INTO THIN **AIR**

Revenue is vanishing in a haze of fraud, churn and shadowy figures

An abstract from the LexisNexis® Risk Solutions 2018 State of Risk in Communications, Mobile & Media

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YOU KNOW WHAT YOU'RE UP AGAINST WHEN PURSUING MARKET SHARE. WITH A BALANCED STRATEGY, YOU'LL PREVAIL.

Success in today's highly competitive Communications, Mobile & Media landscape depends on an elevated customer experience and an ability to seize opportunity, while mitigating a diversity of threats throughout the customer journey.

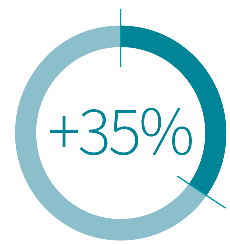
In this four-part series, LexisNexis® Risk Solutions examines some of the most common risks facing Communications, Mobile & Media as they navigate massive industry transformation, the role of identity data and best practices for managing the tension between mitigating risk and creating an elegant customer experience.

Risk Spotlight: The True Impact of Fraud and Churn

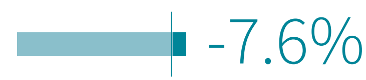
You know that both of these threats siphon away hard-earned profits. But a few data points reveal the potential magnitude of their impact on the industry:

26,082: Identity theft reports related to new mobile telephone accounts in 2017[1]

35%: Increase in identity theft reports involving email/social media accounts from 2016-2017[2]



Media & Entertainment businesses risk losing 7.6% of their subscribers each month to involuntary churn[3]



[1] Federal Trade Commission, Consumer Sentinel Network Data Book 2017: Identity Theft Reports by Type, 2017
[2] Ibid.
[3] MarketingCharts, "Subscription Commerce Benchmarks: 7.2% of Customers At Risk of Involuntary Churn Each Month," 2018

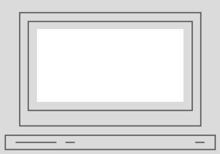
FRAUD AND CUSTOMER CHURN CAN OCCUR AT ANY STAGE OF THE LIFECYCLE.

Purchase transaction → Activation → Ongoing upgrades/additions/changes to service plan

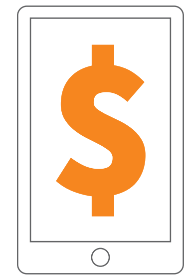
The first 2-3 months of the customer lifecycle—onboarding—is the riskiest point of the journey for experiencing fraud or churn.

Less is known about new customers at this stage

Returning customers may bring bad debt



Devices are lucrative targets for theft and are often the initial seeds of synthetic identities



Stolen iPhones—even out-of-date ones—sell for $2,100 on the black market in some countries[4]

While fraud and churn tend to be treated as separate issues, they are very inter-related threats.

- A legitimate customer may leave as a result of experiencing account fraud.
- Or, they may be driven away by friction from identity verification/authentication and anti-fraud measures.
- Churn can also be a symptom of fraud. Examples:
  - A customer who never intends to pay
  - A fraudster who has sufficiently nurtured a synthetic identity and is now ready to “go bad”

[4] SC Media, Phishing kits meet $2,100 second hand iPhones on black market study, 2017

FRAUD MANIFESTS IN MANY WAYS.

Fraud poses a threat to Communications, Mobile & Media Services in varying degrees. You’re at higher risk if you issue devices along with service. Mobile phones and TV/ digital receivers/boxes are a hot target for fraud rings due to their high street value. IoT devices won't be far behind them.

FRAUD SCENARIOS

Scenario 1: Wireline Phone Carrier
Level of Risk: Moderate

- Bad credit fraud/no intent to pay
  - Repeatedly signs up for additional services using relative/roommate names
  - Subscribes to obtain promotional devices—then disappears
  - Subscribes to obtain equipment related to other services (mobile, TV receivers)
- Identity fraud
  - Hack accounts to establish service in their name
  - Use synthetic identities to nurture good credit before “going bad”

Scenario 2: Streaming Media Provider
Level of Risk: Moderate

- Credit card fraud
  - Buys service for a limited period of time using stolen credit card info
- Identity fraud
  - Uses synthetic identities to nurture good credit before “going bad”
  - Account hacking to obtain short-term content (e.g. prized boxing match)

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FRAUD MANIFESTS IN MANY WAYS.

Scenario 3: Broadband Cable Provider

Level of Risk: Moderate to High

- Bad credit fraud/no intent to pay
  - Repeatedly signs up for additional services using relative/roommate names
  - Subscribes to obtain equipment, then sells on the black market
- Identity fraud
  - Uses synthetic identities to nurture good credit before “going bad”
  - Account hacking to obtain short-term content (e.g. prized boxing match)

Scenario 4: Wireless Service Provider

Level of Risk: High

- Seeks devices to sell on the black market
  - Via fraudulent identity or stolen credit card info
  - May exploit multi-phone promos

Scenario 5: Satellite Provider

Level of Risk: High

- Bad credit fraud/no intent to pay
  - Subscribes to obtain equipment, then sells on the black market
- Identity fraud
  - Uses synthetic identities to nurture good credit before “going bad”
  - Account hacking to obtain short-term content (e.g. prized boxing match)
  - Phishes to obtain customer info, then calls customer posing as provider to “sell” upgrades and pocket the money

CUSTOMER CHURN IS A PROBLEM THROUGHOUT THE CUSTOMER JOURNEY.

Many organizations reportedly keep churn at or below the 2% industry benchmark, **only after investing significant resources.**

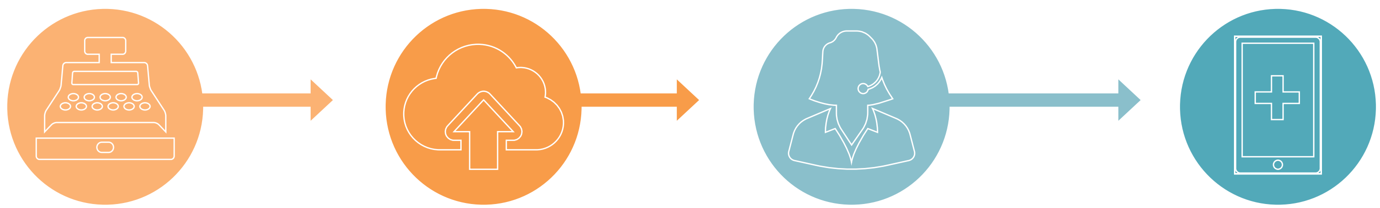
Churn typically manifests itself in one of three ways:

1. Voluntary churn | **2. Involuntary churn** | **3. Intentional churn**

The latter two types overlap with fraud.

The graphic below shows how these can play out across the lifecycle.

ONBOARDING | LIFE OF AN ACCOUNT



Purchase, Subscribe

Friction/abandonment:

- Activation delays
- Overly complicated or personal info requests
- Sub-optimal pricing/ service offering

Activate, Install | **Service, Support**

Voluntary churn: Bad onboarding experience

Involuntary churn: Customers who can’t pay; worsening credit risk

Intentional churn: Subscribes with intent to steal device(s); synthetic identity fraud

Upgrade, Add and Change Services Plans

Voluntary churn:

- Bad CRM or over-selling
- Customer victimization via hacked accounts/fraudulent purchases

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LOOK AT FRAUD AND CHURN COLLECTIVELY—BECAUSE TWO PUNCHES MEAN TWICE THE IMPACT.

Again, these are tightly woven threats. Managing each one in isolation makes it difficult to get the full story on how your business is being impacted. Develop a strategy that addresses both fraud and churn.

A FEW RECOMMENDATIONS:

- **Access deeper customer data.** Credit reports and customer billing history aren't enough to gauge future behavior. Incorporate additional identity filters into your own self-supplied customer data, including:
  - Velocity of identity elements (frequency of recent searches, number of recent openings, etc.)
  - Characteristics of the identity (i.e., address in a high-crime neighborhood)
  - Behavioral data (i.e., device ID, geolocation)
- **Share data and insights across teams** to build aggregated reports. Use a singular identifier to link data across the organization.
- **Maintain a balance** between customer friction and fraud/credit risk mitigation by considering:
  - Common use cases/levels of risk
  - User behaviors by channel (e.g. in-store strategies may differ from mobile engagement)

DON'T SETTLE FOR THE STATE OF RISK IN TODAY'S MARKET.

Fight back with the full power of LexisNexis® Risk Solutions.

Our capabilities include:

Identity Verification
- Validate name, address and phone info
- Reconcile variations, duplications and inconsistencies; link data points
- Perform global identity checks with seamless integration and reporting

Identity Authentication
- Authenticate identities on the spot using knowledge-based quizzes
- Dynamically adjust security level to suit risk scenario
- Receive real-time pass/fail results

Premise Association Risk
- Assess the risk associated with opening an account
- Uncover potential "name game" fraud
- Determine if further investigation is needed
- Identify potential delinquent accounts for review

Credit Risk
- Access alternative data to understand a customer's holistic picture of risk
- Provide a risk score across all behaviors and media
- Prioritize fraud management action based on level of risk

Fraud Scoring
- Quickly detect fraud patterns and isolate high-risk transactions
- Resolve false-positives and address verification system failures

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Customer growth.
Lower risk.
Better customer experience.
What's not to like?

Contact us at
risk.lexisnexis.com/StateofRisk

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