:experian™

Experian's Commercial First Party Fraud Score

Commercial entity fraud remains a consistent pain point for many Experian clients, and in recent years with uncertain market dynamics, it has escalated to an immediate priority for which clients are looking to solve. As digital transformation continues to accelerate a shift from face-to-face to online transactions, it has also enabled fraudsters to take advantage of nascent commercial entity fraud solutions. The rapid improvements in anti-fraud capabilities within the consumer market means fraudsters are shifting their focus to commercial lending, attracted by large loan sizes, a lack of sophisticated detection platforms, and a deeper understanding of the relationship between business credit and owner's personal credit. Many of these fraudsters seek to profit from credit abuse schemes, leaving our clients susceptible to unnecessary losses that impact their bottom line.

First party fraud is the most prevalent fraud attack impacting our clients and is one of the more challenging types of fraud to identify.[1] A key client pain point that our score will solve for is the need to accurately associate fraud losses that are commonly mis-classified as credit losses. The improved ability to accurately assign fraud losses will also increase the effectiveness of future models.

Current providers of fraud scores are consumer-centric and focuses prediction using consumer credit utilization. Positioning consumer-centric fraud solutions to solve for a commercial fraud problem is ineffective. There are additional fraud signals specific to commercial data, and when combined with consumer data increases our ability to identify fraudulent intent on a commercial application.

We provide an entity First Party Fraud Score, which is a commercial only and blended model to predict entity first party fraud risk and identify early or first payment default and credit bust out scenarios.

Current market challenges

Clients currently don't know how to properly differentiate between the types of fraud which is needed to apply more prescriptive and proper treatment and controls, to make more specific predictions, and get to decisions more quickly. Specific actions based on the type of fraud provides a more effective approach to replace a one-size-fits-all fraud model.

[1] www.paymentsjournal.com/the-new-fraud-landscape-what-it-means-for-financial-services/

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There are three different types of application fraud:

First Party Fraud (also known as Never-pay, First Pay Default, Bust-out, Credit Abuse)

An identity is presented to an entity by its actual owner, with intent to steal. This type of fraud is characterized by the high degree of uncertainty when it happens. It is the most prevalent fraud attack impacting our clients and one of the more challenging types of fraud to identify.

Third Party Fraud (Identity Theft, Impersonation)

An identity is presented to an entity by someone who's not authorized (third party) to use the identity. This type of fraud is characterized by the high degree of certainty when it happens.

Synthetic Identity

A type of First Party Fraud where there is no true person to pursue, collect from, or prosecute. An identity is created using different characteristics of real and fake identity elements, which is then used to gain trust through creditworthy behavior.

Why does Experian excel at detecting First Party Fraud?

Credit data is important, as patterns of increasing use and accumulation of credit are important to detection. Non-credit data is also important. The ways in which identities are used outside of credit give clues to the business and person's lifestyle, stability, and help infer "intent."

First Party Fraud occurs across many obligations at once.

• Experian sees this "cross-lender" view while clients tend to focus on their account-view.

• Experian has observed that generally businesses don't just go bad on an account but accumulate lots of credit and go bad on everything at once.

The business challenges our clients use Commercial First Party Fraud Score to solve

We help clients identify application fraud among commercial entities for high risk accounts, to enable an origination process that is faster, less costly, and with less risk.

Entity Authentication

- Verify that customers are who they say they are and flag customers with potential fraud risk where needed

- Compare customer-supplied details to data from public records and Experian to verify identify of new customer

- Make decision to investigate further or decline the application

Underwriting and approval

- Assess creditworthiness of customer based on set guidelines

- Minimize risk of overall customer portfolio by limiting credit exposure for potential fraudulent applications

Commercial First Party Fraud Score:

01
Blended
Commercial only, consumer only or blended

02
Refer
300-850 score range and non-Adverse Actionable

03
Sources
Experian FileOne and BizSource

04
Delivery
Batch, NetConnect, API Hub, and CrossCore

The Commercial First Party Fraud score identifies those accounts that have a higher risk of defaulting. Our machine learned model is a more advanced model with higher performance, providing more matches on small businesses using blended/consumer data on the business owner, and eliminates more false positives. The score helps clients create a more specific refer process during account opening or onboarding, and can also be used for account management. It is based on a 300-850 score range to better understand risk over time (lower score means higher risk), more precisely identifies high risk applications for manual review, and is developed using Experian data with no external data sources. The score is also available via multiple delivery channels for easy integration.

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Use case example — Abuse and mis-use of credit

Scenario: A recent trend of bad debt from long established businesses or an increase in credit write-offs resulted in incremental losses. Post fraud investigation indicates it might be fraud but still uncertain.

We can help clients identify risk of Credit Bust-Out and First Payment Default in new account openings and within existing portfolios during account review.

- Fraudster applies for credit under their own business. They build a good credit history through timely payments, obtaining credit line increases, and increasing utilization. Then they max out lines of credit, with the intention of not repaying, and drops the account.
- Proper treatment — Handle relationship carefully and limit exposure until you're confident. Limit false positives, provide a smooth customer experience coming through door, and only review high-risk applications with potential fraud.

Benefits

Reduce Risk for Decisioning through Industry-Leading Commercial, Consumer, and Additional Data Coverage in One Centralized Location

- Unique data assets with expanded data breadth and depth for better decisioning

Reduce Costs by Replacing Ad-hoc Labor-Intensive Resources with Reliable Objective Data to Evaluate Fraud

- Consistent and scalable way to approach and identify fraud to reduce fraud analyst workload, by automating the decisioning process based on actionable attribute results

Reduce Risk, Reduce Costs, and Improve Customer Experience by Differentiating Fraud Types to Apply the Right Type of Friction

- Capabilities to better identify and differentiate between types of fraud to apply more prescriptive and proper treatment and controls, to make more specific predictions, and get to decisions more quickly.

To talk to a fraud prevention specialist, visit: **Experian™ Commercial First Party Fraud Score**

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Let Experian help you on your journey

To learn more about Experian's Commercial Entity Fraud solutions, contact an Experian representative at 877-565-8153 or visit **www.experian.com/commercial**.

About Experian's Business Information Services

Experian's Business Information Services is a leader in providing data and predictive insights to organizations, helping them mitigate risk and improve profitability. The company's business database provides comprehensive, third party-verified information on 99.9 percent of all U.S. companies, as well as millions of companies worldwide. We provide market-leading tools that assist clients of all sizes in making real-time decisions, processing new applications, managing customer relationships and collecting on delinquent accounts.

For more than 125 years, Experian has used the power of data to help unlock opportunities for businesses and consumers. With more than 16,500 employees in 39 different countries, Experian proudly offers blended data assets, giving you access to hard-to-find small and micro businesses. Funneling numerous data sources — including BizSource^{SM}, member trade, alternative and consumer — our breadth and depth of information helps you fine-tune marketing efforts, identify new profitable customers, assess risk, improve data modeling and conduct market research to break into new market segments.

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