AFP RESEARCH DEPARTMENT

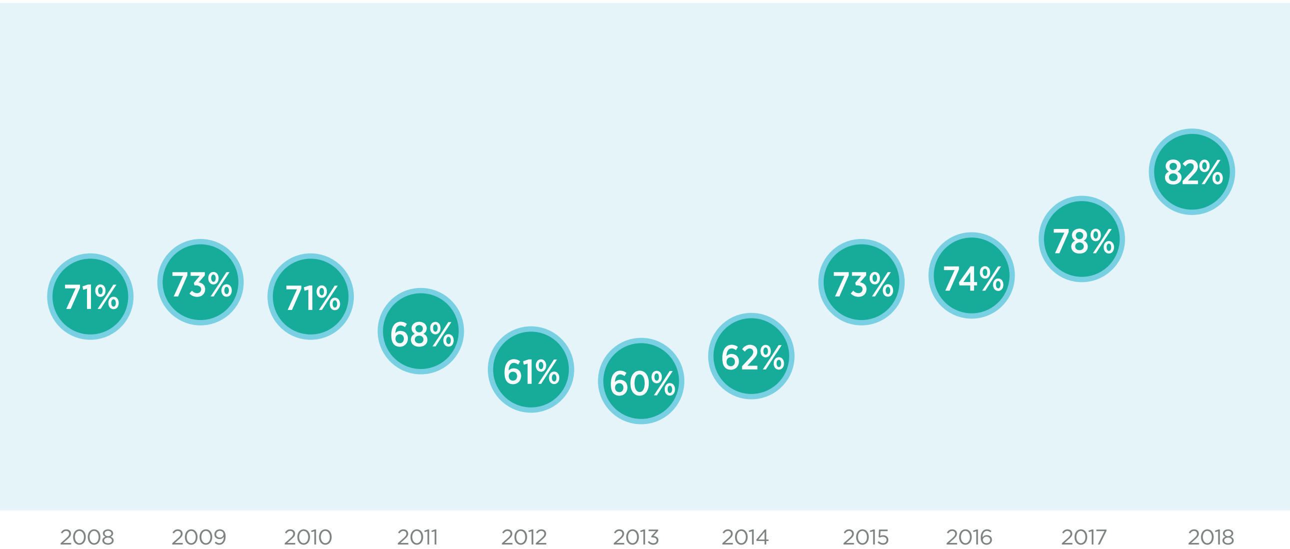
Worse Than Ever

Results from the 2019 AFP Payments Fraud & Control Survey

Payments fraud continues to soar, as a record 82 percent of organizations reported incidents in 2018, according to the 2019 AFP Payments Fraud & Control Survey, underwritten by J.P. Morgan.

Large organizations were particularly vulnerable to payments fraud, as businesses with revenue greater than $1 billion reported a jump of seven percentage points year-over-year to 87 percent. Organizations with revenue less than $1 billion experienced fewer fraud attempts in 2018, down four percentage points to 69 percent from 73 percent.

Percent of Organizations that Experienced Attempted and/or Actual Payments Fraud, 2008-2018



Source: 2019 AFP Payments Fraud & Control Survey

"Payments fraud is a persistent problem that is only getting worse despite repeated warnings and educational outreach," said AFP President and CEO Jim Kaitz. "Treasury and finance professionals need to learn the latest scams and educate themselves—and perhaps more importantly—their work colleagues on how to prevent them."

Business Email Compromise (BEC) scams also set a record. Eighty percent of companies reported BEC fraud last year, up from 77 percent in 2017. More than half (54 percent) of organizations reported financial losses as a result of BEC, the first time since AFP began tracking this data that this number climbed above the 50-percent mark. More than three-fourths of companies are responding by adopting stronger internal controls that prohibit payment initiation based on emails or other, less secure messaging systems.

"It is equally important for businesses to mitigate against non-financial implications of payments fraud," said Jessica Lupovici, Managing Director, J.P. Morgan. "Businesses stand to suffer reputational risk, which can be severe, expensive and require significant clean-up efforts."

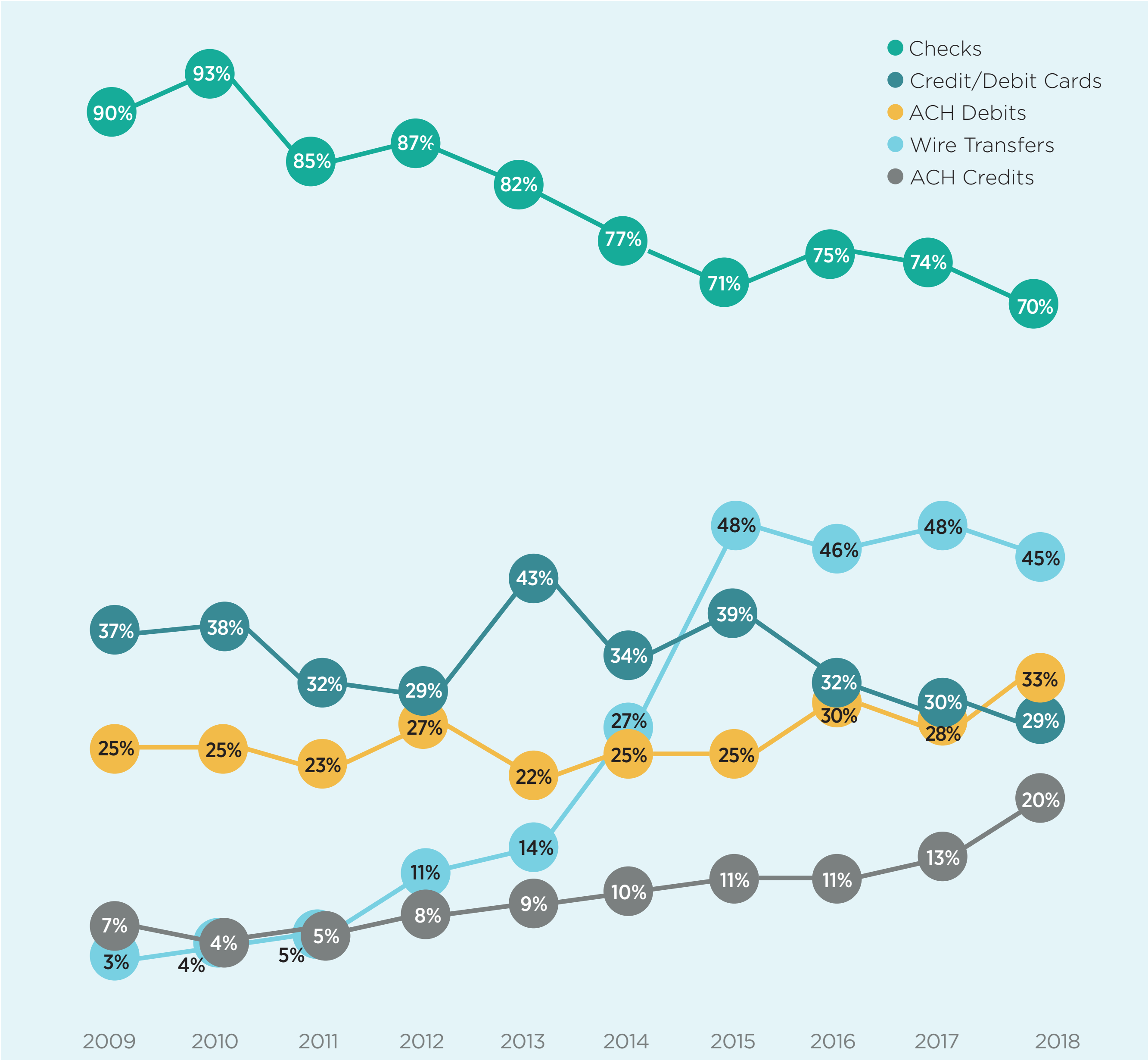
Check fraud decreased

Fully 70 percent of organizations report being exposed to check fraud, down four percentage points from 2017. In fact, payments fraud via checks has been on the decline since 2010. The share of organizations that were victims of fraud attacks via wire transfers also decreased slightly, from 48 percent in 2017 to 45 percent last year.

Wire fraud activity continues to be high, especially considering the share of organizations experiencing such fraud was only in the single digits until 2012. There has since been a steady increase in the percentage of organizations reporting wire fraud. This year's survey results reveal a noticeable increase in fraud activity via both ACH credits and ACH debits. Thirty-three percent of financial professionals report their organizations' payments via ACH debits were subject to fraud attempts/attacks in 2018; that is an increase of five percentage points from 2017. Fraud activity via ACH credits increased seven percentage points from 13 percent in 2017 to 20 percent in 2018.

This new development indicates that fraudsters are now trying to use ACH transactions as vehicles for their scams as they move away from checks and wires. As ACH transactions are typically considered safer and more difficult to compromise, the increase in ACH fraud suggests that such fraud is of a more sophisticated kind. In their attempts to alter the way they conduct their scams and to avoid raising any red flags, fraudsters may think that shifting to an unexpected payment method can do just

Payment Methods that Were Targets of Attempted and/or Actual Payments Fraud in 2018



Source: 2019 AFP Payments Fraud & Control Survey

Historical Trend of Fraud for Payment Methods

- Checks are the payment method most subject to fraud, but instances being reported are on the decline
- Wire fraud continues to be at elevated levels, Business Email Compromise (BEC) a likely cause of attacks
- Fraud activity with cards on the decline
- ACH debit fraud has increased to record levels and continues its upward trend
- A steady increase in ACH credit fraud since 2012

that—help them avoid detection. In these cases it is usually not the payment method itself that is compromised but the processes leading up to payment initiation. It is also possible that in order to conduct scams via ACH transactions, fraudsters may either compromise internal systems through phishing attacks or recruit assistance from inside their target organizations to help facilitate ACH transaction initiation.

The financial impact

What is the real financial cost to payments fraud? According to the 2019 survey, actual direct financial losses were less than potential losses. Fifty-seven percent of financial professionals report that their organizations did not incur a direct financial loss as a result of fraud activity, while 19 percent report a financial loss of less than $25,000.

Costs to manage/defend and/or clean up from fraud attacks were relatively low for most organizations that experienced such attacks. Forty-two percent of companies did not incur any expenses due to a fraud attempt and 39 percent spent less than $25,000 to defend against or clean up the fraud.

Of those organizations that were victims of fraud attacks in 2018, 42 percent detected the fraudulent activity in less than one week while 1 percent took one to two years before uncovering the scam. The majority of payments fraud attempts/attacks (64 percent) continues to originate from an external source or individual, such as forged checks or stolen cards).

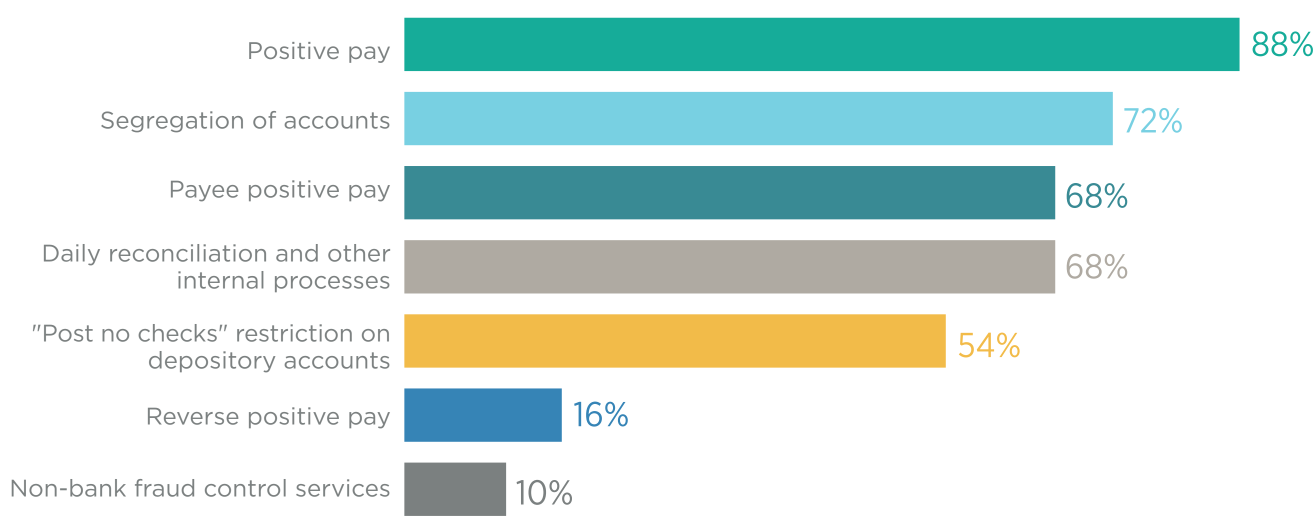
Fraud prevention techniques

Positive pay continues to be the method most often used by organizations to guard against check fraud. This approach is used by 88 percent of organizations—down from 90 percent in 2017. Protective measures such as positive pay are not generally included in the payment offering from the financial institution but an added service that charges an extra fee. This can explain the fluctuating use of positive pay from previous years. A slightly larger share of organizations resort to segregation of accounts (72 percent) than the share that reported the same in last year's survey (68 percent).

Other prevalent methods being used to guard against check fraud include daily reconciliations and other internal processes (68 percent of respondents), payee positive pay (68 percent), and "Post no checks" restriction on depository accounts (54 percent).

More than 600 treasury and finance professionals responded to the survey. The full survey is available at www.AFPonline.org/paymentsfraud.

Fraud Control Procedures and Services Used to Protect Against Check Fraud
(Percent of Organizations that Experienced At Least One Attempt of Check Fraud)



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