

Executive Fraud Forum

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Payments Fraud Trends

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The views expressed in this presentation are those of the presenters and do not necessarily reflect the views of the Federal Reserve Bank of Atlanta, First Citizens National Bank, the U.S. Department of Justice, or the U.S. Secret Service.

The Problem: Changing players, changing risks

Agenda:

- Third Party Payment Processors
 - Risks & Regulatory Considerations
 - Bank Risk Controls
 - Case Studies
 - Building Relationships with Law Enforcement

Third Party Payment Processors

- Perform payment services for businesses and stand between the bank and merchant
 - Brick and mortar or online and mobile merchants
 - Legitimate, high risk, and illegal merchants
- Provide various payment transactions, particularly
 - ACH
 - Remotely created checks

HIGH RISK MERCHANTS/ACTIVITIES:

Ammo sales

Gov't grants

Pharma sales

“As seen on TV”

Gambling

Pornography

Credit repair services

Pay day loans

Telemarketing

Other payment processors (nested processors)

Remotely Created Checks: Volumes unknown but risk high

- Check created by merchant or third party payment processor with buyer's account number, no signature
- Difficult to identify – no MICR identifier
- After the fact: mounting returns indicate trouble

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TPPP Due Diligence and Monitoring

- KYC and KYCC
- Onboarding and due diligence:
 - Know business line of TPPP's customers
 - Visit TPPP, review website and marketing materials
 - Understand TPPP's procedures for due diligence and monitoring of its customers
- Ongoing monitoring:
 - Consumer complaints and returns, set thresholds
 - Set transaction volume limits
 - Audit processor periodically
 - Require reports from TPPP on new customers and return rates of customers

RED FLAGS:

TPPP splitting volume between multiple banks or history of moving from bank to bank

Consumer complaints re: unauthorized, misrepresented, strong arm tactics

High rates of unauthorized returns

Regulatory Responses and Resources

Responses:

- **Require bank to terminate relationship with TPPP**
- **Take informal or formal enforcement actions**
- **Impose civil money penalties**
- **Invoke Section 5 of the FTC Act: prohibits “unfair or deceptive acts or practices affecting commerce”, and bank may be viewed as facilitating TPPP’s or merchant’s fraudulent activity**

Resources:

- **FDIC Supervisory Approach to Payment Processing Relationships with Merchant Customers that Engage in Higher-Risk Activities (FIL-43-2013) September 27, 2013**
- **FDIC Revised Guidance on Payment Processor Relationships (FIL-3-2012) January 31, 2012**
- **FinCEN Advisory on Risks Associated with Third-Party Payment Processors (FIN-2012-A010) October 22, 2012**

Bank Risk Controls

- Financial Institutions should assess risk tolerance in overall risk assessment program & develop policies & procedures addressing due diligence , underwriting, & ongoing monitoring of high risk payment processor relationships.
- FI should ensure agreements with payment processors provide terms and conditions of overall program.

Bank Risk Controls - ACH

- Know Your Customer
- Enhance Due Diligence
- Effective Underwriting
- Increased Scrutiny & Monitoring of High Risk Accounts for an Increase in Unauthorized Returns
- Charge Backs
- Suspicious Activity and/or Consumer Complaints

Bank Risk Controls

- Implement risk mitigation policies & procedures that include oversight & controls appropriate for the risk & transaction types of the payment processing activities.