

# Federal Reserve Bank of Chicago 2008 Payments Conference

## Identifying Security Issues in the Retail Payment System

June 5, 2008

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- Costs Related to Payment System Security Issues
  - Costs as a driver for proactive approaches to security issues
  - Allocation of costs
    - Financial Institutions
    - Merchants
    - Consumers

- Types of Costs
  - Direct Costs
    - Who absorbs the cost of fraudulent or unauthorized transactions
  - Resource Costs
    - Staff requirements to respond
  - Compliance Costs
    - Compliance with laws, regulations, industry standards

# Overview



- Enforcement Costs
  - Responding to governmental investigations, settlements, remedial programs
- Reputation Costs
  - Perception by customers, marketplace, government
- Litigation Costs
  - Costs associated with customer, payment system participant, and shareholder claims
- Consumer Costs
  - Consumer time and expense
  - Potential liability for fraudulent or unauthorized transactions

# Impact of Security Issues on Viability of Particular Payments Systems



- Early concerns regarding online purchases and payments
- Card system features and terms
- Consumer sensitivity

# Current Developments



- Credit card industry implementation of enhanced security
- Threats to payments systems
  - Phishing
  - Computer intrusion
  - Insider misconduct
- Consumer education and consumer monitoring
- Remotely created checks
- Litigation regarding security breaches
- Potential federal chartering and regulation of important payment and settlement systems

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