

Is Australia ready for chip?

The use of chip payment cards is already widespread overseas, its rollout being primarily driven by the need to combat card counterfeit fraud. We understand that chip cards are prevalent in 45 countries across the world, with the United Kingdom alone having over 100 million chip cards on issue.

Australia's record on combating card fraud is excellent¹, but the jury is out on whether major fraud will head our way or not. Despite this, for many reasons the implementation of chip in Australia seems inevitable. One day magnetic stripe cards will become obsolete. In Europe, magnetic stripe cards are already seen as 'old-fashioned': chip is the way things are done domestically, with the magnetic stripe being accepted only on foreign-issued cards.

In Australia, some banks have rolled-out, or are in the process of rolling-out, chip credit cards to their customers and have updated their EFTPOS terminals to standard EMV. Financial incentives provided by the credit card schemes have driven this work.

It is now common that overseas issued chip cards are presented for payment at merchants' EFTPOS terminals in Australia and in some cases they are processed fully EMV. These instances are set to increase substantially as more and more markets overseas implement chip. Unfortunately, this does bring the potential for a migration of counterfeit fraud to Australia as those markets overseas implement the protection that only allowing chip based transactions domestically brings. This type of fraud is occurring in Australia although, currently, at very low levels.

Chip is a major technology shift that is providing an infrastructure platform for business to introduce innovative products to their customers. Just as the internet has changed how people work (and play), chip infrastructure will change how we make payments. In some countries customers are reaping the benefits of chip plastic cards that provide the convenience of both contact and contactless²

The world's heading for chip and so is Australia – how can we learn from overseas experience?

Views // Is Australia ready for chip? (continued)

payments at merchants (the hybrid card), along with the benefits of e-purse, loyalty programmes and public transport ticketing that the advent of multiple application capability on the chip provides.

While recognising the continuing hard work of schemes, issuers and acquirers on rolling out chip programmes in Australia, the question now is whether there is need for an overlay of industry-wide coordination to ensure a trouble-free chip implementation. Overseas experience suggests this may be the case.

The issue is “interoperability”. Chip cards can be manufactured and configured in different ways, as can chip reader terminals. Each financial institution will of course ensure that its cards work in its terminals. But who makes sure that all cards work in all terminals? The schemes have an interest in doing so, but of course there are multiple schemes as well.

APCA held a one-day Forum in May 2007, attended by Australian issuers, acquirers and merchants, to explore the need for industry-wide coordination of chip/EMV payment card implementation in Australia. Guest speakers at the Forum shared their overseas experiences of industry coordinated approaches and their “war stories” on where things went wrong and interoperability was not achieved. The Forum concluded with strong support for an industry coordinated programme.

Australia's chip infrastructure upgrade will be lengthy and costly, whether there is an industry coordination programme or not. No one wants the cost to be increased if implementations are uncoordinated, causing re-work due to interoperability problems.

Other countries needed to press the pace on chip conversion to stem a rising tide of fraud. With our low fraud environment, Australia can take a more measured approach and learn from overseas experiences. This means that each financial institution will choose when and how to upgrade, based on their own business drivers. However, as confirmed at the Forum, a coordinated approach is a necessary component of a successful implementation in Australia.

The Australian industry has recognised this, establishing a chip for Australia implementation steering committee chaired by APCA. Major issuers, acquirers merchants and the card schemes are all participating.

In the past, Australian financial institutions have successfully collaborated to deliver lasting value to Australian consumers. The EFTPOS system itself is one of many examples. We need to do so again to ensure Australia is not left behind the rest of the world and does not suffer the unwanted consequences of painful interoperability problems. Once we get this right, we can move on as an industry to adding new functionality and extra value to delight consumers.

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1. At 24 cents in every \$1000, Australia's plastic card (debit, credit and charge card) rate of fraud is less than a third of that in the UK which remains the equivalent of about 90 cents for every \$1000.
2. An antenna imbedded within the plastic card can communicate wirelessly to the payment terminal potentially proving for a faster payment experience.

The ideas and opinions expressed in this article are those of the author and not necessarily those of APCA or any APCA member. This article has been included in APCA's 2007 Annual Review for the purpose of promoting industry discussion on topical issues.