



RESERVE BANK OF AUSTRALIA

65 Martin Place
Sydney NSW 2000

GPO Box 3947
Sydney NSW 2001

Payments Policy Department

T: (02) 9551 8701
F: (02) 9551 8024
E: floodd@rba.gov.au
www.rba.gov.au

19 July 2013

Ms Hayley Parkes
Adjudication Branch
Australian Competition and Consumer Commission
MELBOURNE VIC 3000

Dear Ms Parkes

APPLICATION FOR INTERIM AUTHORISATION IN RELATION TO A JOINT COMMUNICATIONS STRATEGY FOR PIN@POS

Thank you for the opportunity to comment on the application for interim authorisation by MasterCard and Visa (A91379 & A91380). On balance, the Reserve Bank of Australia supports the granting of interim authorisation to enable MasterCard, Visa and certain financial institutions to commence a joint communications strategy to encourage cardholders to voluntarily adopt PIN@POS.

To the extent that a joint communications strategy reaches larger consumer and merchant audiences in a more consistent and clear way than separate campaigns, granting interim authorisation may result in greater understanding of the relevant issues and the actions that would need to be taken by consumers to move to PIN authorisation. Further, a communications strategy that highlights and encourages greater voluntary use of PINs is likely to help ensure a smoother transition period for any future implementation of mandatory PIN@POS.

Although the Bank broadly supports the proposed joint campaign by a subset of competitors in the payment card market, the Bank considers that a campaign marketed as an 'industry initiative' should not disadvantage other competitors whose networks currently feature PIN authorisation and who will therefore not need to participate in the joint campaign. Cardholders undertaking a debit card transaction can choose between selecting the 'CHQ', 'SAV' or 'CR' (cheque, savings or credit) account buttons at the point of sale terminal if they wish to use a PIN. Specific promotion of the 'CR' button (the means of accessing the MasterCard and Visa networks) in the context of promoting voluntary use of PINs might be regarded as joint advertising by the MasterCard and Visa networks to the detriment of a competitor. It is particularly important that the campaign does not give the impression that the only way of making a secure transaction is via the combination of the 'CR' button and PIN.

The Bank anticipates making a further submission to the ACCC in relation to the substantive application for authorisation.

As a general point, eliminating signature authorisation has the potential to reduce the incidence of point-of-sale debit and credit card fraud and associated losses and resource costs. The current approach of voluntary PIN use for some systems does not fully take advantage of potential fraud reductions if a fraudster can simply opt to use less secure signature authorisation. While precise

aggregate data on point-of-sale fraud authorised by signature are not readily available, losses related to these transactions (and the associated resource costs in investigating and resolving cases) are likely to have an influence on the cost to financial institutions, merchants and consumers of providing and using payment services. Mandatory PIN@POS has the potential of reducing these costs somewhat.

Please see the attachment to this letter for a brief background on the role of the Payments System Board of the Reserve Bank of Australia, and recent trends in payment card use and fraud losses.

If you would like to discuss this submission I can be contacted by email at floodd@rba.gov.au or by phone on (02) 9551 8701.

Yours sincerely



Darren Flood
Deputy Head of Payments Policy Department

ATTACHMENT

Role of the Payments System Board of the Reserve Bank of Australia

The Payments System Board of the Reserve Bank has responsibility for, among other things, promoting stability, efficiency and competition in the payments system. In respect of retail payment systems, the Board's work has in the past focused on: establishing clear price signals to consumers and merchants; removing restrictions on merchants that limit their choices in accepting payment instruments; improving access to payment systems; and increasing transparency in the payments system.

As part of its work, the Board monitors developments in payments fraud, since fraudulent transactions can affect the efficiency of a payment system by increasing the costs and risks of making payments.

Recent trends in card payments

Debit and credit cards play an important and growing role in the payments system. In 2012, Australian cardholders made around 4.8 billion card payments (more than half of non-cash payments), with a total value of more than \$400 billion. A significant portion of these card payments were transacted on the MasterCard and Visa systems – around 80 per cent in the case of the value of credit card payments. In the five years to 2012, the value of credit card and debit card payments increased by an annual rate of around 6 per cent and 13 per cent, respectively. Card payments are increasingly displacing the use of cash and cheques in the Australian payments system, particularly for small value transactions, and are likely to continue to increase in importance in the future.

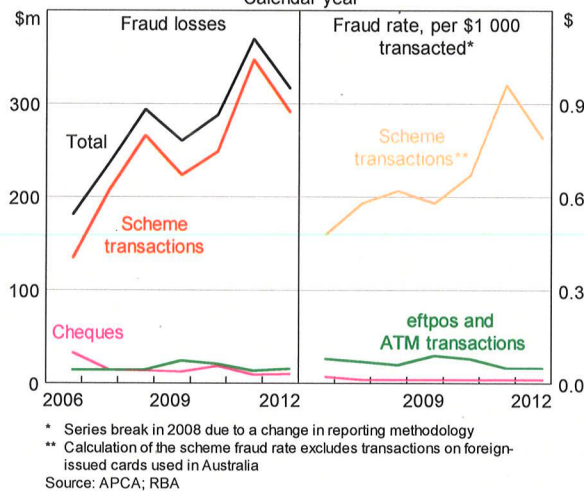
Recent trends in payments fraud

According to data published by the Australian Payments Clearing Association (APCA), cheque and card fraud losses amounted to \$317 million in 2012, up from \$181 million in 2006 (Graph 1).¹ Fraud on 'scheme' debit, credit and charge card transactions accounted for 95 per cent of total card fraud losses, having roughly doubled since 2006.² In contrast, fraud losses on eftpos and ATM transactions have remained low by comparison. The low level of fraud losses in the eftpos system has typically been attributed to mandatory PIN use, along with the fact that the eftpos network cannot be used for international transactions or card-not-present transactions.

¹ Includes fraud on Australian-issued cards and overseas-issued cards used in Australia.

² Fraud statistics for 'scheme' debit, credit and charge cards include transactions through the MasterCard, Visa, American Express, Diners Club and JCB systems.

Graph 1
Fraud on Cheque and Card Transactions
 Calendar year



Within scheme card transactions, card-present fraud (e.g. fraud occurring at ATMs and point-of-sale terminals) accounted for 27 per cent of total scheme card fraud (\$79 million in 2012). Of that figure, \$27 million in fraud losses was attributable to the theft of cards. In recent years, this type of fraud has risen significantly (from a trough of \$19 million in 2010), particularly for *domestic* card-present scheme fraud (Graph 2).

Fraudsters may have turned to theft (and other 'low tech' forms of fraud) due to counterfeiting of cards becoming less lucrative, and more difficult, with the roll-out of EMV-capable cards and terminals. The MasterCard and Visa implementations of mandatory PIN@POS would require fraudsters to capture PIN information in addition to obtaining the card, and could potentially reduce the occurrence of this type of fraud.

Graph 2
Domestic Card-present Scheme Fraud
 Australian-issued cards acquired in Australia, calendar year

