
Contents

Preface xi

Acknowledgments xiii

About the Author xvii

Chapter 1 Bank Fraud: Then and Now 1

- The Evolution of Fraud 2
- The Evolution of Fraud Analysis 8
- Summary 14

Chapter 2 Quantifying Fraud: Whose Loss Is It Anyway? 15

- Fraud in the Credit Card Industry 22
- The Advent of Behavioral Models 30
- Fraud Management: An Evolving Challenge 31
- Fraud Detection across Domains 33
- Using Fraud Detection Effectively 35
- Summary 37

Chapter 3 In God We Trust. The Rest Bring Data! 39

- Data Analysis and Causal Relationships 40
- Behavioral Modeling in Financial Institutions 42
- Setting Up a Data Environment 47
- Understanding Text Data 58
- Summary 60

Chapter 4 Tackling Fraud: The Ten Commandments 63

1. Data: Garbage In; Garbage Out 67
2. No Documentation? No Change! 71
3. Key Employees Are Not a Substitute for Good Documentation 75
4. Rules: More Doesn't Mean Better 77
5. Score: Never Rest on Your Laurels 79
6. Score + Rules = Winning Strategy 83
7. Fraud: It Is Everyone's Problem 85

8. Continual Assessment Is the Key	86
9. Fraud Control Systems: If They Rest, They Rust	87
10. Continual Improvement: The Cycle Never Ends	88
Summary	88
Chapter 5 It Is Not Real Progress Until It Is Operational	89
The Importance of Presenting a Solid Picture	90
Building an Effective Model	92
Summary	105
Chapter 6 The Chain Is Only as Strong as Its Weakest Link	109
Distinct Stages of a Data-Driven Fraud Management System	110
The Essentials of Building a Good Fraud Model	112
A Good Fraud Management System Begins with the Right Attitude	117
Summary	119
Chapter 7 Fraud Analytics: We Are Just Scratching the Surface	121
A Note about the Data	125
Data	126
Regression 1	128
Logistic Regression 1	132
“Models Should Be as Simple as Possible, But Not Simpler”	149
Summary	151
Chapter 8 The Proof of the Pudding May Not Be in the Eating	153
Understanding Production Fraud Model Performance	154
The Science of Quality Control	155
False Positive Ratios	156
Measurement of Fraud Detection against Account False Positive Ratio	156
Unsupervised and Semisupervised Modeling Methodologies	158
Summary	159
Chapter 9 The End: It Is Really the Beginning!	161
Notes	165
Index	167