Fraud Card Loss Climbs; Cash Use Remains Strong

By Roy Urrico
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Credit card losses from fraud cases reached new levels in 2015 for credit unions and other financial institutions.

Fraud losses incurred by financial institutions and merchants' credit, debit, and prepaid general purpose and private label payment cards issued worldwide reached $21.84 billion

last year according to The Nilson Report.

The Carpinteria, Calif. analytic firm reported global card volume (purchases of goods and services combined with cash advances and withdrawals) totaled $31.310 trillion. What this means is for every $100 in volume, 6.97 cents was fraudulent, up from 6.21 cents per $100 in 2014. Fraud, which grew by 20.6%, outpaced volume, which grew by 7.3%.

The U.S. accounted for 38.7% or $8.45 billion of gross card fraud losses worldwide, while generating only 22.9% of total global purchase and cash volume. U.S. fraud reached 11.76 cents per $100 last year.

Fraud losses occur from counterfeit cards at the point of sale and ATMs, card-not-present transactions (made online or via mail, telephone, social network, or mobile app), fraudulent applications, lost and stolen cards, and other smaller categories.

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Losses to card issuers reached $15.72 billion or 72% of gross fraud losses worldwide. Merchants and acquirers lost the remaining $6.12 billion or 28% of the total. Issuers absorbed the majority of fraud losses last year.

"The industry's best defense against counterfeit fraud are EMV cards and the terminals needed to read their chips," David Robertson, publisher of The Nilson Report said. "EMV has been steadily penetrating dozens of countries, but in the U.S. where issuers poured EMV cards into the market, merchants lagged in deploying terminals." By year-end 2015, EMV-compliant cards handled nearly 36% of Visa, Mastercard, UnionPay, Discover/Diners, JCB, and American Express card transactions worldwide. In the U.S., compliant transactions accounted for less than 2% of the total.

Fraud losses to merchants and their acquirers occurred overwhelmingly from CNP transactions, and the problem is aggressively worsening. Losses to CNP fraud exceeded $5.65 billion last year, with growth in nearly every country. In the U.S., CNP already accounts for more than 50% of total fraud losses.

By 2020, card fraud worldwide will reach $31.67 billion. Even though fraud has worsened every year this decade, it is still lower than the peak years of the 1970s when measured as basis points of total volume.

Meanwhile, according to research launched by Houston-based Cardtronics, 84% of U.S. consumers always try to keep cash on hand. While they still use digital payments, credit and debit cards, 91% of consumers said they like to pay with a variety of payment methods and 85% use at least two different types of payment methods each month.

According to the Cardtronics findings:

- Cash continues to dominate (79%) P2P payments in general, and in specific scenarios such as dining out with family friends, in which case 55% of consumers (47% of millennials) still prefer to split the bill with cash despite the beginnings of a meaningful presence for non-bank and bank P2P payment apps (10%).
- When traveling, people still have cash on hand: such as going on vacation (85%), a road trip (85%), or away for the weekend (83%).
- People are most likely to use cash at fast-food restaurants (58%), convenience stores (61%), farmer's markets (79%), bars (57%), and salons (56%).
- Seventy-three percent of people use cash to control their spending; and 66% of people use cash to stay on budget.