



26th Annual Idea Exchange

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Payments Fraud in an Electronic World

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Agenda

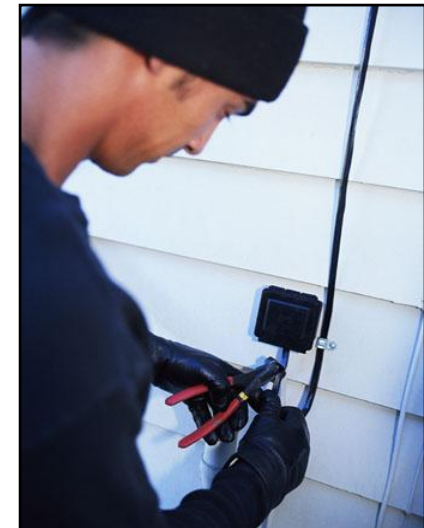
- Introduction
- Check Fraud in the 21st Century
- Phishing & Pharming
- First Party Fraud
- Q&A

Introduction

Trends

- **Credit Card Fraud against consumers declining**
 - Effective fraud prevention systems
 - Synthetic ID fraud; no consumer victim
- **Thieves moving to other accounts**
 - New accounts
 - Checking accounts
 - Corporate Accounts
- **Rising crime methods**
 - Cyber attacks against consumers
 - Desktop & email compromise
 - Unauthorized access to credit reports
 - Hacks against retailers

Source: Gartner



Shifting Trends

Traditionally

- Third-Party Fraud
- Counterfeit
- Lost/Stolen
- Card Not Present
- Genuine Customer Impacted



Emerging/Re-emerging Threats

- First-Party Fraud
- Account Take-over/ID Theft
- Data Compromise
- Mail Intercept
- Internal/Staff Fraud
- Merchant Collusion

Perpetrators lead the race!

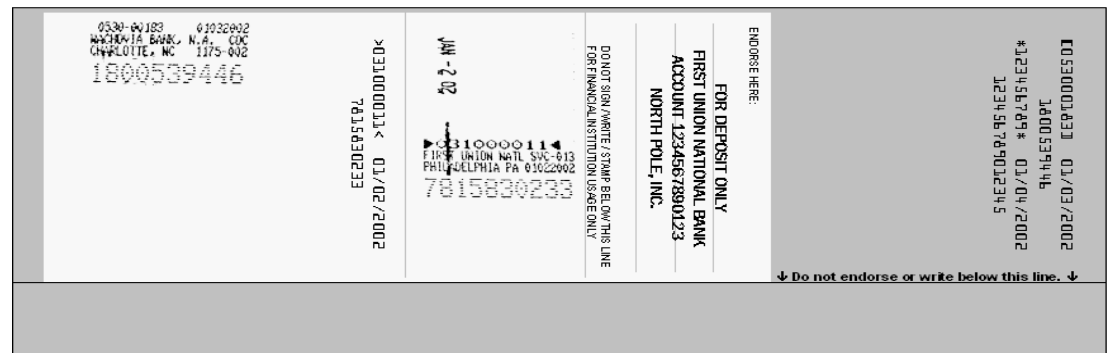
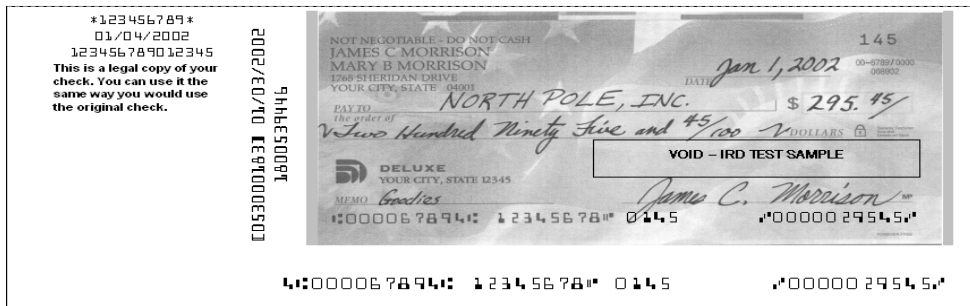


- Fraudsters persistently probing, collecting information, planning
- A few bright professional criminals
- Multitudes of copy cats
- Internet has increased the problem
- Effective, popular scam... big losses
- Banks' excruciatingly slow reaction time

Check Fraud in the 21st Century

Check 21

- Legalized substitute checks
- Became effective October 2004 for ALL checks
- DOES NOT require image processing
- DOES create foundational framework for image



What about fraud?

Are you expecting this?



Or this?



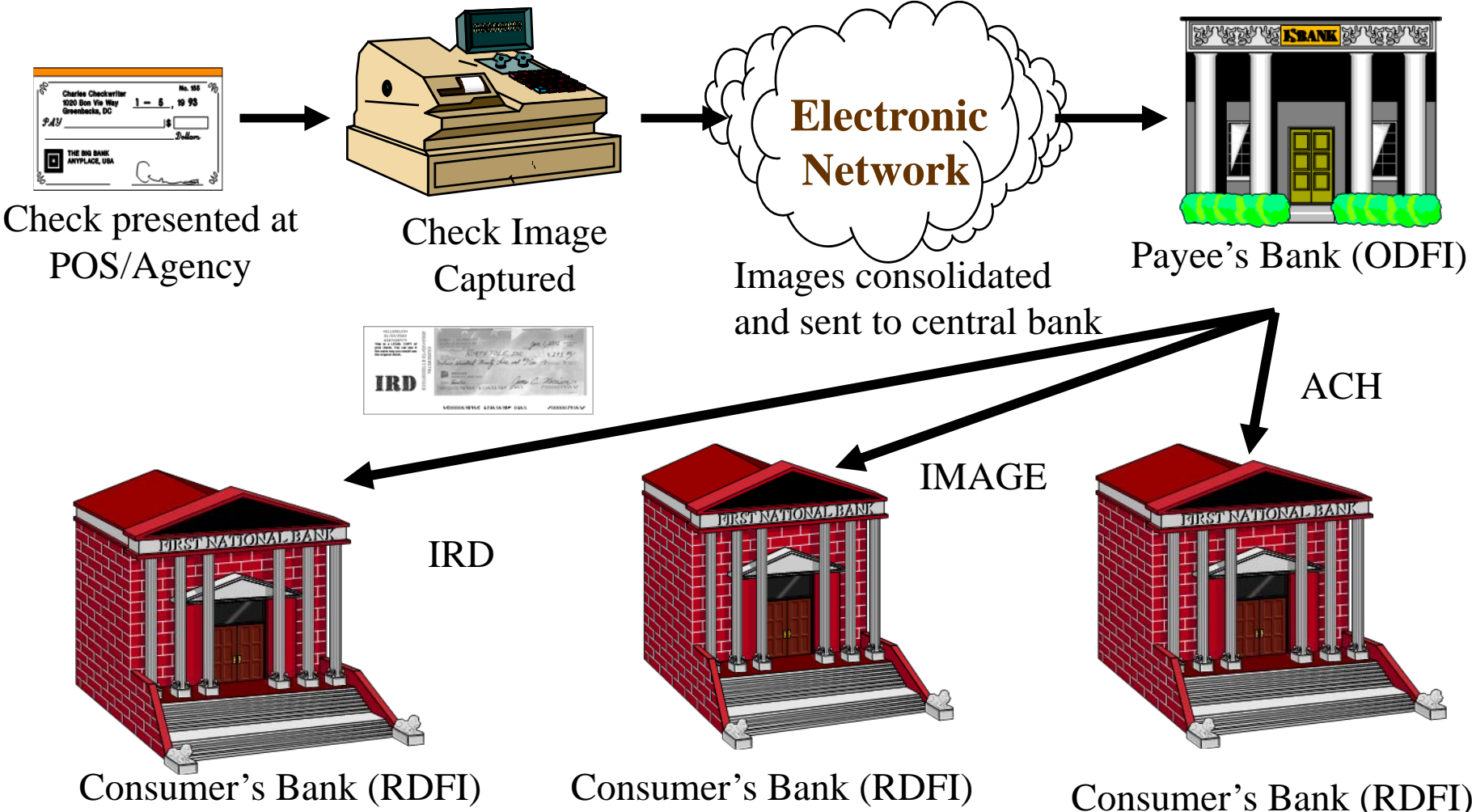
More importantly, what does your local prosecutor expect?

New indemnity may be the key

§ 229.53 Substitute check indemnity.

- (a) Scope of indemnity. A bank that transfers, presents, or returns a substitute check or a paper or electronic representation of a substitute check for which it receives consideration shall indemnify the recipient and any subsequent recipient (including a collecting or returning bank, the depository bank, the drawer, the drawee, the payee, the depositor, and any indorser) for any loss incurred by any recipient of a substitute check *if that loss occurred due to the receipt of a substitute check instead of the original check.*

Remote Deposit Capture



Check Fraud – Best Practices

- Positive Pay
- Reconciliation
- ACH Filters or Blocks
- *****
- Secure Your Check Stock
- Use Secure Check Stock
- Eliminate Manual Checks

Phishing & Pharming

Phishing



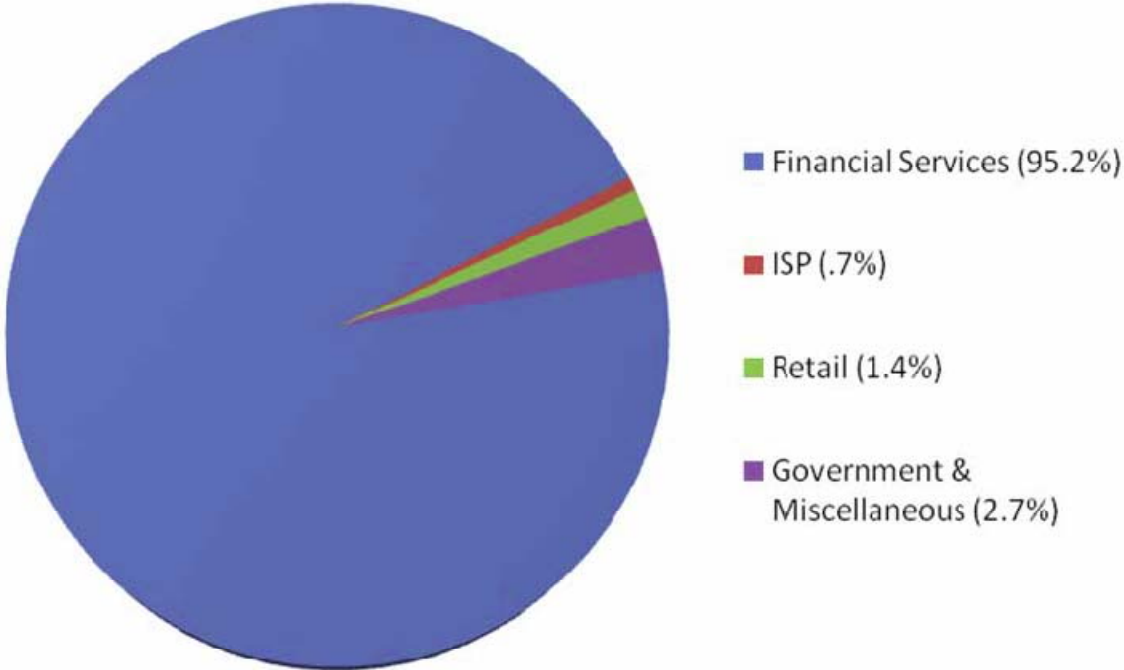
The creation and use of e-mails and websites designed to look like e-mails and websites of well-known legitimate businesses to deceive Internet users into disclosing their bank and financial account information or other personal data such as usernames and passwords

Did you hear the one about?



Source: Anti-Phishing Work Group

Phishing Attacks by Industry



Source: Anti-Phishing Work Group

Pharming



Phishing's evil twin – If you won't answer our email, we'll get you to come to us!

Best Practices

- Educate your staff
- Never respond to emails or pop-ups asking for personal (corporate) info
- Avoid the use of links
- Type URL of financial sites into the address bar
- Don't send personal or financial info by email
- Be aware of the security status of your webpage
- Use pop-up blockers and anti-virus software
- Report suspicious activity

First Party Fraud

Identity theft is a problem



Citibank's advertising promoting identity theft

First-party fraud may be worse

**Traditional
and Third-
Party Fraud**

Consumer protection

Generally well-known fraud/abuse schemes

**First
Party
Fraud**

No consumer protection

Difficult to distinguish

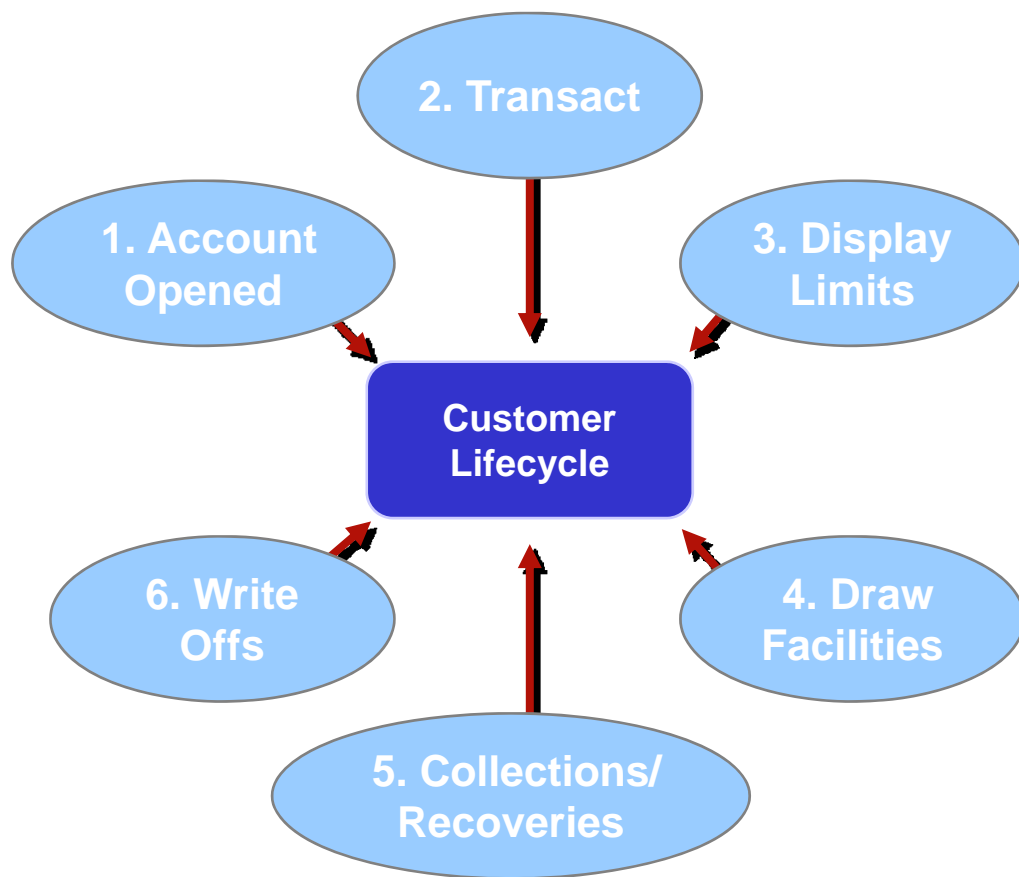
**Complex fraud and
abuse schemes**

...because most of it is undetected

First-Party Fraud Characteristics

	Third Party	First-Party
Who	Others	Customers
How	Lost/stolen, counterfeit, forgery	Kiting, churning, first pay default, skips, excessive overlimit
Validation	Customer confirms the occurrence of fraud	No customer validation when it happens
Control	Many controls and fraud detection systems in place	Very little control or detection
Losses	4 - 7 basis points	5% -20% of Bad Debt write-offs

First-Party Fraud Characteristics



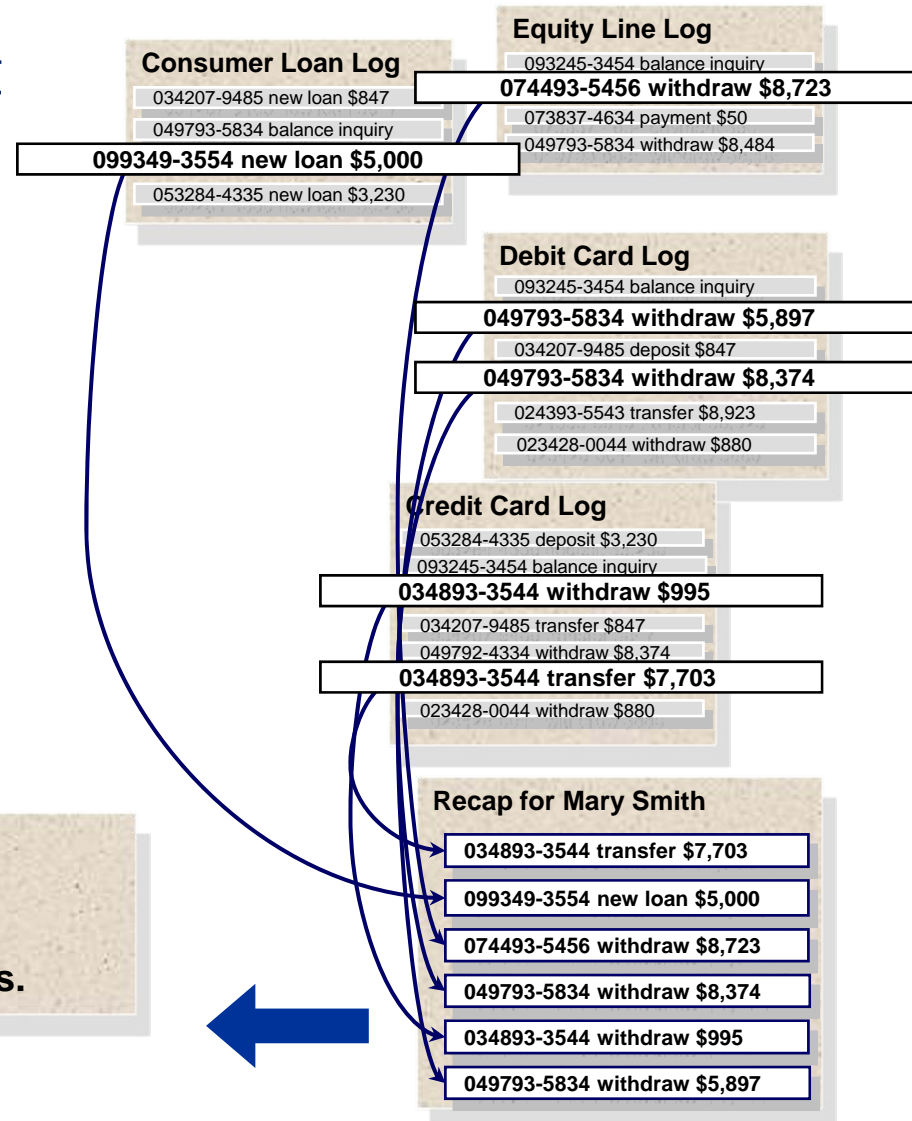
- Individual opens up account with true and/or false information or documents
- Individual transacts heavily over time to give the appearance of creditworthiness
- Individual qualifies for limit increase or more loans
- Individual takes as much as they can from accounts
- Accounts slip into collection.
- Individual skips or changes identity
- Account is written off

An enterprise view is needed

Unified fraud systems are best at finding fraud

- Final line of defense is knowledge of customers
- Isolated fraud events seem unsuspecting
- ...But when combined are clues
- Combined fraud defenses work better

Accounts are being drained.
+ New borrowing.
+ This customer is usually a saver!
= **Trouble**, visible only across accounts.



Best Practices

- Know your customer
- Get rid of your silos
- Communicate internally
- Track your losses
 - by customer not in aggregate
 - Don't ignore write-offs
 - Monitor any suspicious trends

For further information:

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