

INSIGHTS

December 2024

MODERNIZING FRAUD MANAGEMENT A Strategic Imperative to Avoid Billions in Fraud Losses



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ABSTRACT

Fraud losses are estimated to be \$10 to \$20 billion per year in Canada. This white paper explores the strategic initiative undertaken by a leading financial institution to modernize its fraud management systems. The program's objectives included mitigating fraud risk, supporting new product lines, retiring legacy technology, and achieving operational efficiencies. Drawing on extensive program insights, the paper examines the drivers, challenges, outcomes, and lessons learned, offering actionable insights for similar enterprises seeking to modernize their fraud management ecosystems.

INTRODUCTION

The evolving landscape of financial services demands robust fraud management solutions to mitigate exposure risks, comply with regulatory requirements, and enhance customer trust. This paper explores the rationale, implementation, and outcomes of a comprehensive fraud modernization program undertaken by a major bank.

¹Detective David Coffey of the Toronto Police Services, Financial Crime Unit, at the Regulatory Technology Association of Canada event held in Toronto, Canada on November 26, 2024

KEY STATISTICS: CANADA

Reported fraud losses in Canada will surpass \$1B in Canada by the end of 2024. It is estimated that only 5 to 10% of fraud is reported which implies that fraud in Canada is a \$10 to \$20 billion problem per year and growing¹.

WHY MODERNIZE FRAUD SYSTEMS?

The bank initiated the fraud modernization program to:

Mitigate Fraud Risk: Align fraud systems with real-time payment capabilities to address rising transaction volumes and associated risks.

Retire Legacy Technology: Replace outdated systems incapable of supporting modern fraud detection requirements.

Support Product Innovation: Enable the launch of advanced payment products like real-time transactions.

Enhance Operational Efficiency: Streamline fraud monitoring processes by reducing reliance on disparate systems and manual data analysis.

KEY CHALLENGES

- 1. Data and System Integration:** Ensuring seamless onboarding of hundreds of data feeds while adhering to governance standards.
- 2. Technical Debt:** Minimizing legacy system dependencies by leveraging cloud-based solutions.
- 3. Organizational Change Management:** Preparing fraud analysts and support teams for new workflows while managing dual-system operations during transition.
- 4. Real-Time Readiness:** Transitioning from batch processing to real-time fraud detection, particularly for product innovations like wires, e-transfer and real-time debit.
- 5. Governance and Prioritization:** Balancing ongoing product launches and scope changes through robust program governance.

KEY STATISTICS:

USA 

According to the Federal Trade Commission, reported fraud losses exceeded \$10B in the US in 2023. Using the same estimates of the amount of fraud that is reported (only 5 to 10%) implies that fraud in the U.S. is a \$100 to \$200 billion problem per year and growing².



²“As nationwide Fraud Losses top \$10 Billion in 2023, FTC steps up Efforts to Protect the Public”, February 9, 2024, Federal Trade Commission, [ftc.gov](https://www.ftc.gov)

OUTCOMES AND SUCCESS METRICS

The program achieved significant milestones, including:

Reduced Fraud Risk Exposure:

- Real-time monitoring enabled immediate mitigation strategies, saving millions in potential losses.

Operational Efficiencies:

- Reduced analyst headcount requirements by centralizing fraud operations.
- Minimize the number of systems the analyst has to move between to gather information before taking action.

Technology Modernization:

- Deployed scalable, cloud-compatible solutions to future-proof fraud detection capabilities.

Enhanced Customer Experience:

- New product and technology capabilities offered competitive advantages, such as higher transaction limits and faster resolutions.

LESSONS LEARNED

1. Incremental Deployment:

A "thin-slice" release strategy ensured minimal disruptions while scaling functionality.

2. Data Optimization:

Employing a Minimum Viable Model (MVM) for data ingestion, improved system efficiency and reduced memory overhead.

3. Cross-Functional Collaboration:

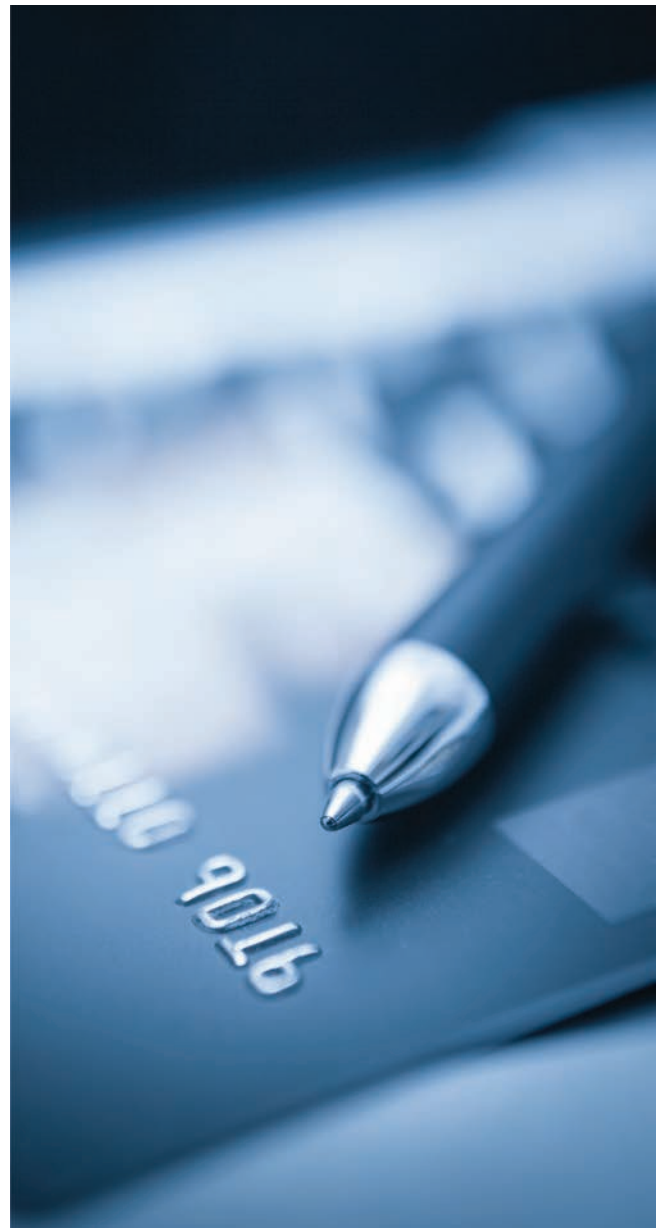
Strong executive support and governance across business and technology units were pivotal to success.

4. Adaptability:

The program's flexibility allowed for prioritizing high-impact initiatives, such as real-time payment products, corporate mergers and acquisitions.

KEY OUTCOME:

The Bank's Fraud Modernization initiative prevented millions of dollars of fraud losses annually. Sometimes potential fraud losses were prevented within weeks of onboarding a bank to the new platform.



STRATEGIC IMPLICATIONS FOR FINANCIAL INSTITUTIONS

Modernizing fraud systems is not merely a technological upgrade but a strategic imperative. Institutions undertaking similar transformations should:

1. Invest in Real-Time Systems:

Future-proof fraud detection capabilities to match evolving payment landscapes.

2. Adopt Agile Frameworks:

Incremental and adaptive strategies enable organizations to navigate complexities effectively.

3. Leverage Cloud Technologies:

Reduce technical debt while enhancing scalability and operational agility.

4. Engage Stakeholders Early:

Cross-functional alignment ensures smoother transitions and better outcomes.

CONCLUSION

The fraud modernization initiative outlined in this paper demonstrates the transformative potential of aligning fraud management systems with modern technological and operational requirements. By mitigating risks, enhancing efficiencies, and supporting product innovation, financial institutions can secure their operations against evolving threats while delivering value to customers and stakeholders. All of this can be achieved with a return on investment that is substantial and timely.

For more information, email us at info@wellingtoncg.com



ABOUT WELLINGTON

At Wellington, we understand that most business transformations fail. Our business model is built with one singular purpose: The successful implementation of your strategy, as demonstrated in the above article. Our commitment to our clients is, first and foremost, to make them successful as they implement their strategies and to prepare them to work without us when the implementation is done. That is why our customers keep coming back to us.

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Brian McConnell

PRESIDENT/FOUNDER

Brian has built Wellington on a foundation of integrity, professionalism and passion for building and managing teams to solve complex business problems. In helping large and medium size enterprises effect change over the past 30 years, Brian believes Wellington thrives when it successfully completes projects and, at the same time, helps to strengthen a client's people and organization.



Malcolm Clarke

PRINCIPAL CONSULTANT

Malcolm has more than 25 years of experience in providing management consulting services and leading project teams across entire enterprises. His experience ranges from pure business to pure technology, with a common theme of finding practical, applicable solutions to business problems. For the last 5 years, Malcolm has been focused on Financial Crimes including helping this financial institution implement Fraud Modernization.



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