

Fighting Credit Card Fraud During a Pandemic – SEON Sector Report



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Executive Summary

Since the start of 2020, a cat and mouse game has been underway across our planet. Experts across a range of fields have been engaged in a battle to understand, treat, track, and contain COVID-19, one of the greatest threats humanity has faced in generations.

There has, however, been another cat and mouse game being forged in the shadow of the pandemic, one that has existed for decades, but now poses a heightened risk for those businesses finding themselves in newly perilous positions – fraud.

As the world migrated online in record numbers to cope with restrictions on physical movement and interaction, within their numbers were those with nefarious intentions. As so much fraud is now perpetrated in cyberspace, many fraudsters saw an opportunity in enhanced traffic volumes, and they have been capitalising on it.

1.1 ADDRESSING A CRITICAL OVERSIGHT

With the effects of enforced lockdowns on commerce dominating mainstream conversation, little has been discussed about how already besieged sectors are sustaining damage from fraud at a time they are least able to bear it.

In this report, we seek to address this oversight. By gathering the thoughts of industry leaders and sector experts, we present the realities facing four digital verticals at a time of extraordinary turbulence.

In the relatively short time SEON has been developing and integrating state-of-the-art fraud prevention technologies, we are proud to have become a trusted partner to some of the biggest names operating within some of the most digitised sectors.

Through our work and close client relationships, we have cultivated a network that feels comfortable sharing candid insight about how their businesses are responding to fraud at a time of pandemic.

We have focused our research on four verticals:



iGaming

01



eSports

02



Cryptocurrency and online trading

03



Travel

04

As four sectors which were either born out of digitisation or have adopted it to the point it has been transformational, their challenges are reflected in similar ways across a range of other verticals. Collectively, they are representative of much of the contemporary business landscape.

We will explore examples of the types of fraudulent activity these sectors have been subject to, both the familiar and the novel. We will also see the steps they are taking to fight the modern fraudster and the other options that are available to them.

By sharing the experiences of these industry leaders and the views of our sector experts, we will articulate the challenges being faced by today's digitised sectors and how the fight against fraud is intensifying.

Sector Analysis by Vertical



2.1 IGAMING

iGaming refers to the act of betting on the outcome of an event or game online. Known more commonly as online gambling, it includes such activities as sports betting, online casinos, and even betting on outcomes from such events as national elections and TV shows.

The iGaming sector experienced a spike in fraudulent activity following the temporary closures of land-based sites. Carsten Sundberg, CEO of PlayNirvana Group and Eurobet CIO, Paolo Bazzocchi both reported that their business had witnessed an increase in attempted fraud as their physical sites were forced to close.



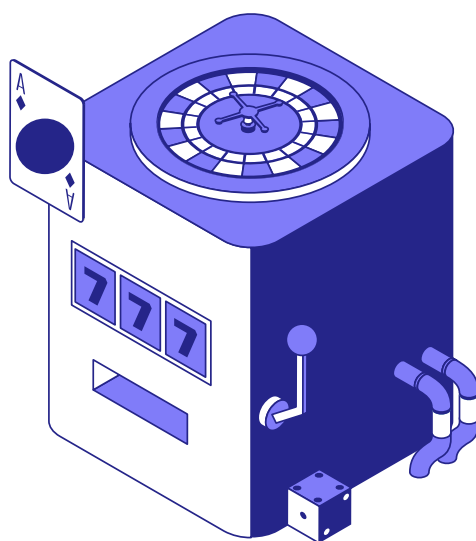
Christian Berez
Head Of Business Development, SEON

However, iGaming is a resilient industry. Sector expert Christian Berez, our Head Of Business Development at SEON, explained how companies were able to respond to the COVID-19 crisis, “Currently, the pandemic is hitting live sports so the usual traffic towards such events has declined. The iGaming sector has reacted by offering more eSports and online casino games leading to significant increases in traffic towards both. Of course, the problem has been that more traffic accordingly means more fraudulent behaviour.”

Though they have largely been able to mitigate the effects of national lockdowns, iGaming providers have been forced to look again at another crucial aspect of their business, the customer journey.

As Christian said, “Many states are tightening regulations and iGaming operators need to maintain compliance whilst limiting friction points for their users. It’s a complex balancing act, but there are technologies that can achieve this.”

Beyond maintaining smooth customer journeys, iGaming providers continue to be challenged by familiar types of fraud. Bonus abuse and affiliate fraud are on the rise and though, historically, operators paid little heed to the problem as revenues were otherwise so high, it is those operators now taking it seriously that are emerging as market leaders.



Its challenges notwithstanding, the iGaming sector has remained largely confident in its ability to offset the harm of COVID-19. When asked if there have been lessons learnt from other verticals during the pandemic, Paolo Bazzocchi replied candidly, “**I think they should learn from us.**”



2.2 ESPORTS

eSports is a form of sport competition using video games. It usually involves organised, multiplayer video game competitions between professional players either individually or within teams. Globally, it is one of the fastest growing sectors.

As eSports tournaments have become high profile, betting on outcomes has become commonplace and it is presenting unique problems. Firstly, as it centres on video-gaming, eSports attracts a younger audience, putting added pressure on operators to validate user ID. Then there's the fact that this younger audience is more tech-savvy than older audiences. It comprises the first wave of true digital natives, adept at finding ways to circumvent weak fraud prevention rule sets.



Daniel Sebes
Business Development Manager, SEON

Perhaps most alarming for the sector though is that, given the increasingly large sums of money at stake, **eSports is attracting the attention of more experienced and more ruthless fraudsters.**

Our eSports expert and Business Development Manager, Daniel Sebes, provided an example of the kind of challenges the sector faces, "We found that fraudsters were registering multiple accounts and playing against themselves, using the bonuses provided by operators to generate cold, hard cash. To prevent this, we had to look at factors such as whether an account would always lose to the same one. Remarkably, we found that there wasn't a proper rule set or methodology for this."

Taking on the fraudsters in the iGaming space requires a different kind of approach. As one industry leader told us:



Many fraud prevention companies base their solutions around the behaviours of traditional fraudsters. But this is not a traditional space. We have found the most effective methodologies are provided by those innovators who are able to think like this new breed of cyber-criminal. They know our sector, they know what the neo-fraudsters are capable of, and they know how to stop them.



2.3 CRYPTOCURRENCY AND ONLINE TRADING

A cryptocurrency exchange allows customers to trade crypto or digital currencies for other assets including conventional money. Closely related is online trading which has, in recent years, become an activity opened up to the public in much more accessible ways through technology.

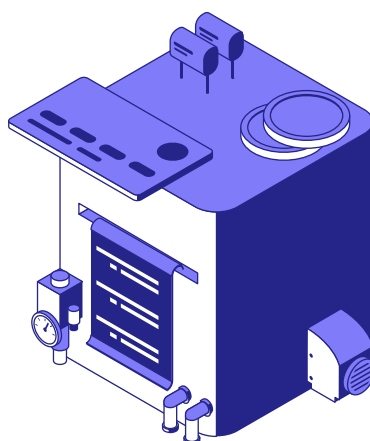
As a vertical, cryptocurrency and online trading generally experienced growth during the early months of the pandemic. More people at home, with more free time and more disposable income, led to a spike in interest in what many viewed as a ‘get-rich-quick’ scheme. It also led to a spike in fraud.

Aleksandar Nikolov, Chief Analytics & Development Officer at FinScore told us, “In terms of fraud, the effect of COVID-19 has been mostly negative. **People are losing their jobs as businesses close and they seem to be more inclined to committing fraud than before.**” Aleksander’s observation was shared by other business leaders. Anastasia Semenkova, Sales Manager at PayOp described the increase in fraud they had witnessed as “dramatic”.

Karen Farrugia, Head of Risk at OpenPayd added, “Our operations largely continued as normal, but I think it made it clearer how having internal controls against fraud is very important as we observed fraudsters looking for ways to take advantage of this pandemic using new methods.”

The businesses we spoke to reported that they had coped with the pandemic so far, but most were aware of businesses who had not been so fortunate. **Survival was attributed to a range of factors from deeper digitisation, to a renewed focus on innovation, and the success of remote working.**

However, even for those that survive, COVID-19 will leave a legacy. The COO of a prominent finance company told us, “Most companies have been forced to move to online services in order to survive. In this regard, there is a growing need to find a more suitable and accurate way of dealing with fraudsters.” He added, “Looking to the future, one of the main lessons learned for us, is that investments in digitisation and automation do pay off.”



2.4 TRAVEL

By comparison, travel is an ancient sector, but it is one that has undergone one of the most profound digital overhauls. Today, around half of all holidays are booked online. It is also a sector that has experienced the fraudulent activity that follows on from services being migrated to the web.

Roy Firestein, CEO of Autohost, a security software provider for the travel sector, said of the pandemic, “We have seen an increase in fraudulent behaviours during COVID-19, from the growing use of stolen and fake IDs and stolen credit cards, to the fraudulent request of chargebacks.” On the effect this has had on companies, Roy added, “It’s been an extremely tough time and those firms that didn’t maintain cash reserves or had sub-optimal business models went under or were liquidated.”

Though the travel sector is used to facing such fraudulent activity, the pandemic has also thrown up novel problems. Another industry leader told us,

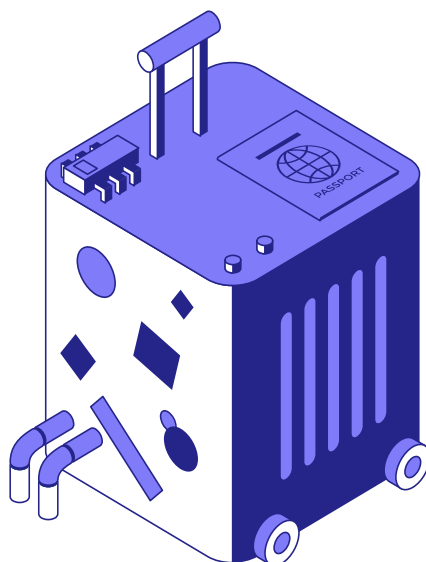
“We’re finding that people are often lying about their home addresses, intentions, and plans when they’re booking a vacation and it seems to be an attempt to avoid COVID-related restrictions and tracing.”

The travel sector does have an advantage over others though. Operators are happy to collaborate to find ways of beating the fraudsters. As sector expert our co-founder and COO at SEON, Bence Jendruszak, explained, “There’s often a lot of hostility between players in the same sector, but we don’t find this with the travel industry. Operators meet regularly to discuss problems and share information, and this will be highly advantageous to them going forward.”



Bence Jendruszak
COO and Co-founder, SEON

However, the travel sector risks negating the benefits gained from close collaboration with their reticence towards adopting cutting-edge technologies. As an older sector, many companies have systems and processes now decades old and are reluctant to commit to wholesale digital transformation.



On this issue, Bence remarked, “Operators within the travel sector need to look again at some of the solutions out there now. **Adopting new technology doesn’t have to mean wholesale migrations to new platforms overnight.** Powerful tools can be seamlessly added to their back-end and added to incrementally until the operator feels confident to adopt a more widescale transformation.”

Findings

As we can see from our exploration of these four verticals, though fraud between sectors has been experienced differently during the pandemic, all have faced it.

For eSports and iGaming, bonus abuse, multi-accounting, and affiliate fraud remain persistent forms of attack. However, defence to these attacks is improving all the time and an emerging and effective shield in this defence is to use the fraudsters’ credentials against them.

Technology is now allowing fraud prevention operators to develop accurate patterns of fraudulent behaviour and build profiles that can be used to determine the authenticity of user accounts.

By tracing a user's digital footprint and monitoring everything from associated email addresses to social media profiles, players in the iGaming and eSports space are able to perform instant background checks on customers.

Those operating in the cryptocurrency and online trading space face different but equally serious threats. A heavily regulated sector, online traders must maintain customer journeys that are both compliant while remaining as frictionless as possible. Meanwhile, challenges such as bonus abuse, account takeover, and fraudsters trying to access customer wallets remain stubbornly persistent.

Crypto is different. In what is comparably a more shadowy space, victims tend to be market entrants looking to buy cryptocurrency and instead stumbling into seasoned fraudsters who access their card details and begin helping themselves.

Nonetheless, security around the sector is improving. Players like SEON are reducing the friction associated with ID processes. Rather than using physical documents that can still be forged and are expensive to verify, focus is turning towards screening digital IDs such as emails and IP addresses. Cheaper and quicker to analyse, alerts can be sent which flag suspicious users, create accurate profiles of irregular accounts, and maintain smooth, unobtrusive customer journeys.

With travel, again there are similar challenges, and challenges which are unique to the sector. **Targeted by chargebacks and stolen cards, travel companies are also subject to loyalty fraud.** This is often overlooked, but customer offers such as air miles and loyalty points are essentially a form of currency and are just as valuable as cash and credit cards. As such, its impact can be as damaging as conventional payment fraud.

There is also an added urgency around travel fraud. Unlike within other sectors, it is less the people selling fraudulently acquired travel packages that are the threat than it is those that procure them. As Bence Jendruszak explains, "Stolen airplane tickets or tickets bought with stolen cards are being heavily used by people involved in more serious criminal activity such as drug and human trafficking and terrorism. Indeed, in the case of payment fraud in travel, this is the case with around 60% of all transactions."

Much like other verticals, travel is bolstering its defences with technology. **Traditionally, companies would employ large fraud teams working on 24-hour rotas to manually assess the validity of transactions.** Today, software is available that replicates this task with enhanced accuracy and with results delivered in seconds.

As we also saw, the travel industry maintains strong, collaborative bonds between its players. This solidarity, together with powerful technology, can reinforce the armour-plating around this COVID-hit vertical.

Closing comments

To bring this report to its conclusion, we finish with a few words from co-founder and CEO of SEON, Tamas Kadar.

Though you might hear to the contrary elsewhere, it's important to understand that there is no way of fighting fraud that can ever be 100% successful. Every time a company like ours develops a new line of defence, the fraudsters begin looking for ways to bypass it. A solution we develop today might be outdated in just a few months' time. Unfortunately for the fraudsters however, though they may never stop, neither do we.

The solutions developed by SEON have made an enormous impact on the way our customers can manage, monitor, and mitigate fraudulent activity. Key to our ability to provide such solutions has been our open lines of communication with our customers themselves. It's vital that newly digitised businesses understand that fraud prevention is an evolving practice, and their feedback is vital.

For example, our customers know they are encouraged to contact us whenever something changes within their business, be that a release of a new software update or simply a realisation that their customers often use other social registries that we haven't been monitoring. With this knowledge, we can quickly begin developing new lines of defence.



Tamas Kadar
CEO and Co-founder, SEON

It's also vital that user journeys are kept as smooth as possible. It is not in our interest for our customers to be experiencing churn because of obtrusive verification steps. This is the reason SEON fraud prevention is designed to act almost as a silent partner, allowing users to enjoy a smooth onboarding process but immediately alerting the operator the moment something looks suspect.

As our industry leaders and sector experts have explained in this report, the pandemic has not deterred the fraudsters. In fact, in some cases, it has empowered them. But we also remain undeterred.

Through deeper digitisation and open, trusted conversations, businesses can build formidable barriers around themselves. We may be in the midst of a pandemic, but the fight against fraud continues and it's a fight SEON are very much ready for.

*For more information about SEON,
please visit our website:*

www.seon.io

*Or schedule a personalised product
showcase call now.*

Schedule a call



SEON Technologies Ltd.
seon.io

info@seon.io
+44 20 8089 2900