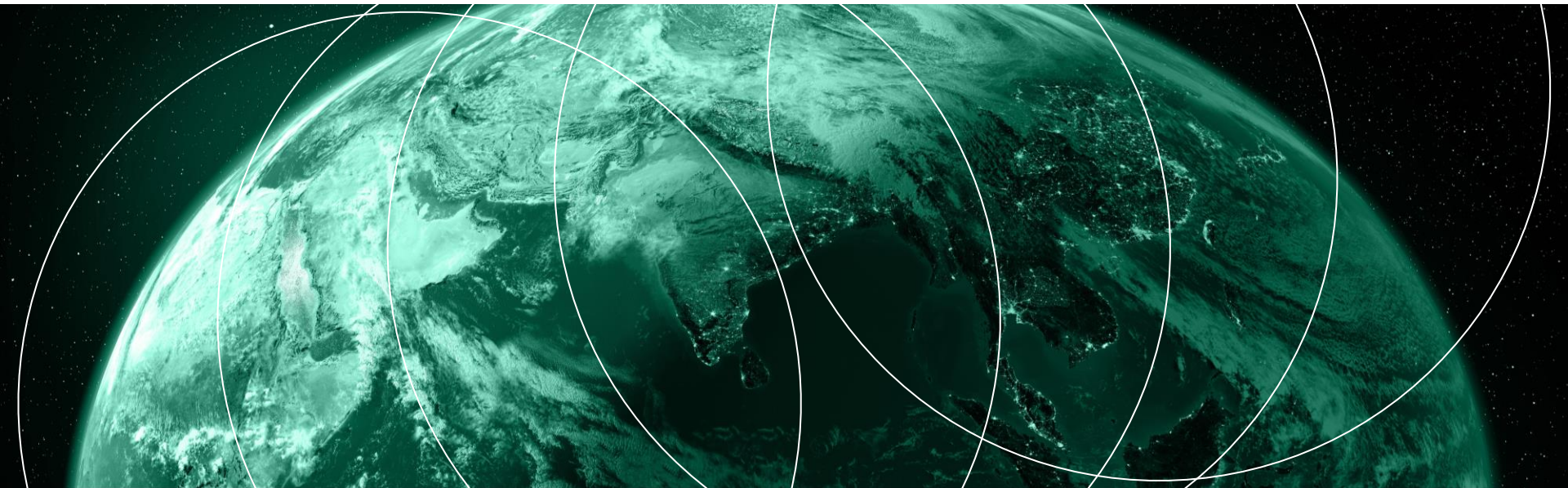
FORRESTER®

LexisNexis® True Cost of Fraud™ Study, 2023 Asia Pacific

A COMMISSIONED STUDY CONDUCTED BY FORRESTER CONSULTING ON BEHALF OF LEXISNEXIS® RISK SOLUTIONS, FEBRUARY 2024



Executive Summary

As the adoption of digital services continues to increase in Asia Pacific (APAC), cybercriminals are seizing more opportunities to exploit both consumers and businesses. Fifty-eight percent of respondents surveyed across APAC reported a rise in fraud over the past 12 months at their organizations. Despite organizations increasing investments in fraud prevention solutions, criminals persistently introduce new and sophisticated fraud methods — such as digital wallet fraud, QR-code fraud, and synthetic identities — to circumvent fraud prevention solutions.

This has serious implications for businesses. Accounting for fines, fees, and effort spent on investigating fraudulent transactions, organizations are incurring fraud costs ranging from 3.07 times to 4.59 times the actual value lost to fraudsters. Furthermore, increased verification checks negatively impact the customer experience, with 75% of respondents noting a decline in customer conversion rates.

To strike a balance between fraud prevention and a seamless customer experience, organizations must implement a multilayered solution that authenticates physical identity, digital identity, and transactions at three different levels. Advanced, real-time transaction verification solutions leveraging AI and ML play a crucial role by operating in the background to prevent fraudulent transactions with minimal impact on customers. Moreover, these solutions ensure compliance with protocols like 3DS2.

Commissioned by LexisNexis® Risk Solutions, Forrester Consulting conducted a global survey of decision-makers in fraud strategy. This report highlights findings from Asia Pacific. Detailed demographics are available at the end of the report.

Double-Edged Sword Of Digitalization

As adoption of digital services increases in APAC and daily life grows more digitized, cybercriminals are seeing more opportunities to exploit both consumers and businesses.

Across the region, digital channels account for 51% of overall fraud losses.

DIGITAL CHANNELS

31%
Online

20%
Mobile

NON-DIGITAL CHANNELS

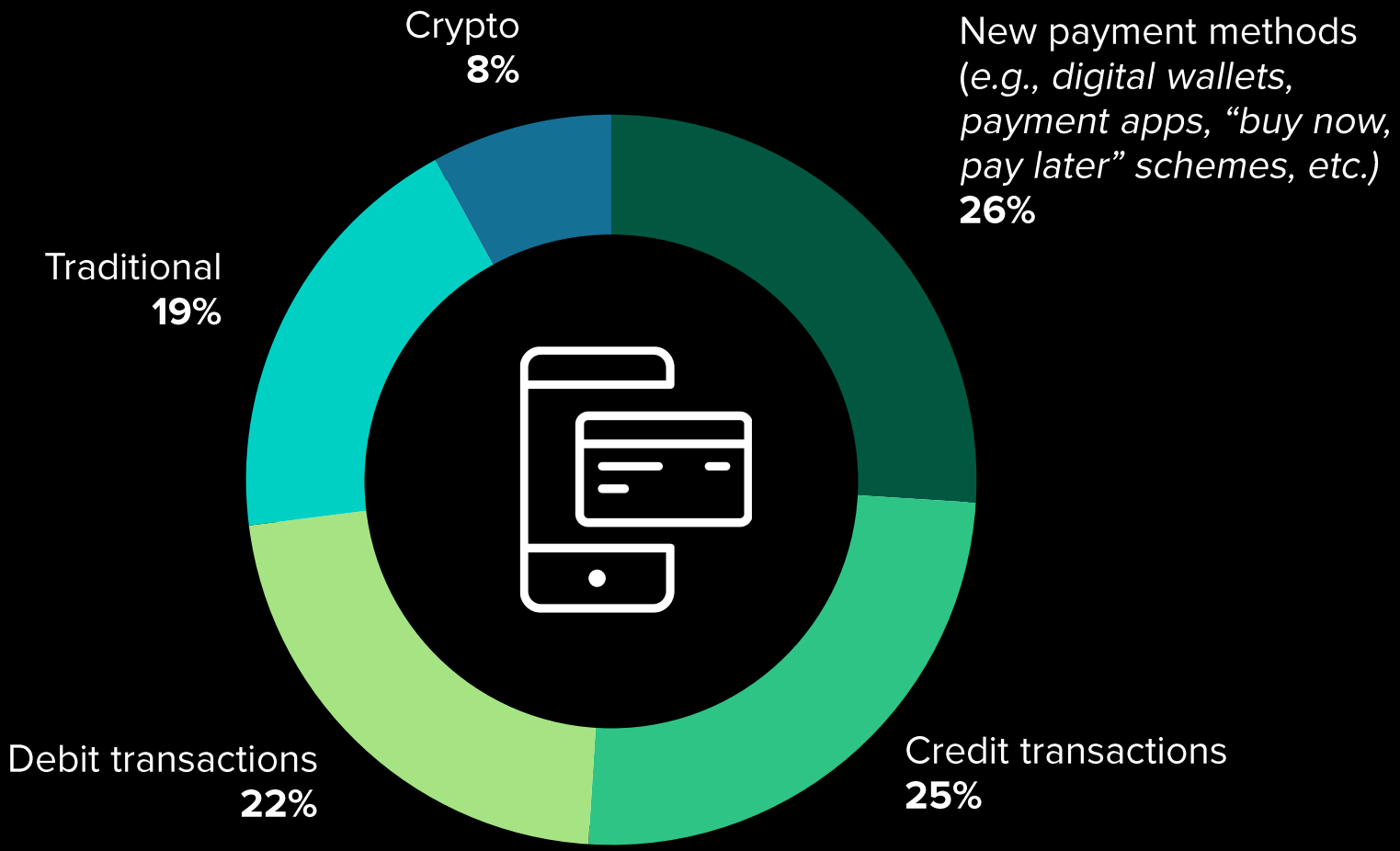
25%
Physical/in-store

20%
Telephone/
contact center

4%
Other

Base: 382 decision-makers across APAC with responsibility for fraud strategy in their organizations
Source: A commissioned study conducted by Forrester Consulting on behalf of LexisNexis® Risk Solutions, July 2023

Share Of Fraud Traced Back To Different Payment Methods



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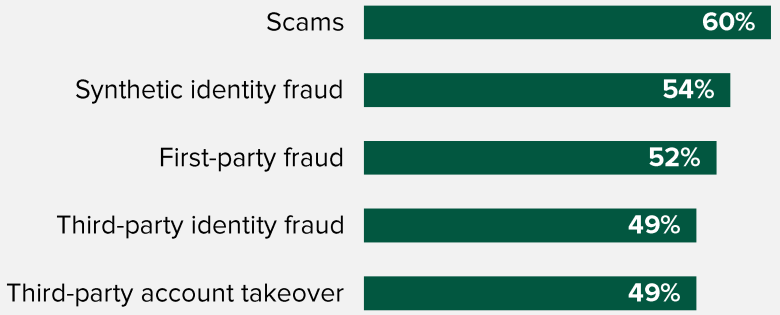
Retail And Financial Services Sectors Face Different Fraud Types

While third-party criminals largely drive fraud in financial services, retailers must deal more delicately with friendly fraud (initiated by friends or family unbeknownst to account holders) and first-party fraud.

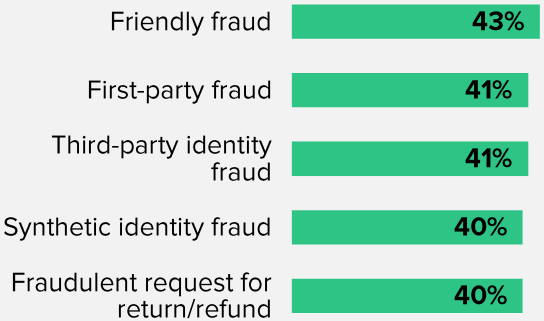
Most Common Fraud Types Observed

(Percentage showing respondents who identified an increase in fraud type)

FINANCIAL SERVICES



RETAIL



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Fastest Growing Fraud Type By Country

Within the APAC region, there are distinct fraud trends by country. Australia has seen the biggest rise in fraudulent chargebacks, where individuals dishonestly dispute legitimate transactions to obtain refunds. Hong Kong and India are seeing a growth in promotion fraud. Given the high adoption of digital wallets, Indonesian businesses also report high growth in digital wallet and mobile transaction frauds.

AUSTRALIA	HONG KONG	INDIA	INDONESIA	JAPAN
Fraudulent chargeback **75%**	Promotion fraud/policy abuse fraud **61%**	Promotion fraud/policy abuse fraud **81%**	Digital wallet fraud **54%**	Friendly/frivolous fraud **62%**
Promotion fraud/policy abuse fraud **66%**	Fraudulent chargeback **58%**	Fraudulent chargeback **69%**	QR code fraud **53%**	Identity theft fraud **58%**
Fake account registration fraud **66%**	Fake account registration fraud **57%**	Scams **63%**	Promotion fraud/policy abuse fraud **52%**	Collusion fraud (e.g., buyer and seller collusion) **57%**
Digital wallet fraud **64%**	Mobile transaction fraud **53%**	Card testing fraud **62%**	Collusion fraud (e.g., buyer and seller collusion) **52%**	Promotion fraud/policy abuse fraud **55%**
Card testing fraud **64%**	Crypto fraud **53%**	Account takeover fraud **62%**	Mobile transaction fraud **49%**	Scams **55%**

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Stolen And Synthetic Identities Are The Largest Contributors To Fraud

The highest risk of fraud lies in new account creation, which poses a challenge for both financial institutions and retailers. Criminals are taking advantage of the growing popularity of digital banking and digital commerce by utilizing stolen or synthetic identities to open fraudulent accounts.

In APAC, retailers face the second-highest risk of fraud from purchase transactions, whereas the financial sector encounters the second-highest risk of fraud in account login activities.

Fraud Losses Attributed To Each Stage Of The Customer Journey

FINANCIAL SERVICES

46%	30%	24%
New-account creation	Account login	Fund distribution

RETAIL

44%	26%	30%
New-account creation	Account login	Purchase transaction

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True Cost Of Fraud Goes Far Beyond Face Value Lost

Every fraudulent transaction costs

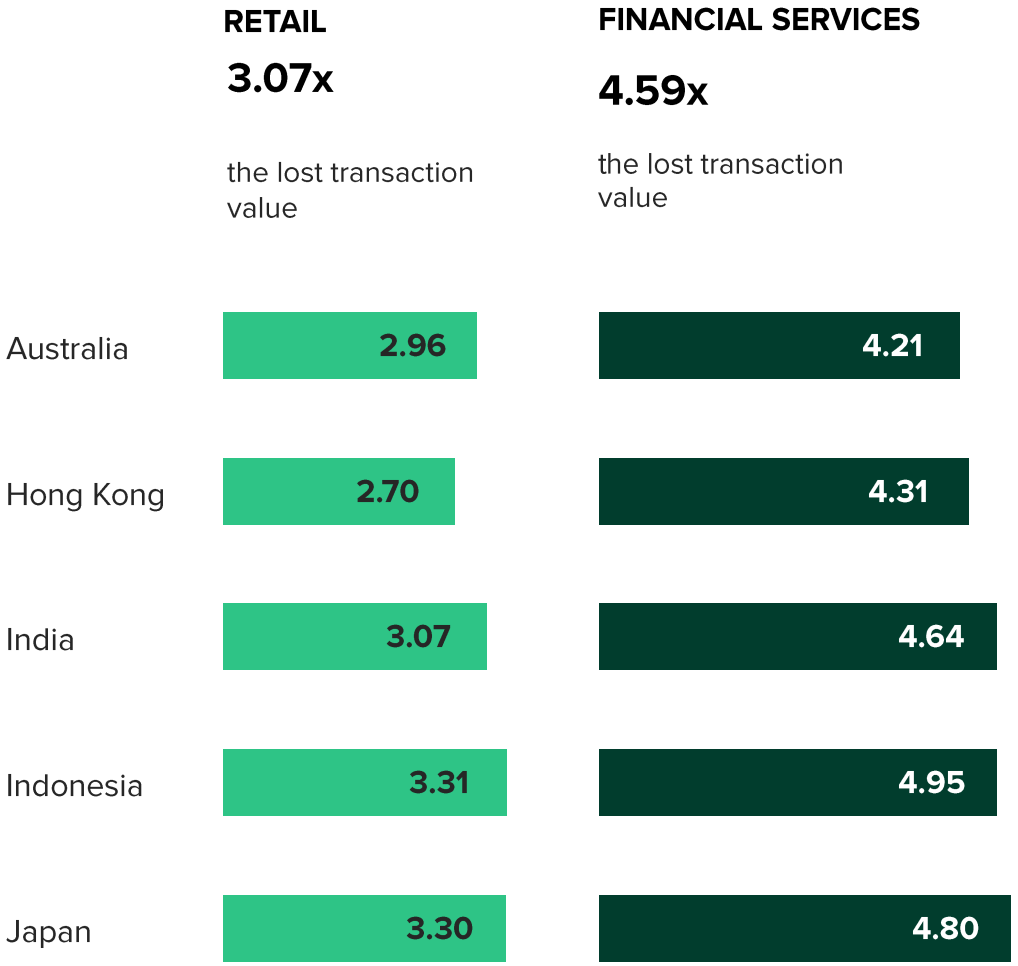
3.95x

the lost transaction value on average.

For retailers, this includes the costs of fees and interest paid, as well as the cost of replacing lost/stolen merchandise.

With more extensive regulations requiring additional investigative efforts and liability when refunding consumers, the total cost of fraud is even higher for financial institutions.

The true cost of fraud is slightly higher in countries like India, Indonesia, and Japan, as their larger size typically means higher fraud incidences and, consequently, related fraud management costs.



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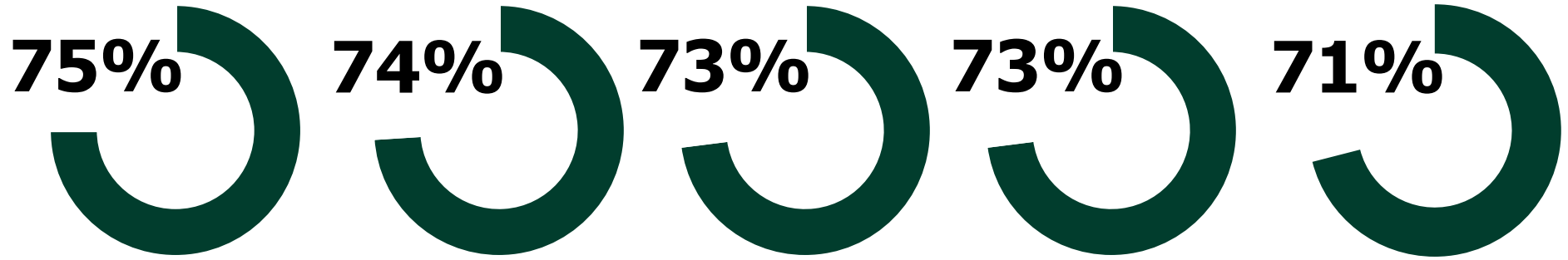
Customer Relationships Are On The Line

In addition to fees and labor expenses, fraud also brings about indirect and lasting repercussions. According to three-quarters of the respondents, fraud has had a detrimental effect on their brand, customer purchases, and customer experience, which in turn impacts future revenue.

The Impact Of Fraud On Customer Relationships
(Showing "Significant impact" and "Moderate impact")



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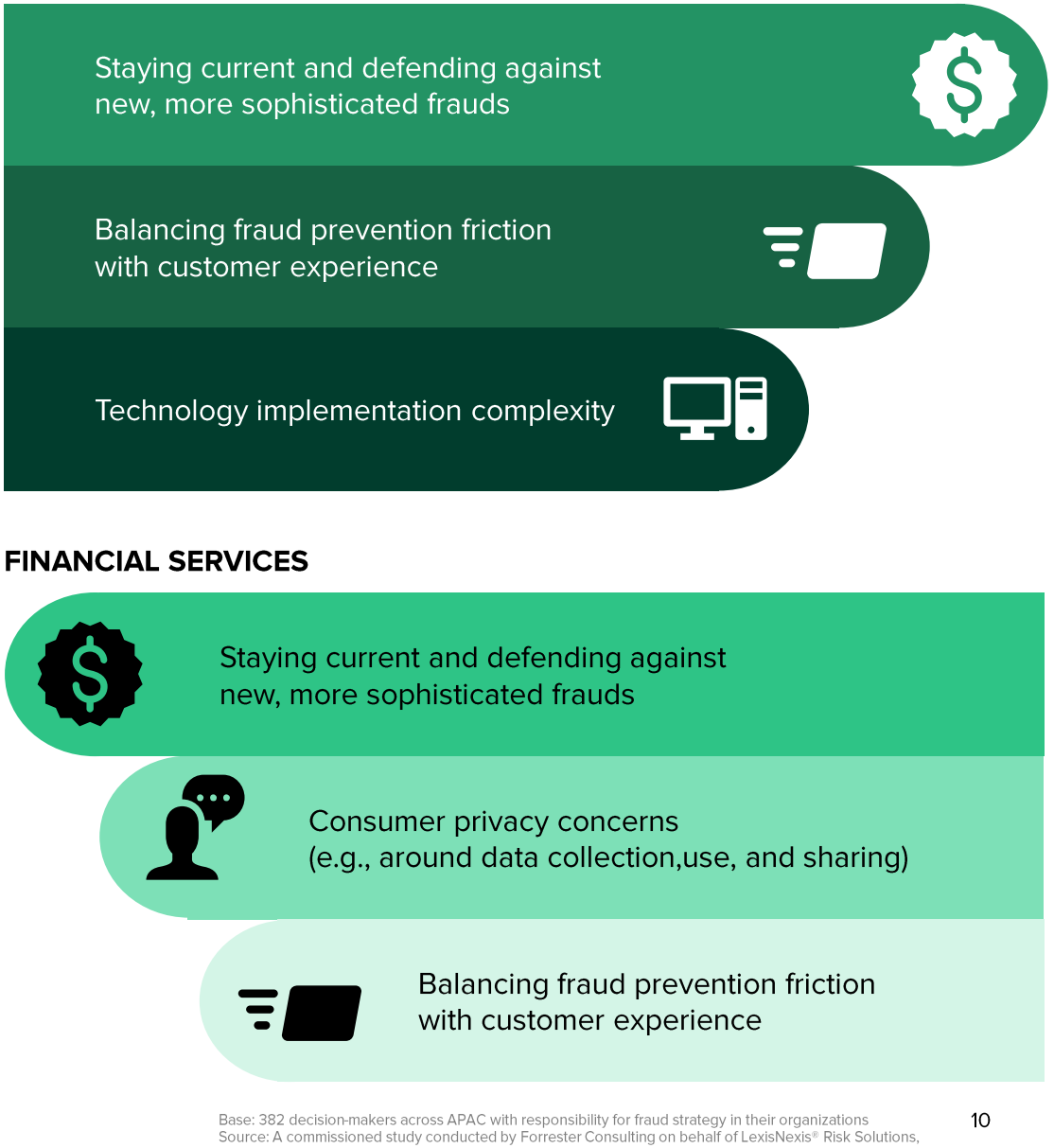
Struggle To Adapt To New Technologies

Both retailers and financial institutions call out their inability to effectively protect themselves against emerging frauds. To keep up with the ever-evolving emergence of new technologies and threats, organizations must maintain a constant state of awareness and foster a culture of continuous innovation.

Main Challenges In Fraud Prevention Over the Past 12 Months



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Verifications At The Heart Of The Challenges

Across the APAC region, the primary challenges encountered throughout the customer journey are phone verification and customer identity verification. For instance, fraudsters may exploit vulnerabilities in phone systems — like caller ID spoofing, or ease of access to virtual numbers — to conduct fraudulent activities.

Top Challenges Along The Customer Journey

New account creation	Account login	Purchase transaction/Fund distribution
Phone verification	Phone verification	Phone verification
Verification of customer identity	End-user identity authentication	End-user identity authentication
Address verification	Balancing fraud-prevention friction with the customer experience	Distinguishing between legitimate human and malicious bot transactions

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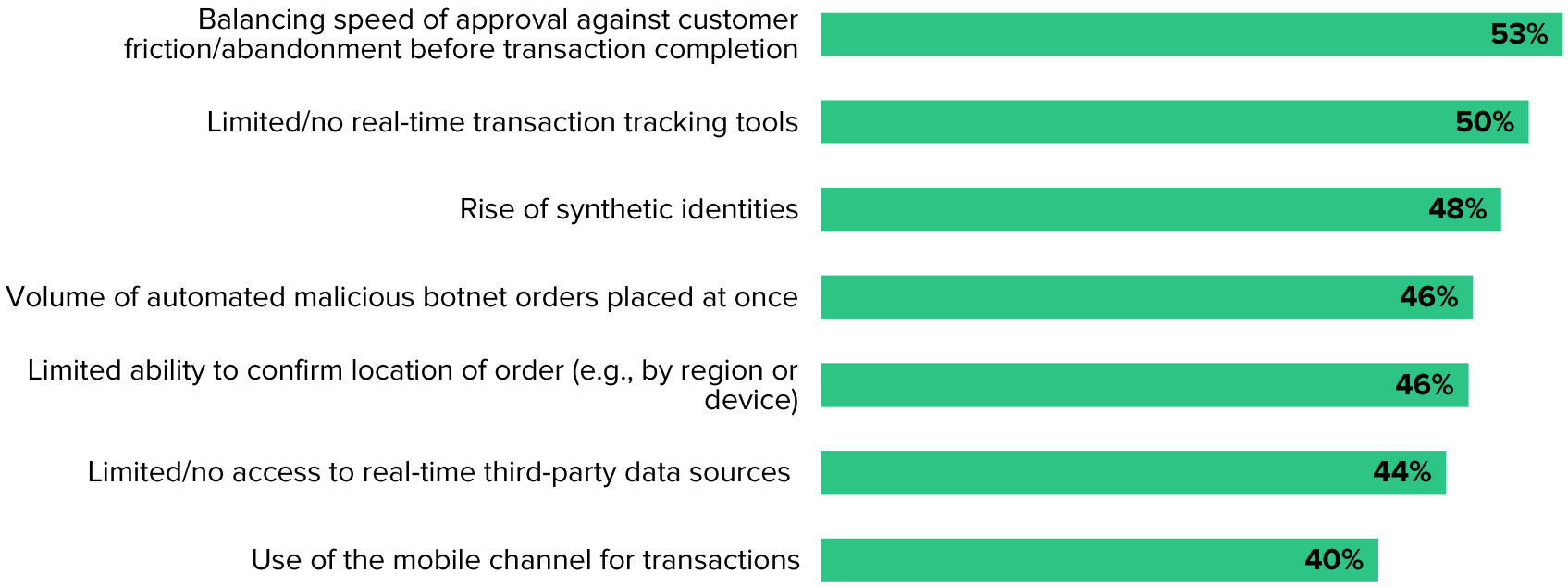
Customer Experience Needs And Systems Challenge Identity Verification

In a region where consumers are used to seamless connectivity, the need to introduce additional verification steps in the customer journey is a challenge. Additionally, the absence of real-time transaction tracking tools creates limitations in the process of identity verification.

Factors That Make Customer Identity Verification A Challenge When Serving Customers Through The Online Channel

(Percentage showing ranks 1 through 3)



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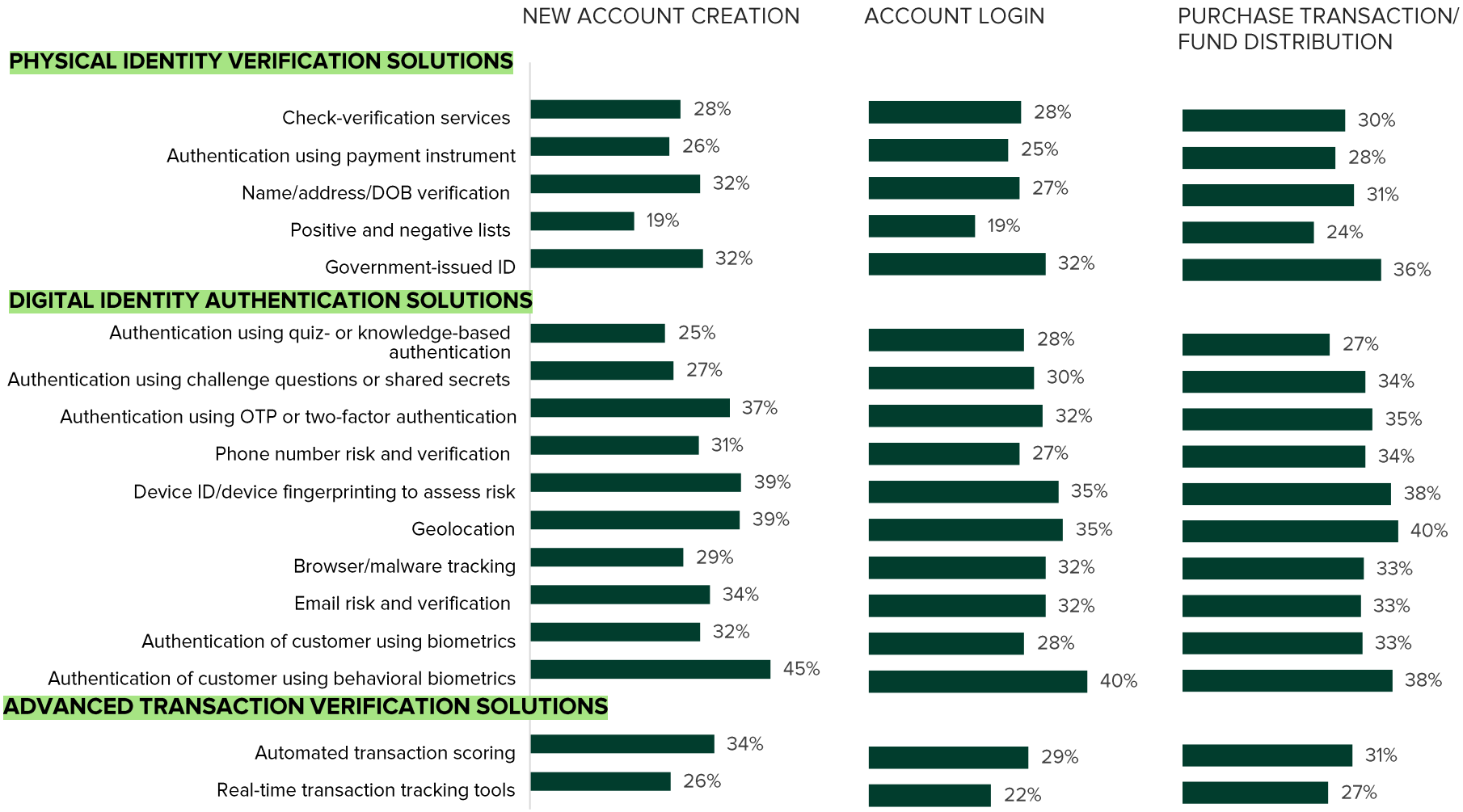
Complexity Of Fraud Calls For Multifaceted Solutions Along Entire Customer Journey

As fraud can take many forms and is continually evolving, organizations need a comprehensive approach to fraud detection and prevention. Organizations will need to adopt a multifaceted approach and implement various fraud detection capabilities to effectively address physical identity, digital identity, and transaction fraud risks.

Adoption Of Fraud Mitigation Solutions Across The Customer Journey



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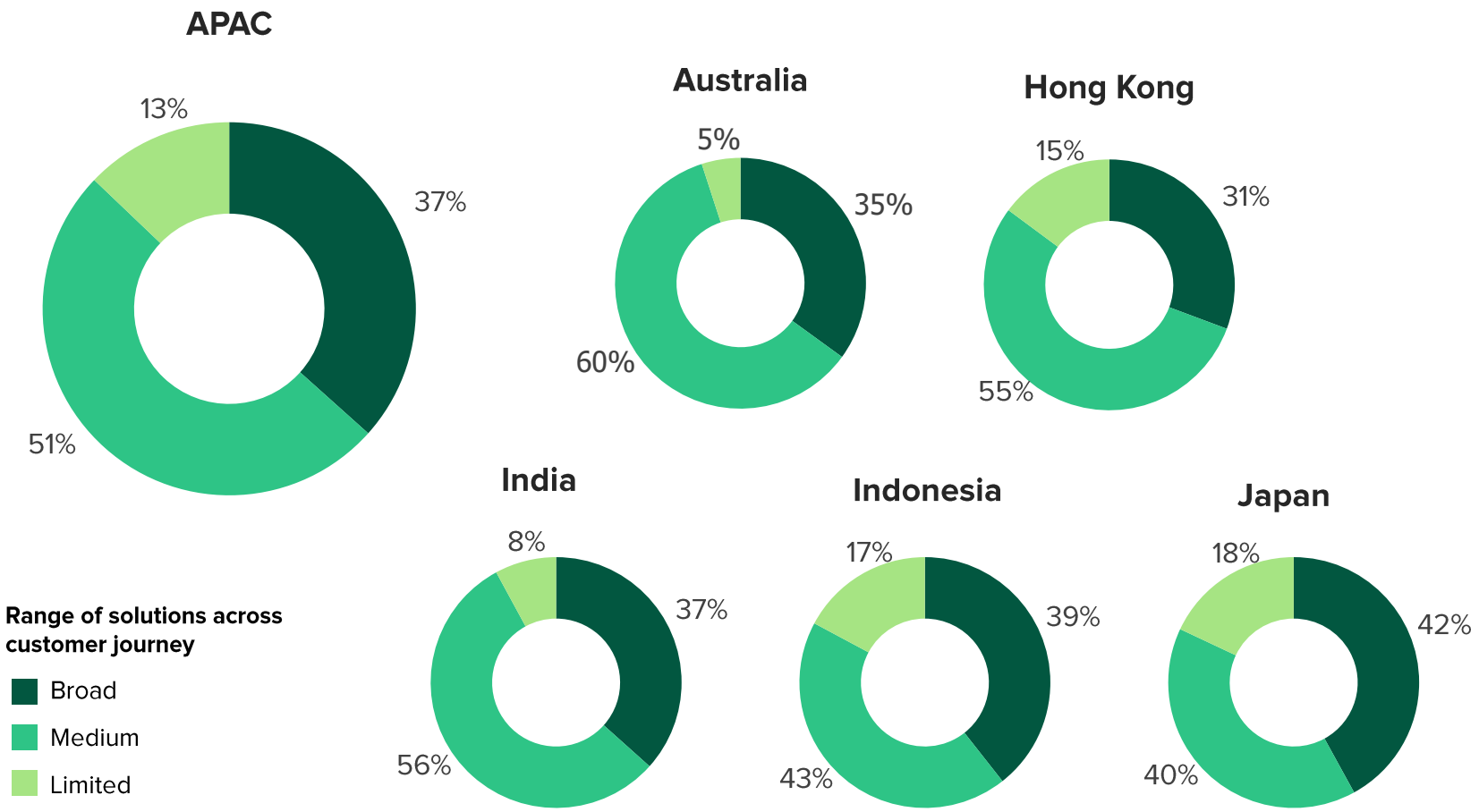
However, across the region, less than 40% of respondents' organizations have a broad suite of solutions that mitigate against different fraud risks. Japanese and Indonesian organizations are more likely to have invested in a broad range of fraud solutions to cover different stages in the customer journey.



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Note: Percentages may not total 100 due to rounding
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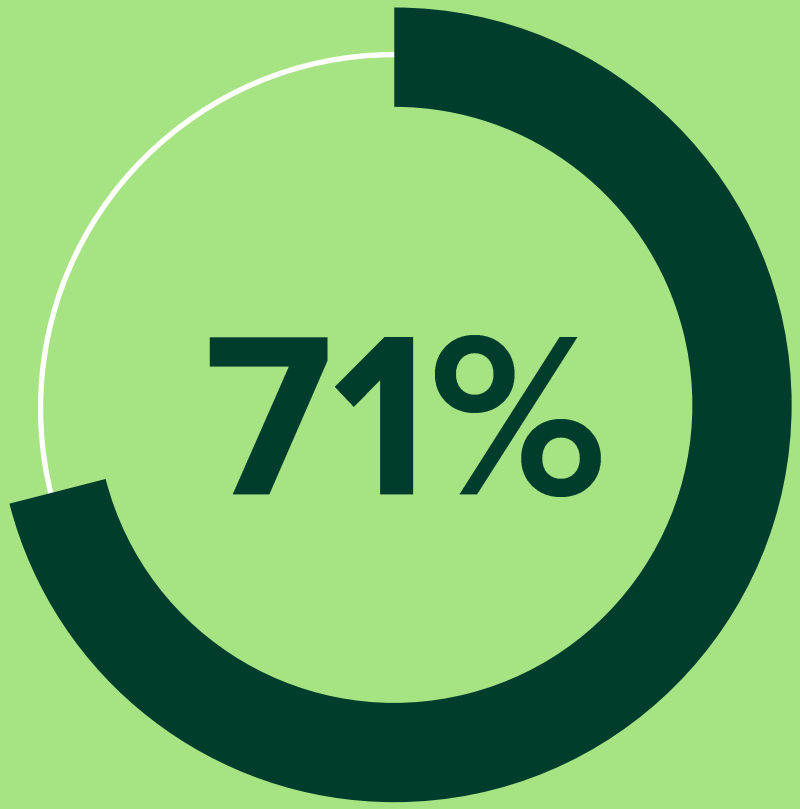
Gaps In Fraud Coverage Can Leave Businesses Vulnerable

Seven in 10 organizations have an enterprise fraud management solution that covers all channels on which customers can initiate transactions.



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Adoption Of Digital Technology To Prevent Fraud Is Still Fragmented

Proactively scoring activities and transactions can help minimize customer friction by eliminating unnecessary verification processes for legitimate customers and helping organizations reduce cost of managing fraud.

Risk Signals Adoption

Delivery verification	46%
40%	Location analysis
Threat detection	36%
36%	Behavioral biometrics
Anomalous activity/transactions	35%
32%	Proprietary scores
Consortia or exchange data	25%

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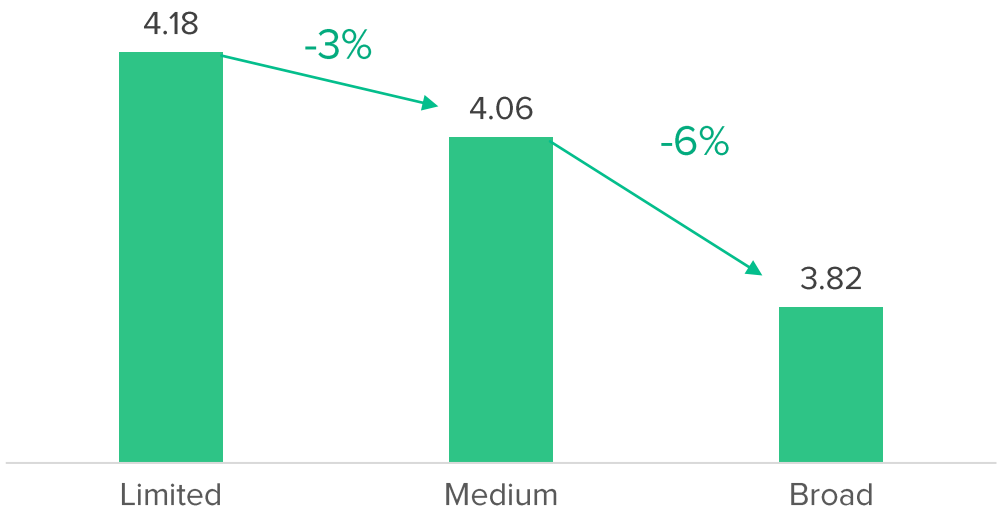
Implementing A Broad Range Of Solutions Is More Effective At Lowering The True Cost Of Fraud

Smart investments in varied solutions pay off: organizations that build a broad net of defense against fraud throughout all stages of the customer journey report a lower true cost of fraud. One reason could be that having the proper fraud management solutions in place may also help increase compliance and limit liability in cases of fraud.

APAC

Impact Of Solution Use On True Cost Of Fraud



Range Of Solutions Implemented Across The Three Customer Journey Stages

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Key Recommendations

Combine a risk-based and data-driven approach to fraud management. Utilize advanced data analytics tools and techniques to identify patterns and anomalies in customer behavior. Apply different levels of security measures based on the level of risk associated with each transaction or customer to minimize impact on low-risk transactions and genuine customers.

Balance fraud management effectiveness and CX with customer education. Raise customer awareness about emerging threats — especially in areas like scams, mobile transaction fraud, and QR code payment frauds — and the potential impact they have on their own safety to help them understand the necessity of security measures. This is especially crucial in APAC, given consumers' high expectations for seamless digital experience and convenience.

Key Recommendations

Work with vendors leveraging emerging technologies. Traditional, rules-based models are costly to maintain and ineffective against new types of fraud. AI algorithms — including supervised learning, unsupervised learning, deep learning, and graph computing — have become the norm in fraud management. Privacy-preserving technologies like homomorphic encryption and federated learning can also bring richer data insights to fraud analysis by breaking down data silos across divisions and organizations and enabling efficient data sharing.

Regularly update security protocols and prevention tools/services. Have governance in place to regularly update and refine security protocols and prevention tools/services to effectively mitigate the evolving threat landscape, maintain compliance, and enhance overall security posture. Regular updates and refinements ensure that organizations remain compliant and avoid potential legal and financial repercussions. This is especially important in APAC, as the market is heavily segmented. Different regulations and protocols to in each country makes it even more challenging to effectively combat fraud across the region.

Methodology

In this study, Forrester conducted a global online survey of 1,845 senior decision-makers at financial institutions and retail/e-commerce institutions to evaluate the cost, current state, and challenges presented by fraud. Survey participants across APAC made up 382 of these respondents. Questions provided to the participants asked about their organizations' priorities, exposure to fraud activities, fraud spend and factors driving an increase in fraud costs, challenges related to fraud operations, the benefits of fraud operations, and future implementation plans. Respondents were offered a small incentive as a thank-you for time spent on the survey.

The study began in July 2023 and was completed in August 2023.

Project Team

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Contributing Research

Forrester's Security & Risk Research Group

Demographics

COUNTRY	
Australia	20%
Hong Kong	20%
India	21%
Indonesia	20%
Japan	20%

INDUSTRY	
Retail	21%
E-commerce	21%
Lending	14%
Financial services	18%
Other payments	26%

COMPANY SIZE	
Small: <US$10M annual revenue	40%
Mid/large: >US$10M annual revenue	60%

NUMBER OF EMPLOYEES	
2 to 99 employees	0%
100 to 499 employees	16%
500 to 999 employees	29%
1,000 to 4,999 employees	28%
5,000 to 19,999 employees	18%
20,000 employees or more	8%

RESPONDENT LEVEL	
C-level executive	24%
Vice president	34%
Director	42%

Note: Percentages may not total 100 due to rounding