



Pre COVID risk control instruments are outdated... where to from here?

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How to manage risks digitally

Companies that offer products such as Funding, Telecoms, Insurance and Retail type offerings to consumers often insist that they be provided with certified copies of artefacts such as proof of Identity (ID), proof of income (Payslip), proof of residence (Utility Bill) and evidence of affordability (3 Month's Bank Statements) prior to approving or declining a deal during their sales/origination phase.

These artefacts are mostly used as control instruments to ensure the company is dealing with the correct person, minimise risk, avoid potential fraud and have tracing capabilities (know where to find you). However, since the arrival of the COVID pandemic and the negative economic downturn that originated from it, these persisting (but vastly outdated) practises neglect various post COVID era factors.

Scenario Analysis

To illustrate this in a practical real-world manner, the examples below plot some key considerations as part of a scenario analysis:

1. **Ideal Target Market (ITM)** – if we consider that companies are dealing only with adult consumers, then the starting point of the scenario analysis is a value of around 40m (SA population is 60m). For the sake of the scenario analysis, we therefore start with a variable of ITM = 40m.
2. **Employed Rate (ER) vs. Unemployed Rate (UR)** – if we combine the formal South African unemployment rate (36%) with those adult consumers that have given up or are not actively looking for work, we have about 1 out of 2 adults in SA that are employed, either in the formal sector (working at a company) or informal sector (often self-employed). Thus, the next variable is ER = 50%.
3. **Formal Sector Employees (FSE's) vs. Informal Sector Employees (ISE's)** – following on from the above, about 50% of employed consumers are employed in the formal sector (and can therefore easily access something like a payslip – informal sector employees often cannot). So, the next variable for FSE's = 50%.
4. **Work From Home (WFH) vs. Work From Office (WFO)** – due to the ongoing COVID situation, most consumers are now mostly/regularly operating on a work from home (WFH) basis. Formal statistics on this is not readily available yet but let us guesstimate a number of 50% of FES employees are now operating primarily on a WFH basis (this will possibly become the new normal, regardless of COVID). Therefore, the next variable is WFH = 50%.
5. **Digital Copies (DC's) vs. Paper Copies (PC's)** – the majority (but not all) of the WFH employees have direct access to computing, printing, copying & scanning equipment at home (to produce, download or recreate these artefacts) that is required by the companies they are dealing with. To continue the scenario analysis,

let us assume a rate of 75% of WFH employees have access to the required equipment at home (or can use their nearest POSTNET) to easily generate digital copies of the artefacts. So, DCA's = 75%.

6. **Certified Copies (CC's) vs. Uncertified Copies (UC's)** – these new sales related artefacts are generally required to be certified copies. A reasonable guesstimate would be that 75% of WFH employees have the necessary means to drive (or use public transport) to their nearest commissioner of oath that can certify copies (such as SAPS, SAPO etc.). So, CC's = 75%.
7. **Friction Appetite (FA) vs. Product Appeal (PA)** – considering all the above, we now overlay the patience factor of consumers to go through the pain/friction to generate and provide these artefacts on the back of the product appeal of the company's offering. For example, if a consumer applies for a loan and a new car, they will probably tolerate friction to provide these artefacts in the loan application, but they may not necessarily do so to sign up for a monthly subscription of their favourite magazine. Of course, outliers in terms of consumer preference will always apply, but for the sake of the scenario analysis, let us use of number of 50%. So, the final variable is FA = 50%

Summary

We can now use the variables specified to calculate the business case impact of traditional deal evaluation processes & risk policies, and the control instruments (artefacts) used by companies during the sales/origination phase of their business value chains (e.g., digitisation of data with minimal friction levels for consumers). The formula as follow:

40m Adult consumers x ER 50% x FSE's 50% x WFH 50% x DC's 75% x CC's 75% x FA 50% = 1.4m consumers. This represents a staggering number of 18.6m consumers that are possibly lost to the company to successfully promote their offerings. If you then calculate the average deal value of a product that your business is promoting, it is likely that the revenue opportunity lost is likely in the billions.

While this scenario analysis example in no way claims to be an accurate academic journal that is peer reviewed, it does give business leaders a snapshot overview of how some rudimentary control instruments can have unintended consequences downstream for the business.

Possible solutions?

The key is to find platform agnostic solution providers that can:

- Digitally verify data accuracy and authenticity in a real time manner
- Promote the use of automation and intelligence tools to streamline and fast track approval (or rejection) decision making processes
- And then backwards re-engineer that process to remove as much as possible friction for the consumer to deal with the organisation

In conclusion

The latest innovative offering in our stable of solution, AUTEHNTIFI aims to assist organisations with this journey. By combining our big data business intelligence capabilities to empower smarter decision-making processes that drive intelligent payment and collection strategies.

For more information or to connect and engage with our team send us an email to sales@authentifi@tcpaymentsolutions.co.za or visit [AUTEHNTIFI](#)