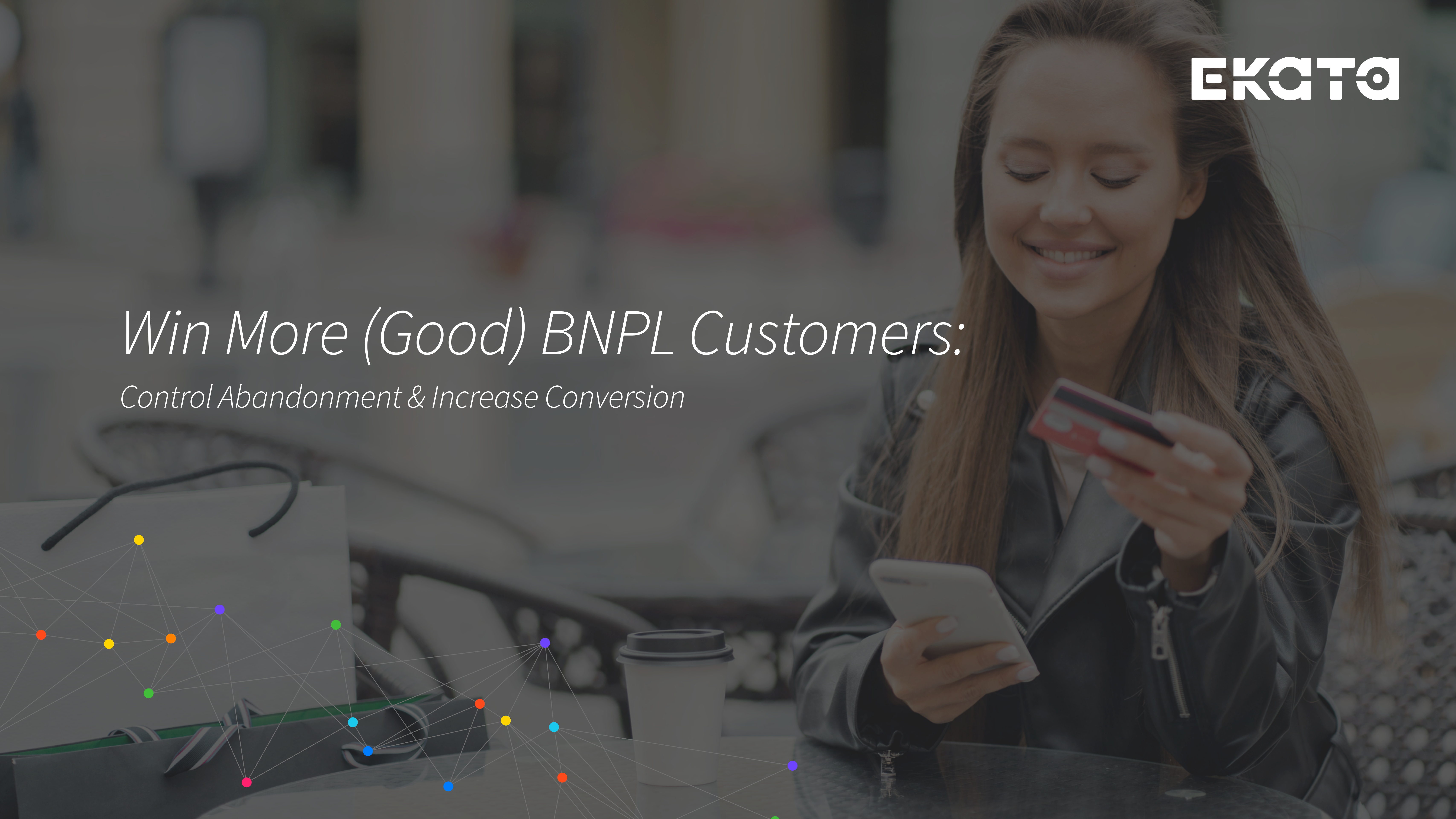
EKATA



Win More (Good) BNPL Customers:

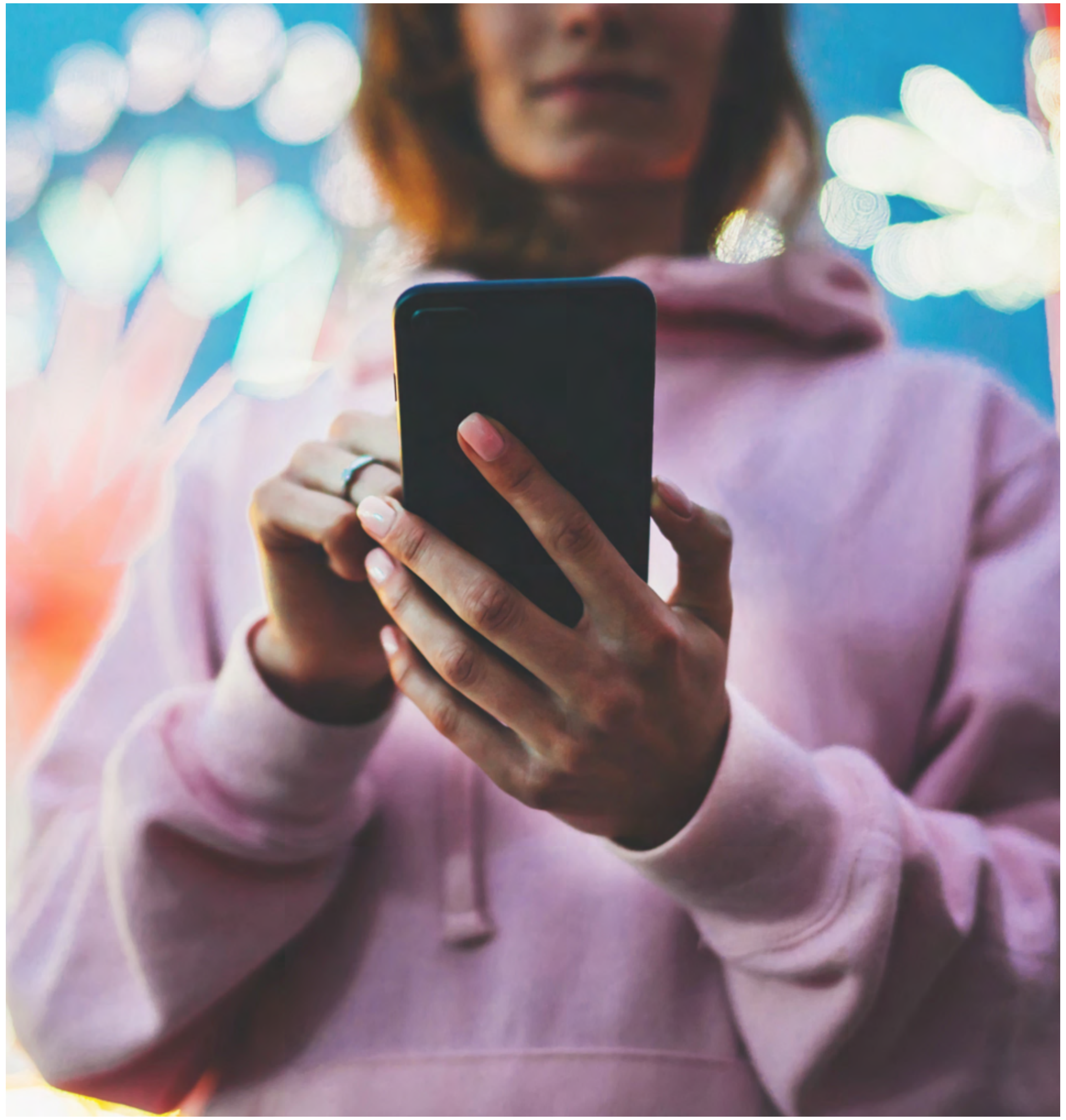
Control Abandonment & Increase Conversion

The unspoken secret in BNPL account creation isn't fraud – it's competition

Buy Now, Pay Later (BNPL) companies like Affirm, Klarna, Afterpay and many others have already gained much of the market share, but other players — such as Apple/Goldman Sachs and PayPal — are eager to capture and serve the customers flocking to this new payment method.

In a space with increasing competition — including challenger banks equally eager to capture thin-file populations — how do you differentiate your BNPL offering and keep customers? The path to success lies in building amazing customer experiences and powering them with smart identity verification and expedient routing of good customers.

This eBook will cover key market trends, opportunities to innovate, and ways in which Ekata can be a part of your competitive edge in increasing conversion rates and controlling abandonment as new customers create accounts on your BNPL platform.



The BNPL Marketplace Disruption

BNPL, also known as point-of-sale (POS) lending or financing, has exploded in recent years. This is in part due to the COVID-19 pandemic that has more consumers than ever doing their shopping online, but it's also largely thanks to thin-file users — most notably growing Gen Z and younger Millennial populations — who aren't interested in traditional credit channels.

The players

FIRST-LOOK FINANCING SOLUTIONS

BNPL fintech companies — such as Affirm, Klarna, and Afterpay — are growing their market share by partnering with ecommerce companies to provide POS financing to prime customers with good credit scores who might otherwise pay via more traditional credit channels — and demand is growing. Fintech startups enabling BNPL reported up to triple digit growth in summer 2020, according to *American Banker*.

SECOND-LOOK FINANCING SOLUTIONS

Another group of BNPL fintech companies provide financing to customers with lower credit scores. They often step in when a first-look financer isn't interested in the customer to provide a different means of securing financing — by tying it to an existing credit card, for example.

PERSONAL BANKING INSTITUTIONS

Thus far, banks have been late adopters of the technology supporting BNPL programs. This is due, in part, to the higher amount of regulatory scrutiny traditional banks face when issuing credit. Even when they begin to enter the space, they may continue to avoid smaller loan amounts ($50–$500) as well as applicants with low credit scores.

"While BNPL currently only reflects a small portion of the $8 trillion US payment cards market, that number is expected to grow 10–15x by 2025."

Source: Disrupting the $8T Payment Card Business: The Outlook On 'Buy Now, Pay Later', CB Insights, 2021

Who's fueling BNPL growth

With customer acquisition top of mind for financial institutions, capturing previously untapped populations is key — and BNPL especially has found success with thin-file customers who have insignificant or nonexistent credit histories. Three distinct, but sometimes overlapping, populations stand out.

"Only 50% of Gen Zers have a credit card."

UNDERDEVELOPED CREDIT MARKETS

These are people who lack access to traditional credit channels. This can be due to the systematic failure of these channels - particularly in markets where the credit industry is not as developed. Examples include Malaysia and the broader Southeast Asian Market where credit card usage is not common.

MISTRUSTING MILLENNIALS AND GEN Z

These groups mistrust traditional credit channels — such as credit cards — or don't wish to pay credit card interest rates. This happens particularly in the more developed credit markets, such as the U.S. and Australia.

LOW-INCOME INDIVIDUALS

BNPL users report lower income and higher financial volatility than households with credit cards. According to a Morning Consult poll, 64% of BNPL users reported an annual income of less than $50,000. In comparison, fewer than half of households with credit cards reported income below that threshold.

Source: Global Gen Z Report, TransUnion, 2019

A new solution to an old problem

BNPL is essentially a simplification of the credit process that provides 'instant credit' at the point of sale. This means that when a customer makes a purchase online — or in-store, as the industry expands — they have the option to split their payment over installments without the fees or complexity of a traditional credit card.

QUICKER DECISIONING

BNPL's competitiveness in this space is possible because of quicker decisioning — instead of taking minutes, hours, or days to approve credit, it's able to approve or deny credit applications in the time it takes to complete a transaction.

SIMPLER APPLICATION PROCESS

Hand in hand with quicker decisioning is the simplicity of the BNPL application process. Most BNPLs run soft credit checks and make decisions accordingly. Certain BNPLs don't even require soft credit checks, instead of using a customer's existing credit cards to determine and extend a credit line.

BNPL companies employ these features to combat the high abandonment rates that traditional credit channels encounter — especially amongst thin-file customers. However, faster, less manual decisioning flows along with a growing market share can invite higher levels of fraud that threaten the ability of BNPLs to stay competitive.

"There's a 19% abandonment rate for online account opening with financial institutions."

Source: Digital Banking Customer Engagement, Digital Banking Report, 2019

Customer Acquisition & Fraud: Two Sides of the Same Coin

While customer acquisition is always top of mind, fraud prevention is often the other side of the same coin. By virtue of the type of lending they're engaged in, BNPL companies face new challenges as they focus on acquisition and expansion.

New pain points...

Ensuring customer acquisition methods also mitigate fraud risk is key to keeping acquisition costs low and trust high. As BNPL companies gain traction, fraudsters seek to take advantage of the very features that make BNPL competitive in the consumer lending space. Because these features aren't tried and tested to the same extent as traditional lending processes, there are new pain points.

DECISION SPEED

Instant credit means BNPL lenders need to make a credit decision in the time it takes a customer to complete a transaction. This quick decisioning speed makes the BNPL process a target for fraudsters equipped with fake and stolen identities as they can access tangible goods with a lower likelihood of initial detection.

CHARGEBACK LIABILITY

Many BNPLs take on the liability of chargebacks from the merchant. This offers an additional incentive for the merchant to drive customers through this channel because the chargeback can be viewed as a guarantee service on top of a payment mechanism. It can also result in heavy losses if the BNPL company is unable to mitigate risk at a high enough level.

"$3.4 billion in account opening fraud losses in the U.S."

THIN MARGINS

Without the added buffer of interest in most BNPL arrangements, there's less room for error. This requires companies to walk a tightrope of providing a low-friction application process without allowing for an overflow of fraudulent actors. Ultimately, lower acquisition costs and fewer fraud losses are key to ensuring margins stay as wide as possible.

Source: 2019 Identity Fraud Study, Javelin, March 2019

...Same risk categories

Even if the pain points are new, the overall risk remains the same as traditional credit channels. However, the ways they impact a BNPL company can differ.

- **Credit risk:** Someone who wants to repay a loan but can't. For example, the consumer has inconsistent work and may not have enough income to make a monthly BNPL payment.
- **Fraud risk:** Customers attempting to purchase goods or services using stolen identities and credit cards with no intention of making repayments. These materialize in chargebacks and "Never Payment" defaults.

The result is often the same: a loss or a write-off for the BNPL. In cases of credit risk, however, BNPLs can work with customers experiencing economic difficulties to provide alternative schedules of repayment to reduce revenue loss and build loyal customers. The same avenues aren't available for fraud as perpetrators are rarely brought to justice, which means the revenue is never recuperated.

How fraudsters operate in the BNPL space

The ethos of BNPL — receive the item instantly and pay it off later — along with the immediacy of lending approval *creates an appetizing avenue for fraudsters to pursue*. There are two main ways they do this:

- **Chargebacks:** Fraudulent chargebacks will come from two sources: stolen credit cards where the true owner has realised their card details were stolen or opportunistic fraudsters using their own credit card and denying they made the transaction.
- **"Never pay" fraud:** This is where a fraudster uses a combination of their personal identity data, stolen, and synthetic or fake data to pass through fraud and credit checks with no intention of making repayments on the purchase. The fraudster aims to give away as little of their data as possible with additional data that's disposable or untraceable.

In both instances, many BNPLs take on the liability from the merchant, which results in a loss or write-off for the BNPL whenever fraud occurs.

Decrease abandonment without increasing risk

While identity verification and fraud mitigation are extremely important in the BNPL market, a poor customer experience risks long-term customer abandonment, revenue decline, poor reviews, and an overall tarnish of the brand.

So, how do BNPL companies stay competitive amongst a growing field of BNPL providers? By implementing passive authentication strategies that enable stronger identity verification and risk assessment without adding friction to the user experience — even for customers with thin files.

1. **Data validation:** Check to ensure all the provided data elements exist and are valid. These simple checks can reduce the potential for more costly and thorough checks or manual review processes.

2. **Authenticating data-elements match:** Identify fake or synthetic identities by going beyond single element validation to secure third-party validation that, for example, the applicant's name is actually the resident at the delivery and billing address provided.

3. **Identity verification:** A standard practice with BNPL user flows is to check an applicant's phone number and/or email using a one-time password to prove ownership of the data elements provided.

4. **3D Secure (3DS):** Reducing chargebacks by applying 3DS on high-risk transactions is a common practice for most BNPLs. By applying simple validation and matching rules before sending these transactions for 3DS, you can reduce costs tied to fake information.

5. **Rules-based risk assessment:** Leverage simple rules that use historical data to place transactions in reject, accept, or manual review buckets to reduce fraud risk over time.

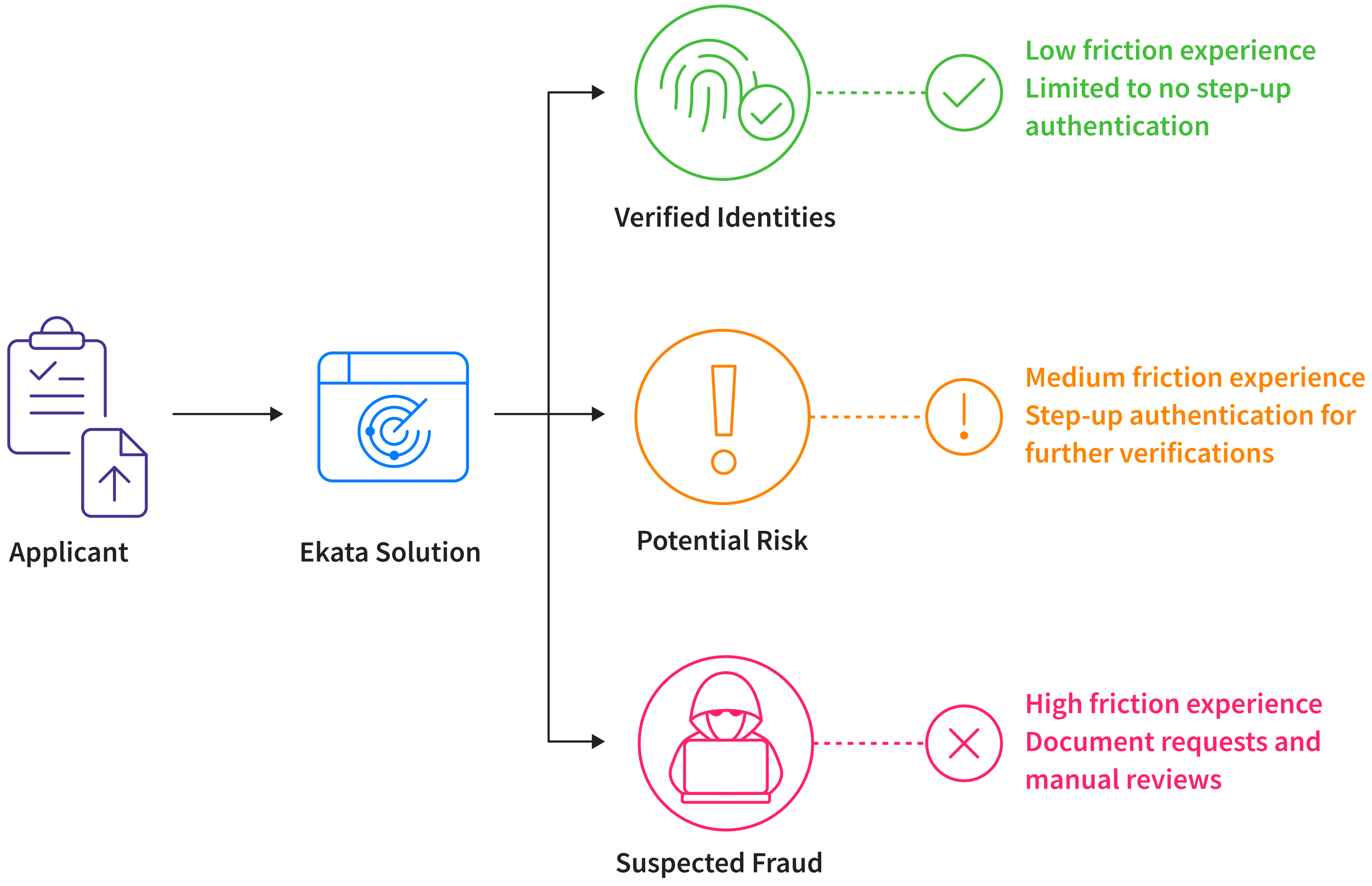
6. **Machine learning-based decisioning:** The key to a good machine learning model is fueled by quality data, which requires careful curation given the many third-party data sources offering different types of data.

BNPL companies can employ any number of the above strategies. But the more they're able to perform checks at the time of application, the better their ability to mitigate risk and maintain low-friction experiences for good applicants that reduce the risk of abandonment. The question then becomes how to tackle these important checks.

How Ekata helps identify good customers

Ekata solutions complement and augment traditional data with alternative personal identity data that provides rich visibility into applicants to passively authenticate identities and assess risk. This data includes a look at the relationship between different identity elements — name, email, phone, physical address, and IP address — which enables you to incorporate probabilistic risk assessment into your account opening process. The result: You can minimize friction during account opening — even for thin-file customers — while mitigating losses due to identity fraud.

The *Ekata Identity Engine* analyzes linkages and activity patterns in the data to generate probabilistic identity signals such as the ones in the nearby figure. These signals aid in scoring an applicant's likelihood of being a good candidate instead of a bad actor. A workflow that routes people through the application process can use these signals to determine the applicant's path.



Ekata Account Opening API: Reduce friction for good customers by weeding out bad actors early

The Account Opening API enables you to reduce friction during new account opening flows and lower customer acquisition costs by easily separating good customers from bad actors. This capability can ensure that good thin-file customers aren't diverted to high-friction paths that invite abandonment. By providing Ekata with, at minimum, phone and email address, we offer risk signals that strengthen your sorting capabilities — and ensure you're sending good applicants down a frictionless application path.

Ekata's Identity Engine enables you to passively verify the authenticity of customer details, such as the applicant's email, phone, and address. Then it can confirm that the provided details in the application are associated with the customer name.

It can also go further by checking the most recent activity of an identity element to determine the riskiness of a location's address and phone. For example, you'll be able to account for not only the times that phone number has been used within your platform, butany time it's been used with other merchants.

All of this is accomplished with scalability in mind. With the Account Opening API, you gain the flexibility to support massive, sustained query-per-second volume requirements while retaining reliably low latencies that prevent poor user experience and application abandonment.

BNPL case study: Decrease abandonment & increase revenue

"The customer saw a 60% increase in passive verifications and a 50% reduction in customer account creation drop-offs."

To stay competitive and lead the market, Ekata's BNPL customer needed to optimize their onboarding workflow to reduce friction for good customers and increase revenue while identifying and preventing fraudulent and high-risk applicants early in the onboarding funnel.

Using the Ekata Account Opening API, a customer evaluated risk at account creation before performing know-your-customer (KYC) checks. With Ekata's features in a rule-set, they were also able to define customers of different risk levels and separate them into appropriate friction levels, effectively triaging their KYC checks and creating a seamless experience for lower-risk customers.

Those lower-risk customers were moved through a streamlined application flow, while higher-risk applicants still had to meet stringent requirements, effectively preventing fraudulent applications. By implementing the Account Opening API, our customer saw a 60% increase in passive verifications and a 50% reduction in customer account creation drop-offs before the KYC process.

EKATA

About Ekata

Ekata Inc., a Mastercard company, is a global leader in digital identity verification solutions that provide businesses worldwide the ability to link any digital interaction to the human behind it. The Ekata product suite is powered by the Ekata Identity Engine, comprising two proprietary data assets: the Ekata Identity Graph and the Ekata Identity Network. Ekata's award-winning global product suite includes high-scale and low-latency APIs and a manual fraud review SaaS solution that empower over 2,000 businesses and partners, like Alipay, Equifax, and Microsoft, combat cyberfraud and enable an inclusive, frictionless experience for their customers in over 230 countries and territories.

Want to learn more?

Talk to an Ekata expert to learn how we can help your BNPL company achieve customer acquisition and revenue goals by streamlining account approvals while blocking fraudulent activity.

www.ekata.com