



PAYMENTS FRAUD STATISTICS

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Presentation to the



Conference on the Role of Government In Payments Risk and Fraud

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The views expressed in this presentation are those of the author and do not necessarily reflect those of the Federal Reserve Bank of Kansas City or of the Federal Reserve System.

Payment Fraud Statistics

- Agenda
 - UK case study
 - Availability of fraud loss rates worldwide
 - U.S. payment fraud data
- Effective risk management requires measurement of performance

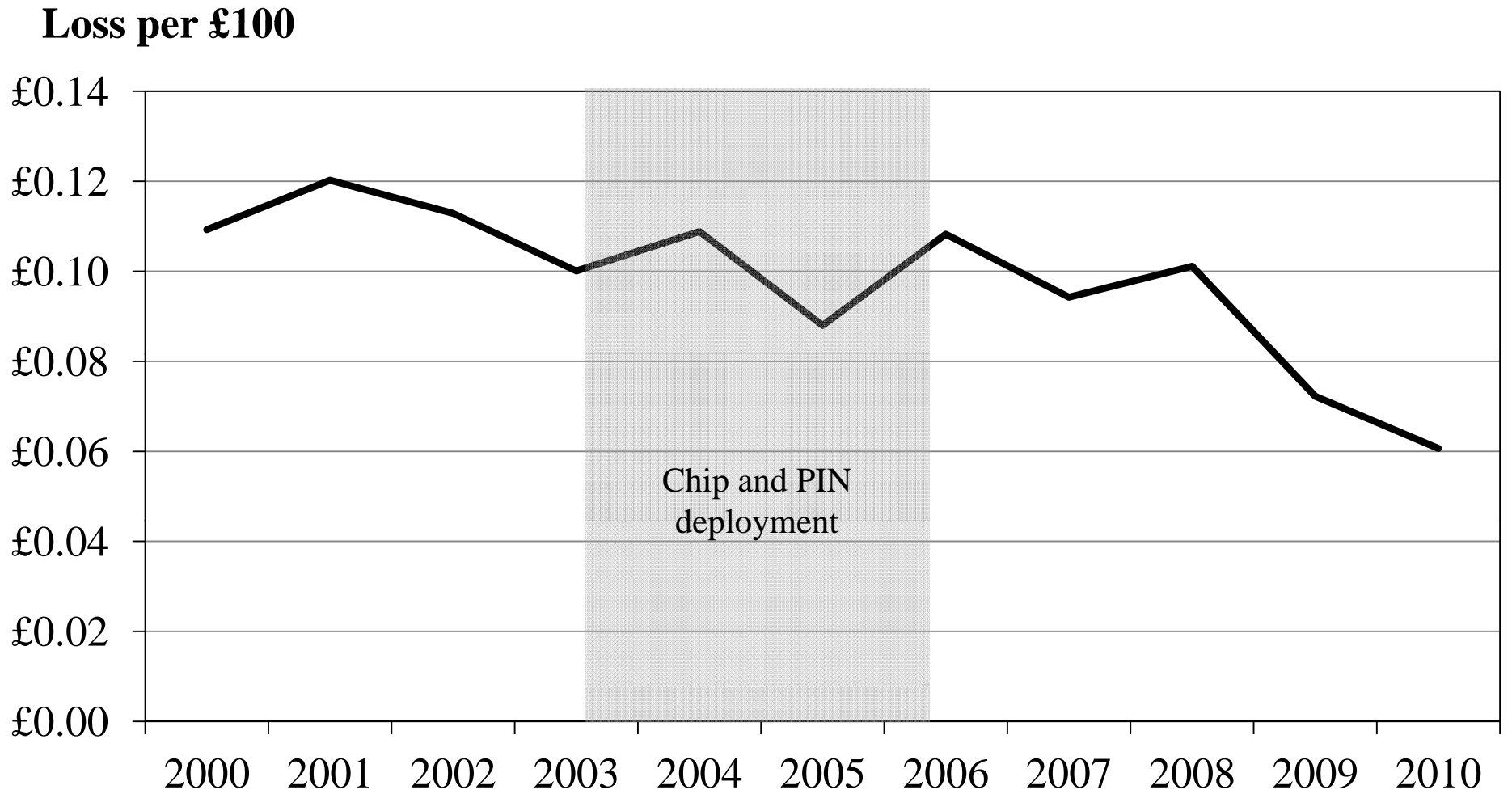
The background of the slide is a faded, light gray image of a US five-dollar bill. The bill is oriented horizontally and shows the portrait of Abraham Lincoln on the left side. The number '5' is visible in the corners and along the edges. The text 'FEDERAL RESERVE NOTE' and 'FIVE DOLLARS' is also visible, though faint. The serial number '26712A' is partially visible on the right side.

UK Case Study

- Experience with Chip-and-PIN
- Fraud loss guideposts
 - Can be of dubious value at times
 - Can usefully guide fraud reduction strategies

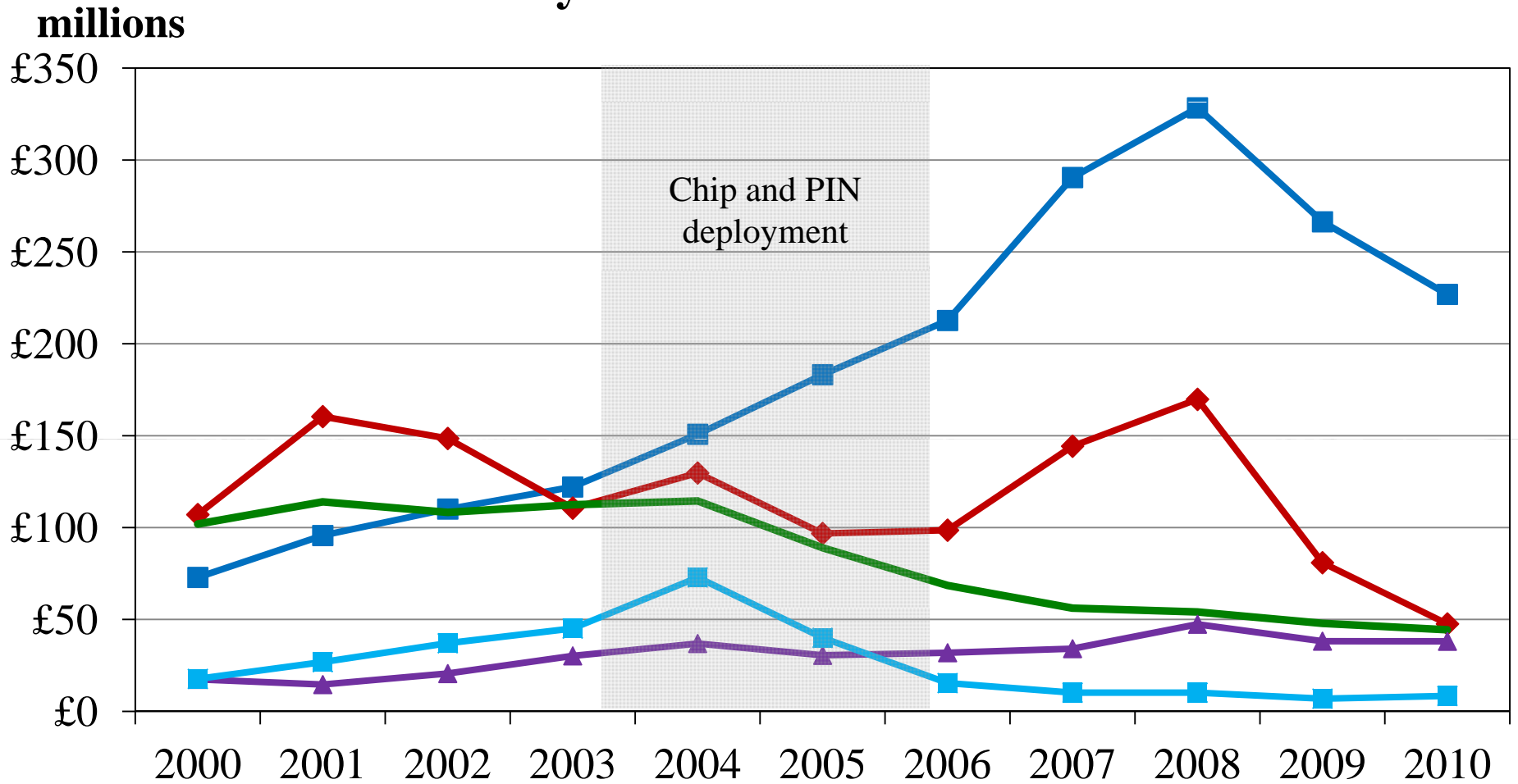
Fraud Loss Rate

UK-Issued Payment Cards



Includes ATM fraud losses.

UK Payment Card Fraud Losses



- Phone, internet and mail order
- ◆ Counterfeit
- Lost or stolen cards
- ▲ Card ID theft
- Mail non-receipt

International Fraud Statistics

- Typically covers cards, sometimes checks
- Domestically issued cards
- Domestic and foreign transactions
- Gross actual losses, probably for all parties
- Annual statistics (semi-annual in Australia)
- Usually report fraud by categories (counterfeit, CNP, lost/stolen, etc.)
- Australia and France provide some details on method

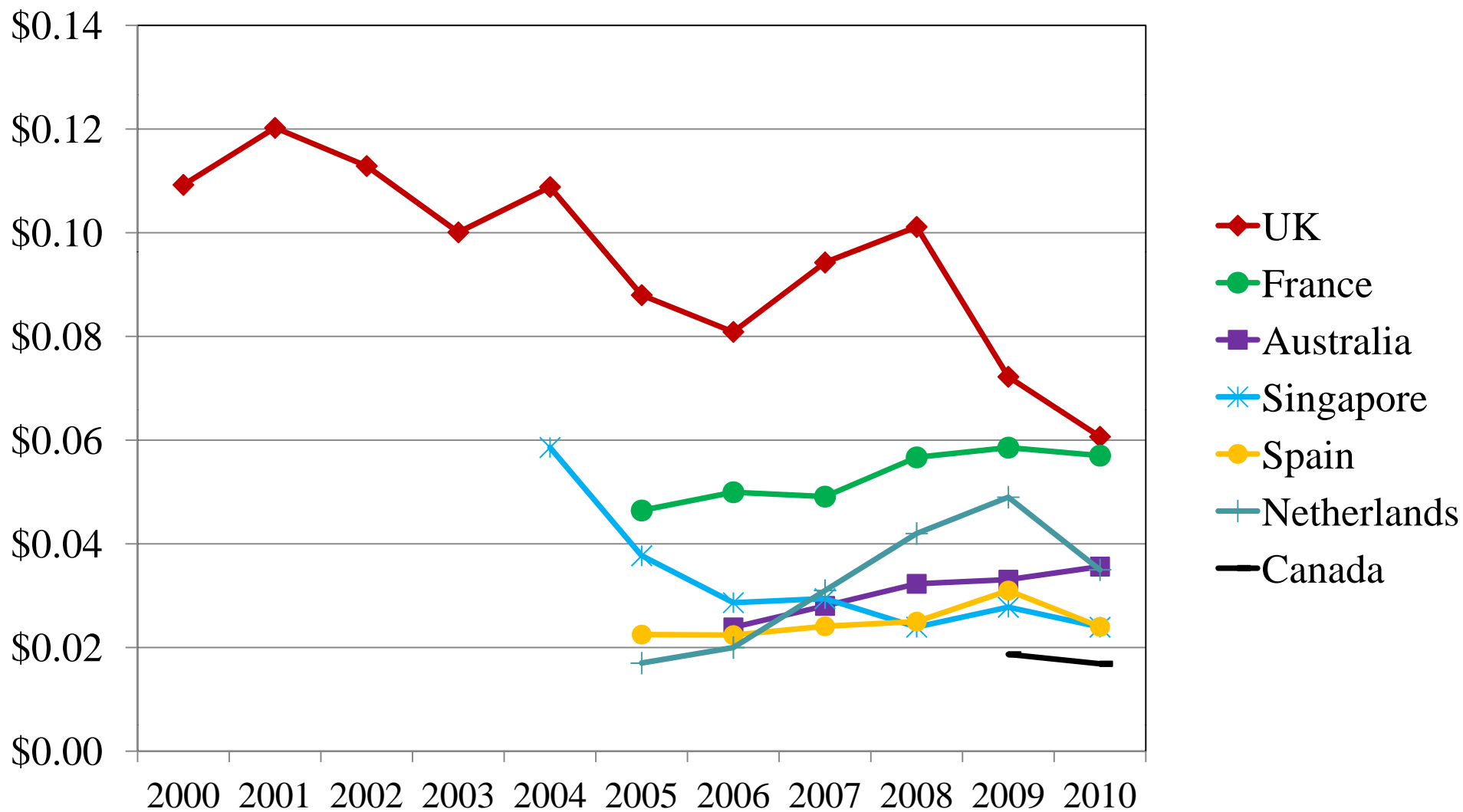
International Fraud Statistics

- Lead organization typically industry group (issuers, processors)
 - Exceptions: central banks in France and Singapore
- Participants include financial institutions, payment networks, payment card brands, payment processors and networks, merchants

Fraud Losses Per Value of Transactions

Domestically Issued Debit and Credit Cards

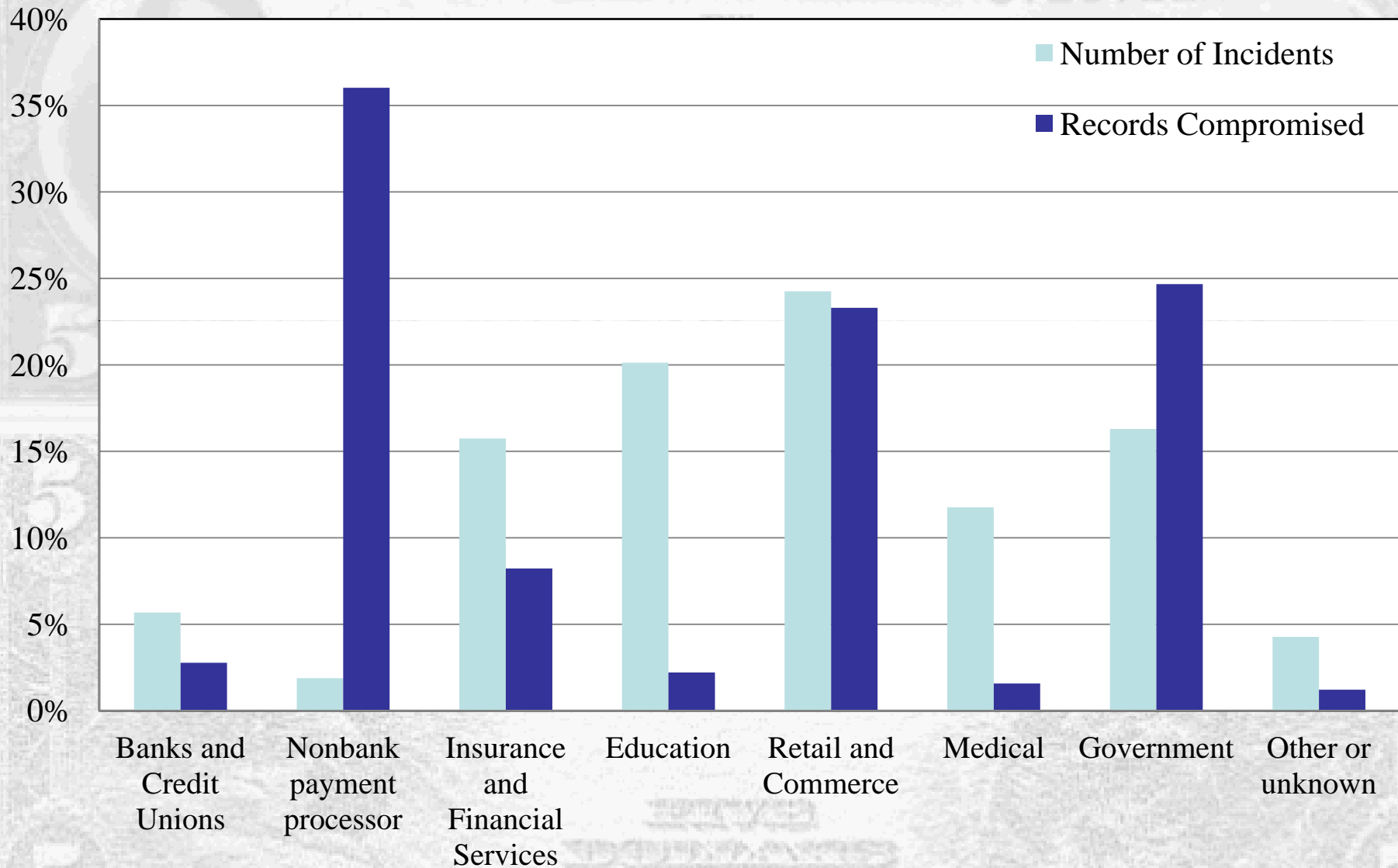
Loss per \$100



U.S. Fraud Statistics

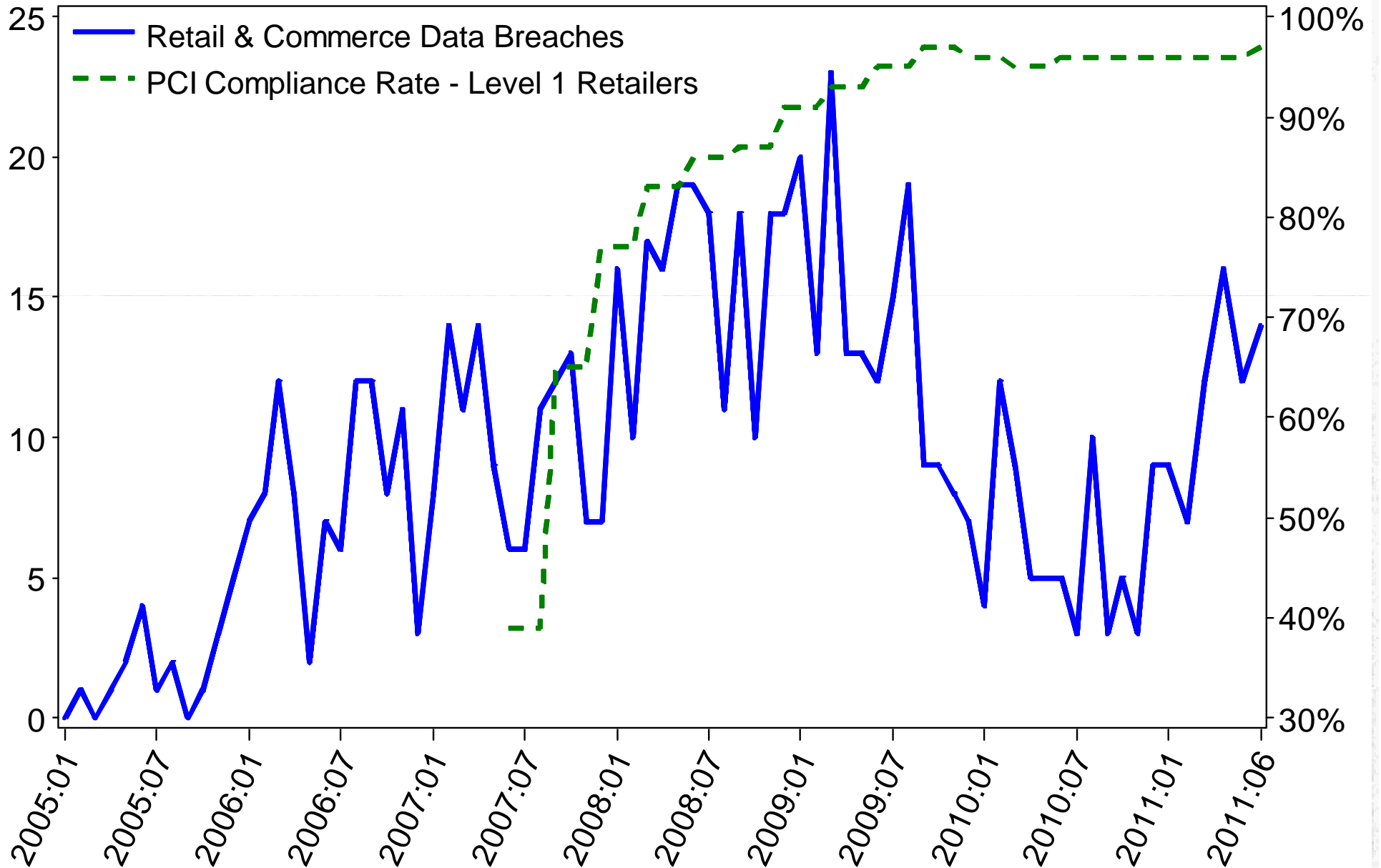
- Payment Fraud Production
 1. Obtain payment instrument and/or account numbers
 2. Impersonate account holder
 3. Fool the payment approval process
 4. Obtain goods or money
 - possibly transform proceeds into untraceable liquid assets

Share of Incidents and Records Exposed by Sector Publicly Announced Data Breaches, U.S., Jan 2005 to Dec 2010



PCI Compliance Rates and the Number of Publicly Disclosed Data Breach Incidents Among Retail & Commerce Firms

Incidents



Check Fraud Statistics

- ABA: banks lost \$1.024 billion on attempts valued at \$11.365 billion (2009)
 - 91% of attempts (by value) were prevented
- AFP: 93% of organizations were targets of check fraud
 - 86% of these avoided financial loss

Some Sources of U.S. Payment Fraud Statistics

Source	Coverage	Time period	Payment instruments
Association of Financial Professionals	Medium to large corporations	Annually since 2005	Checks, consumer debit and credit cards, corporate purchasing cards, automated clearinghouse payments, wire payments
American Bankers Association	Small to large banks	Periodically since 1991	Checks and debit cards
CyberSource	Online merchants	Annually since 2000	Primarily debit and credit cards
Javelin Strategy & Research	Consumers	Annually since 2004	Checks, debit and credit cards
PULSE EFT Association	Debit card issuers	Periodically since 2005	Debit cards

Notes: all of these sources use surveys to collect data. PULSE EFT Association sponsors the survey of debit card issuers, which has been conducted by various consulting firms.

Estimate of Actual Losses

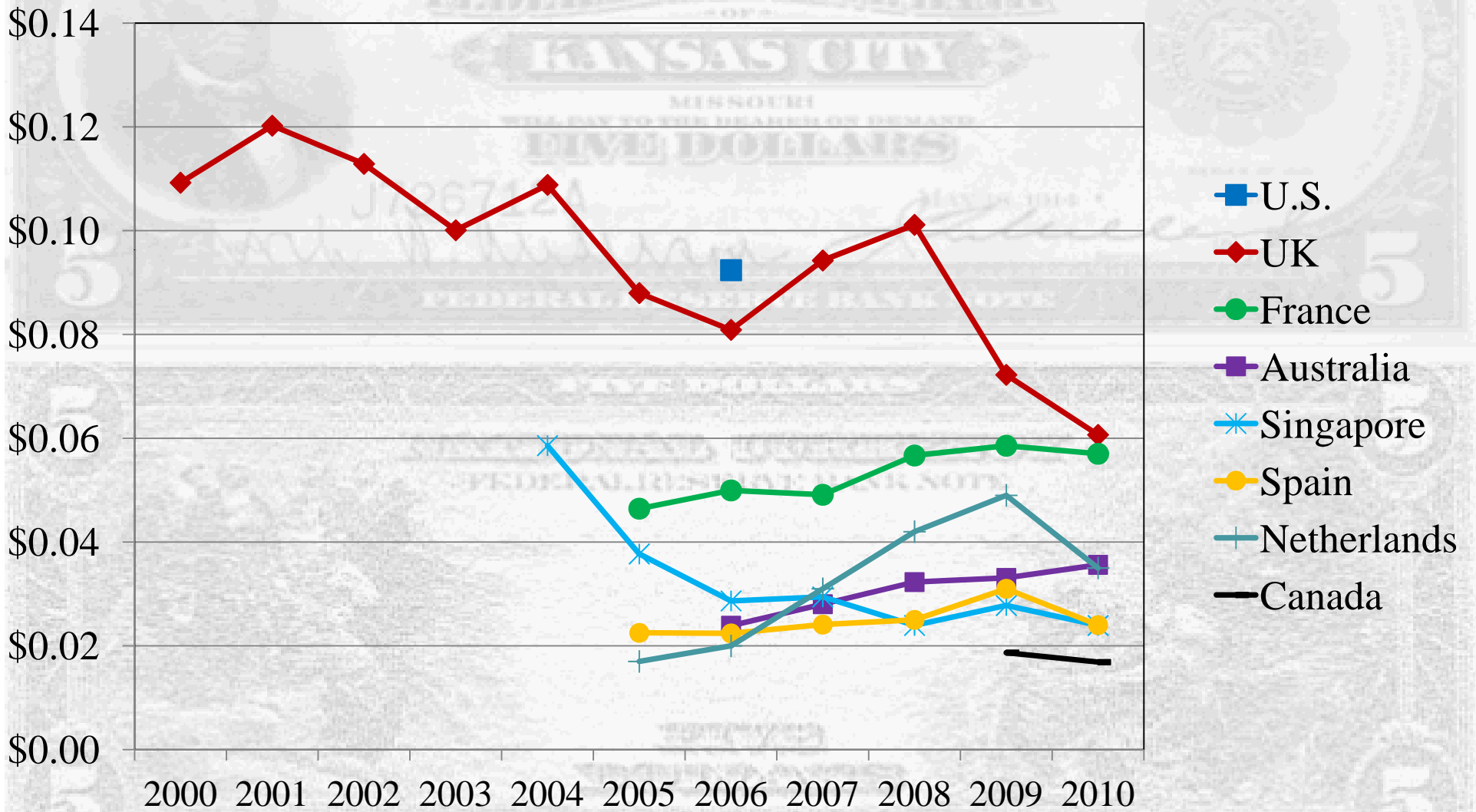
Fraud Losses on Debit and Credit Card Payments in the United States, 2006

Card issuers	<i>billions</i>	Share of total loss
PIN debit	\$0.028	
Signature debit	\$0.337	
Credit cards	\$1.240	
ATM withdrawals	\$0.397	
Total issuer losses	\$2.002	59%
Merchants		
POS	\$0.828	
Internet, mail order, and telephone	\$0.568	
Total merchant losses	\$1.396	41%
Total losses	\$3.398	

Notes: includes issuer and merchant losses on credit, debit, and ATM transactions. Source: Adapted from : Richard J. Sullivan "The Changing Nature of U.S. Card Payment Fraud: Industry and Public Policy Options," Federal Reserve Bank of Kansas City *Economic Review*, Second Quarter 2010.

Fraud Losses Per Value of Transactions Domestically Issued Debit and Credit Cards

Loss per \$100



Payment Fraud Statistics

- Effective risk management requires measurement of performance
 - Provides guideposts on outcomes of risk management efforts
 - Provides guidance for risk management strategies
 - Useful to industry participants as well as policymakers
 - Can be useful vehicle for public education



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