



# Do you have the right strategy to combat rising rates of small and midsize business lending fraud?

Take a current look at the fraud challenges facing lenders in our newest study:  
LexisNexis® Risk Solutions 2020 Study of Small and Midsize Business Lending Fraud



# Fraudsters are capitalizing on a convergence of favorable factors

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The combination of complex business structures and lenders' efforts to offer an omni-channel transaction experience creates a hospitable climate for small to midsize business fraud to thrive. Fraudsters are experts in fully exploiting the identity verification and authentication challenges posed by business structures that blend corporate entities with associated representatives. At the same time, digital and online channels provide ample opportunities for fraudsters to easily launch and quickly scale costly attacks. Small business lenders face unique and multi-faceted fraud challenges that they must successfully combat on multiple fronts.

Our e-book illustrates current fraud obstacles as it details the results from the LexisNexis® Risk Solutions 2020 Study of Small and Midsize Business Lending Fraud (SMB Fraud).

**Explore how SMB fraud is increasing, which channels contribute to rising rates and learn how a multi-layered defense strategy can mitigate fraud impacts.**



SMB fraud rates are on an upward trajectory and the trend is expected to continue

Fraud follows opportunity and fraudsters are taking advantage of the small to midsize lending market. The amount of fraud and the cost impacts of fraud have increased for the majority of lenders and most lenders see no signs that SMB fraud will decrease in the year ahead.



Over the last 24 months, SMB fraud increased by **8.3%**



**71%** of study respondents experienced increases in fraud rates

#### Change in Level of SMB Lending Fraud Over Past 24 Months

Average %  
by Which  
Fraud  
Amount  
Increased

Overall

Smaller Banks/  
CUs (<\$10B)

Larger Banks/  
CUs (\$10B+)

Fintech/Digital  
Lenders

Mostly Digital  
Channels

8.3%

8.2%

8.7%

9.3%

9.7%



SMB fraud losses equaled **5.4%** of annual revenues for 2019, a **28.6%** year-over-year increase



**63%** of study respondents anticipate fraud levels will continue to grow in 2020, with lenders who transact over mostly digital channels expecting a double-digit increase in fraud at **11%**

# Multiple channels maximize opportunities for synthetic identity fraud and account takeover fraud

Merging an omni-channel transaction ecosystem with the complex layers of identity and financial attributes associated with businesses and people facilitates an ideal environment for synthetic identity and account takeover fraud to flourish. The distribution of fraud losses by channel and type illustrate these impacts.



# SMB lenders are navigating overlapping fraud obstacles

SMB lenders are fighting fraud on multiple fronts. Sophisticated, constantly evolving fraud threats complicate the ability to implement a fraud defense strategy that is both agile and sustainable. Concerns ranging from costs to customer experience impacts and channel security challenges complicate an effective approach to fraud, yet most lenders appreciate the business benefits a stronger fraud prevention strategy can deliver.

## Fraud Costs



**78%** of study respondents feel it costs too much to control SMB lending fraud



**83%** of respondents recognize that reducing SMB lending fraud helps increase revenues

## Customer Experience



**77%** of study respondents feel it's becoming harder to manage fraud while minimizing customer friction



**84%** of study respondents recognize that lower SMB fraud rates can increase customer loyalty

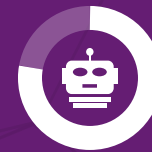
## Channel Security



**74%** of study respondents feel the evolution of the mobile channel presents a significant fraud risk



**65%** of study respondents feel the security of mobile devices is still unknown



**78%** of study respondents find combating automated botnet activity overwhelming



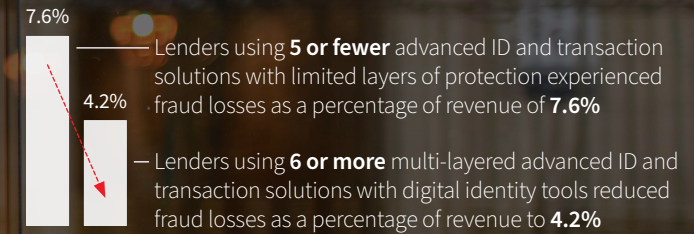
# A multi-layered solutions approach solves multiple SMB fraud challenges

Overcoming the obstacles of SMB fraud starts with a multi-faceted defense strategy that accounts for the risks of the business, the people tied to the business and the transaction itself. Utilizing a combination of tools that automate lending decisions and provide end-to-end perspective that includes physical and digital identity, behavioral and biometric risks enables your business to capture an encompassing view of risk and keep pace with evolving SMB fraud threats.



## A Multi-layered Approach Reduces Fraud Losses

### SMB Lending Fraud as a % of Revenues



Identity verification and authentication, of both the entity and its associated representatives, is important for “letting valuable customers in” with the least amount of friction



Assessing inherent fraud risks across the transaction helps proactively detect fraudsters



Lenders offering an omni-channel transaction experience should tailor their layered fraud solutions to target the nuances of every transaction channel and manage business-specific risk tolerances

# Early perspectives on the Covid-19 pandemic

Shortly after the conclusion of our initial study, the impacts of Covid-19 began. We revisited just over a third of our March 2020 study respondents in June 2020 to assess how the developing economic and geopolitical consequences of the Covid-19 pandemic are challenging SMB lenders.

## Main takeaways from conversations with our follow-up sample include:



The types and frequency of **SMB fraud** have remained fairly consistent with pre-Covid levels



Respondents noted a **slight increase** in the frequency of stolen legitimate business identity and stolen consumer/owner identity fraud



This coincides with the application period for SMB Paycheck Protection loans, which suggests that fraudsters tried to take advantage of the program



Reported changes in **SMB lending fraud losses** compared to pre-Covid levels are evenly mixed



**46%** of follow-up respondents have seen **decreases** in fraud between 1-9%



**47%** of our sample reported **increases** in fraud between 1-9%



Opinions are also nearly evenly divided on the **expected time** to return to 2/3 to 3/4 of typical pre-Covid SMB lending levels



**44%** of respondents feel it will take **between 3-9 months**



The remaining **56%** of respondents felt it will take **9 months or longer**



# Proactively prevent SMB fraud and protect portfolio performance

**The combination of robust business and identity intelligence, advanced decisioning tools and layered technology delivers an advantage in identifying and preventing SMB fraud.** LexisNexis®

Risk Solutions can develop a multi-layered fraud defense that easily adapts to respond to today's changing SMB risk climate.

Our extensive coverage of small to midsize businesses and their associates combined with proven linking analytics delivers a clear, unified illustration of the critical relationships and connections within a business. By layering this comprehensive view with our advanced fraud detection solutions, we can help automate lending decisions and isolate fraud before it enters your portfolio. **Our fraud solutions integrate physical and digital identity intelligence with device, biometric and behavioral insights to enable your business to quickly detect signals of SMB fraud and stop enterprising fraudsters in their tracks.**

**For more information**  
visit [risk.lexisnexis.com/SMBrisk](https://risk.lexisnexis.com/SMBrisk) or call 800.897.1644