

## 2017 Annual report of the Observatory for the Security of Payment Means

**This second annual report of the Observatory highlights the significant progress made in the area of reducing fraud related to all cashless means of payment, with the notable exception of cheques.**

The primary illustration of this progress is the significant decline in the annual value of French payment instrument fraud, which fell to EUR 744 million in 2017, down EUR 54 million on 2016's figure. For all virtual or electronic payment means (based on cards, credit transfers or direct debits), fraud fell, despite increasing payment flows for these instruments:

- As regards card payments, the most widely used cashless payment instrument (accounting for almost 52% of cashless transactions), total fraud stood at EUR 361 million. It fell for both payments made in France, to EUR 200 million (down EUR 18 million, or a fraud rate of 0.032%, its lowest level since 2010), and those made outside France, to EUR 161 million (down EUR 21 million, or 0.281%, a record low). Fraud rates for CNP payments in France also fell to a record low of 0.161%.
- Direct debit fraud also decreased spectacularly, falling by EUR 31 millions to stand at EUR 9 million. A similar movement, albeit to a lesser degree, was also observed for credit transfer fraud, which fell by EUR 8 million to stand at EUR 78 million. Fraud rates for these means of payment are extremely low (0.0006% and 0.0003% respectively).

These good results largely stem from the use of sophisticated fraud prevention tools by all players, i.e. issuers of payment means and merchants and companies, which notably include:

- the increasing use of payer authentication solutions, in particular via the 3D-Secure protocol, in order to better protect online payment transactions;
- the development of scoring methods, i.e. expert systems capable of assessing the risk level of a given transaction on the basis of its characteristics (customer's habits, location, equipment used, etc.).

These fraud prevention tools, whose development has been promoted since 2008 by the Observatory for the Security of Payment Means, are now part of the security requirements set out in the framework of the second European directive on payment services ("PSD2"), which entered into force in January 2018 across the European Union. The widespread deployment of these tools and the harmonisation of practices in Europe should result in an additional reduction in fraud both at the national level and within the European Union.

Contrary to electronic payment means, cheque fraud is rising, and reached EUR 296 million in 2017, (up EUR 25 million). This development, together with a fall in cheque use, meant that the cheque fraud rate rose to 0.029% from 0.025% in 2016. Cheques remain the payment instrument the second most affected by fraud after cards: their share in the total amount of fraud reached 40% in 2017 (34% in 2016), against 48% for cards. This situation is especially worrying since cheques are far less widely used than cards and are only ranked fourth in terms of use, behind cards, direct debits and credit transfers: they account for just 8% of the number of cashless transactions.

This observation reinforces the choices of the national cashless payment strategy, i.e. promoting the development of innovative payment means and secure payment solutions to replace cheques, such as cards or credit transfers, and soon instant payments.

The Observatory for the Security of Payment Means (OSMP) is a forum whose role it is to foster dialogue and information sharing between all parties in France concerned by the smooth functioning and security of cashless payment systems. It is chaired by the Governor of the Banque de France and comprises two members of parliament, representatives of the government as well as of card issuers and users (merchants, businesses and consumers), and several persons chosen for their expertise.

Created by the Law of 9 December 2016 on transparency, the fight against corruption and the modernisation of the economy, the OSMP replaced the Observatory for Payment Card Security which was set up in 2001. It is tasked with monitoring the security measures adopted by payment industry participants and their customers, establishing aggregate fraud statistics and maintaining a technology watch in the area of payment instruments.

[www.observatoire-paiement.fr](http://www.observatoire-paiement.fr)

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**About the Banque de France.** The Banque de France is an independent institution with three core tasks: monetary strategy, financial stability, and the provision of services to the economy. It contributes to the definition of euro area monetary policy and ensures its implementation in France. It supervises banks and insurance companies, and works to mitigate risks. It also offers a range of economic services to businesses and private individuals.

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