THE CHANGING NATURE OF U.S. CARD PAYMENT FRAUD: ISSUES FOR INDUSTRY AND PUBLIC POLICY

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

Presentation to the

**9th Workshop on the Economics of Information Security
School of Engineering and Applied Science
Harvard University, Cambridge MA
June 7-8, 2010**

How do we know the world is changing?

Summary

- Criminals exploit weakness in an information-intensive card payment approval process
  - Nature and scale of criminal attacks to access payment information is new
- Industry is engaged
  - One result: muddled statistical record
- US card fraud loss rate is relatively high
  - Barriers limit effectiveness of industry response
- Policy should help industry self-regulate

Payment Approval and Incentives to Steal Card Information

- Card networks/issuers control the payment approval system
  - Mainly based on information
- Criminals can fool the approval system
  - Creates incentive to steal data
- Policy issues
  - How bad are new sources of payment fraud?
  - How effective are counter measures?
  - Is industry self-regulation adequate?

US Initiatives to Limit Card Payment Fraud

- PCI Standards
  - Led by card issuers (MC, Visa, Amex, etc.)
- Card issuers: contactless cards with transaction-specific cryptograms
- Merchants/payment service providers
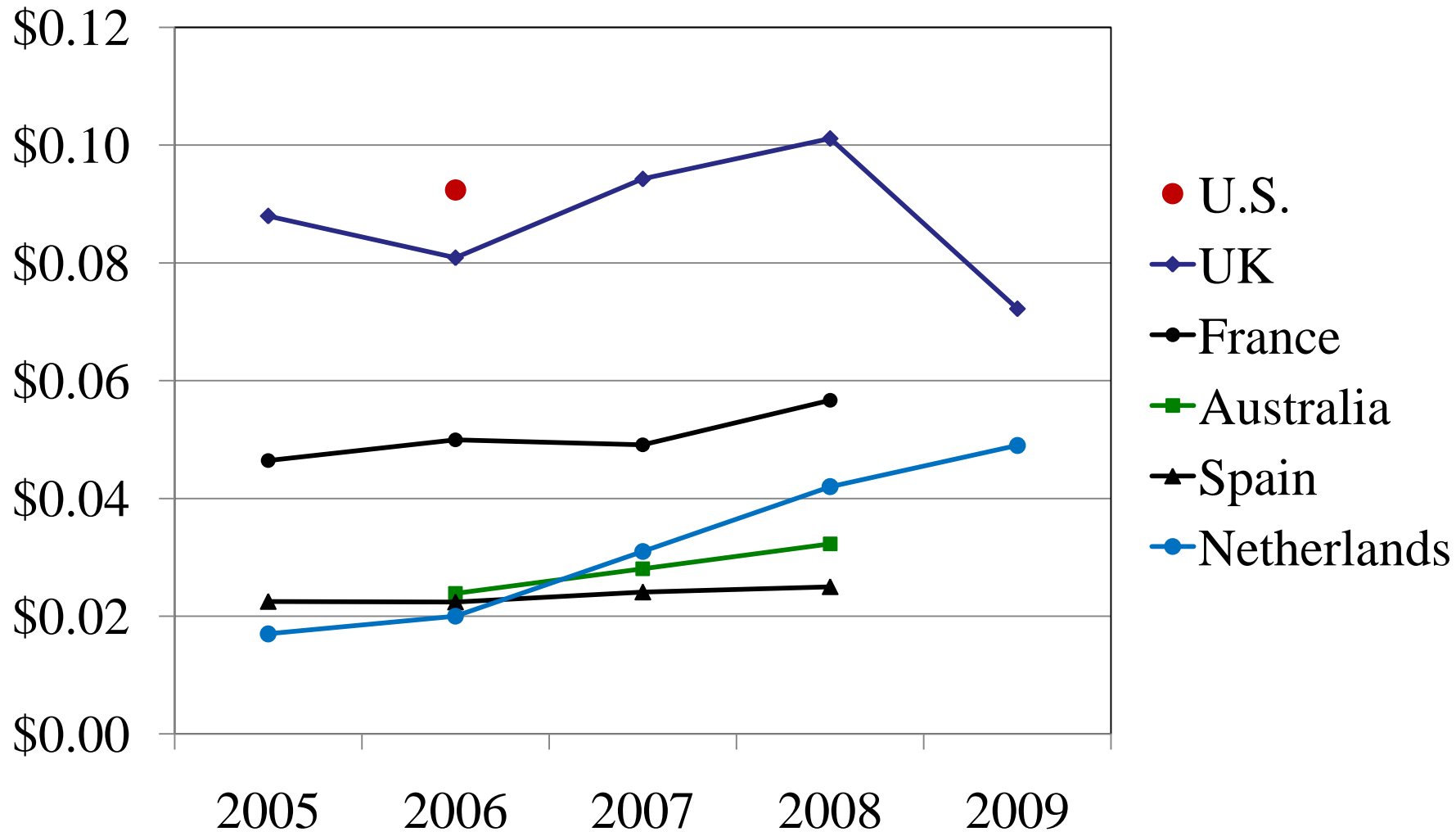 - End-to-end encryption
  - Tokenization of card numbers

Level 1 Merchant PCI Compliance and the Number of Publicly Disclosed Data Breach Incidents Among Non-Bank Payment Processors and Retailers
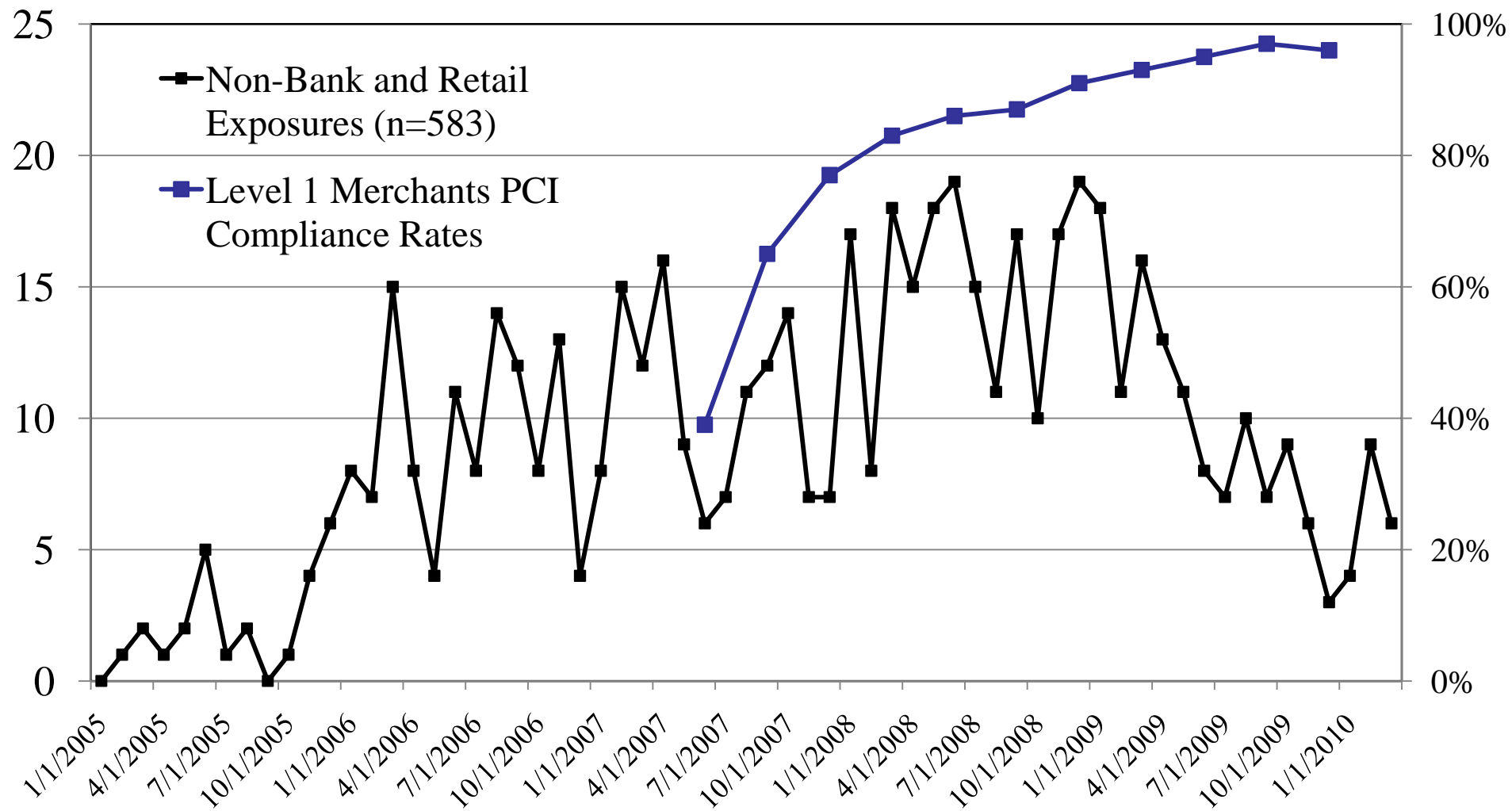
Fraud Losses Per Value of Transactions
Domestically Issued Debit and Credit Cards

Barriers to Improving Card Payment Security

- Standard setting: open or closed?
  - Current system leads to conflicts and fraud rates suggest it could be more effective
- How to coordinate 18,000 depository institutions and over a million retail establishments?
  - Initiatives to improve card payment security may overlap

Policy and Industry Issues

- The card payment industry needs an institutional structure that fosters wide participation in developing security standards

- Why not move away from an information-intensive card payment approval system?

- Industry should provide quality statistics on card payment fraud losses

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