

FIGHTING ELECTRONIC BENEFIT FRAUD

Louis-James Davis examines the causes of problems and solutions that are emerging in the US

The US electronic benefit transfer or EBT system is attractive to fraudsters due to lack of adoption and investment in new technologies. Processes for cloning cards that have minimal security – such as magnetic strips – are well developed and the introduction of radio frequency identification (RFID) also fell short due to the ability of fraudsters to steal or ‘skim’ card details.

As well as consumer to business fraud, the US Government is also grappling with business-to-business fraud, where a business uses collated fraudulent transactions to restock its store.

This activity has a direct impact on every member of the population, even those that are not in receipt of benefits. Every dollar of public money spent combatting fraud is a dollar less spent on essential services such as education, transportation or healthcare.

Unless the US Government tackles fraud through the implementation of new technology with appropriate levels of security, fraud will continue to spiral. The US

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could learn a lot from emerging economies such as India, which is investing heavily in technology infrastructure, enabling it to educate its population on various levels of security and update payment methods.

Every year, tens of billions of dollars in state benefits are delivered to millions of Americans. Electronic benefit transfer has transformed the delivery of supports such as food stamps since paper coupons were phased out.

Given the scale of the programme, its operational efficiency is impressive. Despite regular high-profile reports of organised trafficking (in which benefits are illegally exchanged for cash, often at a considerable discount to the value of the benefit), the use of PINs has helped to reduce fraud as a share of annual benefits from 3.8 percent in 1993 to 1.3 percent in 2009-11.

But challenges persist – recorded fraud is \$980m, but the actual cost to the US Government is estimated to be three times that figure and \$10.5bn is spent combatting fraud. Public representatives acknowledge that fraud undermines public support for the programme.

Strong authentication has the potential to reduce trafficking by employing a combination of data sources to verify the authenticity of the transaction. It can interface with multiple card issuing platforms and benefits programmes, authenticating the benefit recipient at the point-of-sale without the need for additional hardware, determining the eligibility of the items purchased while allowing the merchant to maintain an audit trail of all transactions.

Data from the 2016 World Payments Report underlines the sheer scale of the electronic money transactions market in the US. Non-cash payments grew by 4.4 percent in 2014 across more than 128 billion transactions, an average of 402 transactions per head of population.

CHIP-ENABLED DEVICES

Despite recent growth, payment security has been a major issue. In October 2015, liability for counterfeit card fraud shifted from card issuers to merchants that had failed to replace or upgrade their card acceptance and processing systems to use chip-enabled devices and applications to process payment transactions. Yet the US Payments Forum estimates that no more than half of the cards in the market are chip cards.

One of the largest segments of the card payment industry in the US is the payment by state Governments of benefits such as food stamps and cash to authorised recipients via a plastic debit card with a magnetic strip.

Electronic benefit transfer or EBT cards can be used at participating merchants and ATM machines and point-of-sale terminals. In fiscal year 2015, SNAP (the nation's largest nutrition support programme) provided 45.8 million people with just under \$70bn in benefits via EBT cards.

In June 2016, Stacy Dean, vice president for food assistance policy at the Centre on Budget and Policy Priorities told two US House of Representatives sub-committees about some of the systems designed to protect the integrity of the SNAP programme.

Computer programmes monitor transactions for patterns that may suggest abuse, in which case federal and state law enforcement agencies are alerted. The US Department of Agriculture (USDA) also partners with state SNAP agencies to combat the illegal exchange of benefits for cash.

Mike Carroll, secretary of the Florida Department of Children and Families refers to a growing epidemic of identity theft and trafficking, not from ‘mom and

pop’ storefront operations, but from major criminal enterprises with ties to other serious and dangerous criminal activities including drug sales, prostitution and human trafficking.

As new technology becomes available and awareness of how problems arise improves, there will continue to be opportunities to improve SNAP accuracy in order to prevent fraud.

Federal law provides states with the option to require a photo of one or more adult household members on the EBT card, but a report by the Urban Institute found that there was no compelling evidence that photos on EBT cards meaningfully reduced card trafficking, given that such trafficking involves the complicity of individuals and retailers for whom a photo on the card will not act as a suitable deterrent.

The benefits to government of enhanced fraud prevention for EBT cards are significant. While the use of PINs has helped reduce trafficking as a share of annual SNAP benefits from 3.8 percent in 1993 to 1.3 percent in 2009-11, the volume of benefits claimed fraudulently is still considerable.

In testimony to the House Committee on Agriculture in July 2016, Ohio Auditor of State Dave Yost suggested that fraud and poor management undermined public support for the programme.

Research into EBT card usage in Ohio during a six-month period in 2015 identified 36 instances where dead people received benefits more than a year after their death. The research also identified 1,337 recipients with balances greater than \$2,300 – twice the maximum benefit for a family of eight – and found that almost \$29m was spent in states as far away as Florida, Texas and Minnesota.

While the federal Government shares in the costs of administering the programme, state budgets remain the limiting factor to ensuring the best systems and technology are deployed. Many states downsized their operations during the recent recession and have not yet rebuilt the capacity necessary to take full advantage of new options and technology.

In October 2016, the Consumer Financial Protection Bureau (CFPB) announced new standards to protect prepaid account consumers, including federal, state and local government EBT cards used to distribute social security benefits and unemployment insurance.

The rules (which take effect in October) protect against withdrawals, purchases or unauthorised transactions when lost or stolen cards are reported to the issuer, limiting consumers' liability for unauthorised charges and creating a process for cardholders to get their money back in a timely fashion.

An EBT card is activated for use in Illinois



However, levels of fraud have encouraged some states to limit the number of times an EBT card can be automatically replaced. Earlier this year, the Maine Department of Health and Human Services Office for Family Independence announced that it would withhold a fifth EBT replacement card within a 12-month period until the client contacted the department and provided an explanation for losing the first four cards. No replacement card would be issued if the person didn't respond and the case would be referred to the department's fraud, investigation and recovery unit.

Maine Department of Health and Human Services officials say there were more than 140 requests for

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replacement cards in 2015 that would comfortably exceed the threshold.

EBT cards have already produced measurable benefits for retailers. A paper published by the National Bureau of Economic Research in March 2014 reported that the federal Government's move to mandate individual states to convert the delivery of their welfare benefits from paper cheques to an electronic benefit transfer system in the nineties reduced the amount of cash in circulation as a result of public assistance or welfare payments.

It has been long recognised that cash plays a critical role in fuelling street crime due to its liquidity and transactional anonymity. By exploiting the variation in the timing of the EBT implementation across Missouri counties, the National Bureau of Economic Research found the programme had a significant effect on the

overall crime rate as well as on levels of burglary, assault and larceny. According to its estimates, the overall crime rate decreased by 9.8 percent as a consequence of the EBT programme.

MOVING ONLINE

In September 2016, the USDA issued a request for retailer volunteers for a two-year, nationwide pilot to enable programme participants to purchase their groceries online.

Inevitably, improved fraud detection will benefit the retail sector by reducing the temptation for individuals to abuse the system. In fiscal year 2015, the USDA permanently disqualified over 1,900 SNAP retailers for programme violations and imposed sanctions (through fines or temporary disqualifications) on a further 800 stores.

To date, it could be argued that fraud across the EBT system has been treated as a 'cost of doing business', with a level of fraudulent activity almost becoming accepted. Genuine claimants are vulnerable to ID theft and fraud, while the Government is targeted by individuals and organised gangs committed to benefit fraud.

But this need not be the case. Fraud hurts taxpayers and hurts the legitimate recipients of benefits. Compared with private sector markets such as financial services, retail and travel, the Government has a way to go to implement strong authentication methods for EBT. Until a shift change in approach to the serious problem is made, US taxpayers and the welfare system will continue to lose hundreds of millions of dollars each year to fraudsters and ill-prepared technology.

No Government can afford to lose this amount of money and the time has come to invest in the right technology to prevent this.

End-to-end encryption with three-factor authentication is being used in the private sector to keep data safe and secure. It is time for the public sector to follow suit ●

Louis-James Davis is CEO of tech company VST Enterprises. He is an award-winning entrepreneur specialising in data security, authentication, and physical and digital asset traceability.

A woman shows her EBT card

