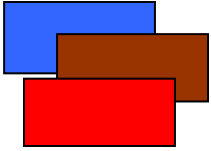


Small Business Fraud
Custom Study among Small
Business Owners

Conducted for
SunTrust Banks/National Small
Business Association/Edelman

October 17, 2007



Objective & Methodology

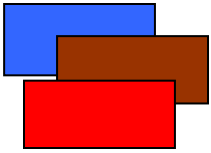
Objective

In collaboration with SunTrust Banks and Edelman, StrategyOne conducted a study to explore the issue of fraud among small business owners. Specifically, the objective of the study is to better understand small business owners' concern over fraud, the most prevalent types of fraud affecting them, and what steps they are currently taking to protect themselves from fraud. The results of the study will be used for targeted media outreach in support of SunTrust Banks' new product "Online Cash Manager with Fraud Inspector".

Study Design:

StrategyOne, an applied research consulting firm, conducted a custom online survey of 500 small business owners in the Southeast (AL, DC, GA, FL, MD, NC, SC, TN, VA, WV) between September 28 and October 8, 2007 using the field services of TNS.

The margin of error for the total sample of adults (N=511) is ± 4.3 at the 95% level of confidence, which means that in 95 out of 100 times that a sample of this size is drawn, the results would not vary by more than 4.3 percentage points in either direction.



Executive Summary

Small Businesses' Online Reliance Leaves Them Vulnerable and Concerned Over Fraud

The Internet is an integral part of running a small business. From conducting business transactions to communicating with key stakeholders like customers, small businesses have become increasingly reliant on the Internet to conduct basic operations. However, this increased dependence on the Internet does not come without risk, with the majority of small business owners concerned about fraud in their connection to their business's finances. Specifically, fraud scams like online identity theft are at the forefront of small business owners' list of worries and online hackers top their list of potential culprits.

For Many, Fraud Experience is Immediate and Real

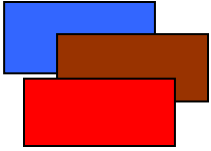
Small business owners are no strangers to fraud in their business, with a quarter having personally been the victim of fraud, particularly check fraud and credit card fraud. Men were significantly more likely than women to report that their business has been the victim of fraud. Interestingly, while online identity theft tops the list of fraud *concerns*, check fraud and credit card fraud are the most frequently *experienced* types of fraud.

With fraud striking small businesses an average of six times, it is apparent that fraud is a detriment to the livelihood of a small business—resulting in tens of thousands of dollars in losses. Although most fraud victims surveyed report that the fraud was detected in under a week, they generally were not the first to notice it – rather their banks tended to make the discovery.

Banks Play a Vital Role in Fraud Protection, but More is Warranted

As the first to detect fraud, banks are considered the first line of defense in safeguarding small businesses. While the majority of small business owners believe they are informed about fraud, they also recognize their vulnerability and believe their banks should be more proactive in the fight against fraud. As such, many small business owners voice the need for more information and prevention options, with the majority open to fraud prevention programs that provide the ability to review transactions that have cleared their account.

Verbatim comments suggest that small business owners are particularly interested in being educated about how best to recognize fraud in their business as well as more proactive measures by their bank to detect fraud.

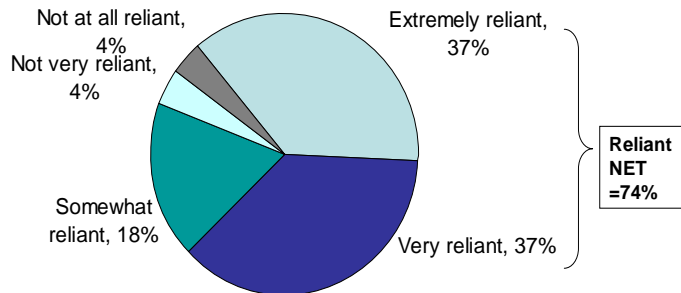


Key Findings

I. CONDUCTING BUSINESS ONLINE

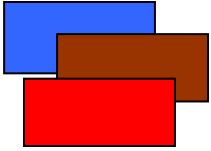
- **The majority of small business owners depend on the Internet to run a successful business.**
 - Three-quarters of small business owners (74%) report that their business is highly reliant on the Internet to conduct its overall operations.
 - Small business owners under the age of 45, those earning \$5 million or more in gross annual revenue, and those with 50 or more employees are significantly more likely than their counterparts to rely on the Internet to conduct its overall operations.

Three-quarters of Small Business Owners Reliant on Internet for Its Operations

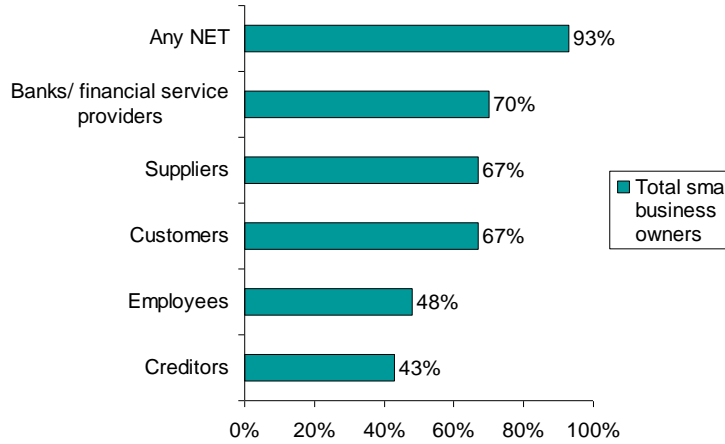


B3. How reliant is your business on the Internet to conduct its overall operations? Would you say it is...

- **Conducting business via the Internet is essential for most small business owners, with many using it as a communication tool and means to organize business finances.**
 - The majority of small business owners (70%) report that their business conducts online transactions or activities with banks/ financial services providers.
 - Small business owners over 45 and those with 10 or fewer employees are significantly less likely than their counterparts to report conducting online transaction with banks/ financial service providers.
 - Two-thirds of small business owners also report that their business conducts transactions or activities with suppliers (67%) and customers (67%).
 - Less frequently, small business owners report that their business conducts online transactions or activities with employees (48%) and creditors (43%).



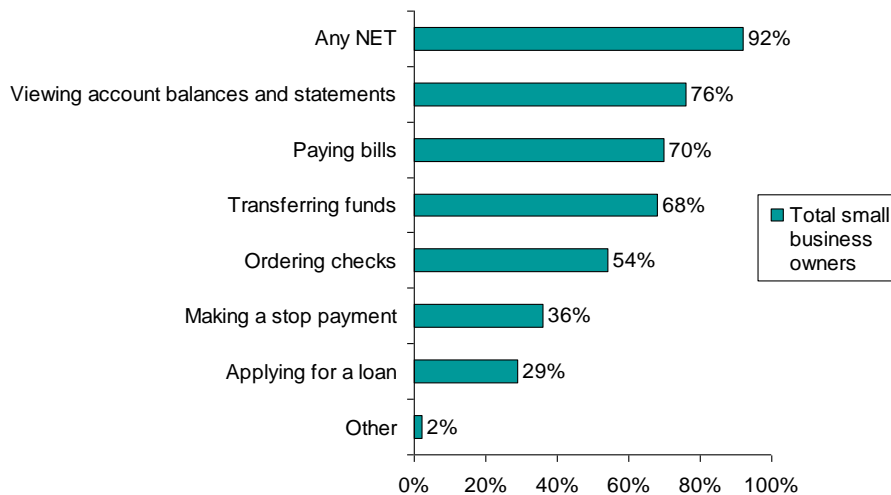
Small Business Owners Conduct Online Activities Mostly With Banks



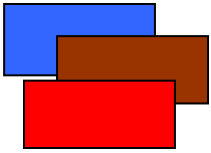
B2. With which of the following does your business conduct online transactions or activities?

- Nearly all small business owners (92%) perform some banking activities online, with three-quarters (76%) viewing account balances and statements online for their businesses.
- Seven in ten small business owners pay bills (70%) and transfer funds (68%) online for their business.
- Other activities that small business owners perform online for their business include:
 - Ordering checks (54%)
 - Making a stop payment (36%)
 - Applying for a loan (29%)

Various Banking Activities Performed Online By Small Businesses

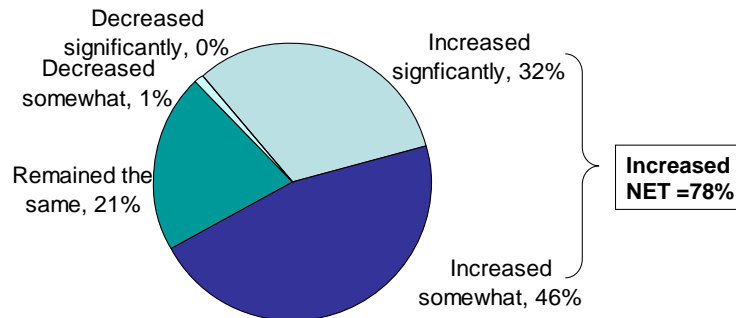


B5. Which, if any, of the following banking activities do you perform online for your business?



- **And small business owners' reliance on the Internet shows no signs of decreasing in the near future.**
 - Eight in ten small business owners (78%) report that the amount of business that they conduct online has increased over the past year.
 - Small business owners under the age of 45, those earning \$5 million or more in gross annual revenue, and those with 50+ employees are significantly more likely than their counterparts to report that the amount of business that they conduct online has increased over the past year.

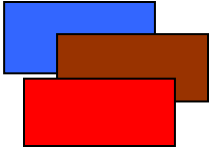
Increase in Business Conducted Online Over Past Year



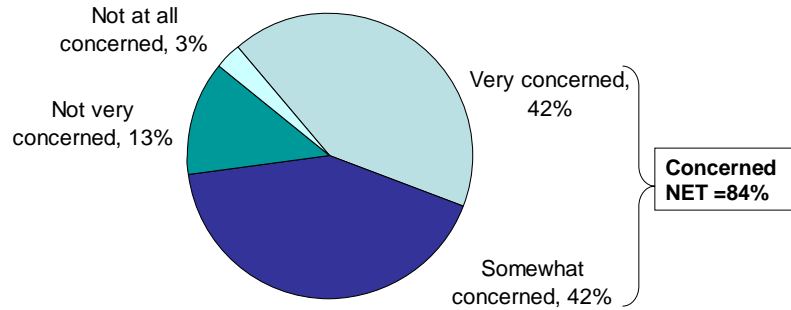
B4. Thinking about the past year, has the amount of business that you conduct online...

II. CONCERNS OVER FRAUD

- **With their heavy online exposure, the majority of small business owners are concerned about fraud. The top ranked worry is online identity theft, and the most threatening audience is online hackers.**
 - The majority of small business owners (84%) are concerned about fraud in connection to their business's finances, with four in ten reporting that they are very concerned (42%).
 - Small business owners under the age of 45 and those with 50+ employees are significantly more likely than their counterparts to be very concerned about fraud in connection to their business's finances.



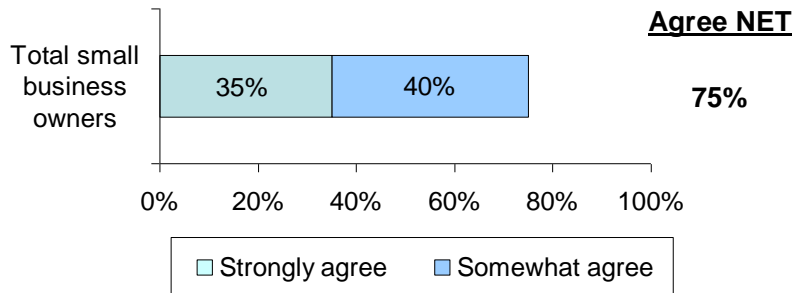
Small Business Owners Concerned About Fraud Affecting Business's Finances



C1. How **concerned** would you say you are about fraud in connection to your business's finances? Would you say you are...

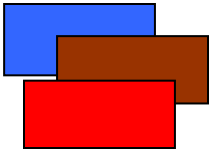
- o In fact, three-quarters of small business owners (75%) state that they are more concerned about business fraud now than they were a year ago.

"I am more concerned about business fraud now than I was a year ago"



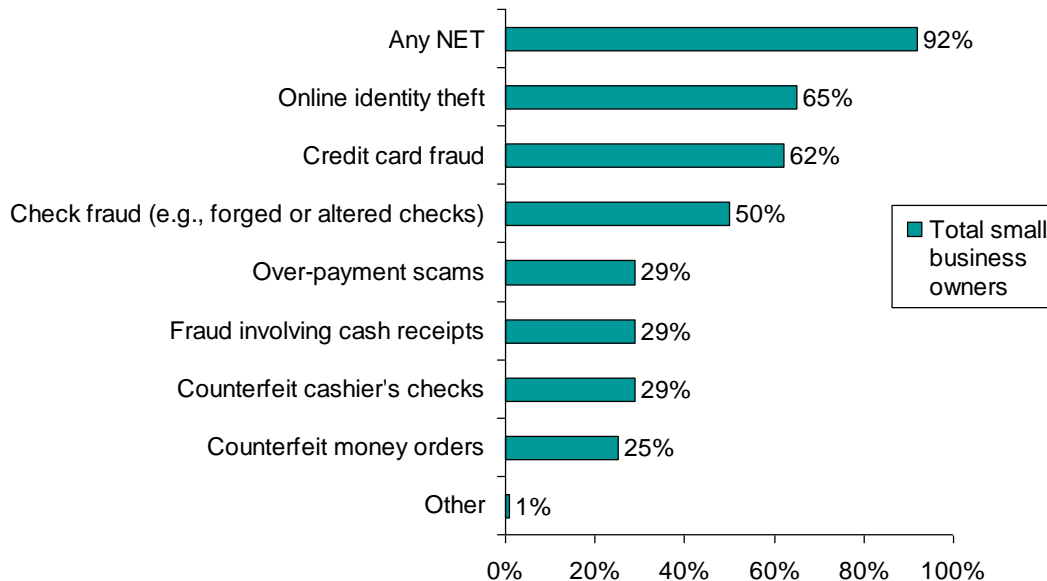
C7. I'm going to read you a list of statements and I'd like you to tell me if you strongly agree, somewhat agree, somewhat disagree, or strongly disagree with each.

- o Online identity theft is a worry for two-thirds of small business owners (65%), and tops the list of fraud concerns.
- o Online hackers are considered the biggest potential source of fraud (67%).



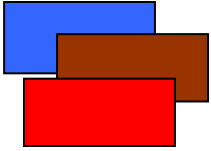
- **While concerns are not confined to online identity theft, many small business owners also worry about credit card and check fraud.**
 - Credit card fraud (62%) is not far behind online identity theft on the list of small business concerns.
 - Check fraud (e.g., forged or altered checks) (50%) also ranked highly, with half of small business owners stating that they are concerned with this possibility.
 - Less frequently reported responses include:
 - Over-payment scams (29%)
 - Fraud involving cash receipts (29%)
 - Counterfeit cashier's checks (29%)
 - Counterfeit money orders (25%)

Online Identity Theft Tops the List of Fraud Concerns

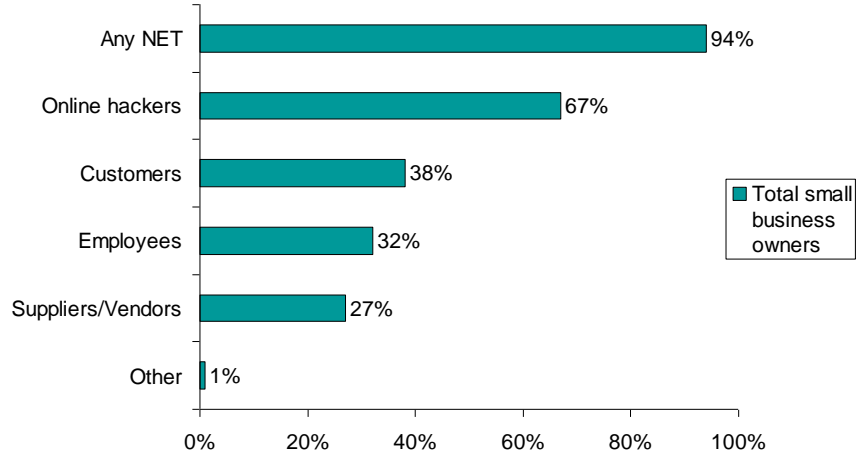


C3. Now thinking about specific types of fraud, which of the following might you be concerned about?

- **Aside from online hackers, small business owners also are concerned about customers as potential sources of fraud.**
 - Four in ten small business owners (38%) report being concerned about customers as a potential source of fraud.
 - Small business owners also report being concerned about employees (32%) and suppliers/vendors (27%) as potential sources of fraud.



Online Hackers Highest Potential Source of Fraud

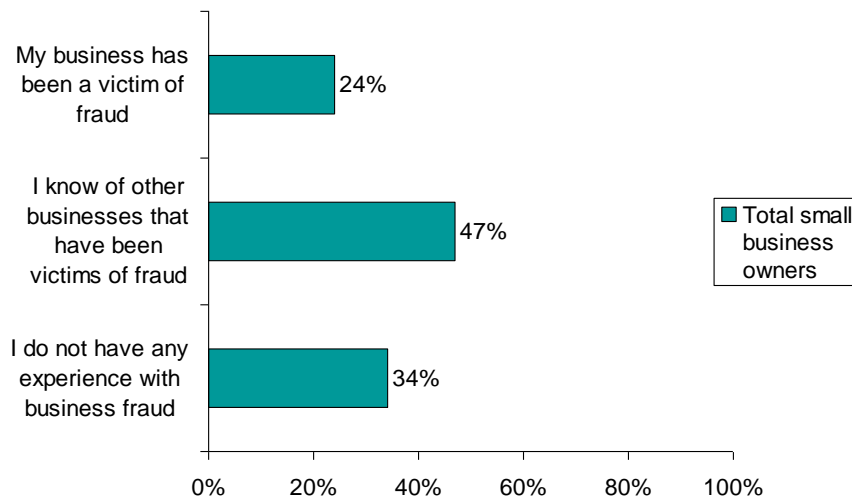


C5. Which, if any, of the following categories of people are you concerned about as a potential sources of fraud?

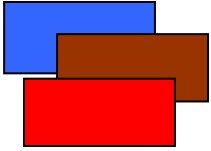
III. PERSONAL EXPERIENCE WITH FRAUD

- **Fraud touches two in three small business owners – either directly or via the grapevine.**
 - One-quarter of small business owners (24%) report that their business has been the victim of fraud.
 - Nearly half (47%) know of other businesses that have been a victim of fraud.

Fraud Touches Two in Three Small Business Owners—Either Directly or Via the Grapevine

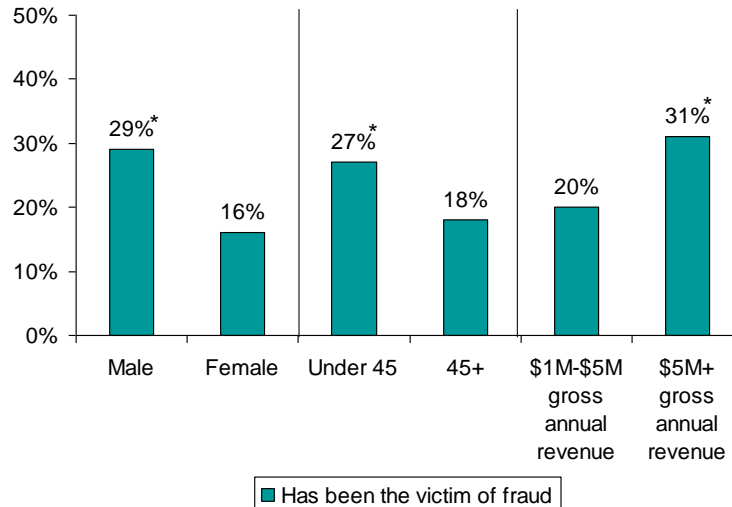


D1. Which of the following describes your business's experience with fraud?



- Male small business owners, those under 45, and those earning \$5 million+ in gross annual revenues are significantly more likely than their female, older, and lower revenue counterparts to report that their business has been the victim of fraud.

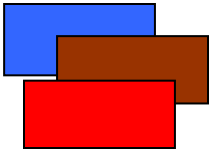
Specific Groups More Likely To Be Fraud Victims



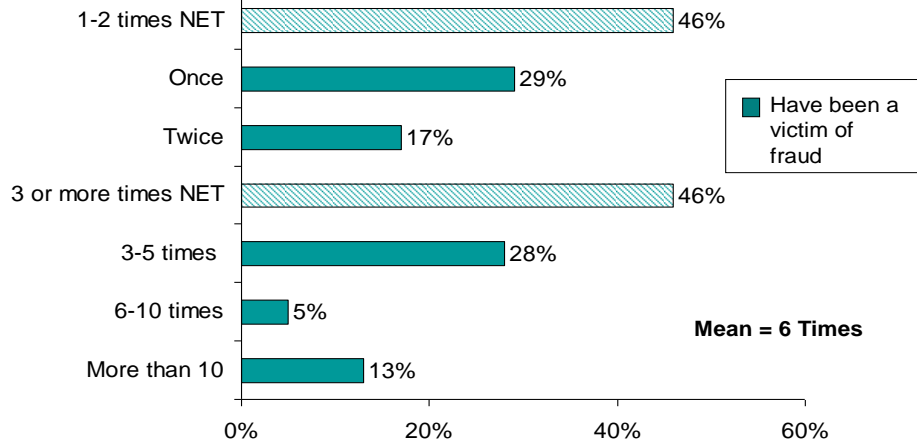
D1. Which of the following describes your business's experience with fraud?

* Indicates significant difference

- **Small business owners report that their business has been the victim of fraud several times, losing tens of thousands of dollars in the past five years.**
 - Nearly half of small business owners report that their business has been the victim of fraud 3 or more times (46%), with some experiencing fraud more than 10 times in their business (13%).
 - On average, small business owners who have experienced fraud report that their business has been a victim six times.
 - Small business owners with 50+ employees have experienced fraud in their business significantly more than those with fewer employees.



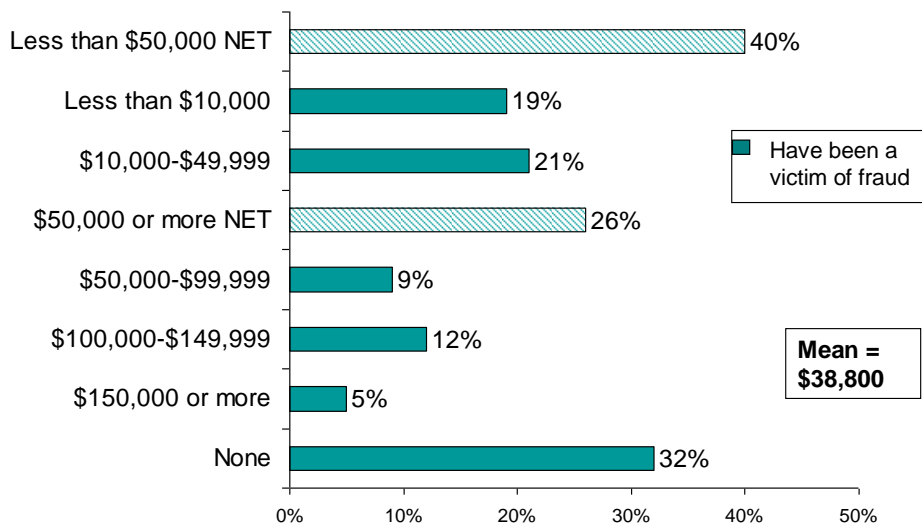
Nearly Half of Small Business Owners Impacted by Fraud 3 or More Times



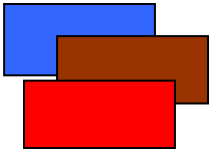
D2. To the best of your knowledge, how many times has your business been the victim of fraud? [SELECT ONE.]

- This has translated to money lost, with four in ten small business owners (38%) reporting losses of over \$50,000 in the past five years due to fraud.
- Small business owners have lost an average of \$38,800 in the past five years due to fraud.

One in Four Have Lost \$50K or More Due to Fraud

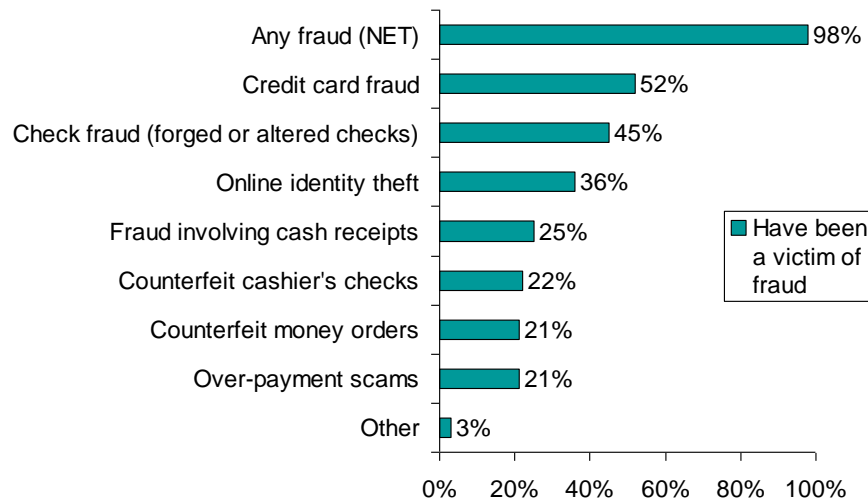


D5. In the past five years, how much money do you estimate that your business has lost due to fraud? [SELECT ONE.]



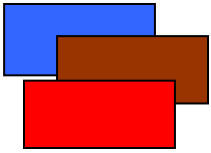
- **Interestingly, although online identity theft tops the list of fraud concerns, check fraud and credit card fraud are the most frequently experienced typed of fraud.**
 - After credit card fraud (52%), check fraud (45%) is the second most common fraud small business owners who have been victims of fraud have experienced.

Credit Card and Check Fraud Most Common Types Among Those Who Have Experienced Fraud

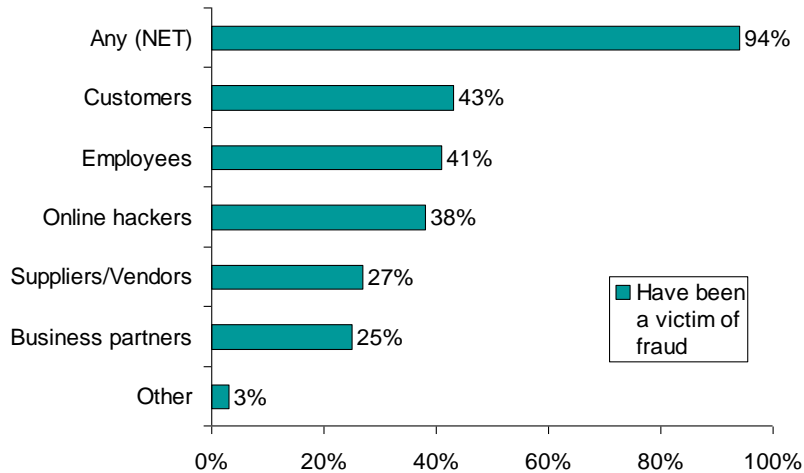


D3. Which of the following types of fraud has your business experienced? [RANDOMIZE. SELECT MULTIPLE.]

- **Customers and employees top the list of people who have actually committed fraud against small businesses (in contrast with the greatest concern over online hackers).**
 - Customers (43%) and employees (41%) top the list of people who have committed fraud against small business owners who have experienced fraud.
 - Not far behind, 38% of small business owners report that online hackers have committed fraud against their business.
 - One-quarter of small business owners who have been a victim of fraud report that suppliers/vendors (27%) and business partners (25%) have committed fraud against their business.

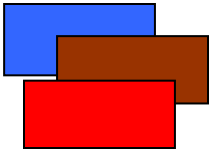


Employees and Customers Leading Culprits of Fraud

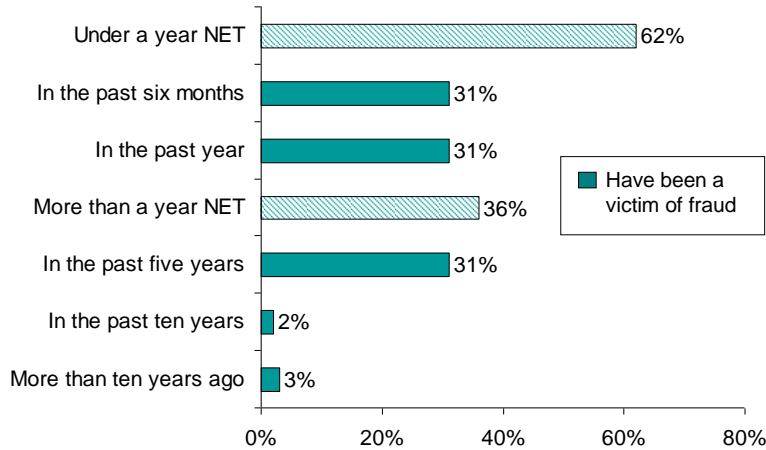


D4. Which, if any, of the following categories of people have committed fraud against your business? [RANDOMIZE. SELECT MULTIPLE.]

- **For the majority of those who have experienced fraud in their businesses, it has been a recent event, with a third experiencing it in the past six months.**
 - Six in ten small business owners (62%) who have been a victim of business fraud report that it has been under a year since their last experience.
 - One-third report that the last time they've experienced fraud in their business is in the past six months (31%), with another third report last experiencing fraud in the past year (31%).
 - Small business owners less frequently report experiencing fraud more than a year ago (36%), with a minority stating the last time they've experienced fraud in their business is more than ten years ago (3%).



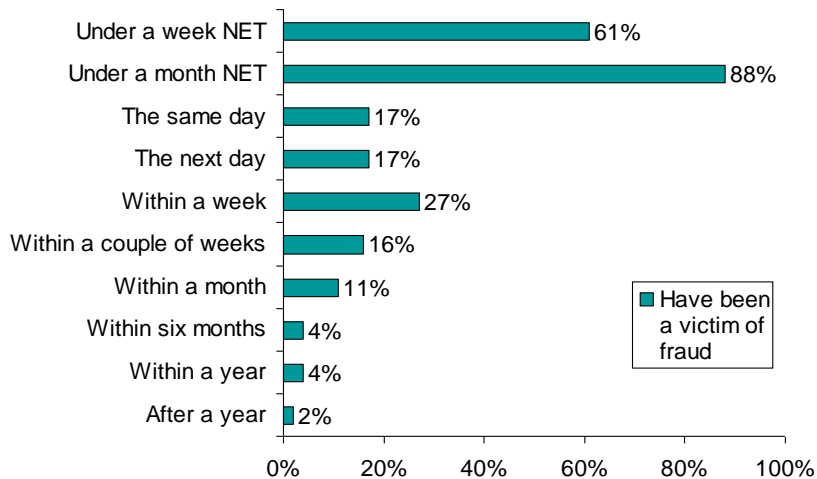
Fraud Likely to Have Been A Recent Experience



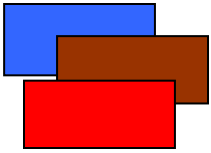
D6. When was the last time that you experienced fraud in your business? [SELECT ONE.]

- **While small business owners report becoming aware of fraud in their business in under a week, they are usually not the first to notice it.**
 - Six in ten small business owners (61%) who have been a victim of business fraud report that they became aware of the fraud in under a week.
 - One in five small business fraud victims report that they became aware of the fraud the same day (17%) or the next day (17%).
 - A minority report discovering this fraud later, with only 4% becoming aware of this fraud within six months or within a year (4%).

Over Half Report Lag Time Between Occurrence and Detection to Be Less than One Week

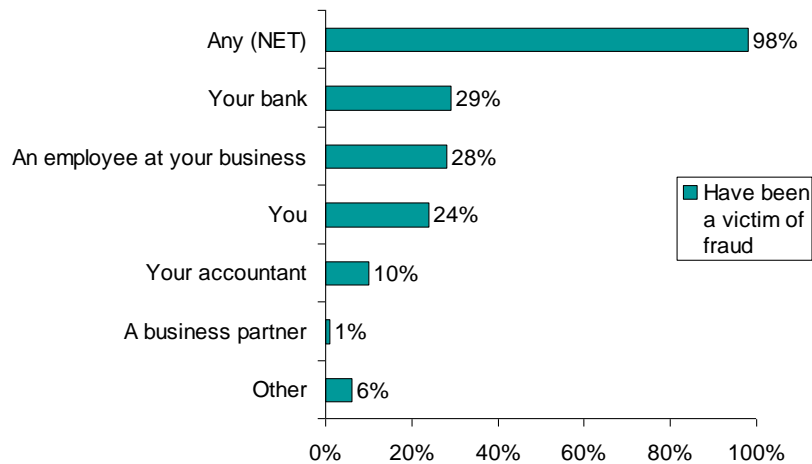


D7. Thinking of your most recent experience with fraud, how long after the fraud occurred did you become aware of it? [SELECT ONE.]



- However, small business owners are not the first to detect the fraud, with three in ten small business owners (29%) reporting that in their most recent experience with fraud, their bank was the first to detect the fraud in their business.
- A close second, small business fraud victims report that in their most recent experience with fraud, an employee at their business was the first person to detect the fraud (28%).
- One-quarter of small business fraud victims (24%) who have experienced fraud state that they were the ones who first detected the fraud in their most recent experience with fraud.
- Less frequently reported were their accountant (10%) and business partner (1%).

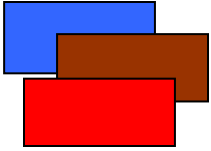
Three in Ten Small Business Owners' Banks Detect Fraud Before They Do



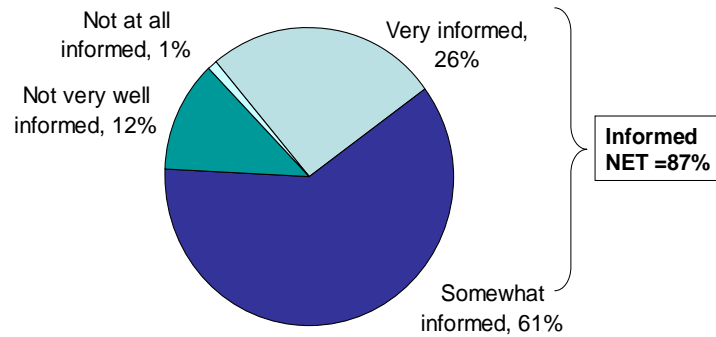
D8. Still thinking about your most recent experience with fraud, who was the first person to detect the fraud? [SELECT ONE.]

IV. PROTECTION AGAINST FRAUD

- **Most small business owners report being informed about fraud, with many relying on their bank for expertise.**
 - The strong majority of small business owners (87%) report that they are informed about how to protect their business against fraud.
 - Small business owners under the age of 45 are significantly more likely than those age 45 or older to report being informed about fraud (90% vs. 83%).

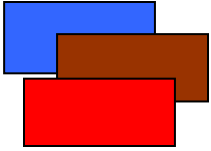


Most Small Business Owners Believe They Are Informed About Fraud

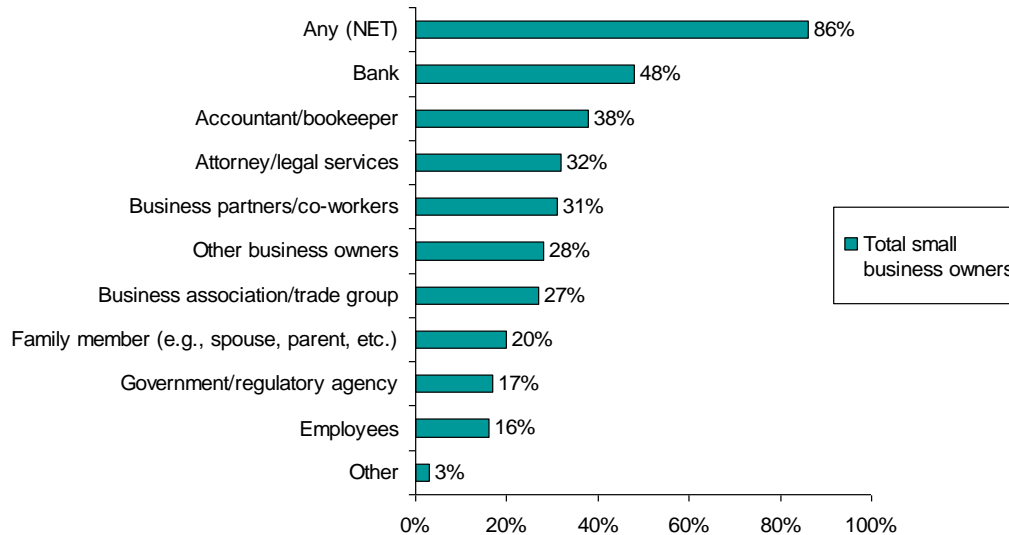


E1. How well **informed** do you believe you currently are about how to protect your business from fraud? Would you say you are... [SELECT ONE.]

- In fact, small business owners rely most heavily on their banks for advice, with half reporting that they have consulted their bank about how to protect their business against fraud (48%).
- Accountants/bookkeepers (38%), attorneys/legal services (32%), and business partners/co-workers (31%) are also popular resources small business owners have consulted to protect their business from fraud.
- Small business owners also report consulting other sources, including:
 - Other business owners (28%)
 - Business associations/trade groups (27%)
 - Family member (e.g., spouse, parent, etc.) (20%)
 - Government/regulatory agency (17%)
 - Employees (16%)

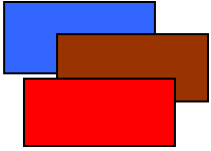


Small Business Owners Rely Mainly On Banks For Protection Against Fraud

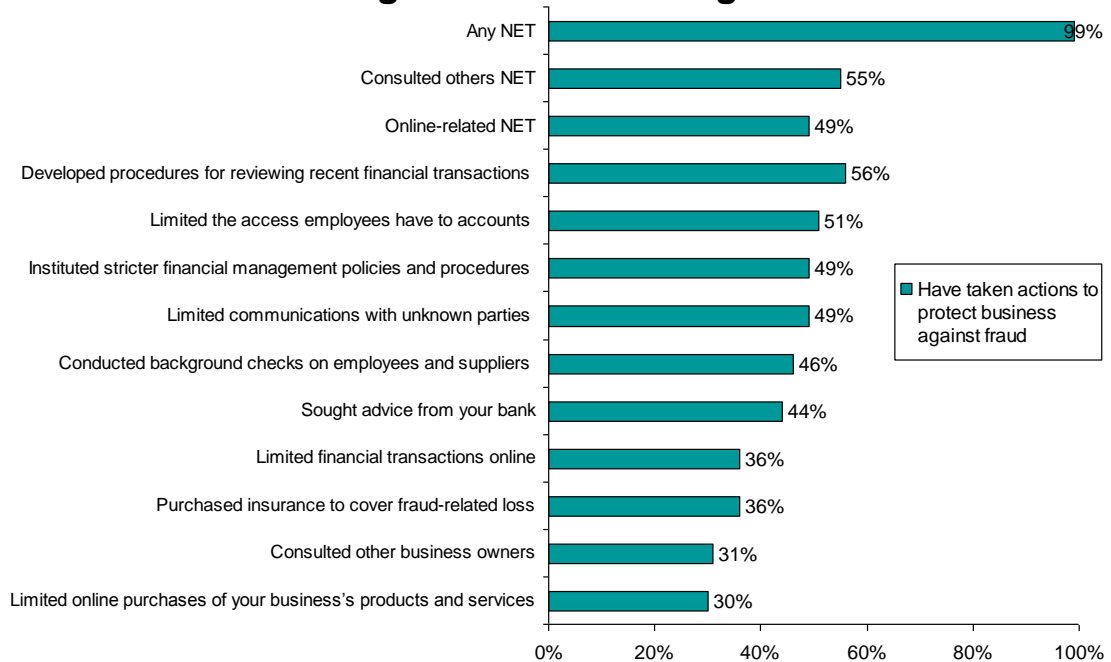


E4. Which, if any, of the following people or institutions have you consulted about how to protect your business from fraud?

- **Further, the majority have taken actions to protect their business against fraud.**
 - Two-thirds of small business owners (66%) have taken actions to protect their business against fraud in the past five years.
 - Among those who have taken action, half have consulted others (55%) and taken online-related measures (49%) in order to safeguard their business against fraud.
 - The most common procedure that small business owners have taken to protect their business from fraud has been to develop procedures for reviewing recent financial transactions (56%).
 - Half of small business owners report that in order to protect their business against fraud they have limited the access employees have to accounts (51%), limited communications with unknown parties (49%), and instituted stricter financial management policies and procedures (49%).
 - Other actions that small business owners have taken to protect their business against fraud include:
 - Conducted background checks on employees and suppliers (46%)
 - Sought advice from your bank (44%)
 - Purchased insurance to cover fraud-related loss (36%)
 - Limited financial transactions online (36%)
 - Consulted other business owners (31%)
 - Limited online purchases of your business's products and services (30%)

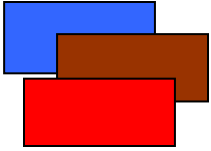


Over Half Consult with Others for Advice/Guidance in Protecting Their Business Against Fraud

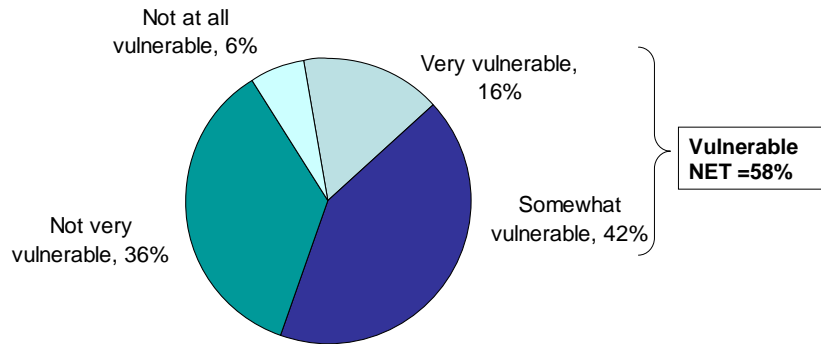


E3. Which, if any, of the following actions have you taken to protect your business against fraud? [RANDOMIZE. SELECT MULTIPLE.]

- **However, small business owners also express vulnerability and the need for more protection against fraud.**
 - Six in ten small business owners (58%) believe they currently are vulnerable to fraud in connection to their business's finances.
 - Small business owners under the age of 45, those earning \$5 million+ in gross annual revenue, and those with 50+ employees are significantly more likely than their older, lower revenue, and smaller employee-sized counterparts to report feeling vulnerable to fraud in connection to their business's finances.
 - Interestingly, a quarter of small business owners (23%) believe smaller businesses are most vulnerable to fraud (vs. 18% saying larger businesses).



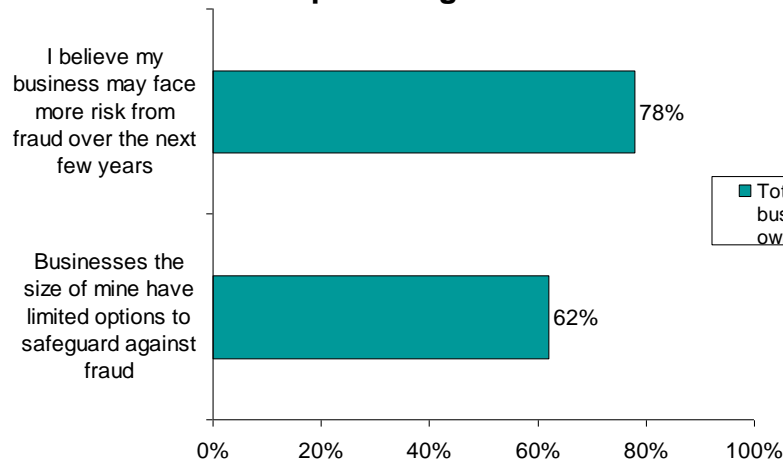
Six in Ten Believe They Are Vulnerable to Fraud



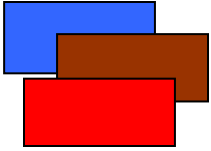
C2. How **vulnerable** do you believe you currently are to fraud in connection to your business's finances? Would you say you are...

- This feeling of vulnerability is increasing as the majority of small business owners (78%) believe their business may face more risk from fraud over the next few years.
- Small business owners also feel unarmed to fight fraud; six in ten (62%) agree that businesses the size of theirs have limited options to safeguard against fraud.

Small Business Owners Believe They Have Limited Options Against Fraud

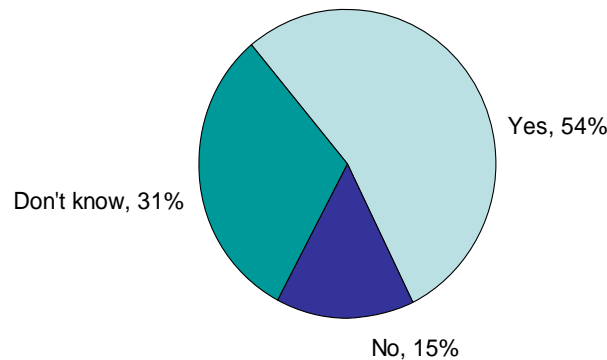


C9 & C10. I'm going to read you a list of statements and I'd like you to tell me if you strongly agree, somewhat agree, somewhat disagree, or strongly disagree with each.



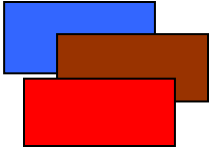
- **In fact, many small business owners believe their banks should play an active role in protecting them against fraud and are not doing enough.**
 - Just over half (54%) report that their bank offers online services to detect fraud, with a full three-quarters utilizing these services (77%)
 - Half of small business owners either are unsure (31%) of their banks' online fraud detection services or say that their banks do not offer these services (15%).

Many Small Business Owners Unaware of Online Services Offered By Their Bank

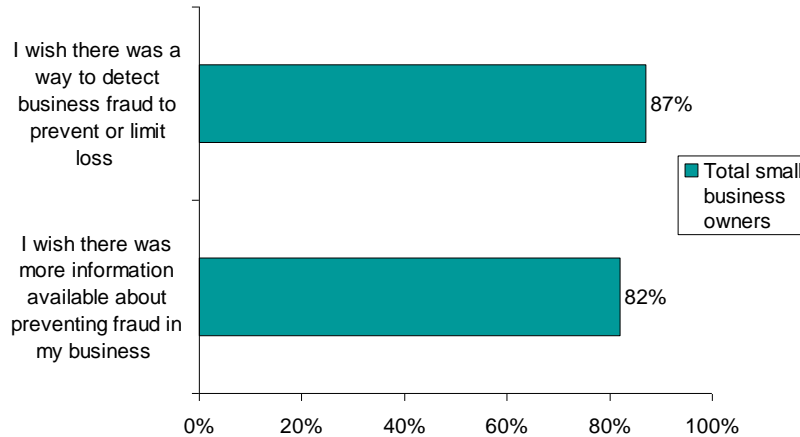


E5. To the best of your knowledge, does your bank offer any online services to detect fraud?

- Eight in ten business owners (83%) wish banks offered businesses more help in fighting against fraud.
- **Moreover, nearly all small business owners would be interested in protection options if they were offered online by their bank.**
 - The plurality of small business owners wish there was a way to detect business fraud to prevent or limit loss (87%) and wish there was more information available about preventing fraud in their business (82%).



Small Businesses More Concerned about Fraud, Looking to Banks for Protection



C8 & C12. I'm going to read you a list of statements and I'd like you to tell me if you strongly agree, somewhat agree, somewhat disagree, or strongly disagree

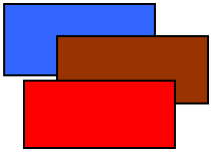
- o In verbatim responses to the question "What is the most important thing your financial service provider could do to help protect your business against fraud", respondents expressed the need for education about protection and proactive measures from their financial service providers to help protect their business against fraud. Specifically, respondents said:

"Make us more knowledgeable about what to look for regarding fraud. What are the red flags? Is there something we should be looking for that may indicate a problem?"

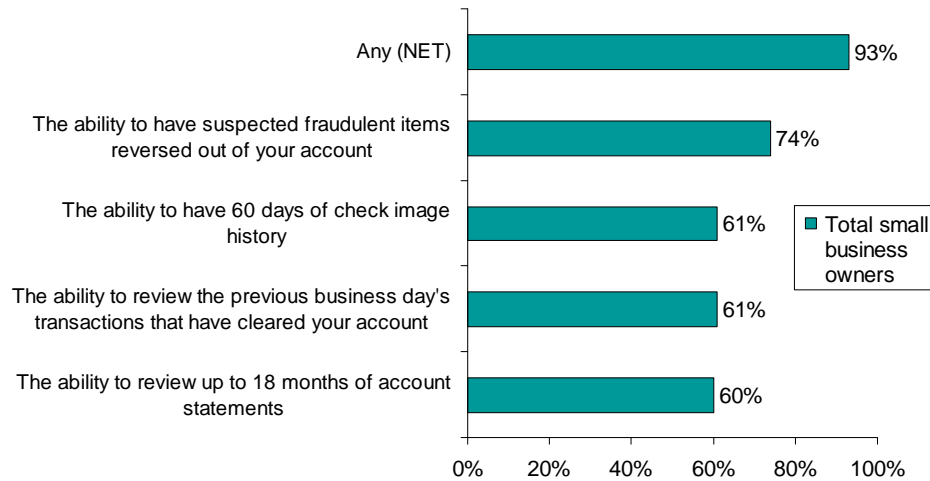
"Watch my account for any transaction that doesn't match what they already know about. We do all banking and bill payment online already. They know exactly who should be withdrawing funds."

"Communication is the most important thing my financial service provider could do to help."

- o In addition, nearly three-quarters of small business owners (74%) report that they would be interested in the ability to have suspected fraudulent items reversed out of their account if it were offered online by their bank.
- o Six in ten small business owners state that they would be interested in the ability to have 60 days of check image history (61%), the ability to review the previous business day's transactions that have cleared their account (61%), and the ability to review up to 18 months of account statements (60%) if it were offered online by their bank.



Small Business Owners Open to a Variety of Fraud Protection Services



E8. Which, if any, of the following services would you be interested in if it were offered online by your bank?

V. APPENDIX: RESPONDENT PROFILE

- Three-quarters of small business owners state that their company has been in business for 5 years or more, with 13 years being the average.
 - On average, male small business owners have been in business significantly longer than female business owners (14 years vs. 11 years).
- Small business owners report their business's gross annual revenue at \$5,500,000, on average.
 - Gross annual revenue is significantly less for female small business owners than male small business owners, on average (\$5,100,000 vs. \$5,800,000).
- Nearly half of small business owners have between 11 and 49 employees, with 143 employees being the average.
- Four in ten respondents report that their business is in retail trade, professional services, or construction.