



## Payments System Research Briefing

# How Do Consumers' Fraud Experiences Vary with Their Financial Vulnerability?

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More than one in five U.S. consumers experienced financial fraud in 2023. Data show more financially vulnerable consumers are more likely to experience fraud and ultimately incur fraud losses.

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A sizeable share of U.S. consumers has been exposed to financial fraud. According to the 2024 Survey of Household Economics and Decisionmaking (SHED), in 2023, 21 percent of U.S. consumers experienced financial fraud involving their credit cards, bank accounts, or other financial products. Fraud victims often lose money in a fraud incident and may not fully recover the money later, ultimately sustaining fraud losses. The adverse financial effects of fraud are likely to be most pronounced for financially constrained consumers, as these consumers tend to have little financial cushion to absorb a fraud loss. In this *Payments System Research Briefing*, we examine how both the share of consumers who experienced financial fraud and the share who ultimately incurred fraud losses varies by consumers' level of financial vulnerability.

## U.S. consumers' experiences of financial fraud

We examine U.S. consumers' experiences of financial fraud using data from the 2024 SHED conducted by the Board of Governors of the Federal Reserve System. The 2024 SHED is the first survey in the series to contain questions about consumers' fraud (or scam) experiences.<sup>[1]</sup> The survey asks consumers if they experienced fraud involving credit cards (credit card fraud) or other financial products (non-credit card fraud) in 2023. For consumers who experienced non-credit card fraud, the survey asks whether their most recent non-credit card fraud incident involved a bank account product (such as a debit card, bank transfer, and check) or a non-bank account product; the survey also asks about consumers' losses and loss recovery in that incident. The survey does not ask about consumers' losses and loss recovery for credit card fraud, which may be because consumers are often fully protected from credit card fraud losses.<sup>[2]</sup>

In 2023, 21 percent of U.S. consumers experienced financial fraud: 17 percent of all consumers (or 18 percent of consumers who own credit cards) experienced credit card fraud, and 8 percent of all consumers experienced non-credit card fraud (with some consumers experiencing both types of fraud). For over half of the consumers who experienced non-credit card fraud, a bank account product was involved in their most recent fraud incident.

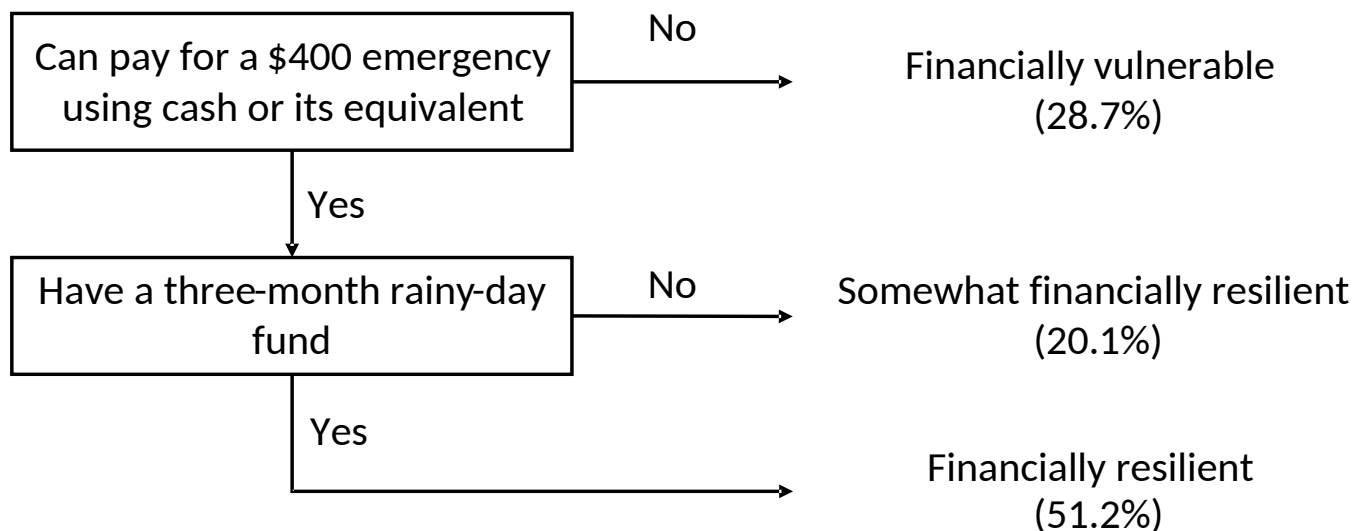
Consumers who experience non-credit card financial fraud often ultimately sustain losses from these incidents, as non-credit card products typically do not offer consumers full protection from fraud losses. More than 60 percent of consumers who experienced non-credit card fraud lost money in their most recent fraud encounter, and only about half of these consumers fully recovered the funds lost. Of those who did not fully recover their funds, half ultimately incurred a loss of \$500 or more, while the top quartile ultimately incurred a loss of \$2,500 or more.

## **How do experiences of financial fraud vary with consumers' financial vulnerability?**

A fraud loss is a negative shock to a consumer's cashflow, which can harm their financial well-being. Whether a fraud loss leads to financial distress for a consumer largely depends on their financial cushion, or their financial resources remaining after accounting for essential expenses. Consumers with little to no financial cushion are highly vulnerable to negative cashflow shocks, such that a fraud loss of \$500 may cause these consumers financial distress. In contrast, consumers with an ample financial cushion may not face any financial difficulties incurring a fraud loss as great as \$2,500. Thus, from a consumer well-being perspective, financial fraud poses a greater concern if financially vulnerable consumers are also more likely to incur fraud losses.

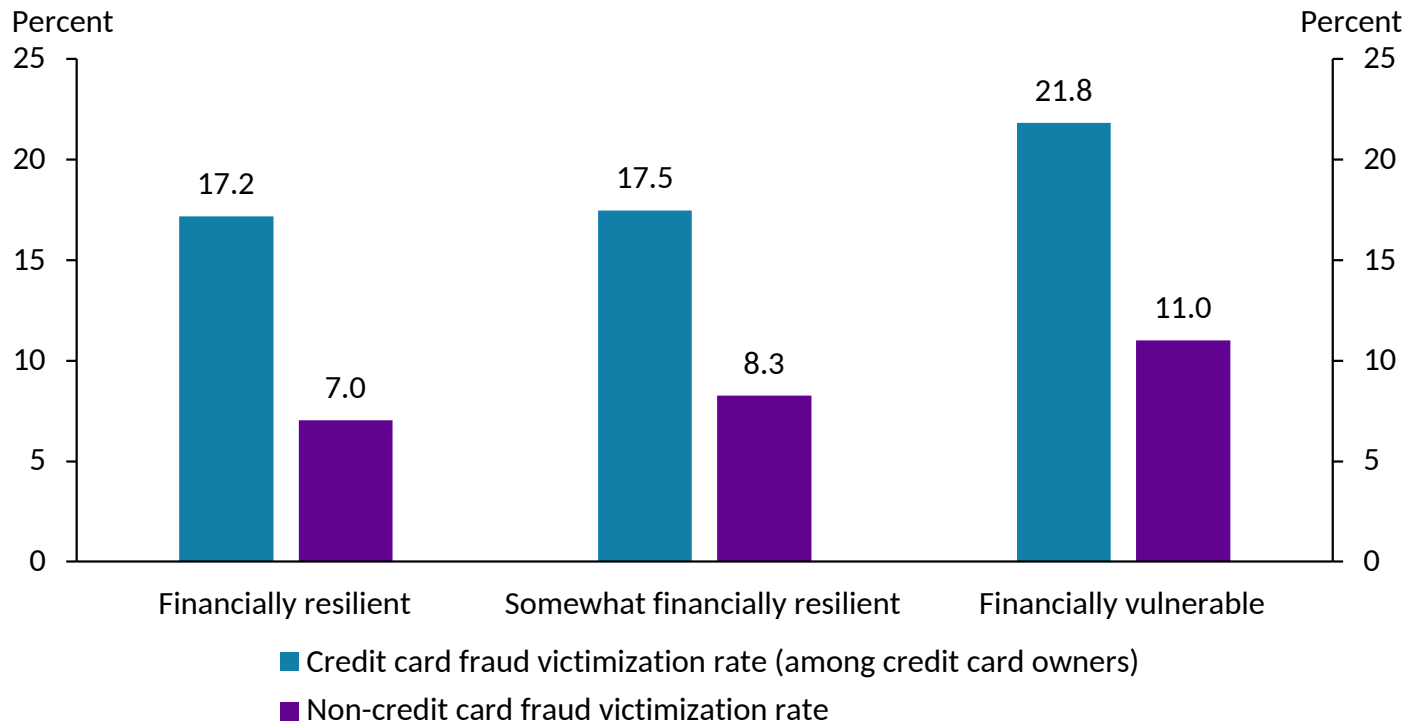
To examine how consumers' fraud experiences vary with their financial cushion, we divide consumers into three levels of financial vulnerability: financially vulnerable, somewhat financially resilient, and financially resilient. As Figure 1 illustrates, we first divide consumers based on their ability to pay for a \$400 emergency expense using cash or its equivalent.<sup>[3]</sup> Consumers who are unable to do so are considered financially vulnerable and are highly susceptible to experiencing financial distress if they incur a fraud loss. We divide the remaining consumers based on their ability to cover three months' expenses if they lost their source of income. Somewhat financially resilient consumers have a moderate amount of financial cushion, sufficient to cover a \$400 expense but not three months' expenses. They are unlikely to experience financial distress when incurring a modest fraud loss (such as \$500). In contrast, financially resilient consumers have a relatively large financial cushion—enough to cover three months' expenses—and may be able to absorb a larger net fraud loss without experiencing financial difficulties. Based on this categorization, we find that roughly 29 percent of U.S. consumers were financially vulnerable, 20 percent were somewhat financially resilient, and 51 percent were financially resilient in 2023.

**Figure 1: Consumers are divided into three financial vulnerability levels based on the amount of financial cushion they have for absorbing negative cashflow shocks**



Financially vulnerable consumers were more likely to experience both credit card fraud and non-credit card fraud in 2023. The blue bars in Chart 1 show that among consumers who own credit cards, nearly 22 percent of financially vulnerable consumers were victims of credit card fraud compared with around 17 percent of financially resilient and somewhat financially resilient consumers. For non-credit card fraud (purple bars), the victimization rate was 11 percent for financially vulnerable consumers compared with 7 and 8 percent for financially resilient and somewhat financially resilient consumers, respectively.

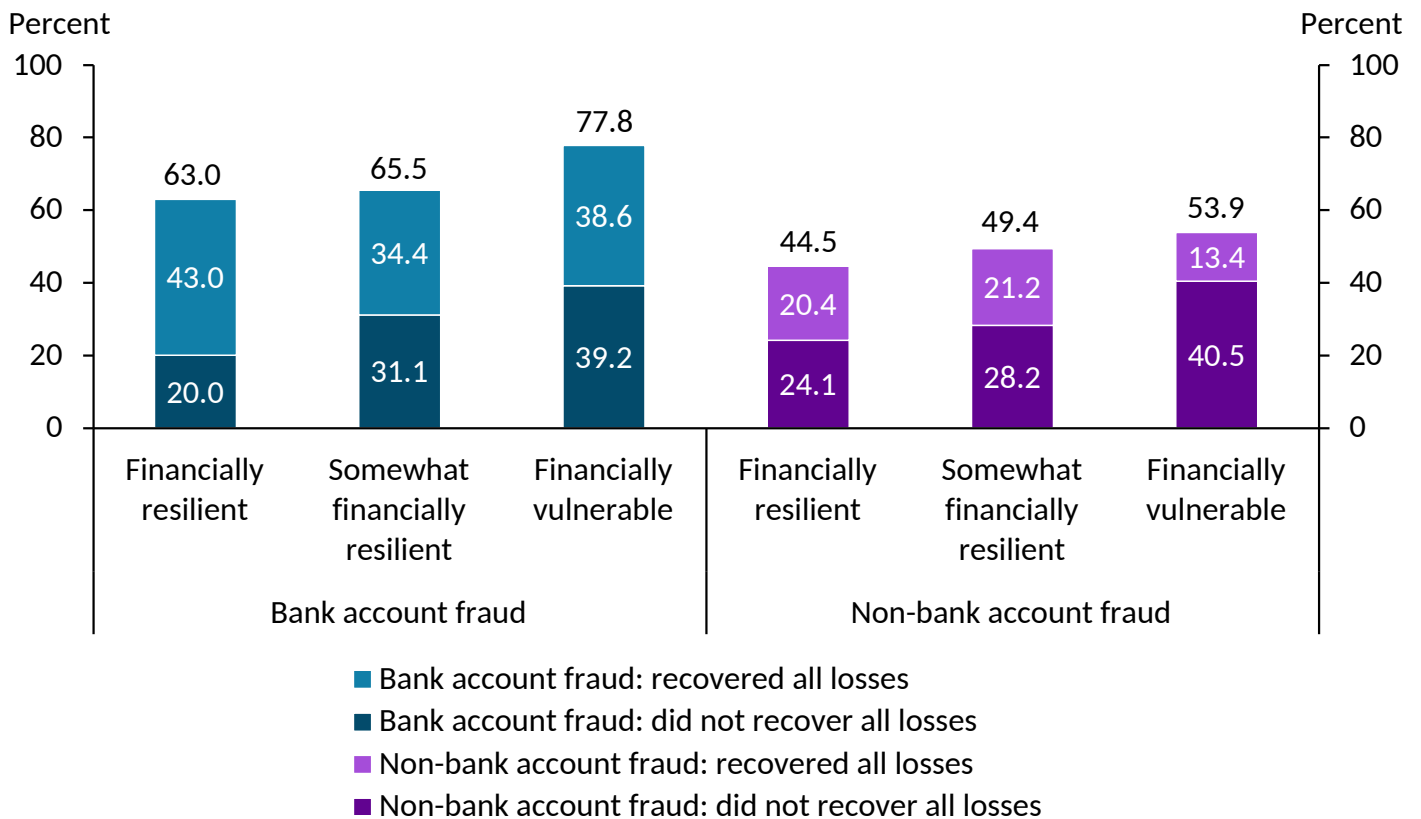
**Chart 1: Financially vulnerable consumers have higher fraud victimization rates for both credit card fraud and non-credit card fraud**



Note: Credit card fraud victimization rates are calculated only for consumers who own a credit card.  
 Sources: Board of Governors of the Federal Reserve System and authors' calculations.

For each level of financial vulnerability, we further examine the shares of non-credit card fraud victims who ultimately lost funds in their most recent fraud incident. We distinguish between two types of non-credit card fraud: fraud involving a bank account product (bank account fraud) and fraud involving some other type of financial product (non-bank account fraud). Chart 2 shows that for both types of non-credit card fraud, the share of fraud victims who lost money in the incident (total in each bar) increases with financial vulnerability. For bank account fraud (blue bars), 63.0 percent of financially resilient victims lost money at the time of fraud compared with 77.8 percent of financially vulnerable victims. Similarly, for non-bank account fraud (purple bars), 44.5 percent of financially resilient victims lost money at the time of fraud compared with 53.9 percent of financially vulnerable victims.

**Chart 2: Financially vulnerable fraud victims are more likely to lose money to fraud (non-credit card) and less likely to fully recover fraud losses**

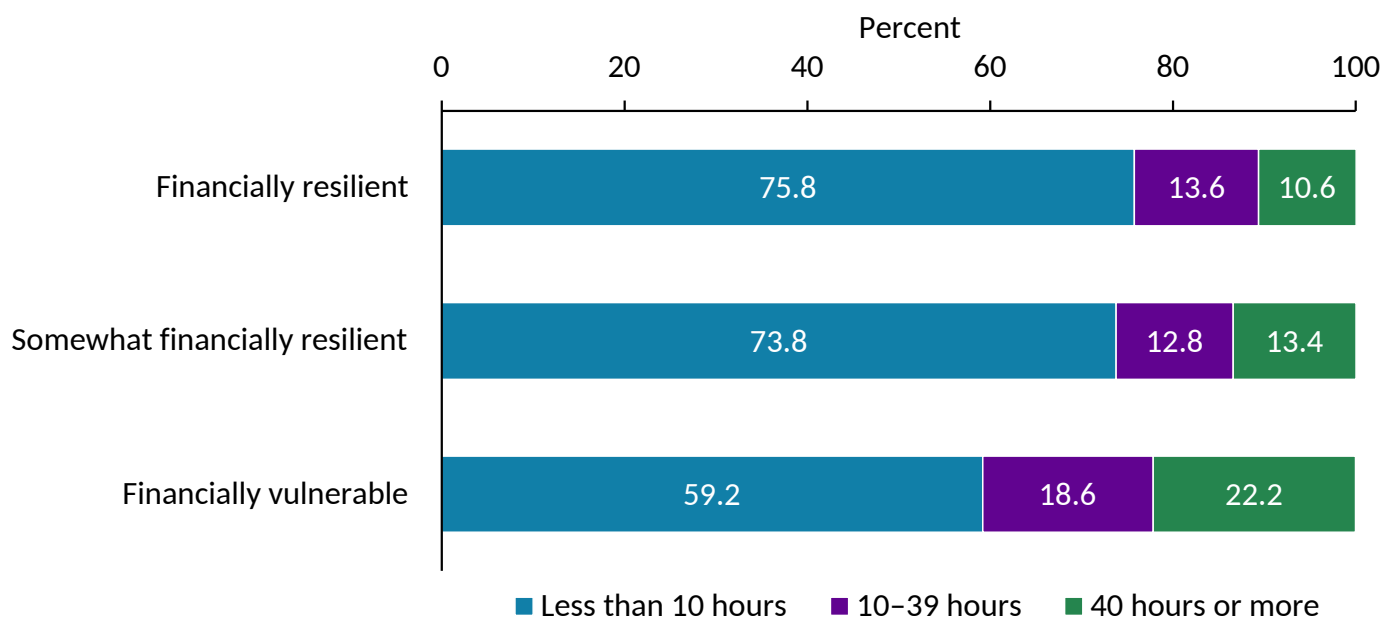


Sources: Board of Governors of the Federal Reserve System and authors' calculations.

Chart 2 also shows that the share of fraud victims who subsequently fully recovered their losses (lighter bars) decreases with financial vulnerability. Of fraud victims who lost money to bank account fraud, over two-thirds of financially resilient victims fully recovered their losses (light blue bars), whereas slightly over half of somewhat financially resilient and slightly under half of financially vulnerable fraud victims did so. For non-bank account fraud, nearly half of financially resilient and somewhat financially resilient victims fully recovered their fraud losses (light purple bars) but less than one third of financially vulnerable victims did so. Overall, financially vulnerable fraud victims are about twice as likely as financially resilient victims to have unrecovered losses from bank account fraud (39.2 percent versus 20 percent) and about 1.7 times more likely to have unrecovered losses from non-bank fraud (40.5 percent versus 24.1 percent).<sup>[4]</sup>

Financially vulnerable fraud victims' lower loss recovery from non-credit card fraud is particularly noteworthy when we consider the amount of time they spent recovering funds relative to the amount of time spent by more financially resilient fraud victims. Chart 3 shows that around 40 percent of financially vulnerable fraud victims spent 10 or more hours recovering funds (purple bar + green bar), compared with only around 25 percent of financially resilient and somewhat financially resilient fraud victims. Further, around 22 percent of financially vulnerable fraud victims spent 40 or more hours recovering funds (green bar), which is twice the share of financially resilient fraud victims. That financially vulnerable fraud victims are less likely to fully recover fraud losses despite spending more time on fund recovery suggests that they experience greater difficulty recovering fraud losses than their more financially resilient counterparts.

**Chart 3: Financially vulnerable fraud victims spent more time recovering fraud losses than more financially resilient fraud victims**



Sources: Board of Governors of the Federal Reserve System and authors' calculations.

In all, our findings indicate that financially vulnerable consumers are not only more likely to be exposed to fraud than consumers with higher financial resiliency, but also more likely to lose money at the time of fraud and less likely to fully recover their losses despite spending more time attempting to recover their funds. The share of all financially vulnerable consumers who had unrecovered losses from non-credit card fraud in 2023 is 4.6 percent—nearly three times the share of all financially resilient consumers (1.6 percent).

## Why might financially vulnerable consumers be more likely to experience fraud and incur losses?

Financially vulnerable consumers' greater tendency to experience fraud and incur fraud losses might be related to a few factors. Financially vulnerable consumers may be preoccupied with financial concerns that increase their cognitive load and make them less attentive to potential signs of scams (Mani and others 2013). Their relative lack of financial resources may also make them easy targets for scammers, who frequently exploit a consumer's desire for financial gains and fear of financial losses.

Higher susceptibility to scams could also help explain why financially vulnerable consumers are less likely to fully recover lost funds. In most scams, consumers are deceived into making an authorized payment to the scammers, meaning that most scams are a form of "authorized" fraud. Recovering funds from authorized fraud can be difficult, as financial service providers are typically not required to reimburse their customers for this type of fraud. In contrast, for unauthorized fraud, where a third party makes a fraudulent payment from a consumer's account without the consumer's authorization, financial service providers are often required by law or payment network rules to reimburse the consumer for fraud losses, which makes it more likely that the consumer will fully recover lost funds.<sup>[5]</sup> Because consumers who are more financially vulnerable may be more susceptible to scams, authorized fraud may make up a larger share of the fraud they experience compared with less financially vulnerable consumers. Consequently, they may be less likely to fully recover lost funds.

A lack of knowledge on how to recover fraud losses and less favorable treatment from their financial institutions (due to lower account balances or repetition of falling for fraud or scams) are also potential reasons for why financially vulnerable consumers are less likely to fully recover their fraud losses. These reasons may also help explain why financially vulnerable consumers spend more time recovering fraud losses and dealing with the consequences of fraud.

## Conclusion

Financial fraud, particularly involving non-credit card payments, often results in unrecoverable losses, which can worsen a consumer's financial well-being and lead to financial distress. We find that financially vulnerable consumers—who are the most likely to be financially distressed in the event of fraud losses—are most likely to experience fraud, lose money to fraud, and have unrecovered fraud losses. We also find that they spend more time on fund recovery, suggesting their greater difficulty in recovering fraud losses than consumers who are more financially resilient.

Higher susceptibility to scams or authorized payment fraud, coupled with the difficulty of obtaining reimbursement from financial service providers for authorized fraud losses, may explain why financially vulnerable consumers are more likely to experience fraud and ultimately incur fraud losses. However, existing data do not allow us to ascertain the true causes, so more research is needed to effectively reduce the adverse effects of financial fraud on financially vulnerable consumers.

## Endnotes

- [1] A scam is a form of fraud that involves deceiving or manipulating the victim.
  - [2] Consumers are typically fully reimbursed for credit card fraud losses under credit card networks' zero liability rules in cases where they did not authorize the fraudulent transaction. Consumers may also be able to dispute and reverse an authorized payment they made to fraudsters in many instances, such as when they paid for a product or service that was never delivered.
  - [3] The SHED refers to "cash equivalent" as having the funds in a checking or savings account or using a credit card and paying it off in full at the next statement.
  - [4] From Chart 2, we also note that fraud victims for bank account products were more likely than those for non-bank account products to lose money at the time of fraud, regardless of the victim's financial vulnerability level. However, consumers who lost money to bank account fraud were more likely to fully recover the fraud losses than those who lost money to non-bank account fraud.
  - [5] Regulation E limits consumers' liability for unauthorized electronic transactions to \$50 if the fraudulent transaction was reported within two days and \$500 if reported within 60 days. For unauthorized debit card transactions, consumers may also receive full liability protection from their card networks. And the Uniform Commercial Code generally protects consumers from losses arising from forged or altered checks.
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