

Payments



January 2009

In the January Payments

This month the theme is fraud and in these turbulent economic times, the risk of fraud is higher than ever. Two articles address this issue, one by AFP Payments Director Nasreen Quibria and another by writer Bob Barkin. Then read about how the Fed has postponed the change in posting time for ACH Debits. Take note: The AFP Payments Forum will be held in New York, April 29 – May 1. Read more about it in Dual Forums.

Risky Times

Payments fraud rises as economic crisis permeates

Nasreen Quibria

Spyware, malware, phishing, pharming, spoofing – cyberattacks are a real threat to information residing in an increasingly digital world. The past few years has seen an unprecedented wave of security breaches that have compromised the integrity of company-owned information resulting in considerable financial and operational loss while devastating the confidence of customers, business partners and stakeholders.

On Dec. 2, cybercriminals hijacked Fiserv Inc.'s CheckFree.com, one of the largest online bill payment Web sites, redirecting customer traffic for several hours to an illicit server in Ukraine infected with malware, or malicious software designed to steal credentialing (password and login) information.

New data breaches and cyber intrusions are reported every week. Several high-profile data loss incidents, including the worst data breach of more than 94 million credit and debit card account exposure at TJX, are shedding light on data security and fraud issues at businesses. According to the Privacyrights.org Web site, between January 2005 and November 2008, over 246 million data records from industries spanning retail and healthcare to government and financial services have been exposed due to security breaches. Beyond the increased frequency, data security attacks continue to grow in diversity and sophistication. Spyware-infected PCs that give backdoor access to compromised machines are countless. And corporate e-mail “phishing” schemes that fool people into revealing financial information on phony websites continue to flourish.

With the downturn in the economy, retailers may be especially vulnerable. A recent survey released by the Retail Industry Leaders Association (RILA) suggests that crimes against merchants are trending upwards in relation to the global financial downturn. This is also supported by data from Retail Decisions PLC, an issuer and provider of payment processing and fraud prevention services, that reported attempted fraudulent transactions on online retailers for Black Friday, traditionally a big day for retailers, increased by 40% over last year.

The costs of a data breach can be significant. Indeed, the estimated cost to TJX is \$216 million for total potential cash liabilities, from pending litigation, proceedings, investiga-

Continued on page 2

AFP News

AFP Adds Retail Treasury to Payments Forum

Ira Apfel

The Association for Financial Professionals will hold its Payments Forum and Retail Treasury Forum in one location this year in an effort to give attendees even greater value while helping them control costs.

The dual forums will take place in New York City, April 29-May 1, within easy access from major metropolitan areas. Attendees of either forum can access both events at no additional cost. Attendees of both forums will attend general sessions together, but all roundtables and lectures will feature separate content addressing specific e-payment and retail treasury issues. If an attendee wishes to attend the Payments Forum and a colleague wants to attend the Retail Forum, they should each register for one of the forums to receive the discount. The combined forums also will feature a larger marketplace with more vendors offering more solutions.

All CTP/CCM recertification credits will remain the same—up to 12 are available at the Payments and Retail Forums.

Sign up now before the early bird deadline of March 13 and save up to \$200. Member rate is \$395, \$690 for non-members. New for 2009: a one-day pass for local attendees, good for Thursday, April 30. AFP has secured a very competitive rate of \$279 per night at the Hilton New York. The deadline to receive this rate is April 6.

For more information, visit www.afponline.org/payments. ▲

Risky Times continued from page 1

tions and other claims, as well as legal and other costs and expenses. However, the impact of exposed data can be far greater, with loss in confidence and damage to the reputation of the business for many years to come.

The December CheckFree incident highlights the types of attacks that are likely to become more common in 2009. Businesses today need to understand the growing challenges these difficult times present and security measures need to keep pace as new types of fraud emerge. Solid fraud control and employee education is especially paramount. To that end, AFP is offering educational sessions on fraud and data security issues designed to help businesses define, control, and fight security risks more effectively. Be on the lookout for upcoming webinars and roundtable sessions at AFP forums that delve deeper into these topics on the AFP Web site. ▲

FFIEC Releases Guidance on Remote Deposit Capture

Nasreen Quibria

The Federal Financial Institutions Examination Council (FFIEC) issued guidance to identify risks, evaluate controls and assess risk management practices related to remote deposit capture (RDC) services.

RDC enables business customers to transmit scanned checks to be deposited into a bank account. This process was made possible by the Check 21 Act passed in 2003 allowing banks to clear and settle checks based on digital images in lieu of paper.

For corporate customers, remote check-image capture offers convenience and earlier availability of funds, while reducing processing costs. Deposits originating from corporate customers using RDC, however, also introduce exposure to risks that include duplicate check presentation and information security issues.

The guidance comes at a time when the adoption of remote deposit capture is expanding from large corporate businesses to the small-business customers and consumers. The establishment of the general framework for financial institutions will lead to greater scrutiny and tighter process oversight of banking clients.

The guidance addresses the essential elements of an RDC risk management process in an electronic environment, focusing on RDC deployed at a customer location. A copy of the nine-page guidance titled "Risk Management of Remote Deposit Capture" can be found at <http://files.ots.treas.gov/482031.pdf> ▲

Payments

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The Federal Line

Federal Reserve Postpones Change in Posting Time for ACH Debits

Arlene S. Chapman, CTP

The Federal Reserve Board has decided not to change the posting time for ACH debit transfers to 8:30 a.m. Eastern Time (ET) to coincide with the posting of ACH credits. Currently, ACH debits processed by the Federal Reserve Banks' FedACH service are posted at 11:00 a.m. ET, while ACH credits are posted at 8:30 a.m. ET. In its Dec. 19, 2008, decision, the Fed acknowledged, however, that "simultaneous posting of ACH credit and debit transfers at 8:30 a.m. would enhance the efficiency of the payment system in the long run" and stated that it "will re-consider a posting-rule change in the future."

AFP supported the Fed's proposal to change the posting time when it was released for comment earlier this year. In a May 27, 2008, letter to the Fed, AFP indicated that simultaneous posting of ACH debits and credits would enable businesses to more accurately establish cash positions earlier in the day and help reduce idle cash balances. It would also help reduce the volume of late-day wire transfers caused by financial institutions managing their daylight overdraft positions.

Financial industry representatives, however, raised concerns that a change to posting rules would increase daylight overdrafts and costs for ACH debit receiving organizations, especially bankers' banks—which do not have access to intraday credit at the Federal Reserve Banks—smaller institutions and West Coast banks.

The Fed believes that two new policies will mitigate the concerns of those who opposed the timing change. Effective October 2008, the Federal Reserve has begun paying interest to banks on Federal Reserve account balances. This will reduce the cost of holding balances overnight at the Fed to fund earlier posting of ACH debits and may encourage banks to do so.

Second, in an announcement issued concurrently with the posting-time decision, the Federal Reserve has agreed to supply intraday balances at a zero fee to healthy depository institutions that voluntarily pledge collateral to secure their daylight overdrafts. The decision was part of an overall revision of the Fed's Payment System Risk policy designed to improve intraday liquidity management and payment flows for the banking system. It will be implemented either the fourth quarter of 2010 or the first quarter of 2011. The Fed will monitor the consequences of these policies for their impact on a posting-rule change.

Link to Fed posting decision:

<http://edocket.access.gpo.gov/2008/pdf/E8-30628.pdf>

Link to AFP letter:

http://www.afponline.org/pub/gr/pdf/AFP_Comments_on_Docket_No_OP-1310.pdf

Link to Fed payments risk decision:

<http://edocket.access.gpo.gov/2008/pdf/E8-30627.pdf> ▲



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Payment Risk During Downturns

Robert Barkin

With the economy sinking further into recession, it's not surprising that many types of fraud are on the rise, including indications of increasing payment fraud. With both casual criminals and organized crime ready to take advantage of any system weaknesses, financial professionals are on the alert.

"We have noticed an increase in fraudulent attempts against accounts," said one Southeastern practitioner, who asked not to be identified. "People seem to take desperate initiatives as the economy deteriorates."

This financial professional said that she had seen more attempts of individuals using the company's checking account number to try to draw amounts ranging from several \$100's to one instance of over \$100,000.

"We always see an uptick around the holiday season," she said. "This year it started much earlier."

Fortunately, the company's fraud prevention procedures detected the scams. Using the reverse positive pay process, the bank sent a daily file of checks written against the company's accounts, which the company compared to its own internal files, looking for mismatches that were reported back to the bank. "We haven't had any losses," she said.

Despite the cooperation between the company and the bank, the perpetrators have not been uncovered, part of the frustration in stemming the criminal activity. "It's tough to find out who's committing the fraud," she said. "We try to assist in any way we can."

It is not surprising that more instances of payment fraud are being noticed. The nation, in general, has seen an increase in fraud as the economy falters, from both casual criminals and organized crime, according to one recent survey of retail operators that reported more than \$13 billion in total retail fraud.

Casual criminals may lose their hesitancy to commit fraudulent transactions because they do not want to miss out on year-end

gift giving, according to Michael Long, the chief product strategist with Accertify, a fraud prevention service. Organized crime is always looking for opportunities, and today is taking advantage of the flurry in casual fraud to mask their own activity, he said.

"This is a very challenging time," Long said.

With anecdotal evidence that payment fraud is rising in tandem with other fraud, financial professionals are looking for more solid indicators to guide their prevention efforts, understanding that payment fraud is always a major concern in good times and bad.

For example, AFP's 2006 Payment Risk Survey revealed that 68% of respondents were targets of attempted or actual payment fraud in the previous year. At that time, a majority reported that they had not seen an increase in attempted fraud, though larger companies reported being the most frequent fraud targets and the most likely to have seen an increase.

With the economy in turmoil, AFP will be conducting a payments survey in January that will include questions on whether practitioners are noticing an increase in payment fraud in recent months. The report will be released in the spring.

AFP has developed a number of best practice reports that guide members on the most effective counter measures. Here are some key prevention measures that AFP practitioners recommend to fight payment fraud:

- Assess the risks of each type of incoming payment method. Develop a risk matrix for all payment methods and communicate to appropriate parties.
- Ensure that appropriate controls are in place to guard against fraud risk, operating risk, settlement risk and regulatory risk.
- Maintain a paper or electronic copy of the procedures manual, key bank and financial service providers, and internal

contacts at an offsite location for contingency and recovery purposes.

- Inform employees that they should not share passwords or divulge account or log-in credentials to anyone.
- Conduct ongoing security awareness training to educate employees about online threats and the company's security policy.
- Warn employees against responding to online e-mail solicitations for information from the company's bank providers. These e-mails are fraudulent. Most banks have policies that prohibit the use of e-mails to request account or user ID information.
- Confirm that all PCs in your department are protected by company firewalls and the latest virus protection software.
- Lock down laptops in the office with a physical device that secures the laptop to the docking station.
 - Develop policies for protecting laptops off site (e.g., home, hotel, vehicle).
- Use the fraud defenses offered by your bank to protect your accounts from unauthorized ACH debits. ACH anti-fraud services include ACH debit blocks, ACH debit filters and ACH positive pay.
- For ACH transactions, the exchange or transmission of banking information should be encrypted using a commercially reasonable security technology that, at a minimum, is equivalent to 128-bit RC4 encryption technology, or transmitted via a secure session that utilizes that same level of security. (See the NACHA ACH Rules Book.)
- Set up alerts to notify managers of payments initiated above a threshold amount that should warrant management attention. ▲

Electronic Payment Processor YapStone Inc Acquires Paymerica

YapStone, Inc., an electronic payment processor to the property management industry, recently acquired the assets of privately-held Paymerica, LLC, an independent sales organization processing over \$1.2 billion annually. Paymerica is comprised of two distinct business segments: a diversified ISO merchant portfolio as well as one of the largest providers of electronic payments to the utilities industry.

The acquisition of Paymerica enables YapStone to recruit new ISOs and agents to resell YapStone's technology platform and establish a southeast sales presence for YapStone's processing services. YapStone, through its RentPayment division, is the country's largest payment processor to the property market, focusing primarily on apartments, student housing, homeowner associations and other property-related markets. ▲

TALF May Not Be Long-Term Answer to Credit Markets, TowerGroup Says

According to research firm TowerGroup, the Term Asset-Backed Securities Loan Facility is likely to have only marginal success in its current form. TowerGroup believes that despite good intentions of its framers to help stabilize the world financial system by making funds available through asset-backed securities, the size and design of TALF will prevent it from becoming a long-term answer to what will amount to a virtual freeze-up of the U.S. consumer credit markets, partly because of lack of funding hitherto available from ABS. TowerGroup believes the establishment of TALF does not fully address the most pressing issue facing consumer lenders, which is a prospective lockdown or "freeze" in lending. While TALF is welcome in concept, TowerGroup finds the size of TALF as initially configured is dwarfed by the size of the market of outstanding asset-backed securities. The firm also believes TALF does not address lenders' anxiety about the source of their funding and the flexibility of their portfolio management, especially regarding recent changes to rules and legislation. ▲

EPA Has Review and Buyer's Guide Available

The Electronic Payments Association is now accepting orders for the 2009 edition of its buyer's guide. NACHA said advertisers can reach 15,000 current and potential electronic payments services buyers around the world by placing a listing or ad in the Electronic Payments Review & Buyer's Guide. Also, software companies, financial institutions, consulting firms, software vendors, eCommerce or EBPP service providers or providers of other electronic payment services can be listed. The book is distributed free to thousands of current and potential electronic payments services buyers around the world throughout the year. Every listing is posted on NACHA's Web site, and for an additional fee a link can be added from the listing directly to a company's home page.

To order, visit

<http://www.nacha.org/OtherResources/buyers2009/buyers2009.html>. ▲

MasterCard Acquires Payments Solutions Software Provider Orbiscom Ltd.

MasterCard Inc. has acquired Orbiscom Ltd. for about \$100 million. Dublin, Ireland-based Orbiscom provides payments solutions software for financial institutions. Part of the purchase price is contingent upon future performance of the business. The acquisition helps to build on MasterCard's inControl platform, which features advanced authorization, transaction routing and alert controls to help financial institutions create new payment offerings.

Current customers of Orbiscom will continue to receive support for their products and now have access to additional products from MasterCard. ▲

Shell Oil Products Launches Shell Saver Card

Shell Oil Products U.S. has launched the Shell Saver Card making it the first gasoline retailer to make an electronic check payment method available to consumers nationally. This payment option provides consumers with an option to pay for purchases with a direct link to a checking account and savings on each gallon of fuel pumped at Shell stations. The Shell Saver Card is a non-credit payment product issued to consumers directly from Shell. It has no application or annual fees and offers a promotional savings of 5 cents per gallon on Shell gasoline or diesel purchases until June 1, 2009 and 2 cents per gallon after that. Because the card is linked to a checking account, it offers the added advantage of no impact on consumer credit scores. Consumers who apply for the Shell Saver Card must have an active checking account in good standing to qualify, the company said. ▲

Calendar

Seminars

Cash Flow Forecasting Techniques

New York City Apr. 28-29

www.AFPonline.org/CFF

Advanced Cash Flow Forecasting

Dallas May 12-13

Chicago June 17-18*

www.AFPonline.org/CFF2

Cash Management

Atlanta Jan. 21-22

Boston May 18-19

Chicago June 15-16*

www.AFPonline.org/cmseminar

CTP Review

Bethesda, MD June 2-4

Toronto June 9-11

www.AFPonline.org/ctpreview

E-Payments

New York City May 1-2

www.AFPonline.org/pub/ed/epay_seminars.html

Financial Risk Management

Orlando Feb. 21-22

Chicago June 18-19*

www.AFPonline.org/finrisk

International Cash Management Strategy

Las Vegas Feb. 4-6

Boston May 20-22

www.AFPonline.org/icms

Treasury Risk and Loss Controls

Orlando Feb. 24-25

www.AFPonline.org/controls

* part of a Seminar Week

Webinars

Feb. 5 - 3:30 - 4:30 p.m. ET

Optimal Capital Structure: Theory and Practical Application

Feb. 18 - 3:30 - 4:30 p.m. ET

Career Development Series Webinar: *Managing a Black Swan - Effective Leadership in a Crisis*

March 26- 3:30 - 4:30 p.m. ET

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NEW! Seminar Series Webinars

Cash Management Webinar

Six online sessions on

Feb. 17, 18, 19, 24, 25, 26 from 12-2:30 pm ET

Electronic Payments Webinar

Four online sessions on

March 3, 5, 10, 12 from 12-2 pm ET

Cash Flow Forecasting Webinar

Four online sessions on

March 17, 18, 24, 25 from 12-2:30 ET

CTP

Deadlines for CTP Exam

June/July 2009 Testing Window

Standard: March 27 Final: April 17

www.AFPonline.org/CTP

Forums

AFP Corporate Risk Forum

ChampionsGate, FL

Feb. 22-24

www.AFPonline.org/risk

AFP Payments Forum

New York, NY

Apr. 29-May 1

www.AFPonline.org/payments

AFP Retail Treasury Forum

New York, NY

Apr. 29-May 1

www.AFPonline.org/retail

AFP Global Corporate Treasurers Forum

Dallas, TX

May 13-15

www.AFPonline.org/global

AFP of Canada Treasurers Forum

Montreal

June 17-19

www.AFPonline.ca/treasurers

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