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## WCC Issue

Credit Card Fraud

### How It Happens

Credit card fraud can occur even before the customer receives his or her card or even if the card hasn't been stolen or compromised. Internal theft of credit card information is a growing problem. Individual offenders, as well as sizable organizations, are able to take advantage of contacts within financial institutions to obtain legitimate bank and credit card account information for the purposes of counterfeiting or telephone/Internet order purchasing.

The fastest growing type of bankcard fraud involves the illegal counterfeiting of credit cards.<sup>1</sup> Advances in technology have allowed criminals to produce copies of existing cards and to create fraudulent cards. In fact, illegal counterfeiting is primarily responsible for the recent overall increase in credit card fraud.<sup>2</sup> As technology has improved, counterfeiting credit cards has become more complex and intricate. Criminals may often use desktop computer systems along with embossers and laminators, to produce realistic looking cards that include holograms and functioning magnetic strips.

A relatively easy way to obtain account information or actual credit cards is through postal theft. Either by intercepting the mail before it is delivered or by going through an individual's mailbox, postal theft has become a growing concern. A frequent mistake that many people make is to leave their mail in an unsecured mailbox that is easily accessible to any passerby. Criminals have been known to simply walk up and down residential streets or through apartment buildings that do not have postal boxes and go through each individual's mail. A criminal may also look for credit card applications in a person's mailbox or trash. Many people merely toss out credit card applications without shredding or destroying them.

The Internet helps facilitate credit card fraud in some ways. Lists of stolen credit card numbers are posted or sold in newsgroups and can be used by a variety of people to purchase goods online. Overall, credit card fraud is believed to only take place in 0.08 per cent of all transactions.<sup>3</sup> This number rises significantly, however, when dealing with online transactions. It was estimated that between three and five percent of all online transactions conducted were fraudulent in the year 2000.<sup>4</sup> The lack of face-to-face or voice interaction on the Internet tends to make criminals more daring.<sup>5</sup>

Many businesses and organizations are working towards the discovery of new methods that require some real-world physical component when shopping online. Smart cards along with disposable credit cards are currently being introduced. A smart card is the generic term for any plastic card, which includes an embedded microchip. These cards are able to identify the user through encrypted information on the chip, and must be inserted into a "card reader" attached to the computer.<sup>6</sup> That means the card can not be used unless the purchaser is currently holding it. A pin number is also required for the card so the thief needs to physically have the card and security code in order to use it. This in itself is not an insurmountable obstacle for perpetrators to overcome, but it is far more difficult than just obtaining a number, address, and date in order to make a purchase.

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<sup>1</sup> Keith Slotter, CPA, "Plastic Payments: Trends In Credit Card Fraud," <<http://www.fbi.gov/publications/leb/1997/june971.htm>> (September 20, 2001).

<sup>2</sup> Ibid

<sup>3</sup> Steve Patient, "Reducing Online Credit Card Fraud," *Web Developer's Journal*, April 4, 2000, <[http://www.webdevelopersjournal.com/articles/card\\_fraud.html](http://www.webdevelopersjournal.com/articles/card_fraud.html)> (July 5, 2001).

<sup>4</sup> Steve Patient, "Reducing Online Credit Card Fraud," *Web Developer's Journal*, April 4, 2000, <[http://www.webdevelopersjournal.com/articles/card\\_fraud.html](http://www.webdevelopersjournal.com/articles/card_fraud.html)> (July 5, 2001).

<sup>5</sup> Bureau of Justice Statistics, Open Discussion, Bureau of Justice Statistics Computer Crime and e-Business Workshop, October 18, 2000.

<sup>6</sup> Visa, "Visa Smart Cards," <http://www.visa.com/nt/chip/main.html#Merchants> (August 27, 2001).

## Cost/Statistics

- ♦ In 1998, almost three-fourths of American families had at least one or more credit cards.<sup>7</sup>
- ♦ Most credit card frauds involve either Visa or MasterCard.<sup>8</sup> MasterCard products alone are issued by 23,000 financial institutions in 220 countries and territories.<sup>9</sup> In 1998, MasterCard had almost 700 million credit cards in circulation, whose users spent an estimated \$650 billion in more than 16.2 million locations.<sup>10</sup> Visa has nearly 600 million credit cards known to be in circulation and more than 14 million locations accept them.<sup>11</sup>
- ♦ According to the Nilson Report, the net credit/debit card fraud in the U.S. after gross charge-offs in 1999 was \$956 million. Also, credit card fraud accounted for .06% of the total volume of sales for Visa and MasterCard credit cards.<sup>12</sup> This means that for every \$100 in sales, \$0.06 is lost to fraud. However, a report by Jupiter Media Metrix said Visa, the card used most often for online purchases, reported fraud rates between \$0.25 and \$0.28 per \$100 of Internet transactions.<sup>13</sup>
- ♦ According to the Federal Trade Commission, the main motive for identity theft was to obtain/take over a credit card account (53%).<sup>14</sup>

## High Profile Examples/Case Studies

- ♦ A hacker in Yugoslavia was able to obtain credit card data of 139 customers of online baby products retailer Babygear.com.<sup>15</sup>
- ♦ In May 2001, Federal Investigators brought criminal charges against about 90 individuals and companies for alleged online fraudulent activity, which included auction fraud, credit card fraud, bank fraud, and pyramid schemes. Dubbed "Operation Cyber Loss," and initiated by the Internet Fraud Complaint Center, it is estimated the alleged offenders caused \$117 million in losses.<sup>16</sup>

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<sup>7</sup> Thomas Durkin and Nicole Price "Credit Cards: Use and Consumer Attitudes, 1970-2000," *Federal Reserve Bulletin*, September 2000, <[www.federalreserve.gov/pubs/bulletin/2000/0900lead.pdf](http://www.federalreserve.gov/pubs/bulletin/2000/0900lead.pdf)> (July 5, 2001).

<sup>8</sup> The Nilson Report, "Future of Bank Cards - Part (Fraud)," No. 568, March, 1994, p. 6.

<sup>9</sup> Credit in a nutshell, "Credit Cards," *Creditinanutshell.com*, n.d., <<http://www.creditinanutshell.com/html/cards.html>> (July 5, 2001).

<sup>10</sup> Ibid.

<sup>11</sup> Ibid.

<sup>12</sup> ePaynews.com, "Statistics for General and Online Card Fraud," <http://www.epaynews.com/statistics/fraud.html#10> (August 27, 2001)

<sup>13</sup> Lori Enos, "Report: E-shoppers Fear of Online Crime Are Distorted," *Newsfactor Network* <<http://www.newsfactor.com/perl/story/11244.html>> (September 23, 2001)

<sup>14</sup> ePaynews.com, "Statistics for General and Online Card Fraud," <http://www.epaynews.com/statistics/fraud.html#10> (August 27, 2001)

<sup>15</sup> Linda Rosencrance, "Victims of credit card fraud tell their stories," *Security Informer*, <[http://www.security-informer.com/english/crd\\_seci\\_485722.html](http://www.security-informer.com/english/crd_seci_485722.html)> (September, 20, 2001)

<sup>16</sup> Federal Bureau of Investigation, "Internet Fraud Investigation "Operation Cyber Loss," Federal Bureau of Investigation, <<http://www.fbi.gov/pressrel/pressrel01/ifcc052301.htm>> (September 20, 2001)