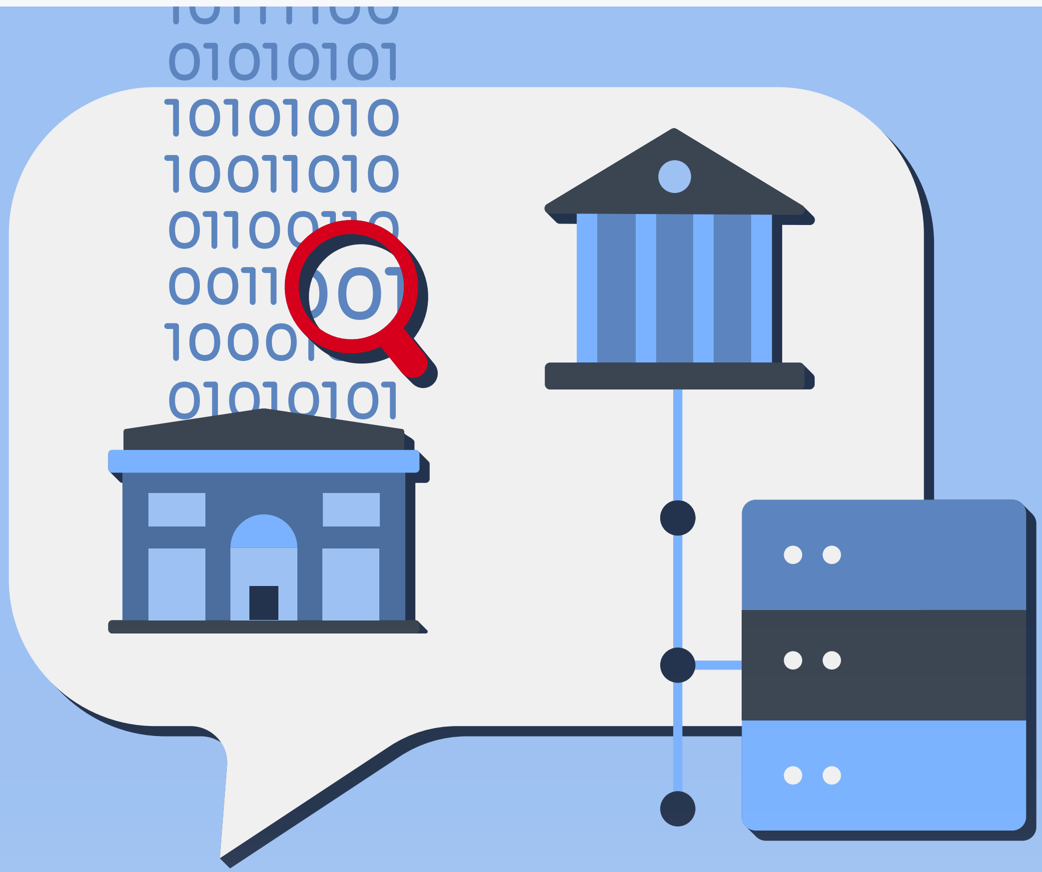
Early Warning®

A Tale of Two Banks:
Using Predictive Intelligence to Minimize Loss and Maximize Growth

WHITE PAPER



Financial institutions have embraced the digital age by offering online account opening, but as opening a new account becomes faster and easier, Demand Deposit Account (DDA) portfolios have become increasingly susceptible to losses from fraud and account abuse.

Application fraud is a growing threat to banks and credit unions, and risk management is becoming more challenging and complex, especially as bad actors have become more elusive and continue to implement more sophisticated fraud tactics.

$939 million

in DDA application fraud losses reached by 2023[1]

In addition to first-party fraud, account abuse and the resulting losses are a growing concern for financial institutions; banks and credit unions face the challenge of mitigating risk while also delivering a frictionless customer experience and staying compliant with regulatory requirements.

Financial institutions continuously look for tools to help them mitigate risks and challenges unique to their portfolio. **Predict New Account Risk** from Early Warning® does just that. The account opening product includes two statistical models and behavioral attributes. The first model is designed to predict first-party fraud within nine months of opening an account while the second model is used to predict the likelihood that the applicant will commit account abuse within nine months of account opening. Behavioral attributes also provide predictive intelligence capabilities to help banks and credit unions differentiate risky applicants from low-risk ones. These attributes are designed to be used in combination with the models depending on your financial institution's goals and risk threshold.

Intelligent Account Decisioning: Managing Risk at New Account Opening

The most efficient and effective way for financial institutions to manage the risk of losses from fraud or account mismanagement is by preventing it at the time of new account opening. To achieve this, banks need smart tools to help them identify potential bad actors and differentiate these customers from qualified ones. This helps financial institutions prevent adverse behaviors while still providing a frictionless new account opening process for qualified customers.

New account risk often refers to one of two categories: behavior-driven risk such as account abuse, mismanagement, or first-party fraud, or identity-driven risk such as third-party fraud. This paper focuses on the first category, behavior-driven risk. Early Warning's predictive intelligence solution, **Predict New Account Risk**, provides banks with insights to help them decide if they should do business with an applicant, and if so, what types of services and privileges they can offer them based on the applicant's predicted risk profile.

The models and attributes built into **Predict New Account Risk** are strategically derived by leveraging data from the *National Shared Database*SM resource (NSD) including shared fraud and account abuse/default data, an applicant's identity, their past DDA account behaviors, inquiries, and transaction level data such as check or ACH returns. **Predict New Account Risk**'s predictive models and behavioral attributes have been proven effective in helping banks manage risk at the time of new account opening.

Predict New Account Risk leverages the *National Shared Database*SM resource which contains a broad set of deposit performance data contributed by 2,500+ FIs with scored account data on:

656 million

deposit accounts

586 million

deposit account owners

11.5 billion

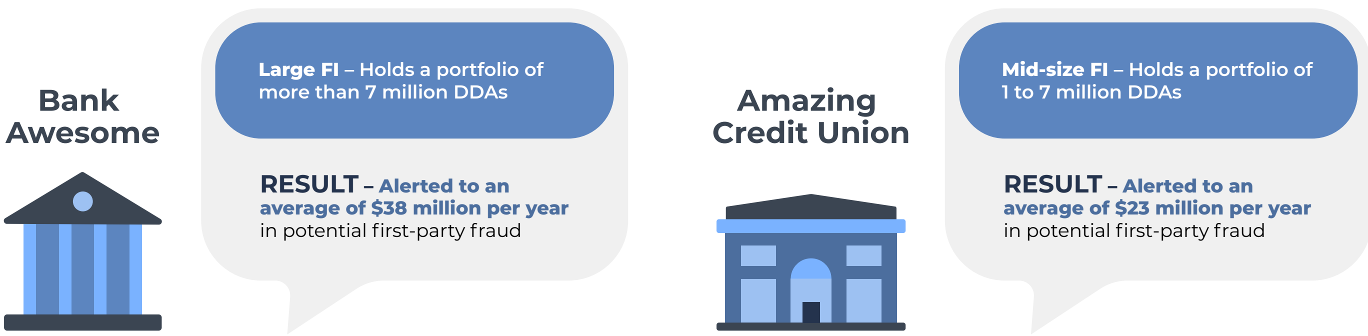
transactional records[2]

A Tale of Two Banks: Predictive Intelligence to Reach Specific Goals

As with most risk management efforts, new account risk management strategies often need to keep a fine balance between risk and profitability, while also considering customer experience, operational constraints, legal and compliance concerns, and more. Therefore, it's important for financial institutions to define an appropriate risk target level during the new account opening strategy development phase. Regardless of the strategy, **Predict New Account Risk** can help banks grow their new account opening and achieve their risk management goals.

FIGURE 1

Financial institution results using Predict New Account Risk



In a production study of six financial institutions conducted by Early Warning throughout 2021, large financial institutions like Bank Awesome using **Predict New Account Risk** were alerted to an average of $38 million in first-party fraud. For mid-sized financial institutions like Amazing Credit Union, **Predict New Account Risk** alerted to an average of $23 million in potential first-party fraud.

Benefits for Financial Institutions

Based on an Early Warning production study in 2021, six financial institutions using **Predict New Account Risk** were alerted to over $171 million in potential first-party fraud during the year.

Strategies for leveraging **Predict New Account Risk** can be used to replace a bank or credit union's existing account origination strategy or used in addition to the strategies they currently have in place. Their exact application depends on each bank's risk portfolio and goals, but to maximize the benefits of **Predict New Account Risk**, it's recommended that financial institutions replace their current decisioning tools with **Predict New Account Risk** as much as possible.

In a 2021 production study of six Early Warning customers, participating banks were alerted to over

$171 million

in potential first-party fraud

It's worth noting that although similar, first-party fraud and account abuse or mismanagement are not the same. **Predict New Account Risk** can help financial institutions reach their goals, whether that means managing first-party fraud, account mismanagement, or both. The model your bank or credit union uses depends on the type of risk you want to mitigate, but generally financial institutions have losses from both first-party fraud and account mismanagement, therefore it's most beneficial to utilize both models simultaneously. The combination of the two models has proven very effective in preventing losses from both types of risk and provides our customers with the most benefit.

FIGURE 2

How Predict New Account Risk works

New account application submitted

Early Warning

Early Warning provides:

- First-party fraud score
- Account default score
- Key factors and summarized attributes

FI determines:

- Approval/decline
- Products and privileges to offer

Predictive attributes are also included in the product to be utilized in strategy development where necessary. In some cases, banks first utilize these attributes to start capturing risky applications while waiting for the model validation process to be completed. Some examples of these attributes include “reported fraud in the past”, “highest risk status on all reported DDA accounts”, and more. The attributes can be used individually, combined with other attributes, or combined with the models.

How Can Your FI Reach its Goals Using Predictive Intelligence?

Predict New Account Risk provides financial institutions with the flexibility and predictive intelligence to achieve their unique goals. Whether your bank or credit union wants to maximize new account openings while maintaining risk levels or wants to minimize losses while maintaining the current account approval rate, **Predict New Account Risk** can provide you with the decision intelligence you need to get there.

Learn how **Predict New Account Risk** can help your bank or credit union.

Sources

1 *"Application Fraud: Trend Analysis and Mitigation Challenges." Aite-Novarica Group, Nov. 2020* **|** **2** *National Shared Database*SM *Report, 2022*

ABOUT EARLY WARNING

Early Warning® provides innovation that transforms financial experiences – innovation that transforms lives. More than 2,500 companies rely on our intelligence to open new accounts, get in front of fraud, and move to faster payments. By leveraging bank-contributed data, we offer a full suite of solutions that gets money moving. To learn more about Early Warning, visit earlywarning.com.