

Card Fraud Mitigation for Credit Unions: Top Ten Fraud Trends and an Overview of Card Processor Fraud Tools

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JAVELIN STRATEGY & RESEARCH

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Overview

Project description

- In November 2010, CSCU retained Javelin Strategy & Research to conduct a *qualitative* research study on card processor fraud tools and fraud trends affecting the credit union industry.
- The goal of this research is to provide a high-level guide to the various fraud prevention/detection offerings available to credit unions, as well as insights to some of the latest and emerging fraud threats currently impacting credit unions.



Methodology

Research approach

- Javelin conducted in-depth interviews with five of the leading card processors operating in the credit union space. Interviews were conducted with senior-level product managers.
- An online survey of CSCU members was also administered to obtain members' usage of fraud tools as well as perceptions of solution performance.
- In-depth interviews were held with fraud managers of credit unions to provide case study examples (shown in the whitepaper) and gather opinions on fraud trends.



Top Ten Fraud Trends

Top Ten Fraud Trends

Top Ten Fraud Trends for 2011

- 1. Card-not-present fraud.**
- 2. ATM, POS and self-service terminal skimming.**
- 3. Data breaches.**
- 4. Social engineering schemes.**
- 5. “Fraud-as-a-service”.**



Top Ten Fraud Trends

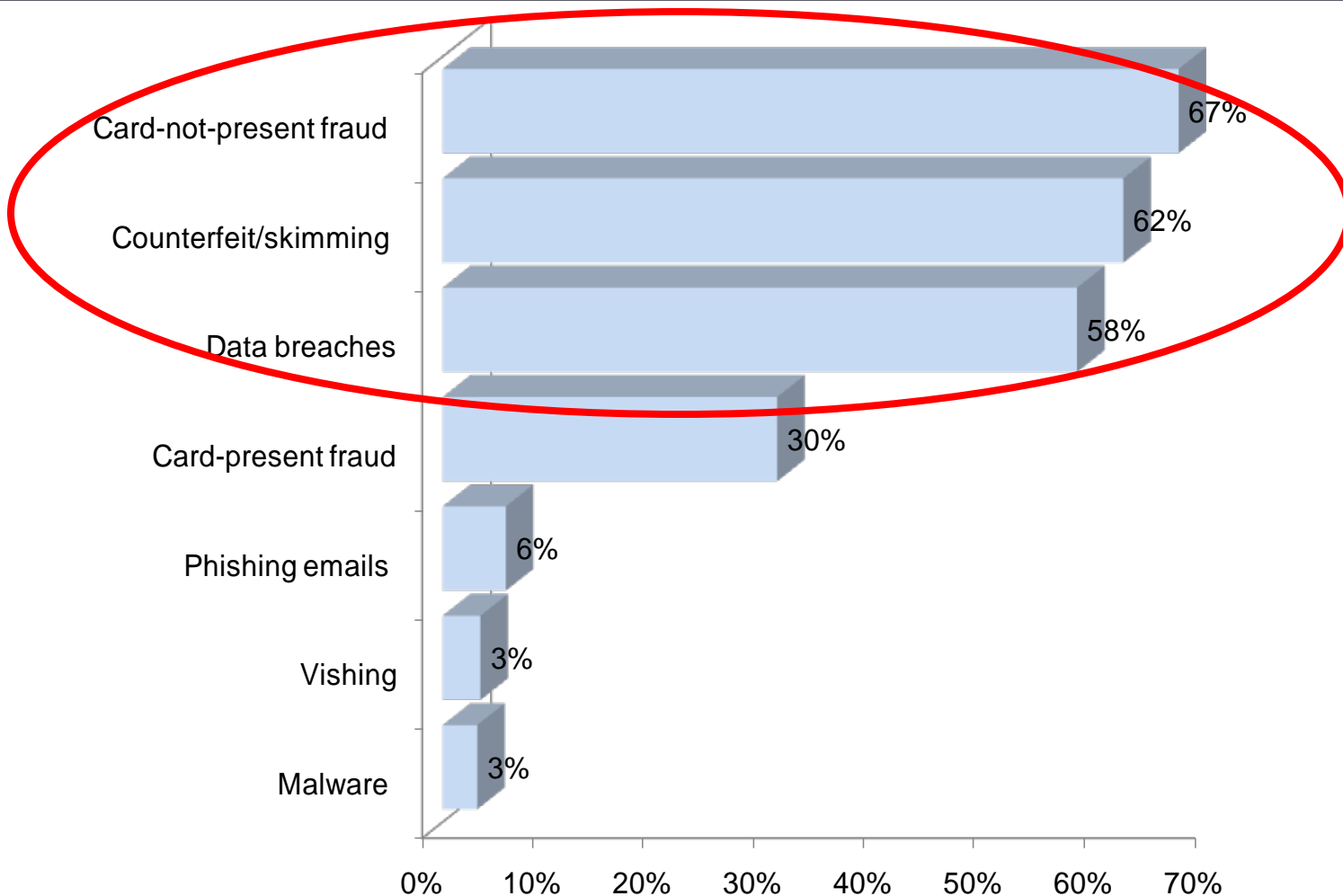
Top Ten Fraud Trends for 2011

- 6. Internet information sharing, social networking and cyber-warfare.**
- 7. Mobile malware.**
- 8. Fraud is down overall – but where are the fraudsters headed?**
- 9. ATM malware.**
- 10. First-party fraud.**



Leading Fraud Issues that are Top of Mind with Credit Unions

CSCU member survey results



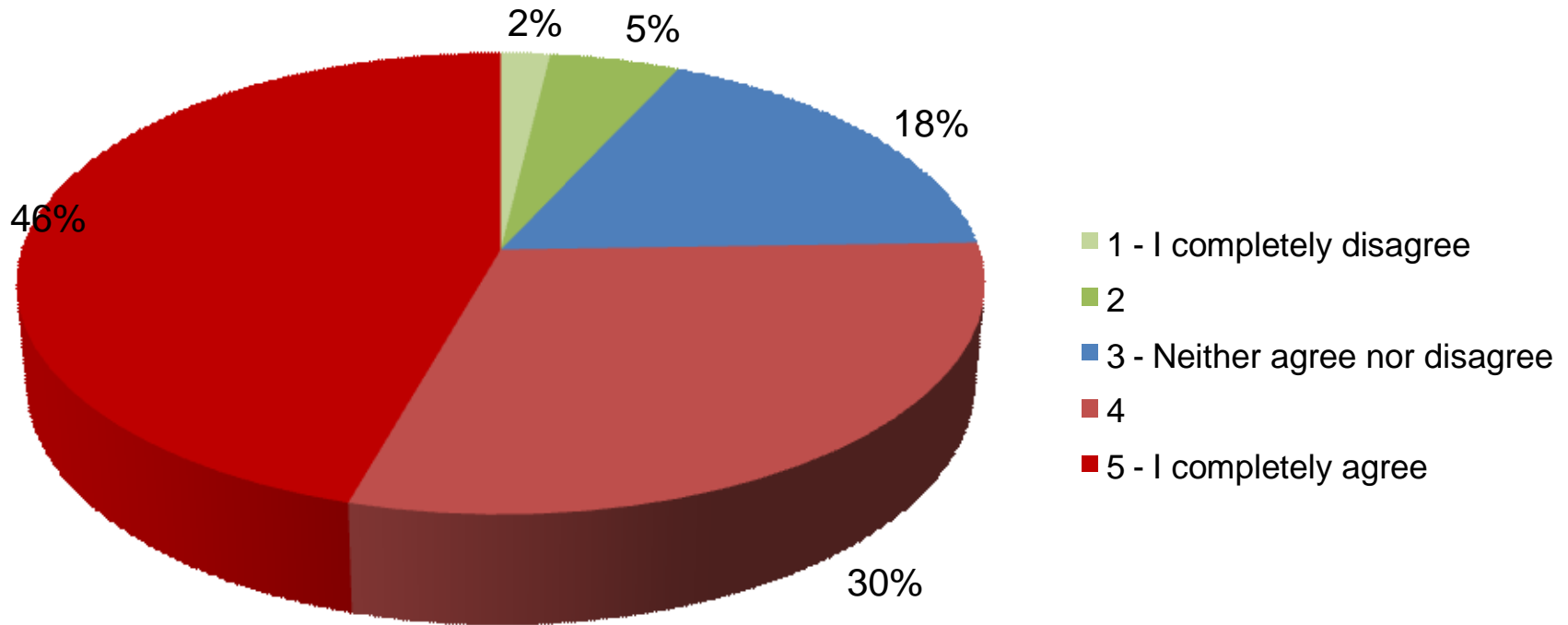
Which of the following fraud issues post the greatest challenge to your credit union?

November 2010; N= 261
Base: CSCU members



More than Three in Four CSCU Members Believe Card Fraud is Increasing

“Card Fraud is Increasing Among Credit Unions”



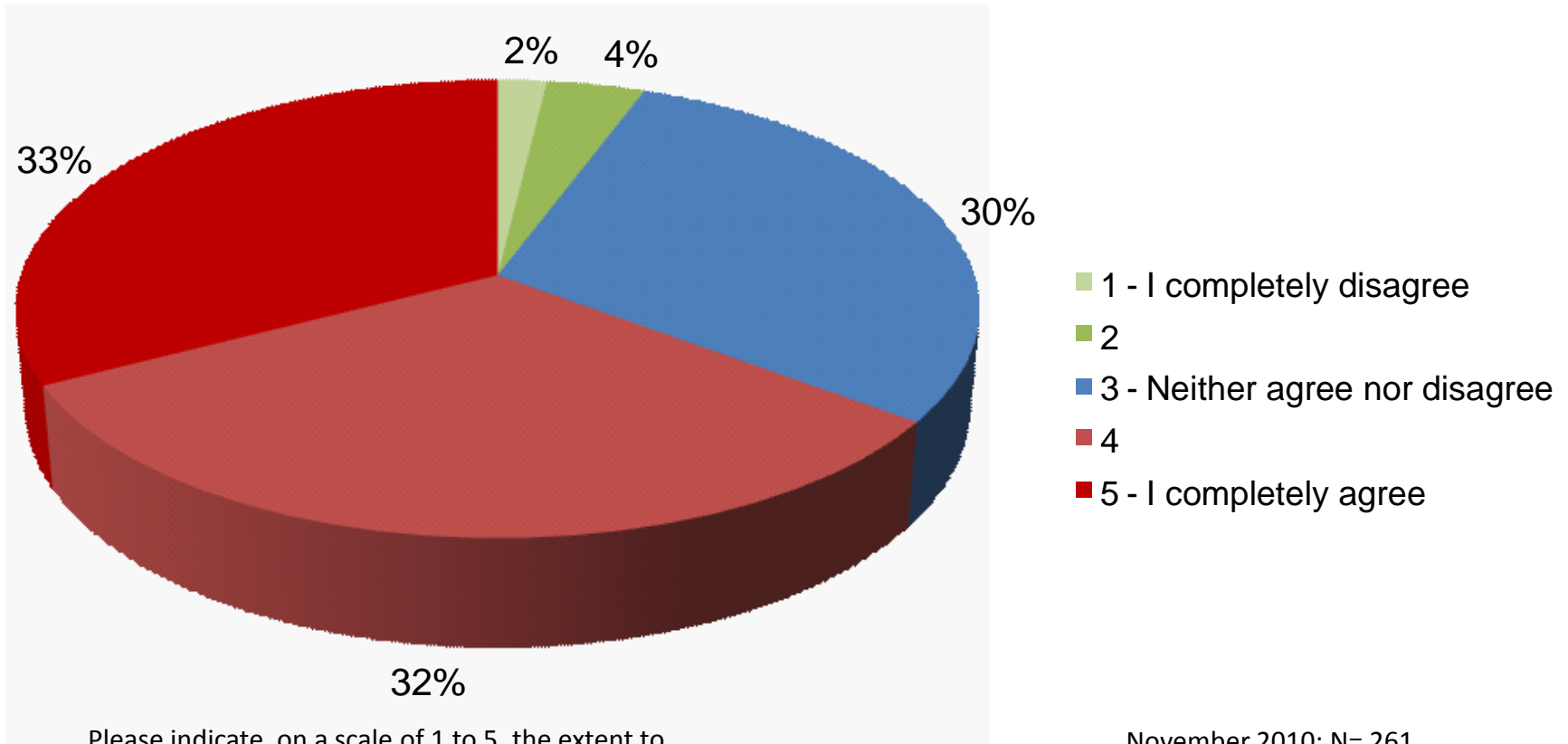
Please indicate, on a scale of 1 to 5, the extent to which you agree with the following statements. Let 1 represent "I completely disagree" and let 5 represent "I completely agree."

November 2010; N= 261
Base: CSCU members



Six in Ten CSCU Members Believe Fraudsters are Increasing their Focus on Credit Unions

"Fraudsters are increasingly targeting credit unions"



Please indicate, on a scale of 1 to 5, the extent to which you agree with the following statements. Let 1 represent "I completely disagree" and let 5 represent "I completely agree."






November 2010; N= 261
Base: CSCU members



Card Processor Fraud Tools: An Overview





Card Processor Overview: Industry Tenure/Market Size

Research approach

	Card Processor				
					
Credit Union Industry Tenure	More than 30 years	More than 25 years	More than 30 years	Recently entered the CU processing market	More than 30 years
Current Share of the Credit Union Market	Supports two of the largest CUSOs in the country and most state CU leagues	Roughly 2,500 credit unions as of September 2010	Smaller share of the market	Smaller share of the market	Over 1,200 CUs
Credit Union Client Base	Mix of CUs, all sizes	Large/midsize CUs	Mostly smaller CUs	1-2 large CUs, remaining are smaller CUs	Mix of CUs, all sizes
Notable Credit Union Clients	Suncoast Schools FCU, Alaska USA FCU	**	Redstone FCU	Navy Federal Credit Union	**
CUSO Partnerships	CSCU, CO-OP	**	**	BancVue	PSCU, TMG, Indiana Credit Union League, and TNB (A Fifth Third company)

** Information not provided

Card Processor Overview: Fraud Prevention/Detection Solutions

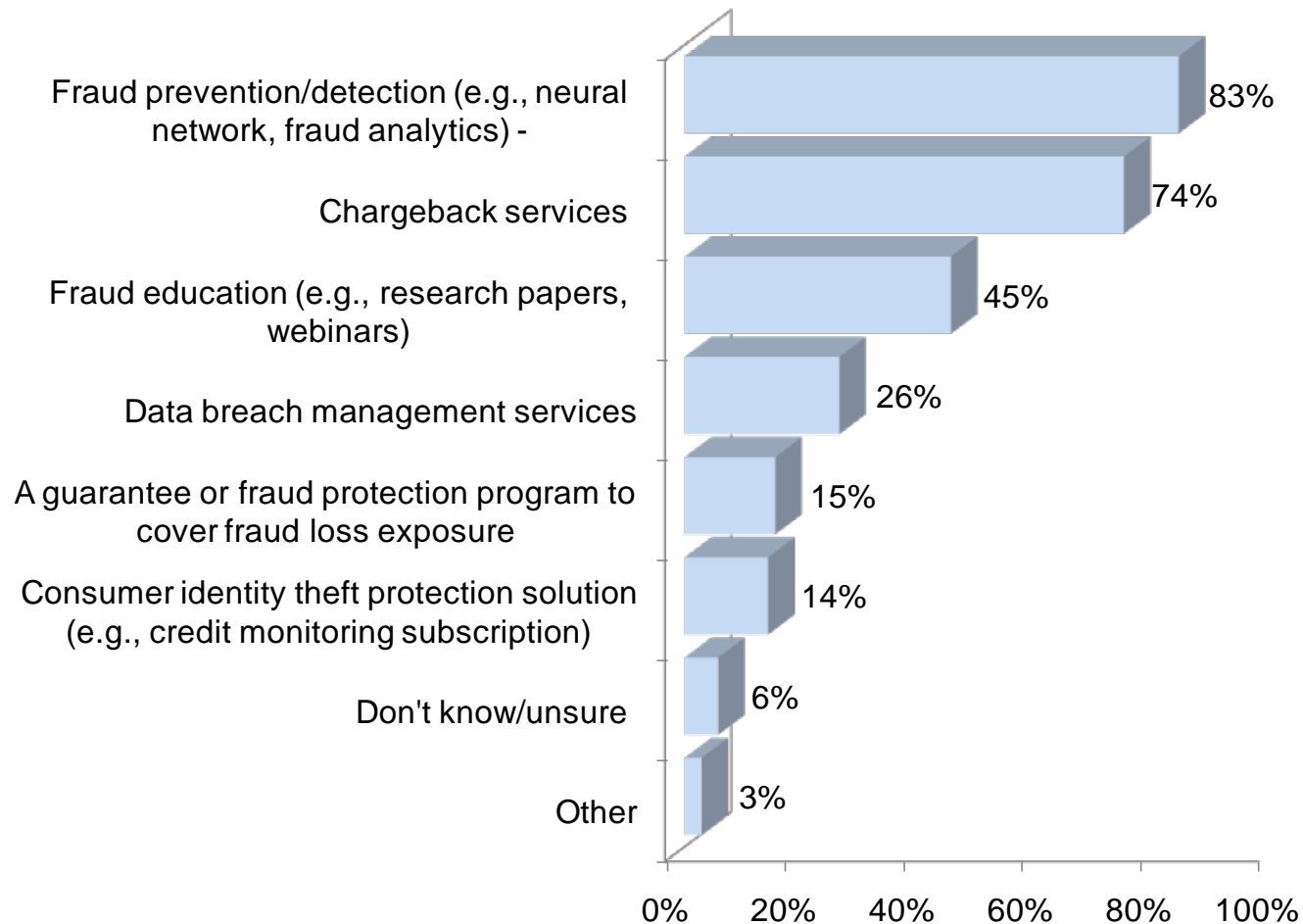
Fraud Products Overview	Card Processor				
					
Core Solution (e.g. neural network)	Fraud Alert Management (Falcon)	eNFACT (Falcon)	Live Monitoring, plus PRISM Neutral Network (Retail Decisions)	TSYS Card™ Guard (in-house developed solution)	Real-Time Authorization Decisioning (Falcon)
Complementary Solution to Core	FIS Secured™	eNFACT Real-Time, eNFACT Case Management	**	TSYS CardGuard Real-Time Decisioning	DefenseEdge Real-time Decisioning
Chargeback Management Services	Yes	Yes	***	***	***
Data Compromise Management Services	Compromise Manager™	Card Tracker	***	***	***
Fraud Analyst Consulting Services	Applied Analytics™	Risk Office	***	***	***
Loss Guarantee	Yes	***	***	***	***
Fraud Education	Webinars, whitepapers, training	Webinars, whitepapers	Webinars, whitepapers	Webinars, whitepapers	Webinars, whitepapers, training
Support	24-7, 365 days	24-7, 365 days	24-7, 365 days	24-7, 365 days	24-7, 365 days

*** Product not available



CSCU Member Survey: What Fraud Solutions are Members Using for Credit Transactions?

Credit processor fraud solutions



Q2. Considering the different fraud solutions offered by your credit card processor, which of the following solutions does your credit union currently use?

November 2010, N = 261
Base: CSCU members



CSCU Member Feedback: Thoughts on FIS

Verbatims

“FIS is always on top of the charges for our card members. If there is unusual activity, we will get a report to let our card members know. We have stopped fraud in many cases quite quickly.”

“Our fraud is detected early, which minimizes losses, and their chargeback services are exceptional in that we recover most of the fraud loss in a lot of situations.”

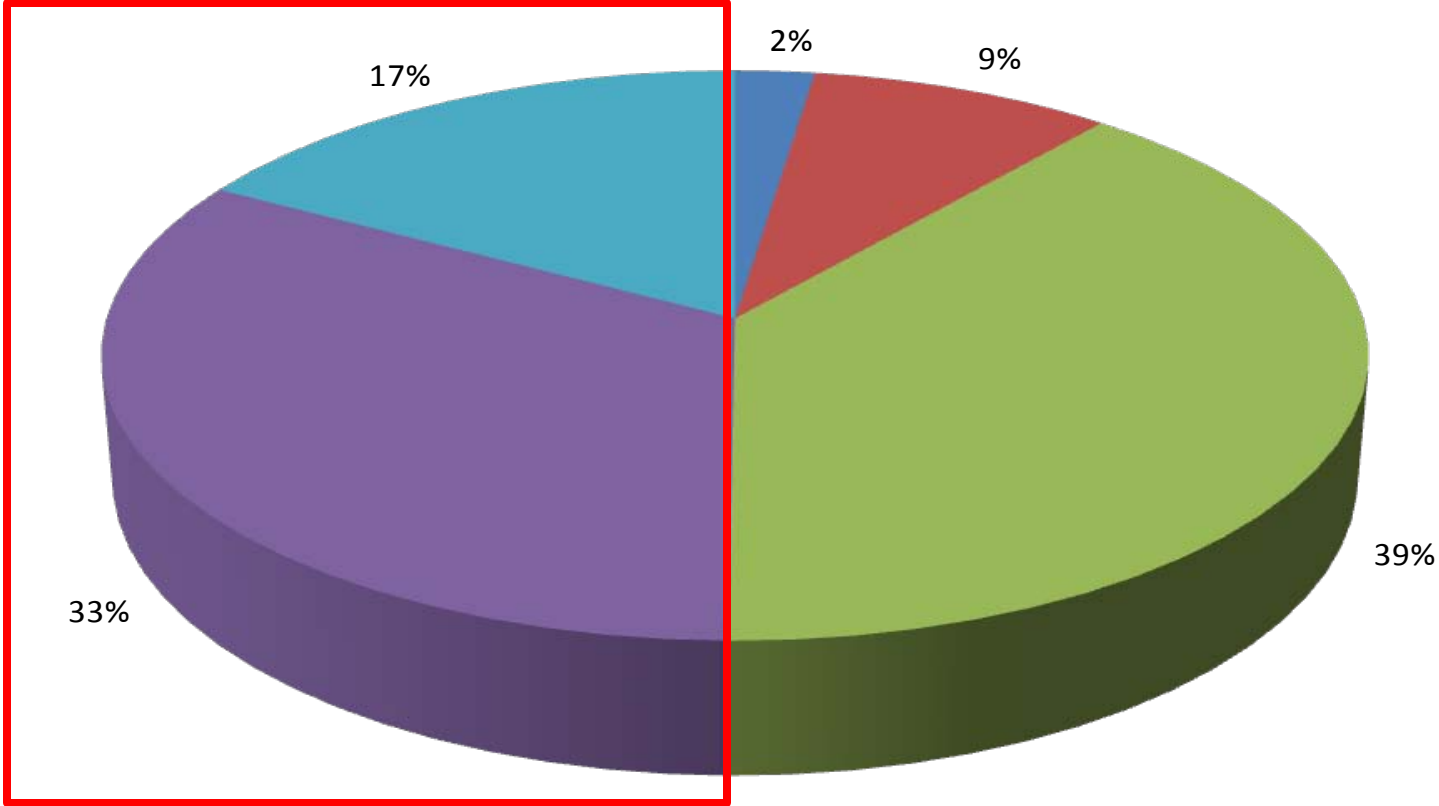
“They are always accessible. They are quick to notify both the credit union and the member for fraud or potential fraud issues. They send information via e-mails to keep us up-to-date on educational and informational resources.”

“...more informational releases on the immediate threats being seen across the country would help.”



One in Two CSCU Members Believe in Additional Investment in Fraud Technology

“I believe my credit union should invest in the latest or more up-to-date fraud solutions offered by our card processor”



■ 1 - I completely disagree ■ 2 ■ 3 - Neither agree nor disagree ■ 4 ■ 5 - I completely agree

Q2. Please indicate, on a scale of 1 to 5, the extent to which you agree with the following statements.

November 2010, N = 261
Base: CSCU members



Recommendations

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Best practices

1. Comprehensively understand what your card processor's fraud tools really have to offer.
2. Ensure your institution is maximizing the full value of the fraud solutions offered by your card processor.
3. Quantify your institution's fraud mitigation progress.
4. Have a formal risk management strategy in place.
5. Take advantage of the educational resources offered by your card processor.
6. Member education is crucial.
7. Monitor, monitor, monitor! Real-time is the way to go.



Questions?

Thank You

Javelin provides superior direction on key facts and forces that materially determine the success of customer-facing financial services, payments and security initiatives. Our advantages are rigorous process, independent position, and expert people.



**For questions regarding access
to Javelin research please contact:
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