JUL 18

Jenna McNamee

CFPB fines Bank of America for faulty unemployment benefit fraud detection

Article

The news: The **Consumer Financial Protection Bureau** (CFPB) fined **Bank of America** (BoA) $100 million over alleged mishandling of California residents' unemployment benefits during the pandemic, per a press release.

More on this: The CFPB alleged that BoA's faulty fraud detection program "automatically and unlawfully" froze customer accounts. The regulator also claimed that the bank didn't offer customers any recourse, even if it didn't detect fraud related to their accounts.

- The agency said BoA added more automation to its fraud detection program around the middle of 2020. This was likely due to skyrocketing unemployment claims at the onset of the pandemic as a result of widespread job losses.
- According to the CFPB, the automated program implemented a set of "simple flags" that would easily trigger a freeze on an account—which wasn't always warranted.
- The CFPB also said the bank made it difficult for customers to unfreeze their accounts or file a fraud report: They faced long wait times and reduced call center hours, and the bank did not employ enough customer service representatives to handle the case volume.

The **Office of the Comptroller of the Currency** (OCC) has also fined Bank of America for $125 million in relation to its flawed program, and has ordered it to offer redress to affected customers which could amount to hundreds of millions of dollars.

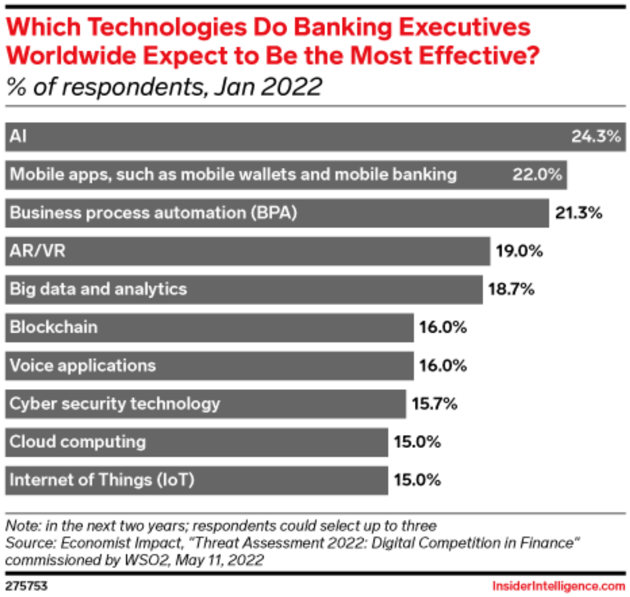
Covid fraud: Fraud became a hot topic among banks with the implementation of the **Paycheck Protection Program** (PPP) in early 2020. The program left banks scrambling to tackle applications and provide loans with limited underwriting and little preparation time. There were few safeguards and minimal guidance on how to properly implement the program —opening the door for fraud and misappropriation of the proceeds.

- Once all was said and done, experts said **up to 10% ($80 billion**) of the funds handed out through PPP went to fraudsters.

Automation risk: The recent digitization of the banking industry has led banks to increasingly test technological innovation in their practices.

- **Open banking and API development** allows banks and fintechs to gather information on clients and create customized and personalized solutions. Some companies use this information to automatically create financial plans and guidance for customers.
- **Artificial intelligence (AI) and machine learning techniques** are also being used to automate many bank processes, such as customer verification and loan application approvals.

But automation also adds risk. AI models may be trained with flawed data, creating unintentional bias. Automated tasks left unchecked could land banks and other users in serious trouble with regulators and customers.



The big takeaway: The pandemic gave banks an opportunity to connect with customers in their time of need and build trust-based relationships. But as more missteps come to light and customers are left with little recourse for damages suffered, banks will need to work hard at regaining their trust. Also, the CFPB's and OCC's fines should put banks on high alert that their fraud and risk controls are coming under close scrutiny, and that they will be penalized for lax implementation of technology.