



Royal Bank of Scotland dramatically reduces fraud in two months

success story: fraud detection



Client	Royal Bank of Scotland
Challenge	Stop accelerating card fraud trend without negatively impacting good customers
Solution	FICO fraud reduction partnership
Results	Fraud losses dramatically reduced in two months, resulting in an annual reduction greater than initially targeted—without negatively impacting sales. Losses now in line with US market.

“The fraud reduction partnership was successful above and beyond our initial expectations, reversing the growing fraud trend the industry had experienced in recent years.”

—*Alasdair Grant,*
Director, Risk
Royal Bank of Scotland

Fraud reduction partnership puts card issuer at forefront of fraud prevention

» CHALLENGE

For several years, card issuers in the UK had been noticing an alarming trend: card fraud losses had been steadily increasing. In three consecutive years, net losses from fraud increased 25%; then another 28%; and then yet another 41%.

“Many banks were experiencing a significant impact on profits due to rising levels of fraud losses. In addition, we were concerned about the negative impact fraud had on our growing customer base,” said Alasdair Grant, Director, Risk at Royal Bank of Scotland. Managers were worried that UK payment card issuers were becoming increasingly attractive targets for fraud rings and sophisticated criminals.

“We wanted to do what was necessary to be at the forefront of fraud prevention—while still building our card business,” added Mr. Grant. “And we needed to see results quickly. That’s what led us to FICO.”

» SOLUTION

FICO fraud consultants worked with Royal Bank of Scotland (RBS) managers to determine the potential for fraud reduction. Based on the initial assessment, a goal was set: reduce fraud 50% in 12 months, with no impact on card acceptance.

The FICO consultants spent time onsite at RBS, assessing the range of fraud management operations and policies, as well as the fraud reduction initiatives the bank had developed before FICO was called in. As a result, FICO delivered a comprehensive fraud operations analysis. What the consultants found was eye-opening.

While RBS had planned several initiatives to address specific aspects of the fraud problem, the combined list of initiatives would not deliver the desired level reduction within a quick time scale. In fact, if the bank did not address the current fraud problem quickly, fraud losses would double again in the next two years.

RBS decided to engage FICO in a fraud reduction partnership consisting of two phases. The first phase included the development of a detailed fraud reduction strategy, utilizing industry best practices. The second phase consisted of the execution of that strategy, with FICO fraud consultants leading the effort. RBS would pay FICO based on the success of the new fraud initiatives, measured as fraud/sales milestones. This ensured that fraud goals were in harmony with other parts of the business. FICO’s payment would represent a portion of what RBS saved in fraud losses.

FICO engaged a team of its experts, including senior level consultants with extensive experience in fraud prevention at major financial institutions, a project manager and a senior modeler. They recommended that RBS use a surgical approach to stopping fraud right at the point of sale, combined with many operational changes to reduce fraud at every point in the lifecycle.

After developing a set of recommended best practices, FICO worked with RBS to effectively execute strategic and operational changes. For example, RBS switched from a rule-based approach to a score-based approach at the point of sale (POS), whereby score thresholds determined the actions taken on transactions. This led to earlier detection of fraud and much more precise referral strategies. Several times, fewer customers were referred—and more fraud was caught. Everyone won!

RBS implemented various strategic changes in policies and procedures. For example, analysts were instructed to call on every referral, rather than slowing down to analyze whether to call or not; the organizational structure was adjusted to take advantage of centralized fraud experience; and a fraud challenge team was trained to spot illegitimate claims.

» RESULTS

The results were remarkable. In the second month after the new fraud management plan was implemented, fraud losses were already reduced dramatically. Two months later, the losses were reduced yet again, achieving an annual reduction greater than Royal Bank of Scotland's expectations.

The overall reduction in fraud was attributable to several successful activities including:

- Optimized POS strategies
- Increased productivity of case analysts
- Increased chargeback levels
- Establishment of a fraud challenge team

"We were delighted with both the results and the experience of working with FICO," said Mr. Grant. "This was a very successful cost reduction initiative."

Decision Yield

Precision

Leveraged a surgical approach at POS to turn RBS's goal—reduce fraud 50% in 12 months, with no impact on acceptance—into reality.

Consistency

Adding analytic scoring to their fraud platform led to earlier detection of fraud and much more precise referral strategies ensured that fraud goals were in harmony with the other parts of the business.

Agility

RBS achieved rapid ROI, reducing losses dramatically in two months—without impacting card acceptance.

Speed

Decision Management allowed RBS to score transactions at the point of sale, identifying potential fraudsters as quickly and as early in the process as possible.

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