FRAUD

Common Questions and Prevention Tips

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BRAZILIAN ASSOCIATION OF CREDIT BUREAUS

Fraud: a historical enemy

Fraud has always been present in the relationships between people, companies, and governments. It takes many forms and is spread across all societies, with varying levels of sophistication.

By definition, fraud is a dishonest action carried out with the purpose of deceiving or misleading someone, or circumventing existing rules and laws.

We can find fraud in various contexts, ranging from those against the financial system, corporate fraud, insurance fraud, or fraud against the public sector, among many others.

In recent decades, technological advances and the digitalization of financial services, the rise of fintechs, digital banks, and the exponential growth of online sales have opened doors for new and sophisticated forms of fraud to emerge. These new cases have spread worldwide and increased fraud occurrence and attempt statistics. As society evolves and becomes more sophisticated, fraud prevention methods also multiply and improve, but fraudsters quickly find loopholes to operate in new environments, imposing enormous challenges for their next victims.

In this e-book, we will specifically address the most common frauds that occur in the credit market and e-commerce sales, which daily affect consumers and businesses and share many common characteristics.

EVOLUTION

Most companies now operate with digital processes, whether to conduct sales or provide different forms of credit. Naturally and frequently, they have become the primary targets of new types of digital fraudsters who search for data available on the internet, such as social networks or applications, to make illegal purchases and transactions.

According to the most recent data from the Brazilian Federation of Banks, 8 out of 10 banking transactions occur in digital environments via mobile phones, internet banking, or WhatsApp.

In online commerce, the numbers are more modest but growing. According to the Getúlio Vargas Foundation, 16% of total retail sales volume in Brazil came from digital channels such as websites, applications, and emails. Just a few years ago, this figure was no more than 4% of total commerce.

Whether in online or physical purchases, most transactions occur via credit card or PIX, which naturally makes them the main targets of fraudsters.
According to data from the credit bureau sector, four out of ten people have been fraud victims in Brazil (42%). Of these victims, 57% suffered financial losses averaging R$ 2,288. Nearly half (49%) of consumers report having been targeted by fraud attempts through email, online, phone calls, or text messages.

Most reported types of fraud by consumers:

39%
Use of credit cards by third parties or counterfeit cards

32%
Fraudulent payment/PIX (Brazilian FPS) transactions

For companies, financial risks are also significant. Credit bureau sector data shows that fraud costs represent losses for companies of approximately 6.5% of revenue.
Worse than financial losses are the consequences for company reputation, loss of customer trust, negative impact on corporate image, and operational costs to investigate and resolve fraud cases.

But what are the most common types of fraud in the credit market and e-commerce?

Common fraud types in the credit market and e-commerce

Although fraud in the credit market and e-commerce may occur in distinct contexts, there is a set of analogous fraudulent techniques and strategies, including personal data theft and misuse of financial information. Clearly, e-commerce fraud is typically related to the purchase of physical products, while credit market fraud involves loans or credit lines, but we can enumerate the most common types of fraud.

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WE HIGHLIGHT HERE THE FOUR MOST COMMON FRAUD MODALITIES

1.

CREDIT CARD THEFT OR CLONING:

The oldest and most common among electronic fraud modalities, credit card theft or cloning is a staple in the credit market and online sales. Credit cards are the preferred payment method for Brazilian consumers when making purchases of any type, including online purchases, which increases the possibility of crimes involving this form of payment. In this type of fraud, criminals either directly steal the cards or copy the most sensitive information such as the card number, expiration date, and security code from an existing card, often at ATMs or card readers. Once in possession of the card data, they make purchases in the victim's name, using a delivery address different from the cardholder's address.

2.

DOCUMENT FALSIFICATION

Criminals falsify documents to validate the identity of a person who does not exist or use documents from another person to obtain credit. This fraud modality may involve creating false identities or altering existing documents to make them appear authentic. Typically, these involve basic registration information such as name, ID Number, address, and banking details. With this information, it is possible to open new accounts, apply for credit cards, and even obtain loans and financing. One of the major nightmares of this type of fraud is that victims usually only discover what happened when they receive bill payments or when their name has already been blacklisted by credit bureaus.

COMMON FRAUD TYPES IN THE CREDIT MARKET AND E-COMMERCE

3.

PHISHING TARGETING BANKING DATA AND CARDS:
The phishing tactic is based on capturing or 'fishing' (the term phishing comes from the combination of the word phreaks, a term used to define hackers, and the word fishing) customer information through sending false emails or messages that induce users to provide their confidential data.
Fraudsters pretend to be a known and trusted company, confusing consumers who, when conducting a credit operation or purchase, are redirected to another website where they end up providing their personal data, passwords, and other banking information. Often, extremely similar fake websites are created replicating apparently known and trusted sites.

4.

CHARGEBACK FRAUD OR IMPROPER CHARGEBACK:
Chargeback is a concern more prevalent in e-commerce, while in credit, the focus is on preventing fraudulent credit acquisition.
In this case, the consumer requests the cancellation of a legitimate transaction, claiming they were not responsible for the purchase and that the instrument used for the operation (probably a credit card) was cloned or stolen, demanding a refund of the purchase amount. Typically, the refund occurs after the purchase has been shipped.

Among these, which types of fraud do consumers fear most?

Credit bureau sector data shows that consumers' greatest fear is falling victim to credit card-related scams (36%), the most traditional of scams. Next come PIX transfers (not covered in this e-book) and data breaches, both at 21%, followed by the use of false documents in 4th place at 11%, and phishing tactics at 9%. Chargeback fraud does not appear because the survey focused primarily on the credit market.

For companies, the main concerns are customer data breaches (49%), financial losses (48%), and internal data breaches (39%).

CREDIT BUREAUS AND FRAUD PREVENTION

Faced with so many challenges related to combating increasingly sophisticated fraud, companies that grant credit or conduct sales through digital channels face a daily battle against potential losses from illegal operations.

Focusing on this increasingly complex scenario, credit bureaus have been improving daily to act in fraud prevention in this constantly changing market.

They possess large amounts of data, which include registration information, payment behavior of consumers and businesses, credit history, and fraud data. Using predictive statistical models and algorithms, combined with advanced technologies such as Machine Learning and Artificial Intelligence, credit bureaus are major allies in this true war against fraud. These models allow for the identification of suspicious behavior and anticipation of actions, preventing potential losses and mitigating risk for consumers and businesses.

However, attention to this issue does not only reach the credit bureau sector. Concerned about the growth of fraud occurrences in the Financial System, the Central Bank and National Monetary Council published Joint Resolution No. 6 in May 2023, with the objective of reducing fraud risks in the financial system through data and information sharing among financial institutions, payment institutions, and other institutions authorized to operate by the Central Bank, including credit bureaus. Information sharing should allow all involved parties to have better discernment about users who present higher fraud probability. Whenever institutions included in the Resolution identify suspicious patterns, they must mandatorily report the occurrence to others, thus strengthening system security.

In this ecosystem with so many participants, let's see what are the main solutions presented by credit bureaus to reduce fraud attempts and occurrences.

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Main anti-fraud solutions presented by credit bureaus

IDENTITY VALIDATION

Using their database with large volumes of data, credit bureaus check the validity of consumer registration data such as RG, CPF, and full name, preventing fraud based on identity theft or false information. For validation, tools such as facial recognition and biometric analysis can be used.

CONTINUOUS TRANSACTION MONITORING

With the help of algorithms, credit bureaus monitor financial transactions and suspicious behavior in real time to identify atypical movements that indicate possible fraud risks. Purchases with amounts well above normal, or at locations and stores outside the standard consumption pattern are continuously monitored, seeking to identify changes in the user's purchasing patterns that may suggest fraudulent activity occurrence. This internet usage pattern is a strong indicator of possible fraud, and the machine learning techniques used by credit bureaus are powerful tools for detecting atypical activities, as the system learns user habits and identifies possible deviations from expected behavior.

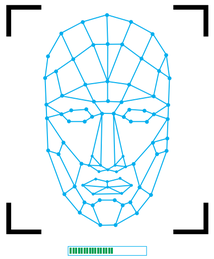
COMMON ANTI-FRAUD SOLUTIONS IN THE CREDIT MARKET AND E-COMMERCE

FRAUD SCORE

Like the credit score, the fraud score is calculated based on a large number of variables and behavioral patterns. Instead of calculating the probability of default, the fraud score calculates the probability that a transaction or credit request is fraudulent. Purchase history, patterns (types of products and amounts), and buyer location are important variables in generating fraud probability based on the user's score.

MULTI-FACTOR AUTHENTICATION

The principle of multi-factor authentication is to combine two or more security factors of different types to validate operations and confirm user identity. Instead of only requesting the user's password, another security factor is required, such as a verification code sent to the smartphone or via SMS. Currently, it is more common for other forms of verification such as fingerprint, facial recognition, or security tokens to be requested, making fraudsters' actions more difficult.



FINGERPRINT OR FACIAL RECOGNITION

Fingerprint or facial recognition are fraud prevention techniques that have been gaining ground in credit bureaus. With the support of artificial intelligence algorithms, it is possible to capture, analyze, and compare people's biometric characteristics, such as face shape, distances between eyes, fingerprint, chin shape, and even mouth and nose size. Images are captured by widely used devices such as smartphones, webcams, or any compatible device. Recognition is performed through a biometric solution that compares images captured on devices with images from credit bureau databases, generating a similarity score between the images, recognizing or not recognizing the captured image.

FINAL REMARKS

Fraud prevention requires continuous and endless effort, as fraudsters are always running at high speed with the intent to circumvent systems and carry out their criminal activities. This effort combines increasingly advanced technologies with significant and constant growth in databases, enabling the development of more sophisticated analytical models and greater predictability in analyzing behavioral patterns of consumers and businesses, contributing significantly to better decisions in preventing fraud attempts and occurrences. And credit bureaus are fundamental pieces in this process.

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The Brazilian Association of Credit Bureaus (ANBC) is a non-profit association that aims to contribute to the sustainable development of credit in Brazil. ANBC brings together credit protection bureaus operating in the country and is one of the founding entities of the LGPD Business Forum.
It is also a member of international associations to promote sector best practices such as the World Bank's ICCR, representing Latin America, the Association of Consumer Credit Information Suppliers (ACCIS), which brings together 39 credit bureaus worldwide, the Latin American Association of Credit Bureaus (ALACRED), and BIIA - Business Information Industry Association (Asia, Pacific, and Middle East). It also composes the Permanent Forum for Micro and Small Enterprises of the Ministry of Economy (FPMPEs).

This e-book aims to stimulate financial education, which is one of ANBC's flagship initiatives. For more information, contact us through the following channels:

www.anbc.org.br