

Press Release

The Observatory for Payment Card Security publishes its 2010 Annual Report

The Observatory for Payment Card Security is today publishing its 2010 Annual Report. The report, the Observatory's eighth, has been posted online (www.observatoire-cartes.fr).

The overall fraud rate for 2010 was 0.074%, amounting to EUR 368.9 million in fraud, as compared with a rate of 0.072% and fraud totalling EUR 342.4 million in 2009. The overall result reflects the following contrasting trends:

- fraud in domestic payments at points of sale and unattended payment terminals continued to decline, reaching the very low rate of 0.012% (EUR 36.2 million);
- conversely, fraud in card-not-present payments (i.e. made online, over the phone, by post) rose further:
 - the fraud rate for card-not-present domestic payments went from 0.263% (EUR 82.2 million) in 2009 to 0.262% (EUR 101.1 million), amid sustained growth in this category of payments (23.8% in 2010). Accordingly, while card-not-present payments make up just 8.6% of domestic transactions by value, they account for 62% of the fraud;
 - the fraud rate for card-not-present payments made to foreign merchants using French cards fell, but nonetheless remained high at 1.018% (EUR 54.0 million).

Also, and for the first time, the Observatory can now calculate separate fraud rates for international transactions within Europe (Single European Payments Area - SEPA) and for transactions carried out outside Europe (i.e. outside SEPA). These statistics demonstrate the beneficial effects of the efforts carried out within Europe in recent years to combat fraud, notably through the widespread use of EMV-compliant chip cards at points of sale and ATMs. For example, fraud rates outside Europe are almost double the rate in Europe for cards issued in France, and foreign cards issued outside Europe are subject to almost four times as much fraud as cards issued in Europe.

Security of online card payments. Banks have made a considerable effort to provide cardholders with security solutions, in keeping with Banque de France recommendations. The Observatory welcomes the steps taken by several major e-merchants to implement one-time authentication systems for card payments. It considers the creation of the ECB-led European Forum on the Security of Retail Payments as an important development, which should enhance the security of online card payments within Europe. A study conducted by the Observatory found that online shoppers have a broadly positive experience with security systems, with 96% of people saying that one-time authentication systems make online card payments safer. However, user support is still needed to ensure that all consumers are fully comfortable with the new systems.

Security of prepaid cards. The Observatory conducted a study of the market for reloadable prepaid cards, whose value is stored on issuer-operated servers. Although the use of such cards in France remains anecdotal, distribution of these cards is growing rapidly and may further increase with implementation at the European level of the new prudential status for electronic money institutions introduced by Directive 2009/110/EC. Because these cards can be acquired and used anonymously, they are exposed to counterfeiting and must therefore be accompanied by adequate security measures (particularly the use of a chip). For cards that can be used for person-to-person fund transfers, appropriate monitoring arrangements need to be put in place, by legal means if necessary.

Security issues in France and Europe. Fighting skimming and protecting card-not-present transactions are key issues, given their impact in terms of fraud. At a time when several initiatives aimed at creating new European card payment schemes have been announced, it is important to be sure that these issues are properly addressed by all stakeholders, and that adequate measures are adopted in a coordinated manner. This year, the Observatory has prepared an overview of standardisation in the area of payment cards in Europe, noting major advances in the drive over recent years to harmonise technical aspects.

Costs of migrating to EMV standards. This year, the Observatory is adding a section on security costs to its annual report. Its first study in this area examines the costs of migrating to EMV standards. Stakeholders estimated migration-related costs between 2001 and 2008 at EUR 394 million for banks and EUR 340 million for merchants. Recurring annual expenses, which vary from institution to institution, amounted to EUR 41 million for banks and EUR 12 million for merchants. The migration process, which is complete in France, is still ongoing in other countries, leading the Observatory to regularly monitor its progress at the European level. The many measures introduced to enhance security have, overall, paved the way for a significant reduction in fraud rates. EMV standards will continue to be upgraded to reflect new threats and to accommodate new payment scenarios, such as contactless payments, as well as new approaches to consumption, such as multi-application cards.

The Observatory for Payment Card Security is a forum whose role is to foster dialogue and information sharing between all parties in France concerned by the smooth operation and security of card payment schemes. Its membership comprises two members of parliament, representatives of government, card issuers and users (merchants and consumers), as well as several persons chosen for their expertise. Created by the Everyday Security Act of November 2001, the Observatory is responsible for monitoring security measures adopted by issuers and merchants, establishing aggregate fraud statistics and maintaining a technology watch in the area of payment cards.