CEO's view

APCA has undergone a significant reorientation in the course of the year. The "Chairman's review" refers to the new core principles for APCA, enshrining the primacy of payments system enhancement and member benefit in our strategic thinking. The core principles also identify industry policy and advocacy as core functions of the "new" APCA. This is very satisfying to me, since it represents part delivery against the mandate for strategic review the board gave me on appointment a little over 18 months ago.

This revitalised policy orientation is already running at full steam: APCA is making policy contributions to the Reserve Bank's review of payments system reforms, to an industry solution on ATM network access reform, to governance and innovation in the EFTPOS network, and much more in the pipeline. I am delighted that we have the opportunity to add value to the industry so quickly, and on such important topics.

As a self-regulatory and policy body for the industry, part of our function is to promote new ideas and stimulate debate. To that end, this year's Annual Review takes on a new format (apart from being online for the first time!). The "Chairman's review" leads the "Reviews" section, summarising APCA's activities and key industry developments. The "Views" section that follows tries to address topical industry issues, not so much for reporting purposes but to contribute to, or generate, industry debate on these important matters. The following five articles should not be viewed as the concluded views of APCA or its members. Rather, they are policy debate: designed to stimulate thinking. I hope you find them interesting.

There has been a fair bit of change over the last 18 months, and I am very grateful to APCA's staff, who have weathered unsettling times with a positive attitude and a willingness to try something new. The team has settled into new organisational roles without missing a beat.

Thanks also to the member representatives, without whom APCA's business would never get done. The directors have engaged in sometimes challenging strategy discussions with openness and commitment. I appreciate their support.

Finally, on behalf of the board and APCA, I would like to acknowledge the strong contribution of Bob Challis who will retire as chairman in the coming months. As APCA's longest serving chairman, Bob Challis was instrumental in driving the Board's agenda and has provided unstinting support and sage advice – of immeasurable value to a new CEO.

Chris Hamilton
Chief Executive Officer

Evolution of payments systems

This is one of those “futurist” articles – the kind that predicts the end of payment services/banking/life as we know it within 10 years. The problem with most such articles is they assume that because something becomes technologically possible, it will probably happen. You might say it is a very human trait to be distracted from what is important by what is novel. Instead of exploring the “wow” factor of new technology, this article attempts to preview the (somewhat less glamorous) business drivers of future payment services.

Technology is an enabler, but not a driver.

Over 10 years ago, I secured a “hardship posting” to Paris for 6 months. I applied for a French bank account, and was given a chip card for use in the ATMs on every street corner. I could also use it, with PIN, in any restaurant (when in Paris,…). At the end of the meal, Monsieur would arrive at the table with a cordless chip terminal. The card never left my sight, and I could enter the PIN without getting up. “What clever people!” I remember thinking.

The above describes a level of payment technology not yet generally available in Australia or, for that matter, in the home of payment cards, the United States. Clearly, technological capability is not a particularly good predictor of future evolution.

In the Parisian example, the French payments system had three distinctive features that led to its adoption of chip technology significantly earlier than many others: relatively high fraud losses, relatively high telecommunications costs (leading to electronic card payment solutions that did not rely on online verification) and a relatively centralised, growth-oriented, national card infrastructure. None of this had much to do with technological capability. Necessity is the mother of invention, not the other way around.

So, having leapt 10 years back in time, let us now leap 10 years forward. What will the Australian payments landscape look like? Chip cards are a safe bet, even though we still enjoy an enviably low level of fraud losses. But what other industry changes might we see?

One thing to watch is global competition amongst commercialised payment schemes. There is a tendency to think of Visa and MasterCard as big, comfortable, bank-controlled utilities, because of their mutual history. But the schemes are increasingly aggressive commercial entities in a rapidly changing global market; the “bank utility” view is already outdated.

Over the coming decade, the schemes will face new competition from a number of directions. For example, China UnionPay is already the world’s second-largest issuer of branded cards. Granted, it is an intensely domestic brand today, but already showing signs of expansion and centered in the world economy’s growth engine for the next decade. There are others with the potential to develop as global competitors: American Express is changing its business model to broaden its appeal, and the European national debit card schemes may yet produce a transnational alternative to Visa and MasterCard.

Let us assume, then, a more intense, complex and commercial global market for payment scheme services. Australian financial institutions will want to keep their scheme options open, even as commercialised card schemes try to build customer loyalty ahead of emerging competition.

This competition will only intensify with payment type convergence. Today, we treat cards as a separate market from other electronic payments – although there are already areas of direct competition between card payments and other electronic payment methods, such as retail bill payment. A card is just an identifying/authenticating device: in the future the form factor could be your PDA or phone, even parts of your anatomy. What keeps card business conceptually separate from other electronic payments is not technology, but real-time payment assurance: card schemes are built around providing a merchant with a high degree of certainty that payment will be received from a consumer he has no knowledge of. Giving merchants such assurance provides the basis for ubiquity and convenience and the card schemes have done a fine job of delivering both global ubiquity and great convenience in the last 10 years or so.

At one time, no other retail payment methodology (apart from cash) could match the real-time payment assurance of card payments. But that time is, of course, already past. Internet-based account and stored-value systems – PayPal and its competitors – are already as familiar to Generation Y as bank accounts and a great deal more familiar than cheques. Equally importantly, these new payment providers are as brand-savvy as the card schemes.

To cater to this young demographic, the next generation of electronic low value payment mechanisms will all feature near real-time payment assurance. An industry-wide example is the Faster payments system being developed in the UK, but there are other context-specific offerings.

So the implication is: watch out for convergence of card business with electronic payments business. As markets converge, so will products, networks and back office systems.

There are some very interesting implications of this converging, global competition in the areas of operating standards and regulation.

Historically, card schemes and national payment systems have tended to set their own standards. But in a globally competitive market, something has to give: competition on price and service is one thing, but competing operating standards impose large costs on industry participants; and as the number of competitors increases, the costs become prohibitive. So, there will be a strong push towards integrated, global standards as the basis for payment system competition. We are already seeing this in the UNIFI standards[1] and in the card scheme efforts to develop cross-scheme standards (PCI). The implication for a mature domestic system like Australia is that we need to stay in touch with global standards development: it could have major business implications. Participants need to be able not only to anticipate global standards and their impact on back office systems, but also to contribute to standards evolution.

In the same vein, card schemes and national payment systems have historically acted as self-regulatory bodies – setting policy, making rules, enforcing compliance. If there is direct, intense competition amongst commercial payment service providers, can they continue to do this? Regulators have in recent years recognised the economic importance of payment systems of all kinds, and taken a correspondingly greater interest in their regulatory frameworks. As schemes commercialise and compete, regulators will scrutinise their behaviour for adherence to good industry policy. When something similar happened to the world's stock exchanges, the general trend was to reduce the self-regulatory powers of commercialised exchanges. The obvious risk is an accumulation of new, intrusive public regulation.

The implication seems to be that industry self-regulatory structures need attention. Australian payments organisations need to devote some attention to self-regulation if they want to continue to enjoy the commercial freedom they have enjoyed in the past, while at the same time ensuring regulatory certainty and system stability to the satisfaction of the public regulators.

The rest of this "Views" section explores these ideas, and some others, in a little more detail.

Chris Hamilton
Chief Executive Officer

1. For a discussion of standards, see article "The international standards revolution".

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The secret to successful self-regulation

In rapidly evolving, complex industries (particularly those with network characteristics, like payments), successful self-regulation is better than good public regulation.

Successful self-regulation, compared with direct government regulation, offers a means of addressing public policy objectives, that:

a. is a better balance between public policy concerns and industry interests;
b. is more flexible, responsive to changing participant needs and innovation;
c. creates lower compliance costs; and
d. is more certain because participants control its evolution.

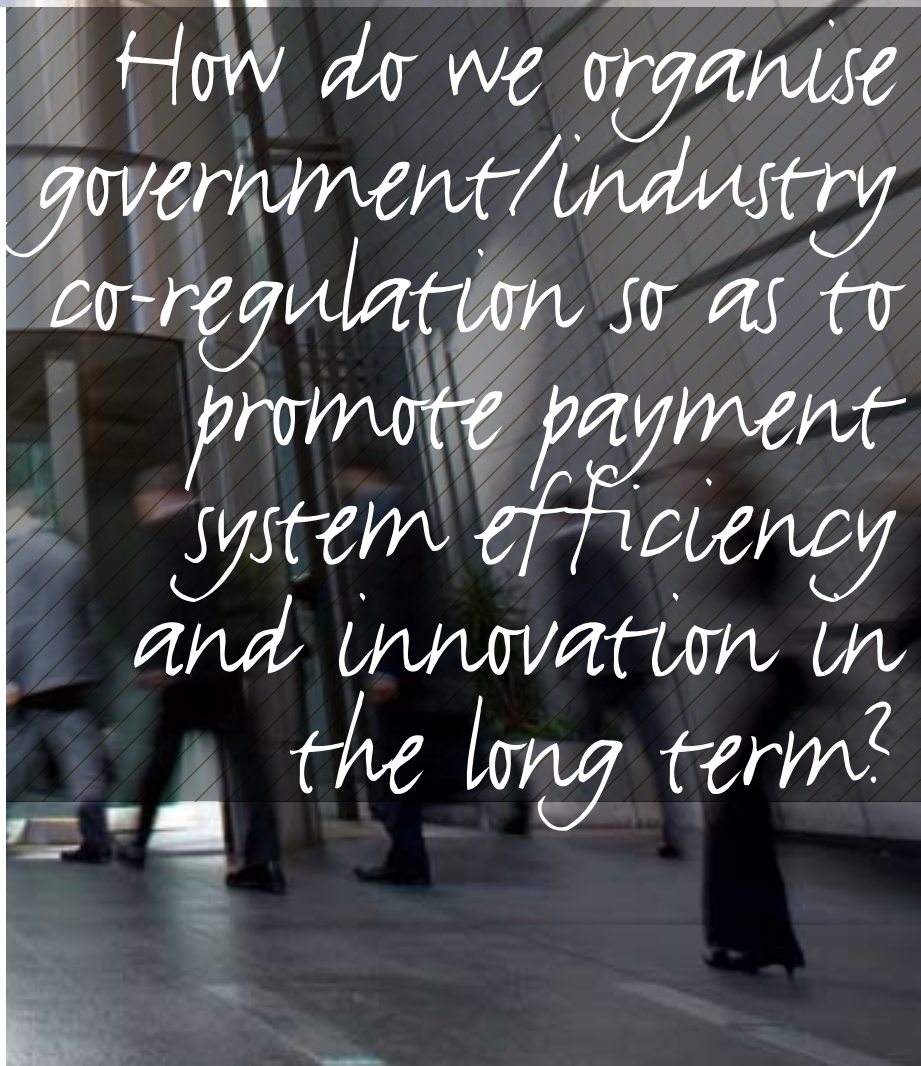
How then can public policy self-regulation be organised to maximise its chances of success? This article examines the roles of, and levels of engagement between, the two parties most interested in self-regulatory solutions to public policy objectives: the government regulator (for the Australian payments system, the Reserve Bank of Australia) and the industry.

Successful public policy self-regulation
Successful self-regulation addresses public policy objectives to the satisfaction of the government regulator and the industry. This means that:

1. The regulator must be satisfied that its public policy objectives are being met (otherwise direct regulation will result); and
2. The industry needs to be satisfied that, notwithstanding the need to meet public policy objectives, a self-regulatory solution is better than direct regulation because it delivers benefits such as those described above.

The critical question is, then, what allocation of responsibilities between the regulator and industry and what level of engagement between these two parties maximises the chances of achieving the above dual objectives of successful self-regulation.

For example, in order to maximise the chances of a successful self-regulatory regime to effect ATM reform, what issues should be the responsibility of the Reserve Bank (RBA), the payments industry, and both the RBA and the payments industry, and what



levels of engagement between the RBA and the payments industry are required on these different issues.

Overview

The role of the regulator and the industry, and the level of engagement required to achieve successful self-regulation, varies depending upon the type of issue under consideration. Figure 1 (right) shows that:

1. Any self-regulatory issue (in respect of public policy objectives) is somewhere between:
   a. *what* are the public policy objectives that the regime is trying to achieve; and
   b. *how* the requirements of those objectives are implemented;

   This 'continuum' is represented by the blue lines.

2. The regulator has the greatest responsibility for the *what* and least for the *how* and that the industry has the greatest responsibility for the *how* and least for the *what*; and
3. The level of engagement between the regulator and the industry should increase for the issues for which both the regulator and industry are responsible.

This article argues that Figure 1 represents the allocation of responsibilities and level of engagement that is most likely to deliver successful self-regulatory solutions to public policy objectives.

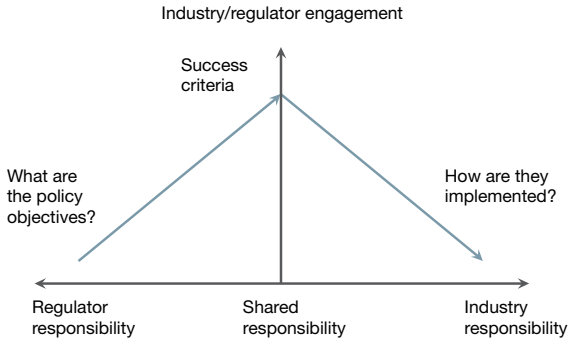


Figure 1 – Regulator/industry responsibilities and engagement

What are the public policy objectives?

Fundamental to any regulatory regime are the public policy objectives that it is seeking to further or achieve. This is where the regulator (and/or government) must have primacy.

Industry participants will generally act to advance their commercial interest (indeed most participants are legally obliged to act in the best interests of their shareholders). As such, the industry can only have minimal responsibility for the development of public policy objectives. Moreover there is little need for regulator / industry engagement in this area. (Note the difference between public policy objectives and success criteria – see next page.)

This does not mean that the industry cannot, or should not, make representations to the regulator as to public policy objectives. Indeed in many cases it is likely to be good practice for the regulator to seek views on its public policy objectives. The point is that it is the regulator that must have the responsibility for setting these objectives.

Thus the highest level public policy objectives will often, and should, be set outside of a self-regulatory regime. For example, the definition of the public interest by the *Payments System Regulation Act* as the desirability of payment systems:

a. being:
   i. financially safe for use by participants; and
   ii. efficient; and
   iii. competitive; and

b. not materially causing or contributing to increased risk to the financial system.

Of course, self-regulatory regimes may also have industry objectives, to the extent that they do not impinge upon the public policy objectives. However, inconsistency or confusion around public policy and industry objectives is likely to retard successful self-regulation.

Success criteria
Clear and objective success criteria are fundamental to a successful self-regulatory regime.

Success criteria are what we use to determine whether public policy objectives, such as safety, efficiency and competition, are being met. In a self-regulatory regime they let the industry know whether they are meeting the first of the dual objectives of successful self-regulation: the regulator being satisfied that its public policy objectives are being met.

Figure 1 puts the development of success criteria at the mid-point between the *what* and *how*. This means that the regulator and the industry have equal responsibility for their development (and review) and that there should be maximum engagement between the regulator and industry. This is because:

1. the regulator needs to ensure that the success criteria are an accurate measure of the relevant public policy objective(s);
2. the industry best understands the fundamentals of what is actually happening in the relevant markets, what is likely to happen in the future and therefore what changes will signify achievement or movement towards the relevant public policy objectives; and
3. dual responsibility and maximum engagement increase confidence of the industry and other stakeholders in the self-regulatory regime and is more likely to foster the right levels of regulator/ industry co-operation.

For example, for the Australian payments system both the RBA and the payments industry should be responsible for developing the success criteria in respect of the public policy objectives in the *Payments System Regulation Act*. These success criteria, which could differ across payment systems, should (ideally) provide an objective and clear basis to determine whether payment systems are financially safe for use by participants, efficient and competitive and do not materially cause or contribute to increased risk to the financial system.

How are they implemented?
Implementation of rules to create the conditions that meet the success criteria is where the industry must have primacy.

If self-regulation is to be successful it must also meet a second objective: delivery of a solution that is better than direct regulation because it delivers benefits such as greater flexibility, lower compliance costs and a better balance between industry interest and public policy.

Only the industry itself can develop these solutions because it is only the industry that knows and is able to assess (in detail) how different rules will affect its flexibility, compliance costs (etc) and, for example, result in other unintended consequences.

Further, if clear and objective success criteria have been developed by the regulator and industry, then the regulator can be confident that a clear means of assessing whether the implemented rules are achieving the public policy objectives exists. It can thus leave the industry to develop and enforce rules to achieve the success criteria.

Temogen Hield
Head of Self-Regulation

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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 excellent[1], 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 contactless[2]

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

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.

Michael Forey
Head of Industry Change Management

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 wireless to the payment terminal potentially proving for a faster payment experience.

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The international standards revolution

In payments systems messaging, the holy grail of the standards revolution is the single international standard: one standard to replace the myriad of proprietary and open standards currently in place in the financial industry. For many institutions and their corporate customers, which have to maintain multiple linkages and multiple message formats running on multiple legacy systems, the cost and effort involved in standardisation often obscures the benefits. As a result, reaching industry consensus and developing momentum towards any new standard is a very challenging and protracted process.

The reality is that any program of standardisation must focus on delivering value to business and not just blue sky or intellectual stimulation for technologists.

The challenge for the standards knights (jousting with profit-focused business managers) is how to articulate the business benefits in such a way that a sustained industry effort can be established to reach the ultimate goal of a single standard.

Perhaps the best business motivation will be the realisation that by not quickly addressing the issue of standardisation, it will open the door for a new market or competitor to develop a more efficient and nimble product, allowing it to directly impact the profitability of many large institutions.

A related example from Heidi Miller[1] was the inability to develop a secure and easy to use on-line payments solution for what became the very successful company e-Bay. e-Bay turned to another e-business start up in the late 90's to solve their needs after several banks could not deliver a suitable solution. e-Bay eventually bought the company for over $1billion USD. The company was not a bank; it was PayPal. Of course, the irony is that PayPal transactions leverage the same systems the banks spent billions of dollars building. Miller notes that "however when we as an industry are properly motivated, it's impressive what we can achieve together. Look at what has been done with Equilend, CLS, the Euro, Target, and SEPA."

Motivation will again be the key to taking advantage of the current revolution occurring in messaging standards. Perhaps the most prominent example of the standards revolution is the UNIFI initiative from the International Organisation for Standardisation (ISO). Rather than only describing message formats in detail, UNIversal Financial Industry message scheme (UNIFI) provides a business-based approach to developing message standards.

UNIFI was designed to address the problem caused by the creation of several new standardisation initiatives that had evolved over the last decade using internet based messaging. These initiatives are a real alphabet soup; SWIFT, TWIST, FIX, MDDL, XBRL, IFX and several others.

Over the past decade, the rapid expansion of the internet led to a proliferation of standards initiatives based on using eXtensible Markup Language (XML) as a language. However each initiative developed their messages in their own XML dialect.

XML's genesis came through innovations designed to solve the difficulties in large scale electronic publishing in the 1970's. One of the key people involved and the person who coined the term "markup language", Charles Goldfarb, has referred to XML as the holy grail of computing, solving the problem of universal data interchange between dissimilar systems. XML was developed in the late 1990's based on the markup principles as a framework to achieve this nirvana. XML's power comes from its simplicity and ability to describe data within the message. This flexibility however has assisted in the creation of many "standards" in isolation, resulting in overlaps and confusion in usage.

UNIFI's approach is to provide an umbrella mechanism whereby the 'alphabet soup' and other standards can successfully co-exist in the short term and converge over time to a single standard. The approach requires business level modelling to be undertaken as a pre-requisite to the formation of the messages. The result of the business modelling is a non-technology dependant, non-language dependent set of models and data descriptions that are stored in dictionaries allowing anyone access to look-up the information.

The UNIFI (or ISO20022) approach is also being taken up in the development of new standards for initiatives such as SEPA (Single Euro Payments Area). The approach promises reduced implementation costs and time, but also incorporating flexibility in individual business processes.

Although the UNIFI approach provides a means for the financial industry to move towards a single standard, the momentum needed to attain the objective is yet to be achieved. Standards organisations such as SWIFT and TWIST are very active in promoting the approach and encouraging their members to commence convergence programs.

The success or failure of UNIFI will depend on a clear understanding and articulation of the business benefits and the ability of the industry to see beyond their short term issues and get involved in collaboration and planning for the future. The question for Australia is what part do we want to play in this revolution?

There is little doubt that regulatory and market forces driven primarily by the Europeans and the United States will push our local financial institutions to adapt to new global standards. Evidence of these forces already exists with various initiatives such as anti-money laundering, Sarbanes-Oxley, IBAN, IBEI etc requiring changes to infrastructure and operational processing.

Motivation and engagement at a payments industry level is the key to Australia influencing the strategy and implementation of international standards. The benefits gained in reducing costs in infrastructure maintenance and development alone would justify a unified Australian voice to influence the direction of the UNIFI standard.

Bob Masina
Head of Technology & Operations

1. Based on a speech by Heidi Miller, Treasury & Security Services Executive, JP Morgan Chase & Co – SIBOS 2004

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The four layers of fraud prevention

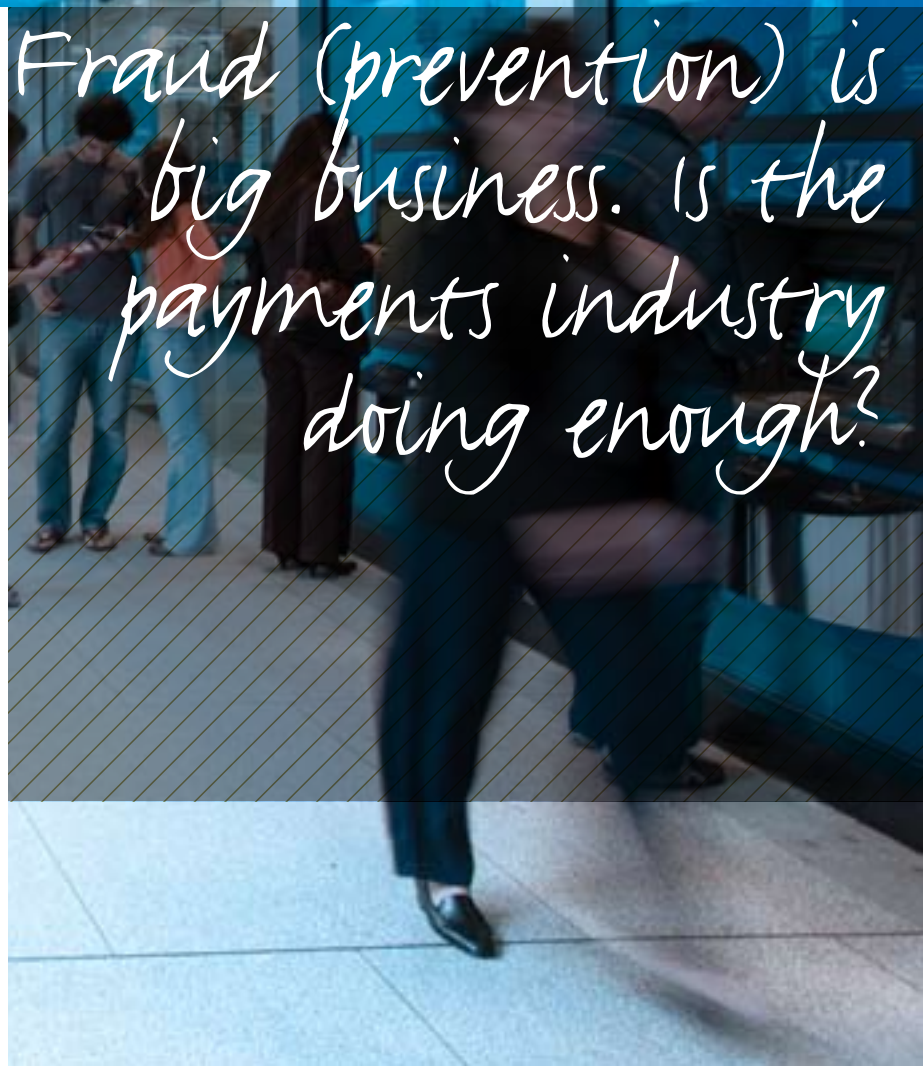
Fraudsters will always seek out the path of least resistance. They target vulnerabilities in individuals, property or financial institutions. The possibilities for fraudulent endeavour in payments systems are many and varied; fraudulent activities can be undertaken with little personal risk involved, at physical remove from the target, and with significant sums of money available as a reward.

Historically, Australian financial institutions have been very good at preventing payments fraud, especially when compared to other jurisdictions. As an example, 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 United Kingdom which remains the equivalent of about 90 cents for every $1000.

This does not mean Australia can be complacent. As other jurisdictions improve their defences there will be an inevitable shift by criminals as they go forum shopping for weaker defence payment systems. Fraudsters are never restricted geographically in this age of the internet.

According to the Australian Institute of Criminology, fraud comprises 16% of the total annual cost of crime in Australia. This is a cost that cannot be ignored, irrespective of the fact that percentage-wise, it may be higher elsewhere.

Payments fraud prevention activities can be seen to operate at four different levels. The first level focuses on actions to be taken by the end user – either the customer or the merchant. Cardholders can ensure they protect cards and PIN information; merchants can ensure staff follow work practices that will discourage fraud attempts. The second level is at the financial institution: implementing measures to protect the institution's customers. At this level, Australian institutions have invested significantly in fraud detection and risk management systems. The remaining two levels focus more widely. The third operates at the scheme level (for example specific measures developed and implemented separately by Visa and MasterCard to reduce online fraud). The fourth operates at an industry wide-level, encompassing financial institutions, government and law enforcement agencies, merchants, technology providers and customers.



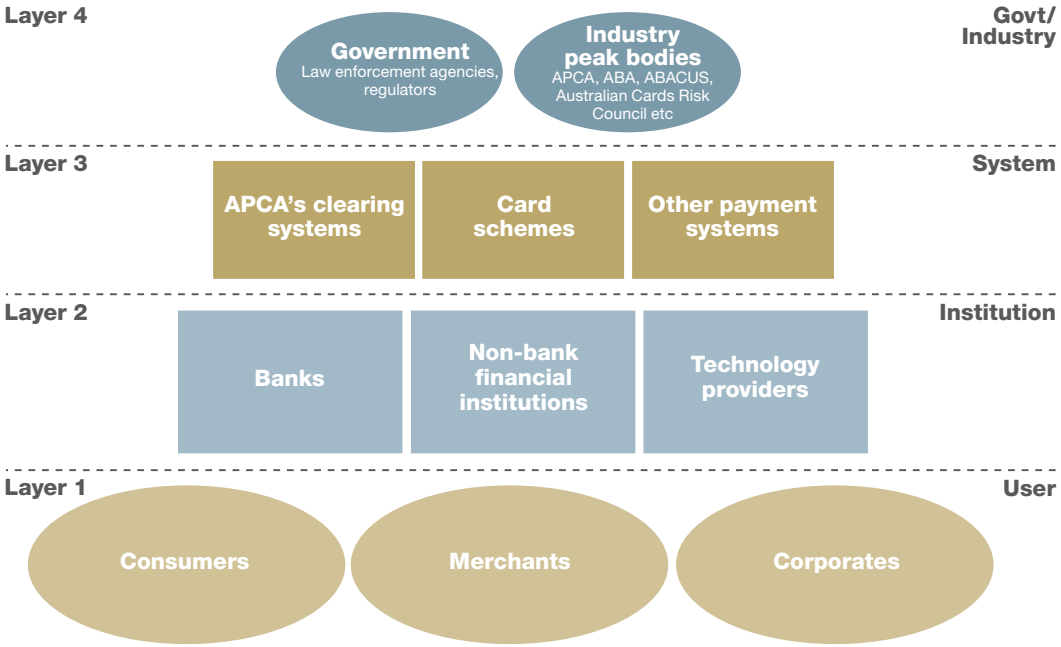
Views // The four layers of fraud prevention (continued)

To date, payments fraud prevention initiatives in Australia have largely taken place at the first three levels. There have been fourth level type industry forums such as the Australian Bankers' Association's (ABA) Financial Crimes Steering Group and APCA's Fraud Committee, but these have not attracted much attention in recent times. This article seeks to examine the desirability of enhanced industry effort as a complementary measure alongside existing (and so far successful) effort on the other three levels.

Examples of fourth level type fraud prevention activities include:

- an education campaign run as a joint initiative between the ABA and the Australian High Tech Crimes Centre;
- the Joint Banking Financial Services Team, which is a centralised body set up to provide a point of contact for law enforcement agencies to obtain information on online banking fraud; and
- publication by APCA of industry-wide data on cheque and card fraud, in line with current practice in the United Kingdom.

In addition, some of Australia's major financial institutions are working together to create the Trust Centre: a central service set up to facilitate user identification and hence cut the level of identity fraud currently associated with false applications for bank accounts.



However, the question is whether more should be done to enhance fraud prevention and detection in Australia through a more coordinated, industry-wide approach? If the answer is yes, then how should this be done? An important element of this would be to improve interaction between the different players in the industry, including financial institutions, government and law enforcement agencies, merchants, technology providers and customers, as occurs in many overseas jurisdictions.

There are two main obstacles to fourth level effort. First, the business case for investment in fraud prevention initiatives is much easier to establish when that initiative is specific to a single institution where the costs and projected savings are clear. By contrast, translating overall industry costs and benefits of collective industry efforts into predicted net benefit for a critical mass of individual institutions, each of which has different fraud profiles and systems, can be very difficult.

Second, there is the problem of comparative advantage. Any successful industry effort reduces total fraud costs, but will not by definition, confer any significant competitive advantage on any one institution or class of institutions. Given an investment choice between an industry effort and one that will confer competitive advantage on a single institution, it will be difficult to persuade business managers to opt for the former.

Despite this, overseas experience suggests that as a complement to other efforts, industry cooperative effort is valuable in long-term fraud prevention.

An example of effective cross industry coordination in preventing payments fraud can be found in France, where the Observatory for Payment Card Security (OPCS) was established in 2001 to promote dialogue and exchange of information between all parties that have an interest in the security and smooth functioning of the French card payment systems. The typical work undertaken by the OPCS relates to the identification and analysis of card fraud activity, facilitating ongoing evaluation of the potential impact of such fraudulent activity on card and device security standards and timely dissemination of information on the latest modus operandi being utilised by criminals.

In the United Kingdom, there has been a wholesale shift in attitude to payments fraud prevention, spurred by the substantial level of payments fraud encountered. The best example of this is the cooperative approach taken by industry bodies and law enforcement agencies to establish the Payments Industry & Police Joint Intelligence Unit, an industry-funded agency staffed by both industry experts and law enforcement officers. This effectively combines expertise in payment systems and financial crimes with the objective of preventing and detecting payments fraud within the one office. In such circumstances, by having an industry wide independent body closely cooperating with law enforcement agencies, sensitivities relating to competition and commercial confidence between financial institutions are unlikely to arise, and protection of the entire industry is undertaken in a coordinated manner by a central body.

In both France and the United Kingdom, a combination of information sharing and technological innovation are being used to combat payments fraud.

Of course, there are significant differences between the Australian payments system and those of France and the United Kingdom, therefore these types of measures may not be appropriate within the Australian environment, or would at the very least need to be suitably tailored. Irrespective of environmental differences, however, lessons can be learned from the cooperative nature of these initiatives where financial institutions and law enforcement officers combine their expertise to successfully combat fraud, complementing fraud prevention strategies pursued by customer education, financial institutions' internal preventative measures and scheme measures.

From such cooperation, industry-wide trends in criminal activity can be detected and addressed, experiences in one sector can be learned from, and a proactive technology driven program of fraud prevention can be resourced and utilised for the benefit of the whole payments industry and the wider community.

The first step to achieving such cohesion in Australia has recently been taken with the establishment of the joint ABA/APCA Fraud Direction Working Group. This Group will explore the potential for greater cooperation across the payments industry with the long term objective of developing a cooperative network, not just within the payments industry, but with government, law enforcement agencies and other payments system stakeholders. This will help ensure Australia's enviable record in payments fraud prevention is maintained.

Stephen Halliday
Head of Industry Policy

Arun Kendall
Research/Policy Analysis

Caroline Pearce
Risk & Compliance