



Preventing Small and Midsized Business Lending Fraud

See how small and midsized business lenders are effectively combatting fraud



Lenders are challenged to balance growth opportunities with greater fraud risk

Small and midsize business (SMB) lenders are under pressure to capitalize on the robust small business sector. Yet opportunities to grow new market share and expand revenues have been recently tainted by increasing fraud obstacles.

SMB fraud is up 7.3% in the last 24 months and many lenders only see this number going higher as 2019 progresses. Drawn by higher payouts than consumer fraud and aided by the complex structure of SMB loans, which enables fraud to go undetected, fraudsters are increasingly targeting the SMB lending market.

How are lenders successfully fighting back against this costly trend? Find out more about ways to fortify your defenses against fraud impacts in this e-book that features results from the 2019 LexisNexis® Risk Solutions Small and Midsize Business Lending Fraud study.



SMB lenders face a complex fraud challenge

Most SMB lenders are working to meet customer expectations and maximize opportunities presented by the favorable small and mid-sized business market. Fraudsters have taken note, and are using customer experience features like compressed lending cycles and multiple transaction channels to their advantage, which further complicates the fight against fraud.



49% of lenders surveyed feel SMB fraud is more complex than consumer fraud



Only 43% of lenders surveyed feel they are very effective at identifying SMB lending fraud



59% of lenders surveyed say they devote the same resources to preventing SMB fraud as they do to preventing consumer fraud

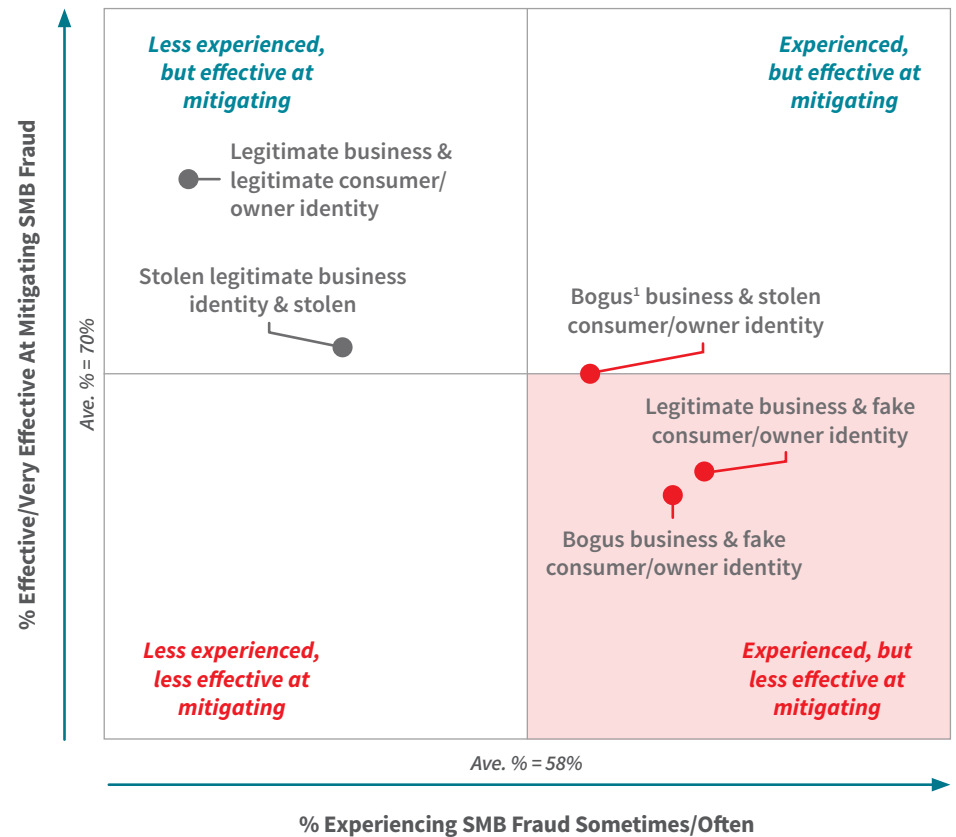


Organizations that devote dedicated and unique resources to combatting SMB fraud experience a lower percentage of fraud losses, 9.6% compared to 11.4% for lenders using the same resources.



Uncovering fraud that utilizes a legitimate or bogus business with fake or stolen identities is the biggest challenge for most lenders, and it is also the area where they are least effective at mitigating SMB fraud

Frequency of SMB Fraud Types vs. Effectiveness at Mitigating

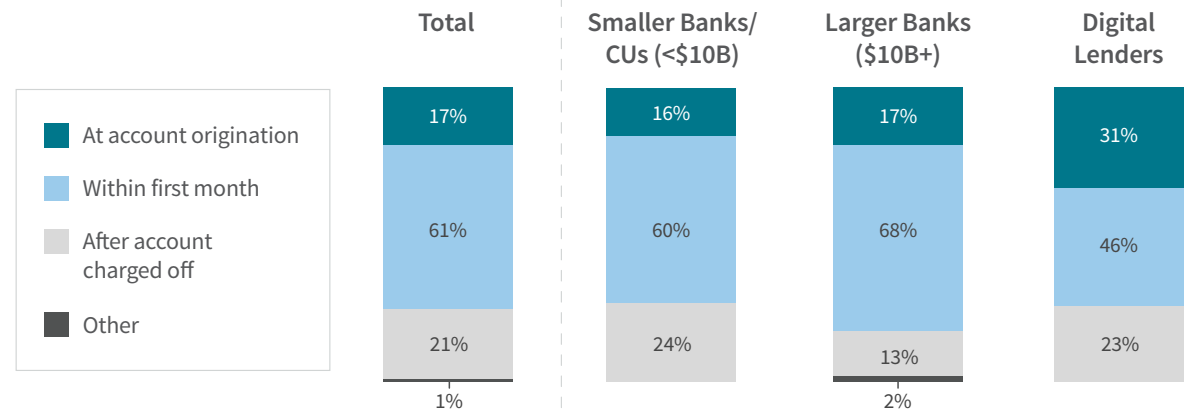


1. A bogus business is either an existent or non-existent business entity fabricated to commit fraud.

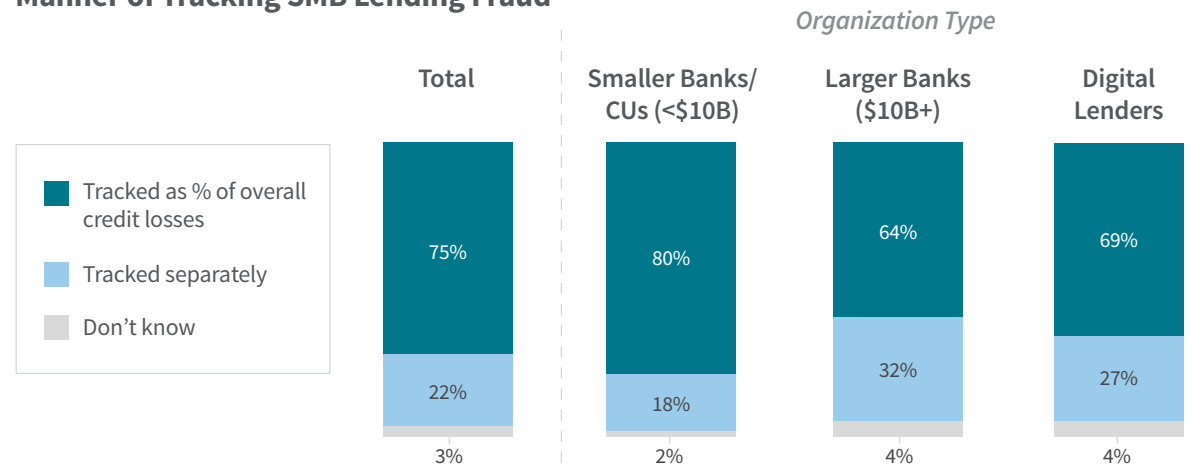
Early detection is essential to strong fraud defenses

Lending fraud can wreak costly havoc on loan portfolio performance and profitability. Identifying SMB fraud as early as possible is critical to avoid revenue drains and operating delays. Many lenders are struggling to proactively uncover SMB fraud before it enters their portfolio. This lack of insight is troublesome because it impacts both current and future prevention efforts. By understanding which tactics are being utilized by fraudsters, businesses can quickly adjust fraud defenses to combat relevant threats.

Stage at Which SMB Lending Fraud Is Identified



Manner of Tracking SMB Lending Fraud



Tracking fraud delivers important intelligence and helps highlight weak spots where fraud defenses can be fortified. Many lenders currently track SMB fraud with other credit losses, which can make SMB fraud hard to pinpoint and obscure actual losses.

Technology tools make the difference in effectively fighting SMB fraud

Avoiding the negative portfolio impacts of SMB fraud starts with making prevention a key organizational priority. This means dedicating unique resources to identifying and closely tracking SMB fraud while bolstering the level of sophistication of the technology tools in your fraud defense.

A multi-layered approach that incorporates ID verification, authentication, consumer and business fraud analytics and industry consortium knowledge can create a 360-degree view into the business and the people associated with the business. Gaining a more holistic view earlier in the customer lifecycle increases the effectiveness of fraud prevention efforts by isolating anomalies and uncovering misrepresentation before the loan is booked.

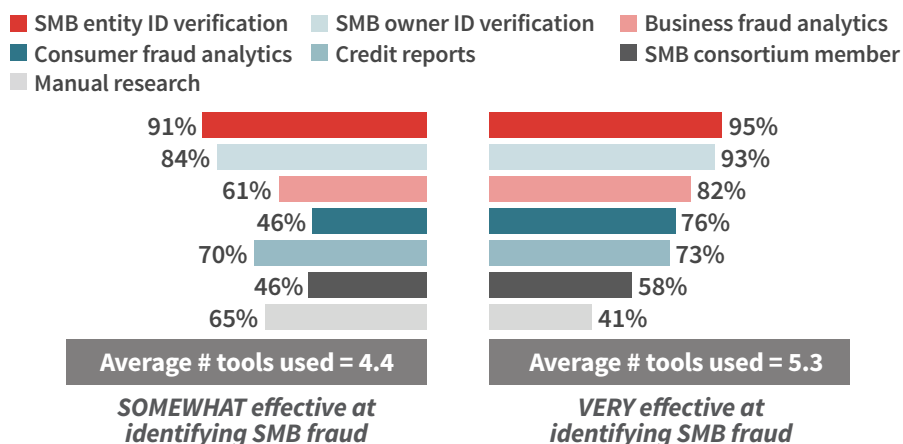


94% of the businesses in our study who were the most effective at preventing SMB fraud engage in special fraud prevention initiatives



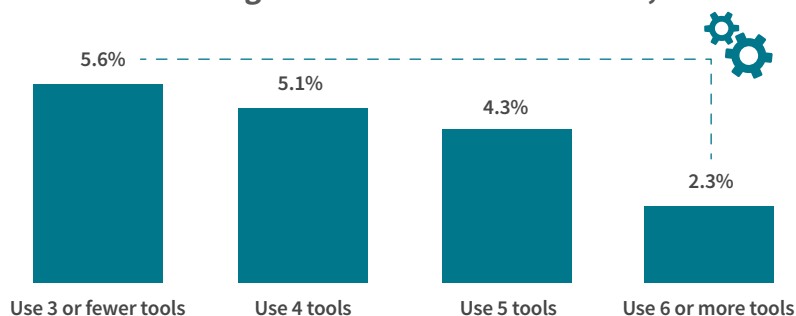
Businesses in our study who were the most effective at preventing SMB fraud utilized more advanced technology tools

Current Technology Tool Usage



Organizations using 6 or more tools have lower SMB lending fraud as a percentage of annual revenues than those using fewer tools.

% of SMB Lending Fraud Losses Over Past Year, as % of Revenues



Target SMB fraud with a precise and proactive strategy

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. The right tools and layered technology support a proactive strategy that creates the advantage in identifying and preventing SMB fraud.

Integrated fraud solutions and proven analytics deliver the risk intelligence you need to get a comprehensive view of a business and its associates. There is no magic bullet, but our extensive experience in fighting fraud will help you minimize risk and improve decisioning efficiency.

Follow these steps to combat SMB lending fraud:

- **Avoid general fraud solutions because they do not perform as well as general credit risk solutions, which have an accepted performance definition**
- **Assess both the individual and the business – this is critical**
- **For the best results, use a combination of analytics, workflows and manual research**



Contact us to learn more:

800.897.1644 or visit risk.lexisnexis.com/SMBRisk