

Fraud Prevention

What Tools Are Available To Mitigate Risk?



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Agenda

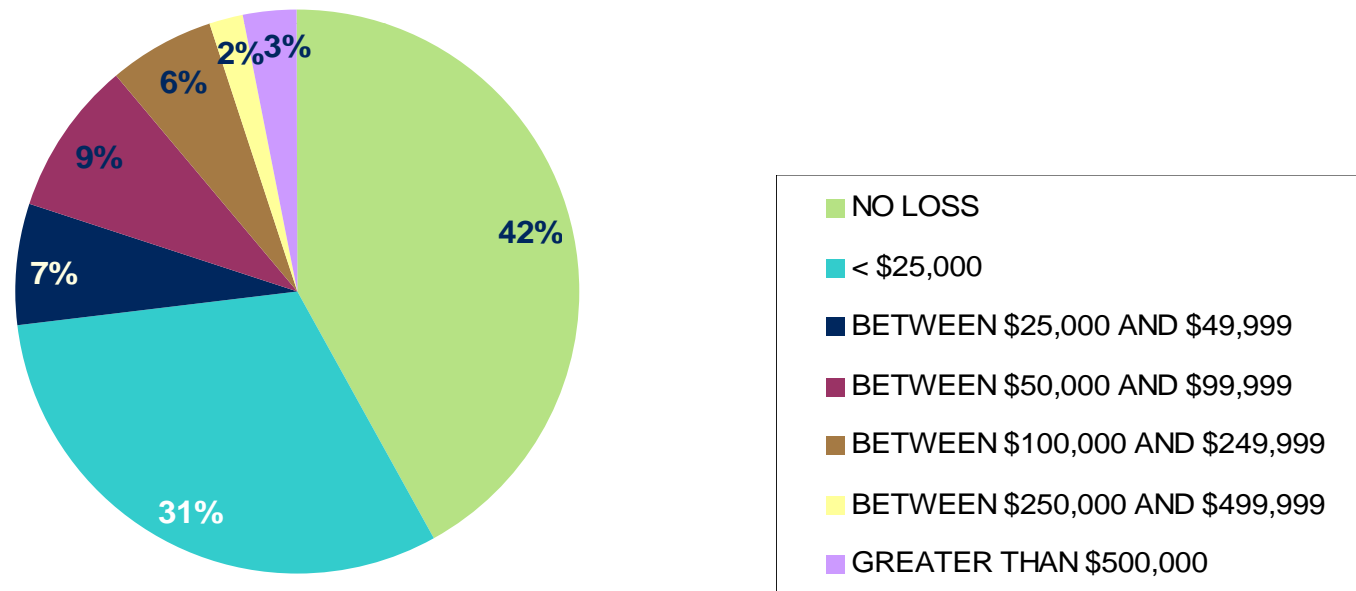
- Fraud today
- What can you do to reduce your risk?
- Positive Pay and Reverse Positive Pay
- ACH Debit Blocks
- ACH Filters
- Universal Payment Identification Code

Fraud Continues on the Rise

- Identify fraud is on the rise
 - Email fraud
 - Everything goes
- Card fraud is on the rise
- Check fraud
- ACH fraud

Fraud Prevention – Why it Matters

Financial Loss Due to Payments Fraud in 2006 (Percentage of Organizations that Reported Payment Fraud Activity to AFP)



Median Loss=\$23,300

2008 The Tower Group, Inc.
Source 2007 AFP Payment Fraud Survey

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Payment Method Subject to Fraud

Payment Methods Subject to Fraud in 2005

(Percentage of Organizations that Reported Payments Fraud Activity in 2005)

	All Respondents	Revenues over \$1 billion	Revenues under \$1 billion
Checks	94%	97%	91%
ACH debits	34	39	28
Consumer credit or debit cards	13	13	15
Corporate purchasing cards	10	9	13
ACH credits	1	3	1
Wire transfers	1	1	2

Source 2007 AFP Payment Fraud Survey

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What Can You do to Reduce Fraud Risk?

- Timely Reconciliation
 - Reconcile within 30 days of receiving your bank statement
- Checks
 - Order checks with *current* safety features
 - Control Check Stock
- Review Internal Controls
 - Practice controls over Accounts Payable and Payroll Accounts
 - Separate duties
 - Account Reconciliation should not be performed by the same person issuing checks
- Use Bank Fraud Protection Products

Fraud Protection Services

- Positive Pay and Reverse Positive Pay
- ACH Debit Blocks
- Electronic Payment Authorization Services
- Universal Payment Identification Code

Two Types of Positive Pay

- Positive Pay:
 - Provide Check Issue Information to the Bank
 - Presented Checks are Matched Against Check Issue Information
 - Daily Exception Reports Provided for Pay/Return Decision

- Reverse Positive Pay:
 - Eliminates the need to submit check information to the bank
 - All Paid Checks are Presented for Decision

Positive Pay – How Does It Work?

- Customer provides bank daily check issue information
 - Issue date, check number, and check amount
 - Many banks are now able to match on payee name also
 - File transmission or web upload
- Bank matches the issue list against checks presented that day
- Suspicious items isolated as exceptions
- Customer provides “Pay” Or “Return” decision on exception items by cutoff time

Positive Pay

- Additional Features
 - Manual issues
 - E-Mail reminders
 - Holiday reporting
 - Flexible user authorities
 - Usually provides protection at the issuing bank's teller line
 - Stale Date Feature
 - Account Reconciliation included in some products
 - Output files

Reverse Positive Pay –How Does It Work?

- Bank provides daily paid check file to company via web or transmission
- No check issue input required
- Customer provides “Return” decision by the cutoff time
- Default to pay all checks when no response received from company
- No teller line protection

Positive Pay Recommendations

- Separate duties
 - Check requests (issuing checks)
 - Approving Exception Items
 - Reconciling Account
- Look at using Positive Pay on all Disbursement Accounts
 - Refund and payroll accounts typical account types to experience fraud
 - High check volume accounts are not the only accounts to have fraud

Positive Pay – Best Practices

- Ineffective use of Positive Pay can lead to
 - Increased Fraud Risk
 - Increased Labor Costs
 - Negative Impact with Suppliers
- Inefficiencies result from
 - Problems with the check issue file to the bank
 - Poor Internal Administration of the Service

Positive Pay – Best Practices

- Increase Effectiveness of Positive Pay through
 - Employee Training on the entire Positive Pay process
 - Documented Procedures
 - Issue File
 - Review of Exception Items
 - Effective Communication with staff and bank
 - Updated contact information
 - Problem resolution

ACH Fraud Protection Services

- ACH Blocks
- ACH Filters
- Universal Payment Identification Code

ACH Blocks

- Can block ALL ACH items or ACH debits only
- Excluded are internal bank transactions and customer originated items
- No monitoring
- Inexpensive
- Recommended on all accounts that only have check activity

ACH Filter Products

- Features
 - ACH activity is restricted but not completely blocked
 - Setup authorized ACH entries to process normally
 - Setup dollar maximums or a single payment authorization
 - Daily decisioning
 - Review unauthorized ACH entries and make a pay or return decision by cutoff time

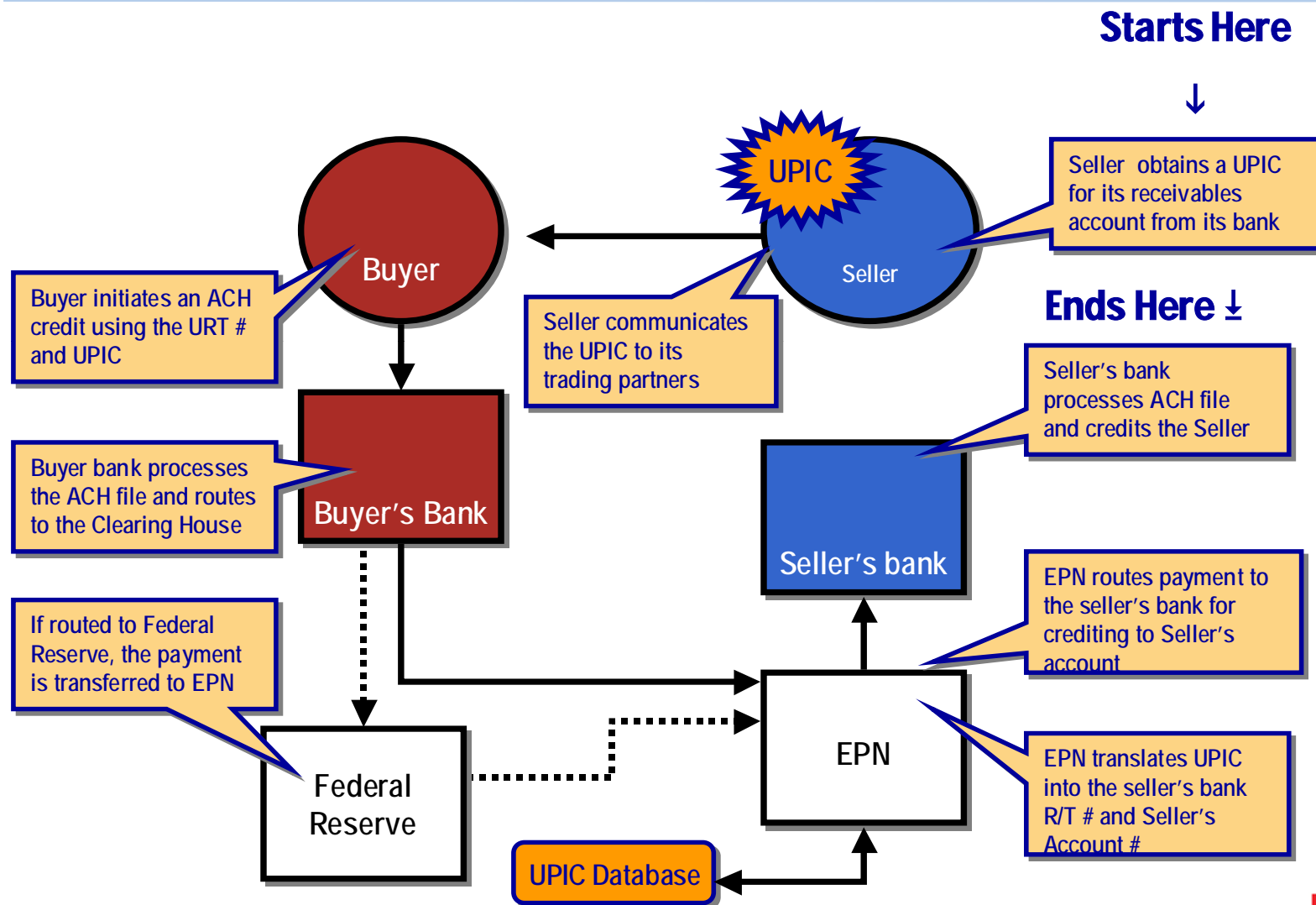
ACH Filter Service

- Benefits
 - Customers choose the type of protection they require by account
 - Monitor unauthorized ACH activity when it happens
 - Cost effective

Universal Payment Identification Code - UPIC

- Safeguard Bank Account Information with a Secure Bank Account Identifier
 - Increase ACH Credit Payments by Openly Sharing UPIC Account Information on Invoices or Web Sites
 - Reduce Risk of Unauthorized ACH Debits, Demand Drafts or Fraudulent Checks

How Does a UPIC Work?



Universal Payment Identification Code -UPIC

- Features
 - Secure bank account identifiers
 - UPIC number cannot be used on checks
 - UPIC number cannot be used for wire transfers
 - UPIC number does not accept ACH debits
 - Number with the Federal Reserve and can travel with the customer to another bank

Universal Payment Identification Code – UPIC

- Benefits
 - Protection against ACH and check fraud
 - Companies can receive electronic credit payments without divulging sensitive bank information.
 - Clients can openly share UPIC account information on invoices or a website so they can receive payments electronically.
 - Keeps account information private by blocking account debits

In Conclusion

- Always be aware
- Discuss secure check options with your check vendor
- Discuss fraud protection services with your banker
- Review all internal controls at least annually

Questions



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