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How Sophisticated Scams Affect Your Customers And Business

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Understand The Impact Of Sophisticated Scams On Your Business

Scams increasingly overwhelm today's global consumers on a daily basis. These financial scams are increasing in frequency as well as complexity as fraudsters deploy diverse tactics. This study explores the current state of online scams, how banks are addressing the online scam problem, and what externalities (such as regulations) will drive the adoption of technology solutions to solve this problem.

Forrester surveyed 157 manager-level and above decision-makers from financial services and consumer banking organizations across the globe responsible for fraud and security management strategies at their organizations. We sought to understand how consumer banks are tackling scams, the impact scams have on their business, plans for risk management solutions, and the activities they're undertaking to better protect customers.

Key Findings

Customer vulnerability and cyber risks have increased since the pandemic and firms struggle to define scams.

Scams detrimentally affect a company's reputation and impact customer retention capabilities.

Dynamic fraud warnings and device and behavioral biometrics are seen as the best solutions to prevent scams.

Defining Consumer-Based Scams

Customer vulnerability and cyber risks surged during the COVID-19 pandemic. As consumers migrated online to shop, entertain themselves, and perform banking activities, they became more at risk from account takeover, identity theft, and privacy abuses. In fact, Forrester's research found that consumer-based scams hit record levels amid the pandemic.[1]

Although most respondents cited phishing as an online scam (95%), there isn't a clear consistent agreement on the definition of scams. For example, authorized push payments (APP) were considered a major problem in the UK (72%) compared to North America (NA) (56%), Asia Pacific (APAC) (66%), and the Middle East (67%).

62%

of respondents lost 1% to 6% of revenue due to consumer-based scams. **13%** lost more than 11%.

"Which of the following do you classify as an online scam?"

95% Phishing/vishing/smishing

64% Remote access takeover (RAT)

63% Authorized push payment

56% Mobile marketing fraud

47% Social engineering

45% SIM-swap

43% SS7 takeover

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Scams Impact Both Operational And Reputational Areas Of The Business

Consumer-based scams in the banking industry are increasingly attracting mainstream attention as multiple decision-makers comprehend the negative effects of uncontrolled scam-related risks to the wider business.

Our survey revealed that global banks have experienced dire consequences with internal operations and customer experience (CX) when fighting consumer-based scams. In fact, scams can seriously undermine an organization's reputation and its ability to acquire new customers. For example, 78% of respondents noted consumer-based scams are a gateway to other types of fraud. However, an equally worrying sign was how consumer-based scams affect organizations' ability to attract new customers (75%) and cause reputational damage (74%).

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"What impact do consumer-based scams (including false alerts and investigations) have on these areas of your business?"

● Significant impact ● Impact

	Significant impact	Impact	Total
Increased fraud attempts	45%	33%	78%
Digital payment fraud (e.g., digital wallets, mobile transactions)	36%	40%	76%
Fraud loss write-offs	40%	36%	76%
Increased back office operational expenses	34%	41%	76%
Inability to attract new customers	30%	45%	75%
Fines/lawsuits for noncompliance with regulations	34%	41%	75%
Bad publicity/brand or reputational damage	38%	36%	74%
Lost productivity	39%	34%	74%

Base: 157 manager-level and above security and fraud decision-makers in the consumer banking industry
Note: Showing top 8; total percentages may not equal separate values due to rounding.
Source: A commissioned study conducted by Forrester Consulting on behalf of Callsign, May 2022

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Firms Struggle To Protect Consumers Due To Technology Limitations And CX

Consumer banks fall short in consistently protecting customers from harm and face several challenges when detecting and preventing online scams.

An effectively designed, implemented, and managed scam prevention strategy needs to be tailored to the organization's specific risk profile. That means technology and processes must be continually assessed. However, more than half of respondents identified technology implementation complexity as a top challenge. Respondents were also concerned about scam prevention tools that impede user experience (48%), and also highlighted regulatory issues (48%) and privacy concerns (46%) as hindering their ability to prevent and detect online scams.

"What type of challenges does your organization have in preventing and detecting online scams?"

Technology implementation complexity
52%

48%
Concerns that scam prevention solutions will impede user experience

Regulatory issues or concerns
48%

47%
Ineffective detection of scams

Privacy concerns
46%

Base: 157 manager-level and above security and fraud decision-makers in the consumer banking industry
Note: Showing top 5
Source: A commissioned study conducted by Forrester Consulting on behalf of Callsign, May 2022

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Scams Lead To Reputational Damage And Break Consumer Trust

As today's customers are acutely aware of privacy rights and hypersensitive to privacy abuses, scams pose a business risk. For any company, managing reputation risk is critical. Financial services firms risk severe reputational damage, financial penalties, and revenue loss when they fail to protect customers and their data. Yet, 71% of respondents highlighted the potential legal liabilities associated with online scams, which can lead to poor online customer reviews (70%) and negative press coverage (68%). However, the most damning impact is the inability to retain customers (67%).
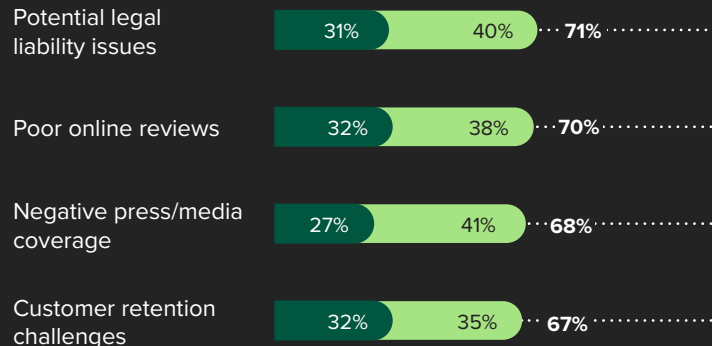
NA (76%) and the Middle East (70%) struggle the most with retaining customers after online scams.
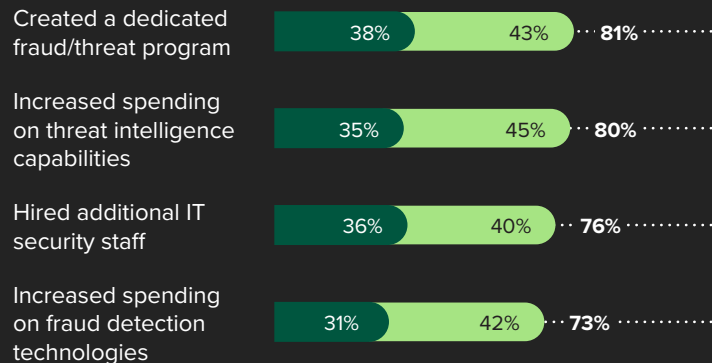
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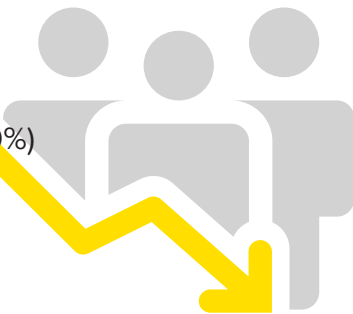
"How much of an impact do online scams have on your team's and your organization's reputation?"

● Significant impact ● Impact

BRAND IMAGE/ REPUTATIONAL RISK

	Significant impact	Impact	Total
Potential legal liability issues	31%	40%	71%
Poor online reviews	32%	38%	70%
Negative press/media coverage	27%	41%	68%
Customer retention challenges	32%	35%	67%

TACTICS USED IN REACTION TO SCAMS

	Significant impact	Impact	Total
Created a dedicated fraud/threat program	38%	43%	81%
Increased spending on threat intelligence capabilities	35%	45%	80%
Hired additional IT security staff	36%	40%	76%
Increased spending on fraud detection technologies	31%	42%	73%

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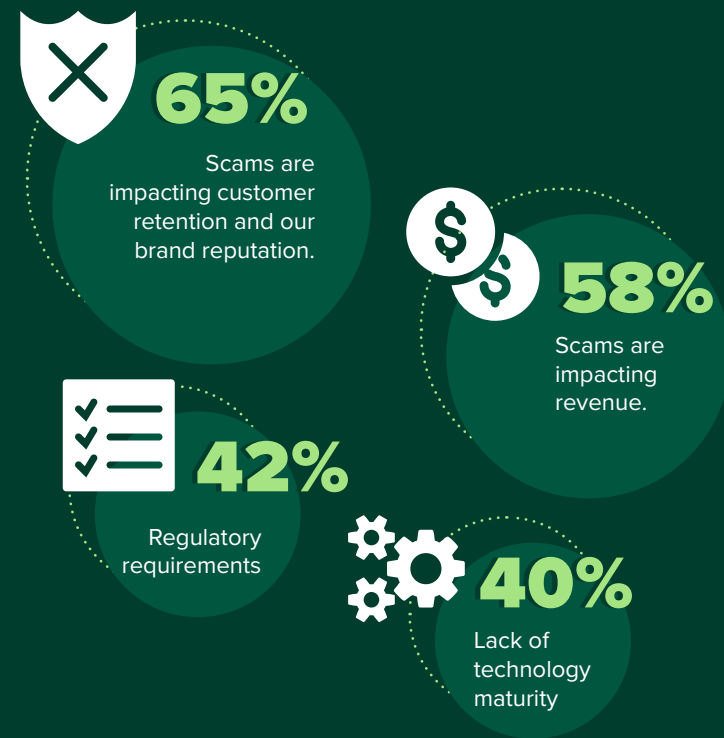
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Firms Spend More On Scam Prevention Solutions To Improve Their Reputation

A trusting relationship starts with a clear, accurate perception of a brand, as well as its values and reputation. The past few years have accelerated the rise of values-based consumers, who seek out companies that align with their values and flock to financial services firms that consistently demonstrate fair treatment of their customers and safeguard the security and privacy of customer data. It's no surprise then that 65% of respondents said their organizations spend more on scam prevention tools because of the impact scams have on retaining customers and the brand reputation. Additionally, respondents noted their firms are hiring additional IT security staff (76%) and increasing spend on fraud detection capabilities (73%) to strategically tackle this.

32%
of respondents spent between $250,000 to $499,999 on scam prevention solutions.

Why Firms Plan To Spend More On Scam Prevention Strategies

65% Scams are impacting customer retention and our brand reputation.

58% Scams are impacting revenue.

42% Regulatory requirements

40% Lack of technology maturity

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Threat Detection And Warning Messages Are Effective Combatants Of Scams
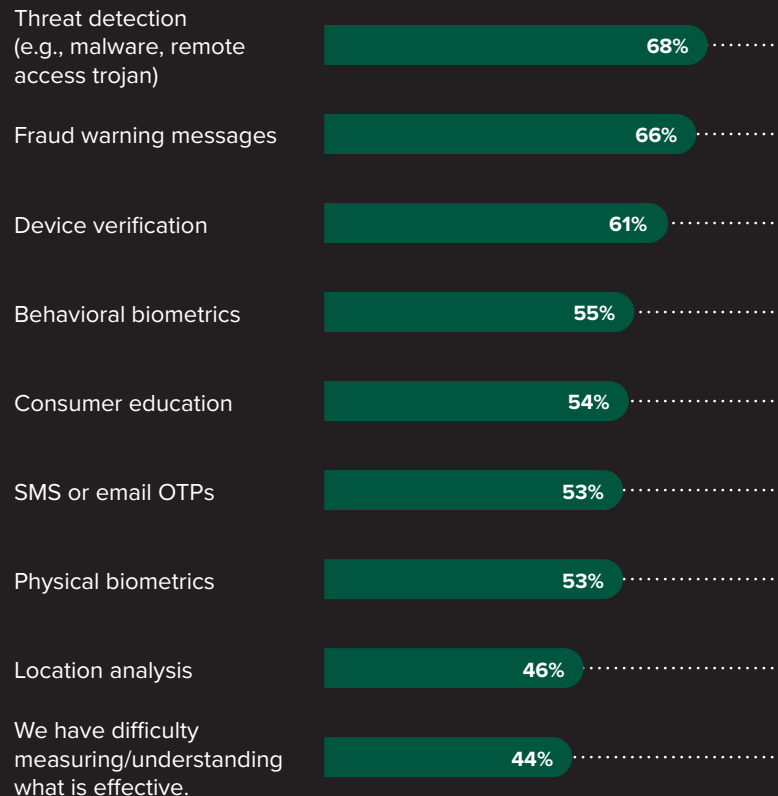
Today's savvy customers worry about their privacy and a business's ability to protect them from cybercriminals and fraudsters. Banks have to look at their technological defenses and the potential vulnerabilities in their systems to adequately safeguard their consumers. When combating fraud, threat detection (68%) and fraud warning messages (66%) are key.

Eighty-one percent of UK firms and 68% of NA firms cited fraud warning messages as the most effective tool to combat fraud. APAC identified device verification (75%), while Middle East firms found threat detection tools as the most effective instead.

Firms will **most likely invest** in dynamic interventions, consumer education, and behavioral biometrics.

"Which of these are most effective for your organization in combating fraud?"

Threat detection (e.g., malware, remote access trojan)	68%
Fraud warning messages	66%
Device verification	61%
Behavioral biometrics	55%
Consumer education	54%
SMS or email OTPs	53%
Physical biometrics	53%
Location analysis	46%
We have difficulty measuring/understanding what is effective.	44%

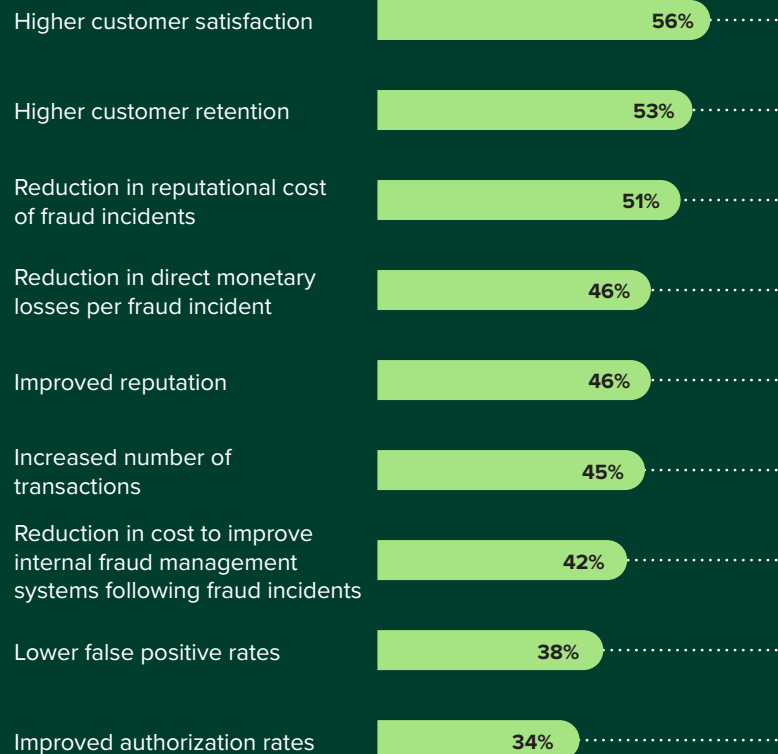Overview

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Scam Prevention Tools That Don't Impede On CX Will Win, Serve, And Retain More Customers

Resilient companies identify and mitigate risk, invest in tools to protect customers, and build flexible crisis and incident response capabilities. They further design business and technology systems and processes for dependability and flexibility. Traditional means are no longer enough as sophisticated attackers are consistently finding new, creative ways to bypass security protocols.

When organizations seek out scam prevention and detection solutions, there is a need to improve CX by increasing customer satisfaction (56%) and retention (53%). Respondents also noted reducing the cost of fraud incidents (51%) and improving their reputation (46%) as advantages they hope to achieve with new scam prevention and detection solutions.

"What are the top benefits/advantages your company hopes to achieve when looking to new scam prevention/detection solutions?"

Higher customer satisfaction — 56%

Higher customer retention — 53%

Reduction in reputational cost of fraud incidents — 51%

Reduction in direct monetary losses per fraud incident — 46%

Improved reputation — 46%

Increased number of transactions — 45%

Reduction in cost to improve internal fraud management systems following fraud incidents — 42%

Lower false positive rates — 38%

Improved authorization rates — 34%

Base: 157 manager-level and above security and fraud decision-makers in the consumer banking industry
Source: A commissioned study conducted by Forrester Consulting on behalf of Callsign, May 2022

Conclusion

Financial institutions firms must identify, manage, and prevent scams early as it sets the tone of the ongoing relationship with customers. Increased volumes in online scams can erode brand loyalty and customer trust. Firms that decide not to implement effective scam prevention measures are at increased risk of losing customers and brand equity, as well as facing potential regulatory fines and costs associated with data breaches.

Many organizations struggle to keep pace with the rapidly evolving scams and threat environment, exposing them to potential data breaches, new fraud attacks, or cyberattacks that can disrupt business operations. Organizations need to deploy technology solutions that can automatically detect scams in progress. Doing so protects organizations' digital assets without significantly increasing operational costs.

Digital customers increasingly want and expect proactive fraud alerts from their financial institutions as long as those alerts do not negatively affect CX.

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Methodology

This Opportunity Snapshot was commissioned by Callsign. To create this profile, Forrester Consulting supplemented this research with custom survey questions asked of manager-level and above security and fraud decision-makers in consumer banking. The custom survey began and was completed in May 2022.

ENDNOTES

[1] Source: "How Financial Services Firms Can Better Protect Customers," Forrester Research, Inc., May 13, 2021.

ABOUT FORRESTER CONSULTING

Forrester provides independent and objective research-based consulting to help leaders deliver key transformation outcomes. Fueled by our customer-obsessed research, Forrester's seasoned consultants partner with leaders to execute on their priorities using a unique engagement model that tailors to diverse needs and ensures lasting impact. For more information, visit forrester.com/consulting.

Demographics

REGION	
NA	**40%**
UK	**20%**
APAC	**20%**
Middle East	**19%**

NUMBER OF EMPLOYEES	
1,000 to 4,999	**41%**
5,000 to 19,999	**39%**
20,000 or more	**19%**

TITLE OF RESPONDENT	
C-level executive	**25%**
Vice president	**36%**
Director	**39%**

RESPONSIBILITY FOR FRAUD/SCAMS	
Final decision-maker	**68%**
Part of a team of decision-makers	**25%**
Influence decisions	**7%**

Note: Percentages may not total 100 due to rounding.