



# Fraud Threats and Trends Facing Small to Midsized Business Lenders

Explore a snapshot of the impacts of small and midsized business lending fraud in the U.S.



# Small business lenders are at the intersection of profitable growth and greater fraud risk

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Small and midsize businesses (SMB) represent growing opportunities for lenders and fraudsters alike. Lenders are banking on continuous year-over-year growth in the small business sector to increase market share and build revenue. At the same time, sophisticated fraudsters are leveraging the advantages of compressed lending cycles, multiple transaction channels and a wealth of breached identity data to commit fraud at a higher frequency with damaging results.

**This e-book explores the results from the LexisNexis Risk Solutions® 2019 Study of Small and Midsize Business Lending Fraud.**

Find out more about the current state of SMB fraud, the factors fueling its rise and the ways to fortify your defenses against fraud impacts.



# SMB lenders have become fraudsters' lucky target

SMB lending fraud is trending in the worst way possible. More and more, fraudsters are applying successful tactics used in consumer fraud to their business fraud efforts. Fraudsters are striking SMB lenders with greater fury and higher frequencies than ever before, which causes friction for legitimate customers and erodes revenues.

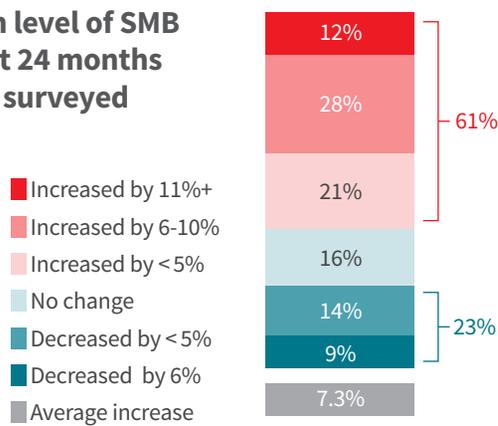


A recent study reported that lenders lost **\$4 billion** to account takeovers and **\$3.4 billion** to account creation fraud in 2018.<sup>1</sup> Though these numbers account for both consumer and business fraud, they illustrate the magnitude of the fraud problem.



SMB lenders have experienced an average **7.3%** increase in fraud levels over the past 24 months; these numbers are higher for larger banks (>\$10B in assets) at **8.6%** and digital lenders at **8.2%**

## Average change in level of SMB fraud over the last 24 months across all lenders surveyed



Fraud losses as a percentage of revenues amount to between **4.5%** and **5.8%** for small banks/credit unions (<\$10B in assets) and digital lenders



For larger banks (>\$10B in assets) fraud losses as a percentage of revenue are closer to **2.9%**

## SMB fraud losses as a percentage of revenue



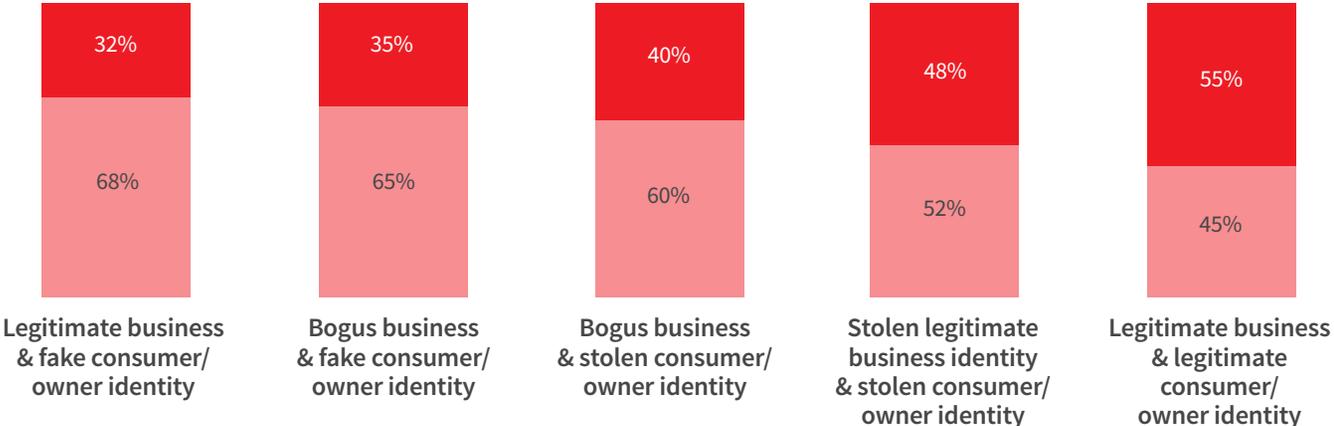
# Recent data breaches help fuel the uptick in SMB fraud

New Account Fraud, Synthetic Identity Fraud and Account Takeover Fraud make up the majority of successful SMB fraud attempts. Rampant data breaches impacting a cross-section of industries and global locations have supplied organized fraud rings with a jackpot of identity information to use to perpetrate attacks.

<p>No lender is immune from SMB fraud, but smaller banks/ credit unions (&lt;\$10B in assets) and digital lenders appear to be more susceptible</p>	<p><b>71%</b> of smaller banks and credit unions (&lt;\$10B in assets) experience the fraud type of using a legitimate business with a fake consumer/ owner identity</p>	<p><b>81%</b> of digital lenders experience the fraud type of using a bogus business<sup>1</sup> with a fake consumer/ owner identity</p>	<p>Increased processing speeds and minimal decisioning parameters also expose digital lenders to fast fraud and loan stacking<sup>2</sup></p>

## Frequency with which fraud types are committed

- Rarely/Never
- Sometimes/Often



1. A bogus business is either an existent or non-existent business entity fabricated to commit fraud.  
 2. <https://www.americanbanker.com/news/crooks-like-borrowers-flock-to-online-lenders>

# SMB fraud shows no signs of relenting in 2019

The current environment is very hospitable to fraudsters. The complex structure of SMB loans gives fraudsters a place to hide and go undetected and the payout for successful SMB fraud is considerably higher than consumer fraud. The majority of lenders we surveyed see no sign of a slowdown in SMB fraud for the year ahead.



**46%** of the lenders we surveyed see SMB fraud increasing in 2019 at an average rate of **4.6%**

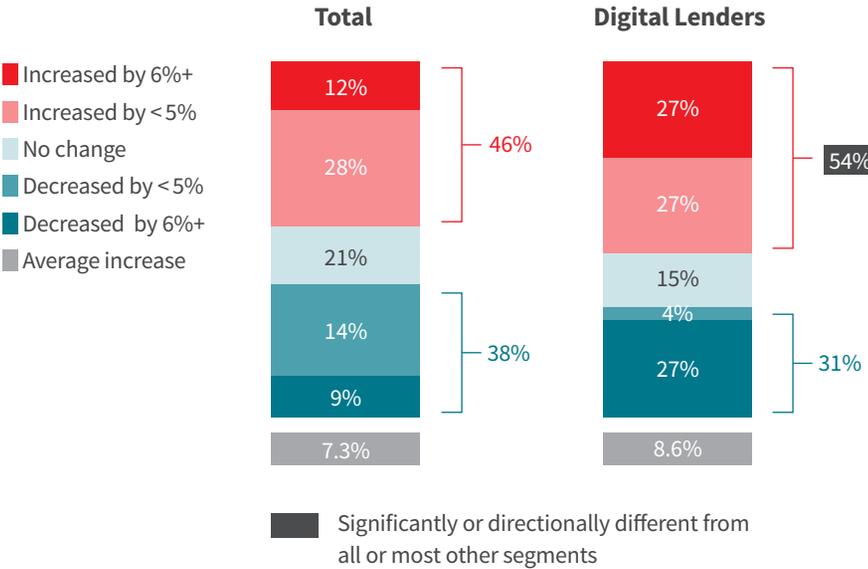


For digital lenders, the numbers are much higher with **54%** of digital lenders expecting SMB fraud to increase at a rate of **8.6%**



**91%** of lenders rank identifying SMB fraud a key corporate priority for 2019

## How Lenders See SMB Fraud in 2019



**64%** of lenders plan to make some investment in 2019 (between 1-10%) to prevent SMB lending fraud

**15%** of lenders plan to make a significant investment in 2019 (over 11%) to prevent SMB lending fraud

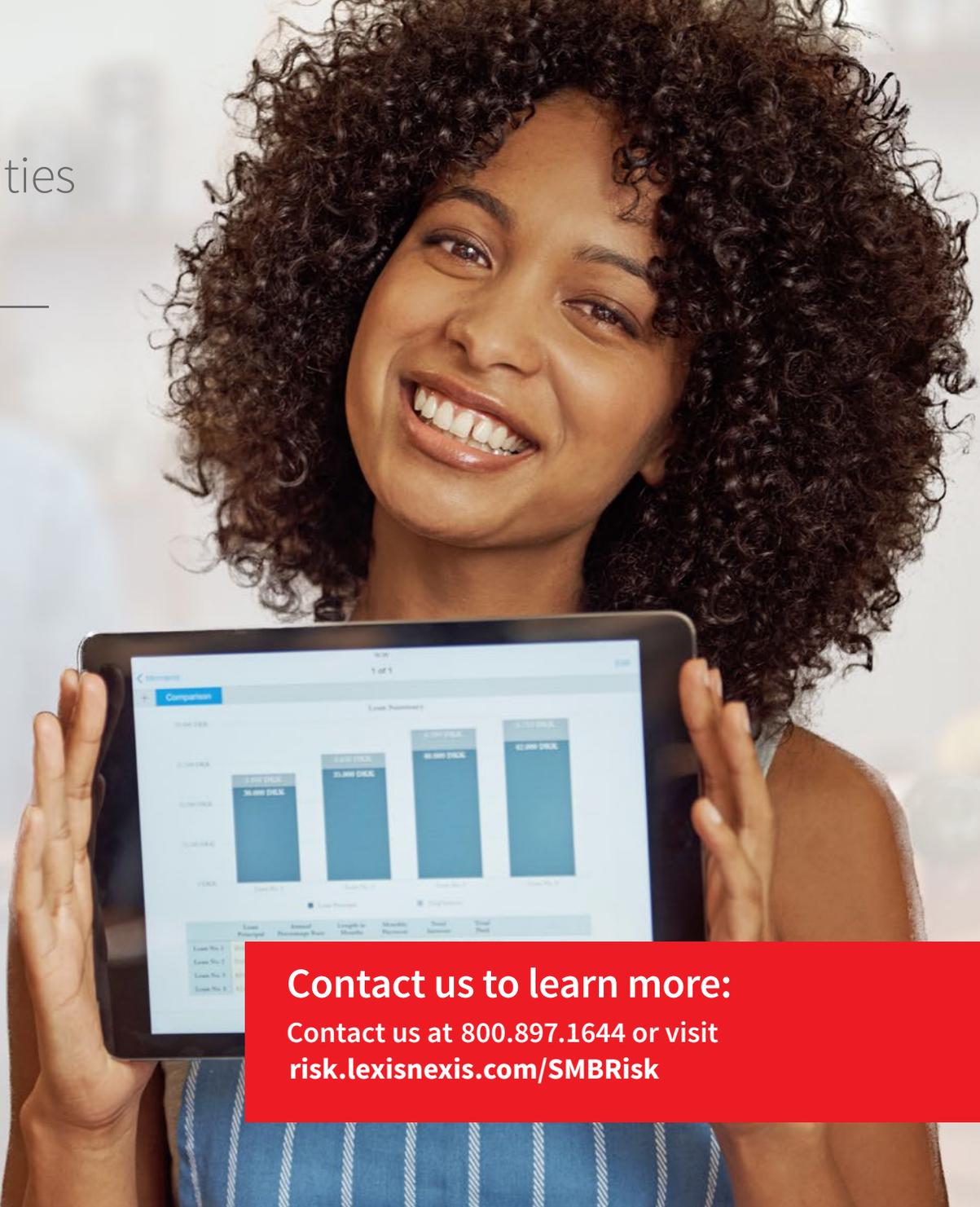
# Optimize growth opportunities and avoid fraud obstacles

The growth potential of the small and mid-sized business market is too big for most lenders to bypass. At the same time, the challenges of SMB lending fraud are growing too large and too costly to ignore.

Effectively identifying SMB fraud before it enters your lending portfolio is critical to protect market share and avoid the revenue drain and operating delays caused by fraud.

**LexisNexis® Risk Solutions can develop a multi-layered fraud defense that balances critical business objectives with an optimal fraud prevention strategy.**

We offer integrated fraud solutions and innovative analytics that deliver structured, global risk intelligence to provide a comprehensive view of a businesses and its associates. Capture expansive risk visibility and improve decisioning efficiency – so your business can quickly isolate fraud and improve overall performance.



**Contact us to learn more:**  
Contact us at 800.897.1644 or visit [risk.lexisnexis.com/SMBRisk](http://risk.lexisnexis.com/SMBRisk)