



What you don't know about **Compliance** can cost you

**3 things to think about while finishing
out 2022 and preparing for 2023**

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The impact of fraud

Fraud and identity theft continue to be huge problems for dealerships, auto lenders and consumers, so it's no surprise that there are increasing regulations around consumer data security.

With the expectation that this trend will continue, compliance must be top of mind for every dealership. This year was ending with a flurry of new provisions of the FTC Safeguards Rule, but the deadline has been extended to next June. Still, it's worth examining how those upcoming new requirements can be a solid framework for building policies and procedures to help your dealership bolster its compliance program. Finally, we have identified some areas of compliance where knowledge gaps still exist in the industry and will work to clear up the confusion that surrounds them.

2,789,161 M

Fraud Reports*

1,434,676 M

Identity theft reports*

\$7.7 B

**Auto loan fraud exposure for
top US auto lenders****

***FTC Consumer Sentinel Network Data Book 2021*

***Point Predictive 2022 Auto Fraud Trends Report*

FTC Safeguards Rule – new requirements as of June 9, 2023

The new provisions establish a single point of contact to take charge of compliance at the dealership, ensure that information systems and consumer data are safe, and make plans for worst case scenarios. This individual will also monitor and report on the status of the compliance program.



Here are some considerations for meeting the new requirements:

1. Designate a program manager to lead your dealership's information security program.
2. Conduct periodic risk assessments.
3. Create a written information security program for safeguarding consumer information.
4. Monitor the vulnerability of your information systems.
5. Implement data safeguard policies and procedures for your staff.
6. Assess and document in writing that your service providers and third-party vendors have adequate security controls.
7. Have a written response plan in case of data breaches or consumer data exposure.
8. Establish ways to detect actual or attempted attacks or intrusions.
9. Produce annual reports from the program manager on your dealership's information security program and

While dealerships work with their legal counsels on their program, it will be useful to examine how their compliance technology can help at various steps along the way, from data security to reporting to long-term secure storage.

Knowing your customers – ID Verification, Red Flags, OFAC and more

With fraud growing year over year, it's important to identify people who are trying to defraud your dealership as early as possible. Identity confirmation is key online and in-store, so ID verification should begin with the credit application or even before.

- ✓ **Start ID confirmation steps early**
- ✓ **Check for Red Flags**
- ✓ **Run an OFAC check**
- ✓ **Use out of wallet questions as needed**
- ✓ **Add fraud detection for an extra layer of defense**



Compliance software helps you with identity verification checkpoints throughout the deal, with added verification steps like out of wallet questions to help you double-check when there are Red Flags. Fraud detection technology can rate each customer's fraud risk to help you make an informed decision before a deal proceeds.

Avoiding common Compliance missteps

Recent dealer community polls have indicated **three key areas** where many dealerships are not aware of their compliance obligations.

Cox Automotive Data from dealer community poll 2022



1. Your dealership needs to send an adverse action notice to an applicant that was approved for credit but did not end up purchasing the vehicle on credit.

True



False



True. Regardless of whether a lender sends their own adverse action notice to a particular consumer, the dealership should also provide one when the situation calls for it. If your compliance solution has an adverse action notice mailing service, that can help take the extra work – and guesswork – out of sending them.

2. Using knowledge-based authentication, like asking out of-wallet questions helps verify the identity of buyers that have failed red flags.

True



False



True. Out of wallet questions include facts specific to a buyer that they wouldn't be able to answer just by looking in their wallet. Correct responses help verify the buyer's identity.

3. Your dealership only needs to run OFAC on cash deals.

True



False



False. You should run an OFAC check on every deal to ensure that the buyer can legally purchase from you.



Preparing for 2023

As you review your compliance program and plan ahead for 2023, examine your compliance, data security, and storage functions align.

Start the year off right by:

- Preparing your compliance program manager for their additional duties under the FTC Safeguard Rule starting in June 2023.
- Ensuring that ID verification processes are in place for every deal.
- Checking your dealership's compliance responsibilities with your legal counsel, and ensure it is applied consistently across all deals.

An integrated compliance solution can do a lot of the heavy lifting to ensure that you stay compliant on every deal, protecting your dealership, your reputation and your customers.

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