



Financial Crime Report:

The Dollar Takes Flight

Q2 2021 Edition



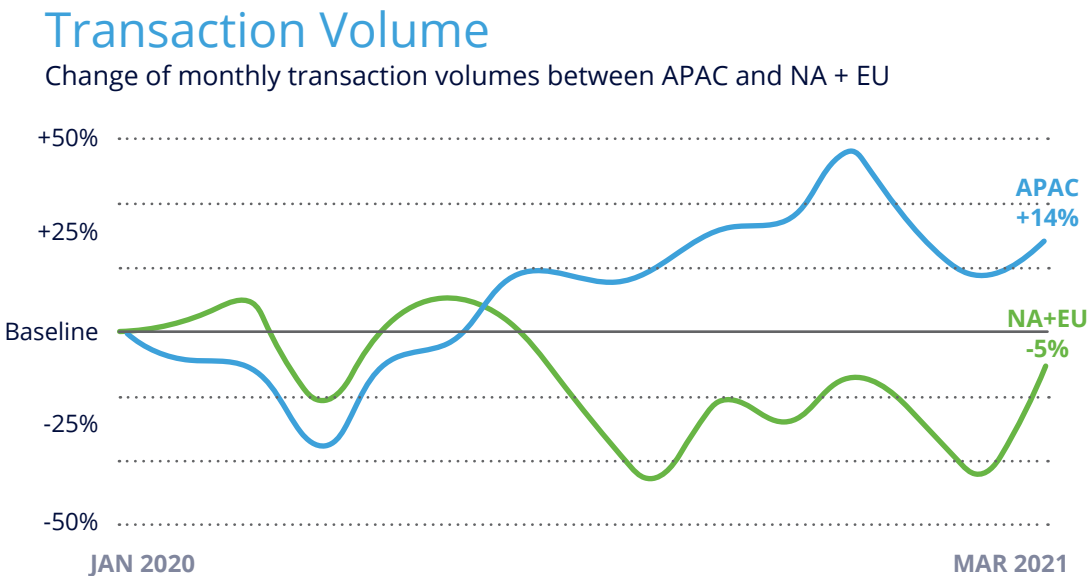
Overview

The second quarter of 2021 in the U.S. looks strikingly different from the first quarter of 2021. Robust vaccine rollouts and strong stimulus payments have boosted the economy and helped forge a path out of the pandemic. As of publication, more than 50%¹ of Americans have received at least one COVID-19 vaccine, 35.4%² have been fully vaccinated, and stimulus payments equalling \$384 billion³ have been issued thus far - something celebrated by common citizens and shiesty fraudsters alike.

We see extraordinary evidence of what that means in practical terms: a 21% increase in cross-state spending in March 2021 compared to January 2021 and a 410% increase in cross-border transactions out of total card volume from January 2021 to March 2021. The increase parallels vaccine rollouts. After more than a year of lockdowns, Americans, and their stimulus funds, are on the move!

But it's not just the U.S. that saw significant changes this quarter. Good economic news is a global story: transaction volume for all tracked regions is now greater than pre-pandemic levels. And the APAC region, which has recovered faster and more consistently than other regions, continues to see strong transaction volume. Unfortunately, fraud and financial crime kept relative pace with consumer spending.

As vaccines become more widespread, we expect the behavioral changes taking place in the U.S. today - namely more travel and a consumer base that more closely resembles a pre-pandemic world - to be mirrored in other countries. But that also means the high levels of fraud will only continue to grow. Consumers aren't the only ones betting on recovery. Fraudsters are too.



728%

increase from Q4 2020 to Q1 2021 in business telephone banking fraud attacks



159%

increase in banking fraud attacks comparing Q1 2021 to Q4 2020



83%

of all fraud attacks involving debit, credit, and prepaid cards occurred online



42%

of fraud scams are account takeover (ATO) attacks

Financial Crime Landscape

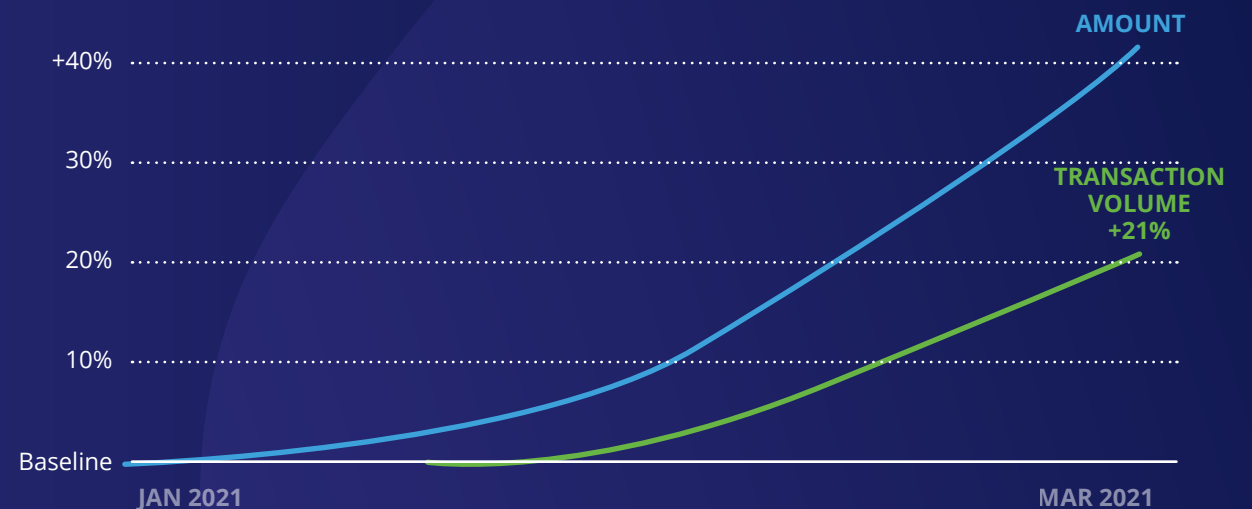
The Dollar Takes Flight

21% increase in travel-related, cross-state spending

Images of vaccinated grandparents joyfully reuniting with their families after a year apart flooded the Internet in Q1 2021. And now we have the financial evidence of those emotional reunions: consumer cross-state spending increased by 21% in March 2021 compared to January 2021. Interestingly enough, this coincides with the emergency approval and roll-out of a third COVID-19 vaccine and another round of payments under the American Rescue Plan.

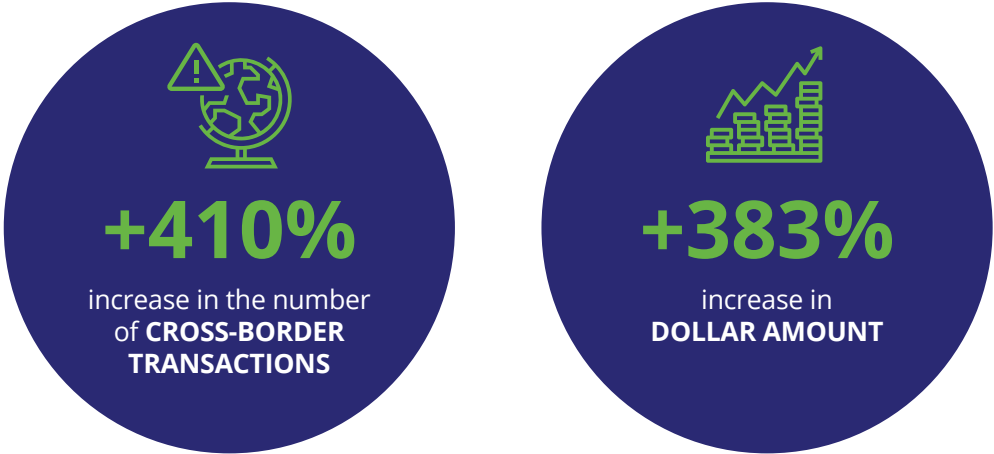


Cross-State Spending Volume
Change of monthly transaction volumes and amounts



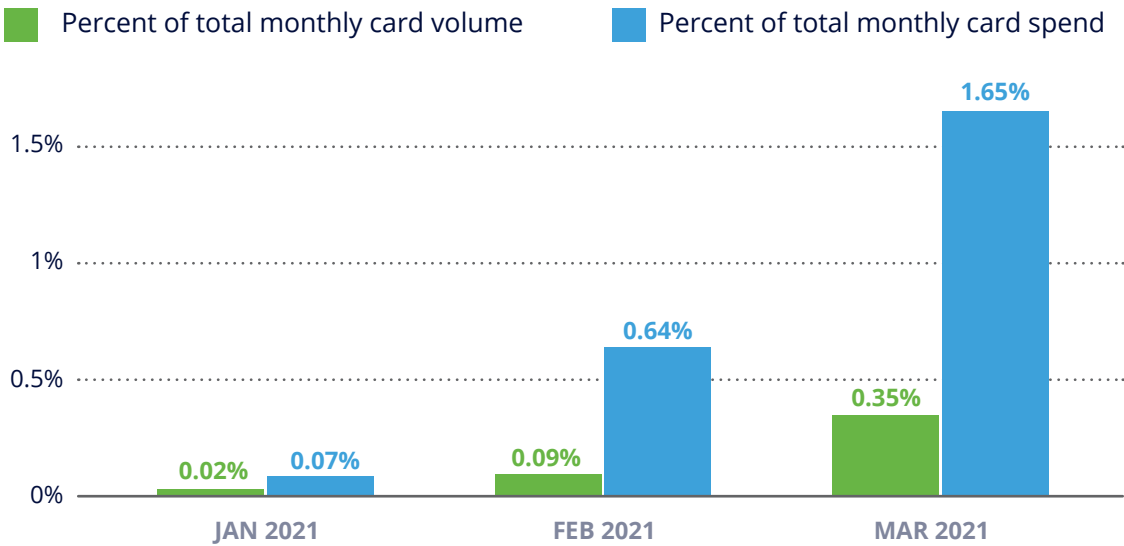
410% increase in international cross-border transactions

Americans aren't just making national moves; they're also transacting on an international level. Month over month in Q1 2021, the data shows that out of total monthly transactions:



Once again, these dramatic changes coincide with additional stimulus payments and more Americans getting vaccinated.

Cross-Border Spending



Digital Deception

Fraudsters Flourish: 159% increase in banking fraud attacks

As consumer activities increased, fraudsters attempted to hide their transactions in the legions of legitimate banking. Combining all banking - internet, telephone, and branch - fraud attacks grew a whopping 159% in Q1 2021 compared to Q4 2020.



Scammers Soar: 728% increase in telephone banking fraud

When was the last time you called your bank? If you can't remember, you're not alone. By summer 2020, telephone banking dropped by 84%, making up only .4% of all banking transactions in 2021. While a 728% increase in telephone banking fraud attacks is significant, the actual amount of fraud is quite small because telephone banking makes up a miniscule share of all banking.

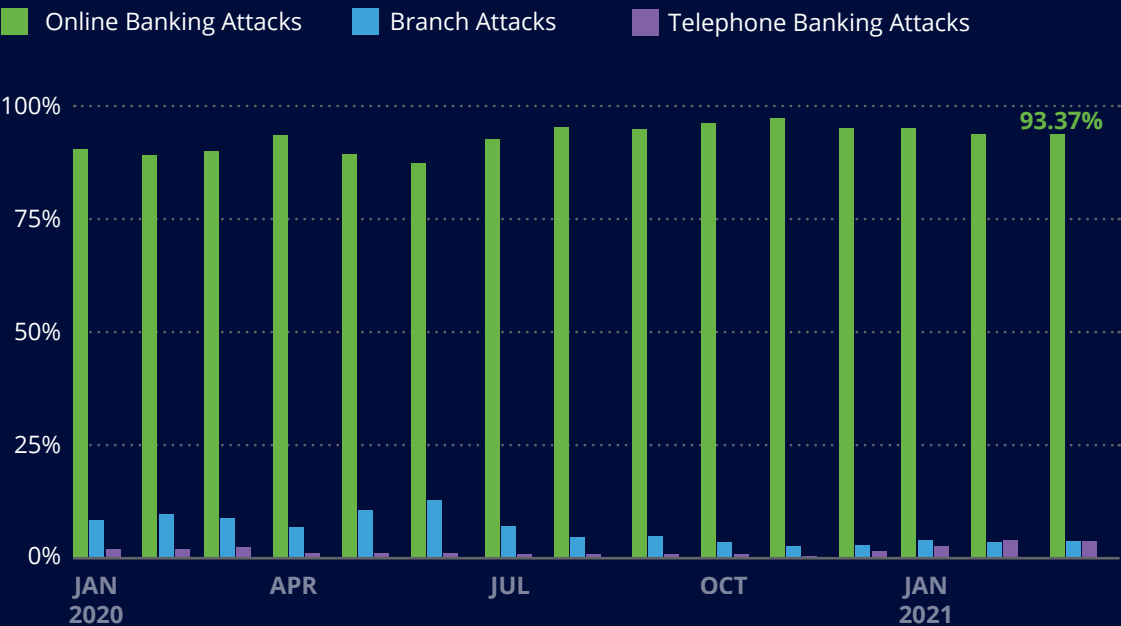


Internet Imposters Inundate: 93% of banking fraud attacks occur online

There's no surprise here. The vast majority of consumers bank online, and that's where fraudsters like to transact as well.

Banking Attacks

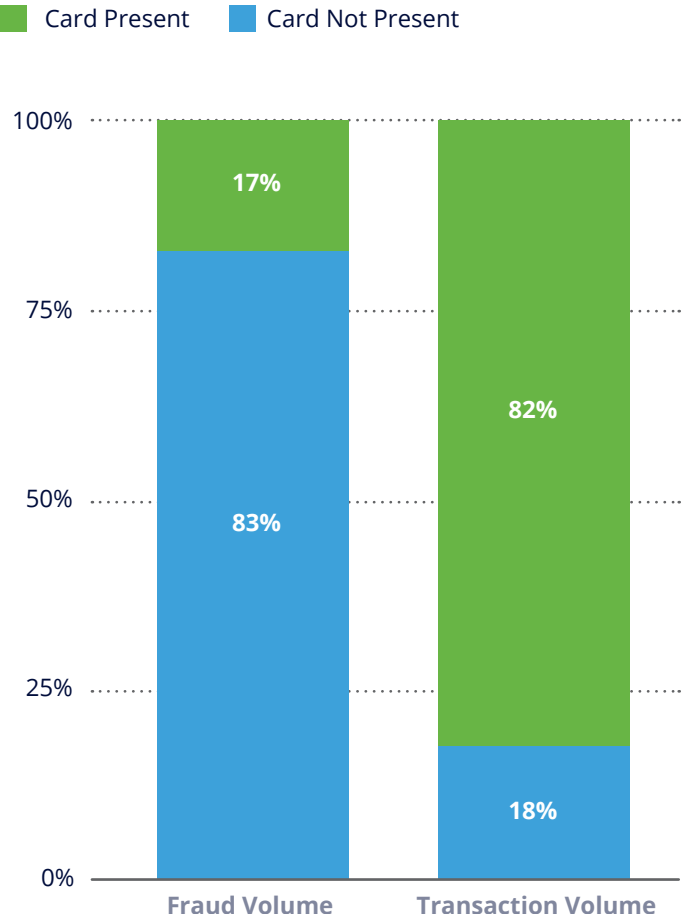
Percentage of total fraud volume



Online fraud accounts for 83% of all card fraud attacks

Social distancing may keep us safe during a pandemic, but that doesn't hold for our credit, debit, and prepaid cards. Tapping, swiping, and entering PINs in person is safer than clicking "buy" online. Much of this may be due to the effective EMV chip security framework. But it's a different story altogether for Card Not Present (CNP) transactions, purchases made when neither the cardholder nor the card is physically present. CNP accounted for just 18% of card transactions, yet drove 83% of all fraud attempts. Even as the world recovers from the pandemic, we still expect more and more transactions to occur online; financial institutions need to place a special focus on CNP fraud prevention, detection, and mitigation to stop what is only going to be an increasingly substantial problem.

Card Not Present Fraud

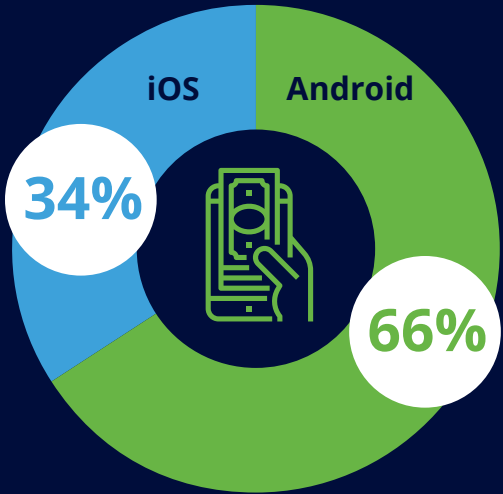


Mobile Money: Android devices see 1.9x more fraud than iOS

In the U.S., CNP transactions revealed significantly higher fraud rates on Android devices, despite having only half the transaction volume of iOS. Two possible causes for this are Android's open approach, which is more conducive for mobile malware, along with Apple's penchant for controlling apps on the App Store.

iOS vs Android Fraud

Percentage of total fraud volume



How Consumers Bank

Back to the Branch: 442% increase in branch banking

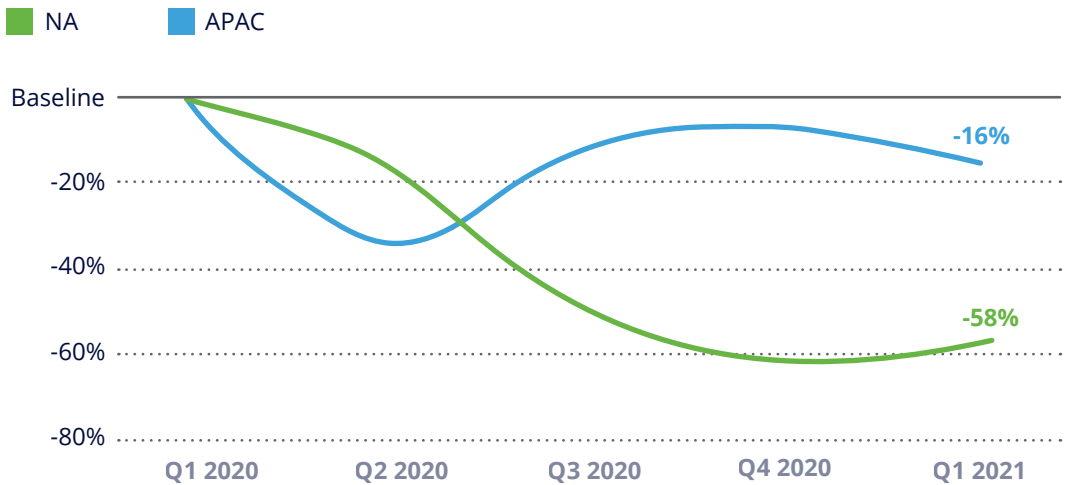
Is branch banking back? Not so fast. We did see a 442% increase in branch banking when comparing March 2021 to January 2020, driven primarily by businesses. However, it's possible that branches were closed and small businesses were only recently able to bank at their branches, which is why we saw such a steep increase. It's important to note that online banking accounts for 96% of all consumer banking.



COVID Crushed Cash: 58% drop in ATM visits

Merchants eschewed cash in favor of contactless payments at the same time that consumers embraced digital banking, so it's no wonder ATM transactions realized a 58% decrease in North America and a 16% decrease in APAC. With the growing popularity of business and peer-to-peer payment channels like Zelle and Venmo, it was likely inevitable, but COVID accelerated cash's collapse.

ATM Transaction Volume



Fraud Report

Top 5 Banking Scams

1



Account Takeover (ATO)

Fraudsters gain access to account credentials and take over the account, which often includes changing the password and address.

42%

2



Account Opening Identity Theft

Fraudsters open accounts using stolen identities. Victims often become aware of this type of scam when debt collectors come calling.

23%

3



Impersonation Scams

Fraudsters pretend to be a government official or some type of authority figure to gain access to an account or trick victims.

21%

4



Purchase Scams

In purchase scams, buyers pay for items online that never arrive.

15%

5



Phishing

Typically, scammers use emails that trick account holders into revealing personal information.

7%

Dollars and Pounds: Fraud Across the Pond

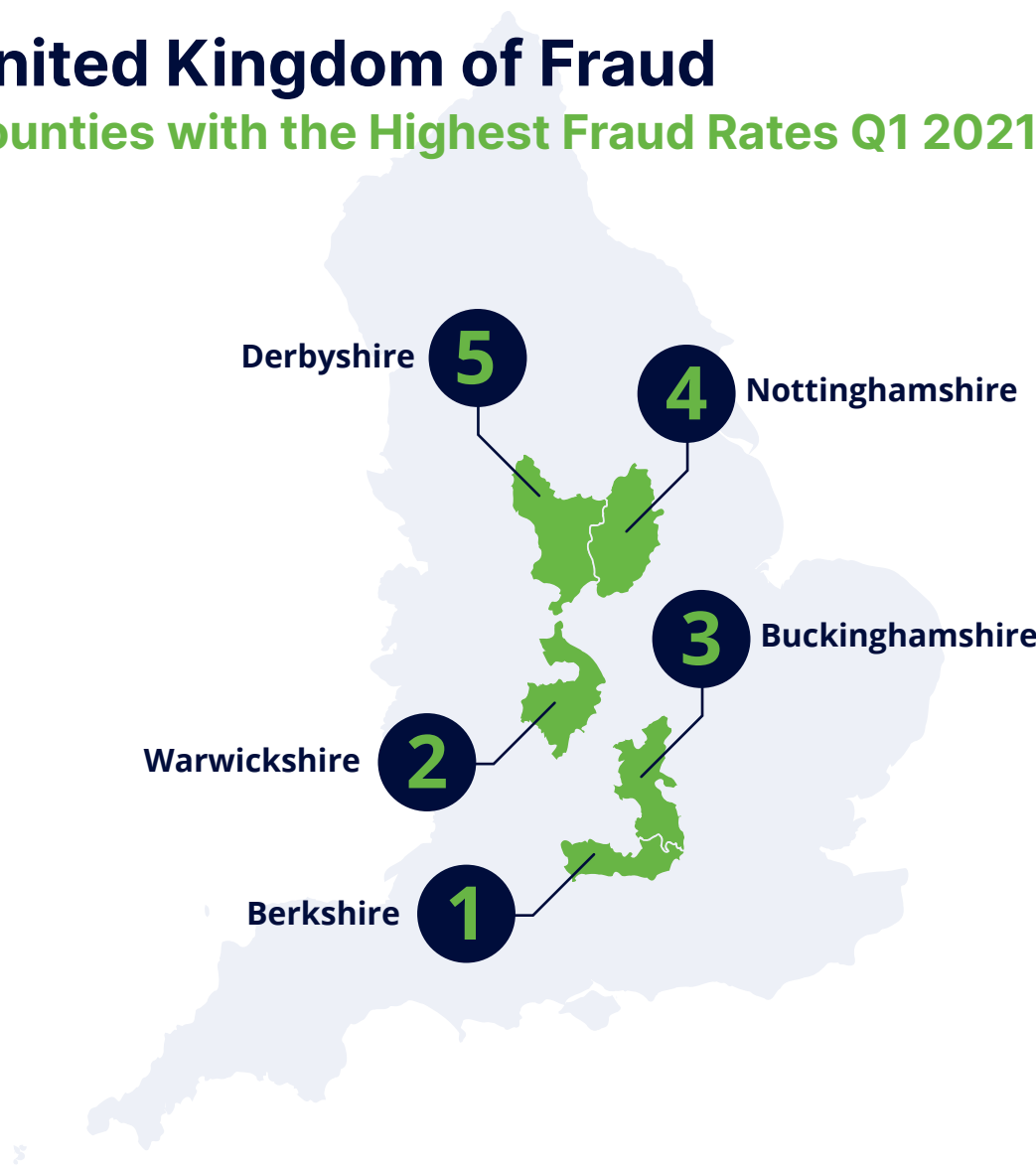
United States of Fraud

States with the Highest Fraud Rates Q1 2021



United Kingdom of Fraud

Counties with the Highest Fraud Rates Q1 2021



AML Report

Top 5 AML Red Flags

AML alerts don't necessarily mean a crime occurred. Financial institutions determine their risk thresholds and set their alerts accordingly. However, several triggered AML alert types can indicate that mules are funneling money obtained through illegal activities.

- 1 Significant change from previous activity**
- 2 Rapid movement of funds**
- 3 Transactions in same or similar amounts**
- 4 Transactions in round amounts**
- 5 High-risk geography**

5 Quick Tips to Protect Travelers

As vaccines roll out across the world, we anticipate a return to something closer to normal, which includes travel. Most of us haven't traveled in over a year; it makes sense that our excitement surpasses caution. So here are some quick tips to keep travelers safe.

1 Turn on app notifications

Your mobile banking and shopping apps often alert you in real time when purchases are made. If there is a transaction you don't recognize, you won't lose any time contacting your bank.

2 Use established cards when traveling

If you have a new card, try to not have the first transaction on that card be from outside your home state or region.

3 Make a practical purchase first

Try not to have the first transaction in a foreign country be a high-value item. Instead, buy a magazine or snack at the airport upon landing.

4 Only use trusted ATMs

Steer clear of ATMs in bars, restaurants, or anywhere that is not a bank branch.

5 Shop safely

Use a credit card embedded with an EMV chip or a PIN when shopping. Do your best not to hand your card to a cashier.



How to Protect Against Fraudulent Cross-Border Transactions

By the end of this year, we anticipate widespread vaccine rollouts across many countries. Now is the time for financial institutions to assure their fraud prevention and detection processes are prepared for an uptick in cross-border transactions.

1 Make use of geo-location data

Compare the distance between the registered device and where the transaction took place. If the device is in London and the transaction took place in Brazil, raise an alert.

2 Consider authentication methods

Not all transactions are equally risky. Card present transactions utilizing EMV or PIN authentication methods are inherently more secure than a magnetic stripe and should be scored that way.





3 Analyze longer timeframes

For both machine learning algorithms and rules, you'll now want to stretch the window of time for analyzing past activity. This will help offset anomalies created by changing customer behaviors.

4 Take a proactive approach to fraud

Now isn't the time to wait for high decline rates before conducting reviews. You can expect customer behavior to change, so proactively review those pattern changes by merchant category code, POS type, location, and transaction value. This allows you to address any obvious points of concern before problems arise.

5 Use two-factor authentication (2FA)

2FA introduces trust into the fraud prevention toolbox, and customers are more inclined than ever to view it as a form of protection rather than an inconvenience.

Conclusion

Vaccines are the game-changer we've been desperately waiting for. We already see the effect they're having on the U.S. population's spending and moving habits. We expect to see this same pattern in other regions when vaccines become more widespread. Financial institutions need to make sure they're ready for a sizable increase in transaction volume.

But consumers aren't the only ones making moves, fraudsters are too. With a 159% increase in banking fraud attacks, 93% of banking fraud occurring online, and the fact that 83% of all card fraud occurs online, financial institutions need to review and reinforce their ability to detect, prevent, and mitigate fraud attacks.

¹<https://www.npr.org/2021/04/18/988574518/more-than-half-of-u-s-adults-have-gotten-at-least-one-covid19-vaccine-dose>

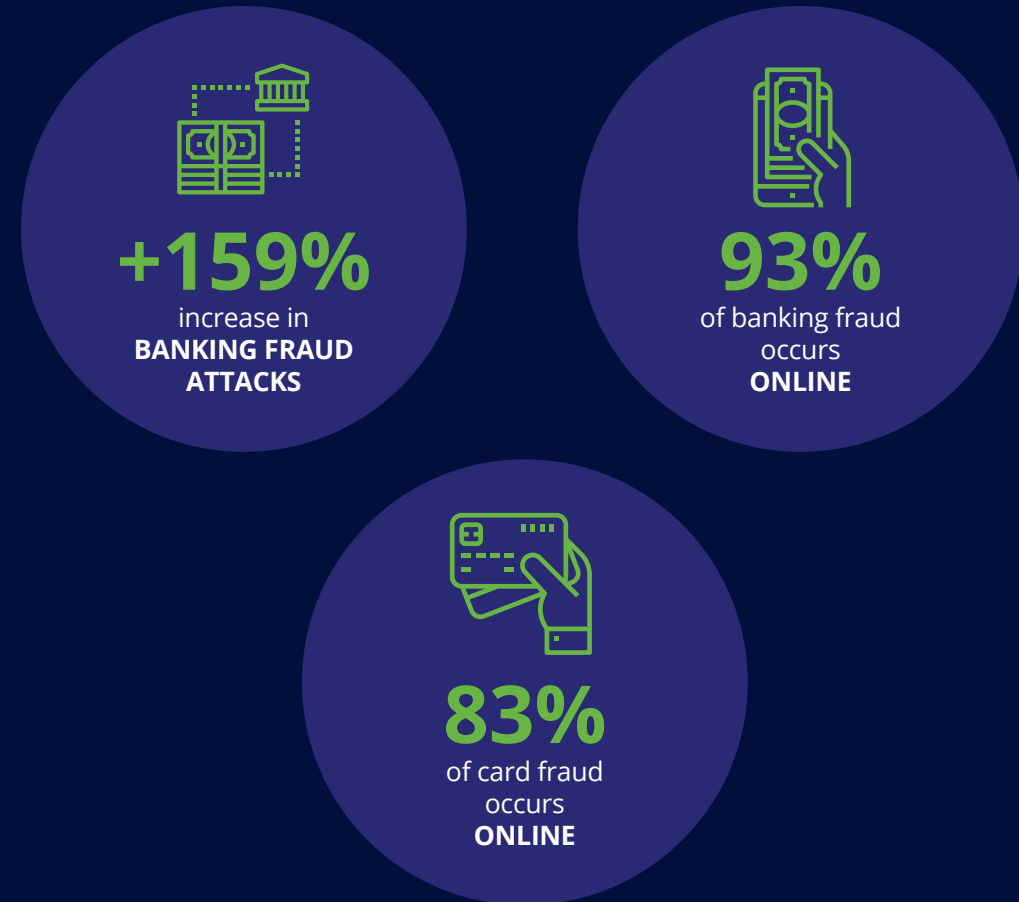
²<https://covid.cdc.gov/covid-data-tracker/#vaccinations>

³<https://www.cnbc.com/2021/04/28/more-1400-stimulus-checks-are-sent-as-the-irs-processes-tax-returns.html>

Methodology

The Financial Crime Report Q2 2021 Edition captures Feedzai's exclusive data from over 12 billion global transactions across all major industries from January 2021 to March 2021, except where noted within the report.

Feedzai's mission is to keep banking and commerce safe. The purpose of the report is to provide valuable insights for financial institutions and helpful tips for consumers to stay financially safe as well.





One Platform to Manage Financial Crime

Feedzai's AI stays ahead of emerging financial crime and money laundering patterns and 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 and financial crime prevention products to safeguard trillions of dollars and manage risk while improving customer experiences.

[Account Opening](#) | [Anti-Money Laundering](#) | [Transaction Fraud](#)

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