Preventing synthetic identity fraud

The need for a new toolset in the fight against synthetic identities

An Experian perspective

What is a synthetic identity?

Synthetic identities are created by mixing real and fictitious identity information — including names, addresses and Social Security numbers (SSNs) — to create new identities. The randomization of SSNs in 2011 and the vast amount easily accessible information, like addresses, has created an abundance of personal data available online for fraudsters to mine and turn into synthetic identities.

These identities, also known as SIDs, are then used by criminals to defraud financial institutions, private industry, government agencies or individuals. Fraudsters use these identities to apply for credit accounts and the identity is then reported by the financial institution to credit reporting agencies, creating a new record associated with the fraudulent information.

Once approved, SIDs behave like legitimate accounts and are often not flagged as suspicious by usual fraud detection tools. Because there's no victim to discover and report the fraud, these identities tend to go unnoticed.

The goal of these falsified identities is to act like legitimate, trustworthy consumers so that they can build their credit histories and increase their credit limits, leading to a greater windfall. Criminals will cultivate multiple SIDs at the same time before "busting out" or racking up charges and loaned funds and disappearing with no intent to repay.

[1] *The Federal Reserve, "Mitigating Synthetic Identity Fraud in the U.S. Payments System," July 2020.*

Standard fraud protection isn't good enough

SIDs aren't caught by traditional fraud risk models, in part because they're designed to look like ideal consumers. Other than an initially thin credit history — which criminals spend time building up through additional credit applications — there's very little to make these accounts look risky at first glance.

Even more problematic is that if a traditional fraud model flags an SID as suspect, when the business follows up to confirm the identity, they'll reach the fraudster who will confirm that they submitted the application or initiated the transaction in question.

The ripple effects of the COVID-19 pandemic and rapidly changing stay-at-home orders led to a myriad of business disruptions — including displaced employees and fraud prevention teams taking on customer service duties — as well as the desire for businesses to continue lending, which could lead to loosened fraud controls. This, combined with governmental relief packages and mandatory late fee removals, has created a perfect storm for fraudsters who will have more time to build up their credit limits before busting out.

All of this means that traditional tools like know your customer (KYC), Customer Identification Program (CIP), and step-up authentication aren't sufficient to catch SIDs. The criminals who crafted the identities have all of the tools and information required to pass standard identity screenings.

Lack of knowledge and understanding about SIDs can cause financial institutions to **use the wrong tools** to try to pinpoint these identities and incorrectly categorize the eventual bust out as a credit loss.

The problem with SSNs

SSNs also present a unique challenge. Because the SSN in use generally matches a credible data source and no one reports it as being misused, the fraudster is able to continue using the SSN undetected. Once the Social Security Administration (SSA) started randomizing SSNs, it became easier for SIDs to remain unnoticed because information from the SSN couldn't be correlated to a geographic location.

The new electronic Consent Based SSN Verification service (eCBSV) will allow financial institutions to validate whether or not a name, SSN and date of birth match the SSA's records in real time. While valuable, this isn't a complete solution, in part because the service will not initially be available to all industries and may have limited hours. **Businesses must build out a robust fraud prevention strategy rather than relying on any single prevention method.**

While they're increasingly concerned about online fraud and identity theft, **48% of consumers anticipate increased spending on items purchased online in the next 3 to 6 months.**[2]

48%

54% of consumers rank security as the most important dimension of an online experience — high above both privacy and convenience.[2]

54%

[2]*Experian's 2020 Global Insights Report July/August 2020.*

Losses caused by SIDs

The total cost of SIDs is hard to calculate due to fraudsters who slip by undetected. It's clear, though, that they're significant.

$50.5B
expected annual eCommerce transaction fraud losses **by 2024**
Juniper research[3]

>18%
annual increase in global **credit card losses** in recent years
Accenture[4]

$15K
avg. charge-off balance **per SID attack**
Auriemma Group[5]

9–15%
of credit card losses due to **SID fraud**
Experian

According to a recently released **Federal Reserve paper,[1] SID fraud accounts for roughly 20% of all credit losses and cost U.S. businesses roughly $6 billion in 2016.** Further complicating the issue, **85% to 95% of applicants identified as potential SIDs aren't even flagged by traditional fraud models.** By some estimates, up to 20% of consumer loan and credit card charge-offs can be attributed to SID. Federal Reserve Bank data shows financial institutions in the United States were holding approximately $2.2 trillion in consumer loan and credit card debt as of May 2020. **This indicates that annual SID charge-offs in the United States alone could be as high as $11 billion.**

The FBI's Internet Crime Complaint Center (IC3) works to research reports of online crime. The IC3 received 320,000 complaints in the first five months of 2020, compared to 400,000 complaints in all of 2019, indicating a sharp rise in the instances of fraud. Additionally, the number of legitimate applications is likely to drop during an economic downturn, meaning riskier applications are no longer worth the potential reward. But how can businesses balance the need to weed out potential fraud against the need to lend to financially strained but otherwise good consumers?

" 72% of FI executives surveyed believe synthetic identity fraud to be more challenging than identity theft. This is due to the fact that it is harder to detect — either crime rings nurture accounts for months or years before busting out with six-figure losses, or they are misconstrued as credit losses, and valuable agent time is spent trying to collect from someone who doesn't exist,"

— **Julie Conroy,** Research Director at Aite Group

[1] *The Federal Reserve, "Mitigating Synthetic Identity Fraud in the U.S. Payments System," July 2020.*
[3] *Juniper Research, "Online Payment Fraud: Emerging Threats, Segment Analysis & Market Forecasts 2020-2024," February, 2020.*
[4] *Accenture Consulting, "Driving the Future of Payments, 10 Mega Trends," 2017.*
[5] *Auriemma Group, "Synthetic Identity Fraud Cost Banks $6 Billion in 2016," 2017.*

What can businesses do to prevent SIDs?

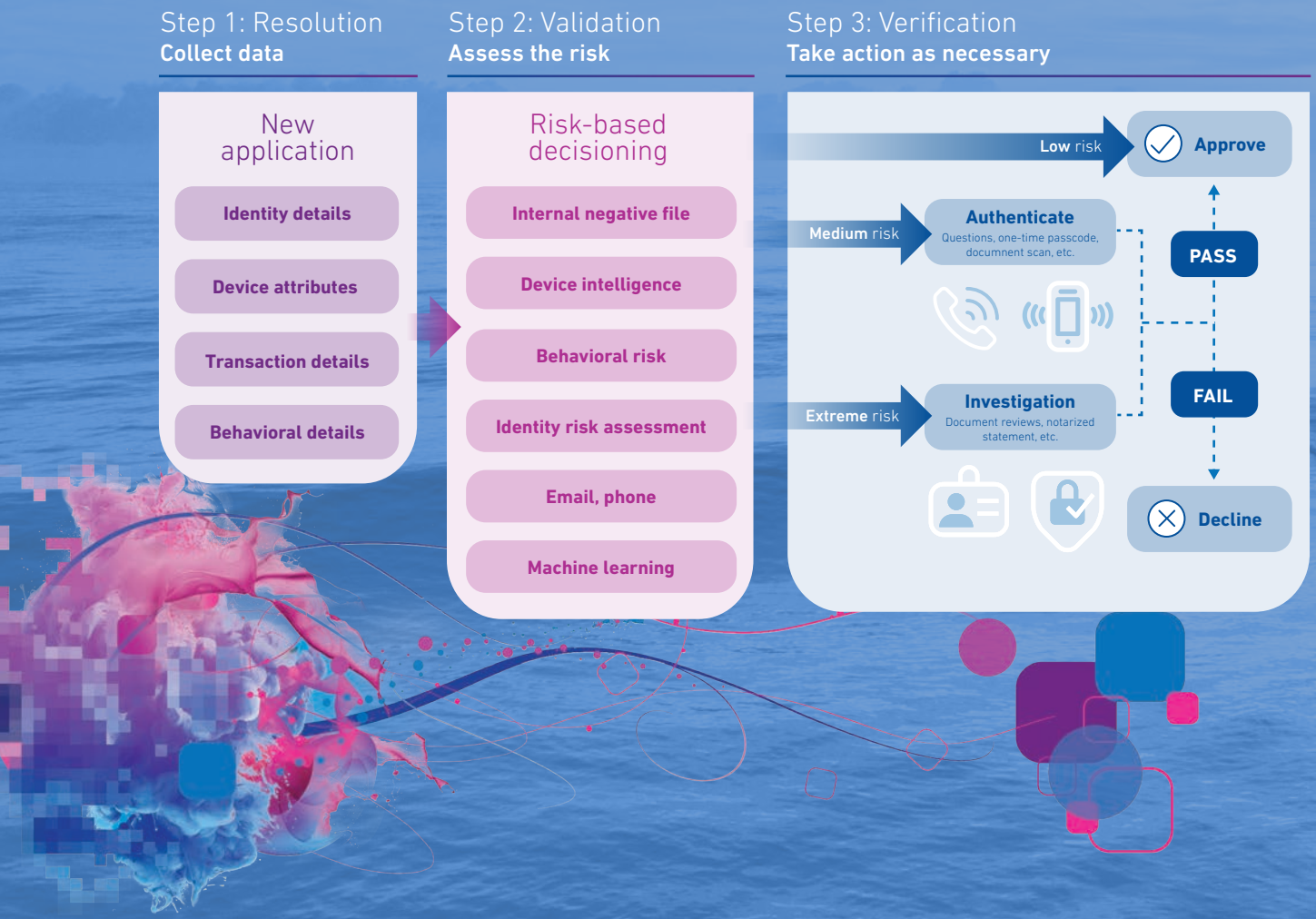
At the heart of the problem is the unique view that each lender has of each synthetic identity, which can lead to incorrect categorization of losses. The solution begins with stopping SIDs at the front door — without causing stress for legitimate customers — and continues with portfolio monitoring specifically designed to look for indicators of SIDs.

This form of fraud prevention requires understanding what SIDs are and how they work. Then lenders can apply the best treatment based on the level of fraud risk present at each step of the customer life cycle. This requires a balance of detection efforts with appropriate risk actions and authentication measures without adding too much friction to the customer experience. **A layered fraud prevention plan is key, without overreliance on any one tool or solution.**

"Experian is the first company with an offering to combat synthetic identity fraud that is integrated into the credit profile with market-leading assurance."

— **Kathleen Peters,** Chief Innovation Officer, Experian Decision Analytics

Best-in-class layered fraud strategy framework



Solving the SID problem

As we've explored, preventing SIDs requires a multilevel solution that includes robust authentication checkpoints throughout the customer life cycle. So what does this look like?

Looking beyond the credit report

Preventing SIDs requires more than reviewing an individual credit report. While they can provide relevant data, if lenders assume that these reports represent the only data required to make a decision, they're likely to miss losses that result from SIDs and continue thinking they're not suffering from those losses.

A deeper dive is needed — looking beyond the individual identity and analyzing its connections and relationships to other individuals and characteristics. By aggregating multiple data sets, lenders can better detect anomalies to pinpoint false identities and ultimately protect their bottom line.

End-to-end portfolio management

Using advanced data, machine learning, and physical and behavioral biometrics are all crucial to verifying that a person is who they say they are. Similarly, innovative technology and advanced analytics are key to detecting SIDs in a lending scenario.

To properly review credit applications, lenders should seek out partners with access to comprehensive data sources, powerful decisioning tools and turnkey delivery. This will minimize the impact to consumers while still protecting their information and best interests.

Once the credit request is approved, it's important for lenders to have a risk management system in place to continuously monitor for all types of fraudulent activities across multiple use cases and channels. This includes identity and fraud management platforms that focus on new account openings, account takeovers, new account transitions, e-commerce fraud and child identity theft fraud, among others. A robust platform that supports a layered approach can help businesses and lenders stay ahead of the fraudsters and reduce the fraud risk in their portfolios by using SID flags appended to an existing credit score, as well as risk triggers and step-up authentication methods.

Experian solutions

The fight against fraud requires constant innovation and flexibility, and there's no single solution to the fraud problem. Experian® has created a full suite of tools to help you combat fraud and keep your business and customers safe.

Sure Profile™

Experian's innovative new Sure Profile™ is a first-of-its-kind credit profile that streamlines the application approvals process. It provides a composite history of a consumer's identification, public record, and credit information and determines the risk of synthetic fraud associated with consumers.

We can define and detect SIDs, so you can lend with more confidence and less risk. We're so confident in our ability, that we'll share in credit losses in the population where we've assured an identity is authentic.

> "IDC Financial Insights believes that Experian's Sure Profile has the potential to have market disrupting effects in the battle against SIF (synthetic identity fraud)."
>
> — **IDC Perspective,** Synthetic Identity Fraud Update: Effects of COVID-19 and a Potential Cure from Experian, July 2020

CrossCore®

Newly updated, CrossCore® is the first identity and fraud platform that enables lenders to connect, access and orchestrate decisions across multiple solutions, including originations, portfolio management, as well as the full spectrum of credit lending. Now lenders can consolidate numerous fraud risk signals into a single, holistic assessment to improve operational processes, stay ahead of fraudsters and protect true customers.

eCBSV

Experian's unique partnership with the SSA allows us to verify application information matches the SSA's record for originations, credit cards, personal and auto loans, and mortgages, all in real time.

"Experian can confidently define and help detect synthetic fraud. That's why we can help stop it."

"Experian stands behind our data with assurance given to our clients. It's better for lenders and it's better for consumers."

— **Craig Boundy,** CEO of Experian North America

About Experian

Experian is the world's leading global information services company. During life's big moments — from buying a home or a car to sending a child to college to growing a business by connecting with new customers — we empower consumers and our clients to manage their data with confidence. We help individuals to take financial control and access financial services, businesses to make smarter decisions and thrive, lenders to lend more responsibly, and organizations to prevent identity fraud and crime.

We have 17,800 people operating across 45 countries, and every day we're investing in new technologies, talented people and innovation to help all our clients maximize every opportunity. We are listed on the London Stock Exchange (EXPN) and are a constituent of the FTSE 100 Index.

Learn more at **www.experianplc.com** or visit our global news blog at **www.experian.com/blogs/news** for the latest news and insights from the Group.

Our comprehensive data-driven solution for an uncertain economy

Experian offers a range of interconnected data and analytics platforms to help lenders take advantage of real-time modeling in an uncertain economy. Our systems come with the support of our industry-leading team, meaning you can easily tailor them to suit your needs, while quickly adding in new data sets as they become available.

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