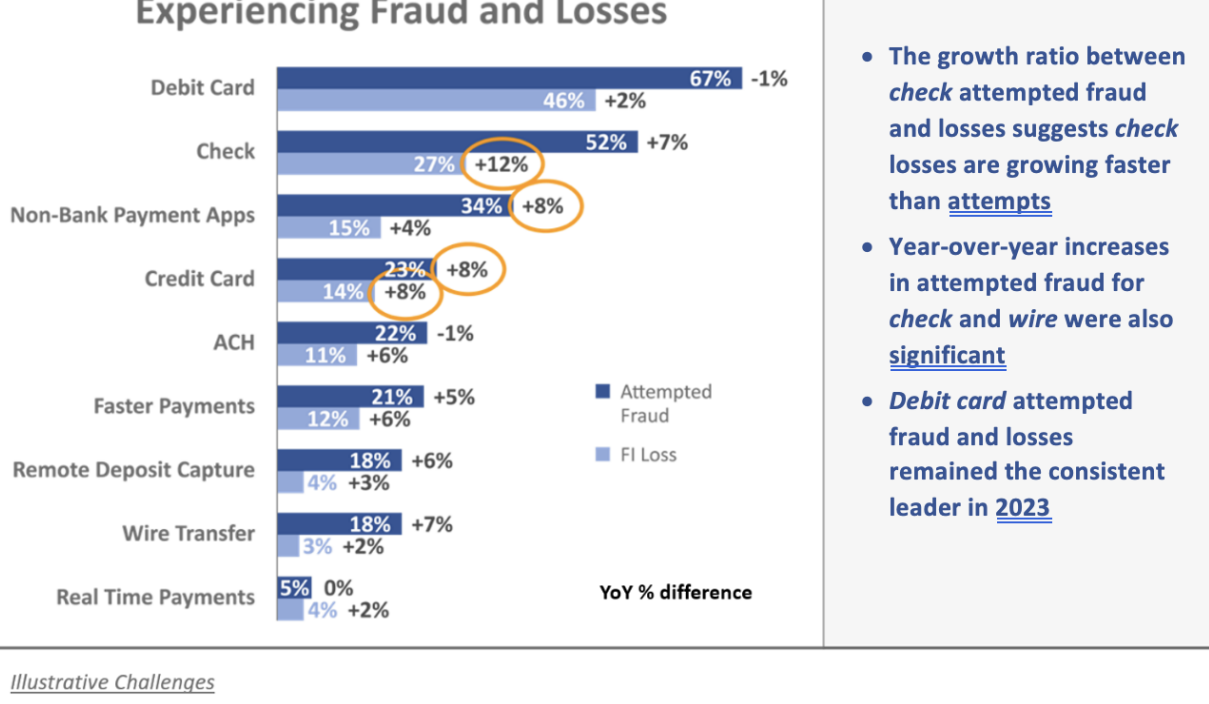


Key Findings from the annual Federal Reserve Financial Services Financial Institution Risk Officer Survey (2023)

In 2023, like 2022, external fraud remained the top operational risk. Survey responders cited concerns with increased fraud with check, card and non-bank apps, as well as increasing mule activity. In 2023, more institutions reported increased risk in their profiles in the areas of financial, macroeconomic, synthetic ID, strategic and regulatory uncertainty. This study included questions associated with the FraudClassifier™ model so that survey results could help institutions better see how their fraud experience compares to industry peers. See footnotes for detailed questions (*).

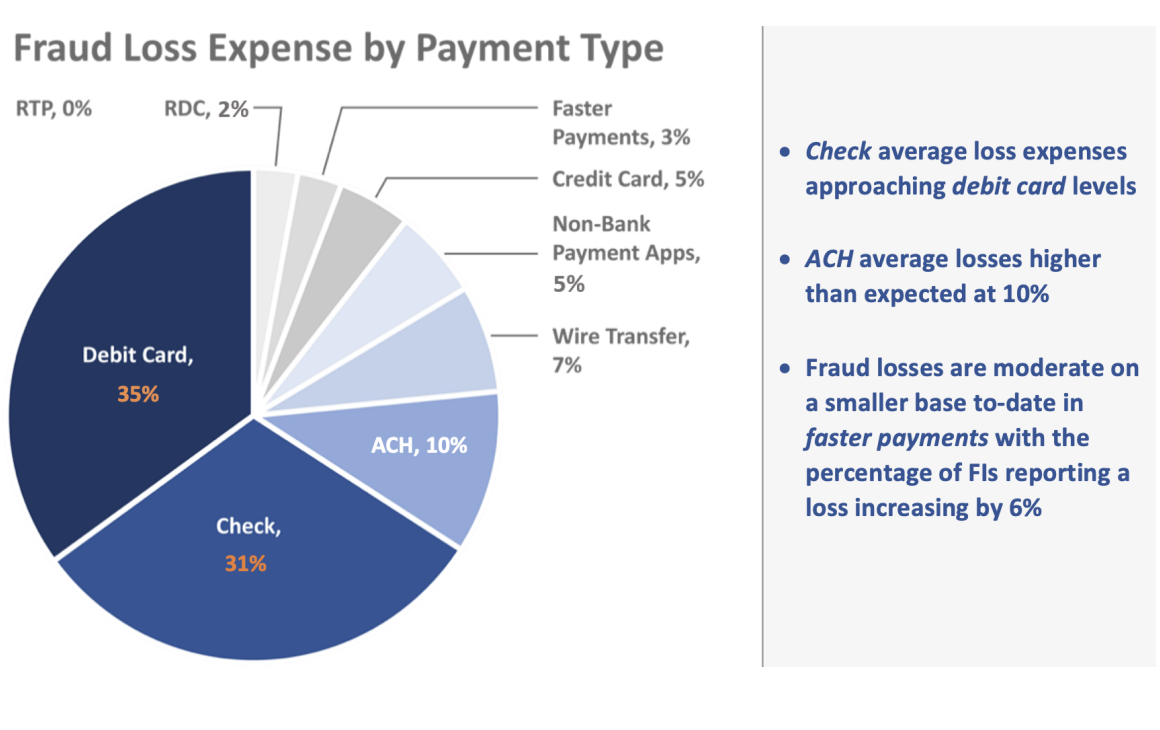
1. Largest year-over-year increase in financial institutions (FIs) experiencing losses were in check, followed by credit card. Year-over-year growth in attempted fraud in non-bank apps and credit card fraud were significant in 2023.



- The growth ratio between check attempted fraud and losses suggests check losses are growing faster than attempts
- Year-over-year increases in attempted fraud for check and wire were also significant
- Debit card attempted fraud and losses remained the consistent leader in 2023

Illustrative Challenges
 "A lot of our operational risks are coming from consumer adoption of fintech apps. Often times our customer has difficulty filing a dispute via their account portal and it is almost impossible to file a dispute via the phone." (\$100M - \$1B)

2. On average FIs estimate over two-thirds of their yearly fraud loss expenses occur in debit card and check, with check growing to near debit card levels.



- Check average loss expenses approaching debit card levels
- ACH average losses higher than expected at 10%
- Fraud losses are moderate on a smaller base to-date in faster payments with the percentage of FIs reporting a loss increasing by 6%

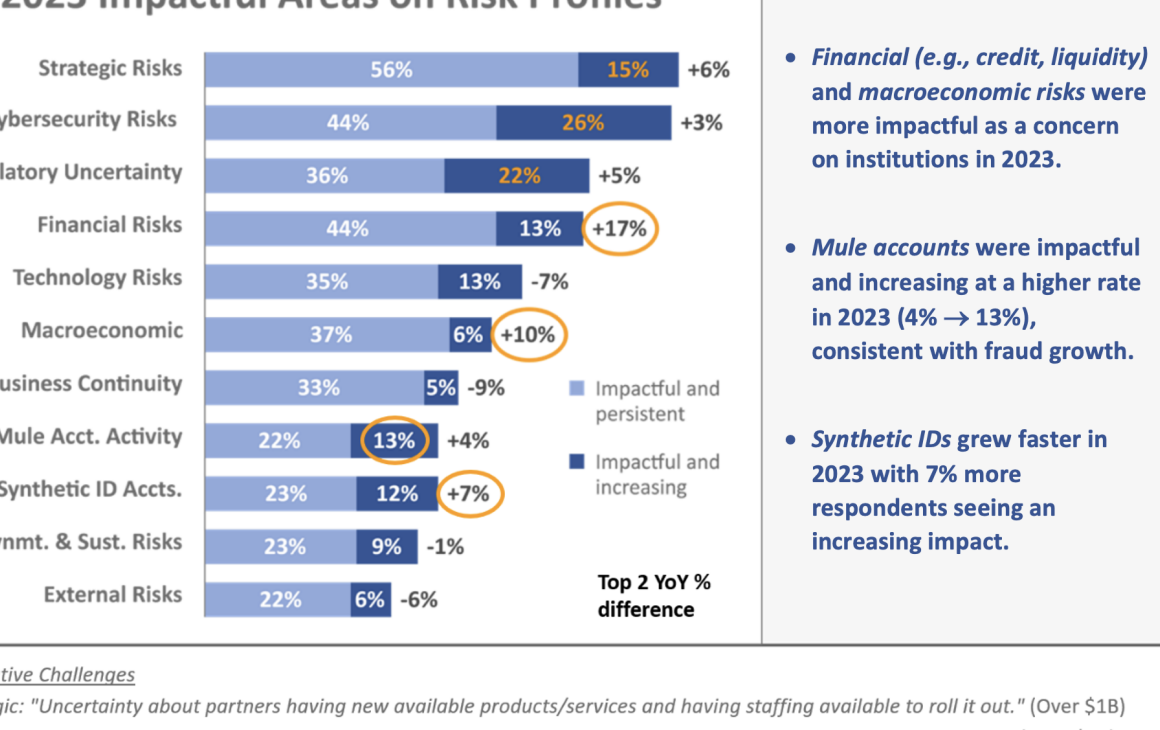
3. External fraud continues to be the top concern for risk leaders at FIs in 2023 while cybersecurity persists as number two.



- External fraud persisted in 2023 as the top operational risk trending up and correlated with check fraud.
- The cybersecurity threat remained a dominant concern for respondents.
- Business disruptions grew in 2023 as visibility of these events increased in social media.

Illustrative Challenges
 Environment: "Rapidly evolving technology, technical savvy of bad actors, and expectations for frictionless payments." (Over \$1B)
 People: "Barriers include hiring qualified individuals/experts and increasing operational expense." (Over \$1B)
 Technology: "Cost of technology and inability to control all aspects of technology integration to detect anomalies." (Over \$1B)

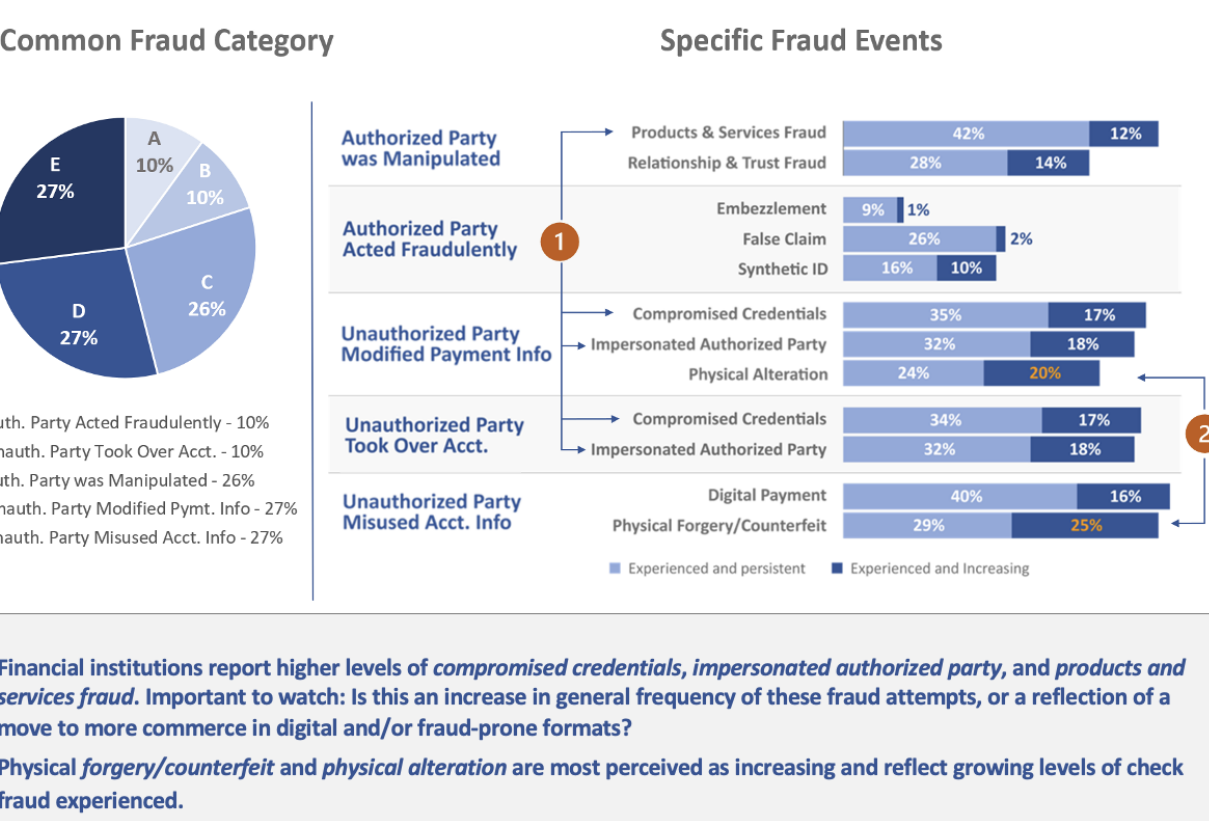
4. When asked about their payment system risk profiles, the most impactful categories were #1 strategic (e.g., competitive uncertainty and ability to keep up with new features and functionality), #2 cybersecurity and #3 regulatory uncertainty.



- Financial (e.g., credit, liquidity) and macroeconomic risks were more impactful as a concern on institutions in 2023.
- Mule accounts were impactful and increasing at a higher rate in 2023 (4% → 13%), consistent with fraud growth.
- Synthetic IDs grew faster in 2023 with 7% more respondents seeing an increasing impact.

Illustrative Challenges
 Strategic: "Uncertainty about partners having new available products/services and having staffing available to roll it out." (Over \$1B)
 Financial: "Competition for deposits is stiff. We're paying higher rates than anticipated and wary of getting too creative." (Over \$1B)
 Mule Accts: "People are falling for internet scams on social media daily. Some are turning themselves into money mules." (Over a \$1B)

5. Respondents shared their experience with fraud using the standardized FraudClassifier model. When asked about their fraud experiences in the past 12 months, risk leaders reported the most pressure in check fraud-related events with digital fraud types coming in a close second.



- Financial institutions report higher levels of compromised credentials, impersonated authorized party, and products and services fraud. Important to watch: Is this an increase in general frequency of these fraud attempts, or a reflection of a move to more common in digital and/or fraud-prone formats?
- Physical forgery/counterfeit and physical alteration are most perceived as increasing and reflect growing levels of check fraud experienced.

Other references:

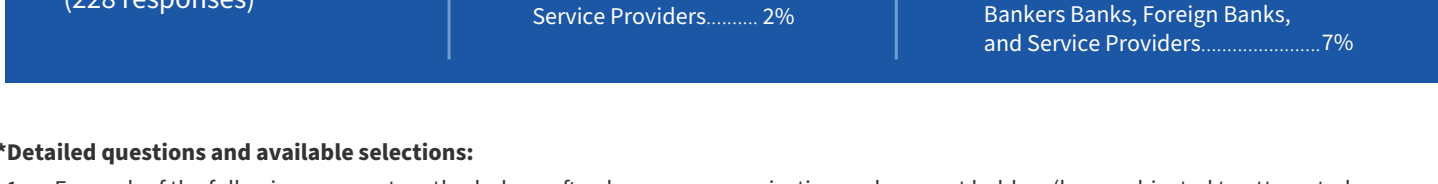
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Resources:

- Example FRFS Ancillary Risk Tools**
 - FRFS Risk Management Toolbox (frbservices.org)
 - Check: FedDetect® Duplicate Treasury Check Notifier Service (frbservices.org)
 - Check: Advanced Notice Return Report: FedPayments® Reporter Service for Check Services (frbservices.org)
 - ACH: FedDetect Anomaly Notification (frbservices.org)
 - ACH: FedPayments® Insights Service (frbservices.org)
 - ACH: FedACH® Risk Management Services (frbservices.org)
 - Funds Transfer: FedTransaction Analyzer® (frbservices.org)
 - Instant Payments: The FedNow® Service: Evolving risk management to meet industry needs (frbservices.org)
 - Exception Resolution: FedACH Exception Resolution Service (frbservices.org)
- Example Industry Collaboration**
 - Federal Reserve announces FraudClassifier Model to help organizations classify fraud involving payments
 - Federal Reserve System announces industry-recommended scams definition (frbservices.org)
 - Sharing Information on Scams to Improve Fraud Mitigation — FedPayments Improvement
 - Expanding the Synthetic Identity Fraud Mitigation Toolkit (frbservices.org)

About this survey:

This FRFS survey was conducted by FRFS, a collaboration of the twelve Federal Reserve Banks, and went to senior risk experts at institutions using FRFS services. FRFS provides payment services to financial institutions, such as cash, check, ACH, funds transfer and instant payments. Accordingly, the research, statements and findings contained in this summary are not independent academic research. Readers should not rely on any single source. The insights are more helpful when looking across multiple years. The sampling margin of error is +/- 6% at a 95% confidence level. FRFS provides a number of tools to support institutions in supplementing their internal tools to further help identify and/or mitigate payments risk.



*Detailed questions and available selections:

- For each of the following payment methods, how often have your organization and account holders (been subjected to attempted fraud/experienced actual losses from fraud) in the past 12 months? (Available selections: Never, Rarely, Sometimes, Frequently, Do not know or Not applicable)
- On estimate, what portion of your institution's payment fraud loss expenses have occurred with these payment methods in the past 12 months?
- Please rank the top three operational risks your organization faces. (Available selections: Third-party, Internal fraud, External fraud, Cybersecurity, Business disruption and systems failures, Other (please specify))
- How would you rate the following trends in terms of current impact to your institution's payment risk profile? (Available selections: Do not know or not applicable, No impact, Impactful but declining, Impactful and persistent, Impactful and increasing)
- Please rank the following five types of payment fraud by frequency of occurrence in your institution over the past 12 months.
 - How often have your institution and account holders experienced the following types of fraud events during the past 12 months? (Available selections: Do not know or not applicable, Never, Experienced but declining, Experienced and persistent, Experienced and increasing)

Do you have ideas, questions, or want to learn more? Reach out to Robert.A.Williams@chi.frb.org.