

## Direct Entry Continues to Grow

Based on 2000 figures compiled by the Bank of International Settlements (BIS), Australia has a higher number of direct entry transactions per head of population than the USA and Canada while having a lesser number than the United Kingdom.

While international comparisons have to be treated warily because of differences in institutional arrangements, they nevertheless can provide an interesting perspective on payment practices. Comparisons between the USA, Canada, UK and Australia are fairly meaningful in so far as payment arrangements in each country are similar in terms of the instruments used: cheques, cards & direct entry.

The BIS figures show that direct entry transactions (credits and debits) per head of population for the UK, USA and Canada in the year to June 2000 numbered respectively 65, 20 and 33<sup>1</sup>. The comparable number for Australia – based on APCA May 2000 survey data – was 42.

Recent trends suggest the gap between the usage of direct entry in the UK and Australia is closing. Measured from May 2000 to May 2002, direct entry transactions in Australia have grown strongly by 31.2%. The comparable growth in the UK as reported by APACS was 13.6%.

Managed through APCA's Bulk Electronic Clearing System (BECS), the direct entry system has had consistently strong growth for some years. Last year, the number of direct entry transactions (both debit and credit) grew by 10% and over the last four years by 68%. This increase has had a partial correlation with a decline in the use of cheques; 7% over the last year and 32% over the same four year period.

As direct entry transactions are batched and exchanged in bulk, the system is cost effective and efficient, making it appealing for various applications. The number of organisations using the direct credit system grew by 11% last year, with a 7% transaction growth.

The growth of direct debits has been more vigorous than that of direct credits. Last year, direct debit transactions grew by 18%; while the system's user base increased by 21%. Organisations use direct debits to draw funds from their customers' accounts under an authority signed by each customer.

### *Direct Debit Cancellations and Claims*

The BECS rules govern the processes for direct debit cancellations. Cancellation processes and safeguards for consumers came under scrutiny early in 2001, following the release of Mr Richard Viney's Review of the Code of Banking Practice.

APCA responded by amending the direct debit rules to make it clear that customers had the right to cancel a debiting authority at their financial institution. While this right had always existed, there was ambiguity in the rules, which meant they could be construed as requiring customers to first approach the billing organisation instead of their financial institution. APCA made a further change to the direct debit rules in March 2002, to make it clear that customers who considered a particular debit to be wrongfully made, also had the right to make a claim directly with their financial institution.

These amendments have now been further reinforced. At its November 2002 meeting, the Management Committee for BECS agreed that direct debit request service agreements, provided by billing organisations to their customers, clearly specify to the customer at the outset, that cancellations and claims may be directed to the financial institution. Time has been allowed before this amendment becomes effective to allow existing stocks of forms to be run down.

1. Source: BIS Figures for 2000; Prepared by the Committee on Payment and Settlement Systems of the Group of Ten Countries in July 2002.

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# New Printing Standards Sub-Committee

***'MC1 has established a new Printing Standards Sub-Committee...'***

In early October, the Australian Paper Clearing System (APCS) Management Committee (MC1) agreed that the Document Printing Standards Sub Committee (DPSSC) would be disbanded. The three sub-groups of that sub-committee (printing technology, publications and paper standards) were also disbanded.

The DPSSC, while delivering many valuable benefits to APCA over a lengthy period, was not the best vehicle to carry APCA's role forward. It was therefore thought desirable to adopt a different approach.

MC1 has established a new Printing Standards Sub-Committee (PSSC), comprising only representatives nominated by participating members of the APCS. This is in line with the standards sub-committee, which has operated successfully for a number of years in APCA's Consumer Electronic Clearing System.

At the same time, APCA's association with the printing industry will continue. The APCS Advisory Council currently has three printing representatives as participants on the Council appointed for 2002/03 and this may be expanded to four representatives shortly.

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## Cheque Printing Review

For some time, APCA has been considering introducing a Cheque Printer Accreditation Scheme (CPAS) with similar scope to the scheme managed by APACS, the United Kingdom's payments association.

The proposed scheme would accredit cheque printers that meet the minimum standards it set for the security of cheque printing premises, work practices and printing processes. By improving the general quality of cheques, the scheme would contribute to reducing fraud.

A working group has been developing the requisite standards and assessing the feasibility of a CPAS. During this process, a number of issues with the current standards and processes for cheque printing, as outlined in APCA's Publications 3.3 and 11.5, became apparent.

Furthermore, some areas of concern are not covered by the existing guidelines. For example, poor document permanence has been recognised as a contributing factor to the fraudulent alteration of some

cheques. At present, APCA's publications do not provide guidelines for document permanence or a procedure for testing document permanence.

Introducing a CPAS would provide the mechanism to enforce current procedures and standards; however, it would not expand or improve them. As a result, APCA has put CPAS aside and has initiated a project to review the existing cheque printing process and standards.

A new working group has been established to review standards. It comprises representatives of the Printing Standards Sub-Committee, the APCS Advisory Council, the Fraud Committee and the APCS Management Committee.

The working group will identify the issues that contribute to cheque printing inadequacies and recommend solutions to ensure the standards and procedures for quality cheque printing are effective. Progressing with the implementation of a CPAS will depend on the outcomes of this review.

## Register of Contact Points

Like all cheques, financial institution cheques (bank cheques - as well as cheques drawn on building societies and credit unions) need to be cleared before they will be unconditionally paid. Financial institution cheques are a relatively safe payment method but are not equivalent to cash.

While the risk of dishonour due to lack of funds is negligible, a financial institution cheque can be dishonoured for a number of reasons, including where the cheque is counterfeit or has been materially altered or reported lost or stolen.

Following representation made to APCA by the Qld and NSW Law Societies, the Australian Bankers' Association and the

NSW Motor Traders' Association, APCA has established on its website a register of contact points at each financial institution so that recipients of financial institution cheques can confirm their legitimate issuance.

While solicitors, motor dealers and the like will be not be able to obtain complete certainty of payment through this service, it will assist to identify the financial institution cheques (including bulk cheques that had been stolen in past years) that are recorded as lost or stolen at that particular time. Of course, the cheque must still go through the normal clearing process before payment can be guaranteed.

***'Financial institution cheques are a relatively safe payment method but are not equivalent to cash'.***

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## Misleading Account Names

The use of misleading account names contributes to payments-related fraud, particularly cheque fraud.

Of particular concern is the practice by fraudsters of registering misleading company/business names similar to those of reputable, well-known business organisations. Financial institution accounts are then opened in the misleading name at which time the ensuing government agency registration documentation is produced.

Once the account is active, stolen cheques payable to the reputable organisations are deposited into the account and the funds withdrawn.

In early October, APCA hosted an informal meeting between the NSW Department of Fair Trading, Australian Securities & Investments Commission (ASIC), and representatives of the joint Australian Bankers' Association (ABA) /APCA Fraud Working Group.

The purpose of the meeting was to ascertain the processes currently followed by the parties involved and to identify any opportunities for change to further assist with the mitigation of this type of fraud. The issue remains under consideration by APCA's Fraud Committee in conjunction with the ABA's Fraud Working Group.

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### Correction to Article in Payments Monitor Third Quarter 2002 Issue

Front page - "Electronic Banking Displacing Cheques" Paragraph 2. The sentence referring to percentages for direct entry growth and cheque decline should read:-

*"Since 1998, direct entry (credit and debit) has grown by 68% while cheques have declined by 32%."*

# Cheque Warning Bands Introduced

***'The warning band lists the security features that have been incorporated in the production of that particular cheque.'***

In recent years, APCA has made a number of amendments to the design of cheques to reduce fraud by enhancing industry standards in terms of security features on cheques, in terms of the design of cheques and the selection and use of paper and ink.

These standards are contained in APCA's publication "Design Specifications for Cheques and Deposit Forms". A recent amendment to this publication stipulates that new designs for cheques must incor-

porate a warning band. The warning band lists the security features that have been incorporated in the production of that particular cheque (eg a watermark).

Where a warning band is on a cheque, the person receiving the cheque has the opportunity to verify that the security features listed in the warning band are actually present in the cheque to protect against receiving a counterfeit cheque.

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## ATM/EFTPOS Upgrade

APCA is coordinating a project to ensure the continued integrity and security of the ATM/EFTPOS network in Australia.

The scope of the ATM/EFTPOS Upgrade Project is to provide a new minimum level of security for the ATM/EFTPOS network. This new standard applies from the entry of a transaction, at an ATM or EFTPOS terminal, to the point of verification of a transaction.

The new standard mandates the use of double length keys and the encryption of transaction data using triple DES encryption.

When the project is complete, all ATM and EFTPOS terminals, and all interchange communication links between Acquirers and Issuers, within APCA's Consumer Electronic Clearing System (CECS), will conform to the new standard.

The project, which commenced in late 2000, has eight distinct stages. The first two stages have been completed. These

stages required participants in the project - Acquirers and Issuers - to upgrade the encryption devices on the links between them, the interchange communication links, and to put in place other risk mitigation requirements over those links.

All project participants are currently working towards implementing the next four stages, which will involve upgrading each interchange communication link to use double length keys and triple DES, and also putting in place risk mitigation strategies on the terminal-to-Acquirer communication links.

The final two stages will involve the upgrading of the ATM and EFTPOS terminals. This will bring all terminals owned by financial institutions, retail merchants or other parties to the required standard.

The project has a progressive implementation schedule and is targeting the end of 2005 for completion in line with similar projects underway elsewhere.