



February 2024 Report

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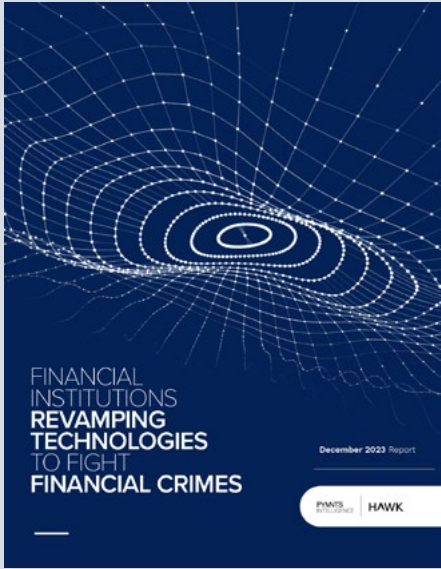
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# HOW FRAUD FEARS IMPACT FIS' ADOPTION OF FASTER PAYMENT SOLUTIONS

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# HOW FRAUD FEARS IMPACT FIs’ ADOPTION OF FASTER PAYMENT SOLUTIONS

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December 2023

**Financial Institutions  
Revamping Technologies  
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How Fraud Fears Impact FIs’ Adoption of Faster Payment Solutions was produced in collaboration with Hawk, and PYMNTS Intelligence is grateful for the company’s support and insight. [PYMNTS Intelligence](#) retains full editorial control over the following findings, methodology and data analysis.

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# WHAT'S AT STAKE

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**O**pen banking is transforming the banking industry, granting third-party FinTechs access to the financial data and funds traditional financial institutions (FIs) manage. Using application programming interfaces (APIs), open banking links financial data across institutions for use by consumers, FIs and FinTechs, and it has paved the way for real-time payments. Even as consumers value the faster payment solutions that open banking enables, FIs are reluctant to provide open banking solutions due in part to fears of rising fraud, especially as the speed of payment transfers increases.

PYMNTS Intelligence's data shows that FIs have experienced increases in fraud rates across most payment methods, with same-day and regular automated clearing house (ACH) payments experiencing the greatest increase in fraud among the most frequently used payment methods. More than one-third of FIs that accept same-day ACH payments experienced increased fraud rates in the past year. Moreover, half of FIs also cite increased

fraud related to real-time payments.<sup>1</sup> While the advancing threat is real, FIs adopting fraud prevention measures, such as cloud-based security platforms, machine learning (ML) and artificial intelligence (AI), show increased confidence in their ability to securely provide open banking or real-time payments.

How Fraud Fears Impact FIs' Adoption of Faster Payment Solutions, a PYMNTS Intelligence and Hawk collaboration, explores how FIs' concerns about increasing fraud affect their interest in adopting open banking and real-time payments solutions. We surveyed 200 FIs in the United States between March 29, 2023, and June 16, 2023, to examine how they perceive the fraud risks and rewards of open banking and real-time payments as well as the impact of the technology solutions they use to mitigate rising fraud.

## This is what we learned.

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<sup>1</sup> The State of Fraud and Financial Crime in the U.S. 2023. PYMNTS Intelligence. 2023. <https://www.pymnts.com/study/increasing-fraud-heightens-need-for-newer-better-technologies/>. Accessed February 2024.

**Experiencing increased fraud raises FIs' aversion to open banking by 26%.**

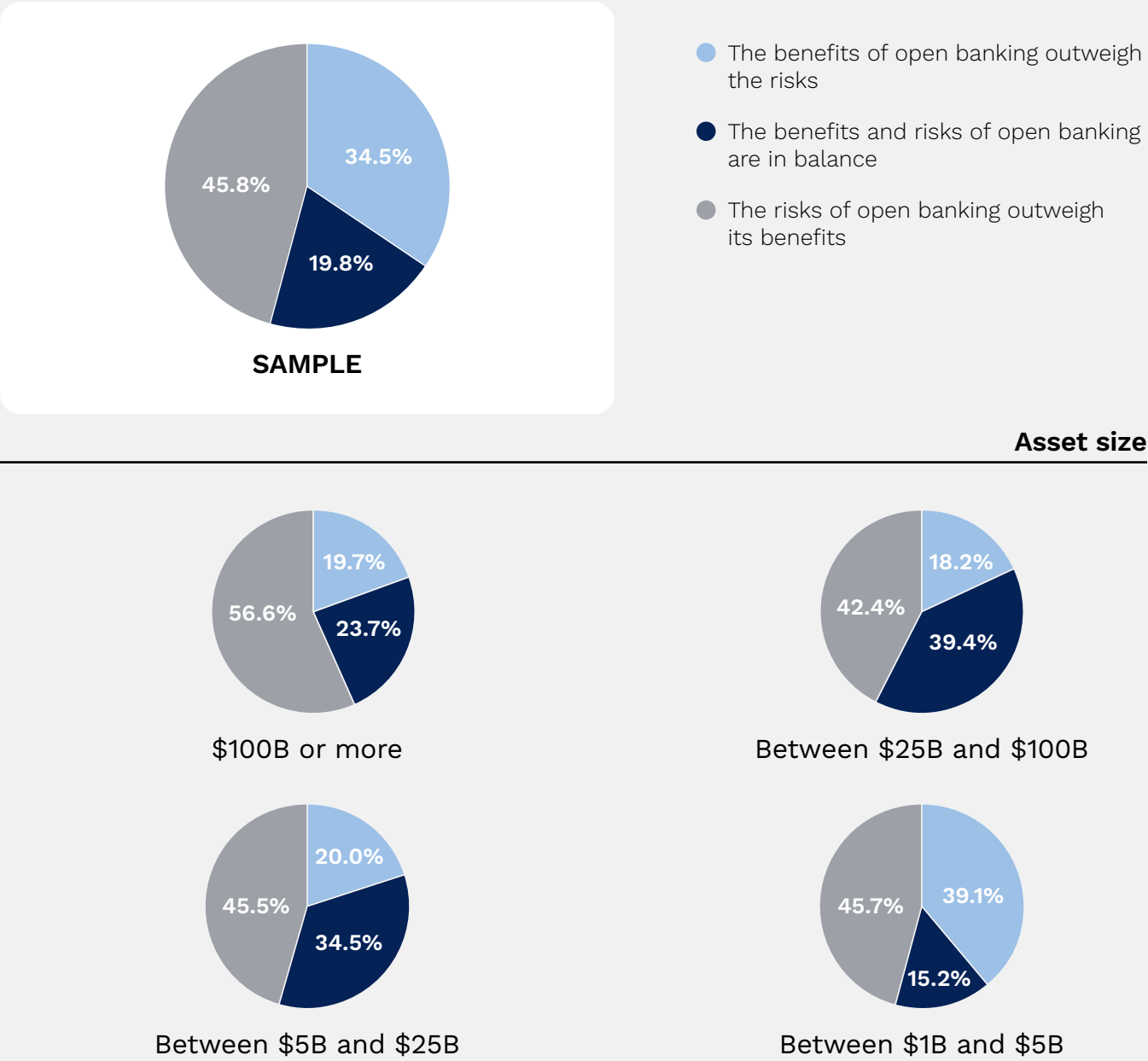
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FIs often identified increased payments speed as a key issue exposing them to fraud, and those that did so were more resistant to providing open banking.

”

When it comes to providing open banking solutions, 46% of FIs feel the risks outweigh the benefits, and only 35% believe the benefits outweigh the risks. Smaller FIs are more comfortable providing open banking, with nearly 2 in 5 noting that the benefits outweigh the risks. Conversely, more than half of the largest FIs — those managing more than \$100 billion in assets — feel the risks of providing open banking outweigh the benefits. This suggests that smaller FIs have more to gain from adopting open banking while large FIs seem to have more to lose in the face of rising fraud.

**FIGURE 1:**  
**Weighing open banking's benefits versus fraud risks**  
Share of FIs agreeing with select statements regarding open banking's benefits and fraud risks, by asset size



Moreover, experiencing a higher volume of fraudulent transactions raises FIs' perceptions that the risks of providing open banking outweigh the benefits by 26%. On the other hand, FIs that saw a decrease in the total volume of fraudulent transactions were more likely to show interest in providing open banking solutions, at 38%, than those that saw an increase in fraud, at 29%.

FIs often identified increased payments speed as a key issue exposing them to fraud, and those that did so were more resistant to providing open banking. While 52% of FIs citing increased payments speed as a key challenge said the risks of providing open banking outweigh the benefits, just 28% of those believing the same said the benefits of providing open banking outweigh the risks. These findings highlight the importance of fraud prevention when considering open banking, especially as payment transactions happen with increasing speed.

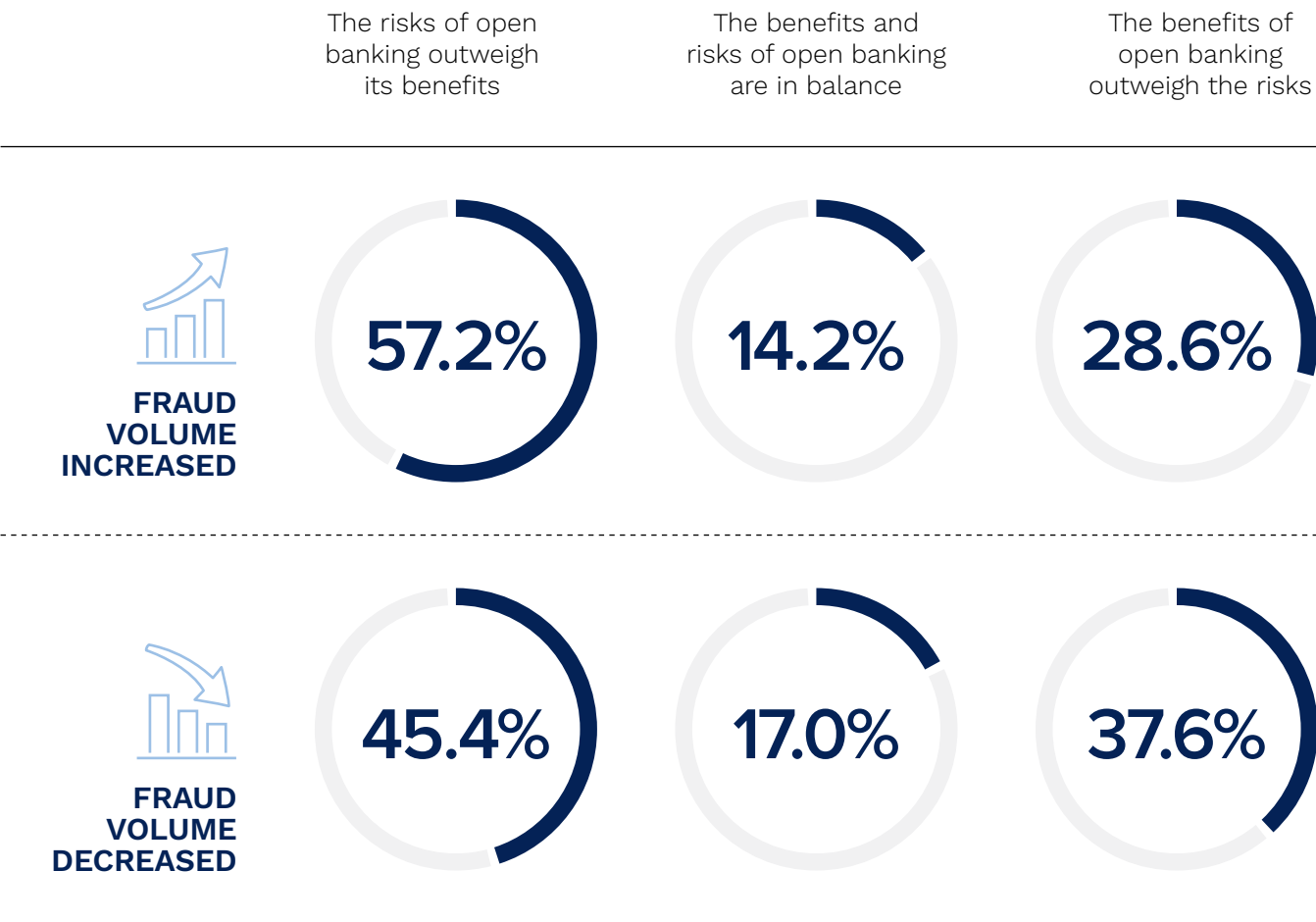
Source: PYMNTS Intelligence  
How Fraud Fears Impact FIs' Adoption of Faster Payment Solutions, February 2024  
N = 200: Complete responses, fielded March 29, 2023 – June 16, 2023



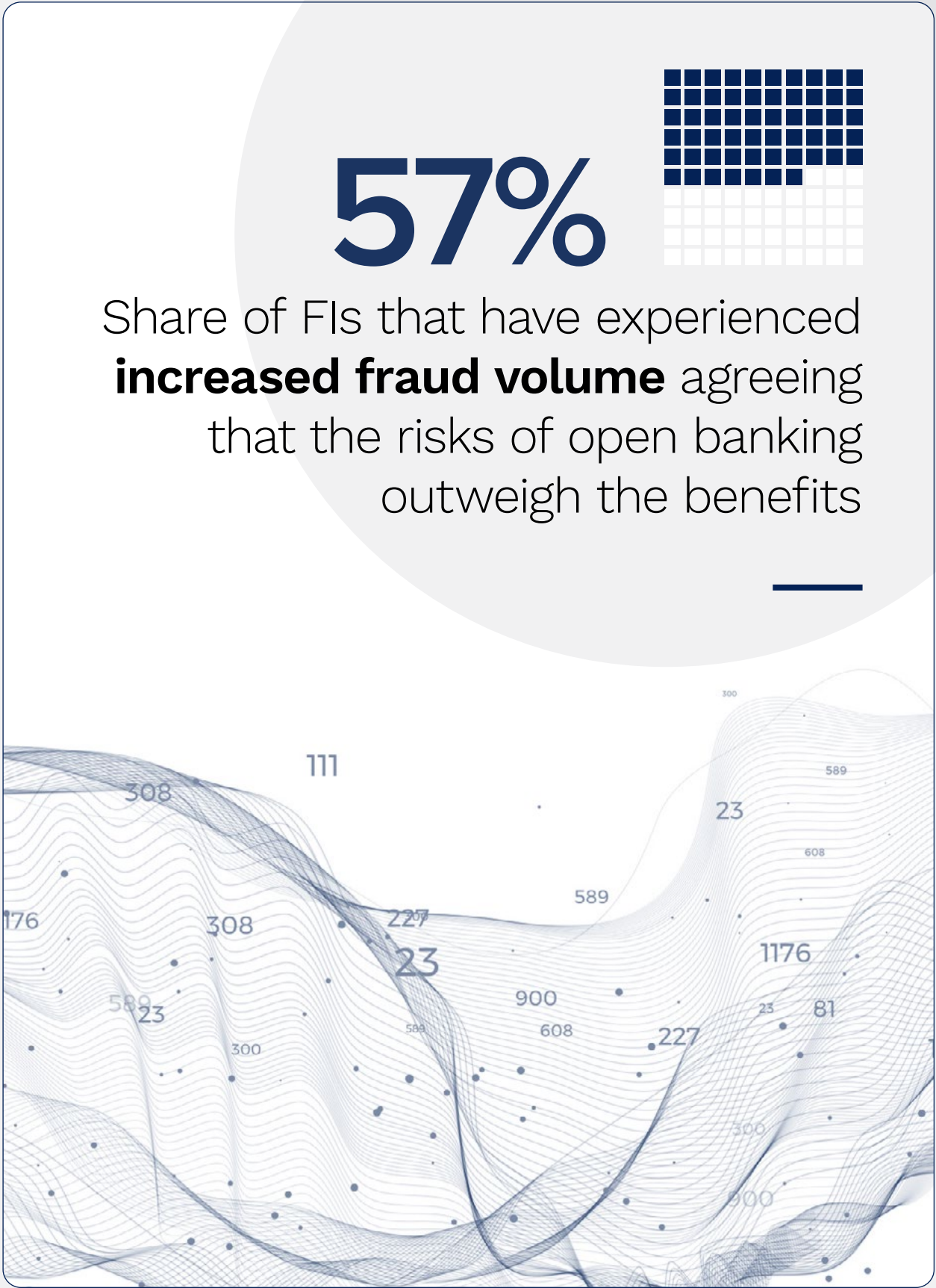
FIGURE 2:

How fraud impacts FIs' open-banking risk calculation

Share of FIs agreeing with select statements regarding open banking's benefits versus fraud risk, by change in fraud volume



Source: PYMNTS Intelligence  
How Fraud Fears Impact FIs' Adoption of Faster Payment Solutions, February 2024  
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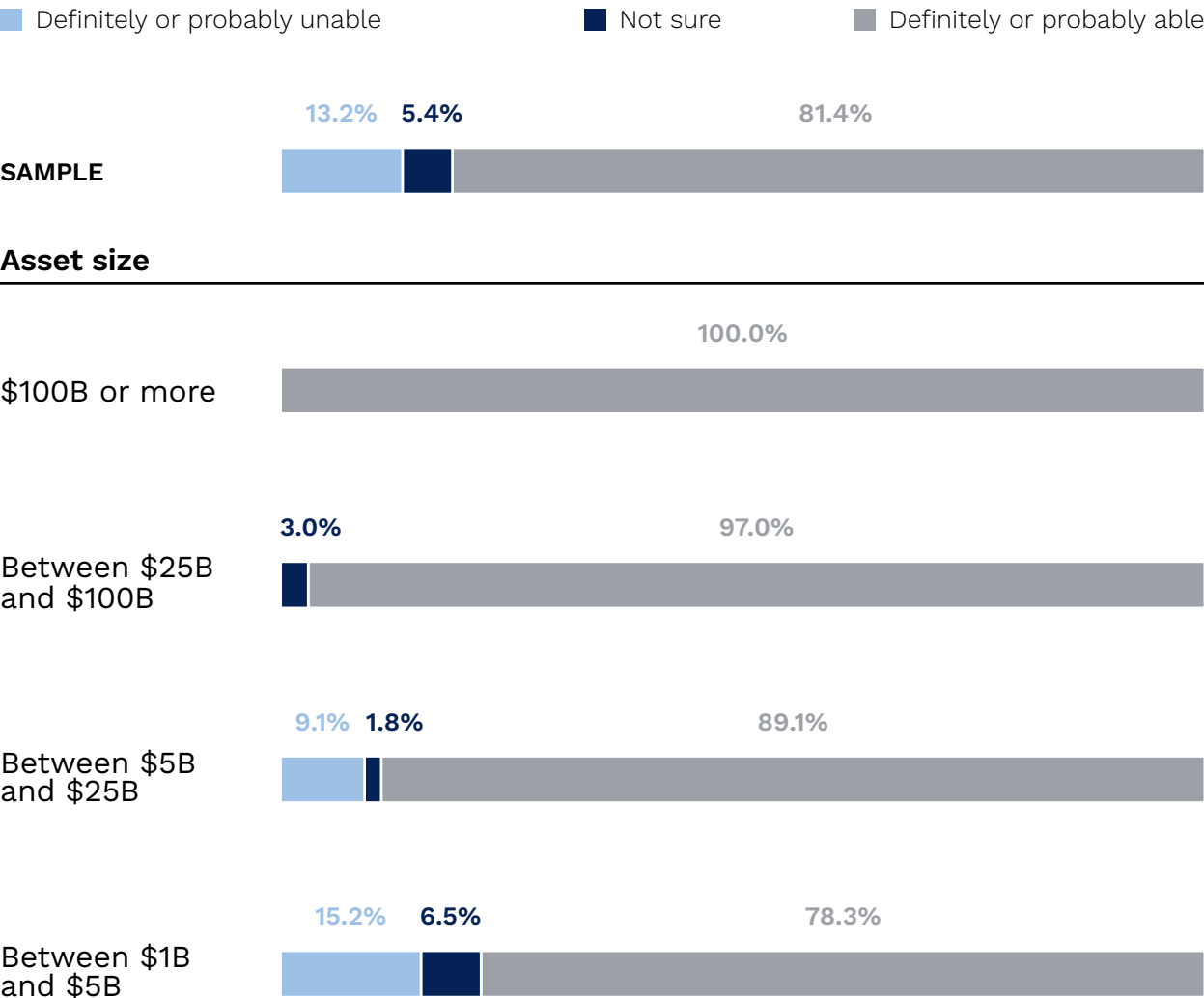
**Most FIs are confident in their ability to provide secure real-time payments, though experiencing higher rates of fraud reduces this confidence.**

# 81%

Share of FIs that report they are able to **provide secure real-time payments**

While concerns about increasing fraud often hinder the prospect of adopting open banking, 81% of FIs report they can provide secure real-time payments. Contrary to open banking trends, FIs' confidence in their ability to provide secure real-time payments drops with FI size. Nearly all FIs that manage more than \$100 billion in assets say providing real-time payments would not compromise their security, while just 78% of FIs managing between \$1 billion and \$5 billion in assets say the same.

**FIGURE 3:**  
**Ability to offer secure real-time payments**  
Share of FIs citing their ability to offer secure real-time payments, by asset size

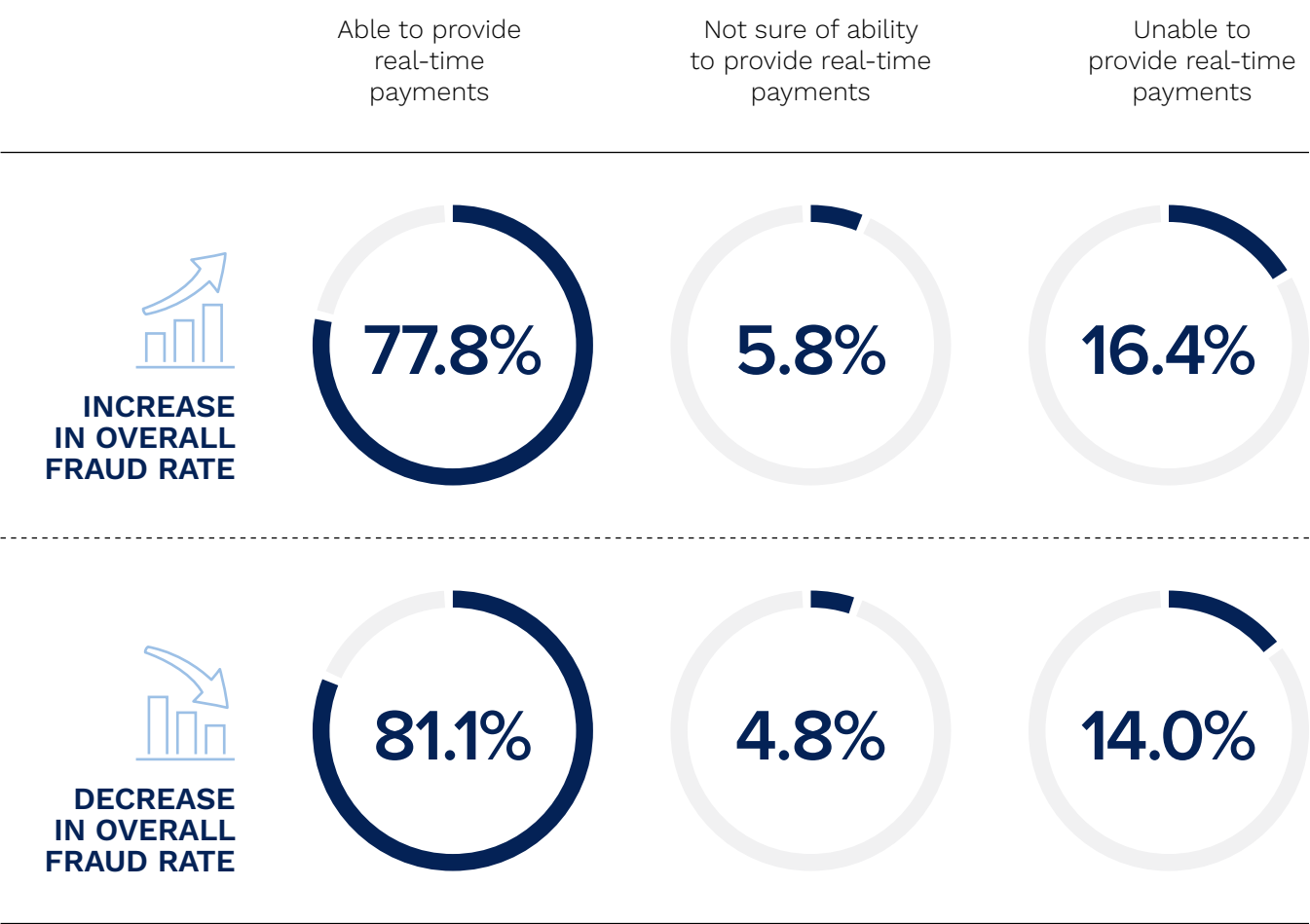


In fact, data shows that FIs that have experienced an increase in their overall fraud rate in the past 12 months were just 4% less confident in their ability to provide secure real-time payments than those that saw a decrease in their overall fraud rate. Bank transfer fraud rose notably in the last year, with digital wallets, such as Samsung Pay, Apple Pay and Google Pay, showing the highest increases in fraud overall. It is little surprise, then, that FIs that believe that increased payments speed makes them more vulnerable to fraud are also less likely to provide real-time payments than those that do not. Just 12% of FIs citing increased payments speed as a key challenge say they cannot offer secure real-time payments, compared to 14% of those not citing increased payments speed as a key challenge. Again, this highlights the importance of deploying state-of-the-art fraud prevention measures, as today’s digital-first consumers increasingly expect real-time payments.

Source: PYMNTS Intelligence  
How Fraud Fears Impact FIs' Adoption of Faster Payment Solutions, February 2024  
N = 200: Complete responses, fielded March 29, 2023 – June 16, 2023



**FIGURE 4:**  
**Fraud’s impact on FIs’ ability to provide secure real-time payments**  
Share of FIs citing their ability to provide secure real-time payments,  
by change in overall fraud rate



Source: PYMNTS Intelligence  
How Fraud Fears Impact FIs’ Adoption of Faster Payment Solutions, February 2024  
N = 200: Complete responses, fielded March 29, 2023 – June 16, 2023

FIs that have experienced an increase in their overall fraud rate in the past 12 months were just **4% less confident in their ability to provide secure real-time payments** than those that saw a decrease in their overall fraud rate.

**Adopting fraud prevention measures, such as cloud-based security platforms or AI/ML solutions, increases FIs' confidence in the benefits of open banking and their ability to provide secure real-time payments.**

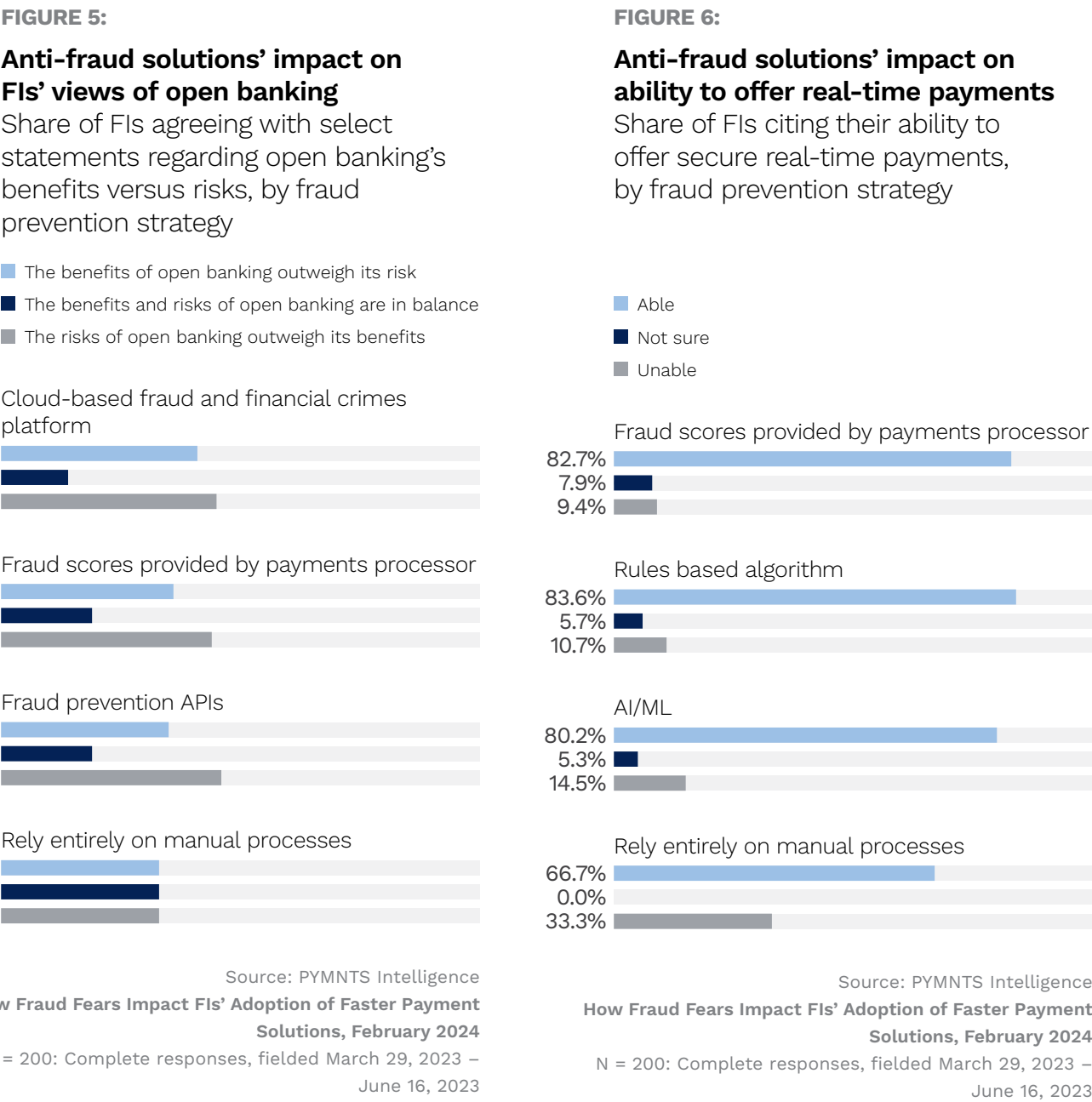
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As fraud and financial crime continue to accelerate, it is not shocking that FIs are reticent to adopt open banking or enable real-time payments. Technologies such as cloud-based security platforms and AI/ML solutions provide effective ways to mitigate fraud. Data shows that using these fraud prevention measures increases FIs' confidence in their ability to securely provide open banking or real-time payments.

In fact, among FIs leveraging cloud-based fraud and financial crime prevention platforms, 41% say the benefits of open banking outweigh the risks, and 79% report confidence in securely providing real-time payments. This solution is valued more for its ability to securely increase payment speed. Meanwhile, 84% of FIs say that using rules-based algorithms increases their confidence in their ability to provide secure real-time payments, while 80% say the same about the use of AI/ML technology.

Among FIs that manage fraud using fraud scores provided by payment processors, 36% are inclined to offer open banking. Data also shows that 40% of FIs that currently use three or more anti-fraud technologies say that the benefits of open banking outweigh the risks, compared to 28% among those that use two or less. This indicates that the more fraud prevention strategies FIs employ, the more confident they are that the benefits of providing open banking outweigh the risks.

A portion of FIs report that they rely entirely on manual processes to fight fraud, and they are the least likely to say they feel that open banking is worth the risk or that they are able to provide secure real-time payments services. One-third of FIs using manual fraud prevention processes report that the risks of open banking outweigh the benefits, while an additional one-third of FIs using manual fraud prevention processes are unsure they could safely provide faster payments without compromising security. This suggests that moving to automated technology such as AI/ML would significantly improve FIs' ability to provide secure real-time payments or open banking solutions.





## CONCLUSION

**O**pen banking and real-time payments present possibly the biggest innovation challenges that traditional FIs face today. Yet, banks continue to face increasing fraud and financial crime, which gives them pause about opening their banking systems to third parties or providing instant fund transfers. Not surprisingly, the rate at which FIs experience fraud correlates with their interest in moving toward open banking and real-time payments. On the other hand, FIs that use cloud-based security systems and AI/ML solutions express greater confidence. By tapping into advanced technologies, FIs can better manage risks while also reaping the benefits of offering the financial services that digital-first consumers expect.

## METHODOLOGY

How Fraud Fears Impact FIs' Adoption of Faster Payment Solutions, a PYMNTS Intelligence and Hawk collaboration, explores how FIs' concerns about increasing fraud affect their interest in open banking and real-time payments. We surveyed 200 FIs in the U.S. between March 29, 2023, and June 16, 2023, to examine how they perceive the fraud risks of open banking and real-time payments compared to the rewards as well as the impact of the technology solutions they are using to mitigate rising fraud.

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INTELLIGENCE

**PYMNTS Intelligence** is a leading global data and analytics platform that uses proprietary data and methods to provide actionable insights on what’s now and what’s next in payments, commerce and the digital economy. Its team of data scientists include leading economists, econometricians, survey experts, financial analysts and marketing scientists with deep experience in the application of data to the issues that define the future of the digital transformation of the global economy. This multi-lingual team has conducted original data collection and analysis in more than three dozen global markets for some of the world’s leading publicly traded and privately held firms.

**HAWK**

**Hawk** is the leading provider of AI-supported anti-money laundering and fraud detection technology. Banks and payment providers globally are using Hawk’s powerful combination of traditional rules and explainable AI to improve the effectiveness of their AML compliance and fraud prevention by identifying more crime, while maximizing efficiency by reducing false positives. Hawk’s modular solution can either enhance or replace rules-based systems with AI-powered transaction monitoring, payment screening, pKYC and fraud prevention in real-time to deliver greater accuracy and reduced noise.

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