

# Payments Monitor

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## Meeting of payment associations

Payments clearing is an important part of any financial system. Organisations such as APCA, which are responsible for the management, coordination and ongoing development of Australia's payments clearing arrangements, need to keep abreast of developments in countries elsewhere to help inform developments in Australia.

Earlier this year APCA put forward a proposal for convening a regular meeting of peak national payment organisations to the Association for Payment Clearing Services (APACS), the Canadian Payments Association (CPA), the Irish Payment Services Organisation (IPSO), the Payments Association of South Africa (PASA) and the SA Payments Strategy Association (SA Payments).

It was APCA's view that regular meetings of a small group of peak national payment organisations would provide an effective forum for discussion and exchange of knowledge at a high level.

Furthermore, such meetings would:

- strengthen relationships between payment organisations;
- improve and expand existing operational contact; and
- increase each organisation's knowledge base and so assist in decision-making processes.

All of the organisations approached by APCA strongly supported the proposal. The first meeting of the International Council of Payment Association Chief Executives (ICPACE), as it is now called, was hosted by APCA in Sydney on Monday 15 and Tuesday 16 November 2004.

The one and a half day meeting was attended by the following representatives:-

**Guy Legault**, President & Chief Executive Officer, *CPA*;  
**Doug Kreviazuk**, Vice President, Policy and Research, *CPA*;  
**Stewart MacKinnon**, Chief Executive, *IPSO*;  
**Hendrik Pelser**, Chief Operating Officer, *PASA*;  
**Anton Roux**, Chief Executive Officer, *SA Payments*;  
 and from *APCA*:-  
**Peter Smith**, Chief Executive Officer;  
**Stephen Halliday**, Director Member Services; and  
**Phil Timms**, Director Corporate Affairs.

Unfortunately, due to the timing of the meeting, APACS was unrepresented but has confirmed its support for ICSPACE and its intent to participate at future meetings.

As this was the first of such meetings, a substantial portion of the meeting focussed on gaining a better understanding of each organisation's mandate, governance framework and strategic priorities.

**Meeting of payment associations  
(continued from front page)**

Other key issues covered at the meeting included:

- the increasing interest by government and industry regulators in payments systems;
- the entrance of new (or non-traditional) participants into the payments clearing environment;
- competition and access;
- the evolving role of payment associations;
- industry association governance;
- wider stakeholder engagement; and
- developments in payment instruments.

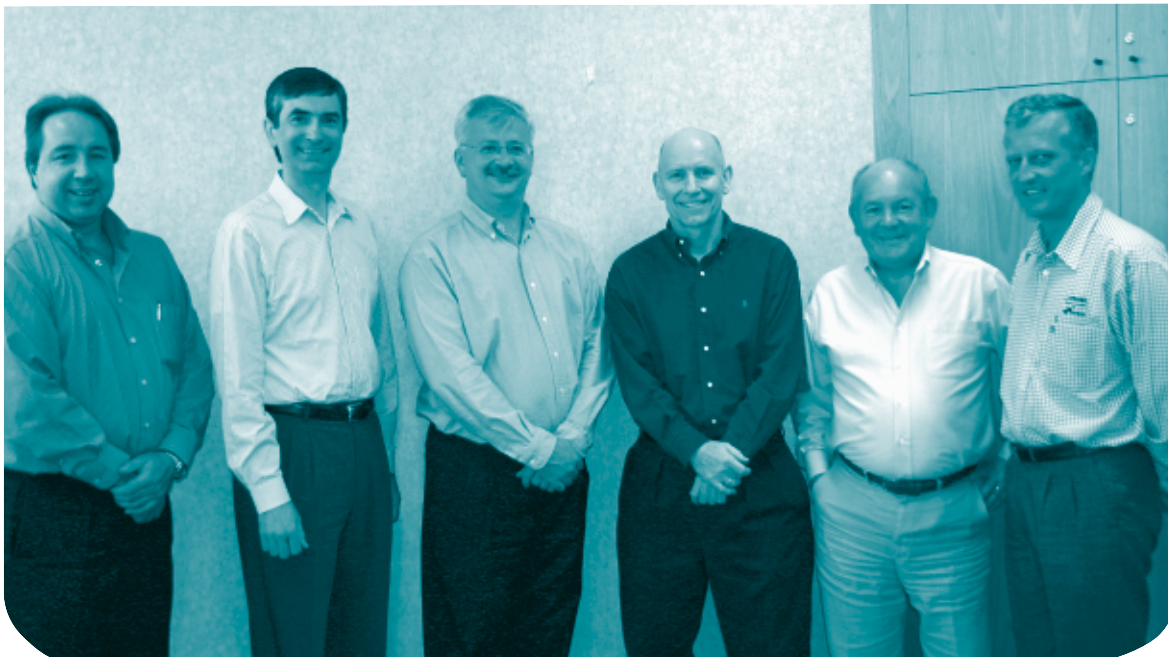
**All participants agreed that the meeting was a success. It had provided an effective forum for the exchange of information and ideas as well as an opportunity to learn from the experience of each organisation.**

It was agreed that a meeting of ICPACE would be held once each calendar year (possibly timed to coincide with other payments related conferences) and be hosted on a rotational basis by its member organisations.

To ensure focussed and effective discussions (and also contain costs associated with future meetings) initial membership of ICPACE is currently limited to the following organisations:

- Association for Payment Clearing Services
- Australian Payments Clearing Association
- Canadian Payments Association
- Irish Payment Services Organisation
- Payments Association of South Africa
- SA Payments Strategy Association

The next meeting of ICPACE will be hosted by the Canadian Payments Association (CPA) in Ottawa, Canada on 20-21 June 2005. This meeting will immediately follow the CPA's biennial Payments Conference which is to be held in St. Johns, Newfoundland 15-17 June 2005. ▲



Left to right: Anton Roux, SA Payments; Guy Legault, CPA; Doug Kreviazuk, CPA; Peter Smith, APCA; Stewart MacKinnon IPSO; Hendrik Pelser, PASA.

# EMV workshop

As foreshadowed in the last Payments Monitor, APCA, with the assistance and support of the Reserve Bank, conducted an exploratory industry workshop in Sydney on 28 October 2004. More than 60 participants representing APCA's members, CECS Advisory Council members (including retailers), the card schemes (VISA, MasterCard, JCB and American Express), the Reserve Bank and Federal Treasury, took part in the full-day workshop.

The workshop, which was held at the instigation of the CECS Advisory Council, considered the business drivers and timescale for the possible introduction of EMV into Australia. It also looked at the potential benefits of the industry having a uniform approach to implementing EMV for both debit and credit transactions.

## Business drivers and timescale

Initial discussions centred on whether there may be a business case for the industry to migrate from magnetic stripe cards to EMV (chip) cards. The prime driver for the introduction of EMV in Europe was fraud reduction. In Australia, however, the expected reduction in fraud, on its own, does not at this stage, it was suggested, provide a sufficient driver for EMV implementation. A "whole-of-system" perspective (that includes, but is not limited to fraud alone) would need to be considered.

Nonetheless, in view of international trends and card scheme liability shifts, participants generally believed that the introduction of EMV on cards in Australia was very likely to occur (although it may be 7 to 10 years before the functionality is widespread). It was also agreed that when EMV is introduced, industry coordination of its implementation would be essential.

A coordinated approach would bring economies of scale, ensure interoperability between applications and devices, provide common education to retailers and cardholders, and would increase the speed of "roll-out".

## Implementation considerations

A further consideration for participants was the extent to which any possible introduction of EMV credit cards and debit cards should coincide. It was agreed that if and when EMV is introduced on credit cards it should be introduced on debit cards at the same time. The logic behind this decision being that approximately 50% of credit cards on issue in Australia are multi-functional; ie they are capable of acting as a debit card as well as a credit card. It would be confusing, it was agreed, for cardholders if, when using a device, they had to "dip" the card in the chip reader for a credit transaction, but "swipe" the card through the magnetic stripe reader for a debit transaction.

The simultaneous introduction of EMV on debit cards and credit cards has other potential benefits. It would provide the same level of security for both cards. It would also deliver back-office savings at financial institutions, with simplified key management and message standards.

Similarly, participants believed that any move to EMV on credit cards should be coincident with a move away from "signature", as the means of identifying cardholders, to PIN (as with debit cards). The use of PINs on credit cards would reduce the incidence of fraud through "skimming" – where details are copied from the card's magnetic stripe and used to construct a duplicate card. The joint protection of an EMV chip (which is much more difficult to copy) and the use of a PIN to identify the cardholder, should see the incidence of "skimming reduce" dramatically.

In summary, participants agreed that there should be a consistent cardholder and retailer experience with both credit and debit cards in that they should each operate in exactly the same way (chip and PIN); and that the existing debit functionality must be protected. To facilitate this it was noted that an EMV specification for debit card transactions (complementary to credit card EMV specifications) would need to be produced.

# EFTPOS access

## EMV workshop (continued from page 3)

### Proposed way forward

APCA might have a role to play in progressing matters arising from the workshop. For example, it is well placed to act as a consolidation point for the collection and dissemination of fraud statistics, in collaboration with the Reserve Bank. This information could feed into the business case for the implementation of EMV in Australia.

A report documenting the output from the workshop, including recommendations for the next steps has now been finalised and members of the CECS Management Committee and the CECS Advisory Council (together with other workshop participants not represented on either group) are currently reviewing this document.

One possible way forward is to establish a working group to consider in detail issues surrounding the implementation of EMV, largely based upon the output from the workshop. The working group might comprise representatives from the various stakeholder groups involved in the Australian payments industry with APCA acting as its convenor and administrator. It is expected that decisions about further progressing this issue will be made late in the first quarter 2005. ▲

The development phase of APCA's building of an EFTPOS access regime is now complete. Rules governing connectivity obligations and rights (the access code) have been documented in working draft form as has the constitution of the access company that will house the code.

APCA has now initiated an institutional review of the documentation as the first step on the path towards the implementation of the regime. Progress however is not assured. Regulatory uncertainty as a result of the recent challenge to the Reserve Bank's designation of EFTPOS might still complicate and stall further steps towards implementation.

One regulatory option which APCA is exploring is of establishing the access regime as a private contract within the Reserve Bank's "designated" environment. But this and other regulatory options depend on some standardisation of EFTPOS interchange fees. APCA's position on interchange fees is not partisan. APCA has no position on how fees should be standardised or on what that standardisation should be.

APCA's position which it has put to the Reserve Bank – and is reproduced on the Reserve Bank's web site – is the conditional, logical and objective one that you cannot have a complete and effective access regime while one important and material factor impinging on new entry – interchange fees – remains completely open to negotiation. ▲

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