Fraud Prevention And Customer Service Balance

by Steve Brown

LexisNexis research on fraud finds merchants believe the following: reducing fraud can help increase my company's sales (48%), lower fraud rates increase customer loyalty (44%) and they believe it costs too much to control fraud (20%). Clearly this data points to both the opportunity and risk of fraud and its ancillary drivers for both customers of banks and banks themselves.

As banks step up anti-fraud defenses, research suggests it may come at the expense of customer loyalty. In the zeal to verify transaction data like identities, banks can wind up annoying the very customers they are trying to protect.

Verification processes and other anti-fraud procedures can at times feel like intrusive roadblocks to customers instead of helpful risk management. This is a particular issue for community banks, who pride themselves on close connections to customers so care should be taken around how anti-fraud efforts are received.

These days, research firm Aite Group finds about 1 of every 10 banks now has its customer experience department selecting and funding new fraud solutions and that number is expected to rise. Just a few years ago, bank customer experience departments were not involved in the anti-fraud effort, so this shows progress.

Banks are focusing more and more on improving the customer experience at every point of contact, from the teller to the ATM to digital. So, it makes sense to link customer experience to fraud prevention as well. Doing so ensures a smooth customer interaction when suspicions arise. In an Aite survey of financial institutions, 74% had multiple independent projects underway to improve the customer experience. The same percentage said they examine every new business case for its effect on customer experiences. When it comes to fraud prevention, 83% said the impact on the customer experience of a new anti-fraud measure was a "very important" or "important" part of the equation.

What all this survey data suggests is that banks are keenly aware of the delicate balance between guarding against fraud and improving the customer experience. While no banker should sacrifice financial integrity and the safety of accounts in the interest of customer service, you also cannot afford to ignore how an anti-fraud measure might upset a good customer. Banking is far too competitive and customer retention is too valuable to the bottom line to allow for slippage.

What can your bank do to increase its chances of striking the proper balance between weeding out fraud and keeping customers happy? For starters, have anti-fraud systems that use the most robust data analysis to effectively filter unusual but legitimate alerts from ones that are more likely to be fraudulent. Effective data analysis can help determine just how unusual a certain transaction is and what level of action is needed. This approach means your bank won't unnecessarily block transactions and risk upsetting business customers. Next, make sure all customer experience staff has direction not just on fraud mitigation and detection, but also on streamlined customer service resolution in the event of an escalated customer situation.

Anti-fraud measures tend to be tech-heavy solutions that rely on data mining and computer programming methods. Once deployed, these measures affect real people - your customers. A good approach is to seek a balanced program between risk management and customer satisfaction - which is admittedly very tricky indeed.

BANK NEWS

Fintech Bank

The Wall Street Journal reports Varo Money will become the second fintech to try and become a bank, as it seeks a charter from the OCC. Varo follows SoFi or Social Finance Inc., which was first to the fintech banking game and is seeking to become a UT industrial bank. Varo is a digital banking startup that currently partners with banks to provide services for its mobile banking application.

M&A Activity

1) First Federal Bank ($516mm, TN) will acquire Cumberland Bank & Trust ($175mm, TN) for an undisclosed sum.

Board Structure

Regulators expect banks to have boards that are well diversified and composed of individuals with a mix of knowledge and expertise in line with the bank's size, strategy, risk profile, and complexity.

Board Concerns

An survey conducted by RMA of midsize and large banks finds the biggest concerns of the board of directors are: the ability to keep up with the ever changing regulatory environment (68%), understanding their responsibilities with the regulatory agencies (32%), difficulty finding board members with desired level of specific expertise (21%), knowledge of the banking business model and how they can participate in leadership of the bank (16%) and understanding their legal liabilities and how they can participate in leading the bank while limiting personal liability (16%).

Smallest States

The Census Bureau reports the bottom 10 smallest states in population from 2015 to 2016 are: WY (586k), VT (625k), DC (681k), AK (742k), ND (757k), SD (866k), DE (952k), MT (1.0mm), RI (1.1mm), and ME (1.3mm). All told, this group of states represents 3% of the US population.

Less Regulation

The Wall Street Journal reports the Trump administration has reduced the number of regulatory actions in process across the federal government by about 20%.

DEPOSIT OPPORTUNITIES

In an effort to expand our relationships, PCBB is pleased to offer community banks a money market deposit account rate of 1.10%, subject to availability. Contact operations@pcbb.com