



October 2022

Is Identity Fraud Jeopardizing Digital Retailing Profitability?

A new dealership survey from eLEND Solutions reveals significant increases in dealership identity fraud and losses since the pandemic – with over half a billion in identity fraud losses in 2022 alone; dealers weigh in on causes and a possible solution.

WWW.ELEND SOLUTIONS.COM

Executive Summary

Dealership Identity Fraud: An over \$619 Million Dollar Problem in 2022

The pandemic changed a lot of things in the auto industry – and that is particularly true when it comes to fraud, which is causing more and more losses for dealers, not to mention an unwelcome distraction to the business of selling cars. While fraudsters are getting more creative, economic conditions and increasing digitization of the car buying process are amplifying brazen fraud. Recent data from Point Predictive confirms that the number of people falsifying documents to get approved for auto loans has increased by 5% year over year, to \$7.7 billion in fraud loss exposure to lenders in 2021¹.

In short, auto dealerships have a target on their back when it comes to fraud. So, to get a more immediate snapshot of fraud's impact on U.S. dealerships, particularly identity fraud risks, eLEND surveyed over 700 auto dealerships.

The numbers are huge and expected to grow: It is no surprise that the majority of dealerships (88%) acknowledge that the auto retail industry has seen an increase in identity fraud since the pandemic. But, more surprising, is that a whopping 84% of respondents have directly experienced identity fraud at their dealership since the pandemic, with a third saying they have seen an over 20% increase in identity fraud related activities since the pandemic started.

And, in just the past year, 79% experienced an identity fraud related vehicle loss at their dealership. Forty percent of those dealers reported a loss of one to two vehicles; but, more alarming, are the over 60% of dealers who reported a loss of three or more vehicles. A very conservative estimate means that annual identity fraud losses in 2022 will add up to well over \$619 Million dollars.²

The culprit? Digitization. 95% say the increase in fraud is directly related to the increase in the digitization of the deal and remote buying experiences, with 86% saying that as more of the transaction moves online, identity fraud will increase and become harder to prevent.

What are dealers doing about it? This is one of the surprise insights of the survey, and perhaps the most concerning. When asked how their dealerships were protecting against identity fraud risks, the top 2 responses were “photocopying the driver's license / ID” (64%) and the “Red Flags Rule” (56%). Only 33% cited the use of any ID verification technology as part of their risk abatement strategy. Dealerships who exclusively use these unsophisticated, compliance-driven fraud prevention controls are putting themselves at risk and making their business an easy target for fraudsters.

Conclusion: As fraud schemes become increasingly difficult to detect, and more challenging to prevent, the need for advanced fraud protection grows. As more of the transaction becomes digital, embracing ID verification technologies, that includes forensic authentication of the driver license document in conjunction with matching data extracted from the document against hundreds of databases, and automated processes, can easily help dealers minimize fraud risks before it becomes an expensive problem.

Survey Methodology: Over 700 automotive dealers across the U.S. participated in this online survey which was fielded by eLEND Solutions in Q3 2022

¹ <https://pointpredictive.com/auto-fraud-trends-report/>

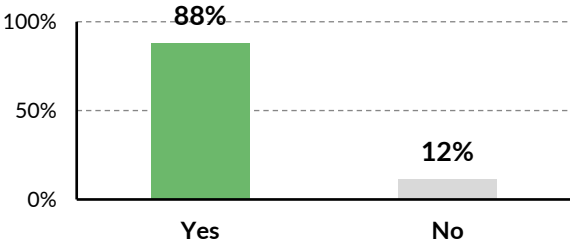
² Estimate based on 80% of dealers reporting 1-2 vehicle losses (1 vehicle estimate) & 60% of dealers reporting 3 or more vehicles losses (3 vehicles estimate) with average loss per vehicle of \$21,000. Sources: NADAData 2022 | Mid Year Report <https://www.nada.org/media/4694/download?inline> 2022 Auto Fraud Trends Report <https://pointpredictive.com/wp-content/uploads/2022/03/2022AutoFraudTrendsReport.pdf> Recovering From Fraud Is Painful and Costly for Dealerships <https://www.autodealertodaymagazine.com/366576/fraud-against-car-dealers-has-never-been-more-prevalent>

Survey Highlights

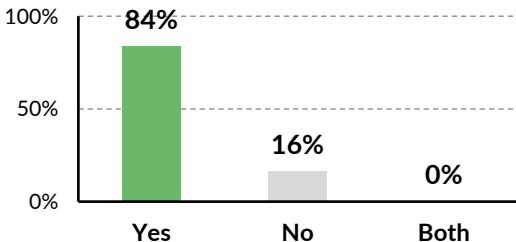
Identity Fraud Surges

Identity fraud has surged in the retail industry since the pandemic, say auto dealers, with little disagreement. Only 12% were of the opinion that it hasn't. When it comes to their dealerships specifically, the vast majority, 84%, say there has been a noticeable increase in identity fraud since the pandemic. Seventy-nine percent say that identity fraud, has increased in their dealerships by over 10%, and nearly one-third say it has increased between 21% and 30 % ...or more!

In your opinion, in the retail automotive industry, has there been an increase in identity fraud-related activities since the start of the pandemic?



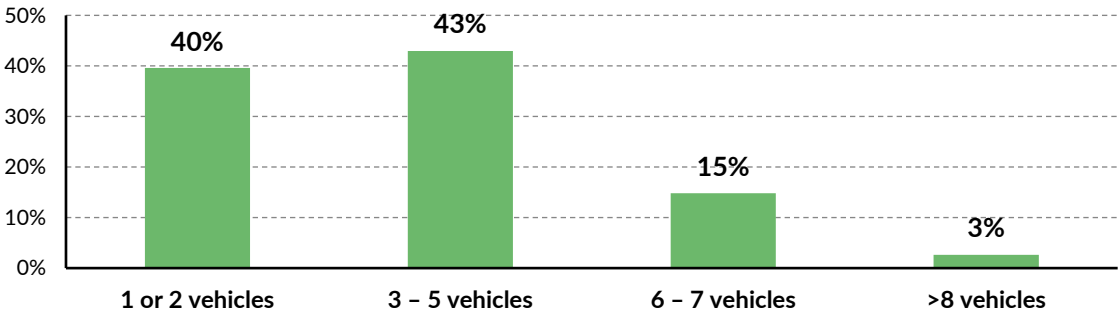
At your dealership, has there been a noticeable increase in identity fraud related activities since the start of the pandemic?



Just in the last year, 79% of dealers experienced an identity fraud related vehicle loss at their dealership. Over 60% reported a loss of three to five vehicles, or more, in the last twelve months. And that loss is coming at a high price – conservatively, well over \$619 million in 2022 alone.

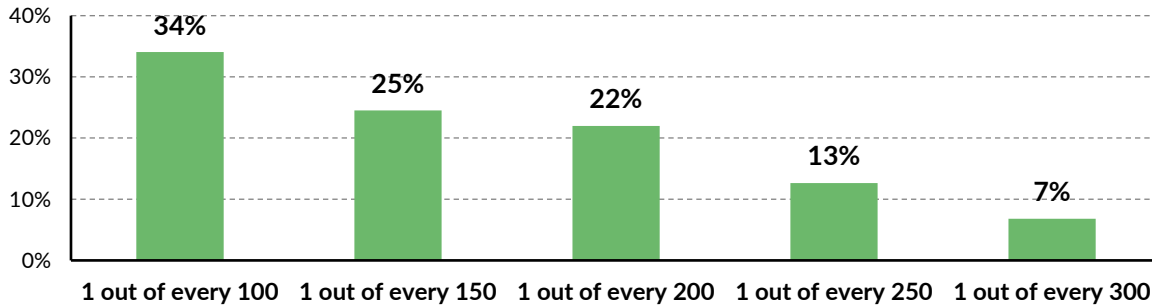
\$619M in identity fraud related vehicle loss at auto dealerships in 2022 alone – and that’s a conservative estimate!

Can you estimate the number of vehicle losses in the past year?



And these losses are not limited to identity fraud, 80% of dealerships report an increase in loan application fraud in the past year: 77% saw a 10 – 20% increase or more, with over one-third reporting that one in every 100 applications at their dealership was fraudulent.

Can you estimate the number of submitted fraudulent load application at your dealership in the past year?



Increased Digitization = Increased Identity Fraud

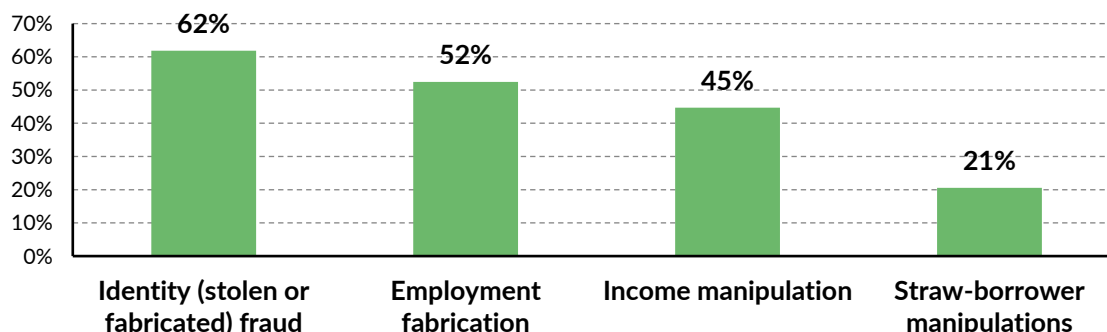
When dealers were asked why identity fraud has increased since the pandemic, the answer was loud and clear: the increased digitization of the transaction. A nearly unanimous 95% track identity fraud to the expansion of remote buying experiences and the digitization of the deal (i.e. digitization of loan applications, approvals and transactions, etc.).

86%

agree that as more of the transaction moves online, identity fraud will continue to grow and become even more challenging to prevent.

Although digitization was cited by dealerships as the biggest contributor to the rise of identity fraud, rising car prices/economic challenges and an epidemic of fraudsters taking advantage of Covid relief programs also had a part to play. But, it is identity fraud that concerns dealerships the most in the face of increasing digitization.

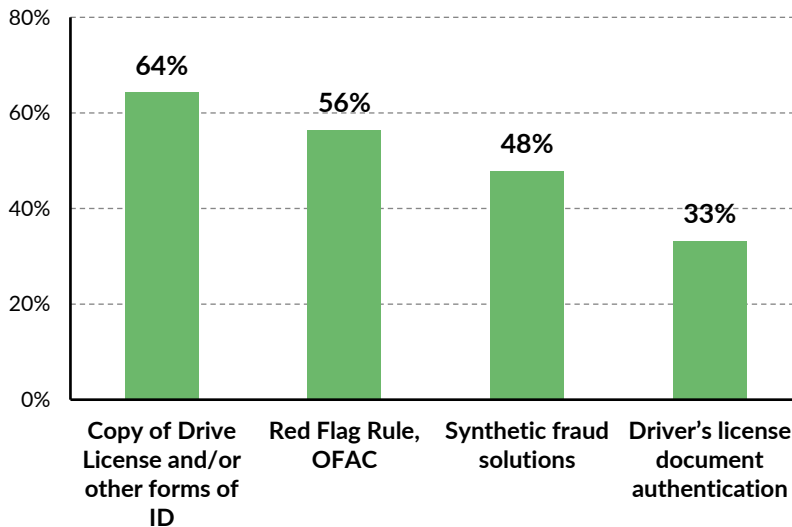
As car buying experiences become more digitized (i.e. DR platforms, digitization of loan applications, approvals and transactions, etc.), a wide range of opportunities has opened up for fraudsters to take advantage of car dealers. What is the top fraud challenge/concern at your dealership?



Dealers Missing Key Protection from Identity Fraud

So, what have dealerships been doing to prevent fraud? The majority report checking Driver's Licenses or other forms of ID, but only 33% report including critical document authentication that validates that ID as part of their process. This is a significant disconnect. While Red Flag Rule and Synthetic fraud solutions were also cited as protections, without actually validating/authenticating ID documents, dealerships remain particularly vulnerable.

How Dealers Protect Themselves from Identity Fraud



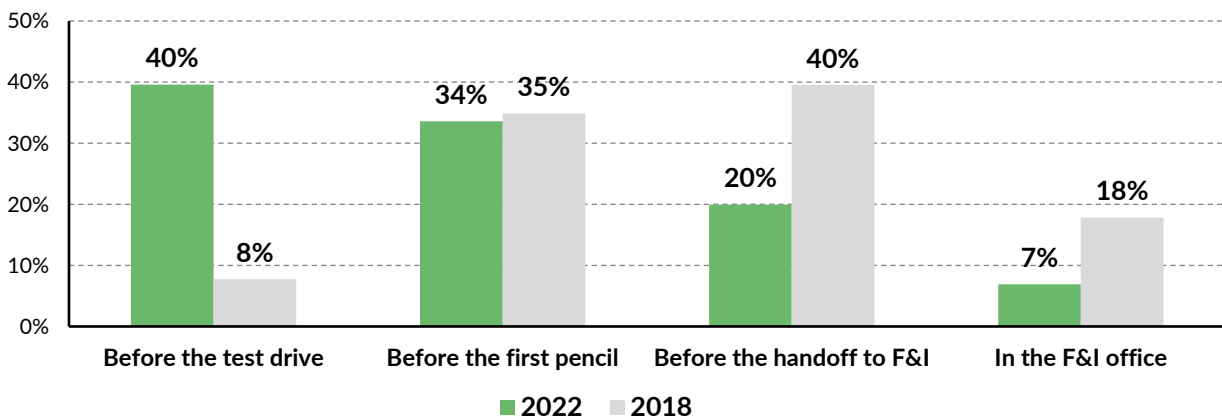
Effective fraud protection strategy demands:

- Forensic authentication of the driver license document in conjunction with matching data extracted from the document against hundreds of databases, including government, public utilities and the major phone carriers, verifying the customer's name, address, DOB, Social Security and cell phone numbers.
- Multi-Factor authentication that includes a proof of presence feature that sends a one-time passcode to the cell phone number of the REAL customer identified by the phone carrier.

Trend Towards Earlier Credit Pulls Could Prevent Fraud with Right Technology

Another revealing part of the survey came when dealers were asked about the timing of their credit pulls, a practice that rapidly evolved once the pandemic prompted more of the process to move online. As compared to 2018, when only 8% of dealers said they pulled credit before the test drive, today 40% report doing so, with only 20% today waiting until right before the F&I handoff, versus 40% in 2018.

Where in your sales process do you most commonly first pull the customer's credit?



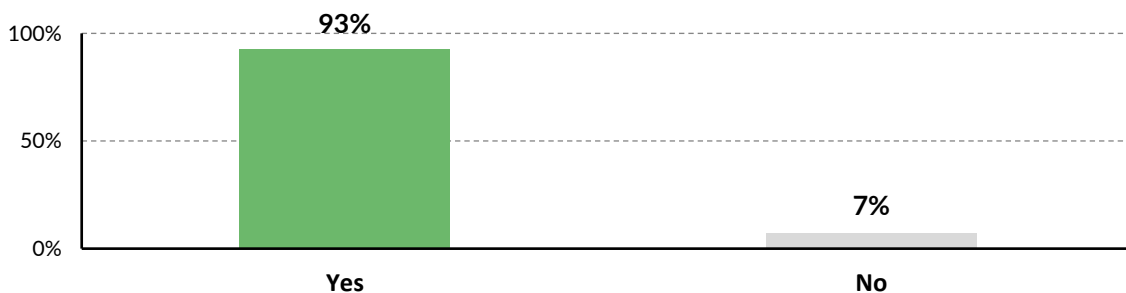
The implications of this are notable– dealers are moving from a “Credit Last” to a ”Credit First” model where they can identify their customers’ buying power upfront. This has positive implications for preventing fraud if the right technology is in place and is particularly important as the transaction moves further online.

This credit first approach is a significant opportunity for auto dealers to kill three birds with one stone, or Driver’s License swipe:

- 1) Validate customer identity and decrease fraud risk – but only if they include document authentication as part of that process
- 2) Increase their knowledge of their customer upfront,
- 3) Increase the efficiency of the transaction along with their ability to close it.

Most of the dealerships in the survey say they use a mobile driver license scanner. The survey suggests that if that DL scan could be converted into a consumer consented pre-qualification, it would be a meaningful benefit: 93% of auto dealers agreed.

If a DL scan could be converted into a consumer consented pre-qualification, would you consider that to be a meaningful benefit?



Identity Fraud Protection & Credit First Process = Dealership Win

The increased digitization of the deal (Digital Retailing) is what consumers want and, as previous dealership [surveys](#) have confirmed, it is here to stay. But, as this new survey demonstrates, with it comes increased fraud exposure and not enough dealers are mitigating this risk with the right consumer identification/authentication tools. Integrated with credit report data earlier in the sales process, these cross-check fraud protections can also offer an efficient way to identify a customer’s true buying power. In short, the swipe of a driver’s license can support a more digital process as it prevents the plague of identity fraud -- all while helping to advance a ‘credit first’ process that increases transaction efficiency and customer satisfaction. A dealership win/win.

About eLEND Solutions

eLEND Solutions™ (DealerCentric rebranded) is automotive FinTech company focused on deal generation solutions – that power transactional digital buying experiences for the retail automotive industry. The platform specializes in digital credit, identity, and finance solutions for remote and in-store shoppers, designed to accelerate conversions of digital end-to-end purchase experiences concluding with fundable, transactable deal structures.

For more information, please visit www.elendsolutions.com.