



## **Using Real-Time Interactive Notifications to Effectively Fight Fraud, Accelerate Resolution and Increase Customer Loyalty**

Conducted by  
Javelin Strategy & Research  
June 2010

## Rising Fraud Costs Challenge Financial Institutions to More Effectively Protect Customers

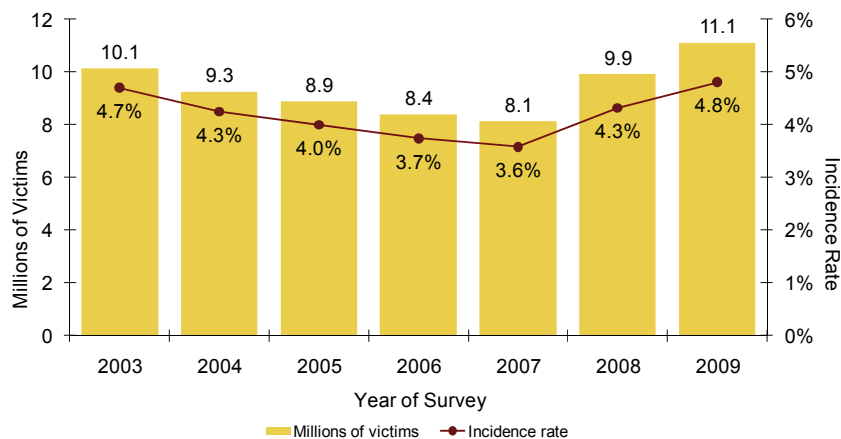
Banks that take a multi-channel approach in fighting fraud will reduce fraud losses, in addition to increasing customer loyalty and satisfaction. By offering interactive financial alerts, consumers will be given the necessary tools to help financial institutions detect and combat fraud in real time. Mobile will play a critical role by enabling financial institutions to effectively communicate with their customers via interactive, two-way alerts that can reach consumers at any time, regardless of their location. With fraud costs on the rise, financial institutions can leverage a consumer's desire to receive alerts and use multi-channel communications to minimize losses.

### Total Fraud Amounts and Rate of Incidence Increase in 2009

Identity fraud continues to rise in the United States, with Javelin finding there were more victims in 2009 than during any period since its first ID fraud survey in 2003. A total of 11.1 million U.S. adults – or 4.8% of consumers – became victims of identity fraud, up 12% from 2008 and 37% since 2007. The total annual fraud amount climbed to \$54 billion, up 12.5% from \$48 billion in 2008 – resulting in a huge drain on the economy, the financial industry and consumers. The increased incidence of fraud was driven by the poor economy, coupled with increasingly global, sophisticated criminal enterprises that specialize in developing new weapons of attack. The good news is that financial institutions have an ally in this battle: their customers. Consumers are eager to be deputized with tools such as interactive security alerts to safeguard their accounts.

### Overall Number of ID Fraud Victims Increases by 12% in 2009 to 11.1 Million Adults

Figure 1: Incidence Rates and Numbers of Victims for 2003 – 2009



Q32: What is the approximate dollar value of what the person obtained while misusing your information? Q3: Has anyone ever misused any of your own existing accounts such as a credit, debit, bank or utility accounts, or used your own personal information to create unauthorized new accounts or commit a crime in your name? In other words, have you, yourself, ever been a victim of identity theft?

November 2009, 2008, 2007, 2006, 2005, 2004,  
n= 5,000, 4,784, 5,075, 5,006, 5,000, 5,004  
Base: All consumers.  
© 2010 Javelin Strategy & Research

## Rising Fraud Costs Challenge Financial Institutions to More Effectively Protect Customers

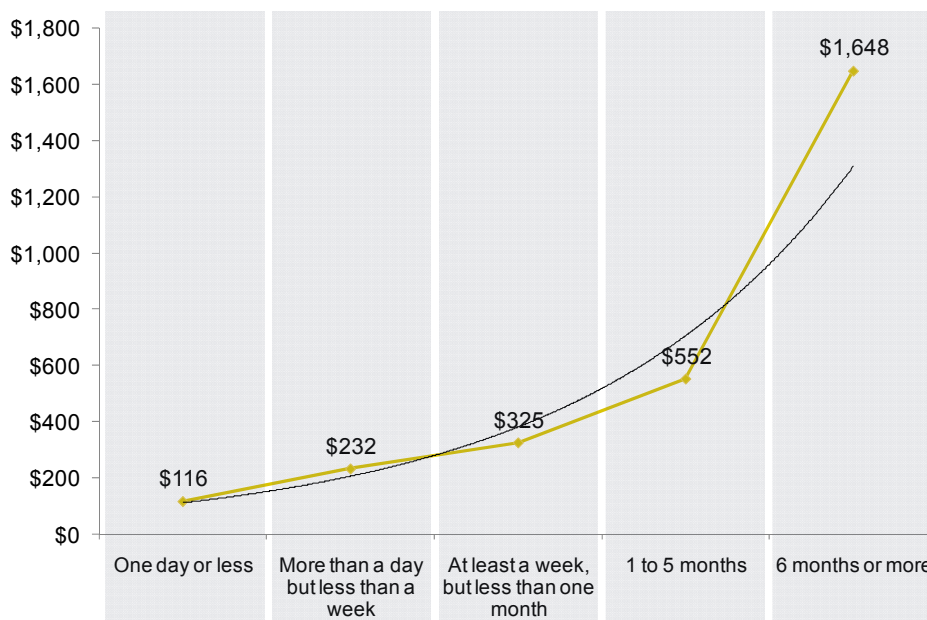
### Longer Detection Times Result in Increased Fraud Damages

#### Industry Absorbs More of the Fraud Loss as Consumer Costs Decrease

While overall fraud amounts increased in 2009, consumer costs and detection times continued to fall. The average victim suffered a loss of \$373 in 2009, a 25% decrease from \$498 in 2008. That leaves financial institutions to absorb the majority of fraud costs to limit the impact on consumers. According to Javelin's 2009 Banking Identity Safety Scorecard, banks continue to excel in resolution capabilities, with all top 25 banks surveyed offering zero-liability protection for signature, PIN and card-not-present transactions for debit cards.

A significant positive correlation continues to exist between the length of detection times and average consumer costs. The longer fraud goes undetected, the higher the average cost to the consumer – and to the financial institution. Consumer costs are classified as any out-of-pocket expenses paid by the fraud victim, including unreimbursed monetary losses, lost wages while trying to resolve fraud, and any related legal expenses.

Figure 2: Fraud Amounts and Consumer Costs by Detection Time



Q22: From the time the misuse of your information first began, how long did it take you to discover it had been misused? by Q31: How much money did you pay out of pocket as a result of the identity theft?

November 2009, n = 674  
Base: All fraud victims.  
© 2010 Javelin Strategy & Research

## Rising Fraud Costs Challenge Financial Institutions to More Effectively Protect Customers

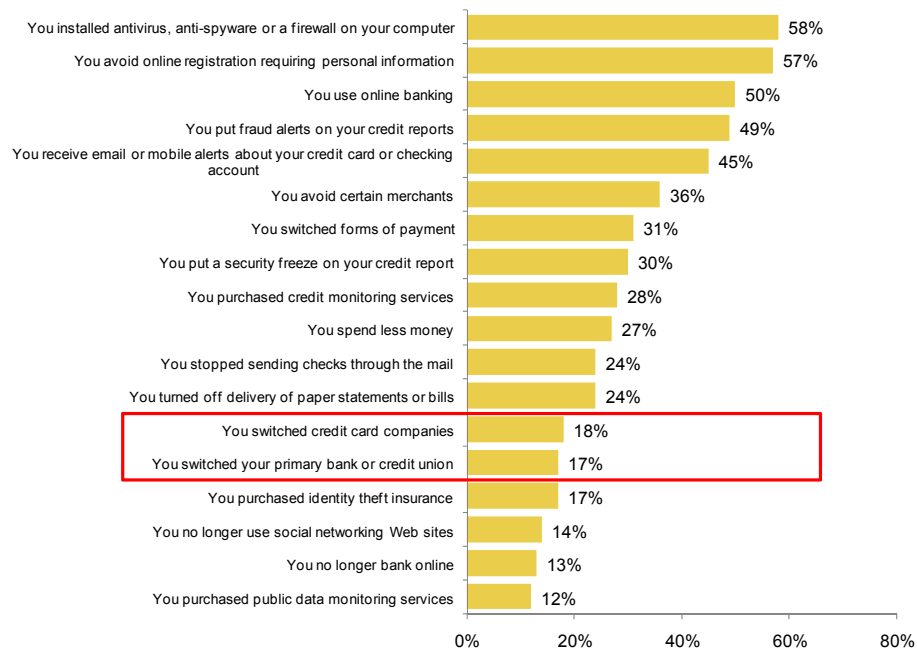
Victims who took six or more months to detect fraud suffered more than 14 times the mean cost of those fraud victims who discovered fraud in one day or less (\$1,648 vs. \$116), and nearly five times the average consumer cost (\$552). However, the increase in average costs for consumers who take up to five months to detect fraud might be attributed to the following: 1) financial institutions are not legally required to restore lost funds if consumers fail to report the fraud within a certain period, and 2) fraud that goes undetected for long periods tends to be more complex and more difficult to resolve.

### *The Importance of Successful and Exceptional Fraud Resolution*

The growth in identity fraud victimization rates over the past year is harmful not only because of dollar losses but also because of the emotional impact on the victims. Victimization generates fear and a loss of confidence in existing organizations, leading many consumers to avoid certain merchants, alter their use of payment types and channels, and sever relationships with primary card companies and banks.

### Nearly One in Five Fraud Victims Switches Credit Card Companies or Financial Institutions

Figure 3: Actions Taken by Fraud Victims



Q38: As a result of being a fraud victim, which statements are true?

November 2009, n=620  
Base: All fraud victims.  
© 2010 Javelin Strategy & Research

## Rising Fraud Costs Challenge Financial Institutions to More Effectively Protect Customers

Eighteen percent of those victimized by fraud switch credit card companies, 17% switch primary banks or credit unions, and 31% switch forms of payment. To maintain the loyalty of fraud victims, financial institutions must resolve fraud as quickly as possible, position themselves as the customer's ally, and implement systems to satisfy new and existing customers. Taking such an approach will increase customer satisfaction and minimize attrition.

While fraud victims often act in a way harmful to financial institutions, they also develop positive, proactive behaviors to protect themselves. About 45% of victims signed up for e-mail or mobile alerts about credit card and checking accounts, an indication that they clearly value real-time notification of account-related information. In addition, 58% installed antivirus, anti-spyware or firewalls on their computer, while half of the victims log into online banking (50%) or put fraud alerts on their credit reports (49%). Additionally, 28% purchased third-party credit monitoring services, 17% purchased identity theft insurance and 12% purchased public data monitoring services. This underscores that consumers want to play a role in fraud prevention, detection and resolution. More than eight of 10 consumers believe that protecting their financial accounts is a team effort between themselves and their financial institutions.

## The Value of Real-Time, Interactive Alerts

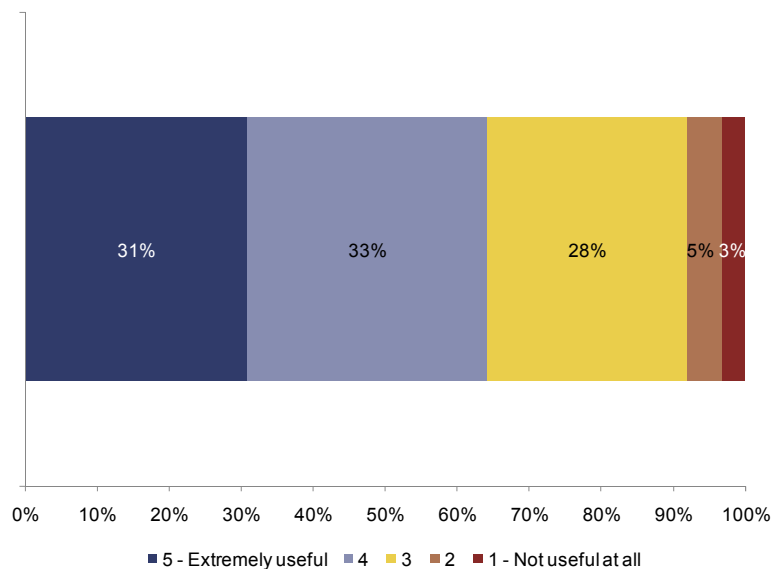
Financial alerts have the potential to initiate timely, practical and actionable conversations between financial institutions and their customers, delivering unprecedented control to customers over how they monitor and manage their money. Each alert is a personal exchange with a customer and an opportunity to introduce customers to more cost-effective service channels. By offering comprehensive alert offerings, financial institutions can build trust by sharing control with customers and bolstering their confidence that their money is in good hands. In addition, by automating alerts, banks have the ability to address incidents in a more timely and cost-effective manner. It is not always necessary for there to be direct contact between a customer-service representative and the consumer. Indeed, 31% of consumers respond to alerts by logging into online banking.

### Consumers Highly Value Alerts

Financial alerts are also an effective way to involve the consumer in fraud mitigation. These notifications are sent automatically to signal consumers regarding potentially fraudulent changes to their accounts or to their personally-identifiable information such as their log-in, password, e-mail address or Social Security number. Not surprisingly, 64% of consumers rate alerts as a useful or an extremely useful tool to mitigate fraud – about eight times as many who think otherwise.

### Almost Two-Thirds of Consumers Rate Alerts as Useful or Extremely Useful

Figure 4: Usefulness of Alerts in Preventing Fraud and Managing Finances



Q25: How would you rate the usefulness of financial alerts in helping you detect fraudulent activity or manage your finances?

March 2010, n= 4,979  
Base: All consumers with financial products.  
© 2010 Javelin Strategy & Research

## The Value of Real-Time, Interactive Alerts

Financial institutions that capitalize on alert offerings and partner with their customers to combat fraud will suffer lower fraud costs and enjoy increased touch points with their customers and enhanced customer satisfaction. Institutions that fail to do so do a disservice not only to customers who see the value of alerts but also to their own bottom line.

### ***Effective Alert Offerings Include Real-time, Two-way Communication***

Alerts are most effective when they deliver relevant information at the right time, when information is of peak value. As mobile banking and commerce gain momentum, serving up real-time transaction and account data will become increasingly important.

Dating back to 2004, Javelin has strongly encouraged financial institutions to implement a wide range of financial alerts to serve online- and mobile-banking consumers. But the potential of today's alerts is far greater:

- Implementing two-way interactive alerts enables customers to take action. For example, customers could reply “yes” or “no” to a fraud alert to confirm whether a purchase was valid, authenticate a transaction using a PIN initiated via an alert, immediately dial a customer-service representative or interactive voice response system, or start the opt-in process for overdraft protection when alerted that their checking account balance has dropped too low.
- Alerts with interactive communications provide financial institutions with the ability to resolve customer concerns without taking up more costly, traditional customer service center resources, while providing customers with self-service options.
- Timely alerts can deputize consumers in the fight against fraud, enlisting their help in spotting suspicious transactions.
- Alerts have the potential to open conversations with nearly every consumer, regardless of whether they typically bank online, via mobile, use ATMs, or prefer to walk into a branch. Alerts appeal to an untapped market of consumers who do not bank online, those who own cell phones but not computers, as well as older, more affluent consumers. SMS text and e-mail alerts are able to reach consumers who have turned off landlines or prefer to be contacted via their mobile devices.
- Perhaps most importantly, alerts can demonstrate to consumers that their financial providers are looking out for them 24/7, giving them greater control of their money and helping them achieve financial dreams – loyalty-building evidence that is far more powerful than any pledge or slogan about customer service.

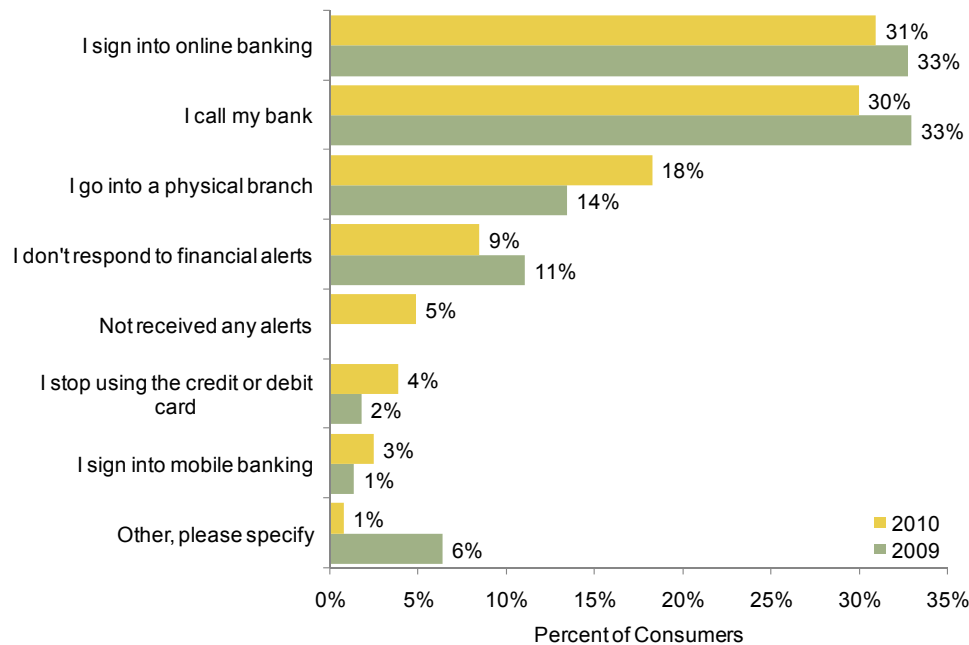
## The Value of Real-Time, Interactive Alerts

### Alerts Are a Call to Action

Nearly nine out of 10 banking customers respond upon receiving an alert – and only 9% do nothing. But what’s equally important is *how* consumers respond. They typically either log onto the bank’s website (31%) or phone their bank (30%) – more than double the number of those who visit a branch. In 2009, 56% of consumers receiving e-mail alerts and 46% of those receiving SMS alerts logged in online. The use of these channels means more interaction is resolved through self-service channels, resulting in cost savings and potentially freeing up resources for other fraud-fighting initiatives. It also underscores that alerts are most valuable and practical – and most beneficial to the bank – when they enable customers to quickly and easily take action in the channel the consumer considers most efficient.

### Nearly 9 out of 10 Consumers Take Action When They Receive an Alert

Figure 5: How Consumers Respond to Financial Alerts (2009-2010)



Q26: How do you typically respond to financial alerts you receive regarding your immediate financial status? (Select only one)

March 2010, 2009, n = 5,211, 2,779  
Base: All consumers.  
© 2010 Javelin Strategy & Research

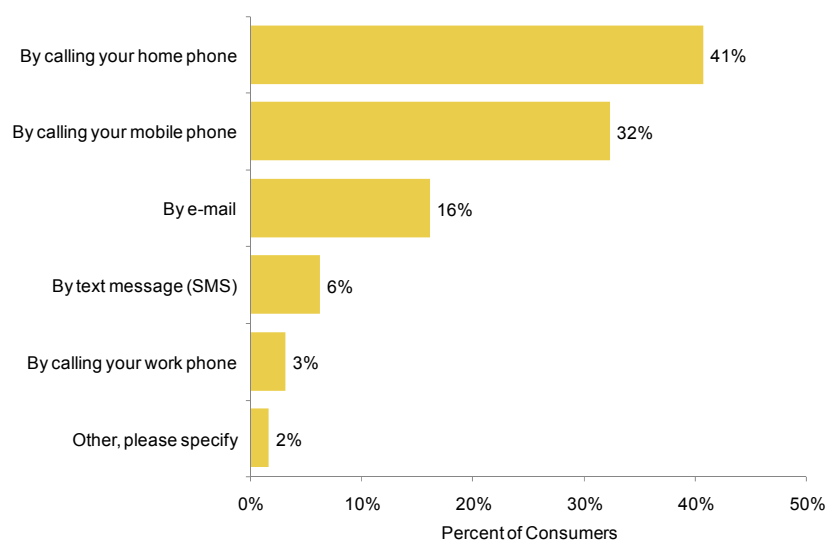
## Consumers Demand Multi-Channel Communication

When consumers are asked how they would first like to be contacted regarding potential fraudulent activity on their account, it becomes clear that different consumers prefer different means of communication: 41% prefer calls at home, 34% prefer calls on mobile devices, 16% prefer e-mail, 5% prefer SMS contact, and 2% prefer calls at work. The range of answers underscores that communicating with consumers via multiple channels is superior to a one-size-fits-all, single-channel approach.

But it also is an indication that almost 40% of consumers prefer to be reached on their mobile phone with a call or text message. Additionally, because 27% of the mobile marketplace is comprised of smartphones,<sup>1</sup> a percentage of those choosing to be contacted via e-mail are receiving their e-mails instantaneously on their mobile devices, strengthening the need for mobile communications offerings. Because of the growing smartphone market and the increasing customer base with advanced mobile functionality, financial institutions must continue to develop mobile communications that will enable them to reach their customers through all available and desired channels. As customers become accustomed to – and come to expect – up-to-the-minute financial information, the demand for real-time, two-way communication will be a necessity, not a “nice-to-have.” SMS and e-mail notifications will provide immediate, timely and relevant financial information, supplementing and eclipsing less up-to-date banking practices.

### Consumers Desire to be Contacted Through Various Channels

Figure 6: Preferred Contact Methods by Consumers Regarding Fraud



Q47: If your bank or credit union believed there was fraudulent activity on your account, how would you prefer they first contact you? (Select one only)

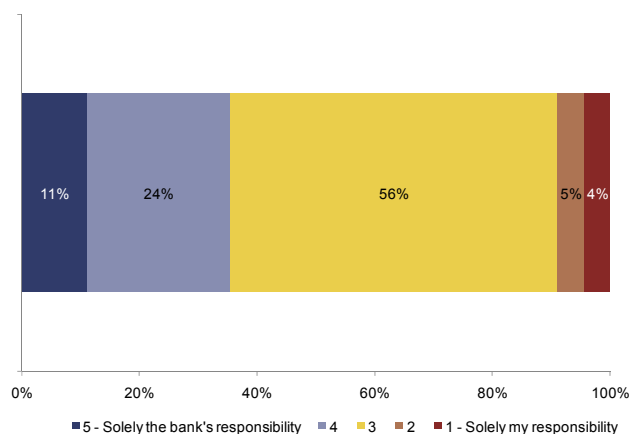
March 2010, n= 5,211  
Base: All consumers.  
© 2010 Javelin Strategy & Research

<sup>1</sup> Mobile Banking Behaviors: Fewer Handsets in the U.S., Yet Smartphone Growth Exceeds Expectations, Javelin Strategy & Research, June 2010.

## Consumers Perceive Financial Account Protection as a Shared Responsibility

### Consumers Want to Share Responsibility for Fraud Protection

Figure 7: Consumer Beliefs about Responsibility for Protection From Fraud



Q10: When it comes to protecting your financial accounts from fraud, who do you think should be primarily responsible?

March 2010, n=5,211  
Base: All consumers.  
© 2010 Javelin Strategy & Research

While banks and card issuers typically assume responsibility for fraud losses, Javelin sees an opportunity for financial institutions to partner with consumers to build relationships and reduce costs. Customers who frequently monitor their financial account activity in real-time are most likely to uncover fraud faster, thereby dramatically reducing detection time and minimizing fraud losses. Additionally, financial alerts sent to the customer's mobile phone can quickly disrupt fraud sprees and shorten the length of misuse.

More than eight in 10 consumers believe protecting their financial accounts is a team effort – a combination of the bank and the consumer – with more than half (56%) assigning equal accountability to both parties. By encouraging customers to enroll in e-mail and mobile alerts and other monitoring programs, financial institutions can leverage the consumer's willingness to help detect fraud sooner. This recipe of consumer and industry vigilance can prove to be tremendously effective in thwarting criminal fraud attempts and mitigating overall losses.

Control means confidence. Financial institutions that deputize their customers in the battle against fraud using a multi-channel communications approach will reduce fraud losses, lower customer service costs and boost customer loyalty. Mobile devices in particular will enable consumers to know where they stand financially anytime, anyplace – and to take action using the cost-effective banking channels they consider most practical. In essence, the mobile device can serve as a financial remote control that delivers the right information at the right time – and more and more consumers will define “the right time” to mean in “real time.” Financial institutions that deliver such an experience will be the first place customers will turn to when monitoring and managing their finances.

## Consumers Perceive Financial Account Protection as a Shared Responsibility

### ***About SoundBite***

SoundBite Communications, Inc. (NASDAQ: SDBT) is leading provider of on-demand, multi-channel Proactive Customer Communications, which enable organizations to communicate relevant and timely information to their customers over a variety of communications channels. Seven of the 10 largest card-issuing banks, as well as 50 Fortune 500 companies in several industries rely on SoundBite to proactively communicate with their customers.

The 10-year-old Bedford, Mass.-based company offers interactive Customer Lifecycle Solutions that address key business challenges to help businesses build strong customer relationships from acquisition through retention. In the case of card-issuing banks, the lifecycle would begin with origination, continue with card activation, and follow through with loyalty, payments, fraud management and collections. The company's Optimization Solutions provide enterprise-wide solutions that enable more efficient and effective customer interactions. Both are powered by SoundBite Engage™, the company's on-demand, multi-channel communications platform. For more information visit [SoundBite.com](http://SoundBite.com).

### ***About Javelin***

Javelin provides superior direction on key facts and forces that materially determine the success of customer-facing financial services, payments and security initiatives. Our advantages are rigorous process, independent position, and expert people.