Early Warning®

Fraud Prevention Strategies for Confident Account Openings

MAXIMIZE YOUR BANK'S GROWTH WHILE MINIMIZING NEW ACCOUNT LOSSES

March 2023

Account opening fraud is climbing.

During the COVID-19 pandemic, stimulus fraud was rampant.

Now, building on the success of pandemic-driven tactics, fraudsters are turning their attention to new account openings.

As account openings skyrocket and application processes move increasingly to digital channels, criminals are exploiting weaknesses in traditional fraud prevention strategies.

Fraud prevention strategies in banks must focus on improving application fraud controls:

Application fraud has ballooned over the past two years—even as growth trends for other types of fraud are beginning to plateau.[1]

The high rate of activity and growth in application fraud is expected to continue or even increase in the coming years.[1]

1 Market Trends in Fraud for 2022 and Beyond: New Fraudsters, New Era. Aite-Novarica, Feb. 2022

Application fraudsters are turning to these tactics.

Application fraud growth is being driven largely by two tactics: first-party check/deposit fraud and <u>synthetic identities</u>[1] which fraudsters use to commit first-party fraud down the road.

Most concerning modes of fraud among FIs

39%
of fraud executives say synthetic identities resulting from application fraud is one of their top two concerns[1]

32%
of fraud executives say first-party check/deposit fraud resulting from application fraud is one of their top two concerns[1]

1 <u>Market Trends in Fraud for 2022 and Beyond: New Fraudsters, New Era.</u> Aite-Novarica, Feb. 2022

FIs are prioritizing funding to fight application fraud.

Financial institutions (FIs) are <u>investing heavily to combat application fraud,</u> with the most funding going toward improving identity authentication and identity verification.

Top two fraud mitigation investment areas for 2022:

40%

40% of FIs are prioritizing funding for digital identity authentication controls[1]

40% FIs are prioritizing funding for verification controls/ application fraud controls[1]

1 <u>Market Trends in Fraud for 2022 and Beyond: New Fraudsters, New Era.</u> Aite-Novarica, Feb. 2022

Protecting against new account losses is a complex endeavor.

Traditional "yes" or "no" decisioning rules inhibit bank growth.

While most new account losses stem from first-party fraud, not all losses can be blamed on criminal activity.

Banks also lose money whenever a customer defaults on their account due to mismanagement.

To mitigate new account risk—without turning away potentially valuable customers—FIs must be able to answer nuanced questions like:

- Can I do business with this person?

- What account services and privileges can I offer this applicant?

- Is the funding account open and in good standing?

Customers expect fast and easy account openings.

As banks take steps to modernize their fraud prevention strategies, mitigating application fraud risk should be a critical objective.

But it's only part of the equation.

Banks must also ensure that their fraud risk controls don't slow down the customer onboarding process.

Customers are up to 60% more likely to abandon their application if the process takes more than five minutes to complete.[1]

> " The key to success to digital banking transformation will be the ability to support transactions and engagement seamlessly, across platforms, with the fewest number of steps. *Ease of use is the new digital differentiator.*"
>
> **—Jim Marous,**
> *Owner and Publisher of Digital Banking Report*

1   How Banks Can Increase Their New Loan Business 100% (Or More). The Financial Brand, Apr. 2021

PREDICT NEW ACCOUNT RISK:

SMARTER DECISIONS START WITH PREDICTIVE INTELLIGENCE

Early Warning enables more nuanced account opening decisions.

Predict New Account Risk leverages deep predictive intelligence to provide a more transparent view into your applicants' account history and behavior.

It moves beyond binary decisioning, empowering you to confidently open more accounts—tailoring individual account privileges to align with your growth objectives and threshold for risk.

BINARY DECISION MAKING

Decline	Open

NUANCED DECISION MAKING

Decline	Open with tailored privileges	Open

Superior data drives superior intelligence.

As the Trusted Custodian of the *National Shared Database*^{SM} Resource, Early Warning receives deposit performance data from thousands of financial institutions on a recurring basis.

Predictive scoring facilitates and improves account opening decisions.

New Account Scores

- First-Party Fraud Score: Predicts the likelihood that a consumer will default due to first-party fraud within the first nine months after account opening

- Account Default Score: Predicts the likelihood that a consumer will default due to account mismanagement

  within the first nine months after account opening

Can I do business with this person?
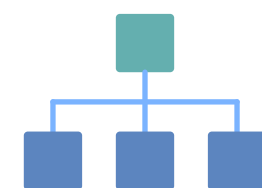
What account services and privileges can I offer?

Is the funding account open and in good standing?

Summarized attributes add context to new account scores

Sample Attributes

- Number of fraud records contributed for this individual
- Average number of days accounts have been open
- Number of accounts in a high-risk status
- Number of returns within the last 180 days
- Number of returns within the last 180 days
- Highest risk status between all reported accounts
- Number of open or closed accounts
- Number of days all accounts have been open

How **Predict New Account Risk** Works

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

2. Early Warning receives a real-time inquiry message and runs proprietary algorithms to determine the applicant's risk of default due to first-party fraud or account mismanagement.

   Early Warning also compiles a broad summary of attributes that reveal a clear, nuanced view of the consumer's deposit account (DDA) history and behavior.

3. Early Warning provides you with the **Predict New Account Risk** data (first-party fraud score, account default score and/or summary of attributes).

4. You use the scores and attributes to make an informed approval decision (e.g. open the account, tailoring individual privileges to fit your risk threshold; do not open the account).

How **Predict New Account Risk** can help your bank—and your customers.
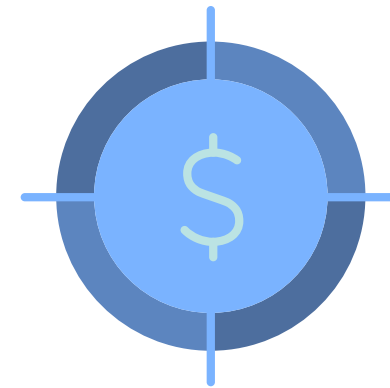
Key benefits for your institution
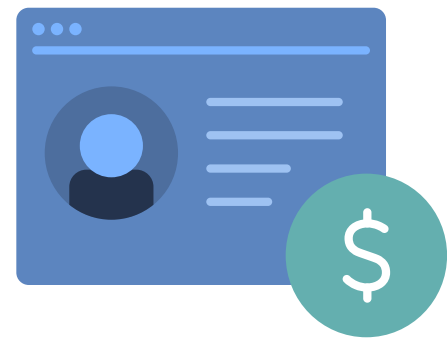
Grow your new account revenue: Open more accounts, tailoring privileges to align with your risk threshold

Improve customer retention: Accelerate onboarding to reduce application abandonment and improve the user experience

Reduce new account losses: Determine the risk of both first-party fraud and account mismanagement—based on broad and deep data intelligence

Balance risk, efficiency and compliance: Use scores and attributes in a manner that aligns with your new account fraud prevention strategy—allowing you to reduce risk, while maintaining compliance and operational efficiency

Key benefits for consumers

Enables your FI to offer fast and convenient account openings: Helps create a frictionless omnichannel experience for legitimate applicants.

Expands access to mainstream financial systems: The service moves beyond binary decisioning, allowing your bank or credit union the possibility to open more accounts with tailored privileges.

Helps individuals better manage their accounts: Sets account holders up for success by tailoring products and privileges based on their account history, behavior and predicted risk.

Early Warning can help you modernize your fraud prevention strategy to reduce risk and promote your banks growth.

About Early Warning®

Early Warning is a fintech company owned by seven of the country's largest banks. For more than three 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