

Panel on Payment Fraud Containment

Bruce Summers
Jeff Schmidt
Bob West
Mallory Duncan

Federal Reserve Bank of Chicago Payments Conference
June 5, 2008

Real-Time Payment Fraud

Practical Questions

- What forms does fraud take?
- What tools can prevent or contain fraud?
- What is the right balance between fraud prevention and consumer convenience?

Real-Time Payment Fraud

Public Policy Questions

- Are transactional identity theft and payment fraud part of the same problem?
- Can the marketplace alone contain identity theft and fraud, and protect the payment system?
- Is the growing non-bank presence a source of increased risk (operational, security, fraud)?
- Is a larger governmental role needed to protect the payment system?

My Practitioner's Perspective on Security and Fraud Containment

- Security is hard to achieve and ensure, and requires relentless attention.
- Security is expensive to produce:
 - Line item expense
 - Impact on the user experience
- Strong security is attained on the frontiers of business practice and technology.
- The security chain is only as strong as the weakest link.
- The payment business entails significant reputational risk.

Private Sector Consensus

- Supply side – fraud protection is currently managed efficiently .
- Demand side – there is little dissatisfaction with current methods for containing fraud.
- Other payment system needs take precedence right now.

Public Sector Emerging Consensus

- Banks are the payment system “gatekeepers.”
- The growing role of non-banks is a cause for concern.
- The marketplace will not contain identity theft and payment fraud to an “efficient degree.”
- More public intervention is warranted.

Comparing the Fraud Problem Across Large- and Small-Value Systems

- Who are the customers and what do they want?
- Who are the adversaries and what do they want?
- Who are the governance authorities and what do they want?
- Are the technologies very different?

Comparison Based on Technology, Culture, and Public Policy

- Technology -- The technologies and business practices are virtually the same.
- Culture -- Large-value stakeholders are more risk averse.
- Public policy -- Large-value systems pose systemic risk to the financial system and are part of the nation's critical infrastructure.