

AI-Driven Defence: FICO's Falcon Fraud Prevention Legacy

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Not everyone one has heard of FICO in our part of the world but almost everyone has been touched by decisions made using their technology. FICO provides software solutions that transform banking and financial services, including the most widely used fraud detection solution, globally. The company also offers advanced decision management software to oversee every aspect of the customer lifecycle. In the US, FICO is best known for inventing consumer credit scores which remain the standard measure of consumer credit risk.

FICO's customers in Australia and New Zealand include the top four banks, large telcos and utilities. It works with many large blue-chip organisations and it is strong in banking and financial services. Globally, FICO clients include three quarters of both the top 100 banks in the world and the largest financial institutions in the U.S.

World's First Credit Scoring System

The company was founded in 1956 by engineer Bill Fair and mathematician Earl Isaac. Their goal was to use computers and mathematics to solve tough business problems. They introduced the world's first credit scoring system, transforming banks and the financial industry with a mathematical and predictive method to evaluate loan applications and reduce default rates.

FICO's senior account executive for Australia and New Zealand Corey Smith said this was revolutionary.

"It standardised a method for assessing credit risk and that lead to significant reduction in default rates across banks and we've just grown from there," Smith said.

"Today, our technology is designed to help organisations create a seamless and intelligent customer experience. Lets just pick a bank as an example. Your first relationship with the bank will be obviously applying for something whether thats a savings account or credit card or a mortgage and so our FICO Platform technology will handle all the decisioning and the analytics that sits behind those applications.

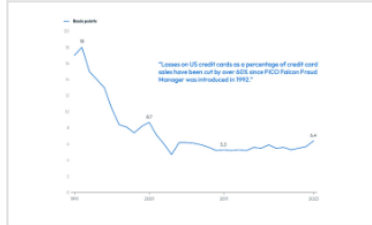
"The analytics will determine a risk score in this scenario, customised according to that bank's requirements and parameters. It applies all the appropriate policy rules, regulation rules, et cetera, to determine, not just whether or not the bank issues a loan, but what type of loan."

50 Years of AI

FICO's innovation extends to its use of artificial intelligence (AI) and machine learning, which it has been leveraging for over 50 years. This long-standing expertise enhances the accuracy, predictiveness and efficiency of credit scoring, fraud detection and risk management in a personalised way for each bank and financial services firm.

Perhaps the best example of its use was when FICO introduced FICO Falcon Fraud Manager in 1992. The solution uses AI to analyse transaction patterns and identify suspicious activities in milliseconds. Since Falcon's introduction, US credit card fraud dropped 18 basis points to 5.2 in 2012, reflecting a significant reduction in fraud losses. Banks globally saw a similar trend, experiencing substantial drops in fraud rates, underscoring the widespread impact and effectiveness of the Falcon system.

Since its introduction, Falcon has been consistently enhanced with cutting-edge innovations to stay ahead of evolving payment and banking trends, as well as the sophisticated fraud techniques that come with them. For example, debit card profiling was introduced in 1995 to protect the burgeoning use of debit cards, which grew from virtually zero in 1992 to over \$95 billion today. Similarly, with the rise of e-commerce in the late 90s, FICO developed a model in 1999 to protect merchants from card-not-present (online) fraud. These



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are just a few examples of how FICO has adapted Falcon to prevent fraud in real-time across payment cards and money transfers, ensuring robust protection for financial transactions.

50 to 70% reduction in fraud losses

Today, Falcon Fraud Manager protects more than 4 billion payment cards globally. It is the world's most widely used fraud detection system. Smith said over 10,000 financial institutions contribute data to the FICO Falcon Intelligence Network, a rich repository of legitimate and fraudulent payment data, which informs AI analytics and techniques, so Falcon is constantly up to date.

"All that data, we're talking literally millions and millions and millions of transactions every single day, is going back into the intelligence network pool and our advanced analytics team... to refresh and rebuild our fraud and scam models" he said.

Smith says FICO Falcon Fraud Manager has been adopted by over 10,000 financial institutions in 100 countries.

"They have reported a 50 to 70% reduction in fraud losses," he said.

ANZ Bank + FICO Falcon = ANZ Falcon

One of these customers, Australia's ANZ Bank, has been using the Fraud Falcon Manager for several decades and has recently launched a brand marketing campaign around its personalised fraud protection with ANZ Falcon.

As cyber-crime continues to evolve and impact Australians, ANZ is committed to keeping customers safe from fraudsters and sophisticated criminal networks by leveraging advanced technology. FICO's robust analytics and machine learning capabilities enable us to detect fraud and scam activities in real-time, providing a high level of protection for our customers," said Shaq Johnson, ANZ Head of Customer Protection.

