

# Retail Therapy

Debit Cards and Fraud  
Department of Marketing / ACRS White Paper



The ACRS  
Thought Leadership  
Series

Authored by  
Professor Steve  
Worthington

Published April 2009

## Debit cards and fraud

### Executive Summary

*The RBA's monthly statistics on the use of payment cards in Australia, revealed in April 2009 for the first time, the split between EFTPOS and scheme (MasterCard and Visa) debit for the twelve months ending February 2009. They reveal that scheme debit is gaining share from EFTPO, moving from a share of value of purchases of 21.3% in March 2008 ,to 23.7% in February 2009 and that the average ticket size of a purchase made with a scheme debit card is approximately 50% greater than an EFTPOS purchase. This paper examines the implications of both the recent shift from credit to debit card spending and the move from EFTPOS to scheme debit, in the context of the implications for fraudulent transactions.*

### Card fraud in Australia

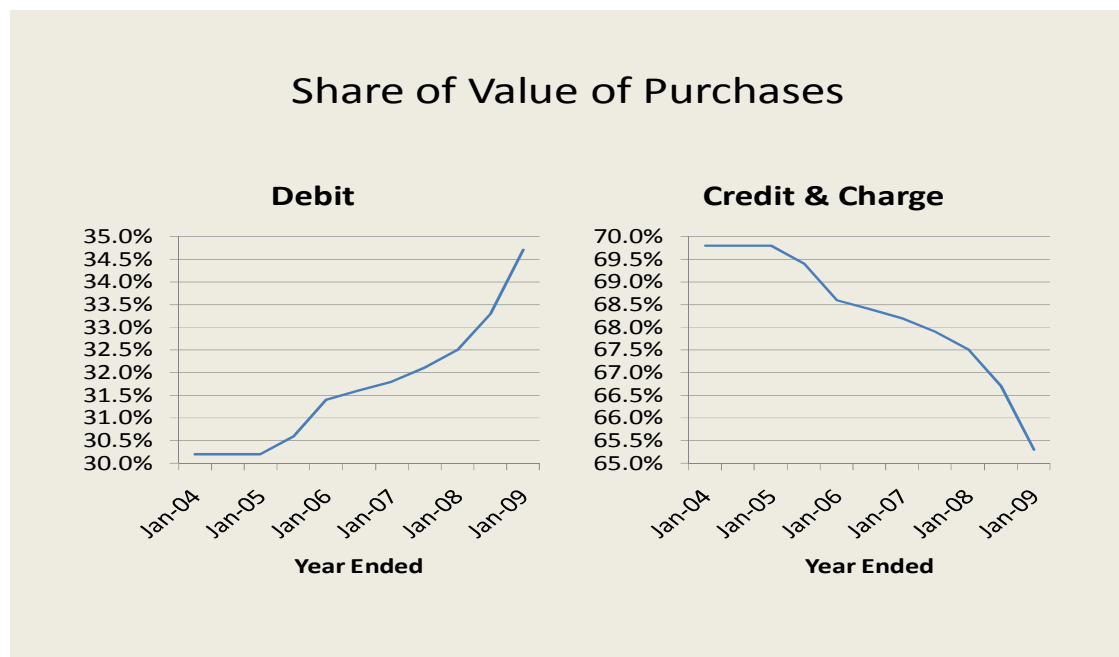
Speeches in March 2009 from both the Governor and Assistant Governor of the RBA, have commented on the challenges facing online payments, particularly as regards fraudulent activities. Glenn Stevens talked about "online payments mechanisms as an example where progress has been made overseas, but not to date in Australia", whilst Philip Lowe commented, "another consideration is that fraud rates on online transactions appear to be steadily increasing" and "if this trend were to continue, it could undermine consumer confidence in transacting online".

Both these comments were made in the context of how to improve the current EFTPOS system in Australia and Glenn Stevens contrasted the EFTPOS governance system with "the existing credit card schemes who have a central body responsible for governance, innovation and promotion", whereas Philip Lowe raised the point that, "consumers wishing to buy goods online have few payment choices other than to use a card issued by the international schemes".

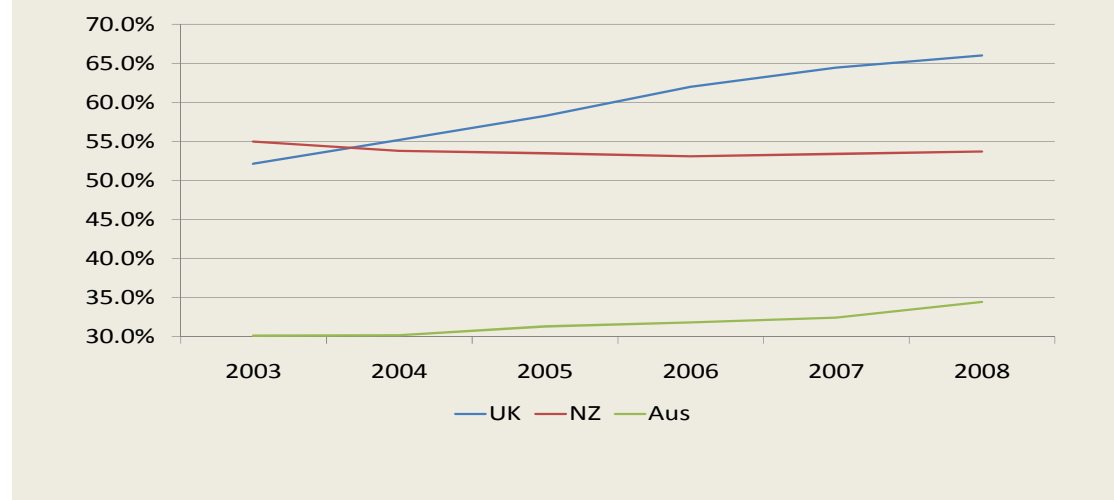
Online fraud in Australia under the title of Card-Not-Present (CNP) is according to APCA, the most common type of payment card fraud, accounting for 48 per cent of the fraud value on Australian issued credit and charge cards. This situation is not unique to Australia; figures issued by APACS in the United Kingdom for 2008, show that CNP fraud (described there as phone, internet and mail order),increased by 13 percent from 2007,to a grand total of 328.4 million pounds ,accounting for 54 per cent of all UK card fraud losses. Where the UK figures

differ from Australia, is that they include fraud on all UK issued credit and debit cards, although the figures are not split between these two types of payment cards.

This should however draw our attention to the ongoing changes in the composition of card payments in Australia. As MWE Consulting pointed out in their January 2009 Australian Payment Cards Report, 'the value of purchases made on debit cards is now increasing at almost three times that for credit and charge cards', as 'the control afforded by the use of debit has considerable appeal in times of uncertainty'. Australia still has a long way to go to reach the levels of New Zealand and the United Kingdom in the share of spending on debit cards (54 % and 66 % respectively) ,but the trend towards Buy Now, Pay Now ,rather than Buy Now, Pay Later, looks to be irreversible, as the graphs below demonstrate. (Source MWE Consulting).



## Share of Spend on Debit



### Debit cards

This is especially so with the increased issuance of debit cards and in particular the increased issuance of scheme debit cards (MasterCard and Visa) which is expected to continue in Australia. Industry estimates put the number of EFTPOS cards on issue in Australia at around 20 million, with an additional estimated 7 million scheme debit cards. Visa Debit was originally issued primarily by the Australian Building Societies and Credit Unions, but is now also issued by ANZ and NAB, whilst MasterCard Debit, first issued by Bank West in 2005, is now also issued by CBA and Westpac. Scheme debit cards are often marketed as having the same functionality as credit cards, but without the debt. This means that these cards allow customers to draw on their own funds, to make purchases both domestically and internationally, both over the phone and internet, thus offering significant advantages over the current EFTPOS cards, but raising the prospect of both increasing vulnerability to domestic online fraud, as well as international counterfeit fraud.

It is however the latter opportunity to use scheme debit cards internationally that underpins this Briefing paper. It also draws on recent research conducted by Peter Welch of bankecon into online and overseas fraud, which has compared payment card fraud in France, Spain and the UK (see the following link, <http://bankecon.com/reports.php>).

The bankecon research makes two particularly interesting points in the context of this Briefing. Counterfeit fraud is the largest contributor to international fraud losses in both France and the UK and it is suggested that this is due to fraudsters stealing card details to then make counterfeit magnetic stripe cards for use in countries yet to upgrade to the EMV card standards. This highlights the scale of the challenge posed by international fraud, for although EMV roll-out may be reducing ATM and face-to-face fraud, the industry still remains highly vulnerable to fraud in international markets, particularly through the use of counterfeit cards. Furthermore, with the majority of the French payment cards being debit or deferred debit and over half of all UK payment cards being debit, an increasing proportion of total fraud on these cards can be attributed to the fraudulent use of counterfeit debit cards. Hence if Australia was to follow the trend to increased issuance and usage of internationally accepted debit cards – can we also expect to see an equivalent rise in the level of fraud on these cards outside of Australia?

APCA already reports on the fraud perpetrated overseas on Australian issued credit and charge cards and their figures show that total overseas fraud on such cards was 55 per cent of the total fraud on all these cards. Within this overseas segment, CNP fraud on Australian issued credit and charge cards increased by a staggering 97% in the year ended June 2008, compared to a much more modest increase of 16% in CNP fraud within Australia.

The second interesting point emerging from the bankecon research is that whilst countries who have not upgraded to EMV chip and pin standards are the most attractive destinations for fraudsters, the professional and increasingly international approach taken by these criminals means that the fraud is dispersed throughout the world. As an example ,according to APACS in the UK ,the United States was the largest location for international fraud on UK issued cards, with losses there of 24.6 million pounds in 2007. However this was only 12 percent of the total international losses on UK issued cards and indeed the five largest locations for international fraud on UK cards (which includes Australia, where fraud on international cards in the twelve months to June 2008 exceeded \$100 million), accounted for only 27 per cent of the 207.6 million pounds of international fraud in 2007.

## Summary points

So what points can we draw from this?

- Fraud, particularly on CNP be it domestic or overseas is ever increasing.
- In countries where the debit card is both the dominant payment card in spending and has international acceptance – then fraud on debit is as problematic as fraud on credit/charge cards. As and when scheme debit gains further penetration in the Australian market – can we expect to see increased international fraud on these payment cards?
- The fraudsters will attack the countries where the level of card payment security is weakest and they are themselves increasingly professional and international in their outlook.
- APCA should be examining whether it can split out overseas fraud on debit cards, in the same way that it already splits out credit and charge card fraud perpetrated in Australia and overseas on Australian issued cards and monitor in which countries this fraud is perpetrated.

So, 'No Room for Complacency'!

### About the author

Professor Steve Worthington is Professor of Marketing at Monash University in the Faculty of Business and Economics. He specialises in the issues surrounding the distribution of financial services particularly via plastic cards and in the organisation and control of the payment systems through which these cards are used.

Steve has published widely, both in academic journals such as Journal of Marketing Management, Journal of Retailing and Consumer Services and the International Journal of Bank Marketing, and in more practitioner focused publications such as The Financial Times, European Card Review, and Cards International. He has also written a number of case studies concerning both bank and retailer provision of financial services.

A frequent presenter/chairman at industry conferences, Steve has also been used by the media as independent commentator on the delivery of financial services by plastic cards

# About the Australian Centre for Retail Studies

The Australian Centre for Retail Studies provides research driven education to those involved in the retail sector through broad based research and information generation, management education programs and the promotion of retailing as a career.

As a commercial centre within Monash University's Business and Economics Faculty and Department of Marketing, the ACRS is a bridge between the academic and the commercial retail worlds, enabling clients to access resources and knowledge that may not be otherwise available to them.

The centre engages in the following areas of activity throughout Australia, New Zealand, South East Asia and Asia.

- Management development programs
- Presentations, conferences and seminars
- Retail research, reports and publications
- Study tours

The ACRS builds skills, knowledge and understanding at all levels of management from first line appointees to CEOs; because of its unique retail focus the Centre offers advantages over other general management training providers.



## Enquiries

Please contact us if you have any enquiries about the ACRS. Also if you would like further information about this paper or contributing please feel free to contact **Sean Sands**.

## Contact Details

Telephone: +61 3 9903 2753

Email: [sean.sands@buseco.monash.edu.au](mailto:sean.sands@buseco.monash.edu.au)

Facsimile: +61 3 9903 2099

Website: [www.buseco.monash.edu.au/centres/acrs](http://www.buseco.monash.edu.au/centres/acrs)

Mail: PO Box 197, Caulfield East, Victoria 3145, Australia

Address: Level 6, S Building, 26, Sir John Monash Drive, Caulfield East, Victoria 3145, Australia