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2019 Annual Report of the Observatory for the Security of Payment Means

This fourth Annual Report of the *Observatoire de la sécurité des moyens de paiement* (OSMP – the Observatory for the Security of Payment Means) finds that fraud involving all payment instruments, with the exception of cheques, is generally well under control, and reiterates the need to finalise the implementation of strong authentication for internet payments by the beginning of 2021.

For the most commonly used instruments, the level of fraud observed in 2019 on payments issued in France remained under control:

- Even though cards continued to be the most used means of cashless payment, accounting for 60% of non-cash transactions by volume, the associated fraud rate remained stable and close to its historic low, at 0.064%. The fraud rate on domestic transactions, in particular, remained very low for face-to-face transactions (0.010% at point of sale and 0.028% on withdrawals), including contactless payment (0.019%), while for the eighth consecutive year, the fraud rate on remote payments continued to trend downwards to 0.170% due to the more frequent use of strong customer authentication.
- The fraud rates for credit transfers and direct debits, which each account for around 16% of cashless payments by volume, remained extremely low at 0.0006%.

Conversely, even though cheques are used less and less and now account for only 6% of cashless transactions, total cheque fraud increased by 20% to EUR 540 million, which corresponds to 46% of total fraud involving cashless payment means recorded by the Observatory. This trend, ongoing for the last three years, means that cheques are now the most targeted payment instrument for fraudulent purposes in terms of both absolute value and fraud rates. In response, the Observatory has launched a study, involving all cheque lifecycle stakeholders, to investigate the ways in which cheque security could be strengthened.

The Annual Report also analyses the impact of the public health crisis on payment flows and reveals a trend towards greater dematerialisation and digitalisation of transactions. This has led to a decline in cheque use and withdrawals, which appears to have intensified at least temporarily, and a concomitant increase in the share of contactless and internet payments. This development means that finalising the implementation of strong authentication for internet payments, which was announced by the Observatory on 1 July 2020¹ and should further contribute to strengthening the security of online payments for both consumers and merchants, is even more essential:

¹https://www.banque-france.fr/sites/default/files/medias/documents/cp-bdf-osmp_paiements_dematerialises_20200701.pdf

- Card-issuing banks are urged to continue their efforts to enrol their customers in strong authentication solutions such as a secure mobile application. It is important that these new solutions, with which nearly half of French cardholders are already equipped, replace the authentication of transactions based solely on a password sent by SMS, as soon as possible.
- Online merchants that, for reasons of fluidity, wish to continue offering payment processes without strong customer authentication must immediately upgrade to the latest versions of the security protocols (3D-Secure v2) in order to justify their use of the strong authentication exemptions provided in the regulations. Indeed, transactions without a request for cardholder authentication and without valid justification for exemption will gradually be rejected, starting from the final quarter of 2020 when payments of over EUR 2,000 without an authentication request will not be accepted.

On both these fronts, the oversight mechanisms have been amended to integrate a certain flexibility into the migration process, which can be triggered by the Observatory to take into account the repercussions of the public health crisis, while still ensuring that proper monitoring is maintained. Furthermore, fresh initiatives have also been added to the roadmap for the financial sector to ensure that the new authentication infrastructures conform to a sufficient level of maturity, particularly in terms of accessibility and resilience.

The Observatory thus remains committed to its objective of a high level of compliance in terms of online payment authentication from the French financial sector during the first quarter of 2021, in accordance with its undertakings to the European authorities.

The Observatory for the Security of Payment Means (OSMP) is a forum whose role it is to foster dialogue and information sharing between all parties in France concerned by the smooth functioning and security of cashless payment means. It is chaired by the Governor of the Banque de France and comprises two members of parliament, representatives of the government as well as of card issuers and users (merchants, businesses and consumers), and several persons chosen for their expertise.

Created by the Law of 9 December 2016 on transparency, the fight against corruption and the modernisation of the economy, the OSMP replaced the Observatory for Payment Card Security, which was set up in 2001. It is tasked with monitoring the security measures adopted by payment industry participants and their customers, establishing aggregate fraud statistics and maintaining a technology watch in the area of payment instruments.

www.observatoire-paiements.fr

About the Banque de France. The Banque de France is an independent institution with three core tasks: monetary strategy, financial stability, and the provision of services to the economy. It contributes to the definition of euro area monetary policy and ensures its implementation in France. It supervises banks and insurance companies, and works to mitigate risks. It also offers a range of economic services to businesses and private individuals.

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