

Address Change Verification Shouldn't Grow on Trees

By: Adam Elliott

Even though the list is rapidly shrinking, there are still a few things you can get for a dollar: a cup of coffee, a no-frills hamburger, a lottery ticket.



Banks know all too well what else costs around a buck: mailing a letter to verify a customer address change in an effort to mitigate account takeover fraud. To comply with The FACT Act Section 114B, many financial institutions are still using this outdated, paper-reliant method, often hundreds, thousands or even hundreds of thousands of times a year.

And while that one-dollar estimate covers the cost of printing, prepping and mailing a first-class letter to the old address and the new one, it doesn't take into consideration the fraud write-offs and lost business associated with account takeover incidents. These days, fraudsters can drain a stolen account before a letter even makes it to the post office.

Inefficient mailings can really impact your bottom line. But there's good news: This relic from the Pony Express era is an unnecessary expense, especially today.

Because most of the nation's banks have balance sheets ballooning with unexpected expenses associated with COVID-19, they're implementing both large- and small-scale cost-cutting efforts to weather the pandemic and guard against its aftermath. At the same time, institutions are accelerating their digital transformation agendas and seeking opportunities to replace inefficient, paper-intensive processes with streamlined automated ones.

As you're assessing opportunities to improve your processes and embrace modern technology, don't overlook checking the couch cushions of your compliance department for some additional cash. Yes, a lot of regulatory compliance is now achieved with the help of efficient automated systems, but thanks to inertia, some blasts from the past – like mailing letters – are still alive and well. But it's time to relegate them to the trash heap of history.

The FACT Act Section 114B allows financial institutions – for a fraction of the cost of printing and mailing letters – to switch to an analytics software service for a real-time, risk-based solution that assesses the identity-fraud risk of every profile change. You can efficiently and cost-effectively comply while preventing more fraud losses.

A digital solution automatically runs behind the scenes, activating massive databases and context-aware scoring to assess the riskiness of every address, phone number, and email address change. The second an address change is requested, these automated address-verification solutions use their massive databases and artificial intelligence to assess the fraud-risk of the request. To significantly reduce operational and investigative expenses, this method uses data-driven intelligence to answer the fundamental question: "Based on all of the information available, does this address change make sense?"

If the address change is below a certain risk threshold, then the institution can accept the change without any manual intervention—and satisfy compliance requirements. In cases where the solution identifies the address change as suspicious, the institution has what it needs to investigate. Or if they're part of a fraud investigation network – integrated into some solutions – bank fraud investigators can instantly see that another institution has already flagged the address change as potential fraud.

The most robust address verification solutions also assess the riskiness of email and phone number changes, giving institutions more functionality for the money. Having this functionality is a must, as many account takeover schemes take place completely in cyberspace, meaning there's no need to establish a fraudulent physical address. Our recent data show that fraudsters increasingly change — and then control — the email

and phone number on the account, which prevents the institution from communicating with the victim while the crime is taking place. In 2019, 31 attorneys general lobbied the FTC to expand the FACT Act's Identity Theft Rules to also cover email and phone number changes for those very reasons.

From an expense-management standpoint, switching from address-verification letters to an automated solution can be a quick win. Combine this cost savings with a reduction in fraud write-offs and lost business associated with account takeover incidents and you're sure to move the needle on the efficiency ratio.

This automated, digital approach is more efficient, cost effective, and better at reducing fraud losses in today's digital banking environment. There's never been a more perfect time to retire those antiquated address-change letters — and put a few more bucks to your bottom line.

About the Author

Adam Elliott is founder and president of ID Insight, which provides platform-based solutions to help financial institutions, credit issuers, online retailers and healthcare companies fight identity fraud. Before launching ID Insight in 2003, he was the President of ChexSystems, Inc., a subsidiary of FIS, a leader in providing risk and fraud solutions for the retail banking industry. Prior to FIS, Adam held analytic leadership roles at Deluxe, Time Life and Fingerhut. Contact him at adam.elliott@idinsight.com or @ID_INSIGHT.

