



REPORT HIGHLIGHTS OPPORTUNITIES AND RISKS TO FINANCIAL INCLUSION AS FINANCIAL SECTOR RESPONDS TO ESCALATING FRAUD AND SCAM ACTIVITY

WASHINGTON, D.C., October 31, 2024 — A new report by FinRegLab traces institutions’ growing use of new data sources, artificial intelligence, and other innovations in identity proofing and financial crimes monitoring, highlighting the potential benefits and risks to consumers particularly as the sector responds to escalating fraud and scams activity since the pandemic.

[*Innovations for Identity Proofing & Transaction Monitoring: Advancing Financial Inclusion Through Data & Technology*](#) details gaps in traditional approaches that both make it difficult for millions of consumers to access financial services and for financial institutions to detect and protect against bad actors. As reports to the federal government of consumer fraud losses and identity-related suspicious activity have more than doubled since the pandemic, financial institutions are adopting data and technology innovations and accelerating data sharing initiatives to try to keep up.

“These new initiatives can potentially advance financial inclusion and consumer privacy in addition to combating bad actors, but they also pose risks of unintended consequences,” said FinRegLab CEO Melissa Koide. “Public research and broader stakeholder involvement are particularly important to ensure that we account for impacts on smaller institutions and vulnerable consumers.”

FinRegLab is exploring these issues to assess the potential empirical tests and other research to analyze particular data and technology solutions for identity proofing and transaction monitoring. The landscape paper reflects interviews with dozens of stakeholders as well as collective insights from a convening held jointly with the Aspen Institute Financial Security Program in October 2024.

The paper outlines efforts to increase the range of identity documentation that financial institutions will accept in both in-person and online settings for account opening, as well as three emerging data and technology developments for verifying and authenticating customer identities, monitoring transactions, and combating bad actors:

- Leveraging more diverse data sources to account for the fact that large data breaches have made traditional sources increasingly ineffective for identity verification.
- Adopting machine learning and artificial intelligence tools to analyze suspicious transactions and detect “deepfakes” by generative AI systems; and
- Improving data sharing platforms and adopting privacy-enhancing technologies to strengthen financial crime detection across financial institutions and jurisdictions.

In light of the increasing investment in fraud and scam prevention, the paper highlights the importance of broad stakeholder engagement and specific initiatives to help ensure that changes to identity



proofing and transaction monitoring processes help to close existing gaps, build long-term digital infrastructure, and reduce the risk of substantial negative impacts on consumers and smaller institutions. These include:

- Mapping US identity gaps at account opening and the extent to which weaknesses in downstream authentication and transaction monitoring significantly impact consumers' financial stability and access to financial services.
- Empirically evaluating non-traditional data sources, advanced analytics, and data sharing mechanisms for their impacts on accuracy, financial inclusion, and consumer privacy.
- Reducing cost and efficiency frictions that can discourage financial institutions from adopting more inclusive practices, for instance, by supporting efforts to standardize security elements for different types of government-issued IDs, expanding upon current mobile driver's license initiatives, and improving systems for issuing, validating, and using Social Security Numbers and Individual Taxpayer Identification Numbers.
- Tackling a range of emerging policy questions, including clarifying legal and regulatory expectations for identity proofing and transaction monitoring activities, managing gaps in information access and technology resources among smaller financial institutions, and adopting additional strategies for combating scams in which consumers are tricked into authorizing fraudulent transactions.

About FinRegLab

FinRegLab is an independent, nonprofit research organization that conducts research and experiments with new technologies and data to drive the financial sector toward a responsible and inclusive marketplace. We also facilitate discourse across the financial ecosystem to inform public policy and market practices.

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