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Executive Summary

The Annual Statistical Report analyses the phenomena, under multiple aspects, of payment card frauds, ATM tampering and contracts POS cancellations. Payment card frauds (unrecognised transactions) refer to frauds via payment cards issued in Italy and utilised everywhere.

Unrecognised transactions

In 2016, compared to 2015, value **incidence** (unrecognised transactions value via cards issued in Italy divided by all genuine transactions value via cards) decreased from 0,0171% to 0,0164%, while number **incidence** (unrecognized transactions number via cards issued in Italy divided by all genuine transactions number via cards) increased from 0,0110% to 0,0129%.

Frauds (unrecognised transactions) in value were substantially steady on the levels of the previous year (+0,5%), while in number meaningfully increased (+26%), revealing a decrease in the average value of single transactions (from 159€ to 127€). In 2016, all genuine payments increased respectively by 5% in value and by 8%¹ in number.

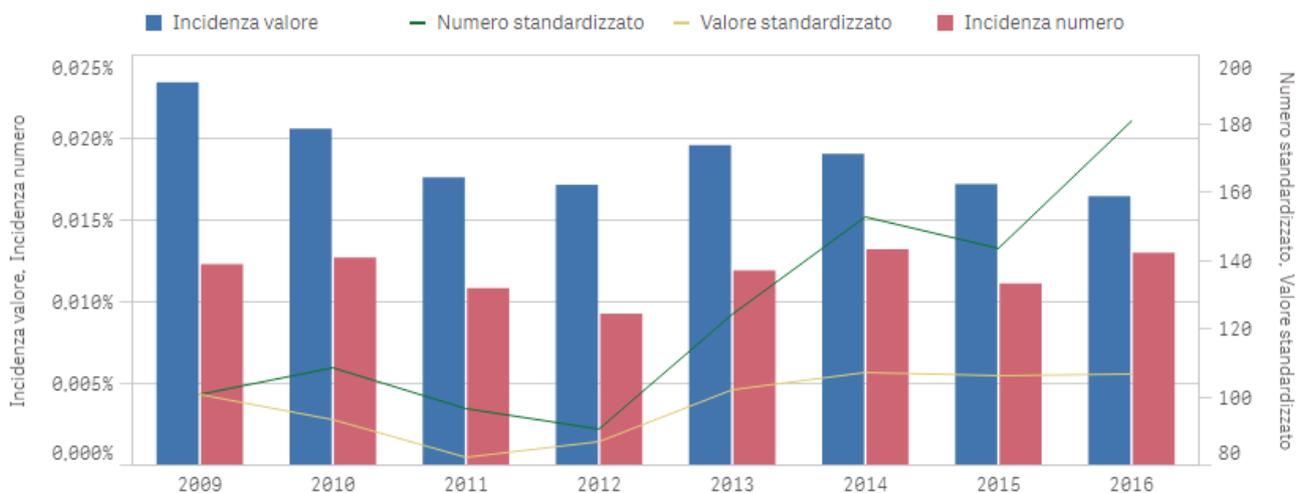


Figure 1: Incidence and frauds in value and number. Historical series.

Value Incidence: Unrecognised transactions value via cards issued in Italy divided by all genuine transactions value via cards issued in Italy.

Number Incidence: Unrecognised transactions number via cards issued in Italy divided by all genuine transactions number via cards issued in Italy.

Value Standardisation: Unrecognised transactions value via cards issued in Italy in the reference year divided by the value recorded in 2009 – i.e. 100 indicates a value equalling 2009, while 110 indicates a 10% increase over 2009.

Number Standardisation: Unrecognised transactions number via cards issued in Italy in the reference year divided by the number recorded in 2009 – i.e. 100 indicates a number equalling 2009, while 110 indicates a 10% increase over 2009.

¹ From 2009 to 2015, overall genuine payments, both in value and number, increased no-stop, thus demonstrating an increasing use of payment instruments as an alternative to cash. In this period, the increase was equal to 56% in number and 42% in value, respectively.

The average value of single unrecognised transactions was greater than the average value of single genuine transactions, explaining thus value incidences were ever higher than number incidences.

The analysis of the 2009-2016 historical series of the incidences indicated the phenomenon is substantially under control both in value and number of transactions. In particular, the value incidence confirmed a decrease for the third consecutive year (Fig. 1), unlike in other major European Countries. The number incidence showed a swinging trend, between 0,09% and 0,013%.

Compared to 2015, value incidences decreased for all payments channels. In particular, for the first time since the beginning of the collection of data, value incidence on Internet decreased to values lower than the previous year. As far as frauds number is concerned, incidences of Internet and POS increased while, on ATM, decreased.

Internet Channel

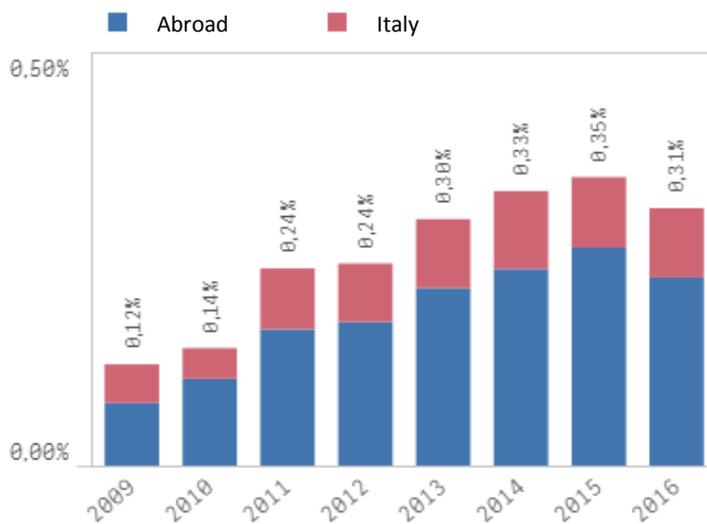


Figure 2: Internet Value Incidence, Abroad/Italy

Internet fraud value **incidence** decreased (-0,04 percentage points), corresponding to a decreasing percentage variation equal to 11% compared previous year (Fig. 2). However, number **incidence** increased by 9% from 2015 to 2016.

Frauds in value slightly increased (+3%), the increase in number is instead more significant (+33%).

The phenomenon occurred mainly abroad².

Anyway, in Italy, during 2016, internet frauds value standardisation increased (Fig. 3), mainly within *Travel Air/Rail/Road* and, specifically, *Passenger Railways*. This phenomenon reached its peak in February 2016, reducing slightly in the following months.

Abroad, the decrease was more concentrated in the *General Retail Group*, especially in European countries (Germany and France)

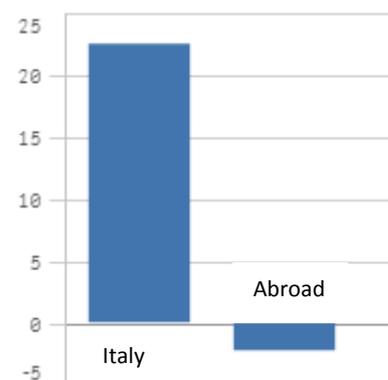


Figure 3: Internet - Variation of Value Standardisation

² Abroad: Set of all world Countries excluding Italy.

POS

POS **incidence** decreased by 5% in value and increased by 13% in number. However, unrecognised transactions (frauds) increased by 5% in value and by 25% in number.

The broke-down between Italy and abroad for value standardisation was extremely relevant: the phenomenon increased abroad and decreased slightly in Italy.

There seemed to be a sort of specialization by country. The most significant increases were in fact in the United States and Spain, respectively in the MCC Automotive fuel, more specifically in the MCC Service station, and in the MCC Travel Air / Rail / road, specifically in the MCC Airlines. China was fourth due to the increase in the phenomenon and was concentrated in the MCC General Retail. The general decrease of the MCC Leisure activities, in particular the MCC Betting Casino Gambling in the United Kingdom, should be noted.

In Italy the phenomenon particularly decreased in Lazio and Campania, especially in the MCC General retail. The decrease seemed consolidated, considering that since mid-2015 the phenomenon was always at lower levels compared to the previous year.

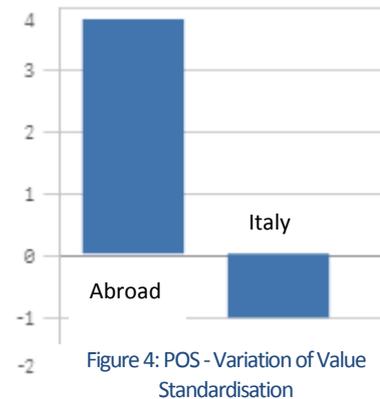


Figure 4: POS - Variation of Value Standardisation

ATM withdrawals

Also in 2016, as in all previous years, a tendency to reduce the phenomenon on ATM withdrawals frauds was confirmed. The decrease in the incidence was important and homogeneous both in value and number (respectively -18% and -19%) and was completely analogous to the decrease recorded in the number and in the value of the unrecognized transactions, due to the “invariance recorded in 2016 in the total of genuine withdrawals”.

Italy contributed to the drop in withdrawals, in particular Lazio. Other regions in which the phenomenon decreased are Lombardia, Piemonte and Emilia Romagna.

Abroad, the most significant decrease occurred in the United States, where however the phenomenon is even more concentrated. The withdrawal of cash by credit cards abroad also decreased, even if at lower rates.

ATM Tampering

In 2016, ATM tampering were more than doubled, approaching the levels of 2013. The rate of tampering reached a value of 1.05 compared to 0.48 in 2015 with an increase of 121%³.

³ ATM Tampering number increased by 120% compared to a substantial stability in the number of active ATMs.

Rate of Tampering: Number of tampering divided by the number of ATMs active during the reporting period.

The most significant increase in tampering occurred in the north-west, particularly in Piemonte and Lombardia. The phenomenon was then concentrated in large urban centers. In Lombardia, after a fairly worrying start to the year, it returned to levels comparable to those of previous years. Other regions with notable increases were Lazio (with an increase slightly higher than Lombardia) and Veneto. Even in these cases, as in Lombardia, the phenomenon returned in the second half of the year.

POS contract cancellations

POS contract cancellations decreased significantly: -5% in terms of incidence⁴ and -14% in number.

It should be noted that the greatest decreases in the number of POS contract cancellations were recorded in the regions where the phenomenon, in 2015, was more significant: Campania (-46%) and Lazio (-20%). Significant decrease of the number of POS contract cancellations registered in Emilia Romagna (- 40%) too. Lombardy had a slight counter-trend, where the phenomenon increased, even if only little, but reached Lazio levels.

⁴ Number of POS contract cancellations compared to the total number of contracts active during the year.