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FRAUD IN THE TECHNOLOGY AGE: STRATEGIES FOR DETECTION, PREVENTION, AND NAVIGATING REGULATORY INQUIRIES

In this article, the authors provide an overview of common frauds in the financial services industry. They then turn to best practices for preventing and detecting fraud, regulatory compliance requirements, and discuss recent enforcement actions related to the responsibilities of regulated entities. They conclude with best practices for avoiding and managing regulatory scrutiny through a comprehensive approach.

By Jan M. Folena and Samantha B. Kats *

In today's complex and technology-driven financial landscape, the threat of fraudulent acts and practices that harm investors and the financial institutions that serve them is significant.[1] It is estimated that over $50 billion per year is lost to fraud.[2] Data shows that fraud has had a surprisingly proportionate impact across various age groups with varying degrees of investor sophistication.[3] While the fraud itself can have a devasting impact on investors, firms should be aware of the regulatory scrutiny that can result from fraudulent acts, whether they originate from inside the firm or from outside actors.

State-of-the-art technology and tools allow scammers to tap into trustworthy sources and fool even the most sophisticated network systems. Similarly, firm

[1] AARP Fraud Watch Network, FINRA Investor Education Foundation, and Heart+Mind Strategies, *Blame and Shame in the Context of Financial Fraud*, June 2022.

[2] Christine Kieffer, *Victim Blaming Harms Us All*, FINRA Office of Investor Education, Mar. 6, 2024 (referencing FINRA Investor Education Foundation research report, *Non-Traditional Costs of Financial Fraud*).

[3] Federal Trade Commission, Consumer Sentinel Network, *Data Book 2023*, Feb. 2024, at 13, (showing that individuals between the ages of 30 to 39 and 60 to 69 are equally impacted and comprise a total of 36% of all reported frauds totaling $1.82 billion in losses).

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