

Activities and Achievements

In Focus:

Clearing system administration

Administering and regulating APCA clearing systems so as to enhance their safety, reliability, equity, efficiency and convenience.

This section provides an overview of this year's activities and achievements.

Reflecting our broad "depth of field", we cover the recent evolution of APCA's five payment clearing systems, the major industry policy and structure developments, our efforts to consult with the broader stakeholder community and our regular corporate activities. It is quite a compendium!

The following pages summarise the main developments.

- \ Clearing Systems Developments
- \ Industry Priorities
- \ Consultation and Community Engagement
- \ Corporate Activities

Clearing Systems Developments

2008-2009 was a year of significant structural and regulatory change in the payments system, as outlined under "Industry Priorities". But with much less visibility, APCA also continued its incremental enhancement of the five clearing systems, as outlined below.

- \ As part of implementation of the account switching package, amendments were made to the BECS Procedures effective 1 November 2008 to place obligations on financial institutions to assist customers switching their direct debit and direct credit arrangements to another account.
- \ Extensive system changes were made in CECS to provide for the introduction of direct charging at ATMs on 3 March 2009. APCA coordinated the reprogramming of more than 26,500 ATMs across Australia, industry-wide testing and two pilot programmes. Every ATM owner and most card issuers were involved in implementing the changes.
- \ Increasingly Pre-paid and Gift Card programs are using the EFTPOS system to facilitate their transaction processing. Amendments were made to the CECS Manual to identify "Pre-paid cards" as a separate category and to define an appropriate operational framework for clearing and settling these transactions.
- \ CECS members exchange information about the settlement and routing arrangements of payment cards used in CECS. To automate the process of disseminating this information, a new BIN database and a central repository of card data were established during the year.
- \ The CECS device approval standards covering ATMs and EFTPOS terminals were reviewed to assess the feasibility of bringing them into line with the PCI security standards used by the international credit card schemes. Following detailed analysis, it was agreed to retain the current CECS standards due to the additional security they provide.

In Focus:

Self-regulatory policy

Developing and advocating industry policy positions to support effective self-regulation of the Australian payments system.

- \ Key Injection Facilities (KIFs) load cryptographic keys into ATMs, EFTPOS terminals and other card-activated devices. The various technical and operational standards for doing this securely were brought into alignment during the year. This is the first step towards simplifying the process of auditing KIFs for CECS members.
- \ Preparations were made for the new message type SWIFT is implementing in November 2009. "MT 202 COV" will require financial institutions to include originator and beneficiary details when they send fund transfer instructions for cover payments. Amendments were drafted to the HVCS Procedures and, together with the Reserve Bank, APCA has developed a testing strategy to provide guidance to HVCS members.
- \ Amendments were made to the HVCS Procedures effective 1 January 2009, to tighten up requirements on members to maintain high reliability and achieve prompt resumption of payments processing following any disruption to their high value payments system.
- \ As part of crisis management, a new ACDES business continuity plan was developed for managing cash distribution in the event of a major disruptive event. The plan covers arrangements for a natural disaster, a pandemic, and where concerns about the viability of a financial institution may lead to a run on cash.
- \ Under existing arrangements, the Royal Australian Mint (RAM) supplies coin to the ACDES banks through a separate agreement it has with the Reserve Bank. As these arrangements are due to expire in 2011, ACDES banks have been working with the RAM on new arrangements to supply them with coin directly.

Industry Priorities

A number of large scale challenges that have been under way for several years came to fruition in 2008-2009. These cover the field of APCA's activities in support of payment system enhancement: industry policy, self-regulation and industry change management. The highlights appear below.

ATM reforms launched

The work on ATM reforms commenced in 2007 was completed by the set implementation date of 3 March 2009. The reforms, which were developed by the industry and the Reserve Bank, comprise the introduction of direct charging in place of interchange fees, and access reform.

Under direct charging, the fee for a foreign ATM transaction must be disclosed on screen and is paid directly to the ATM owner. APCA led the technical design and implementation, managed the roll-out of software changes to every ATM in Australia and coordinated the "See the Fee" cardholder education campaign. The ATM Access Code developed as part of access reform makes it easier for new entrants to participate directly in Australia's ATM network (see <http://www.atmaccesscode.com.au>).

A roadmap for the low value payments (LVP)

APCA released *Low Value Payments Roadmap* in December 2008. The Roadmap sets out a strategic vision and solution path for the evolution of Australia's electronic payments system. It followed an in-depth consultation process with a broad range of industry stakeholders and is a clear example of APCA's industry direction and thought leadership role. (See "The future of low value payments".)

Implementing the LVP Roadmap

As part of the work to implement the LVP Roadmap's proposals, work has commenced on establishing an industry Community of Interest Network (COIN) to replace the existing "end-of-life" telecommunications technology supporting the cheque, direct entry and card payment systems. In addition to facilitating access for new entrants, the new integrated IP based network will significantly reduce maintenance costs for participants. Together with the Reserve Bank and system participants, we are also exploring ways to use the Reserve Bank's enhanced settlement capabilities in RITS to implement same-day settlement in the low value payment systems. The initial focus is on reducing settlement risk in BECS.

Activities and Achievements (continued)

Industry Priorities (continued)

Transaction account switching

APCA provided significant policy support for the transaction account switching package which came into effect in November 2008. This package enables customers to switch more easily from one financial institution to another. As part of its policy and communications role, APCA provided regular reports to the Reserve Bank and Treasury, coordinated media around the account switching launch, and provided information for consumers through its website.

Card scheme account switching

Following a Government request to extend account switching to card schemes, APCA successfully coordinated the industry response. By March 2009, a package of industry-development initiatives was agreed, including improved customer relations protocols, merchant information and consumer education materials including generic templates. Most of these initiatives will be implemented by December 2009 and are expected to provide significant assistance to customers wishing to switch their regular payments between credit card accounts.

New company to manage EFTPOS system

A separate company, EFTPOS Payments Australia Limited (EPAL) was established on 14 April 2009 to manage and promote the Australian debit card system. APCA played a pivotal role in coordinating effort to design a domestic card scheme governance structure to ensure EFTPOS remains a vibrant and competitive alternative to the international card schemes. The governance structure provides for three independent directors and collaborative industry management. APCA is providing transitional support to EPAL during the company's establishment phase.

Online payment alternatives

In the context of requests from the Reserve Bank for the industry to develop new online payment alternatives, APCA analysed the competitive dynamics of the existing online payments market in Australia, reviewed overseas comparisons and sought to identify service gaps for future consideration by industry participants. The study found that opportunities exist for a new online debit service offering immediate assurance of value to the merchant and which is capable of quickly developing domestic reach. The results of the analysis were published in August 2009 with the release of *Online Payments: What's Next?* as a contribution to industry debate on this important topic.

Chip cards making their mark

The Chip Payments Programme for Australia (CPPA) established in January 2008 provides industry wide coordination and infrastructure for Australia's migration from magnetic stripe to chip cards. In addition to minimising risk of problems in transition to chip, the CPPA's focus is on ensuring the best possible customer experience for cardholders. A chip marque has been developed by the CPPA to assist consumers when using EFTPOS terminals that can process chip payment cards. The marque makes it clear that chip cardholders need to insert, rather than swipe, their card and leave it in the terminal until the transaction is completed.

Countering fraud

APCA's fraud committee monitors fraud trends, identifies areas of risk, and develops measures to counter fraud within APCA's clearing systems. Following a reassessment of its role during the year, the fraud committee's focus has been broadened to cover payments related fraud more widely, and its remit extended to include other types of fraud such as lending fraud and e-Fraud.

In line with international trends, Australia's payments fraud statistics have shown increasing Card Not Present and Counterfeit/Skimming fraud. Industry measures to counter these types of fraud include the roll-out of chip cards, additional authentication techniques for internet payments (Verified-by-Visa and MasterCard's SecureCode), and through security measures at ATMs. To support these initiatives, APCA is developing a "protect your PIN" campaign to increase cardholder awareness as well as encouraging the take-up of additional authentication measures.

In Focus:

Community understanding and confidence

Promoting community understanding of payment systems and instilling community and regulator confidence in payments industry self-regulation.

Consultation and Community Engagement

As APCA's role broadens beyond the traditional focus on technical and operational efficiency in five clearing systems, effective engagement with the full range of payment system users and operators becomes even more important. This section highlights our consultation efforts in the year of review.

Card Payments Forum

The Card Payments Forum was established in August 2008 to promote industry debate on efficiency and competitiveness in the Australian payment card markets. The Forum met in October 2008 and March 2009 for one-day sessions, bringing together key stakeholders in the card payments system including financial institutions, merchants, card schemes, consumer groups and industry associations. Discussions took place on the future direction of public policy in card payments focusing on ways to promote innovation and system evolution over the long term while ensuring healthy competition.

Forum participants strongly endorse the ongoing role of the Forum as a clearing house for ideas, intelligence and initiatives. As an ongoing contribution to open debate about system issues, the Forum adopted a communications protocol which provides for the publication of Forum information including research and discussion documents. A new website (see www.cardpaymentsforum.com.au) was launched in May 2009 for this purpose.

Liaison with regulators

APCA maintains ongoing relations with regulatory bodies and other government departments. Under a formal liaison agreement with the Reserve Bank (RBA), regular meetings are held with the Payments Policy Department. In addition to the RBA, we regularly liaise with the Australian Consumer and Competition Commission (ACCC), the Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA) to communicate industry positions and views on payment systems developments.

In the lead-up to the implementation of ATM reforms, we provided briefings on the introduction of direct charging to ministerial and opposition offices, relevant government departments and regulatory agencies. We also consulted with Commonwealth Treasury on the account switching package and the Commonwealth Department of Human Services on the new BasicsCard.

Internationally

APCA hosted briefing sessions for several international visitors including government delegations and regulatory officials from Brunei, Indonesia and South Africa and industry bodies from New Zealand and South Korea. At the invitation of the Bank of Indonesia, in June 2009 APCA facilitated a two-day workshop in Indonesia for 60 participants from the Bank and representatives from local financial institutions on payments policy and regulation.

Submissions

APCA made a number of submissions to industry consultative processes during the year including on the review of the Banking Code of Conduct and ASIC's review of the EFT Code of Conduct.

APCA followed up its June 2008 submission to the Reserve Bank of Australia Review with on-going dialogue and interaction with the regulator on the desirability of stepping back from interchange fee regulation and permitting competitive forces to operate within card payments. The participation of Reserve Bank officers in the Card Payments Forum has been an important aspect of this.

APCA also made a submission and appeared in August 2008 before the House of Representatives Economics Committee's Inquiry into Banking and Non-Banking Competition, noting the relative benefits of the then impending account switching package. We also consulted with ASIC on how to most effectively address regulator concerns over the issue of mistaken payments.

Activities and Achievements (continued)

Consultation and Community Engagement (continued)

Stakeholder engagement review

We maintain close relations with a wide range of stakeholders outside of APCA's membership including industry associations, the international card schemes, consumer representative bodies and payments providers.

APCA's formal stakeholder engagement arrangements were reviewed during the year. The review explored structures and practices that would enhance APCA's responsiveness and understanding of stakeholder needs. As part of this process, the role of the three advisory councils, the widening nature of APCA's work and the interest of "newer" external stakeholders such as consumer groups were considered. Final recommendations from the review are expected in late 2009.

International Council of Payment Association Chief Executives (ICPACE)

The annual meeting of ICPACE was held in the UK in September 2008. These round-table sessions provide a forum for senior representatives from overseas payment associations to exchange information and experiences on payments system developments. An extraordinary meeting, attended by Australia, Canada, Ireland, South Africa, the UK and the USA was held in the margins of the NACHA Conference in Paris in February 2009 to consider the global financial crisis and its possible implications for the future regulation of payments systems.

Public education and consumer awareness

Significant media interest was generated by payments developments directly affecting consumers in particular the introduction of direct charging at ATMs and the account switching package. The resulting coverage and public debate helped to increase consumer awareness on these important changes. A mini-website was launched as part of the industry "See the Fee" cardholder education campaign to help inform consumers about direct charging.

APCA also keeps the public informed through its annual reviews, the quarterly publication *Payments Monitor* and the website. With the Second Quarter 2009 issue, the *Payments Monitor* became an interactive newsletter published exclusively online, to make it easily accessible to the broader community.

Representing the industry

EMVCo Board of Advisors

APCA was appointed the representative for Australia on the EMVCo Board of Advisors in September 2008. In this capacity, APCA is the conduit for disseminating information between EMVCo and its Australian stakeholders. EMVCo developed the EMV specification, which is the internationally recognised as the global standard for chip card payments.

Banking and Finance Infrastructure Assurance Advisory Group (BFAG)

APCA is a participant of BFAG which operates through the Attorney General's Critical Infrastructure Protection Branch. This group shares information on common threats and vulnerabilities to critical banking and finance functions and considers ways to address these at an industry level. This year's various exercises included pandemic planning.

Technical and security standards

APCA participates on a number of external working groups and committees developing technical and security standards for financial transactions including:

- \ ISO/TC68/SC2/Working Group 11, ISO/TC68/SC2/Working Group 13.
- \ Standards Australia Committee IT/5, Standards Australia Committee IT/5/3, Standards Australia Working Group IT/5/4, Standards Australia Working Group IT/5/8.
- \ SWIFT Australia: National Member Group; User Group; and National Member Group Standards Subcommittee.

In Focus:

Organisational capability

Maintaining and enhancing APCA's organisational capability to deliver its Core Principles and corporate goals.

Corporate Activities

This section outlines recent developments in the platforms, resources and structures that go to make up APCA and enable its work for members and for the payments system.

Strategy Review

APCA's Core Principles, first developed in February 2007, were reviewed by the APCA board in November 2008.

The Core Principles were re-endorsed with changes agreed that reflect APCA's role in identifying opportunities for members and providing thought leadership on payments.

APCA undertook the development of a new 2009-2012 Corporate Strategy, approved by the APCA board in March 2009. The Strategy identifies how best to give effect to APCA's Core Principles in a challenging and changing external environment. It reflects APCA's evolution beyond its traditional clearing system administration role to include industry policy and industry change management activities across the payments system.

New Auditors

PricewaterhouseCoopers has served as the company's independent auditors since APCA's inception in 1992. As part of good corporate governance, which requires periodic review of audit arrangements, an audit tender process was undertaken during the year. Following an intensive review of accounting firms, the APCA board considered it timely to recommend the appointment of Deloitte as new auditors, with effect from the financial year ending 2010.

New database system

The collection, analysis and reporting of statistics is a key function of APCA's Operations area. Work has commenced on building a new database system to provide a central repository for statistics collections. The new system establishes a platform for secure internet-based input, automated reporting and improved data analysis.

Automating processes

Several manual processes were automated during the year improving efficiency for both members and internal operational staff. The upgrades to operational systems used in APCS, BECS and CECS provided members with greater availability and faster response times.

Video conferencing

APCA holds close to 100 regular meetings each year including board, management and other committees, sub-committees, advisory council and working group meetings. Video conference facilities were installed during the year to provide flexibility for members and other participants located interstate.