



## Acting Comptroller Hsu discusses banks' role in addressing consumer fraud

Initial perspectives related to Acting Comptroller of the Currency Michael J. Hsu's remarks on addressing financial fraud against consumers

On July 10, 2024, Acting Comptroller of the Currency Michael J. Hsu discussed the scale of consumer financial fraud and ways financial institutions can better protect consumers from scams, including those stemming from new technologies such as artificial intelligence (AI).<sup>1</sup> The Acting Comptroller noted a recent report estimating that fraud and scams accounted for more than \$150 billion in losses to consumers and business across the Americas in 2023 alone. Through his remarks, he stated it is critical for financial institutions to understand their regulatory obligations when developing and maintaining their fraud management programs.

### 5 insights you should know

**New technologies may enable more sophisticated frauds:** The rise of AI and other new technologies may enable more frequent and sophisticated fraud attacks aimed at financial institutions and their customers. Often, fraudsters pose as a trusted business, government agency, or a bank employee, to induce the victim to send money to a fake account. Confirmation of wiring instructions, verification of identity, and authentication controls are critical to help prevent scams.

**Strong controls and fraud monitoring capabilities remain important:** The Acting Comptroller emphasized that effective customer identification and verification processes at account opening are critical. Furthermore, he recognized cross-functional responsibilities for researching unusual activity and encouraged open lines of communication across stakeholders including Bank Secrecy Act (BSA) compliance, fraud protection, consumer protection, and fair lending.

**Identifying and reporting suspicious activity protects banks and consumers:** Both the Office of the Comptroller of the Currency (OCC) and the Financial Crimes Enforcement Network<sup>2</sup> (FinCEN) have emphasized the need for *timely* filing of Suspicious Activity Reports (SARs) for fraudulent activity, including fraud rings and insider threat activity. Acting Comptroller Hsu noted the important role technology may play in helping to flag suspicious activity and support strong authentication methods.

**Managing fraud detection while maintaining regulatory compliance:** It is important for financial institutions to promptly identify, investigate, and resolve fraud concerns. However, financial institutions should carefully understand regulatory obligations and monitor whether their fraud detection and investigation programs are maintaining compliance with applicable regulations, such as Electronic Funds Transfers (Regulation E), Availability of Funds and Collection of Checks (Regulation CC), and Truth in Lending (Regulation Z).

**Fraud prevention is a component of consumer protection:** The Acting Comptroller emphasized that fraud prevention is a component of consumer protection. This extends to ensuring that fraud prevention and detection controls do not provide biased outcomes, as is covered by fair lending requirements, or result in unfair, deceptive, or abusive acts or practices (UDAAP/UDAP). He further noted the importance of providing timely information to customers about trending scams and ways to avoid them.

### 5 considerations to evaluate

**1 Assess prevention and detection maturity and coverage:** Financial institutions should assess the maturity and coverage of their fraud prevention and detection controls across the customer lifecycle – including onboarding, account maintenance, login, and transaction monitoring. This can include an assessment and validation of detection models, whether the models were developed by the institution or by a third party, as well as may include identifying opportunities for additional controls or harmonizing fraud prevention across multiple products.

**2 Build transparency and monitoring for governance and monitoring:** Monitor key performance indicators for investigations, disputes, and lending programs, especially where services are being supported by third parties. Utilize the second line to support the governance, testing, and monitoring of controls and processes within these regulatory areas. Model risk management teams additionally should consider inventorying and monitoring fraud detection models, and developing a framework to determine whether there is disparate treatment of customer populations arising from the models.

**3 Establish controls for consumer protection obligations:** Establish controls that monitor the coverage and effectiveness of fraud prevention across various customer populations and conduct periodic testing and monitoring to demonstrate compliance during regulatory reviews. These should include controls to analyze customer complaints for themes related to both insider and external fraud incidents.

**4 Review SAR programs:** Identify suspicious activities and file SARs in a timely manner in accordance with applicable laws such as Regulation CC and Regulation E among others. In addition, technology can help flag suspicious activity, support authentication, and block suspicious credit card activity as well as share fraud signals among teams detecting fraud, cybersecurity, and money laundering behaviors.

**5 Conduct customer education and additional protections:** Conduct multi-modal customer education around trending scams through in-person and virtual sessions, as well as in-app notifications, to drive awareness. Consider additional detection measures to identify potential instances where customers may be fraudulently induced to send money.

## Endnotes

<sup>1</sup> Office of the Comptroller of the Currency (OCC), "[Banks' Role in Addressing Fraud Against Consumers](#)," July 10, 2024.

<sup>2</sup> Financial Crime Enforcement Network (FINCEN), "[FinCEN Alert on Nationwide Surge in Mail Theft-Related Check Fraud Schemes Targeting the U.S. Mail](#)," February 23, 2023.

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