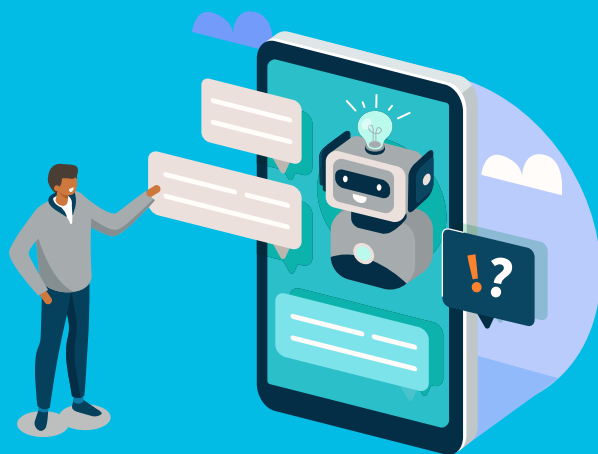


## WHITEPAPER

## Market-Ready AI Offers a Faster Path to Fraud Mitigation

AI-driven fraud management tools are available for banks that know how to find them



The emergence of public-facing generative AI tools like ChatGPT has reinvigorated interest in sophisticated technology solutions across industries. Though the potential use cases for AI solutions continue to multiply, banks have yet to take full advantage of existing AI tools that have a well-established history of dealing with thorny challenges. In particular, the ability to identify patterns in large sets of data makes AI well-suited to sniffing out fraud—provided banks can get access to well-trained models that are up to the job.

In October 2023, American Banker conducted a survey across the banking sector to predict what trends business leaders think will be shaping their industry and informing their business strategies for 2024, including a deep dive on their tech projections. The results suggest that, despite an increasing appetite for AI-based fraud prevention tools, many banks believe they face critical barriers to implementation.

### Financial institutions are keenly focused on new technologies

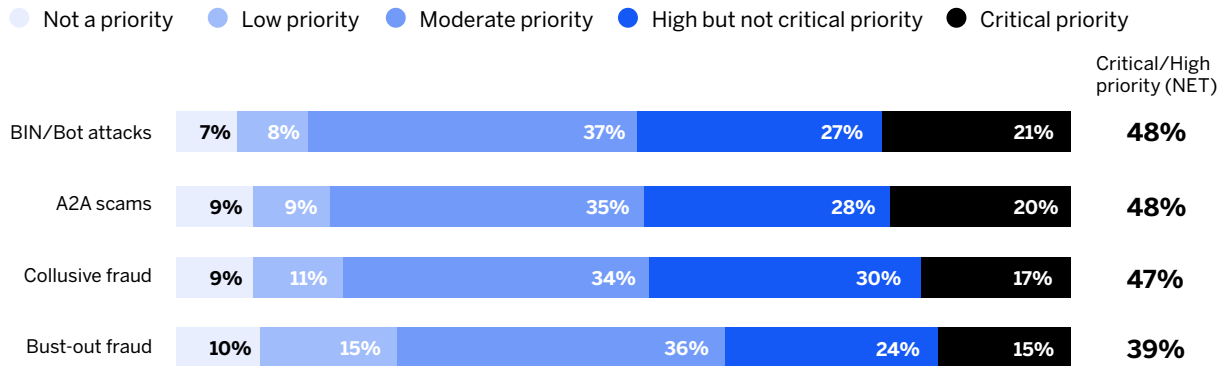
In 2023, 66% of financial institution (FI) business leaders projected that new technologies would be the top trend influencing banking in the coming year. That compares to 46% last year and outstrips the previous top trends of changing customer expectations and a changing competitive environment driven by disruptive market entrants including tech giants and innovative fintechs. Unsurprisingly, more than three in four banks (77%) expect to increase their technology spending year over year to keep up. More than four in 10 (42%) expect to increase their technology investment by more than 10%.

### A continued focus on addressing fraud

The targets of these funds primarily focus on areas of perennial concern to FIs. More than half (53%) intend to beef up their data and analytics capabilities, 46% aim to enhance security and fraud mitigation, and 43% are targeting investments in artificial intelligence/machine learning (AI/ML). All three of these areas have the potential to address the evolving fraud landscape, an area FIs are anxious to address. Emerging and hard-to-solve fraud cases are at least a moderate priority for the majority of banks (see Figure 1).

Bust-out fraud, which is particularly difficult to detect because it involves establishing an apparently normal pattern of transactions before committing fraud, is top of mind. As the patterns of fraud activity become more sophisticated, the tools used to detect those patterns must become more flexible and intelligent.

**Figure 1: Fraud protection remains a key concern for most banks**



Source: Arizent/American Banker, 2023

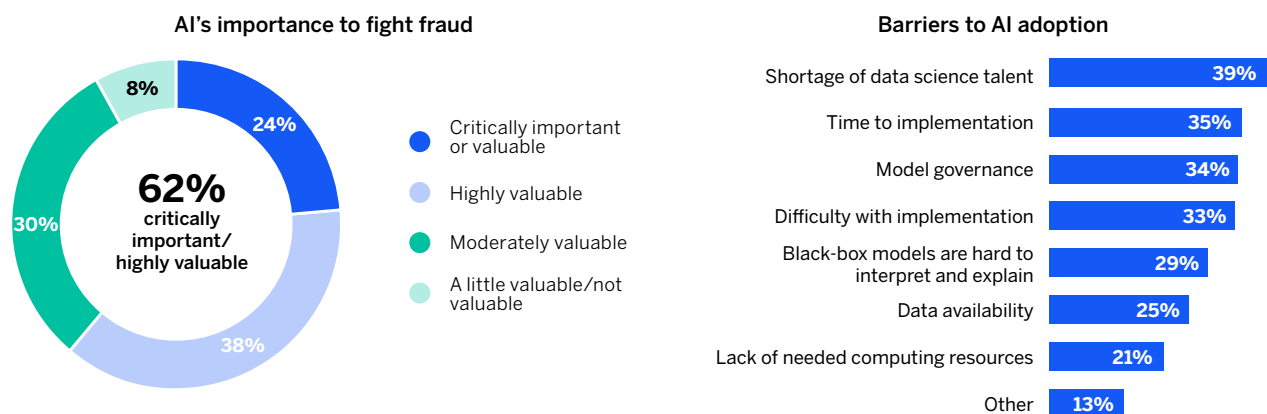
### AI offers a more effective way to address fraud

Pattern recognition is the fundamental basis of AI technology. Consequently, FIs are increasingly recognizing AI as a valuable tool for detecting and mitigating fraud, especially as fraud activity evolves to circumvent existing rules-based detection systems. In fact, banks that place AI among their top five spending priorities are significantly more likely to prioritize all types of emerging and hard-to-solve fraud types rather than having to pick and choose.

As banks shift their focus to AI technology in the coming year, they see an opportunity to address the longstanding need for more sophisticated fraud detection and mitigation. Nearly as many banks see fraud prevention benefiting from AI tools in the coming year (23%) as those who expect customer service gains from similar technology (26%).

While banks see great potential in AI solutions to fight fraud, they face steep barriers when it comes to adopting those solutions (see Figure 2)

**Figure 2: Banks face barriers to adopting AI to address fraud and money laundering**



Source: Arizent Research, 2023

Banks looking to develop in-house solutions tend to be hampered by a shortage of data talent and by long, difficult implementation processes. Even when the technical know-how is available, the AI models underpinning fraud solutions

need to be trained effectively. Sourcing the right data for training and ensuring that information gets used in accordance with legal, regulatory and ethical guidelines can complicate this process.

Off-the-shelf AI models tuned for fraud prevention and mitigation can solve some of these implementation issues. Without knowing how they have been trained and why they produce the insights they do, however, it can be a challenge for FIs to interpret the output of those models properly in real time, raising the potential for slow response times and higher false-positive detection rates.

### **With the right models, FIs can get results from AI-driven solutions faster than ever**

Choosing the right technology can make it significantly easier for FIs to realize the value of AI-based fraud-detection models. With the right tools in place, FIs can get more accurate results from their fraud-detection programs in less time after implementation. The key is to find market-ready AI: models built with global transaction intelligence, enabling them to work effectively right out of the box.

Market-ready AI offers several important benefits. These models do not require institutions to provide their own data to get them up and running. Because the data on which they are trained incorporates broader trends from across the industry, market-ready AI solutions make it possible for FIs to detect and mitigate emerging fraud patterns proactively - before they have even appeared in their own customer data.

Global datasets also provide access to a lot more data than FIs typically have in-house. The larger the dataset, the better the models can be tuned to separate signals from noise. That's an important trait, because tools that use AI to traverse globally sourced datasets can generate more accurate alerts than simple rules-based systems. Greater accuracy improves operational efficiency by reducing the resources organizations spend chasing down false positives.

Because fraud threats evolve constantly, the best detection and mitigation systems must be able to adapt to new patterns of behavior intelligently. While there are distinct advantages to systems built on global datasets, the ability to layer in an organization's own data on top of a market-ready AI model can improve the system's accuracy further over time. Sophisticated systems are capable of updating user profiles in real time, tracking behavior and relationships to build a more robust profile with every transaction undertaken, as opposed to relying solely on patterns provided by a set of training data. This capability means FIs can potentially get the best of both worlds by building custom profiles to suit their needs while still using data from across the globe to monitor for patterns of fraud.

When choosing any AI solution, it's critical to remember that a model's performance depends heavily on the data used to train and update it. Not all providers have access to the same datasets and fine-tuning capabilities. As FIs vet solutions, they should look under the hood to understand exactly what they're getting. While AI has featured prominently in the news over the past year, the technology is well-established in the industry. Reputable providers with a solid background and a history of producing ROI with AI solutions should be at the top of the list for mission-critical systems like fraud detection and mitigation.

"Experience matters. AI models have been in use against fraud for more than two decades," says Sudhir Jha, Executive Vice President at Mastercard and Global Head of Brighterion. "Meanwhile, the fraud landscape is constantly evolving, so anybody just starting to build out a model for fraud is already way behind the curve."

Finding an experienced vendor with access to the largest possible set of data is critical for getting a system in place quickly, realizing its value immediately and establishing the flexibility to deal with whatever comes next.

## Methodology

In this survey, American Banker tapped into the collective wisdom of business leaders across the banking sector to predict what trends they think will be shaping their industry and informing their business strategies for 2024 and beyond. The research was conducted online in October 2023 with a total of 314 respondents at banks, fintechs and related sectors.



## About Brighterion

Brighterion, a Mastercard company, was founded in 2000 and acquired by Mastercard in 2017. Brighterion provides enterprise AI applications for payment service providers, financial institutions, and healthcare payers. More than 2,000 companies worldwide and 74/100 of the largest U.S. banks use technology powered by Brighterion AI to protect against fraud and risk. Brighterion's solutions offer value-added Mastercard network intelligence to further enhance performance beyond a client's own data. Using a full-stack, state-of-the-art machine learning toolkit, Brighterion AI creates off-the-shelf market models that are production-ready and custom models in 6-8 weeks. With unrivaled deployment and scalability, customers can easily implement AI that delivers near real-time response times and resiliency. Brighterion has received multiple awards including Fintech Nexus' 2023 Top Service Provider Award, Business Intelligence Group's 2023 Artificial Intelligence Excellence Award (second consecutive year), US FinTech Award's 2022 Banking Tech of the Year, the 2021 Business Transformation 150 and the 2020 Fortress Cyber Security Award for Threat Detection.

Learn more at [Brighterion.com](https://Brighterion.com)



## About Arizent Research

Arizent delivers actionable insights through full-service research solutions that tap into their first-party data, industry SMEs, and highly engaged communities across banking, payments, mortgage, insurance, municipal finance, accounting, HR/employee benefits and wealth management. They have leading brands in financial services including American Banker, The Bond Buyer, Financial Planning and National Mortgage News and in professional services, such as Accounting Today, Employee Benefits News, and Digital Insurance.

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