

Identity fraud is costing banks big, and it's burdening small banks the most

Article

The news: Identify fraud is terrorizing the financial sector, costing roughly a quarter of banks nearly a half a million dollars in losses in the last year, according to a [study](#) from Regula and

Sapio Research. The crime appears to be hitting smaller banks harder, [per](#) Forbes.

Are you who you say you are?

- 26% of banks reported over 100 identity fraud incidents in the past year, according to Regula's report, which surveyed 1,069 fraud experts across financial services in Australia, France, Germany, Mexico, Turkey, the UAE, the UK, and the US. Notably, only 17% of fintechs reported the same.
- 31% of banks said the incidents cost them on average \$479,000 or more. The costs stemmed from business disruptions (44%), penalties and fines (36%), and legal expenses (36%). **Every dollar a bank loses in a fraud incident costs that bank four times that amount, [according](#) to LexisNexis Risk Solutions.**
- Document forgery was the most common type of identity fraud banks reported, with 54% of those surveyed saying they'd dealt with incidents involving modified documents in the past year.

Small banks struggle the most: Real-time data platforms help large banks identify suspicious customer behavior—major US banks share data through the Early Warning Service platform. But smaller banks typically lack the resources and data needed to quickly nip identity fraud in the bud.

- Smaller banks lack access to real-time data and must rely on static data and device-based security features to catch potential identity fraud.
- However, time and additional resources are needed to sort through static data, and many device-based security features can be easily hacked—email accounts can be hijacked, two-factor authentication can be cracked with SIM switching, and some biometric authentication methods can be bypassed with photos.
- Static data often leads to false positives during the authentication process, and consumers are required to hand over additional documentation to verify their identity. Unfortunately, many consumers become frustrated with the extra steps and will end the onboarding process prematurely, meaning the small bank will lose a customer.

What tech is the industry using? The best identity fraud detection technology leverages real-time data. Smaller banks dealing with frequent identity fraud incidents should consider

investing in a real-time data platform. One potentially quick and cost-effective solution is partnering with a fraud-focused fintech.

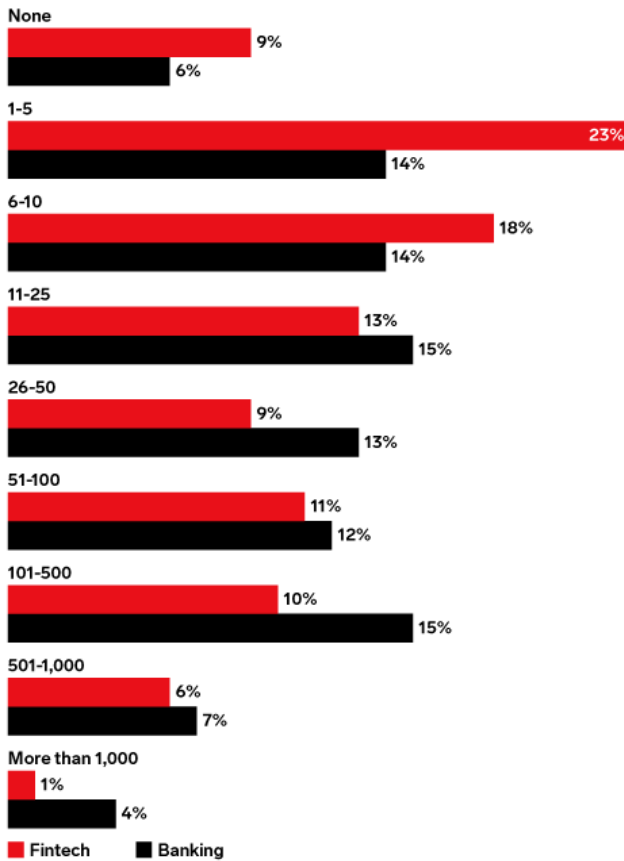
These are some of the technologies that banks and financial institutions are using to detect identity fraud.

- Many firms offer specialized services in [document verification](#). Some even go as far as conducting “liveness” checks, cross-referencing with a person’s social media to verify they are a real person.
- Multilayered identity verification involves combining verification techniques that are difficult to bypass to confirm a consumer’s identity. Some of these techniques include geolocation, to confirm a person is accessing their accounts from a known location, and behavioral biometrics, like analyzing a consumer’s typing speed.
- Artificial intelligence (AI) and machine learning (ML) technologies can be used to analyze large amounts of data to identify patterns and unusual activity. AI/ML-powered verification models can also learn to identify new patterns and trends to keep up with bad actors’ ever-evolving techniques.

These technologies can make a big difference in the timeliness of identity fraud detection, but human intervention and analysis is still necessary to determine when action should be taken.

Number of Identity Fraud Incidents Experienced at Their Company According to Fraud Prevention Professionals Worldwide, Banking vs. Fintech, Jan 2023

% of respondents



Note: in the past year
Source: Regula, "Cost of Identity Fraud to Financial Organizations" conducted by Sapio Research as cited in press release, March 29, 2023

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