

# Some rules are meant to be broken

### **GOOD INTENTIONS, NEGATIVE CONSEQUENCES**

When Visa and MasterCard introduced a new e-commerce security scheme, 3D Secure, in 2004, they had the right intentions: protecting credit card holders and e-merchants from online fraud. Cardholders could register their cards and receive a password, which they would be obliged to use to complete a transaction. However, cardholders were allowed to transact up to three times before registering—giving fraudsters ample opportunity to use stolen cards on supposedly secure sites.

Soon after, e-commerce fraud increased significantly and credit card issuers, including HBOS, were forced to absorb the losses. Given its large debit and credit card base, HBOS knew it had to find a solution—and fast. “We knew we needed a security system that would prevent the vast majority of online fraud without compromising our customers’ experience,” says Anne Claydon, brand strategy manager at Lloyds Banking Group, which now owns HBOS. “That’s when we turned to RSA.”

### **BREAKING THE RULES**

The security team at HBOS was particularly attracted to technology in development at RSA that could alert the bank to potential fraud before it occurred. The two companies embarked on a partnership to integrate the new technology with 3D Secure and a revolutionary new concept was born: risk-based authentication. Today, risk-based authentication is used by almost every card issuer in the U.K. and recommended as a best practice by industry organizations including the U.K. Payments Administration (UKPA).

The full solution developed by HBOS and RSA is a unique, flexible, self-learning monitoring system that works in two steps: The RSA Risk Engine analyzes each online transaction in real time using parameters

## About HBOS

Banking and insurance company HBOS plc is a wholly owned subsidiary of Lloyds Banking Group. With more than 30 million customers, Lloyds Banking Group is the largest retail bank and leading provider of current accounts, savings, personal loans, credit cards, and mortgages in the United Kingdom. The group’s other main brands include Lloyds TSB, Bank of Scotland, Halifax, Scottish Widows, and Cheltenham & Gloucester.



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remarkable. In 2008, 90% of attempted “card not present” fraud (i.e., the card is not visible to the merchant) was blocked, and phishing incidents dropped by 85%. These statistics are in stark contrast to general trends, in which “card not present” fraud jumped by 70% in the previous two years and phishing incidents jumped by 186% in the previous 12 months, according to the Association for Payment Clearing Services, now UKPA.

What’s more, the bank achieved a high level of security with no negative impact on consumer experience. While more than 99% of cardholders were never challenged with authentication, fraudsters were typically challenged and failed. “We’ve had no negative feedback from customers as a result of using this system,” says Jon Berrill, head of Card Operations at HBOS Credit Cards. “Indeed, many are impressed with our effectiveness in contacting them to confirm suspect activity.”

Some banks continue to suffer relatively high fraud losses, but the partnership with RSA has helped HBOS protect its bottom line. Between October 1, 2007, and the end of 2008, HBOS prevented more than £13 million (US\$20.7 million) in attempted e-commerce fraud, which translates to a greater than 2,000% return on investment. “Partnering with RSA has been such a success,” says Claydon. “What started out as a single project has now extended into other areas of the bank and will be developed even further.” ■

including IP address, IP geo-location, ISP and connection type, and user profile. Based on the risk calculated in step one, the system presents the appropriate level of security for that transaction.

Although the 3D Secure system initially did not allow for this novel process and technology, once HBOS and RSA engaged with Visa and MasterCard to point out the benefits—including stemming potential losses and boosting consumer confidence with minimal impact on customer experience—the companies embraced

the new security scheme.

To bolster security even further, HBOS became a member of the RSA eFraudNetwork, the industry’s first and largest cross-institution and cross-platform online fraud network. The network identifies and tracks fraudster profiles, patterns, and behavior, and disseminates the information to all network members.

#### **RESULTS ARE THE BOTTOM LINE**

Soon after the project’s launch in 2004, fraud levels dropped by 80%, and more recent statistics are equally