

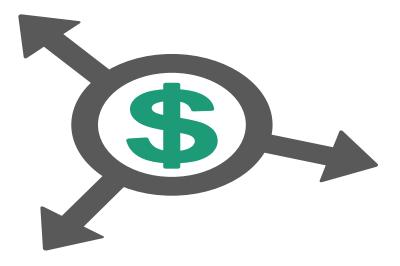
LexisNexis<sup>®</sup> Risk Solutions 2018 True Cost of Fraud<sup>s™</sup> Study *Financial Services Edition* 

September 2018



The LexisNexis<sup>®</sup> Risk Solutions 2018 True Cost of Fraud<sup>™</sup> Study helps **financial services companies** navigate the growing risk of fraud.

The research provides a snapshot of current fraud trends in the United States and spotlights key pain points that financial services companies should be aware of as they add new **transaction and account opening** mechanisms, as well as when expanding into the online and mobile channels.



How do I navigate and manage the cost of fraud while strengthening customer trust and loyalty?



# The study included a comprehensive survey of 175 risk and fraud executives in **financial services** companies in the U.S.

### **Fraud Definitions**

- Fraud is defined as the following:
  - Fraudulent transactions due to identity fraud, which is the misuse of stolen payments methods (such as credit cards) or personal information
  - Fraudulent requests for refunds/returns, bounced checks
  - Fraudulent applications (i.e., purposely providing incorrect information about oneself, such as income, employment, etc.)
  - Account takeover by unauthorized persons.
  - Use of accounts for money laundering.
- This research covers consumer-facing fraud methods
  - Does <u>not</u> include insider fraud or employee fraud
- The LexisNexis Fraud Multiplier<sup>™</sup> cost
  - Estimates the total amount of loss a firm occurs based on the actual dollar value of a fraudulent transaction



### **Financial Services Companies Include:**



**Segments Include:** 



Mid/Large Digital

Earns \$10 million in

annual revenues; 50%

or more through the

online and/or mobile

channels.



Investments

- Trusts
- Wealth Management



### Mid/Large Non-Digital

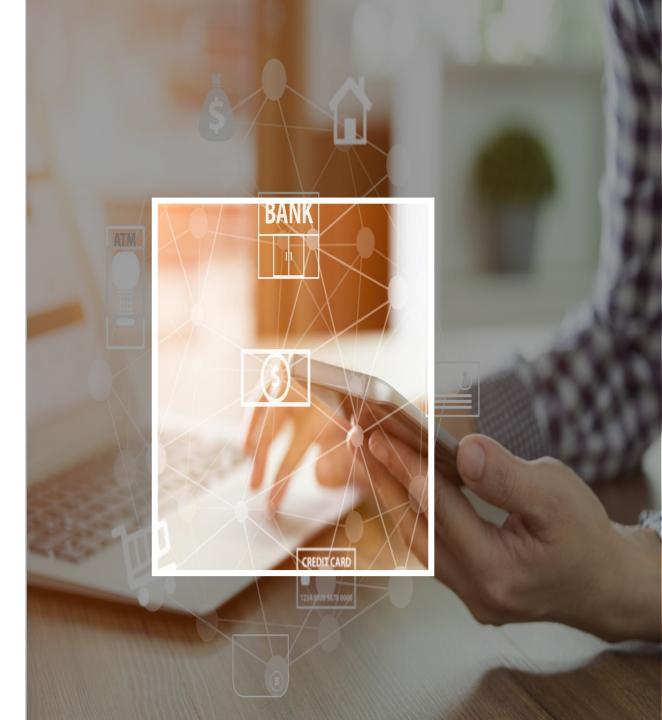
Earns \$10 million in annual revenues; less than 50% through the online and/or mobile channels.

	Company Type		Company Type by Revenues		Digital	
	Banks	Investments	Mid/Large Banks (\$10M+)	Mid/Large Investments (\$10M+)	Mid/Large Digital (\$10M+)	Mid/Large Non-Digital (\$10M+)
# Completion	<b>s</b> 114	61	95	50	65	80

Research was conducted March & April 2018.

### Executive Summary: Key Findings





### **Key Findings**



The cost and challenge of fraud continues to grow among US Financial Services firms.

- The average cost of fraud has risen 9.3% across financial firms over since 2017.
- Every \$1 of fraud now costs these firms \$2.92 compared to \$2.67 a year ago.
- And, the level of fraud as a percentage of revenue has moved upwards (.95% to 1.53% on average).
- This has lead a number to feel that fraud is inevitable and increasingly difficult to manage.



Fraud costs continue to be higher for mid/large digital firms, particularly with international

### transactions.

- Every \$1 of fraud costs mid/large digital firms an average of \$3.18, which is up from \$3.04 in 2017 – and is higher than among non-digital firms (\$2.40). This includes the lost transaction face value for which firms a held liable, plus fees/interest, fines, legal fees, labor for investigation, and external costs for expense recovery.
- Mid/large digital firms conducting international transactions experience even higher costs (\$3.27 per fraud event), which highlights the risk that the anonymous remote channel add to financial transactions.



The mobile channel has grown and contributes to increased fraud risks and costs among mid/large digital firms.

- Use of the mobile channel for financial transactions continues to grow, with increased adoption from mid-sized (\$10M - \$49M) firms during the past year – particularly investment firms.
- With that, the LexisNexis Fraud Multiplier<sup>sM</sup> has increased from \$3.10 to \$3.26 for mid/large digital firms using this channel.
- This coincides with increased use of mobile browsers and third-party mobile apps for payments. That said, more volume is still going through mobile browsers, which can be less secure than mobile apps.

## Key Findings (cont.)



Pairing international with mobile channel transactions further increases fraud risks and costs.

- Of all segments, mid/large digital firms that combine both international and mobile channel transactions experience this highest cost of fraud (\$3.38 for every \$1 of fraud).
- There is a higher percentage of international fraud among mid/large digital using the mobile channel (21%) compared to those not using this channel (8%).
- This is likely related to a higher percentage of transactions occurring by bill-to-mobile phone, coupled with increased challenges with assessing risk by country/region.



Identity verification remains a top digital channel issue, but is joined by a growing list of others.

- Large (\$50M+) banks continue to report a sizeable distribution (62%) of fraud coming from identity/synthetic identity fraud.
- It remains the top online issue for mid/large digital firms and has increased as a top mobile challenge (39% vs. 24% in 2017). Even more of those with international transactions rank it as a top mobile channel issue (50%).
- But other friction points have emerged with mobile, including delayed transaction confirmation, lack of international tools, manual reviews and difficulty verifying international addresses.



Digital financial firms are combatting fraud, but perhaps not optimally.

- There has been an increase in the percentage of mid/large digital firms indicating that they track fraud and/or fraud costs in one way or the other.
- And, those hit hardest (international mobile) are even more likely to be tracking where prevented and successful fraud occurs.
- However, tracking isn't consistent or holistic. Few are tracking prevented and successful fraud by both channel and transaction type, which leaves multi-channel firms open to risk since fraudsters continuously test for the weak entry points.

## Key Findings (cont.)





More at-risk firms are using fraud prevention solutions, but not necessarily the right combination to successfully prevent fraud.

- There has been some increase in the number of firms reporting use of at least one fraud mitigation solution. However, the use of advanced identity authentication is still limited, while manual reviews consume a sizeable portion of fraud mitigation budgets.
- Surprisingly, the incidence of these solutions is even more limited among those getting hit hardest by fraud (digital mobile channel & international). This includes modest use of solutions specifically useful for mobile transactions, such as device ID/ fingerprint and geolocation.
- This correlates highly with higher fraud costs.



Findings show that using the right combination of tools is crucial to combatting fraud risks and cost.

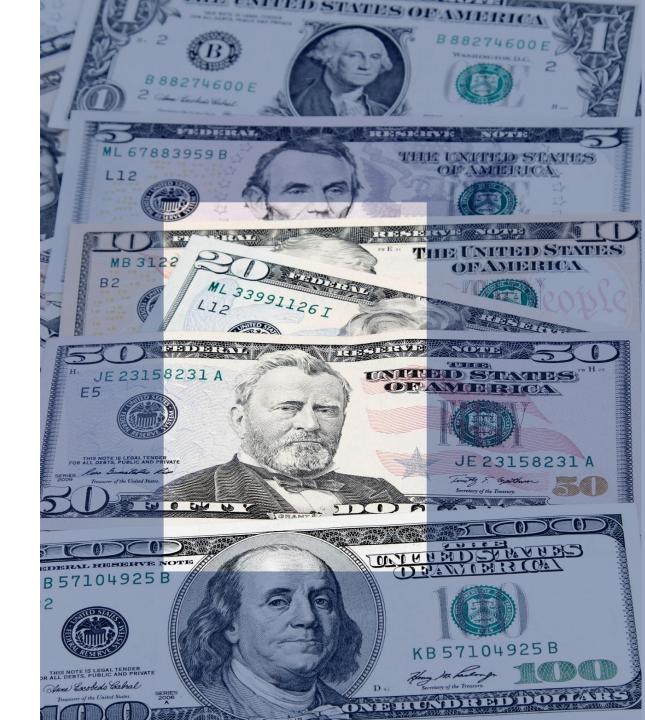
- Survey findings show that those who layer solutions by identity authentication and transaction/ identity verification experience:
  - fewer fraud costs; and
  - fewer false positives.





The cost and challenge of fraud continues to grow among US Financial Services firms.



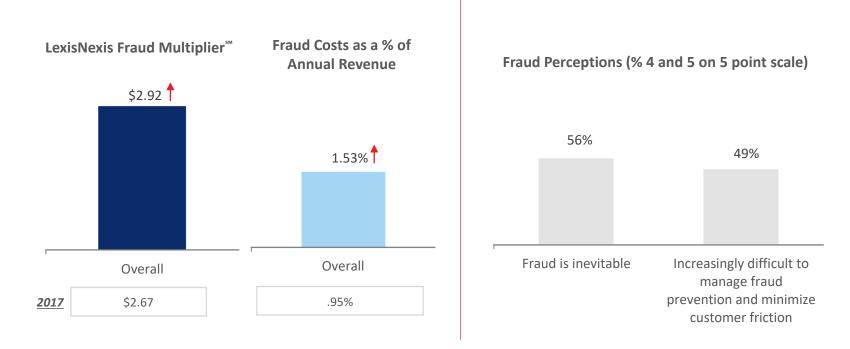


# The cost of fraud across financial services firms has risen by 9.3% over 2017.

For every \$1 of fraud, it costs financial services firms \$2.92 compared to \$2.67 last year.

Such fraud costs involve losses related to the transaction face value for which firms are held liable, plus fees/interest incurred during applications/underwriting/processing stages, fines/legal fees, labor/investigation and external recovery expenses.

Together, this represents an increase in the percentage that hits bottom line revenues and leads approximately half to feel that fraud is inevitable and increasingly difficult to manage.



\* Reflects weighted data accounting for census representation by small, mid and large-sized firms by employee



Significantly different from other segments within category at the 95% Confidence Interval

Significantly different than 2017 within Segment

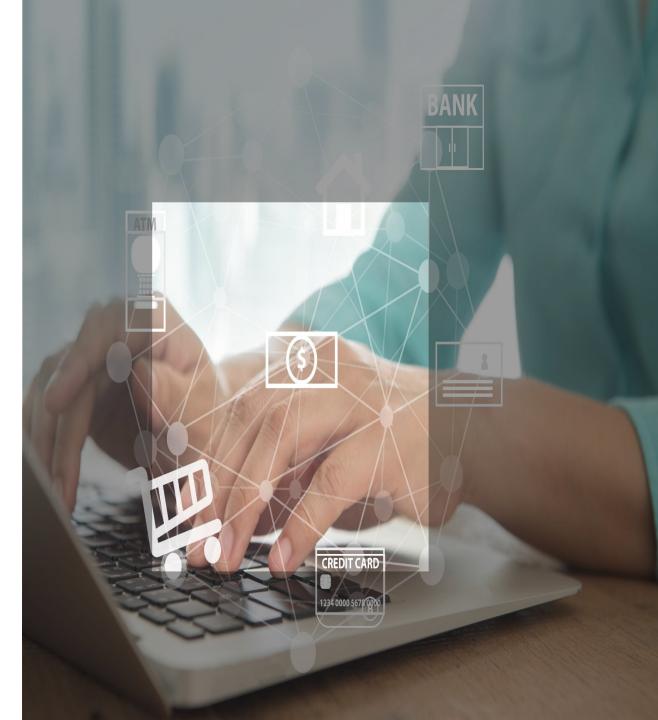
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Fraud costs continue to be higher for mid/large digital firms, particularly with international transactions.







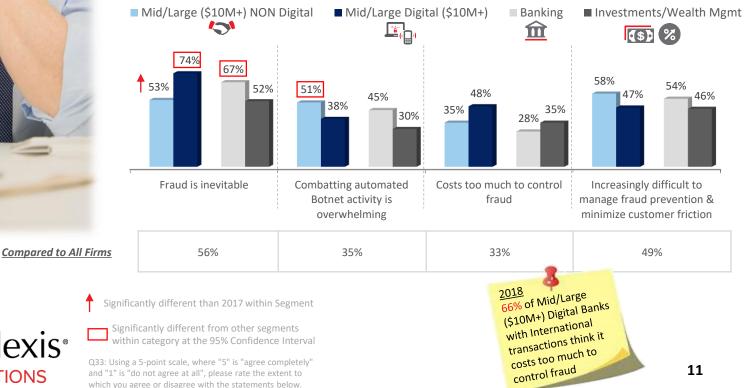
LexisNexis<sup>®</sup>

**RISK SOLUTIONS** 

## For mid/large digital firms, there is even more concern about fraud inevitability and costs when compared to financial firms in general.

This is felt more significantly among mid/large digital banks.

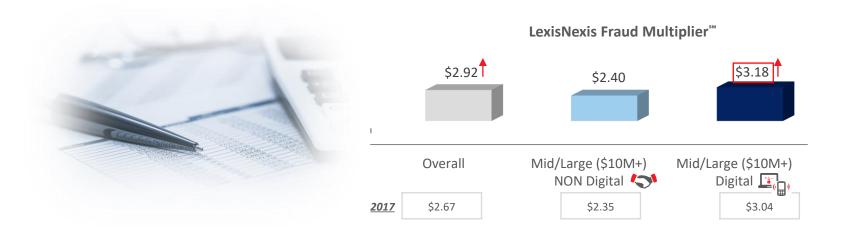
And, nearly half or more mid/large banks and investment firms feel that it is becoming increasingly difficult to manage fraud prevention efforts while minimizing customer friction.



#### Fraud Perceptions (% 4 and 5 on 5 point scale)

# This aligns with the fact that mid/large digital firms continue to experience a higher cost of fraud, with the LexisNexis Fraud Multiplier<sup>™</sup> increasing from 2017.

For every \$1 of fraud, it costs mid/large digital financial services firms \$3.18 compared to \$2.40 for non-digital firms of the same size. This continues the trend found in 2017 and represents a steeper increase among mid/large firms conducting a majority of transactions remotely compared to those which don't.



\* Reflects weighted data accounting for census representation by small, mid and large-sized firms by employee



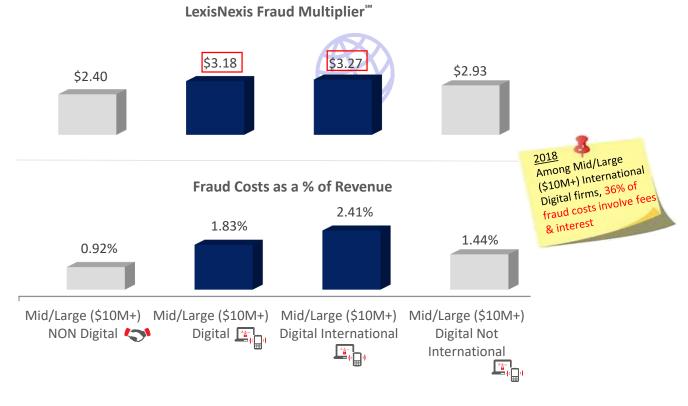
Significantly different from other segments within category at the 95% Confidence Interval





# And, the cost of fraud is even higher for digital financial firms that conduct international transactions.

Some of this, as shown later, is related to much lower use of fraud prevention solutions among this international mid/large digital segment, including those supporting identity verification and authentication. Of fraud costs, there is also a sizeable component related to fees and interest.





ounds

Q20: Please rank the top 3 challenges related to fraud faced by your company when serving customers in the Online Channel.

Significantly different from other segments within category at the 95% Confidence Interval



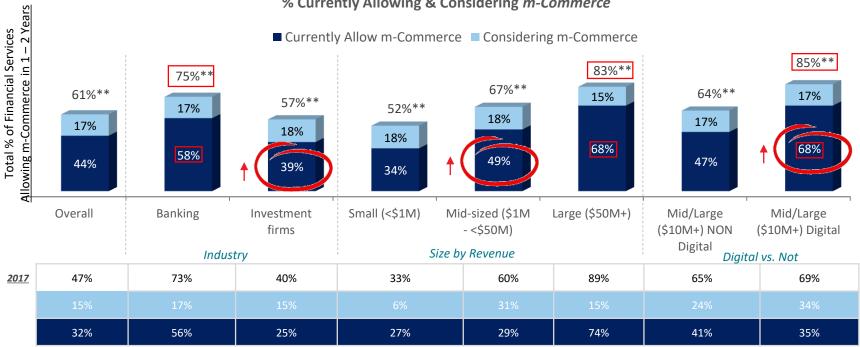
The mobile channel has grown and contributes to increased fraud risks and costs among mid/large digital firms.





## Mobile channel growth in 2017 came from mid-sized digital investment firms, solidifying the mid/large digital segment as users of this channel.

While growth came from investment firms, mid/large digital banks remain the larger user of this transaction channel.



#### % Currently Allowing & Considering *m*-Commerce

\*\*Not all who say "likely in next 12 months" may actually be able to do so in that timeline. Budgets and other unforeseen factors could delay adoption.



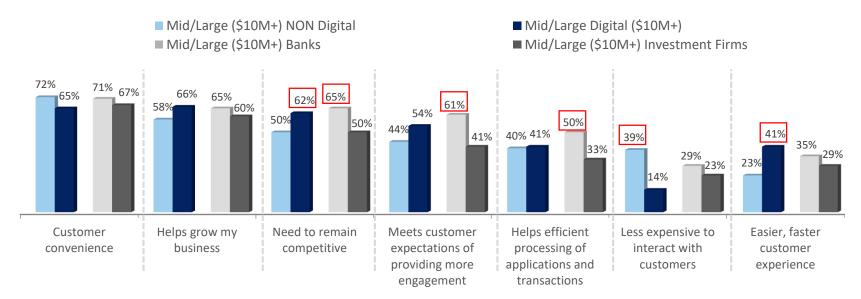
Q4: Please indicate the percentage of transactions completed (over the past 12 months) for each of the following payment channels currently accepted by your company. Q6: Is your company considering accepting payments by mobile device over the next 12 months?

Significantly different from other segments within category at the 95% Confidence Interval



### Customer convenience, business growth and competition are key drivers for mobile channel adoption.

Mid/large digital banks particularly feel the competitive pressure, including to provide an easier, faster and multi-channel experience that customers have come to expect and demand. They are also more likely to expect that this will provide the benefit of more efficient applications and transaction processing.



#### **Mobile Channel Drivers**



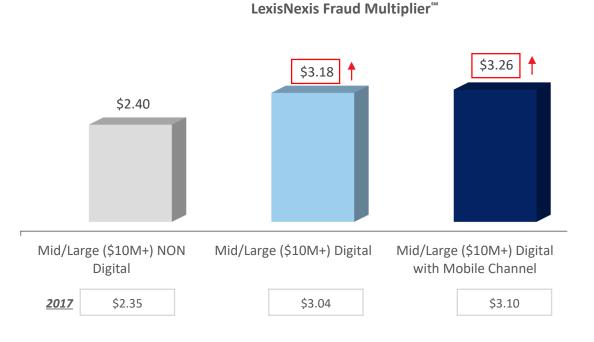
Q5: What were the reasons your company decided to start accepting mobile account origination or transactions?

Significantly different from other segments within category at the 95% Confidence Interval

# But the cost of fraud has risen for mid/large digital firms that allow mobile channel transactions.

Every \$1 of fraud costs them \$3.26 compared to \$3.10 a year ago, while the rise among nondigital firms is less significant.

This is one example of how the combination of multiple remote channels adds further risks and costs.



Q20: Please rank the top 3 challenges related to fraud faced by your company when serving customers in the Online Channel. Significantly different from other segments within category at the 95% Confidence Interval



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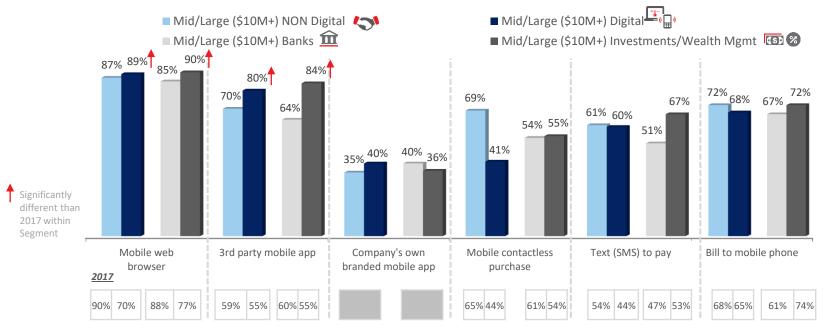


### The increased adoption of mobile browsers and third-party mobile apps could be contributing to added fraud.

Mid/large investment/wealth management firms have particularly increased adoption of thirdparty apps during the past year, with directionally increased use of text-to-pay. That said, leading banks have also been adopting third-party apps during the past 3 - 5 years, such that this isn't all about investment/wealth management firms.<sup>1</sup>

In addition, there is a sizeable minority of financial services firms that are using their own branded app.

#### % That Mobile Channels are Used by Financial Services Firms Allowing Mobile Transactions



Q4: what is the distribution of transactions through each of the mobile channels your company uses/accepts?

\*\* % can add to more than 100% since answers based on using a channel, in which case the base size changes per channel



Significantly different from other segments within category at the 95% Confidence Interval

1 Zelle arrives this month; September 2017; https://beta.techcrunch.com/2017/06/12/zelle-the-real-time-venmo-competitorbacked-by-over-30-u-s-banks-arrives-this-month/?\_ga=2.93833949.1383892196.1526405128-977791946.1526405128

## But, the majority of transactional volume and fraud is still occurring through a mobile browser.

That said, mobile apps continue to account for nearly as much mid/large fraud loss as do browsers, particularly for mid/large non-digital banks that have started using their own branded app. That could be related to cardless ATM transactions or where consumers add their banking credit card to their mobile device and make purchases directly through this method.

■ Mid/Large (\$10M+) Digital 🚢 🛄 Mid/Large (\$10M+) NON Digital (\$10M+) Mid/Large (\$10M+) Banks maintain ■ Mid/Large (\$10M+) Investments/Wealth Mgmt [55] 98 Average Distribution of Transaction Volume across Mobile Channels 34% 36% 36% 34% 16% 21% 18% 19% 18% 15%16% 16% 8% 12% 12% 12% 12% 10% 11% 11% 6% Mobile web 3rd party mobile app Company's own Mobile contactless Text (SMS) to pay Bill to mobile phone branded mobile app purchase browser 2017 19% 16% 24% 12% 12% 9% 12% 11% 10% 9% 8% 11% 14% 35% 12% 319 Mobile Fraud by Channel (as % of mobile fraud losses)\*\* 42%41% 38% 35% 32% 30% 25% 26% 23% 22% 20% 20% 20% 20% 19% 13%<sup>17%</sup> 16% 14% 15% 12% Text (SMS) to pay Mobile web 3rd party mobile app Company's own Mobile contactless Bill to mobile phone browser branded mobile app purchase <u>2017</u> 33% 24% 27% 8% 41% 46% 45% 39% 25% 37% 25% 17% 15% 21% 17% 17% 14% 22% 17% 14%

Q4: what is the distribution of transactions through each of the mobile channels your company uses/accepts? Q17: Please indicate the distribution of fraud across the various mobile channels you use/accept.



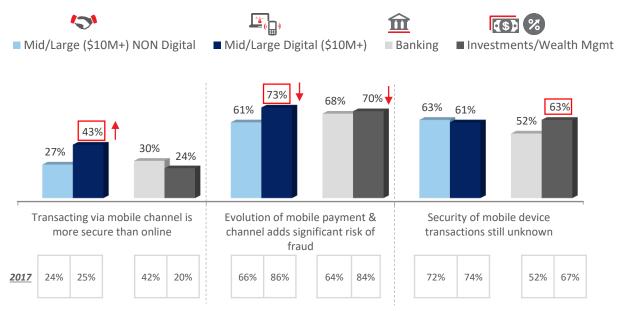
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\*\* % can add to more than 100% since answers based on using a channel, in which case the base size changes per channel Significantly different from other segments within category at the 95% Confidence Interval

# Therefore, mid/large financial firms continue have concerns about the security and fraud risks from the mobile channel.

A majority still believe that mobile device security is an unknown and that the evolution of mobile payments adds significant risk of fraud.





#### Mobile Channel Perceptions (% 4 and 5 on 5 point scale)



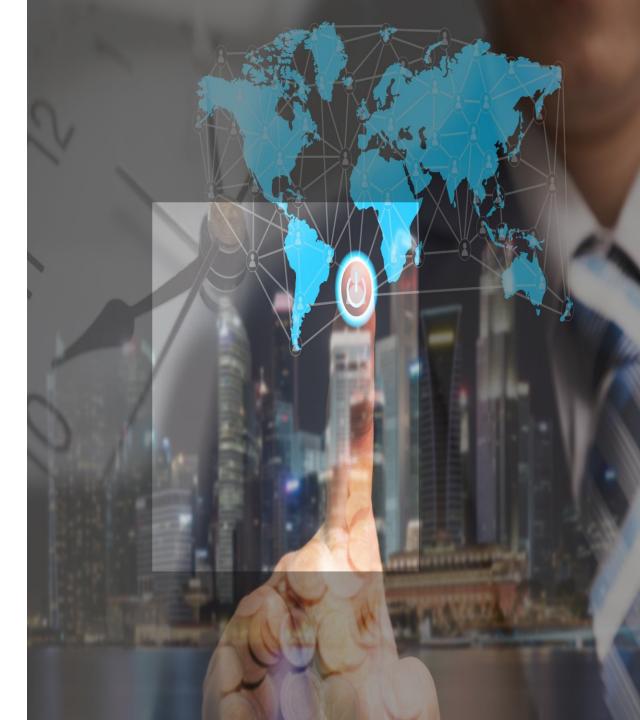
Q33: Using a 5-point scale, where "5" is "agree completely" and "1" is "do not agree at all", please rate the extent to which you agree or disagree with the statements below. Significantly different than 2017 within Segment

Significantly different from other segments within category at the 95% Confidence Interval



Pairing international with mobile channel transactions further increases fraud risks and costs.





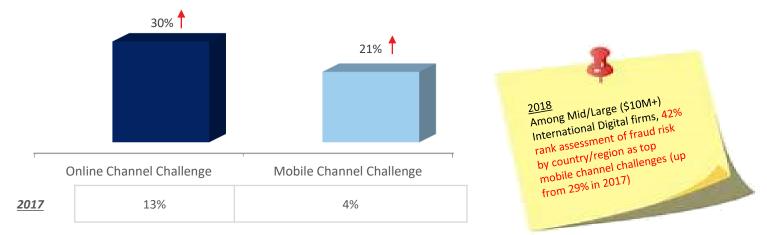
Among those conducting cross-border business, there has been a significant increase in the ranking of *lacking specialized tools for international orders/transactions* as a top online and mobile channel challenge.

Assessing risk by country/region has also increased as a mobile channel issue among this international segment (42% compared to 29% ranking it in the top 3 a year ago).

Some of this could be related to specific mobile channels being used for transactions (shown next page).

% Mid/Large Digital WITH INTERNATIONAL TRANSACTIONS

Ranking *"Lack of Specialized Tools for International Orders/Transactions"* as a Top Ranked Online/Mobile Challenge





Q20: Please rank the top 3 challenges related to fraud faced by your company when serving customers in the Online Channel.

Significantly different from other segments within category at the 95% Confidence Interval

For mid/large digital firms that allow mobile payments and conduct international transactions, bill-to-mobile becomes a much larger share of transactions and fraud.

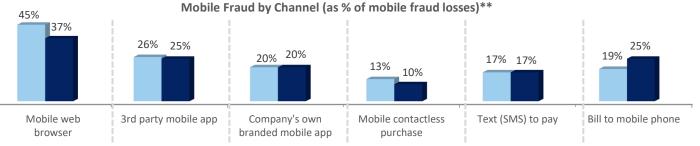
Mid/Large (\$10M+) Digital

There is as much transaction volume through bill-to-mobile phone as a web browser by this segment. And, the percent of fraud through this method is only slightly lower than through a mobile web browser.

This could contribute to the larger fraud issues and costs experienced by mid/large digital merchants with both international and mobile channel transactions.

Average Distribution of Transactions across Mobile Channels 36% 26% 25% 21% 18% 16% 12% 11% 7% Mobile web 3rd party mobile app Company's own Mobile contactless Text (SMS) to pay Bill to mobile phone branded mobile app purchase browser

Mid/Large Digital with International & Mobile Channel



Q4: what is the distribution of transactions through each of the mobile channels your company uses/accepts? Q17: Please indicate the distribution of fraud across the various mobile channels you use/accept.

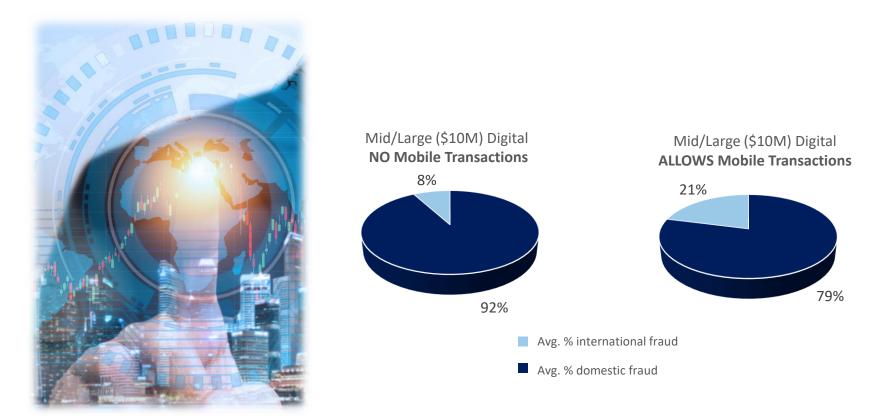


\*\* % can add to more than 100% since answers based on using a channel, in which case the base size changes per channel

Significantly different from other segments within category at the 95% Confidence Interval

# Among digital financial firms conducting international transactions, those which allow the mobile channel also experience more international fraud.

Those international digital firms which don't allow mobile transactions attribute significantly less of their annual fraud to international transactions.



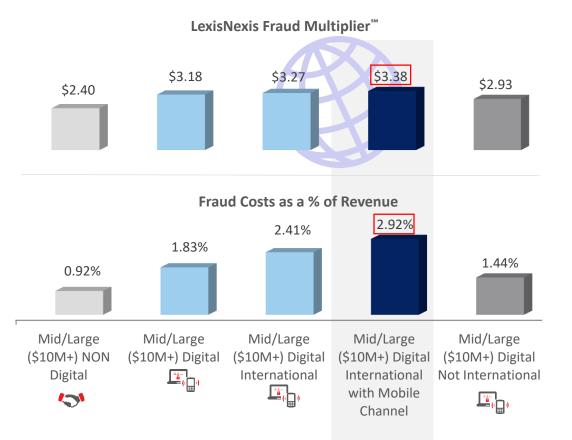


Q20: Please rank the top 3 challenges related to fraud faced by your company when serving customers in the Online Channel. Significantly different from other segments within category at the 95% Confidence Interval



# And, fraud costs are even higher among digital financial firms that conduct international <u>and</u> mobile channel transactions.

As shown earlier, international transactions tend to increase fraud costs for mid/large digital firms. These costs increase even further when adding another layer – the mobile channel.





Q20: Please rank the top 3 challenges related to fraud faced by your company when serving customers in the Online Channel.

Significantly different from other segments within category at the 95% Confidence Interval



Identity verification remains a top digital channel issue, but is being joined by a growing list of others.

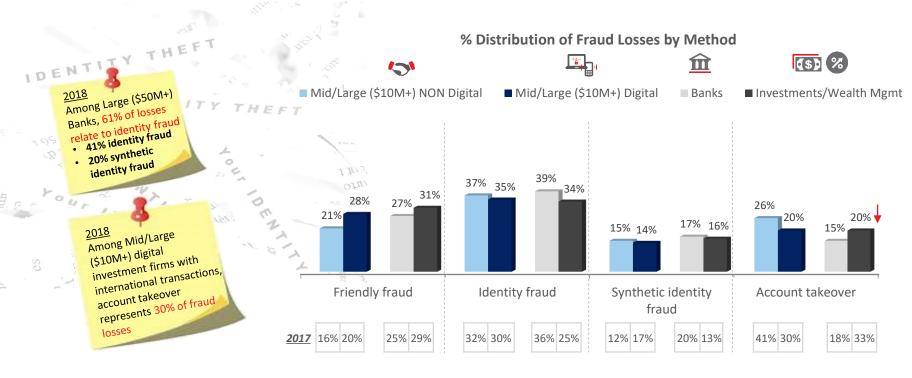




## Identity fraud, including synthetic identities, continues to account for directionally more financial firm fraud losses than friendly fraud and account takeovers.

Whereas banks reported a larger distribution of identity fraud than investment firms in 2017, this type of fraud has evened-out between the two by 2018. That said, large (\$50M+) banks still get hit hardest, reporting an average 61% of their losses due to identity fraud; this is on par with 2017 (62%).

Account takeovers represent a sizeable distribution of losses (30%) among mid/large digital investment firms which have international transactions.





Significantly different than 2017 within Segment

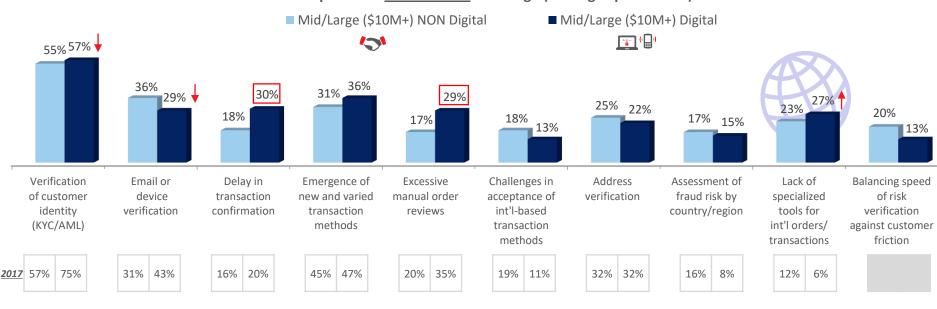
Significantly different from other segments within category at the 95% Confidence Interval

Q12: Please indicate the percentage distribution of the following fraud methods as attributed to your total annual fraud loss over the past 12 months.

### Not surprisingly, identity verification remains the top challenge when conducting financial transactions online.

For those conducting a majority of business online (digital), manual reviews and delayed confirmation are also ranked among top challenges. Since these digital firms rely heavily on the anonymous remote channel, any factors that cause customer friction, such as delayed transactions due to identity verification or manual reviews, can lead to significant longer term customer relationship issues (and potentially churn).

Noted decreases from 2017 for identity verification and e-mail/device verification do not indicate that these are less critical issues; since this is a ranking question (top 3), findings show that online transactions have generated a broader set of challenges (i.e., more concerns enter the top ranked mix, such as **lack of specialized tools for international transactions**). As a result, identity verification shares top ranking with other issues.



Top Ranked Online Fraud Challenge (Among Top 3 Ranked)



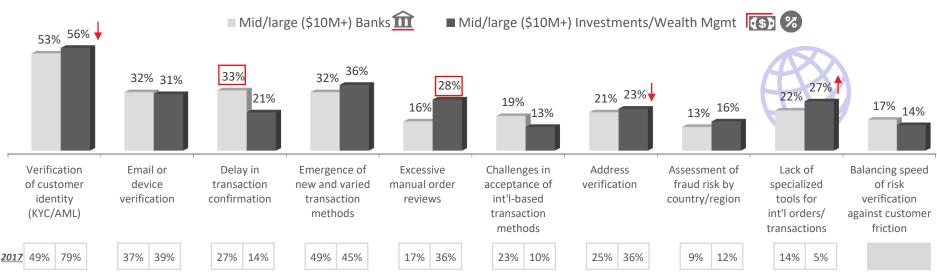
Q20: Please rank the top 3 challenges related to fraud faced by your company when serving customers in the Online Channel.

Significantly different from other segments within category at the 95% Confidence Interval

## The same impact of ranking shows identity verification and new/ varied transaction methods remaining as top online issues for banks and investment firms, but with a broader sets of other issues as well.

Delayed transaction confirmation continues to be more of a challenge mid/large banks, while excessive manual reviews continues to be an issue for mid/large investment/wealth management firms.

For both, there has been either a **directional or significant increase in lack of specialized tools for international transactions** as an online challenge.



Top Ranked <u>Online Fraud</u> Challenge (Among Top 3 Ranked)

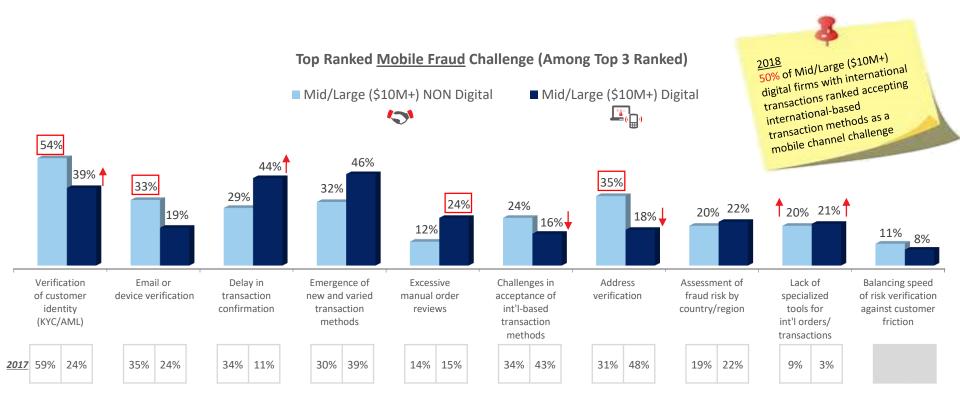


Q20: Please rank the top 3 challenges related to fraud faced by your company when serving customers in the Online Channel.

Significantly different from other segments within category at the 95% Confidence Interval

# With the mobile channel, identity verification is a top challenge among both digital and non-digital firms.

In fact, it has increased since 2017 as top ranked challenge, along with transaction confirmation delay, among mid/large digital financial firms. These join the emergence of new/varied transaction methods as the top mobile fraud challenges for digital firms.





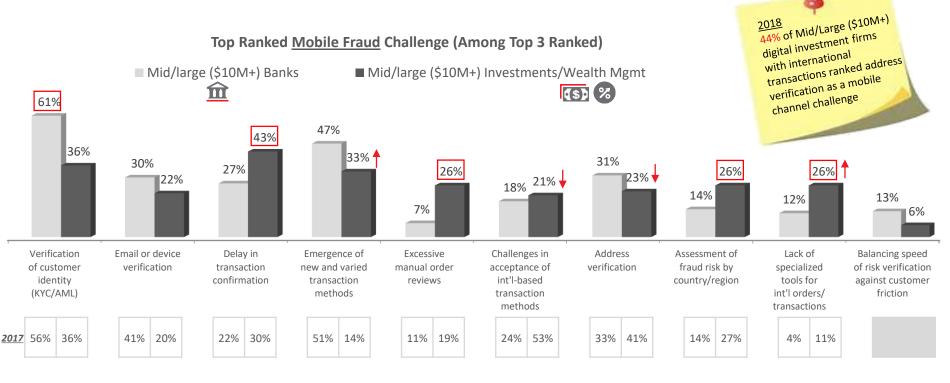
Q20: Please rank the top 3 challenges related to fraud faced by your company when serving customers in the Online Channel.

Significantly different from other segments within category at the 95% Confidence Interval

### Identity verification and new/varied transaction methods remain top mobile channel challenges for mid/large banks. Mid/large investment firms face a broader set of mobile channel challenges.

For them, key challenges of identity verification and transaction confirmation delays now share top rankings with the rise of two other key issues: new/varied transaction methods and lack of specialized tools for international orders/transactions.

Address verification becomes a significant challenge for mid/large digital investment firms conducting international mobile transactions (45%), which could relate to being relatively newer to using this channel.



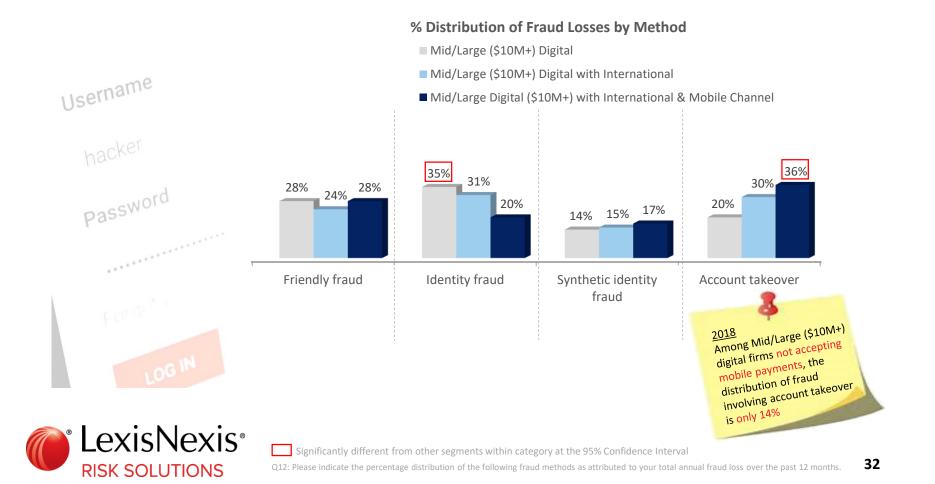


Q20: Please rank the top 3 challenges related to fraud faced by your company when serving customers in the Online Channel.

Significantly different from other segments within category at the 95% Confidence Interval

### The distribution of fraud tends to shift towards account takeover for digital financial services firms that accept mobile payments and conduct international transactions.

Adding the mobile channel appears to add somewhat more risk of account takeover, particularly when combined with international transactions.





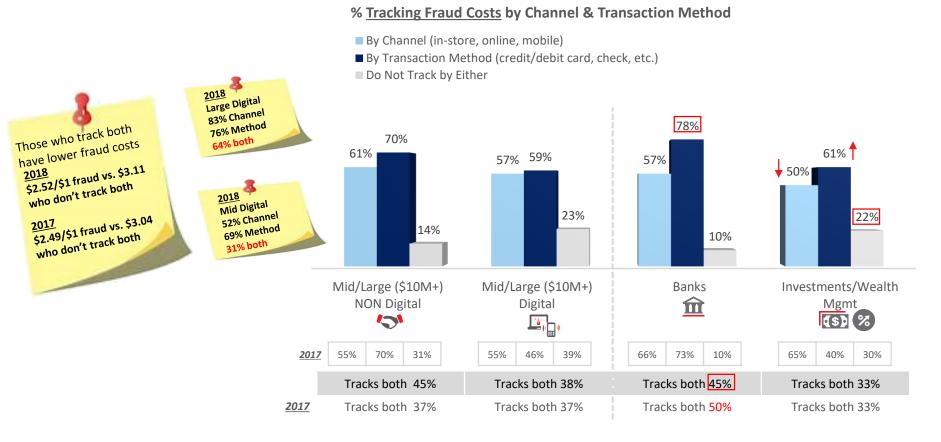
Digital financial firms are combatting fraud, but perhaps not optimally.





# Large digital firms continue to be more likely to track fraud costs by both channel and payment method, whereas mid-sized firms (\$10 to <\$50M) continue to lag on this activity.

Financial services firms that do track fraud costs by both channel and payment method tend to experience lower fraud costs.

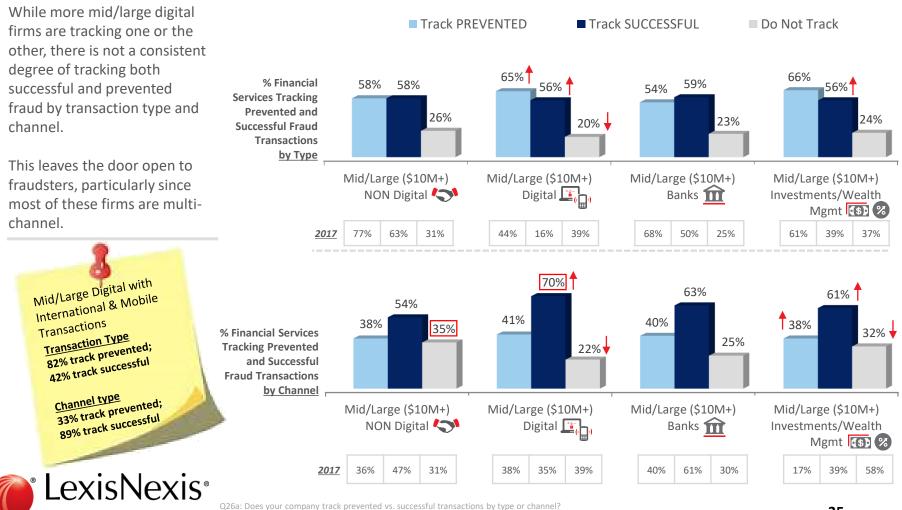




Q14: Does your company track the cost of fraudulent transactions by channels or methods?

Significantly different from other segments within category at the 95% Confidence Interval

But whereas more larger digital firms are strong at tracking fraud costs, tracking both prevented and successful fraud by transaction and channel type continues to be limited across mid and large.



Significantly different from other segments within category at the 95% Confidence Interval

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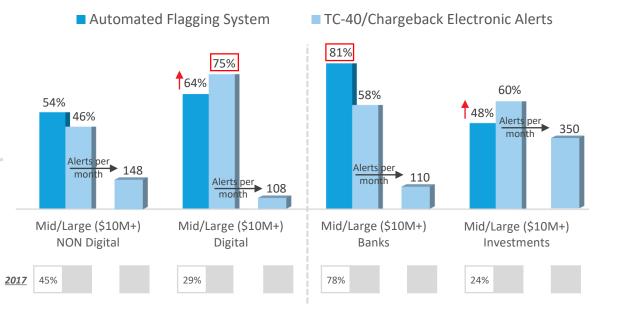
Hardest hit larger digital merchants continue to be more likely to use an auto flagging system, even those with international and mobile channel transactions.

Mid/large digital investment firms appear to have made investments in automated flagging systems during the past year; this coincides with more mobile channel involvement.

Those with higher fraud risks and costs (mid/large digital with international and mobile transactions) are even more likely to use an automated flagging system and an electronic service that alerts them to TC-40 chargeback filings.

Mid/Large Digital with International & Mobile Transactions 82% use an automated flagging system 94% use an electronic service to alert when a TC-40/chargeback claim has been filed.

#### % Who Use an Automated Flagging System or TC-40/Chargeback Electronic Service Alerts



Q35: Does your company use an automated system to flag potentially fraudulent transactions?

Q35b: Does your company use an electronic service that alerts you when a TC-40/chargeback claim has been filed based on one of your transactions? Q36b: On average, how many TC-40/chargeback alerts do you receive per month?

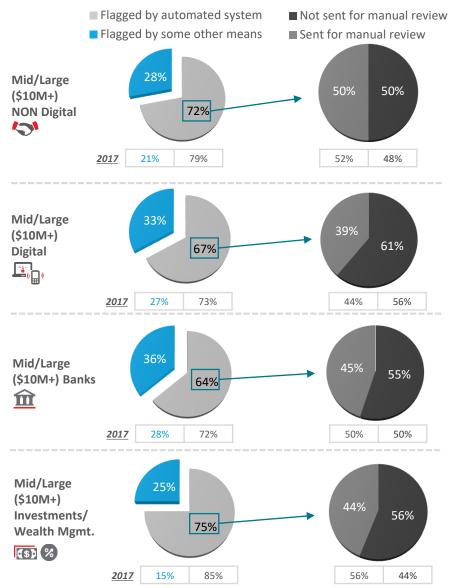
Significantly different from other segments within category at the 95% Confidence Interval



## But this isn't always helping to identify real fraud.

A sizeable portion of financial services firms' flagged transactions are sent for manual review, with more manually reviewed cases occurring among mid/large investment/wealth management firms.







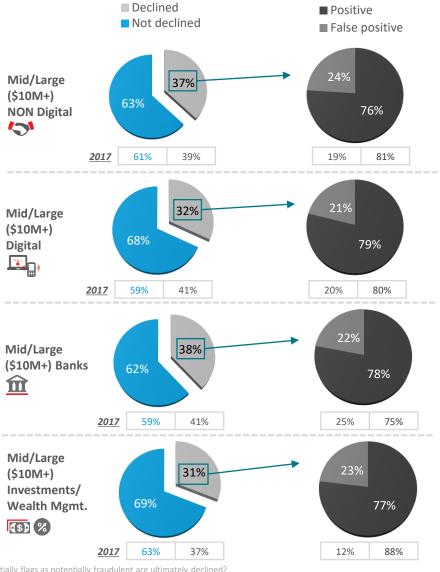
Q36: Of all the transactions your company flagged as potentially fraudulent in the past 12 months, what percentage was flagged by your automated system? Q37: Of this (...), what proportion are sent for manual review?

Significantly different from other segments within category at the 95% Confidence Interval

## And that's not stopping false positives.

Up to one-quarter of declined transactions end up being false positives, which has lost revenue and longer-term customer relationship ramifications.





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Q38: What percentage of transactions that your company initially flags as potentially fraudulent are ultimately declined? Q39: What percentage of declined transactions turned out to be false positives?

Significantly different from other segments within category at the 95% Confidence Interval



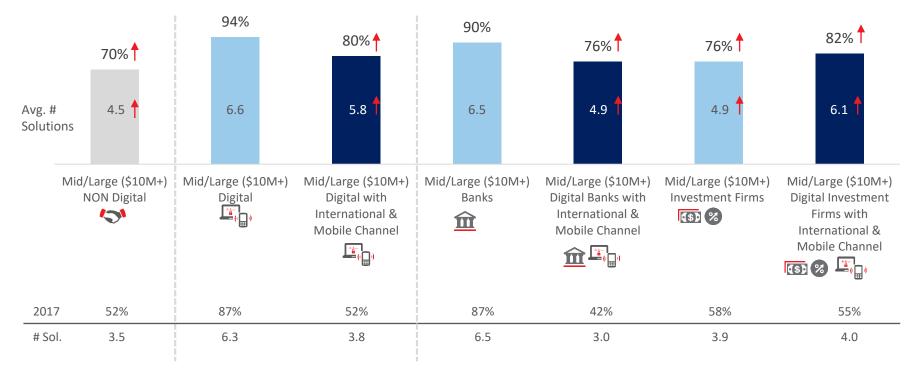
A number of higher risk financial services firms are using fraud prevention solutions, but not necessarily the right combination to successfully prevent fraud.





## More financial services firms report using at least one fraud mitigation solution compared to 2017.

Increases are reported among both digital and non-digital firms, but particularly among mid/large digital firms that conduct international and mobile channel transactions.



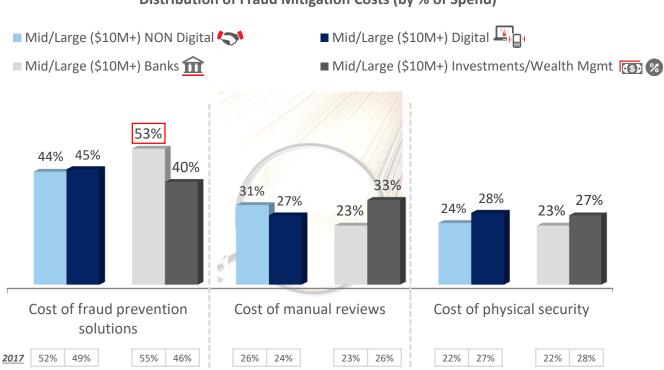
#### % Financial Services Who Use a Fraud Mitigation Solution



Q27: Which of the following best describes your awareness and use of the fraud solutions listed below?

Significantly different from other segments within category at the 95% Confidence Interval

And, solutions remain a significant portion of financial services firms' fraud mitigation budgets. However, manual reviews also continue to be sizeable as well.



#### Distribution of Fraud Mitigation Costs (by % of Spend)



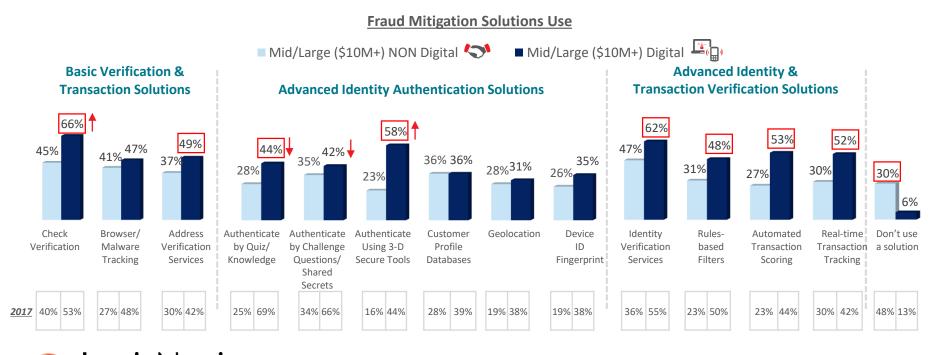
Q41b: What is the percentage distribution of mitigation costs across the following areas in the past 12 months?

Significantly different from other segments within category at the 95% Confidence Interval

# While more mid/large digital firms report using authentication by 3-D secure tools, the use of other identity authentication and transaction verifications solutions remains fairly limited.

In fact, fewer mid/large digital firms cited use of authentication by KBA or shared secrets than previously reported. At the same time, there is higher reported use of check verification services.

Even though the average number of solutions used by this segment is relatively high (6.6), they continue to get hit harder by fraud. This suggests the need to further optimize which types of solutions are used and layered/bundled together to meet specific fraud risks.



Q27: Which of the following best describes your awareness and use of the fraud solutions listed?

Significantly different from other segments within category at the 95% Confidence Interval

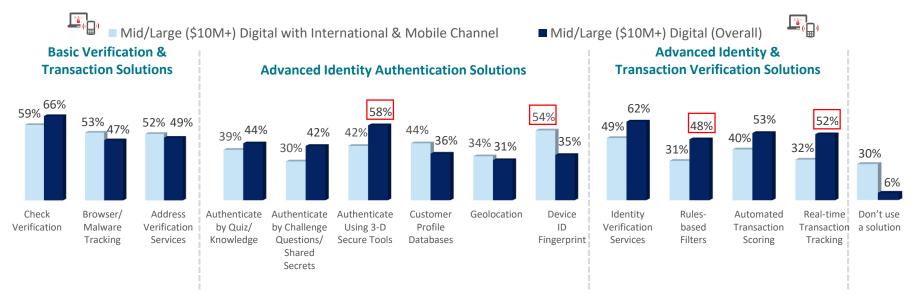


## Those with the highest risk and cost of fraud are even more limited in solutions use, which could improve detection and prevention efforts.

With an average of 5.8 solutions, mid/large digital firms that conduct international and mobile channel transactions vary considerably on the types of fraud mitigation solutions being used. While just over half report using device ID/fingerprinting, which is useful for mobile channel fraud detection, there is more limited use of other identity authentication and transaction verification solutions; even less so than mid/large digital firms in general.

This weakens fraud prevention efforts and very likely correlates to having higher fraud costs than others.

#### Fraud Mitigation Solutions Use: Digital Firms with International and Mobile Channel Transactions



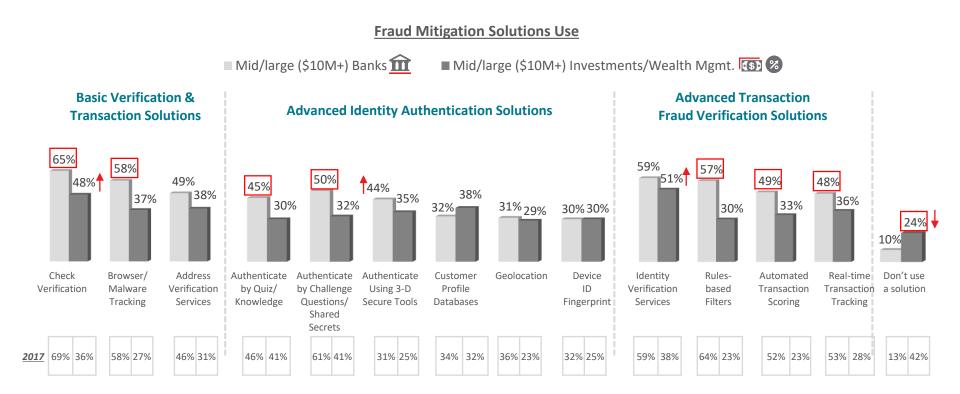


Q27: Which of the following best describes your awareness and use of the fraud solutions listed?

Significantly different from other segments within category at the 95% Confidence Interval

## Many transaction verification solutions continue to be used by just over half of mid/large banks, while identity authentication solutions use is more limited.

But there remains even more limited use of fraud mitigation solutions among investment/wealth management firms.



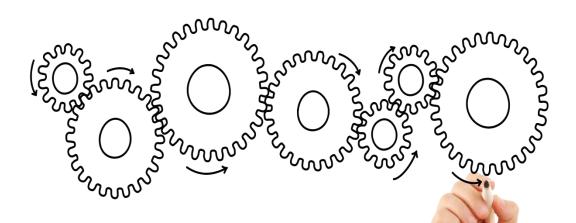


Q27: Which of the following best describes your awareness and use of the fraud solutions listed?

Significantly different from other segments within category at the 95% Confidence Interval



Findings show that using the right combination of tools is crucial to combatting fraud risks and cost.



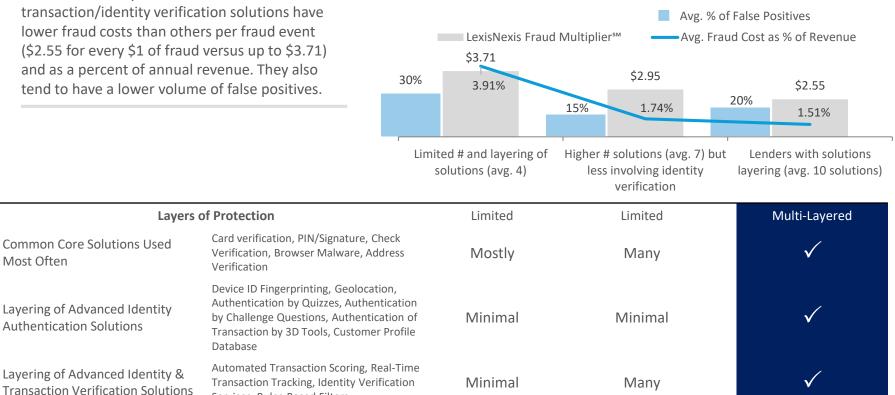


## Financial services firms which use a multi-layered solution approach experience fewer false positives and lower cost of fraud.

Survey findings show that those who layer core + advanced identity authentication + advanced transaction/identity verification solutions have lower fraud costs than others per fraud event (\$2.55 for every \$1 of fraud versus up to \$3.71) and as a percent of annual revenue. They also tend to have a lower volume of false positives.

Services, Rules-Based Filters

#### LexisNexis Fraud Multiplier<sup>™</sup> Avg. Fraud Cost as % of Revenue Avg. % False Positives by Number & Layering of Fraud Mitigation Solutions





Most Often

Authentication Solutions







Mid/large financial services firms which conduct significant remote channel transactions should prioritize a multi-layered risk solution approach.

The mobile channel is growing; more consumers are expecting this option, particularly younger demographics that are becoming mainstream customers. At the same time, fraudsters are professionals who continue to mutate; that means fraud will continue to increase. Left unaddressed, these digital firms will not only continue to see fraud costs take a bite out of bottom line profits, but also increase the potential for customer friction and churn.



A multi-layered solution approach is critical for both identity and transaction-related fraud detection.

Identity verification and authentication is important for "letting your customers in" with the least amount of friction.

Transaction verification is important for keeping fraudsters out.





Financial services firms should seek external providers with deep data and analytics resources to most effectively address identity-based fraud challenges. This particularly includes those conducting international transactions. Identity fraud can be complicated, with various layers of masks and connections in the background. Investing in a layered solution approach will be much more effective if from a solutions partner that provides unique linking capabilities that identify and match hidden relationships, shed light on suspicious activities or transactions and identify collusion. These patterns are not easily uncovered by a number of risk solutions on the market today.



With international transactions, newer privacy regulations – such as the GDPR – will make it increasingly difficult for companies to access and store foreign customer data essential for effective to identity verification and authentication (including digital identity data). This means that firms will need to rely more on external providers who already have deep reservoirs of data on consumers and businesses.





When seeking a layered solution approach, it is essential that digital financial firms implement solutions for unique channel issues and fraud. There is no one-size-fits-all.



As study findings have shown, there are differences between the online and mobile channels in terms of the key challenges and fraud costs.

Using the same solution to address both may not be as effective, particularly given the transient nature of mobile transactions.

## \$\*%#!

And, where one tries to force a onesize-fits-all approach, particularly by using traditional onsite with remote channel transactions, there is likelihood of increasing false positives which leads to customer friction and lost current/future business.





Digital financial firms, particularly multi-channel ones, need to remain vigilant by holistically tracking fraud by both payment and channel type – including that which has been successful and prevented.



Fraud occurs in multiple ways, particularly for multi-channel merchants (given overlap between use of online and mobile channels). The remote channel, of course, is important to monitor in comparison to physical POS locations since the anonymity of online and mobile make these channels more high risk. Additionally, there are different security issues and approaches between online and mobile channels.



The rise of synthetic identities makes it easier for fraud via different payment methods in remote channels. This includes when using 3<sup>rd</sup> party apps for transaction payments.

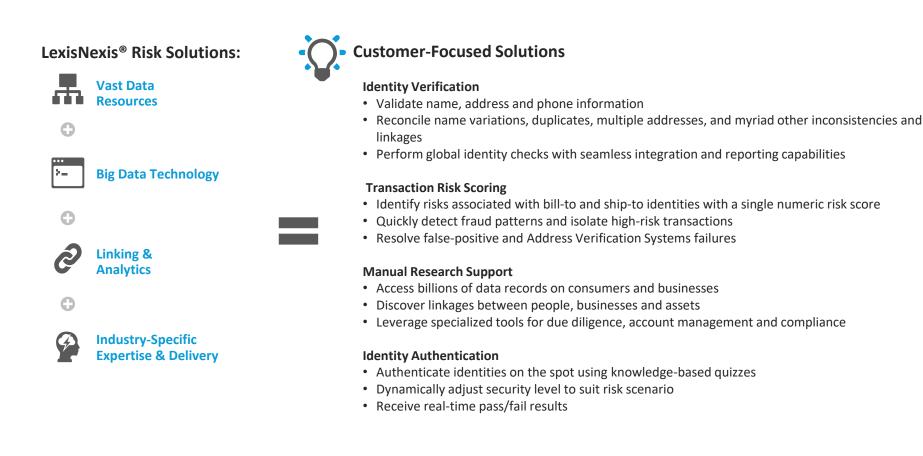


## LexisNexis<sup>®</sup> Risk Solutions can help





LexisNexis<sup>®</sup> Risk Solutions provides powerful identity verification, identity authentication and transaction scoring tools to combat fraud.



For more information: visit https://risk.lexisnexis.com/financial-services or call 800.869.0751



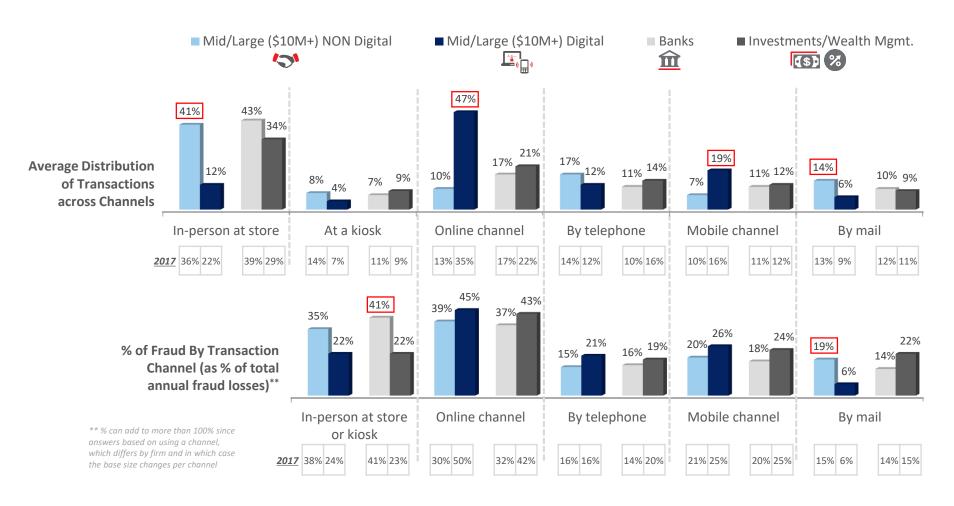


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## Appendix



## While more online transactions occur among digital firms, online fraud is being experienced across organization type.





Q2: Please indicate the percentage of accounts or transactions that were originated Through each of the following channels used by your company (over the past 12 months) Q15: Please indicate the percent of fraud costs generated through each of the following transaction channels currently used by your company (as a percentage of total annual fraud losses)

Significantly different from other segments within category at the 95% Confidence Interval