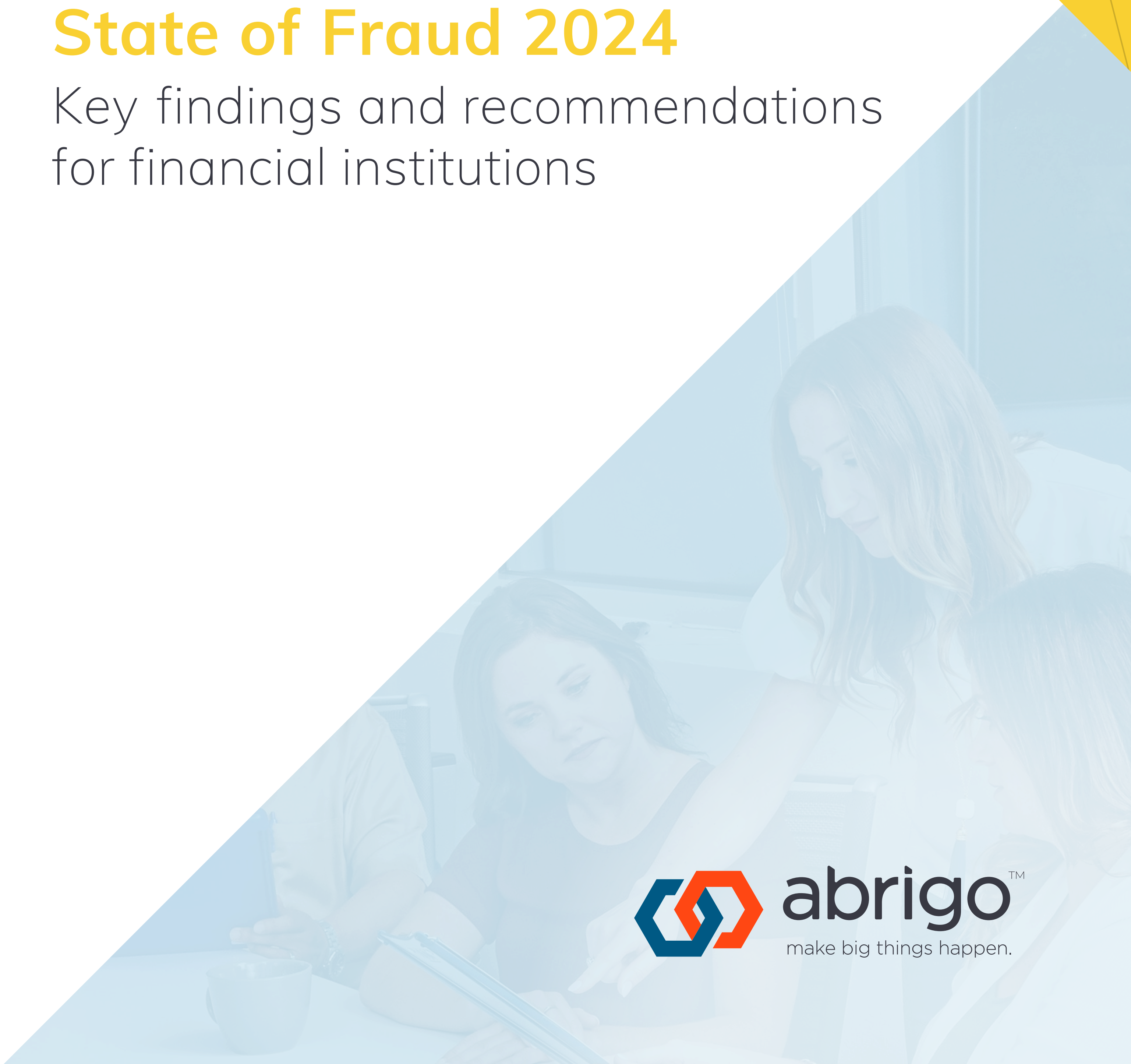
State of Fraud 2024

Key findings and recommendations for financial institutions



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Introduction

Fraud is a serious threat to the trust and loyalty of customers and members of financial institutions.

It can cause significant losses, both for the victims and the institutions, and damage the reputation and brand of the banks and credit unions impacted. It can lead to the termination or minimization of banking relationships, affecting the profitability and growth of banks and credit unions.

In all circumstances, the insidious costs of fraud to financial institutions go beyond hard-dollar losses, which themselves are substantial and growing.

This report presents the results of a nationwide survey conducted for Abrigo in March of 2024.

The fraud survey polled 1,059 consumers, 39% of whom were self-reported small business owners. Respondents were roughly representative of the adult population in the United States along common demographic characteristics.

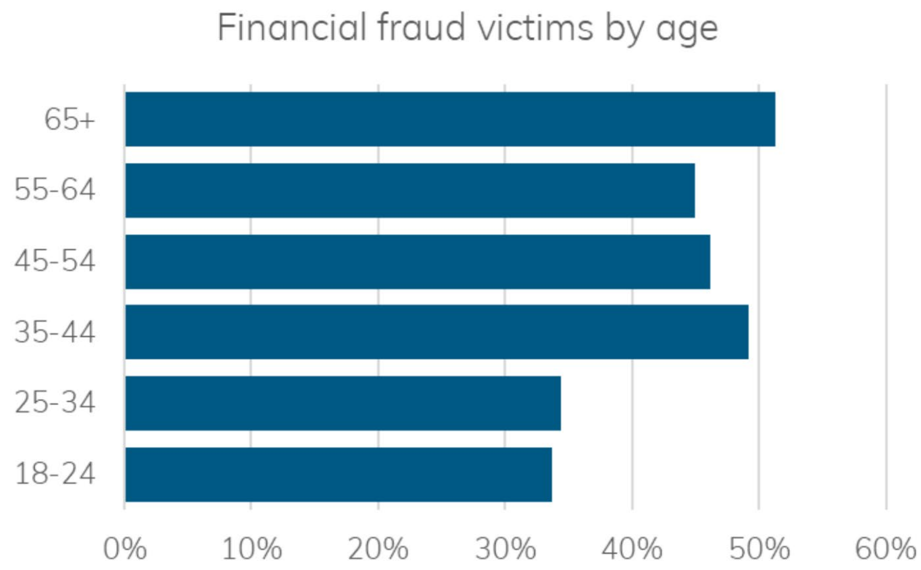
The survey aimed to assess the awareness, prevalence, types, and impacts of fraud, as well as the expectations and preferences of consumers and small businesses regarding fraud prevention and management. This report also discusses the role of artificial intelligence (AI) in both facilitating and combating fraud, and it provides some recommendations for financial institutions to enhance their fraud detection and deterrence capabilities.

Fraud awareness and the prevalence of fraud

The survey revealed that fraud is a widespread and frequent problem that has affected almost half of the respondents (45%), and many of them multiple times.

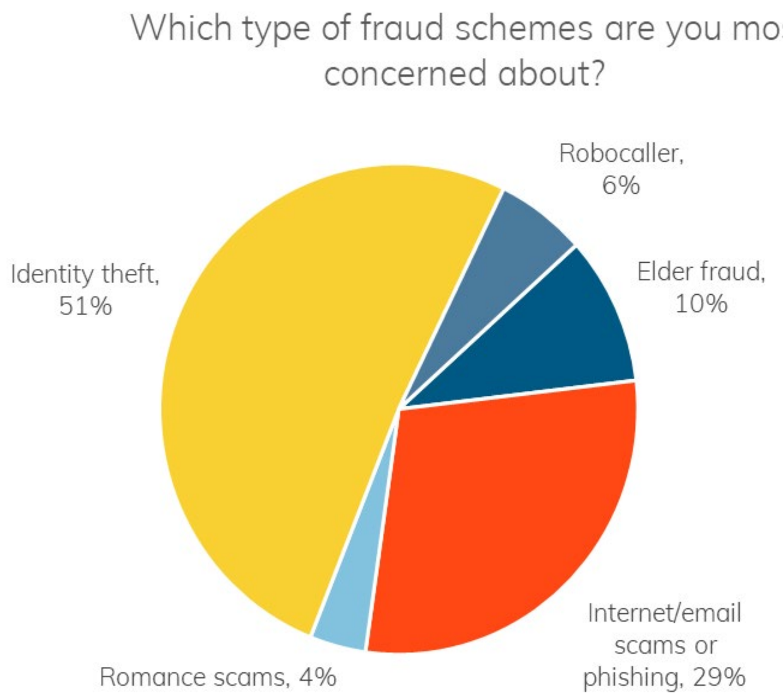
The most common types of fraud that respondents have experienced are credit card theft (53%), ACH or electronic payment fraud (19%), and check fraud (17%).

The largest share of respondents who reported having been a victim of financial fraud were those aged 35 – 44 and those 65 and older. More men (51%) than women (40%) reported having been victims of financial fraud.



Most Americans are highly concerned about fraud. The survey found only 4% were not at all concerned about the rise in fraud, while 51% were extremely concerned. Some respondents also reported they feel more vulnerable to fraud during certain times of the year, such as the holiday season (56%) and tax season (39%).

The most concerning types of fraud schemes are identity theft (51% of respondents), Internet or email scams (29%), and elder fraud (10%).



The survey also showed that fraud can involve substantial amounts of money, putting the financial security and well-being of the victims at risk. For almost half of the fraud victims, more than $1,000 was at stake, and for nearly a quarter, more than $5,000. Moreover, not all victims were able to recover their money. That's especially true in cases of check fraud, where 31% of the victims did not recoup all their losses.

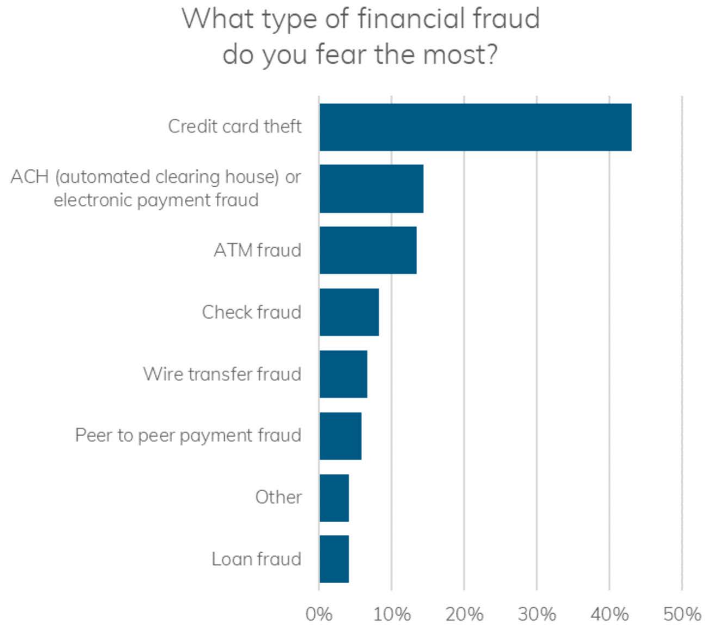
For perspective, Forbes Advisor recently found that roughly 28% of Americans across all four generations currently have less than $1,000 in personal savings. That means even one incider of fraud can push many bank customers into financial straits.

According to the FTC, American consumers los more than $10 billion to fraud schemes in 2023 up from $3.5 billion in 2020. Often, however, financial institutions end up making their customers or members whole.

Types of fraud: Concerns vs. reality

The survey revealed some discrepancies between the perceived and the actual risks of different types of fraud. While credit card theft is the most feared (43%) and the most experienced (53%) type of fraud among respondents, check fraud is actually a bigger liability for financial institutions, according to the U.S. Treasury Department and the Financial Crimes Enforcement Network (FinCEN).

In fact, the FTC states about 448,000 cases of credit card fraud were reported in 2022 and 426,000 in 2023, whereas FinCEN reports that Suspicious Activity Report (SAR) filings for check fraud in 2022 alone exceeded 680,000, nearly doubling the number of filings the previous year. This year, check fraud is projected to reach $24 billion globally.



Check-writing persists

The survey also showed that despite technological shifts, using checks persists in America, with 61% of respondents still writing checks each year, and 57% sending or receiving one or more payments by check per month. Almost a quarter of respondents still write 11 or more checks a year, and 27% still drop checks in the mailbox.

However, many respondents are unaware of the risks and the best practices associated with checks, such as check theft via mail, check washing, and using gel pens. Only 35% of respondents are aware of the issue of check theft via mail, and 73% are unaware that using gel pens for writing checks may reduce fraud.

Perhaps surprisingly, higher shares of Gen Z and Millennials self-reported writing checks than Gen Xers (45 – 54 years old):

- 59%, age 18 – 24 years
- 57%, age 25 – 34 years
- 60%, age 35 – 44 years
- 48%, age 45 – 54 years
- 61%, age 55 – 64 years
- 77%, age 65+ years

Higher shares of younger fraud victims also said they had fallen prey to check fraud than did older age groups.

Small businesses are more vulnerable

Small businesses are a particularly valuable client segment for financial institutions, given their numbers and their needs for all kinds of banking products: deposits, small business loans, credit cards, merchant services, cash management, and business advice.

But the survey found that small business owners are more likely to be victims of fraud than the general population, with 57% of them reporting having experienced financial fraud, compared to 42% of all other respondents.

Small business owners are also more likely to be victims of check fraud, with 24% of them affected, compared to 15% of the general population. Moreover, small business owners have larger sums of money at risk in fraud cases, and they spend more time resolving them with their financial institutions. About 86% of small businesses spent at least an hour, compared to 75% of consumers.

Of course, many small businesses have no or few employees, so the business might grind to a halt when the owner must take time away from it to resolve fraud.

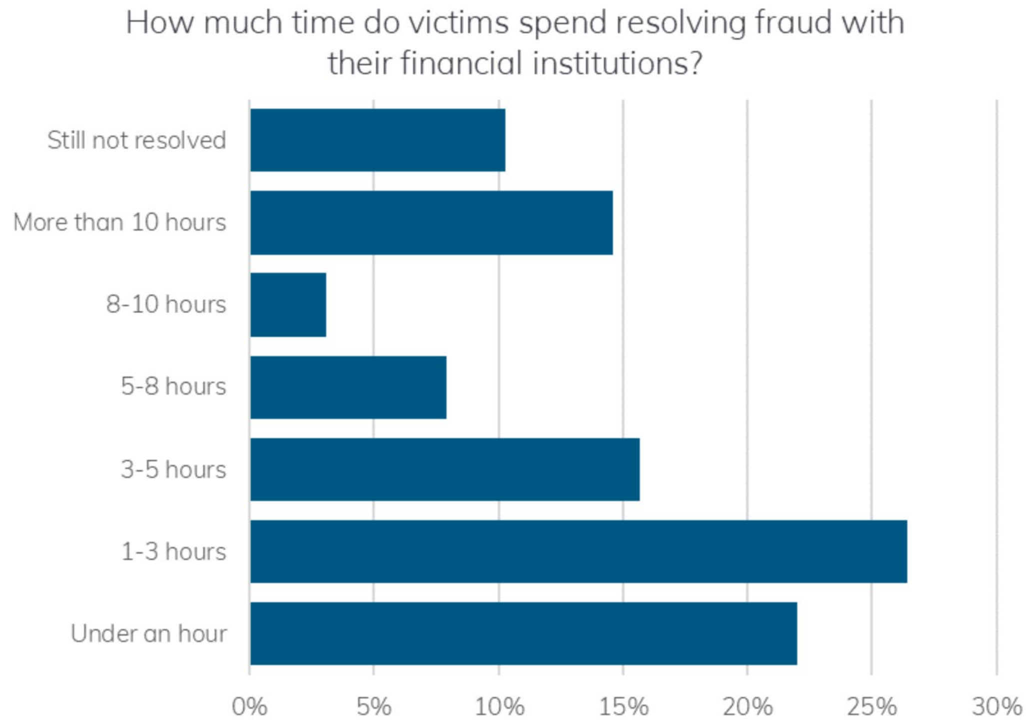
One potential link to small business owners' increased vulnerability could be their higher check usage. Half of them write 6 or more checks a year, compared to 32% of the general population. However, small business owners also have a greater awareness of check fraud technology (66%) and are more proactive about signing up for educational sessions or workshops offered by their financial institutions to raise awareness about check fraud prevention (50%).

Fraud's impact on bank customers and credit union members

The survey highlighted the negative effects fraud can have on the relationships between customers or members and their financial institutions.

Nearly 6 in 10 respondents said they are more likely to minimize a banking relationship with the affected institution if they are victims of fraud, and about 1 in 5 said they have terminated a banking relationship because of fraud. Small business owners are even more likely to end a banking relationship due to fraud, with 30% of them reporting having done so.

Resolving fraud cases can be time-consuming and frustrating for customers and members, as well as for financial institutions. Almost two-thirds of fraud victims said recovering from fraud took a few hours to a few days, and the remaining third took a month or more. Half of the fraud victims said they spent anywhere from an hour to 8 hours resolving the case with their financial institutions, and it took more than 10 hours for almost 15% of them.



The future of fraud and fraud management

The survey revealed that respondents are aware of and worried about the potential impact of artificial intelligence (AI) on fraud, as more than two-thirds of them (68%) worry that financial fraud attempts will increase with the advancement of AI, and 74% worry that AI will lead to an increase in successful fraud attempts.

AI can indeed make it easier for fraudsters to create more sophisticated phishing attacks and impersonations of financial institution customers in order to access accounts, as the U.S. Treasury Department recently warned.

However, AI can also help deter fraud by providing more accurate and efficient tools. For example, fraud detection software that incorporates AI-powered inspection and check image analysis can increase accuracy and uncover threats missed by traditional tools. The survey showed that respondents have high expectations and preferences for their financial institutions to use advanced check fraud technologies, as 54% of them said they know or believe their banks use such technologies, and 78% of them said they want to be involved in the validation process, stating that being involved improves their customer experience.

Recommendations

Fraud may seem out of control, but banks and credit unions can take several steps to fight and detect it more quickly. The following will help financial institutions better protect themselves and their clients:

1. Financial institutions should invest in better fraud detection and deterrence capabilities, especially for check fraud, which is a major and growing source of losses and liabilities for the financial sector. AI-powered check fraud detection software, such as Abrigo Fraud Detection, can help financial institutions enhance their accuracy and efficiency in identifying and preventing fraud.

2. Financial institutions should use client fraud education to share with customers and members the risks and the best practices for fraud prevention and management, especially for check fraud, which is often underestimated or overlooked by many consumers and small business owners. Financial institutions can offer educational sessions or workshops on financial fraud trends, as well as online resources and tips, to raise awareness and empower their customers and members to protect themselves from fraud.

3. Financial institutions should also communicate and collaborate with their customers and members in the fraud-fighting process to detect potential fraud before losses occur. This is especially true for check fraud, which requires timely and accurate verification of check images and signatures. Using human-in-the-loop, AI-powered fraud alerts, financial institutions can involve their customers and members in the validation process and provide the best protection, which will cement their trusted advisor role and avoid customer attrition.

ADDITIONAL RESOURCES

Infographic: Beyond immediate fraud losses: How the costs and impacts of fraud snowball

Webinar: The check's in the mail: Understanding and preventing check fraud

Infographic: 5 Ways financial institutions can prepare for FedNow

ABOUT ABRIGO

Abrigo enables U.S. financial institutions to support their communities through technology that fights financial crime, grows loans and deposits, and optimizes risk. Abrigo's platform centralizes the institution's data, creates a digital user experience, ensures compliance, and delivers efficiency for scale and profitable growth.

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