



Consumer Federation of America

**Statement for the Record of Adam Rust, Director of Financial Services
Consumer Federation of America**

Hearing on Examining Scams and Fraud in the Banking System and Their Impact on Consumers

United States Senate Committee on Banking, Housing, and Urban Affairs

Scheduled for Thursday, Feb. 1st, 2024

The Consumer Financial Protection Bureau should publish an annual report on payment fraud.

The public will be served with a regular report that highlights trends in payment fraud. It will inform efforts by policymakers and other decision-makers to address the problem of payment fraud. The Consumer Financial Protection Bureau has existing authority under Section 1022 of the Dodd-Frank Consumer Protection Act to gather, review, and publish a report of this kind. In other countries, similar reports have played a vital role in alerting the public to the scope of fraud.

Organized criminals continue to attack our payment systems to commit wide-scale fraud.

The scale of payment fraud is sizeable and increasing. According to the Federal Trade Commission (FTC), consumers lost \$8.8 billion to fraud in 2022, an increase of 30 percent from the prior year.¹

Information provided to Congress from payment apps comments revealed that consumers had reported \$100 million in unauthorized transactions on Cash App and \$57 million on Venmo in 2022.² Driven by their attraction to opportunities presented by irrevocable real-time gross settlement, fraudsters ask consumers to use a faster payment when implementing their scams. Nearly 18 million Americans were defrauded through a scam involving a digital wallet or payment app in 2020.³

However, new digital payment services are only one of the sources of concern. Check fraud has been a constant since checks were introduced. But even though fewer consumers are writing checks, check fraud is on the rise. According to FinCEN, reports of check fraud almost doubled in 2022.⁴ Checks are now the most common payment instrument used to implement frauds and scams.⁵

¹ Federal Trade Commission. "New FTC Data Show Consumers Reported Losing Nearly \$8.8 Billion to Scams in 2022." Federal Trade Commission, February 22, 2023. <https://www.ftc.gov/news-events/news/press-releases/2023/02/new-ftc-data-show-consumers-reported-losing-nearly-88-billion-scams-2022>.

² Senator Jake Reed, Sherrod Brown, and Elizabeth Warren. January 31, 2024. Letter to the CFPB on Defining Larger Participants of a Market for General-Use Digital Consumer Payment Applications

³ Cowley, Stacy, and Lananh Nguyen. "Fraud Is Flourishing on Zelle. The Banks Say It's Not Their Problem." *The New York Times*, March 6, 2022, sec. Business. <https://www.nytimes.com/2022/03/06/business/payments-fraud-zelle-banks.html>.

⁴ Sweet, Ken. "Cases of Check Fraud Escalate Dramatically, with Americans Warned Not to Mail Checks If Possible." *AP News*, June 12, 2023, sec. Business. <https://apnews.com/article/check-fraud-banks-organized-crime-5f033b93bd87e2cbeb82b4ab4865a916>.

⁵ Association for Financial Professionals. "2023 AFP Payments Fraud and Control Survey Report," 2024. <https://www.jpmorgan.com/content/dam/jpm/commercial-banking/insights/cybersecurity/download-payments-fraud-Survey-key-highlights-ada.pdf>.

In addition, because wire transfers tend to be for more significant amounts, fraud perpetrated through wires can rob consumers of their life savings or homes. Recently, some banks have given account holders the ability to order a wire transfer from inside their smartphone app – a development that will undoubtedly lead to more wire fraud.

Another significant problem is scammers who have used gift cards in their fraud schemes for over a decade.⁶

Certain populations are more vulnerable to harm. CFPB research shows that servicemembers rely on payment apps to send money. They often authorize payments through apps to make a deposit on housing before returning from overseas service. Older Americans are vulnerable to scams⁷ and, in practice, are more likely to be victimized for more significant amounts of money.⁸

Seniors are one example of a market that is especially vulnerable to fraud. Servicemembers and their families are another at-risk group. CFPB research finds that servicemembers rely on payment apps to manage their finances while deployed. Additionally, they are more likely to rely on online channels to find and pay a deposit for housing when they return from service or move to a new duty station.⁹ When a servicemember sends funds through a payment app to put down a deposit for housing, the payment has been authorized. Under current EFTA protections, the servicemember would not have legal rights to reimbursement. One in four servicemembers is not financially prepared for a disruption to their primary source of income.¹⁰ These practices harm their personal household financial security and may pose threats to overall force readiness.

Addressing fraud requires more awareness by the public of how these scams operate. For their part, financial institutions must make investments in layered security systems. Finally, the Administration must adopt a whole-of-government approach, coupled with active participation among industry, to coordinate activities. An annual report on payment fraud is an essential step to support all these actions.

While several government agencies provide fraud reports, no single report provides the right level of granularity to give the public the information it needs to assess the scope of the problem.

The United States relies on a mix of government and private industry data. Legislators have solicited information directly from payment providers. Some providers have voluntarily released reports.

In prior reports, the CFPB has raised concerns about the threats to consumers. In June 2023, the CFPB published a report revealing how many servicemembers have struggled to receive a resolution for money lost because of unauthorized errors on payment apps.¹¹ In the same month, it published a consumer

⁶ Steve Streit. “Written Statement of Green Dot Corporation.” Hearing, US Senate Committee on Aging, November 19, 2014. https://www.aging.senate.gov/imo/media/doc/Streit_%2011_19_14.pdf.

⁷ Yu, Lei, Gary Mottola, Christine N. Kieffer, Robert Mascio, Olivia Valdes, David A. Bennett, and Patricia A. Boyle. “Vulnerability of Older Adults to Government Impersonation Scams.” *JAMA Network Open* 6, no. 9 (September 22, 2023): e2335319. <https://doi.org/10.1001/jamanetworkopen.2023.35319>.

⁸ Federal Trade Commission. “Consumer Sentinel Network Data Book 2022,” February 22, 2023. <https://www.ftc.gov/reports/consumer-sentinel-network-data-book-2022>.

⁹ Consumer Financial Protection Bureau. “Office of Servicemembers Annual Report January - December 2022,” June 20, 2023. https://files.consumerfinance.gov/f/documents/cfpb_osa-annual-report_2022.pdf.

¹⁰ Consumer Financial Protection Bureau. “Making Ends Meet in 2022: Insights from the CFPB Making Ends Meet Survey.” Office of Research Publication, December 21, 2022. <https://www.consumerfinance.gov/data-research/research-reports/insights-from-making-ends-meet-survey-2022/>.

¹¹ Consumer Financial Protection Bureau. (2023). *Office of Servicemembers Annual Report January—December 2022*. https://files.consumerfinance.gov/f/documents/cfpb_osa-annual-report_2022.pdf

advisory that warned consumers to be careful when storing funds in an uninsured payment account app.¹² In its annual summary of consumer complaints for 2022, the CFPB noted that the most common reason to complain about a money transfer, money service, or virtual currency was due to fraud or scams.¹³

The FTC's Consumer Sentinel Network (CSN) Data Book, published annually, provides extensive information. The CSN Data Books are encyclopedic in their scope, with fraud coverage ranging from false franchise sales, illegitimate charitable solicitations, magazine subscription scams, and vacation timeshare plan scams.

Unfortunately, the breadth of data in the CSN reports makes them less useful for policy work focused solely on payment fraud. For example, the CSN finds that credit and debit cards were the most widely used payment instruments in fraud, but the data is too aggregated. The reports mix events not germane to the issue of payment fraud, including identity theft, false reviews, timeshare plans, and sweepstakes fraud, with fraud categories like imposter scams. All fraud harms consumers and deserves our attention, but by collapsing fraud without crosstabs or other sub-categories, it misses the mark. In all, CSN reports aggregated consumer reports in 29 categories.¹⁴

Thus, because the CSN reports released to the public aggregate fraud activity and cover a broad spectrum of fraud types, their conclusions cannot provide the same level of granularity on the single topic of payment fraud. For example, the Network Data Book reports do not separate fraud on authorized transactions from those not authorized, even though this distinction is meaningful for public policy. We need data that is relevant to sender-authorized fraud, as the question of when to reimburse victims of these frauds is a vital question for public policy consideration.

The Internet Crime Complaint Center (ICCC) at the Federal Bureau of Investigation publishes reports on Elder Fraud.¹⁵ While the reports are essential tools to demonstrate the scope of harm visited on elderly Americans, the data is very broad. The ICCC emphasizes quantifying the amount of damage across different demographics within the population of older Americans. However, the reports do not distinguish between payment instruments, authorization, or if there was reimbursement.

The Federal Reserve has focused on creating operational frameworks for fraud classification. Its Fraud Classifier model established a format for distinguishing between different types of fraud.¹⁶ However, as a payment systems operator, the Federal Reserve focuses on financial institutions and other formal payment system actors.

¹² CFPB *Finds that Billions of Dollars Stored on Popular Payment Apps May Lack Federal Insurance*. (2023, June 1). Consumer Financial Protection Bureau. <https://www.consumerfinance.gov/about-us/newsroom/cfpb-finds-billions-of-dollars-stored-on-popular-payment-apps-may-lack-federal-insurance/>

¹³ Consumer Financial Protection Bureau. "Consumer Response Annual Report January 1 - December 31, 2022." Consumer Financial Protection Bureau, March 2023. https://files.consumerfinance.gov/f/documents/cfpb_2022-consumer-response-annual-report_2023-03.pdf.

¹⁴ Federal Trade Commission. "Consumer Sentinel Network Data Book 2022" Table: Detailed Categories by Three Years. February 22, 2023. <https://www.ftc.gov/reports/consumer-sentinel-network-data-book-2022>.

¹⁵ Internet Crime Complaint Center. "Elder Fraud Report 2022." Federal Bureau of Investigation, n.d. https://www.ic3.gov/Media/PDF/AnnualReport/2022_IC3ElderFraudReport.pdf.

¹⁶ Federal Reserve Fed Payments Improvement. "Fraud Classifier Model." Strategic Initiatives. Board of Governors of the Federal Reserve System. Accessed August 9, 2023. <https://fedpaymentsimprovement.org/strategic-initiatives/payments-security/fraudclassifier-model/>.

In some cases, industry associations also publish information on payment fraud. Some examples include the Association for Financial Professionals (AFP) fraud report,¹⁷ Kroll’s 2023 Fraud and Financial Crime Report,¹⁸ and the US Faster Payments Council's Faster Payments Fraud Survey.¹⁹ However, these reports derive their conclusions from surveys of industry executives. Their findings examine fraud trends through the lens of impacts on financial institutions. Moreover, these reports are often behind paid firewalls.

The CFPB has the authority to issue reports on activities that impact consumers' finances. Consumers and the market would benefit if the CFPB used its market monitoring authority to provide regular reporting on payment fraud.

The Dodd-Frank Consumer Financial Protection Act authorizes the CFPB to monitor for risks to consumers in the offering or provisioning of financial products or services.²⁰ Congress gave the agency the right to make the information public. Unlike enforcement activities such as civil investigative demands (CIDs), where the CFPB seeks to determine if a financial institution has violated consumer financial protection law, the collection and dissemination of data is a marketing monitoring activity.

For example, the CFPB has researched and published information on payment apps, even though it has yet to secure supervisory authority in this market. In June 2023, it published a data spotlight that found that billions of dollars are stored in uninsured payment app accounts, another on the use of payment apps by servicemembers (June 2023),²¹ and another on tap-to-pay practices.²²

Financial regulators and industry groups in other countries publish reports on payment fraud.

In other countries, similar efforts have advanced understanding and supported policymaking. In the United Kingdom, UK Finance, a trade organization, publishes data on the value and volume of fraud cases.²³ It collects data from its members, who include credit and debit card issuers, card payment acquirers, and financial institutions.

Because UK Finance issues new reports regularly, typically every six months, its findings provide markets with up-to-date information. By doing so on an ongoing basis, the public can learn about it so that they can understand trends in fraud. The reports released by UK Finance provide the granularity necessary to support policy dialogue. They have specific categories that provide counts and sums on “authorized push-payment fraud” with crosstabs for types of scams.

UK Finance provides needed specifics on the types of people who are being harmed. The reports reveal how a fraudster found the victim, such as through a social platform, email, QR codes, or telephone calls. They categorize fraud in ways that are meaningful for regulation, revealing what share involved account

¹⁷ Association for Financial Professionals. “2023 AFP Payments Fraud and Control Survey Report,” 2024. <https://www.jpmorgan.com/content/dam/jpm/commercial-banking/insights/cybersecurity/download-payments-fraud-Survey-key-highlights-ada.pdf>.

¹⁸ Kroll. “2023 Fraud and Financial Crime Report.” Accessed February 20, 2024. <https://www.kroll.com/en/insights/publications/fraud-and-financial-crime-report>.

¹⁹ US Faster Payments Council Fraud Information Sharing Work Group. “2021 Faster Payments Fraud Survey and Report.” US Faster Payments Council, March 2022. <https://fasterpaymentscouncil.org/blog/8621/2021-Faster-Payments-Fraud-Survey-and-Report>.

²⁰ Section 1022(c)(4)(B)(ii)

²¹ Consumer Financial Protection Bureau. “Office of Servicemembers Annual Report January - December 2022,” June 20, 2023. https://files.consumerfinance.gov/f/documents/cfpb_osa-annual-report_2022.pdf.

²² Consumer Financial Protection Bureau. “Big Tech’s Role in Contactless Payments: Analysis of Mobile Device Operating Systems and Tap-to-Pay Practices.” CFPB Office of Competition & Innovation and Office of Markets. Accessed February 16, 2024. <https://www.consumerfinance.gov/data-research/research-reports/big-techs-role-in-contactless-payments-analysis-of-mobile-device-operating-systems-and-tap-to-pay-practices/full-report/>.

²³ UK Finance. “Annual Fraud Report 2023.” UK Finance, May 10, 2023. <https://www.ukfinance.org.uk/policy-and-guidance/reports-and-publications/annual-fraud-report-2023>.

takeover, remote purchase, counterfeiting (protected), lost or stolen cards, or authorized push payment fraud. Sometimes, there are insights that add to understanding, such as the finding in 2023 that a typical romance scam covers eight payments.²⁴ Descriptions of the target type – including consumers and small businesses – add further value to the report. The report quantifies these events by volume and sums. In all, UK Finance divides app scams into eight categories. In each category, it identifies the volume, amount, and share involving authorized push payment fraud. The reports also have descriptive data on reimbursement rates.

The United Kingdom is not unique. Payment systems in other countries also publish data on payment fraud on a regular cadence. Australian Payment Networks (APN) publishes fraud statistics on a twice-yearly basis.²⁵ The reports show the number of transactions and total value across many types of payments. The APN reports identify eight types of debit card fraud, for example. India's National Payments Corporation releases data annually on payment fraud over its payments rails, including its United Payments Interface (UPI).²⁶ As a payment systems operator, UPI's role in the payment system is more analogous to that of a payment operator such as the Clearing House or the Federal Reserve.

The report should provide a broad set of data points covering payment type, resolution, fraud method, and demographic characteristics of victims. These elements will further enhance the report's value to the public and differentiate it from existing fraud reports.

The report should categorize fraud in ways that are relevant for policymakers. Important categories for types of fraud include unauthorized fraud, friendly fraud, and sender-authorized fraud. It should identify the types of victims, such as consumers, small businesses, and governments.

Fraud types should be broken down into categories. Given current fraud practices, important categories would include investment, romance, advance fee, invoice, tech support, grandparent, CEO, bank impersonation, police impersonation, and other impersonation scams.

The data should be cross-tabulated by payment instrument type: wire, non-bank payment app, real-time gross settlement payment app, remittance, ACH, cryptocurrency, debit card, credit card, gift card, and check.

The data should clarify, through cross-tabulation, when the fraud occurred due to an authorized payment.

Finally, the report should indicate through cross-tabulation the share of cases where a consumer was reimbursed.

Policymakers will derive greater value when reports show how fraud impacts vulnerable populations. The CFPB could collect and report data on impacts to servicemembers and their families, older Americans, those with limited English proficiency, and other vulnerable populations without compromising consumer confidentiality.

²⁴ UK Finance. "UK Finance Annual Fraud Report: The Definitive Overview of Payment Industry Fraud in 2022," May 2023. https://www.ukfinance.org.uk/system/files/2023-05/Annual%20Fraud%20Report%202023_0.pdf


²⁵ Australian Payment Networks. "Payment Fraud Statistics July 2022 to June 2023," October 2023. <https://www.auspaynet.com.au/resources/fraud-statistics/July-2022-June-2023>.

²⁶ Mudaliar, Shweta. "Over 95,000 UPI Fraud Cases Reported in 2022-23: Centre in Parliament." Hindustan Times, March 23, 2023. <https://www.hindustantimes.com/india-news/over-95-000-upi-fraud-cases-reported-in-2022-23-centre-in-parliament-101679541121388.html>.

Our financial system must address the frauds occurring in our payment system. A fraud information report will not prevent fraud, but providing more information to the public under the CFPB's Section 1022 authority will provide policymakers with critical information to support future responses.

Thank you for the opportunity to submit comments on this critical issue.

Sincerely,

DocuSigned by:

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