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Report

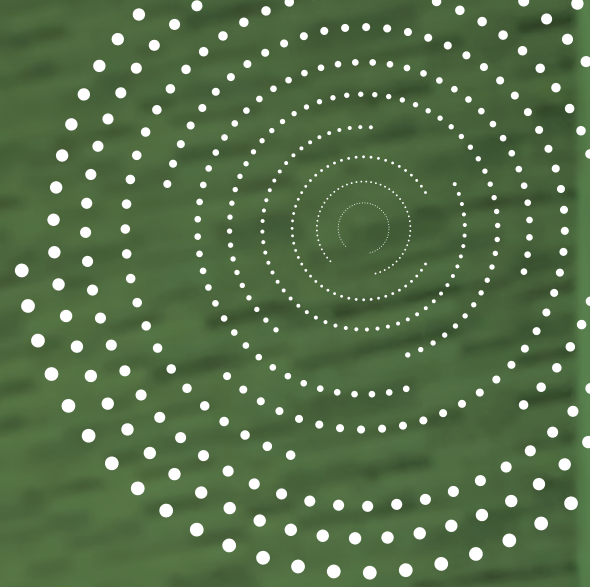
Fraud rates spike in tough economic climate

H2 2022 | Equifax Canada Market Pulse Fraud Trends

March 2023



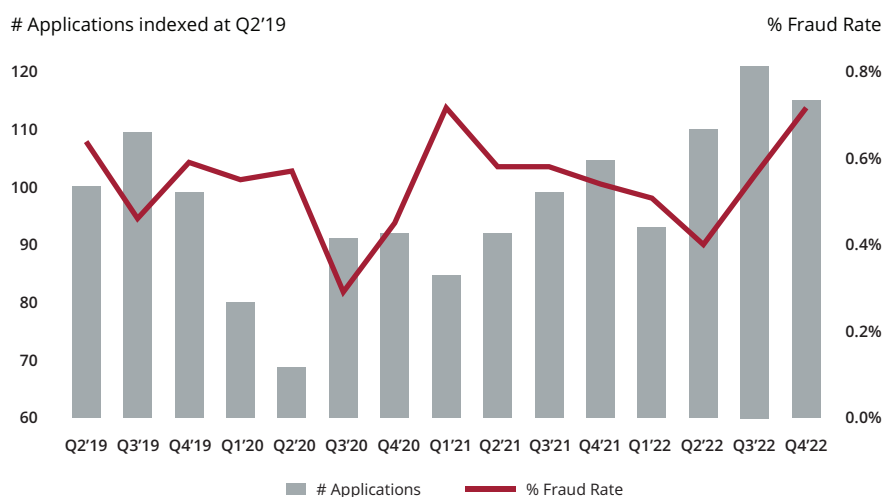
A challenging economic period with high inflation and interest rates saw a spike in fraud across mortgage, auto, and credit card industries in the second half of 2022.



Fraud rates show higher than seasonal jump with application volume surpassing pre-pandemic levels

Fraud rates rose by 33.4 per cent in Q4 2022 when compared to Q4 2021, while the overall application volume rose by 9.4 per cent. Pandemic savings are depleting, causing a rise in consumer financial stress. The resulting new credit card demand, increase in balances, and strong growth in unsecured lending, have been critical factors in [new account fraud](#).

"After appearing to return to pre-pandemic levels, we are seeing signs of larger than normal increases in fraud rates," said Cherolle Prince, Director of Fraud Consulting at Equifax Canada. "We initially saw some volatility in application volume — there was an upward trend which explains some of the reason for the drop in fraud rates initially — however the fraud rate has continued to rise along with applications, indicating that there is something more at play."



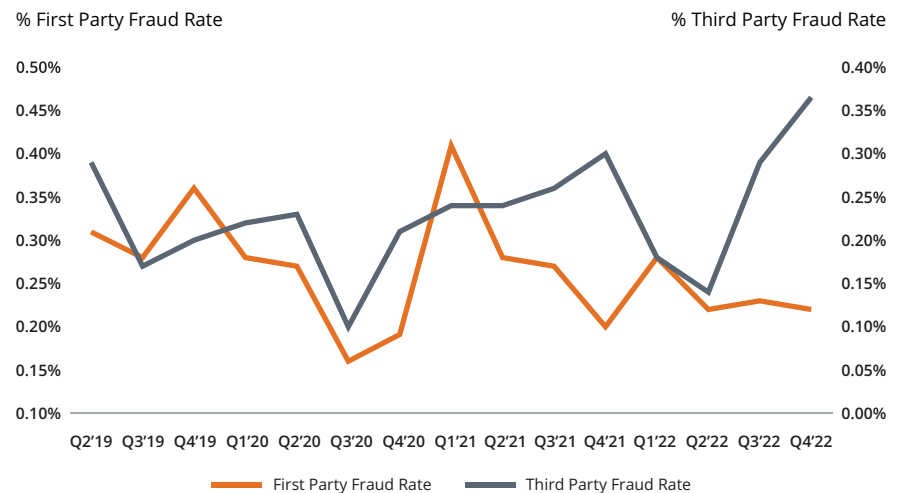
Source: Equifax Canada

Fraud rates rose by 33.4 per cent in Q4 2022 when compared to Q4 2021, while the **overall application volume rose by 9.4 per cent.**

Third-party fraud rates driven by increase in identity theft in credit card applications

Identity theft is a growing concern as credit card demand grows due to the high cost of living. As the demand for unsecured lending increases, the risk of identity fraud is also likely to rise. And as breaches and cyberattacks continue, fraudsters are able to exploit and access personal consumer data.

“Overall third-party fraud rates are up significantly, and can be attributed to identity fraud. The current tough economic conditions are likely having an impact as we have been seeing an increase in financial stress and changes to consumer payment behaviour,” said Prince.



Source: Equifax Canada

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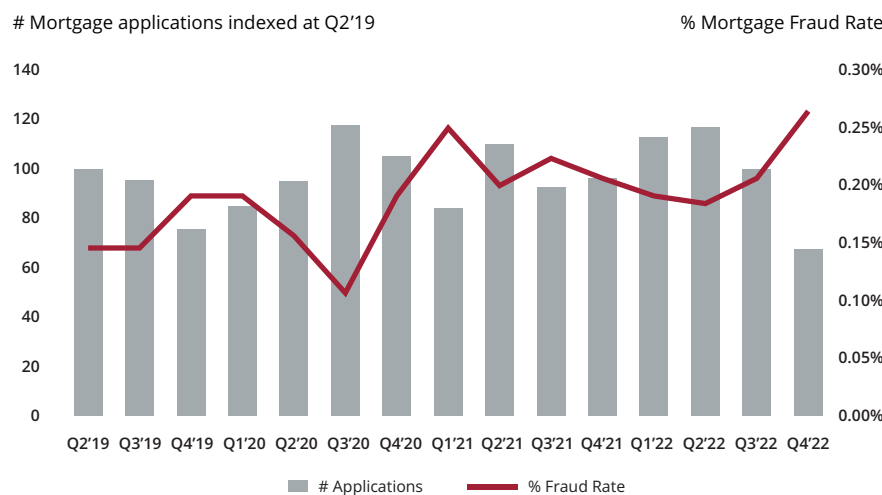
Cherolle Prince
Director of Fraud Consulting, Equifax Canada

Mortgage fraud rate rises as application volume declines

Although recent data shows mortgage applications are down, mortgage fraud rates were up by 31.9 per cent in Q4 2022 compared to Q4 2021.

“When we look at the mortgage market, we see the continuing drop in housing value and availability. Add in the lack of affordability due to rising interest rates and economic costs, and it makes sense that debt levels and financial stress indicators have been rising — a potential indicator of increasing first-party fraud risk.”

What are the leading concerns for mortgage applications? Approximately 71 per cent of mortgage fraud is related to false information such as account statements, pay stubs, applications, and notices of assessment.



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Source: Equifax Canada

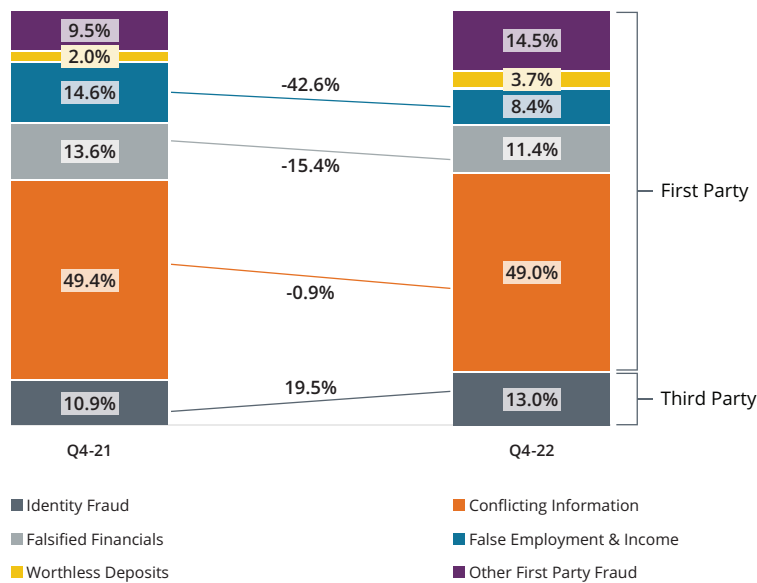


Auto industry showing higher than seasonal increase in fraud rate in Q4 2022

As auto loan applications continue to be affected by the volatile auto market, fraudulent behaviour is fast increasing. “We see a downward trend in auto applications volume, however we are also seeing a very significant increase in the fraud rate,” said Prince. “Rates of fraud are rising at a rate of 43 per cent quarter over quarter, and 31 per cent year over year.”

“First-party fraud remained the biggest threat to auto applications in the second half of 2022. But it’s interesting to note —and some of our clients have already discussed this with us — that there was an increase of 19.5 per cent in identity fraud between Q4 2021 and Q4 2022.”

% Distribution of fraudulent applications



Source: Equifax Canada

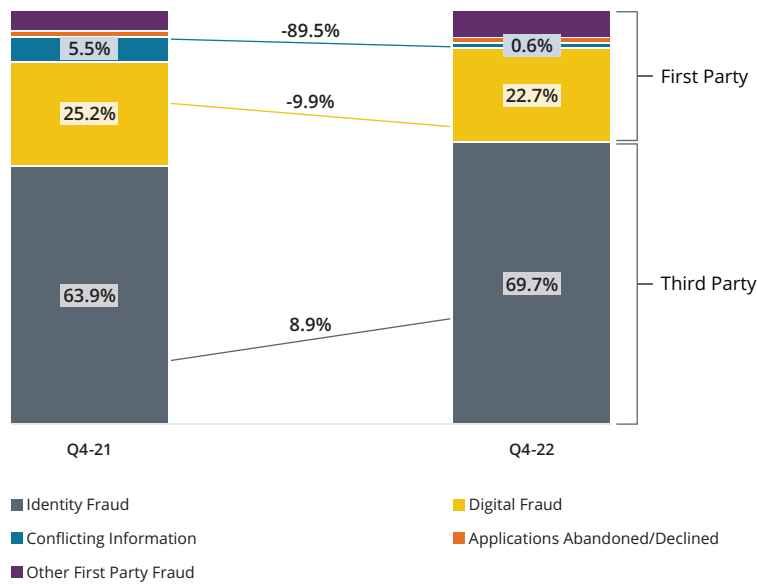


Strong growth in credit cards is driving up both application volume as well as fraud rates

The credit card industry continues to be volatile, even when accounting for seasonality. While the application volume was down 5.1 per cent between Q4 2021 and Q4 2022, it's still much higher than before the pandemic. This can most likely be attributed to the increased demand for unsecured credit amidst the rising cost of living due to inflation.

Identity fraud continues to be the biggest threat to credit card applications and made up 69.7 per cent of all credit card applications in Q4 2022 — an increase from 63.9 per cent in Q4 2021.

% Distribution of fraudulent applications



Source: Equifax Canada

“Targeted fraud attacks in the credit card space were the main driving force behind the increase in third-party fraud. However, it’s important to note that these attacks have not been isolated to cards. We’re seeing them across other industries such as auto and retail, as well,” said Prince.

Banking and deposit, telco fraud rates remain steady



Fraud rates in banking and deposit are rising from the lows of H1 2022, but the true increase was masked by a huge rise in the application volume.



Both telco applications and fraud rate continue to be lower than pre-pandemic highs.

"Signs of financial stress are visible across consumer segments," said Prince.
"The challenging economic environment has undoubtedly had an impact on fraud for all industry sectors. Businesses can mitigate fraud if they have the data and solutions in place to adequately verify and validate consumers."



How Equifax can help you and your clients mitigate fraud and identity risks

Equifax Canada has launched FraudIQ Manager™, a cloud-based, fraud prevention platform powered by advanced analytics and rich data sources. It offers seamless integration into customer application processes and empowers businesses to mitigate risk in real time and prevent future fraud losses.

The new platform leverages the power of Equifax's FraudIQ® Exchange, Canada's largest known fraud exchange, consisting of multi-sector fraud data from top banks, financial institutions, telecoms, auto, and other organizations. The platform is backed by industry-leading expertise and experience, with over 20 million client application journeys enabled for users each year. In the past four years, Equifax's fraud prevention platforms have helped organizations prevent over \$5 billion in fraud loss.

Get the power of FraudIQ Manager working for you. Learn more here:

<https://www.consumer.equifax.ca/business/fraudiq-manager>

Contact an Equifax Fraud Consulting Team member to learn more about how we can help you reduce risk and loss due to fraud

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