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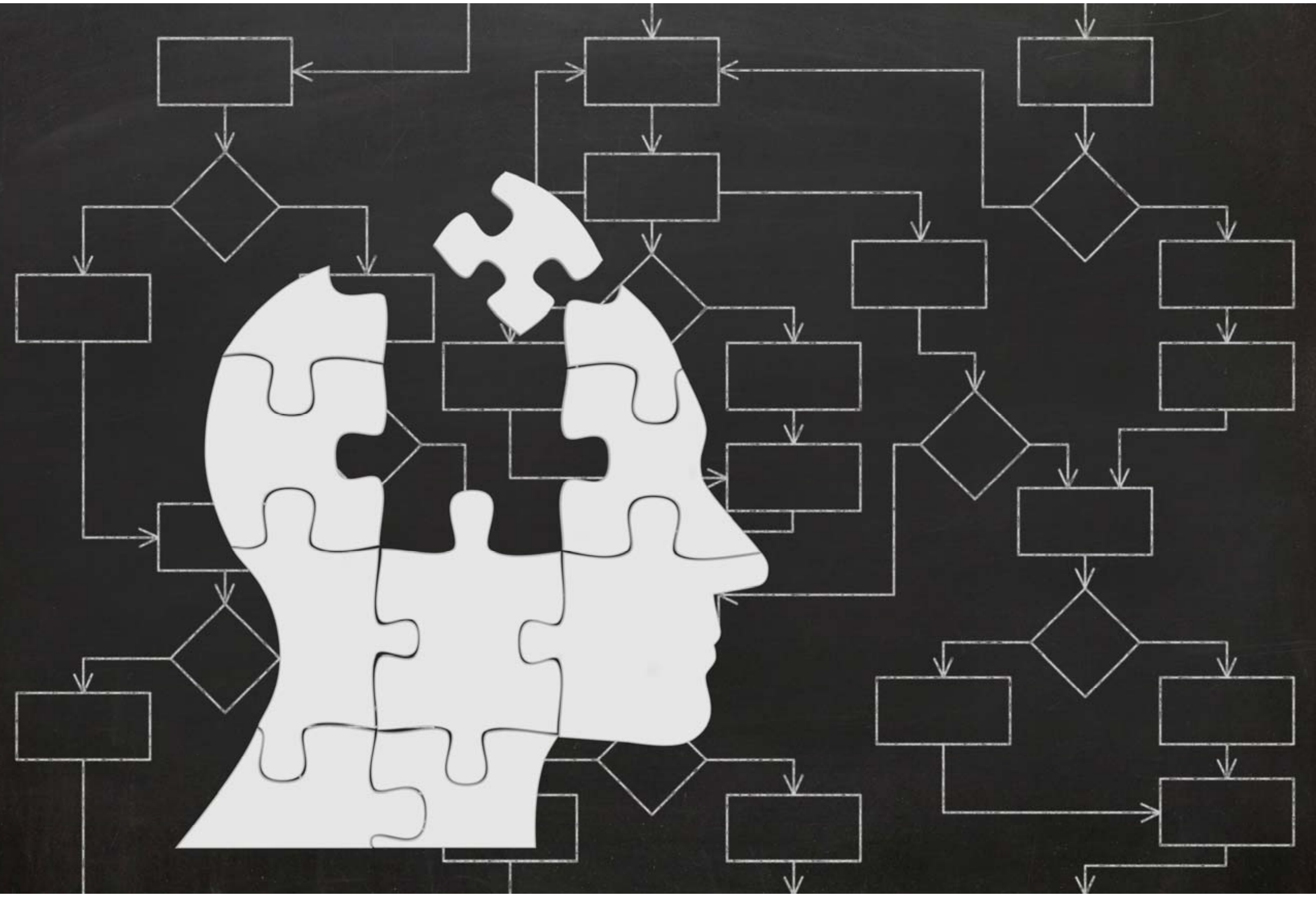

IDENTIFYING AND STREAMLINING LOW RISK CUSTOMERS OR APPLICANTS: TECHNIQUES & BENEFITS

White paper presented by The Fraud Practice, Inc.

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A white paper prepared by The Fraud Practice, Inc.

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Introduction

In general, most fraud and credit risk management strategies tend to focus on identifying and weeding out high risk orders and applicants. While this helps keeps loss rates low, it can lead to higher incidences of false positives, or wrongly declining a customer or applicant, and potentially higher overall average screening costs.

Incorporating more techniques to derive signals of reduced risk can bring benefits in the form of higher conversion rates as well as growing margins on lower risk orders, applications or claims that can be identified earlier in the risk screening process.

Adding techniques to derive signals of reduced risk can help form a more complete picture of a customer, identity, their claim or application. Considering both the good and bad is critical for fraud as well as credit risk analyses. Looking at both sides of the coin, organizations can make better decisions with automated risk screening measures, and leverage the mix of high and low risk signals to assign claims or applicants on different risk screening paths. Organizations can cut bait on the highest risk orders to avoid paying for risk and credit checks on orders or applicants that will ultimately not be accepted, while streamlining the lowest risk claims or applications to optimize conversion and reduce risk screening costs when there is higher trust. Organizations are able to focus more time and resources on those “in-between” applicants and claims to make the best risk management decisions, while spending less on total screening costs across the entire claim or applicant population.

There are several techniques for grouping applicants or claims into low, medium and high risk groups.

The focus of this white paper is to discuss strategies for identifying low, medium and high risk claims, applications or orders and assigning them to different risk screening paths using specific and practical examples. This includes specific examples in the insurance industry, including online quotes or applications and claims, as well as online credit or loan applications and fraud or identity risk management for eCommerce transactions.

The discussion and examples include the use and application of risk management tools and techniques, such as policy rules, technology tools and Confidence Indicator services, to derive reduced or low risk signals.

Risk management strategies rely on the use of signals, both high risk and low risk.

Confidence Indicator services leverage proprietary technology to provide unique and specific signals of reduced risk in credit risk, insurance fraud and other applications. Confidence Indicator services are a relatively new risk management technique that reveal a “digital body language” and provide signals via a confidence score specific to how an applicant or claimant answered critical questions or provided a response in the online or mobile channel. These signals can be used to identify and segment populations by level of risk for the appropriate level of risk screening.

This starts by setting a baseline when the claimant or applicant answers expected and innocuous questions. Other risk relevant questions can provide a more detailed profile for the applicant or claim with new insights, and many of these can be signals of decreased risk.

A consumer applying for a loan or filing an insurance claim provides the required information and answers questions that are critical to understanding their level of risk while the Confidence Indicator technique interprets their “digital body language” to offer context into how questions were answered, rather than simply relying on their final answer and assuming that it was truthful.

The Confidence Indicator technique can be applied to provide signals on many questions that otherwise wouldn't be possible to validate.

Confidence Indicator services and other techniques for deriving reduced risk signals are discussed in the context of how they can be applied and where to apply them to dictate different risk paths and a “fast track” for low risk applicants, customers or insurance claims.

It's Not Just About Detecting High Risk

Organizations tend to focus on identifying fraud and high default risk characteristics, putting more emphasis or weight on these signals than signs of decreased risk. Applying techniques that provide signals of reduced risk, however, are helpful in two primary ways.

First, low fraud risk or decreased default risk signals help provide a more complete picture or profile of the customer, claimant or applicant, which leads to making better overall risk management decisions and potentially a better customer experience. Second, strong or critical low risk signals may enable organizations to circumvent some risk management or credit checks, as well as prevent certain cases from requiring a credit risk analyst or claims investigator to review.

Allowing applicants or customers that display low risk signals to avoid certain risk management checks or manual review has multiple benefits. The organization benefits from paying for fewer third party checks or agent reviews and investigations. The customer benefits from a streamlined user experience, avoiding unnecessary friction such as a potential delay or extra step in the application or claims filing process. This in turn also benefits the organization, which likely enjoys higher conversion and brand loyalty among these lower risk customers.

Applicants on the "fast track" will have higher conversion rates while low risk applicants and claims will have lower screening costs as well.

There are many checks for assessing credit and fraud risk that are invasive to the customer or expensive to perform, if not both. These checks may be required for some orders, applicants or claims, but not necessarily all of them. Reducing reliance on these types of checks lowers screening costs and leads to a better user experience, which ultimately means more orders can convert while the total risk screening costs can come down.

There are many techniques organizations can apply to gain insight into lower or reduced risk characteristics. Examples include:

If claimants or applicants show low risk signals they may be able to avoid agent review, investigation or other checks.

Reduced Insurance Fraud Risk

- ***Confidence Indicator Services:*** Claimant shows no signs of hesitation or deceit when providing damages and claim information online.
- ***Confidence Indicator Services:*** Consumer filing claim after a car accident confidently indicates that they do not know the person operating the other vehicle involved in the incident.
- ***Confidence Indicator Services:*** Car insurance applicant confidently indicates that they have had no traffic accidents or citations in the past five years.

Reduced Credit Default Risk

- ***Confidence Indicator Services:*** Applicant confidently states there is no expectation of lay-offs or any threat to their primary source of income they are aware of over the lifetime of the loan.

Reduced Payment/Identity Fraud Risk

- ***Policy Rule:*** Customer with saved shipping address uses payment card that was used successfully over three months ago, shipping to the saved address which is also the payment card billing address.
- ***Confidence Indicator Services:*** Applicant confidently fills out all PII (Personally Identifiable Information) indicating reduced risk of the use of a synthetic identity.

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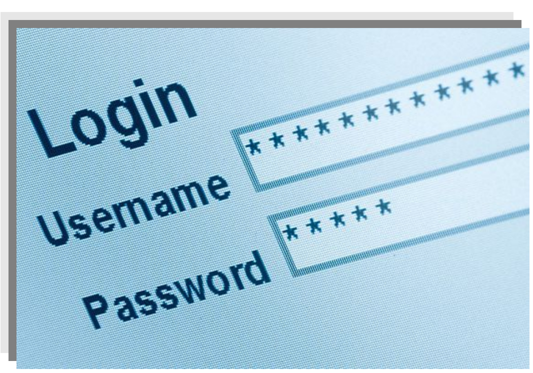
Benefits of Having a Low Risk Path

The most sophisticated models and risk management strategies consider low risk characteristics in addition to signals indicating elevated fraud or credit default risk. Whether lower risk clients or applicants avoid one check or have an entirely different streamlined path, distinguishing these lower risk customers at some point during the middle or even late stages of risk screening can provide substantial benefits.

Identifying low risk claims or applicants can reduce friction to benefit those customers and increase conversion.

From the consumer's perspective, being on the "fast track" means they get funding faster or are made whole on their claim sooner, which is helpful in building brand loyalty and encouraging repeat business. Beyond completing the process sooner, there are cases where the customer enjoys greater convenience and a smoother path by not being required to provide additional information or deal with an in-person claims investigation or interview.

This is particularly important when the additional information they need to provide is cumbersome or invasive, or when the process for the consumer is somewhat time consuming. Being required to scan or even take pictures of an ID or pay stub adds an extra step in the process. Requiring customers to login to online banking so a service can validate their account balance feels intrusive. In either scenario, an organization is likely to see a large amount of drop-off or abandonment during these types of checks where consumers feel the process is either invasive or just a hassle and not worth-their-while to complete.



If a legitimate consumer can avoid an investigation or interview regarding an auto or property insurance claim, this is better for all parties involved. The client saves some time and energy during a time that is likely stressful for them already and these seemingly little things can go a long way in establishing and improving brand loyalty.

From the organization's perspective, being able to streamline lower risk customers and applicants saves time and money as well. This may mean fewer reviews by credit risk analysts or fewer claims investigations, lowering operational costs.

Streamlining low risk claims or applicants frees time and resources that can instead be allocated to those that require more scrutiny.

This can be incredibly beneficial in the insurance industry as being able to better refine which claims require review or investigation by weeding out the low risk claims means that claims investigators and resources can be more focused on the higher risk cases. Many insurance carriers randomly select X percent of claims to be reviewed. If very low risk claims can be removed from this population through intelligent sampling, the organization can catch more fraud while maintaining the same claims investigation rate.

Beyond operational cost savings, fewer calls to third party risk services for customers showing low risk signals improves the margins on these orders or applications. Avoiding strong identity and credit checks when they aren't necessary can provide an organization significant cost savings. These checks can be more than 10 cents to over a dollar depending on the data sources and technology involved. When hundreds of orders a week avoid these checks, this chips away to provide a meaningful reduction in annual third party risk management costs.

Offering higher convenience to lower risk customers, claimants or applicants can be a differentiator and help build brand loyalty.

Organizations need to keep the use of these techniques in-line with their customers expectations and what is considered the norm within their specific industry or vertical market. That being said, in today's digital market, offering a high level of convenience can be a key differentiator. Even when stronger identity, credit or bad debt checks are somewhat expected, allowing your best customers to avoid them has benefits. Prime credit customers may be more reluctant to share the balance of their bank account because they feel their credit worthiness allows this trust, for example.

Examples of leveraging low risk signals to assign these orders or applicants to a streamlined path include:

Reduced Insurance Fraud Risk

- ***Reduce Claims Investigations:*** Consumer filing claim after a car accident confidently indicates that they do not know the person operating the other vehicle involved in the incident and other questions that allow the carrier to confidently payout the claim without requiring internal investigation or review.

- ***Reduce Claims Investigations:*** Claimants who confidently answer a questionnaire about how an accident occurred with a Confidence Risk Score less than X don't require claims investigation.

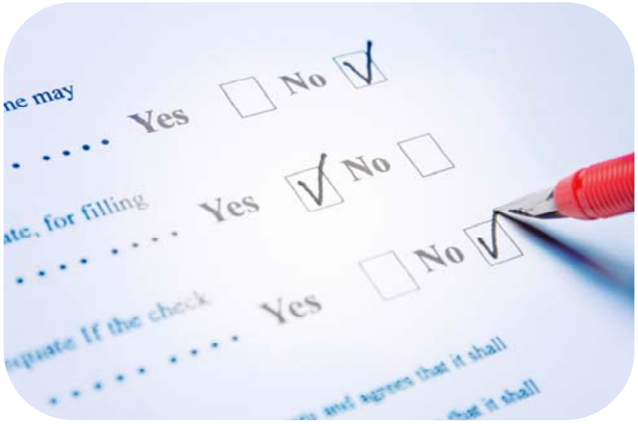
Low risk signals must be considered in context with ALL risk signals.

Reduced Credit Default Risk

- ***Bypass Bank Account Balance or Pay Stub Validation:*** Applicants with credit score greater than X are not required to provide copies of their pay stubs or forced to complete online banking login and screen-scraping process.

Reduced Payment/Identity Fraud Risk

- ***Bypass Identity Document Verification:*** Identity checks and other techniques corroborate identity information provided by customer, allowing them to avoid scanning and verifying a passport, driver's license or other identity document.



Your Best (Would-be) Customers May be the Most Likely to Abandon

One of the benefits of offering a low risk path is that applicants on this path are more likely to convert, and some of these consumers who may have otherwise dropped-off could become your best customers. A low risk screening path can provide the convenience and positive user experience that encourages repeat business and brand loyalty, while many prime credit applicants with low default risk will abandon when facing too many or too invasive of application requirements.

Confidence Indicator services provider Neuro-ID found that when clients use their services to identify applicants to assign to a low risk path, those on the low risk path are twice as likely to convert. This includes both identifying low fraud risk and low credit or default risk for a different risk screening flow and streamlined claim or application. Neuro-ID also found that these consumers in an organization's low risk bucket were some of the best to have.

"As digital brands seek to make a great first impression with a potential customer, it is critically important to be able to recognize your best applicants early in the customer journey. Neuro-ID's NOW Data™ provides the real-time insight necessary to reduce verification friction and increase conversion for your best applicants."

Jack Alton, Chief Executive Officer, Neuro-ID

An organization may be able to identify ten to twenty percent of their applications as low risk and streamline them, but when those applicants are twice as likely to convert that is a meaningful bump in conversion overall. Risk and credit check costs can be lower for these streamlined consumers, so much of the increased conversion comes with higher margins. These applicants often have lower default risk too.

Prime credit customers may be more reluctant to share the balance of their bank account because they feel their credit-worthiness allows this trust, for example. Many prime credit consumers, or even those with average credit but who are unlikely to default, value their time and their privacy. Identifying these applicants and allowing them to avoid micro deposit verifications, identity document verification or bank account balance validation may be the only way to win their business.

Identifying Customers to Fast Track

There are benefits to considering low risk signals but organizations must first apply techniques that derive these signals, then weigh and make sense of these in the context of all risk signals. Reduced risk signals are considered in custom models or they are subtracted from a weighted rules engine or risk score, which can lead to streamlining orders or customers that display key low risk characteristics.

While most risk management tools and techniques are primarily focused on identifying signs of increased risk, here are some ways to identify orders, applications or claims that show decreased risk:

Policy Rules

- When the billing address equals the shipping address and there's an AVS Full Match
- Multi-point whitelists, such as combination of payment card and shipping address with at least 5 successful orders at least 6 months old
- Applicants with FICO scores > 750 are not required to complete bank account balance validation

Leveraging Technology Tools

- Account login from an out-of-state IP address normally triggers step-up authentication, but client is recognized as using their device (based on Device Identification) and skips this additional authentication step.

Leveraging Confidence Indicator Services

- Consumer filing auto insurance claim confidently indicates they had no prior relationship with the individual operating the other vehicle involved in the accident and that all statements regarding their claim are truthful.
- Consumer applying or requesting quote for auto insurance confidently indicates they have had no traffic accidents or citations in the past five years.
- Consumer applying or requesting quote for auto insurance confidently and consistently provides their weekly mileage per car.
- Consumer applying or requesting quote for auto insurance states confidently and without hesitation that they have had no lapse in auto insurance coverage in the past 5 years .
- Loan applicant shows no signs of hesitation, anxiety or deceit when stating they have not applied for or been approved for any other loans in the past 90 days.

Confidence Indicator services are an effective tool for identifying decreased risk characteristics and low risk applicants, customers or claimants. By sitting behind existing online applications or questionnaires, Confidence Indicator services can provide targeted and meaningful signals of low risk specific to a given situation or industry.

Online applications and claims ask many critical questions while Confidence Indicator services provide insight on how questions were answered.

Existing application questions are able to set a baseline and, by comparison, these services are able to detect hesitation, potential anxiety and other signals around risk relevant questions. Adding targeted questions may trigger an emotional response from the applicant or claimant. Specific examples of questions that would fit within an existing application or claims process include:

Insurance Applications

- ***Auto:*** Do you attest that the information provided regarding your driving record and daily mileage is truthful and accurate?
- ***Auto:*** Have you been involved in any auto accidents in which you were the operator of the vehicle in the past five years?
- ***Auto:*** Have you received any traffic citations to which you plead guilty or "no lo contende" in the past three years?
- ***Auto:*** What is the average weekly miles driven on Vehicle #1 per week?
- ***Auto:*** Have you had any lapse in auto insurance coverage in the past 5 years?
- ***Property/Homeowners/Renters:*** Do you attest that the value and descriptions of personal property within your abode is truthful and accurate to the best of your knowledge?

Insurance Claims

- ***Auto:*** Do you know the other party involved in the car accident?
- ***Auto:*** Has any information been withheld regarding the incident?
- ***Property/Homeowners/Renters:*** Are all property damage/loss value estimates accurate to the best of your knowledge?

Credit/Loan Applications

- ***Default Risk:*** Are you expecting or aware of any lapse or change in employment or income over the next 12 months?
- ***Undisclosed Debt:*** Have you been approved or have approval pending for any additional loans or lines of credit?
- ***Undisclosed Debt:*** Do you have any outstanding tax or property liens?

Identifying Where to Split Paths

One of the first steps to increasing sales conversion is identifying where or when abandonment occurs. There may be critical choke points in a checkout or application risk screening process where a significant share of drop-off takes place. Organizations should first understand their sources of abandonment by tracking the flow of customers and measuring cart abandonment at each stage, step or check within the sales funnel or application process.

From there organizations may decide to tweak the application or process flow, moving high friction choke points towards the end of the process if possible. It is likely that some of these high friction checks, like bank account balance validation and identity document or pay stub verification, are already performed towards the end of the application or process flow.

By applying Confidence Indicator services and other techniques that provide signals of reduced risk in the middle or early stages of screening, organizations can create streamlined paths for these low risk customers or simply allow them to avoid high friction checks.

It is common for organizations to have an overall risk score representing the fraud risk or default risk of a consumer. Whether it's through modeling, custom scoring or a weighted rules engine, an organization will set thresholds dictating whether that consumer or order should be accepted, declined or reviewed by an analyst or claims investigator. There can be significant variation within these three groups, however.

Low to Moderate Risk — Auto-Accept or Fast Track

Many organizations have one full set of checks they apply to every order or applicant, but identifying the lowest risk consumers early on enables them to fast track these customers, leading to higher conversion and lower screening costs. These are the low risk claims or prime credit consumers that can be spared certain risk management, bad debt or credit checks that are either costly, invasive or both. Recognizing these customers early on enables organizations to put them on their low risk, streamlined path to support a better user experience and reduced costs.

Some applicants or customers, on the other hand, might still need these automated risk and credit checks, but an organization may be willing to approve them without a credit risk analyst's review. This may still require verifying claims of income and credit history, but at least avoids the operational costs associated with a credit analyst's review. There are many factors that determine how to separate these two groups, but Confidence Indicator services provide unique data insights and opportunities in this regard. For example, if a loan applicant confidently provides desirable answers to the following questions.

Organizations can better focus claims investigation efforts by weeding out ones that are low risk from the potential review population.

- ***Default Risk:*** Are you expecting or aware of any lapse or change in employment or income over the next 12 months?
- ***Undisclosed Debt:*** Have you been approved or have approval pending for any additional loans or lines of credit?

Moderate to High Risk — Review

Credit risk analyst reviews and insurance claims investigations are a significant cost to organizations, particularly those with larger volumes. These represent operational costs that do not scale well, growing along with transaction, application or claim volume. Even if applied towards the end of the claims or application process flow, techniques deriving reduced risk signals could weed out claims or applications from the queue that may not need investigation or review.

Organizations can comb through their applicants or claims flagged for review or investigation and apply more risk management techniques to aid in, and potentially avoid, review or investigation.

From the credit risk side, applicants may be underbanked and traditional credit data is sparse. Confidence Indicator services can provide signals supporting the consumer's current financial solvency. When applied to insurance claims, carriers can target questions to all claimants that would be investigated and identify those showing strong signs of reduced risk to no longer investigate these claims. An added bonus is that when a claim or applicant is determined to still require an analyst or investigator to review, the signals gleaned from applying the Confidence Indicator technique can be used as information in that review.

Example application or claim filing questions that provide meaningful signals when applying the Confidence Indicator technique include:

Insurance Fraud Risk

- Do you know the other party involved in the car accident?
- Has any information been withheld regarding how the incident occurred?
- Are property damage/loss value estimates accurate to the best of your knowledge?

Default Risk

- Have you ever defaulted on a payment owed?
- Have you been late or past due on any rent, utility or other monthly payment in the past 24 months

High Risk — Auto-Decline or Investigate

Lastly, there are customers with whom an organization is not going to do business with, or in the case of insurance claims those that are going to require further investigation. If these consumers can be identified early in the process, for example, if they do not meet some policy requirement, then they can be declined before submitting them to and paying for all of the identity, risk and credit checks typically performed.

Confidence Indicator services can also be applied to find the “diamond in the rough” among applications or orders to be turned away. Whether it’s due to lack of reliable credit history data or some mixed risk signals, there may be other factors indicating reduced risk that can warrant a second look. These signals could be derived during the primary risk screening process or only applied to applications that will otherwise be declined.

With insurance claims, an organization can set rules or policies that dictate what characteristics or red flags guarantee a claim will undergo an investigation. This can be simple binary rules, to signals gleaned from the application of Confidence Indicator services.

Insurance Claim Investigation Policies

- **Using Business Rules Engine**
  - Automatically flag the third or higher auto insurance claim from the same client household within 24 months for investigation.

- **Using Confidence Indicator Services**
  - Claimant shows hesitation, answer switching and other signs of stress or deceit when answering critical questions such as if they knew the other party involved or whether the auto accident was embellished or staged.

Uncovering Undisclosed Debt

- **Using Confidence Indicator Services**
  - *Question:* Have you been approved or have approval pending for any additional loans or lines of credit?
    - Answers "No" with hesitation or emotional response

Finding Diamonds in the Rough

- **Using Confidence Indicator Services**
  - *Question:* Have you been late or past due on any rent, utility or other monthly payment in the past 24 months?
    - Confidently answers "No" in same manner as baseline questions

  - *Question:* Are you expecting or aware of any lapse or change in employment or income over the next 12 months?
    - Confidently answers "No" in same manner as baseline questions

Conclusion

There is value in acquiring a multitude of risk signals to gain insights and form a more complete picture of a claim or applicant.

While most tend to think of fraud and high risk when it comes to risk management, there is immense value in looking at signals of all types: low, medium and high risk. Most techniques and technologies focus on deriving high risk signals, while seeing the complete picture or risk profile of an insurance claim or applicant, loan applicant, or even online shopper, is often limited by a lack of positive or low risk signals available for use within a risk management strategy.

There are many ways to derive low risk signals and incorporate them into an existing risk management strategy. These range from low-tech policy rules to Confidence Indicator Services providing real-time behavioral analytics that convey a level of confidence and trust in how a claimant or applicant answered risk relevant questions. This creates unlimited potential to devise and target questions at uncovering signals of deceit and high risk, or authenticity and reduced risk, while leveraging specific aspects or nuances of a given organization's business or service.

Identifying and segmenting high and low risk claims, applications or order attempts allows organizations to treat these groups differently and in ways that benefit both the consumer and the business. This can provide substantial benefits for all parties in the online lending and insurance industries while being applied at both the quote or application and claims processes.

Segmenting applicants or claims based on their level of risk allows for a more tailored approach to each group, which can lead to higher conversion for some groups and lower screening costs overall.

Doing more to detect signals of low risk applications and claims means fewer resources and less time will be wasted investigating or reviewing claims or applicants that are likely safe to streamline. This lowers costs while improving efficiency with the use of existing operational resources.

Confidence Indicator services provide a unique kind of insight into critical business questions or areas that can be leveraged to better identify which insurance claims, insurance or loan applications are the safest to streamline and which need a second look. Adding this one technology can open a plethora of possibilities in terms of unique risk signals, including many focused on identifying low risk characteristics, an area where most organizations are lacking.

About the Fraud Practice

Are you looking for answers or solutions, for eCommerce payments and fraud management? Give us a call for a free introductory consultation to see if we can help you. Even if we can't meet your needs we most likely know someone who can, and we are happy to provide you with contacts of reputable firms and individuals servicing the space.

David Montague,
Founder

The Fraud Practice is a privately held US corporation based in Sarasota, Florida. The Fraud Practice provides training, research, and consulting services on eCommerce payments, fraud prevention, and credit granting. Businesses throughout the world rely on The Fraud Practice to help them build and manage their fraud and risk prevention strategies.

For more information about The Fraud Practice's prepared research and consulting services, please visit www.fraudpractice.com.

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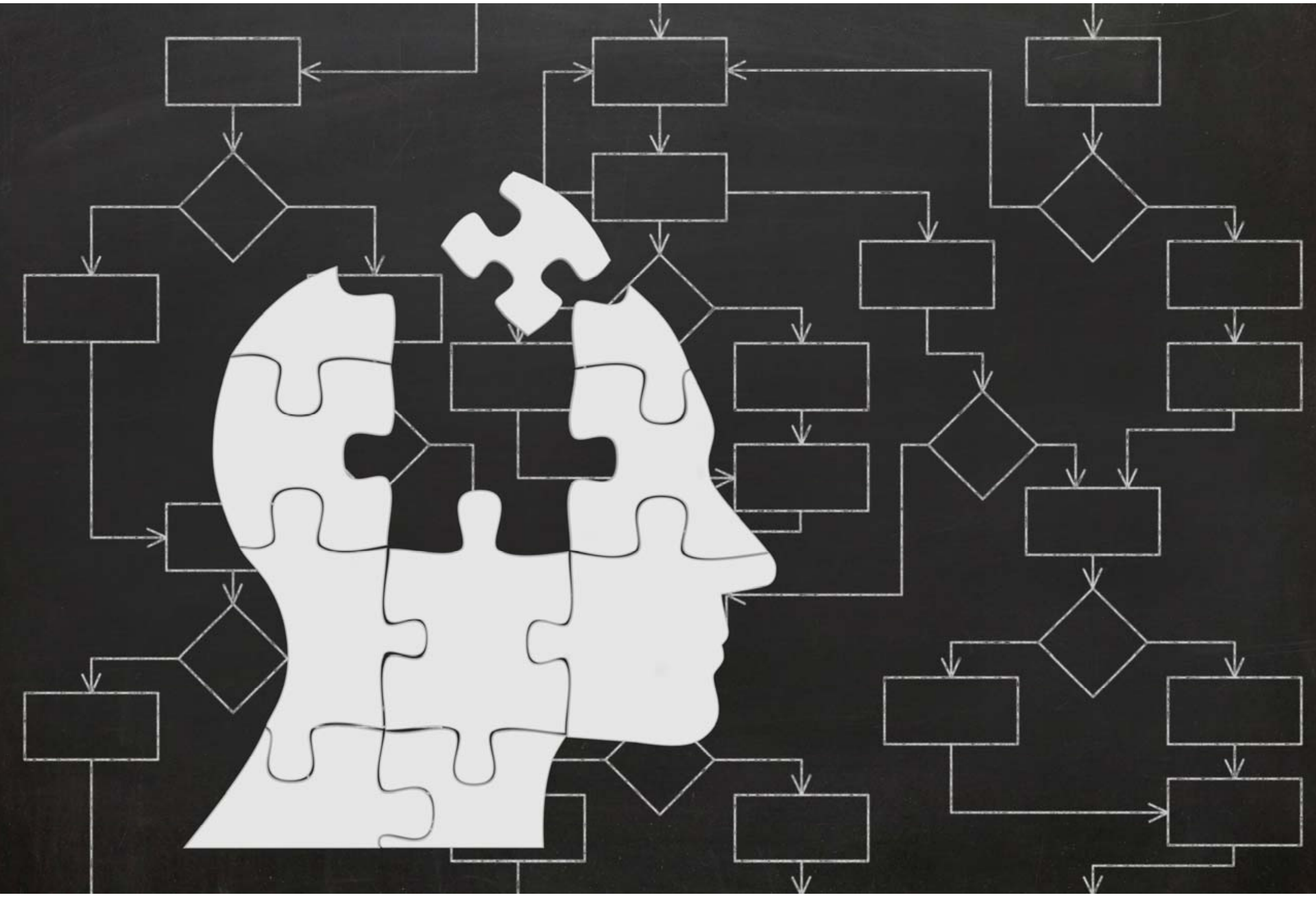

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