

Life flows better with Visa



Fraud Management at Visa Europe

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Agenda

- Introduction
- Who am I?
- Visa Europe and its stakeholders
- Fraud and Visa – who loses what & why
- A typical Fraud Management approach
- How are we doing today?
- Future risks, and some opportunities
- Closing thoughts
- Questions



Introduction

- Mostly I present to Risk Management folks
- But I suspect we have a mix of interests and focus tonight
- Some of you may know me well – or understand card payments – But I will assume not!
- So – my intent today is:
 - to talk through my world
 - am happy to stray if you have some wider questions....

Just to set some expectations; I am told this is all Chatham House

As such, I don't expect to be quoted

If you want to quote me – please ask

Anyone have an issue with this approach?



Who am I?



- Executive Director, Visa Europe
- Responsibilities include:
 - Fraud loss
 - Compliance programmes
 - Risk models
 - Strategy
 - Operating Regulations
- Previously:
 - Head of Fraud, Santander
 - 20 Years in various HSBC roles
 - Have been a 'Risk Guy' for over 20 years



Just to kick us off - some questions for you



How many cards does Visa Europe issue?

- NONE AT ALL (c 470m)

How many merchant outlets has Visa signed up to take cards in Europe?

- NONE AT ALL (c 10.2m)

What value of transactions were undertaken using Visa cards in Europe last year?

- €1.3 Trillion
- £407 Billion in UK (which is £1 in every £3)

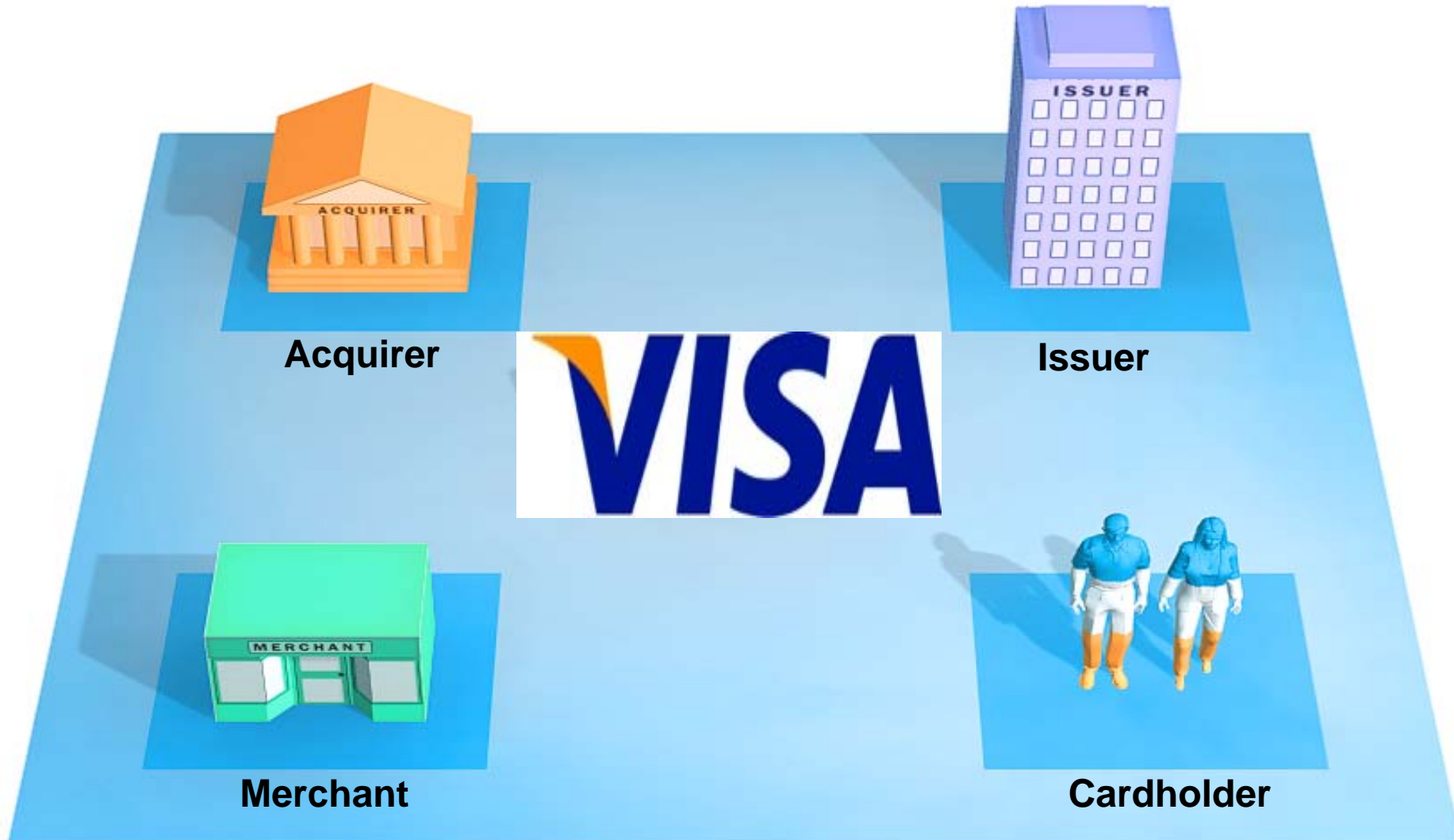


So what exactly is Visa?



- A payment system
- Set-up to facilitate spontaneous card payment
- To allow customer spend:
 - At a merchant or to obtain cash
 - For almost any value
 - Anywhere in the world
 - With most transactions being approved in a few fractions of a second

Visa Europe – The 4 party model



Visa Europe – the detail:



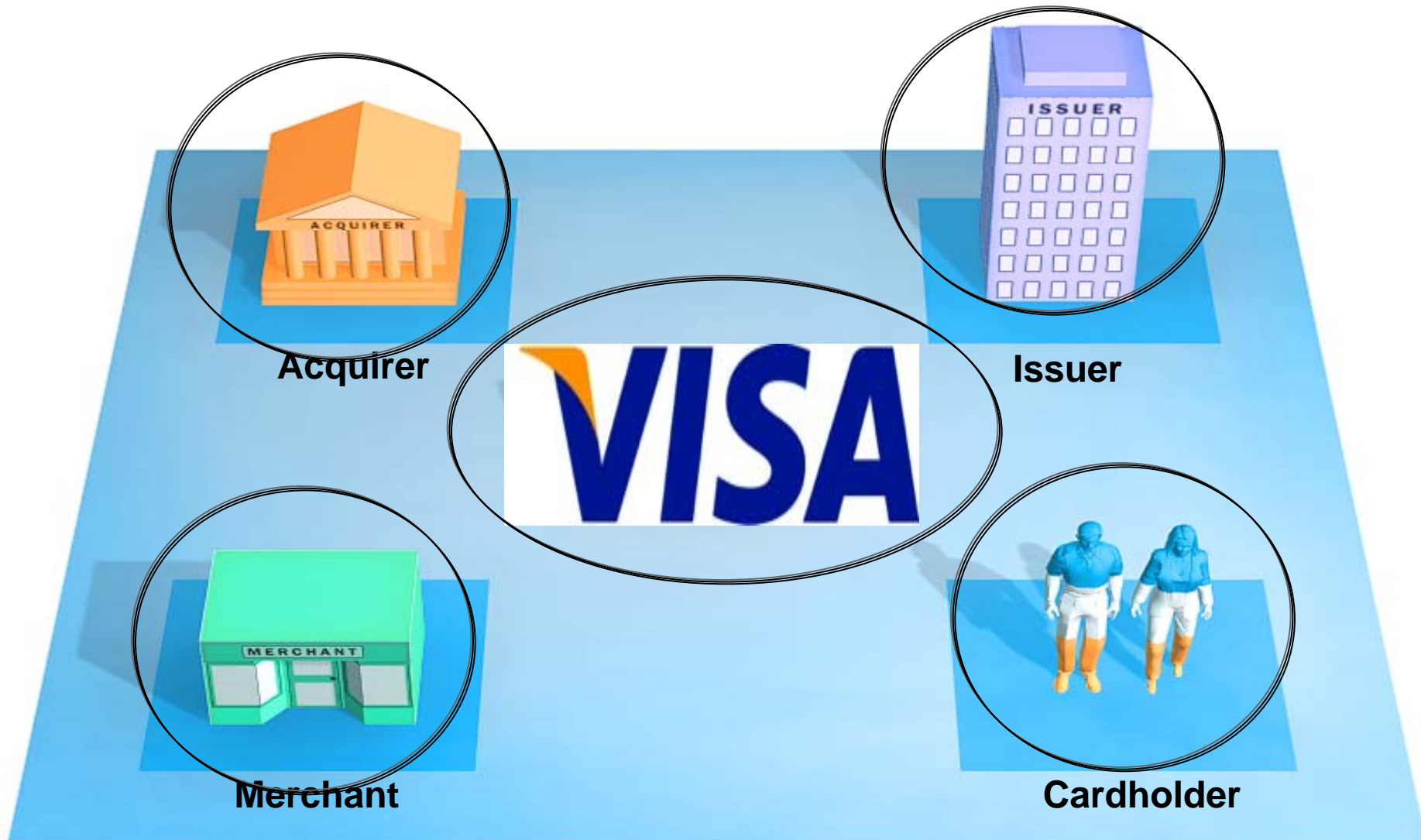
- Visa Europe is the last of the associations....

This means, that whilst Visa Europe creates revenues to invest in the business - ultimately we break even as a company

- We facilitate spontaneous payment by:
 - Building and maintaining a secure and stable payments infrastructure
 - Authorisation
 - Clearing / Settlement
 - Delivering interoperability
 - Supporting a fair and competitive environment
 - Offering tools and solutions to minimise risk



So who is accepting the core fraud risk? **VISA**



So why is Visa Europe interested in Fraud?



- Our passion is to deliver efficient payments
- At best, fraud is an expensive inefficiency....
... at worst, it funds all types of illegal, immoral & anti-social behaviour
- As such, Visa Europe seeks to create an environment that encourages prudence, limits losses and addresses excess.
- Interestingly, many stakeholders think our job is to provide low risk products
 - It isn't!
 - Our job is to provide products where risk can be sensibly controlled
 - And manage stakeholders who don't control it sensibly
- It is primarily the job of the stakeholders within Visa to manage the service within their own tolerance and risk appetite

So what do we do in risk management?



- A core Switch (Authorisations and Transactions)
- Standards and infrastructure, such as:
 - EMV (Chip & PIN),
 - VbV (3DSecure),
 - V.me (wallet),
 - VPP (Personal Payments)
- Core business rules
- Liability models - The stakeholder best able to manage the risk should be liable for it
- Tools and solutions (e.g. Real Time Scoring, STIP, Benchmarking)
- Disputes management (e.g. Chargebacks)
- Guaranteed settlement
- Compliance programmes



So Visa Europe offers:



- A business model that creates inter-operability
Bank X may not know whether it can trust Bank Y – but both can trust Visa
- A customer proposition which is second to none –
If you didn't do it, or didn't get what was offered; you get your money back
- A risk model, developed and refined over 50 years
 - Paper, to magstripe, to chip
 - Mail Order, to ECom, to Secure Ecom/Wallet
- A willingness to embrace new technologies and business models as they come along
- A system that evolves.....



The approach to Fraud Management

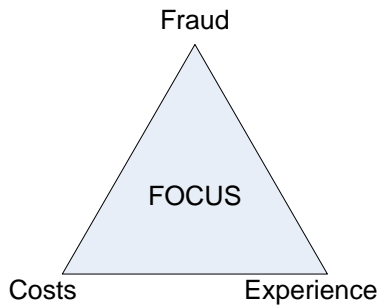


- Risk is part of the nature of business
 - It can sometimes be partly mitigated
 - It can rarely be eliminated; without destroying the proposition
- A risk manager's role is to mitigate what can be mitigated and to manage what remains

He/She will:

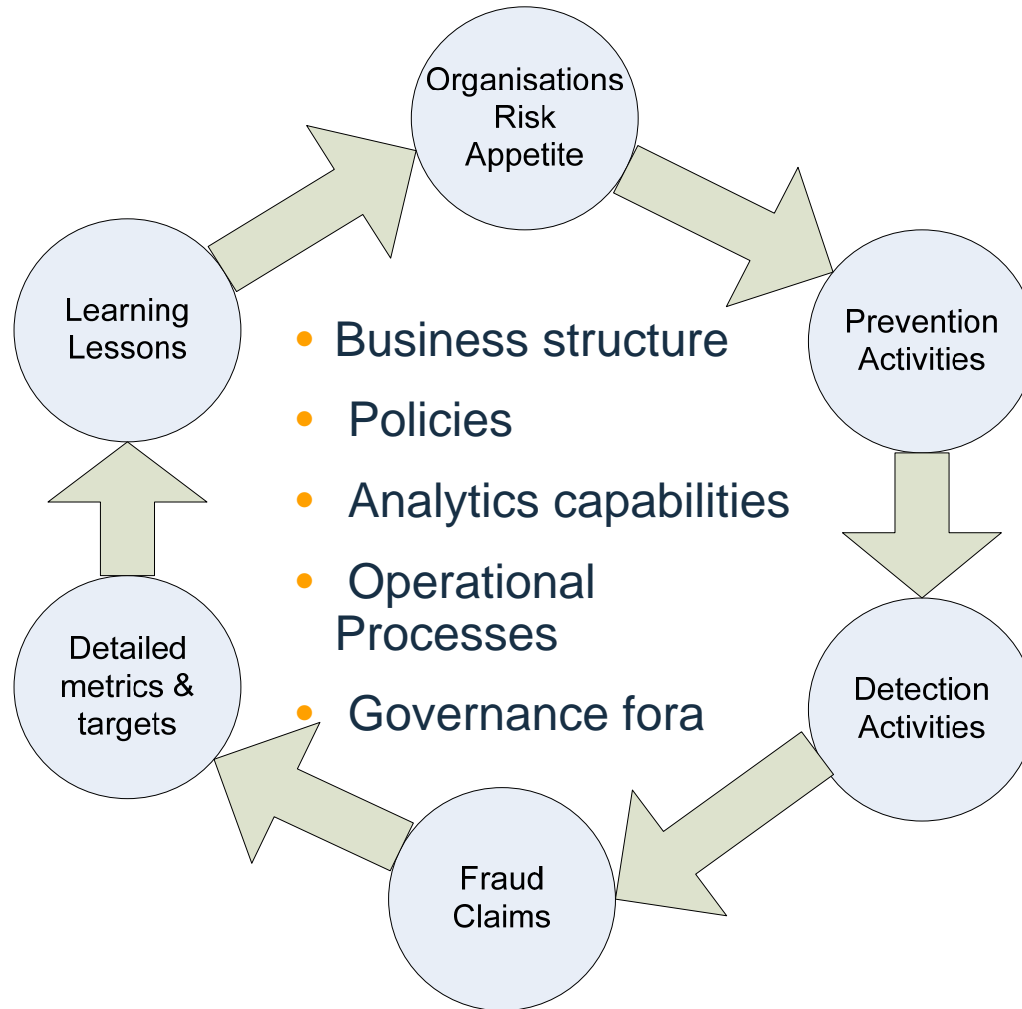
- Set up the best prevention strategies possible to prevent loss
- And the best detection capabilities to address prevention limitations

What is the focus and role of a fraud manager?



1. Minimize the level of fraud loss incurred by the organization, in line with the organization's risk appetite
2. Minimize the genuine customer pain and disruption incurred by fraud operations
3. Undertake these activities as efficiently as possible

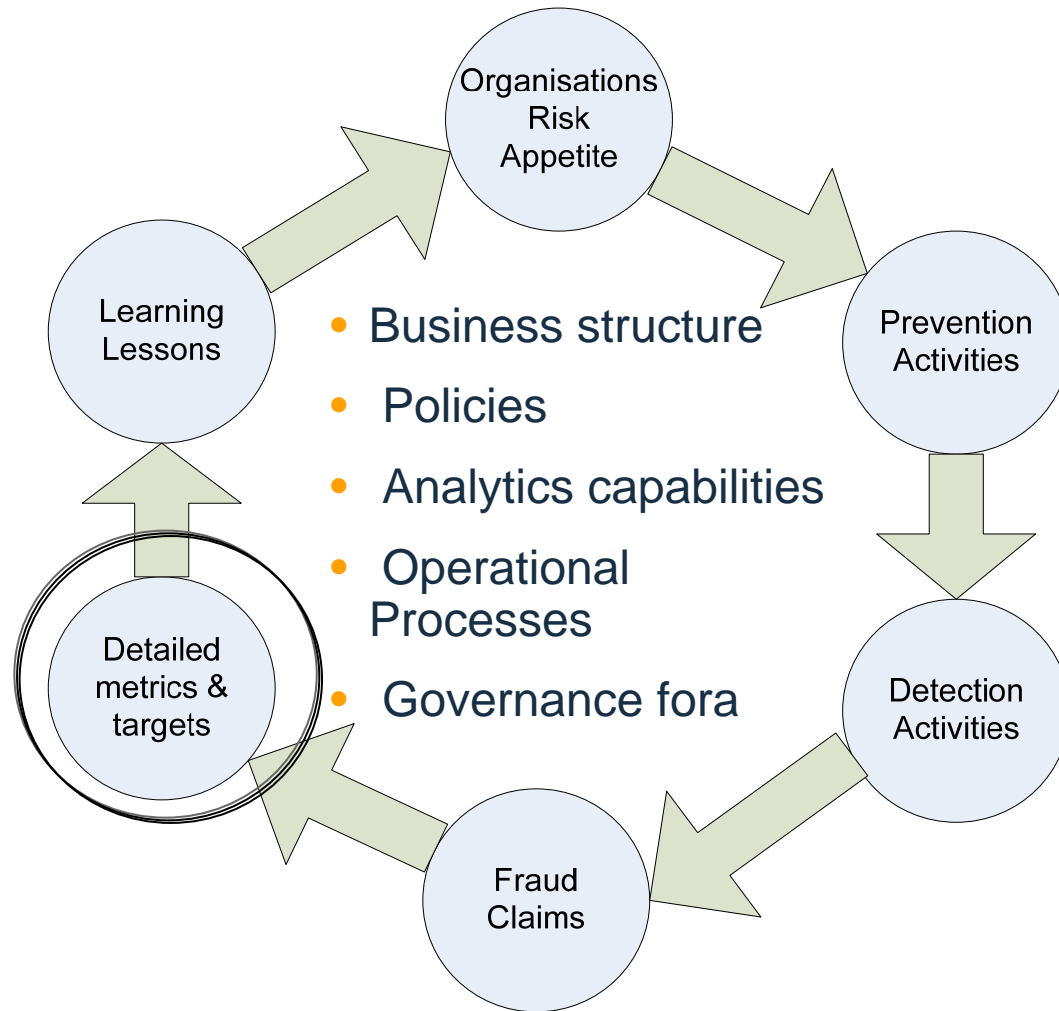
The core issuer fraud business model



Accepting that all of this is important...
Which element is it critical to get right but is usually the one that is most likely to be sub-optimal?



Always the
Metrics!





There is a saying...

“Your fraud Management Information is more important than almost any other part of your fraud system

Without it – you are like a hunter in a blindfold

**It doesn't matter how good your gun is;
your hits will mostly be by luck...**

And you'll be a danger to your colleagues”

Peter Bayley, Executive Director, Visa Europe

What MI should a Fraud Dept track?



Financials and Fraud

How much € and %
Where / How
TC40 and Chargeback

Detection

Value detection rate
False Positive rate
Customer Impact

Operations

SLAs / Backlog
Costs / Time / FTE
Efficiency

Customer Experience

Complaints
Negative outcomes
Actions to manage

Wider Business

Impact
Sales impact
Restrictions
Constraints

Law Enforcement

Complaints
Arrests
Convictions /
Restitution

Autopsy

Major Case review
Major complaint
review
Lessons learnt

Change Agenda

Your projects / impact
Others projects /
impact
Priority list

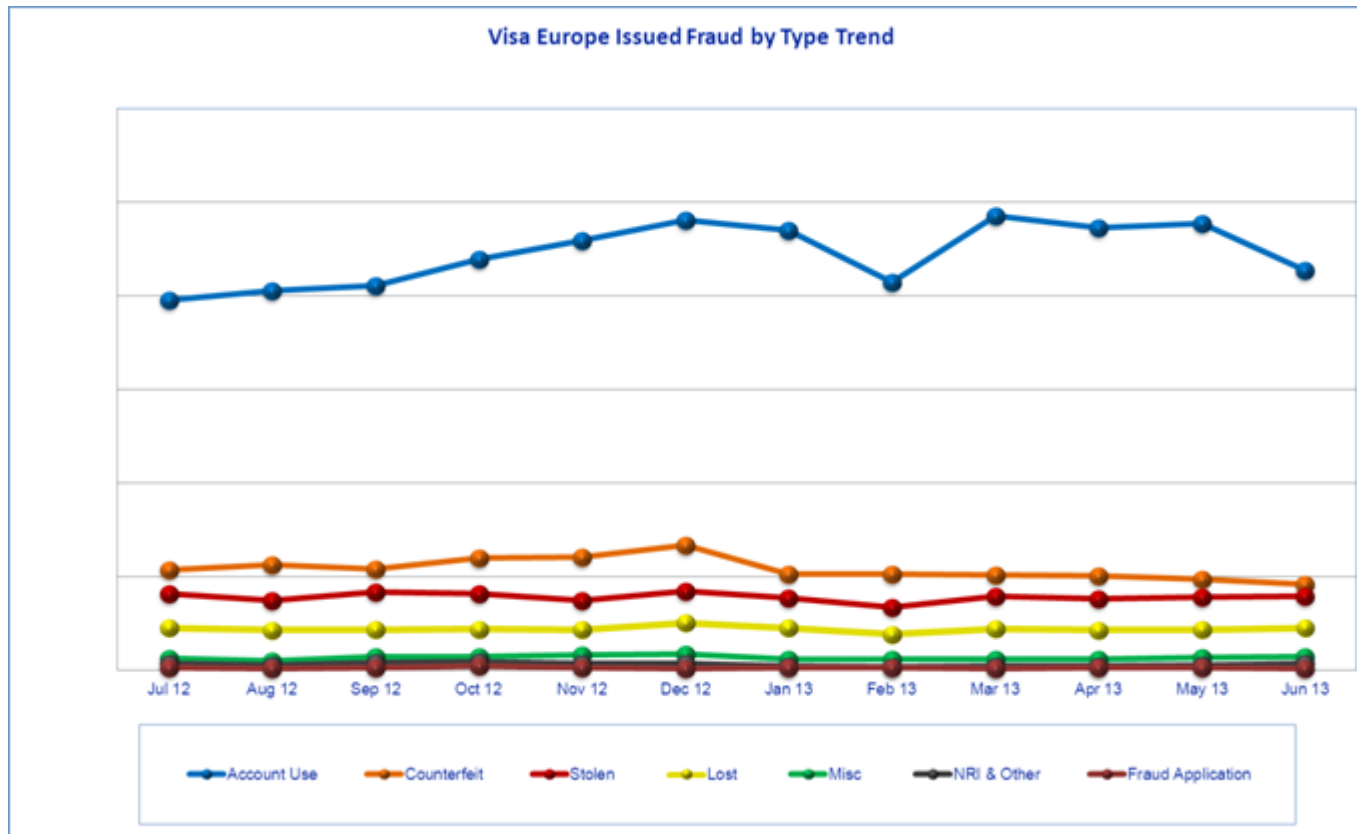
Projections

Expected losses
Known problems
Share good/bad news

So how are we doing?



Issuer Fraud Trend by Fraud Type



Our gross fraud losses across Visa Europe remains at just over 4 basis points

Driven primarily by unsecure Card Not Present (ECom business)

This is massively within risk appetite

What are the fraud issues today?

- Card Not Present
- Magnetic Stripe counterfeit

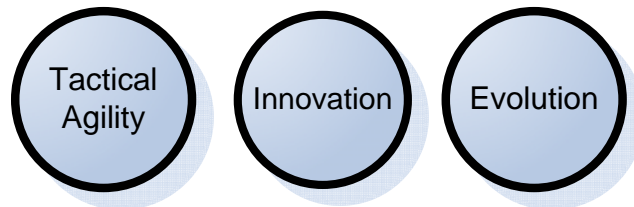
But massively controlled, So in truth – not really....

- The real fraud issues today, are posed by the following:
 - Regulatory support
 - Technological change
 - What happens to a fraud function when fraud goes away?
 - The threat from the ‘Biological Blob’

The Regulators and Law Makers

- ECB Recommendations for the Security of Internet Payments
 - Well intentioned
 - Doesn't quite recognise all the payment market complexities
 - And is a report to market regulators – not legislation per se
- Payment Services Directive 2.0 (in draft)
 - redefines role of the account holding bank
 - Implies, almost anyone can provide payment solutions
 - But like much draft legislation – has huge gaps

This has the capability to change the payment systems beyond recognition



Technology



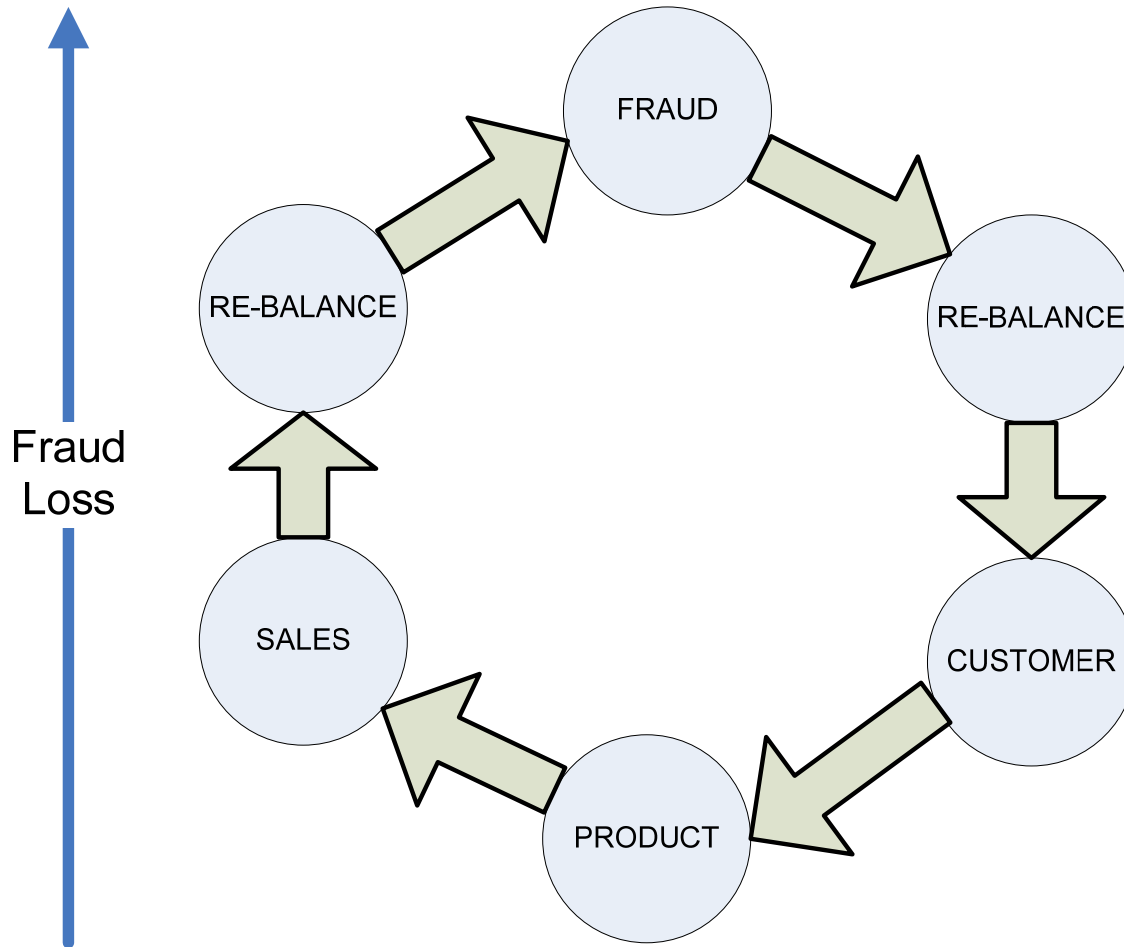
- Whilst the changing models and reliance on changing technology will challenge our fraud managers...
- This also opens up huge opportunities for wider use of an adaptive authentication approach:
 - particularly with geo-location
 - And 'always on' processing via mobile
 - And the power of detection processing
- If a customer gives me the privilege of being able to see he/she is:
 - in their favourite coffee shop
 - Buying their favourite coffee
 - At their normal time of day

Why do I need a PIN? Or a signature? Or an Authorisation?

There are some real opportunities in this space



To put it another way, payment businesses tends to run to an internal cycle of power and influence...



- Works something like this...
- Not sure where everyone is on the cycle today
- But most Fraud Depts (with a card focus)

Aren't at the top!

The Biological Blob



- Let's say we remain fully on top of the technology game
- And lets look at our brightest star just now – CHIP & PIN
- The security it supports is fabulous:
 - SDA, DDA, CDA
 - 3DES Online CAM
 - iCVV, CVV, CVV2
 - Online & Offline PIN
 - Online authorisation
 - Card Scripting
 - Location aware parameters



- So today, what is arguably the biggest risk in this space?

YOU!

Let me give you some scenarios...



- ‘Your Bank branch is counterfeiting £20 notes...’
- or your [Favourite High Profile Jeweller] is selling counterfeit Rolex watches
- ‘Your account is compromised – move it quick...’
- ‘May I clean your card?’
- ‘You appear to have dropped £20’
- ‘Your card is being upgraded – a courier is on his way’
- ‘Have I got a deal for you...’ / ‘Lets steal from the Tax Man...’ and other petty larceny

Education is a core focus

Our core hurdle, is how do we enhance our approach to protect the customer from themselves?

Concluding remarks



- These are good times for card payment risk
- Practically the best ever in fact!
- Visa Europe's focus will continue upon:
 - Keeping fraud levels low
 - And appropriately balanced
 - We have some challenges
 - And opportunities

But Visa has had a strong 50 years

My job is to ensure the next 50 are just as strong!

Thank you



- **Any questions?**

