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Security and data privacy concerns motivate digital bank consumers to embrace new authentication technologies

Article

The news: US digital bank customers prioritize the security of their financial data over convenience, but new technologies might merge the two, per PYMNTS.

More on this: **Two-thirds of US digital bank users** would prefer knowing that their private information is secure over having a simple, convenient digital application, per a report from PYMNTS and Entersekt.

But as banking progresses, frictionless passive authentication may bridge the gap between the two.

- **73% of consumers** who access financial accounts via multiple devices are willing to log in with alternative authentication methods.

Some alternative authentication methods include multi-factor authentication, biometric authentication, and single-sign-on solutions. These methods can reduce the need for passwords, make it difficult for fraudsters to imitate a user or for attackers to infiltrate user accounts, and provide an authentication process without security holes.

The future of banking: Our report, The Bank in 2025, discusses how heavily the future of banking will rely on sharing data through application programming interfaces (APIs) and open banking infrastructure—and consequently, on the implementation of strong privacy and security controls.

- To access the tools and services offered by fintechs and other brands, banks will need to build an infrastructure to support open APIs.
- Increasingly, banks will have access to more and more of their users' financial data. But consumers will also have control over what is shared and how it is used.
- Access to data will allow banks to customize their services and offerings for each customer, but that access means security and privacy will be top of mind.

Banks are already migrating much of their data to public cloud platforms. While the cloud makes it easier to share and store data, it also creates more opportunities for data to be manipulated or stolen, than for data stored on a local server. But technological developments are easing concerns. Artificial intelligence (AI) is one way banks can verify transactions and

other customer actions in real time. AI capabilities are able to process large amounts of data quickly and can flag potentially fraudulent situations. Banks leveraging these capabilities, however, must ensure that the authentication fintech firms providing these tools are trustworthy and will maintain strict privacy protocols.

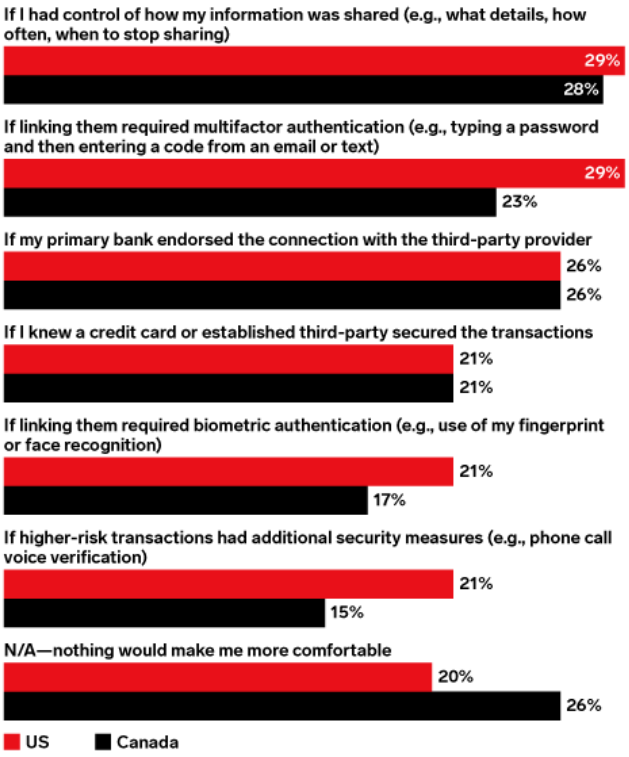
Funding trends: Venture capital firms are catching on to the importance of frictionless authentication and the increasing demand for this technology. Funding in the authentication fintech space is heating up.

- In February, biometric user authentication **Passage** raised $4 million in new funding to promote its FaceID and TouchID products.
- In April, **OwnID**, another biometric authentication provider, raised $6.2 million in seed funding to double its workforce and further develop its biometric service that uses a customer's smartphone to verify their identity for access to certain websites.
- This week, mobile identity startup **Incognia** raised $15.5 million in series A funding. Incognia provides software that uses location signals and motion sensors on the device to verify the user's identity. The company claims the software is 10 times more accurate than facial recognition software.

The big takeaway: The digitization of people's everyday lives has revealed just how much data companies have gathered on their customers. Customers have learned that the ease of some new features can potentially open them to risks. Banks need to shift their focus from reducing friction in the customer experience to protecting their customers' data, thereby earning their trust and retaining their business. For now, customers may be willing to take extra steps to verify their identity to ensure their safety. But as digital experiences continue to evolve and grow in sophistication, customers will expect solid security measures to be seamlessly integrated into the service they receive.

Ways to Ease Concerns About Linking Financial Accounts Through Open Banking According to Internet Users in the US and Canada, June 2021

% of respondents



Source: Mastercard, "The Rise of Open Banking," Dec 14, 2021

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