

THE NEXT WAVE:

The Business Adoption
Of Digital Fraud Solutions

AUGUST 2021

The Next Wave: The Business Adoption Of Digital Fraud Solutions, a PYMNTS and Equifax collaboration, explores the obstacles to and key drivers and perceived benefits of implementing digital identification and verification technologies. The report analyzes a survey of 307 auto dealers, banks, credit unions and alternative or P2P lenders and examines U.S. firms' perceptions of and plans for digital identification and verification.

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ACKNOWLEDGMENT

The Next Wave: The Business Adoption Of Digital Fraud Solutions Report was done in collaboration with Equifax, and PYMNTS is grateful for the company's support and insight. [PYMNTS.com](https://pymnts.com) retains full editorial control over the following findings, methodology and data analysis.

INTRODUCTION

North Carolina-based Bank of Oak Ridge closed all five of its branches and disabled its online banking capabilities on April 26 and April 27, preventing many customers from accessing essential services either online or in person. It was not until July 9 that the bank's customers received a letter explaining the cause of the shutdown: Hackers had obtained many customers' personally identifiable information, including Social Security numbers, bank account numbers, dates of birth and driver's license numbers.¹ The Bank of Oak Ridge confirmed that it was investigating the matter, but it was already too late. Their customers' personal data had already been leaked, rendering them more susceptible to fraud and theft for years to come.

The Bank of Oak Ridge's situation is hardly unique, either. It is one of thousands of banks, credit unions, auto dealers and peer-to-peer (P2P) lenders across the United States that have recently fallen victim to cybersecurity attacks. Hackers, fraudsters and other bad actors are seeking to exploit consumers' increasing dependence on digital commerce for their own gains, creating a mounting need for stringent digital-first identity authentication and verification tools that can help businesses and financial institutions protect their customers' personal data.

Businesses are aware of this imperative. PYMNTS' latest research finds that 43 percent of businesses plan to invest in digital authentication solutions for just this reason, and more than two-thirds believe that

MORE THAN TWO-THIRDS OF BUSINESSES PLAN TO INVEST IN DIGITAL AUTHENTICATION SOLUTIONS TO WIN OVER NEW CUSTOMERS.

adopting or improving their digital identification processes can win them new customers. Many are nevertheless struggling to adopt the innovations they need to enhance their data security, with several key roadblocks hindering their innovation plans. What are these roadblocks, and how can businesses overcome them to help keep their data security risks in check?

The Next Wave: The Business Adoption Of Digital Fraud Solutions Playbook, a PYMNTS and Equifax collaboration, explores businesses' interest in adopting solutions that could enhance their ability to protect their customers' digital identities. We surveyed

307 decision-makers at auto dealers, banks, credit unions and alternative or P2P lenders from across the nation to discover which businesses are prioritizing digital identity innovation, which factors are driving this interest and the hurdles that they must overcome to provide the digital security their customers expect.

This is what we learned.

1. Yost, S. Hackers Steal Critical Data From Bank Of Oak Ridge. The Rhino Times. 2021. <https://www.rhinotimes.com/news/hackers-steal-critical-customer-data-from-bank-of-oak-ridge/>. Accessed July 2021.



DIGITAL VERIFICATION BECOMES A PRIORITY

More than 40 percent of larger and older firms see digital tools as much more important to their authentication and verification requirements. Such tools have become particularly important to auto dealers and banks and credit unions.

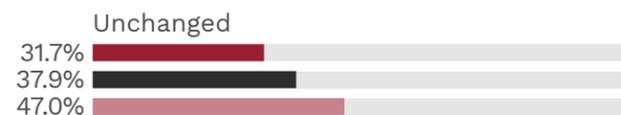
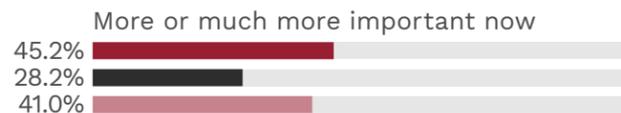
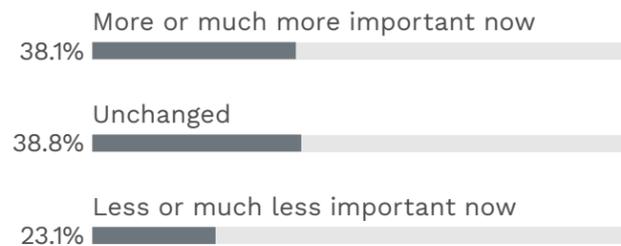
The COVID-19 pandemic has changed businesses' views on their customer authentication and verification best practices. PYMNTS' research shows that 38 percent of firms think that adopting digital methods is more or much more important now than it was before the pandemic began. This is especially true for auto dealers and financial institutions, 45 percent and 41 percent of which, respectively, say so.

Interest in using digital authentication and verification methods is seemingly high among both older and larger firms. Forty-five percent of firms that are more than 30 years old believe that using digital processes is much more important now, while firms that are less than 10 years old tend to perceive such methods as less or much less important now at 45 percent.

Larger firms represent the highest percentage of respondents in our sample that believe that digital processes for authentication and verification are important. Forty-nine percent of firms that generate more than \$500 million in annual revenue perceive the importance of using digital

FIGURE 1:
Firms' perceived importance of using digital processes to authenticate and verify customers' identities

1a: Firms' perceived importance of using digital processes to authenticate and verify customers' identities, by change, industry segment and firms' ages



■ Auto dealer
■ P2P lender
■ Bank or credit union

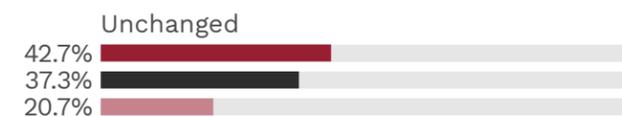
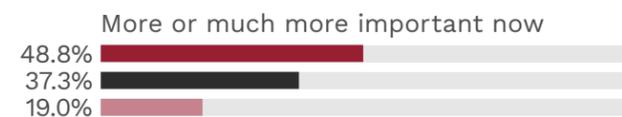
■ More than 30 years
■ Between 10 years and 30 years
■ Less than 10 years

processes to authenticate and verify customers' identities to be "more" or "much more" important now than the year before. In contrast, smaller firms that generate less than \$50 million in annual revenue represent 60 percent of businesses that believe that using digital processes is "less" or "much less" important. That is 35 percentage points higher than mid-sized firms — those that earn between \$50 million and \$500 million in annual revenue — 25 percent of which believe that using digital processes is not important.

Firms located in towns or rural areas also represent 25 percent of all respondents that believe that the importance of using digital processes has not changed compared to last year.

38%: SHARE OF BUSINESSES THAT BELIEVE IT IS MORE IMPORTANT TO USE DIGITAL PROCESSES TO AUTHENTICATE CUSTOMERS' IDENTITIES NOW THAN IT WAS LAST YEAR

1b: Firms' perceived importance of using digital processes to authenticate and verify customers' identities by annual revenue and location



■ More than \$500 million
■ Between \$50 million and \$500 million
■ Less than \$50 million

■ Large urban area
■ City
■ Town or rural area

Source: PYMNTS.com | Equifax
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FIRMS WANT TO INVEST IN DIGITAL CONSUMER VERIFICATION

More than one-third of firms are planning on investing in digital authentication and verification solutions. The share intending to invest is higher among auto dealers and banks and credit unions.

There are several key factors driving firms' interest in investing digital authentication and verification solutions, chief among them being operational challenges associated with digital authentication and verification and consumers' lack of digital skills when it comes to navigating authentication and verification processes. Some of the other problems motivating firms to invest in such solutions include an increase in false identities due to the adoption of digital solutions and operational challenges associated with digital authentication and verification processes.

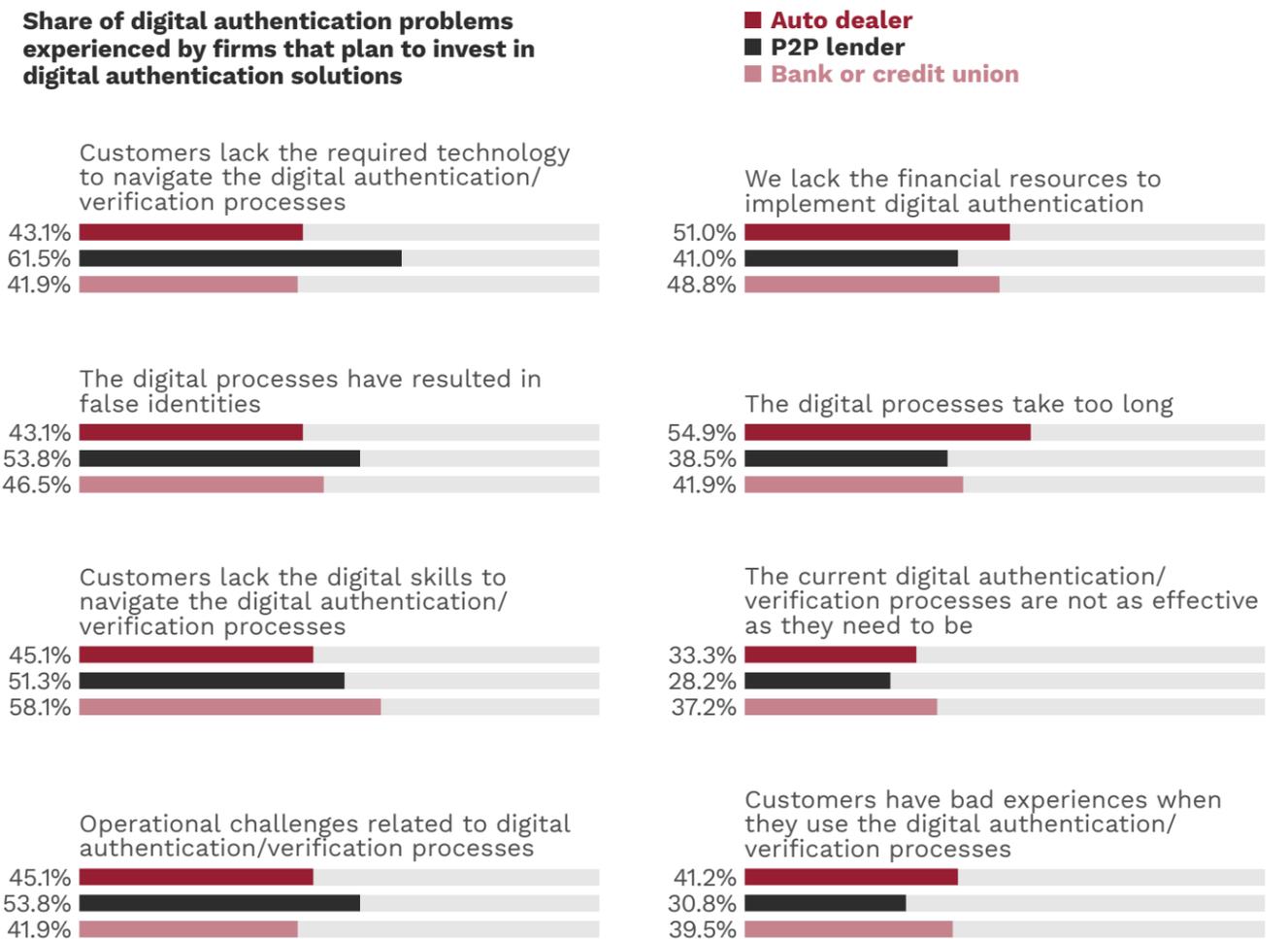
P2P lenders that plan to invest in digital authentication solutions more commonly

cite consumers' lack of adequate access to technology as a key authentication challenge prompting them to invest in innovative solutions (62 percent). Auto dealers that plan to invest cite delays with existing digital processes as a key factor (55 percent) and banks and credit unions cite consumers' lack of skill in navigating their current processes as a reason for making new investments (58 percent).

Auto dealers are most likely to invest in new digital solutions at 49 percent, followed by banks and credit unions at 43 percent. P2P lenders lag behind, with just 38 percent planning to make investments.

It is worth noting that firms in rural areas are the most opposed to investing in digital authentication or verification solutions: 38 percent report that they do not have plans to do so.

FIGURE 2: Digital authentication problems experienced by firms that plan to invest in digital authentication solutions



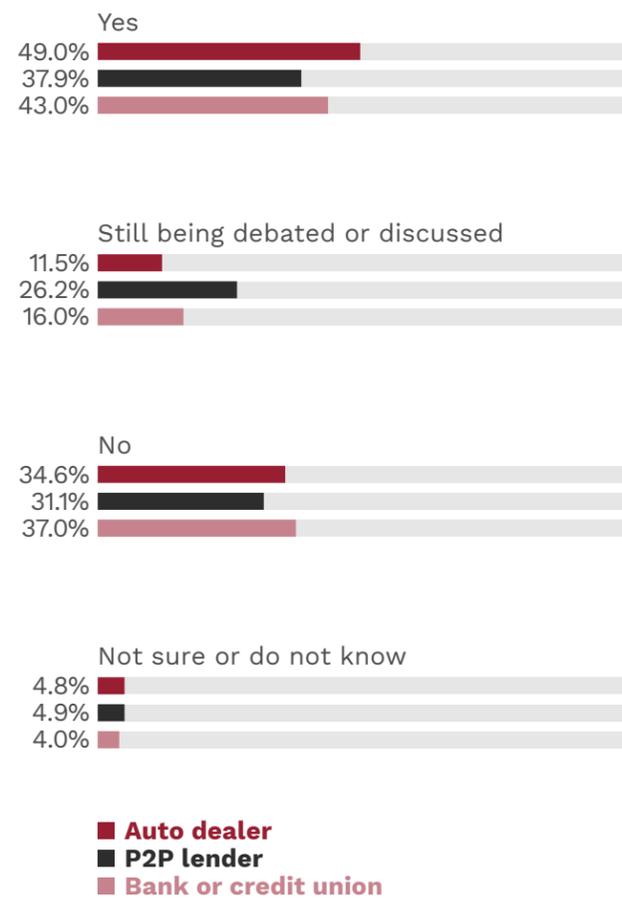
Source: PYMNTS.com | Equifax
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FIGURE 3:
Firms' plans to invest in digital authentication solutions

3a. Firms' plans to invest in digital authentication solutions, by "very" or "extremely" important goals



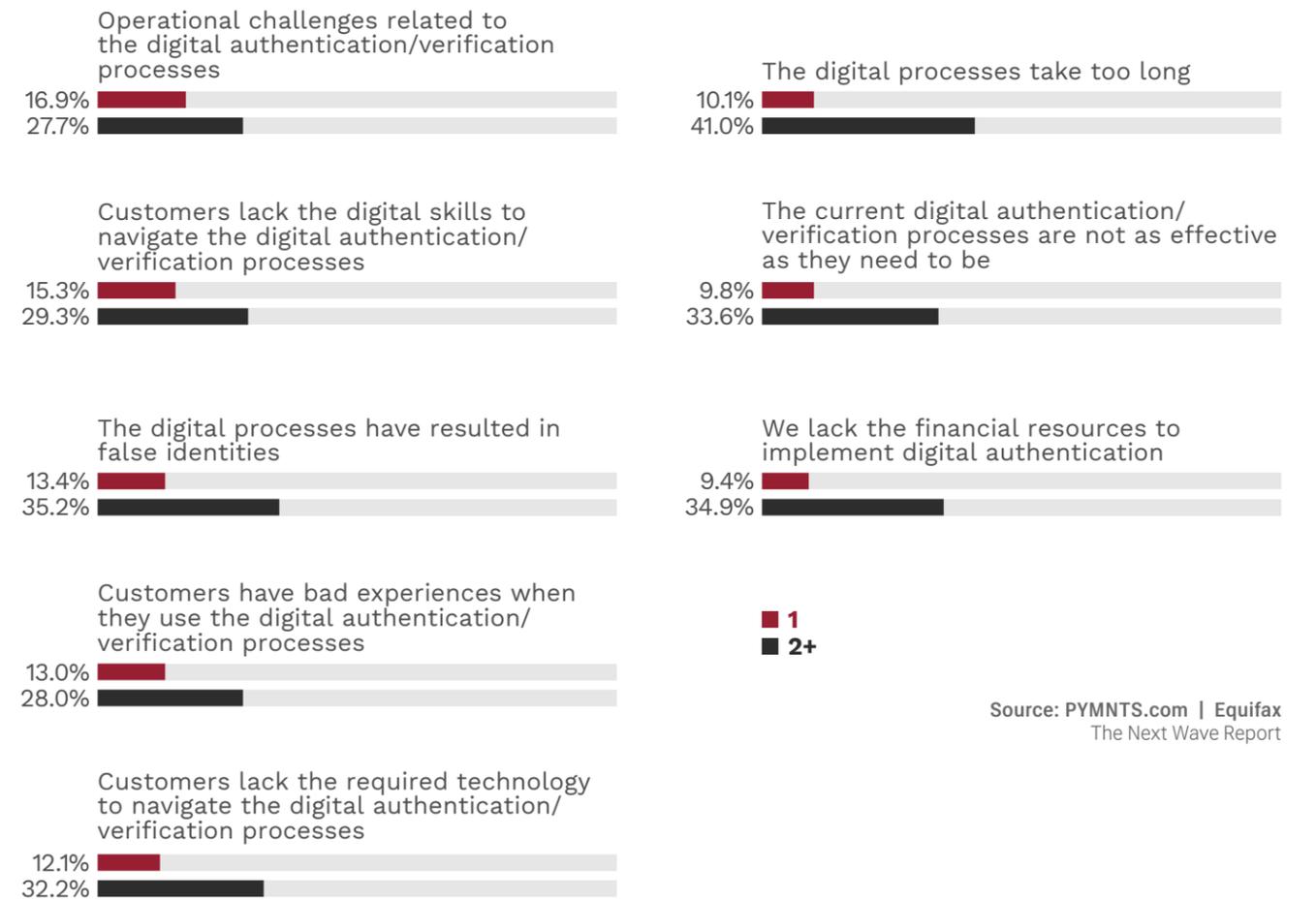
3b. Firms' plans to invest in digital authentication solutions, by industry segment



Source: PYMNTS.com | Equifax
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FIGURE 4:
Firms' ranking of challenges associated with digital authentication/verification processes

How firms rank the challenges associated with digital authentication/verification processes



Source: PYMNTS.com | Equifax
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FIRMS LOOK TO GAIN CUSTOMERS BY DIGITIZING ID VERIFICATION

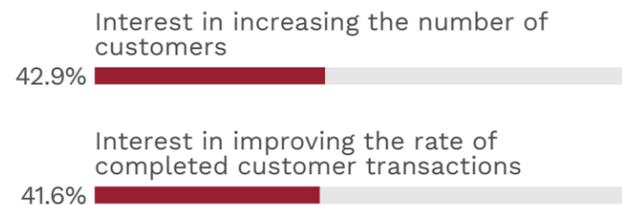
Capturing a wider customer base is a key motivator for digitizing ID verification processes. Firms are also keen to reduce their costs.

More than two-thirds of firms consider increasing their customer bases to be a “very” or “extremely” important reason for adopting or improving digital processes for consumer identification. This is closely followed by firms’ interest in improving their rate of complete transactions (68 percent) and boosting trust among customers (67 percent).

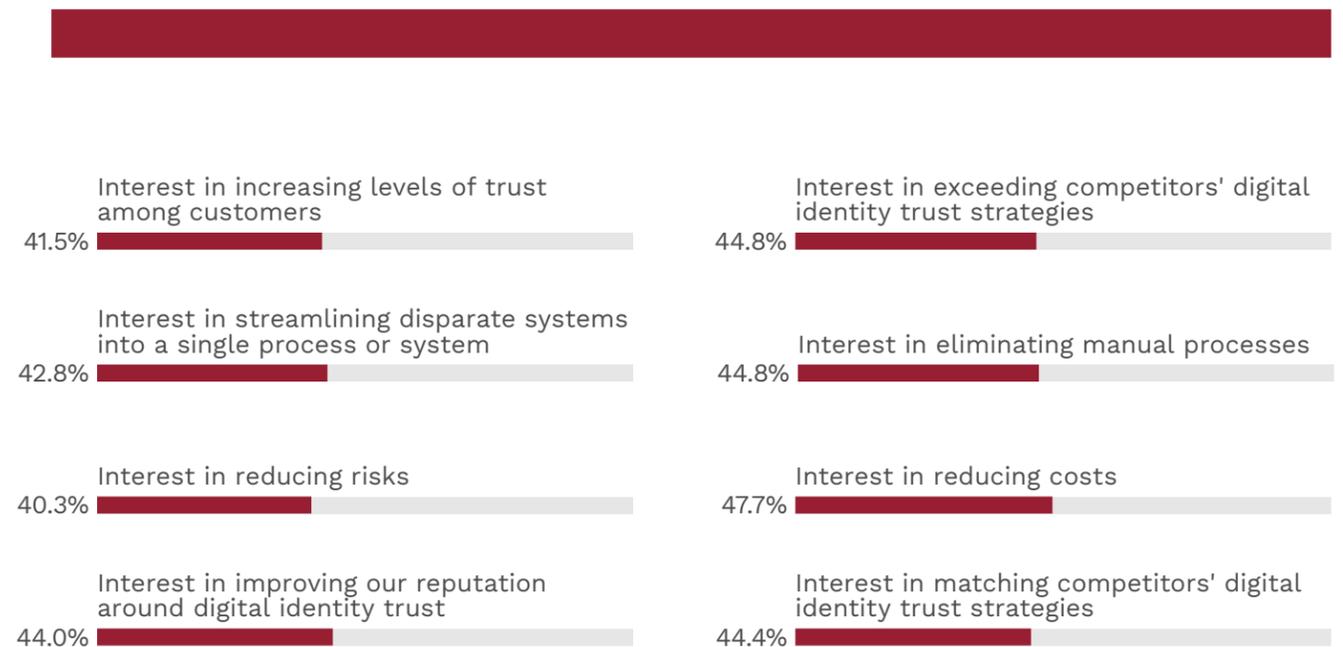
Forty-eight percent of firms that plan to invest in digital solutions that help with authentication are interested in reducing costs to adopt or improve digital processes for consumer identification.

FIGURE 5: Select interests firms consider "very" or "extremely" important to adopt or improve for consumer identification

Portion of firms that plan to invest in digital authentication solutions that cite select interests as “very” or “extremely” important to adopt or improve for consumer identification



BUSINESSES BELIEVE THAT **DIGITAL AUTHENTICATION INNOVATION** CAN NOT ONLY WIN THEM NEW CUSTOMERS BUT ALSO STREAMLINE THEIR INTERNAL PROCESSES.



Source: PYMNTS.com | Equifax
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CONCLUSION

Adoption of digital identity verification and authentication tools to secure customer data and identity have taken on new importance across all industries as digital commerce continues to grow. The good news is that firms recognize the problems they are facing and are willing to make investments. PYMNTS' research shows that more than 40 percent of surveyed firms plan to invest in digital authentication solutions to protect themselves and their customers from growing security threats. These firms also see investments in such solutions as key to boosting their customer bases. Investing in innovative authentication and verification solutions is going to be vital to improving relationships with customers and gaining their trust in the long term.

METHODOLOGY

The Business Adoption Of Digital Fraud Solutions Playbook, a PYMNTS and Equifax collaboration, explores businesses' interests in comprehensive solutions that allow them to verify consumers' digital identities throughout all phases of the business-consumer relationship. The report analyzes a survey of 307 auto dealers, banks, credit unions and alternative or P2P lenders and examines United States firms' perceptions and plans for digital identification and verification.

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