


What is Bank Fraud? - Definition & Prevention

Cite this lesson 

In this lesson, we will address and define what bank fraud is and how it occurs. Additionally, the multiple types of bank fraud and methods to prevent it from happening will be discussed.

A Foray into Fraud



Although it does not take a mask, bank fraud is still a criminal act.

One of the most important responsibilities that a bank or financial institution has is to protect the integrity of the institution by working hard to protect the financial assets that it holds. In order to do so, the bank or financial institution must be certain to address the issue of bank fraud. **Bank fraud** can be defined as an unethical and/or criminal act by an individual or organization to illegally attempt to possess or receive money from a bank or financial institution. Let's take a look at several types of bank fraud which exist, followed by how these types of activities can be prevented.

Credit Card Fraud

Credit card fraud is when a person or organization tries to use a credit or debit card without the proper authorization for financial gain. One of the primary methods used to perform credit card fraud is the act of duplicating or reproducing the information located on the magnetic strip of the card. This illegal process is known as **skimming**. Criminals can also perform credit card theft by adding a skimmer of their own on top of the original in an effort to illegally utilize the card and its confidential information.

One of the more common forms of credit card fraud occurs after having a debit or credit card stolen or lost. In these situations, an unauthorized party has access to another individual's credit or debit card numbers (although not knowing the PIN number will make it virtually impossible to

withdraw monetary funds from an ATM). In other scenarios, credit card fraud may be performed by retailers and merchants who duplicate the information while they have the card in their possession during a purchase.

Check Fraud

The term **check fraud** refers to illegally using a check for unauthorized financial gain. There are several ways that check fraud can occur and here are a few examples:

- depositing a check into an account without the proper authorization
- altering a check by changing bank information such as account numbers
- using a check to make a payment knowing that there are insufficient funds in the account
- altering the payment amount on a check
- using checks for false invoices

Electronic Fraud

Electronic fraud can be described as the type of fraud that occurs with the use of the internet. Although non-existent for quite some time, the rise and evolution of the internet over the past few decades has made electronic fraud a playground for those looking to obtain some type of gain illegally and without authorization.

E-mail scams are one example of electronic fraud. For example, an individual may receive an e-mail asking them to provide their personal banking information in order to process a loan or some other excuse. The intent is to illegally obtain banking or financial information to use for personal gain.

Fake websites are another type of electronic fraud. The purpose of the fake websites is to look as real as possible with the hope that unsuspecting individuals will make a purchase and submit their banking or financial information. Once this information is confiscated, it can be used without any prior authorization for financial gain.

Identity Theft

To many people, the most dangerous type of bank fraud is **identity theft**. This is when personal information known as identifiers (social security number, date of birth) are stolen or compromised. If an identity is successfully stolen, then this means that the person responsible has the ability to steal confidential banking and financial information. Here are a few places where criminals seek to obtain information to steal someone's identity:

- Trash cans or trash bins
- Internet
- Mailboxes (opening mail)

- Telephones and fax machines

How to Prevent Bank Fraud

Although bank fraud can never be completely eradicated, there are ways to help prevent and lower the probability that it occurs. Here are a few of those methods:

- Do not let your check card, debit card, or checks leave your sight at anytime
- Be sure that your mailbox is secure from unauthorized visitors
- Be sure to always sign the back of your debit or credit card in ink as soon as you can
- Check your bank/credit card statements for any suspicious activity
- If using the internet to check your accounts, use firewalls (online security) to protect the information

Lesson Summary

Bank fraud is a criminal act in which a person or organization tries to illegally obtain money from a bank or financial institution. There are four primary types of bank fraud which are as follows:

- **Credit card fraud** is when a person tries to use a credit or debit card without proper authorization for some type of financial gain.
- **Check fraud** is when an individual uses a check illegally without proper authorization to obtain some form of financial gain
- **Electronic fraud** is when an individual uses the internet in an attempt to illegally confiscate banking or financial information which is confidential
- **Identity theft** is illegally obtaining personal information about an individual using a personal identifier (such as social security card or drivers license) to typically use for financial gain.

Here are a few ways to prevent bank fraud:

- Sign the back of your credit/debit card
- Use firewalls when reviewing financial information online
- Check your bank statements regularly
- Keep an eye on your check card
- Make sure your mailbox is secure

Worksheet: What is Bank Fraud? - Definition & Prevention

<https://study.com/academy/lesson/what-is-bank-fraud-definition-prevention.html>

1. Which type of bank fraud involves having personal information stolen through the use of a fake website?

- Check fraud
- Credit card fraud
- Electronic fraud
- Identity theft

2. Which of the following is an example of how check fraud?

- Taking someone's drivers license to use the personal information for financial gain
- Depositing a check into an account without proper authorization
- A person using a debit card without authorization
- Taking someone's social security number for financial gain

3. Which type of fraud involves illegally obtaining a person's social security number for the purpose of using it for unethical and financial gain?

- Check fraud
- Credit card fraud
- Identity theft
- Electronic fraud

4. What is bank fraud?

- A non-criminal act where a person illegally tries to take money from a bank or financial institution.
- An illegal act that involves bank customers withdrawing their own money to use for their own use.
- A criminal act where a person tries to illegally take money from a bank or financial institution.
- Fraud committed by the managers of a bank by passing money out to strangers.

5. Which of the following is a way to prevent bank fraud?

- Check your bank/credit card statements for any suspicious activity.
- Call the police
- Never log onto your computer
- Work at the bank that you do business with