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No quick solution to payment card hacking

Payment card hacking may get worse as new chip technology and other measures take time to develop, experts say. The U.S. is a prime target because of its reliance on magnetic strips.

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Despite growing costs of payment card hacks, retailers, card firms and banks responsible for safeguarding consumers' financial information continue to butt heads over how best to stem the losses. (Gabe Hernandez, AP / February 14, 2014)



Target traces data breach to credentials stolen from vendor

By Chris O'Brien and Tiffany Hsu
February 16, 2014 | 5:00 a.m.

Consumers shellshocked by the escalating size and frequency of payment card hacks like the one that recently struck Target aren't likely to get much relief any time soon.

If anything, security experts say, the situation will worsen for American shoppers before it improves, if it ever does.

The U.S. relies largely on payment cards with magnetic strips — described by one retail trade group as "antiquated" and

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Cost has U.S. banks stalling on ID theft deterrent



U.S. has launched criminal probe into Target cyberattack

especially prone to fraud — instead of more secure systems already in place in most other countries. The vulnerability makes the U.S. a prime target for hackers.

A belated switch to credit cards with encrypted chips is set to kick in next year, but security experts are skeptical of its ability to keep cybercriminals at bay. And despite the growing costs of payment card hacks, the retailers, card companies and banks responsible for safeguarding consumers' financial information continue to butt heads over how best to stem the losses.

Amid the finger-pointing, politicians are weighing whether the government needs to get involved in ensuring greater payment card security.

President Obama took a step in that direction last week by unveiling guidelines aimed at prodding companies that oversee essential services such as banking to better protect themselves from cyberattacks. The release came a week after Congress held a series of hearings demanding that retail and financial industry leaders explain how they planned to secure customer information.

Security experts fret that failure to act could threaten consumer trust in the plastic cards that drive the national economy.

"This has the potential for people to question the viability of our payment system," said Venky Ganesan, a venture capitalist with Menlo Ventures, who focuses on cybersecurity investments. "If people lose faith in the payments system, you're going to have the economy gum up."

Though e-commerce is a fast-rising sector, sales in bricks-and-mortar stores still account for 94% of all U.S. retail purchases, according to Javelin Strategy & Research. Credit and debit cards are used in half of those transactions.

Last year, nearly 70 billion payments, worth about \$4 trillion, were made with credit, debit and prepaid cards in the U.S., according to industry tracker Nilson Report.

The Target breach was a stark reminder of just how vulnerable those plastic cards are.

Cybercriminals accessed credit and ATM card numbers of about 40 million customers and also stole personal information from up to 70 million shoppers by hacking the card readers. Soon after, major breaches were also discovered at Neiman Marcus and Michael's.

The information was then sold on the black market and used for fraudulent charges, the amount of which investigators are still trying to determine. Credit card consumers are not liable for the fraudulent charges made with the stolen information, but some are having to spend hours repairing dinged credit scores or clearing up a transaction.

The costs to banks and retailers are mounting in the aftermath.

The Target hack alone has cost credit unions up to \$30 million to reissue cards and staff up call centers to handle consumer inquiries, according to the Credit Union National Assn. Member banks of the Consumer Bankers Assn. have reissued more than 17.2 million payment cards, at a cost of \$172 million. A report from Jefferies & Co. calculated that Target could face penalties of \$400 million to \$1.1 billion from the payment card industry because of the breach.

Still, the thefts came as no shock to security industry insiders. A study from Verizon Enterprise Solutions released last week found that just 11% of merchants are fully compliant with credit card security standards.

"That's a surprise, because the standard is not about rocket science," said Rodolphe Simonetti, managing director of Payment Card Industry Services for Verizon.

These thefts are just the tip of a very large iceberg. The Secret Service cybercrime investigations team has arrested more than 4,900 suspects associated with \$1.37 billion in fraud losses in the last four



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years.

Banks managed to stop about \$13 billion in attempted fraud last year, according to the American Bankers Assn. But there were still more than 600 breaches during that period, a 30% year-over-year increase, according to the Identity Theft Resource Center.

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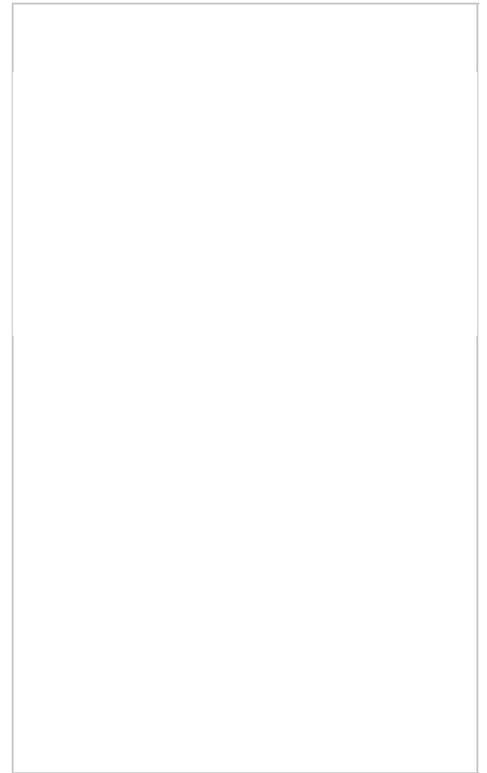
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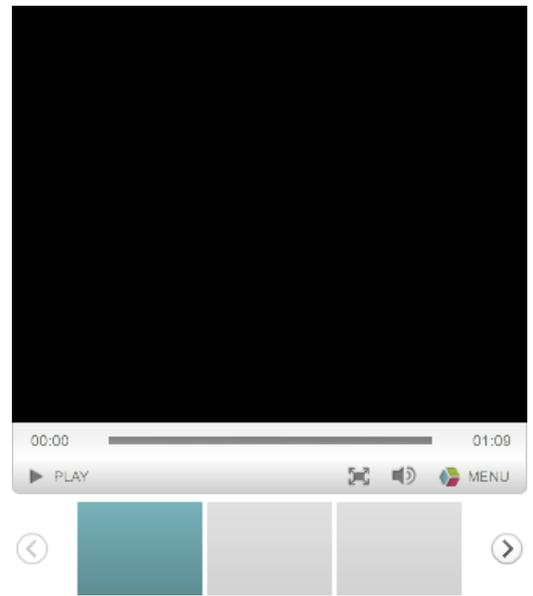
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ASK LAZ



Keith Richmond at 7:05 PM February 17, 2014

Excellent article Chris and Tiffany! While chipped credit cards may help keep people safe more than traditional credit cards it won't always work and will most likely become less effective the longer it is in use because hackers will learn the technology and find work arounds. This is why it is critical that retailers implement a security solution that offers a high level of protection and can easily adapt to growth so that it doesn't become obsolete. A technology exists today that does this and it is called an Application Defined Network or ADN for short. This technology is really interesting and has a lot of potential because it segregates all of the different ADNs (things like payment, loyalty, guest access wi-fi, etc). This means that if an ADN with public internet access is breached by an outside party, the ability of the breach to bleed between the different ADNs is virtually eliminated. It is designed so that specific security and performance policies can be established at the ADN level versus the network interface level which allows for ADNs with contrasting security policy requirements to be completely isolated from one another and facilitated with customized security features. I think businesses that utilize ADNs will be the leaders and set the example in security compliance in the coming years and I am looking forward to seeing the technology take off.

Flying Dutchman at 9:02 PM February 16, 2014

The best protection that someone can do for themselves, is to freeze your credit. You can do it thru one of the credit agencies. By doing so, no one can open new accounts, unless your credit is released by you. The credit card companies will cover the fraudulent charges on your account. They are not responsible for new accounts, opened in your name, and sent to a new address.

Netizen at 4:55 PM February 16, 2014

The solution is to immediately discontinue using prepaid payment cards, and switch to credit cards, even if you have to open a credit card secured by cash collateral (i.e. savings account) at Capital One or one of the legit credit card companies. That way you have bonafide credit card protection mandated by law, and don't fall into any "cracks" in the system that payment cards are fraught with.

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