Bridging the Gap Between Fraud and Credit Risk

Credit data is widely available to credit reference agencies and financial institutions and for a long time has been used in predicting credit worthiness of customers. This data is used to build credit attributes that are used in modelling approaches to predict credit worthiness and derive outcomes to train these models. With outcomes for fraud events being rarer and less readily available we explore using credit data as a proxy. We prove credit attributes provide unparalleled insight into consumer's financial circumstances, showing high predictive power around different kinds of financial crime.

Most in-house efforts at tackling fraud, concentrate on transaction monitoring due to the lack of data at origination. This provides unattainable detailed knowledge on a customer's behaviour, but it inevitably condemns fraud strategies to act at the point of transaction after the fraud has already begun and can be too late for the victim to helped. Credit, and sociodemographic data, held by the bureaus, allow earlier intervention.

Credit data most readily lends itself to predicting first party fraud, such as No-Intent-To-Pay (NITP). This can be observed in credit data when payments are missed from the outset. The challenge is distinguishing these NITP cases from genuine credit failure and ensuring any model built is primarily predicting fraud.

Credit data can also be used to detect money muling. Individuals who perpetuate this kind of criminal activity tend to: create multiple current accounts in a short period of time; have financial behaviour that has been deemed suspicious previously; live in less affluent areas; and are relatively less established financially. These factors indicate that there is a risk level associated with an individual at account opening before they perform any mulling. This enables financial institutions to intervene with appropriate education and warnings to prevent crime. It can also be used in conjunction with transaction monitoring to minimise large fraud losses occurring.

In the third-party fraud space credit data show potential in preventing scam victimisation. The victims of authorised push payment fraud tend to present a plethora of vulnerability characteristics. They act impulsively and can be confused by the complexity of the financial system and its products. This weakness is often exploited by fraudsters and can entail life changing consequences to the victim. Indicators of these behaviours can be found in credit data, at point of account opening, before any transactional data is available, and used to educate and inform the potential victim.