

News Release

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CAN SMART CARDS REDUCE PAYMENTS FRAUD AND IDENTITY THEFT?

When an American consumer tries to buy something with a debit card, credit card or a check, often all that is needed to initiate payment is an account number, address, telephone number or other piece of personal information. A serious risk to this system is that a criminal who obtains that personal information can impersonate an honest consumer and commit payments fraud.

One way to improve security could be the adoption of payment smart cards, as Richard Sullivan, a senior economist at the Federal Reserve Bank of Kansas City, explains in the article “Can Payment Smart Cards Reduce Payments Fraud and Identity Theft,” which appears in the third quarter edition of the Bank’s *Economic Review*.

Payment smart cards contain an embedded computer chip that encrypts information, and if properly configured, such cards could provide benefits to banks, consumers, merchants and others who collectively lose billions of dollars to payments fraud each year. These cards, which are already in use in other countries, could also lower the costs of fraud prevention and result in a more efficient payments system, Sullivan writes. However, adoption of these cards in the United States faces challenges as the payments industry must agree on new security standards and protocols.

The article is available on the Bank’s website at www.KansasCityFed.org.

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