

Day One and Day Two:  
October 3 & 4, 2018



FedPayments Improvement  
**COMMUNITY**  
FORUM

Collaborate. Engage. Transform.



# Fraud Measurement Improvement: An ACH and Wire Discussion

# Agenda

- **Introduction**
- **Session Objectives**
  - Payments Fraud Landscape
  - Fraud Definitions: Opportunity & Objectives
  - ACH & Wire Focus
- **Industry Perspectives**
- **Proposed Work Group**
- **Q&A**
- **Table Discussions**
- **Next Steps**

## Session Objectives

1. Inform the audience about the current state of payments fraud definitions, and the opportunity in ACH and wire.
2. Build awareness and understanding of the Federal Reserve's proposed ACH and wire fraud definitions work effort, including its scope.
3. Obtain input from Forum participants to help refine the ACH and wire fraud definitions work effort and finalize the charter for a work group to be formed in the fourth quarter of 2018.

# Fraud Definitions for Today's Discussion\*

**Fraud (N):** An action taken with dishonest intent to take something valuable from a payment system participant.

Four general categories:

- 1. First-party fraud:** Fraud committed by an account holder against another entity. For example, a legitimate customer may dishonestly request a chargeback on a purchase after receiving the merchandise as agreed, or an individual may set up an account (either using his or her own identity or a synthetic identity) to purchase items on credit without intending to pay the bill in full.
- 2. Second-party fraud:** A transaction made or attempted by a trusted entity that has access to the account holder's payment credentials. For example, a child may use a parent's credit card to make a purchase without the parent's consent (i.e., friendly fraud).
- 3. Third-party fraud:** A transaction made or attempted by an unknown entity that is not authorized by the account holder to use a payment instrument to make a purchase, initiate funds transfers, or withdraw cash from his or her account.
- 4. Fraud inducement:** Deceiving a participant about the true terms of a transaction in order to mislead the participant into making a purchase, transfer, or withdrawal that is to his or her disadvantage.

\* Federal Reserve: <https://fedpaymentsimprovement.org/resources/educational/>

# Consistent Fraud Definitions: ACH and Wire

## PROBLEM STATEMENT

- Inconsistent fraud definitions limit the industry's ability to communicate and collaborate most effectively on targeted and timely fraud mitigation efforts

## STRATEGY

- Form industry work group
- Focus on ACH & wire fraud definitions
- Gather input from the industry on phases of key work group deliverables

## OBJECTIVES

- Agree on and publish ACH and wire fraud definitions
- Develop a roadmap to gain broad industry alignment on definitions

## DESIRED OUTCOME

- Industry leverages a consistent baseline of fraud definitions to enable more effective information sharing and collaboration, resulting in more targeted and timely fraud mitigation across the U.S. payments system

# Payments Industry Perspectives



# Work Group: ACH & Wire Fraud Definitions

Overview	Industry Representation (20-30 Participants)
<p style="text-align: center;"><b>Goal</b></p> <p>Gain payments industry alignment on consistent ACH and wire fraud definitions and develop a roadmap to gain broad industry alignment</p> <p style="text-align: center;"><b>Duration</b></p> <p>9-12 months starting in Q4 2018</p> <p style="text-align: center;"><b>Work Effort</b></p> <ul style="list-style-type: none"> <li>• Fed-led effort in collaboration with payments industry</li> <li>• Determine the best approach and establish consistent fraud definitions for ACH and wire</li> <li>• Gain widespread industry alignment</li> <li>• Discussions and outcomes documented and published timely for industry review</li> </ul>	<ul style="list-style-type: none"> <li>• Financial Institutions (FIs)</li> <li>• Corporate / Business End Users</li> <li>• Non-FI Payment Service Providers</li> <li>• Core DDA Platform Providers &amp; Payment Processors</li> <li>• Payment Fraud Detection Platform/Service Providers</li> <li>• Payment Network Operators</li> <li>• Rules and Standards Bodies</li> <li>• Risk Intelligence Software/Platform Providers</li> <li>• Fraud Consultancy &amp; Reporting</li> <li>• Government Agencies</li> </ul> <p style="text-align: center;"><b>Range of Expertise Needed</b></p> <ul style="list-style-type: none"> <li>• Institutional Fraud Governance</li> <li>• Fraud Operations</li> <li>• ACH / Wire Operations</li> <li>• Fraud Systems Technology</li> <li>• Operational Risk Management</li> <li>• Risk Intelligence &amp; Analytics</li> <li>• Others TBD</li> </ul>

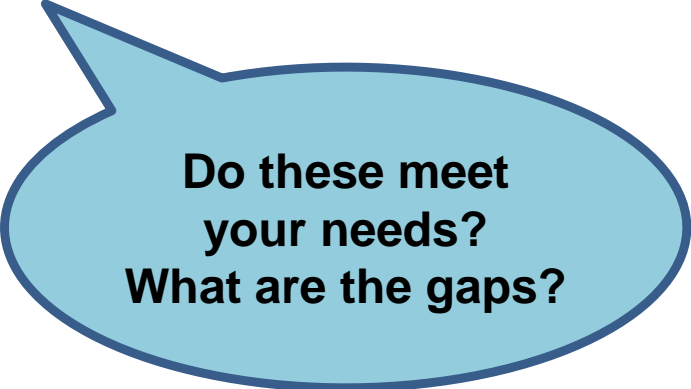


## Table Discussion

1. What is the primary source of *timely* information on the state of ACH and/or wire fraud for your organization?

***Discuss examples:***

- Internal tracking and reporting
- Third-party service provider
- Industry surveys/conferences
- Others?



Do these meet  
your needs?  
What are the gaps?

## Table Discussion

### **2. What should the scope of ACH and wire fraud data include?**

For example:

- ✓ Should we only include successful fraud, or also consider unsuccessful fraud attempts?
- ✓ Should we only include third-party fraud, or should we include second-party, third-party and/or induced fraud?

### **3. Should the scope of the proposed fraud definitions include check fraud?**

### **4. Where do you see opportunities and challenges in the proposed ACH and wire fraud definitions objectives and work effort?**

## Next Steps

- Fourth quarter 2018
  - Work group charter publication
  - Formation of work group
- First quarter 2019 work group kick-off
- Ongoing timely and regular report-outs to industry



# CLOSING REMARKS