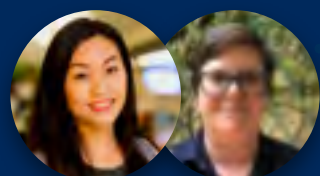# fourthline

The rise of document fraud in France

This paper analyzes the growing threat of application fraud in France, how it manifests for an organization and how technology can help you stay one step ahead.

YIRONG LO, DATA ANALYTICS EXPERT &
RO PADDOCK, HEAD OF ANTI-FINANCIAL CRIME

Regulated institutions in France are facing their biggest threat yet from financial crime with an explosion in both the rate of activity and the range of methods deployed. According to Fourthline's data, fraudulent application activity in France – already at record highs – was four times higher than the rest of Europe in the first quarter of this year.

> " Fraudulent application activity in France was four times higher than the rest of Europe "

Financial institutions operating in France should be encouraged to reassess their answers to these questions: Are you making an accurate assessment of the threats or are there gaps in your processes that leave you dangerously exposed? Are your fraud prevention technologies keeping abreast of the latest methods used by financial criminals?

This paper analyses the growing threat of application fraud in France, how it manifests for an organization and how technology can help you stay one step ahead.

Identity checks - what are the risks?

Organizations are exposed to two broad categories of fraud during the customer onboarding or Know Your Customer (KYC) processes - document fraud and identity fraud. Our definitions, and their sub-categories, are outlined below.

Document fraud occurs when the applicant uses inauthentic government-issued IDs. These can either be counterfeit, where the entire document is fake, or tampered documents, where only certain details of legitimate ID documents have been altered:

Counterfeit

A counterfeit is a complete reproduction and imitation of a document. This means that the fake identity document was made from scratch and the personal information contained within it does not belong to a real person. Fraudsters may use substitute materials to imitate legitimate documents or scan a valid document and use computer software to adapt or recreate it. Both the tools to create these counterfeits and the counterfeits themselves can be bought on the black market. Unlike ID tamper, there is nothing genuine about either the identity information within the document or its security features.

Tampered

ID tampering is the fraudulent alteration of a genuine identity document. This can include digital or physical alterations, such as photo substitution or the adjustment of dates - for example, writing over the last digit in the expiry date of an expired ID card to make it appear that the document is still valid or altering the birth date to make an underaged applicant appear eligible. Because only part of the ID is forged, most of the personal information often belongs to a real person. In our definition of ID tamper, we also include copies of genuine documents that have been cut and printed to appear as the legitimate ID.

Identity fraud refers to the impersonation of someone else, with the use of authentic government-issued IDs that do not belong to the user. This fraud typically goes hand in hand with identity theft, where personal information such as name, date of birth and address, is stolen or bought on the black market and used without the victim's knowledge. Fraudsters then commit identity fraud, using the victim's real identity to open accounts or make transactions. There are two ways in which identity thieves commit fraud:

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1. Where the fraudster applies with his or her own selfie, i.e. the person in the selfie is not the same person as the one on the government-issued identity document.

2. Where the fraudster uses the victim's face to match an existing ID. This is achieved by taking a picture of a picture or a picture of a video that is found on social media.

For Europe as a whole, our data shows that document fraud and identity fraud comprise the majority of application fraud committed, with identity fraud the most common at around 53% and ID fraud at around 43%.

The growing threat in France

France has experienced the highest rates of application fraud in Europe since 2018 (when Fourthline first began gathering fraud data) but, as the chart below shows, there is a particularly striking divergence over recent months.

Fraud in France outstrips European peers
source: Fourthline's internal data

3,32% France

0,84% rest of Europe
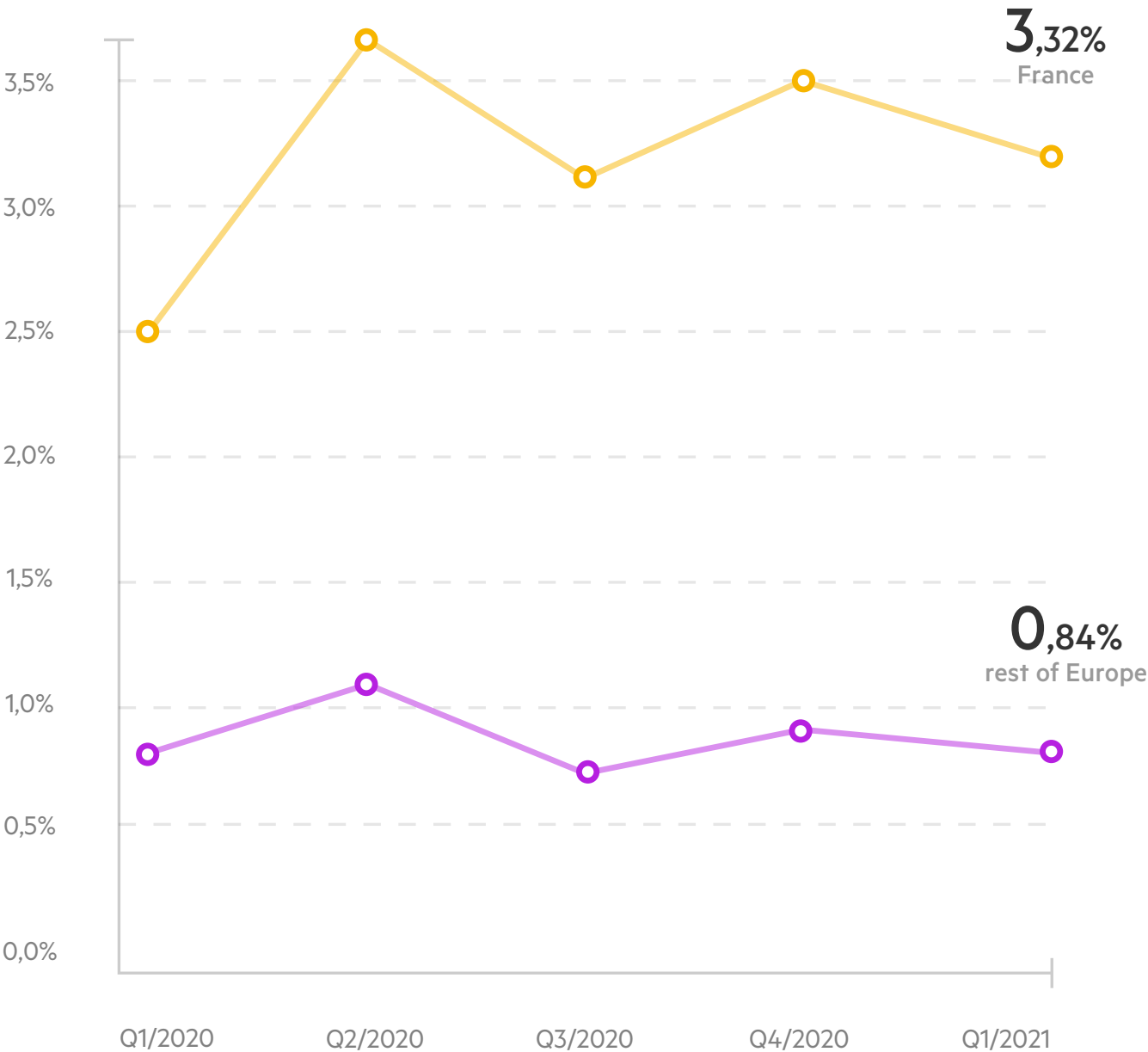
Developments in the French market should be closely watched, says Ro Paddock, Head of Anti-Financial Crime (AFC) at Fourthline in Amsterdam. "With advances in technology, organizations are having to work even harder to fight financial crime.

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1,82%
Document fraud

1,32%
Identity fraud

The French market is notoriously fraudulent - there are a lot of sophisticated syndicates that operate there, and this means their crimes are particularly hard to detect."

Why is this the case? One of the key challenges facing regulated institutions in France is that there is no central identity card repository for data storage, which makes KYC processing more disjointed and time-consuming. In most European countries, organizations can check the authenticity of an identity card by inputting the number into a dedicated website. Central identity repository facilities address many security concerns, simplifying the user's management process by establishing a single, shared location for identity checks and removing the need for third-party involvement. It can also hold records of any criminal activity while also cross-checking for any duplicate uses of personal information or multiple accounts held by one identity.
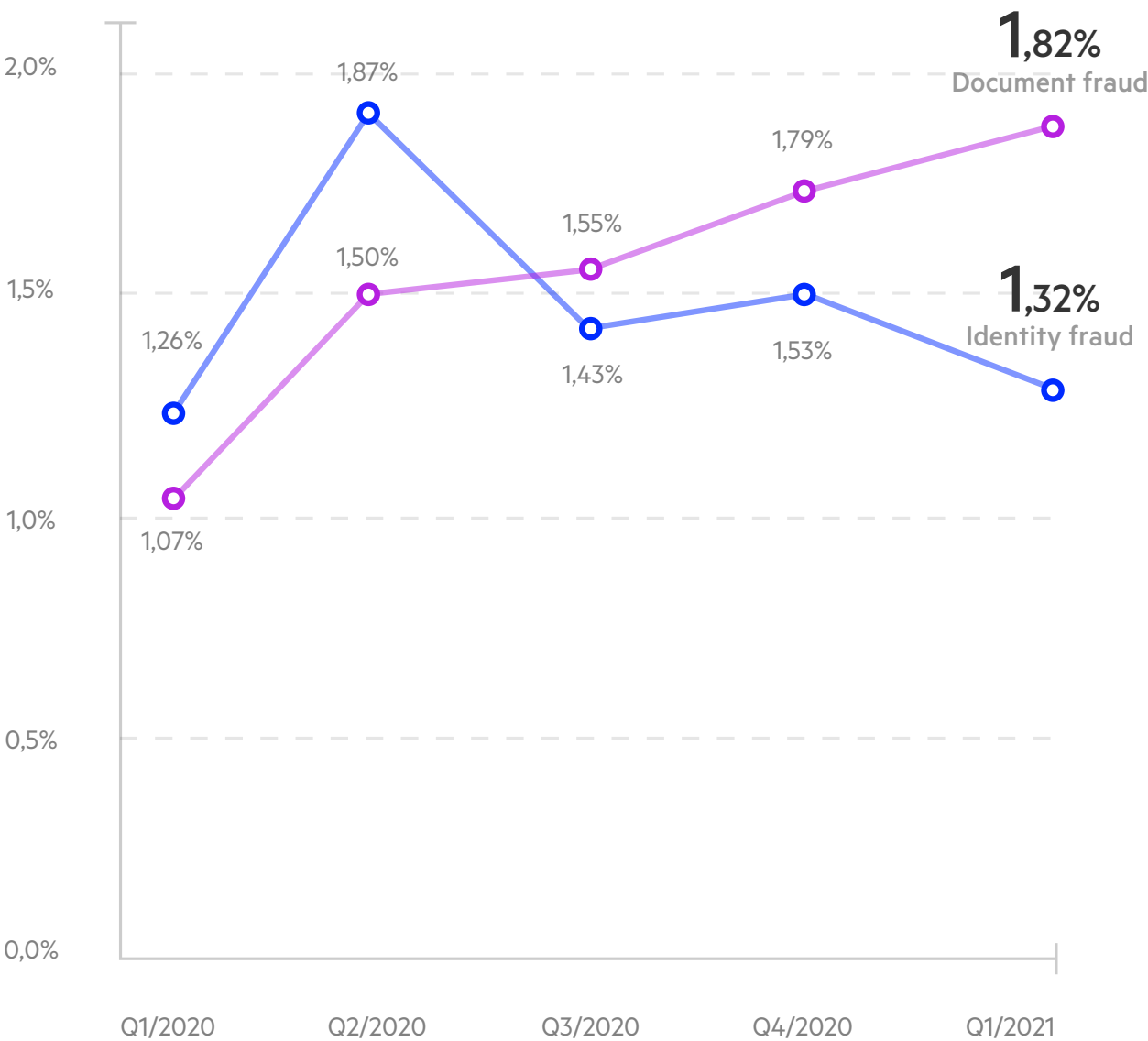
France has long voiced its plans to implement a repository service. In 2013, for example, the French National Delegation for the Fight Against Fraud announced plans to roll out a solution in 2014 and implement an online ID document validity checking system in early 2015. But this has still not materialized.

Pandemic drives rise in sophisticated fakes

Economic crises often trigger more crime and the recent financial downturn has been no exception. During the Covid-19 pandemic, Fourthline has seen a significant increase in applications using forged documents in France – both in absolute and percentage terms - this means that organizations dealing with French applicants are more and more likely to deal with convincing fake identity documents and in higher quantities.

France: Document fraud overtakes identity fraud for the first time
source: Fourthline's internal data

				1,82%
				Document fraud
		1,87%		
			1,79%	
1,26%	1,50%	1,55%		1,32%
		1,43%	1,53%	Identity fraud
1,07%				

Q1/2020 · Q2/2020 · Q3/2020 · Q4/2020 · Q1/2021

The rise of document fraud in France

The fact that there is still no online system available for checking the validity of French documents might go some way to explaining an emerging trend in application fraud in the country - document fraud is on an upward trajectory and, towards the end of the second quarter of last year, it overtook identity fraud for the first time. What makes it more arresting is that we've never seen more document fraud than identity fraud in France – or in any European country.

The data for the rest of Europe stands in stark contrast, with identity fraud still posing the greatest risk while the trajectory of ID fraud remains relatively flat despite the financial pressures from the pandemic.

In the rest of Europe (ex-France) Document fraud remains lower than identity fraud
source: Fourthline's internal data
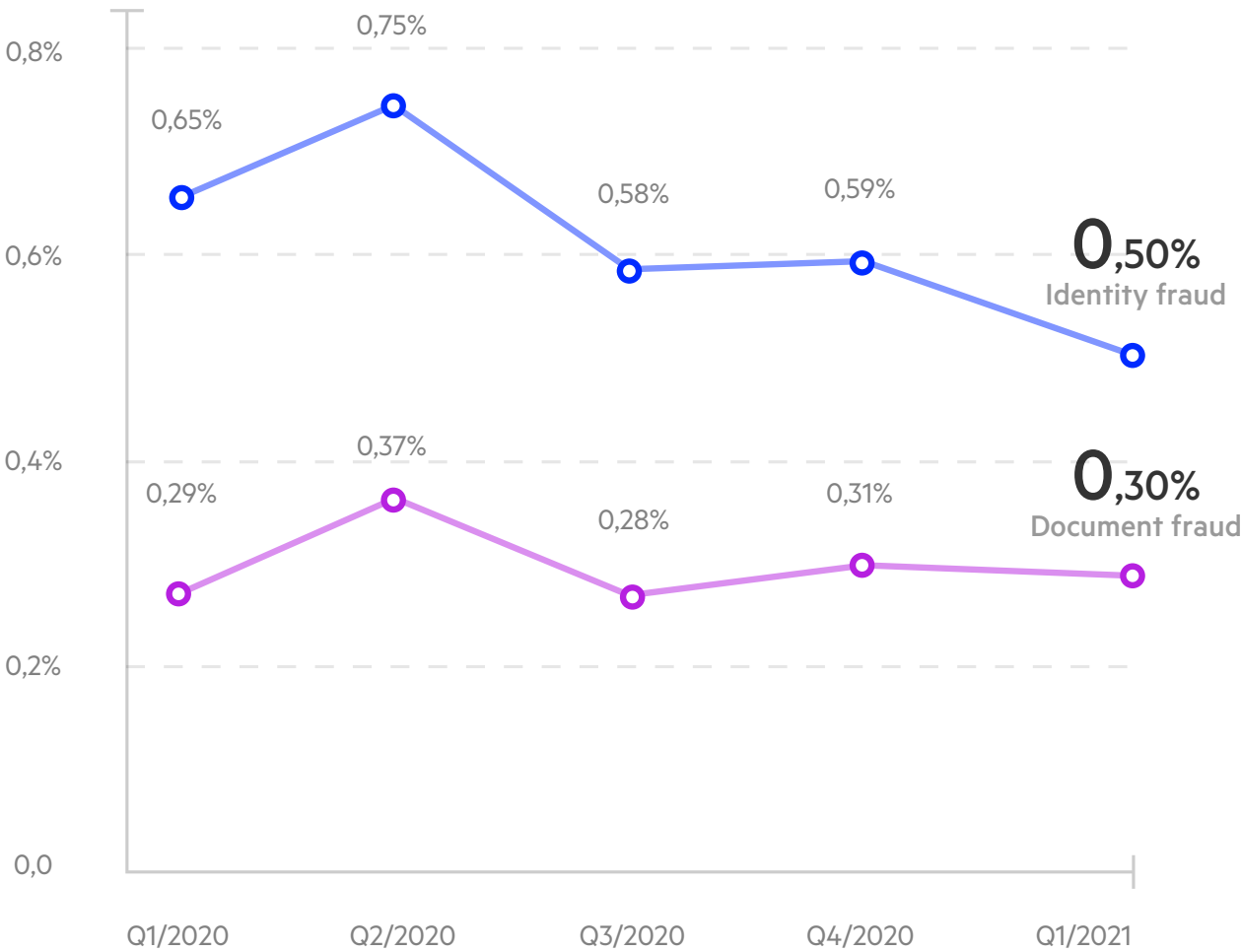
Breaking these numbers down further is even more revealing – 79% of total document fraud in France in the second quarter of 2021 were counterfeit documents while the remaining 21% were tampered.

> 66 79% of document fraud in France were counterfeit documents 99

Authorities work hard to create ID documents that are inherently difficult to replicate. They combine both tactile and optical features, employing a range of technologies and materials that are not available to the public. It would be impossible to produce such documents without access to high-end professional equipment and resources. So these figures point to an increased number of sophisticated syndicates operating in France, utilizing new techniques to create counterfeits that can rival original documents.

	Q1/2020	Q2/2020	Q3/2020	Q4/2020	Q1/2021
Identity fraud	0,65%	0,75%	0,58%	0,59%	0,50%
Document fraud	0,29%	0,37%	0,28%	0,31%	0,30%

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Four steps to successful identity authentication

Tackling this growing threat requires a complex set of processes and technologies but there are four key steps that regulated institutions should have in place:

1. An in-depth and up-to-date knowledge of security features

Identifying potential fraud requires a deep knowledge of the features of the genuine document in order to establish those that the criminal has failed to accurately replicate. These features are intricate and will vary both between ID document types and the market in which it was issued. Examples include visual security features such as the font on the visual inspection zone (VIZ) or machine-readable zone (MRZ) - the band of coded information typically seen at the bottom of ID cards - or the security features of the document, for example, the watermark or machine-readable chip (MRC).

The personal information on a counterfeit document is either entirely or partially fabricated or stolen, so the identity does not actually exist. Where fraudsters combine real and fake information to create a new identity this is known as synthetic identity creation. They might, for example, steal a social security number (known as the

INSEE code in France) and use that alongside fictitious data for fields such as name, address and date of birth. This type of fraud is more likely to get through the net because the victim is less easy to identify, and it is therefore much harder to track.

People who commit synthetic identity fraud often use multiple identities simultaneously or use them responsibly for a period of time to build up a credit history before committing a crime, so it can take months or years for the fraud to be detected.

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At Fourthline, we have an in-house expert team dedicated to continuous research and training around security features in different countries to ensure that we are always up to date and that we can put in place all the relevant checks to protect our clients.

2. Identity verification technology

Digital identity solutions are an increasingly vital tool in tackling fraud and are becoming more commonplace as companies transition to a digital onboarding process. COVID-19 has only accelerated this trend, with a [recent survey of McKinsey](#) suggesting the pandemic has advanced the adoption of digital technologies by some seven years.

KYC solutions themselves have also evolved and adapted to meet the growing threat, embracing artificial intelligence (AI) and cloud-based API technology to bring innovations to the process. With the use of AI technology, basic identity verification (ID&V) checks can now be performed in a matter of seconds. Usually it goes as follows: the data the applicant fills out manually will be compared with what is contained on the ID document and – if that information matches – the application will be validated. At Fourthline, we assess the information that is completed during the application and the information on the ID document, which is read using an Optical Character Recognition (OCR)

AI algorithm. Information can also be retrieved from the chip that is in most ID documents using Near Field Communication (NFC). This can easily be inputted at home as most modern-day smart phones have a chip reader.

3. Identity authentication technology

Alongside enhanced identity verification checks, your KYC technology provider should also perform identity authentication checks. An effective identity authentication process will incorporate the knowledge and experience of security features for that specific form of identity, as outlined above. Next, it needs to ensure it captures the right input to check for those security features. During an application, for example, Fourthline asks the customer for a titled photo of their ID document, to make some of the security features visible (see screenshot below).

With this input, the document can then be authenticated. To detect document fraud and synthetic identities effective solutions will have multiple AI algorithms running to check the document for the security features. These AIs are called document-specific image recognition algorithms. At Fourthline we use our proprietary AIs to process a vast amount of document types with each having its peculiarities and differences in security features.

All-in-all, Fourthline performs more than 210 checks on each identity document in less than 60 seconds, of which 98% are automated. These additional checks are invaluable and are the reason that we catch 60% more fraud for our clients than our competitors. We have built and trained these AI models in-house and they are continuously recalibrated to eliminate bias and incorporate new learnings.

4. The right blend of technological and human capabilities
While such technology is essential to catch fraudsters, the solution would not be complete without a degree of human intervention and this forms the crucial next stage of the authentication process. If a potential issue is flagged by an AI, then a trained KYC analyst will perform a second check.

At Fourthline, we offer in-house KYC experts who receive extensive training in recognizing and authenticating

identity documents. They draw on an in-depth knowledge of document security features and experience of forgers' techniques, as well as a thorough understanding of each market and its nuances. "We have an optimized fraud training program – for French ID documents alone this involves a 95-page training document. It covers a range of different types of security features and other ways to recognize fraudulent documents," explains Fourthline's Paddock.

And this process should not stop at the onboarding stage. Armed with both technological and human intelligence, identity authentication solutions should continue to monitor for any geolocation anomalies, criminal activity patterns, data inconsistencies and more so that they can ensure the safeguarding of your organization.

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Increased need for business agility

There is no doubt that we are facing a large-scale problem with document fraud in France, with potential repercussions for the entire ecosystem. In recognition of the rising threat, the French government recently launched a new identity card that incorporates additional security features. Launched on March 14th this year, the new cards are equipped with QR codes and fingerprint features as well as an electronic chip that acts as an all-access key. A roll-out that began on March 29th this year will see the new cards gradually replacing the old ones, which are now 25 years old. This is certainly good news for fraud prevention and a step in the right direction but it, unfortunately, does not solve the immediate problem for organizations working with the country.

"In terms of penetration it will take many years for the new card to make up the majority," explains Paddock, "although the old card will no longer be issued after this year, they will still be valid and in circulation for 15 years so we will continue to see fraud and forgery on the old card – and probably even more than we do now - for the next decade at least."

The need for comprehensive identity authentication has therefore never been more apparent.

Organizations must satisfy themselves that they have robust governance, effective risk procedures and adequate internal controls to manage the growing threat of financial fraud. And even the 'best' anti-fraud practices must be continually assessed and revisited – just as the perpetrators of financial crime will continue to evolve their tactics so must your defences adapt to manage the latest risks.

Fourthline recognizes the challenges that arise for financial institutions operating in France and has taken steps needed to ensure secure onboarding of French end customers. Next to building a team of local fraud experts, we created a solution that is 100% locally compliant in France. Moreover, Fourthline invested in building relationships with local financial regulators and has a partnership with the **French National Police** to help tackle financial crime in France.

> **Are you seeking expert guidance on how to best authenticate identity documents, we can help.**
>
> Contact us at **info@fourthline.com** or **fourthline.com**