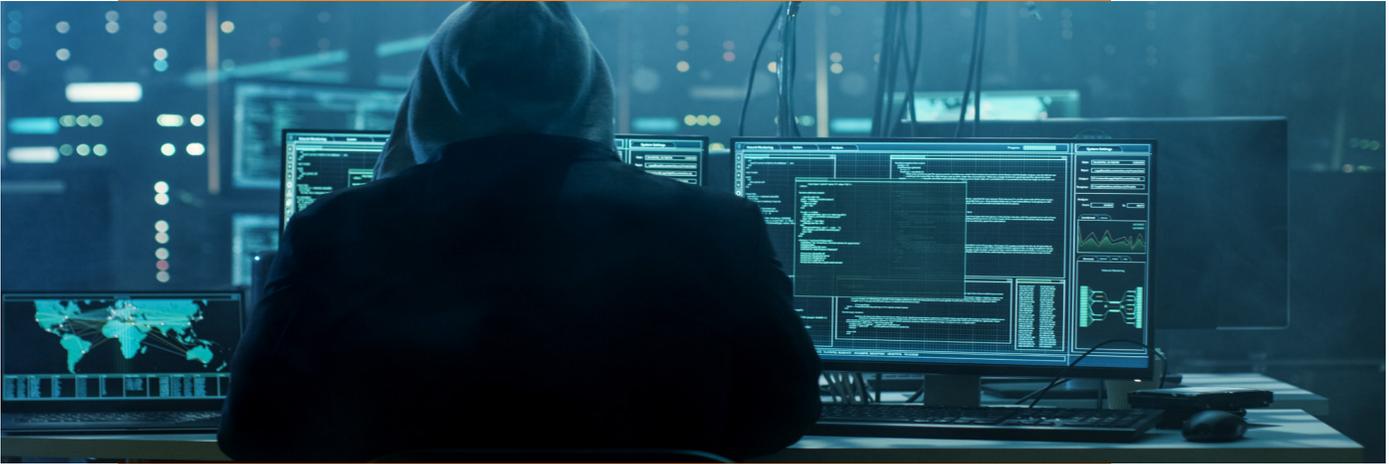


FIGHTING PAYMENTS FRAUD TRENDS AND TACTICS



Payment fraud trends evolve in the same manner that payment innovation evolves. Certainly, fraudsters look to identify and exploit areas of vulnerability in both established and emerging payments systems, but they will also gravitate quickly to new areas when previously vulnerable sectors of the payments ecosystem have been made more secure. This was seen in 2015, when the wide-scale introduction of EMV® cards resulted in a reduction in point-of-sale (POS) payments fraud and an increase in card-not-present fraud.

Interestingly, losses as a percentage of card volume have been rising every year since 2010. In 2016, worldwide gross losses from card fraud totaled nearly \$23 billion. The United States actually accounted for 24% of global card volume in 2016, but almost 40% of card fraud losses. This vulnerability is primarily related to the sheer size of the economy, as well as the fact that other countries introduced EMV (chip cards) earlier.¹

But there is good news! Significant progress is being made in combating card fraud. The widespread introduction of EMV in the United States starting in the second half of 2015 has led to a significant decrease in point-of-sale (POS) card fraud. According to Visa®, counterfeit card fraud dropped 76% between December 2015 and December 2017.²

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However, card fraud hasn't gone away; fraudsters are now shifting their attention from card-present to card-not-present transactions, as summarized in the following table.

Fraud Type	2016 Share	Change from 2015 (percentage points)
In Person	41.5%	▼ -12.3%
Remote	58.5%	▲ +12.3%
Fraudulent Use of Account Number	44.2%	▲ +5.1
Counterfeit Card	36.0%	▼ -7.7
Lost or Stolen Card	11.2%	▲ +0.4
Fraudulent Application	5.2%	▲ +2.0
Other	2.6%	▲ +0.2
Card Issued but Not Received	0.8%	▲ +0.1

Even though the volume of overall card fraud seems unusually high, the reality is that in commercial payments, according to the 2018 AFP® Payments Fraud and Control Survey, checks and wire transfers have the highest shares of fraud, while cards account for the third-largest share. Reported incidents of commercial card fraud have fallen in recent years (from a peak of 43% of organizations reporting card fraud in 2013 to just 30% in 2017). Again, this is due in large part to the introduction of EMV corporate cards, stronger control programs, deployment of best practices and the subsequent decline in POS card fraud.³

Check Fraud

Although check usage for B2B and B2C payments has been declining steadily in recent years, many businesses still make use of checks in their payment mix. However, it is also the payment method most vulnerable to fraud, due to many organizations not taking advantage of all of the fraud protection services available. According to the AFP Payments and Control

Survey, 74% of organizations that fell victim to fraud attacks in 2017 experienced check fraud.⁴ As a result, many organizations are now considering using fraud control services such as Positive Pay, Payee Positive Pay and daily reconciliation, as well as implementing practical steps in their systems and operations to address specific vulnerabilities.

Emerging Payments Fraud

Organizations are embracing new payment methods (e.g., mobile payments, real-time payments, and same-day ACH) as they provide speed, convenience and greater transaction intelligence. PNC will continue to introduce new payment innovations in 2018 to address our clients' need for solutions to increasingly complex commercial payment needs.

As our clients embrace a more diverse range of commercial payment solutions, we recognize that this may leave them vulnerable to emerging fraud types from increasingly sophisticated fraudsters, including incidences of account takeover, which tripled in 2017.⁵

Working to Combat Payments Fraud

Working together, companies and their card issuers can reduce exposure to commercial payments fraud. Solutions can include:

- Fraud protection features embedded in commercial payment products
- Standalone fraud protection solutions
- Reporting and monitoring tools that enable clients to identify and address fraud threats

Additional fraud protections are coming, including:

- Dynamic CVV codes
- Two-way text and email fraud alerts
- Account validation services

Monitoring tools (such as Visa IntelliLink® Compliance Auditor and Compromised Account Management System) can also enable you to quickly identify and react to fraud incidents.



READY TO HELP

If you suspect or experience fraudulent activity, please contact PNC's Treasury Management Client Care immediately at **1-800-669-1518**, Option 1.

Or, if you would like to learn more about protecting yourself from payments fraud, contact your PNC Relationship Manager or Treasury Management Officer.

¹ Visa Chip Card Update, March 2018

² Ibid.

³ 2018 AFP® Payments Fraud and Control Survey

⁴ Ibid.

⁵ "Identity Fraud Hits All Time High With 16.7 Million U.S. Victims in 2017, According to New Javelin Strategy & Research Study," *Business Wire*, February 6, 2018

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