



2025 TransUnion Canada Summit

Engage & Empower

Building Trust Throughout
the Consumer Journey



The Hidden Culprit: Unmasking Fraud in Rising Delinquency Rates

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Agenda

1. Decoding the surge in delinquency, despite population risk stability
2. Demonstrating the hidden culprits of rising delinquency
3. Remediating the identification gap through prediction & partnership



Delinquency rates are climbing – but not for the reasons you think. We'll examine the data and evidence to reveal the unexpected culprit

In this session, we will explore the factors associated with rising delinquency rates, using TransUnion data to challenge observations and assumptions.

Rising Delinquency Rates

- Rising vintage delinquencies across the market would typically indicate consumer payment challenges or macro-economic pressures.

Vintage
Delinquency

Rising First-Party Fraud

- The industry is reporting increasing rates of first-party fraud, conjecturing legitimate customers' intention to make payments has shifted.

First-Party
Fraud

Overlap With Synthetic Fraud

- Synthetic fraud follows a build and bust strategy; well-established fabricated identities can appear as first-party fraud.

Synthetic
Fraud

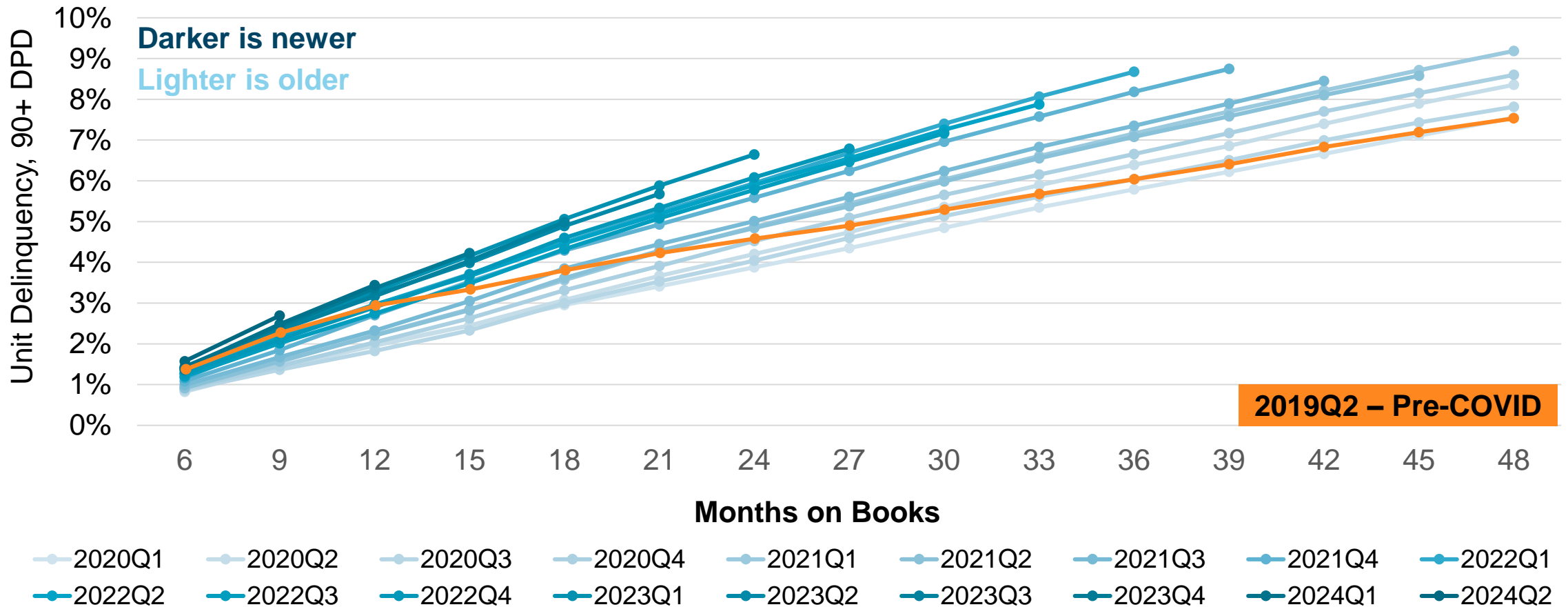


Decoding the surge in delinquency, despite population risk stability

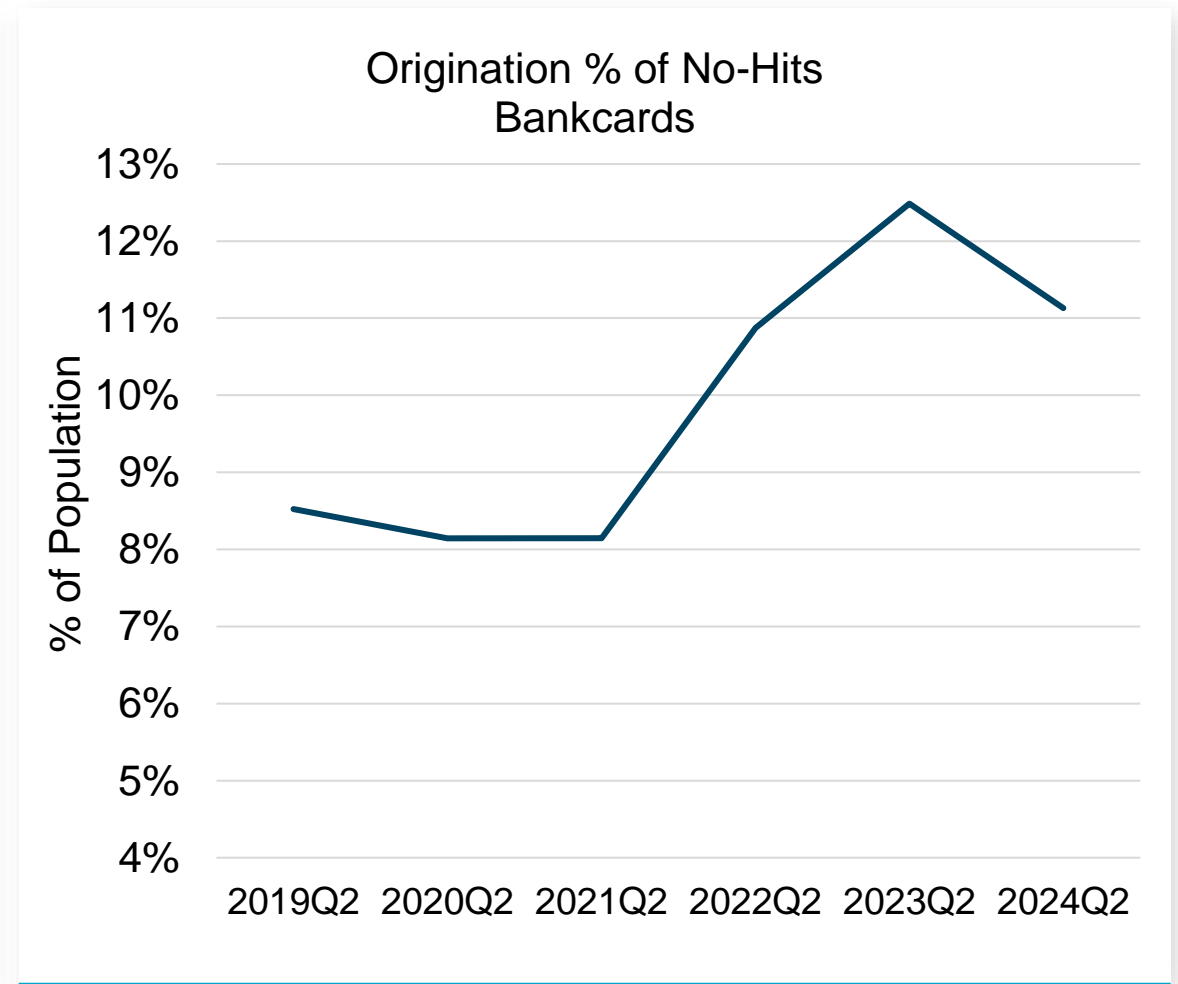
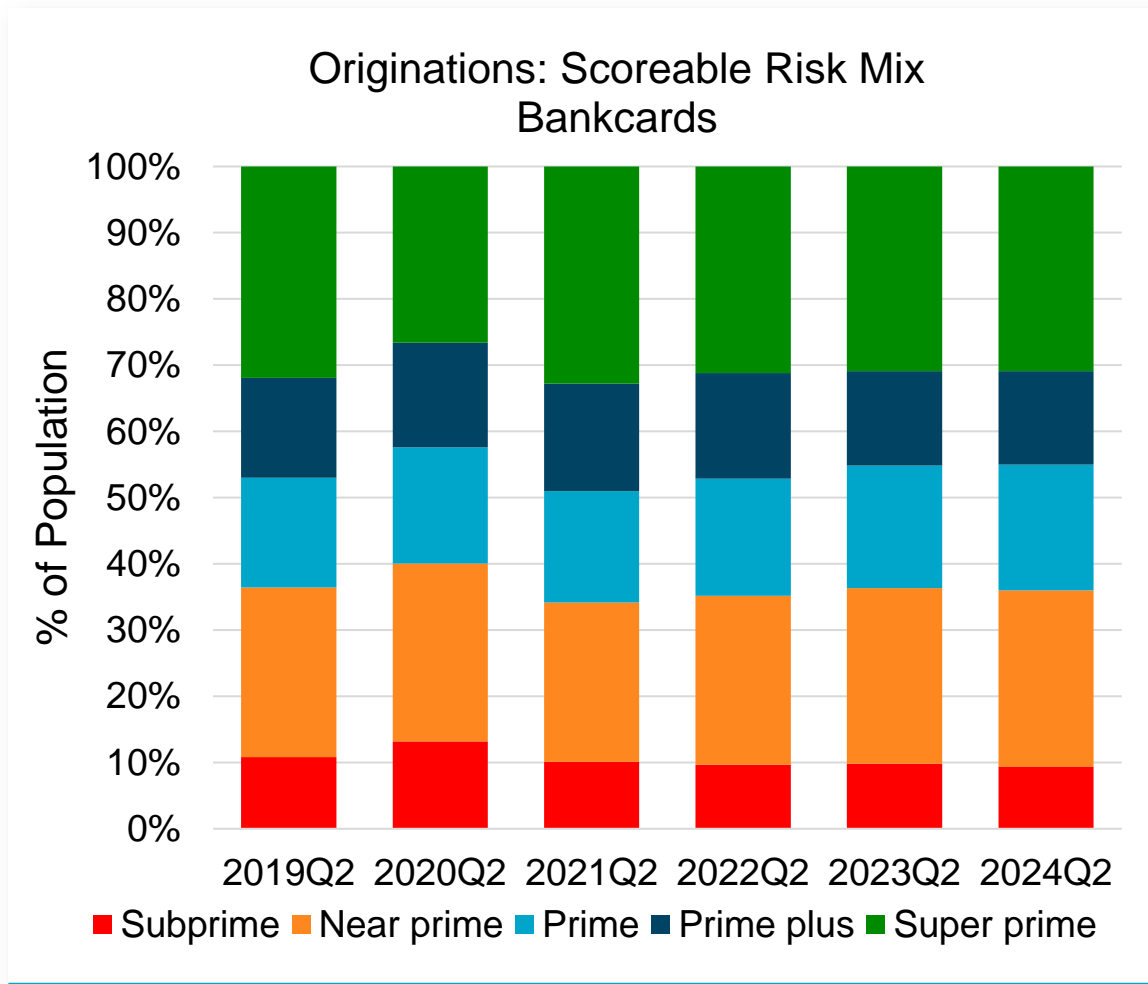


Recent quarterly vintages are showing substantial increases in delinquency rates for all products, now exceeding pre-COVID levels

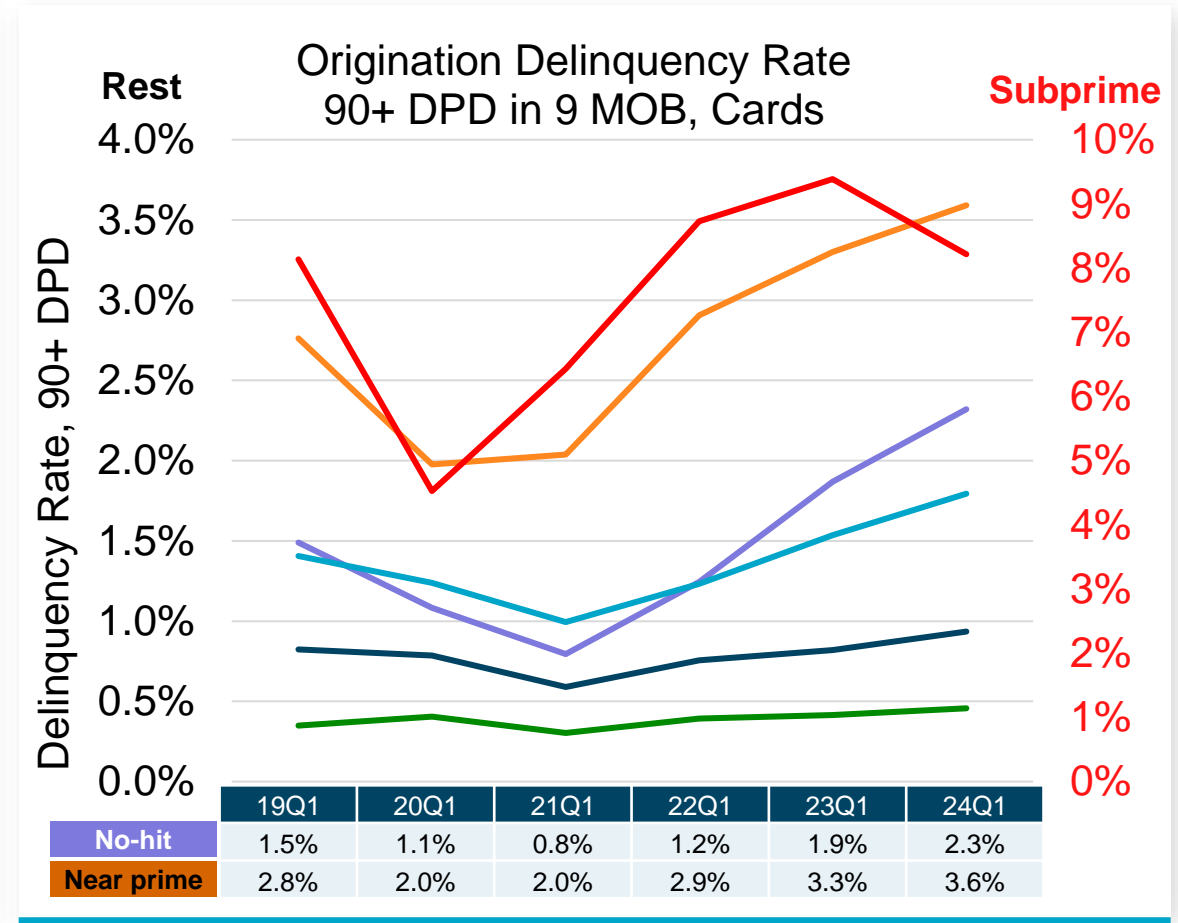
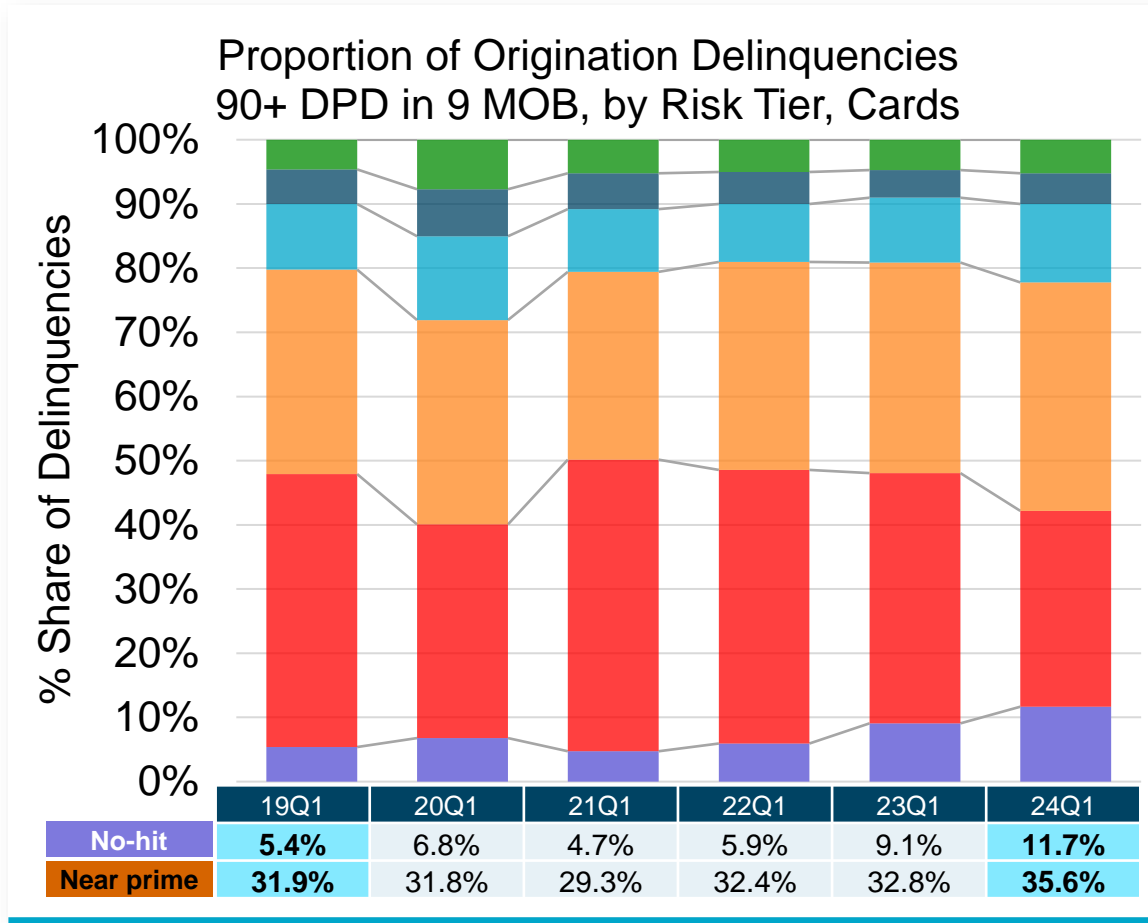
Vintage Curves, Bankcard Unit Delinquency (90+ DPD) by MOB



The risk mix shows stability across the scoreable population, though there is an increase in the proportion of no-hits



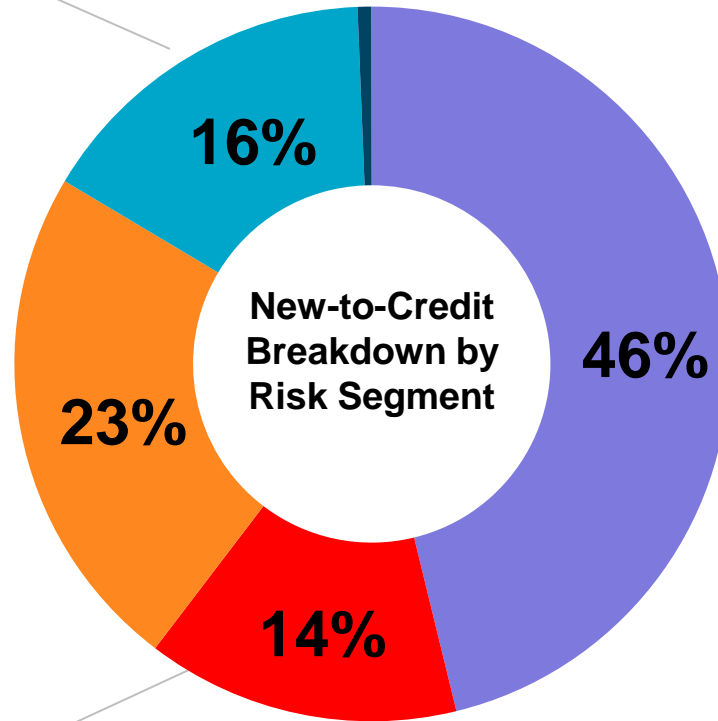
The no-hit and near prime segments have shown weaker performances in recent vintages, encapsulating a larger share of total delinquencies



■ Subprime
 ■ Near prime
 ■ Prime
 ■ Prime plus
 ■ Super prime
 ■ NHNS

The new-to-credit population is not only made up of no-hits, which account for 46%, but also distributes amongst prime and below populations

Segment	Within Segment NTC %	Breakdown % of NTC
NHNS	100%	46%
Subprime	19%	14%
Near prime	26%	23%
Prime	31%	16%
Prime plus	2%	1%
Super prime	0%	0%



- 26% of near prime consumers are NTC, and they make up 23% of the NTC population, the second largest group.
- 69% of NTC is made up of NHNS and near prime, the two groups we saw the largest increase in delinquency share.

New-to-Credit (NTC) is defined as credit files that are less than 24 months old

By definition, synthetic fraud begins as a new credit file

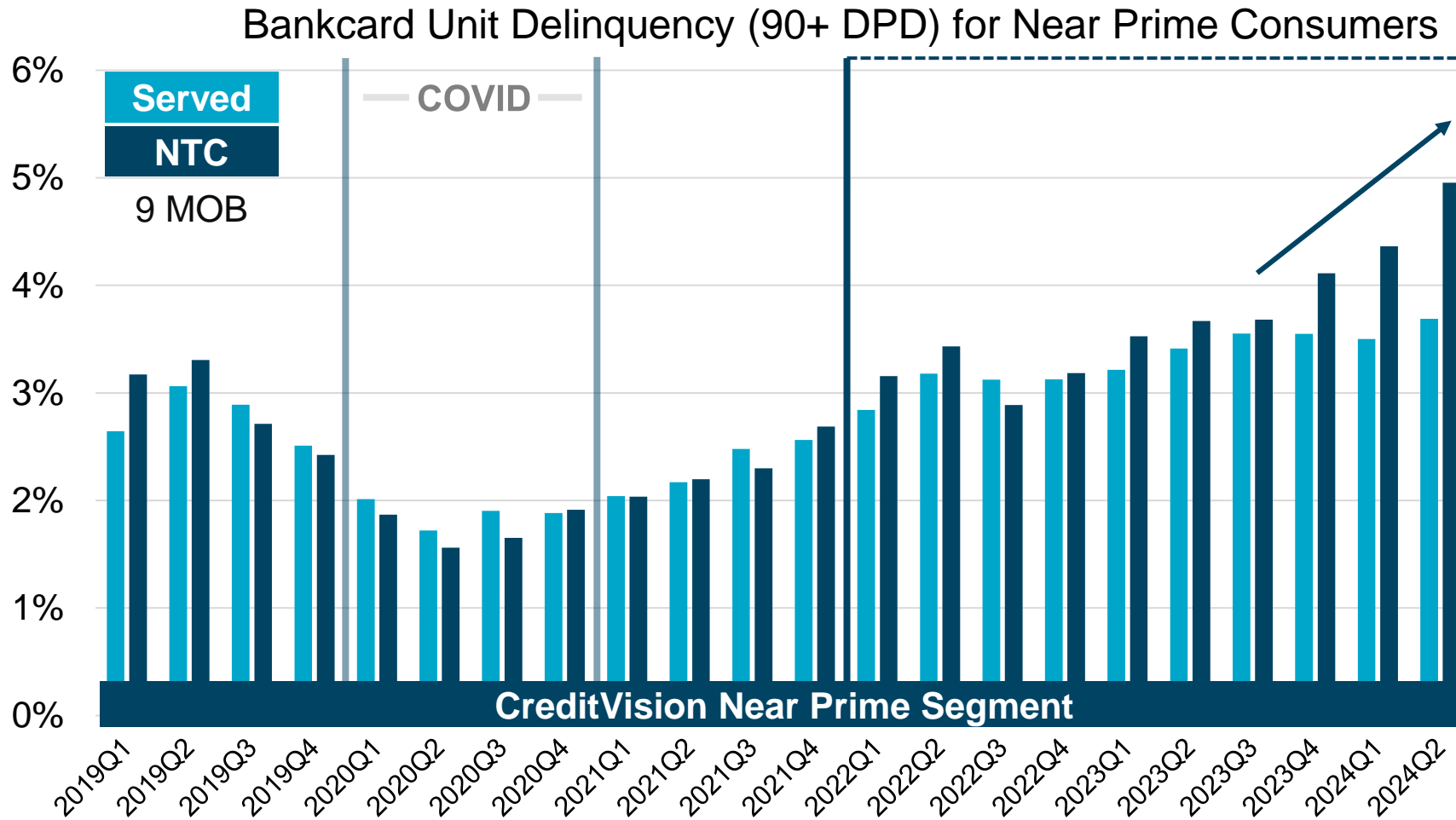
CreditVision® risk score: Subprime = 300-639; Near prime = 640-719; Prime = 720-759; Prime plus = 760-799; Super prime = 800+



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Source: TransUnion Canada Consumer Credit Database

New-to-credit consumers have traditionally been performing similar to established credit consumers, but recent shifts show a deviation



Established and new-to-credit consumer performance has been affected by recent macro-economic volatility

Aggressive new-to-credit acquisition strategies appear to have driven rising delinquencies—though it is likely that bad actors rather than legitimate NTC consumers are the real driver

CreditVision® risk score: Near prime = 640-719
 NTC: Credit history is less than 24 months, Served: Credit history is ≥ 24 months



Demonstrating the real hidden culprits of rising delinquency



Evidence suggests that synthetic fraud is a material contributor to rising delinquency rates and contributes to downstream first-party fraud

Hypothesis

Synthetic fraud is a key contributor to rising delinquency rates across Canada as fraudsters exploit widened new-to-credit approval strategies. As these synthetic files become established, fraudsters may try to harvest these identities for first-party fraud.

Approach

- Our study examined opened non-mortgage credit products from Q2 2022 to Q3 2024 and their fraud risk mix
- We then inspected the consequential delinquency by fraud risk while holding credit risk stable

Scores to Assess Population Risk

CreditVision Risk

Helps predict credit delinquency, used in the study to hold risk steady

True Name Fraud Score

Helps predict identity theft, where accounts are fraudulently opened in a real name

Synthetic Fraud Score

Helps predict synthetic fraud, where fraudsters use fabricated identities to open accounts

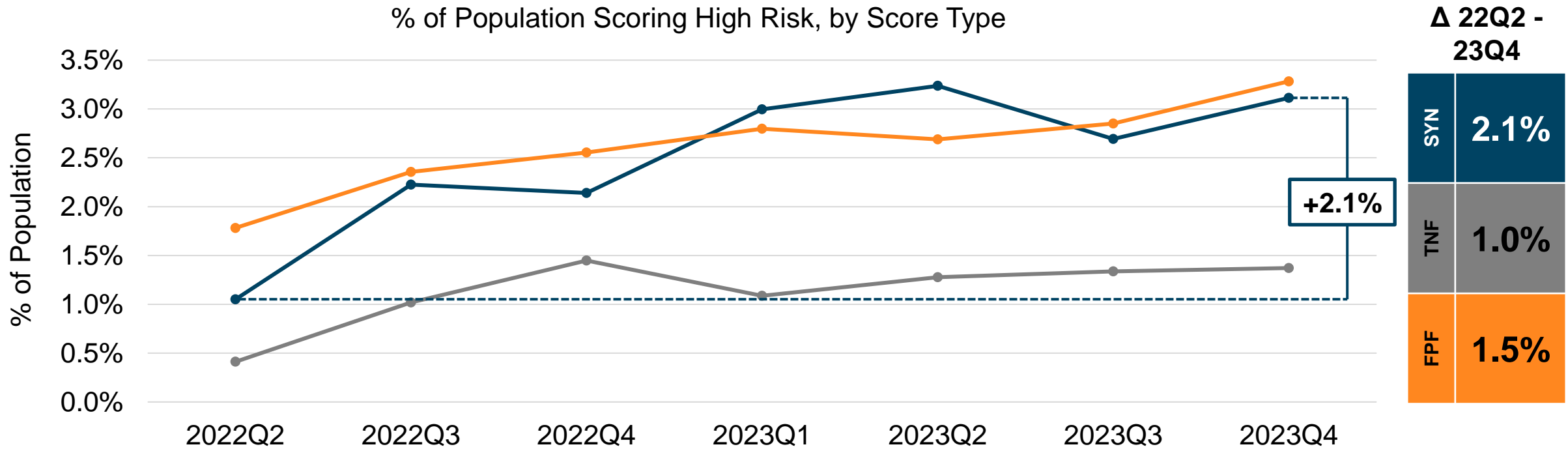
First-Party Fraud Score

Helps predict first-party fraud, where accounts are opened with little to no intention to pay

Fraud Scores in Identity Exchange



During this time period, synthetic fraud risk is increasing the fastest across all types of fraud with first-party fraud emerging more recently

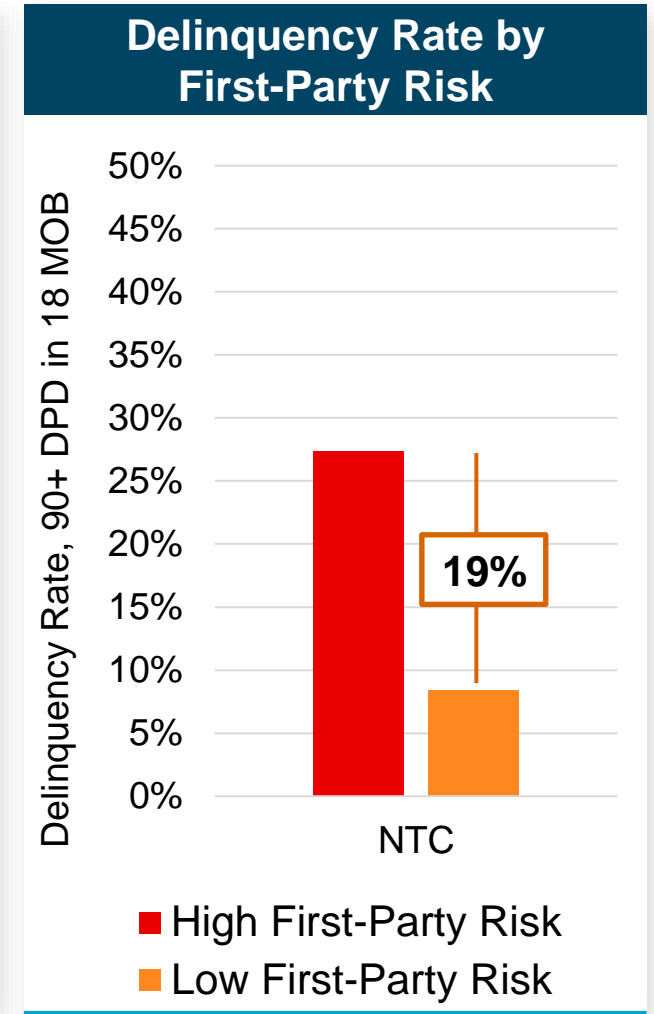
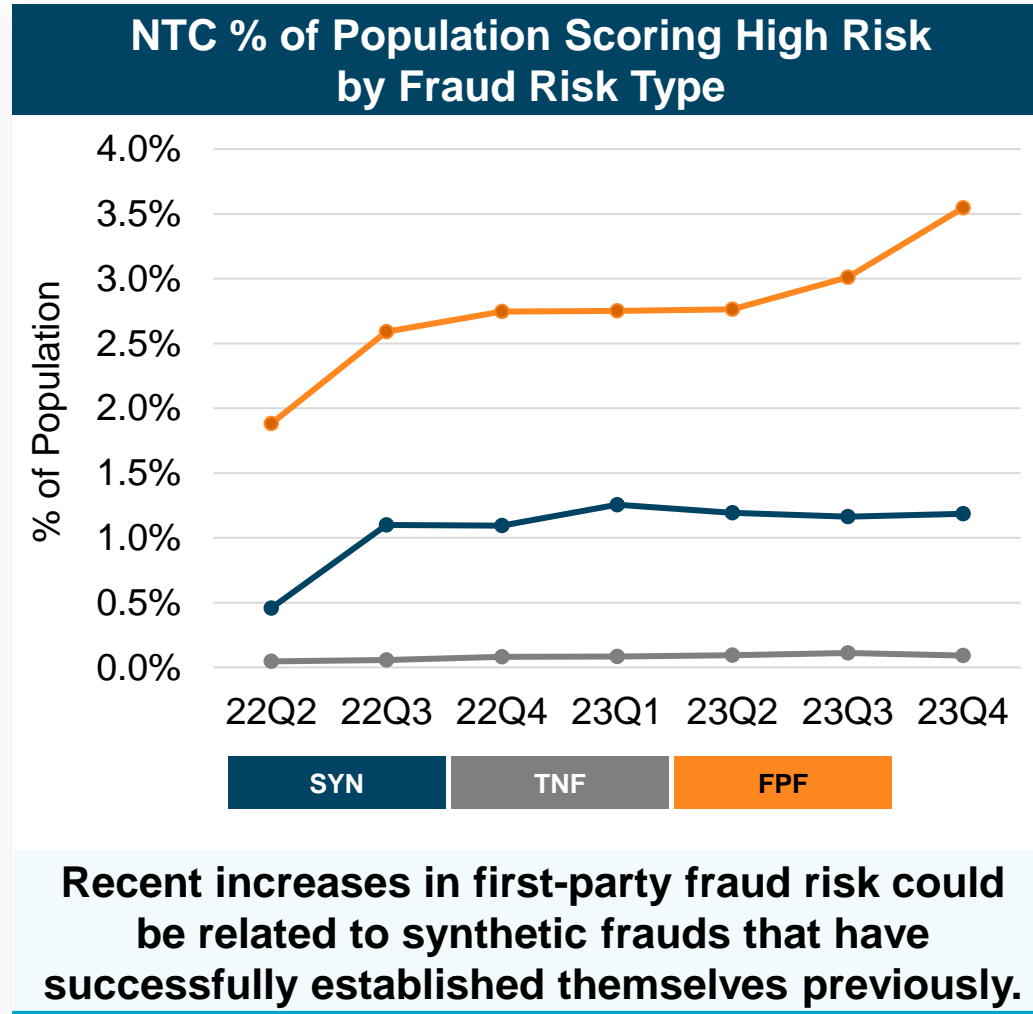
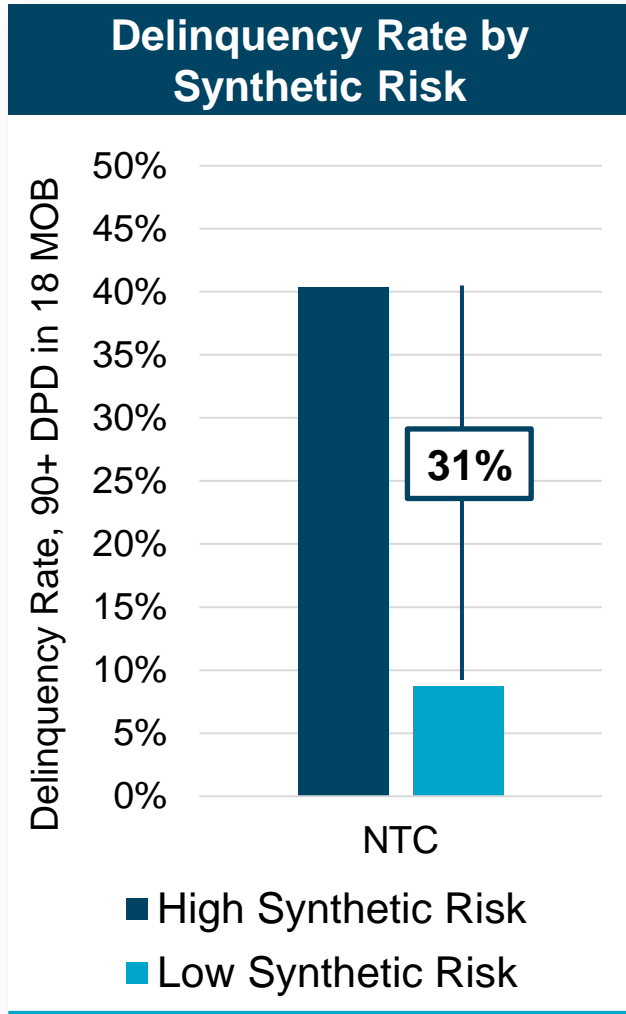


Excerpt from 2023 TU Summit on Fraud Hiding in Credit Losses, pertaining to No-Hits

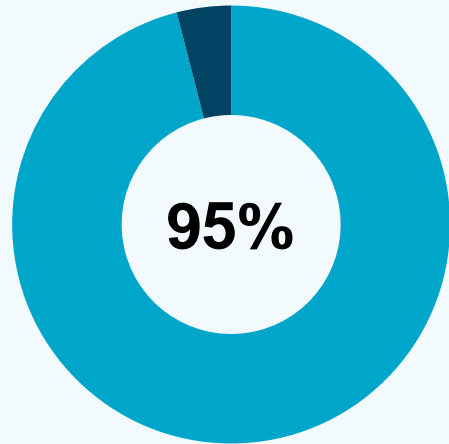
“ Challenges establishing the legitimacy of no-hits leads to a disproportionate fraud rate in that population ”
 Extra care must be taken when assessing this key opportunity



For new-to-credit borrowers with high synthetic and first-party fraud scores, delinquencies tend to be materially worse

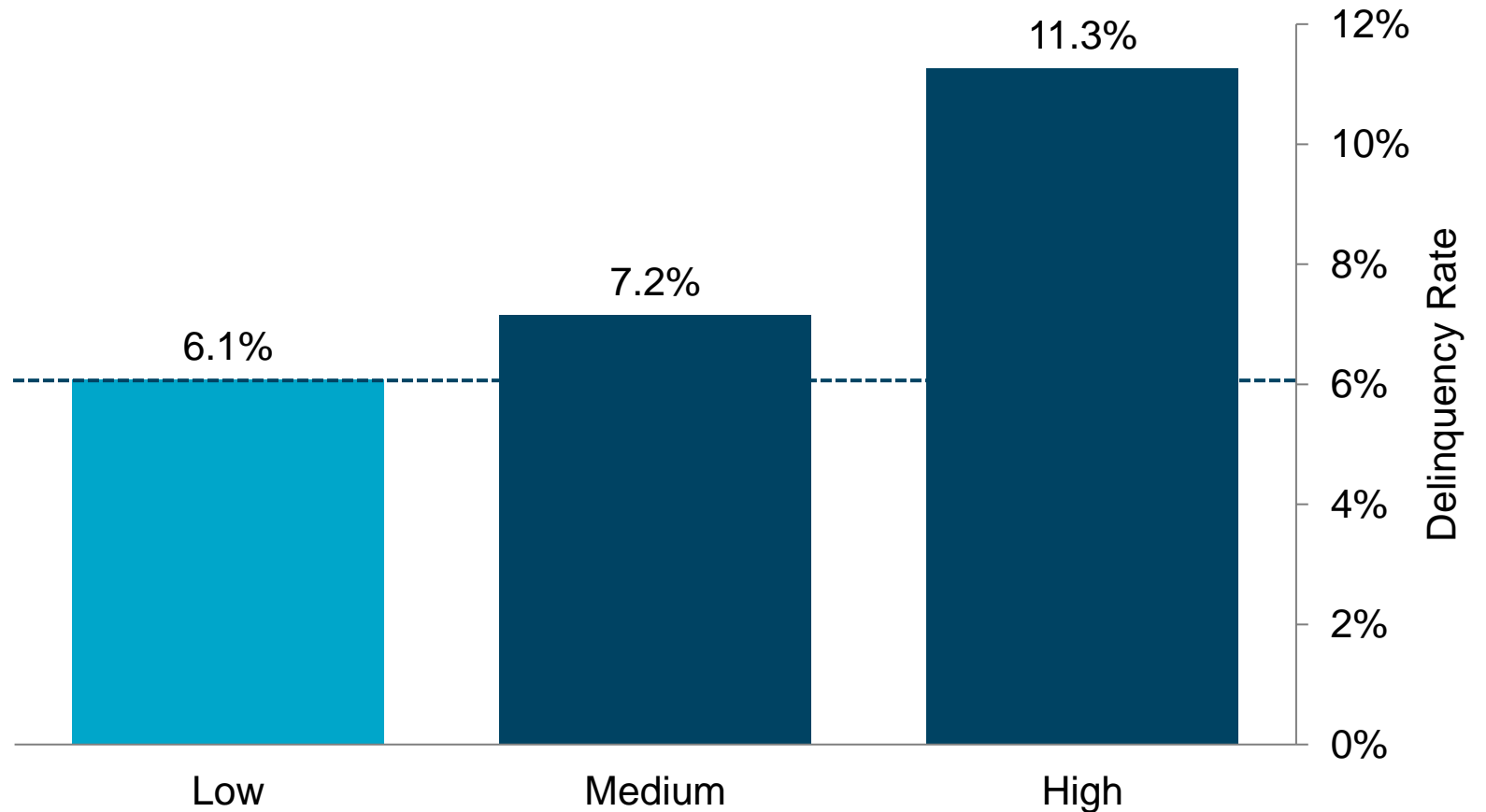


When segmented by synthetic risk scores, delinquencies for no-hits rank order, supporting greater inclusion for legitimate “good” consumers

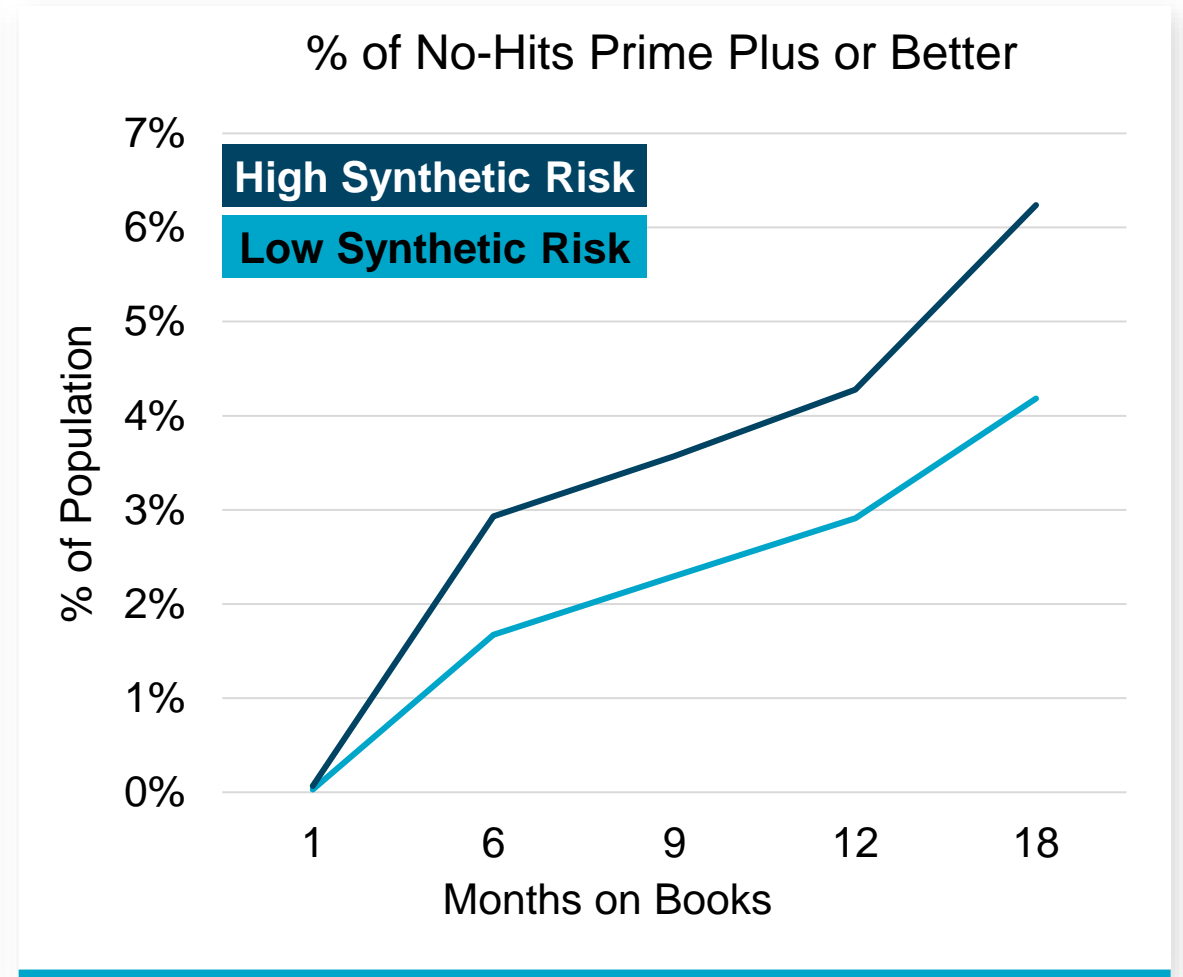
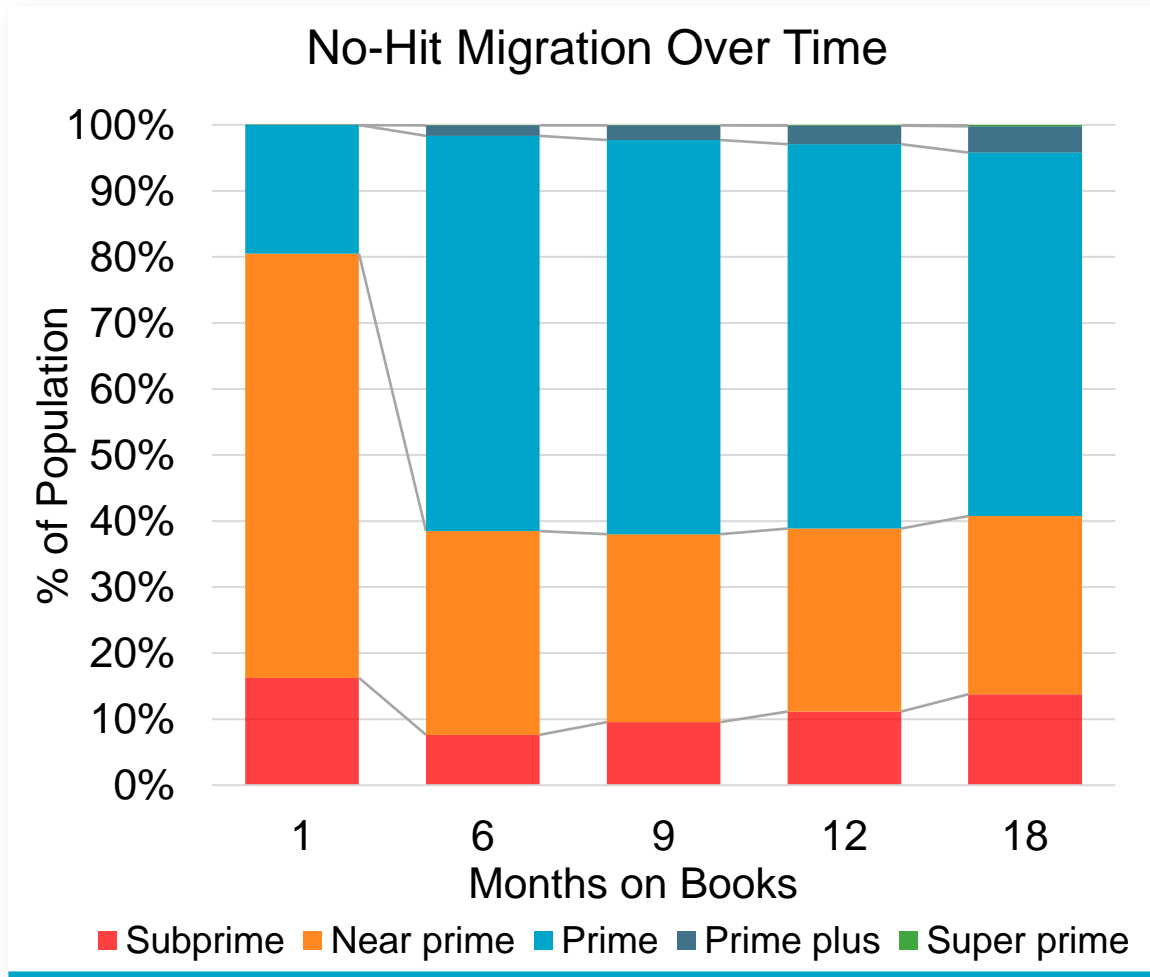


Despite the lack of data, it is possible to separate a portion of no-hit delinquency risk by looking for potential synthetics

Unit Delinquency Rate (90+ DPD) at 18 MOB, by Synthetic Risk



No-hits tend to migrate to established risk tiers over time, but those with a high risk of synthetic fraud migrate higher faster



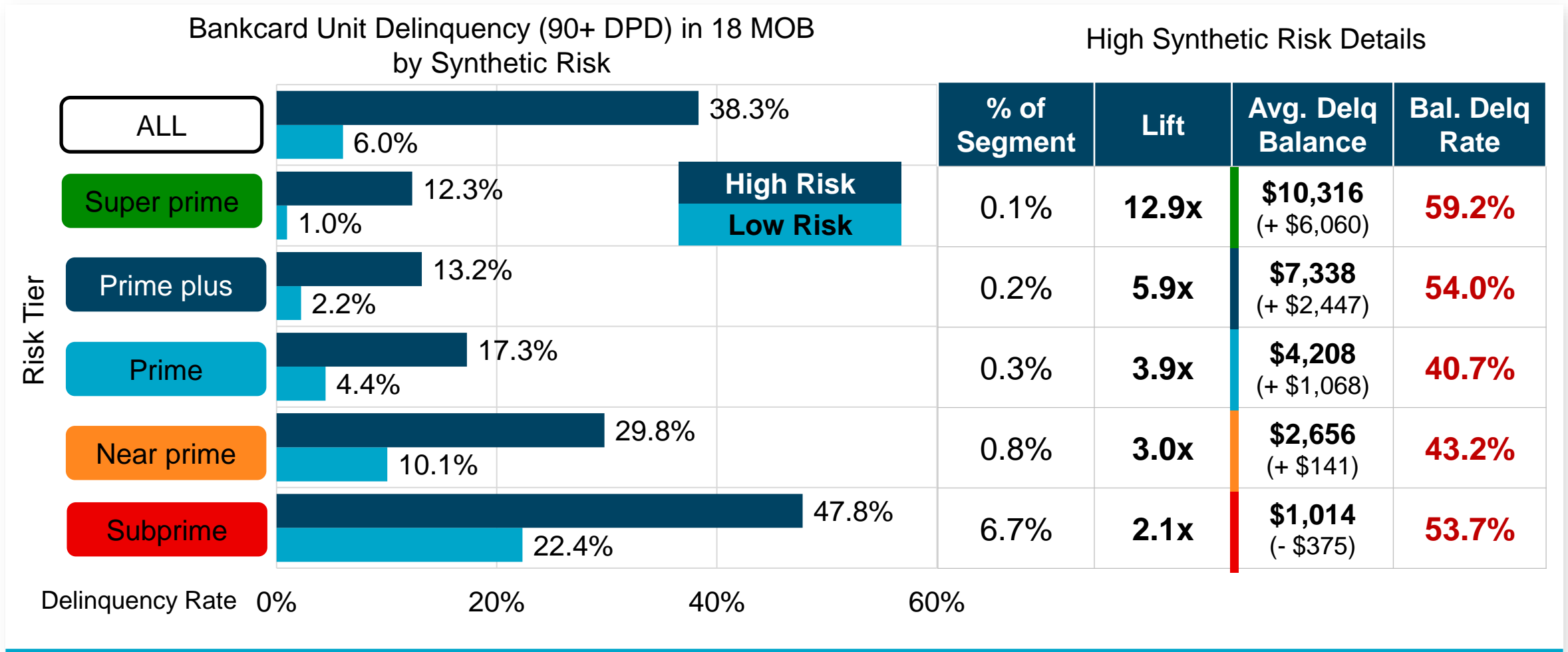
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Source: TransUnion Canada Consumer Credit Database, TransUnion Canada IDX Database

In fact, applications that scored high risk for synthetic had delinquency rates significantly higher across all risk tiers, 6.4x higher overall



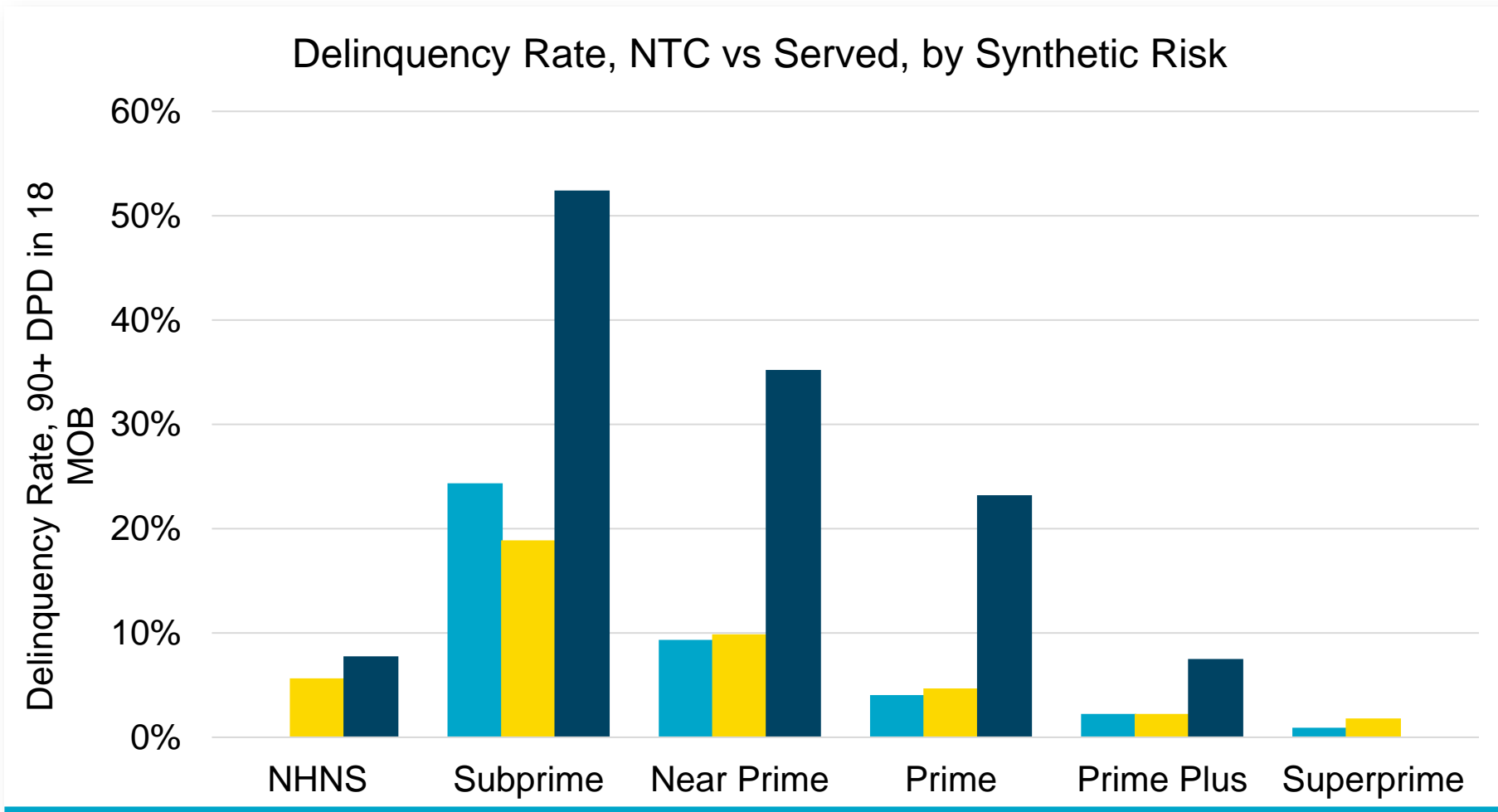
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When filtering out high synthetic risk, the new-to-credit population demonstrates comparable performance to the served population



Synthetic risk is a material contributor to rising delinquency

Legitimate NTC consumers are not at heightened delinquency risk

Served – Low Risk

NTC – Low Risk

NTC – High Risk

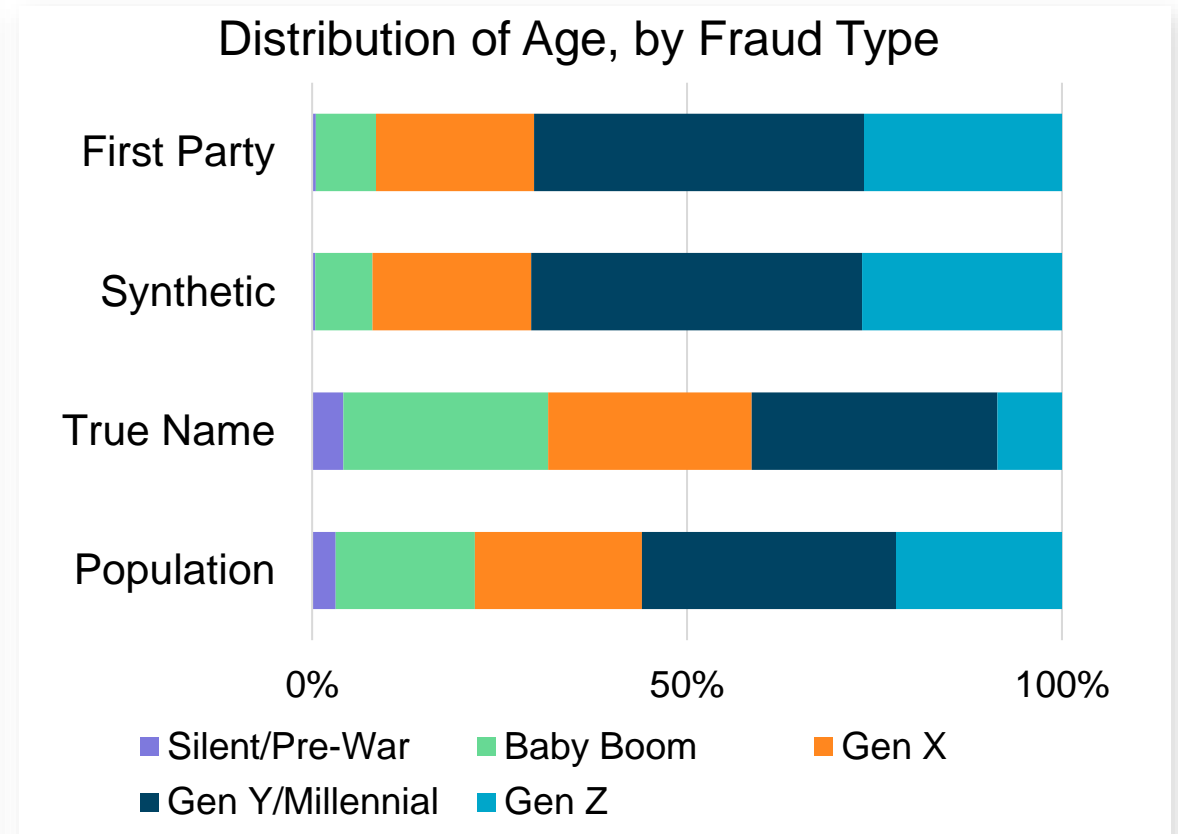
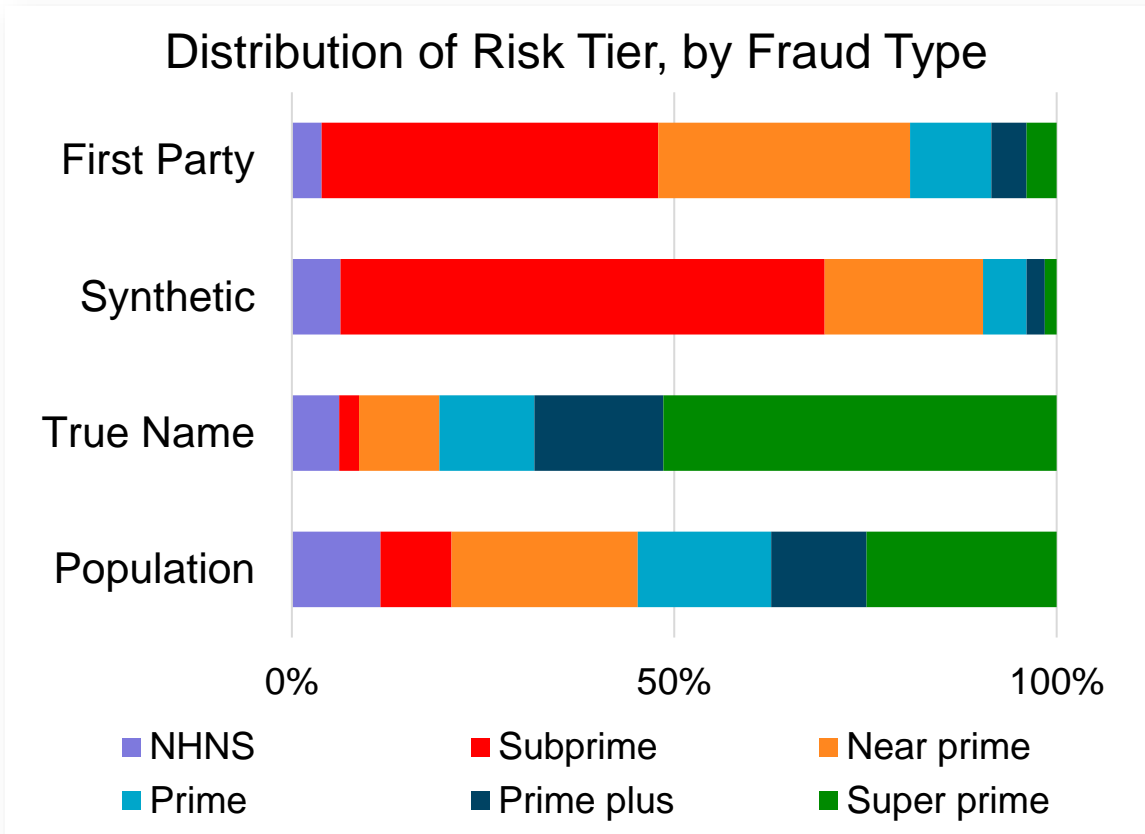
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Synthetic fraud risk skews towards lower scores, opposite to true name fraud; however, first-party fraud more closely aligns to synthetic fraud



Fraud targets all risk tiers

First-party fraud appears like matured synthetic

Age distributions are nearly identical for first-party and synthetic

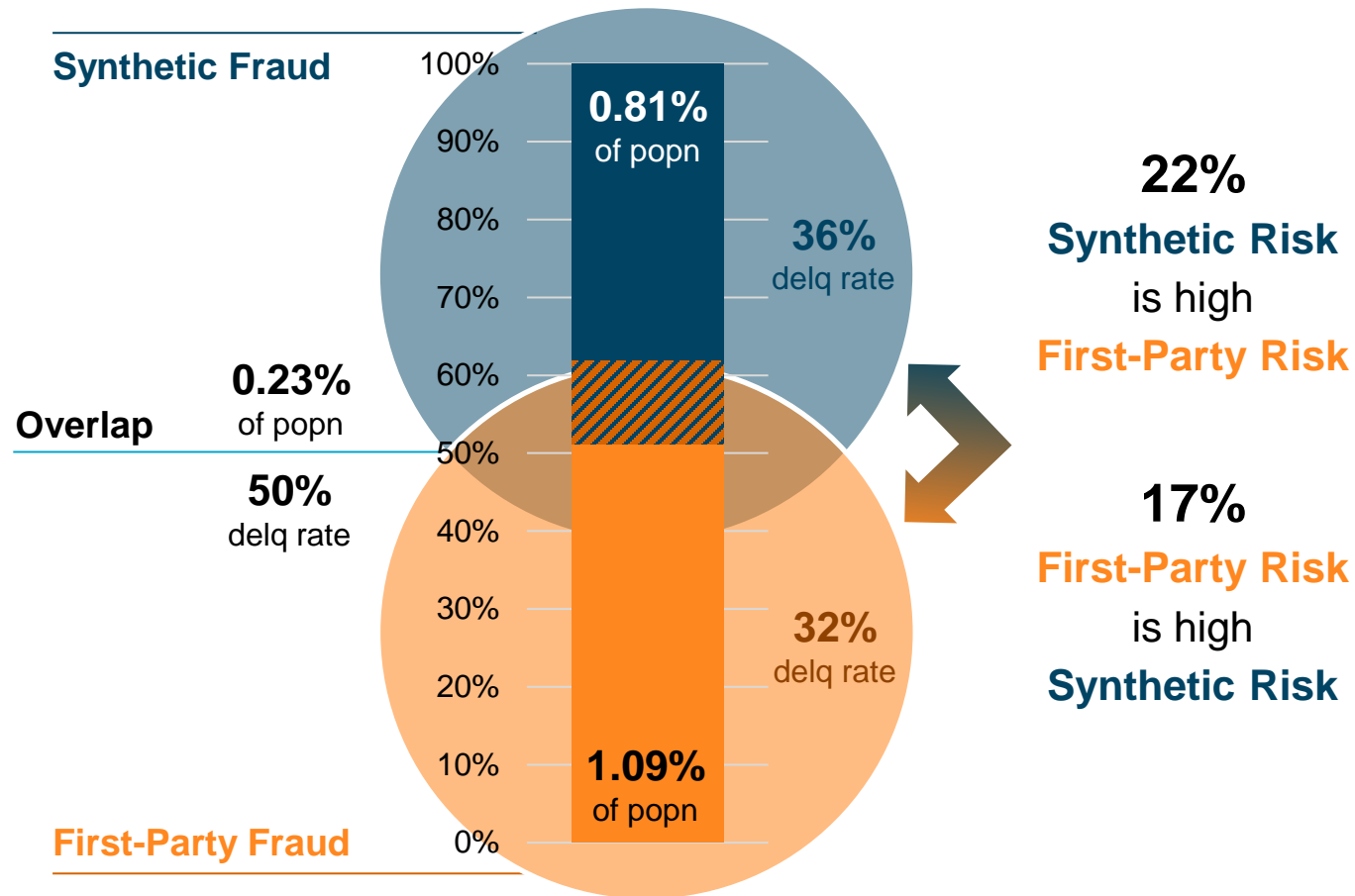
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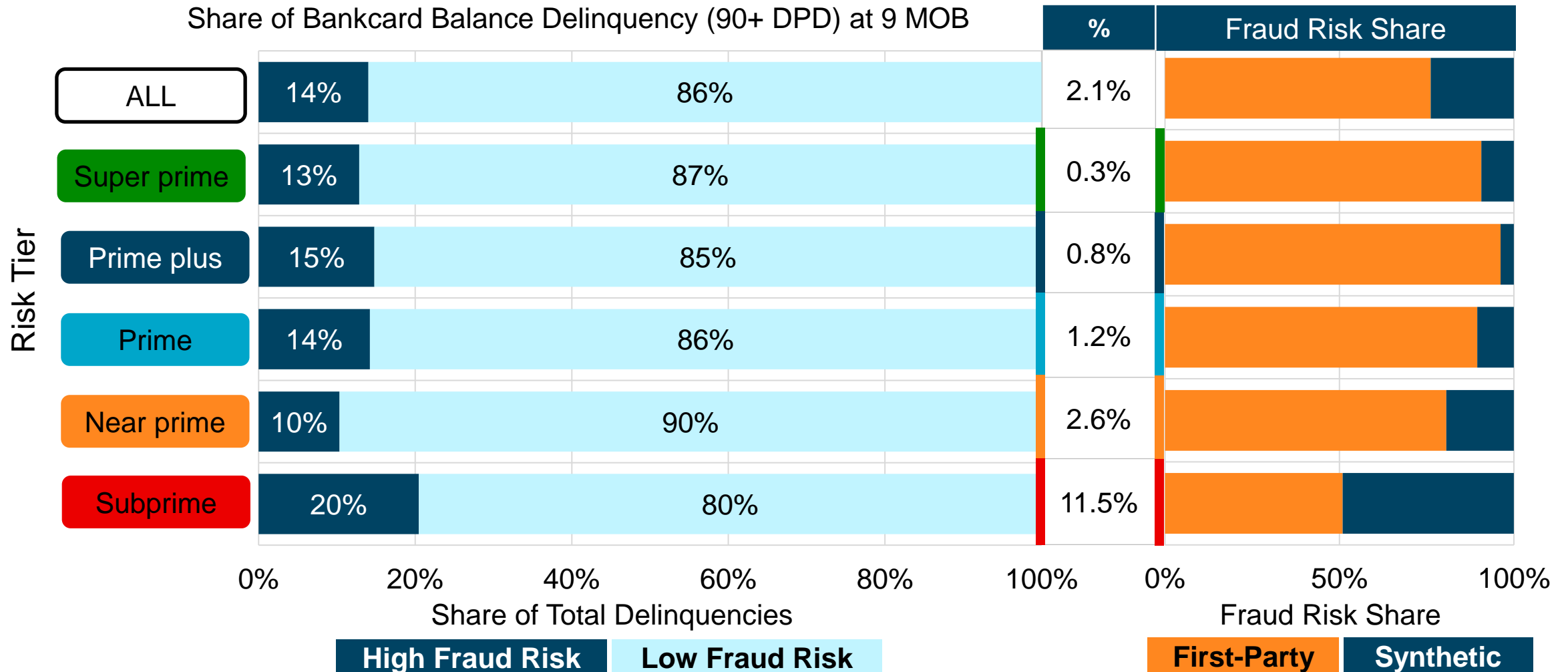
There is overlap in the population when scoring synthetic risk and first-party risk, suggesting a portion of first-party fraud is established synthetic files



- Both high risk of synthetic and high risk of first-party fraud have much higher delinquency rates.
- When an application scores high-risk on both, they have unit delinquency rates near 50%.
- 17% of first-party fraud score high-risk of synthetic fraud, and those that don't skew towards higher risk tiers.

Recent increases in first-party fraud are partially driven by synthetic files

Across all risk tiers, fraud risk contributes more than 10% to the share of balance delinquency, well above prior estimates



Fraud hiding in late-stage delinquency is leading to hundreds of millions worth of losses for the industry across a wide range of products

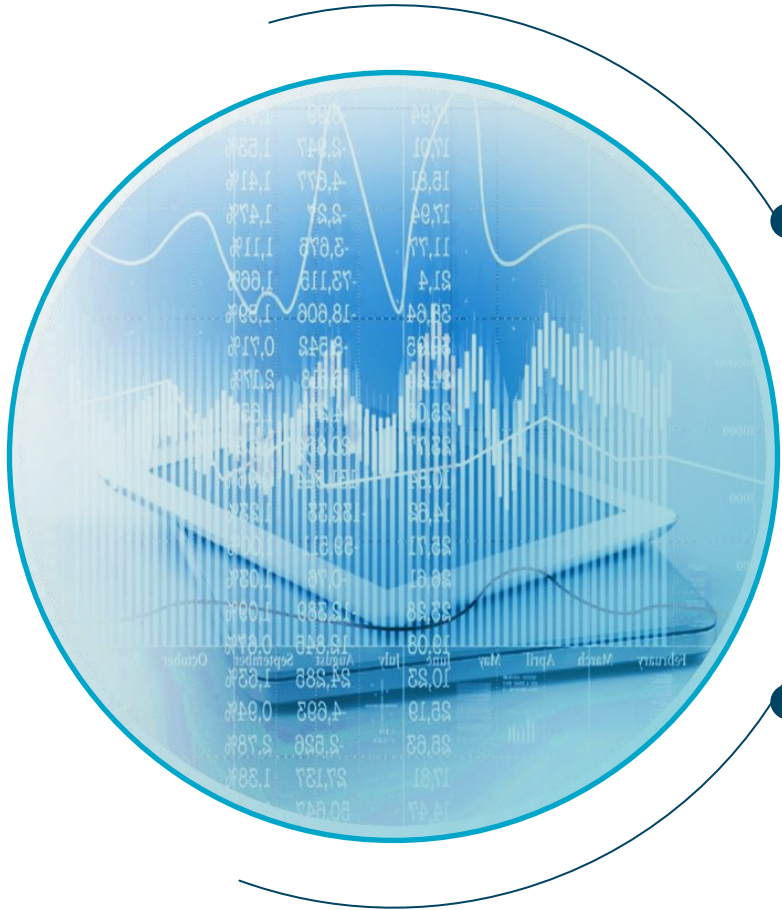
! \$409 Million !

in fraudulent funds hiding in late-stage delinquency in just 9 months on book

	Share of Balance Delq. 0% 10% 20% 30% 40%	% of Segment	Delq Rate (90+ in 9)	FPR	Est. Balance at Risk Due to Fraud Q3/23 – Q2/24 (1 Year)
Auto	30%	5.5%	15%	5.7:1	\$162 Million
Bankcard	14%	2.1%	21%	3.9:1	\$54 Million
Installment	24%	8.2%	29%	2.4:1	\$132 Million
LOC	12%	0.9%	15%	5.7:1	\$12 Million
Telco	33%	6.4%	41%	1.5:1	\$49 Million



To summarize our findings...



Synthetic fraud is the leading contributor to rising delinquency rates in Canada and is not being captured today



Increases to **first-party fraud** are considerably caused by synthetic identities that have matured



The **new-to-credit population** is not the culprit, there is no need to scale back NTC strategies if isolating bad actors

Remediating the identification gap through prediction & partnership



Mechanisms exist to report synthetic fraud

Volume of synthetic fraud reporting is low today

- At TransUnion, creditors have the ability to report synthetic fraud identities to TransUnion via email, fax, or mail
- Once reported, TransUnion:
 - Adds the FD (Fraud) Narrative Code to the file, which suppresses the file
 - Loads SIN, Address, and Phone Number to HRFA Misused databases
- If not reported to TransUnion, we do not proactively mark files as Synthetic Fraud, even if our scores suggest it

**Partnership
results in
better defense
of the entry
point**

The good news: The tools exist to stop this today

Every dollar shown on the prior slides was identified using TransUnion's fraud scores

Prediction

- TransUnion recommends scanning all non-mortgage applications from Q3 2021 to present through the following models to reduce industry exposure while working towards online integration:
 - **Identity Exchange**
 - **Synthetic Score**
 - **First-Party Score**
- Evidence suggests that institutions using the Identity Exchange[®] have materially avoided the recent rise in delinquency

Partnership

- Open-to-buy on revolving products marked as high risk of synthetic is still larger than losses after nine months. Immediate action is suggested to battle this problem
 - **Credit limit decreases**
 - **Transaction restrictions**
 - **Proactive closures**
- Reporting & sharing is valuable; however, traditional industry negative-list consortiums lack the proactive prediction required to identify synthetic fraud at the entry point

Thank You

