Fraud Trends & Prevention Insights

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2018 Payments Fraud Themes

New record level of payments fraud

ACH sees increase in fraud

BEC* and sophisticated fraud

Larger organizations bigger targets for BEC

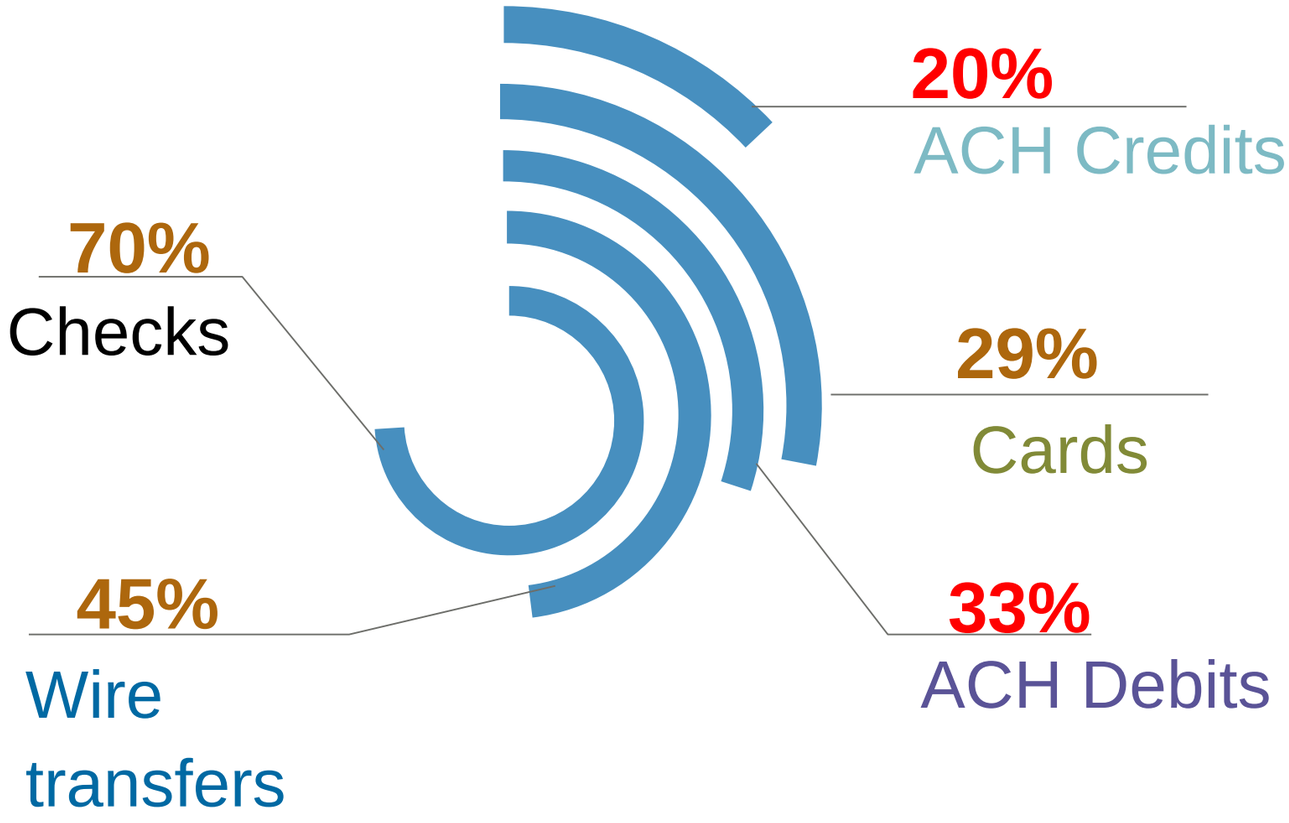
ACH sees big increase as target for BEC

Phishing may be more of a problem than you think – Be Aware

Source: 2019 AFP Payments Fraud and Control Survey
*BEC: Business Email Compromise

Know your risk – fraud by payment method

Targeted payment method for fraud (% of organizations)[1]



Checks

- Payment method most subject to fraud

Wires

- BEC most likely the cause

Cards

- Continues to decline

ACH Debits

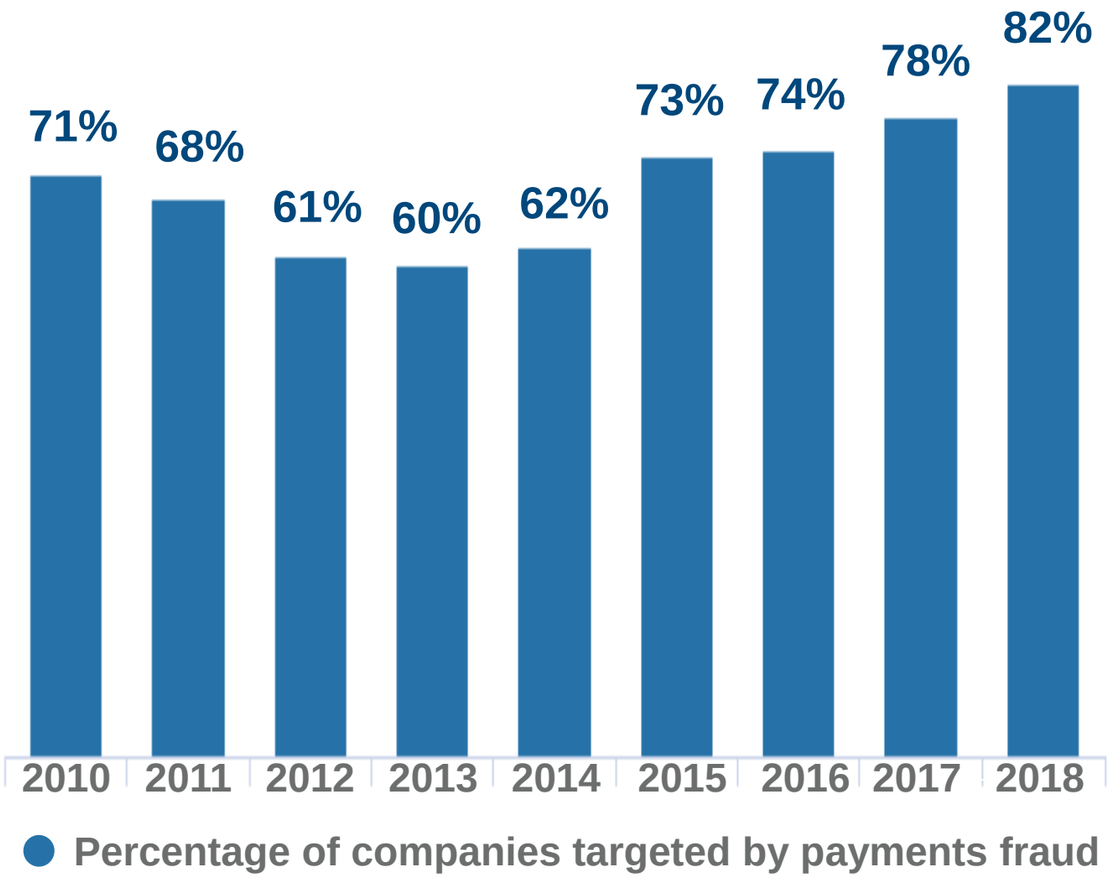
- Increased to record level

ACH Credits

- Dramatic increase compared to previous trend

[1] Source: 2019 AFP Payments Fraud and Control Survey

Payments Fraud Activity Surged in 2018



Experienced Payments Fraud Attacks in 2018

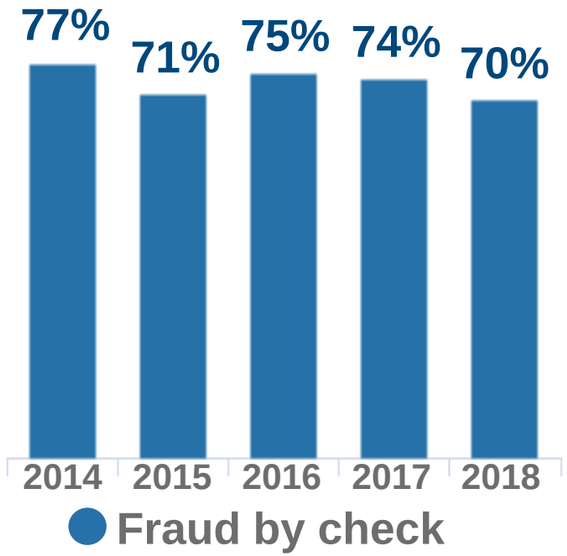
69%

Of businesses with annual revenue less than $1 billion

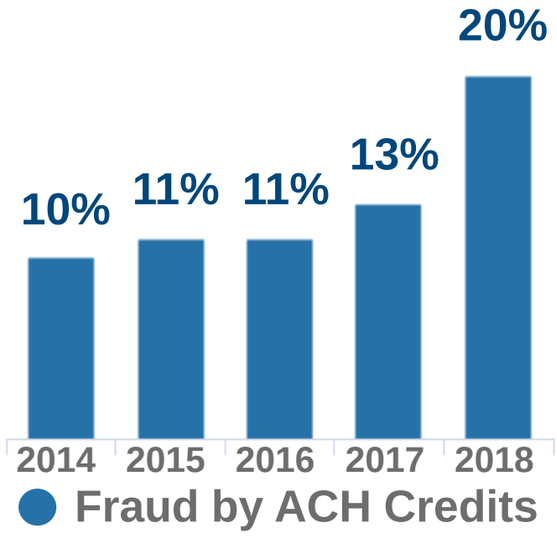
87%

Of business with annual revenue at least $1 billion

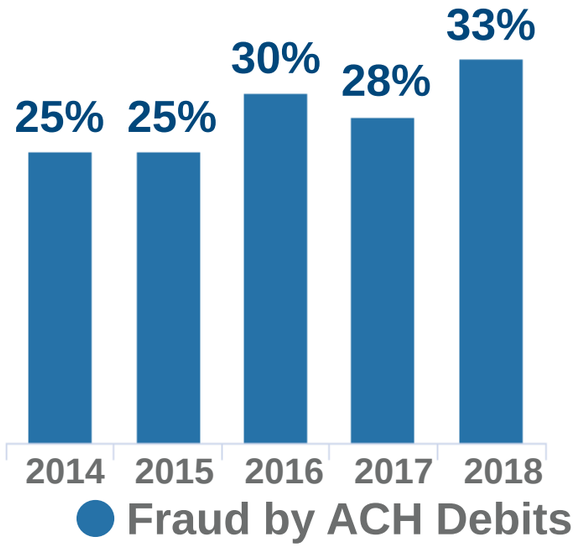
Check Fraud Drops Slightly but ACH Fraud Increases



Check



ACH Credits



ACH Debits

Not all fraud is unauthorized: < ½% of fraud is unauthorized[1]

Unauthorized Fraud

Challenges:

- Fraudster sends/pulls money out of victim's account
- Malware
- Data theft
- Social engineering

Recommendations:

- Monitor account activity
- Leverage channel access, device and location information
- Monitor for bots
- Use fraud solutions

[1] NICE Actimize & NACHA Faster Payments Fraud Management Webinar 2019

Not all fraud is unauthorized:< ½% of fraud is unauthorized[1]

Authorized Fraud

Challenges:

- Customer tricked into sending funds to someone other than intended recipient for a purpose they believe to be legitimate
- Social engineering

Recommendations:

- Educate, Educate, Educate
- Leverage strong payment and amount analytics
- Validate, validate, validate
- Think holistically
- Take a risk based approach

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[1] NICE Actimize & NACHA Faster Payments Fraud Management Webinar 2019

Email Scams Grow More Sophisticated

Survey respondents reported the following common BEC attacks:

81%

Spoofed email addresses

44%

Impersonate vendors in emails

33%

Pretend third parties in emails

- Business email compromise (BEC) targets businesses and individuals responsible for initiating payments.
- Eighty percent of organizations were exposed to BEC scams in 2018—the highest number on record.

How Organizations Are Defending Themselves

Ways financial professionals are protecting their companies include:

88%

Use Positive Pay to verify the authenticity of checks

68%

Perform daily reconciliation of check activity

72%

Segregate accounts

65%

Perform daily reconciliation of ACH debits

How organizations are protecting themselves (continued)

Check

- Positive Pay
- Payee Verification
- Reverse Positive Pay
- Reconciliation
- Post No Checks
- Check Encashment
- Check Print
- Stop Payments

ACH

- Transaction Review
- Debit Blocking
- UPIC
- VRN
- Account Owner Authentication

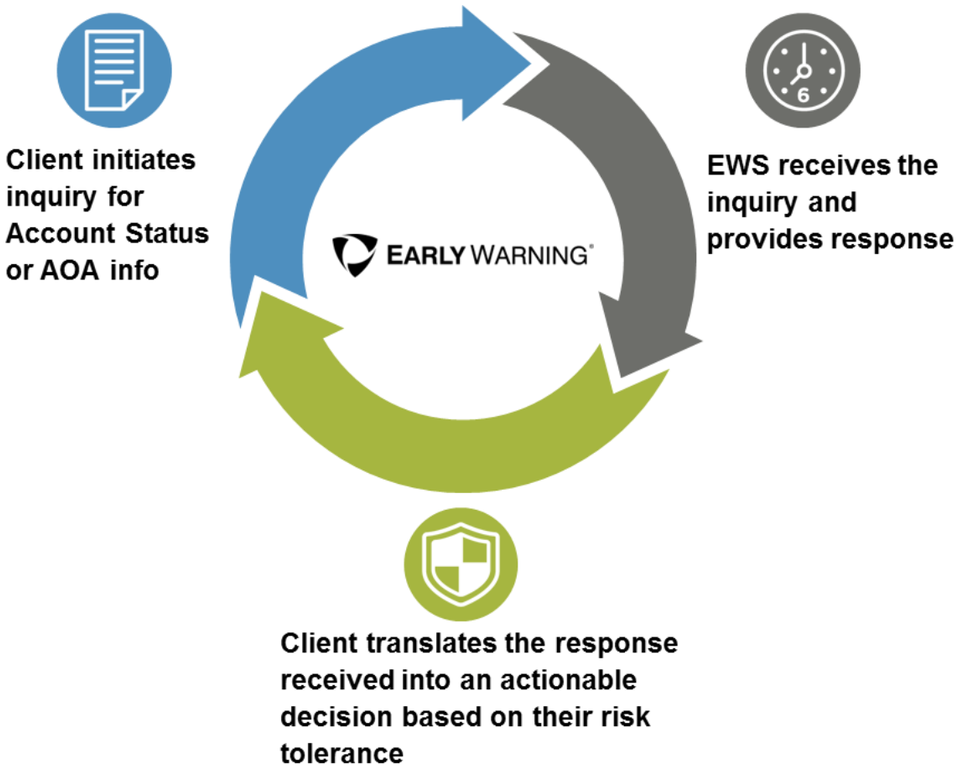
How organizations are protecting themselves

Business Email Compromise (BEC)

- No Payment Initiation from Email
- End-user BEC Education
- Verification Changes
- Two-Factor Authentication
- Phone Confirm Transfers
- Intrusion Detecting
- Color-coded Email
- Flag Email with Different Reply Address
- Penalties for Opening Phishing Emails

Fraud Protection Services: Account Owner Authentication

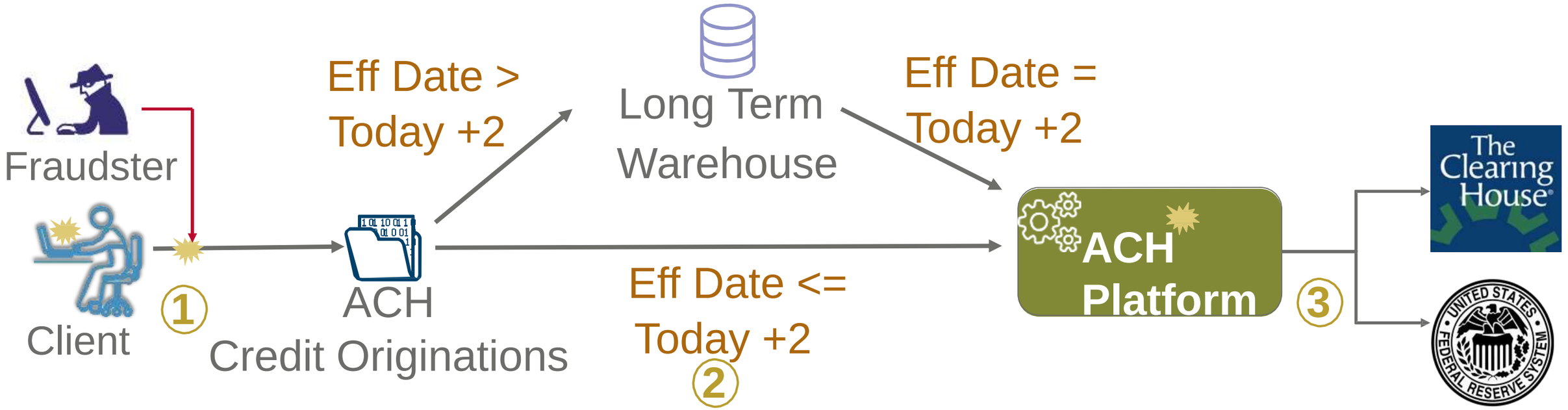
Early Warning Services



Provides answers real-time :

- Does the account exist (open/active)?
- What is the account's associated risk?
- Is the person authorized to transact on this account?
- What is the likelihood of the item being returned?
- Is the account a non-DDA Account?

ACH Fraud Monitoring - Traditional



Steps

1. ACH Transaction/Batch Initiated
2. ACH sent to ACH Platform
3. Transactions sent for Processing

Fraud Mitigation Efforts

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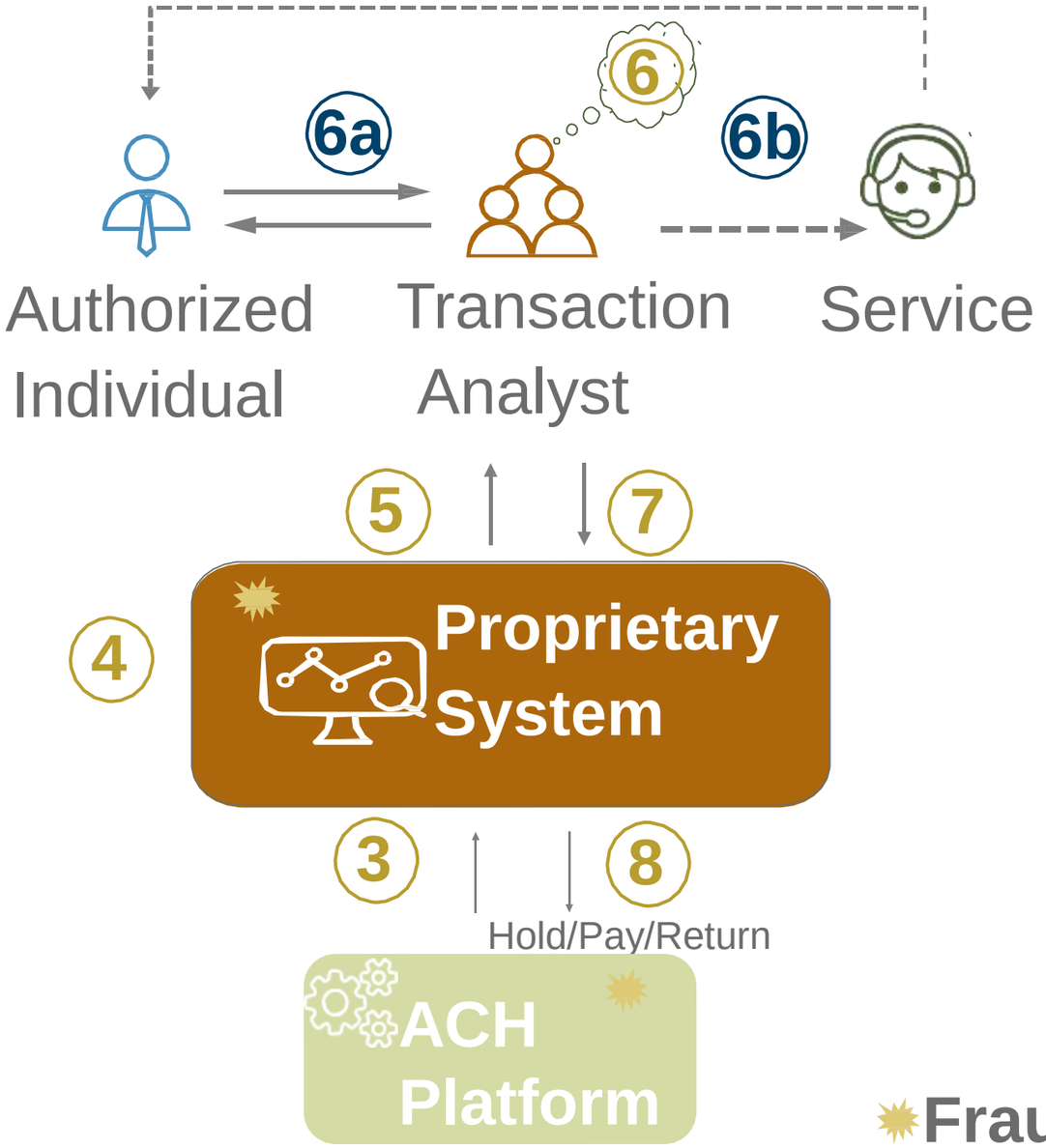
ACH Fraud Monitoring – Looking for unusual activity



3. ACH credit transactions are sent to proprietary System
4. System performs analytics on ACH credits
5. Sends unusual ACH credits to Analyst queue
6. Analyst reviews ACH credit transaction to decide:
   - 6a Review transaction(s) with Client
   - 6b Service engages Client to contact Analyst
7. Analyst sends decision to System
8. ACH Transactions are sent for processing

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Fraud Mitigation Efforts

Questions