 | Feb 24, 2020, 09:47pm

Global Payment Networks Do Not Abet Credit Card Fraud

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Policy
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A recent article in the *Morning Consult* last week received some attention by essentially accusing global payment networks and banks of being insufficiently concerned about payment card fraud, and of them dragging their feet in the implementation of cutting edge fraud technologies—a heady charge to level. Howeve it is unclear why anyone would conclude that the entities that lose so much from frau would have a reluctance to directly address the issue.

Other issues are at stake, as the only way to reach such a conclusion is to conflate various issues being debated by the payment companies and the other major stakeholders. Given that the piece advocates for a technology not being implementec by the payment networks, it's possible that another agenda is at work.

For starters, the very notion that the companies that bear the brunt of the cost of car fraud are somehow insufficiently concerned by it is nonsensical. Given that banks an networks eat roughly $40 billion in credit charge-offs and absorb 42 percent of all fraud loss, no stakeholder is as incentivized to reduce costs as they are. For perspective, the industry as a whole is combatting $6.9 billion in annual card fraud, according to Euromonitor.

What's more, the assertion leveled in the *Consult* that fraud is a growing problem is a odds with the fact that counterfeit fraud is down 34 percent since the advent of chip cards, according to Euromonitor, and is now under 11 cents per $100. What's more, according to the Nilson Report, the net fraud loss on credit transactions is less than one basis point for all four major U.S. networks—hardly the record of absent-mindec stewards of the payments system.

The technology offered in the RPGC group study he cites approvingly—mandating th use of a PIN—does nothing to stop the fraud that Kantor discusses, namely online fraud, and only benefits the PIN-based networks that paid for the study. Adopting th PIN technology would cost merchants at least $4 billion—only about one-third of all merchants today have that technology—and it would only stop fraud from lost or stolen cards, which constitutes scarcely ten percent of all fraud.

The players that stand to benefit financially from having a chip-and-PIN mandate may aver that this is the optimal solution to battling fraud, but it is hard to reconcile with the current state of the industry. Tokenization, AI, and biometrics are the next frontiers in combating fraud and payment networks and banks are intensely explorin each of these—because these hold the promise to be the most effective ways to reduc fraud, and they stand to gain the most from its diminution.

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