

# Fighting fraud in the peer-to-peer payments space

Forensic & Integrity Services

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Building a better working world

## Rising fraud rates in the peer-to-peer market

As financial institutions work to enhance the customer experience and improve the speed at which money is moved, fraudsters work just as hard to find ways to exploit these systems. Specifically, the convenience provided by electronic fund transfers (EFTs), such as peer-to-peer (P2P) payment solutions, has provided fraudsters an opportunity to quickly obtain funds from unsuspecting customers who fall victim to scams. Customers often struggle to draw the line between real and fraudulent communications from financial institutions. The increase in fraud was highlighted when the Federal Trade Commission (FTC) reported 2.8 million fraud reports and more than \$5.8b in losses in 2021.

## Regulations to keep on your radar

In response to this surge in unauthorized transfers, regulators and several prominent US senators are calling for stronger customer protections against fraud and scams perpetrated on P2P platforms. The areas of focus include the protections provided to customers under Regulation E of the Electronic Fund Transfer Act (EFTA), as well as increasing the controls in place to protect customers from harm.

Additionally, the senators have issued a series of questions about how customer fraud and scam claims are handled and the supporting counts and dollar values for these categories (i.e., how many transactions initiated by a consumer were induced through deception and how many reports of unauthorized EFTs – as defined by Regulation E). Navigating regulatory change can be a difficult and complex task for a financial institution. The additional resources needed to comply with regulations can put a strain on compliance departments and the ability of front lines to deliver timely results.

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Noncompliance with Regulation E can leave financial institutions exposed to both reputational and monetary risks. To mitigate these risks, it is important to understand the regulation and what is being asked of them. Implementation of controls and procedural enhancements are required to remain compliant with pending regulatory guidance and to stay one step ahead of the fraudster to better protect the customer.

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## Actions to take now:

- 1 Perform data analytics to identify customers impacted by fraud or scams that may require remediation.
- 2 Determine whether previously decided disputes and claims were performed consistently and in line with internal procedures and regulatory remediation criteria.
- 3 Implement the tools and procedures needed to adequately mitigate fraud and scam risks and allow for consistent and supported decisioning.
- 4 Increase knowledge of expectations in the P2P environment to help prepare for regulatory scrutiny and establish a balance between the customer experience and exposure to related EFT risks.

Overall, it is important to understand the intricacies of P2P products, implement control enhancements that mitigate risk without overly increasing customer friction, and enhance disputes and claims processes to reduce ambiguity and promote consistent decisioning. This will allow financial institutions to remain on the offensive and reduce potential payouts should the anticipated regulations take form.

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