EPC Electronic Payments Coalition

Correcting Merchant Claims About Card Fraud

Retail interest groups inaccurately argue that the Credit Card Competition Act (CCCA) would decrease fraud in the credit card market. They attempt to selectively cite Federal Reserve data to back up their claims, but the full data paints a different picture.

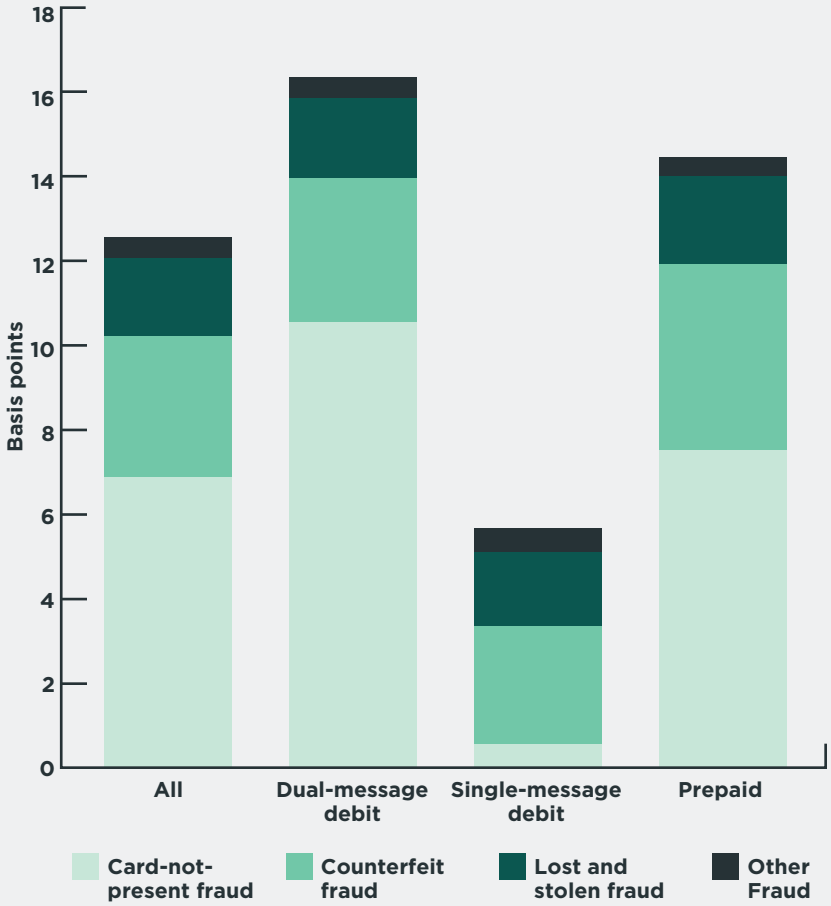
Fact #1:
"Visa and Mastercard's dual-message debit fraud rates are safer and more secure than independent single-message fraud rates."

Background:

In fact, dual-message transactions are safer and more secure than single-message transactions. Visa and Mastercard invest heavily in state-of-the-art fraud protection, including the industry-wide shift to EuroPay MasterCard Visa (EMV) chip cards over the past ten years.

Fraud rates among dual-message transactions are driven entirely by the recent rise in card-not-present (CNP) fraud. CNP transactions are primarily conducted online and have emerged in line with the rise in e-commerce. Because they require more complex routing technology, CNP transactions are currently exempt from debit routing regulation. As a result, nearly all CNP transactions are dual-message.

Figure 14. Level and composition of fraud losses as a share of transaction value in 2019, by transaction category



Note: Key describes bar in order from bottom to top

SOURCE: FEDERAL RESERVE (2021)

Data straight from the Federal Reserve makes this clear. As shown in Figure 14, as a share of transaction value, fraud losses are similar across dual-message and single-message transactions for counterfeit fraud, lost and stolen fraud, and other fraud (the teal, dark brown, and light blue bars in the chart). **The difference between total dual-message and single-message fraud is driven entirely by CNP fraud, because nearly all CNP transactions are dual-message.**

Further, the average amount lost to single-message fraud is twice as high as dual-message. According to the Fed,[1] the average loss for dual-message transactions was only $58. For single-message transactions, the average loss was $131 per fraudulent payment.

[1] Federal Reserve (2021), 2019 Interchange Fee Revenue, Covered Issuer Costs, and Covered Issuer and Merchant Fraud Losses Related to Debit Card Transactions.

Fact #2:
"Visa and Mastercard work on the front end to prevent fraud."

Background:

Again, retail interest groups attempt to cite Federal Reserve data without telling the complete story. Visa and Mastercard take significant responsibility in fraud prevention on the front end, by investing in the latest technologies like EMV chip cards and tokenization. Consumers choose these networks in part due to their long-standing reputations in preventing card fraud.
If and when debit card fraud occurs, issuers are responsible for covering the majority of fraud losses for counterfeit and lost and stolen fraud, as shown in Figure 17 from the Federal Reserve. Consumers are very rarely responsible for debit fraud losses.[2] Merchants are responsible for most fraud losses from card-not-present (CNP) debit fraud. Because most CNP transactions are routed via dual-message transaction, a higher share of dual-message fraud losses fall to merchants.

Fact #3:
"Investments made by Visa and Mastercard have made payments more secure."

Background:

In fact, payment security has been greatly improved by innovations made by Visa and Mastercard, particularly the shift to Europay, Mastercard, and Visa (EMV) security standards. In 2019, Visa reported that merchants who upgraded to EMV technology saw an 87% decrease in counterfeit fraud losses.[3]

As e-commerce and CNP transactions grow, leading card networks have invested in newer payment security innovations, such as point-to-point encryption, tokenization, and biometrics. The proposed routing mandates touted by merchants would threaten these advances in payment security.

Explaining Single vs. Dual Message Payments

- **Single Message:** Debit cards run over single message systems because the funds are pulled directly from the purchaser's account at the time of purchase; there is no credit risk.
- **Dual Message:** Unlike debit cards, credit cards account for credit risk and run over a dual message system, which makes them more secure. Transactions are first authorized and then settled later. For many transactions, the initial amount is not the final amount. For example, when a customer purchases a meal at a restaurant, the initial charge is authorized but the final amount could change before settlement when a tip is added.
    - Message 1: authorization of the transaction
    - Message 2: final transaction after the settlement of funds
        - **Important to note:** Debit transactions can run over dual message systems, like paying at the pump for gas, but credit card transactions cannot run over single message systems.

[2] This data only covers debit fraud losses; consumers are almost never responsible for credit card fraud losses.
[3] Visa (2019), Visa EMV Chip Card Help Reduce Counterfeit Fraud by 87 Percent.

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