Early Warning®

The Case for Predictive Intelligence:

Protecting Banks Against New Account Losses

Executive summary

For banks and credit unions, managing new account risk is a growing challenge that can lead to significant downstream losses from first-party fraud and account abuse.

When the shift to digital banking hit warp speed during the early years of the COVID-19 pandemic, financial institutions (FIs) moved just as quickly to meet consumers' demand for fast, convenient banking experiences. But they often did so without simultaneously updating their risk management strategies. Now, bad actors are capitalizing on vulnerabilities in account opening processes.

A big problem is that traditional risk management controls rely on binary decisioning rules, which can be overly rigid. They don't have the ability, for example, to provide FIs with insights into a consumer's banking history, performance or account behavior—all of which are crucial for making well-informed risk assessments. The rigid, "yes/no" decisioning approach can cause FIs to miss potential threats and increase loss risk—or decline potentially valuable customers and suppress business growth.

Predictive analytics offer a more sophisticated alternative. Advanced predictive models can quickly analyze vast amounts of data to provide more accurate and detailed risk insights. The speed and accuracy of these tools allow FIs to better protect against new account losses—while maintaining streamlined customer experiences.

As digital banking continues to evolve, choosing the right risk management solution is crucial. Predict New Account Risk from Early Warning® combines predictive analytics with a vast repository of cross-institutional data, to provide banks and credit unions with the insights they need to mitigate new account risk and maximize business growth.

Nine of the top 10

largest U.S. banks use new account opening solutions from Early Warning.

In 2023, Early Warning screened

83 million new account

applications* for U.S. banks and credit unions

FIs can reduce new account

onboarding losses by 38%

with Predict New Account Risk

With Predict New Account Risk, FIs can save

$1M-$10M in annual

fraud loss, depending on DDA volume using Predict New Account Risk

New account risk can be divided into two categories: ***Behavior-driven risk*** and ***identity-driven risk***. This white paper focuses on managing behavior-driven risk. **To learn more about identity-driven risk, read our identity fraud ebook.**

DUELING PRIORITIES: CUSTOMER EXPERIENCE VS. RISK MANAGEMENT

The digital economy has changed how FIs interact with customers. Quick and seamless experiences have become the norm. Today, banks and credit unions are under pressure to continuously improve their user experiences. But the updated experiences introduce new risk management challenges.

Digital account openings, for example, embolden bad actors by providing a level of anonymity and speed that doesn't exist with in-person interactions. When a bad actor makes their way into the system (e.g., by opening a new deposit account or obtaining a credit card), the FI becomes more vulnerable to costly downstream behaviors, such as first-party check fraud or account abuse.

To remain competitive, FIs must figure out how to effectively mitigate risk while maintaining frictionless customer experiences.

According to a 2023 Liminal study,
35% of consumers admitted having engaged in first-party fraud—
with over 40% of them planning on committing first-party fraud again in less than 60 days after the first event[1].

HOW TRADITIONAL RISK MITIGATION SYSTEMS FALL SHORT

- Traditional controls suppress business growth: Many traditional risk management tools rely on a binary decisioning approach, which can be overly rigid. The tools often follow yes/no decision rules that don't provide FIs with the nuanced information they need to make informed decisions. The lack of flexibility can mean missed opportunities for FIs to approve potentially valuable customers.
- Updates to fraud controls can diminish customer experience: To fill gaps in their risk management systems, FIs may implement new tools that create more work for applicants, like submitting additional information. This can slow down the onboarding process, leading to customer frustration and application abandonment. In a competitive market, where customer experience is critically important, even minor delays can drive consumers to competing institutions that offer smoother processes.
- Complicates compliance: FIs need solutions that can work with the account opening strategies they have in place. As the industry seeks to improve financial inclusion, for example, FIs need tools that allow them to expand their decisioning criteria in a way that aligns with the institution's compliance initiatives and threshold for risk.

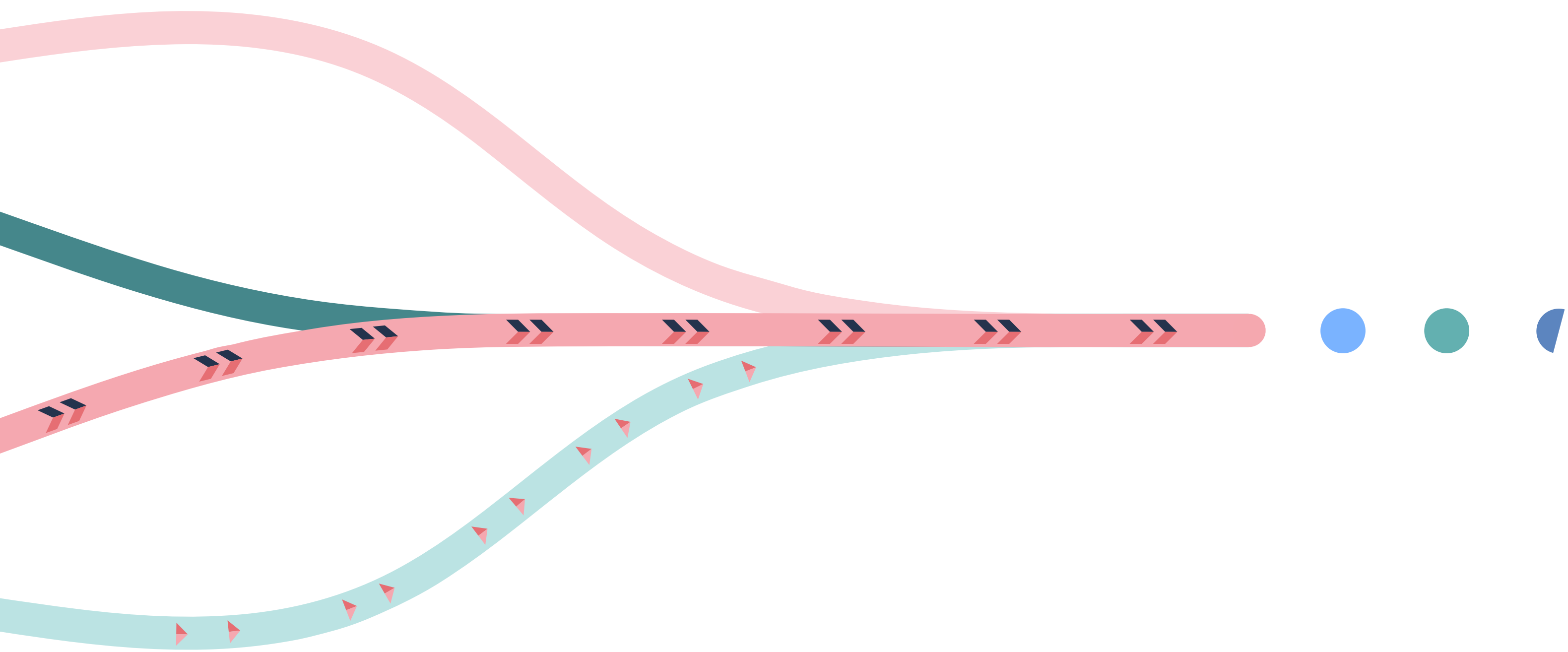
THE CASE FOR PREDICTIVE ANALYTICS IN NEW ACCOUNT OPENINGS

The sheer volume of data being collected across the banking industry has rendered traditional data analysis methods inadequate.

Predictive analytics has emerged as a powerful tool for managing new account risk. By analyzing vast amounts of data, predictive models can identify patterns and anticipate future risks with a level of precision and speed traditional methods can't match—empowering FIs to simultaneously strengthen risk management and streamline customer experiences.

ALL DATA IS NOT CREATED EQUAL

The very best predictive risk models are only effective if they have access to comprehensive, accurate data. Bad actors don't stick to a single bank or credit union, which means FIs need insights into an applicant's account history and behavior across all the banks and credit unions they've used. To get the panoramic view required to accurately assess a consumer's risk, many FIs are turning to a consortium data-sharing approach.



PREDICT NEW ACCOUNT RISK OFFERS A DATA-CENTERED APPROACH

Predict New Account Risk combines predictive analytics with shared consortia data to give FIs a clear view across an applicant's demand deposit account (DDA) history and behavior. It provides FIs with the nuanced insights they need to make knowledgeable decisions that align with their business objectives and threshold for risk.

The solution leverages data from Early Warning's National Shared Database℠, which contains account data contributed by thousands of banks and credit unions. In 2024, we scored 81% of Predict New Account Risk inquiries based on the below contributed data[2]:

719 million
deposit accounts

653 million
deposit account owners

10.1 billion
annual transactional records

In 2023, Predict New Account Risk screened 9 million new account applications, issuing alerts on **900,000 high-risk applications** and preventing **$166 million in potential losses.**

FEATURES AND CAPABILITIES

Predict New Account Risk provides FIs with two distinct products—one for deposit account openings and another for credit decisioning. For deposit account openings, FIs receive a combination of risk scores, key factors and all attributes as described below. For credit decisioning, we only provide shared fraud and hot file attributes.

Risk Scores

- **First-party Fraud Score:** Predicts the likelihood that an applicant will commit fraud within nine months of account opening.
- **Account Default Score:** Predicts the likelihood that an applicant will commit abuse within nine months of account opening.

Key Factors

Added context around the scores, such as the tenure of accounts and recent statuses, allowing FIs to make more informed decisions.

Attributes

A variety of data attributes supplement the associated risk scores. They include:

- **Behavioral Attributes:** Detailed data on account behavior, such as highest risk status, average number of days accounts open, number of accounts closed for cause, total number of open accounts, and number of distinct FIs with accounts.
- **Shared Fraud Attributes:** Insights on fraud incidents, including the number of fraud records and dates of most recent fraud.
- **Account Abuse Attributes:** Insights on account abuse, including the number of account abuse records, dates of most recent incidents and the principal loss amount.
- **Hot File Attribute:** Number of hot file matches, at the inquiring institution, indicating a history of fraudulent activity.

FROM DATA TO DECISION – HOW IT WORKS:

1 The consumer submits the completed application* to the FI

2 Early Warning accesses the National Shared Database℠ Resource and runs predictive analytics

3

Account opening product outputs

Early Warning provides FI with the following Predict New Account Risk outputs:

- First-party fraud scores, key factors, shared fraud attributes
- Account default scores, key factors, account abuse attributes
- Behavioral attributes
- Hot file attribute

Credit decisions product outputs

Early Warning provides FI with the following Predict New Account Risk outputs:

- Shared Fraud attributes
- Hot file attribute

4 FI makes an informed decision about whether to approve the application* and what privileges to offer.

*The type of application submitted will either be a credit/lending application, delivering the credit decisioning product outputs, or a new account opening application, delivering the account opening product outputs.

BOTTOM-LINE BENEFITS TO BANKS AND CREDIT UNIONS

In 2023 alone, Early Warning screened 83 million new account applications, helping U.S. financial institutions reduce their fraud exposure and confidently open more accounts.

- **Reduce losses:** The solution helps FIs identify high-risk applicants at the point of account opening, preventing downstream losses from first-party fraud and account abuse.

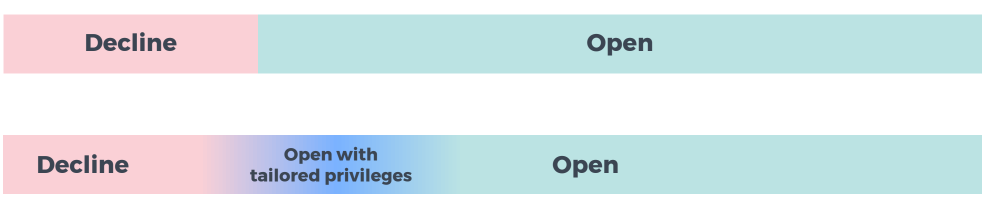
Banks and credit unions can reduce new account onboarding **losses by 38%** with Predict New Account Risk.

An FI with 1 million DDAs can expect to **save $1M** in annual fraud loss

An FI with 5 million DDAs can expect to **save $5M** in annual fraud loss

An FI with 10 million DDAs can expect to **save $10M** in annual fraud loss

- **Grow business:** Scores and summarized attributes give FIs the nuanced risk insights they need to approve legitimate account inquiries quickly—and analyze inconclusive inquiries to tailor privileges in alignment with their risk threshold. With a holistic picture, FIs can move beyond binary decisioning rules and expand their customer base on their own terms.



- **Balance risk, efficiency and compliance:** FIs can use Predict New Account risk scores and attributes in a manner that aligns with their broader account opening strategies. This flexibility allows FIs to reduce risk while maintaining compliance and onboarding efficiency.

PREPARING FOR THE FUTURE OF DIGITAL BANKING

As digital banking continues to evolve, FIs must carefully select new account opening solutions, ensuring they can both mitigate risk and support business growth. Early Warning offers a proven solution that's used by nine of the ten biggest U.S. banks. By combining predictive analytics with its vast, cross-institutional database, Early Warning helps banks and credit unions of all sizes modernize their risk management systems.

LEARN HOW

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

Sources

1. Transaction Fraud Prevention in E-Commerce", Liminal, November 2023
2. National Shared Database℠ Resource, Report, July 2024

ABOUT EARLY WARNING

Early Warning Services, LLC, a financial services technology leader, has been empowering and protecting consumers, small businesses, and the U.S. financial system with cutting-edge fraud and payment solutions for more than three decades. We are also the company behind Zelle®, and the soon-to-launch Paze℠, a wallet that reimagines e-commerce payments. Early Warning partners with more than 2,500 banks and credit unions to increase access to financial services and products and protect financial transactions. Learn more at www.earlywarning.com and connect on LinkedIn.