Customers can become more loyal if their banks solve fraud cases, researchers find

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More than one-third of U.S. consumers were targeted by attempted financial fraud in 2024.
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When banks issue their defrauded customers refunds and successfully identify the perpetrators, fraud victims are 60% more likely to stick with their bank than customers that didn't experience any fraud.

But if customers get their stolen money back but never learn who the perpetrators are, they are 40% more likely to take their accounts elsewhere than customers who weren't defrauded.

That's what my co-authors and I found by researching how customers respond when banks investigate fraud. I partnered for this study with Sriram Somanchi and Rahul Telang; I study marketing, and they're information technology scholars.

We believe this pattern emerged because identifying fraudsters can signal competence and rebuild trust. But when no one is caught, even with a refund, customers are more likely to see the fraud incident as a lapse in capability and blame the bank itself.

We partnered with a major U.S. bank that shared five years of data covering 422,953 customers, including 22,953 who experienced a single instance of fraud.

These customers were victims of account-based fraud, meaning that perpetrators had surreptitiously siphoned away money from their accounts, often through various scams.

Every defrauded customer got a refund, but the perpetrators were identified only about 13% of the time. Our findings support what's known as the "service recovery paradox": When a business handles a problem well, its customers can become more loyal than if no problem had occurred.

Customers who had recently opened their bank accounts and those with few prior interactions with the banks were the most likely to leave if the perpetrators were never identified.

Customers in cases where perpetrators weren't identified within the next three months – and who had opened their accounts years earlier and were more engaged with their banks – were more likely to stay put because they are more familiar with the bank's technological capabilities and, therefore, are more likely to forgive the bank.

Our results suggest that when perpetrators are identified, customers can regain confidence in their bank's ability to safeguard their accounts. When the fraudsters aren't caught, they lose more trust instead.

Why it matters

Financial fraud is both costly and pervasive. More than one-third of U.S. consumers were targeted by attempted financial fraud in 2024, and nearly 40% of those attempts led to a financial loss. Total losses from defrauded consumers totaled more than US$12.5 billion in 2024.

Fraud can undermine confidence in banks and other financial service providers.

U.S. regulations generally require banks to issue customers full refunds whether or not the perpetrator of a fraud is caught. But when customers get refunds after being defrauded, it doesn't automatically restore their trust in a bank or app.

What still isn't known

We focused on fraud cases that the customers themselves reported. It's unclear whether they would have responded the same way had their banks detected the fraud instead. Another open question is whether similar patterns hold for other debacles, such as data breaches that make customers' personal information vulnerable to exploitation.