Addressing a dynamic market

Solutions to combat commercial fraud and strategies to ace alternative data

Small Business Trends

Brodie Oldham

Macroeconomic
Highlights

Real GDP +33.1% driven by reopening activity

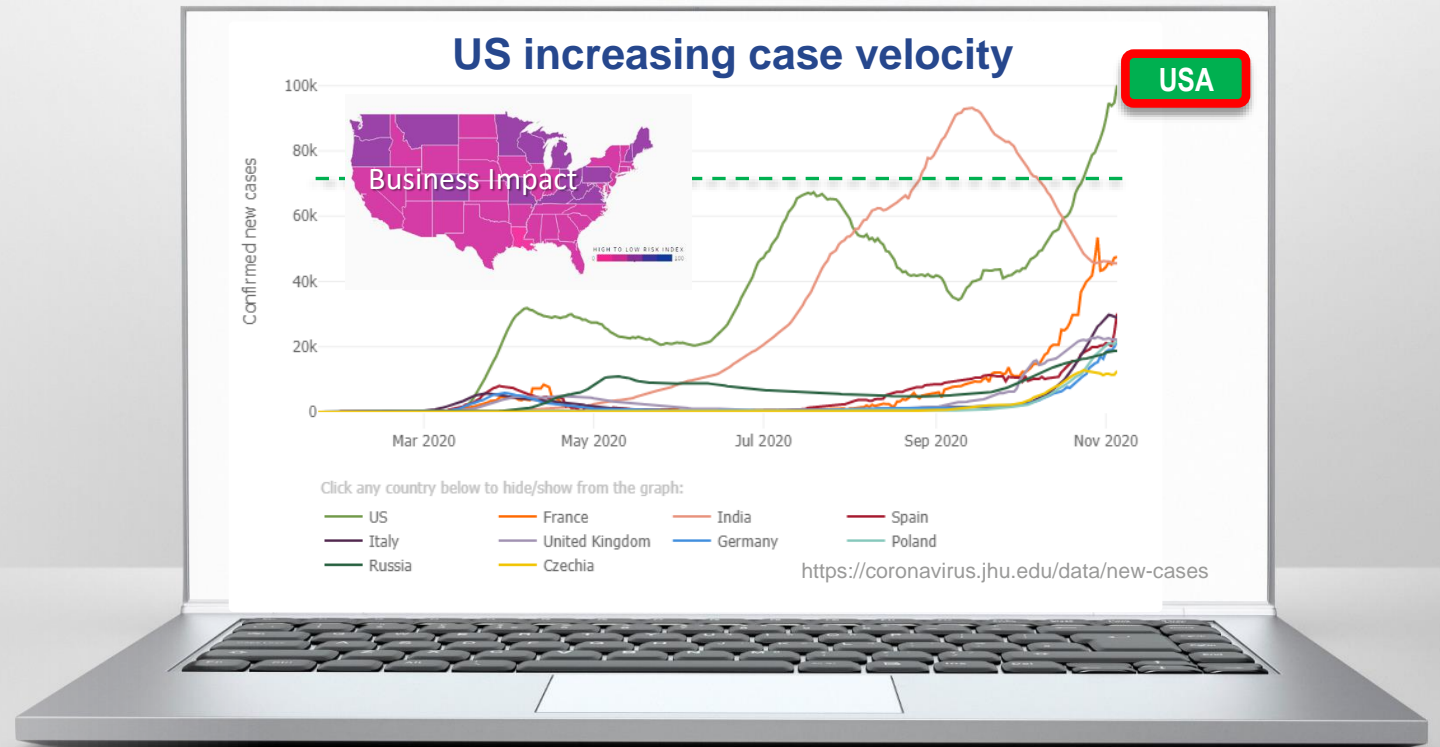**September unemployment down to 7.9%**

US Consumer confidence dips to 100.9
The Conference Board

**September US inflation 1.37% *(Down 20% YoY)***

Third Wave – COVID-19

Service industry braces for potential lockdowns and shelter in place orders as virus surge picks up pace

US increasing case velocity

USA

Business Impact

Confirmed new cases

100k
80k
60k
40k
20k
0

Mar 2020   May 2020   Jul 2020   Sep 2020   Nov 2020

Click any country below to hide/show from the graph:

- US
- France
- India
- Spain
- Italy
- United Kingdom
- Germany
- Poland
- Russia
- Czechia

https://coronavirus.jhu.edu/data/new-cases

Free access to the Experian COVID Risk Index

State of Market
Delinquencies rise with end of CARES Act/PPP

Northeast leading delinquency velocity
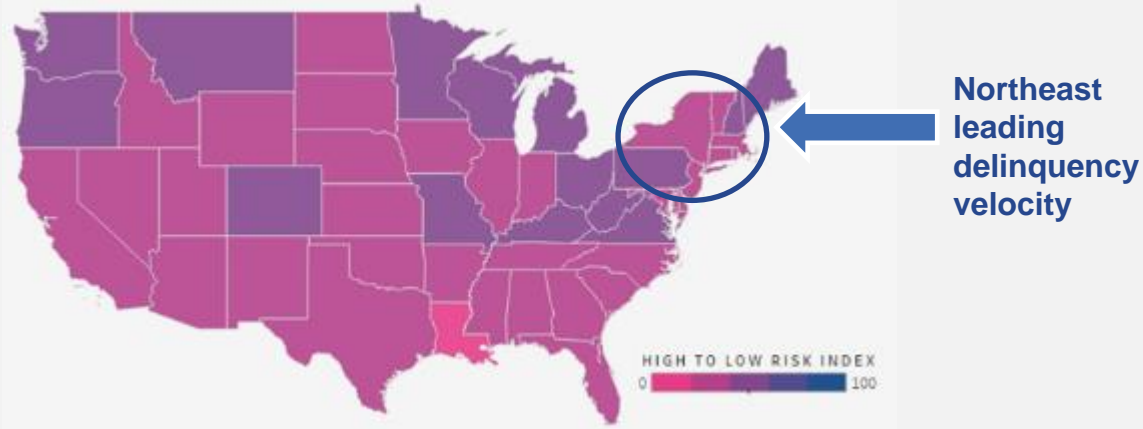
Most impacted COVID-19 regions are seeing increased delinquency velocity as PPP ends in early August.

Experian has PPP businesses identified through SBA disclosure and SBFE reporting.

PPP money running out

Legend: 30DPD NON-PPP, 30DPD PPP, 90DPD NON-PPP, 90DPD PPP

Months: February, April, June, September
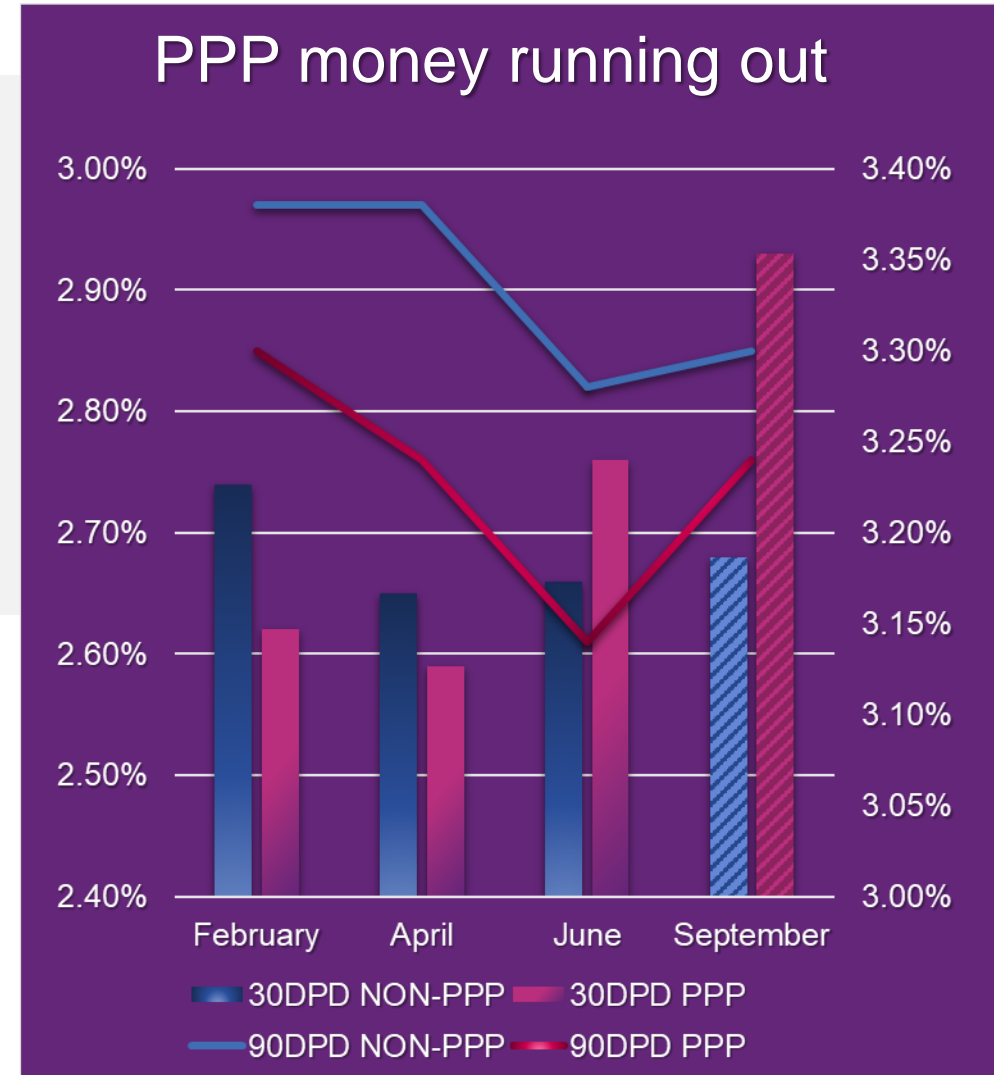
Dynamic and impactful market trends

Increased fraud attacks

Increased digital banking and online shopping

Government relief programs stalled

Small businesses requesting payment deferment programs

Loss of small business income and discretionary funds

Volatile market conditions in commercial behavior, expectation, and value/risk

Responsive compliance mandates/changes

Low interest rates

Small business temporary shutdown turning more permanent

experian.

Fraud

Li Mao

Forecasts for fraud in 2020

Before COVID-19
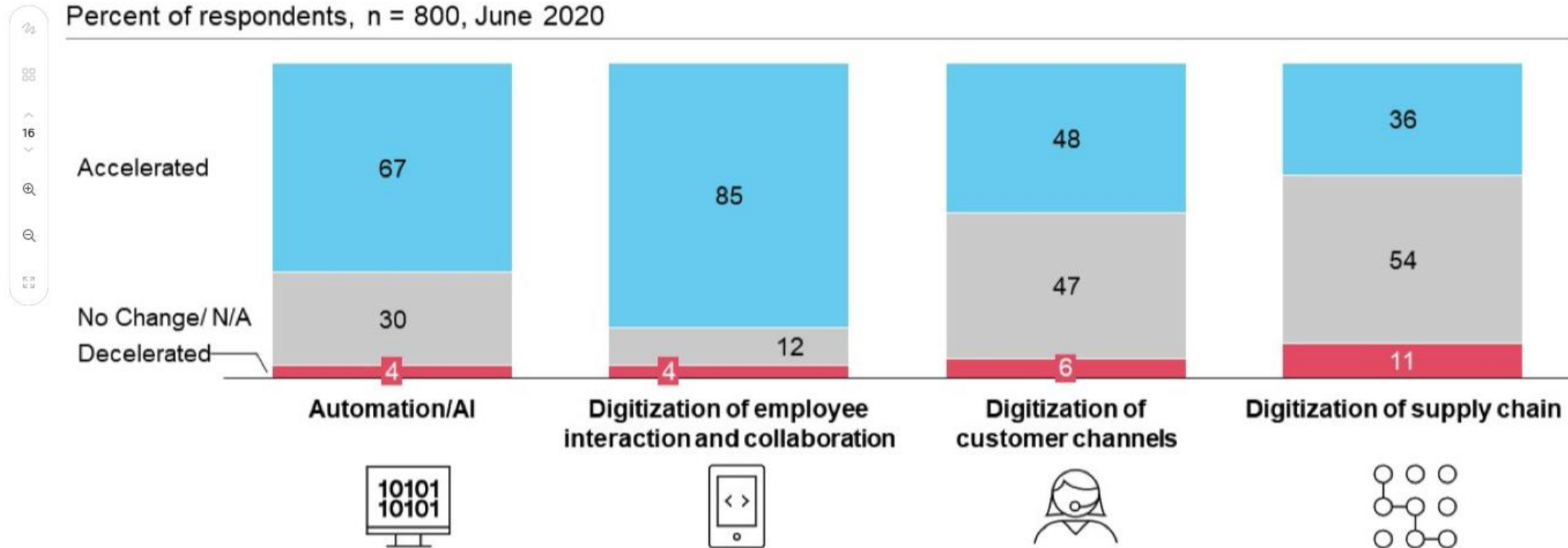
8%
decrease in
fraud losses

10-15%
increase in
fraud losses

After COVID-19

experian™

COVID-19 is accelerating adoption of digitization, automation, and need for technical skills

Since the start of the Covid-19 outbreak, how has your company's or business area's adoption of the following technology trends changed?

Percent of respondents, n = 800, June 2020

Accelerated

No Change/ N/A

Decelerated

	Automation/AI	Digitization of employee interaction and collaboration	Digitization of customer channels	Digitization of supply chain
Accelerated	67	85	48	36
No Change/N/A	30	12	47	54
Decelerated	4	4	6	11

Different Types of Application Fraud
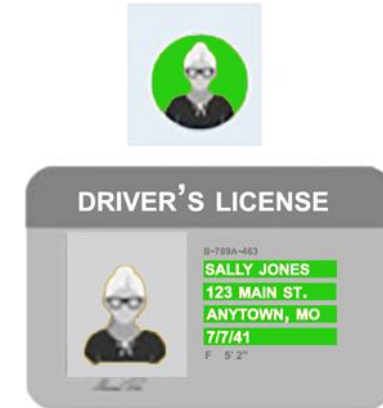
Synthetic ID

– Thief combines data from multiple sources or creates a fake ID

– Some manipulate identity to get away from poor credit history
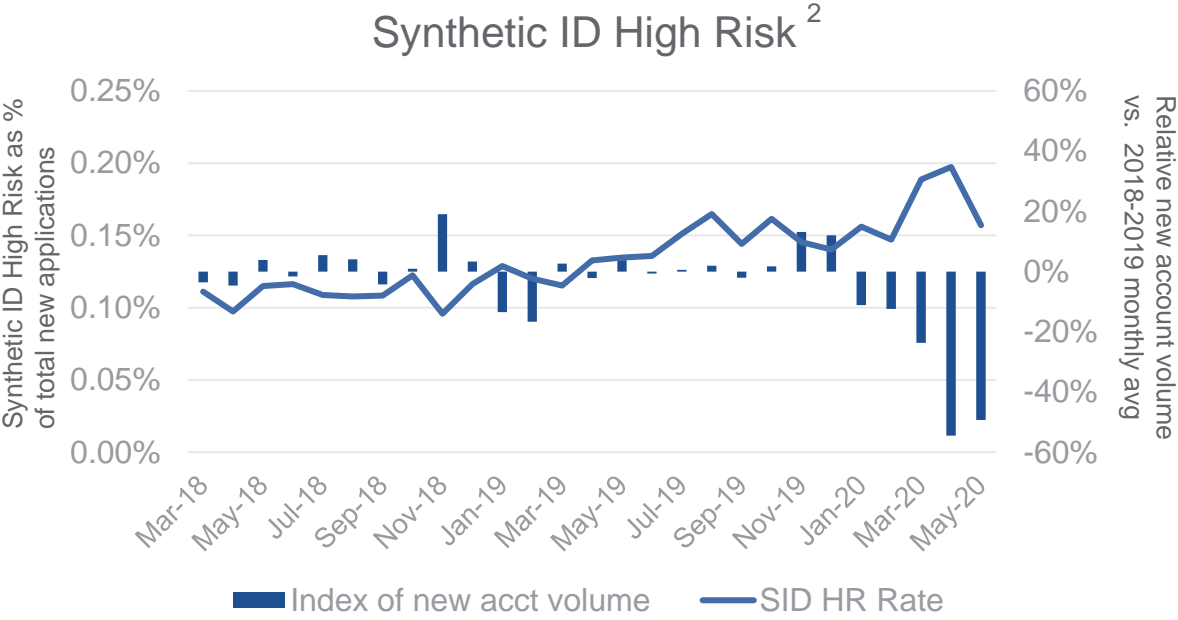
Identity Theft (3rd Party)
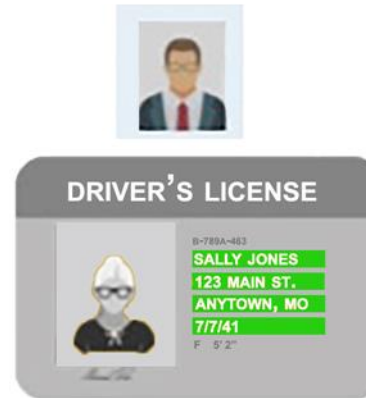
– Thief impersonates a true business or business owner

– Stolen business owner identity attached to a defunct business

Misuse of Credit (1st Party)

– Thief has no intent to pay

– Early Delinquency

– High Utilization

– Bustout

:experian.

New account volume[1] is down about 50%, fraud risk has not gone down at the same rate

Synthetic ID High Risk [2]

Legend: Index of new acct volume — SID HR Rate

First Pay Default High Risk [3]

Legend: Index of new acct volume — First Pay Default HR Rate

- New account volume took a significant decline starting in March 2020 and continuing through May

- Synthetic ID risk stayed relatively steady from a volume perspective, increasing the overall %
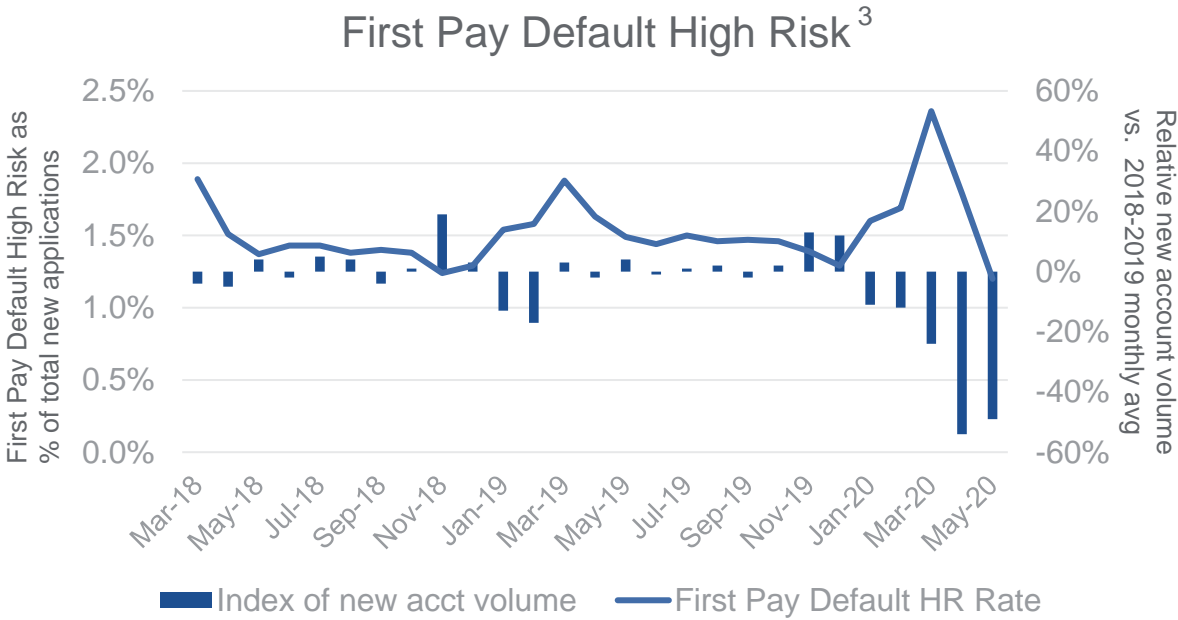
- First Pay Default is traditionally higher in March, but was at an all time high in March 2020

- Seems to be leveling off as of May back to the average historical rate

Recent trends suggest fraud risk is not decreasing

- As good applications decreased, applications with signs of Synthetic ID risk were steady

- Biocatch reporting first-time online banking usage increase over 200% immediately following shelter in place orders

- Call Centers were inundated with call volume and reported a 15% increase in high-risk calls in the first two weeks of shelter in place (Next Caller, 2020)

experian™

Global Identity Challenges

$6 Trillion
Cost of Cybercrime

~19 Billion
ID records stolen since 2013[1]

>4 Billion Global digital banking[2] and commerce[3] customers

$6 Billion
Losses to Synthetic ID

>1 Billion
Authentication requests per day

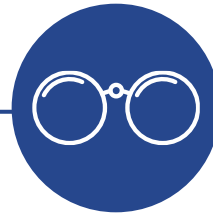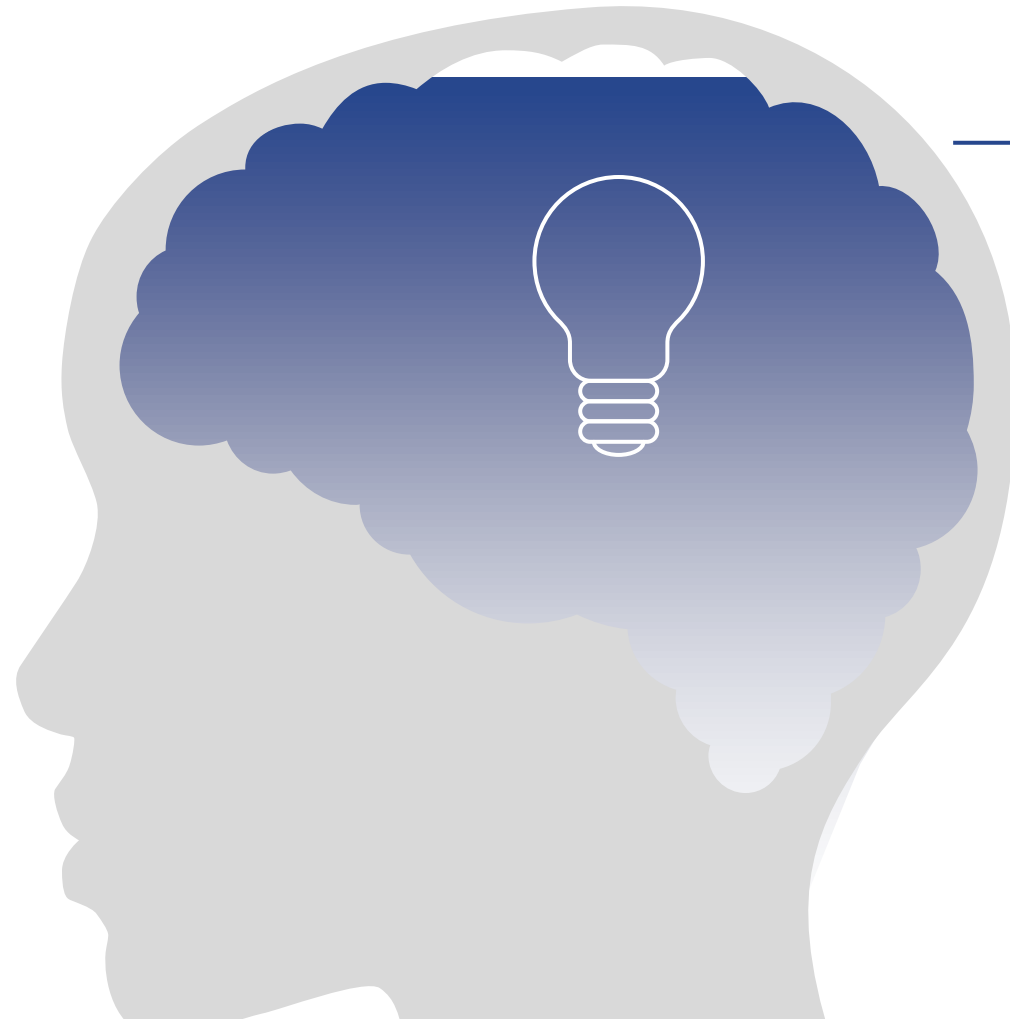[1]Breach Level Index, InfoSecurity Magazine
[2] World Bank Study
[3] The Next Web 2019 Study
[4] 2018 Experian Global Fraud Report

Entity fraud solutions roadmap

Improve your ability to *pass more applications* with *less interruption* on your **best legitimate customers** while *not comprising the ability to identify fraudulent intent*

First party fraud score
Pre-production: seeking validation partners

Predicts likelihood of business early payment / 1st payment and credit bust-out scenarios
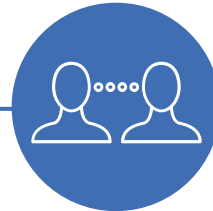
Fraud Risk Insights
Beta: tester vacancy for live pilots

Increase your confidence the business and applicant is who they say they are.

experian.

Use case: first party fraud
Abuse and mis-use of credit

Symptoms of first party fraud loss

A recent trend of bad debt from long established businesses or an increase in credit write-offs resulting in incremental losses. Post fraud investigation indicates it might be fraud but still uncertain.

We can help you identify risk of CREDIT BUST OUT and FIRST PAYMENT DEFAULT in new account openings and within your existing portfolio during account review.

- Fraudster applies for credit under their own business.

- Builds a good credit history with your client through timely payments, obtaining credit line increases, and increasing utilization.

- Fraudster then maxes out lines of credit, with the intention of not repaying, and drops the account.

62%

lift in identification of fraudulent behavior over use of a consumer score alone in lowest scoring 10%

Fraud insights on business applicants
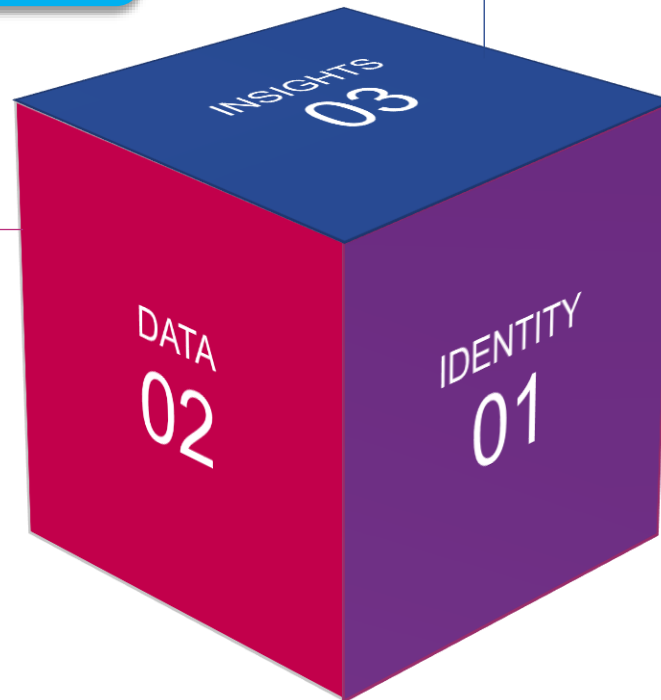## Multi-point verification - *beta*

Improve your ability to *pass more applications* with *less interruption* on your **best legitimate customers** while *not comprising the ability to identify fraudulent intent*

03
- ▼ High risk address location types
- ▼ Undeliverable email addresses
- ▼ Business closures
- ▼ Low social activity
- ▼ Low digital footprint for its size
- — Phone numbers registered to consumers

INSIGHTS 03

DATA 02

IDENTITY 01

Experian + Alternative data

02

- • **Current and prior business associations**

- • **Email** - Indicates if the emails are valid, active, first seen dates, and if the registered email names matches applicant

- • **Phone** - landline, mobile or voip, caller name and consumer or business.

- • **Domain intelligence** – technology stack over time, cloud platform usage, back links, external links, ad partners, domain rep and site traffic.
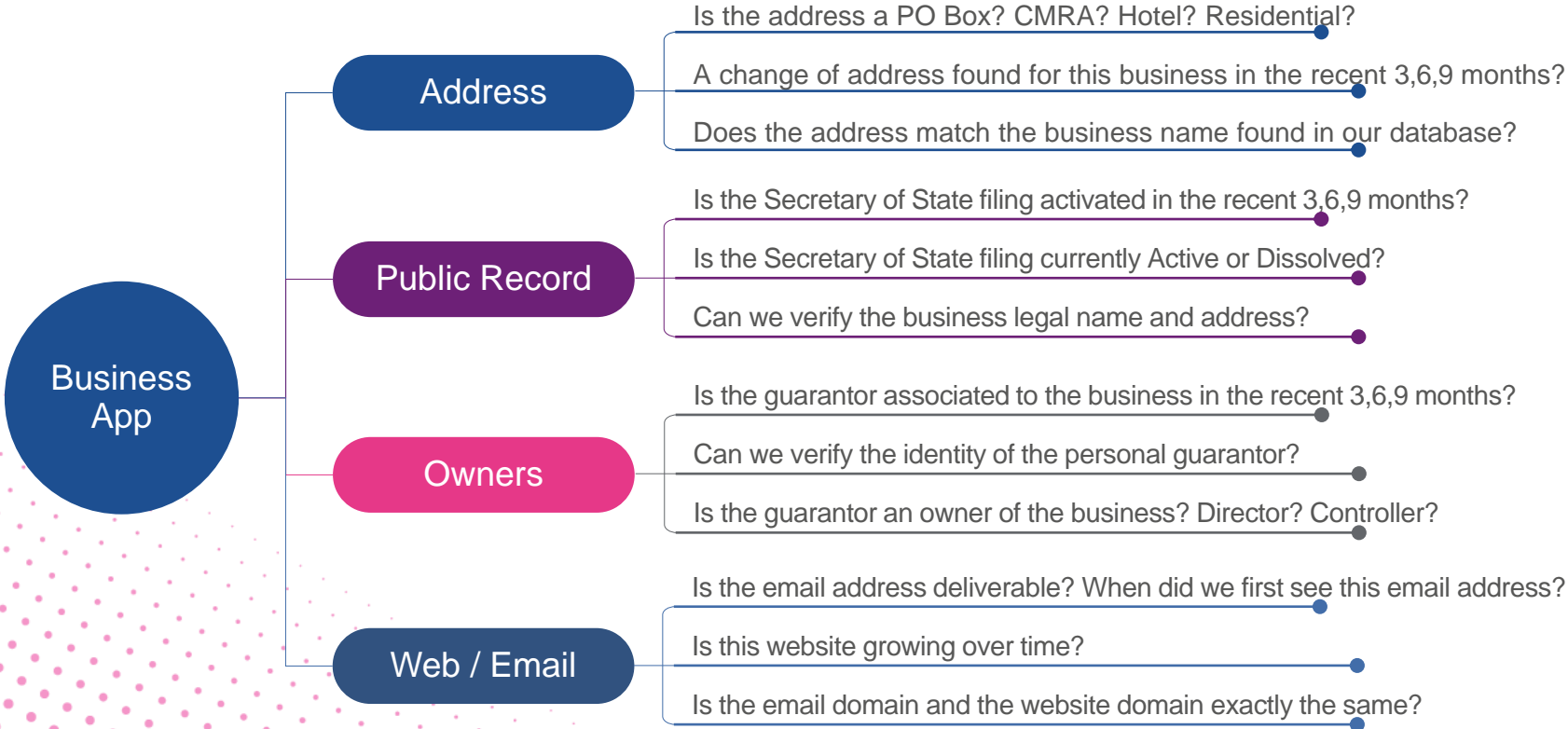
01
- ▲ Business identity
- ▲ Business owner identity
- ▲ Business to Owner association

experian™

Fraud insights on business applicants
Questions our solution will answer in an automated process

Business App

Address
- Is the address a PO Box? CMRA? Hotel? Residential?
- A change of address found for this business in the recent 3,6,9 months?
- Does the address match the business name found in our database?

Public Record
- Is the Secretary of State filing activated in the recent 3,6,9 months?
- Is the Secretary of State filing currently Active or Dissolved?
- Can we verify the business legal name and address?

Owners
- Is the guarantor associated to the business in the recent 3,6,9 months?
- Can we verify the identity of the personal guarantor?
- Is the guarantor an owner of the business? Director? Controller?

Web / Email
- Is the email address deliverable? When did we first see this email address?
- Is this website growing over time?
- Is the email domain and the website domain exactly the same?

16

The Evolution of Fraud

Attacks

Prevention measures

2005

Credential harvesting
- Phishing
- Basic Trojans

Strong authentication
- OTP
- Device intelligence

2010

Man-in-the-browser
- Automated transfers
- HTML manipulation

Anti-malware
- Client-side detection
- Server-side baiting

NOW

New acct & ATO fraud – trusted info
- *Device Emulation*
- *Credential Stuffing*
- *Synthetic ID Fraud*
- *Remote Access Trojans*
- *Social Engineering*

Biometrics and behaviors
- *Evolved Robust Device Intelligence*
- *Digital device behavior*
- *Layered Identity solutions/Authenticated Consumer Data*
- *Physical biometrics*
- *Human behavior (continuous)*

Business Activity Insights

Carl Stronach

U.S. Chamber of Commerce

JUL 29, 2020 - 8:30AM

July 2020 Small Business Coronavirus Impact Poll
Small Businesses See Grounds for Cautious Optimism But Many Are Preparing for a Coronavirus Resurgence

Businesses remain concerned about the impact of a second wave of coronavirus. 65% of businesses are concerned about having to close their business, or stay closed, if there is a second wave of COVID-19.

Majority of small businesses report actively preparing for resurgence of coronavirus. The most common preparatory actions include purchasing additional supplies to prevent shortages, updating their website and/or social media profile, and increasing e-commerce or digital payment options.

Almost 90% report their businesses are open in some capacity. 23% of small businesses report having temporarily closed at some point, unchanged from the end of May. In total, 86% of small businesses report that they are fully or partially open.

14% of business are fully or partially closed
14% * 25 million = **~3.5 million businesses closed**

"...L.A. Councilman Mitch O'Farrell, told me a lot of the businesses in his district are struggling, and then he mentioned that Musso & Frank Grill in Hollywood was suffering because it wasn't set up for outdoor dining or takeout service."
"We're undoubtedly going to open again," said owner-operator Mark Echeverria, but I am afraid L.A. is going to lose some of its historical identity."

Home, Local, Professional, and Auto Services Prove Their Strength Amid the Pandemic
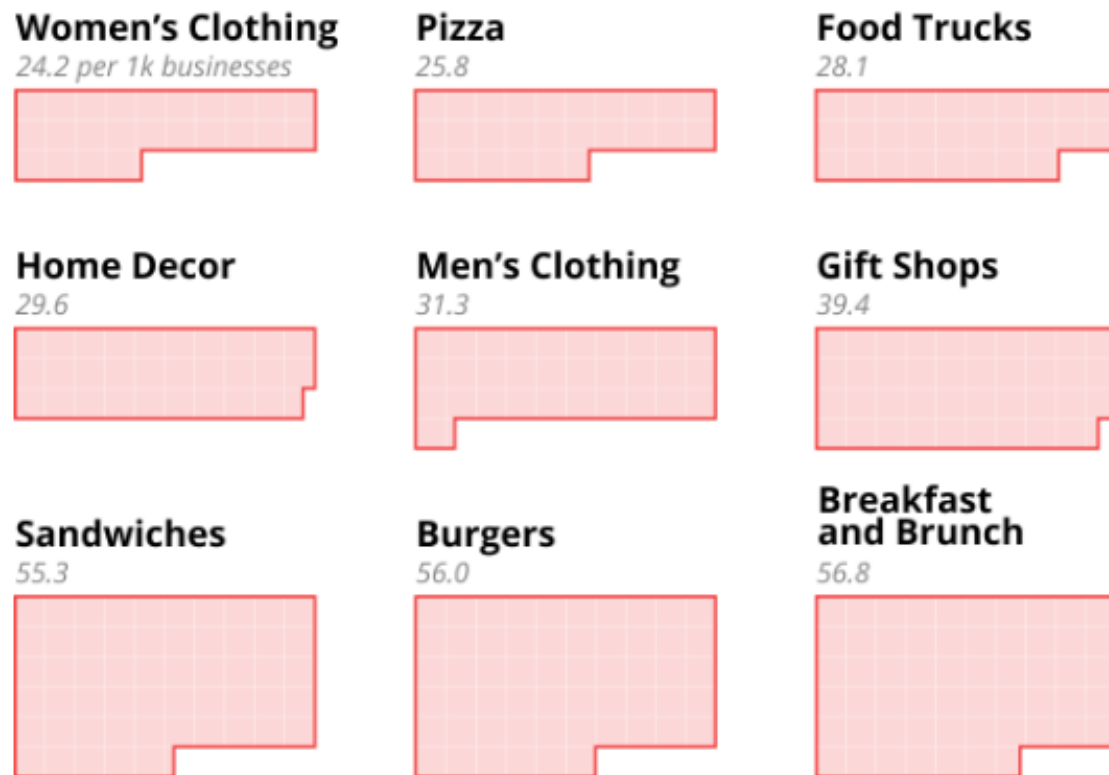
= 1 business closed per 1,000 businesses since March 1

Home, local, professional, and auto services businesses have been staying afloat

Lawyers
1.6 per 1k businesses

Architects
2.0

Accountants
2.9

Body Shops
6.3

Towing
6.5

Contractors
6.6

Plumbing
6.8

HVAC
8.0

Tree Services
9.0

Auto Repair
9.1

Landscaping
9.5

Roofing
9.9

Restaurants and retail businesses have been struggling

Women's Clothing
24.2 per 1k businesses

Pizza
25.8

Food Trucks
28.1

Home Decor
29.6

Men's Clothing
31.3

Gift Shops
39.4

Sandwiches
55.3

Burgers
56.0
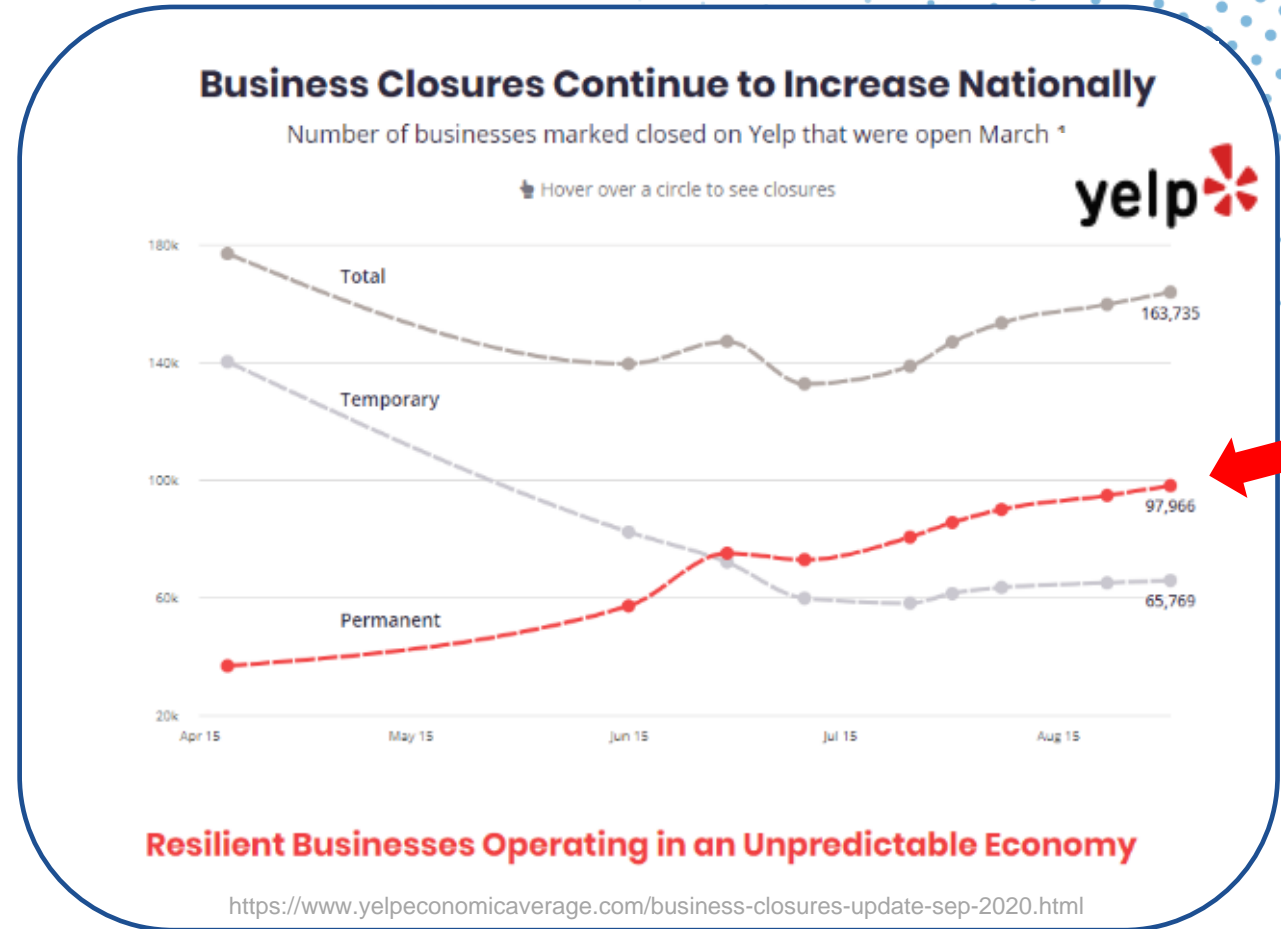
Breakfast and Brunch
56.8

yelp

60% of businesses marked "closed" on Yelp are not reopening

Financial Institution A
3% Closed in active portfolio

Financial Institution B
3.6 % Closed in active portfolio

**Financial Institution C**
11% Closed in active portfolio

Telecom
4.1% Closed in active portfolio

Business Closures Continue to Increase Nationally

Number of businesses marked closed on Yelp that were open March

🔍 Hover over a circle to see closures

yelp

Total — 163,735

Temporary

Permanent — 97,966

65,769

Apr 15   May 15   Jun 15   Jul 15   Aug 15

Resilient Businesses Operating in an Unpredictable Economy

https://www.yelpeconomicaverage.com/business-closures-update-sep-2020.html

Business Activity – Live
Using new data to help identify businesses that are open, transforming, thriving or closed
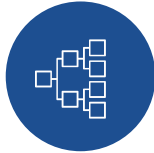
Social Media Engagement/Intent Metrics
Example: One businesses **engagement metrics were *cut in half*** immediately once lock-down orders were put in place in Dallas TX

Work At Home & White-collar workers
Businesses that are "work-at-home" or have high percentages of white-collar workers are less likely to be impacted by COVID related restrictions

Offers Pickup, Delivery, or Drive Thru
Businesses that are now offering pickup, especially those that are not restaurants, show positive signs of transformation and adaptation

Temporarily Closed Date/Open Indicators
Attempting to manually find out if businesses are closed temporarily, or even permanently, by searching manually on the web? Let's automate that

Enhanced Business Classification
Go beyond the SIC Code with keywords and social media business categories; all cross-walked to SIC and NAICS for easy ingestion

Claimed Social Media Listing
Some businesses never bother to claim their social media profile to help market their business. If they are in a consumer facing industry, it's good to know if this best practice is being followed

Google
yelp
data axle
experian

Social Media Engagement & Intent Metrics

Prior to COVID, Beverly Hills Nail & Spa in Dallas, TX was thriving. Located in a trendy area north of Downtown, the salon was full, and the owners planned to open a new location later in the year.

By late March, lock-down orders took affect across the city of Dallas and the state of Texas, putting those plans on hold.

Prior to COVID, the salon had an average engagement metric of 13/20 – above average for all businesses and above average for nail salons in Dallas.

But once the lock-down hit, immediately the social engagement score dropped by 38%.

Engagement Metric score is produced weekly and is an amalgam of page views, website clicks, bookmarks, calls & messages to business, clicks on directions, reviews & photos posted, check-ins. Indicative of consumer engagement relative to all other North America-based businesses. Score ranges from 1 to 20, where 20 reflects the highest levels of engagement.

experian.