



# Identify Fraud Within Your Commercial Credit Portfolio

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## Our Topics Today

- 1** Emerging Commercial Fraud Trends

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- 2** Credit Risk vs. Fraud Risk Management

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- 3** Commercial Fraud Strategy and Solutions

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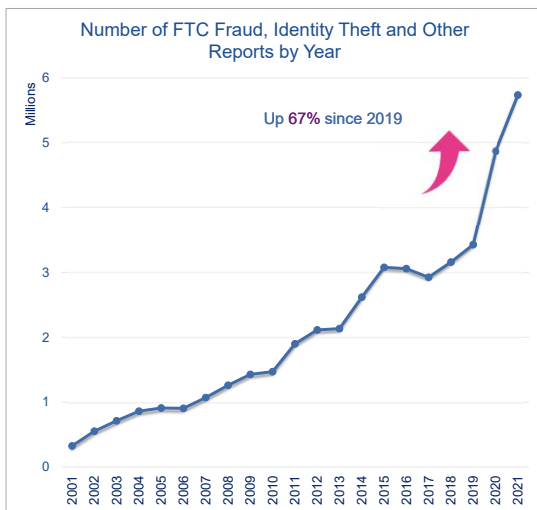
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# Emerging Commercial Fraud Trends



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## 2021 went down as a record year for fraud Consumers and business owners targeted by fraudsters



Fraud is on the rise as the economy rebounds:

Fraud was up 20% YOY in 2021

18% of creditors state that their fraud loss rate is higher than 1.0% in 2021, and 69% consider their fraud losses to be "non-negligible"

Loan stacking (19%) and document fraud (16%) are called out as the most prevalent fraud types encountered by commercial lenders

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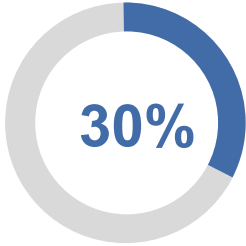
Sources:  
FTC, Consumer Sentinel Report 2022  
Aite Group, "Fraud in Small-Business Lending 2021: Lenders Under Attack Fight Back", June 2021.



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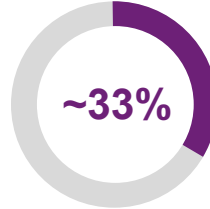
## Fraud spiking

How badly is it affecting you?



Percentage of fraud identified as **illegitimate business applications** (shell companies, synthetic or fictitious profiles).<sup>1</sup>

Approximately 1/3 of fraud is committed by submitting **doctored financial documentation**.<sup>2</sup>



Reported **increase** in fraudulent activity **since the surge of COVID-19**.<sup>3</sup>



- Hard to know what's bad credit vs. fraud attacks?
- Investing too much time and efforts in manual investigations?
- Growing your portfolio without much confidence?

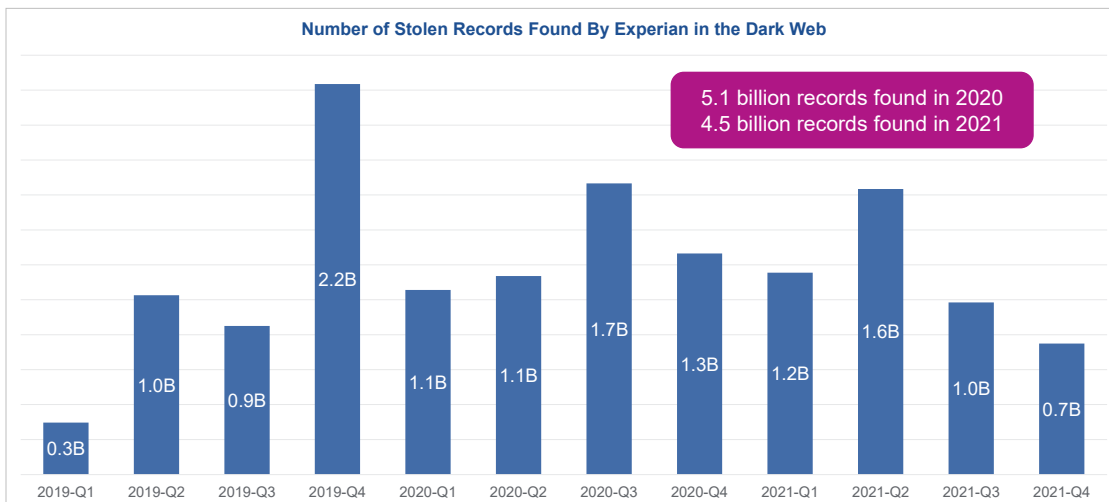
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## Vast amount of stolen data available in the Dark Web

Cybercriminals incubate stolen records from data breaches, until the time is right to sell them on the dark web.



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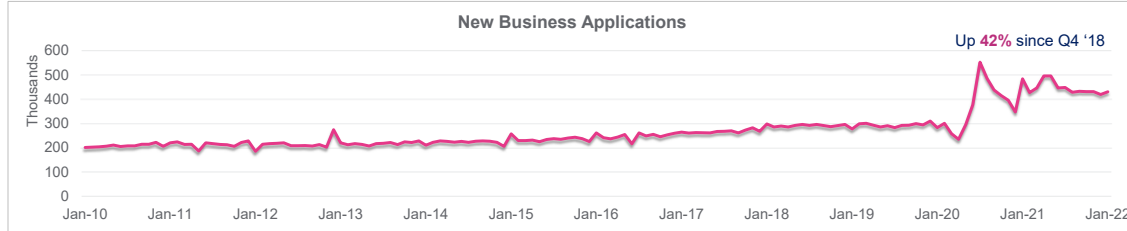
Source: Experian Dark Web Monitoring



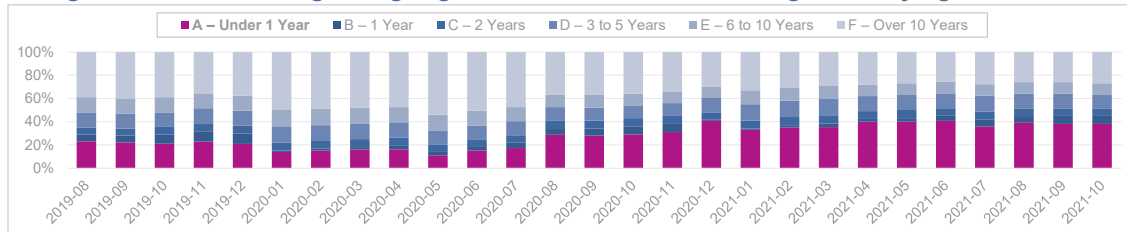
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# Fraudsters target the young: Easy targets with developing security

The pandemic sparked an unprecedented number of new businesses



## Younger businesses are a growing segment in the credit market: Origination by Age of Business



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Sources: US Census Bureau and Experian commercial credit data



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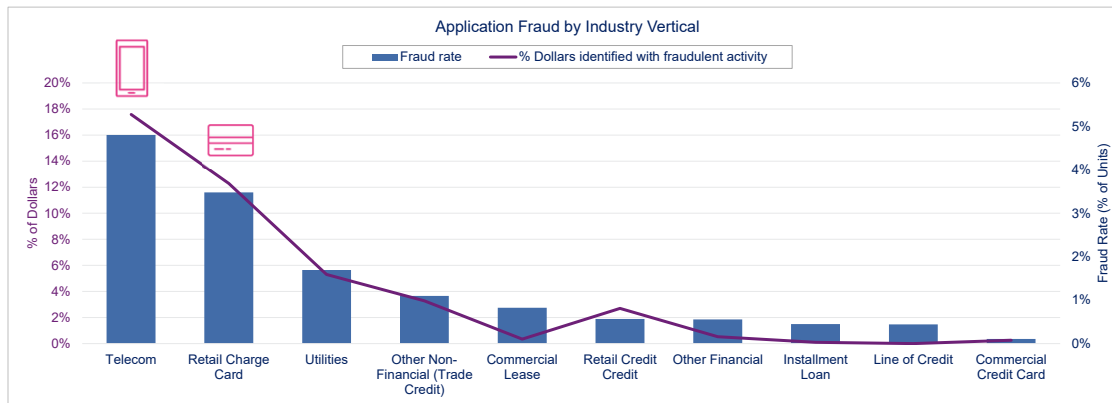
## Who is being hit hard?

What segments of small business are experiencing high impact

Easy to Monetize

Uncollateralized

High Automation Rates



Telecoms and retail cards show the highest incidence of fraud

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Source: Experian commercial credit data



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# Credit Risk vs. Fraud Risk Management



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## Let's talk Credit Abuse

A **legitimate business** opening loans, lines of credit or credit card accounts and then **disappear without fulfilling their financial obligations**.  
(Account Origination)

A **legitimate business** opening loans, lines of credit or credit card accounts, making on-time payments to **maintain a good account standing**, with the **intent of bouncing** a final payment and **abandoning account**.  
(Portfolio Management)

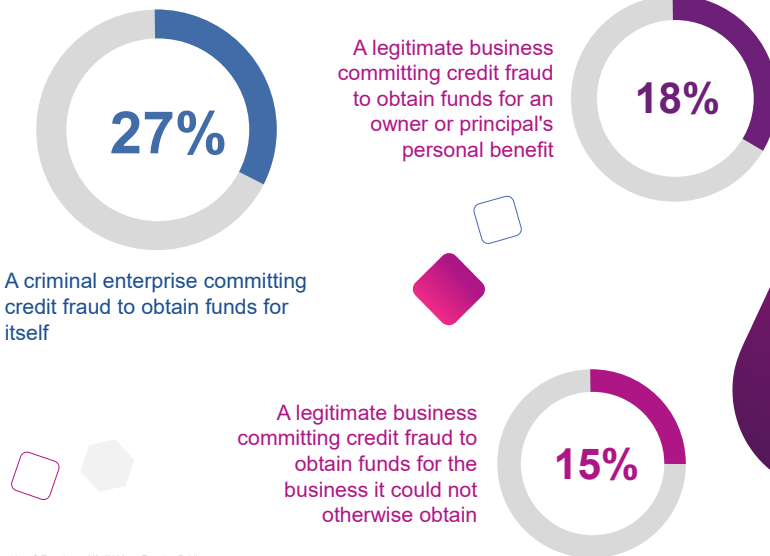
A **legitimate business** submits multiple credit applications during a short period of time with **multiple loans extended** and **none of them are likely to be repaid**.

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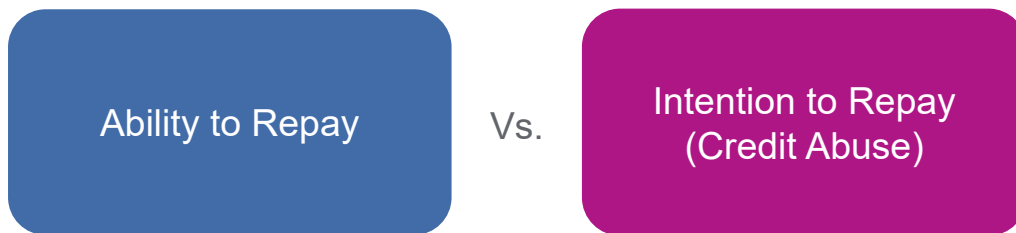
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## Credit abuse and their perpetrators



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## Key Question:

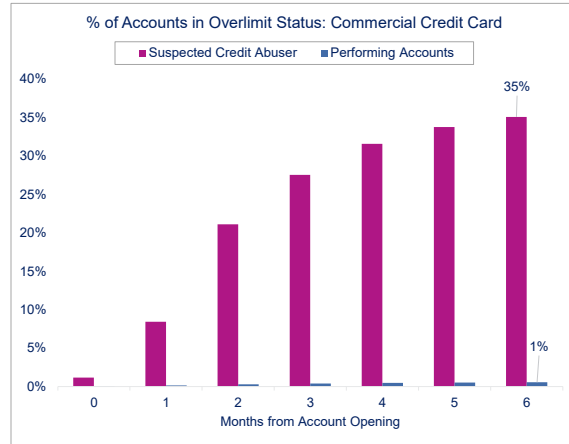
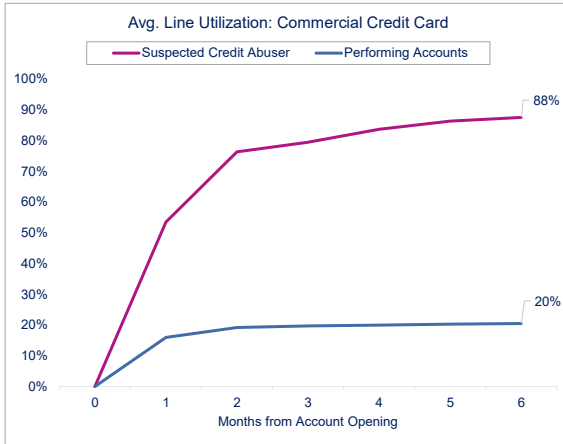


- Different warning signals
- Fraudsters seek to maximize their payday (high impact events)
- Particularly damaging: Multi-draw bust-out

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## What does commercial card line utilization look like in cases of suspected credit abuse?



Fraudsters ramp up balances extremely quickly, often abusing lax overlimit authorizations, and resulting in large losses per account

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Source: Experian commercial credit data



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## Why it's important to score for fraud and credit risk

### First and Early Payment Default Rates (91+ DPD Within 6 Months from Account Opening)

		Credit Risk Score	
		Low Risk	High Risk
Commercial Fraud Score	Low Risk	0.4%	1.0%
	High Risk	<b>5.0%</b> "Low" Credit Risk, but <b>High Fraud Risk</b>	5.1%

**"Good" credit scores can hide significant fraud risk**

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For illustration purposes only. Example gathered from a random data sample of new commercial accounts across multiple lenders. Results may vary from client to client.



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Case Study: Analysis conducted for trade client

## 23K accounts display signals of high risk of first-party fraud, possibly undetected through traditional credit risk scoring

High-risk segment undetected by credit-only underwriting

First-Party Fraud Score	Commercial Credit Risk Score						Total
	High (1 - 10)	Med-High (11 - 25)	Medium (26 - 50)	Med-Low (51 - 75)	Low (76 - 100)	Not Scored	
Ultra High (300 - 424)	1.6K	0.8K	0.6K	0.3K	0.1K	0.1K	3.5K
High (425 - 499)	13.0K	8.4K	7.4K	3.4K	1.0K	0.6K	33.3K
Med-High (500 - 549)	8.1K	17.3K	23.6K	17.6K	8.5K	2.1K	87.8K
Medium (550 - 599)	5.5K	41.7K	159.9K	38.8K	60.2K	19.2K	273.9K
Med-Low (600 - 674)	1.3K	8.3K	23.7K	35.1K	35.6K	0.5K	88.6K
Low (675 - 850)	0.1K	1.1K	4.0K	10.8K	13.4K	0.1K	26.5K
Not Scored	0.0K	0.1K	0.2K	0.1K	0.1K	118.1K	111.8K
<b>Total</b>	<b>26.9K</b>	<b>68.3K</b>	<b>226.1K</b>	<b>103.8K</b>	<b>110.8K</b>	<b>137.6K</b>	<b>0.7M</b>

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Source: Analysis of anonymized data provided by Experian trade client



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## “Good” credit scores might be hiding significant fraud risk

First and Early Payment Default Rates (91+ DPD Within 6 Months from Account Opening)

First-Party Fraud Score	Commercial Credit Risk Score				
	High (1 - 10)	Med-High (11 - 25)	Medium (26 - 50)	Med-Low (51 - 75)	Low (76 - 100)
Ultra High (300 - 424)	7.3%	5.5%	11.2%	8.3%	7.5%
High (425 - 499)	3.7%	3.3%	3.0%	3.6%	3.4%
Med-High (500 - 549)	2.4%	2.1%	2.2%	2.6%	2.6%
Medium (550 - 599)	2.6%	1.3%	1.6%	1.6%	1.7%
Med-Low (600 - 674)	1.4%	1.2%	0.9%	0.9%	0.9%
Low (675 - 850)	1.1%	0.9%	1.0%	0.9%	0.5%

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Source: Sample of 300K non-financial commercial trades booked from July '18 to Sep '19, extracted from Experian commercial credit database. Performance tracked over 6 months after booking.



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# Commercial Fraud Strategy



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## Commercial fraud can take many shapes



**Verify business and consumer data- Are they real businesses and business owners?**

- Newly established businesses
- Stolen credentials
- Fictitious business



**Are they credit worthy? What is the likelihood they will repay ?**

- Blended commercial and consumer scoring



**Are they at high risk for fraud? Do they flag databases for multiple types of fraud?**

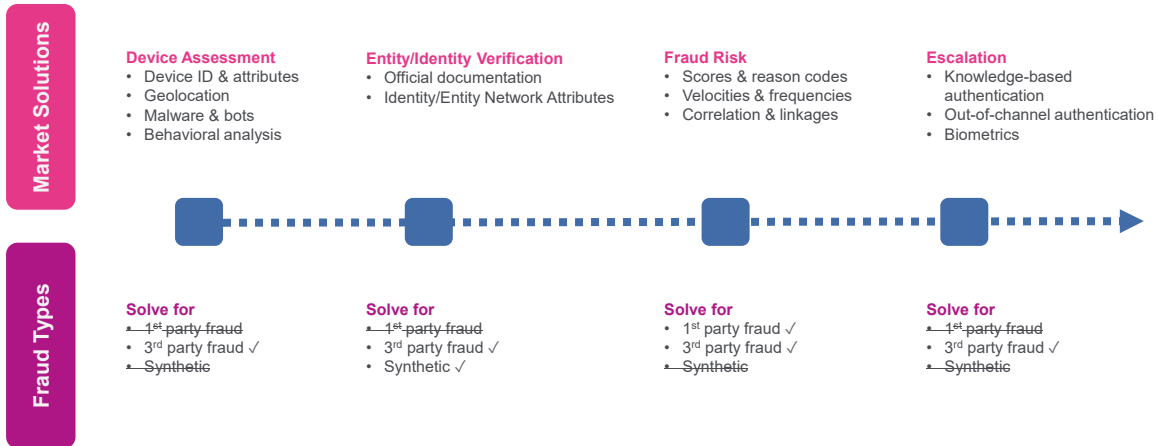
- ✓ First-party
- ✓ Third-party
- ✓ Synthetic/fictitious

e.g.: Verifying guarantor-to-business won't deter from first-party fraud attacks



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## Application fraud takes many forms ONE SIZE WILL NOT FIT ALL



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## Preventing third-party and synthetic fraud with a 360° view

### Consumer Credit Data

✓ 250M+ consumer files

### Commercial Credit Data

✓ 28M+ business records



### Third-Party Data Sources

- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li>✓ Professional social networks</li> <li>✓ Crowd-sourced review platform</li> <li>✓ Postal service</li> </ul> | <ul style="list-style-type: none"> <li>✓ Web domain</li> <li>✓ Email address</li> <li>✓ Carrier data</li> </ul> |
|---|---|

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# All the fraud signals provided

## Business

- Matching legal name to DBA
- Industry category (e.g., bar)
- Active corporate filing
- Corporate linkage / hierarchy
- Open for business (via social media)

## Business Address

- PO Box: Y/N
- Credit bureau address matching
- Residential vs. Commercial
- Not vacant
- Single unit vs. high-rise
- Distance from IP address to physical address
- Commercial mailing receiving agency

## Email address

- Age of specific email address
- Unique email count
- Registered name with provided email

## Owner information

- Professional social networks
- Gender
- Age range
- Profession
- Historical employment associations

## Phone carrier

- Phone carrier vendor
- Type of line (mobile, land, VOIP)
- Registered name on phone # provided

## Tax ID

- Credit bureau tax ID matching
- Validation of Tax ID prefix (by location)

## Website

- Age of website
- Server count
- # of home links and external links

## Data matching

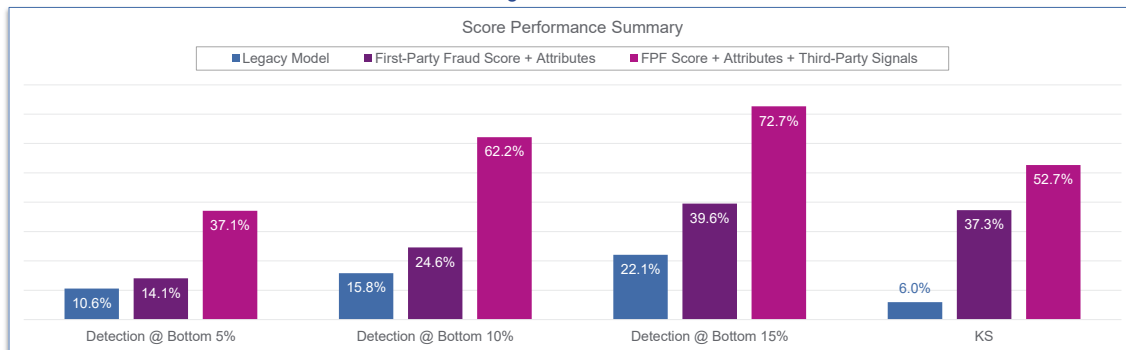
- Email-to-website domain parity
- Applicant name vs. registered name on # number provided
- Applicant name vs. registered name of email provided
- Mailing address matching across all available sources



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## Predictive signals to determine the legitimacy of a business and combat 3<sup>rd</sup> party and synthetic fraud

Signals can be incorporated in **custom scoring solutions** and/or can be leveraged to **empower manual reviews**  
 Experian fitted a proof-of-concept model leveraging some of the 3<sup>rd</sup> party fraud signals we found predictive of fraud among booked accounts.



Access to 100s of Best-in-class 3<sup>rd</sup> Party Datasets

Government Data	Economic Data	Social Data	User Permissioned	Cyber ID & Dark Web	Health
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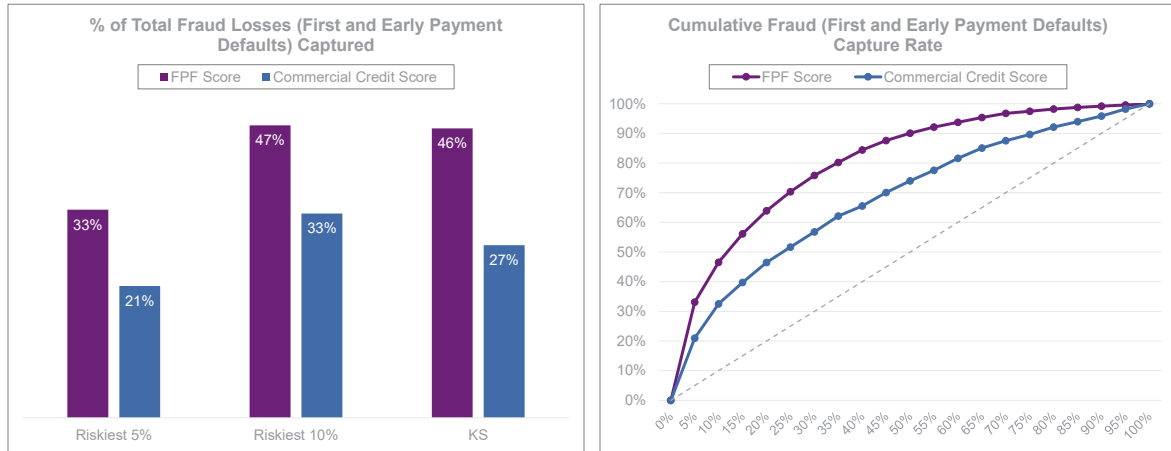
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## How is a First-Party Fraud Score different to Credit Risk Scores?

Fraud scores greatly outperform traditional credit scoring at detecting **first- and early-payment defaults** (behaviors highly suggestive of **credit abuse**)



40% - 60% Performance Lift in Detecting Suspected Credit Abuse vs. Traditional Credit Scoring

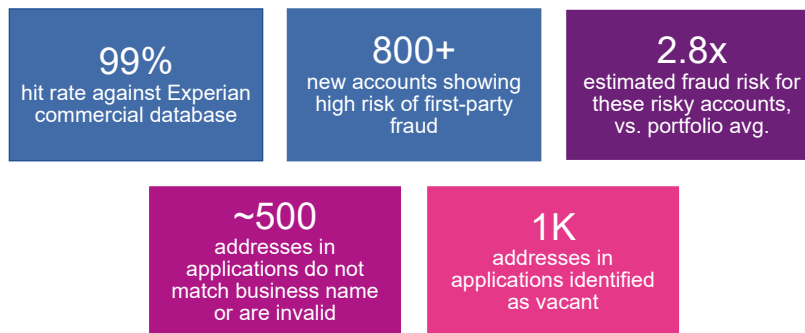
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## Fraud evaluation case study: Leading supply chain firm

We evaluated our commercial fraud solutions (**BizID and First-Party Fraud Score**) against a file with 40K approved applications during 2020 and found:



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## Thank You – Questions?



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Diversity & Inclusion Discussion



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