

WHITE PAPER

Could Synthetic Identity Fraud Be Hiding in Your Credit Losses

Fighting back is critical to avoiding future losses – and driving profitable growth

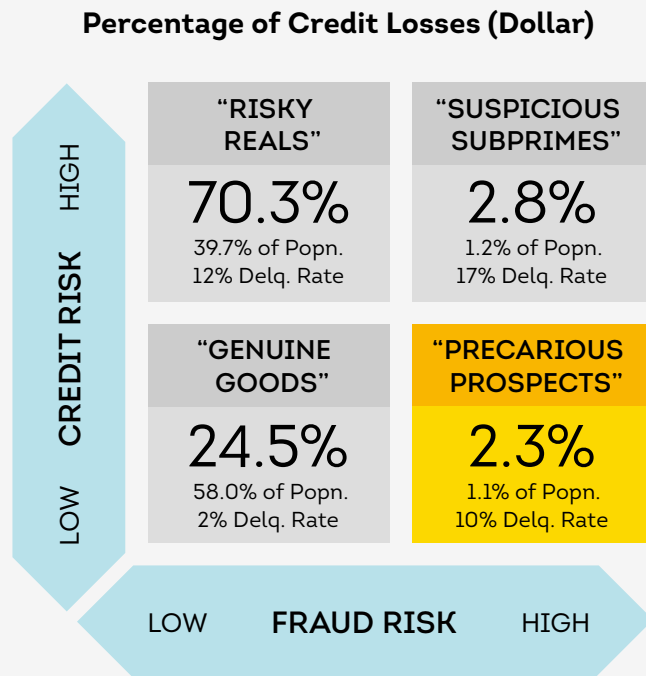
AUTHOR: Andrew Sigfrid, Advisor, Fraud Analytics Consulting

Too often, fraud at Canadian financial organizations goes undetected because it's been misclassified as bad debt and stays hidden deep in collections buckets. Fraudsters are talented at creating synthetic identities. They're working the long con; behaving legitimately for weeks, months or longer to obtain higher credit limits – up until the point they default on a loan. Because the fraud goes undetected, the organization categorizes it as a credit loss instead of fraud.

Synthetic identity fraud is the use of a combination of personal information (PI) to fabricate a person or entity in order to commit a dishonest act for personal or financial gain. See [“What is Synthetic Identity Fraud”](#) for more on this important topic.

“Based on my industry experience, organizations are losing significant sums of money to synthetic identity fraud – and they may not even realize it. To complicate matters, they're dealing with the internal dilemma of clarity over who should own the fraud issue: the fraud group or the credit risk group. Without clear visibility into the issue and oversight, the fraud perpetuates,” says Patrick Boudreau, Head of Identity Management and Fraud at TransUnion.

Figure 1. TransUnion estimates 2% to 5% of credit losses for a new vintage are fraudulent



- TransUnion conducted a study of Identity Exchange transactions and tabulated a matrix of fraud risk against credit risk
- The **"Precarious Prospects"** population accounted for **2.3%** of all credit losses while making up only **1.1%** of the population. A high percentage given the low-risk credit scores received
- These applicants also had a delinquency rate of **10%** compared to the **2%** delinquency rate of the **"Genuine Goods"** population
- This indicates these delinquencies may be more closely related to fraud than to credit troubles

Delinquency based on 60dpd+ in 12 months

The consequences of fraud hiding in credit losses may be surprising

Financial losses

Organizations are losing millions as the growing acceptance and migration toward digital has driven up fraud. Findings from the **TransUnion 2022 Global Digital Fraud Trends Report** discovered businesses in Canada experienced:

- An 88.4% increase in suspected digital fraud attempts from Canada when comparing 2021 to 2019
- A 220.4% increase in suspected digital fraud attempts in the Canadian financial services industry when comparing 2021 to 2019

Based on our recent analysis, the extent to which fraud losses are hiding in credit losses is likely 2%–5%.¹ If this fraud can be stopped at origination, the benefits extend beyond the positive impact of reducing credit losses.

Operational inefficiencies

When fraudulent cases go undetected and flow through into collections programs, it creates a significant inefficiency for financial institutions. Due to their fictitious nature, these cases are

going to see very limited (if any) recoveries throughout the process. Contrasted to a true bad debt associated to a credit consumer, it may actually cost more and offer far fewer benefits to continue to attempt collection efforts. Thus, stopping these cases from entering the process – or eliminating them through early detection – is key to improving operational efficiency.

Misclassification of fraud has negative impacts

When fraud isn't being classified properly, organizations have fewer fraud examples with which to work to inform fraud strategies. Ultimately, misclassification muddies the view of what's happening within the organization and makes it harder to identify fraud trends while introducing bias into fraud models. And when real fraud isn't classified as fraud, the fraud team doesn't get the budget and resources to combat it. Fraud hidden in credit losses begets more fraud.

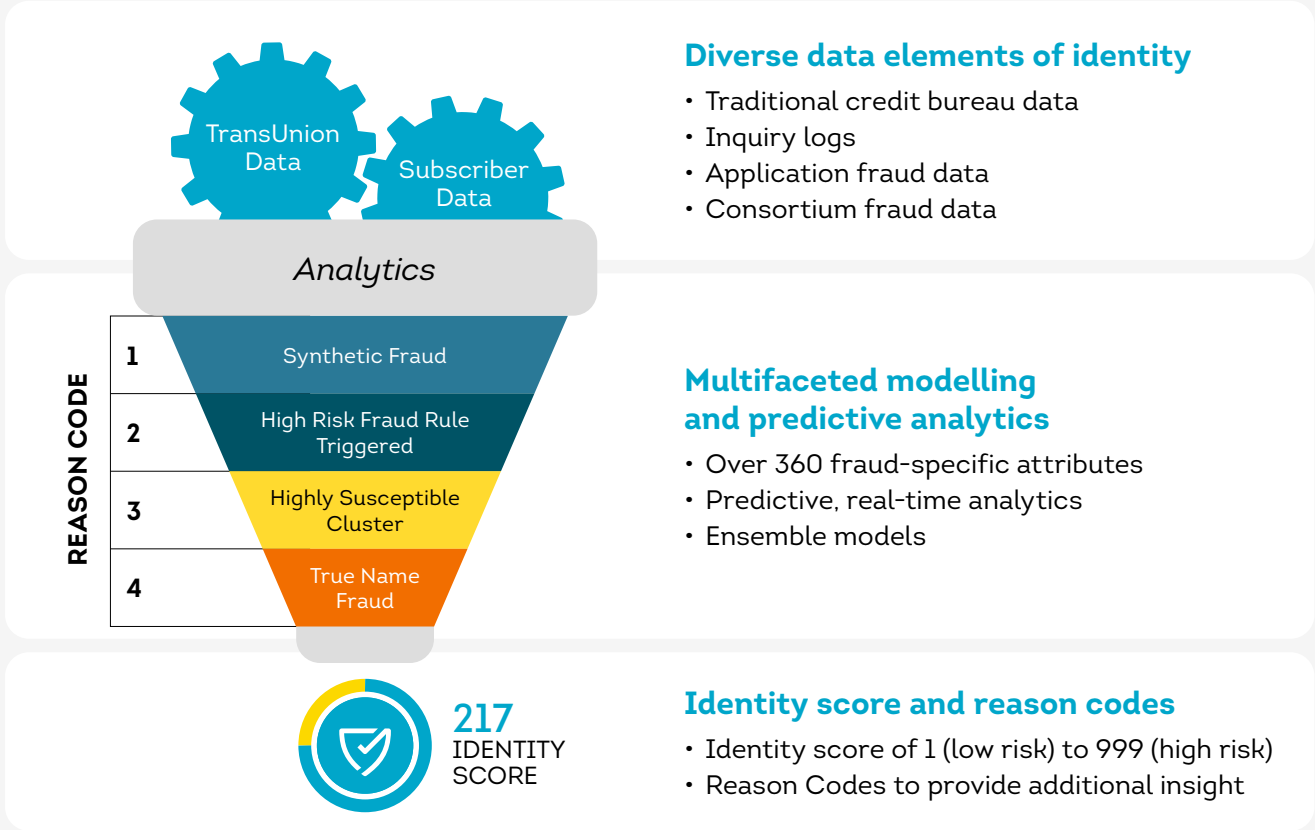
Given the rise in digital fraud – and its associated losses – it's critical organizations evaluate the tools, controls and processes they're using to mitigate the risk of synthetic fraud at onboarding to better reduce fraud hiding in credit losses.

Exposing synthetic fraud with advanced analytics

TransUnion's recent solution innovation, TruValidate™ Identity Exchange, provides industry-leading fraud capture rates, and assesses identity risk against a broad set of data to help guard against fraudulent interactions, improve customer experiences, and enable profitable growth.

Leveraging TransUnion's data assets and insights into more than 28 million Canadians' data identities, and building on the innovative thinking behind TransUnion CreditVision® solutions, Identity Exchange combines diverse and trended credit data elements to create a robust view of identity risk.

Figure 2. Identity Exchange assesses identity risk using data-driven analytics



Identity Exchange uses a fraud-specific score and attributes that provide predictive, real-time analytics driven by sophisticated, multilevel, ensemble modeling.

By mining a diverse set of data assets, including trended credit bureau data and fraud flags, as well as application and consortium fraud data, Identity Exchange produces one score that reflects a consumer's level of identity fraud risk. This solution

enables identity risk assessment among segments of consumers – such as those new-to-credit or new-to-country – that are often challenging for traditional fraud mitigation products. Ultimately, this can help organizations onboard more consumers from these segments deemed lower risk for identity fraud, thereby increasing acquisitions and helping promote financial inclusion.

Identity Exchange answers the following questions in real time:

- ✔ **Do we trust this identity is real?**
Has this identity conducted itself well over its history as we know it?
- ✔ **When did we first see this identity?**
What did it look like when it was first seen?
Are they in market for the type of product they're applying for?
- ✔ **What is the identity's risk assessment – even in the absence of history?**
Identity Exchange offers the ability to score no-hits/new-to-credit consumers with assessment based on our diverse data sources, including whether there's historical fraud associated with the identity, such as at an address or phone number.

Benefits of adopting Identity Exchange:

- ✔ **Decrease fraud losses** with a solution that adapts to consumer behaviours and evolving fraud threats
- ✔ **Increase acquisitions** and improve risk management of no-hit populations (e.g., no credit report on file), including new-to-credit consumers
- ✔ **Improve profitability** through operational effectiveness by reducing manual reviews, proactively identifying potential fraud and automating systems

You can anticipate additional benefits as well. As outlined earlier, stopping fraud up front can result in lower credit losses and write-offs. Plus, correctly tagging cases as fraud reduces overall credit losses and "Credit Bads." Moreover, the ability to assess identity risk against a broad set of data helps guard against fraudulent interactions, and improves user experiences by providing smoother onboarding for genuine customers.

You'll also see efficiency benefits. Preventing fraud from landing in collections buckets, for example, frees collections resources and boosts recovery rates. Lastly, correct classification of cases enhances your ability to find fraud trends, and improves the development and performance of fraud models and strategies.

Allocate resources toward proactive identification instead of credit losses

The cost avoidance associated with reducing fraud hidden in credit losses is just one aspect of the savings Identity Exchange can offer you.

The TransUnion-commissioned Forrester Consulting study² projects the overall cost avoidance from improvement in the fraud capture rate for the composite organization (as defined in their study) to potentially exceed \$1M in the first year after deploying the solution.

Figure 3. Key findings from a TransUnion-commissioned Forrester Consulting study.³ Results are based on a composite organization aggregated from interviewees' experiences and survey results.

\$1M+

in cost avoidance

20%–25%

improvement in fraud capture rates among its new account and credit applications

32.5%

reduction in the percentage of applications suspected of being fraudulent and that must be manually reviewed

15%–50%

improvement in the false-positive ratio (FPR) and increase in new customers who previously would have been rejected

The study also cited other unquantifiable results, including reducing customer friction and improving brand reputation, as well as increasing employee

job satisfaction by minimizing the workload associated with manual reviews and streamlining processes.

Ready to get started?

To learn about the many ways TransUnion can help you fight synthetic identity fraud, contact your TransUnion representative or visit the [TruValidate Identity Exchange webpage](#).

¹ TransUnion Canada Consumer Credit Database

^{2,3} New Technology: The Projected Total Economic Impact™ of TransUnion TruValidate Identity Exchange, March 2022. A commissioned study conducted by Forrester Consulting on behalf of TransUnion.