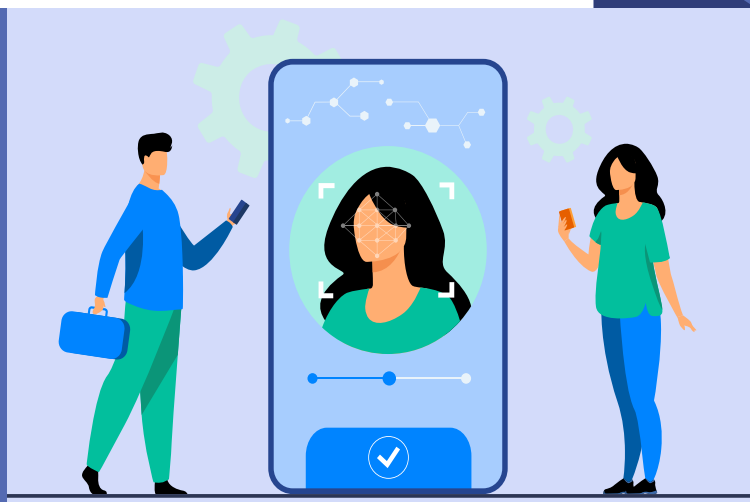


WHITEPAPER

Preventing Fraud with Minimal Friction

It's time to reimagine digital identity verification with a focus on the customer experience



As financial services organizations focus on improving customer satisfaction, they struggle to identify the ideal situations of when, where and with what tools to step up fraud mitigation efforts for fear of introducing unnecessary friction. However, reducing friction for customers doesn't necessarily have to mean reducing friction for criminals. More and more tools are becoming available to help firms dial in a process to apply friction against only the minority of interactions that truly warrant scrutiny, with minimal impact on the customer experience.

For example, when a customer is using a newly acquired phone to login to their account, a device registry check performed in the background to confirm device ownership may alleviate the need to introduce authentication measures to the customer during the session. However, if the new device is being used in a new, never used location or on a new IP address, the company may decide to introduce steps to validate the customer's identity. This measured response effectively blends fraud mitigation efforts during a customer session that are performed both, in the background, and when needed, directly to the customer.

In June 2022, Arizent and American Banker surveyed 101 financial services leaders on behalf of Neustar to better understand the key pain points organizations are experiencing as they work to minimize digital identity risk.

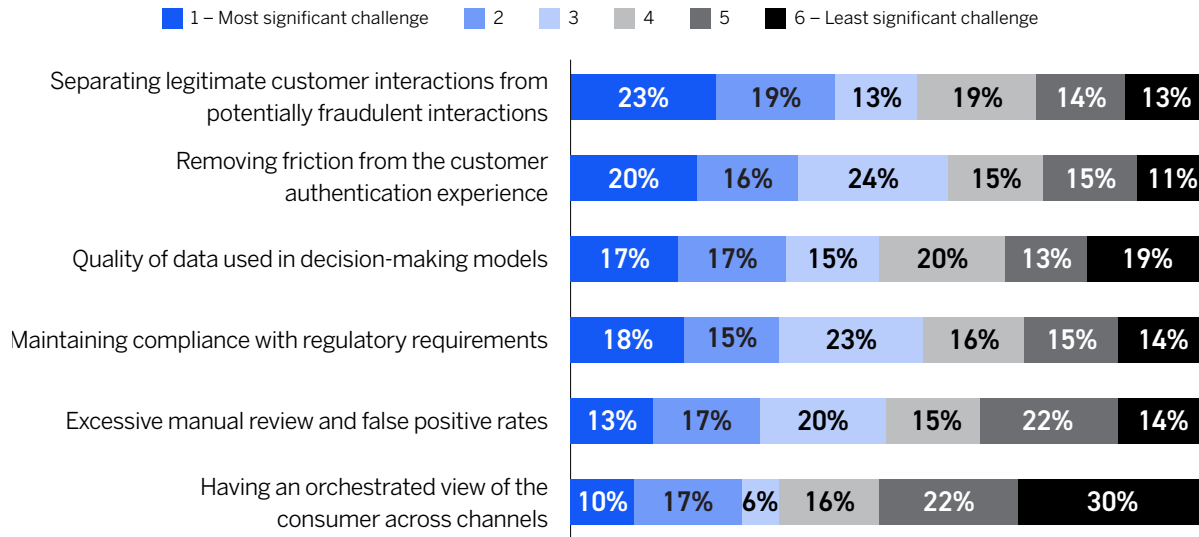
Weeding out fraudulent interactions is a key pain point for financial institutions

The pandemic accelerated substantial efforts already in place by financial institutions to overhaul the digital customer experience. Over the next year, the top priorities for at least half of these organizations include improving digital product origination and onboarding (58%), process automation to simplify or enhance the customer experience (53%), delivering a seamless user experience (53%) and improving fraud prevention and mitigation (50%).

Although these initiatives all contribute to an enhanced customer experience, efforts to curb fraud can create customer experience headaches as many efforts to fight fraud often create the very friction institutions are trying to reduce (see Figure 1).

Figure 1: The most significant challenges institutions face when preventing account origination or takeover fraud

Please rank the biggest pain points your organization faces in its efforts to prevent account origination or account takeover fraud within the customer authentication experience where 1 indicates it is the most significant challenge and 6 indicates it is the least significant challenge of those listed.



Base: Total Respondents: n=101

Source: Source: Arizent/American Banker June 2022

Separating legitimate customer interactions from potentially fraudulent interactions represents the most significant challenge faced by nearly a quarter of financial institutions (23%). But efforts to detect fraud can easily create friction in the customer authentication experience—the most significant pain point for one in five financial institutions.

Other pain points demonstrate the breadth of these interlocking issues. A lack of quality data used in decision-making models can undermine an institution's ability to detect fraudulent activity accurately. Those difficulties in separating safe from risky interactions inevitably lead either to increased fraud rates or excessive rates of false positives and manual review, both of which further deteriorate the customer experience.

Effective fraud mitigation must be aligned with other business objectives

The manual review process offers a window into how well financial institutions' fraud mitigation processes are aligned with their business objectives. Fully half of the respondents surveyed cite excessive manual review and false positive fraud detection rates as a relatively significant challenge at their institutions. However, only half of financial institutions indicate they have clarity on what their manual review and false positive rates are – in fact, 7% have no real visibility into that information at all.

That lack of visibility can obscure the root of the problem. It may not be clear whether a customer who abandons a process during manual review was deterred from committing fraud or got fed up with a slow, non-transparent process. Without that type of insight, it can be difficult for institutions to determine what they can do to limit the necessity for manual reviews without hurting their ability to detect fraud.

That limited visibility often corresponds to limited toolsets. No institutions using four or more tools to prevent fraud indicate a complete lack of visibility into their manual review and false positive rates. But adding more tools isn't necessarily a solution in and of itself. Those tools must fit the broader context of the institution's risk appetite and overall business strategy. "Building an effective identification fraud platform is as much an art as it is a science," says Chad Gluff, senior director of Transunion's Global Identity and Fraud group.

“ Some friction is always necessary to prevent fraud, but it has to be the right friction at the right time,”

— Monika Boyle

Putting the right friction in the right place at the right time

As a practical matter, the best way to balance fraud mitigation with a seamless customer experience is to push as much of the fraud detection work to the background as possible. The more successfully institutions can manage that process automatically, the less they will need to rely on costly and friction-filled processes, like manual review. That effort requires access to quality data and the ability to use that information intelligently, enabling the use of data orchestration and machine learning tools which can identify patterns that signal both legitimate and fraudulent activity.

"Some friction is always necessary to prevent fraud, but it has to be the right friction at the right time," says Monika Boyle, director of product management, Global Fraud Solutions at TransUnion. "Partners and third-party vendors can be helpful allies here by offering access to broader datasets capable of identifying fraud patterns at an industry level."

New fraud patterns develop all the time, and the technology used to detect and deter that fraud has to keep pace. The more financial institutions understand about their customers' behavior, the more effectively they can adapt their fraud mitigation efforts. A layered approach that delivers feedback across the institution's whole system is better positioned to adjust and react to emerging threats.

By stepping back to look at the broader picture, institutions can avoid tunnel vision and build layered solutions that detect fraud with greater precision. With access to comprehensive data and up-to-date information on industry-wide fraud trends, solutions can be put in place to optimize both the customer experience and fraud prevention.

Methodology

This research was conducted online by Arizent Research/American Banker during June 2022.

To qualify, the 101 respondents had to work at a bank, credit union, or insurance carrier. Qualified respondents also had to have knowledge of ID verification/ authentication or risk/fraud. This was a blind data collection effort; Neustar was not identified as a sponsor of the research.



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About Neustar

Neustar, a TransUnion company, is a leader in identity resolution providing the data and technology that enable trusted connections between companies and people at the moments that matter most. Neustar offers industry-leading solutions in marketing, risk and communications that responsibly connect data on people, devices and locations, continuously corroborated through billions of transactions. Learn how your company can benefit from the power of trusted connections.

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