

## **Comprehensive New PULSE Debit Card Study Provides Performance Benchmarking Metrics, Quantifies Impacts of Fraud**

Findings Identify Positive Growth Opportunities and Expectations

HOUSTON, Oct. 10 /PRNewswire/ -- A far-reaching new study commissioned by PULSE EFT Association, Inc. projects a dynamic outlook for the continued expansion of debit card payments, providing data that address card penetration, usage and growth opportunities, and allaying concerns that fraud is having a costly negative impact. Findings from the survey of 48 financial institutions of all types and sizes, representing a total of more than 50 million debit cards, provide a factual basis upon which financial institutions can take steps to maximize their debit card business.

"From conversations with financial institutions, it seemed apparent there was a lack of information, and in some cases misconceptions, about debit card fraud," said Stan Paur, president and CEO of PULSE. "With the accelerating usage of debit, PULSE thought it was prudent to initiate a study of not only fraud but also other key metrics related to both PIN and signature debit."

One of the most revealing findings was that the added security of using a personal identification number (PIN) to authorize debit card purchases makes that method of payment approximately 15 times more secure than signature debit transactions, both in terms of losses per transaction and losses per sales volume. Costs associated with PIN debit fraud at the point of sale currently amount to \$.001 per transaction, or .29 basis points. By comparison, losses related to signature debit are \$.016 per transaction, or 4.21 basis points.

The study also revealed that while some believe that the penetration of debit cards is approaching the saturation point, there is significant room for growth. Overall, 73 percent of eligible checking and similar accounts now can be accessed by debit cards. However, only 57 percent of debit cards can be considered "active," when "active" is defined as cards that are used at least once a month for a signature debit purchase. While financial institutions' definitions of "active" vary, this is the most common definition.

The study found that active cardholders perform a combined 15.6 debit point-of-sale (POS) transactions per month: 10.6 signature and 5.0 PIN-authorized. When all cardholders are included in the sample, the average drops to 8.7 transactions per month.

"There is still an opportunity to grow debit card usage and, for issuers, debit card revenue," Paur said. "This survey indicates that financial institutions could benefit by taking a look at their debit card qualification criteria, account holder education about card benefits and promotions to encourage card use in the first 30 days after it is issued," he said.

Debit card fraud has become a hot topic in the last year, as fraudsters have employed increasingly sophisticated technology to obtain card information. At the same time, large-scale, high-profile compromises have garnered much media attention.

The key fraud-related findings from the study -- conducted for PULSE by Boston-based Dove Consulting, a division of Hitachi Consulting -- included:

\* In 2004, financial institutions lost an estimated \$546 million to debit card fraud. Of that amount, \$345 million is attributable to ATM losses, \$193 million to signature debit losses and \$8 million to PIN debit fraud.

\* PIN-related fraud costs financial institutions approximately \$.04 per card per year, while signature debit losses amount to \$1.15 per card annually.

\* On a per-transaction basis, a typical incidence of PIN debit fraud costs \$160, while signature debit losses average \$86 per incidence.

PIN debit fraud traditionally was limited to either skimming or "friendly fraud," the unauthorized use of a debit card by family members or friends, according to Tony Hayes, managing director of Dove Consulting's Financial Services Practice. Phishing is on the rise, and consumers are increasingly being duped into revealing their PINs online. For signature debit, card theft has been and remains the predominant source of losses.

"This study should be helpful in assisting the financial industry in quantifying the impact of fraud on PIN and signature debit as use of these payment products grows," said Hayes. "What these findings tell financial institutions is that the threat of fraud exists, and issuers must be attentive to the threat and must institute preventives to reduce the risk.

"However, large-scale system compromises and phishing attacks are adding complexity and costs to issuers' fraud prevention programs," Hayes said.

"We must understand where fraud is occurring, what are our areas of greatest exposure and what steps can be taken to reduce it," Paur said. "The data from this study have given us important direction to help prevent losses and maintain consumer confidence."

The performance benchmarking information relative to all facets of financial institutions' debit card programs also is of great value, Paur said. For example, transaction volume is increasing, with issuers experiencing solid growth in debit programs, according to the study.

PIN transactions have risen by 34 percent from May 2004 to May 2005, and signature debit is up 30 percent. In the coming year, issuers expect their institutions' total debit transaction volume to grow by an average 19 percent, with PIN debit projected to grow by 22 percent and signature debit by 18 percent.

Additional benchmarking findings include:

\* Sixty-six percent of issuers offer business debit cards, but those cards account for only 5 percent of each issuer's card base, on average.

\* Currently, one-third of issuers -- mainly large banks -- offer a rewards program tied to debit cards, and an additional 23 percent are actively considering offering one. Of those offering rewards, 71 percent provide incentives for signature debit only.

Putting all the findings in perspective, Hayes noted that, while the debit industry faces significant challenges, the future is bright. "Relative to other forms of payment, debit is an exceptional option," he said.

#### **About PULSE EFT Association, Inc.**

PULSE, a Discover Financial Services LLC company, is one of the nation's leading ATM/debit networks currently serving more than 4,100 banks, credit unions and savings institutions across the country. The network links an estimated 90 million cardholders with more than 250,000 ATMs and 3.2 million POS terminals at retail locations nationwide. In recent years, PULSE has become known as a valued resource for consumer research related to EFT services and an effective

national voice on public policy issues relevant to the financial services industry. For more information, visit <http://www.pulse-eft.com> .

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