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Reducing fraud and friction in consumer experiences

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Rising online fraud and cybercrime

In today’s world, nearly everyone lives online.

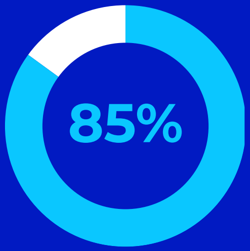
They digitally shop and seek food, shelter, and entertainment. They also interact socially, buy tickets, and attend events online. McKinsey estimates that the global pandemic accelerated our online evolution by as much as four years. And there are now more than 30 billion internet-capable devices, six times as many as there are people online.

This makes protecting digital identity information vitally important. Cybercrime, specifically fraud, is rising nearly as fast as our global digital transformation. In 2021, the number of successful fraud attacks outnumbered those prevented. If fraud was its own country, it would have the third largest GDP in the world.

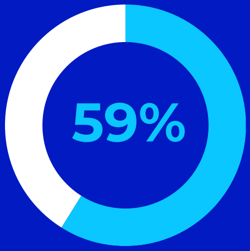
As regulatory oversight aimed at stopping financial fraud increases, so too does the friction generated by identity and credit checks built into customer onboarding processes.

Abandonment issues

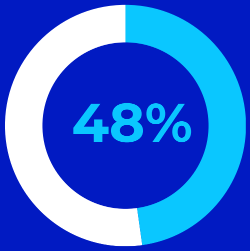
Friction contributes to shopping cart abandonment and has led to the following:



of potential customers **abandon their shopping carts** or registration pages due to a complex login process.[2]



of adults expect to **spend less than five minutes** setting up new accounts.[3]



of consumers are **frustrated by lengthy** login and sign-up forms.[4]

Balancing fraud prevention and consumer demand

Consumers expect simple, fast, and convenient onboarding processes. At the same time, they also want their identities and transactions to be secure.

The friction generated by identity and credit checks is forcing all types of digital brands and online retailers to rethink their customer journeys. Global brands must find a way to put necessary protections in place that yield fast and accurate, but simultaneously low-friction and invisible identity and credit checks.

This is why online retailers and leading digital brands are exploring the latest identity protection and fraud prevention technologies and techniques — to help deliver low-friction, invisible fraud detection that effectively smooths out the customer onboarding experience, enabling better business results.

Understanding friction and fraud online

According to Baymard Institute, nearly 70% of online shopping carts are abandoned. Consumers often decide prices are too high, checkout takes too long, or that they don't trust the site.

At the same time, losses due to fraud are rising fast. A recent U.K. study from Juniper Research estimates that the total cost of e-commerce fraud will exceed $48 billion globally in 2023, from just over $41 billion in 2022 — a growth rate of 16% in a single year. Juniper Research attributes this growth to the increasing use of alternative payment methods, such as digital wallets and BNPL (buy now, pay later), which are creating new fraud risks.

Meanwhile, global financial institutions were hit with enforcement actions totaling $5.4 billion in money laundering and data privacy breaches in 2021. In the same year, another $125 billion was lost in chargeback fraud.

There is undoubtedly an overarching need to get better at following the money to root out crimes/criminals. And greater global collaboration is also needed to track fraud across countries. Organizations such as Interpol (global) and Europol (EU wide) currently play a role here. Online retailers and global brands should rely on providers who can support them globally.

Without the right identity and fraud protections across their websites and apps, financial technology organizations risk fraud losses and damage to their brand and reputation. And without quick, comprehensive fraud reporting, they also risk enabling more downstream fraud attacks.

Top Fraud Detection Tools Used by Region

	North America	Europe	APAC	LATAM
1	Payment Card Verification Services	Identity Validation / Verification	Two-Factor Authentication	Two-Factor Authentication
2	Identity Validation / Verification	Payment Card Verification Services	Identity Validation / Verification	Identity Validation / Verification
3	3DS Auth/ SafeKey	Two-factor Authentication	Payment Card Verification Services	Credit History Checks
4	Geographic Indicators	3DS Auth/ SafeKey	3DS Auth/ SafeKey	Customer Order History
5	Customer Order History	Fraud Scoring Model	Biometric Indicators	3DS Auth/ SafeKey
Avg. # of detection tools used	4.2	4.6	4.2	4.1

Fraud detection tools are often inadequate

Effective onboarding is complex and difficult to get right. Global brands and retailers must find a way to provide seamless onboarding and shopping transactions, without increasing friction or sacrificing security. They need a fast, efficient, and secure onboarding experience that builds trust and protects customers.

The availability of fraud detection tools such as postal address validation services, email verification, and phone number verification/reverse look up, simply aren't enough. Inherent tool complexities, evolving fraud threats, and a lack of skilled security personnel only compound current onboarding challenges.

As online shopping has grown into an everyday staple, there’s also an increase in card not present (CNP) fraud. Aptly named, CNP involves online or over the phone transactions, when neither the cardholder nor the credit card is physically present at the time of the transaction. While the transaction is legitimate, it often uses stolen, yet valid credit card and billing information.

According to the Merchant Risk Council, fraudsters already have the information they need to make a purchase from more than 80% of the credit cards in existence. Given that, it’s not surprising that CNP fraud costs almost $10 billion to U.S. consumers.

Recommended best practices

Retailers should follow industry best practices, and consider using Telesign's risk insights at guest checkout to see if more checks are needed before accepting a transaction from a new customer. This greatly reduces the potential for return fraud and other forms of friendly fraud.

A few additional best practices for online retailers and global brands to keep in mind include:

- **Be vigilant when consumers change their account details**, email address, or phone numbers. Verifying a consumer's identity in these moments lowers fraud risks, whether from consumers, or in account takeover attempts.
- **You can introduce some friction to protect consumer information.** According to a 2021 European Payments Council survey, a vast majority (87%) of consumers admit transactions can take longer if authentication means their information is better protected**.**

Reducing guest checkout fraud

In recent years, many online retailers have bypassed onboarding protections to help increase sales and reduce shopping cart abandonment. Customers are often given the option to use 'guest checkout' to quickly complete their online shopping transactions.

This, in turn, has led to higher rates of various types of fraud. Guest checkout fraud, for example, uses stolen credit card information and the 'guest checkout' option on websites to avoid registering for an account. This allows fraudsters to sidestep identity verification checks. Other types of fraud include:

- **Returns fraud:** Typically involves using stolen cards and returning in-store or partial returns.
- **Friendly fraud:** When consumers deny the purchase or don't complete buy now, pay later (BNPL) payment plans. Typical BNPL programs split a purchase into four equal installments, with the first installment paid as a down payment at checkout and the next three payments due in two-week or monthly intervals.

The road to Continuous Trust™

Online retailers and global brands must put protections in place that yield fast, accurate, low-friction, invisible identity checks. Meanwhile, consumers demand a simple, fast, and convenient onboarding process. How can these seemingly opposing goals be accommodated?

A risk and reputation scoring model offers the fastest, most secure path to verifying the authenticity of customers. This type of scoring model is built on a deep well of reliable data sources that leverage many consumer data points, identifying signals, and traffic patterns received from these sources.

Using proprietary data, analysis and machine learning capabilities, Telesign provides verification, authentication and mobile identity solutions that help prevent new account fraud, account takeover, and communication fraud. Telesign can also help you streamline and reduce the costs of your regulatory compliance, including Know Your Customer (KYC) checks that are required for financial institutions to establish the legitimacy of a customer's identity, and identify risk factors.

How Telesign enables Continuous Trust

Telesign provides continuous trust to leading global enterprises by connecting, protecting, and defending their customers' digital identities.

To achieve reliable, continuous trust, Telesign verifies over two billion unique phone numbers a month, and provides critical insight into the remaining billions. Our powerful AI and extensive data science deliver identity with a unique combination of speed, accuracy, and global reach. Telesign solutions prevent fraud, secure communications, and enable the digital economy by allowing companies and customers to engage with confidence.

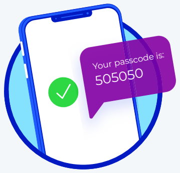
Our onboarding intelligence draws from 15 years of analyzing user and fraud behavior, assessing more than 2,200 digital attributes in near real-time, including data from a fraud consortium representing some of the largest internet properties in the world, putting this information where it blocks fraud effectively: during onboarding or at the point of sale.

An adaptive scoring model delivers risk scores and easy to understand reason codes, so you know when and why to allow, block, or flag new users. Because an estimated one in four new accounts are fake, you can rely on our patented phone-based verification to help you recognize which users you can trust, and which you shouldn’t, in a matter of milliseconds.

The Telesign Trust Engine

Phone ID: uses detailed and actionable global phone number and subscriber data intelligence to strengthen authentications, evaluate fraud risks, and enhance user experience.

Intelligence: uses ethical machine learning to deliver a dynamic risk-based assessment based on phone number insights, traffic patterns, and a global data consortium.



Phone Verification API: provides patented phone-based verification and two-factor authentication using a time-based, one-time passcode sent over SMS, voice message, or via an SDK, enabling multifactor authentication.

Omnichannel Experiences

Secure Messaging and Voice APIs: enables brands to build communication and account security messaging (SMS, voice, omnichannel) into web and mobile applications.

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Learn more at Telesign.com and follow us on twitter @Telesign.

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