

# fraud mitigation must be a key consideration when selecting payments partners

By **Dennis Jones**

Senior Marketing Manager, Jack Henry

According to a recent Accenture survey, 88% of banking executives believe transforming their payments platform is a key component of their digital transformation. Since no bank or credit union has the resident expertise, time, or budget to build and maintain the channel solutions needed to modernize payments, an unprecedented number of technology partnerships will be established during the next few years. And most of those partnerships will be inked based on four fundamental considerations:

- **Functionality** – Fintechs and big techs have developed alternative payment solutions that are evolving money movement and reshaping the industry. These payment innovators and their solutions are steadily disenfranchising financial institutions, so banks and credit unions need modern functionality to compete.
- **User Experience** – Knowing that an exceptional user experience translates into exceptional user adoption, fintechs and big techs are setting new standards for the payment experience. Banks and credit unions must provide comparable payment experiences that are intuitive, relevant, seamless, and reliable.



- **Company Stability** – Many of the fintechs focused on payments will not earn the clients and generate the recurring revenue necessary to keep their doors open, so the financial and strategic stability of payments partners is an extremely important consideration.
- **Fraud Mitigation and Management** – Payments fraud is inevitable, pervasive, and growing. With every payment channel impacted by unique, ingenious, and constantly evolving schemes, banks and credit unions can't fight fraud on their own.

While each of these considerations will be prioritized differently by individual financial institutions, fraud mitigation should be front and center in every due diligence process.

The ability to mitigate fraud effectively and efficiently has evolved into a unique competitive advantage for financial institutions. Although fintechs and big techs and their industry-changing solutions are reinventing payments, most consumers and businesses still trust their primary financial institutions more than these alternative payment providers based on the increased risk of fraud with digital payments. While consumers and businesses continue to believe that banks and credit unions will be more accessible and willing to resolve fraud-related issues, you must capitalize on that trust before it erodes – and it will.

## fraud is big and getting bigger

The same solutions that enable payment origination and processing are pervasively used by predators to attack the individuals and businesses making and receiving payments. And despite all the innovations focused on fraud detection and prevention, payment channels have inherent vulnerabilities criminals know how to exploit with unfortunate and impressive success.

- 44% of financial professionals consider payments fraud to be a top concern.<sup>1</sup>
- Global losses from payments fraud increased from \$9.8 billion in 2011 to \$32.3 billion in 2020.<sup>2</sup>



**Payments fraud is inevitable, pervasive, and growing.**

With every payment channel impacted by unique, ingenious, and constantly evolving schemes, banks and credit unions can't fight fraud on their own.

- 82% of financial institutions were impacted by payments fraud last year.<sup>3</sup>
- Global payments fraud is expected to increase to \$40.6 billion by 2027.<sup>4</sup>
- 70% of businesses experienced check fraud in 2020.<sup>5</sup>
- 33% of financial institutions experienced ACH fraud in 2020.<sup>6</sup>
- 18% of consumers experienced card fraud in 2020.<sup>7</sup>
- P2P fraud increased 733% between 2016 and 2019.<sup>8</sup>
- 7% of consumers experienced payments-related identify theft in 2020.<sup>9</sup>
- Victims of payments fraud spend an average of 16 hours dealing the with aftermath.<sup>10</sup>
- Online sellers will lose \$130 billion to payments fraud between 2018 and 2023.<sup>11</sup>
- More than 14 billion debit/credit card records have been sold on the dark web since 2013.<sup>12</sup>

These statistics and trends clearly prove payments fraud is big and getting bigger and impossible for banks and credit unions to combat on their own.

## fraud mitigation is complex and mission critical

Considering the inherent complexities and vulnerabilities of each payment channel, there's no silver bullet, no single solution, no single partner that can systematically mitigate fraud across the payments ecosystem. Successfully combating payments fraud requires a multi-layered approach that leverages multiple solutions that will:

- Protect the money, identities, and credit scores of payees and payors.
- Protect the assets, brands, competitive positions, and reputations of financial institutions.



**82% of financial institutions** were impacted by payments fraud in 2020.

- Enable proactive compliance with fraud-related regulatory requirements.

If you're among the 88% of financial institutions with payment transformation plans, fraud mitigation must be a cornerstone of your partner due diligence. Require potential technology partners to demonstrate their commitment to fraud mitigation and management with:

- Proprietary fraud solutions that are natural extensions of their transaction processing platforms.
- The ability to support new payment channels with dedicated fraud solutions.
- A client-centric, open approach that supports the integration of best-of-breed, third-party fraud solutions including neural network transaction tracking, multi-factor authentication and tokens, real-time access to financial crimes platforms and national account status databases, positive pay, and more.
- Proactive preparation for new and evolving regulatory mandates like the new NACHA rule that will mandate ACH originators validate accounts for ACH WEB debit transactions.
- Customizable rules engines, transaction scoring, and account holder segmentation that help balance the user experience with effective fraud detection.
- Real-time fraud alerts and card controls.
- Professional fraud advisory services.

## fighting fraud takes a village

Fraud is a pervasive and inevitable problem for financial institutions, payment processors, merchants, card networks, and other players in the payments ecosystem. It's a pervasive and inevitable problem that's exacerbated by:



If you're among the 88% of financial institutions with payment transformation plans, **fraud mitigation must be a cornerstone of your partner due diligence.**

### sources

- The significant increases in fraud due to the migration to digital transactions and interactions.
- The evolution of fraud from transaction-centric schemes to sophisticated channel-centric schemes.
- The demand for faster and real-time payments that inherently provide financial institutions and payment processors with much less time to identify and stop fraudulent transactions and recover the funds.
- The increasing coordination among the bad guys, their willing exchange of stolen data, and their collaboration on new fraud techniques and technologies.

Payments are the leading financial transactions, so we can expect the scale and sophistication of payments fraud to continually increase. If it's time to modernize your payments platform, it's imperative that your new technology partners offer proven, multi-layered solutions for today's threats and have a demonstrable commitment to the innovation it will take to fight tomorrow's.

## create limitless possibilities

[Learn more](#) about Jack Henry's future-ready, client-centric solutions for fighting payments fraud.

For more information about Jack Henry, visit [jackhenry.com](https://jackhenry.com).

### sources

1. [Ravelin Insights: Online Payments Fraud](#), Ravelin, accessed April 25, 2022.
2. [Global Payment Fraud Statistics, Trends & Forecasts](#), Merchant Savvy, accessed April 25, 2022.
3. [2020 AFP Payments Fraud and Control Survey](#), Association for Financial Professionals (AFP), accessed April 25, 2022.
4. Ravelin Insights: Online Payments Fraud.
5. 2020 AFP Payments Fraud and Control Survey.
6. 2020 AFP Payments Fraud and Control Survey.
7. [What Are the Most Common Types of Payments Fraud?](#) Payments Journal, accessed April 25, 2022.
8. [IPQualityScore](#), accessed April 25, 2022.
9. What Are the Most Common Types of Payments Fraud?
10. Ravelin Insights: Online Payments Fraud.
11. IPQualityScore.
12. Ravelin Insights: Online Payments Fraud.