Fraud Definitions Work Group
In-Person Meeting Summary
July 24-25, 2019

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The Fraud Definitions Work Group held its third in-person meeting at the Charlotte Branch of the Federal Reserve Bank of Richmond on July 24 and 25. This meeting featured the Federal Reserve providing an overview of the updated Fraud Classification Model for Payments (Model) and leading detailed discussions and breakouts focused on the impact and value of achieving industry adoption of the Model. Additionally, the Federal Reserve provided an update on engagement opportunities to keep the broader payments industry informed of the work group's progress and identified how the recent Synthetic Identity Payments Fraud work effort accomplishments factor in to output of the Fraud Definitions work effort.

Agenda Topics

- Fraud Classification Model and Definitions
  Review current Model and supporting definitions based on work group discussion and ongoing refinement

- Industry Adoption Roadmap

  ◊ Potential End State and Projected Impact
  Discuss desired end state for the Model and how it would impact work group members' organizations

  ◊ Building the Business Case

  ⇒ Adoption Implications
  Build the business case for Model adoption, with considerations given to various aspects of adoption and what it would take from different organizations/segments to achieve the potential end state

  ⇒ Benefits and Challenges
  Continue building the business case by summarizing projected value/benefits, challenges, and types of costs anticipated based on the potential end state

  ◊ Operationalizing and Data Management
  Discuss how the Model itself would be operationalized (including the various components such as the questions, attributes, etc.) and how the data may be managed to accomplish the end state

- Industry Engagement and Communications
  Update on recent and planned industry engagement and communications to socialize work effort

- Secure Payments Initiative: Synthetic Identity Payments Fraud Work Effort
  Review recent accomplishments and next steps, including relevance to Fraud Definitions work effort

- The Path Ahead (60-Day Outlook)
  Review near-term focus and meeting reflections from the work group
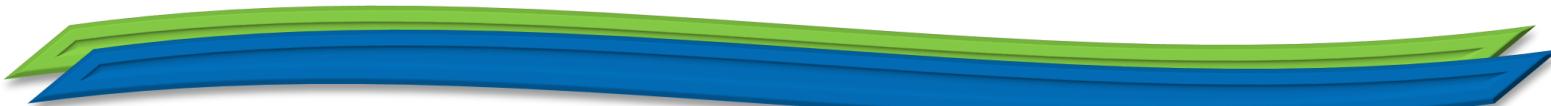
Opening Remarks
Ken Montgomery

Ken Montgomery, First Vice President and Chief Operating Officer of Federal Reserve Bank of Boston and Payments Security Strategy Leader, welcomed the Fraud Definitions Work Group to its third in-person meeting in Charlotte, NC. Montgomery set the stage for the meeting by recounting recent progress made by the work group and identifying the group's expectations for the meeting.

Fraud Classification Model and Definitions
Mike Timoney & Andrés Rapela

Mike Timoney, Vice President of Secure Payments, provided an overview of the recent touch points held to iterate on both the Fraud Classification Model (Model) and the supporting definitions, thanking the work group for all of its work to help with those refinements.

Andrés Rapela, Assistant Vice President of Secure Payments, then reviewed key updates made to the Model and the definitions as a result of those discussions, and walked through each path of the Model. The work group iterated on the exact definition of payments fraud before aligning on shifting focus from a specific definition to describing the overall intent of the Model.

Industry Adoption Roadmap
Mike Timoney

Potential End State and Projected Impact

Timoney began this session by recapping what the work group had discussed related to industry adoption at the June 4-5 in-person meeting held in Denver. He then reviewed a proposed overall goal for the adoption end state, with the intent to achieve better data faster, in order to mitigate and/or prevent fraud. Timoney provided a few characteristics of what that adoption end state may look like, including "improved fraud data and consistency", "more timely fraud information sharing and analysis", "enhanced fraud mitigation effectiveness" and "effective fraud trend predictability." Following Timoney's

presentation, the work group suggested "reduction of false positives" and "safer and more efficient payment networks" as additional supporting characteristics.

Timoney described what the potential end state could look like, including various areas of adoption such as industry dialogue and studies, operational processes, and technology products. The work group then discussed the path to get there, coming to the conclusion that the adoption path needs to be broken down into incremental steps that all have an associated benefit or value to being adopted.

Building the Business Case

Adoption Implications

At this point in the meeting, the work group discussed the detailed implications for the aforementioned areas of industry adoption, aligning that there needs to be training, educational and promotional campaigns, and positioning of the Model as a part of an organization's product prioritization and/or technology roadmap in order to achieve successful adoption. The work group also discerned that there would be disparity along the way when some organizations adopt the Model and others have not.

Benefits and Challenges

Building on the adoption implications outlined, the work group further explored the projected benefits, challenges and types of costs associated with adoption of the Model. The work group agreed that a common taxonomy, more consistent fraud data, both internally and externally, and the ability to benchmark fraud management performance would be benefits of adopting the Model. Common challenges that arose included the difference in data governance and policies across organizations, how the data would be shared securely, ongoing maintenance of the Model and the costs of operational implementation.

Operationalizing and Data Management

Following the detailed work group discussions centered on adoption, Timoney led a discussion around how the Model may be operationalized and how the consistent data produced by the Model may be managed across the industry. The common theme raised throughout the discussion was that duplicate reporting occurs due to the two-party nature of fraudulent events. The work group agreed that while not fully preventable, the application of the Model would assist in reducing the amount of duplication.

Industry Communication and Engagement
Mollie Stevens

Mollie Stevens, Industry Relations Representative, provided an update to the work group on recent and planned industry communication and engagement, beginning with an overview of touch points held with a handful of members from the Fraud Definitions Community Interest Group to gain input on the Model from organizations and perspectives that may not be represented within the work group, and to see if the Model resonates with those not close to the work effort. Stevens highlighted that the Community Interest Group members affirmed the clarity and intuitiveness of the Model, suggested the value of expanding the Model to other payment types, and recommended improvements to foster self-education of the Model and definitions.

Stevens then reviewed high-level plans for sharing the Model with the broader Community Interest Group and administering a survey to help understand how the industry would apply the Model when presented with payments fraud use cases. While the survey will be open to all Community Interest Group members, the Fed will conduct additional targeted outreach to those members identified with applicable expertise. An educational campaign will also be facilitated by the Fed to help introduce the Model to prospective survey participants.

Work group members expressed interest in sharing with the industry and understanding how stakeholders outside of the work group would understand and apply the Model.

Secure Payments Initiatives: Synthetic Identity Payments Fraud
Mike Timoney

Timoney described how the efforts of another Secure Payments work stream, Synthetic Identity Payments Fraud, are related to the Fraud Definitions work, specifically noting that one of the key challenges in this space is the lack of a universal definition for synthetic identity. He then shared recent accomplishments within this work stream, including the publication of the first of three industry whitepapers to educate the industry about synthetic identity payments fraud and potential mitigation opportunities.

Work group members discussed their organization's experience with such fraud and emphasized the difficulty in detection. They also affirmed the continued lack of awareness and understanding related to this type of fraud and commended the efforts in this space given both the apparent prevalence and impact.

The Path Ahead (60-Day Outlook)
Mike Timoney

As the meeting steered towards conclusion, Timoney provided a high-level overview of the near-term focus, with an emphasis on preparing the Model and supporting definitions to share with the Community Interest Group, as well as advancing conversations related to the industry adoption road map.

Closing Remarks
Jim Cunha

Jim Cunha, Senior Vice President of Treasury and Financial Services Group, invited work group members to share their reflections on the meeting and the work effort itself, with positive sentiments proffered on the amount of progress made during the meeting.

The work group members agreed they are comfortable with the current state of the Model and noted the importance of the supporting definitions to foster clarity around the intent of each classification. Looking forward to seeing how the industry classifies payments fraud use cases based on the current Model and definitions, the work group shared the sentiment of leveraging a 'crawl, walk, run' approach when evaluating potential paths for the adoption roadmap, emphasizing the importance of short-term wins and/or smaller gains, as well as long-term strategies.

Cunha closed the meeting thanking the work group for the rich dialogue and noting the key takeaways captured for further discussion and advancement by the work group.

Meeting Attendees

- Dorothy Anderson, Federal Reserve Bank of Chicago
- Gasan Awad, Fiserv
- Dondi Black, FIS
- Tim Boike, Federal Reserve Bank of Chicago
- Jamey Boone, Early Warning / Zelle
- Nell Campbell-Drake, Federal Reserve Bank of Atlanta
- Jim Cunha, Federal Reserve Bank of Boston
- Natalie Diana, Bureau of Fiscal Service, Department of Treasury
- Chris Guard, State Employees' Credit Union of North Carolina
- Cheryl Gurz, Citizens Bank
- Mike Herd, NACHA–The Electronic Payments Association
- Kin Wah Koo, Federal Reserve Bank of New York

- Rakesh Korpal, JPMorgan Chase
- Lee Kyriacou, The Clearing House
- Ken Montgomery, Federal Reserve Bank of Boston
- Roy Olsen, American National Bank & Trust
- Rene Perez, Jack Henry & Associates
- Kim Plaugher, Navy Federal Credit Union
- Andrés Rapela, Federal Reserve Bank of Boston
- Beth Reynolds, Federal Reserve Bank of Kansas City
- Sergio Rodriguera, SAS
- Mollie Stevens, Federal Reserve Bank of Chicago
- Kathy Stokes, AARP
- Connie Theien, Federal Reserve Bank of Chicago
- Mike Timoney, Federal Reserve Bank of Boston

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To learn more about the Fraud Definitions Work Group, join the Community Interest Group by updating or submitting your FedPayments Improvement Community profile and selecting "ACH, Wire and Check Fraud Definitions" as a topic of interest.