

Bridging the Gap Between Check Fraud Prevention and Red Flags Compliance

Featuring: The Santa Fe Group

March 18, 2010

Webinar Begins at 2:02 pm.

1000+ major
licenses installed

Recognition-centric
solutions: value-based

\$390M parent
company, (NASDAQ: ORBK)



Fraud
Prevention



Check Processing
Automation



Data Mining
for Marketing



Forms
Automation

Interactive Webinar Host

Joe Gregory
VP Marketing



A New Orbograph Brand... A Continued Focus on...



FOR IMMEDIATE RELEASE

Press Contact:

Joe Gregory

VP Marketing

joe.gregory@orbograph.com

978-901-5046

Orbograph Launches New Brand Identity, Company Logo, Slogan and [Website](#)

New Company Image Supports Innovative Strategies for Core Market Segments

Billerica, MA - February 25, 2010 - Orbograph today announced that it has introduced a new brand identity that more fully represents the Company's key differentiators and accentuates the Company's innovative business strategies focusing on four core market segments including: Check Processing Automation, Fraud Prevention, Data Mining for Marketing, and Forms Automation.

In conjunction with a new corporate slogan, **Envision More. Achieve More.**, Orbograph's new brand identity is intended to build upon the Company's successes as the recognition/automation vendor of choice to the financial industry since its inception 14 years ago, while redefining its solutions in the marketplace.



A New Orbograph Brand...

A Continued Focus on...



orbograph

Envision More. Achieve More.



orbograph

Envision More. Achieve More



orbograph

Envision More. Achieve More.

Check Volume & Fraud


Checks are dying a natural death in the US. Financial institutions would do well to invest in long-term care for checks through image infrastructure, widespread distributed capture and electronic statements. It's too early to be shopping for headstones just yet.....

Source: Bob Meara: Celent- Strategy Consulting for Financial Institutions

- **\$11.4B Total Check Fraud attempted** against bank deposit accounts in 2008
- 9% or just over **\$1.024B actual fraud losses in 2008**
 - » Source: 2009 ABA Deposit Account Fraud Survey Report



Operational
Challenge



**Streamline and Automate –
Innovative Opportunities**

Identity Theft and Fraud Prevention

- White paper Co-Authored with The Santa Fe Group
 - Keying on compliance aspects of ID Theft
 - Red Flags Rules
- Leverage cross departmental needs
 - Fraud
 - Operations
 - Compliance



Featured Speakers

- Established in 1996, The Santa Fe Group is a strategic consulting company providing unparalleled expertise to leading financial institutions and other critical infrastructure companies, including health care
- Area of expertise includes risk management with a focus on fraud reduction and operational risk management
- A network of nationally and internationally recognized consultants



Jodi Pratt
Senior Consultant

THE **SANTA FE** GROUP



Robert W. (Bob) Jones
Senior Consultant

THE **SANTA FE** GROUP

Bridging the Gap...

Agenda

- Red Flags Compliance: Update & Scenario Analysis
- The Intersection of Fraud, Identity Theft & Check Images
- Mitigating Fraud Risk of Forgeries, Counterfeits and Alterations
- How to Create a “Best of Breed” Compliance Strategy by Optimizing Imaging Technologies



Recap of the Red Flags Rule

- Fair and Accurate Credit Transaction (FACT) Act of 2003
- Impacted entities
- Regulatory authorities
- §114 – Red Flags Rule
- Compliance Timeline



Consultants' View: Red Flags Are Part of Fraud Controls

- All ID Theft is fraud
 - But...not all fraud involves ID Theft
 - For overall fraud success, there is no need to differentiate
- For overall compliance success, certain minimums in ID Theft management are required
- Red Flags address major ID theft
 - Some indicators are explicitly articulated
 - Others are more vague:
 - Therein lies the “art” of Red Flags compliance



Fraud Prevention Strategy



ACH

ATM /
RDC

**ID Theft
Red
Flags**

On Us

Deposit

Wire

"Objective" Red Flags Rules

- Consumer Report Red Flags:
 - Fraud alert
 - Credit freeze
 - Address discrepancy
 - Information on ID not matching information in consumer report
- SSN/TIN Red Flags:
 - Not issued
 - On Death Master
 - Number issued before birth date



“Subjective” Red Flags Rules

- “Covered Accounts”
 - “Any account...for which there is a reasonably foreseeable risk ...”
 - “...or to the safety and soundness of the financial institution...”
 - “Due to the risk-based nature...each financial institution ...must determine which of its account...”
- “Alert for signs...”
- “Patterns, practices or activities...”
- “Experiences of the [FI] with identity theft...”

Importance of Broad Interpretation

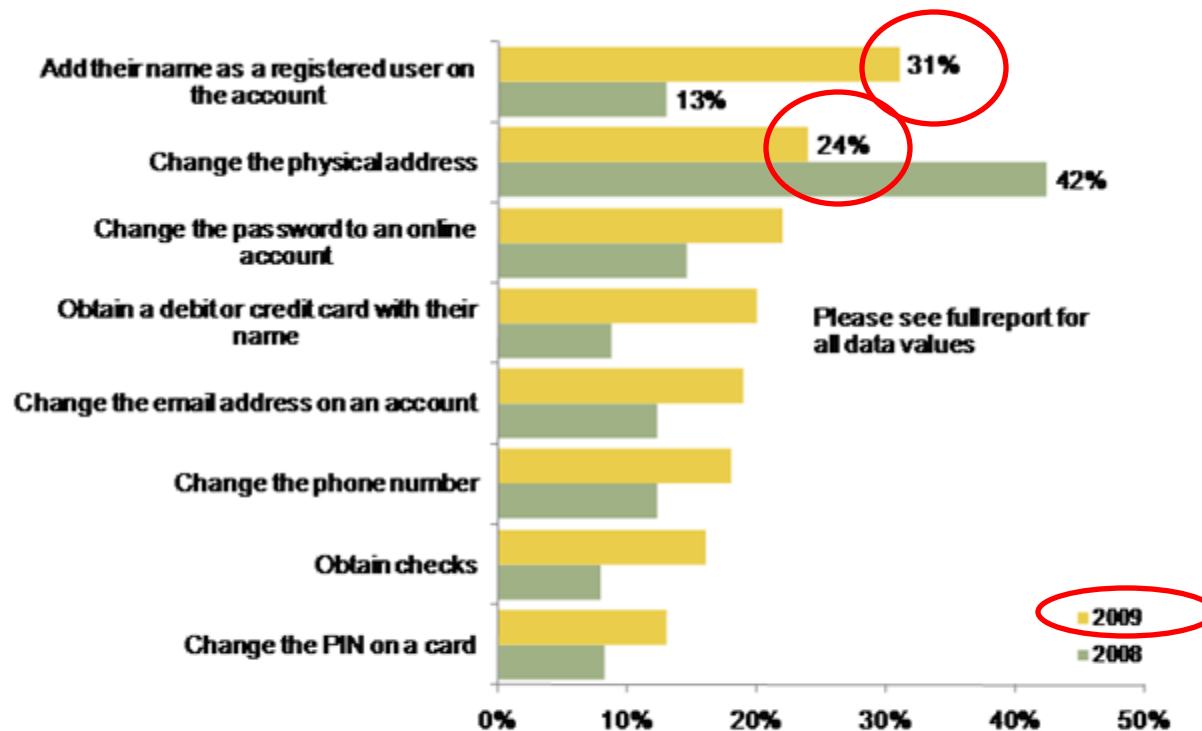
- In 2008, RFs specifically identified “address changes” as a major indicator of identity theft
 - “Letter of the regulation” - address changes
 - “Intent” of the reg - other potential techniques that could be used
- Javelin Research’s annual ID Theft Survey
 - Confirms the need for a broader interpretation
 - Criminals understood where to go faster than FIs
 - Following chart used with permission



*Full ID Theft Report available at javelinstrategy.com

Javelin Research

"Physical address no longer most vulnerable - adding name as user takes over top spot. Figure 22: Account take over methods 2007-2009"



Q19: On the accounts that were 'taken over,' what did the person do?

November 2009, n= 45, 70
Base: All fraud victims who know what happened postfraud.
© 2010 Javelin Strategy & Research

First Year of Regulatory Reviews

- The FTC delayed the compliance date...
The financial services regulators didn't!
- It appears to be working!
 - FIs are catching things that would not have been caught had it not been for their plan
- Regulators were generous
 - Looking mainly for progress toward substantive compliance



- <http://www.ftc.gov/bcp/edu/pubs/business/alerts/alt050.shtm>

Most Common Deficiencies

- “Covered” do not include business accounts that should be included
 - E.g. Sole proprietorships, DBAs
- Not exercising oversight - service providers
 - Outsourcing does not relieve FI of compliance
- Training for Red Flags compliance has not been completely disseminated
- Plans are not thoroughly documented and/or have not received formal board approval

The Second Round of Examinations

- This year, examiners will expect
 - “A more developed” plan
 - Deficiencies from prior year have been resolved
 - Their comments/suggestions have been taken seriously
 - That FIs are learning & reacting
 - Experiences: own and peers



Loss - Scenario Analysis Interest to Regulators

- **Don't miss:** "...should update the Program...based on...experiences..."
- Are FIs evaluating losses/attempt situations to determine if ID theft is involved?
 - Loss vs. Attempt Scenario Analysis
- Analysis will also provide invaluable information on general fraud issues



Scenario Analysis

- Proactive:
 - Examine processes to identify points of potential compromise:
 - New products and channels under development
 - Existing products and channels: new exposures
 - Evaluate and deploy mitigants
- Reactive:
 - Conduct root cause analysis of losses and loss attempts
 - Evaluate and deploy mitigants

A Proactive Example

- FI wants to start opening accounts online out of footprint
 - Do they have adequate IP/geo-location/device-footprint monitoring in place?
 - Does their new account screening system provide appropriate coverage for geography outside footprint?
 - Do they want to put any additional limitations on funding sources or funds availability?

A Reactive Example

- Receive a customer claim disputing...
 - How did the transaction occur?
 - Was the transaction flagged for suspicion of fraud?
 - If so, why was it not caught?
 - If not, should it have been?
 - Is there anything that could have been done to recognize the account was being taken over?
 - Is there a strong enough business case to support implementing new policies, procedures, processes, technologies and/or practices?

The Intersection of Fraud, Identity Theft and Images

- The ID Theft Red Flag FAQ #11
 - Specifically identifies that check forgery is considered “ID Theft”
 - Name and account number are used
 - A signature is a biometric indicator
- On-us fraud detection is important to ID Theft detection and therefore the RF program
 - Detection depends on “pattern” recognition
 - Currently, most banks use transaction patterns
- Images provide new data points to the “fraud”

Check Fraud : A Significant Problem?

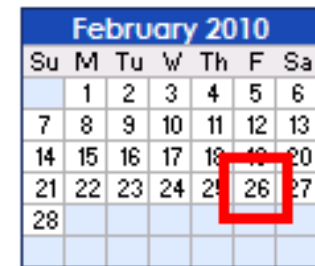
- Check losses still showing increase
 - 2009 \$1.024B vs. 2007 \$.969B
- Total loss attempts decline for first time
 - 2009 \$11.4B: 2007 \$12.2B
- Check fraud loss by percentage
 - 2009 Forgeries 22%: sig/endorsement 60/40 split
 - 2007: 27%: sig/endorsement 62/37 split
 - 2009 Counterfeit: 30% (2007: 28%)
 - 2009 RDIs 35% (2007: 38%)
 - 2009 Other 13% (2007: 7%)

*Source: 2009 ABA Deposit Fraud Survey Report: available at aba.com



Position of Images Today

- 99% of the checks sent to Fed are image
 - SVP Co, Viewpoint & Endpoint – 85-100% image
 - Virtually all Direct Sends are image
- Effective Feb 26, 2010, Reg CC
 - All items considered “local”
 - 5 day routine hold option is no longer available
 - “Exception” holds are still possible (hold this thought)
- Can we exchange images on same-day basis? (“forward presentment”)
 - Same day/Day 1 clearing: image-based fraud detection?



February 2010

Su	M	Tu	W	Th	F	Sa
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28						

Same Day Fraud Prevention

"Near" Real-Time...Limits Exposure!

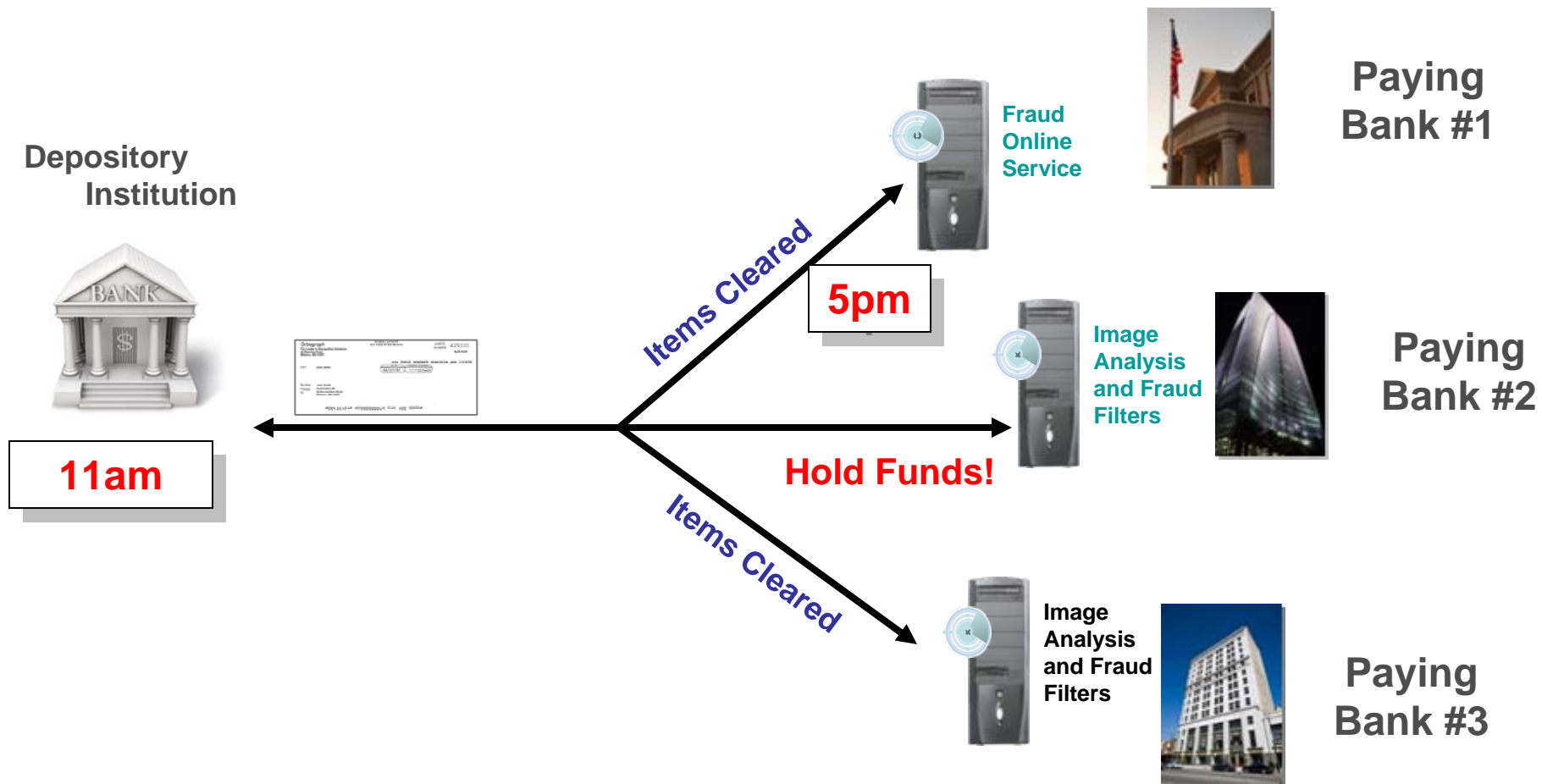


Image-based Identity Theft Detection, RF Compliance – Beyond Checks

- 1 in 4 existing “non-card” fraud involves an account takeover (Javelin)
 - Non-card = checking and savings deposit accounts
- Signatures can be authenticated!
 - Forged sigs of existing signers
 - New signatures on an existing account
 - Lack of signatures (e.g. PADs) can be detected



Note: Not just limited to checking accounts

- Saving withdrawals depend on sigs too,
- Expanding RD compliance and fraud avoidance beyond tradition of “on-us only” sig ver

Where Else Can Automated Signature Analysis Be Valuable?

- Applications for new accounts
 - Credit or deposit accounts/applications
- Image-enabled branch platforms support signature verification: Teller and service areas
 - Before cash goes out the door
("dynamic signature verification")
 - Don't forget cash advances on credit cards, LOCs
- Future: Signature verification at POP/POS?
 - i.e. very beginning of payment negotiation process



Things That Will Need to Change

- FIs will need to break through organizational and payment silos
 - Checks converted from paper return through electronic streams
 - Fraud prevention needs to be ubiquitous
- New readers
 - Replacing MICR only with image-readers
 - Implementing “dynamic” readers where appropriate
 - Transmission streams



Counterfeit Check: ID Theft or Not?

- A counterfeit consumer check: Yes
- A counterfeit corporate check: No
 - But it is still fraud
- A good example: If one fluid process will identify all counterfeit on-us checks, why not?
 - Focus on the fraud prevention aspect and RF compliance will have become a fait accompli
 - However, pieces that support RF should be added to program documentation for regulator exam credit!



Other Opportunities to Optimize Counterfeit Check Identification

- Known suspicious/fraudulent check stock
 - VersaCheck
 - From FI fraud cases of counterfeit checks
 - Money Orders
 - Cashiers/Official Checks
 - PAD stock format
 - FDIC – counterfeit templates?



Alteration Detection

- Additional fraud loss situations addressed with image
 - Value alteration
 - CAR/LAR detection
 - Payee alteration
 - Complement to traditional positive pay
- As image-based fraud prevention improves
 - Identification of erasure, bleach marks
 - Handwriting analysis
 - Consistency between lines
 - Interpreting written information



As RF Blends with the Larger Fraud Prevention Picture

- New fraud prevention opportunities – NOW!!
 - Shared industry opportunities
 - Same day processing of check images
 - Bilateral agreements: Same day identification of “reasonable doubt” for depository bank
 - Shared Image repositories/archives to address deposit (transit item) fraud
 - Provide cost-effective cross-FI “exemplars” so deposited transit checks can be compared for potential fraud
- Note ID Theft/RD compliance opportunities
- Also notice Reg CC expanded hold opportunities



Summary

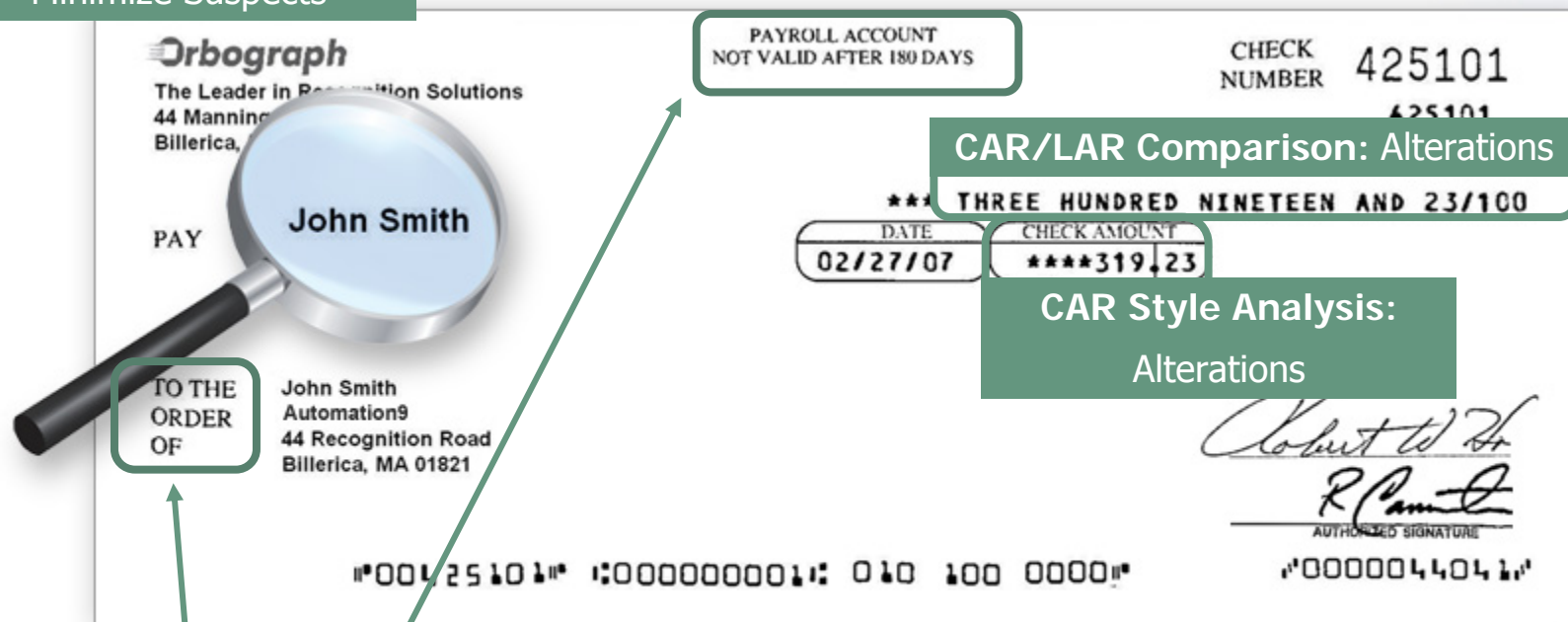
- Image-based fraud prevention has a direct relationship to ID Theft RF compliance
 - As new techniques to commit and to prevent ID Theft arise, FIs are expected to identify, resolve & document
- Concentrate on the right fraud management objectives and RF compliance is achieved
- Images are now well established in today's payments infrastructure
- It is time to begin leveraging the unique opportunities of images for ultimate use in fraud prevention



Fraud Prevention Considerations

Image Analysis

Payee & Payer Match:
Minimize Suspects



Check Stock Validation
(Field locations):
Counterfeits

Serial # Matching:
Counterfeits

Signature Verification:
Forgeries
(Skilled & Unskilled)

Centralized Authentication Image/Transaction Fraud Prevention

Traditional

Check Image
Analysis: Inclearing,
POD

Check Transaction
Analysis



In-House or
Hosted
Environment

Opportunities

Teller capture

Same Day

Customer
Authentication

Loan
Applications

“Hot/Warm/Black list”
Matching

ACH Converted
Checks

Fraud
Reporting

Red Flags
Compliance Reporting

Red Flags Reporting

ID Theft - Account Report

ID Theft - Transaction Report

Orbograph Welcome yael | [Logout](#) 02:53 PM Feb 02, 10

Portal Performance Health Configuration **Fraud Console** [Refresh](#) Application Help

Amount over (\$): 1000 Last 1 month From: 02/02/2010 00:00:00 AM To: 02/03/2010 00:00:00 AM Show Pending decisions: 2674 out of 4549

Suspect checks

Page: 1 | 2 | 3 | 4 of 138

Trace ID	Sequence	Bank	Insert Date	Capture Date	Routing	Account	Serial	Amount	Fraud	AV	IQUA	Status	Decision	Operator	Lock
1435afd0-f64	00081203_BUN	YaelBank	Feb 1, 2010 12	Oct 28, 2009 7:	026000000	4800018514	010010	\$20,000.00	Other	✓	✓	Suspect			
721cd931-aac	00081203_BUN	YaelBank	Feb 1, 2010 12	Oct 28, 2009 7:	026000000	3802234401	006311	\$1,121.14	Other	✓	✓	Suspect			
206ba41d-87	00081203_BUN	YaelBank	Feb 1, 2010 12	Oct 28, 2009 7:	026000000	0808579001	035555	\$2,000.56	Other	✓	✓	Suspect			
c0ca48f8-da1	00081203_BUN	YaelBank	Feb 1, 2010 12	Oct 28, 2009 7:	026000000	3803922598	003398	\$1,450.00	Other	✓	✓	Suspect			
3ded4135-c81	00081203_BUN	YaelBank	Feb 1, 2010 12	Oct 28, 2009 7:	026000000	0400353201	100976	\$1,228.13	Other	✓	✓	Suspect			
57cce238-121	00081203_BUN	YaelBank	Feb 1, 2010 12	Oct 28, 2009 7:	026000000	3852524430	000145	\$1,111.24	Other	✓	✓	Suspect			
d435745c-a36	00081203_BUN	YaelBank	Feb 1, 2010 12	Oct 28, 2009 7:	026000000	0370573009	000147	\$6,038.42	Other	✓	✓	Suspect			
c39c0a1e-744	00081203_BUN	YaelBank	Feb 1, 2010 12	Oct 28, 2009 7:	026000000	3803070701	010810	\$1,087.83	Other	✓	✓	Suspect			
b7dc33c3-308	00081203_BUN	YaelBank	Feb 1, 2010 12	Oct 28, 2009 7:	026000000	4800018514	010009	\$40,000.00	Other	✓	✓	Suspect			
18e4f3bc-f2e	00081203_BUN	YaelBank	Feb 1, 2010 12	Oct 28, 2009 7:	026000000	0604230801	002673	\$5,747.56	Other	✓	✓	Suspect			
0521ddc2-5d3	00081203_BUN	YaelBank	Feb 1, 2010 12	Oct 28, 2009 7:	026000000	5250000222	0810	\$3,100.00	Other	✓	✓	Suspect		yael	✓

Total 3447

- Join an Orbograph working group to refine Red Flag reports

Q&A and Follow-up

- Yes: The presentation & recording will be made available for download
- Yes: We will provide a list of the Red Flags Rules which are directly impacted by transaction and image-based fraud prevention
- Yes: Thank you for joining us today
- Any final questions...before the final poll?

THE **SANTA FE** GROUP

About The Santa Fe Group

www.santa-fe-group.com

- A strategic consulting firm based in Santa Fe, NM
- Catherine A. Allen is Chairman and CEO
- Strategic partner to BITS; manages the Shared Assessments Program (www.sharedassessments.org)
- Trusted voice in the financial services industry
- A national network of thought leaders and innovators hand-picked for their deep knowledge, hands-on experience and objective approach

www.santa-fe-group.com | info@santa-fe-group.com | 505-466-6434