



# FRAUD

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CONSUMER DEBIT CARDS WIRE TRANSFERS

2012 AFP  
Payments Fraud  
and Control Survey  
Introduction and Key Findings

Underwritten by

**J.P.Morgan**

# 2012 AFP Payments Fraud and Control Survey

## Introduction and Key Findings

Thank you for your interest in the *2012 AFP Payments Fraud and Control Survey*. In your hands is just a sample of the full report, produced in partnership with J.P. Morgan.

To read the full report, go to [www.AFPonline.org/paymentsfraud](http://www.AFPonline.org/paymentsfraud). Please note that the full report is available to both members and non-members of AFP, and only requires you to log into the website to gain access to the full report

# 2012 AFP Payments Fraud and Control Survey

Introduction and Key Findings

*March 2012*

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## J.P.Morgan



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J.P. Morgan is extremely pleased to sponsor the 2012 AFP Payments Fraud and Control Survey for the fourth consecutive year. We are also pleased to see that this year's respondents report a slight decrease overall in the incidence of fraud attempts. Nevertheless, the prevalence and persistency of payments fraud remain stubbornly high. The war against fraud is by no means over.

As payment options proliferate, so, too, do new twists on fraudsters' schemes and techniques. Checks continue to lead as the payment type most attacked, even as their use dramatically declines. But as paper gives way to plastic, Internet and mobile payments accelerate, and the globalization of business continues to grow, the need for new security models becomes ever more important.

Today, sophisticated database technology, online information exchange and new (and more mobile) access devices are helping to turn payments fraud into a global issue, perpetrated from anywhere on the planet. In response, experts in information technology as well as treasury are focusing increasing attention on cybercrime and its global nature.

Recognizing the pervasive nature of payment fraud in the global landscape and the need for more detailed information, AFP has added important response data to the report. This year, in addition to an organization's revenue size, select payments fraud metrics are reported by number of payment accounts and whether the organization conducts the majority of its business domestically or internationally. Across time, we expect this growing body of information will help treasurers make appropriate decisions in protecting their organizations from attacks.

As one of the world's largest providers of treasury management services and a leader in electronic payments technology and solutions, J.P. Morgan intimately understands the risk management skills required in fraud protection. Striking the right balance between the cost of security and exposure to risk is a key challenge.

The importance of aids such as the annual AFP fraud survey in understanding potential risk should not be underestimated. Current knowledge of payments fraud practices and the preventive measures available helps organizations implement the processes, procedures and products that protect valuable corporate assets.

As part of our commitment to payments fraud protection, J.P. Morgan continues to invest in the technology, tools and expertise organizations need to protect those assets.

With best regards,



Stephen W. Markwell  
Executive Director

## Introduction

The two and a half years since the end of the recession have been marked by slow economic growth and stubbornly high unemployment. While 2011 may have brought some welcome stability to the financial system in the U.S., business conditions remained uneven and fraught with uncertainty. In this context, it is perhaps somewhat surprising that the incidence of payments fraud against companies moderated during 2011 compared with that in previous years. In fact, the share of companies that experienced payments fraud last year was the lowest since 2004. Still, the level of fraud remained elevated as a variety of criminal threats continued to present challenges to lean treasury staffs fighting to secure their organizations against such activity.

Each year since 2005, the Association for Financial Professionals (AFP) has examined the nature and frequency of fraudulent attacks on business-to-business payments and the industry tools that organizations use to control payments fraud. Continuing that research, AFP conducted its annual *Payments Fraud and Control Survey* in January 2012 to capture the payments fraud experiences of organizations during 2011. Results of that survey are reflected in this, the *2012 AFP Payments Fraud and Control Survey* report.

This year's report reveals that criminals continue to have a fertile environment in which they can commit payments fraud, and a majority of organizations experienced attempted or actual payments fraud in 2011. The results of the survey also reinforce the necessity of organizations implementing and closely following a plan to mitigate their risks to such fraud, including using appropriate services and procedures to minimize exposure to losses for their companies and other parties in the payments system. *This year's report also reviews the relationship of certain organizational characteristics— annual revenues, the number of payment accounts organizations have, and where organizations conduct business—on key payments fraud metrics.*

AFP thanks J.P. Morgan for its long-time underwriting support of payments fraud-related survey research at AFP, including this *2012 AFP Payments Fraud and Control Survey*. Both questionnaire design and the final report, along with its content and conclusions, are the sole responsibility of the AFP Research Department. Information on the survey methodology can be found at the end of this report.

**Two-thirds** of organizations experienced attempted or actual payments fraud in 2011.

## Payment Accounts & Access Controls

**Twenty-eight percent** of survey respondents report that incidents of **fraud increased** in 2011 compared to 2010.

## Check Fraud

**Checks** continued to be the dominant payment form targeted by fraudsters, with **85 percent** of affected organizations reporting that their checks were targeted.

## ACH Fraud

**Seventy-four percent** of organizations that were victims of actual and/or attempted payments fraud in 2011 experienced **no financial loss** from payments fraud.

## Business-to-Business Payments Fraud

Among organizations that did suffer a financial loss resulting from payments fraud in 2011, the **typical loss was \$19,200.**

## Highlights of Survey Results

The key findings of the *2012 AFP Payments Fraud and Control Survey* include:

- Two-thirds of organizations experienced attempted or actual payments fraud in 2011.
  - Large organizations were significantly more likely to have experienced payments fraud than were smaller ones. Eighty-one percent of organizations with annual revenues over \$1 billion were victims of payments fraud in 2011 compared with 55 percent of organizations with annual revenues under \$1 billion.
- Twenty-eight percent of survey respondents report that incidents of fraud increased in 2011 compared to 2010.
- Checks continued to be the dominant payment form targeted by fraudsters, with 85 percent of affected organizations reporting that their checks were targeted. The percentage of organizations affected by payments fraud via other payment methods were:
  - ACH debit (cited by 23 percent of respondents)
  - Corporate/commercial cards (20 percent)
  - Consumer credit/debit cards (12 percent)
  - ACH credits (five percent)
  - Wire transfers (five percent)
  - Seventy-four percent of organizations that were victims of actual and/or attempted payments fraud in 2011 experienced no financial loss from payments fraud.
- Among organizations that did suffer a financial loss resulting from payments fraud in 2011, the typical loss was \$19,200.

### Payment Accounts & Access Controls

- Most organizations do not automatically change out affected bank accounts when subjected to actual/attempted payments fraud, relying instead on established controls to identify additional instances of fraud (60 percent) or making a series of adjustments such as changing the check series or adding new controls (23 percent).
- Seventy-four percent of organizations maintain separate accounts for different payment methods and types.
- Twelve percent of organizations were subject to a payments fraud attack involving compromised user IDs/ passwords or other access credentials.

### Check Fraud

- Fourteen percent of organizations that were victims of at least one attempt of check fraud during 2011 suffered a financial loss resulting from such fraud.
- Just two percent of organizations that convert checks electronically indicate that the check conversion service was used to commit fraud.

### ACH Fraud

- Seventeen percent of organizations that were victims of ACH fraud during 2011 suffered a financial loss as a result of such fraud.

### Business-to-Business Card Payments Fraud

- The typical organization that is subject to PCI compliance spends \$18,400 per year to maintain that compliance.

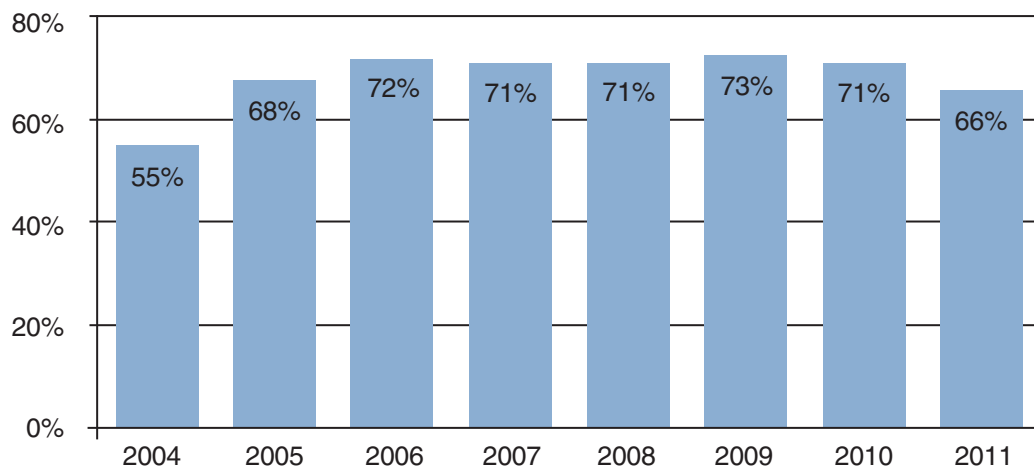
## Survey Findings: Payments Fraud Overview

The vulnerability of all payment methods—especially checks—to fraud from external and internal sources demands a range of fraud-fighting tools and the constant vigilance of those financial and treasury professionals responsible for protecting the assets of their organizations. These efforts *may* be showing some signs of progress: the percentage of organizations subject to attempted and/or actual payments fraud has declined in both of the past two years.

Two-thirds of survey participants report that

their organizations were subjected to payments fraud during 2011. While payments fraud is still occurring at a greater frequency than that reported in the initial AFP survey on payments fraud (conducted in 2005 reflecting activity in 2004), the percentage of companies experiencing payments fraud was seven percentage points lower in 2011 than it was in 2009. Almost three quarters of organizations (73 percent) experienced attempted or actual payments fraud in 2009. That share declined to 71 percent in 2010 and to 66 percent in 2011.

**Percent of Organizations Subject to Attempted and/or Actual Payments Fraud**



Large organizations, especially those with a large number of payment accounts, are far more likely to have been the targets of payments fraud than were smaller ones. Eighty-one percent of organizations with annual revenues over \$1 billion were victims of payments fraud in 2011 compared to 55 percent of organizations with annual revenues under \$1 billion. Organiza-

tions with a large number of payment accounts are even more likely to be exposed to payments fraud. Ninety-one percent of organizations that have annual revenues over \$1 billion and have more than 100 payment accounts were subject to payments fraud in 2011 compared to the 76 percent of similarly sized organizations with 25 or fewer payment accounts.



**Percent of Organizations Subject to Attempted or Actual Payments Fraud during 2011**

All Respondents	Revenues Under \$1 billion	Revenues Over \$1 billion	Revenues Over \$1 billion and with Fewer than 26 Payment Accounts	Revenues Over \$1 billion and More than 100 Payment Accounts	Majority of Transactions within the U.S.	Significant Percentage of Non-U.S. Transactions
66%	55%	81%	76%	91%	64%	67%

Checks continue to be the most popular target for criminals committing payments fraud. This is remarkable given the precipitous decline in corporate use of checks in recent years. Eighty-five percent of organizations that experienced attempted or actual payments fraud in 2011 were victims of check fraud, although that is eight percentage points below the incidence

of check fraud reported in the 2011 survey reflecting 2010 results. The next most popularly targeted payment types for fraud were:

- ACH debits (cited by 23 percent of respondents)
- Corporate/commercial purchasing cards (20 percent)
- Consumer credit/debit cards (12 percent)

**Prevalence of Payments Fraud by Method**

(Percent of Organizations Subject to Attempted or Actual Payments Fraud in 2011)

All Respondents	Revenues Under \$1 billion	Revenues Over \$1 billion	Revenues Over \$1 billion and with Fewer than 26 Payment Accounts	Revenues Over \$1 billion and More than 100 Payment Accounts	Majority of Transactions within the U.S.	Significant Percentage of Non-U.S. Transactions
<b>Checks</b>						
85%	82%	90%	92%	90%	88%	64%
<b>ACH debits</b>						
23	27	22	20	31	27	22
<b>Corporate/commercial purchasing cards</b>						
20	22	20	21	13	19	21
<b>Consumer/small business credit or debit cards (accepting for payments)</b>						
12	13	11	12	12	11	13
<b>ACH credits</b>						
5	4	5	3	8	3	4
<b>Wire transfers</b>						
5	4	4	1	8	3	4
<b>Payroll and other benefit cards</b>						
5	4	6	7	5	8	3

## About the Respondents

In January 2012, the Research Department of the Association for Financial Professionals (AFP) surveyed 5,242 of its corporate practitioner members about payments fraud and controls. The survey was sent to AFP corporate practitioner members with the following job titles: cash managers, analysts, and directors. After eliminating surveys sent to invalid and/or blocked email addresses, the 399 responses yield an adjusted response rate of nine percent. Additional surveys were sent to non-member corporate practitioners

holding similar job titles and generated an additional 48 responses. The following tables provide a profile of the survey respondents.

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The following tables provide a profile of the survey respondents, including payment types used and accepted.

### Types of Organization's Payment Transactions (Percentage Distribution)

	Primarily consumers	Split between consumers and businesses	Primarily businesses
When making payments	5%	22%	73%
When receiving payments	23	30	47

### Average Number of Payments Accounts Maintained (Percentage Distribution)

	All Respondents	Revenues Under \$1 billion	Revenues Over \$1 billion	Majority of Transactions within the U.S.	Significant Percentage of Non-U.S. Transactions
Less than 10	32%	44%	20%	33%	30%
10-25	25	22	27	27	22
26-50	8	9	7	7	9
51-100	12	12	14	14	12
More than 100	23	13	32	19	27

**Annual Revenues**  
 (Percentage Distribution)

Under \$50 million	8%
\$50-99.9 million	3
\$100-249.9 million	10
\$250-499.9 million	12
\$500-999.9 million	16
\$1-4.9 billion	32
\$5-9.9 billion	7
\$10-20 billion	8
Over \$20 billion	4

**Ownership Type**  
 (Percentage Distribution)

Publicly owned	39%
Privately held	39
Non-profit (non-for-profit)	13
Government (or government owned entity)	9

**Industry Classification**  
 (Percentage Distribution)

Banking/Financial services	7%
Business services/Consulting	4
Construction	2
Energy (including utilities)	10
Government	7
Health services	9
Hospitality/Travel	3
Insurance	10
Manufacturing	19
Non-profit (including education)	8
Real estate	4
Retail (including wholesale/distribution)	7
Software/Technology	3
Telecommunications/Media	4
Transportation	3

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## AFP Research

AFP Research provides financial professionals with proprietary and timely research that drives business performance. The AFP Research team is led by Managing Director, Research and Strategic Analysis, Kevin A. Roth, PhD, who is joined by a team of research analysts. AFP Research also draws on the knowledge of the Association's members and its subject matter experts in areas that include bank relationship management, risk management, payments, and financial accounting and reporting. AFP Research also produces *AFP Econ Watch*, a weekly economic newsletter. Study reports on a variety of topics, including AFP's annual compensation survey, and *AFP Econ Watch*, are available online at [www.AFPonline.org/research](http://www.AFPonline.org/research).



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## About the Association for Financial Professionals

The Association for Financial Professionals (AFP) headquartered in Bethesda, Maryland, supports more than 16,000 individual members from a wide range of industries throughout all stages of their careers in various aspects of treasury and financial management. AFP is the preferred resource for financial professionals for continuing education, financial tools and publications, career development, certifications, research, representation to legislators and regulators, and the development of industry standards.

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