Featurespace Research Reveals 70% of North American Financial Institutions Experienced Increased Fraud Rates in 2023

Leading financial crime technology solution provider finds that overall fraud has increased 11% compared to 2022 figures

ATLANTA, GEORGIA, UNITED STATES, December 5, 2023 /EINPresswire.com/ -- Featurespace, the world leader in enterprise-grade fraud and financial crime technology, today announces the data findings of a new report: [The State of Fraud and Financial Crime in North America Annual Report 2023](#).

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> *Martina King CEO of Featurespace*

Key Findings Include:
• 70% of financial institutions report that overall fraud rates have increased over the past year, an 11% increase from 2022
• In total, over four-million attempts of fraud and financial crime were recorded. Of these, almost one in four resulted in successful attacks
• Over two-thirds of respondents employ two or three different fraud prevention systems, with these showing a direct correlation with reduced fraud losses
• Of all payment types, credit cards and prepaid/debit cards experienced the greatest growth in fraud related activity, with checks a close second
• 98% of respondents recognize the need for a Generative AI solution to combat fraud and financial crime

The research, developed in conjunction with GlobalData, shows that overall North American fraud rates in 2023 - which includes both successful and unsuccessful incidents of fraud and financial crime – increased by 70%, compared to 59% in 2022, as reported by respondents.

Commenting on today's report, Martina King, CEO, Featurespace, says: "These findings emphasize the need for continued vigilance. The fact that fraud is considered commonplace points to the real challenges in our sector. We need to build a future together where the fraudsters are two steps behind the financial institutions - instead of two steps ahead."

Focusing on payment methods
Financial Institutions were asked in both 2022 and 2023 whether they had observed an increase in fraud rates across a range of twenty different payment methods. This included traditional methods, such as credit cards, and newer ones, such as digital wallet payments.

The latest results show several striking changes in payment methods which have attracted the greatest level of growth in fraud-related activity. Credit cards continue to top the list with the 64% of respondents reporting growth in fraud rates in 2022, increasing to 85% in 2023, an uplift of 22-percentage points.

Check payment fraud, which saw a 38% increase in 2022, has now skyrocketed to a remarkable 70% in North America in 2023. This represents a substantial 32-percentage point increase, positioning it as the second-highest growing method year-on-year, second only to credit cards. Indeed, the share of fraudulent transactions tied to physical forgery fraud or counterfeit activity has doubled, now comprising 14%. This is likely an outcome of fraud associated with check payments, as checks continue to be widely used by genuine customers and fraudsters.

In contrast, digital wallets, for which 58% of FIs reported an increase in fraud in 2022, has decreased to 22% in the most recent survey. Notably, the percentage of FIs reporting increased fraud rates for Apple Pay, PayPal and Google Pay has also decreased quite steeply – although in each case this growth remains in double digits.

Finally, two of the largest changes between the 2022 and 2023 surveys relate to PayPal owned digital wallet Venmo, and BNPL payments. Both dropped from over 30% in 2022 to 5% or less in 2023.

Increasing "success" but also better blocking tactics
Featurespace's findings show that the percentage of FIs reporting an increase in successfully executed fraudulent transactions grew from 62% in 2022 to 71% in 2023. However, those reporting growth in "false positive rates"- non-fraudulent transactions that are blocked by the organization – increased by 20-percentage points in the same period, reaching 63% in 2023, a finding which implies that, in response to the mounting challenge of fraud, FIs are resorting to imposing stricter controls on all their customers.

Indeed, FIs are employing a range of strategies to help combat the increasing levels of fraud faced by their organizations. Survey respondents were presented with a range of six options that can be adopted in fraud prevention, detection, and mitigation activities, with the majority (71%) saying that they used two or three different measures, while 28% used three or more. Just one percent indicated they used only one. The most-commonly selected measure was "rules-based algorithm" (72%), closely followed by "fraud prevention application programming interfaces (APIs)" at 71%.

Financial Institutions with a more comprehensive range of measures were also more inclined to

report a reduction in fraud losses over the past year, with FIs that reported lower losses from fraud having three or more measures in place, while those reporting increased fraud losses having fewer than three.

Emerging technologies and new solutions are being embraced
FIs are increasingly receptive to the urgent adoption of new solutions in 2023, with research finding that the proportion of responders requiring a hard "proof of concept" before adopting new solutions has dropped from 38% in 2022 to just 8% in 2023.

Recognizing the need to embrace emerging technologies, 98% of respondents acknowledge the need for Generative AI as a solution for combating fraud and financial crime. While a small proportion of respondents claimed to be actively using Generative AI at present, nearly all expressed a willingness to embrace these technologies. Only 2% of respondents saw no need to engage with Generative AI and emerging technologies.

Commenting on the use of new technology to battle fraud, David Sutton, Featurespace's Chief Innovation Officer, adds: "Smarter technology helps financial institutions better understand their consumers. We have pushed this to the next level with the recent announcement of [TallierLTM™](#), the world's first Large Transaction Model. This pairs cutting-edge generative AI algorithms with huge volumes of transaction data, enabling a machine to efficiently comprehend the meaning and relationships between different customer transactions."

Examining fraud types
In addition to looking at the impact of fraud on different payment mechanisms, FIs were also asked to provide an overview of the volume and value of fraudulent transactions as defined by the Federal Reserve's FraudClassifier model.

When comparing the change in distribution of fraudulent incidents between 2022 and 2023, the overall proportion of "unauthorized" incidents dropped slightly, from 49% in 2022 to 46% in 2023, meaning "authorized" incidents increased over the same time.

Examining these further, within the "unauthorized" category, "Forgery and counterfeit" activity doubled its share (to 14%), while "Digital payment" dropped by five-percentage points: the two "account takeover" fraud types each dropped by two-percentage points.

For the "authorized party" category, the two types to register the greatest changes were "false claim", which increased by five-percentage points and "relationship or trust fraud" which decreased by seven-percentage points.

Commenting on [Featurespace's latest fraud research](#), Duncan Sandys, CEO of P20, the voice of the global payments industry, adds: "The rate at which fraudsters are accelerating can feel daunting, but that is why we need to be equally focused on acceleration: whether through information sharing, technological innovations, or fresh solutions within our existing systems."

About Featurespace
Featurespace is the world leader in enterprise grade technology that prevents fraud and financial crime. With a mission to make the world a safer place to transact, Featurespace helps banks and financial institutions protect customers, and reduce risk and business operating costs by providing industry-leading machine learning, financial crime prevention solutions. Featurespace invented Adaptive Behavioral Analytics and Automated Deep Behavioral Networks and is the first to profile both genuine and fraudulent behaviour to identify and block criminal activity in real time. Both are patent pending technologies that are central to Featurespace's award winning ARIC™ Risk Hub. Over 70 direct customers and 200,000 institutions have put their trust in Featurespace's technology including HSBC, NatWest, TSYS, Worldpay, Marqeta, Contis, Danske Bank, Akbank, Edenred and Permanent TSB. Founded in 2008, and headquartered in Cambridge, UK Featurespace has a team of over 400, operating globally from seven locations.
www.featurespace.com

About The State of Fraud and Financial Crime in North America Annual Report 2023
The findings of The State of Fraud and Financial Crime in North America Annual Report 2023 are based on a B2B study conducted by GlobalData from June-August 2023. The FIs that participated in the most recent survey represent a broad range of organizations from across North America that offer a variety of transactional solutions to both retail and business customers. This new research is based on telephone interviews conducted with 200 individuals responsible for fraud and financial crime within various FIs, predominantly from the USA (90%) and Canada (10%).

Job titles of those participating were self-described, with nearly 80% working in fraud roles spanning various levels of seniority. The remaining participants held roles more broadly associated with risk and security. Consistent with our previous approach, the research methodology remains aligned with the Federal Reserve's FraudClassifierSM model, providing a standardized framework for consistently categorizing twelve different types of fraud and financial crime.

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