

Fraudsters love your omni-channel approach

*3 ways banks can stop deposit fraud losses
with predictive intelligence*

WHITE PAPER

Introduction

Omni-channel experiences have become the new standard of commerce for consumers, and for financial institutions (FIs) that means providing frictionless transactions at the teller line, at the ATM, on the mobile app or online. The Economist describes a true omni-channel experience as “letting customers shop with smartphones, tablets, laptops and even in stores as if waited upon by a single salesman with an unfailing memory and uncanny intuition about their preferences.”¹

To stay competitive, banks and credit unions must rely heavily on real-time data and predictive intelligence to provide the insights they need to offer the right products and services to the right customers (and decline customers who are flagged for potential fraud or account mismanagement), regardless of the channel. Implementing an omni-channel approach can help banks attract new customers, decrease operational costs, and help retain customers by providing an improved customer experience.

As much as customers love variety in banking, so do fraudsters. Especially with the emergence of digital banking, fraudsters have found ways to leverage each new channel for fraud — and deposit fraud is one of the most common.

Implementing real-time data intelligence solutions can help banks detect potentially fraudulent checks or deposits at the point of presentment, across channels. This can give FIs a competitive advantage by enabling them to better protect their customers, their employees, and their bottom line.



Deposit fraud: *a persistent and pressing issue for FIs*

Deposit fraud has been an ongoing challenge for banks and credit unions and has evolved in new ways as the banking industry has shifted to digital.

In 2021, checks and ACH debits were the payment methods most impacted by fraud activity (66 percent and 37 percent, respectively) and indices of fraud via ACH debits and credits were on the uptick.² And although overall use of paper checks has declined in recent years, the average value of a check has gone up, making them a prime target for fraud and scams.³

With options like remote deposit capture (RDC) and ATM deposits, fraudsters have new avenues to attempt deposit fraud – and because of the faceless nature of these channels, bad actors tend to gravitate towards them.



*In 2021, **checks and ACH debits** were the payment methods most impacted by fraud activity (66% and 37%, respectively)*

According to research by Aite-Novarica, checking account application fraud is 2.5x higher on digital channels than for those received in a physical branch.⁴

Fraudsters still attempt deposit fraud in-person as well, for example cashing or depositing counterfeit checks at the teller window. These scams can be hard to spot and stop because of how believable fake checks can be, and due to the nature of high turnover with tellers. It's challenging for banks and credit unions to hire and retain staff with the training and experience needed to identify fraudulent checks – and even then, convincing fakes can still get past at times.



*Checking account application fraud is **2.5x higher** on digital channels than for those received in a physical branch.*



Trending check scams and deposit fraud tactics

Many [check fraud scams](#) rely on using counterfeit checks in combination with some variation of an overpayment scam.

An overpayment scam occurs when a buyer “mistakenly” sends a check for more than is expected and asks the victim — typically a good customer in good standing at the bank - to return the extra cash. Weeks later, the FI discovers the check was fraudulent and the customer is on the hook for paying the whole amount. When executed on low-income customers or the elderly, these check scams can cause big losses for the bank.

These types of check scams can mean customers are on the hook for big losses as well. In the case of a counterfeit check, the person who deposited the fake check is responsible for returning the funds to the bank who made the money available to the depositor. If they spend any of the money or send it off to a scammer, they’re liable for repaying the funds when the item returns unpaid. This creates a negative customer experience and, if left unmitigated, can negatively impact the bank’s brand reputation and bottom line.

Bad actors also frequently exploit digital channels for deposit fraud. A common tactic is to deposit one check multiple times at different banks using RDC. Without real-time data, FIs can’t communicate with each other fast enough to prevent a check from being digitally deposited multiple times within a short timeframe. Fraudsters will also use RDC to deposit counterfeit checks without having to physically present them to a teller, giving them a better chance of getting away with the scam.

Businesses have increasingly become targets of deposit fraud in recent years as well, with ACH fraud and deposit fraud using large business checks on the rise. According to AFP, two-thirds of organizations were prey to check fraud in 2021. Additionally, they found that “the share of fraud activity via ACH debits has been increasing gradually—from 33 percent in 2019 to 34 percent in 2020 and to 37 percent in 2021.”⁵



Two-thirds of organizations
were prey to check fraud in 2021.



How can FIs prevent deposit fraud and reduce losses?

In order to effectively combat deposit fraud across channels without impacting the customer experience, banks and credit unions need data insights that help them make informed decisions in real-time.

Early Warning's solution, **Verify Deposit Risk** (formerly known as Real-time *Deposit Chek*® Service), screens deposits at point of presentment, whether at the teller window, through RDC, or at the ATM, to detect high-risk items.



Empowering FIs to make informed decisions in real-time:

How Verify Deposit Risk works

Using data contributed by thousands of FIs to the [National Shared DatabaseSM](#) resource, **Verify Deposit Risk** analyzes millions of daily transactions to deliver FIs comprehensive insights that allow them to assess transactional risk with high accuracy.

FIs can utilize **Verify Deposit Risk** to expedite funds availability and prevent deposit fraud across channels.

After a new DDA is opened and a customer is funding their account, Account Owner Authentication (AOA) validates that the external account is owned by the customer requesting the deposit transaction. Then **Verify Deposit Risk** confirms the status of the account and predicts the likelihood that an item will be returned unpaid.

Organizations can get real-time visibility on an item's risk profile, including information on the payer's:

- Account status
- Type of account
- A risk score based on historical account behavior like non-sufficient funds returns and overdrafts

This allows FIs to make timely decisions about whether to accept a deposit and what portion of the funds to make immediately available. It also helps them detect and stop fraud before it can enter the system and reduce losses associated with high-risk deposits.

The *National Shared DatabaseSM* resource contains a broad set of deposit performance data contributed by 2,500+ FIs with scored account data on:

- 656 million** deposit accounts
- 586 million** deposit account owners
- 11.5 billion** transactional records⁶

How it Works in Real-Time



Key Features

- **Account Owner Authentication (AOA):** Confirms that new account funding from external sources is coming from an account owned by the customer requesting the deposit.
- **Duplicate and counterfeit item detection:** Prevents duplicate deposits at the teller window or ATM after an item has been deposited through RDC, and detects fake or counterfeit items.
- **Real-time alerts:** Helps process deposits in real-time to expedite funds availability. Early Warning[®] offers both real-time and batch alerts for **Verify Deposit Risk**, however our customers see the most benefit when using real-time alerts.

A look at three FIs: How Verify Deposit Risk helps banks reduce losses from high-risk deposits

From local credit unions to national banks, real-time data and predictive intelligence can help FIs of all sizes minimize losses from deposit fraud. Here's a look at the benefits that FIs of various sizes have seen from implementing **Verify Deposit Risk**⁷:

Credit Union A



A credit union with 100-250k DDA accounts, received **\$3-4m** total high-risk alerts annually

Bank B



A bank with 100-250k DDA accounts, received **\$5m** total high-risk alerts annually

Bank C



A credit union with <100k DDA accounts, received **\$1-2m** total high-risk alerts annually



Participant Model 2.0: *Our most powerful predictive model yet for preventing deposit fraud*

New data is constantly being contributed to the *National Shared DatabaseSM* resource by thousands of banks, which allows us to continually refine and improve our models to better predict the likelihood of fraudulent activity and behavior.

We recently released Participant Model 2.0 for **Verify Deposit Risk**, our most powerful predictive tool to date for detecting and preventing check and deposit fraud.

In an Early Warning[®] study of six FIs, those who upgraded from Participant Model 1.0 to 2.0 saw an average lift of 84% in the amount of potential fraud they were alerted to, the exact dollar amount depending on factors including inquiry volume, inquiry amount, and risk profile of the inquired items.

In this same study, banks and credit unions using Participant Model 2.0 in combination with real-time alerts saw an average lift of 220% in fraud dollars alerted to as compared to using batch alerts.

84%

CREDIT UNION AMAZING:

Using Participant Model 2.0

Saw an average lift of 84% in fraud alerted to vs. Participant Model 1.0

220%

BANK AWESOME:

Using Participant Model 2.0 with Real-Time Alerts

Saw an average lift of 220% in fraud losses alerted to vs. batch alerts



3 ways banks can stop deposit fraud with predictive intelligence

1



At the Teller line

Due to the high turnover rate common with tellers, it's hard for banks to train and rely on tellers to detect deposit fraud attempts. Banks and credit unions can empower their tellers with a real-time deposit screening tool to detect fraudulent checks or deposits.

2



At the ATM

With many customers taking advantage of making check deposits at the ATM these days, FIs can use predictive intelligence to prevent duplicate or counterfeit check deposits at the ATM in real-time.

3



Remote Deposit Capture

RDC has been a prime target of deposit fraud for FIs who offer a mobile banking app. FIs can use **Verify Deposit Risk** to spot and stop deposit fraud on their mobile app.



The benefits of **Verify Deposit Risk** for FIs

Fund more new accounts

According to Aite-Novarica “around a third (29%) of new accounts opened via the online channel are funded, as compared to 38% of those opened in a branch; the lower rate is indicative of some high-friction controls many FIs have in place to prevent fraud, such as requiring the consumer to identify the amounts of small deposits made to the account used for funding.”⁸

Adding real-time deposit screening and account owner authentication to your FI’s omni-channel approach will help you fund more new accounts across channels, and especially your digital channels.

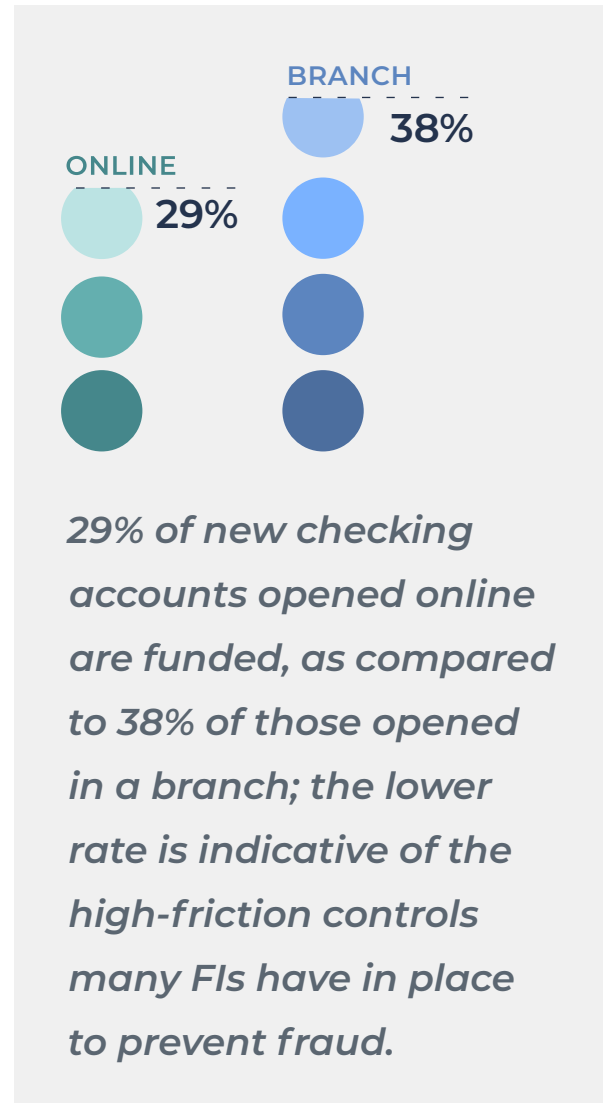
Rather than using high-friction methods like micro-deposits to prevent fraud at new account opening, banks can use **Verify Deposit Risk** with AOA to achieve the same result in seconds.

Expedite funds availability

Real-time insights into customers’ historical account behavior helps your team make informed decisions about when to expedite funds availability and when to hold a deposit.

Protect your customers, protect your employees, protect your bottom line

Implementing a solution like **Verify Deposit Risk** will protect your customers from falling victim to fraud tactics, like check overpayment scams. It will also protect your employees by preventing them from mistakenly accepting counterfeit or fake checks at the teller window. And it will protect your bank’s bottom line by helping you prevent deposit fraud across channels without adding friction to the customer experience.



Leave no check unchecked

Deposit fraud is a persistent and challenging issue that can cause big losses for banks and credit unions - and their customers - if left unchecked. Fraudsters are taking full advantage of the omni-channel services being offered by many banks and are exploiting both digital and physical channels to execute fraud and scams.

Luckily, FIs can use insights from real-time data intelligence to get ahead of fraudsters across channels - whether it be online, on the mobile app, at the ATM, or in the physical branch.

Early Warning's **Verify Deposit Risk** is powered by predictive intelligence that uses bank-contributed data from thousands of FIs to help banks and credit unions identify the customers they can trust (and expedite their funds availability), as well as detect deposit fraud before it can enter their system.

Sources

- 1 *Omni-channel banking: From transaction processing to optimized customer experience*, IBM
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- 3 *Commercial Checks Collected through the Federal Reserve—Annual Data*, Federal Reserve, 2021
- 4 *Applicaiton Fraud: How Do you Solve a Problem Like Identity?*, Aite-Novarica, Dec. 2022
- 5 *AFP® Payments Fraud and Control Report*, Association for Financial Professionals, 2022
- 6 *National Shared DatabaseSM Report*, 2022
- 7 June 2022, Early Warning analysis of 2021 **Verify Deposit Risk** inquiries. Hard hit status contributed by Participant, high-risk status from Treasury API response, and hard-hit (420-499) on Non-Participant Scored Account score
- 8 *Applicaiton Fraud: How Do you Solve a Problem Like Identity?* Aite-Novarica, Dec. 2022

ABOUT EARLY WARNING

Early Warning Services, LLC, is a fintech company owned by seven of the country's largest banks. For more than three decades, our identity, authentication and payment solutions have been empowering financial institutions to make confident decisions, enable payments and mitigate fraud. Today, Early Warning® is best known as the owner and operator of the Zelle Network®. Learn more at www.earlywarning.com.

