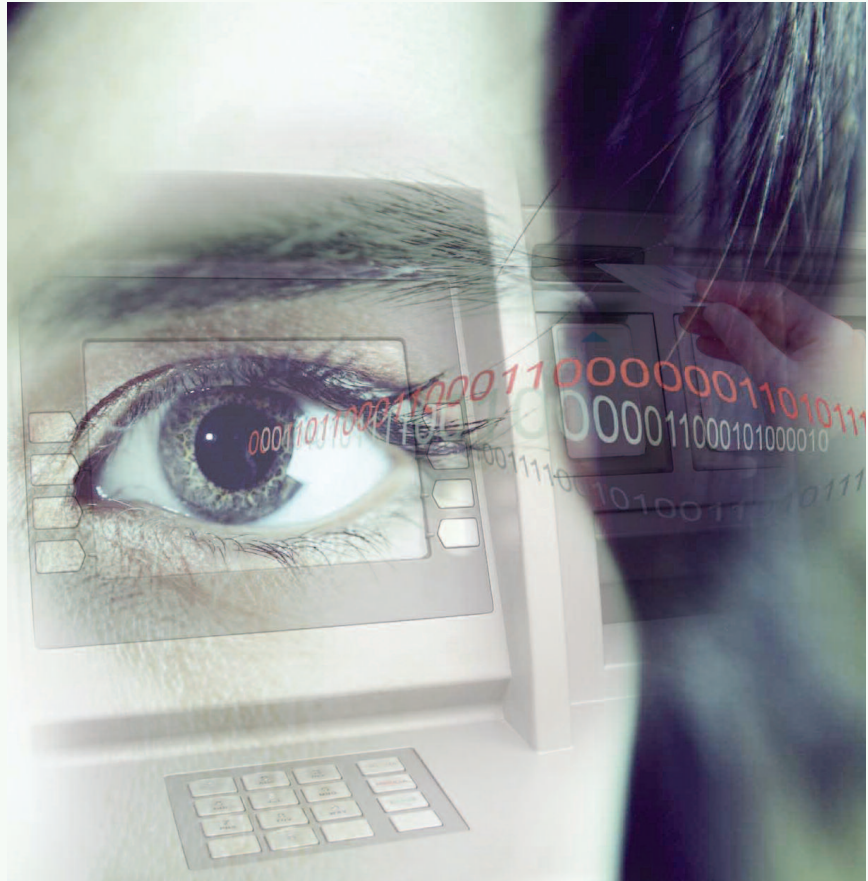


THE FIGHT AGAINST FRAUD



A study of experiences and opinion within leading banks across
Europe, Middle East and Africa

Introduction

While fraud is a significant issue for the banking industry today, its impact is difficult to assess or quantify. Card and payment fraud losses at a European Union level have been estimated at up to €1 billion annually but there are very few fraud statistics available at a country level. The opportunity cost in terms of lost business due to consumer anxiety about fraud, whether online or in the physical world, is much higher and fraud is a sensitive subject for banks concerned about profitability, reputation and competitiveness.

Increasingly recognised as a global phenomenon, fraud will continue to have a major impact on the industry despite our best efforts to counter it. As one of the respondents to our study says:

“Fraud will never be stopped. I disagree with anyone who says that you can completely prevent it. The fraudsters are now about six months ahead of the industry.”

Yet there are steps to be taken and initiatives to be introduced that can seriously limit the scope and success of fraudsters. This study seeks to examine trends in the detection and prevention of four key types of fraud: ATM, POS, card not present (CNP) and online. The research looks at current practices, the attitudes of banks across Europe, Middle East and Africa towards fraud and their views on how fraud can be countered and contained. In commissioning the study, First Data hopes to promote greater understanding of how we can successfully work together to combat the fraud challenges facing the payments industry.

Key findings

The research findings reported here represent the views and experiences of senior fraud experts from 52 banks across Europe, Middle East and Africa. Research was carried out by Olive Insight, an independent research firm, between December 2006 and February 2007.

Commentary is also provided by senior representatives of APACS, the UK Payments Association, and the European Payments Council's Card Fraud Prevention Task Force.

- Fraud attacks the bank where it hurts the most. Over 80% of respondents see damage to the bank's reputation as one of the most important ways in which fraud threatens their organisation.
- ATM device fraud is seen as a significant problem today for 48% of banks. Fifty percent of banks are increasing expenditure on countermeasures to combat ATM fraud.

- Respondents are most concerned about new and emerging frauds. Online fraud - which offers the fraudster scale efficiencies and reduced personal risk - is a real problem across Western Europe and a significant threat elsewhere in the region. Thirty eight percent of respondents report an increase in phishing attacks.
- Fraudsters operate on a global stage. Fraud moves rapidly across types of business and geographies; 96% of respondents believe that fraud is learned and passed from one part of the world to another.
- Two thirds of respondents believe that fraud is to some extent predictable - we have the opportunity to anticipate how fraudsters will strike next, though not necessarily where they will do so.
- Technology is a key weapon in the fight against fraud and a priority for over 50% of respondents. Many organisations are introducing anti-skimming devices and improving security at ATMs.
- Chip and PIN is widely endorsed although its extension across the region is expected to drive fraud into card not present environments.
- Technology is a double-edged sword. Just as it assists banks to counter fraud so it provides fraudsters with new gateways and loopholes through which they can attack.
- The training and education of staff is seen as crucial in the fight against fraud. Skilled staff are essential in tackling this highly flexible and fast moving threat to the banks and their customers.
- Study respondents have mixed views about the impact of regulation on fraud. Fifty five percent believe that regulation helps while others, especially in Western Europe, are concerned that regulation may prove too restrictive in a rapidly changing environment.
- There is general agreement that a concerted industry-wide effort is needed to combat fraud, with banks, merchants, law enforcement and other agencies working together and sharing information. However, issues of competitiveness and data protection legislation are both seen as significant barriers to open communication and industry co-operation.

First Data Insight

This study clearly reveals the extent to which information sharing is the key to the effective detection and prevention of ATM, POS, online and card not present fraud across Europe, Middle East and Africa. It also demonstrates the ways in which uncertainty and ignorance, of both the scale of the threat and its many sources, cloud attempts to combat fraud. Inadequate information about the costs of fraud combines with sensitivities about reputation and competitiveness to limit the willingness of some banks to share data. Data protection legislation restricts - or is believed to restrict - their ability to do so. Regulation is seen by many as essential and by others as a strait-jacket that denies banks the flexibility they need to meet an ever-changing and ever-advancing threat.

Technology is widely recognised as a significant weapon in countering fraud and many banks are evaluating or introducing advanced tools and techniques, both to tackle fraud and to understand the extent of its hold on their organisations. There is also a clear understanding of the importance of staff training and education in the fight against fraud.

Ultimately, though, banks will need to look beyond their own organisations for solutions. Many believe that fraud is predictable. As a result, the appearance of a new fraud type on the global stage should be the focus of careful study for those yet to experience it. As initiatives like Chip and PIN are rolled out, we know that the fraudsters are already looking for new areas of weakness - banks and their partners must be vigilant in examining every new development, every new product or sales channel to ensure that it is as robust and as fraud-resistant as possible.

It is in the sharing of information and intelligence that our best hope lies. Banking and other trade associations are already actively promoting data exchange between banks, as well as more effective co-operation with law enforcement agencies. The European Union and European Payments Council have signalled their belief that multi-national fraud databases will be necessary to counter fraud in the Single Euro Payments Area (SEPA). We must work together to ensure that words translate into action and that the industry, including regulators and law enforcement agencies, takes practical steps to deliver a strong, unified response to the global fraudster.

Over fifty leading banks from Europe, Middle East and South Africa participated in the First Data study, from 23 countries.

COUNTRY	BANKS
Austria	1
Croatia	3
France	1
Germany	3
Greece	2
Hungary	1
Ireland	1
Italy	2
Kuwait	4
Latvia	4
Lithuania	4
Netherlands	1
Poland	3
Portugal	1
Republic of South Africa	1
Romania	1
Serbia	2
Slovakia	6
Spain	4
Sweden	1
Switzerland	1
United Arab Emirates	1
United Kingdom	4
TOTAL	52

The study sample includes a significant cross-section of banks. Many respondents are from banks operating in one market, but the study also includes nine banks that are active across multiple markets in the region.

Respondents are senior business executives with responsibility for fraud prevention, detection and/or management within their organisation. Approximately 35% of respondents are responsible for all areas of fraud across the entire organisation.

ABOUT FIRST DATA

First Data International is a leading independent payments processor in Europe, Middle East and Africa. We are committed to working with clients and colleagues across the payments industry to develop fraud detection and prevention tools and systems which match the speed of change, flexibility and ingenuity displayed by today's global fraud industry.

First Data has over 20 years' experience of European payments and processing and a presence supporting clients in 35 countries across EMEA. We deliver a comprehensive range of services with speed and security through an unrivalled network of regional hubs and local operations, in local language. Our services include:

- Debit issuer processing
- Consumer finance processing - cards and loans
- Acquiring processing and switching
- Merchant acquiring
- ATM and POS management
- Value-added services such as risk and fraud management
- Contact centre, back office and output services

To find out more about First Data International's fraud management capabilities, please contact Jackie Barwell

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