

Reduce the Risk of Payments Fraud

By Steven Markwell
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Debbie: Hello, and thank you for joining us today. You're listening to a J.P.Morgan podcast featuring payment fraud. My name is Debbie Hartley, and I'll be serving as Moderator. I'm joined today by Steven Markwell, Senior Products Manager for Payables at J.P.Morgan Treasury Services. Welcome, Steven.

Steven: Thanks for having me.

Debbie: In a time of economic turmoil can you start by telling us what you're seeing in terms of payment fraud trends today?

Steven: It's an extremely pervasive issue, so if we look over the last four years, we can see that payment fraud itself has grown dramatically. This last year when we performed a survey with the AFP, we learned that over three-quarters of organizations in 2008 experienced fraud attempts and when these clients do actually take a fraud loss, the typical loss comes in around \$15,200.

Debbie: Is fraud rising or declining from prior years?

Steven: It's rising, so again the three-quarters of companies that we spoke to that said that they've incurred payment fraud over the last year, over 30 percent of them have said [that] within the last year they've seen an increase of fraud within their organization, and in fact, this is why J.P.Morgan takes fraud so seriously. It's a growing issue. It puts our clients' assets at risk, and we are going to do everything in our power to protect those assets.

Debbie: What are you seeing as the types of organizations that may be more likely to be at risk? Does it affect mostly large companies, or do you see small companies being at risk, and what about organizations with high volume of payment versus a company with a low volume of payment?

Steven: Good question. I think there's a common misconception out there that the larger companies issuing thousands of payments per month are truly the organizations that are at risk of payment fraud, and while certainly they are — in fact, 80 percent of them incurred payment fraud last year — the smaller companies and the companies issuing fewer payments per month are also at risk. Again, looking at this last survey that we performed with the AFP over 63 percent of companies earning under \$1B in top line revenue experienced payment fraud last year. I can also tell you that if we look at what types of accounts does payment fraud typically target, over 50 percent of all payment fraud last year occurred on accounts that write under 300 checks per month, so certainly there could be large organizations issuing 300 items per month on their account, but that's more typical of one of our smaller family-owned organizations. The short story is it's a pervasive issue for all shapes and sizes of organizations and all types of payment activity.

Debbie: Are you seeing a payment method that is most frequently targeted by criminals to commit payment fraud?

Steven: Well, check fraud dramatically outpaces the other payment vehicles in terms of fraud occurrences. In fact, if we look at the 70 percent of organizations that experienced fraud this year, over 90 percent of them experienced check fraud attempts, but that is not to say that other payment vehicles are not at risk. In fact, if we look at ACH, 28 percent of those organizations saw ACH fraud attempts. If we look at consumer credit and debit cards, over 32 percent of those organizations saw credit attempts and even wire transfers — 6 percent of organizations saw wire fraud last year.

Debbie: What about the liability of check fraud? Who's responsible? Would it be the financial institutions or the company?

Steven: Well, let me start with this: Most organizations think that financial institutions are liable, and they've probably been conditioned to think this way. If you look back several years ago most financial institutions did not have the focus that they do today. They did not invest as heavily in solutions, and frankly, it's because the issue was not as large as it is today, but seeing how pervasive it's become, we, certainly, at J.P. Morgan have invested heavily in these solutions, and not just the solutions but consulting with our clients in terms of our they operate internally and how they can best take advantage of these solutions. In today's environment, generally speaking, if J.P.Morgan has offered a fraud solution to a client and the client has declined to use that service and they incur fraud on their account, the client would be liable or some other financial intermediary would be liable for that fraud loss.

Debbie: What are the best defenses against payment fraud? Are there things clients can be doing internally, and what about the types of fraud-fighting tools that exist today that can help corporations greatly reduce their risks?

Steven: Absolutely, there are many things clients can do internally to help protect their accounts against payment fraud. More importantly, clients need to not only have internal controls but also leverage financial institution solutions. When we consult with clients on their environment, one of the biggest issues we see is that clients typically migrate towards just internal controls or just bank solutions. If you don't use both collectively, you're really not creating a comprehensive control for payment fraud. I think a couple of the best practices that we promote heavily with clients in terms of internal controls would be moving away from a paper world and into an electronic world specifically around payments, so find opportunities to stop issuing checks to your vendors and start issuing ACH payments to them. As we stated before, over 90 percent of organizations that saw payment fraud last year saw check payment fraud, definitely the most pervasive of the five, so migrate to electronic forms of payment. Broader than just payment fraud, migrate to electronic ways to store and retrieve your financial documents. That includes things like your bank statements, your cancelled checks, any paper receipts of payments. All these things are available online. When you start to rely exclusively on that online source for those documents, you're going to see three benefits. One, it's more secure. All of this information is hosted within the J.P.Morgan infrastructure. You're controlling who has access to this information, and it's more efficient. Imagine in a paper world, where you're storing seven years of bank statements under lock and key in a filing cabinet that's taking up space which surely costs you money, and then when you need to go find one of these documents, you're digging through filing cabinets, and when the documents become of age, you need to destroy them, so you have to shred the documents, bag them, and ship them downstairs. So it's efficient, and then last, but not least, certainly a great thing for the environment. The other best practice that we promote heavily is segregating your account activity, and you can do that several ways. Once you can isolate an account to a specific type of activity in terms of payment vehicle or amount, transaction type, who are you paying, how much are you paying, — once you isolate an account down to that level of detail, you can then protect against every other type of payment fraud that doesn't fall within that realm. One example would be: Most organizations issue payroll, let's say, every two weeks. You can take an account, make it just a payroll account. Maybe you use ADT, as an example, to perform your payroll, and maybe your payroll items never really exceed \$10,000 per item. Knowing that, we can then come in and say, okay, we're not going to allow checks to post against this account, and to do that we can use the post no check service. We can also say that you're only going to allow ACH debits coming from ADT and under \$10,000, and then any time a payment attempts to hit that account and falls outside of the criteria you've defined, we'll send you an e-mail. You can come online and decide whether or not you want to pay or return that item.

Debbie: What is J.P.Morgan doing to combat fraud?

Steven: We're doing several things. We actively monitor the latest fraud scans that are out there, and then we invest heavily to take our fraud protection solutions and update them using cutting-edge technology to fill any gaps that fraudsters have started to attack, so it's a matter of constantly assessing the fraud environment, staying on top of the latest trends, and then updating our solutions set. We work with the AFP to perform this annual survey that really tells us how pervasive is the issue, who is it impacting, to what degree is it impacting them, and what have clients seen as effective and ineffective ways to prevent fraud in their institution.

Debbie: Thanks for joining us today, Steven. We appreciate your thoughts and insights on payment fraud. For more information, visit our J.P.Morgan's Fraud Resource Center website at www.jpmorgan.com/preventfraud. This concludes our J.P.Morgan Payment Fraud Podcast presentation.

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