Distinguishing Anomalous vs. Suspicious:
Enhancing Transaction Monitoring in Payments

Macha Fraud Day

November 2024

Q2

What does pasta sauce have to do with transaction monitoring?

Agenda

1. **The Challenge**

2. **Anomalous vs Suspicious Transactions**

3. **Approaches to Enhance Monitoring**

The Challenge

30

seconds

The time it takes for a bad actor to take money from an account

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"What is the true cost of a fraud event when accounted for across FTE, hours, systems, etc.?"

"Unknown"

"Hard to quantify"

"Don't really know"

"Depends on the event"

"There is <u>no</u> number of acceptable losses. This is <u>reputational</u> and impacts real businesses and customers in our <u>communities</u>."

Fraud by the Numbers

This is an existential challenge that is becoming more complex & costly.

Fraud is at All-time Highs & Getting More Complex

$150B
North American fraud losses in 2023

$21B
Check fraud committed in 2023

+57%
Increase in fraud attacks at FIs in 2023

Fighting Fraud Remains Costly & Labor-Intensive

4.5x
Multiplier impact for "true" costs for every $1 of fraud

10+
Disaggregated systems used by fraud operations at an example FI

68%
Of FIs recovered <50% of fraud losses in 2023

Payment Fraud is at an All-Time High...

Traditional Payment Types

All
76%
Organizations experiencing attempted or actual payment fraud

Checks
66%
Organizations experiencing fraud activity from checks

ACH
37%
Organizations experiencing fraud activity from ACH

Wire
32%
Organizations experiencing fraud activity from Wire

Emerging Payment Types

86%
Increase in Zelle fraud YoY

31%
Increase in PayPal fraud YoY

Card Fraud

65%
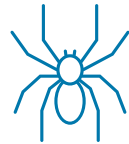Cardholders experiencing fraud activity from cards

The Landscape Is Evolving

Ongoing shift to mobile and digital banking

Evolution of digital banking and payment rails (including Crypto)

Rise in synthetic IDs, AI

Information is everywhere all the time ("there is no PII")

"Fraud-as-a-Service" and "friendly fraud"

Increasing complexity due to AI

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Anomalous vs
Suspicious

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Survey Question 2:

"What are the largest fraud threat vectors for your institution?"
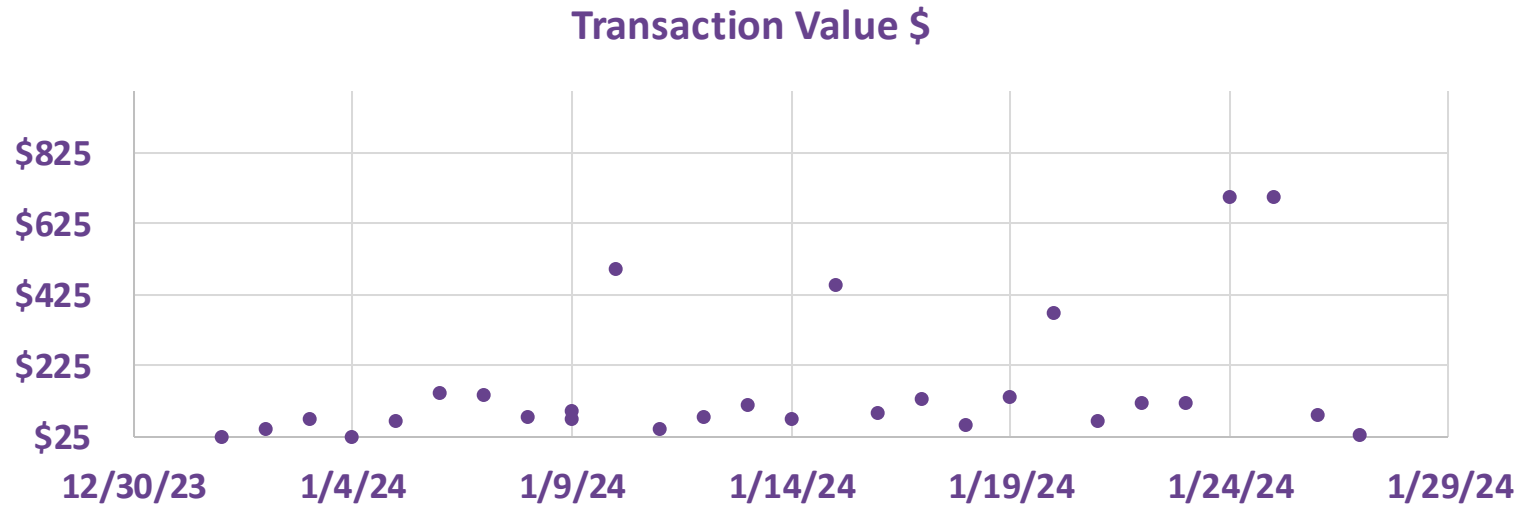
"Zelle and Checks"

"Account Takeover"

"Account holders falling for scams"

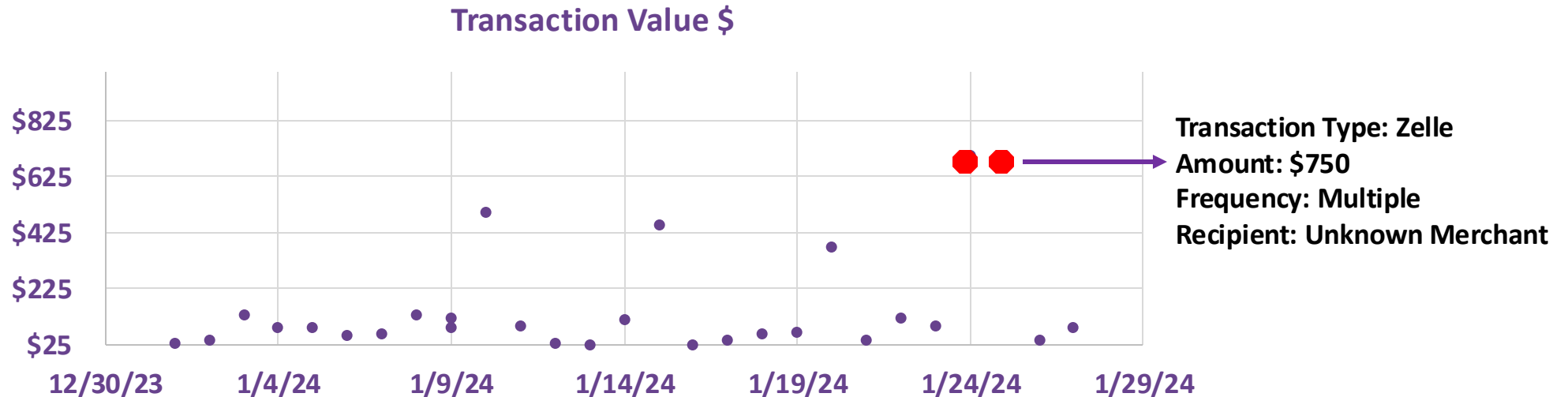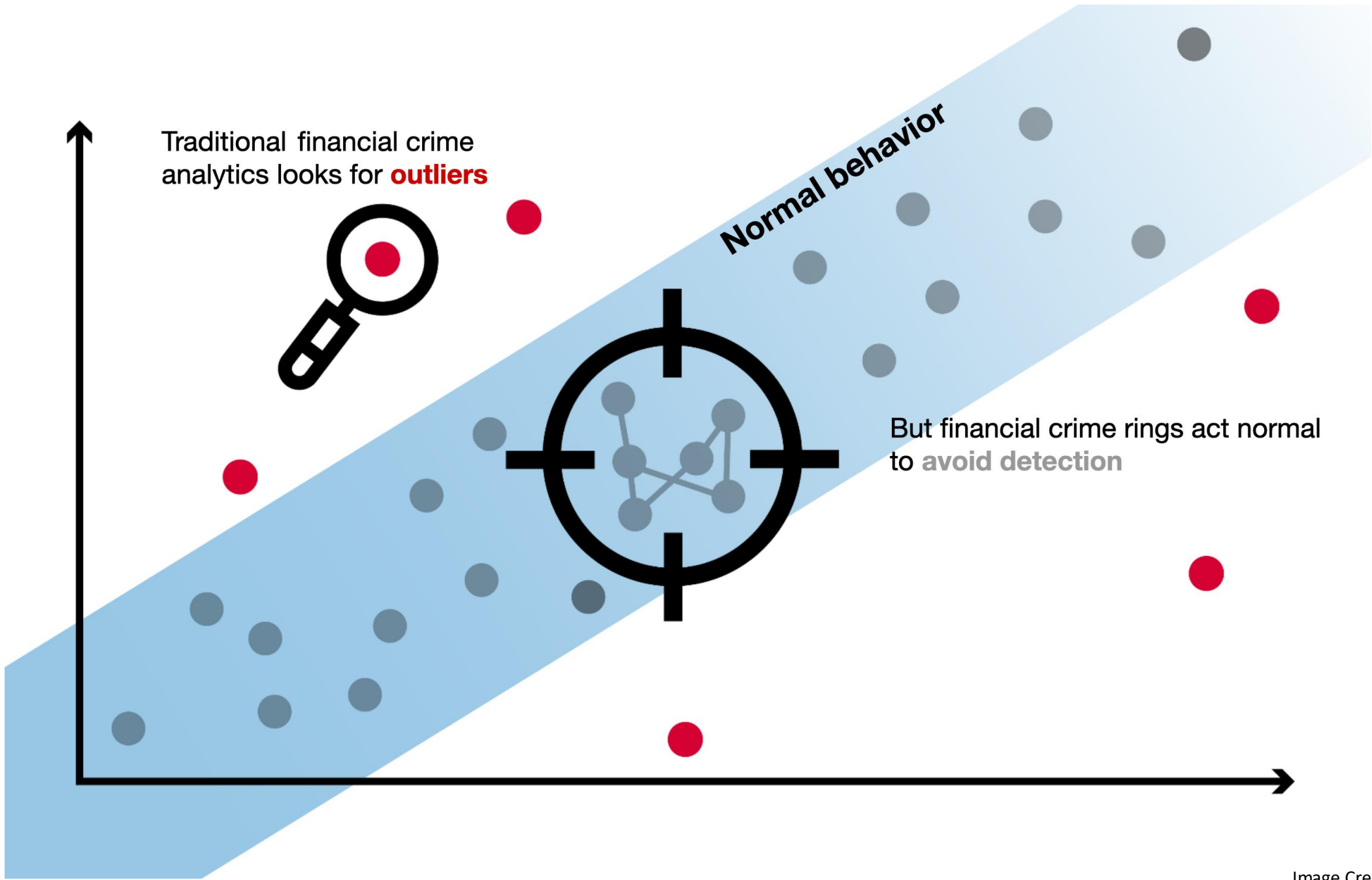"Social Engineering & Account Takeover"

"P2P"

Anomalous

These are transactions that are different from a customer's normal behavior. Anomalies can be unusual amounts, atypical user behaviors, or other indicators of suspicious activity.

Transaction Value $

Suspicious

These are transactions that are considered suspicious based on certain red flags. Red flags can include unusual sizes or frequencies, transactions involving high-risk countries, or transactions that don't align with the customer's profile.

Transaction Value $

**Transaction Type: Zelle
Amount: $750
Frequency: Multiple
Recipient: Unknown Merchant**

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Traditional financial crime analytics looks for **outliers**

Normal behavior

But financial crime rings act normal to **avoid detection**

Current risk strategies prevent great customer experiences

Customers expect speedy, seamless, and secure experiences

Fraud teams and digital teams are often at odds with one another

FIs often struggle with managing a large volume of data across transaction types

Resource constraints make it challenging to test and implement emerging tools

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Approaches to Enhance Monitoring

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Best Practices for Effective Transaction Monitoring

Integrate Compliance & Screening Processes

Aligns KYC/KYB, sanctions screening, and regulatory compliance efforts for a seamless and secure transaction monitoring system.

Develop a Holistic Risk Assessment Framework

Continuously evaluate customer risk profiles and adapt monitoring to focus on high-risk activities for more effective oversight.

Leverage Advanced Analytics and Maintain Data Integrity

Run multiple data sources in tandem and centralize other siloed data to create holistic customer profiles, allowing for efficient ongoing insights.

Focus on Proactive Transaction Monitoring

Make more informed decisions with a richer set of centralized customer information, streamlining manual review processes.

What does spaghetti sauce have to do with fighting fraud?

There are only solutions, not a single solution!

Thank You

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