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Development of an application fraud scorecard: A case study of design

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The development of scorecards appears to be a science, as it is based on standard statistical techniques. However, there is a great deal of art in selecting and modifying the techniques to suit the specific context. This is particularly true of fraud scorecards because of the volatility of fraud characteristics and the low number and proportion of frauds in typical datasets.

This case study examines the development of a scorecard for predicting application fraud on a retail portfolio. The model was developed over a short period and successfully implemented into a high-volume consumer lending environment. This model was designed paying particular attention to the intended purpose. Another model was also built at the same time using standard scorecard development techniques. This comparison model was not implemented.

At the time of implementation both models showed equivalent predictive power. However, six months later the comparison model was significantly less predictive than the implemented model. The design of the implemented model is analysed and the reasoning behind the design choices is explained.