

Consumer complaints may be “canary in a coal mine” for payments risk

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For many years in the coal mining industry, a caged canary would be brought into the mines to detect whether toxic gases were present. The canary served as an early warning system of potential danger for the miners. Similarly, consumer complaints data could serve as a harbinger of potential risks in payments for law enforcement and other industry professionals.

Several regulatory agencies receive fraud-related complaints from consumers, including those involving financial institutions. Some of the consumer complaint databases are shared among agencies to help better facilitate fraud investigations and to track trends and developments in consumer fraud activity.

One example is the [Federal Trade Commission](#)'s (FTC) [Consumer Sentinel Network](#) (Sentinel), a secure online database of consumer complaints that is only available to law enforcement. In addition to storing FTC complaints, the Sentinel also includes complaints filed with more than 100 different U.S. and Canadian federal, state, and nongovernmental organizations. Among the leading partners and data contributors are the [Internet Crime Complaint Center](#), [Better Business Bureaus](#), [Canada's Phone Busters](#), the [U.S. Postal Inspection Service](#), the [Identity Theft Assistance Center](#), and the [National Fraud Information Center](#).

Established in 1997 to collect fraud and identity theft complaints, the Sentinel database was expanded in 2008 to include complaints about credit reports, debt collection, mortgages, and lending, among other subjects. According to the [2008 Consumer Sentinel Network Data Book](#), the database has more than 7.2 million complaints.

FTC complaints provide insight into consumer fraud trends

The Sentinel received a total of 1.2 million complaints during calendar year 2008. Of the 30 complaint categories, identity theft ranked first with 26 percent of the overall complaints. Credit card fraud (20 percent) was the most common form of reported identity theft, the majority of which involved new accounts (12.3 percent). Another significant category of identity theft reported by consumers was bank fraud (11 percent). Although identity theft bank fraud, which includes fraud involving checking and savings accounts and electronic fund transfers, has declined since 2006, the most common type continues to be electronic fund transfers.

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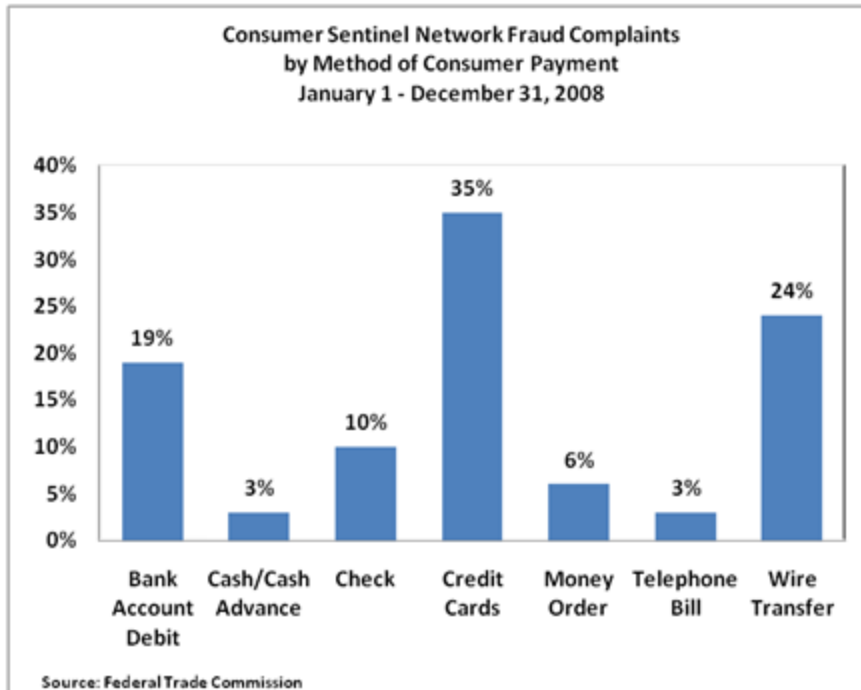
Top 10 Consumer Sentinel Network Complaint Categories

Rank	Category	# Complaints	Percentages
1	Identity Theft	313,982	26%
2	Third Party and Creditor Debt Collection	104,642	9%
3	Shop-at-Home and Catalog Sales	52,615	4%
4	Internet Services	52,102	4%
5	Foreign Money Offers and Counterfeit Check Scams	38,505	3%
6	Credit Bureaus, Information Furnishers, and Report Users	34,940	3%
7	Prizes, Sweepstakes, and Lotteries	33,340	3%

8	Television and Electronic Media	25,930	2%
9	Banks and Lenders	22,890	2%
10	Telecom Equipment and Mobile Services	22,387	2%

Source: [Federal Trade Commission](#)

The data also give some indication of the preferred payment channel for consumer fraud. In 2008, for those fraud complaints where the consumer reported the method of payment, credit cards was the most common (35 percent) followed by wire transfer (24 percent), bank account debit (19 percent), and check (10 percent). The rankings have been consistent over the past two years, but credit cards have increased from 30 percent and 33 percent for 2006 and 2007, respectively.



Consumer complaint databases can be an important resource in detecting fraud issues

FTC Sentinel data only gives a snapshot of the consumer fraud and risk issues occurring in the payments system. A consumer who has a problem involving an account held at a financial institution may file a complaint with the appropriate bank regulator. The Retail Payments Risk Forum is currently analyzing consumer complaints filed with the [Federal Reserve Consumer Help](#) over a four-year period to track whether there are trends that may indicate underlying payments risks. At the very least, the consumer complaints data may provide leading indicators of areas where we may need to focus our attention with research and/or education.

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