



TREASURY RESOURCES

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Fraud in the 21st Century

A Corporate Payment Perspective

Gerald Stephens
Senior Vice President, Global Product Management
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Topics

- Check Fraud
- ACH Fraud
- Bankcard Fraud

The background of the slide is a sunburst pattern. It consists of numerous thin, light yellow rays radiating outwards from a central point. At the center of this pattern is a solid orange circle with a white outline. The text "Check Fraud" is centered horizontally and vertically over the sunburst.

Check Fraud

Why Should I Care?

- “I have nothing to worry about, my bank will automatically reimburse us if check fraud occurs.”
- “I have too many other goals to attain this year to shave the bottom line -- I have to install that ERP system”
- “We’ve never been hit with check fraud...”

How it Happens

- More than 1.2 million worthless checks each day
- Simple technology readily available
- Easily obtainable bank account information
- Available authorized signatures

External Fraud Tools

- Check stock security features
- Positive Pay
- Dollar and Date Controls
- Check outsourcing

Positive Pay Services

- Traditional Positive Pay
- Teller Positive Pay
- Reverse Positive Pay
- Payee Positive Pay

Dollar and Date Controls

- **Maximum Dollar Controls**
 - Reviews and returns checks presented over a specified amount
- **Stale Date Controls**
 - Reviews and returns checks that exceed your designated “stale” timeframe

Check Outsourcing

- Eliminates need to order and store check stock
- Safeguards signatures
- Prints and mails checks
- Creates positive pay issuance file
- Provides postal discounts

Check Stock Security Features

- Watermarks
- Controlled safety paper
- COPY BAN + VOID pantograph
- Micro printing
- Thermachromic ink
- Laid lines
- Warning bands
- Secure number font
- Chemical VOIDS
- Image-survivable features

About Check 21

Check 21
became effective
October 28, 2004

- **Purpose**
 - Improves efficiency in the U.S. banking system by eliminating the need to transport paper checks between banks
 - Encourages innovation in the payment system by removing key barriers to check truncation
- **What it means**
 - Allows banks to create and provide a substitute check in lieu of an original check
 - Banks must process substitute checks if received

Check Payment Transformation

Check **conversion** and check **truncation** are distinct alternatives to transform a check



Conversion

Truncation



ACH: POP, ARC, RCK
EFT networks: SafeCheck,
Visa POS Check

- Check **conversion** transforms a check to electronic settlement

Vs.

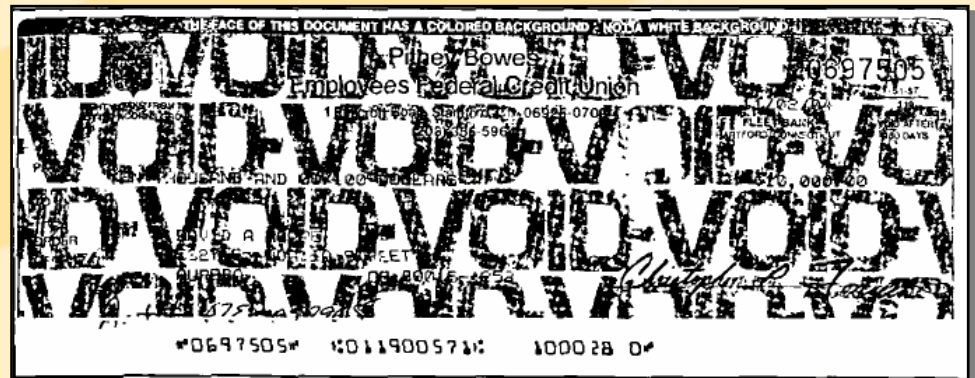
- Check **truncation** transforms a check to image-enabled electronic or paper settlement



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Image Survivable

- Automated Recognition
- Bar-Coding
- Seal-Encoding
- Digital Watermarks



Automated Recognition

- Compares payee name on image to issuance database
 - Character-by-character
 - Digital interrogation
- Only true exceptions reported
- Limited integration with traditional Positive Pay

Bar-Coding

- Key data encrypted into bar-code on the check surface
- Resembles a UPC symbol
- Read by issuing bank and compared to the image

Seal-Encoding

- Unique graphic printed on check using vendor supplied software
- Check information encoded within seal
- Automated interrogation and validation
- Permutation keys and secret identifiers
- Replaces formal bank signature verification
- Seal will fail to decode properly if tampered with



Digital Watermarks

- Hidden message on the front surface of check
- Similar to seal-encoding capability
- Digital scanners compare the digital watermark to MICR and visual data
- Real-time identification of alterations possible

Questions for your Banker

- Can your bank's systems handle IRDs and image exchange data?
- Will your bank still return paper checks or IRDs with your statement?
- Has your bank re-defined internal processes e.g., returned items processing, re-clearing, and managing fraud claims?
- What image-based services will your bank provide as it adjusts to receiving IRDs and image exchange files?
- Will your bank develop new products that take advantage of the speed and availability of data in an image environment?

Internal Check List

- ✓ Reconcile accounts daily
- ✓ Segregate staff duties
- ✓ Control access to check stock and digitized signatures or signature plates, and employ inventory control procedures
- ✓ Eliminate the return of checks
- ✓ Deliver outgoing checks to your mailroom as late in the day as possible
- ✓ Use laser printed checks with security features
- ✓ Use separate accounts for electronic and paper transactions
- ✓ Make sure your check stock is image-able
- ✓ Properly destroy critical accounting information
- ✓ Take advantage of fraud products

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ACH Fraud

ACH Payments

- Reduces exposure to costly check fraud activity
- Reduces costs
- B-2-B payment growth
- Electronic payroll solution:
 - Direct Deposit – save \$0.89 per payment
 - Establish dual control over file preparation
 - Have your bank forward historical origination files to your internal auditors
 - Payroll cards
 - Provides employees with ATM cash access and a safe way to make purchases

Potential Fraud Growth

- WEB
- TEL
- POS/POP

ACH Blocks and Filters

- **Debit blocks**
 - Prevent all ACH debits and/or credits from posting
 - Prevent consumer entry class debits
- **Debit filters**
 - Permit ACH debits and/or credits from known trading partners only
 - Cumulative daily amount limits by trading partner

Beyond Blocks & Filters

- ACH Positive Pay
 - Shows all or unauthorized ACH debits posted to an account
 - May not fully translate to the electronic world
- ACH debit review

Internal Checklist

- ✓ **Cancel outstanding items manually**
- ✓ **Reconcile ACH presentments daily**
- ✓ **Know your bank's ACH return procedures**
- ✓ **Segregating electronic and paper payments into different accounts**
- ✓ **Use ACH fraud prevention products**

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Bankcard Fraud

Bankcard Fraud

- **Lost/stolen**
- **Not-Received Items (NRI)**
- **Counterfeit**
- **Account takeover**
- **Fraudulent use of account numbers**

Prevention Tools

- **Worldwide databases**
- **Card mailing and activation routines**
- **Physical card security features**
- **Validation of several data elements during authorization process**
- **Neural network technology**

More Controls for Commercial Cards

- Monthly or billing cycle spending limits
- Single transaction limits
- Velocity controls
- Merchant category control blocks
- Cardholder training

Looking Beyond

- Smart Cards
 - Biometrics
 - Radio frequencies

Internal Checklist

- ✓ Establish written policies covering card usage
- ✓ Establish a written roles and responsibilities
- ✓ Utilize systemic controls
- ✓ Conduct training sessions for all card users.
- ✓ Create a cardholder agreement to be signed by each cardholder
- ✓ Reconcile statements in a timely manner
- ✓ Use reports and query capabilities
- ✓ Report any lost/stolen cards or fraudulent transactions immediately
- ✓ Ensure that Information Security procedures are in place and make frequent, unannounced audits
- ✓ Store cards in a secured environment

Questions

**Note: For questions and interpretations of the UCC, companies are directed to their own legal and business advisors.
This presentation is not intended to offer legal advice.**



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