

The Faceless Threat Of CNP Fraud

by [Steve Brown](#)

Whenever celebrities drastically change their appearance, the world is sure to notice. Just think about the recent paparazzi brouhaha over Renee Zellweger's extreme face-changing plastic surgery. Or consider how tongues wagged when Matthew McConaughey lost almost a quarter of his body weight in order to more realistically portray AIDS sufferer Ron Woodroof in the movie Dallas Buyers Club.

Outside of Hollywood, not everything is so obvious to the naked eye however. Fraudsters know this well and rely heavily on the ability to go undetected, as they relentlessly exploit vulnerabilities and seek out new avenues for deception as they seek to steal money from the unsuspecting or unaware.

One fast-growing area for thieves is in the aptly named "card not present" (CNP) space, which includes telephone purchases, mail order and e-commerce. CNP fraud, which takes place when no physical card is present, is expected to increase at a fast clip. This is especially likely as EMV chip card adoption grows, making it more difficult to replicate physical card data and also as e-commerce continues to take off. Aite Group estimates the US will have roughly \$2.9B in CNP fraud losses this year and projects this will rise to \$3.8B in 2016 (the first full year after the EMV liability shift), and increase to \$6.4B in 2018.

At present, merchants are typically the ones on the hook financially when CNP fraud occurs. It is likely that banks are going to have to pay more attention to identifying and preventing CNP fraud in the future though, so preparation is advisable. Antifraud technology provider Feedzai recently crunched data for 17.5B online transactions and found some interesting trends.

For starters, Nov is the biggest time of the year for CNP fraud, according to the data collected. Feedzai also found that CNP fraudsters are an aggressive bunch in their purchase-making. The average CNP fraudster used counterfeit cards to spend \$900 per card in 5 days. By contrast, thieves in card present transactions spent only \$450 per card over 7 days, a sizable difference. Day of the week and time of day are also factors in CNP fraud. Monday is the busiest day for fraudsters and their favorite time to go on a buying spree is between 12pm and 1pm. You might also be interested to know that CNP fraudsters most frequently target electronics and discount stores.

The more knowledge you have about CNP fraud, the more your bank can put protections in place to help shield customers from trouble. At a minimum, think about employing prevention and detection programs that notify cardholders when odd online transactions are initiated. Once this heightened level of security has been triggered, the transaction can be required to go through extra authentication. Certain types of transactions or purchases above certain dollar thresholds might also trigger heightened authentication requirements. Technology alone won't solve the problem, but it can provide a necessary layer of protection.

Given the billions of dollars stolen each year, CNP fraud isn't going away any time soon and indeed it's only expected to get worse. As such, the more prepared your bank is for battle, the better off you will be in the fight to keep customers safe from the faceless criminals that lurk somewhere out there in cyberspace. Stay on your toes, monitor customer activity and as a good start you might also want

to check with your insurance carrier to see where they are seeing increased issues so you can prepare.

BANK NEWS

M&A

The Security National Bank of Sioux City (\$830mm, IA) will acquire First Trust & Savings Bank (\$121mm, IA) for an undisclosed sum.

M&A

Border State Bank (\$370mm, MN) will acquire First Advantage Bank (\$70mm, MN) for an undisclosed sum.

Economic Projection

JPMorgan projects the Fed will raise rates for the first time at the Jun 2015 meeting and push the Fed funds rate to 1.00% by the end of the year.

Small Biz Lending

LendingTree announced it will offer loans to small businesses seeking to borrow between \$5k and \$1mm through its online platform.

Fraud Alert

A group of four has been arrested in FL for allegedly defrauding 8 banks. The group reportedly ran a scheme where thieves opened accounts, deposited funds and then travelled overseas. Meanwhile, another fraudster in the group would use a cloned debit card to drain the account and then the original thieves would hit the banks for reimbursement for the "account theft." Be careful out there community bankers.

Higher Growth

The IMF indicates falling oil prices could boost US growth to 3.5% in 2015 vs. 3.1% expected previously.

Stronger Housing

Zillow forecasts rising rents will lead to a big jump in Millennial home buying in 2015.

Business Forecast

The latest Business Roundtable survey of CEOs finds most predict the economy will grow 2.4% next year.

Portfolio Shift

The FDIC reports bank holdings of US Treasuries jumped 26% in Q3 vs. Q2, reaching the highest percentage of bank assets in the past 100Ys. This shift is being driven by the largest banks, who must meet more stringent liquidity rules under Basel III.

Crackdown Coming

Fed NYC President Fischer is reiterating his call for the Fed to increase regulation over the shadow banking system (insurance companies, hedge funds, mutual funds, etc.). He said that the Fed has been mapping out major firms in the shadow banking system and plans to increase its focus in 2015.

Copyright 2021 PCBB. Information contained herein is based on sources we believe to be reliable, but its accuracy is not guaranteed. Customers should rely on their own outside counsel or accounting firm to address specific circumstances. This document cannot be reproduced or redistributed outside of your institution without the written consent of PCBB.