

Maintaining a Safe Environment for Payment Cards:

EXAMINING EVOLVING THREATS POSED BY

# FRAUD

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April 23-24, 2008

A conference jointly sponsored by the Federal Reserve Bank of Philadelphia's Payment Cards Center and the Electronic Funds Transfer Association (EFTA)

Despite the payment card industry's significant improvement in reducing the rate of fraud, absolute losses from payment card fraud continue to grow. All participants in the payments system are affected. In addition to the direct financial losses incurred from fraud, there are growing concerns that increased public attention to data breaches and payment card fraud may lead to a general undermining of consumer confidence in electronic payments.

Importantly, the very nature of fraud risk is changing. As consumers have become more comfortable using many payment options across a growing range of channels, the landscape has become more complex, leading to new vulnerabilities and risks for fraud. The perpetrators of payments fraud have changed as well. Today, professional, well-funded criminal groups, operating domestically and internationally, are using the latest technologies to attack U.S. and global payment networks.

This conference will extend the dialogue begun at the September 2006 conference, "Information Security, Data Breaches, and Protecting Cardholder Information: Facing Up to the Challenges," also co-sponsored by the Payment Cards Center and the EFTA. One insight from that conference was that meeting the challenges posed by data security requires improved collaboration and communication among all parties in the card payments system — cardholders and issuers, acquirers and merchants, and the enabling networks. The goal of this April 2008 conference is to extend that discussion and develop new insights into how technologies, common standards, balanced incentives, and other factors can be developed to better manage fraud risks and limit damages across the payment system.

This event is structured to emphasize dialogue and a common search for solutions, with panelists from a variety of institutions sharing their perspectives on the challenges faced by market participants.

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**3:30 p.m. Welcome and Introductory Remarks**

*Peter Burns, Federal Reserve Bank of Philadelphia*  
*H. Kurt Helwig, Electronic Funds Transfer Association*  
*Michael Collins, Federal Reserve Bank of Philadelphia*

**4:00 p.m. Keynote Address: Regulatory Perspectives on Payment Card Fraud**

*Jon Greenlee, Associate Director, Operations and IT Risk Section, Federal Reserve Board of Governors*

**4:30 p.m. Managing Payment Fraud Risk in a Challenging Environment: Setting the Stage**

*Moderator: Peter Burns, Federal Reserve Bank of Philadelphia*  
*Panelists: Avivah Litan, Gartner Inc.*  
*Richard Parry, JP Morgan Chase*  
*Paul Tomasofofsky, Two Sparrows Consulting*  
*James Brown, University of Wisconsin*

A key to the success of the modern payment card industry has been its ability to gain and then maintain consumer confidence in the safety and security of these payment systems. Networks, issuers, acquirers, and regulators have all played roles in effectively managing payment fraud, greatly contributing to the rapid growth in consumer adoption of electronic payments. Nevertheless, the nature and scope of payment fraud in these environments is dynamic, requiring the ongoing development of new solutions, as well as greater collaboration across all links in the payments chain. This panel will set the stage for subsequent conference discussion. Panelists will consider how changes in business models, behaviors, and fraud threats are creating new challenges in mitigating risk.

- How has the proliferation of new payment products, accessible through multiple channels, led to the need to re-evaluate traditional fraud management approaches?
- How are changes in industry structure leading to new challenges in payment fraud management?
- How have the nature of electronic fraud and the growing sophistication of fraudsters complicated the payment fraud battle? How is the industry responding?
- How have consumer expectations and behaviors affected fraud management challenges?

**6:00-7:30 p.m. Reception**

**8:00 a.m. Registration and continental breakfast**

**8:30 a.m. Welcome**

*Charles Plosser, President, Federal Reserve Bank of Philadelphia*

**8:45 a.m. Consumer Perspective**

*Moderator: James Van Dyke, Javelin Strategy & Research*

*Panelists: Betsy Broder, Federal Trade Commission*

*Bob Shiflet, Bank of America*

*Tony Spinelli, Equifax*

Consumers perceive that identity fraud is rising, even though research shows it is tapering off. Meanwhile, consumer losses are growing, with causes ranging from lost or stolen cards and data breaches to theft via online channels, phone, and mail. Issuers must juggle a number of responses, among them education, block-and-reissue, authentication, detection, and provision of various services.

- What impact has this had on the public's confidence in the card payment system?
- How do regulations, network indemnification, and company policy affect consumer costs?
- Research reveals that consumers want to play a more active role in fraud prevention. What are consumers currently doing? What else should they be doing to help prevent fraud on their accounts?
- Consumers say they value firms that demonstrate a commitment to protecting their information. What can the industry do to enlist and leverage consumer support?
- Consumer concerns have gotten Washington's attention. What is the likely direction this might take, and what are the implications for the payment card system?

**10:00 a.m. Break**

**10:15 a.m. Issuer Perspective**

*Moderator: Harry DiSimone, Commerce Advisors, formerly EVP of Chase Card Services*

*Panelists: Alex Mogielnicki, JP Morgan Chase*

*Rich Detura, Citigroup*

*James Cichy, PULSE*

Regulations and card network operating rules regarding payment card fraud place a substantial burden on the card-issuing community. Therefore, card issuers are highly motivated to identify areas of vulnerability in the system and to champion tools for preventing fraud. Issuers also have to balance the management of fraud risk with its POS impact on their cardholders.

- What are the current trends and future projections for fraud in the U.S.? How might these trends be affected by the expanded share of transactions occurring in card-not-present environments?
- What is the global perspective on fraud, including rates of fraud, different techniques deployed, and lessons learned, that may have application in the U.S. market?
- For debit fraud in both PIN and signature environments: What are the unique issues for online PIN debit? What is the future of PIN-less debit in the biller and e-commerce areas?
- Have efforts spent on PCI yielded effective results? What are issuing banks' perspectives on fraud-reduction technologies, such as dynamic mag stripe, advanced authorization, and chip/PIN?

**11:30 a.m. Lunch**



**12:30 p.m.****Network Perspective**

*Moderator:* Ron Congemi, Chairman, EFTA  
*Panelists:* Russell Schrader, Visa Inc.  
 Jodi Golinsky, MasterCard Worldwide  
 Mark O'Connell, Interac Association and Acxsys Corporation

As authors and arbiters of operating rules and standards, the networks have a critical role in managing the integrity of the card payment system. This session will explore the role that networks play in safeguarding the system from fraud.

- How are the networks responding to fraud challenges on both the domestic and international fronts?
- What is the role of PCI and how have the networks advanced its adoption?
- Are networks in the best position to provide solutions to authentication challenges? What has been learned from chip/PIN solutions where they have been implemented?
- Despite successes in controlling losses as a percent of volume, the toll of fraud in real dollars continues to rise due to increasing card volumes and tactical shifts by fraud perpetrators. When fraud occurs, what role do networks play in remediation and apportioning liability?

**2:00 p.m.****Break****2:15 p.m.****Merchant Acquirer Perspective**

*Moderator:* Marc Abbey, First Annapolis Consulting  
*Panelists:* Robert Carr, Heartland Payment Systems  
 Michael Herman, Chase Paymentech Solutions  
 Donald Boeding, Fifth Third Bank

Acquirers and their merchant customers are operating under new challenges to protect the industry from fraud and data breaches. This session will examine current data security standards and other challenges acquirers/merchants face when protecting both consumer data and their business.

- Has the effect of data breaches on acquirers and their merchant customers created disproportionate burdens on this part of the system? How are merchants responding, and are there differences in the response of small and large merchants?
- Do current industry pricing protocols provide appropriate incentives to engage merchant acquirers and their customers in helping to combat fraud?
- PCI is generally assumed to be a sensible, but costly, approach for merchants, acquirers, and others who process transaction data. What are the implications for the card payment system? Are there other more cost-effective solutions?

**3:30 p.m.****Wrap-up: What Have We Learned?**

*Participants:* Panel moderators and conference organizers

**4:00 p.m.****Conference Adjourns**

Federal Reserve Bank of Philadelphia

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