Controlling Debit Fraud Losses

Carolina Gallegos
Director, North America Risk Services
Visa Inc.

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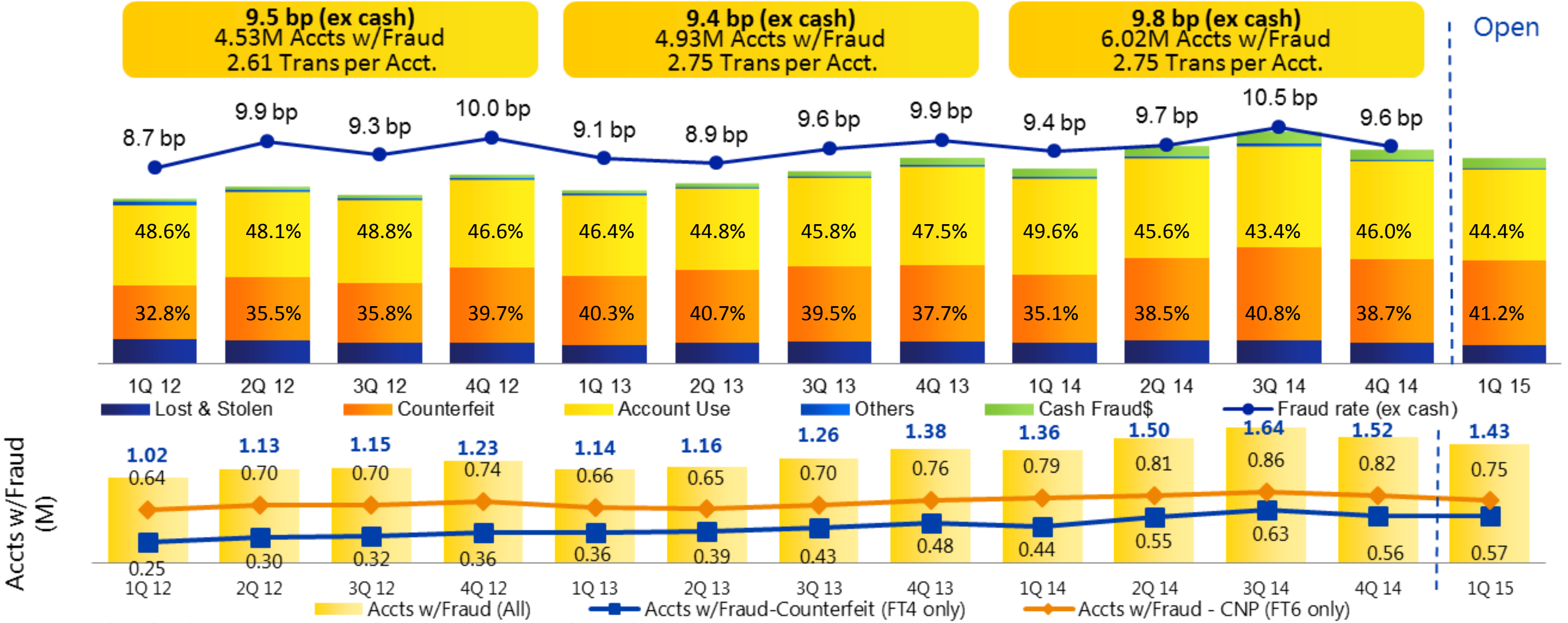
Agenda

- U.S. Debit Fraud Trends
- Top 10 MCCs by Gross Fraud Amount
- Account Lifecycle Controls
- Fraud Schemes and Best Practices
  - ATM fraud
  - Fraudulent credits
- Additional Resources

U.S. Debit Fraud Trends

- U.S. fraud rates for Debit declined from 10.5 bps in 3Q 2014 to 9.6 bps in 4Q 2014, driven by an overall 7% reduction in fraud losses.
- In 4Q 2014, the reduction in Debit was driven by counterfeit which declined by 12%. Card-not-present (FT6) also experienced a reduction of 2%. Share of U.S. fraud dollars was 46% for CNP and 39% for counterfeit in 4Q 2014 for Debit products.
- Debit fraud accounts declined in 4Q 2014 to 1.5M, as a result of a 11% reduction in counterfeit fraud accounts and 5% decline in CNP fraud accounts.



Source: Fraud Reporting System (TC40) and VisaNet Settlement Data; Issuers have 90 days to report fraud in the "Open" quarter

Top 10 Fraud MCCs

Fraud with purchase date of 2014

Card Present

MCC		Fraud to Settlement Ratio	% of Total Gross Fraud $	Avg. Fraud Amount per Trans.
GROCERY STORES/SUPERMARKETS	5411	0.07%	15.52%	$108.77
AUTOMATED FUEL DISPENSERS	5542	0.07%	10.08%	$75.61
FINANCIAL INST/AUTO CASH	6011	0.07%	7.73%	$174.49
SERVICE STATIONS	5541	0.08%	4.33%	$39.75
RESTAURANTS	5812	0.03%	4.23%	$55.99
DRUG STORES & PHARMACIES	5912	0.11%	4.10%	$106.05
DEPARTMENT STORES	5311	0.19%	3.88%	$217.61
ELECTRONICS STORES	5732	0.35%	3.10%	$461.71
HOME SUPPLY WAREHOUSE STORES	5200	0.07%	2.95%	$164.98
DISCOUNT STORES	5310	0.12%	1.93%	$122.40

- These MCCs account for over 50% of Card Present gross debit fraud $ in the U.S.
- Highest average fraud ticket at Electronics Stores and Department Stores

Card Not Present

MCC		Fraud to Settlement Ratio	% of Total Gross Fraud $	Avg. Fraud Amount per Trans.
CONTINUITY/SUBSCRIPTION MERCH	5968	0.44%	5.69%	$35.55
MISC FOOD STORES - DEFAULT	5499	0.72%	4.39%	$67.75
TELECOMMUNICATION SERVICES	4814	0.07%	4.38%	$78.54
BUSINESS SERVICES - DEFAULT	7399	0.36%	4.22%	$18.70
CABLE, SAT, PAY TV/RADIO SVCS	4899	0.08%	3.84%	$137.12
TRAVEL AGENCIES	4722	0.39%	3.26%	$293.69
WIRE TRANSFER MONEY ORDER	4829	0.50%	2.93%	$276.51
ELECTRONICS STORES	5732	0.55%	2.90%	$207.39
INBOUND TELEMARKETING MERCH	5967	2.34%	2.88%	$28.99
PROFESSIONAL SERVICES – DEF	8999	0.33%	2.56%	$86.63

- These MCCs account for approximately 37% of Card Not Present gross debit fraud $ in the U.S.
- High occurrence of fraud at recurring and subscription merchants

Source: Fraud Reporting System (TC40) and VisaNet Settlement Data; Issuers have 90 days to report fraud in the "Open" quarter

Controls Throughout the Account Lifecycle

Screen, Monitor, Track, Adjust

New Account Set Up

- Establish authentication controls for customer account activity and updates
- Customer risk profile drives account minimums and limits
- Opt in for mobile alerts, if available

Account Monitoring

- Apply new account screening processes to requests for new or additional debit cards or PIN changes
- Review recent account activity for potential signs of account takeover

Authorization Monitoring

- Leverage VAA score
- Velocity controls
- Establish controls based on at risk data as a result of a breach
- Engage cardholder via Transaction Alerts

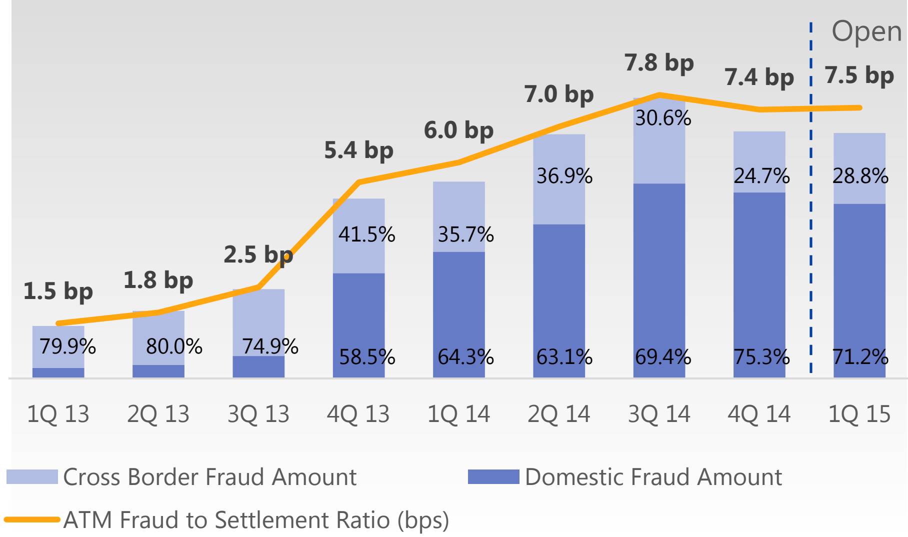
Loss Control & Reporting

- Understand root cause of fraud losses
- Make screening and monitoring process adjustments as needed
- Review the need to train / educate other divisions or cardholders on common fraud schemes

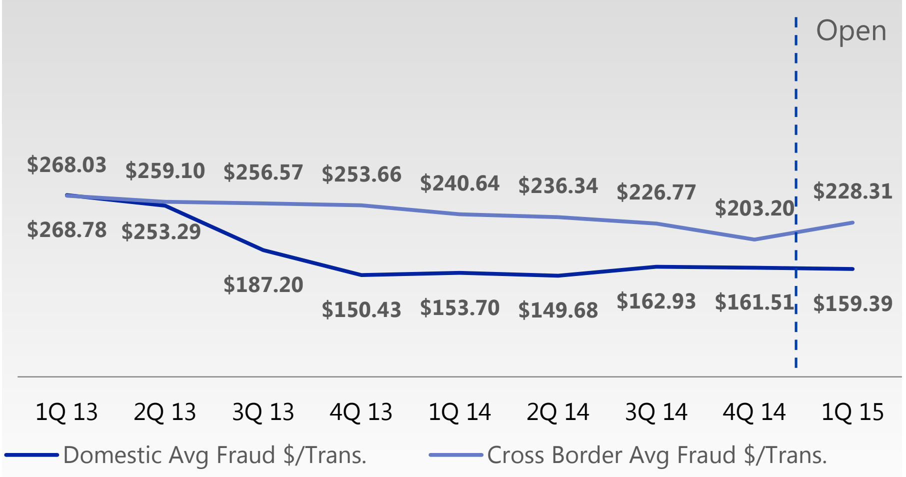
U.S. ATM Debit Fraud Trends

MCC 6011

Gross Fraud Losses by Quarter



Average Fraud Ticket by Quarter



- U.S. Debit gross fraud losses at ATMs increased by 37% from 4Q 2013 to 4Q 2014.
- Cross border represents only 17% of ATM Debit sales on U.S. issued cards, but 32% of ATM Debit fraud for 2014.

- While overall gross fraud losses have increased, the average fraud $ per transaction has been declining
- Cross border average fraud tickets remain higher than domestic, with a spike in the open quarter

Source: Fraud Reporting System (TC40) and VisaNet Settlement Data; Issuers have 90 days to report fraud in the “Open” quarter

Best Practices for ATM and PIN Management

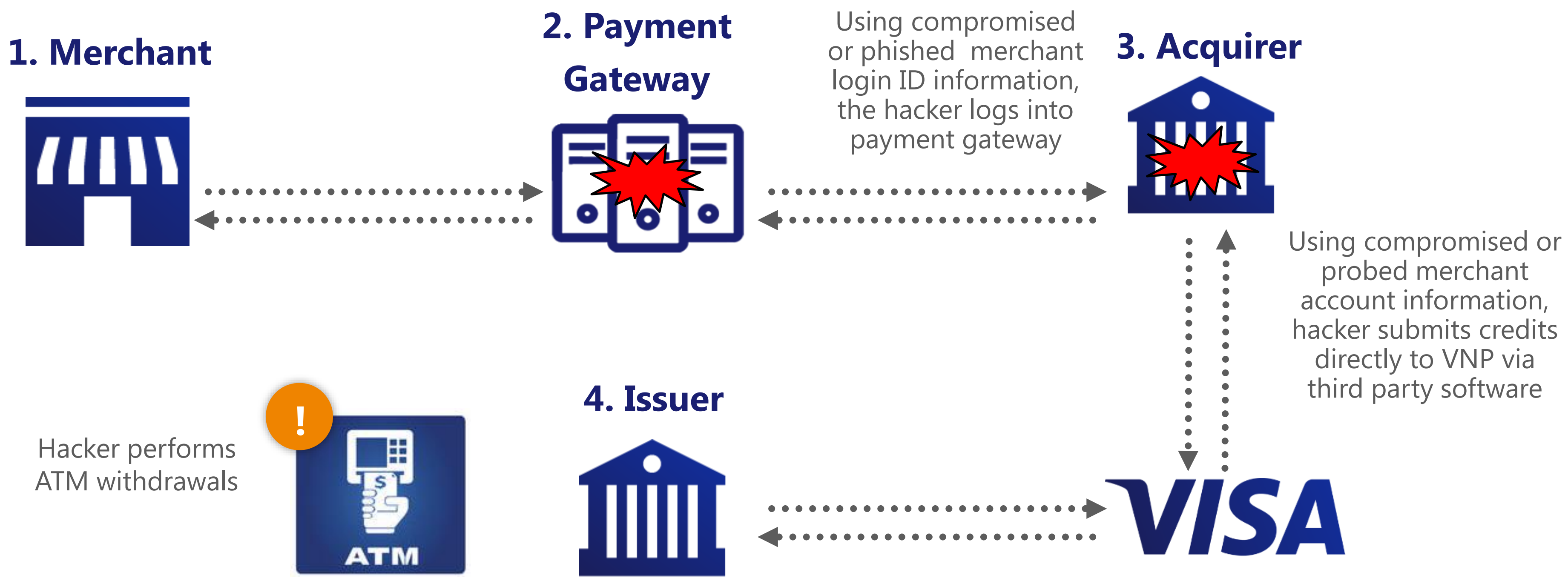
1. Be vigilant with customer authentication and PIN change practices
   - Issuers should conduct step-up authentication or additional due diligence
     - On at-risk accounts
     - After recent account changes
   - Do not use card data to authenticate customer identity
   - Continue to educate customers on fraud prevention, including
     - The importance of selecting a non-obvious PIN known only by the owners of the account
     - The perils of phishing and other common scams
2. ATM operators should check machines at least daily for any evidence of tampering



3. Issuers should utilize advanced analytics and strategies to proactively identify potential fraud patterns

Fraudulent Credits – Attack Process Flow

A simulated refund (TC06) issued by criminals posing as merchants to post funds to card accounts they've previously set up with the intention of then withdrawing the funds



How Issuers Can Mitigate Financial Losses

- Monitor cardholders’ credit, debit and prepaid card accounts for unusual credits without a previous matching debit transaction
  - Take appropriate measures to hold funds if there is suspicion of a fraudulent transaction
- Investigate any discrepancies promptly, before funds are moved into the cardholder account and subsequently released or withdrawn.
- Issuers that successfully withhold a fraudulent credit or are able to recover funds after they have been withdrawn must refund the money to acquirers via a TC 26 credit reversal.

Additional Resources

VISA

Visa Online Resources

- VBN: Visa Alerts Members to Actively Prevent Fraudulent Credits – December 19, 2013
- VBN: Updated Tips for Preventing and Mitigating ATM Cash-Out Fraud – February 20, 2014
- VBN: Updated Fraud Reporting Guidance – October 15, 2014

Public Resources for Cardholders

- Protection at the ATM, from visa.com
- Visa Security Sense

Thank You