Early Warning®

Faster, Smarter Account Opening

APPLICATION FRAUD DETECTION STRATEGIES FOR FINANCIAL INSTITUTIONS

Application fraud is soaring.

Digital applications—for Demand Deposit Accounts (DDAs) as well as credit and lending services—have become the norm.

But as the shift to online banking speeds up, application fraud detection systems are breaking down. **And fraudsters are capitalizing on the situation.**

A 2022 Javelin study reveals:

109%

year-over-year increase in new account fraud

$6.7 billion

in losses due to new account fraud[1]

CLICK HERE TO LEARN MORE

Application fraud comes in many forms.

In banking, there are three main types of application fraud, each of which uses a different mode of deception, including:

SYNTHETIC IDENTITY FRAUD

Use of a manipulated or manufactured identity to apply for financial products or services (e.g. bank accounts, credit cards, loans).

IDENTITY THEFT

Use of another individual's identifying information (e.g., name, birthdate, Social Security number) to apply for financial products or services.

FIRST-PARTY FRAUD

Use of one's own, real identity to apply for financial products or services—but purposely falsifying other qualifying information (e.g., income, credit history).

Application Fraud Poses a Serious Threat to Financial Institutions

Application fraud leads to downstream losses.

Application fraud serves as a first step for criminals as they plan more dangerous and costly crimes down the road.

50%

of FIs say synthetic identities resulting from application fraud are up year-over-year

43%

of FIs say first-party lending fraud resulting from application fraud is up year-over-year

63%

of FIs say mule activity resulting from application fraud is up year-over-year[2]

"Bust out" schemes are a top concern.

Once criminals make their way into the banking system, they often play a long game—before "busting out" with a massive theft haul:

- The fraudster opens a new account (using either a synthetic or real identity), then obtains one or more credit cards and/or lines of credit.
- For months or even years, they make regular, timely payments and build up credit.
- As a final play, the fraudster maxes out their all their credit, then stops making payments—leaving FIs with major losses.

Application fraud losses go beyond stolen funds.

As application fraud grows, the losses FIs face are compounded by costs associated with:

ACCOUNT DEFAULT

First-party application fraud often results in non-sufficient funds transactions and account default—which incur added costs for FIs.

FRAUD INVESTIGATION

FIs spend significant time and resources investigating fraud and attempting to reclaim losses.

REPUTATIONAL DAMAGE

When FIs can't safeguard customer accounts and identities, brand trust suffers, leading to lost customers and lost revenue.

Traditional Application Fraud Detection Systems Have Two Big Problems

Rigid decisioning models obstruct business growth.

Traditional risk assessment systems provide overly restrictive “yes” or “no” approval results, which are based on limited account data.

FIs that rely on binary decisioning tools run the risk of:

- ⚠ Turning away potentially valid consumers
- ⚠ Obstructing new revenue streams
- ⚠ Impeding financial inclusion

CLICK HERE TO LEARN MORE

Application processes are too intrusive.

Many risk assessment systems require too many steps from applicants and make them wait too long for approval decisions.

When digital application processes are not fast and easy, application abandonments increase—leading to the loss of potentially valuable customers.

Consumers are up to **60% more likely** to abandon their application if the process takes **more than five minutes** to complete.[3]

Predict New Account Risk

Modern strategies for successful application fraud detection and prevention

Deep data intelligence enables precise risk assessments.

Predict New Account Risk from Early Warning provides deep, predictive intelligence that empowers FIs to make more nuanced risk assessments.

Key capabilities

RISK SCORES	**First Party Fraud Score 2.0** (available as of May 2024) Predicts the likelihood that a customer's account will close due to first-party fraud within 9 months of account opening. It leverages the latest in machine learning and boasts 29 behavioral attributes, ensuring greater precision in risk determination. It also delivers a 63% improvement in predicting fraud compared to our original 1.0 model, providing a significant reduction in false positives.	for DDA account applications ✓	
	Account Default Score Predicts the likelihood of account abuse within 9 months of account opening.		
ADDITIONAL ATTRIBUTES	**Shared Fraud** Identifies and provides insights into fraud events associated with the applicant—at both the inquiring FI and external institutions.	for DDA account applications ✓	for lending applications ✓
	Account Abuse Identifies and provides insight into account abuse events associated with the applicant—at both the inquiring FI and external institutions.		
	Hot File Identifies high-risk applicants you may not want to do business with—based on your institution's Hot File information.		for lending applications ✓

The difference is in our data.

As the Trusted Custodian® of the *National Shared Database*^{SM} resource, Early Warning receives DDA performance data from more than 2,500 financial institutions on a recurring basis.

CLICK HERE TO LEARN MORE

Use Predict New Account Risk to detect and prevent application fraud at your institution.

How it works

1

A consumer completes and submits your new account application (online, mobile or in-branch).

2

Early Warning accesses its *National Shared Database*^{SM} resource in real-time and runs proprietary algorithms to provide you with Predict New Account Risk data.

- **For DDA applications**, Predict New Account Risk data includes risk scores (First Party Fraud, Account Default) and summarized attributes (Shared Fraud, Account Abuse).
- **For lending/credit applications**, Predict New Account Risk data includes summarized attributes (Shared Fraud, Hot File).

3

You use the scores and/or attributes as part of your risk mitigation strategy to make confident approval decisions that align with your risk threshold.

CLICK HERE TO LEARN MORE

Five ways Predict New Account Risk can help your institution:

Enhance the customer experience: Enables fast and seamless digital application processes.

Expand your customer base: Nuanced insights let you approve more accounts, tailoring privileges to align with your risk threshold.

Reduce fraud losses: Identify high-risk applicants at the point of application—to prevent costly downstream attacks.

Balance risk, efficiency, and compliance: Use Predict New Account Risk data in alignment with your business goals to mitigate risk while maintaining compliance and efficiency.

Foster financial inclusion: Gain the insights and perspective required to confidently onboard a broader population of consumers.

| www.earlywarning.com

CLICK HERE TO LEARN MORE

LEARN MORE ↗

about how Early Warning® can help you improve your application fraud detection and prevention strategy—to maximize growth and minimize losses.

Sources

1 New-Account Fraud: A Threat Down Every Avenue. Javelin, June 2022

2 What's Top of Mind for Fraud Executives: Trends, Scams and Talent. Datos Insights, August 2022

3 Digital Banking Report Research. The Financial Brand, Aug. 2020

ABOUT EARLY WARNING

Early Warning Services, LLC, is a fintech company owned by seven of the country's largest banks. For more than thr ee decades, our identity, risk and payment solutions have been empowering financial institutions to make confident decisions, enable payments and mitigate fraud. Today, Early Warning is best known as the owner and operator of the Zelle Network®, a financial services network focused on transforming payment experiences.

With a partner like Early Warning, FIs are empowered with an accurate, comprehensive solution that:

- Provides breadth and depth of deposit data, enabling a holistic view of a consumer's banking behavior
- Leverages real-time, predictive analytics that enable better-informed decisions
- Ensures faster decisions and reduced friction which translates to a better customer experience.