average these products attract significantly lower interest costs (see Table 5). *Low fee* cards may be more attractive to consumers who pay their credit card balance in full each month ('transactors') but who use their card relatively infrequently.

The range of credit card products offered by issuers has evolved significantly in recent years as card issuers have adopted new strategies, driven in part by interchange fee differentials. The introduction of additional premium interchange rates has meant that card issuers receive considerably greater interchange fee revenue than on more standard products, and may use this revenue to

fund more generous rewards programs.⁵ Consequently, there has been significant growth in the premium segments of the credit card market, particularly in the issuance of platinum cards, which have largely replaced gold cards.⁶ In recent years there has also been a trend towards merchant-branded platinum card products. These products generally offer lower annual fees than bank-branded cards and relatively generous rewards programs, particularly for spending at the merchant partner.⁷

Table 5: Typical Features of Personal Credit Cards, by Type^{(a),(b)}
As at end June 2013

	Number of card products	Average annual fee \$	Average interest rate Per cent	Average spending for \$100 voucher (primary and companion card) ^(c) \$	Range of rewards benefit as per cent of spend (primary and companion card) Per cent
No rewards					
Standard, Gold and Platinum	31	59	16.9	–	–
<i>of which:</i>					
– Low rate	12	79	13.1	–	–
– Low fee	11	19	19.3	–	–
Rewards					
Standard	21	57	19.6	16 500	0.25–1.00
Gold or platinum	25	218	20.3	13 100	0.52–1.15
Super premium	5	462	20.4	9 900	0.74–1.33

(a) Reported averages are calculated as a simple average of relevant products' features; the total sample comprises over 80 credit card products offered by the top 10 credit card issuers and selected major merchants; the top 10 issuers are based on issuing market shares calculated from the Bank's Retail Payments Statistics collection; only products which are available to all new cardholders are included in the sample

(b) For the purposes of this table, a rewards card involves the cardholder having the ability to accumulate a store of points, which may be redeemed for goods or services – other benefits such as instant cashbacks, overseas travel insurance and extended warranties are not included; only rewards programs where a \$100 shopping voucher can be redeemed are included in the calculations for rewards spending and benefits, but all rewards cards are included in the calculations for the number, annual fee and interest rate

(c) Average of the sum of the required spend for each applicable card; figures do not take into account the ability to earn additional reward points at certain merchants; the value of spending required to obtain a \$100 shopping 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

Sources: RBA; card issuers' websites

5 For example, in June 2013, the average spending required to obtain a \$100 shopping voucher was \$16 500 for standard cardholders, compared with \$13 100 for platinum cardholders (Table 5). This required spending assumes half of cardholders' spending is on a companion American Express card where applicable – the share of spending on MasterCard and Visa cards compared with companion American Express cards could vary between 0 per cent and 100 per cent across individual cardholders.

6 Over the three years to June 2013, the number of gold card products offered by the issuers in our sample in Table 5 fell from 22 to 9.

7 Issuers also offer a number of merchant-branded low rate and standard cards.

As platinum cards have become more widespread, some card issuers have introduced super premium cards, targeting the very high end of the market. This trend continued in 2012/13, with the number of super premium rewards cards in our sample increasing from three to five. Typically, these cards have very high annual fees (averaging around \$460) but more generous rewards than the platinum credit cards in the same card range. On average, cardholders must spend \$9 900 to obtain a \$100 shopping voucher on a super premium card, compared with \$13 100 on a platinum card. Super premium cards also tend to offer benefits beyond those offered by platinum cards, for example access to exclusive experiences (such as advance purchase opportunities for entertainment tickets or cooking classes with celebrity chefs).

Since late 2009, American Express cards have become more widespread in the personal credit card market through the issuance of 'companion' cards that complement a cardholder's primary MasterCard or Visa credit card. Cardholders have a greater incentive to use their American Express companion card more heavily because it earns more reward points than the primary card. American Express companion cards are now a relatively standard feature on rewards credit card accounts at the four major banks. More recently, Diners Club has also introduced MasterCard companion cards that are paired with a primary Diners Club charge card.

Debit card accounts

Deposit account and debit card pricing has been largely unchanged in recent years, with the average account-keeping fee charged by the top 10 debit card issuers for the typical unlimited transactions electronic account remaining at around \$4 per month. This entitles cardholders to an unlimited number of free electronic transactions, including transactions made on eftpos, MasterCard or Visa debit cards, plus own-ATM withdrawals and internet/telephone banking transactions. However, in practice, many account holders do not pay a monthly account-keeping fee, with institutions commonly waiving these fees if the account holder deposits sufficient funds into the account each month. Monthly fees are also sometimes waived as part of an overall package of services provided to the customer (e.g. if the customer has a home loan with the same financial institution).⁸

Institutions generally offer a range of servicing and pricing options to suit the needs of different account holders. These can include zero-fee basic ('electronic only') deposit accounts, 'all you can eat' electronic accounts that provide cheque book and branch facilities, but at a cost of around \$1 per cheque written and \$2 per branch withdrawal, and accounts that offer unlimited free electronic, cheque and branch transactions but that attract a slightly higher monthly fee.

At the premium end of the market, 2012/13 saw the emergence of some invitation-only platinum debit card products, offering benefits traditionally associated with credit card programs, such as extended warranties and travel insurance. One institution also introduced a debit card rewards program offering reward points for both the account balance and the number of debit card purchases. However, the rate of points accrual is generally not as generous as credit card rewards programs. Contactless debit cards (incorporating MasterCard PayPass or Visa PayWave) have become a standard feature of many deposit accounts; one institution promoted contactless functionality by offering new customers 5 per cent cashback on contactless transactions under \$100 for six months.

⁸ Similarly, annual credit card fees are sometimes waived as part of a broader package of banking services.

Cheque and Card Payments Fraud

According to data from the Australian Payments Clearing Association (APCA), total fraud losses relating to cheque payments and debit, credit and charge card transactions where the card was issued and/or acquired in Australia fell by 14 per cent to \$317 million in 2012, from \$369 million in 2011 (Graph 9). This decrease, the first annual fall since 2009, reflected a 16 per cent fall in fraud on 'scheme' debit cards, credit cards and charge cards.⁹ Nevertheless, fraud on these card types continues to account for the bulk of payments fraud covered by the APCA collection, a total of \$291 million (92 per cent of total fraud) in 2012. In contrast, fraud relating to cheque, eftpos and ATM withdrawals from deposit accounts increased somewhat in 2012, but remains low by comparison, in total accounting for the remaining \$26 million of fraud.¹⁰

For every \$1 000 Australians transacted using cheques there was around 1 cent of fraud in 2012, compared with 5 cents for eftpos and ATM transactions. The average fraud rate for scheme transactions on Australian issued cards is higher at 79 cents per \$1 000 transacted (Table 6). The higher rate for scheme cards compared with eftpos and ATM transactions reflects the ability to use these cards in a card-not-present (CNP) environment (e.g. online or over the phone). In fact, fraud related to CNP transactions has grown rapidly until recently and accounted for almost three-quarters of all scheme card fraud in 2012 (Graph 10).

Graph 9
Fraud on Cheque and Card Transactions
Calendar year

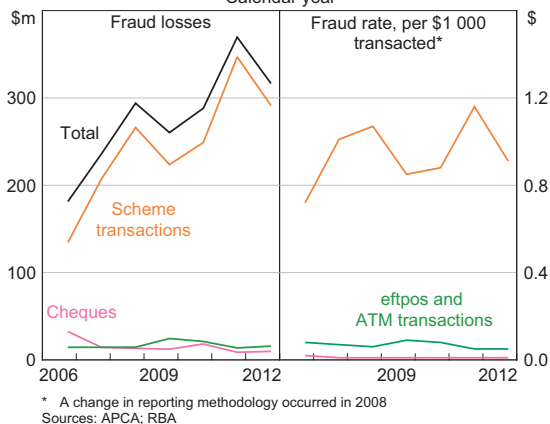


Table 6: Fraud Losses by Payment Method

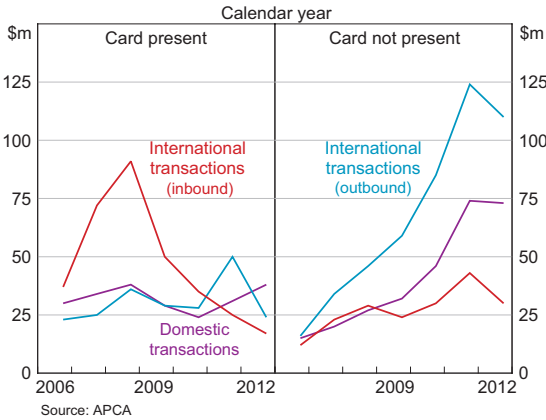
	2011		2012	
	\$ million	Dollars per \$1 000 transacted	\$ million	Dollars per \$1 000 transacted
All instruments	369	0.20	317	0.17
All cards	361	0.62	307	0.50
Scheme debit, credit and charge cards	347	1.16	291	0.91
<i>Australian cards used in Australia and overseas</i>	279	0.96	245	0.79
<i>Foreign cards used in Australia</i>	68	7.46 ^(a)	46	4.87 ^(a)
eftpos and ATM transactions	14	0.05	16	0.05
Cheques	9	0.01	10	0.01

(a) Data for fraud rates for foreign cards used in Australia are estimates only
Sources: APCA; RBA

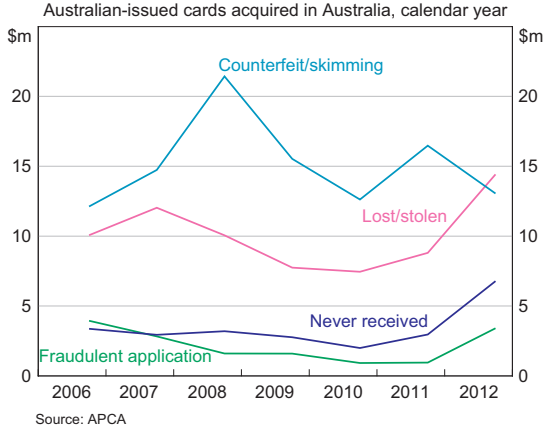
⁹ Fraud statistics for 'scheme' debit, credit and charge cards include transactions through the MasterCard, Visa, American Express, Diners Club and JCB systems.

¹⁰ This category includes fraudulent ATM withdrawals when 'cheque' or 'savings' is selected; it does not include losses associated with fraudulent credit card cash advances or international withdrawals – these are reported under scheme debit, credit and charge cards.

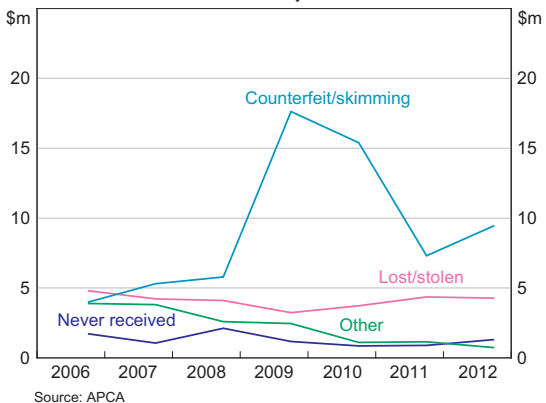
Graph 10
Domestic and International Card-present and Card-not-present Scheme Fraud



Graph 11
Domestic Card-present Scheme Fraud
 Australian-issued cards acquired in Australia, calendar year



Graph 12
Fraud on eftpos and ATM Cards
 Calendar year



Scheme card fraud can be further classified as relating to international transactions (i.e. Australian cards used overseas and foreign cards used in Australia) or domestic transactions (Australian cards used in Australia). In turn, these categories can be further separated into transactions involving cards used at a point-of-sale terminal or ATM (i.e. card present) and transactions involving the use of card details over the internet, phone or mail order (i.e. CNP). The four types of *international* fraud all declined in 2012 following strong overall growth in 2011 for most categories, with annual falls ranging from around 10 per cent to 50 per cent (for Australian cards used overseas in a card-present environment) (Graph 10). Despite these recent falls, international transactions (particularly Australian cards used overseas in a CNP environment) account for a significant share of total scheme card fraud (62 per cent).

In contrast, *domestic* card-present fraud increased by 23 per cent in 2012, while domestic CNP fraud was largely unchanged. The rise in domestic card-present fraud (the only type of scheme fraud to have increased in 2012) was driven by an increase in criminals acquiring genuine cards either through theft (e.g. interception of mail) or through lodging fraudulent applications with issuers (Graph 11). Greater use of PIN authentication at point of sale is expected to assist in reducing card-present fraud (see 'Box B: Initiatives Underway to Reduce Card Payment Fraud').

Fraud related to eftpos and ATM transactions increased by 15 per cent to \$16 million in 2012. The increase reflected a 30 per cent rise in counterfeit/skimming fraud, with other types of fraud remaining largely unchanged (Graph 12). Despite the rise in 2012, fraud losses relating to eftpos and ATM transactions remain well below the levels observed in 2009 and 2010.

Box B

Initiatives Underway to Reduce Card Payment Fraud

The increase in card-not-present (CNP) fraud over the past few years likely reflects a number of factors:

- the rapid growth of online retailing, with not all new entrants to online retail having implemented strong safeguards against online fraud
- significant incidents involving card data stolen from databases and compromised point-of-sale terminals and ATMs
- fraudsters shifting their focus to online merchants in response to the adoption of EMV chip card standards, which has generally made card-present fraud more difficult to carry out.¹

In response to the increase in online fraudulent activity, MasterCard and Visa have continued to encourage adoption of their respective online authentication technologies – MasterCard SecureCode and Verified by Visa. These authentication technologies require cardholders to provide additional information (e.g. a predetermined password or SMS confirmation code) at the time the transaction takes place. In addition, the Australian Payments Clearing Association launched its online retailer education campaign during the year, which is intended to provide smaller online merchants with the knowledge required to address and reduce incidents of CNP fraud.

Efforts to reduce card-present fraud have progressed further. The industry push to implement EMV chip technologies continues, with reports suggesting that around 90 per cent of point-of-sale terminals and all new ATMs are EMV capable, and most new cards in Australia are now issued with EMV chips. As a result, counterfeiting/skimming card-present fraud, which reached particularly high levels in 2008 and 2011 for overseas cards used in Australia and Australian cards used overseas, respectively, has been largely kept in check in 2012.

However, as discussed above, fraud involving the theft of genuine cards or using cards obtained by the making of fraudulent applications to issuers has grown recently, particularly for domestic transactions. Fraudsters may have turned to these approaches due to counterfeiting of cards becoming less lucrative, and more difficult, with the rollout of EMV technology.

Recently, the Australian Card Industry Security Initiative has been examining ways to address card fraud issues. In particular, the PIN@POS initiative proposes to remove signature as a method of cardholder verification for point-of-sale transactions with Australian chip cards from March 2014.

¹ EMV standards provide a secure means of transmitting cardholder information from the chip embedded in the card to the terminal's chip reader.

