

# TRANSACTION SCORING: WHERE RISK MEETS OPPORTUNITY

BY WESTLEY KOENEN AND THEODORE IACOBUIO

U.S. card issuers, broadly speaking, are employing risk management techniques developed during a time of growth. These techniques need significant enhancement, given issuers' current lack of liquidity as well as a more conservative and cautious consumer population. Transaction scoring can increase the predictive accuracy of risk management by identifying risky behavior in real time, while simultaneously reducing false positives. This technique enables issuers to intervene in accounts earlier and with greater precision, providing a wider range of options in terms of next steps. New technology in form factors, like mobile, make real-time intervention a reality. Using transaction scoring as a component of credit risk management also allows issuers to guide account holders into more responsible use of credit.

**15%** TRANSACTION SCORING IN CONJUNCTION WITH EXISTING MODELS CAN DELIVER LIFTS OF 10 TO 15 PERCENT IN KOLMOGOROV-SMIRNOV (KS) TESTS OVER TRADITIONAL SCORES ALONE.<sup>1</sup>

## EXECUTIVE SUMMARY

U.S. issuers face a daunting challenge: Finding growth opportunities in an industry that is being buffeted by contraction and constraint. Transaction scoring—the use of real-time transaction data in scoring for credit risk—can increase the predictive accuracy of risk management by creating account-level variables that identify patterns of behavior in *real time*. Using transaction scoring helps issuers see more deeply and clearly into their customers' behavior, resulting in more precise, measured, and responsible treatment of risk. The benefits of transaction scoring extend beyond risk management to identifying opportunities. By reducing false positives, transaction scoring can provide greater visibility into positive or neutral use of credit cards, which issuers can leverage in cross-sell, up-sell, promotions, or product fine-tuning. Transaction scoring:

- Is built on a foundation of industry best practices
- Can assist institutions in more accurately pricing new exposures at origination, given Credit CARD Act limitations
- Provides a benefit to both financial institutions and consumers by allowing issuers to more finely segment their portfolios and more accurately design interventions for each kind of account, risky or not

The last point is especially important in light of current economic and regulatory conditions. Transaction scoring provides a true social benefit by keeping the banking system and payment networks open to as many consumers as possible.

To receive the full article, please contact West Koenen at [Westley\\_Koenen@MasterCard.com](mailto:Westley_Koenen@MasterCard.com).

ABSTRACT