THE **FEDERAL RESERVE**
FedPayments Improvement

FRAUD CLASSIFIER

INDUSTRY ADOPTION ROADMAP

Advancing a Consistent Approach to Classifying Fraud

FRAUD CLASSIFIER

The FraudClassifier℠ model provides an intuitive approach to classifying fraud. It offers a holistic picture to help organizations better understand the magnitude of fraud involving payments.

This roadmap is a strategy with potential steps for industrywide adoption of the model to achieve a more consistent dialogue on fraud within and across organizations.

Inconsistent classification of payments fraud data limits the ability to aggregate or compare fraud information – and to understand the extent and nature of fraud across the industry.

To examine this problem, the Federal Reserve established and led the Fraud Definitions Work Group, composed of cross-industry payments fraud experts. This group developed the FraudClassifier model, which enables payments stakeholders to classify fraud in a simple and similar manner.

The key advantage of using the model is the ability to classify fraud independently of payment type, payment channel or other payment characteristics. It focuses on a series of questions, beginning with who initiated the payment to differentiate payments initiated by authorized or unauthorized parties. The result is a holistic view of fraudulent events, which can help with more strategic fraud management.

Learn more about the FraudClassifier model at FedPaymentsImprovement.org.
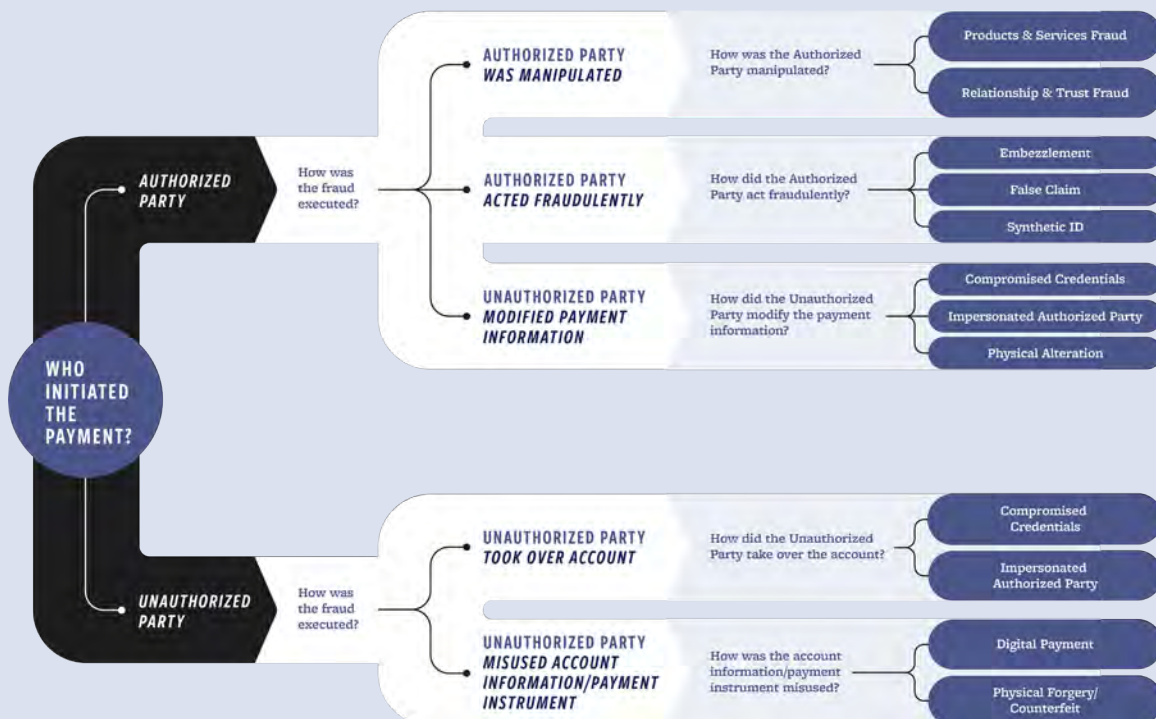
A VISION FOR UNIFORM FRAUD CLASSIFICATION ACROSS THE PAYMENTS INDUSTRY

Industrywide adoption of the FraudClassifier model could serve as an important step toward improving the consistency of fraud classification and providing the ability to speak the same language about fraud.

To support this vision, the Fraud Definitions Work Group developed this adoption roadmap that recommends two actionable paths for advancing industry implementation. It also includes efforts to support evolution of the model in response to industry changes and feedback. This roadmap describes general approaches for voluntary adoption and includes activities that will be evaluated and adjusted to meet industry needs over time. Any timelines identified in this roadmap are directional and will be continually refined, as appropriate.

Path #1

ADOPTION OF THE FRAUDCLASSIFIER MODEL WITHIN ORGANIZATIONS

Throughout the payments ecosystem, organizations – and even departments within the same organization – may look at fraud differently. There may be a rationale for employing different approaches, but they may create barriers to holistic fraud measurement, analysis and management.

The FraudClassifier model can be applied within business lines to enhance understanding between the front line and management. It can also be applied across an organization to create greater internal consistency in classifying fraud and to help an organization speak the same language across internal departments or business lines. Deeper and broader understanding of fraud through employment of the model may help an organization be better prepared to act on fraud trends and strengthen its ability to educate customers on how to protect themselves from becoming fraud victims.

The goal of this adoption path is for organizations of all types and sizes across the payments industry to adopt the model. The overall approach described below is based on a voluntary adoption progression, anticipating that some organizations may lead the industry with early adoption, which may then encourage others to follow, ultimately resulting in widespread adoption. It is anticipated that the timing and approach for incorporating the model will vary by organization based on unique business needs and objectives.

"Implementing the model was fairly simple for us. Each of our 11 locations can access the information and answer the questions. The nice thing about keeping it simple is that it gets used."

Roy Olsen, *Executive Vice President,* **American National Bank & Trust**

Path #1

ADOPTION OF THE FRAUDCLASSIFIER MODEL WITHIN ORGANIZATIONS

The Federal Reserve will encourage and support efforts to adopt the FraudClassifier model as follows:

2020

Early Adoption

- Socialize intended uses and projected benefits of the FraudClassifier model across the industry
- Educate the industry on how to classify fraud according to this model
- Proactively identify early adopters and encourage their adoption
- For those adopting the model, provide educational materials and coordinate feedback mechanisms

2021

Increased Adoption

- Engage early adopters of the FraudClassifier model, seeking industry feedback on overall usability and enhancement opportunities
- Share insights from early adopters with potential adopters, including different implementation approaches and realized value to date

2022–2024

Widespread Adoption

- Target outreach to industry segments and/or organizations that have yet to adopt the FraudClassifier model
- Provide ongoing industry education on the evolution of the model, including any enhancements and/or improvements

Each phase of adoption will produce incrementally greater value for organizations. Early adoption can yield useful insights from the resulting quality and consistency of fraud data. As more organizations adopt the FraudClassifier model, this also provides the ability to use the same language when talking about fraud, not only within an organization, but also industrywide.

Path #2

INTEGRATION OF THE FRAUDCLASSIFIER MODEL INTO INDUSTRY FRAUD STUDIES

Many organizations conduct various forms of research to better understand the fraud landscape, and then publish related insights in industry-facing studies. However, each of these studies may scope or gather their research differently, which can create additional effort for organizations contributing to each study. Additionally, once studies are published, it is difficult to compare fraud insights across studies due to the use of different classification structures, terminology and definitions.

The FraudClassifier model provides a way to classify and understand fraud involving payments that can span multiple fraud and payment types. Consistent use of the model across studies could enable results to be more closely compared, enhancing industry understanding of fraud. Based on the specific focus and methodology of the fraud study, it is anticipated that the timing and approach for integrating the model will vary by organization.

"You cannot manage what you can't measure. This is a famous quote from Peter Drucker. When it comes to fraud, right now there's no consistent way to measure fraud, which means there's no consistent way to manage fraud."

Eric Tran-Le, *Co-CEO, Vice President of Product Management,*
Guardian Analytics

Path #2

INTEGRATION OF THE FRAUDCLASSIFIER MODEL INTO INDUSTRY FRAUD STUDIES

To support adoption of the FraudClassifier model across industry fraud studies, this path includes the following:

2020

Identify Participating Organizations and Define Approaches for Integrating the FraudClassifier Model

The Federal Reserve will:
 • Socialize the model with select organizations that conduct industry fraud studies to explore the feasibility of integration into their studies
 • Facilitate conversations with those organizations willing to integrate the model to select potential approaches

2021

Plan and Begin Integration of the FraudClassifier Model

It is anticipated that participating fraud study organizations will:
 • Plan and manage integration efforts based on the selected approach(es)
 • Make industry participants aware of these efforts and the forthcoming ask, as applicable

The Federal Reserve will provide support to these organizations by sharing educational materials on the model and assisting with communications/awareness campaigns, as needed.

2022–2024

Widespread Integration of the FraudClassifier Model into Fraud Studies

It is anticipated that fraud study organizations will continue to advance their integration of the model while the Federal Reserve continues to:
 • Provide support to these organizations, as needed
 • Collect feedback from these organizations on potential enhancements to the model

It is envisioned that increased usage of the FraudClassifier model across fraud studies will help deliver new insights about fraud patterns, while potentially increasing the efficiency and speed with which the information is collected and shared. This can result in improved and timelier benchmarking information for use by individual organizations and the broader industry.

LOOKING AHEAD

In addition to the two adoption paths described in this adoption roadmap, the Federal Reserve plans to:

Explore how sharing fraud information can help combat fraud

This effort will explore how fraud information sharing practices can improve the fight against fraud. It will focus on how domestic and international initiatives have advanced fraud mitigation through information sharing and identify applicable practices and lessons learned. The Federal Reserve will share key insights gained from this effort with the industry.

Evolve and advance the FraudClassifier model and this adoption roadmap in response to the changing fraud landscape

To facilitate this process, the Federal Reserve will gather industry feedback about overall usability and enhancement opportunities. Additionally, the inclusion of other payment and fraud types will be evaluated, updating the model and communicating new versions to the industry, as needed.

The FraudClassifier model, if adopted across the payments industry, can facilitate a common fraud language and help us work together to better identify and fight fraud, fostering a safer payment system for all.

Join the industry in helping advance our collective understanding of fraud and learn more about the FraudClassifier model at FedPaymentsImprovement.org.