



## Memorandum

To: Distribution  
From: Steven Alexander, MA ML 4092 *SA*  
Date: April 10, 1997  
Subject: VISA Risk Advisors Conference

HIGHLY CONFIDENTIAL SUBJECT  
TO PROTECTIVE ORDER

The purpose of this memo is to share information presented at the recent VISA Risk Advisors Meeting.

The meeting covered many major areas of concern: key business trends, issuer risk, reporting and fraud initiatives, as well as updates on other aspects of the VISA universe.

◆ Key Business Trends

- \* Attachment 1: "Credit Losses: Past & Future"
- \* Attachment 2: "Economic Overview"
  
- \* Overall the economy is in the midst of very long expansion. The consumer confidence level is high. No recession is seen for 1997-1998. There is a 40% chance in 1999. VISA growth will continue, but slow from last few years.
  - '91-'95: growth came from number of cards expanding.
  - '96-2000: growth will come from more acceptance, usage, and new cards to lesser extent.
  
- \* VISA sees losses peaking at 5.5% including .2% for fraud in 1997. The fourth quarter 1996 delinquency was the highest in 25 years.
  - "Almost every vintage curve going straight up"

GOVERNMENT  
DEPOSITION  
EXHIBIT  
32

◆ Convenience Check Credit Risk

- \* Attachment 3: "Convenience Check Credit Risk"
  
- \* VISA recently completed a study which demonstrated that convenience checks represent 13% of sales volume but 22% of credit losses. This excludes balance transfer checks. The disproportionate share of losses requires new attention. A series of recommendations are included in the study which we need to review and discuss.

◆ File Fragmentation and Delayed Reporting

- \* Attachment 4: "File Fragmentation and Delayed Reporting"
  
- \* A VISA task force (Mike Ofori represented us) has been looking at the cost of inaccurate credit bureaus. A new VISA report indicates the cost may be almost \$800mm or 24-25 basis points. The bulk of the expense comes from poor credit decisions due to fragmented files (\$573.5mm) or delayed updates (\$125.9). \$90mm comes from increased processing costs.

P-0210

F 4643

◆ Bankruptcy

- \* Attachment 5: "Issuer Risk Management Bankruptcy Statistics"
- \* Bankruptcy continues to be a major problem for issuers with VISA's latest forecast increased to 1.4mm in 1997. This is a 40% jump from 1996's record filings.
- \* VISA efforts are focusing on law changes, research, and spending money to advertise CCCS as a bankruptcy alternative.
  - This is not an effective method, but some say it is politically necessary visibility for legislative efforts.
  - VISA is piloting an on-line Bankruptcy Risk Prediction Model based on transaction data (starts June '97). Evaluation will be complete in December '97.

◆ Other Issues

- \* Instant Issuance Debit Card.
  - VISA is coming under pressure to instantly issue debit cards. Raises many security issues. Can credit cards be far behind if debit allowed?
- \* Fraudulent account takeover growing.
  - Suggest start using something other than mother's maiden name as unique identifier. Much compromising of social security numbers, mother's maiden name files, etc.
- \* Key entry fraud.
  - Law enforcement very unsympathetic to this type of fraud. They believe industry could halt it by forbidding key entered transactions.

Distribution:

Dennis Babcock, *CT OP 0399*  
Maite Bertolini, *DE WI M03A*  
John DeSantis, *NY NF 4000*  
Joanne Maselli, *KI MO M06A*  
Ron Mittendorf, *CT BP F01A*  
Mike Ofori, *MA ML 4091*  
✓ Jim Tylenda, *DE WI M03G*

Attachments