

2017 Could Be Record Year for Fraud: CUNA Mutual Group

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This year could set a record for fraud, according to a CUNA Mutual Group presentation given at CUNA's America's Credit Union conference in Las Vegas, on Tuesday.

Robert Jarosinski, who is a senior consultant for risk and compliance solutions at CUNA Mutual Group, said criminals still seem to have the edge despite a slew of fraud-prevention and mitigation technologies in the market.

“After signs of progress in 2016, the situation is getting worse again,” Jarosinski said. “Several factors, including slower-than-expected merchant conversion to EMV and delays in shifting fraud liability to retailers are compounding the situation.”

An October 2016 Nilson report indicated that plastic card fraud will grow from \$21.84 million in 2015 to \$31.67 billion in 2020.

The advent of EMV cut card-present fraud by 52% in September 2016 compared to a year earlier, according to Visa, but Jarosinski said merchants and card issuers are still struggling in several areas:

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has been pushed concern for credit
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- Card issuers can't charge back non-EMV merchants for purchases under \$25 and can only charge back 10 fraudulent transactions per account, and
- Data from FICO shows that card-skimming losses rose 546% between 2014 and 2015, and it rose another 70% between 2015 and 2016.

Jarosinski said “fallback transactions” have become an emerging threat. Fallback transactions occur when technical issues prevent chip-capable terminals from completing normal chip transactions. As a fallback, merchants run the purchases as magnetic stripe transactions. The fraud liability then falls on the issuer.

“Friendly fraud” is another growing fraud trend, he said. It occurs when members make false claims to their card issuer about a purchase.

“For example, an individual cardholder could claim that the \$1,000 charge on their account statement for a new flat screen TV never occurred, despite the fact the TV is hanging on their living room wall,” Jarosinski explained.

Proving that a purported fraudulent transaction is actually legitimate is hard for card issuers, and retailers often won't help investigate, he added.

Jarosinski said credit unions should be sure to create “success metrics” for fraud, including measuring false positives.

“Work with your processor to get the information you need to evaluate the cost of fraud versus the cost of solutions, and know the available levers you can use to make changes,” he advised.\

Credit unions should also keep pushing hard to identify and manage fraud risk.

“Fraud evolves constantly, and you can't afford a 'set it and forget it' mindset with your protection tools. Keep your success metrics in mind as you adjust rules in response to changing fraud trends,” he said.

“The only way to prevent plastic card fraud is to eliminate your plastic card programs. But that's not an option, so you need to find the right balance between security and member experience,” Jarosinski added.