

PAYMENT FRAUD STATISTICS

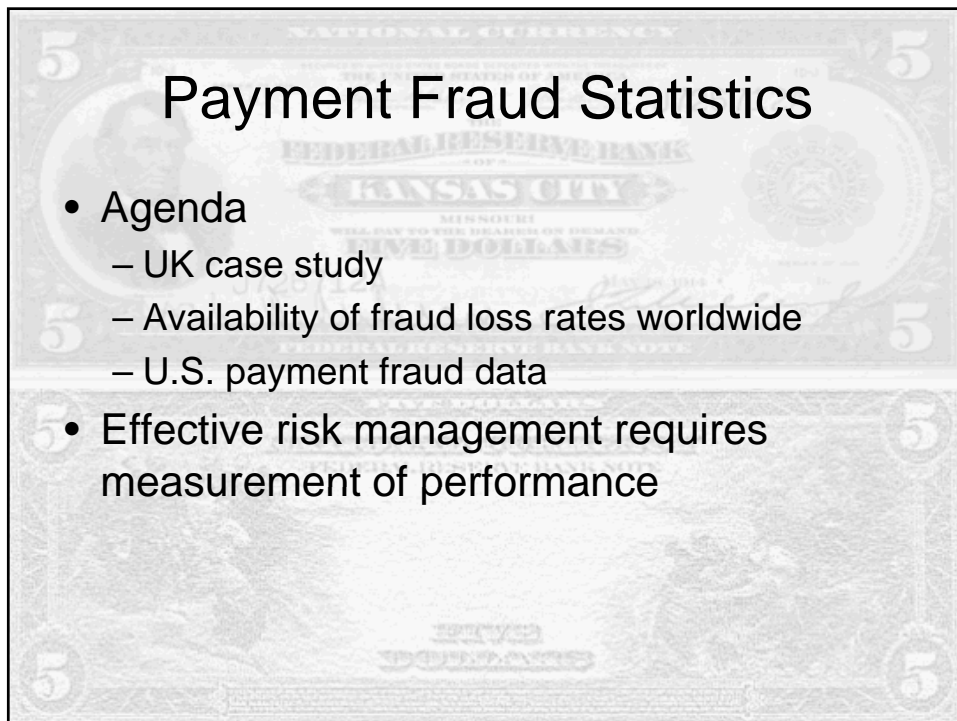
Richard J. Sullivan
Economic Research
Federal Reserve Bank of Kansas City

Presentation to the

**Conference on the Role of Government
In Payments Risk and Fraud**

Federal Reserve Bank of Atlanta
November 17, 2011

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.

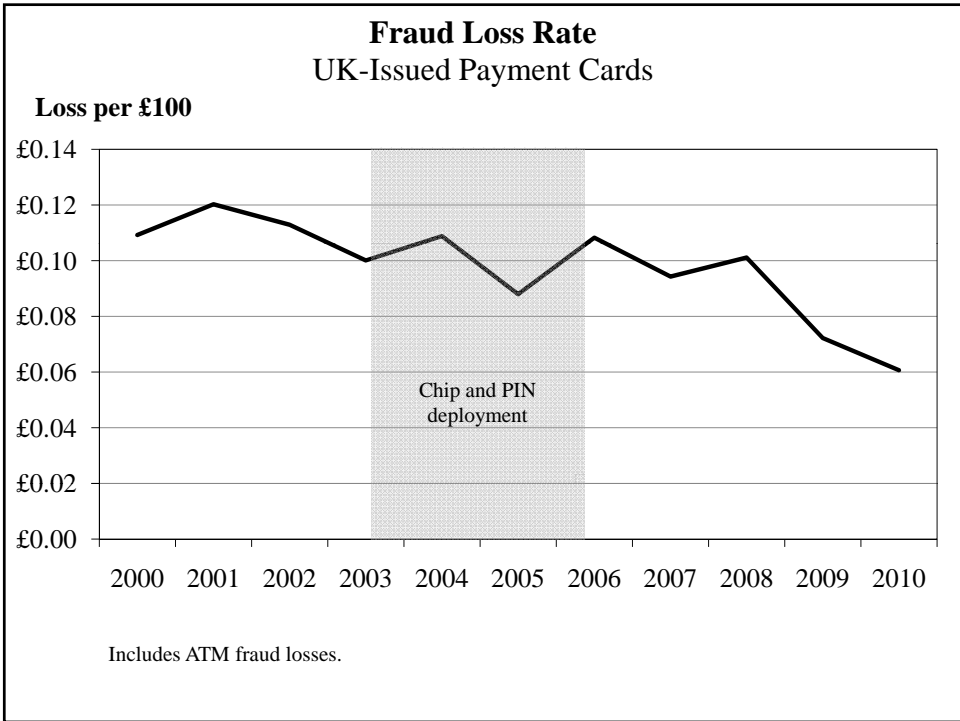


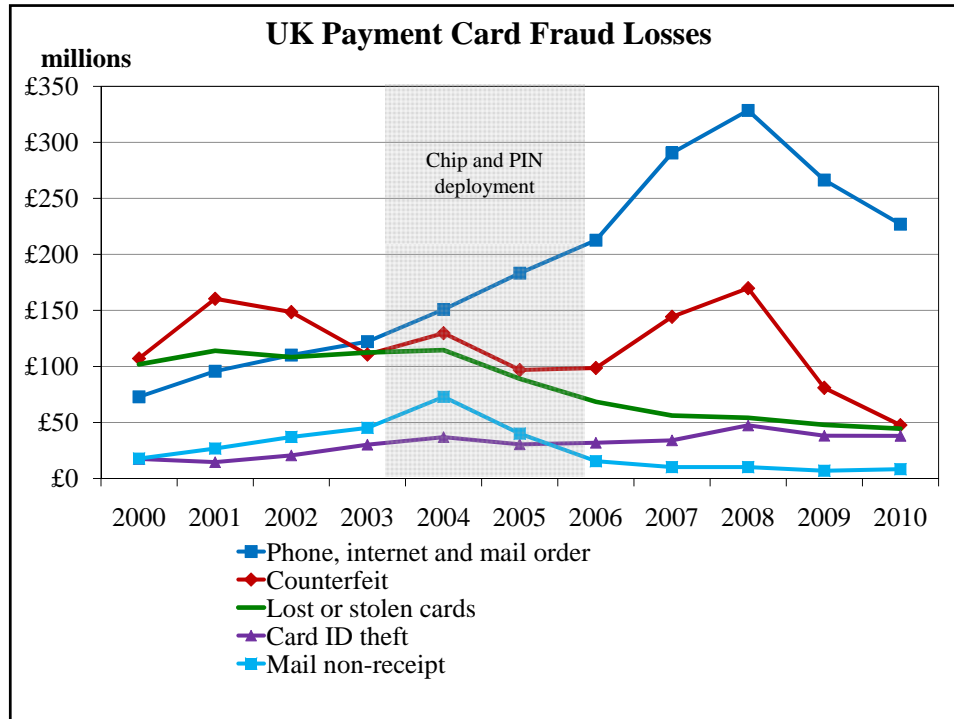
Payment Fraud Statistics

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

UK Case Study

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



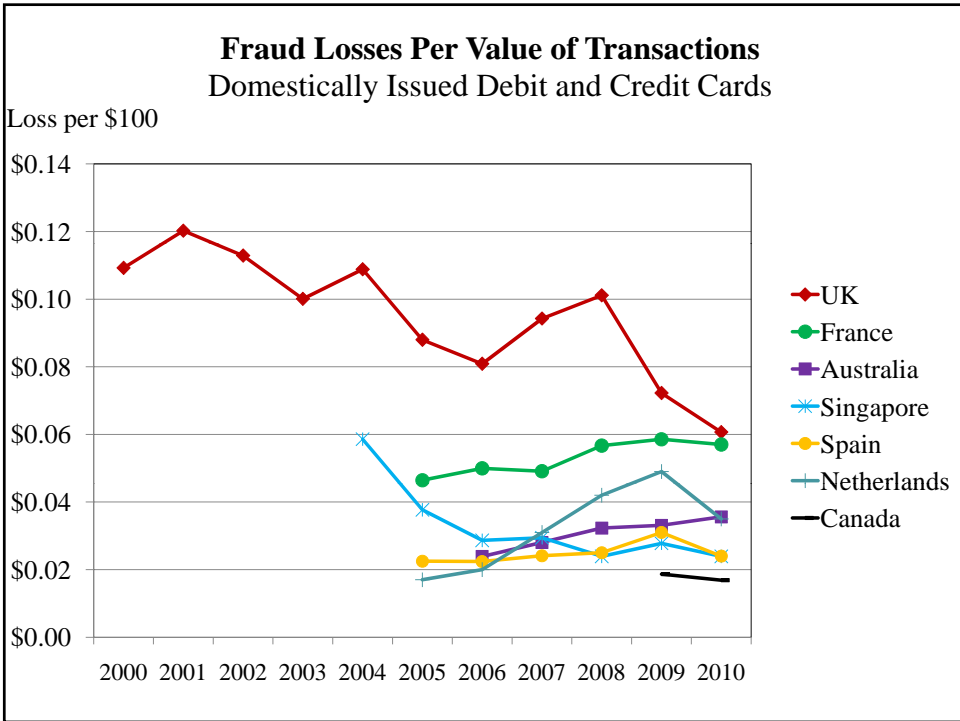


International Fraud Statistics

- 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

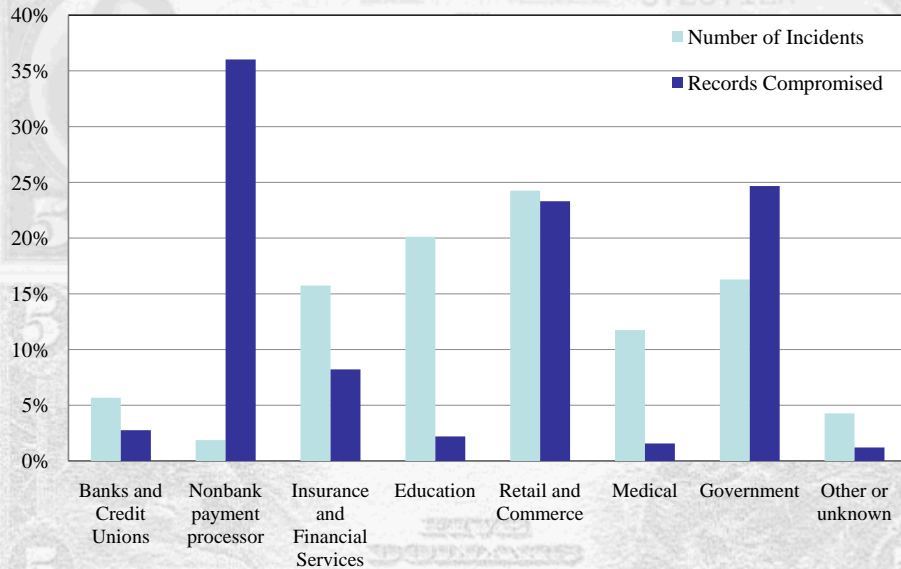
- Lead organization typically industry group (issuers, processors)
 - Exceptions: central banks in France and Singapore
- Participants include financial institutions, payment networks, payment card brands, payment processors and networks, merchants

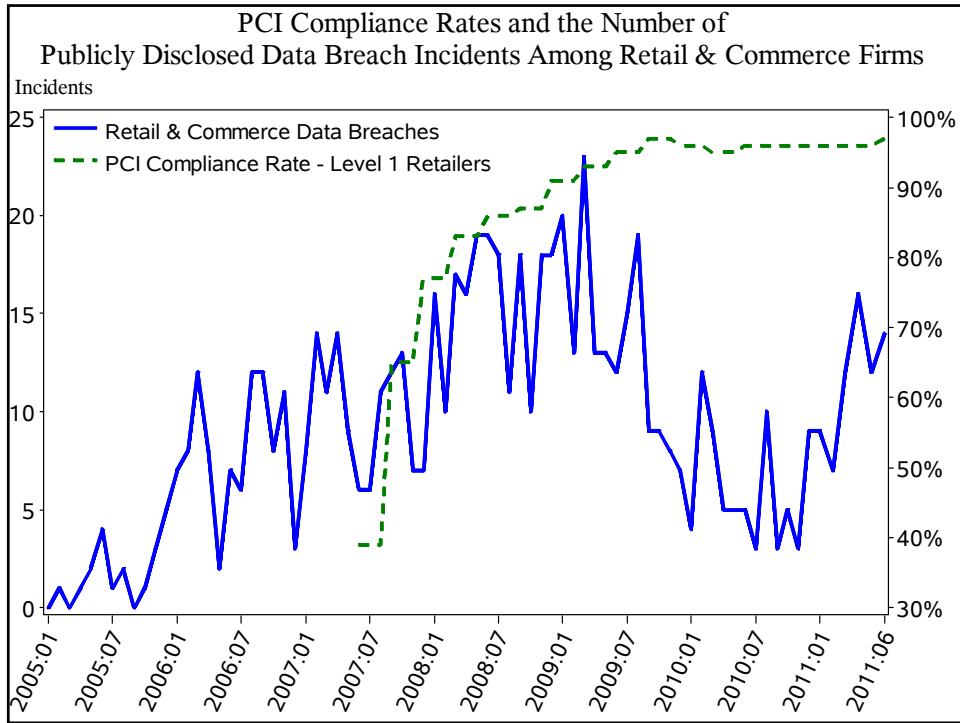


U.S. Fraud Statistics

- **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**



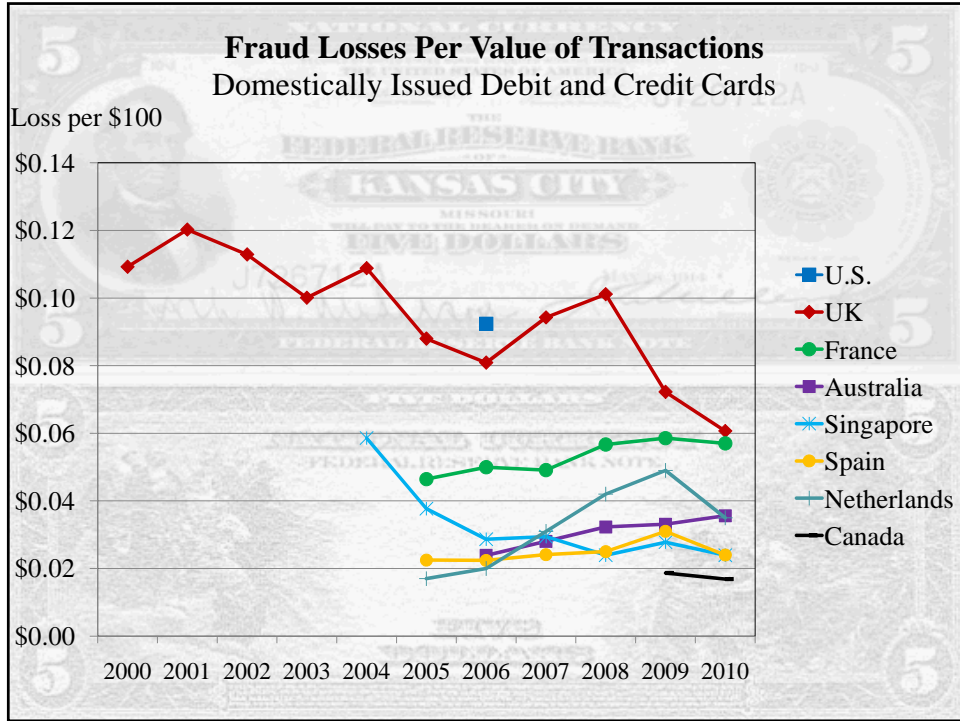


Check Fraud Statistics

- 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 <i>Economic Review</i> , Second Quarter 2010.		



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Richard J. Sullivan
Economic Research
Federal Reserve Bank of Kansas City
1 Memorial Drive
Kansas City, MO 64198

Rick.J.Sullivan@kc.frb.org
816-881-2372