

# Association of Credit Union Internal Auditors Conference



Federal Reserve Financial Services  
Risk Services  
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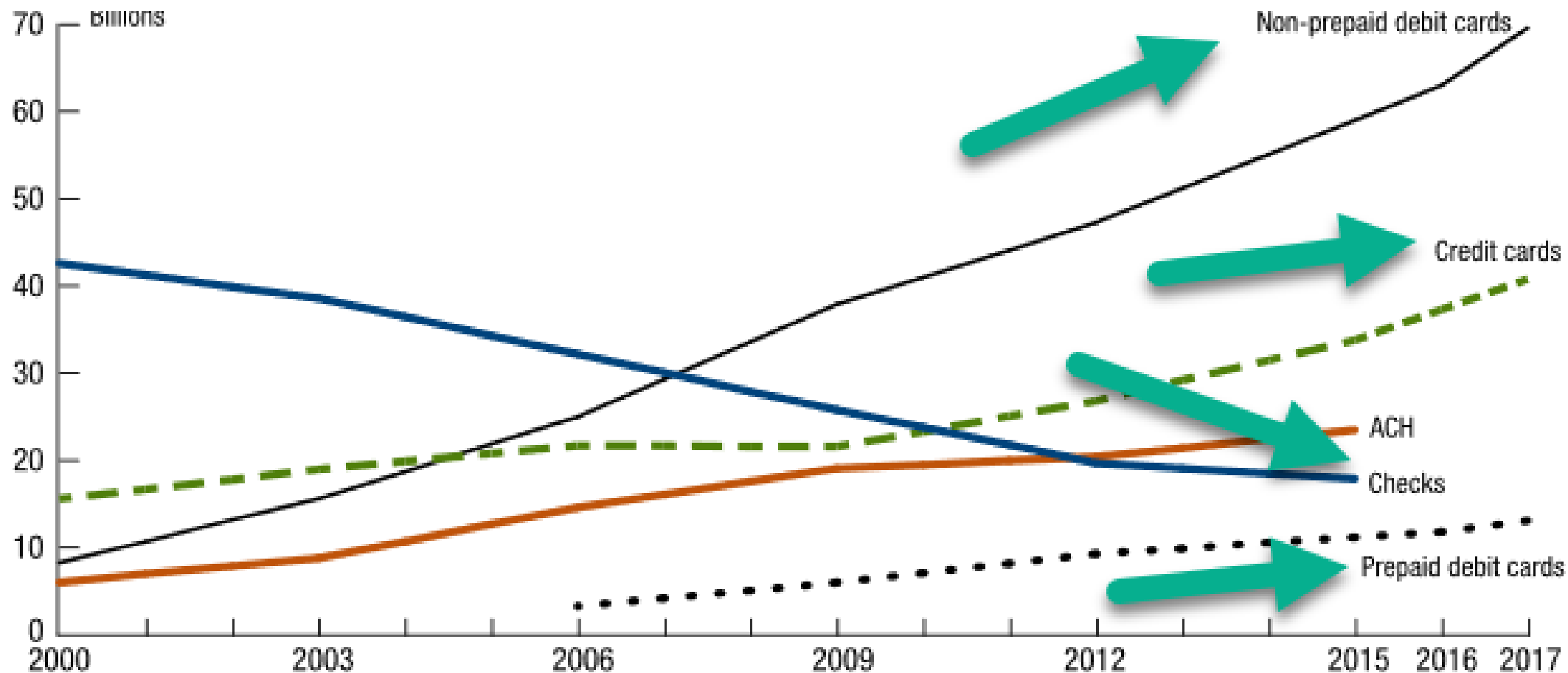
# Agenda

- Overview of the 2012 -2015 Noncash Payments Fraud Study
- Review Risk Factors
  - Liquidity and Credit Risk
  - Reputation, Operational Vendor, and Third Party Risk
  - Operational Information Security/Fraud; Strategic Risk
- FRB Risk Services Tool Box
  - Accounting
  - ACH
  - Wires
  - Checks

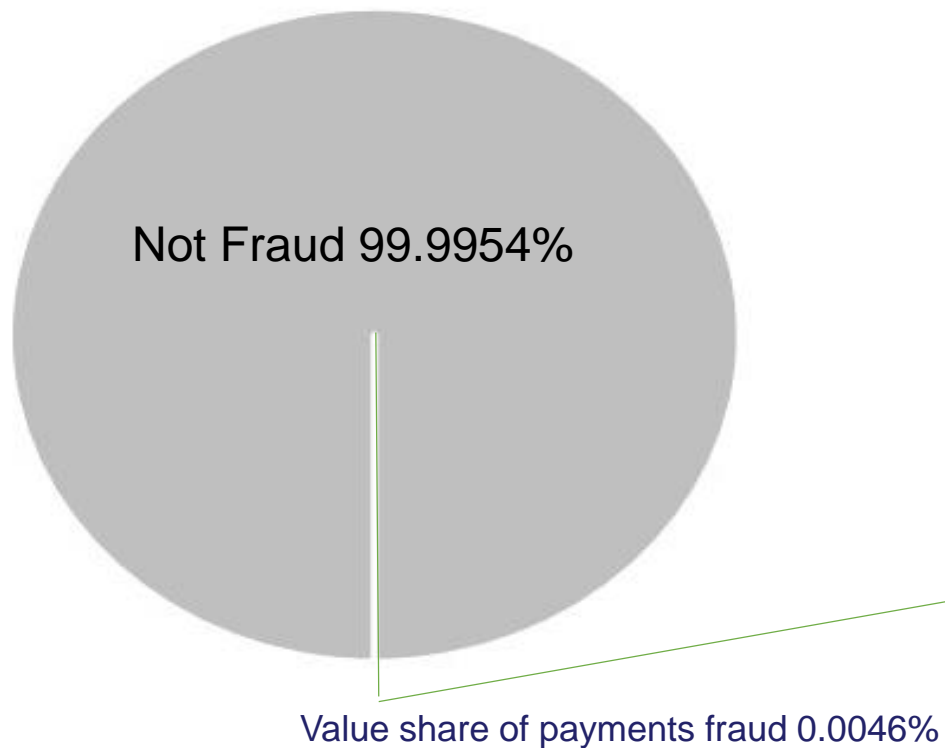
# Key Findings – Noncash Payments Fraud Study

2012–15	Rates of payments fraud, number & value, increase	↑
	Card fraud by value increases <ul style="list-style-type: none"> <li>• &lt;2/10 of 1 percent of card payments</li> <li>• Increased from ≈ 2/3 to &gt;3/4 of all</li> </ul>	↑
	ACH fraud rates stable	↔
	Check fraud, value & rate, declines	↓
2015–16	Rate of card fraud by value stable	↔
	In-person counterfeit card fraud declines	↓
	Remote card fraud increases	↑
	Credit card fraud rates remained higher than debit rates	↑
2016–17	Overall card payment growth accelerated	↑

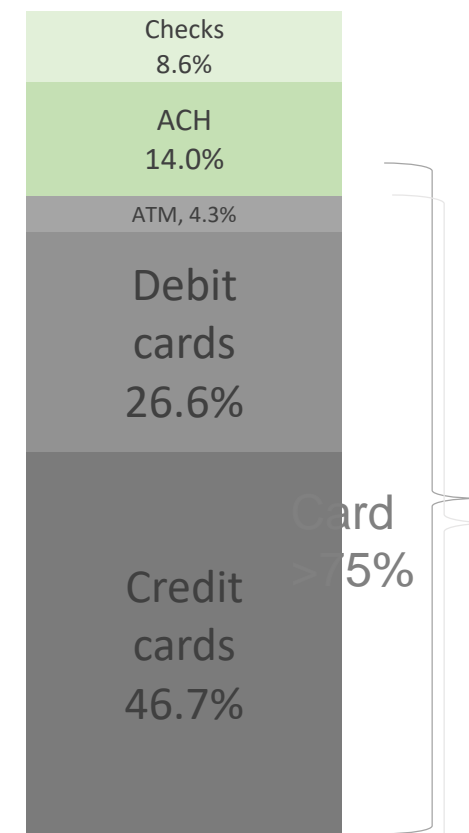
# Volume trends in 2016-2017



# Most payments fraud is by card

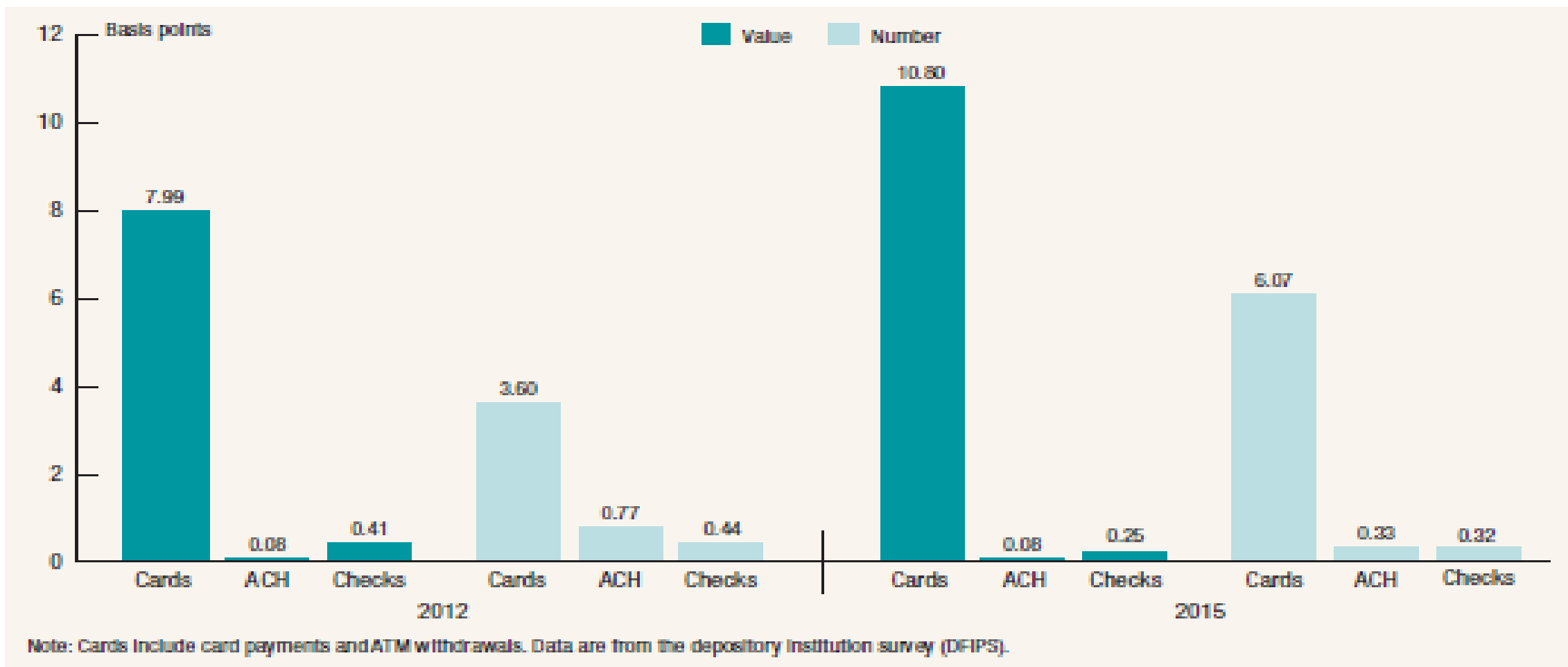


Fraudulent payments  
Shares by value, 2015

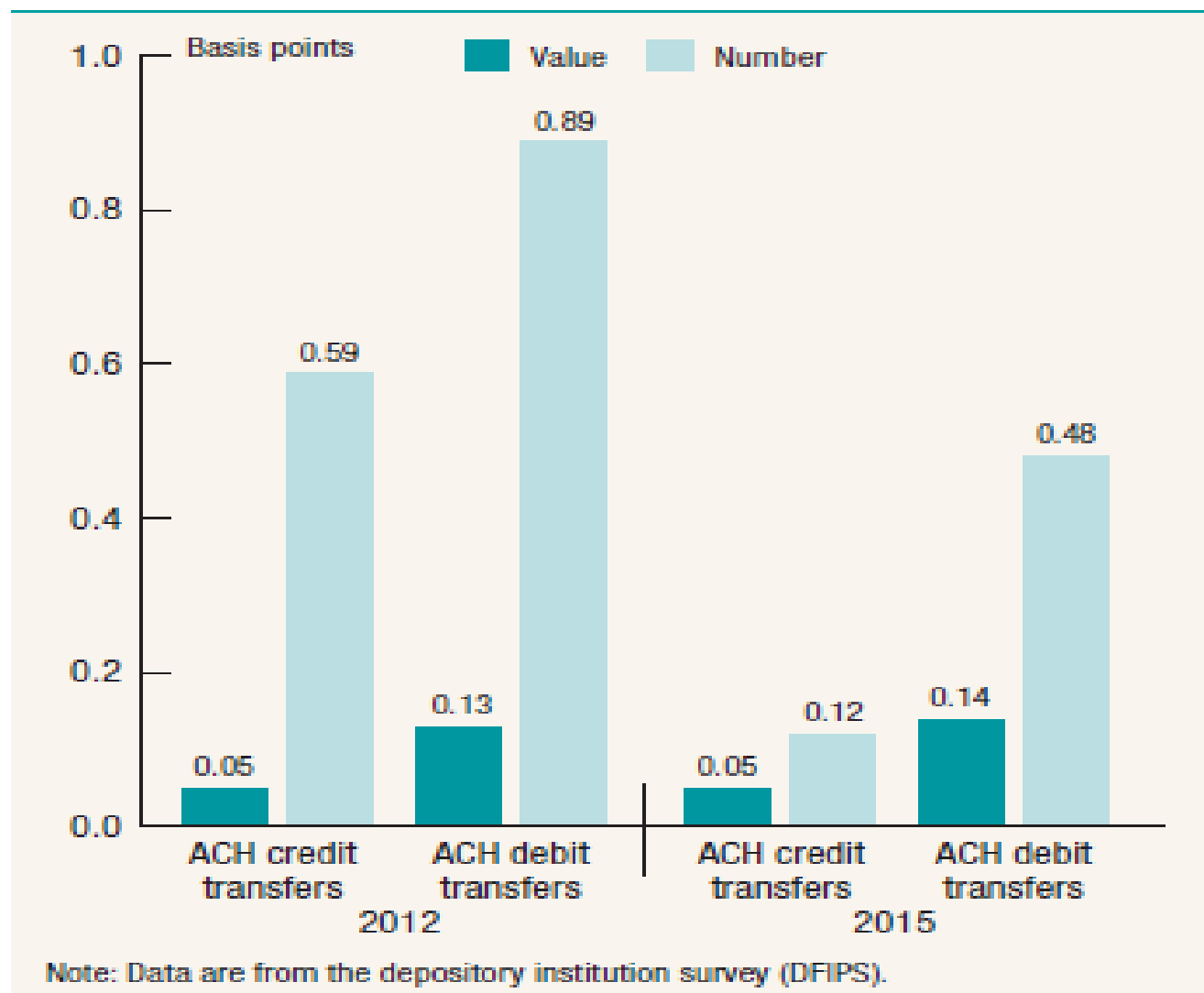


- Card fraud by value: 77.5%
- Card fraud by number: 97.8%

# Payment fraud from cards, ACH, checks by value and numbers 2012-2016

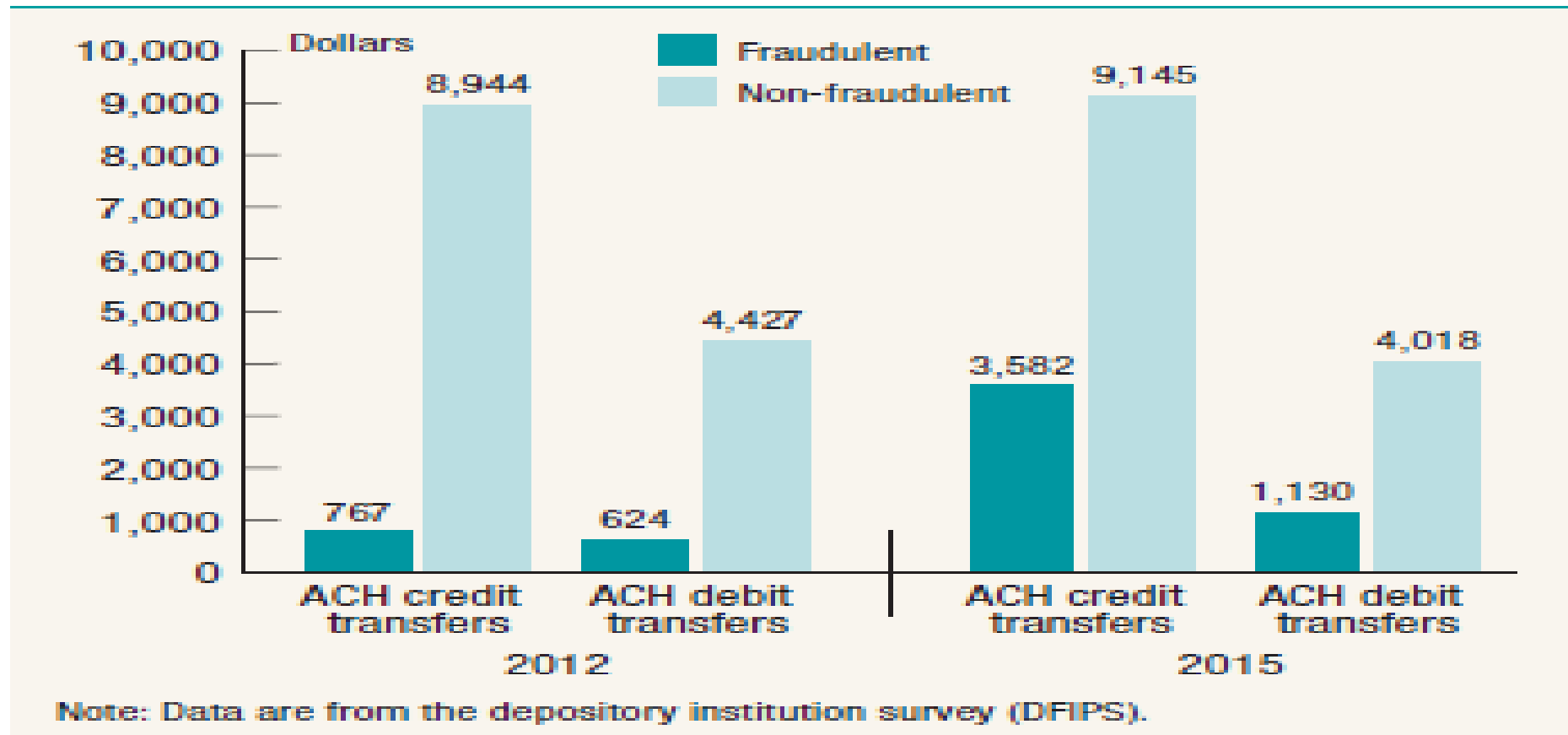


# Rate of fraudulent ACH credit and debit transfers by value and number, 2012 and 2015





## Average value of fraudulent and non-fraudulent ACH credit and debit transfers, 2012 and 2015



# Risk Factors

# Liquidity and Credit Risk

- **Liquidity risk** is the current and potential risk to earnings or capital arising from a financial institution's inability to meet its obligations when they come due without incurring unacceptable losses
- **Credit risk** arises when a party will not settle an obligation for full value. Each retail payment instrument has a specific settlement process that depends on the entities involved.

# Reputation Risk

## Operational Vendor and Third Party Risk

- **Reputation risk:** occurs when negative publicity regarding an institution's business practices leads to a loss of revenue or litigation.
- **Operational Vendor and Third Party Risk:** Some financial institutions rely on third-party service providers and other financial institutions to provide retail payment system products and services to their customers. Many retail payment services are directly related to core processing financial institution operations

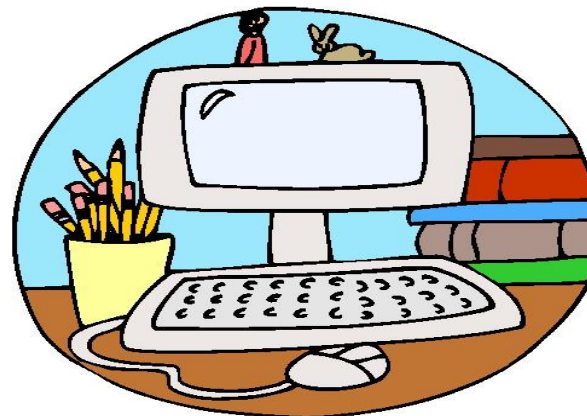
# Operational Informational Security/Fraud Strategic Risk

- **Operational Informational Security/Fraud:** Financial institutions should implement the appropriate physical and logical security controls to ensure retail payment system transactions are processed, cleared, and settled in an accurate, timely, and reliable manner.
- **Strategic risk:** is associated with the financial institution's mission and future business plans. This risk category includes plans for entering new business lines, expanding existing services through mergers and acquisitions, and enhancing infrastructure.

Federal Reserve Bank services  
assist in mitigating risk

# Account Monitoring

- **Account Management Information: AMI** Facilitates management and reconciliation of your Fed Account, enables ad hoc reporting on settlement trends in your account, provides notice of Same Day ACH billing activity, and NACHA unauthorized return charges
  - **Opportunities to detect:** Daily review of account activity and reconciliation of your Fed Account, balanced ACH files subaccount monitoring, and identifying new activity as billing is triggered



# ACH Monitoring

- **RDFI Risk Monitoring:** Allows account and item level monitoring for closed accounts and provides near real time monitoring/notice for problematic originators identified by you
  - **Opportunities to mitigate:** Transparency in the receipt process, accelerated notification for troubling conditions, transaction monitoring after account closure, and custom watch list for debit transactions from known problem sources (emerging pattern)
- **ACH Origination Monitoring:** Technology layering, independent of online banking interface, and hard for customer/fraudster to know. Monitored at the FRB at the Bank RTN level or at the company level
  - **Opportunities to mitigate:** Gap between practice/prescribed credit limits, multi-day limit aggregation, active originator monitoring, and operational training

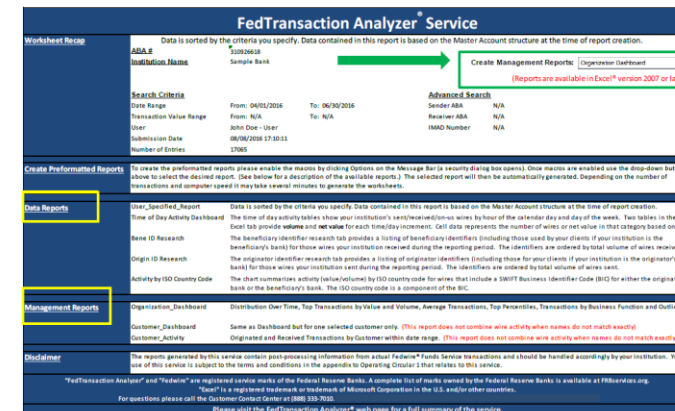


# ACH Monitoring - continued

- **FedPayments Reporter:** enables financial institutions to automatically search ACH files for valuable ACH information such as return items, DNE entries, IAT transactions and financial EDI messages.
  - **Opportunities to mitigate:** Monitor ACH return levels, monitor NACHA return fees, and enforce self monitoring by the originator
    - **ACH Return Reason Report:** Summary Level information of return reason codes by Originator for returned entries.
    - **ACH Originated Batch Report:** Provides detail level information for originated batches processed via FedACH for the specified ABA.
    - **ACH Received Entries Report:** Provides key information for received entries for the entire RDFI ABA or for a specified receiver.
    - **Return Ratio Report:** Provides summary level information at ODFI or Originator level to monitor return activity

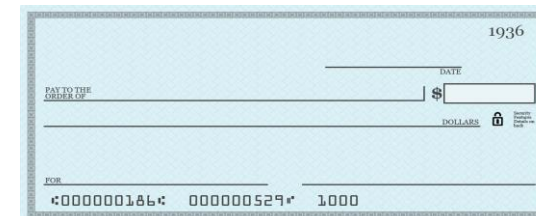
# Wire Monitoring

- **FedTransaction Analyzer:** Provides an efficient means to aggregate, save, and analyze Fedwire® Funds Service transaction data; includes easy-to-use, preformatted reports
  - **Opportunities to detect:** Identify higher-risk transactions and exception activity based on own criteria.
  - Preformatted reports: Data Reports
    - User-specified Report
    - Time of Day Activity Dashboard
    - Beneficiary ID Research
    - Origin ID Research
    - Activity by ISO Country Code
  - Management Dashboard Reports
    - Organization Dashboard: Distribution Over Time, Top Transactions by Value and Volume, Average Transactions, Top Percentiles, Transactions by Business Function and Outliers.
    - Customer Dashboard: Same data as for Organization Dashboard but for one selected customer only
    - Customer Activity Report: Originated and Received Transactions by customer name within a date range



# Check Return Monitoring

- **Accelerated Returns:** provides the opportunity for a bank of first deposit (BOFD) to receive some of its incoming returns a day earlier in an electronic return cash letter.
  - **Opportunities to mitigate:** the risk of releasing funds before a returned item is received.
- **FedPayments Reporter for Checks:** provides the Bank of First Deposit (BOFD) with advanced notice of return items that will be delivered to it in an electronic return cash letter sent by the FRB.
  - **Opportunities to take:** its own proactive actions to help protect against fraudulent activity that may result from funds being withdrawn before the return item has been received and processed by the BOFD.



# Resources

- Fraud Study: <https://www.federalreserve.gov/publications/files/changes-in-us-payments-fraud-from-2012-to-2016-20181016.pdf>
- Payments Study: <https://www.federalreserve.gov/paymentsystems/2018-December-The-Federal-Reserve-Payments-Study.htm>
- FFIEC: <https://ithandbook.ffiec.gov/>
- Risk Management ToolBox: <https://frbservices.org/resources/resource-centers/risk-mgmt-toolbox/index.html>
- FRB Services: <https://frbservices.org/index.html>



Thank you!

