BAI Banking Strategies
EXECUTIVE REPORT

Where does digital transformation go from here?

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BAI POWERING SMART DECISIONS.

In this issue

Digital transformation: It just never ends

BY TERRY BADGER, CFA
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One of the wonders of conducting a Google search is that pretty much any common-language search term seems to yield at least a handful of viable hits. But here's a query that returns nothing, a total whiff: "Why digital is not the future of banking."

In some ways, it shouldn't be a surprise that not a single contrarian is out there flogging the idea that the industry's urgent move toward all things digital—accelerated, of course, by the pandemic—will for some credible reason reverse itself. The important questions for banks and credit unions are now more focused on setting the right strategy and the right pace for their transformation.

This month's BAI Executive Report offers relevant insights for banking institutions regardless of where they are in their digitalization journey.

Our lead article by contributing writer Katie Kuehner-Hebert identifies a handful of universal truths that banks need to embrace for a successful digital transformation. Among them: Know your customers and their wants and needs, be bold enough to challenge today's way of doing things, and accept the fact that the transformation is never-ending.

Her reporting highlights experiences and lessons learned by a pair of midsize regional banks as they proceed along their respective paths. Leaders from both institutions emphasized that digital transformation should not be thought of as simply a project to get through, and that the range of work involved in the makeover extends well beyond the hardware and software being installed.

A big part of the reason why this work is never finished is that digital technology is continuously evolving, creating more ways to apply it to the banking sector. One of those ways that's generating a lot of buzz these days is "embedded finance"—the ability to bundle banking with other services.

Contributing writer Lauri Giesen uses Regions Bank as a case study to examine how banks and credit unions can integrate embedded finance, which was pioneered by fintechs and other non-banks. Regions' initial foray into embedded finance in 2020 involved commercial credit cards, but the bank has since broadened into other loan and payment services, and is looking at even more opportunities down the road.

And speaking of opportunities down the road, I give you the metaverse. Some big banks are starting to poke around in this virtual realm even as most of us are still trying to figure out what it is. You can check out my interview with Sandeep Vishnu from the global consulting company Capco to learn more about the metaverse and how banking institutions might venture into it.

Also in this month's Executive Report:

» **Transformation centered on the customer:** Rebecca Martin from Total Expert tells us that banking institutions should focus on the interactions that matter as a way to achieve lasting benefits when doing a digital makeover. In her view, what counts in growing relationships is engagement. She walks readers through four foundational questions that banking leaders should answer as they determine their future technology needs.

» **Synthetic identity fraud heats up:** Eric Tran-Le from NICE Actimize digs into this fast-growing form of fraud, in which real and fake personal information can be combined to create a new persona, and explores what banks can do about it. Among other angles, he explores synthetic ID fraud efforts related to car loans; buy now, pay later; and even obtaining information about children via social engineering for scams that may evade detection for years.

» **Making connections via connected TV:** Stephenie Williams from Vericast offers her take on the effectiveness of advertising via internet-powered television as part of a multichannel strategy to target banking customers and prospects. What's needed most, she says, is transparency that enables advertisers to know who they are targeting and how that audience responds. That information can provide insights on how to improve future campaigns.

» **The power of payment networks:** Michael Reed from Deluxe writes that banks are now at a pivotal point for adopting digital payments to save time, cut costs and improve the customer experience. He makes a case for using a payment network directory to send payments and store payment information, stressing that a key value of such an approach is that changes take place in the middle of the payment process, with no changes required of the bank.

We hope you find value in this Executive Report focused on trends in digital transformation. Feel free to email me to let me know what you think.

Terry Badger, CFA, is the managing editor at BAI.

A few universal truths for digital transformers

Know your customers, challenge the status quo and get used to a state of constant change.

BY KATIE KUEHNER-HEBERT

When it comes to digital transformation, banks and credit unions are all over the map in their approaches. But no matter how far a financial institution is along in its journey, there are some tried-and-true principles governing how to proceed.

Above all, never stop.

“I think many banks and credit unions have approached change like a core conversion—something that’s painful but when it’s completed, it’s set and done and the institution then operates for a while in a steady state,” says Jesse McGannon, vice president, advisory services at Strategic Resource Management, an independent advisory firm headquartered in Memphis, Tennessee. “That’s the way of the past—people need to get used to always being in a state of change.”

Institutions should be comfortable managing multiple projects at the same time and implementing with agility, he says. They need to constantly reevaluate their change portfolios to determine what they need to continue, pause or accelerate as market demand changes.

When an institution goes down the path of digital transformation, whether they’re starting or accelerating, they need diversity of thought, says Ross Creasy, chief innovation officer at the $23.5 billion-asset Ameris Bank based in Atlanta.

“Customers and teammates will each use technology just a little bit differently,” Creasy says. “Delivering changes in tools and technologies will be much more meaningful and powerful when you solicit a variety of input at the outset.”

Ameris Bank started its digital transformation internally, then extended it externally. Internally, the institution made sure collaboration tools for teammates were up to date and launched a modern intranet so teammates had better visibility into what was going on across the bank.

JESSE MCGANNON
STRATEGIC RESOURCE MANAGEMENT

“We also implemented robotics and more automated processes,” Creasy says. “If you can give teammates better tools and technology to support their work, it makes it easier for them to serve customers.”

On the customer side, more people are comfortable with digital channels, so institutions need to be “even more progressive,” he says. They should be focused on an API-layered architecture in order to move information in real time, because customers expect instantaneous results on transactions.

ROSS CREASY
AMERIS BANK

STUART COOK
VALLEY NATIONAL BANK

Later this year Ameris Bank plans to launch a new online and mobile experience that he believes will provide the bank with new capabilities to more quickly adapt its digital channels to better serve customers.

"Although digital transformation is about meeting needs and improving service, change for customers and teammates can be difficult, so you always need advocates and, more importantly, early adopters," he says. "We're a big believer in using pilots to get real feedback and make appropriate changes, and then broadly deploying new tools and technologies."

"Although digital transformation is about meeting needs and improving service, change for customers and teammates can be difficult, so you always need advocates and, more importantly, early adopters."

ROSS CREASY, AMERIS BANK

Digital transformations are not just an organizational restructuring—they're also an opportunity to create a new operating model that is intently focused on delivering value, says Stuart Cook, chief digital product officer at the $43.4 billion-asset Valley National Bank, based in Wayne, New Jersey.

"You are doing so much more than a technology project and well-designed IT architecture," Cook says. "This is the synthesis of people, process and technology."

If an institution is well along on its journey, the next key step is developing digital business models, he says. This can include moving from a "command-and-control" portfolio of short-term big bets to a diversified portfolio of longer-term, smaller bets by autonomous empowered teams.

Institutions should measure success using leading indicators rather than typical internal lagging indicators, and they should shift the goal of tech from meeting the project demands of P&L owners to delivering modular platforms that serve each product team.

If an institution's customer-facing transformation efforts are way ahead of its back-office conversion, the institution can catch up by aligning cross-functional teams, leveraging skills such as product and design, data, engineering and quality

> **"We've all experienced a new vendor solution that doesn't truly integrate with existing back-office systems and creates additional cost and complexity in operations. Now is the perfect time to evaluate your options for investing in the infrastructure to sustain those customer-facing improvements."**
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> **JOSH BROWN,** BRIGHTFI

assurance, Cook says. Each of these teams should be aligned to a customer outcome and empowered to plan with agility, with process ownership and risks owned by teams.

If you're just setting out on the transformation journey, start by defining what digital transformation means to your organization in the context of your existing strategy, says Josh Brown, chief operating officer at BrightFi, a financial services company based in Scottsdale, Arizona.

How will digital transformation help you win against other competitors in your specific playing field? Do you want to grow in new areas or retain existing customers? Start new revenue verticals? Win more commercial loans? Answering these questions will help you prioritize improvements in the front, middle and back offices, Brown says.

"If you're in early days still, check to see if you're on budget and on track to reach your goals," he says. "You should be evaluating your core provider's capabilities as the backbone of your tech stack and arriving at a decision about whether you should continue using them or move to a new cloud-based platform with open integrations."

If your institution has made a lot of investments in customer-facing features, products and design, your team should now look closely at whether the institution can sustain those improvements from a servicing, maintenance and future growth perspective with its existing core and data infrastructure, Brown says.

"We've all experienced a new vendor solution that doesn't truly integrate with existing back-office systems and creates additional cost and complexity in operations," he says. "Now is the perfect time to evaluate your options for investing in the infrastructure to sustain those customer-facing improvements."

During each project implementation—with clear timelines, technology and documentation along the way—you need to make sure that the solutions deliver on the products you need and want to provide to your members, Brown says.

The tried-and-true success metric that can be applied evenly is ROI. Have investments paid off the way they were pitched and envisioned? Have the efforts to digitalize yielded outcomes that enable your institution to compete better?

"Above all, though, it's important to note that it's a journey—embarking on the effort to pursue digital transformation means committing to knowing your business and knowing your customers," he says. "That is the only way banks can get a strong return on their investment."

Katie Kuehner-Hebert is a BAI Banking Strategies contributing writer.

Embedded finance could be a game changer

Regions Bank is among the traditional institutions moving with purpose to integrate data and payments with outside service providers.

BY LAURI GIESEN

When customers of Regions Bank want to remodel or make other improvements to their homes, they can work directly with a participating contractor to complete a paperless loan application integrated directly into the contractor's sales software. This easy loan application process provides the homeowner with a fast credit decision from the bank.

This capability is facilitated through Regions' acquisition last year of EnerBank USA, a provider of home repair and improvement loans that enables a network of contractors to provide financial solutions at the point of sale.

The process relies on advanced technology called "embedded finance"—bundled offerings that allow banks to combine banking with other services in an integrated manner. Nonbank companies have offered embedded finance for several years, but financial institutions are just starting to make it available.

The technology not only empowers banks to better serve both retail and commercial customers

JACOB MORGAN
FORRESTER

through additional services but also gives them an opportunity to monetize some of their service offerings to corporate customers willing to pay for the additional capabilities, says Jacob Morgan, principal analyst at Forrester.

Morgan says that, while a few large banks in the U.S. have taken a global leadership role in using embedded finance, most midsize and smaller banks and credit unions have a long way to go to catch up.

He suggests that U.S. banks look to innovative initiatives such as Standard Chartered Hong Kong's marketplace that allows small-business customers to do business with one another. "The entire effort is supported by the bank. It provides the payment capabilities and manages the introductions

AARON BRIDGERS
REGIONS BANK

between businesses," he says. "Small businesses are able to get technological services that they could not afford alone, but through the bank they are able to afford advanced AI and blockchain technology."

Regions applied embedded finance for the first time in 2020, when commercial bank clients began to integrate the bank's commercial card services into their back-office systems to allow for automated card issuance, authorizations, limits, alerts and virtual card creation, among other advanced capabilities.

The bank is also looking at a number of other embedded finance applications that integrate data and payments into software to create improved customer experience and automation. These range from the sharing economy (such as ride-sharing) to major life events. For example, financial services can be embedded within a wedding-planning solution to allow customers to plan and finance their wedding and make necessary payments through a single app, says Aaron Bridgers, Regions' head of strategic initiatives and innovation.

In another scenario, commercial clients can embed bank services into their enterprise resource planning tools or customer-facing applications. This could enable utility companies, for example, to send text messages to customers getting close to being late in paying bills. The customers could use the app to immediately pay the bill, avoiding the typical two-day clearing time associated with online bill payment programs.

Additionally, wealth management executives can use embedded finance to get a more holistic view of customers' assets to better advise those customers.

"There is tremendous customer experience opportunity for our consumer customers and potential revenue opportunities on the commercial side of our portfolio through the monetization of APIs."

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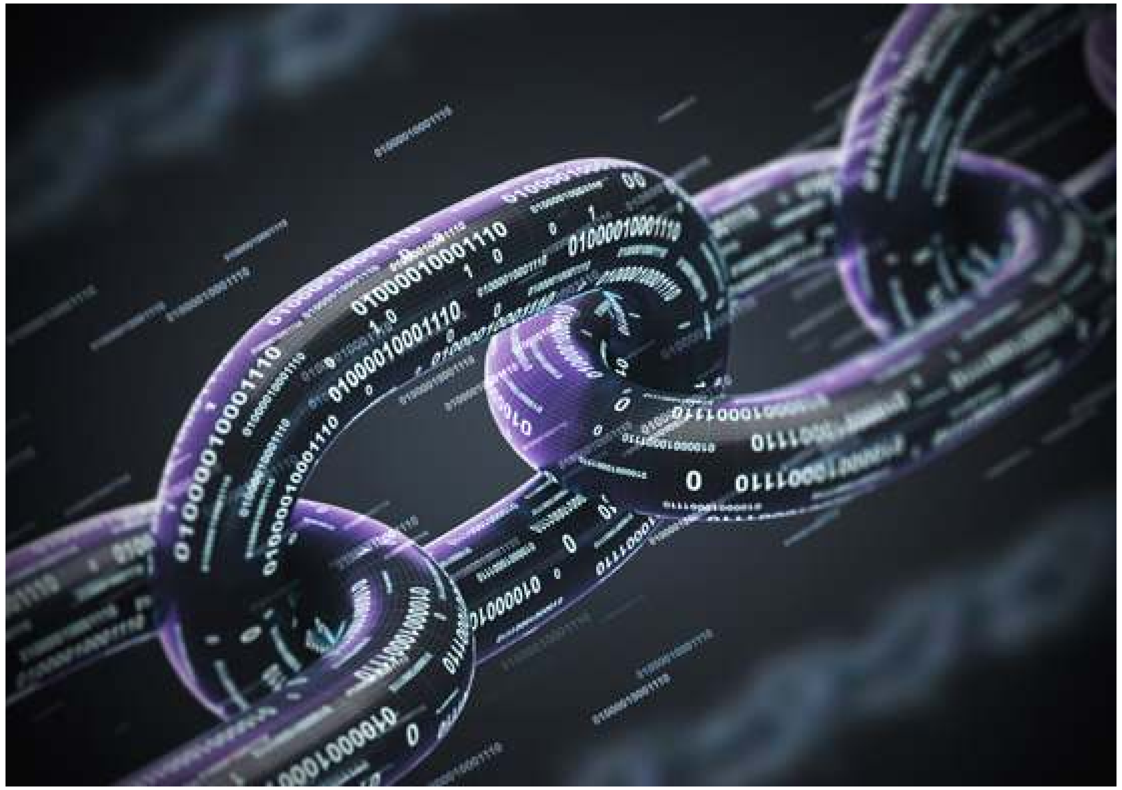
REGIONS BANK

"There is tremendous customer experience opportunity for our consumer customers and potential revenue opportunities on the commercial side of our portfolio through the monetization of APIs (application programming interfaces)," says Neal Shah, head of enterprise operations and IT strategy at Regions.

Regions' Bridgers believes embedded finance can give banks a competitive edge over fintech companies. "Consumers are much more educated about security issues with their finances," he says. He adds that consumers will see that they can get all the advanced services and applications from their banks with the added security of knowing their bank is overseeing the application.



But Morgan says many banks are reluctant to use embedded finance offerings because they are afraid of exposing their customers' financial data. They're also concerned that partnerships with technology companies could lead customers to direct their loyalty and appreciation to the tech company instead of the bank.

Morgan argues that banks can address security fears by developing strong cybersecurity systems. And fears about fintech alliances may be unwarranted. "Someone is going to be captivating consumers with these services. If it's not you that is offering them, it will be some other bank," he says. As for not wanting to work with tech companies, Morgan adds, "Banks have to ask themselves: Can I compete with the best of class in these technologies? In most cases, the answer is no."

In implementing embedded finance services, many banks will have to make significant investments in their IT systems. For its part, Regions didn't need to do much new development, instead using what the bank had been working on for the past several years in addition to executing the current strategy.

"We had already been investing in authentication, security, API development and other technical capabilities. Much of what we are doing in embedded finance is a culmination of what we are already doing and utilizing these capabilities to solve customer needs," Shah says.

He advises other banks considering the technology to examine their existing strengths in banking and think about how they could build on those strengths with the additional applications that embedded finance provides.

On the technical side, Bridgers advises banks to join the Open Banking Group FDX (Financial Data Exchange), a network of about 200 financial service institutions that work to define and promote adoption of common, interoperable standards for financial data sharing. He says FDX was important in providing the standards essential to Regions' efforts to develop its embedded solutions.

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JACOB MORGAN, FORRESTER

Morgan adds that before banks even think about technology, they need to focus on the underlying strategy. "What is the marketing strategy? Who is the targeted audience? Banks have to look at how this is being used, not just the technology behind it."

Lauri Giesen is a BAI Banking Strategies contributing writer.

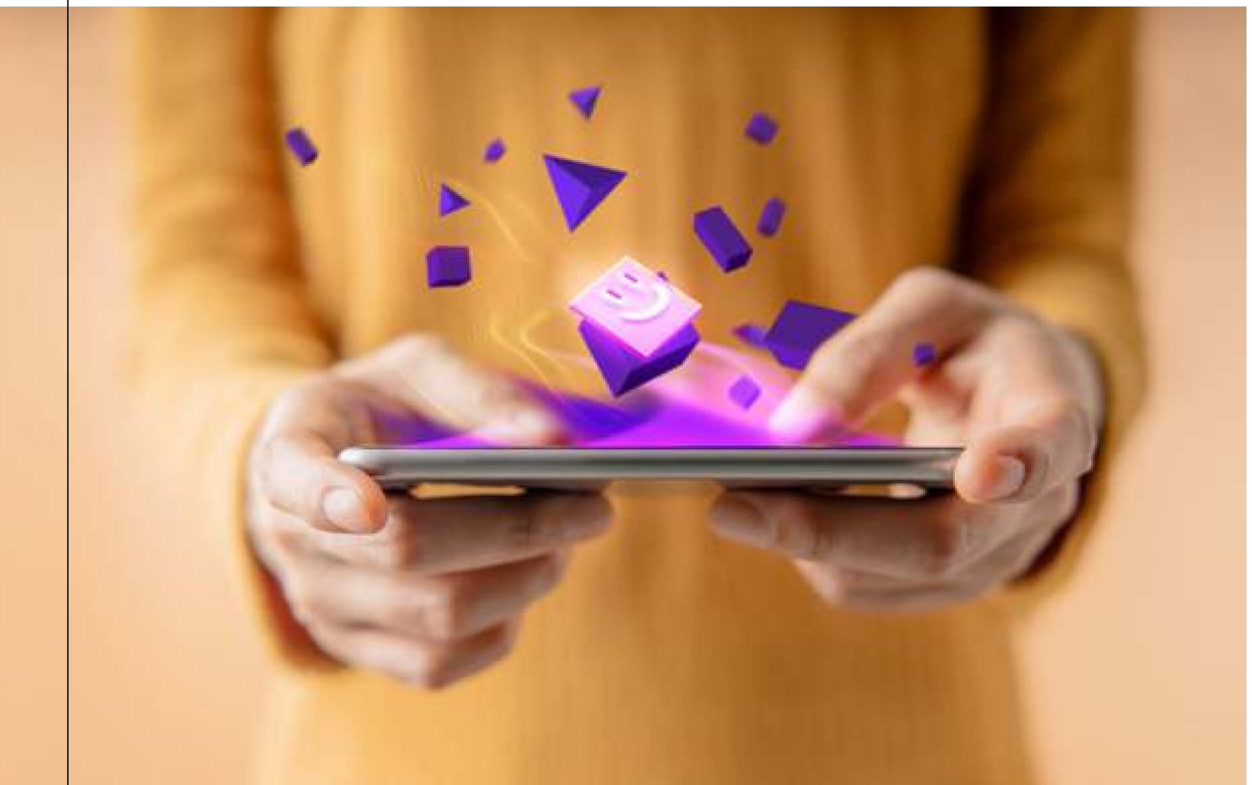
Where do banks fit into the metaverse?

Some early movers are tiptoeing in and poking around in a virtual realm that has been pegged as a $1 trillion opportunity for financial services providers.

BY TERRY BADGER, CFA

Once upon a time, there was just reality. Now we have virtual reality, extended reality and augmented reality as well. And within these new dimensions of reality is the metaverse.

Defining the metaverse is not a straightforward endeavor. The New York Times has called it "a fully realized digital world that exists beyond the one in which we live." Wired magazine takes a somewhat simpler approach, saying a good rule of thumb is to sub in "metaverse" when you might otherwise use the word "cyberspace." And Mark Zuckerberg, who swapped out Facebook for Meta as his company's name, suggests that the metaverse may not be a place at all, but rather a point in time. That's layering Meta on top of meta.



But however you define it, the metaverse is not yet ready for prime time for the banking industry, though some curious institutions are tiptoeing in and poking around. This early prospecting makes sense, given that what's today largely a gaming playground is pegged by some as being a $1 trillion opportunity for financial services providers.

BAI recently spoke with Sandeep Vishnu, a partner with the global consulting firm Capco, about what the metaverse is and how banking institutions might venture into it.

The interview has been edited for length and clarity.

With such a range of definitions for the metaverse, it's no wonder people are a little confused. How do you define it?

The word "meta" comes from a Greek word that means "beyond, above, transcending." Think about the metaverse as being a new interaction and engagement model for us in society. It's going to augment how we interact with each other, it's going to substitute, it's going to enhance. There's probably a range of things that will happen in the metaverse. We don't know yet how it's going to manifest itself, but regardless of how it emerges, it's going to be enhanced and augmented in a different interaction model for us.

"Today, the greatest number of transactions happen in gaming, but tomorrow they could easily happen in real estate, art or tourism. Banks provide the mechanism for these transactions, and they inject trust into the system."

SANDEEP VISHNU, CAPCO

What is today's opportunity for banks in the metaverse?

I think the current opportunities for banks fall into two broad categories. One, in building out the metaverse. This is where they can offer lending support to companies that are investing in technologies to build out the structure. It's where they can offer support in building out platforms. The second set of opportunities is in transactions. Today, the greatest number of transactions happen in gaming, but tomorrow they could easily happen in real estate, art or tourism. Banks provide the mechanism for these transactions, and they inject trust into the system. They give the consumer confidence that transactions converting virtual currency and cryptocurrency into fiat are backed by a bank that's trusted.

SANDEEP VISHNU
CAPCO

Aside from transactions, what else are banks doing now to step into the metaverse, or at least to get ready to take that step?

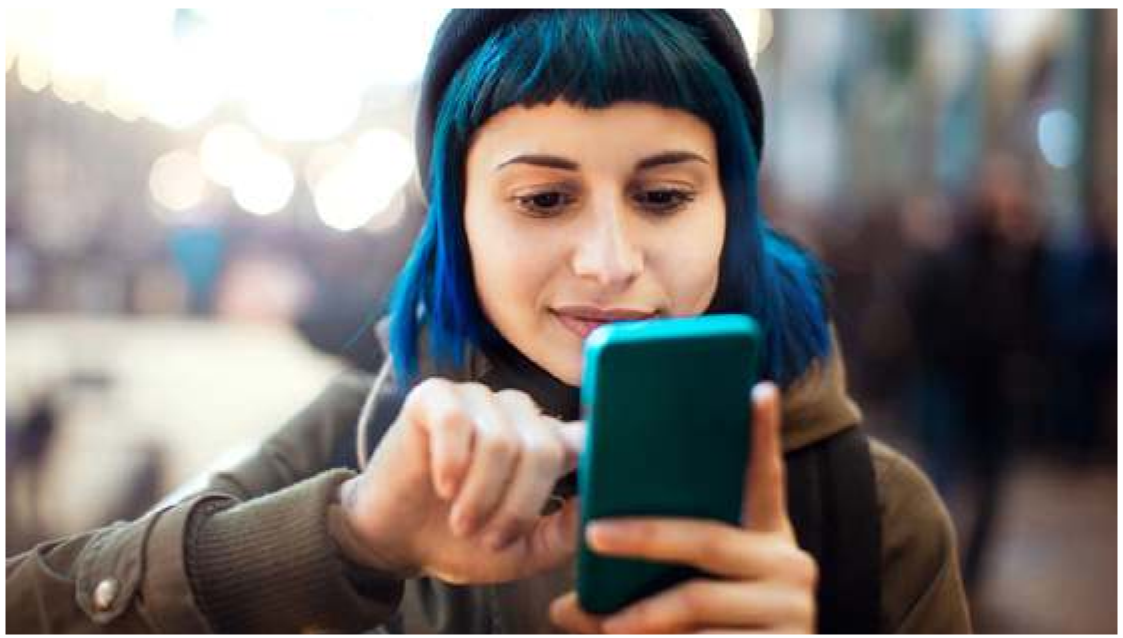
Some of the more tactical things that banks are doing are enabling transfer of money from the real world to the metaverse and vice versa, providing non-fungible token loans to customers and engaging clients through digital branches. We are seeing that some advisory services, like Morgan Stanley, are advising their clients on how to invest into the metaverse, as is PNC. There are others that are trying to capture space in it by creating a landing zone and a platform. We've had the emergence of Sandbox, of Decentraland, where people can come, aggregate, interact and then hopefully drive transactions. These are the types of things that banks are currently dabbling in.

Big tech players like Apple and Google are getting more into financial services. Is the metaverse an avenue for them to expand their appeal to traditional banking customers, particularly younger ones?

This is definitely an area where you will find new entrants from the technology world. It could be new technology companies, or it could be the established technology companies. Whereas they may move into banking, today they're doing it through the ability to influence payments. That's probably where we're going to see it first. But it could then move into lending; it could move into investments. But I think that's a little ways away. There's a lot of opportunity for technology companies to capitalize on building out the metaverse versus trying to actually interact and capture the value driven through transactions in the metaverse. Over time, they might get there, but that's probably not their immediate focus.

For banking institutions that do want to venture into the metaverse, is there a right way to do it? Perhaps more important, is there a wrong way to do it?

I think the metaverse for a bank should be very much part of the overall consumer strategy. If you are a bank that has a consumer base that may be less tech savvy and less likely to venture into the metaverse, you might want to be a little careful in



"Banks that have a customer base that is more tech savvy—for example, some of the digital banks that emerged over the past 10 years—are the ones that could probably go into the metaverse more easily because they can take their customers with them."

SANDEEP VISHNU, CAPCO

how much you try to go after this market because it may be hard to convert your current consumers, and attracting new ones is going to be a challenge. Banks that have a customer base that is more tech savvy—for example, some of the digital banks that emerged over the past 10 years—are the ones that could probably go into the metaverse more easily because they can take their customers with them.

Knowing that both banks and the metaverse will continue to evolve, give us a vision of how you think banks might fit into the far-future metaverse.

If you see what the metaverse is and how it's looking to emerge right now, and for those who are familiar with "Star Trek," consider the concept of a holodeck. A holodeck was a virtual world that got created in a very limited space. It provided the same types of interactions that existed in the real world, but it augmented them. I'm not saying that's all that the metaverse is going to be, but it could be a way it evolves. Banks need to capitalize on that. They are the financial glue that allows us to interact with each other, to trade, to exchange, to buy, to sell, to invest. These are things that banks do in the real world today. Tomorrow, they need to offer it in the metaverse.

Terry Badger, CFA, is the managing editor at BAI.

Transformation centered on the customer

Focusing on the interactions that matter is the best way for banking institutions to achieve lasting benefits when doing a digital makeover.

BY REBECCA MARTIN

Consumers, especially those who already bank with your financial institution, want more from you.

Banking leaders have been hearing this message for 20 years as technology companies have launched enterprise relationship management solutions, online and mobile banking, and a host of other software services aimed at improving banking engagement. Digital transformation—in this context meaning "buying software"—is required to serve households well.

No one wins, however, when banks undertake digital transformation for its own sake. When buying technology, banks shouldn't lose sight of consumers, their needs and the specific tactics that can help them. Practically speaking, that means leaders should avoid getting lured into a nonspecific "transformation" or grand aspirational vision.

Banks should acquire customer relationship management and engagement software—or marketing automation platforms—to serve specific growth and loyalty tactics that connect to consumers' actual financial needs. It's engagement, not engagement platforms, that grows banking relationships.

Instead, banks should acquire customer relationship management and engagement software—or marketing automation platforms—to serve specific growth and loyalty tactics that connect to consumers' actual financial needs. It's engagement, not engagement platforms, that grows banking relationships. Leaders need to evaluate technology solutions based on how successful they are at engaging customers in banking.

BUYING TACTICS, NOT DREAMS

Many institutions seeking better depositor onboarding, cross-sell opportunities or borrower retention consider platforms that weren't developed for those use cases. With no industry-specific functionality, these platforms are a blank

canvas and a set of paints. You, as the customer, are the painter.

The problem with this approach is that most banks and credit unions are relatively new to digital engagement. If you buy one of these platforms, you are betting that your vision for achieving engagement is correct. And you'll have to wait until long after you buy—all the while paying consultants, writers, designers and marketing technologists—to find out if you were right.

Instead, you need a platform that offers not just a canvas and paint but also a pre-painted landscape—one in which you just need to add the people and determine what they are doing in the foreground.

Customers need to be at the center of a bank's technology purchases, and in a very practical way. Yes, they want more from you. But what, specifically, do they want? How do you know that's what they want? What is the best way to react and engage? And how will this create growth and loyalty for your institution?

While general surveys and studies can help answer the first question, banking data provides the best answers. The second question requires you to interpret that data. The third and fourth are engagement questions, with data defining and triggering communications with customers. You can use these four questions to evaluate and compare technology solutions.

Consider these four questions in the context of a specific consumer need like a mortgage:

What do customers or members want from you? Consumer optimism about homebuying conditions fell to its second-lowest reading in a decade, according to a July 2022 report from Fannie Mae on home purchase sentiment. But digging into the survey results over the past 12 months reveals that consumers would rather buy a home than rent if they were to move. They're just not sure they can. This is the "more" customers and members want from you—the steps to make their goals possible.

How do you know who may need a mortgage? Institutions need to read the consumer-industry landscape, recognize homebuyers' challenges or opportunities, and use those insights to engage those signaling a mortgage need. Institutions are turning to specific insight tools—such as credit monitoring and multiple listing service alerts—to identify customers applying for mortgage credit or listing a home for sale. But be wary when shopping for integrations for alerts like MLS or credit monitoring. Only consider providers willing to promise an ROI in funded mortgages within six months before locking yourself into a multiyear contract.

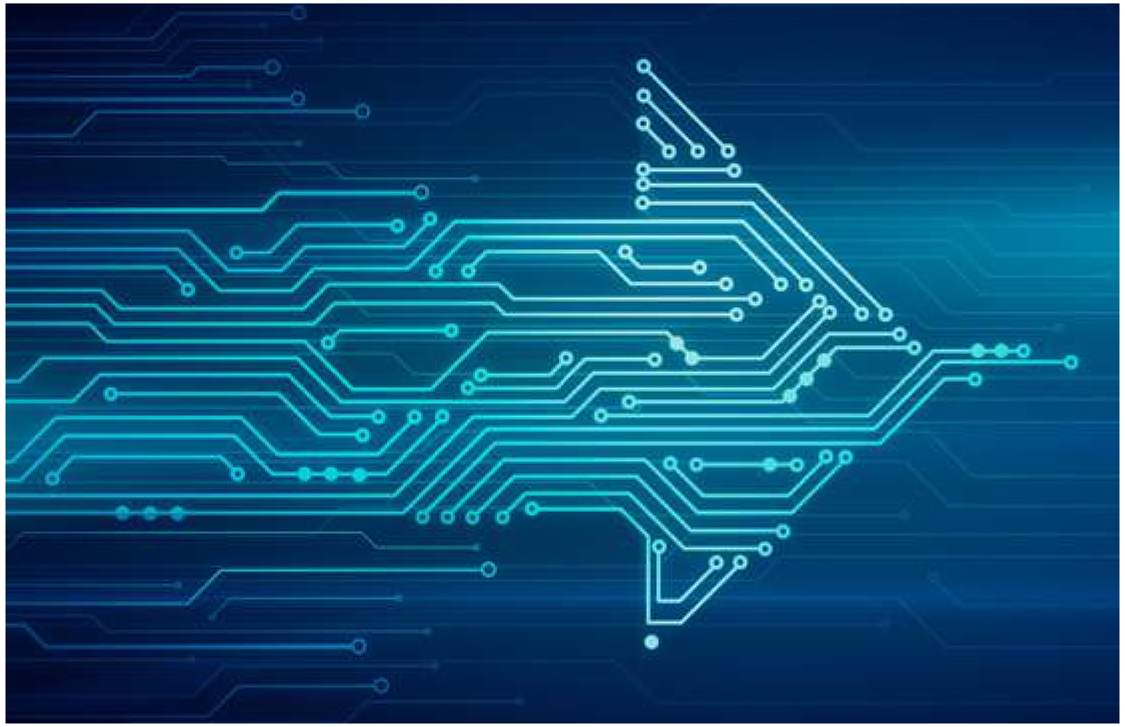
What is the best way to react and engage? When institutions monitor their mortgage or deposit databases, engagement is the most common breaking point. If data shows that a depositor needs help, who engages? Is it a personal banker or a loan officer? If it's a loan officer, how well will the marketing team coordinate? Here the bank needs to take a data-based identifier from a depositor,

Customers need to be at the center of a bank's technology purchases, and in a very practical way. Yes, they want more from you. But what, specifically, do they want? How do you know that's what they want? What is the best way to react and engage? And how will this create growth and loyalty for your institution?

determine the best angle for communicating based on that data and then make contact. Many institutions now use intelligent engagement that contacts customers on behalf of a loan officer without any manual steps needed by the loan officer.

How will this create growth and loyalty? Making contact and providing information does not equal a loan application. This is a critical point to keep in mind because applications have the most impact on growth and loyalty for your institution. Our customers have found that within a typical database of 50,000 mortgage or deposit contacts, there are about 1,650 home sellers, many of whom will soon be in the market for a new mortgage loan.

Institutions can seek to earn the business of each one of those home sellers/future buyers, but success comes from an orchestration and



synchronization of campaigns, loan officers, and even real estate agents. This includes ensuring that relevant depositors receive messages based on their data, loan officers follow up with depositors who began applications, and marketing partners reengage potential borrowers when loan applications are not completed. Institutions must test platforms in terms of how they support these steps, because it is these actions that create more loans. Then they should veto platforms not purpose-built for such best practices.

No one wins when banks launch digital transformations without a specific purpose, because consumers for the most part don't care about what goes into a digital transformation. What they do care about are their own goals and challenges, and institutions should concentrate on those to determine what to invest in to serve them better.

Focus on the interactions that matter—along with the approaches that drive growth and loyalty—and use them to guide your technology purchases. It is the only way for digital transformations to achieve results.

Rebecca Martin is chief marketing officer at Total Expert.

Synthetic identity fraud heats up

Countering this complex challenge involves smart technologies and solutions capable of adapting and advancing as new fraud threats emerge.

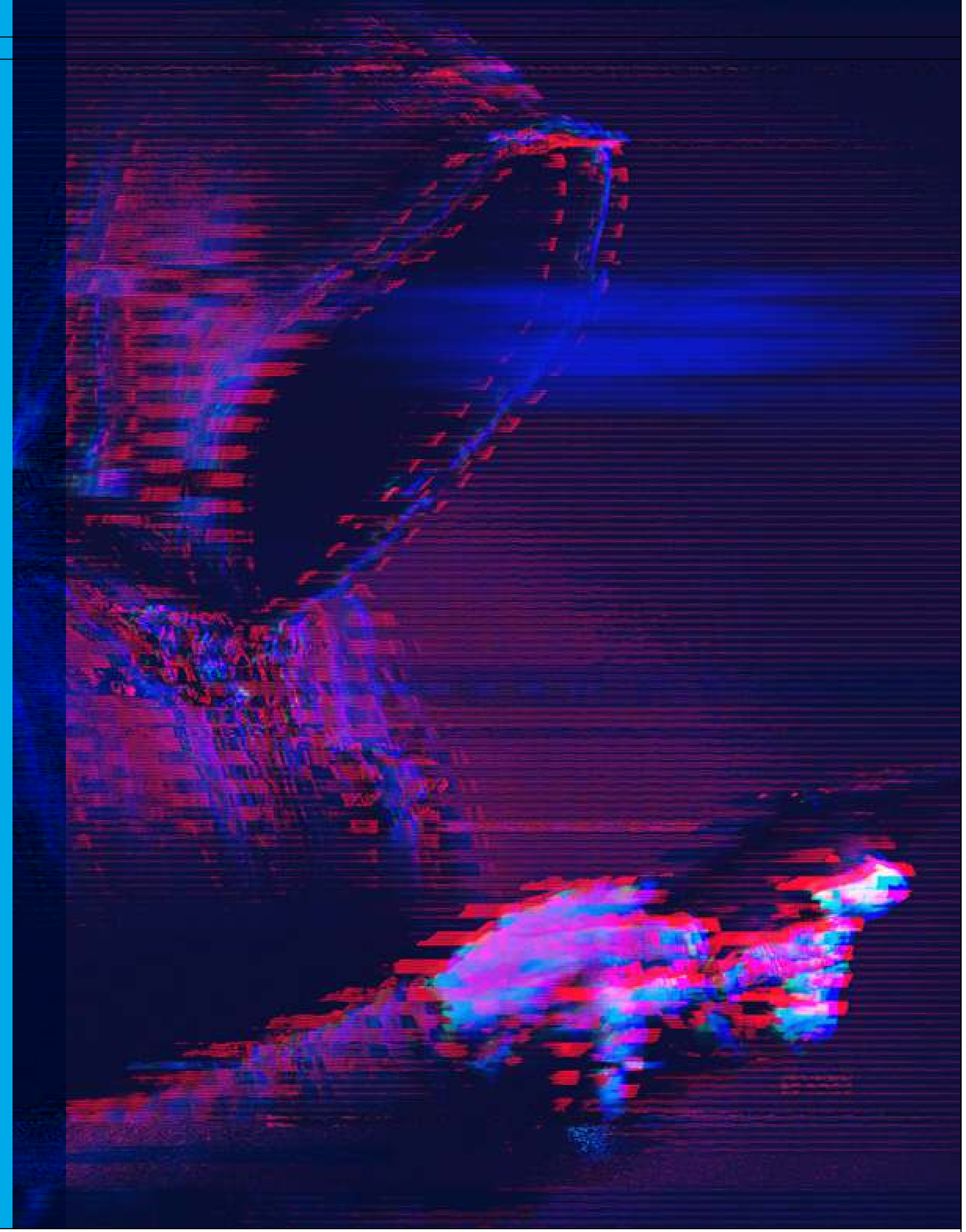
BY ERIC TRAN-LE

Of the many fraud trends that shook the financial services industry during the pandemic, synthetic identity fraud was arguably the biggest headliner. It may have flown under the radar for many financial institutions prior to the pandemic, but has rapidly garnered more scrutiny as monetary losses and media coverage have both escalated.

The FBI dubbed SIF the fastest-growing type of fraud in the U.S. in 2020, and that label still holds true today. SIF is something of a chameleon, easily adapting and evolving to elude detection and survive.

SIF involves fabricating a new identity procured from a mixture of fake information and authentic personally identifiable information stolen from multiple victims. The synthetic identity might use a legitimate Social Security number and birthdate from a real person, as well as random false data to fill in any gaps.

Synthetic fraud attacks have intensified in diversity, velocity and scale as fraudsters continue to



leverage new approaches and technologies to achieve their goals. SIF is well suited to innovation because the manipulated or manufactured identity seems to be legitimate, and it has spawned a host of fresh fraud trends.

Synthetic identity BNPL fraud: Buy now, pay later has risen in popularity in recent years due in part to its accessibility for consumers with poor, limited or nonexistent credit history. Both businesses and consumers are ramping up their use of this convenient payment option. BNPL credit lines generally run from less than $100 to $10,000, and [transaction volume] is anticipated to hit $680 billion by 2025.

But the rapid growth of this new payment service has already exposed a number of vulnerabilities that make it an attractive target for bad actors. BNPL service providers typically perform a soft pull on the user's credit, which provides an opportunity for fraudsters to leverage a synthetic identity to invade the platform with minimal friction.

Fraudsters are increasingly turning their attention toward the most vulnerable victims: children. Bad actors leverage various social-engineering techniques to illegally procure children's data from sources such as school district systems, social media accounts and even the dark web.

Distributed payment installments also enable fraudsters to cast a broader net for attacks. Because fraudsters are using synthetic identities for the initial purchase, it's extremely difficult to identify and track these criminals. BNPL lenders have been warned that synthetic identity fraud is [likely to increase this year].

Child synthetic identity fraud: Fraudsters are increasingly turning their attention toward the most vulnerable victims: children. Bad actors leverage various social-engineering techniques to illegally procure children's data from sources such as school district systems, social media accounts and even the dark web. The data is used to compile a convincing synthetic identity that can be used to fuel various types of fraud. Because in many cases the crime is only discovered once the child comes of age and applies for credit or a federal student loan, the synthetic identity can be successfully used for years without anyone noticing.

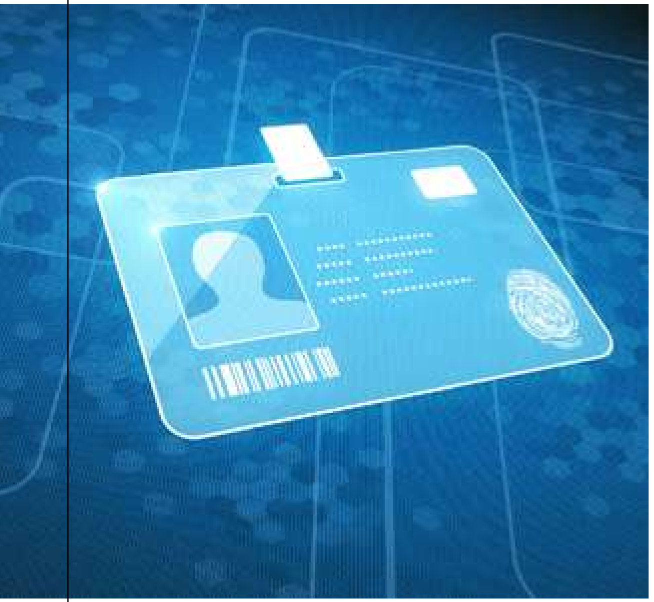
Synthetic auto-loan fraud: The mainstream adoption of automation and digitalization in the auto-finance industry is presenting numerous challenges for lenders, as is the ongoing shortage of automotive inventory.

Current conditions make it possible for fraudsters to use synthetic identities to apply for auto loans at scale, [generating credit scores in the 700s]. This further streamlines identification checks and onboarding to enable easy access to financing. Fraud losses from falsified auto-loan applications are expected to grow this year as lenders push their digital transformation agendas forward.

Deepfake synthetic identity fraud: Deepfakes have become infamous for their realistic portrayal of victims, including celebrities and government officials. Now deepfake synthetic identities are increasingly being used to help fraudsters secure remote jobs. The FBI recently reported that it had received an influx in complaints of stolen personally identifiable information and deepfakes [used for job applications], primarily in technology jobs.

Deepfakes and synthetic content, including identities, lend verisimilitude to various social-engineering scams. In this latest manifestation, the approach is deployed in online job interviews with the goal of accessing financial data, corporate databases, sensitive customer data and other valuable information frequently associated with roles in technology.

The quality and quantity of new and emerging trends in synthetic identity fraud demonstrate the challenges of detecting SIF through traditional fraud-prevention tools and approaches.



The inclusion of both authentic and falsified information helps synthetic identities bypass existing fraud-detection models, enabling criminals to establish credibility. The patience many fraudsters exhibit in nurturing accounts and mimicking legitimate account holder behaviors also helps. Financial institutions also struggle with the lack of a single source of truth for identity verification, siloed identity verification data sources and inaccurate identity data across data sources.

Fraud prevention is a balancing act—solutions and approaches must be robust enough to stop criminals before they can infiltrate the system and commit fraud, yet optimized in such a way that the digital experience isn't diminished for real customers.

The use of artificial intelligence and machine learning to detect and intervene in real time can enable FIs to efficiently combat synthetic identities while addressing this need for balance. This strategy relies on an abundance of high-quality data to authenticate identities and address any information voids, and on advanced analytics to recognize and manage risks. Together, data and analytics can create a solid foundation for FIs to:

- *Link proof of users' existence to their indicated information and address.*
- *Establish trust and move legitimate applications through the system via data corroboration, including verifying phone numbers and other information and determining real-time possession or accessibility.*
- *Ensure that provided user information is a probable fit based on the user's occupation, age and nationality.*
- *Facilitate early and continuous account monitoring through identity-related intelligence, identity risk scores and behavioral analytics.*
- *Accelerate risk decisions according to a single identity score.*

Synthetic identity fraud has been successfully weaponized by bad actors. Countering this complex challenge involves smart technologies and solutions capable of adapting and advancing alongside the progression of new and emerging fraud threats.

Eric Tran-Le is head of Actimize Premier at NICE Actimize.

Making connections via connected TV

As more Americans cut the cord to traditional cable, financial institutions should think outside the broadcast box to reach customers and prospects.

BY STEPHENIE WILLIAMS

Nearly half of consumers perceive ads on connected TV to be more relevant than those on traditional TV, according to the 2022 Vericast Financial Services TrendWatch report.

A connected TV is a television used to stream video via the internet. As more people cut the cord to traditional cable and watch TV through streaming services, financial institutions should think outside the traditional broadcast box to reach their customers and prospects.

The shift to advertising through streaming is especially important given that 87% of households have at least one connected TV device, and 46% of adults watch CTV content daily, according to research from Leichtman Research Group.

Connected TV isn't exactly new, but the notable uptick in streaming service consumption and interest and the maturation of the industry infrastructure have made advertising on CTV even more appealing. As with any marketing channel, you'll want to measure results with advanced performance metrics including conversions, site and page visits, individual ads, and locations and times.

Today's marketers want to connect advertising dollars to tangible results such as foot traffic and sales. Validating and quantifying CTV's effectiveness at conversion is a must for advertisers seeking to realize the full value.

Proposals abound for making the connection between connected TV and conversion, but most leave a lot of questions unanswered, including the most important one: "Did my ads drive conversion?" This is primarily because the digital advertising ecosystem continues to struggle with three major attribution gaps:

Identity resolution: Cookies are on their way out for digital media, and they don't exist at all for CTV. As a result, most attribution methods don't give advertisers a reliable way to identify who is seeing

Advertisers are often in the dark about the real-world impact of the approach. What's missing is transparency. From beginning to end, advertisers deserve to know who they are targeting, how that audience responded and how the insight gained can improve future campaigns.

the ads, not to mention who responded by visiting a store or buying a product.

Data sources: Attribution often requires a third-party tracking device or depends exclusively on online activities. What happens when your audience isn't tracked by a third party or when offline activities figure prominently into your attribution calculations?

Data stability. To pinpoint your data and results, you need to validate your data assumptions with both online identifiers and physical addresses. Many attribution methods rely too heavily on one data source, while others are disproportionately affected by consumer privacy choices.

Unfortunately, many media companies take attribution approaches that do not successfully bridge these gaps. As a result, advertisers are often in the dark about the real-world impact of the approach.

What's missing is transparency. From beginning to end, advertisers deserve to know who they are targeting, how that audience responded and how the insight gained can improve future campaigns. They're also entitled to know their actual sales figures and the return on advertising spend.

The solution is to do a matchback analysis.

Better targeting: Matchback analysis starts with a complete understanding of the target audience,

including a comprehensive mapping of digital identities. This helps you hit the right audience with your message based on who they are, where they are and what they want.

Better data: It's one thing to know who your general audience is, and it's quite another to be able to reach the specific households you identify. Matchback analysis done right is supported by reliable data.

Better analysis: The "matchback" in this type of analysis involves focusing the picture on who your CTV campaign is targeting against your data, which includes customer and prospect lists. This enables you to watch the effectiveness of the campaign as exposure flows into engagement and turns into new accounts and loans.

A multichannel advertising strategy that includes connected TV is essential to delivering clear, targeted messages to an engaged audience that's ready and willing to act.

Stephenie Williams is vice president, financial institution marketing product and strategy at Vericast.

The power of payment networks

Banks are now at a pivotal point for incorporating digital payments to save time, strengthen the payee experience and reduce overall costs.

BY MICHAEL REED

Even as the world goes increasingly digital, financial institutions report that many B2B payments are still being made with printed checks. Possible reasons for this include the cost of implementing new payment solutions and the workload required for banks to update existing check processes.

Amid a push to increase efficiency and expand payment capabilities, banks are now at a pivotal point for incorporating automation and digital payments into their operations to save time, strengthen the payee experience and reduce overall costs.

Digitalizing check payments helps financial institutions reduce processing time and save money by eliminating the cost of mailing, printing and handling paper checks. Taking digitalization one step further, a payment network directory combines the ease of use and established processes of paper checks with the intelligent routing of a payee directory, digitally delivering payments and remittances to lockbox addresses.

The fundamental job of a payment network is to provide a way to send payments and the necessary remittance information to payees or recipients when the payer does not want to collect or store the payment information. The directory is a reference tool in a payments network that makes it easier for network participants to interact with one another.

Simply put, a directory combines data that you have with other data that the network knows about. A directory allows the network to take your instruction file, link it to the right payee and use what the network knows about that payee (a physical address or other personal identifiable information) to deliver an electronic payment.

Taking digitalization one step further, a payment network directory combines the ease of use and established processes of paper checks with the intelligent routing of a payee directory, digitally delivering payments and remittances to lockbox addresses.

Digital payment capabilities available through a network of directories include:

- *A stronger, positive payee experience.*
- *Shorter payment cycle times.*
- *Accelerated settlement.*
- *Reduced fraud risk.*
- *Increased cash flow.*
- *Simplified storage and handling of personal identifiable information.*

Banks looking to replace existing check payment solutions are often subject to extensive process or systems changes. The value of a payment network is that the changes take place in the middle of the payment process, with no changes required of the bank.

RELATIONSHIP VS. NON-RELATIONSHIP PAYMENTS

A straightforward way of understanding payments is by dividing them into two categories: those based on relationships and those that aren't. A relationship-based payment means that the bank already has information about the payees and has been making payments to them, so it's easier to run a digital payment. But in a non-relationship-based payment, you haven't yet established a relationship or gained that information. These types of non-relationship-based payments include one-off payments, less frequent payments or first-time payments. Financial institutions need a solution for both categories.

A directory allows you to use pieces of information to identify the payment delivery instructions needed to effectively deliver a payment. For example, you might have just a name and a physical address for someone. A good directory allows you to use that information to find the person in the directory and access their electronic address.

A financial institution needs to be able to make a payment along with remittance information. Your payment network and your digital payment platform should be able to support both use cases—when you have all the information for your payee and when you don't.

A directory allows you to use pieces of information to identify the payment delivery instructions needed to effectively deliver a payment. For example, you might have just a name and a physical address for someone. A good directory allows you to use that information to find the person in the directory and access their electronic address. You're using the physical address to obtain an electronic address in the directory.

With a payment network, your customers have access to quicker settlements, lower costs and easy processing since payments are incorporated directly into their existing digital lockbox.

When it comes to selecting a network provider, financial institutions are likely to be most successful with a frictionless, low-cost option that requires only minimal changes to implement. A significant measure of digital-payment success is the degree to which the new system makes it easier for payers to direct their payment electronically, without having to change their existing processes or increase their workload.

PAYMENT NETWORKS BENEFIT ALL PARTIES

The benefits of a payment network go beyond financial institutions to everyone involved in the payment transaction. Payees save valuable time when they only enroll once, using a directory that they know and trust with their information. Their payment experience is improved with broader access to that directory, preferred payment methods

and boosted cash flow through efficient digital (and secure) electronic methods.

On the other hand, payers benefit from instant access to a broad database of businesses and consumers without the need to maintain contact and payment information in their internal systems. Payers can also save time and money through automation when they choose to pay digitally.

Finally, the ability to access affiliate directories within a payment network significantly increases the value of a financial institution's services. These partnerships make it easier for payers to reach specific audiences, such as lockbox users or health care providers.

For financial institutions, payment networks yield value by connecting disparate accounts, payees and payment methods through a single channel. Participating in a digital lockbox network, for example, enables the bank's business customers to access more B2B payees and reduce the cost and risks of physical checks. Collaborating on payment networks lets banks and credit unions deepen customer relationships and strengthen their receivables offerings.

Michael Reed is division president, payments, for Deluxe.

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