



In Singapore, the main defence against fraud is the instant SMS warning to the cardholder when an unusual transaction occurs. However, this does not work as well for overseas issued cards which must rely on notoriously unreliable cross-border SMSes. PHOTO: PEXELS.COM

How safe is your online shopping?

People have become desensitised to storage of payment details by online merchants, whose security is likely inferior to that of financial institutions. **BY GORDON CLARKE AND EMIR HRNJIC**

THE Wirecard scandal has revealed that even major companies involved in online payments may be disastrously unreliable and might even enable illegal transactions such as money laundering.

In fact, Visa and MasterCard allegedly had their suspicions about Wirecard since 2015 after they realised that the company had high levels of stolen card purchases and reversed transactions.

Wirecard's internal files from 2017 showed that the company processed payments for a variety of controversial and potentially illegal businesses.

In fact, sceptics are warning that there might be more scandals ahead due to unscrupulous accounting practices, poor auditing controls and technical security failures.

ONLINE PAYMENTS

While online payments have been growing exponentially for decades, the global pandemic has given it an unexpected boost. A 2019 e-Conomy South-east Asia report said the six largest South-east Asian markets recorded \$5600 billion in online payments last year, with the figure projected to exceed \$1 trillion by 2025. Moreover, in the last few years we have also witnessed rapid growth of instant payments using e-wallets and account-to-account transfers initiated on the mobile handset.

The Covid-19 pandemic has accelerated this trend. Online purchasing soared due to worldwide lockdowns whereby people remained confined to their homes for months. Moreover, Bain & Company now expects digital payments to account for 67 per cent of total transaction values in 2025 – 10 percentage points above their pre-pandemic prediction.

With online shopping regarded as a norm, we have become desensitised to allowing the storage of our payment details by merchants and processors, whose security is likely inferior to that of financial institutions. While our credit card details are deposited all over the web, companies we trust have failed to keep our data safe.

Statista showed that over 164 million sensitive records were exposed in 1,473 data breaches in the United States alone last year, while Crowe said fraud cost the world economy over US\$5 trillion overall.

The question arises on how safe our online shopping experience is and how service providers can protect us.

FRAUD DETECTION

In the card payment business, fraud defences include on-line authentication, chip card security using the international EMV standard, the CVV figure on the back of the card, the “3-D secure” approach, as well as encrypted messages and databases at banks.

For instance, in Singapore, where the limits on instant payments and contactless card payments are increasingly high, the main defence against fraud is the instant SMS warning to the cardholder when an unusual transaction occurs. However, this does not work as well for overseas issued cards which must rely on notoriously unreliable cross-border SMSes.

Card payment transactions are relatively well protected, but instant account-to-account payments have very few of these facilities. There is clearly a need for heightened vigilance on the part of service providers, merchants, as well as others who accept digital payments.

Most merchants, payment service providers (PSPs) and payment system operators use machine learning algorithms to detect suspicious transactions. Two other actions that would certainly minimise fraud risk are security monitoring systems and tokenisation.

MONITORING SYSTEM AND TOKENISATION

The first step in securing data and systems is to control the technology perimeter of the organisation for both processing services and PSPs. This includes setting up a monitoring system, often called a security operations centre (SOC), which is often a physical box containing the necessary software. The SOC contains machine learning algorithms that learn the normal patterns of data and system behaviour in a company or network and instantly flag deviations from historical patterns.

The SOC also requires IT staff to be well-trained to act appropriately upon the monitoring alerts.

The monitoring system should detect attempts by external agents to log in to the company's system, which are surprisingly frequent. Some intrusions result in the planting of malware which can sit quietly in a system for

months, gradually learning how valid payment messages are authenticated while informing its controllers. Then, it suddenly sends massive payments abroad, as in the well-known attack on Bangladesh Bank a few years ago.

The monitoring software, however, should spot the communications made by the malware, identify it using an extensive library of malware signatures, isolate the problem and, finally, alert the IT team to remove it.

But all this is to no avail if someone on the inside is colluding with criminals or being coerced to manipulate the systems and substitute false destination accounts – also known as mule accounts – when payments are being sent. *Digital-First Banking*, a US publication, said up to one in five account openings at present could be fraudulent.

The best solution to this is tokenisation (not to be confused with the “tokenisation” in the crypto industry), where all databases and messages contain a token that looks like a real account number instead of the actual account numbers. Widely used in the cards industry, for example in the ApplePay and Google Pay schemes, the token also carries instructions (“domain controls”) which allow transactions to be executed only under a very specific set of circumstances. These may include a specific day of the month, or only once, or only for bill payments or countless other specifics. Using tokens makes mule account substitution frauds extremely hard, even from the inside.

In an ideal world, payment companies and merchants would make it so difficult for fraudsters that the benefits from a lucrative sting – which may take months of time and effort as well as lot of investment – would simply not be worth the risk of being caught.

However, we are far from that utopia, and the risks to customers and their service providers are real and large. The exponential growth of online purchasing and a further dramatic increase during the Covid-19 crisis are making the protection even more urgent.

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■ The opinions here are the writers' and do not represent the views and opinions of NUS.