

*Dr. Robert Ing is a forensic scientist, broadcaster and author. An internationally acclaimed forensic intelligence specialist, he has traveled the world on behalf of the interests of governments and major corporations. Dr. Ing has appeared on major North American broadcast news networks on the issues of forensic intelligence, espionage risk management, privacy, identity theft, electronic surveillance and Internet crime.*

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## Prepaid Credit Card Security Risks

By Robert Ing, DSc, FAPSc, CPO

### Overview

Prepaid credit cards offer access to many services that otherwise would be off limits to those of fixed or lower income, poor credit, recent graduates, new immigrants or others who might not otherwise qualify for a major credit card. In order to rent a car, make a hotel reservation, or borrow a video; a credit card is usually a prerequisite. A prepaid credit card solves this barrier without having the cardholder pass a credit check, possess a personal bank account or be concerned about accumulating debt unnecessarily.

Prepaid credit cards are also used by companies as a method of providing field staff access to expense account funds, commissions and bonuses. Some individuals elect to have all or a portion of their salaries, government benefits or pension electronically deposited to their card. With the discontinuation of traditional paper cheques by the world's banks by 2018, electronic funds transfer into bank accounts or to debit card accounts will become the norm. Prepaid credit cards utilize either the MasterCard or Visa e-commerce networks and as such can be used anywhere in the world where MasterCard or Visa is accepted, and at any automated bank machine. Although the cards are predominantly referred to as prepaid credit cards, they are not credit cards but are simply cards where money has been loaded on the card first and then spent to the amount loaded with no overdraft capability. The only difference the prepaid card has to its credit card counterpart is the tell-tale non-embossed card number, expiry date and cardholder name, and the words "Electronic Use Only" discretely printed somewhere on the lower front half of the card.

### The Advantages

The advantages of the prepaid card are access to most services that require a credit card without a credit check, personal bank account or proof of income. Other advantages include the ability to manage spending without incurring debt and if you must risk using a credit card with a dodgy merchant you can use a prepaid card while safeguarding your traditional credit card and credit rating.



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## The Disadvantages

Let's be honest, everyone has to make money, and prepaid card issuers are no different than credit card issuers. With traditional credit cards there are annual membership or one-time card issue fees, followed by the usual exorbitant interest and ABM service fees. With prepaid cards there are usually one-time card issue fees, a monthly administration fee, a per transaction fee whether you are putting money in or taking it out, ABM service fees, and special foreign transaction fees for transactions outside of the card's country of issue. As well, some prepaid card issuers will also charge a fee for using their cardholder telephone customer service, and online Internet account enquiry whether it's for a quick balance check or simple question. Despite all of these potential fees, many find such charges pale when compared to the fees, interest and debt potential from a traditional credit card.

Another disadvantage is that the use of a prepaid card is not recorded on a personal credit file, making it useless as an aid to rebuilding one's credit rating.

Anyone wishing to obtain a prepaid card is advised to shop around and compare service fees from each issuer. Just because there are several issuers offering a MasterCard or Visa product does not necessarily mean that their fees will be the same.

## The Security Risk

Prepaid cards offer additional security risk over their traditional credit card counterparts. With a traditional credit card, cardholders are protected by various issuer buyer and fraud protection programs. As well, traditional credit card issuers, since they are extending credit to cardholders maintain extensive internal investigation departments and security measures to safeguard what they consider to be their money. Prepaid cards offer their clients very little protection. Money loaded onto a card may or may not be protected by the card issuer from acts of fraud or issuer insolvency. This is bad news for anyone who uses or intends to use a prepaid card account in lieu of a bank account, whether it's for a nest egg or the main account for personal necessities. Unlike a traditional bank account that offers depositor protection from such government programs as the FDIC in the U.S. or CDIC in Canada, money loaded on a prepaid card is not protected or insured under these programs.

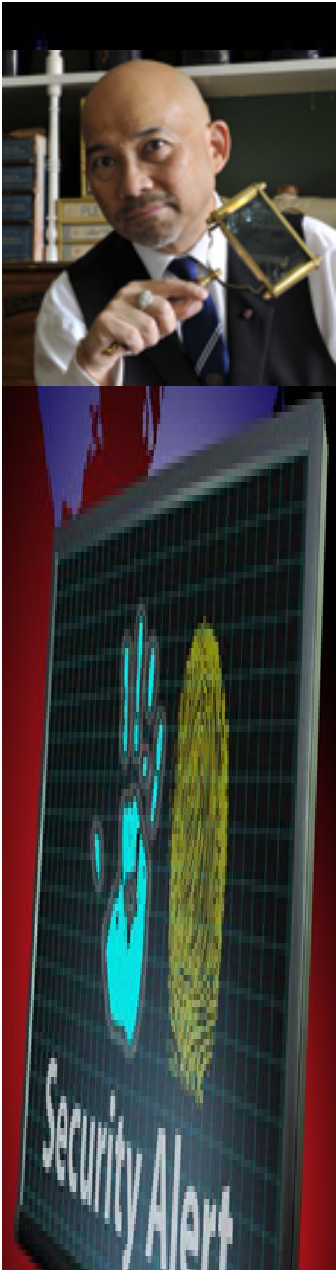


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I recently had been involved in a fraud incident where four consecutive attempts were made from an African bank to withdraw varying amounts from a Canadian issued prepaid MasterCard. Upon contacting the issuer via three separate telephone conversations over the course of two days, it was clear that they had no specific internal security controls at their level to deal with the incident. They suggested this happened because the card was used on the Internet, and a new card number could be issued for a \$20.00 fee if there was some concern about the card number being compromised. Drawing their attention to the account, it became blatantly obvious that the prepaid card was never used on the Internet but only at local restaurants in one Canadian city. It was also apparent that there would be no compensation for any alleged loss, despite the transaction record indicating four very suspicious consecutive withdrawal attempts made by this African bank. Fortunately, all four transactions were declined due to “insufficient funds.” The moral of this incident; only keep an amount on your card that (a) you intend to spend real soon – say within 14 days, and (b) can afford to lose if the card is compromised – consider an amount in the \$100 to \$500 range.

The security risk associated with a prepaid card is the same as a traditional credit card, plus the added risk of losing the money loaded on the card without any compensation. Because prepaid cards use major credit card e-commerce networks, they operate using 16 decimal account numbers with the network prefix digit 5 for MasterCard and 4 for Visa. Both credit and prepaid card account numbers are generated by the same base algorithms for security checksums. Credit and prepaid card fraudsters obtain account numbers by stealing or cracking into records where actual card transactions have occurred, or as in the case of the previous incident may use a sophisticated computer program that will generate legitimate card account numbers with their associated security checksums. If you think no one can electronically debit a credit or prepaid card account without the expiration date, think again! There are many systems used by merchants where the card expiration date is an optional field, and even if it isn't a determined operator can force a transaction through without the proper card expiration date.



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## Reduce Your Security Risk

- 1) Only load your prepaid card with the amount you require plus 10% to cover any incidental service fees.
- 2) Never use your prepaid card as a place to “park” your money.
- 3) If you must keep money in your prepaid account for emergencies, never put more than you can afford to lose, or not more than between \$100 to \$500.
- 4) Sign your card in black ink, and keep a photocopy of the back and front in a safe place at home.
- 5) Always ask for your updated balance when you load your card.
- 6) Check your card’s transaction history online once a month, if possible to check for unauthorized activity. Report unauthorized activity immediately to your card issuer.
- 7) Always take your transaction receipts with you as you use your card. If you want to throw them away, tear or shred them in small pieces and avoid throwing them in public trash receptacles.
- 8) Never write the PIN or password for your card account on your prepaid card.
- 9) When using your card in a restaurant or motel, always verify that your card has been returned to you and not someone else’s.

## About the Author

Dr. Robert Ing is a forensic intelligence specialist and has appeared on North American news networks on the issues of technology crime, computer security, privacy and identity theft.

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