



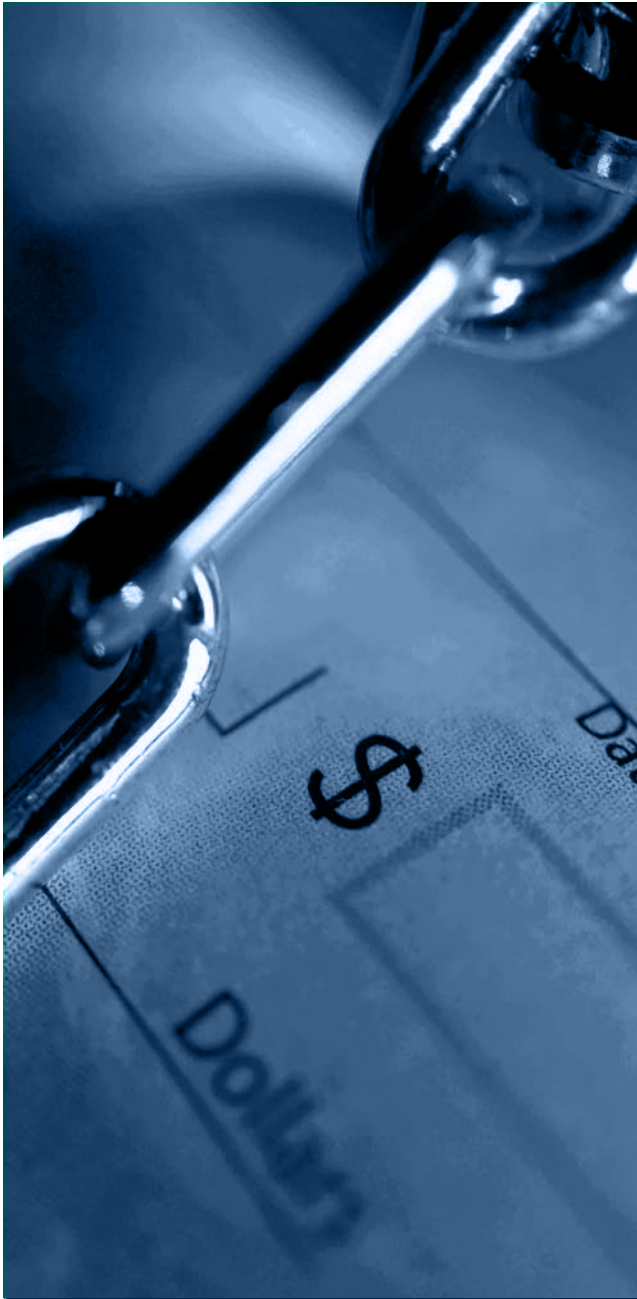
ASSOCIATION FOR
FINANCIAL
PROFESSIONALS

2019 AFP®

PAYMENTS FRAUD AND CONTROL SURVEY REPORT

Key Highlights

Underwritten by **J.P.Morgan**



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April 2019

2019 AFP PAYMENTS FRAUD AND CONTROL SURVEY REPORT

This summary report includes highlights from the comprehensive 2018 AFP Payments Fraud and Control Survey Report. The complete report comprising all findings and detailed analysis is exclusively available to AFP members. [Learn more about AFP membership.](#)

Underwritten by **J.P.Morgan**

Topic Covered in the Comprehensive 2019 AFP Payments Fraud and Control Survey Report

Introduction

Payments Fraud Activity

Payments Fraud: Costs Incurred, Sources and Time to Discover

Business Email Compromise (BEC)

Payments Fraud Controls

Conclusion

Key Highlights

About Survey Participants





J.P. Morgan has been the proud sponsor of the AFP Payments Fraud and Control Survey for 11 consecutive years, and we are pleased to deliver the 2019 report.

The survey showed that 82 percent of companies were targets of payments fraud last year, demonstrating the crucial need for cybersecurity protocols and strict control governance. Additionally, the survey revealed that in 2018:

- 80 percent of organizations experienced Business Email Compromise (BEC)
 - 54 percent of organizations reported financial losses as a result of BEC
 - 70 percent of BEC scams targeted checks, followed by wires at 43 percent
- 70 percent of organizations experienced check fraud, a slight decrease from 2017
- 64 percent of attempted or actual payments fraud resulted from actions of an individual outside the organization
- One-fourth of organizations indicated they have not received any advice from their banks, regarding mitigating potential additional risks with same-day ACH operational for both credit and debit transactions.

With these statistics in mind, it is important for all businesses to take preventive measures to protect payments, including educating employees on current payments fraud practices and implementing the products and processes necessary to safeguard corporate assets and data from cyber fraud. It is equally important for all businesses to consider and mitigate against non-financial implications of payments fraud. Should a fraud attack expose personal or confidential information, businesses stand to suffer reputational risk, which can be severe, expensive and require significant clean-up efforts.

J.P. Morgan is one of the world's largest providers of treasury management services and is a leader in electronic payments technology and solutions. We are committed to fraud mitigation and information protection across our entire infrastructure, and we will continue to invest in the technology, educational tools and risk management expertise in the ongoing fight against payments fraud.

We hope this survey serves as an important tool in understanding the potential cyber risks within your organization, which should not be underestimated. We would like to thank the AFP for providing us with this year's valuable insights—they are an important reminder that the best defense against payments fraud is to remain vigilant in detection and cybersecurity protection protocols.

With best regards,

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Jennifer Barker
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Introduction

Payments fraud activity appears to be the “new normal” at organizations today. Indeed, there are few signs that payments fraud activity is declining; payments fraud activity has been increasing steadily since 2013 and in 2018 reached a new peak.

More than 80 percent of financial professionals report that their organizations were targeted by fraudsters in 2018, the largest percentage since the Association of Financial Professionals® (AFP) began tracking such activity. Organizations are cognizant of increasing threats and in many cases are actively implementing measures to control payments fraud. But that increased vigilance is not always enough; the tactics of those engaging in payments fraud are more sophisticated and, consequently, more fraudsters are successful in infiltrating targeted organizations.

Checks are the most frequently used payment method for business-to-business transactions and are, therefore, common targets of fraudsters. While checks continue to be the payment method most often affected by fraud activity, check fraud is declining. **Check fraud has declined since 2010, and in 2018 was at its lowest level since AFP began its payments fraud survey series.** While technology advancements are making processes surrounding electronic payments easier, those same technologies are also helping perpetrators in their attempts to attack payment methods. **The decline in check fraud activity has been offset by the increase in payments fraud via wire transfers and ACH debits and credits.**

Business Email Compromise (BEC) is a relatively new type of fraud activity that has been increasing since it was first recognized. **The percentage of organizations falling prey to BEC scams has increased from 64 percent in 2014 to 80 percent in 2018.** This is troubling since fraud via BEC is no longer a new phenomenon. Most organizations



are aware of this type of fraud and many have implemented additional controls to protect themselves from being victims. BEC fraudsters are innovative and devise ways that can “morph” their fraud attempts into new and unexpected forms, thus continuing to scam their targets.

AFP has noted that, historically, financial losses incurred as a result of payments fraud activity are not extensive. This, however, does not suggest that payments fraud can or should be taken lightly. Nonfinancial impacts of successful payments fraud activity can be crippling. In addition to adversely affecting an organization’s reputation, payments fraud can expose confidential information and require significant clean-up efforts. Investing upfront in training and controls is essential in obstructing fraud activity that can result in significant outlays of money and time.

Financial professionals need to be proactive if they want to prevent and mitigate the effects of payments fraud successfully. Besides minimizing the known threats being targeted at their companies, they have to predict the unknowns and prevent such threats from having an impact. This is challenging

and requires significant investments of time and money as well as an organization leadership committed to minimizing these crimes.

Every year since 2005, the Association for Financial Professionals® has conducted its *Payments Fraud Survey*. The surveys examine the nature of fraud attacks on business-to-business transactions, payment methods impacted and strategies organizations are adopting to protect themselves from fraudsters. Continuing this research, AFP conducted the 15th Annual *Payments Fraud and Control Survey* in January 2019. The survey generated 617 responses from corporate practitioners from organizations of varying sizes representing a broad range of industries. Results presented in this report reflect data for 2018. Survey respondent demographics are available at the end of this report.

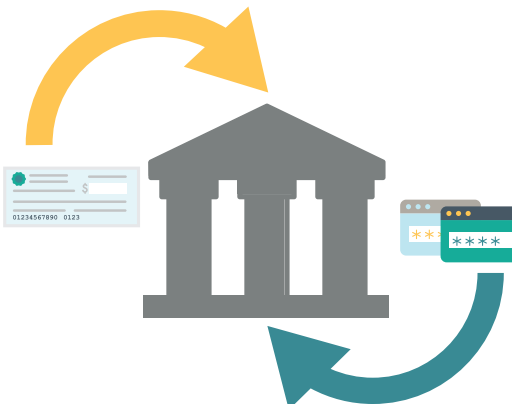
AFP thanks J.P. Morgan for its continued underwriting support of the *AFP Payments Fraud and Control Survey* series. AFP’s Research department is solely responsible for both the questionnaire design and the final report, along with its content and conclusions.

Key Highlights:

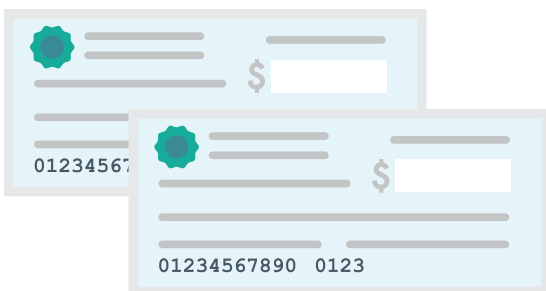


In the past five years **payments fraud activity has increased dramatically.**

A significant 82 percent of financial professionals report that their organizations experienced attempted and/or actual payments fraud in 2018, 20 percentage points higher than reported in 2014.



Fraud via ACH debits and ACH credits increased; checks, wire transfers and cards all saw declines.



While checks continue to be the payment method most impacted by fraud activity in 2018, **the percentage of financial professionals reporting check fraud activity decreased from 2017 to 2018.**



Fraud originating from BEC continues to be on the uptick. AFP began tracking instances of BEC in 2016; the percentage of companies impacted by BEC since has risen considerably from 64 percent in 2015 to 80 percent in 2018.



Even though the percentage of companies that are victims of BEC is on the rise, and despite the fact that organizations are highly focused on mitigating these attacks, **the financial loss incurred at companies as a result of these scams—while not staggering—is nevertheless on the increase.** In 2018, 54 percent of organizations were impacted by a financial loss as a result of BEC (an increase of eight percent over 2017) and the first time more than half of the respondents reported estimated losses from these scams.

Conclusion

After a period of declining payments fraud activity, there has been a sharp increase in the past few years. Financial practitioners are not expecting any change in this trend, and are equipping their organizations to better manage the perils associated with fraud activity, making significant efforts to implement measures that will restrict fraudsters' success. **Organizations and their treasury/finance staff cannot afford to be complacent; they all must be vigilant.** Fraudsters seek to attack targets that lack protection. While not every organization can protect itself completely, having a variety of protective measures in place will likely frustrate fraudsters and they'll move on to easier targets.

Technology will likely be used by perpetrators to commit crimes and inflict extensive damage; fraudsters keep up to date with new technology and are constantly finding new schemes to capture funds from their targets. But while new technology can be fraudsters' favorite tool, it can also be used by organizations in helping prevent hacks into payment systems.

Notably, fraud committed via BEC is also increasing; 80 percent of organizations were targets of compromised emails leading to payments fraud in 2018. In addition, the share of organizations that suffered actual financial losses from such schemes rose for the first time since AFP began tracking payments fraud. Over half of those companies impacted by BEC incurred a financial loss, indicating the perpetrators of these attacks were successful in scamming employees at the organizations. These results also highlight the fact that BEC fraud is evolving, with fraudsters utilizing this avenue to successfully cheat their targets into sending funds to "fake" recipients. The techniques being used are sophisticated and company employees are not always able to detect the scam.

There has been a significant increase in ACH fraud. Over the past decade there has been a slight increase in ACH credit fraud—from four percent to 13 percent—suggesting a moderately heightened risk of fraud via this payment method, although survey results reveal no real reasons behind the increase. That changed significantly in 2018: the percentage of organizations experiencing fraud via ACH credit increased seven percentage points from 2017 to 20 percent in 2018. Fraud via ACH debits also increased—from 28 percent in 2017 to 33 percent in 2018. ACH transactions have also become much more popular as the targeted payment method for BEC scams, while fraud via wire transfers and checks has declined.

It is encouraging that financial leaders are actively implementing controls to prevent their organizations from being vulnerable targets for payments fraud.

But as the share of companies encountering payments fraud continues to rise, they may not be cognizant of what is required to prevent such attacks. Of particular concern is the increased threat of phishing which could facilitate account takeovers and access to internal networks.

Effectively combating payments fraud requires more than just robust internal controls. Financial professionals need to prioritize payments fraud in their strategies and tactics. Importantly, they must think "outside the box" and keep up to date on new technologies—fraud perpetrators certainly do. Organizations and their finance staff must be prepared to take and invest in the measures necessary to prevent fraudsters from being successful. The more frequently organizations succumb to these attacks, the more encouraged those fraudsters will be.





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ABOUT SURVEY PARTICIPANTS

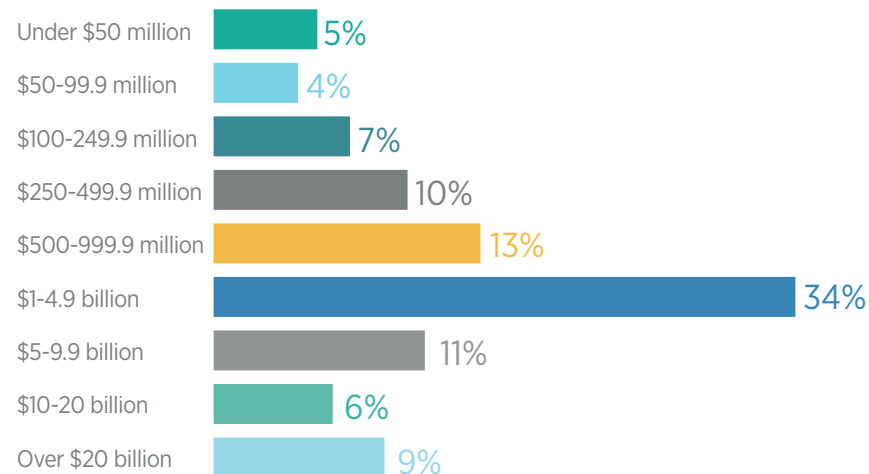
About the Survey Participants

In January 2019, the Research Department of the Association for Financial Professionals® (AFP) surveyed nearly 10,000 of its corporate practitioner members and prospects. The survey was sent to corporate practitioners with the following job titles: cash manager, treasurer, assistant treasurer, analyst, director, and vice president of treasury. We received 417 responses from members and an additional 200 responses from prospects, generating a total of 617 responses.

AFP thanks J.P. Morgan for underwriting the *2019 AFP Payments Fraud and Control Survey*. Both questionnaire design and the final report, along with its content and conclusions, are the sole responsibilities of the AFP Research Department. The following tables provide a profile of the survey respondents, including payment types used and accepted.

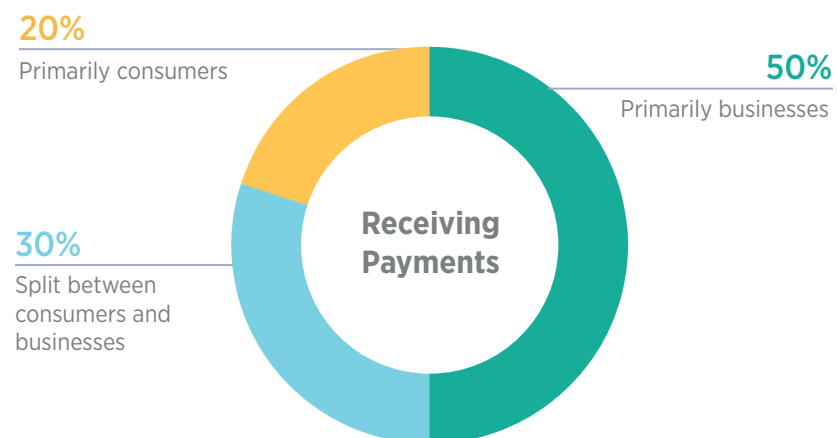
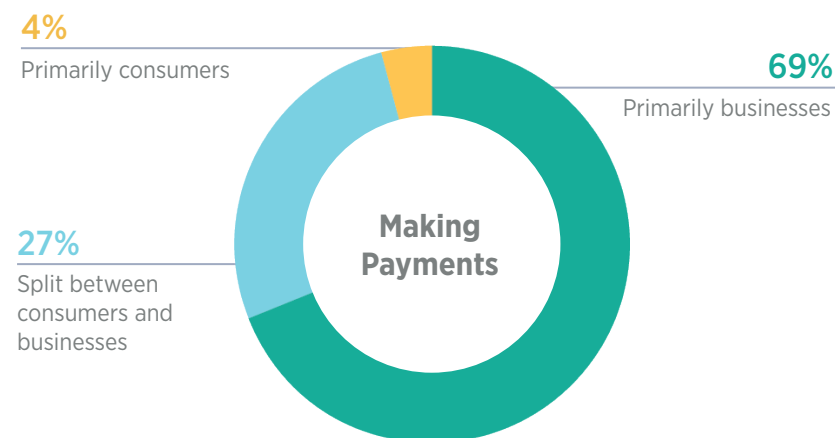
Annual Revenue (U.S. dollar)

(Percentage Distribution of Organizations)



Type of Organization's Payment Transactions

(Percentage Distribution of Organization's Payment Transactions)



About the Survey Participants continued

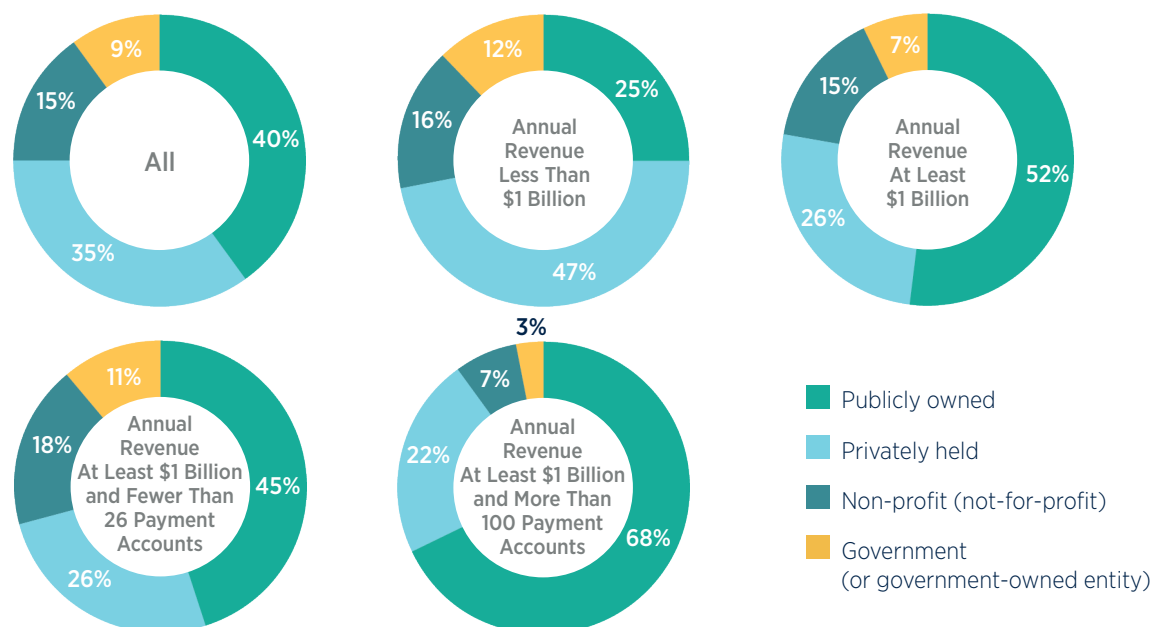
Payment Accounts Maintained

(Percentage Distribution of Payment Accounts Maintained)

	ALL	ANNUAL REVENUE LESS THAN \$1 BILLION	ANNUAL REVENUE AT LEAST \$1 BILLION	ANNUAL REVENUE AT LEAST \$1 BILLION AND FEWER THAN 26 PAYMENT ACCOUNTS	ANNUAL REVENUE AT LEAST \$1 BILLION AND MORE THAN 100 PAYMENT ACCOUNTS
Fewer than 5	22%	31%	17%	32%	-
5-9	20%	20%	21%	38%	-
10-25	18%	17%	16%	30%	-
26-50	12%	11%	14%	-	-
51-100	8%	9%	7%	-	-
More than 100	21%	12%	25%	-	100%

Organization's Ownership Type

(Percentage Distribution of Organizations)



Industry

(Percentage Distribution of Organizations)

	ALL
Administrative Support/Business services/Consulting	2%
Banking/Financial services	9%
Construction	1%
Energy	5%
Government	7%
Health Care and Social Assistance	8%
Hospitality/Travel/Food Services	2%
Insurance	7%
Manufacturing	19%
Non-profit	7%
Petroleum	2%
Professional/Scientific/Technical Services	2%
Real Estate/Rental/Leasing	5%
Retail Trade	5%
Wholesale Distribution	3%
Software/Technology	4%
Telecommunications/Media	2%
Transportation and Warehousing	4%
Utilities	4%



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AFP Research

AFP Research provides financial professionals with proprietary and timely research that drives business performance. AFP Research 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. Studies report on a variety of topics, including AFP's annual compensation survey, are available online at www.AFPonline.org/research.

About AFP®

The Association for Financial Professionals (AFP) is the professional society committed to advancing the success of its members and their organizations. AFP established and administers the Certified Treasury Professional and Certified Corporate FP&A Professional credentials, which set standards of excellence in finance. Each year, AFP hosts the largest networking conference worldwide for over 6,500 corporate finance professionals.

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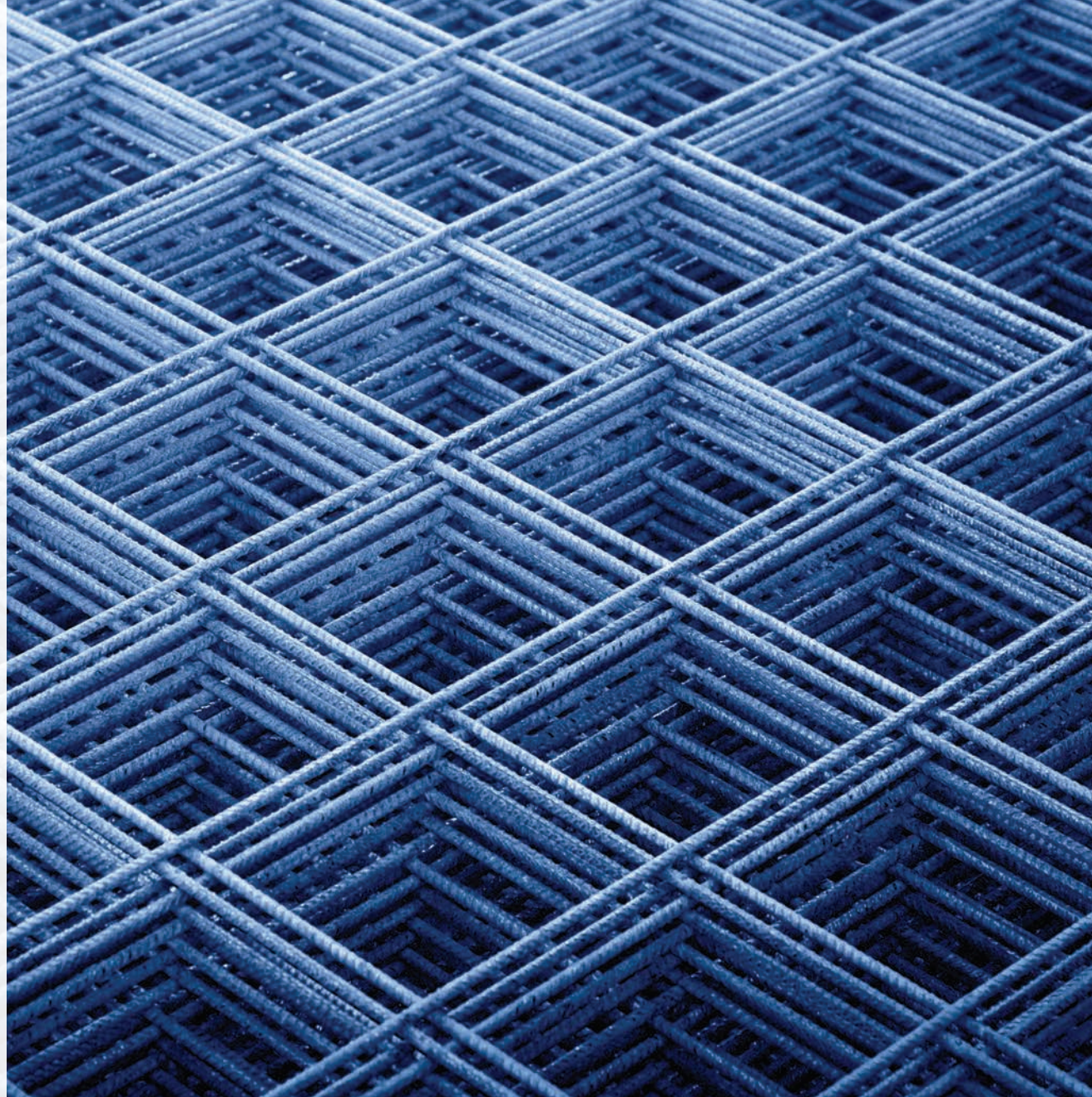
J.P. Morgan is proud to sponsor the 2019 AFP Payments Fraud & Control Survey.

In 2018, 82 percent of organizations reported incidents of fraud and 43 percent experienced direct financial loss as a result.

We are committed to fraud mitigation and information protection across our infrastructure—and continue to invest in technology, tools and risk management expertise.

Visit our Fraud Resource Center to learn more about trends and best practices for safeguarding your business.

Learn more at jpmorgan.com/cb/fraud-prevention.



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