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Financial Scams

Report

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Financial Scams Are there effective measures to combat them?

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- By Alan Greenblatt

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In New York City's Bryant Park, which sees more than 12 million visitors a year, a sign reminds the public to be vigilant against donation scams. These ploys, which are especially prevalent after natural disasters, solicit donations to what may sound or look like a well-known charity, but are fakes made to look like the real organizations. (Courtesy Alan Greenblatt)

Millions of Americans collectively lose billions of dollars each year to scammers pretending to be romantic interests, government agencies, major retailers or financial firms. According to some crime experts, scammers now collect as much money as the illegal drug trade. Data theft is rampant, and individuals' identifying information is being used to open credit accounts or take out fraudulent loans. Technology plays a big role in international scam operations, with calls and texts emanating from overseas — often Southeast Asia, where criminal gangs frequently use forced labor to conduct the scams. Some consumer advocates believe banks should take more responsibility, but financial institutions warn preventing customers from spending their own money would backfire. Financial firms and government agencies do warn people to be vigilant, but scammers prey on vulnerable populations, particularly older adults. Because the problem is international, combatting it requires cross-border cooperation. Although there have been some successful crackdowns, the problem is proliferating faster than law enforcement or regulators can respond.

Overview

Judy and Stefan Zweig lost a great deal when wildfires struck Los Angeles in January. Their home was destroyed along with many of its contents: baby pictures, jewelry, their wedding album. In addition to items of both sentimental and tangible value, the Zweigs lost something else precious — their identities.

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At a February press conference in Las Vegas, an FBI agent seeks potential victims of a woman suspected of perpetrating romance scams. These scams typically result in defrauding the victim of money, often many thousands of dollars. However, this case has also been linked to at least two deaths and one disappearance. (AP Photo/Ty ONeil)

When Stefan went to register their losses with the Federal Emergency Management Agency (FEMA), he found that someone else had already registered the loss of their home, using fake information. This prevented them from getting assistance not only from that agency but also from local groups that required FEMA registration numbers.

“The FEMA officer who was trying to do my intake said he had seen five cases of fraud,” Judy said. “This is a rampant problem that FEMA has … and people who want to commit fraud are getting benefits that people like us so desperately need.” 1

Fraud may be common after natural disasters, but it happens all the time. Every day, millions of Americans receive phone calls, texts and emails that are come-ons for them to hand over money. There are a wide vari-

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ety of schemes — involving identity theft, pretend romances, people posing as if they're calling from banks or retailers — but the endgame is always the same: convincing people to give up money or personal information.

Fraud is a perennial problem, but it's become rampant in recent years, particularly since the onset of the COVID-19 pandemic. Fraudsters use technology to make calls from overseas that appear to be local and may convince their targets to send money through payment apps such as Zelle and PayPal or using cryptocurrency.

Scamming is a booming business: Estimates of total losses to Americans run as high as $50 billion annually, with one out of 100 individuals in this country falling victim. Worldwide, the total may be $500 billion. "Online scamming compares in size and scope to the illegal drug industry," *The Economist* reported. 2

In 2024, American consumers reported losses of $12.5 billion to fraud, according to data from the Federal Trade Commission (FTC). That represents a 25 percent jump over the previous year — and more than the amount lost to burglaries and car theft. 3

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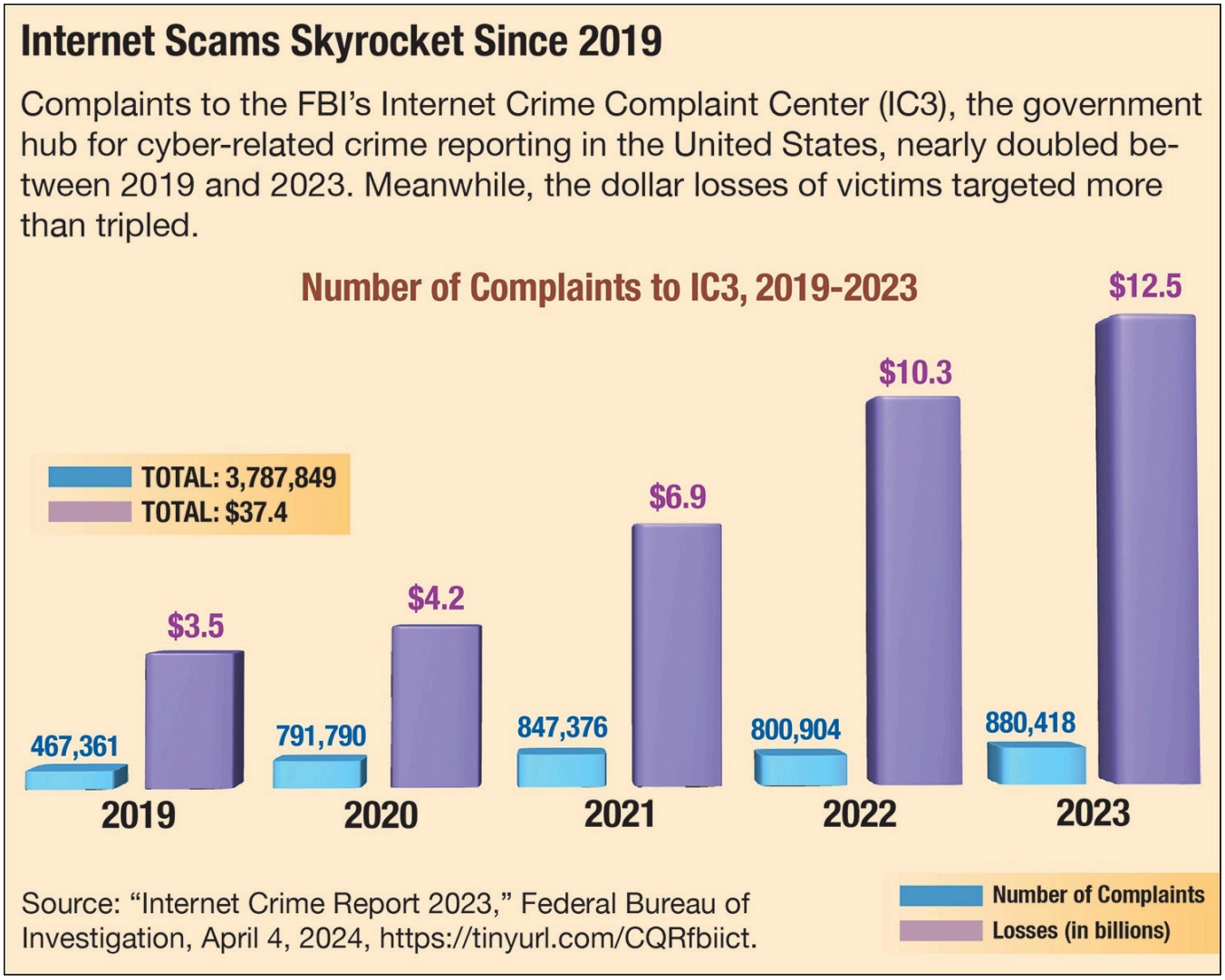

"Anybody can be a target," says Colleen Tressler, who retired last year as a senior project manager with the FTC's Division of Consumer and Business Education. "Over the last few years, we consistently saw more than a million reports of identity theft to the FTC."

Yet only a fraction of cases ever gets reported. Victims are often too embarrassed to admit they've been taken or recognize the odds of getting their money back are slim to none.

Scams are different than other kinds of fraud and theft. Victims aren't being sold shoddy goods or having tangible items stolen. Instead, they're convinced to willingly hand over money for nothing under false pretenses. There are several different types of scams that are prevalent. Identify theft involves stealing information from individuals, such as Social Security numbers, to open fake accounts. In investment scams, people may be duped into putting money into fake accounts, while in romance scams, a person (or many people) pretends to fall in love with an individual before ultimately convincing them to part with thousands of dollars. 4

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“One particularly devastating crypto fraud is known as ‘pig butchering’ or ‘romance baiting,’ ” wrote Benjamin Schiffrin, director of securities policy for Better Markets, a nonprofit financial industry watchdog. “These scams involve online criminals luring their victims into fake romances and then stealing their money by inducing them to invest in cryptocurrency.” 5

Each year, Americans lose more than $800 million to romance scams, according to the FTC, falling for online declarations of love and, ultimately, requests for money. “They’re good talkers and they often work from a script, so they’re ready for anything you might raise,” says Adam Rust, director of financial services at the Consumer Federation of America, an association of consumer protection groups. “They are very good at luring you in and very clever people fall for them.” 6

Some scams are quite detailed and elaborate, involving personally tailored information and deepfake videos. But scamming is mostly a volume business. Lots of people now receive a dozen calls, texts or emails with false come-ons every day. Not everyone has to fall for a scam for it to be profitable. Even tricking a handful out of a thousand can be enough. 7

“The problem is, a lot of people don’t believe that it’s ever going to happen to them, so they don’t watch out for the red flags,” says Amy Nofziger, director of fraud victim support for AARP, a nonprofit that advocates for older Americans. AARP runs a scam helpline that receives 300 to 450 calls per day, Nofziger says. While older adults are often mentioned in the media as the targets of scams, they are actually less likely to fall prey to one than adults ages 59 or younger, according to the Federal Trade Commission. However, when older adults are victimized, they are more likely to lose more money, often from retirement accounts that generate the income that supports them. 8

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A group of Chinese nationals, suspected of perpetrating gambling scams, arrive at the Tianhe International Airport in Wuhan, China, from Cambodia. Southeast Asian countries, such as Cambodia and Myanmar, are hot spots for "fraud factories," in which people are lured or forced to work. Cambodia and China are cooperating to crack down on these operations. (Getty Images/Xinhua News Agency/Yin Gang)

Many calls and texts originate from overseas. Scamming now accounts for a significant share of the economies of Cambodia, Laos and Myanmar, due to a combination of corruption and lax regulation. Thousands of individuals (often English speakers) have been trafficked to fraud compounds in such countries (*see Short Feature "International Scam Operations Grow More Advanced" for more information*), but many others are working willingly due to lack of other employment prospects. The international nature of modern scamming is one reason it's so difficult to retrieve funds. 9

Technology has made not only individuals but also their money more readily available to scammers. Most of the relevant regulations were crafted in a time when the big fear was someone coercing people to collect and cough up the daily maximum amount they could withdraw from an ATM — a few hundred dollars at most. Now, much more of their money can be easily transferred instantly and irrevocably using gift cards, payment apps and crypto.

In many cases, individuals who have been swindled out of substantial figures end up owing even more to the Internal Revenue Service (IRS). If they have taken money out of retirement accounts to pay scammers, they can end up owing money because their annual income levels were inflated or are assessed penalties

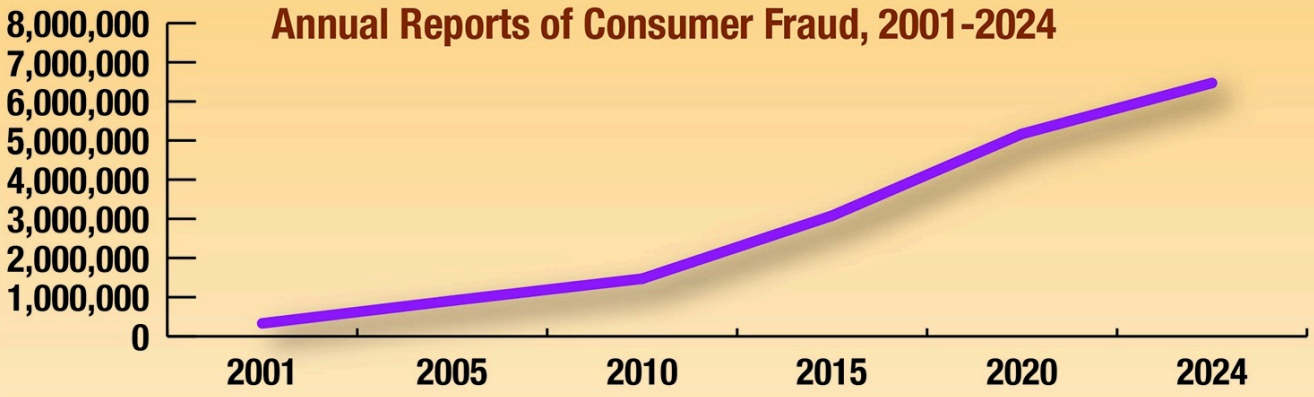
for early withdrawal before retirement age. Prior to passage of a major tax code rewrite in 2017, they were able to deduct such losses on their taxes, but that law limited what are known as non-business casualty and theft loss deductions to victims of natural disasters. Congress is set to extend the 2017 tax cuts, which would otherwise expire this year, and it is possible lawmakers will reverse the policy regarding penalties. 10

The Trump administration has signaled it will take a deregulatory approach to consumer protection, with cuts to agencies including FEMA, the IRS, the FTC and the Federal Deposit Insurance Corporation (FDIC), an independent agency that insures deposits and has a supervisory role over financial institutions. “Without cops on the beat, banks, corporations and their wealthy allies wield inordinate power over Americans’ financial well-being,” stated the Center for American Progress, a progressive think tank. 11

Some critics warn that the administration’s approach, while meant to free up legitimate corporations from regulatory burdens, could have the unintended effect of making life easier for scammers. The Securities and Exchange Commission, for example, is replacing its cryptocurrency enforcement unit with a smaller unit with a broader cyber fraud prevention mandate; cryptocurrency is frequently used by scammers to steal and launder large sums of money. 12

Consumer Fraud, Identity Theft Are Rapidly Rising

The number of consumers filing complaints to the Federal Trade Commission about scams such as identity theft, phony credit repair schemes and impostors claiming to be a romantic interest or in tech support to access a target’s financial accounts, have risen nearly 20-fold since 2001.



Source: “Consumer Sentinel Network: Data Book 2024,” Federal Trade Commission, March 2025, https://tinyurl.com/CQRftccsn.

Some experts have called on Congress to take tougher action, including increased funding for law enforce-

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ment and stiffer penalties against convicted scammers. Rust, of the Consumer Federation of America, recommends that the federal government institute a central coordinator to make sure the various agencies concerned with scams — including the FTC, the Consumer Financial Protection Bureau (CFPB), the Social Security Administration (SSA), which seeks to protect seniors, and the Department of Justice, which prosecutes financial crimes — share information and investigations.

But even prior to President Trump's second-term push for deregulation, finding regulatory consensus was elusive. No one supports fraud, but issues involved in transferring funds can quickly become complicated. Rust says consumers should be shielded from liability in some cases when they are defrauded. Banks are often able to spot fraudulent credit card payments — for which they are responsible — but aren't as vigilant in protecting customers against scams, he says. "The receiving banks should be keeping a list of high-risk accounts," Rust says. "Scammers' behavior is actually traceable."

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Victims of financial scams and identity theft can be left not only with the loss of savings but also a hefty tax bill from the Internal Revenue Service. Before 2017, such losses to fraud could be deducted from an individual's taxes. Now only victims of natural disasters are allowed to deduct losses from theft. (AP Photo/Susan Walsh)

Financial institutions object to shielding customers from liability. Such an approach "would put many financial institutions — especially small, community financial institutions with less ability to shoulder higher fraud losses — in the untenable position of having to restrict consumers' access to deposit accounts, which would harm consumers and reduce community banks' competitiveness," said a group of banking associations, including the American Bankers Association. 13

Although retailers and financial institutions issue warnings about scams, ultimately, they're not in the business of preventing customers from spending money. They've pushed back against possible regulations that would put more of the onus on them to prevent transfers of funds, arguing that would impede customers from being able to control their own money.

"Criminals would have new tools to convince consumers to send money under clearly suspicious circumstances if consumers knew their bank had to bear the risk of loss, even if the customer authorized the payment," stated several banking groups in testimony submitted to Congress. "The criminal could easily convince the consumer they have nothing to lose by pointing out that if the online … purchase is a scam, it's only the bank's money at risk." 14

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A sign in a New York Walgreens reminds customers to be aware of a popular tactic used by scammers: asking for payment of a purported bill or debt in the form of gift cards. The scammer asks the victim to provide the numbers, or a photo, of the card and PIN over the phone or via email, and then the money is stolen. (Getty Images/Universal Images Group/ Lindsey Nicholson)

But some consumer advocates note that banks are vigilant about protecting against fraud involving credit cards — for which they're liable — and argue banks could use the same tools to block many scams involving checking accounts and payment apps.

"Zelle and the big banks who own it know that Zelle's speed and convenience makes it a target," said Sen. Richard Blumenthal, D-Conn., who investigated bank practices during the last Congress. "They are well aware that, every single day, some of their customers will be hurt. They know this and are willing to accept

the risk as the cost of doing business — the cost for their customers, that is, not for themselves." 15

"We think financial institutions do need to do more, to take some level of fiduciary responsibility and help protect their customers from being victims," said James Barnacle, the former head of the FBI's Financial Crimes Section. 16

Background

The Long History of Fraud

In the early 20th century, pyramid schemes got a new name. A man named Charles Ponzi promised investors fabulous returns by buying and reselling international relay coupons, which allowed mail to travel internationally and were worth more in the United States than they cost in Europe. Ponzi became so successful that he realized he didn't even need to buy the coupons, instead paying investors with the proceeds from new investors, in what became known as a Ponzi scheme. 17

In 1925, the same year Ponzi was convicted for fraud, the Eiffel Tower was for sale. At least, it was according to Victor Lustig, a fake count who went around to the scrap metal merchants of Paris telling them that the authorities were so worried about the tower's structural integrity that they were going to tear it down, putting a whole lot of scrap iron on the market. He convinced a merchant named André Poisson that his bid — the equivalent of $1 million today — would be the winner at auction, going so far as to accept a bribe to make the transaction seem more plausible. 18

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Ponzi schemes, also known as pyramid schemes, were named after fraudster Charles Ponzi, seen here leaving prison in 1934. Promising huge profits to investors, the scams use later contributions to pay off earlier ones. The method is still frequently used today. (Getty Images/Bettmann/Contributor)

In the middle of the 20th century, fraud was often investigated by the Postal Service, since it was a crime to perpetrate fraud through the mail. In 1937 alone, postal inspectors conducted 6,249 fraud investigations, made 927 arrests and won 638 convictions. 19

There were plenty of instances of fraud throughout the 20th century to keep investigators busy. But things accelerated in the 21st century, thanks to advances in technology. The general framework of scams hasn't changed much through the decades, but the ability of fraudsters to reach more individuals certainly has.

During the 1990s, email scams purportedly from Nigerian princes or other wealthy individuals became part of pop-culture lore. A form of advance payment scam, the emails promised vast riches to individuals who would pay upfront fees. This particular scam, which brought in billions of dollars and continues in various forms today, became common with the spread of cybercafes in Nigeria. 20

The technique known as pig butchering emerged about a decade ago on dating sites in China. This scam involves building trust with the target and eventually convincing them to deposit large sums into fake accounts. The practice has since spread and is a common method for gangs in Asia to steal money from Americans and other international targets. 21

Scams accelerated during the COVID-19 pandemic, in part because people were spending more time and money online. With the federal government providing enhanced unemployment benefits, scammers — including many overseas — filed and received payment for tens or hundreds of billions of dollars of fraudulent claims. There were also scams directly related to COVID-19 products and services, including businesses fraudulently cashing in on government support programs. 22

The Biden administration sought ways to crack down on scammers, especially in its closing months. In November, the Consumer Financial Protection Bureau (CFPB) finalized a rule giving it oversight over digital funds transfers and payment apps, in the same way that it oversees banks and credit unions. "The CFPB is particularly concerned about how digital payment apps can be used to defraud older adults and active duty

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servicemembers," the agency announced. "Some popular payment apps appear to design their systems to shift disputes to banks, credit unions, and credit card companies, rather than managing them on their own." [23]

Patricia Duckett, center, of District Heights, Md., waits with her son, Clayton, and attorney Wala Blegay for news regarding the loss of her home to foreclosure. Duckett fell victim to a mortgage scam, in which she paid thousands of dollars to someone claiming to be a lawyer who said he could refinance her mortgage after she lost one of her two jobs. The scammer was later indicted for fraud, but Duckett was not able to regain her home. (Getty Images/The Washington Post/Katherine Frey)

In December, the CFPB sued the operator of the Zelle payment app and three major banks — Bank of America, JPMorgan Chase and Wells Fargo — for failing to protect customers who were swindled out of more than $870 million by scammers using Zelle. [24]

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Current Situation

Federal Response

Under the new Trump administration, CFPB has largely been decimated. In February, Russell Vought, the federal budget director and acting head of CFPB, ordered the agency to “cease all supervision and examination activity,” essentially bringing its work to a halt. 25

That same week, Vought announced he was returning $700 million in reserve funds held by CFPB and was not requesting further allocations. “This spigot, long contributing to CFPB’s unaccountability, is now being turned off,” he wrote in a social media post. Vought also ordered the agency to suspend the effective dates on proposed rules not yet in effect. On March 4, CFPB dropped its case against Zelle and the three big banks. 26

The CFPB’s shutdown orders are being challenged in court. The National Treasury Employees Union and others filed suit against Vought in February. Democratic Sens. Andy Kim of New Jersey and Elizabeth Warren of Massachusetts (who developed the idea for CFPB) sent a letter to Vought demanding information about the agency’s ability to fulfill its statutory mission. “Consumers deserve a strong CFPB that will advocate on their behalf in the wake of scams, fraud, and other corporate malfeasance,” they wrote. 27

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Protesters at a rally for the Consumer Financial Protection Bureau (CFPB) on March 17 ask the Trump administration to reopen the agency and its workers to restore its work fighting scammers. In February, the CFPB, which oversees financial institutions, was ordered to stop all supervision and examination activity, effectively shutting down the agency. (AP Photo/Sipa USA/Michael Brochstein)

Members of Congress have introduced various proposals meant to address different aspects of frauds and scams. One bill, introduced in the House in January by Sarah McBride, D-Del., and Young Kim, R-Calif., for example, would crack down on credit repairs, which are generally fraudulent, bilking consumers with high credit card debt with large upfront fees before offering them little to no help in cleaning up their credit scores. [28]

Despite their bipartisan sponsorship, however, it's not clear that any of the anti-scam bills will gain enough momentum in the current Congress for passage.

State Actions

Dozens of bills have been introduced at the state level this year to crack down on fraudulent transactions involving crypto ATMs. While requiring more disclosure and lower fees from operators, most bills would also limit the number and amounts of daily transactions per customer.

"The abuse is not happening when people go to the machines to purchase cryptocurrency," said Maryland state Sen. Pamela Beidle, a Democrat. "The problem arises when people are directed to send money for fraudulent stories, and their money is sent to a third party who is stealing it." 29

States have enacted other laws designed to protect consumers from other forms of fraud. Connecticut, Minnesota and New Hampshire, among others, now allow banks and other financial institutions to put holds on transactions if they have reason to believe their customer is being ripped off by scammers. Michigan passed two laws last year to make it a crime to file fraudulent real estate documents in an effort to cut down on deed scams, in which homeowners are tricked into paying off scammers who claim to own their property. 30

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International Scam Operations Grow More Advanced

Law enforcement struggles to fight this expanding global industry.

Contemporary scamming is an international business, with the scammers defrauding victims in one country often located in another. Common host countries include Russia, Mexico and Myanmar. That makes scamming harder to prevent or punish, says Rodney Hobson, a British journalist and author of *The Book of Scams*. "It's very difficult for the police to follow it up, because then you've got to involve another national [law enforcement] agency. Very often, these scams come from Russia, and I'm afraid Russia is not going to do anything to protect you."

Not only do scams often originate abroad, but the scammers themselves may be victims as well as their

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targets. People from more than 100 counties have been trafficked to work in “fraud factories” in Southeast Asian countries, such as Myanmar and Cambodia. As many as a half a million people work directly as scammers, according to the U.S. Institute of Peace, a government think tank, including tens of thousands of people who have been trafficked — meaning they were kidnapped and forced to work. There may be 1.5 million people working as scammers. 1

Sometimes they are lured with false advertisements promising good jobs; other times, they’re simply kidnapped. Often, they are young, tech-savvy and English-speaking, hailing from countries such as Ghana, Kenya, Nigeria and Peru. “If you don’t hit your targets, they electrocute you,” said Jalil, a Ugandan forced to work in a scam compound in Myanmar in 2023. Some are able to escape, but many are kept there by force, threats of retribution or fear that a successful escape would leave them in worse straits. Meanwhile, large-scale scam operations are also able to hire willing recruits desperate for any kind of work in poor or war-torn areas. 2

Scammers, both willing and unwilling, often use a technique called “pig butchering” — metaphorically fattening up a victim before slaughtering them financially. Having won trust by pretending to be an online friend or romantic interest, scammers convince targets to deposit an increasing amount of funds into cryptocurrencies or other electronic accounts where money can be easily moved. After perhaps allowing the targets some initial financial wins, the scammers whisk their money away forever once they refuse to make more deposits. 3

One Maryland woman, who asked not to be identified, lost $3 million to a pig-butchering scam that involved cryptocurrency deposits. “I never thought I would actually fall into something this crazy. I was so humiliated. It was very hard,” she said. “You trust somebody, and you get betrayed. It really hurts more than the money part.” 4

The center of pig butchering is the borderlands of Cambodia, Laos and Myanmar, where corruption and weak governance structures have allowed illegal gambling operations to shift into scamming on a mass scale. A single fraud factory in Myanmar may hold thousands of scammers. 5

Experts warn scammers are growing more sophisticated and ambitious. Groups running pig-butchering scams are moving into hacking and ransomware attacks, stealing information for resale or draining financial accounts.

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In October 2024, the compound of an alleged scam hub in the Philippines was swept by soldiers. Internationally, particularly in Southeast Asia, online scams are big business and often staffed by trafficking victims who are forced to work there, as well as voluntary employees driven by economic necessity. (Getty Images/Ezra Acayan)

“Organized crime groups are converging and exploiting vulnerabilities, and the evolving situation is rapidly outpacing governments’ capacity to contain it,” said Masood Karimipour, the Southeast Asia regional representative for the United Nations Office on Drugs and Crime. “Leveraging technological advances, criminal groups are producing larger scale and harder to detect fraud, money laundering, underground banking and online scams.” 6

“The scale and scope of this mass scamming has essentially snuck up on law enforcement and policy makers given its pathbreaking geographic and organizational parameters,” according to the U.S. Institute of Peace. “Effective action to counter the scammers will require a whole-of-government effort by the U.S. coordinating the work of government agencies, civil society and concerned international counterparts, be-

ginning with Southeast Asia." But the Trump administration has been cutting funding and staff for agencies engaged in financial regulation. 7

Some cross-border efforts have been successful. Last fall, the International Criminal Police Organization (Interpol), the world's largest international police organization, announced the arrests of more than 5,500 financial crime suspects and the seizure of $400 million in virtual assets and cash, the result of a long-standing operation targeting cyberfraud led by South Korea but involving 40 countries.

Among other things, the complex operation included arresting members of a gang who used fake voices and IDs to convince victims they were members of law enforcement as well as alerting countries to an emerging fraud involving stablecoin, which is a nonfluctuating cryptocurrency pegged to other assets such as the U.S. dollar or euro. 8

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Outlook

AI-Powered Scams

Technology has enabled the rapid rise of scamming, including payment apps, texting and cryptocurrencies.

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With technology evolving rapidly, experts predict there will be more ways to fool more people in the years to come.

Artificial intelligence (AI) can use just a few snippets of sounds to recreate the voice of the target's boss apparently demanding payment to a vendor or their nephew supposedly stranded without funds by the side of the road. "AI is going to make it much easier to do scams," says Rust, of the Consumer Federation of America.

Future efforts to prevent fraud will rely on sophisticated tools such as biometrics authentication — verifying identities through retinal scans, fingerprints and facial recognition. But AI can generate fake documents, including IDs with images that are realistic enough to get past verification systems. 31

By the end of next year, 100 million people will have mobile driver's licenses on their phones, giving them a new tool to prove their identities, both in-person and during remote transactions, predicted Riley Hughes, the CEO of Trinic, an identity verification company. Already, three-quarters of Americans live in states where mobile driver's licenses are being implemented. 32

Not only should financial institutions step up their efforts to detect fraud, but they should also share information, according to NICE Actimize, a financial risk and protection firm: "By sharing information across the industry, firms can recognize fraud patterns and trends that may be missed by any single financial institutions." 33

As they always have, scammers will evolve with technology. Future schemes may involve things such as fake-free Wi-Fi connections that grab unsuspecting people's data; QR codes planted by scammers next to signage from legitimate businesses and fake services such as therapy sessions conducted by AI. 34

In a fraught world of fraud and hustlers, consumers will have to be vigilant and protect themselves. However, it's not important that people bone up on the latest forms that scams are taking, says Nofziger of AARP. They just have to be wary whenever someone asks them either for money or for personal information such as Social Security numbers or birthdates.

"Just know that anytime you are online, wherever you are, there's a criminal there as well, waiting to target you," she says.

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Should banks take more responsibility for fraud?

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Janine Williamson

Elder Fraud Prevention Advocate and Administrator, Larry W. Cook Estate. Written for *CQ Researcher*, April 2025

Banking today is sound but not safe. Cybercrime and elder financial exploitation have reached epidemic proportions. Innocent people, particularly the elderly, are losing their life savings. Banks must do more to defend their customers from this new generation of thieves.

Most of us have received suspicious texts, emails or phone calls attempting to lure us into a financial scam. Criminals especially target seniors, who aren't as familiar with the latest fraud tactics and are more trusting of institutions that supposedly protect them. The FBI reports that annual losses due to elder fraud surged 84 percent between 2021 and 2022, reaching $3.1 billion. The true figure is likely much higher. A report from the National Adult Protective Services Association estimates that only one in 44 cases of elder financial abuse is ever reported.

My family knows this reality all too well. My late uncle, Larry, a retired navy nuclear submarine commander, lost more than $3.6 million to scammers in the final months of his life. His financial institution was notified that he was the suspected victim of fraud and in need of Adult Protective Services. Yet they continued processing 74 wire transfers to an overseas scam operation. His case is tragically common.

Banks claim they train employees to detect fraud, yet fraud continues to flourish. Clearly, banks need a new approach. The Financial Industry Regulatory Authority requires brokerage firms to ask customers to identify a "trusted contact" for suspicious transactions. Banks and credit unions should be held to the same standard. Banks have sophisticated fraud detection algorithms for credit card transactions. Why aren't similar safeguards in place for checking and savings accounts?

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Reporting suspected fraud should be a federal requirement for all financial institutions. Right now, they're subject to a patchwork of inconsistent state laws. The House and Senate have considered legislation to expand the definition of unauthorized transfers and implement shared liability between banks that initiate and receive fraudulent transfers.

We need stronger legislation to hold banks accountable for reimbursing their customers in cases of fraud. Furthermore, federal agencies working with the telecom industry, social media companies and internet access providers could restrict scam operators' ability to communicate with victims.

Congress must act to ensure the financial institutions take responsibility for protecting their customers — before more families, like mine, suffer devastating losses.

Con

—

Cameron Fowler

Chief Executive Officer, Early Warning Services. Excerpted from Congressional Testimony, July 23, 2024

The Zelle Network, which [Early Warning Services] operates, and its participating financial institutions provide industry-leading consumer protection measures. Millions of consumers reliably utilize real-time payment networks without issue. Fraud and scams typically occur prior to, and separate from, the means of money transfer, and outside the purview of the relevant payment network and participating financial institutions. Typically, criminals engage consumers through social media, emails or identity spoofing — not through Zelle or other payment apps.

Government has a critical role to play by enabling much-needed policy solutions and providing the resources required to address the root causes of financial fraud and scams that impact the payments ecosystem upon which our economy and consumers rely. Policy solutions to prevent fraud and scams must be directed at addressing fraud and scams where they originate including, for example, online marketplaces, mobile telecommunications networks, email and social media platforms.

The ultimate source of the problem is the criminal who perpetrates the fraud and scams and who, in the

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absence of being held accountable through criminal prosecution, will not be deterred from continuing to victimize consumers. As such, a key aspect of policy solutions to address fraud and scams must be increased law enforcement and penalties for the criminals who perpetrate them.

Furthermore, because fraud and scams typically originate through criminals' direct engagement with consumers, it is imperative that policy solutions include government-sponsored consumer education so that consumers can more easily spot scams and avoid engaging with criminals. Zelle and participating financial institutions already provide consumers with a broad array of education resources to help them identify and avoid scams and safely navigate the payments landscape.

Early Warning organized leaders across multiple industries, along with government agencies and experts, as part of a National Task Force for Fraud & Scam Prevention. This cross-industry partnership is focused on three key areas: consumer education; fraud and scams prevention and detection and recovery and prosecution.

Our industry cannot single-handedly prevent all acts of criminals who defraud both consumers and financial institutions. We urge Congress to leverage government resources to better educate consumers about common frauds and scams; increase law enforcement resources needed to prosecute fraudsters and ensure the sentences for consumer fraud are effective deterrents; stop bad actors from spoofing their identities on phone calls by requiring mobile network operators to fully block spoofed calls and improve identity verification to stop bad actors from accessing the financial system.

Discussion Questions

Here are some issues to consider regarding financial scams:

- Why did financial scams rise during the COVID-19 pandemic?
- What role does technology play in financial scams?
- Why are some consumer advocates concerned that Trump's second term push for deregulation will leave Americans more vulnerable to financial crimes?
- Why is it so difficult to combat international scam operations?
- In your opinion, should financial institutions take on more responsibility to better protect their customers from scams? Why or why not?

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Chronology

1920s-1990s

Major instances of fraud occur sporadically in the United States.

1920

Financial fraudster Charles Ponzi convinces thousands of Bostonians to give him millions of dollars by promising huge profits, paying early investors with money from later contributors, in what later becomes known as a Ponzi scheme.

1925

A fake count named Victor Lustig convinces scrap metal merchants in Paris he can sell them the rights to the Eiffel Tower, receiving a bid for an amount equivalent to approximately $1 million today.

1937

Postal inspectors conduct 6,249 fraud investigations, make 927 arrests and win 638 convictions.

1990s-2000s

Spam and fraudulent messages become a concern as email use rises.

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1994

AOL introduces spam filters to hide unwanted messages.

1996

Emails purportedly from a Nigerian prince become synonymous with early email scams; this is a new variation on an old scam known as advanced payment, convincing people to put up money in exchange for (false) promises of wealth later.

1998

Congress passes a law, the Identity Theft and Assumption Deterrence Act, imposing penalties for identify theft and allowing federal agencies to combat the crime.

2000s-2010s

A stock market boom helps trigger major instances of fraud.

2001

Enron, a major energy firm, collapses after several top executives enrich themselves through fraud.

2009

Financier Bernard Madoff pleads guilty to running the largest Ponzi scheme in history and is ordered to forfeit $170 billion to investors.

2010

Congress imposes tighter regulations on the financial industry and creates the Consumer Financial Protection Bureau (CFPB) to enforce consumer protection laws.

2017

Equifax, a consumer credit reporting agency, announces that its systems have been breached, exposing sensitive personal data of 148 million Americans. … The ability to deduct losses due to fraud is stripped from the tax code as part of a larger tax measure largely devoted to cutting rates.

2019

Congress passes the Payment Integrity Information Act, requiring federal agencies to assess programs to determine whether improper payments are being made.

2020-

Present Technology enables more widespread frauds and scams.

2020

Scammers receive more than $100 billion in fraudulent claims involving enhanced unemployment benefits enacted during the COVID-19 pandemic; fraudsters also steal billions in government funds through other pandemic-related support programs.

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2021

Hackers break into 1,862 computer systems in the United States, a record at that time and up two-thirds from the year before.

2022

FTX, a major cryptocurrency exchange, goes bankrupt after defrauding investors of billions of dollars.

2024

Interpol, an international law enforcement agency, arrests 5,500 people involved in financial scams in an international sting. … The CFPB sues three major banks for failing to protect customers swindled out of more than $870 million. … Americans lose $12.5 billion to fraud — a 25 percent increase from the previous year — according to the Federal Trade Commission. … Scammers begin using artificial intelligence to create fake videos and audios as part of their schemes.

2025

State legislators in dozens of states introduce bills to curb fraudulent transactions involving crypto ATMs (January). … The CFPB's acting director strips the bureau of $700 million in funding, part of the Trump administration's broader effort to reduce regulatory agencies overseeing financial institutions, which critics warn could reduce oversight of scammers. (February). … The Senate passes a resolution designating March 6 as "Slam the Scam Day" to increase awareness of financial scams. … The CFPB drops the case against three major banks filed during the Biden administration (March).

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The Next Step

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