Pipeline
Technology for Service Providers.
www.pipelinepub.com Volume 14, Issue 2

Media and Marketing Tactics Can Increase Risk of Fraud

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An old adage says sales is a numbers game. The more attempts you make and the broader you cast your net, the more successful you'll be. But what if that new customer is using someone else's identity? Or what if they can't pay their bill? What once seemed like a win for a company, can quickly become a glaring risk.

In May 2017, LexisNexis Risk Solutions published the first in its series of State of Risk white papers, "*The Way Communications & Media Services Companies Market Can Increase Risk to Their Business*." Through in-depth interviews with executives responsible for consumer marketing, fraud and account management, the series takes a comprehensive qualitative look at credit risk and fraud throughout the consumer lifecycle.

The study found that while mass marketing draws in greater numbers of customers for media and communications companies, it does so at an increased customer risk. Successful customer acquisition needs to be viewed through a lens of fraud and default risk. As one fraud specialist for a wireless services provider quoted in the study put it. "When you cast wide, unfortunately you get the good with the bad, and then once you get the bad, you have to be reactive on how to get rid of the bad."

Involuntary Customer Churn Risk

There are two types of involuntary customer churn risk: customers who can't pay, and customers who won't pay. These customers don't need to rack up thousands of dollars in unpaid debt to cause problems; even a few hundred dollars, multiplied across numerous accounts, can have a significant impact on an organization's bottom line.

Some customers who sign up for accounts do so with the intention of not paying. This fraud-related side of credit risk is more prevalent among larger, national organizations that provide multiple in-demand entertainment services and access to popular brands of smartphones and other devices. Once the customer has the device in hand, the dollar amount at risk becomes significantly higher, as it is harder for the company to recover these items.

"We do have fraud depending on a promotional offer. If we have a big enticement, you have plenty of people who sign up for a service, get their flat screen TV and then you never see them again," says one marketing director for a TV services provider quoted in the study. "How restrictive can we be and still make it interesting versus how much fraud are we willing to experience is the bigger problem for me."

Separating Good Apples from Bad

Mass marketing campaigns increase the risk of attracting riskier customers. Even with the possibility to limit TV advertisement audiences to wealthier neighborhoods or direct mailings to customers with a high credit score, it is impossible to filter out fraudsters and customers who are more likely to default entirely.

"When you put food out, it doesn't mean you're going to get one particular type of cat. You get all the cats. And that's basically what happens with publicly broad marketing campaigns," says a fraud

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specialist for a wireless carrier.

Furthermore, simply limiting your customer pool to those with high credit scores leaves many valuable prospects on the table which can prove costly in a highly competitive market.

“If you just said, ‘I won’t take any high-risk customers,’ you’re really going to struggle to grow,” says one financial services director from a wireless service provider quoted in the study. “So, you have to take some high-risk customers – even if they’re not going to be customers for five years.”

So, how should media and communications service providers balance this juxtaposition between attracting new customers, while also reducing involuntary customer churn?

New Avenues for Customer Growth

Media and communications services companies need to build a fuller picture of prospects based on more than just credit scores and demographics. According to the LexisNexis Risk Solutions study, alternative data on a customer’s behavior can provide a more accurate forecast as to whether they represent a risk of involuntary customer churn in the future, while also opening up avenues for new customer prospects.

One of these avenues is younger Millennials between the ages of 18 – 24, who use an average of 3.5 devices to make retail purchases, conduct financial transactions, stream music and video and communicate with friends and family through social media apps. Their high usage makes them extremely attractive to providers of media services, as well as wireless carriers selling mobile phones, but more often than not they have “thin-file” credit histories.

“A lot of Millennials don’t necessarily even have a history. If they’re an unknown, we go ahead and let them purchase, which can open us up a bit to fraud at that step,” says a regional account director for a cable TV services provider. “And then we wait to determine that on the back end, after a month, once we see the data, to say, ‘Alright, what happened?’”

The marketing director for a telecoms services provider notes, “What we need is information on prospects so that we didn’t have to just utilize a current customer model to project on prospects. Then the other is just having a more detailed credit profile on prospects – we have their credit profiles, but that’s all. And, ‘How do Millennials look differently than the older target?’ Unfortunately, we’re only looking at prospects from a general level, not an individual one, because we don’t have that kind of data.”

Going Beyond the Credit Score

In making a decision about consumer risk, credit scores are just one part of the picture. Media and communications service companies use a range of information to assess consumer risk from aggregate-level socio-economic data, such as census data and tax maps, to predictive modeling and segmenting based on consumer demographics and behavior.

At the street and household level, media and communications service providers look for key indicators of whether a neighborhood represents a higher or lower risk. How many occupied residences are there? What are the number of residences with bank account? What are the average incomes of the inhabitants? These qualitative factors can help companies make more accurate guesses on which consumers to serve.

On a demographic level, media and communications service providers make assumptions based on media consumption behaviors, churn profiles, credit status, age and occupation.

“We do internal segmentation of our customers, so that we know what attributes make a higher value customer who will pay and stay with us. We can also determine if a new customer is extremely high risk based on our current customer data, who will probably just use us for six months until we have to cut them off and might be a bad credit risk,” says a strategic and analytics decision maker at a telecom services provider.

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The downside to this approach is that it gives an insulated view of customer attributes, risks and churn triggers that could ostracize valuable prospects, such as Millennials, who differ to older demographics in terms of consumer behavior.

Some media and communications service providers have even incorporated social media data into their analysis of a consumer's risk profile. This can include their purchase preferences and behaviors, which filters prospecting lists on a more individual level in terms of risk as well as marketing channels.

Multi-layered Approach to Credit Risk Decisioning

LexisNexis Risk Solutions found that those using individual-level prospect data or customer data to predict prospects' involuntary churn are nearly as challenged with credit risk as those using less detailed types of data and approaches. While information on individuals is invaluable, credit ratings don't always align with consumers' behavior once they have opened an account. Excluded from those demographics are Millennials, who do not fulfill the criteria, as they lack adequate credit history. Further, consumer situations can change – losing a job, buying or selling a house or filing for bankruptcy might go undetected in a credit report.

This is exemplified by the vice president of a wireless service provider, who states, "We do a lot of modeling and look at lifetime value, but really need behavioral data about prospects instead of relying on our own customer data."

Combining credit data with behavioral information provides a fuller picture of a prospect's attitude, purchasing patterns and decisions. By using alternative data and predictive analytics to augment this data, a media and communications service provider can build a profile around a prospect's household, relationships and demographics. This negates the risk of changes in a credit report that might go unnoticed, and develops a fuller picture of how a consumer might behave once they are on-boarded. This also increases the field of prospects from thin-file consumers, such as Millennials, who constitute an untapped lower-risk consumer base.

In doing so, media and communications service providers can feel more confident in moving away from mass marketing approaches, which have the tendency to attract fraudsters and low-credit consumers, while shifting towards targeted invitation-to-apply marketing campaigns. This is far more cost effective, reducing both marketing budget spend and the cost of weeding out involuntary churn consumers, collections on bad debts and fraud losses at a later stage.

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