

Quarterly Financial Crime Report

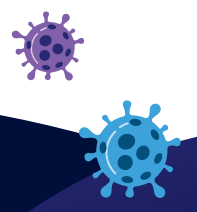
Q4 2020 Edition



Overview: COVID Cancels Black Friday - Accelerates Digital Economy

Financial crime isn't airborne, but it does spread rapidly through the binary world of zeros and ones. That's a fact appreciated by super spreader fraudsters like those found on the dark web, who realized opportunities in a world that suddenly shifted to online payments. But fortunately criminals weren't the only ones to find a friend in the digital-first revolution brought on by the pandemic; so too did consumers who adapted their shopping habits to the realities of lockdowns and social distancing requirements. They're not likely to switch back.

Nine months into the epic battle for the health and safety of global economies, Feedzai's analysis illustrates:



increase in sporting goods purchases compared to last holiday season



decrease in fuel purchases compared to Q1



decrease in card present (CP) transactions compared to Q1



increase in card cloning fraud rate across industries and regions

Digital Transformation, Accelerated by COVID-19

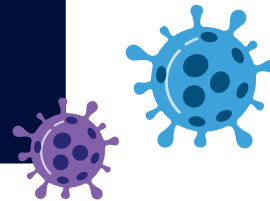
The financial services industry used to talk about a digital transformation as if it were a nice to have at some point in the future; 2020 brought the future crashing down upon us. COVID-19 ushered in previously unthinkable lockdowns and social distancing guidelines and ultimately accelerated the most radical digital transformation ever imagined. And it all happened in a matter of weeks.



75%

of customers plan to maintain digital banking habits.

0
1
0
0
1
1
1
0
0
0
1
1
0



45%

of consumers across all age groups use online and mobile channels for their banking "most" or "all of the time."

+ Create New Account

30%

of consumers opened new accounts during the pandemic.

56%

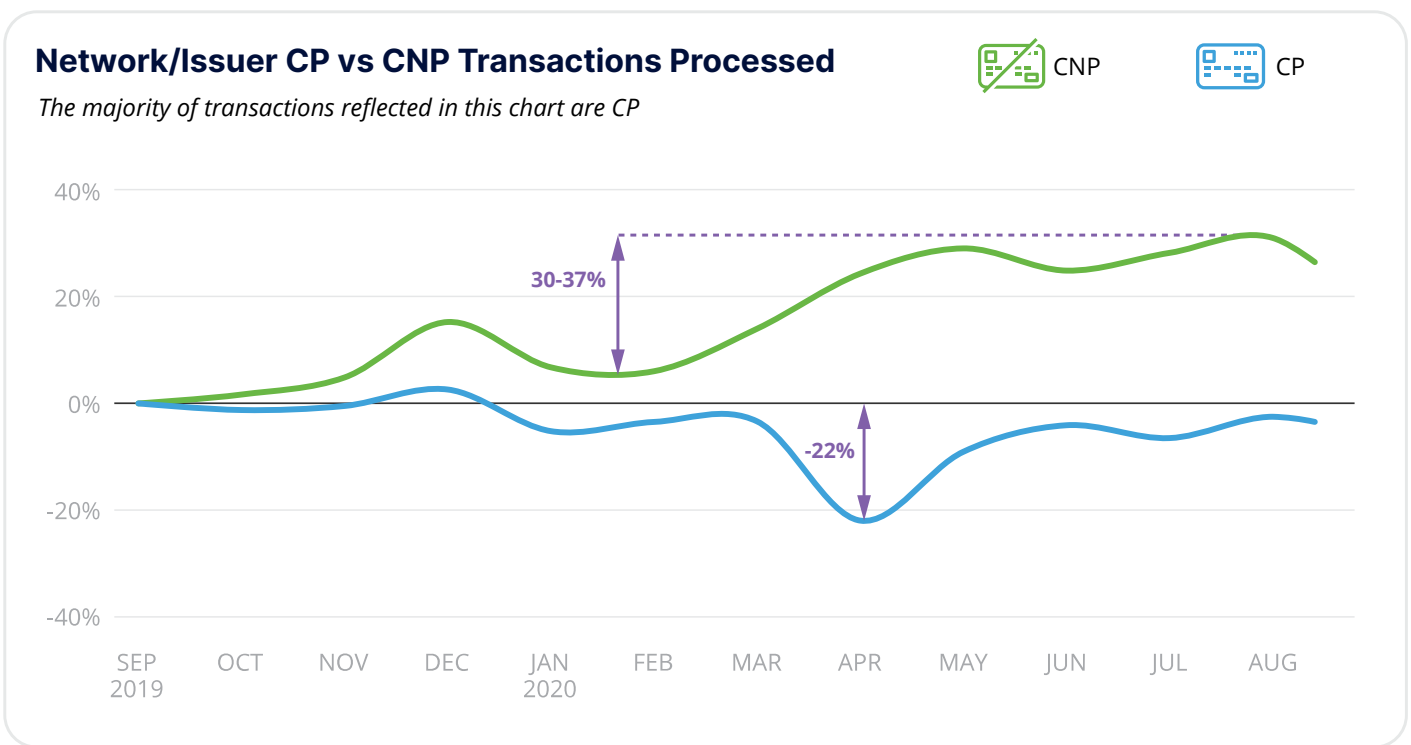
cited trust as the reason they opened new accounts with their current FIs.

2:1

The ratio of customers who opened new accounts at their current FIs vs. new FIs.

30% Increase in Card Not Present (CNP) Transactions

CP and CNP transactions for credit card issuers and networks tell the same story, but from different vantage points. The radical shift to online commerce and banking produced a 30-37% rise in CNP transactions from April through August as compared to Q1 2020. As expected, the move away from in-person transactions realized a 22% drop in April for CPs. However, and most surprisingly, by June, CP transactions, which dramatically decreased in April, recovered.





13% Increase in Sporting Goods Transactions

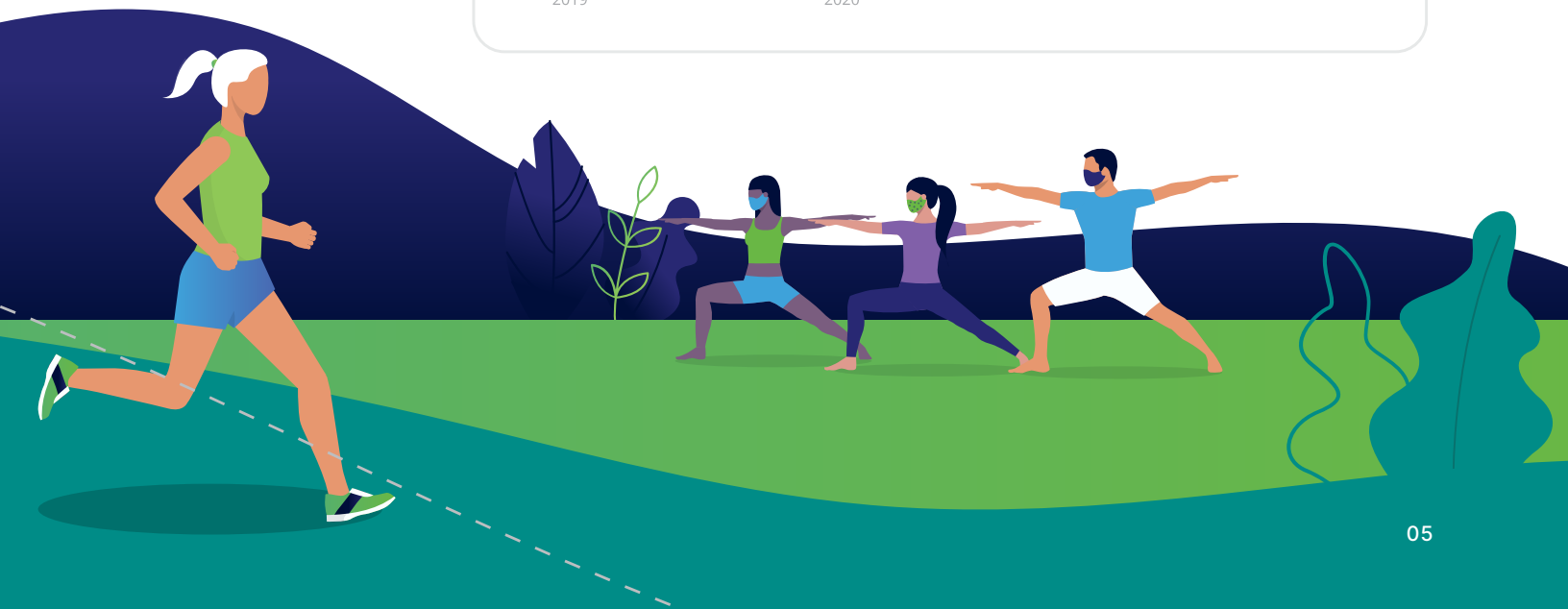
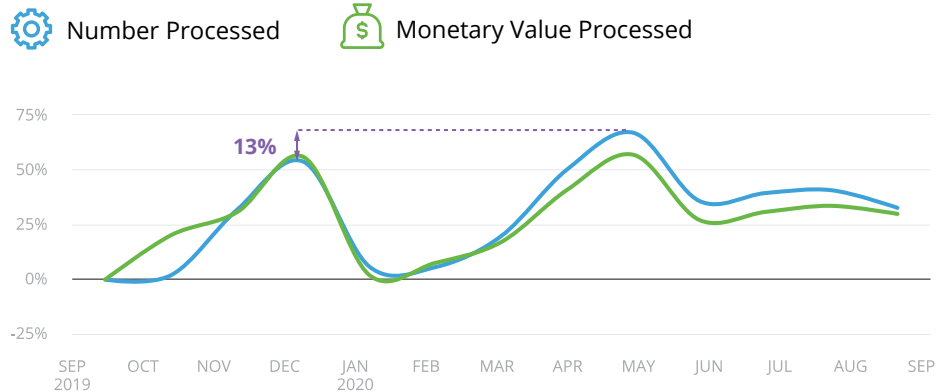
Comparing December 2019 to May 2020

What two things happen when a pandemic prohibits indoor gatherings, including working in offices? First, large numbers of people work from home. Second, people take to the great outdoors. In both cases, one sector reaped the rewards: sporting goods.

Sweatpants, leggings, sweatshirts — athleisure — became the daily wardrobe for zoom-endurance athletes (also known as professionals) across the globe. Left with little else to do, people around the world found themselves walking, hiking, and running for entertainment, which sparked increases in athletic gear sales. Transactions skyrocketed during Q2 and Q3, reaching 2019 holiday shopping levels. Even more impressive, sales were sustained over three months.

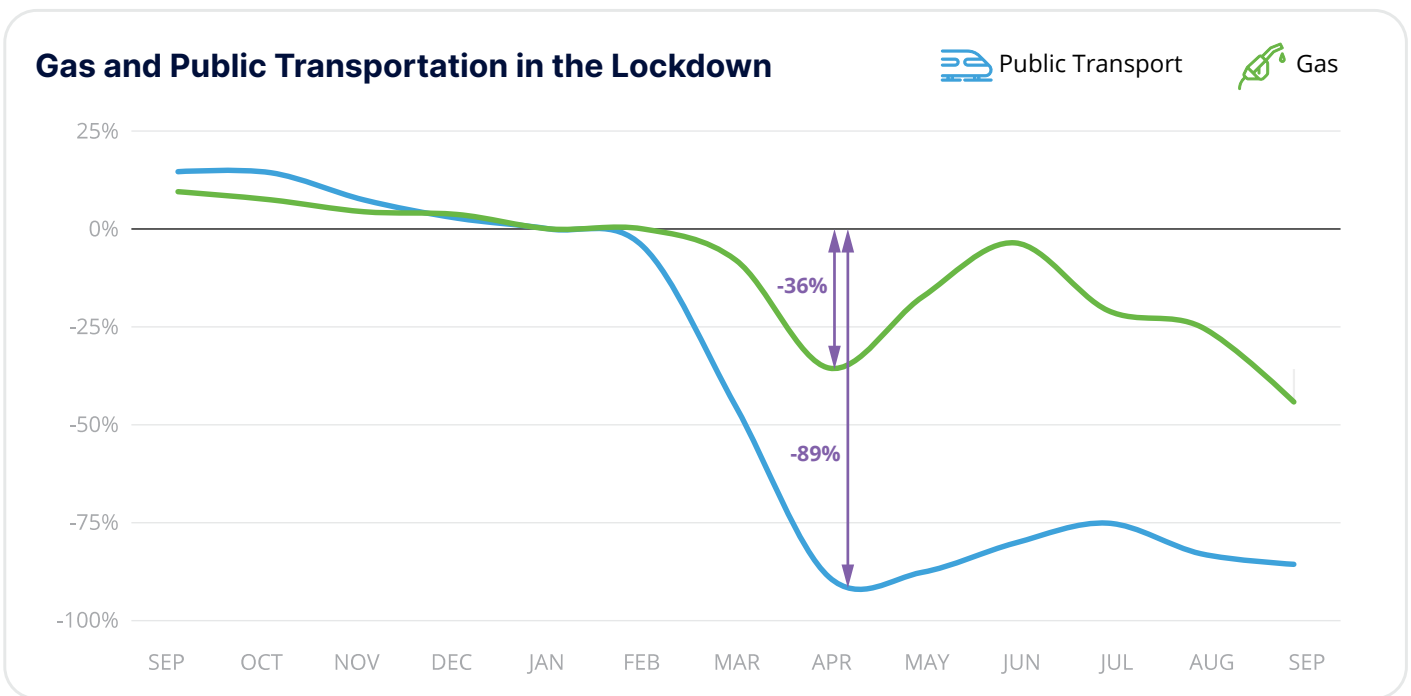
May 2020 saw a 13% increase in the number of transactions compared to the peak holiday month of December 2019. The monetary value of the transactions was equal between the two time periods.

Sport Industry Transactions Processed



89% Drop in Transportation Sector Transactions

At the start of the lockdowns when consumers were sheltering in place, the transportation sector took a giant hit. Public transportation dropped by 89% and the number of gas station transactions dropped by 36% compared to Q1.



Fuel Transactions

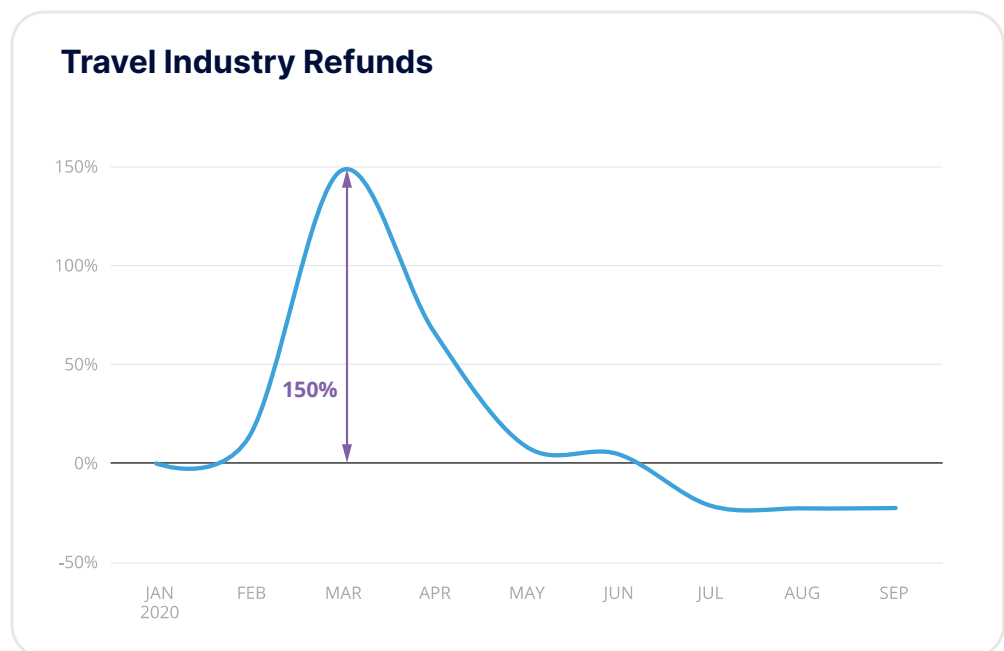
The steep decline in transactions related to gas and fuel was short lived and met with an equal and opposite rebound. Additionally, we saw an increase in transactions during the summer months. Were Americans road-tripping in lieu of other vacations? Or were users adopting new app-based payment methods for safer, touchless experiences?

Public Transportation

Sadly, it's a different story for public transportation. Weekday commutes on a major city's transportation system typically had riders packed shoulder to back-pack, grasping poles and straps for dear life. But the radical shift to work from home policies implemented to stop the spread of COVID-19 forced many public transit systems to slam the brakes. It's debatable whether these changes are permanent, but nine months later, we know they are long-term. Public transportation remains down by 56% from pre-pandemic levels.

Travel Refunds

Travel refunds accounted for the steep rise in March, reflecting a 150% increase. However, after a difficult start, refund rates returned to their normal levels.



COVID Cancels Black Friday: Hello, Cyber Month

Hate watching shoppers duke it out in long lines on Black Friday? You're in luck. Black Friday is canceled. Major retailers like Walmart, Target, and Best Buy are limiting crowds and extending their deals beyond one day to help stop the spread of coronavirus. Even Walmart, known in recent years for starting Black Friday on Thanksgiving, will close the store for the holiday.

But it's not just big box retailers that are bucking Black Friday conventions. Consumers are too. They're opting for Cyber Monday, which will morph into Cyber Month. It's a necessary step to both ensure robust retail figures and also meet new realities ushered in by COVID-19.

April is the New December

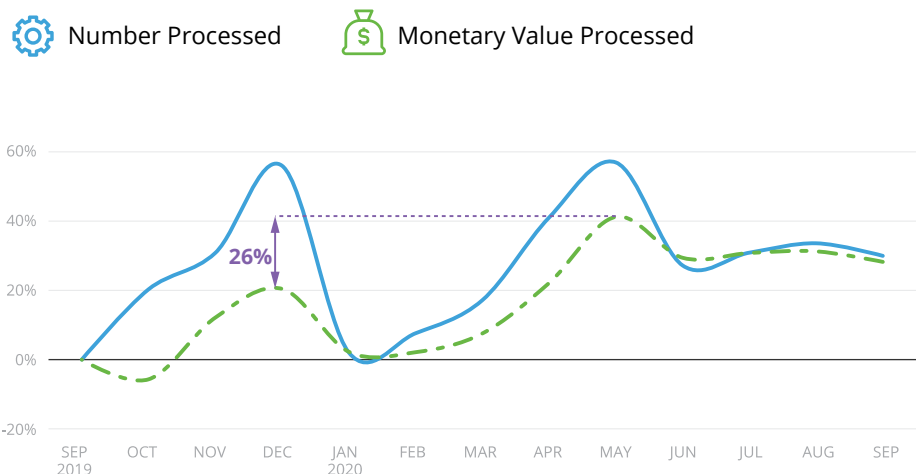
Cyber Month is only one part of the story when it comes to eCommerce. COVID delivered previously unseen and unheard of digital results: holiday season shopping levels in spring and summer. The dollar amount processed in May 2020 was higher than 2019's holiday shopping season. What's more, dollar amount increases over the previous year's holiday season were sustained through the summer and early fall. That's something even Santa can't deliver.

\$ 26% ↑
 increase in the dollar amount processed in May 2020 compared to the 2019 holiday season

\$ 13% ↑
 increase in dollar value June-Sept. 2020 over the 2019 holiday season

30% ↑
 increase per month in number of transactions from June - Sept 2020 compared to Sept 2019

ECommerce Transactions Processed



Fraud Report

Network's fraud rate increases

↑ 60.5%

Network's monetary value fraud rate increases

↑ 5.5%

The realignment of holiday shopping trends was also an early gift for fraudsters. Fraudsters seized opportunities provided by the shift to online transactions causing networks' fraud rate to increase by 60.5%. Not only was there more fraud attempted, but the dollar value of each attempted transaction was 5.5% higher than it had been the six months preceding the pandemic.



Top 3 Global Fraud Contributors in 2020

It wasn't just consumers who met the call to digitally transform. Fraudsters, ever technologically savvy and opportunistic, made the most of the shift. The three most common global fraud contributors were card cloning, high speed ordering/spending, and suspicious merchant category codes.



1. Card Cloning

Card cloning, or “skimming,” is copying stolen credit or debit card information to a new card. In card cloning schemes, “carders” buy and sell stolen payment cards on the dark web and often use bots to commit crimes.



2. High Speed Ordering/Spending

Fraudsters often pull off high-speed ordering by using bot attacks, which can complete add to carts five times faster than humans. Bots can strike hundreds of times in minutes, and some bot attacks can last as long as several hours.



3. High Risk Merchant Category Code (MCC)

An MCC is a four-digit number that designates categories for merchants based on their primary business. A bank's underwriting guidelines determine a merchant's risk. The more likely a merchant is to have a high number of chargebacks, the riskier they are deemed. Some of the most common high risk MCCs are gambling, dating services, and the travel industry.



Other Fraud Indicators

ATO

Account takeover is when a fraudster accesses an authentic customer's account. Criminals can gain control of any online account including bank, eCommerce, and email accounts.

Suspicious Email

Fake email addresses or email domains that are known to have higher incidences of fraud are sources of a significant amount of fraud schemes.

3 Ways Financial Institutions Can Stop Common Fraud Contributors



1. Thwart Carders with CNP Fraud-Fighting Techniques

Understand the user patterns associated with carding such as the same card getting used for multiple transactions in a short period of time; if the dollar amount per transaction is above a certain threshold; or if the number of merchant codes in a specified period of time exceeds a threshold. An advanced machine learning algorithm allows organizations to manage complex conditions to detect and prevent crime with greater accuracy.



2. Monitor Suspicious Email Domains

Flag any transaction originating from a suspicious email domain which can include high-risk domains, invalid emails, or unconfirmed email addresses.



3. Develop Hypergranular Risk Profiles to Detect ATO Fraud

Understand your customers by looking at multiple data points when creating customer risk profiles. For example, collect the time of day a customer usually logs into their account, the mobile devices they typically use, how much time they spend on a site or online platform, and how they typically transact. Understanding what normal behavior looks like allows teams to detect and prevent fraud when the customer's account behaves abnormally.

Fraud by the Numbers

Fraud Indicators by Industries



Top 3 Indicators of Financial Services Fraud

1. Card Cloning
2. High risk MCC
3. High Speed Ordering

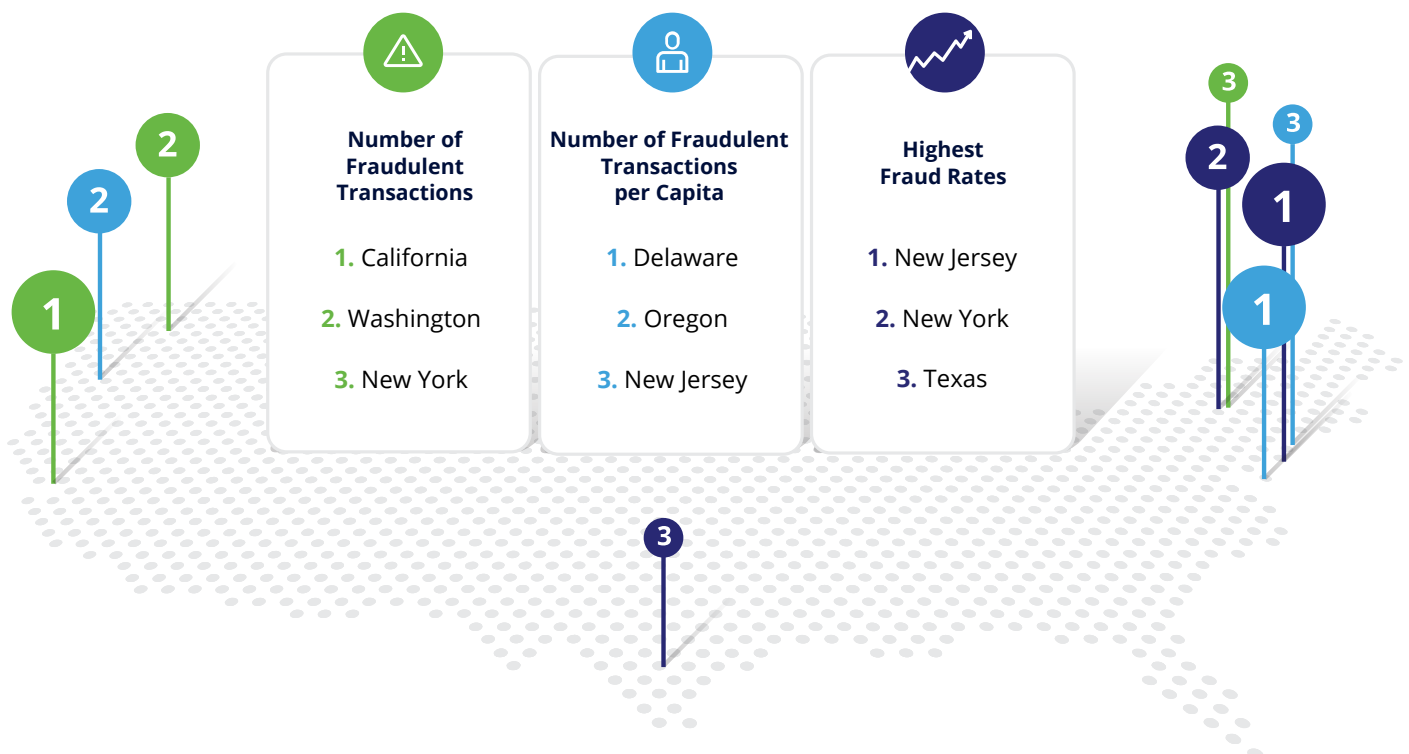


Top 3 Indicators of Ecomm Fraud

1. Card Cloning
2. Account Takeover (ATO)
3. Suspicious email

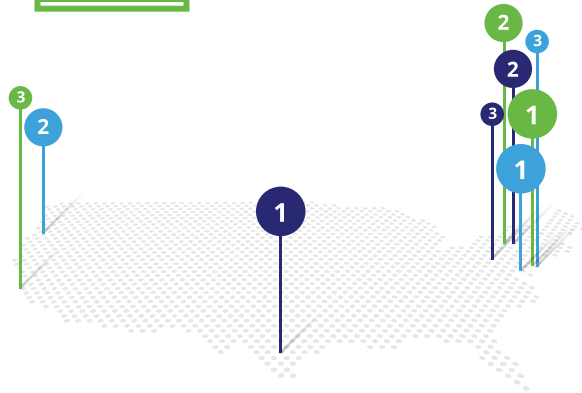
Fraud by Region - U.S.

Fraud Rates Across All Industries





Sporting Goods Industry



Number of Fraudulent Transactions

1. New Jersey
2. New York
3. California



Number of Fraudulent Transactions per Capita

1. Delaware
2. Oregon
3. New Jersey

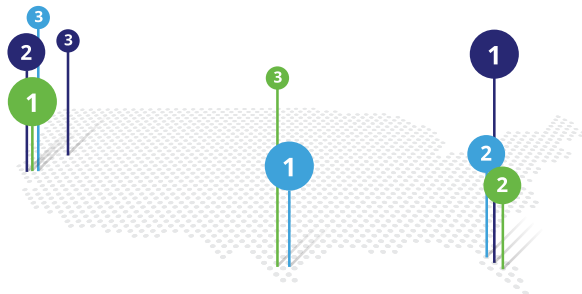


Highest Fraud Rates

1. Texas
2. New York
3. Pennsylvania



Gas Industry



Number of Fraudulent Transactions

1. California
2. Florida
3. Texas



Number of Fraudulent Transactions per Capita

1. Texas
2. Florida
3. California

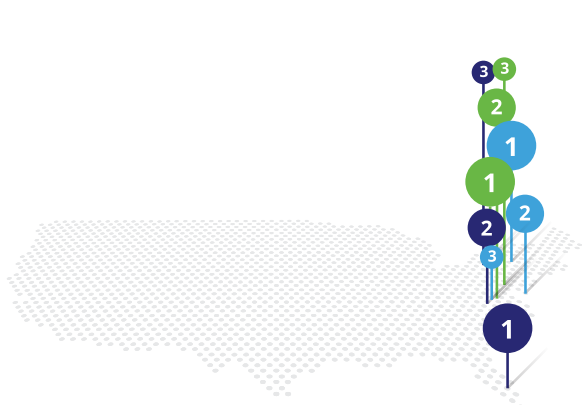


Highest Fraud Rates

1. Florida
2. California
3. Nevada



Public Transportation Industry



Number of Fraudulent Transactions

1. New York
2. Virginia
3. Maryland



Number of Fraudulent Transactions per Capita

1. New York
2. New Jersey
3. Virginia



Highest Fraud Rates

1. Florida
2. Virginia
3. New York



One Platform to Manage Financial Crime

Every year, Feedzai's risk management platform scores trillions of dollars of transactions to protect the world's largest companies. Fully AI-enabled to stay ahead of emerging financial crime and money laundering patterns, Feedzai mitigates even the most deceptive criminals so that banks, issuers, acquirers, and merchants can focus on growth.

Feedzai is considered best in class by Aite and one of the most successful AI companies by Forbes. The world's largest banks, processors, and retailers use Feedzai's fraud prevention and anti-money laundering products to safeguard trillions of dollars and manage risk while improving customer experience.

Account Opening | Transaction Fraud | Anti-Money Laundering

Report Methodology

The Quarterly Financial Crime Report Q4 2020 Edition, captures Feedzai's exclusive data from over 4 billion global transactions across all major industries from March 20, 2020, through September 2020. It also includes our own consumer research survey in collaboration with PYMNTS of nearly 2,200 account-holding U.S. consumers.

The purpose of the report is to provide valuable insights for financial institutions and to fulfill our mission of helping rid the world of financial crime and keep commerce safe.