

WHITE PAPER

Combating Fraud While Unlocking Growth: Optimizing the Customer Acquisition Funnel in Financial Services

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With an unprecedented array of options available, customers now possess more freedom than ever in selecting the financial institutions they choose to engage with, igniting fierce competition to attract both new and returning customers.

At the same time, financial institutions are grappling with poorly designed digital experiences, increasingly sophisticated fraudulent activities, and organizational structures that aren't properly equipped to combat these issues. To fix this, organizations must establish the correct operating model, create an integrated approach across the full customer acquisition funnel, and establish a set of concrete initiatives to simplify the digital experience for legitimate customers while bolstering defenses against bad actors.

Complications in Achieving High Customer Conversion

Companies like Uber, Amazon, and Facebook have defined new benchmarks for digital experiences, and customers now demand similarly effortless digital interactions from their financial service providers. Financial institutions have found themselves struggling with the challenge of balancing a seamless customer experience with the defenses necessary to reduce fraud and operational risks. This challenge is only enhanced by the increasingly sophisticated methods malicious actors use to exploit security vulnerabilities. The complications of acquiring new customers and satisfying returning customers can be summarized as follows:

1. **Organizations must create a frictionless customer experience for their users. Customers expect streamlined experiences across online platforms, which means greater emphasis should be placed on simplifying the customer onboarding process.** Financial institutions should avoid security solutions that excessively disqualify genuine users (false positives) and eliminate processes that are overly complex or create unnecessary friction for good customers. While bad actors are patient and can learn about institutions' security capabilities through non-traditional sources, legitimate customers are often deterred by tedious customer journeys and can easily switch to competitors.

2. **Fraudsters are utilizing more sophisticated attack methods that have greater potential to cause harm and are difficult to detect.** Two such tactics that are gaining traction include first-party fraud, where seemingly lawful users make false claims or misrepresent their situation, and second-party fraud, where fraudsters illicitly gain access to legitimate users' accounts or co-opt them to willingly share their account for a share of the scam's profits. The involvement of seemingly genuine accounts blurs the line between fraudulent and legitimate activities, making the scheme harder to detect. The increasing prevalence of online communities also means that fraudsters are enabled to identify and exploit weaknesses more quickly. Once a vulnerability is discovered, it can be spread to other fraudsters, who can quickly overwhelm organizations' fraud management teams. Additionally, the increasing prevalence of GenAI tools could provide bad actors with a broader array of opportunities to devise new schemes or augment old ones, especially as real-time payment systems such as FedNow and RTP become widely available.

3. **Financial institutions lack the centralized and adaptable operational structure necessary to address these issues, leading to poor customer experiences and higher losses.** Teams that own different parts of the customer acquisition funnel often are not properly collaborating and have conflicting incentives. For example, marketing teams may identify low CAC leads that contain a high percentage of fraudulent accounts, and the digital team may then help facilitate the quick passage of these accounts through the customer acquisition funnel. As a result, the fraud team must scramble to deal with the ensuing rise in fraud. Organizations can risk becoming reactive instead of proactive and only give their fraud teams the attention and budget they require once fraud losses begin to rise. Initiatives designed to address these issues are often isolated and sponsored by one part of the organization to solve one part of the problem, thus failing to have a meaningful impact on the overall success of the business.

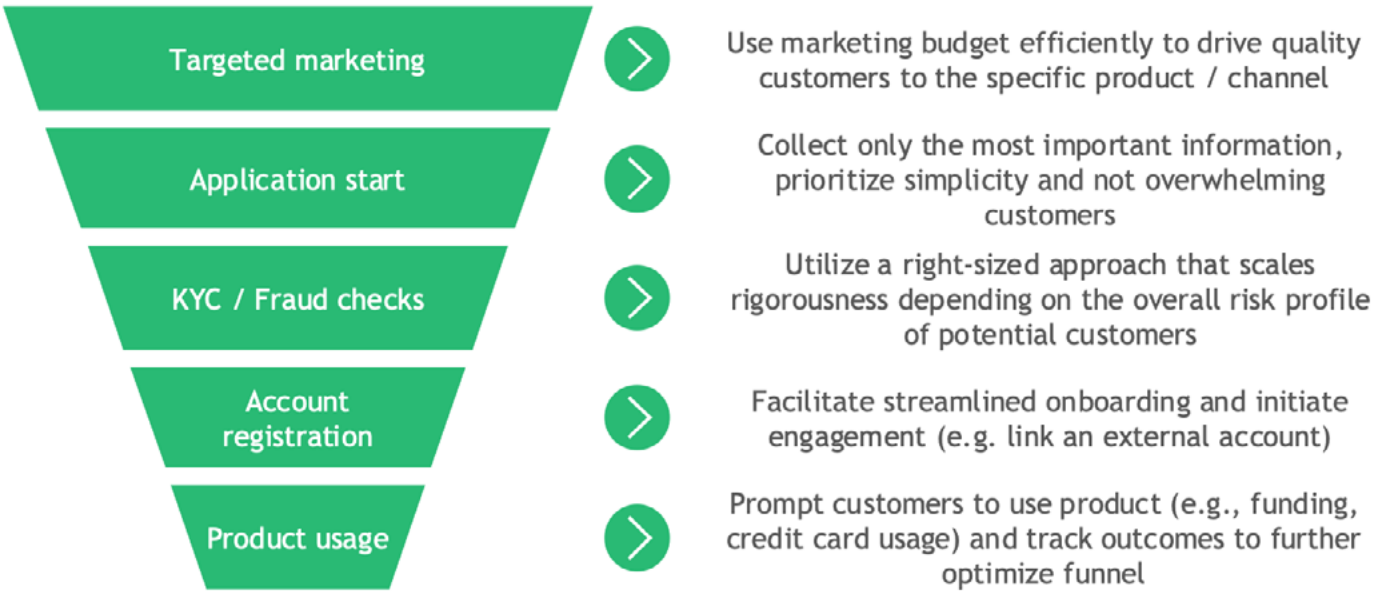
Holistically Managing the Customer Acquisition Funnel

BCG has leveraged expertise to assist financial institutions in adopting a holistic perspective to manage the customer acquisition funnel (depicted in exhibit 1): this considers the overall impact on revenue/customer satisfaction, fraud losses, and operating expenses. To maximize returns, institutions must monitor and tackle fraud across each stage of the customer acquisition funnel, which not only results in minimized fraud losses, but also leads to customer growth.

BCG partners with organizations to rapidly mature their capabilities to best-in-class by conducting diagnostic assessments and providing tailored recommendations to achieve success throughout the customer acquisition funnel. A particular focus is placed on assisting organizations with developing the correct operating model and aligning all parts of the organization to effectively collaborate on achieving customer acquisition goals. Improved integration across the funnel has not only reduced fraud but has also had an impact on customer pull-through and operational costs, allowing financial institutions to maximize the true return on investment of their efforts. The customer acquisition funnel is a customer's first point of entry and should be designed to facilitate easy navigation for legitimate customers while rooting out bad actors. There are three critical areas to prioritize when attempting to optimize the funnel:

1 **Secure Digital Experiences:** The customer acquisition funnel should be a seamless process from beginning to end, ensuring a straightforward experience. Businesses should prioritize simplicity and minimize unnecessary steps within the process Additionally, security measures should be multi-layered and vary according to individual risk levels. Internal and external fraud scores, consortium negative files, and other tools can play vital roles in granting smoother access to low-risk customers while requiring more robust verification measures for those considered higher risk. Organizations should ensure verification measures cause friction for potential fraudsters (who are often more patient than actual customers), while customers not deemed to be a risk should not experience unnecessary friction in the customer journey.

Exhibit 1 - A comprehensive view of the customer acquisition funnel is necessary to improve pull-through of "good" customers while minimizing infiltration of "bad" actors



2 **Data, Tools, and Analytics:** Digital data collection processes must be efficient and should avoid unnecessary redundancy, increasing the likelihood that customers will provide accurate data. This data should be fed to advanced machine learning models that can utilize linkage analysis to identify fraud and other security risks as they occur. Real-time measurement should be incorporated to track results across specific pathways—including after accounts are opened—ensuring ongoing evaluation of fraud prevention strategies. Flexibility across data sources is also key, as it allows for the integration of new APIs that can be turned on or off as needed. Organizations should emphasize the collection of leading indicators that help risk teams take proactive steps to prevent fraud before heavy losses are realized. For example, a surge in account registrations in a particular zip code might indicate suspicious behavior, and financial institutions should investigate accordingly. The optimized usage of these layered risk tools should virtually eliminate the need for most day-two fraud processes.

3 **The Operating Model:** An effective operating model enables the necessary changes to optimize data usage and the digital experience. A single, cross-functional leadership team should oversee and jointly manage the entirety of the customer acquisition funnel. As shown in exhibit 2, this leadership team needs to be empowered to make difficult decisions regarding tradeoffs between revenue, customer pull-through, credit, fraud loss, or operating expenses. They should be able to deliver results in a rapid fashion and adapt to any new or evolving security threats. A shared incentive structure, evaluated against the correct set of metrics, overall goals, and KPIs, needs to be cascaded across teams to drive toward agreed upon outcomes. Leadership should require all parts of the funnel to be continuously tested (A / B tests) and adjusted to optimize different pathways, ensuring granularity throughout the process. Weekly meetings should also be held between leadership at key parts of the funnel to discuss patterns in the leading indicators of fraud or changes in pull-through. These meetings should focus on making decisions that impact the entire funnel as well as any individual pieces that may be shifting.

Exhibit 2 - Leadership needs to balance 3 different goals to optimize the customer acquisition funnel



1 Revenue / Customer Pull-through

- Ensure maximum revenue and enable business growth
- Leading indicator: Applications approved

2 Fraud / Credit Loss

- Get the right data quickly enough to effectively combat fraud & evolve fraud analytics to meet evolving threats
- Leading indicator: % Fraud correctly ID'd, vintage curves

3 Operating Expense

- Dedicate resources & data to fraud mgmt. proportional to potential downside, w/room for further future automation
- Leading indicator: FTEs

How to Get Started

Companies can grow the number of digitally funded accounts by up to 3 to 4x by using an integrated approach throughout the customer acquisition funnel to optimize their application process, resulting in value for the business while decreasing fraud losses or holding them steady. Organizations should implement quick win solutions in the short term before supplementing these changes with more complex, long-term solutions.

Organizations can take the first steps by:

1 **Identifying gaps vs. best-in-class in the customer acquisition funnel**

Understanding where in the funnel customers are dropping out and why is the first step. Are customers abandoning the application when asked their occupation? Are they refusing to upload their driver's license? Are they completing the process but then failing to make the first transaction? Typically, there are opportunities to both streamline the application and to upgrade the tools to better detect fraudsters. Comparing drop off rates at each step of the funnel with those of competitors helps to prioritize the opportunities and to build the business case for making improvements.

2 **Evaluating vendor landscape for optimal fraud tools to determine account risk levels and implement linkage analysis**

Fraud prevention in new account origination requires building a comprehensive view of the applicant, including the use of intelligent friction to gather additional information, to decide who to onboard. The comprehensive view requires aggregating many external and internal data sources across three main categories including how the information is arriving (device and IP info, behavioral data), the applicant's identity (email, phone, name, SSN), and the applicant's history (credit info, consortium lists). For higher risk applicants, document verification is also common. Most companies leverage an orchestrator to help gather and decision this data efficiently. The solution provider landscape is crowded, and hence rigorous analysis of multiple providers is essential for identifying the right portfolio of data sources. Linkage analysis, leveraging identity graphs, is emerging as a leading practice to boost decisioning accuracy and reduce dependence on third party data providers.

3 **Establishing an improved operational model with a cross-functional funnel management team**

Without the right operating model, it is impossible to optimize the funnel: either fraud losses will be too high or customer approvals will be too low. The operating model needs to bring the relevant decision makers to the table to align their incentives and targets around common goals (such as the quantity of good accounts originated), and to provide them with timely and comprehensive reporting. This group should also have a playbook for how they plan to react in a fraud crisis. It is not unusual for a company to suffer a year's worth of fraud losses in a single outbreak and to realize a significant drop in new approvals from steps taken to thwart the attack.

A holistic approach leveraging data, technology, and organizational solutions is the key to optimizing the funnel and achieving lasting success.

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