

*Pete Turek**Jason Nierman*

Increasing Need for Robust Identity Management Processes

By Pete Turek and Jason Nierman

Consider the following scenario and think to yourself, “Is this a typical buying situation?” Joe Consumer walks into a dealership and requests the opportunity to test drive a few cars. After presenting a valid driver’s license with matching picture, he heads out onto the road. Upon his return Joe says he is ready to make his purchase. To initiate the application process, he gives the sales professional his address, Social Security number (SSN), date of birth and phone number. All the information matches with his credit report and driver’s license, except his current address. He explains that he just moved into a new home and proves his new address with a utility bill. The sales professional accepts this proof, double checks Joe’s credit score to ensure the loan will get funded and processes the credit application. The finance & insurance (F&I) manager subsequently “okays” the car for delivery and Joe drives away. The dealer has a sale and the lender is ready to collect on a new loan. No problems with this course of action, right?

A few weeks later, the lender calls the dealership and informs it that the consumer missed his first car payment. Subsequent investigation reveals the consumer’s new address is linked to a post office box, his stated SSN has never been issued and the phone number has never been in service. Further analysis finds the consumer’s previous address was valid. The dealer locates the phone number associated with the consumer’s previous address and calls it. A man answers the phone and, when questioned, says he never bought a car at the dealership. He claims and ultimately proves he is an identity theft victim. After a short debate, the lender charges back the purchase to the dealership, resulting in a hard financial loss.

If this scenario sounds familiar, you are not alone. Identity fraud continues to be an issue for anyone involved in the credit lending process. Considering perpetrators are more sophisticated than ever and law enforcement is strapped for resources, indications suggest it isn’t slowing down anytime soon. As a result, financial services regulatory bodies are proposing new regulations that, beginning as early as next year, could require credit grantors to have a program in place for detecting “red flags” of identity theft during the application and account management stages of the customer lifecycle, including:

- The applicant’s SSN has not been issued or is listed on the Social Security Administration’s death master file.
- Personal information is inconsistent, e.g. the SSN range and date of birth do not correlate.
- The address or phone number on the application is falsified or linked to a known fraud.

Would your dealership have difficulty complying if these regulations were passed today?

This level of identity verification is just starting to make its way into the auto finance world and dealers can address identity fraud several ways. One way is to use identity verification tools to check application information against multi-source databases and confirm that a consumer’s identifying information is valid and correlates accordingly. For example, these tools scan the consumer’s information against fraud and criminal activity databases, such as the credit reporting companies’ “Fraud Alert” lists and the Department of the Treasury’s OFAC List and return messages that alert lenders to inaccuracies. With access to this information, the better the odds are that you’ll zero-in on fraudulent or inaccurate information.

Identity verification tools can also generate a list of “out-of-wallet” questions that can be used to “authenticate” or ensure the prospective buyer is who he says he is. This authentication process can include credit-based questions like, “What is the balance of your most recent mortgage?” and demographic or geographic-based questions such as “On which of these streets have you lived previously?” or “Which of these phone numbers have you used previously?” Sales professionals and F&I managers can use this kind of authentication strategy to ensure the consumer is legitimate before a loan gets approved and a car is driven off the lot.

Although some dealerships think identity verification and authentication tools slow down a potentially long application process and fraud losses are “just a part of doing business,” the reality is that it doesn’t have to be that way. By using analytic models, similar to a credit score, lenders can predict the likelihood of fraud based on a certain mix of messages. These scores can be integrated into your loan decisioning processes and technology to cause little-to-no disruption to a dealer’s existing application process.

In addition to regulatory compliance, employing customer verification and authentication tools can provide many tangible benefits. First, identity verification tools can significantly reduce the risk of “drive-off,” i.e. the consumer never returning the car from the test drive. This policy, which is already being employed by dealerships that don’t require a salesperson to go on a test drive, could prevent financial losses from occurring. Second, sales professionals can validate customer information or, in some cases, scare away fraudsters. This could protect a dealership from charge back losses and directly impact a dealer’s bottom line.

Third, by replacing the proof of identification check with an authentication exam, dealerships can also keep legitimate customers in the showroom as opposed to making them come back with proof of identification. This, in turn, provides the opportunity to continue advancing the sale before the consumer elects to shop elsewhere.

The final benefit, though harder to quantify, is reputation. Being known as a dealership that is hard on fraud and willing to take additional steps to protect its customers can help draw more customers in and deter potential fraudsters away from ever entering your doors. It’s a great way to create a positive marketing message to your genuine customers, since it is their identity that you are protecting after all.

Being known as a dealership that is hard on fraud and willing to take additional steps to protect its customers can help draw more customers in and deter potential fraudsters away from ever entering your doors.

Pete Turek is the vice president of TransUnion’s Automotive division. Jason Nierman is a business development consultant aligned to TransUnion’s Fraud and Identity Management solutions group. Together, the two partner with dealers and auto finance companies to improve their identity management processes through TransUnion’s solutions.

