# RECOGNIZING CHALLENGES IN FRAUD PROTECTION

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### FRAUD PROTECTION

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Get details on the broad range of protection services available to control check, ACH, wire and card fraud.

#### **QUICK TIPS**

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#### NATIONAL ECONOMIC OUTLOOK

#### **UPCOMING EVENT**

2013 Annual AFP Conference

10/27/2013 - 10/30/2013

Mandalay Bay Hotel Las Vegas, NV

#### A NOTE FROM JEFF FELSER, SENIOR VICE PRESIDENT



Welcome to our Fall newsletter on the crucial topic of payment fraud protection. We're pleased to report that as companies continue to reduce their dependence on checks as their leading payments vehicle,

we see evidence of significantly lower exposure to payments fraud.

#### THE 2013 AFP SURVEY PRESENTS VERY POSITIVE TRENDS<sup>1</sup>

- The cash managers, analysts and directors who participated in the 2013 AFP Payments Fraud and Control Survey reported a 5% decrease in the incidence of fraud attempts, though a majority of organizations (61%) still experienced actual or attempted fraud.
- Overall, the incidence of payments fraud has declined for five consecutive years.
- 2012 represented the second lowest year of business-to-business payments fraud.

These advances are primarily due to the continued shift from paper – particularly checks – to electronic payments. And this shift is significant, as companies increasingly adopt ACH and commercial cards for a growing percentage of their payments. As a matter of fact, from 2005 to 2012, U.S. Visa® and MasterCard® commercial card spending more than doubled, from \$225 billion to \$522 billion, according to *The Nilson Report*.

It's not surprising that the recent AFP survey reported that of the companies that experienced attempted or actual payments fraud in 2012, 87% reported that it was check fraud (with the loss per incident averaging \$20,300), as compared to only 29% for commercial card fraud, 27% for ACH debits, 11% for wire transfers and 8% for ACH credits.

Other important factors that have reduced companies' exposure to payments fraud include the evolution of fraud protection tools initiated by leading banks such as PNC. As a matter of fact, most of our clients have been quick to adopt a combination of the many services that assist in reducing their exposure to payments fraud.



Despite these positive trends, PNC recognizes that payments fraud remains a key challenge for companies, which leads us to two key observations.

#### It's essential to be constantly vigilant.

Though the AFP survey reported some positive directions, it's clear that more work needs to be done in the area of fraud protection, especially since organizations experiencing fraud tend to be targeted repeatedly and therefore need to continually add to the preventive procedures they implement throughout their company.

As businesses continue to migrate to electronic payments, fraudsters are honing in on this area. New techniques, including reverse phishing and keylogging software, indicate thieves' ingenuity and determination, and we will review those particular threats in more detail.

Furthermore, several other recent studies document the prevalence and persistence of the fraud threat. According to the Association of Certified Fraud Examiners, organizations typically lose 5% of revenues to occupational fraud annually, with a median per-incident loss of \$140,000; and 20% of those incidents caused companies to lose more than \$1 million.<sup>3</sup>

#### All businesses are vulnerable to electronic banking fraud.

Now more than ever, identifying and mitigating your fraud exposure is mission-critical. It's not only large organizations that are targeted for fraud. A sizeable 74% of small and mediumsized businesses experienced electronic banking fraud with 61% reporting that attacks led to lost funds.<sup>4</sup>

This is why PNC is committed to providing our clients, regardless of the size of their business, a range of advice, services and support to reduce vulnerability to existing forms of fraud, as well as other methods just beginning to emerge.

## A SOLUTIONS PROVIDER AND A STEADFAST PARTNER

At PNC, we pursue a multi-faceted approach to help our clients reduce their exposure to payments fraud, which includes:

- Providing information on practical steps that clients can implement to reduce payments fraud vulnerability in their organizations.
- Leveraging our TMOs' knowledge on the topic to stay current on trends and available preventive services we provide.
- Offering a depth of dedicated fraud protection services:
  - ACH Fraud Protection Service helps protect against unauthorized account activity.
    - ACH Positive Pay enables you to establish rules for filtering ACH debits presented to your accounts, and also review any "suspect" ACH debits and decide which entries should be returned to the ACH originator as "unauthorized."
    - **ACH Debit Block** prevents ACH debits from posting to your account.
  - Card Spending Controls which enable management to set spending limits and merchant categories at which each individual commercial card can be used.
  - Visa® Liability Waiver which insures against employee misuse of a card.<sup>5</sup>
  - Point of Sale Positive Pay helps you validate that only authorized checks are paid at point of sale locations.
  - **Teller Positive Pay** helps you validate that only authorized checks are paid at PNC branches.
  - Positive Pay and Payee Matching is a premium check fraud prevention service that compares the check-issuance information you provide to us against the checks presented to us for payment and identifies exceptions.
- Reverse Positive Pay is a fraud mitigation service which provides daily and automatic reporting of all check items presented to us for payment against your accounts.



#### RECOGNIZING CHALLENGES IN FRAUD PROTECTION

This issue of the *Payment Solutions* newsletter provides fraud protection knowledge that you can rapidly apply (see the *Quick Tips* section) and fraud control solutions you can leverage (see the *Product Spotlight* article). Reducing vulnerability is certainly a collaborative effort between clients and their

banks, and PNC can provide the comprehensive support you may need.

Simply put, we are committed to helping you reduce your exposure to payments fraud, preserving your trust and protecting your valuable corporate assets.

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<sup>&</sup>lt;sup>1</sup> All statistics in this article, unless otherwise noted, are sourced from the 2013 AFP Payments Fraud and Control Survey, Association for Financial Professionals, March 13, 2013.

<sup>&</sup>lt;sup>2</sup> "U.S. Commercial Bank Cards – Part 2," *The Nilson Report*, issue 999, July 2012.

<sup>&</sup>lt;sup>3</sup> "ACFE Report Estimates Organizations Worldwide Lose 5 Percent of Revenues to Fraud," ACFE News Release, May 10, 2012, http://www.acfe.com/rttn-highlights.aspx.

<sup>&</sup>lt;sup>4</sup> 2012 Business Banking Trust Trends Survey, Ponemon Institute, August 13, 2012.

<sup>&</sup>lt;sup>5</sup> Certain conditions apply.