Developments in Retail Payments Systems

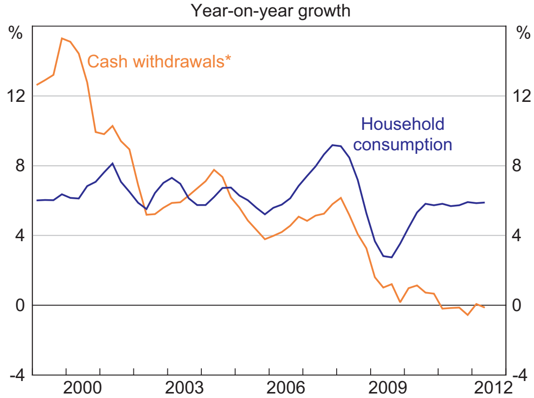
The Payments System Board closely monitors trends in retail payments use and other developments in line with its mandate to promote efficiency and competition in the Australian payments system. Developments during 2011/12 broadly continued the trends of recent years. There is some evidence to suggest that consumers are making less use of cash over time, while the use of card payments continues to increase; consistent with this is the fact that the average value per transaction of both debit and credit cards declined relative to 2010/11. Cheques continued their long-term decline, while the use of direct entry payments grew strongly, particularly in value terms. Other developments in 2011/12 include the introduction of a multilateral interchange fee schedule for the eftpos system, which reversed the direction of interchange fee flows for that system; part of this change has flowed through to pricing faced by merchants. Fraud on scheme credit, debit and charge cards continued to increase, driven by fraudulent card-not-present transactions, although this broadly reflects the rapid growth of online retail activity.

Trends in Retail Payments Use

Cash payments

The use of cash as a payment method is difficult to measure because the transaction takes place directly between the merchant and the customer, without the involvement of financial institutions. One source of information on cash payments is the Reserve Bank's consumer payments use studies. Conducted in 2007 and 2010, these studies – which provide some of the most detailed survey data available on cash use – suggest that cash remains the predominant method of payment for low-value transactions. The 2010 study found that cash payments accounted for 62 per cent of the number and 23 per cent of the value of all payments made by individuals in the study.[1]

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



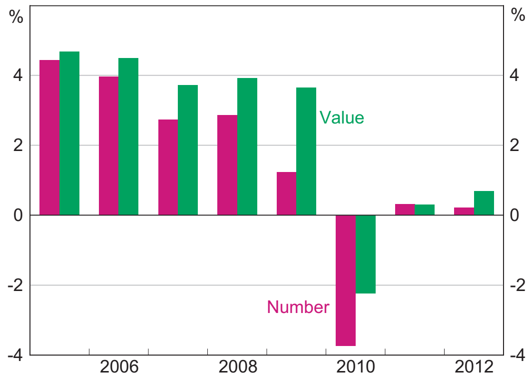
* Data from September 2004 onwards include ATM, over-the-counter, eftpos cash-outs and credit card cash advance withdrawals; prior to September 2004, the data only include ATM withdrawals

Sources: ABS; RBA

Data for cash withdrawals, as reported by financial institutions, provide an alternative and more timely measure of the level of cash use within the economy. Cash withdrawals contracted slightly in 2011/12, to a total of $244 billion. This compares with 6 per cent growth in nominal household consumption expenditure (Graph 1). This was the seventh consecutive year that growth in

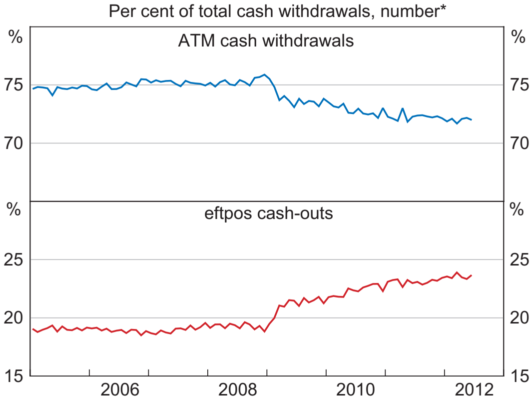
1 Bagnall J, S Chong and K Smith (2011), *Strategic Review of Innovation in the Payments System: Results of the Reserve Bank of Australia's 2010 Consumer Payments Use Study*, RBA, June. The results of the Study are discussed further in the chapter 'Strategic Review of Innovation'.

Graph 2
ATM Withdrawals
Annual growth rate, financial year



Source: RBA

Graph 3
Composition of Cash Withdrawals
Per cent of total cash withdrawals, number*



* Includes ATM, over-the-counter, eftpos cash-outs and credit card cash advance withdrawals

Source: RBA

cash withdrawals has been below that in household consumption, suggesting that over time there is declining reliance on cash as a payment method by consumers.

The most common means of withdrawing cash is through automated teller machines (ATMs). ATMs account for around 62 per cent of the total value of cash withdrawals and 72 per cent of the total number of cash withdrawals. The value and number of ATM withdrawals increased by less than 1 per cent in 2011/12 (Graph 2). While growth in the value of ATM withdrawals was stronger than the previous year, the rate of growth in both volumes and values remained below that in the period preceding the March 2009 ATM direct charging reforms. Withdrawals at ATMs not owned by the account holder's institution – 'foreign ATMs' – accounted for around 41 per cent of ATM withdrawals in 2011/12.

After ATM withdrawals, cash withdrawn via eftpos cards at a point-of-sale terminal ('eftpos cash-out') is the next most common means of accessing cash, representing 23 per cent of the total number of cash withdrawals. Reflecting their typically low values, eftpos cash-outs account for only around 7 per cent of the value of total cash withdrawals; the average amount withdrawn in an eftpos cash-out transaction was $60, compared with an average ATM withdrawal of $181. In 2011/12, the use of eftpos cash-outs continued to grow solidly, increasing in number by 4 per cent. Indeed, growth in this type of withdrawal continues to outpace that of all other cash acquisition methods, as reflected in its increasing share of the total number of cash withdrawals (Graph 3). This increasing popularity of eftpos cash-outs as a means of cash withdrawal is likely to reflect both the reduced use of ATMs following the 2009 ATM direct charging reforms, as well as stronger promotion of cash-out facilities at major retailers in recent years.

There were 30 511 ATMs and 764 549 eftpos terminals in operation as at June 2012, an increase of 13 per cent and 14 per cent, respectively, from the end of 2008.[2]

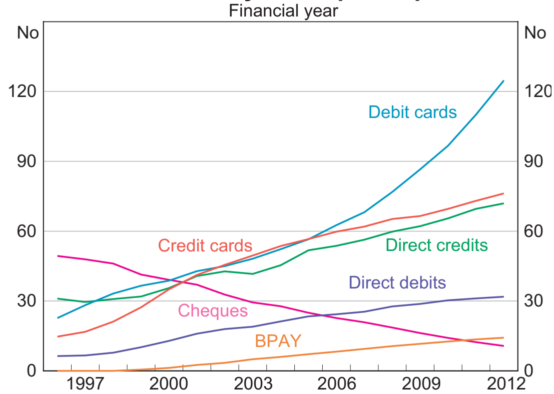
In 2011/12, over-the-counter (OTC) cash withdrawals declined slightly in both value and number to account for 27 per cent of the value and only 2 per cent of the number of total cash withdrawals. The average value of an OTC cash withdrawal was $2 499. Cash advances on credit cards make up only around 2 per cent of cash withdrawals and continued to decline in the year.

2 See Australian Payments Clearing Association, 'Transaction Statistics', available at <http://www.apca.com.au/payment-statistics/transaction-statistics>.

Non-cash payments

Recent movements in non-cash payments have been broadly consistent with the longer-term trends observed over recent years (Table 2, Graph 4). Overall, the use of electronic payment instruments, particularly cards, has continued to grow, while cheque use has declined further. Direct entry payments are becoming more common and are being used for increasingly higher amounts. Australians made an average of 330 non-cash payments per person during the year, up from 310 non-cash payments in 2010/11.

Graph 4
Non-cash Payments per Capita*
Financial year



* 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

Direct entry payments account for 87 per cent of the value of non-cash payments and around one-third of the number of non-cash payments. Direct credit is used for a variety of payments ranging from salary payments to internet banking transfers; on average, there were 72 direct credits per person in 2011/12. Direct debits, with an average of 32 payments per person in 2011/12, are most commonly associated with automatic bill payments.

Table 2: Australian Non-cash Retail Payments

	2011/12					Average annual growth, 2006/07 – 2011/12	
	Per cent of total		Average value	Growth, per cent		Per cent	
	Number	Value	$	Number	Value	Number	Value
Cheques	3.2	8.3	5 154	–12.2	–7.7	–11.2	–6.9
Direct debits[(a)]	9.7	40.0	8 319	3.7	9.6	6.2	6.9
Direct credits[(a),(b)]	21.8	47.3	4 347	4.7	8.8	6.6	3.7
Debit cards	37.9	1.2	64	14.9	11.5	14.6	12.8
Credit cards[(b)]	23.1	1.6	143	5.7	4.6	5.8	6.6
BPAY	4.3	1.6	748	6.8	11.9	10.2	12.5
Total	**100.0**	**100.0**	**2 010**	**7.9**	**7.5**	**8.0**	**3.9**

(a) Growth in 2011/12, particularly by value, was largely driven by one institution
(b) Excludes BPAY transactions
Sources: BPAY; RBA

Card-based payments are predominantly used for mid-sized transactions, with debit card (i.e. eftpos, Debit MasterCard and Visa Debit) and credit card payments accounting for 61 per cent of the number but only 3 per cent of the value of non-cash payments in 2011/12. Per head of population, 125 debit card transactions and 76 credit card transactions were made in 2011/12, up from 45 and 46 transactions, respectively, a decade ago.

The use of cheques as a payment method continues to decline, with a 12 per cent fall in the number of cheques and an 8 per cent fall in the value in 2011/12. Around 11 cheques per person were written in the financial year – most of these being commercial cheques – down from 33 cheques a decade ago. Cheques accounted for around 3 per cent of non-cash retail payments in 2011/12.

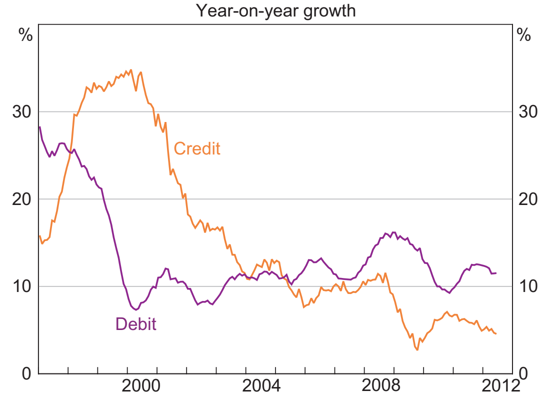
The following sections discuss the movements in each non-cash payment method in more detail.

Card-based payments

There were around 4.5 billion card payments made in 2011/12, with a total value of $424 billion. Debit cards continue to be used for lower-value payments, with an average value of $64, while credit cards are used for higher-value transactions, having an average value of $143. The average transaction value for both card types, however, declined over the year, in part reflecting a broader trend towards the use and acceptance of cards for lower-value transactions. This trend is likely to continue as technologies such as contactless payments – where the cardholder need only to tap or wave their card in front of a card reader – become more widely adopted by cardholders and merchants.

Year-on-year growth in debit card spending, at 12 per cent in 2011/12, was over twice the rate of growth of credit cards spending, which has broadly been the case for the past four years (Graph 5).

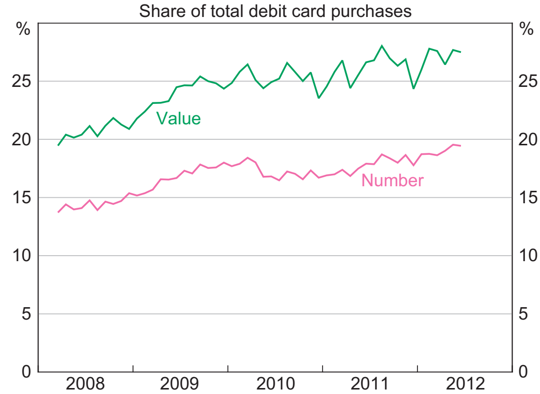
Graph 5
Value of Card Payments*
Year-on-year growth



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

Within debit cards, the number of MasterCard and Visa debit card transactions increased by 25 per cent (compared with 12 per cent in 2010/11), while the value of those transactions increased by 18 per cent in 2011/12. Accordingly, MasterCard and Visa debit card transactions continued to grow as a share of total debit card transactions, representing 27 per cent of the value and 19 per cent of the number of total debit card payments in 2011/12 (Graph 6). While eftpos continues to account for the majority of debit card transactions, use of eftpos cards increased at a more modest pace than for MasterCard and Visa debit cards in 2011/12 – increasing 13 per cent by number and 10 per cent by value of transactions.

Graph 6
MasterCard and Visa Debit Cards
Share of total debit card purchases



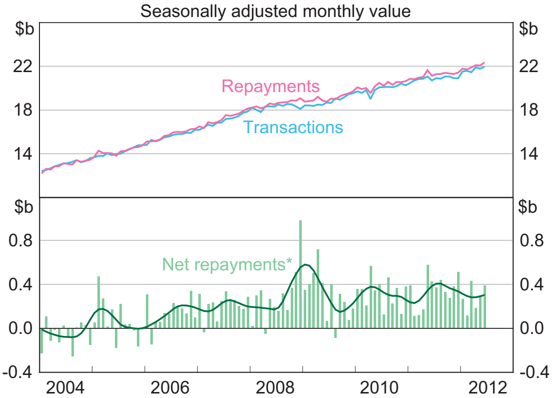
Source: RBA

The value of credit card transactions grew by 5 per cent in 2011/12, again growing at a slower pace than for debit transactions. Net repayments on credit card balances have remained higher than during the period of rapid credit growth in the middle part of the 2000s (Graph 7). In 2011/12, the average month-end total balance outstanding on a personal credit account was $3 272, while the average balance accruing interest was $2 547.

Within the credit and charge card market, there was little change in the shares of the four-party

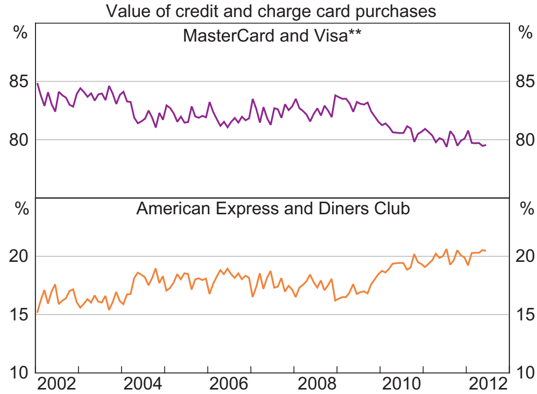
(MasterCard and Visa) and three-party (American Express and Diners Club) card schemes in the year. The combined market share of the three-party schemes remained around 20 per cent of the value of credit and charge card spending (Graph 8). This is a levelling out after the increase between late 2009 and mid 2011, which reflected the issuance of 'companion' American Express cards to holders of MasterCard or Visa credit cards by the major banks (see 'Pricing and product offerings to cardholders' for more detail).

Graph 7
Credit and Charge Card Activity
Seasonally adjusted monthly value



* Repayments less transactions (includes repayments of interest and other charges); smoothed line is a 13-period Henderson trend
Source: RBA

Graph 8
Market Shares of Card Schemes*
Value of credit and charge card purchases



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

Other electronic payments

The number of direct debit and direct credit payments grew by around 4 per cent and 5 per cent, respectively, in 2011/12 – slightly slower than their annual average growth over the past five years. Figures reported by financial institutions show a sharp increase in the value of direct debit and direct credit payments in the year, although this may overstate underlying growth due to particularly strong growth in direct debits and credits reported by one particular institution.

The value of BPAY transactions increased by around 12 per cent in 2011/12, reflecting a combination of a 7 per cent increase in transaction volumes and a 5 per cent rise in the average transaction size, from $714 to $748. BPAY transactions have grown by an average of around 10 per cent by number and 13 per cent by value annually over the past five years.

Online payments

The use of the internet to make retail payments has increased in recent years, reaching around 17 per cent of the number and 15 per cent of the value of all non-cash retail payments in 2011/12. Online payments can be made in several ways, including by means of the previously discussed methods of payment – credit cards, MasterCard and Visa debit cards, BPAY and direct entry – and increasingly by means of specialised payments providers, such as PayPal.

Direct entry (e.g. 'pay anyone') transactions in an internet banking package remain the most widely used online payment method, accounting for almost 50 per cent of the number and almost 88 per cent of the value of online payments (Table 3). The average value of internet direct entry transactions is much higher than that of other transaction types, reflecting its use for business payments, in addition to household payments.

Table 3: Online Payments by Payment Method
2011/12

	Per cent of total		Growth, per cent	
	Number	Value	Number	Value
Direct entry	48.7	88.2	11.8	14.5
BPAY	22.7	9.8	9.0	13.2
Credit cards, and MasterCard and Visa debit cards	23.8[(a)]	1.8	25.0[(a)]	16.7
Specialised payments providers[(b)]	4.8	0.2	41.3	36.6

(a) Includes double-counting of some PayPal transactions
(b) Estimates included for one provider for the March and June quarters 2012
Sources: BPAY; RBA; specialised payments providers

BPAY accounts for 22.7 per cent of the number of online payments and 9.8 per cent of the value. Credit cards and MasterCard and Visa debit cards account for around one-quarter of the number of transactions but less than 2 per cent of the total value of transactions, while specialised payments providers remain a relatively small share of the overall market in both number and value.

A distinct segment of the broad 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, which is important where consumers want to complete transactions quickly so that goods or services can be booked, downloaded or shipped rapidly. Currently only credit cards, MasterCard and Visa debit cards, and the specialised payments providers allow for this real-time functionality in Australia.

Online retail payments accounted for around 29 per cent of the total number of online payments in 2011/12, but only around 2 per cent of the value. Within this segment of online payments, credit cards remained the dominant payment method, though their share of online retail transaction volume fell from 61 per cent in 2010/11 to 55 per cent in 2011/12 and their share of the value fell from 75 per cent to 71 per cent (Table 4). This reflects continued rapid growth in MasterCard and Visa debit cards as well as specialised online payments in recent years.

Table 4: Online Retail Payments
Shares in the year to June 2012, per cent

	Number	Value
Credit cards	54.5[(a)]	70.9[(b)]
MasterCard and Visa debit cards	28.5[(a)]	18.6[(b)]
Specialised payments providers[(c)]	16.9	10.5

(a) Includes double-counting of some PayPal transactions
(b) Adjusted for the double-counting of some PayPal transactions
(c) Estimates included for one provider for the March and June quarters 2012
Sources: RBA; specialised payments providers

Cheques

In 2011/12 the number and value of cheque payments fell by around 12 per cent and 8 per cent, respectively, continuing the long-term trend of declining cheque use. Nonetheless, with cheque payments accounting for 8 per cent of the total value of non-cash payments, cheques continue to have a place in the retail payments landscape, particularly for higher-value transactions. The average value of a cheque payment increased by around 5 per cent in 2011/12, to $5 154.

In May 2012, the Australian Payments Clearing Association (APCA) published a report, *The Decline of Cheques: Building a Bridge to the Digital Economy*, following a period of public consultation.[3] APCA found that, while cheque use has declined significantly over the past decade, there remain some segments of society – including older Australians and those in rural Australia – that continue to rely on cheques. APCA concluded that there was no immediate need for major structural reform to Australia's cheque system and that the market is best placed to address the decline in cheque use with alternative payment instruments. Nevertheless, APCA sees a role for government and industry bodies in promoting the use of electronic payment methods as an alternative to cheques. As part of the ongoing process to manage the decline in cheque use, APCA will undertake a series of measures, including an examination into ways of lowering the costs of cheque processing and the development of an industry policy on messaging standards for electronic payments.

Payment trends internationally

The international payment trends observed in 2010 (the latest year for which data are available) are consistent with the trends observed over past years, both overseas and in Australia. Overall, the use of electronic payment instruments – notably cards – continues to grow, while cheque use continues to decline as a proportion of the total number of non-cash payments (Graph 9).

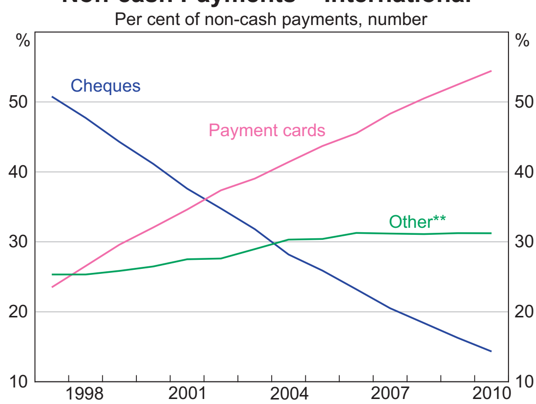
By number, payment card transactions represented over half of all non-cash payments in 2010, with other electronic payment methods constituting around one-third of the total number of non-cash payments. The growth in the number of payment card transactions has also consistently outpaced that in the number of direct credit, direct debit and e-money transactions.

The number of cheques written as a share of total non-cash payments continues to decline, albeit at a slightly slower rate in recent years. Governments and regulators around the world continue to grapple with this issue. For example, both the US Treasury and the Canadian Government have announced the phase-out of government-issued cheque payments in favour of electronic payments, with deadlines of March 2013 and April 2016, respectively.

Despite the broad similarity in non-cash payment trends, the size and composition of non-cash payments across countries still differs significantly (Table 5). With 282 transactions per capita, Australians make significantly more non-cash payments than most other reporting countries, with higher usage only in the Netherlands, Sweden and the United States. Despite the general dominance of card-based payments globally, direct entry payment systems are utilised more frequently than card-based systems in some countries, including Belgium, Brazil, Germany, the Netherlands, Russia

Graph 9

Non-cash Payments – International*



* CPSS member countries, excluding Japan and Brazil; data before 2005 have been adjusted for changes in membership
** Includes direct credit, direct debit and e-money transactions
Sources: ABS; BIS; RBA

3 APCA (2012), *The Decline of Cheques: Building a Bridge to the Digital Economy*, May. Available at <http://www.apca.com.au/docs/cheques/decline-of-cheques.pdf>.

Table 5: Non-cash Retail Payments in Selected Countries
Number per capita, 2010

	Cheques	Direct debits	Direct credits	Debit card	Credit card[a]	Total
Australia	13	30	67[b]	102	70	282
Belgium	1	23	92	87	11	214
Brazil	9	22	40	15	18	104
Canada	27	19	29	117	84	276
China	1	na	1	4[c]	na	na
France	48	53	46	114[c]	na	261
Germany	1	106	72	27	6	212
Hong Kong	na	na	na	15	51	na
India	1	<1	<1	4	<1	5
Italy	5	10	20	15	10	60
Japan[d]	1	na	11	<1	41	na
Korea	15	29	54	29	116	243
Mexico	4	<1	8	6	4	22
Netherlands	na[e]	79	95	138[c]	na	312
Russia	<1	1	18	7	<1	26
Saudi Arabia	<1	<1	<1	44	1	45
Singapore	15	11	7	40	na	na
South Africa	2	11	11	20[c]	na	44
Sweden	<1	29	105	154	42	330
Switzerland	<1	6	94	50	21	171
Turkey	na	na	na	3	27	na
United Kingdom	18	52	55	106	33	264
United States	74	37	25	142	69	347

(a) Includes charge cards
(b) Includes BPAY
(c) Split between debit and credit cards not available
(d) Figures for Japan are for 2008
(e) Cheques have been abolished in the Netherlands since 2001
Sources: ABS; BIS; RBA

and Switzerland. Focusing on the breakdown between card-based payments, more transactions are typically made with debit cards than credit cards except in Brazil, Hong Kong, Korea and Turkey.

Other Retail Payments Developments

Interchange fees

The Reserve Bank regulates interchange fees in the MasterCard and Visa credit card systems, the Visa Debit system and the eftpos debit system.[4] Under standards imposed by the Bank, the weighted-average multilateral interchange fee in each of these systems must be at or below a set benchmark on a specified date every three

4 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.

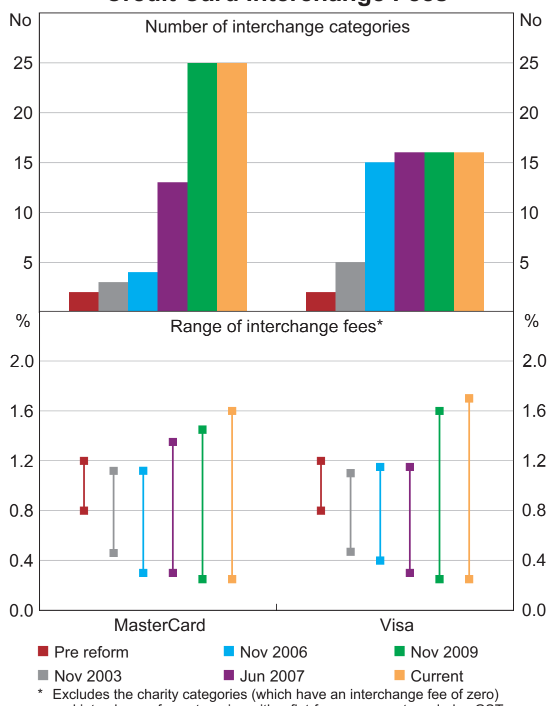
years, or whenever the system makes a change to its interchange fee schedule. The next specified compliance/reset date is 1 November 2012. The benchmarks are currently 0.50 per cent of the value of transactions for the credit card systems and 12 cents per transaction for the debit card systems, paid from the acquirer (merchant's bank) to the issuer (cardholder's bank). Bilateral interchange fees in the eftpos system are required to be between 4 and 5 cents per transaction (paid from the issuer to the acquirer), excluding transactions with a cash-out component, although the Bank is currently consulting on the ongoing form of bilateral interchange fee regulation. In December 2011, the Bank waived the requirement, scheduled for 2012/13, to recalculate the cost-based benchmarks for all designated card systems.

Under this regulatory approach, the card schemes have the flexibility to set different multilateral interchange fees for different types of transactions, provided that the weighted average of interchange fees for each scheme does not exceed the benchmark at the specified dates. The card schemes have used this flexibility to appeal to issuers, cardholders and merchants in different ways (see 'Pricing and product offerings to cardholders', below, for a related discussion). This has seen high interchange fees introduced for some categories (such as platinum/premium card transactions), and low interchange fees for some other categories (such as transactions at 'strategic' merchants). Over time, MasterCard and Visa have introduced 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. charity, government or service station), and the type of transaction (e.g. contactless or chip; Table 6). Reflecting this, the number of interchange fee categories, and the variability in the level of fees between categories, has grown steadily in the years since the Reserve Bank's reforms (shown for credit cards in Graph 10). These strategies have tended to increase average interchange revenue per transaction between compliance dates, because the fastest growth in transaction values tends to be in categories with the highest interchange fees. Both MasterCard's and Visa's debit card and credit card interchange fee schedules were unchanged in 2011/12, but, as mentioned above, are to be reset later in the year.

In October 2011, the multilateral interchange fee schedule introduced by eftpos Payments Australia Limited (ePAL) – the body established in 2009 to govern the eftpos system – came into effect. The multilateral schedule reverses the direction of interchange fees for most transactions so that they now flow from the acquirer to the issuer. The standard rate on most purchase transactions is 4.5 cents.

In April 2012, ePAL also announced the introduction of 'differential' merchant rates into its multilateral schedule, to take effect from 1 October 2012. These rates have a similar rationale to MasterCard's and

Graph 10
Credit Card Interchange Fees



* Excludes the charity categories (which have an interchange fee of zero) and interchange fee categories with a flat-fee component; excludes GST
Sources: MasterCard; Visa

Table 6: Interchange Fees[(a)]
As at 30 June 2012, excluding GST

	Credit card Per cent unless otherwise specified		Debit card Cents unless otherwise specified		
	MasterCard	Visa	MasterCard	Visa	eftpos
Consumer electronic	0.35	0.40	6.0	8.0	4.5
Consumer standard	0.40[(b)]	0.45	19.0	0.30%	–
Consumer chip	0.35	–	12.0	–	–
Premium/platinum	1.00[(c)]	1.00	0.50%	0.40%	–
Premium chip	1.00	–	–	–	–
Super premium	1.60[(d)]	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%	0.0
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[(e)]	–	–	4.0	–	0.0
Large ticket[(f)]	–	$20 + 0.20%	–	$10 + 0.10%	–
Cash-out[(g)]	–	–	–	–	–13.6
Medicare Easyclaim	–	–	–	–	0.0
Benchmark	**0.50**	**0.50**	**12.0**	**12.0**	**12.0**

(a) Positive fees indicate those paid to the issuer; negative fees indicate those paid to the acquirer
(b) May be 0.30% or 0.35% depending on use of MasterCard's SecureCode online authentication system
(c) May be 0.90% or 0.95% depending on use of MasterCard's SecureCode online authentication system
(d) May be 1.50% or 1.55% depending on use of MasterCard's SecureCode online authentication system
(e) For eftpos, these are transactions with a value less than $15; for MasterCard these are transactions with a value equal to or less than $20
(f) Transactions above $10 000 excluding travel/entertainment purchases
(g) Transactions with a cash-out component, including combined purchase/cash-out transactions
Sources: ePAL website; MasterCard website; RBA; Visa website

Visa's 'strategic merchant' rates: to encourage further use and promotion of eftpos.[5] Two new categories have been introduced:

- differential point of sale (POS), with interchange fees ranging between 0 and 4.5 cents per transaction, flowing from the acquirer to the issuer
- differential cash-out, with interchange fees ranging between 13.6 and 22.7 cents per transaction, paid from the issuer to the acquirer.[6]

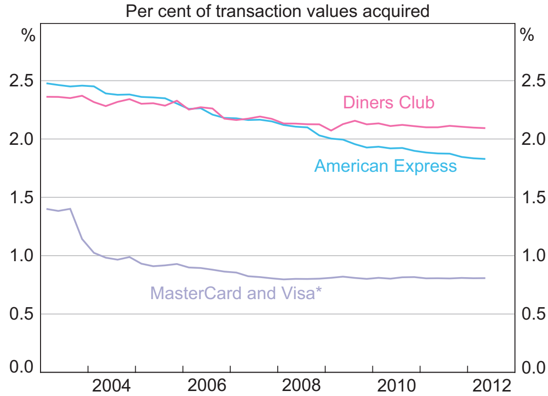
Merchant service fees

The average fee paid by merchants to acquiring institutions for transactions on MasterCard and Visa credit and debit cards has been little changed over the past five years; in 2011/12 the average fee was 0.81 per cent of the value of transactions (Graph 11). Taking a longer-term perspective, however, the combined average merchant service fee on MasterCard and Visa cards has fallen by 59 basis points since the September quarter 2003 (just prior to the introduction of the benchmark on credit card interchange fees). This is larger than the decline in average interchange fees for MasterCard and Visa credit card transactions of around 45 basis points over the same period. The margin between the average merchant service fee and average interchange fees has narrowed from around 45 basis points in the September quarter 2003 to around 30 basis points currently.

The average merchant service fee for transactions on American Express cards has also declined steadily since the introduction of the 2003 reforms. In 2011/12, the average merchant service fee for American Express cards declined by 5 basis points, to 1.83 per cent of the value of transactions, and is now 62 basis points lower than prior to the reforms – a little more than the decline in merchant service fees in the MasterCard and Visa credit card systems, which are subject to the interchange fee benchmark. By contrast, the average merchant service fee for Diners Club has been more stable at around 2.10 per cent in 2011/12.

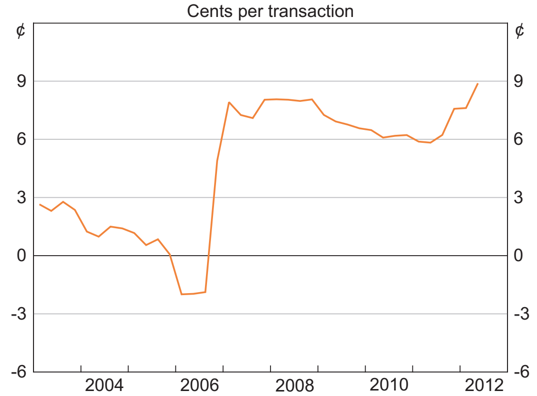
Following a period of decline, the average merchant service fee for eftpos transactions rose in 2011/12, from 5.8 cents to 8.9 cents per transaction (Graph 12). The increase in the average fee reflects recent developments in the eftpos system, in particular the decision made by the scheme's governing

Graph 11
Merchant Service Fees
Per cent of transaction values acquired



* Includes Bankcard prior to March quarter 2007
Source: RBA

Graph 12
eftpos Merchant Service Fees
Cents per transaction



Source: RBA

5 These rates apply to merchants or merchant groups that meet performance metrics and requirements, as determined by ePAL.

6 Includes cash-out only and combined purchased/cash-out transactions. The standard cash-out interchange rate is 13.6 cents per transaction, paid from the issuer to the acquirer.

body – ePAL – to introduce a multilateral interchange fee schedule for the system. This schedule, which took effect from October 2011, reversed the direction of interchange fees on most purchase transactions so that acquiring institutions now pay, rather than receive, an interchange fee (see discussion in 'Interchange fees', above, and 'eftpos Developments' in the next chapter). Accordingly, since the schedule has come into effect, some acquirers have begun passing on at least part of the increase in eftpos interchange fee costs to merchants through higher merchant service fees. Preliminary data suggest that for an average-sized transaction, eftpos merchant service fees remain below those on a MasterCard or Visa debit card transaction. The Reserve Bank intends to publish data on eftpos, and MasterCard and Visa debit card merchant service fees as part of its regular Retail Payment Statistics collection in the near future.

Pricing and product offerings to cardholders

Card issuers typically offer a range of credit card products. Each card has a different mix of annual fees, features and rewards to appeal to different customer types. For example, low-rate cards may attract cardholders who carry outstanding balances accruing interest from month to month ('revolvers'), while low-fee cards may be more attractive to consumers who pay their credit card balance in full each month ('transactors') or those who use their card infrequently. On the other hand, customers who use their cards frequently may be attracted to cards that offer reward points and other benefits, such as extended warranties for goods purchased on the card. Cards that offer rewards (rewards cards) are typically classified into standard, gold, platinum or super-premium cards, with each tier generally commanding higher annual fees but also attracting more generous rewards and benefits.

The range of credit card products offered by issuers has evolved significantly in recent years as card issuers have adopted new strategies driven by interchange fee differentials. A key driver for these changes has been the introduction of interchange categories with relatively high fees by the card schemes, making it more attractive for financial institutions to issue some card types over others (see 'Interchange fees', above). For example, in both the MasterCard and Visa card schemes, platinum card transactions attract an interchange fee of 1.0 per cent of the value of the transaction, compared with 0.35 per cent and 0.40 per cent, respectively, for a transaction on a standard card. This means that the card issuer receives considerably greater interchange fee revenue for transactions on platinum cards than for standard or gold cards, and may use this revenue to fund more generous rewards programs for cardholders. For example, in June 2012, the average spending required to obtain a $100 shopping voucher was $18 100 for standard cardholders, compared with $15 800 for platinum cardholders (Table 7). Consequently, there has been significant growth in the premium segment of the credit card market. The various strategies adopted by card issuers in relation to this segment include cardholder upgrades, the introduction of merchant-branded platinum cards and the introduction of super-premium cards.

The first example of card issuers altering their card portfolio to take advantage of higher interchange fees has been the upgrading by several financial institutions, including the major banks, of their standard and/or gold cardholders to platinum cards since the second half of 2010. Effectively, the cardholder receives a new platinum card product (or offer) in the mail to replace their existing standard or gold card, often for no additional cost or annual fee. While upgraded cardholders may receive greater benefits (such as complimentary travel insurance or extended warranties), in many cases they continue to earn reward points at the same rate as for their previous card. In the case of at least one issuer, the new platinum card products are intended to replace the institution's entire gold card product range.

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

	Number	Average annual fee	Average interest rate	Average spending for $100 voucher (primary card)[(c)]	Average spending for $100 voucher (primary and companion card)[(d)]	Range of rewards benefit (primary and companion card)
		$	%	$	$	%
No rewards						
Low rate						
June 2010	8	58	13.4	–	–	–
June 2012	9	58	13.5	–	–	–
Low fee						
June 2010	8	15	19.8	–	–	–
June 2012	11	27	20.4	–	–	–
Gold or platinum						
June 2010	13	83	16.1	–	–	–
June 2012	13	83	16.4	–	–	–
Rewards						
Standard						
June 2010	21	67	19.7	18 500	16 300	0.32–1.13
June 2012	20	71	19.6	18 100	15 700	0.46–1.00
Gold						
June 2010	14	130	19.9	22 600	18 800	0.16–1.13
June 2012	8	142	20.2	18 300	15 600	0.37–0.93
Platinum						
June 2010	11	289	20.0	17 000	11 400	0.58–1.23
June 2012	20	232	20.3	15 800	11 600	0.56–1.18
of which:[(e)]						
Bank-branded						
June 2012	12	222	20.9	19 100	12 000	0.56–1.18
Merchant-branded						
June 2012	4	148	20.5	12 600	12 600	0.74–0.93
Super-premium						
June 2012	3	507	20.7	11 300	9 400	0.87–1.22

(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 nine credit card issuers and selected major merchants; the top nine issuers are based on issuing market shares calculated from the Reserve 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 cash-backs, 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

(d) 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

(e) Scheme-branded credit cards are not shown

Sources: RBA; card issuers' websites

A similar development has been the introduction of a number of merchant-branded platinum card products (e.g. the Woolworths Everyday Rewards (Qantas) card). For some merchants, these platinum card products are offered instead of, rather than in addition to, a gold card product. Merchant-branded cards typically have relatively generous rewards programs, particularly for spending at the merchant, and may include reward structures not traditionally encountered – for example, a number of significantly discounted flights per year, irrespective of points earned. The average spend required on these merchant-branded platinum cards for a $100 shopping voucher is $12 600, compared with $19 100 for a bank-branded platinum card.[7] Some merchant-branded cards have annual fees of a level typically associated with non-premium cards, but do not offer additional benefits.

At the same time, some card issuers have introduced super-premium cards, which attract an even higher interchange fee than platinum cards, at 1.60 per cent and 1.70 per cent of the value of MasterCard and Visa transactions, respectively. Typically these cards have very high annual fees and more generous rewards than the platinum credit cards in the same card range. On average, cardholders must spend $11 300 to obtain a $100 shopping voucher on a super-premium card, compared with $15 800 on a platinum card. Super-premium cards also tend to offer benefits beyond those associated with traditional platinum cards, for example access to exclusive experiences (such as cooking classes with celebrity chefs).

Overall, these developments have resulted in a substantial change in the nature of credit card products available. Platinum cards, in the traditional sense, were originally designed to attract high-spending customers; these cards were previously few in number and offered both relatively generous reward points and other benefits. However, as a result of the changes described above, platinum cards have become much more widespread. The number of platinum card programs offered by the top nine card issuers and selected merchants increased from 17 to 26 between June 2010 and June 2012, while the number of gold card programs offered declined from 21 to 15 over the same period. Further evidence of the erosion of the exclusivity of platinum cards can be seen in the average annual fee for rewards platinum cards, which declined from around $290 in June 2010 to just over $230 in June 2012. By contrast, the average annual fees for the majority of other card types were broadly steady. As discussed, the place of platinum cards as the premium card in the portfolio of some card issuers has been replaced by super-premium cards, which have an average annual fee of just over $500. In June 2012, there were several super-premium card programs offered by Australian issuers, one of which was available on an invitation-only basis (i.e. it is not open to all new cardholders).[8]

Since late 2009, American Express cards have also become more widespread in the personal credit card market through the issuance of 'companion' cards. Under this model, cardholders are provided an American Express card as part of the package with their primary MasterCard or Visa credit card, with both cards accessing the same line of credit. However, cardholders are offered more reward points for spending on the American Express card, creating an incentive for the cardholder to use this card more heavily. Unlike the developments related to platinum cards, the issuance of companion cards is not related to interchange fees as there are no interchange fees in a three-party card scheme; there are, however, alternative commercial arrangements in place that give financial institutions an incentive to issue companion cards. While companion American Express cards were first introduced in 2004, they have now become a standard feature on rewards credit card

7 This does not take into account spending on companion cards.

8 Given this card is not open to all new cardholders, it is not shown in Table 7.

accounts at the four major banks; in June 2012, only three credit card products with a rewards program across the four major banks did not feature an American Express companion card.

More recently, Diners Club has also introduced companion cards. Cardholders with a Diners Club charge card (their primary card) are now able to add a companion MasterCard card to their account. However, in contrast to the arrangements with American Express companion cards, cardholders must pay an additional fee for a companion card, and earn less generous rewards for spending on the companion MasterCard card than the Diners Club card.

In line with these changes to the platinum segment of the market, there has been a slight overall decline in the value of rewards in that segment over the past two years. Specifically, the spending required on platinum cards to earn a $100 shopping voucher increased from $11 400 to $11 600 (assuming spending is split evenly between the platinum card and the companion card), likely reflecting the introduction of platinum cards with less generous rewards – for example, where they have replaced a gold card without changes to the reward points program. As discussed above, however, some cardholders are receiving additional premium benefits that were not previously available on their gold card product.

For other segments of the market, however, there has been an increase in the value of rewards. For example, between June 2010 and June 2012, the average spending required for a $100 shopping voucher declined from $18 800 to $15 600 for a gold card holder.

In contrast to developments in the credit card market, the pricing arrangements for deposit accounts and debit cards to cardholders have been little changed in recent years. Debit cardholders are typically charged an account-keeping fee of around $3 per month for access to an unlimited number of electronic transactions, including transactions made on eftpos, MasterCard and/or Visa debit cards, own-ATM withdrawals, and internet/telephone banking transactions. A number of institutions waive this monthly account-keeping fee in each month the cardholder deposits sufficient funds.

Fraud

According to APCA data, total payments fraud in Australia rose to 16.2 cents per $1 000 transacted in the year to December 2011 from 11.4 cents per $1 000 in the preceding year (Table 8).[9]

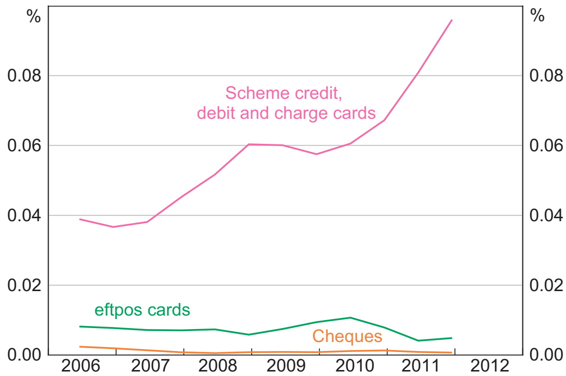
Table 8: Fraud on Australian-issued Payment Instruments
Cents per $1 000 transacted

	2010	2011
All instruments	11.4	16.2
All cards	37.9	51.1
Scheme credit, debit and charge cards[(a)]	67.2	96.0
eftpos and ATM cards[(b)]	7.9	4.9
Cheque	1.3	0.7

(a) Fraud statistics for the scheme credit, debit and charge card fraud statistics are provided to APCA each quarter by the international card schemes operating in Australia; the schemes included in the collection (Visa, MasterCard, American Express, Diners Club and JCB) cover nearly all credit card activity in Australia as well as a proportion of debit card activity
(b) Includes all transactions in which 'savings' or 'cheque' is selected at point-of-sale terminal or ATM
Source: APCA

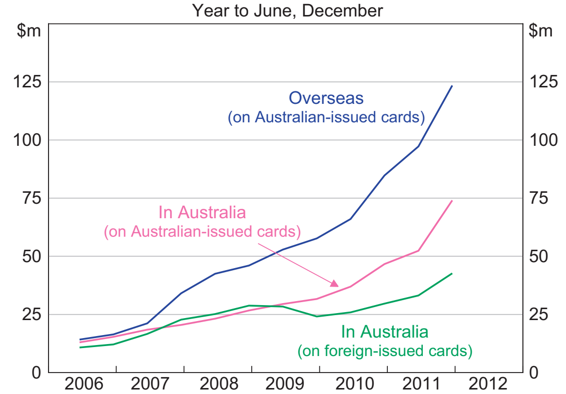
9 Australian statistics for payments fraud include fraud on cheques; credit and charge cards; MasterCard and Visa debit cards (referred to as scheme debit cards in the APCA statistics); and eftpos and ATM cards.

Graph 13
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 14
Card-not-present Fraud on Scheme Credit, Debit and Charge Cards
Year to June, December



Source: APCA

The rate of fraud on credit, MasterCard and Visa debit, and charge cards increased from 67.2 cents to 96.0 cents per $1 000 transacted in 2011 (Graph 13). As a consequence, fraud on these cards accounted for 93 per cent of the total value of measured payments fraud, up from 82 per cent in 2010. Over the same period, the rate of fraud on eftpos and ATM cards fell from 7.9 cents to 4.9 cents per $1 000 transacted and cheque fraud fell to less than 1 cent per $1 000 transacted.

The rise in fraud levels is mostly taking place in the card-not-present (CNP) environment. 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 $198 million in 2011 for Australian-issued cards. CNP fraud now accounts for over 70 per cent of all credit, Visa and MasterCard debit, and charge card fraud on Australian-issued cards. Nearly two-thirds of this fraud is perpetrated overseas, reflecting the increasingly borderless nature of payments fraud (Graph 14).

Efforts to control rising CNP fraud have been initiated by the industry. For online merchants, secure data storage is a prominent concern and there have been a number of high-profile cases in which card details have been stolen from databases, both in Australia and overseas. In response to the risks of insecure data storage, the card schemes developed the Payment Card Industry Data Security Standard (PCI DSS). The PCI DSS set data storage security standards that must be observed by any party that collects or stores payment card 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 on to the merchant. Any merchant that is not PCI DSS compliant can potentially be prevented from processing card payments. A further initiative to assist retailers in preventing CNP fraud is a free online training facility that aims to inform retailers on steps they can take to protect themselves when using the internet to do business. The facility is being developed by APCA and will be released in the coming months.

Another initiative being introduced at the cardholder level is 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 to provide a personal identification number (PIN). Both Visa and MasterCard have put in place strategies to increase the use of their online verification systems.

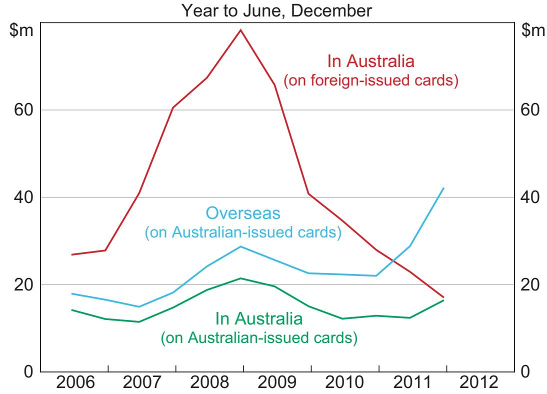
Apart from CNP fraud, the other major component of payments fraud is counterfeit or skimming fraud. This type of fraud involves the theft of card details from a genuine card, which are then used to create a fake card. One response to this type of fraud has been the introduction of chip-based cards and terminals, as well as PIN authorisation at the point of sale (POS) for credit and charge card transactions.[10] Nonetheless, counterfeit/skimming fraud on Australian-issued credit, MasterCard and Visa debit, and charge cards increased over the year from $35 million to $59 million, driven by the use of skimmed Australian-issued cards overseas (Graph 15). Over the same period, the value of counterfeit/skimming fraud on foreign-issued cards used in Australia fell from $28 million to $17 million, and has fallen by almost 80 per cent since 2008. These figures suggest that the continuing rollout of chip and PIN has made it harder to use skimmed cards in Australia.

Counterfeit/skimming fraud on eftpos and ATM cards in Australia declined in 2011, following an earlier increase attributed to a series of skimming attacks at certain ATMs and POS terminals. Counterfeit/skimming fraud on eftpos and ATM cards rose from around $6 million at the end of 2008 to a peak of $22 million over the year to June 2010, but is now around $7 million (Graph 16). This decline has been attributed to enhanced security around ATMs and POS terminals and greater merchant and consumer awareness. The industry continues to develop ways of addressing skimming fraud and raising consumer and merchant awareness, for example through APCA's 'Protect Your PIN' and 'Safeguard Against Skimming' campaigns.

Graph 15

Counterfeit / Skimming Fraud on Scheme Credit, Debit and Charge Cards

Year to June, December

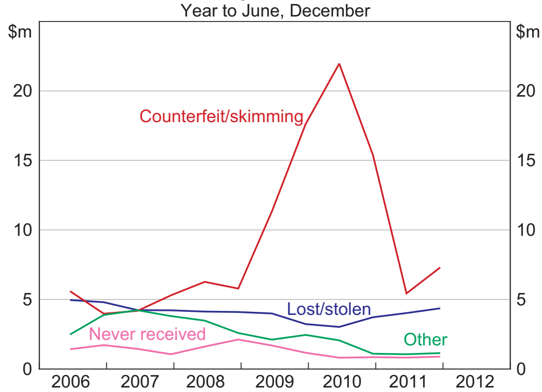


Source: APCA

Graph 16

Fraud on eftpos and ATM Cards

Year to June, December



Source: APCA

10 eftpos transactions in Australia have always been based on PIN authorisation.