

BITS

FINANCIAL SERVICES
R O U N D T A B L E

BITS Fraud Steering Committee and BITS Fraud Reduction Program 2006 Accomplishments

BITS Fraud Reduction Steering Committee

In addition to providing oversight and guidance to the various working groups and projects under the BITS Fraud Reduction Program, the BITS Fraud Reduction Steering Committee¹ provided input and/or review to the following forums, papers, and/or projects:

- **Enterprise Payments Fraud and Cross Channel Payments Risk Forum.** On December 5, BITS hosted the Enterprise Payments Fraud and Cross Channel Risk Payments Forum in Washington, D.C. The forum focused on emerging payments risk issues and the efforts that financial institutions, payments networks, technology vendors, and government regulators are taking to address these issues. Comerica CIO John Beran keynoted the forum and outlined the emerging fraud trends across the various delivery channels and payments applications. Panel discussions focused on the current payments risk environment, steps being taken by industry today to enable better payments fraud detection across silos, emerging business techniques and technologies to address cross channel payments risks, and longer term enterprise payment risk mitigation approaches and structures. Attendees also received a progress update from the Partner Group regarding their efforts to address cross channel fraud.
- ***BITS/ABA Key Considerations for Responding to Unauthorized Access to Sensitive Customer Information.*** In November, BITS and the American Bankers Association jointly released a new tool, "BITS/ABA Key Considerations for Responding to Unauthorized Access to Sensitive Customer Information." Endorsed at the Roundtable's Fall Conference, the paper is available at no charge to all financial institutions and to the public. It is available on both the BITS and ABA websites: http://www.bitsinfo.org/p_publications.html (under security) and <http://www.aba.com>. This publication is designed to assist financial institutions in developing and executing response programs.
- ***BITS Consumer Confidence Toolkit and Voluntary Guidelines.*** BITS updated the *Consumer Confidence Toolkit: Data Security and Financial Services* in November, 2006. This Consumer Confidence Toolkit is publicly available and provides information to support consumer confidence in the safety, soundness and security of financial services. Special attention is placed on online financial services transacted through the Internet. Data in support of the safety of online financial transactions are provided. Information about

¹ Please see Appendix A for a list of 2006 FRSC participants.

the proactive leadership of the financial services industry is included, as well as a description of the current environment and recommendations for government agencies and leadership. Tips for consumers to help protect their financial security, including in the online environment, are also provided. In addition, BITS has developed Voluntary Guidelines as recommendations to member institutions for managing information security and consumer confidence issues.

- **Comment Letter: Proposal to Limit Information Collected and Maintained in WHOIS Data base.** On April 14, BITS sent a letter to Internet Corporation for Assigned Names and Numbers (ICANN) commenting on the current proposal to limit the type of information collected and maintained in the WHOIS data base. Drafted by members of the BITS Security & Risk Assessment Working Group and reviewed by the BITS Fraud Reduction Steering Committee, BITS urges ICANN to adopt a formulation that will provide financial institutions with the information they need to respond to identity theft and account fraud. In addition to commenting on the two proposals, the letter outlined BITS' and members' activities to address information security and identity theft challenges. The letter is available at <http://www.bitsinfo.org/downloads/Comment%20letters/WHOISCommentBITSFINALApr06.pdf>
- **Comment Letter: Interagency Identity Theft Red Flags Rule.** On September 18th, the Financial Services Roundtable and BITS submitted a comment letter on the proposed "Red Flags Rule" to implement sections 114 and 315 of the Fair and Accurate Credit Transactions Act of 2003 (FACT Act). The 13 page letter urges the Agencies to: provide greater flexibility and explicitly state that the thirty-one red flags listed (and any others not enumerated) be regarded as "examples" only; clarify that the final rule should not be the basis for civil liability; make the final rule more consistent with other regulations; incorporate more realistic cost estimates of the impact of the regulation; modify several key definitions; and provide adequate time to implement a risk-based red flags program. The letter is available at <http://www.bitsinfo.org/downloads/Comment%20letters/BITS&RoundtableRedFlagsCommentLetterFINAL.pdf>.
- **Testimony to the United State Congress House Committee on Financial Services Subcommittee on Financial Institutions Hearing on ICANN and the Whois Database: Providing Access to Protect Consumers from Phishing.** On July 18, 2006 BITS CEO Catherine A. Allen testified at the Subcommittee on Financial Institutions and Consumer Credit's hearing regarding the Internet Corporation for Assigned Names and Numbers (ICANN) proposal to restrict access to the WHOIS database. Catherine outlined the benefits of the WHOIS Database to financial institutions, including its use as a tool for investigating and responding to phishing attacks and attempts to commit identity theft using fraudulent websites. Written testimonies are available at <http://financialservices.house.gov/hearings.asp?formmode=detail&hearing=491>
- **Anti-Money Laundering Forum.** The "BITS Anti-Money Laundering Forum: Bridging the Gap between Legislation and Implementation," was presented with The Santa Fe

Group, July 13-14, 2006, in Washington, DC. There were many highlights in this well-attended event, with detail ranging from trends in the terrorist financing world to the most successful strategies for detecting and deterring financial crimes. Among the many knowledgeable speakers were Ann Jaedicke, Deputy Comptroller for Compliance Policy of the OCC; Dennis Lormel, former Chief of the Financial Crimes Section for the FBI's Criminal Investigative Division, with 30 years of government service; Douglas Freedman, Director for Bank Compliance and Regulatory Relations, Barclays Capital; John Byrne, SVP of AML Strategies, Bank of America; and Richard Clarke, Chairman, Good Harbor Consulting.

- ***BITS Key Considerations for Securing Data in Storage and Transport: Securing Physical Media in Storage, Transport, and for Data Erasure and Destruction***. BITS released the "BITS Key Considerations for Securing Data in Storage and Transport" paper in February. This "members only" document provides financial institutions with a framework to evaluate the risks associated with the transport and storage of physical media and the destruction or erasure of data on various media. This framework is a reference tool that complements individual institutions' risk assessment and risk management policies. The framework helps risk managers and information security professionals by outlining key questions, identifying risks that can (and cannot) be mitigated, educating key vendors about the needs of financial institutions, implementing appropriately secure storage and transport procedures, and developing effective audit procedures. The framework is intended to address transport and storage of information for the purposes of archiving, processing, regulatory reporting, backup and recovery, and customer requirements. The full document is available in the Members Only area of the BITS web site at www.bitsinfo.org.

BITS Fraud Reduction Program: Working Groups and Projects

BITS ACH Risk Project Group, led by Shirley Inscoc, Wachovia Corporation

- This project group was created in October to analyze the trends and risks involving the ACH channel and ACH transactions. Projects under this group will address preparation for back office conversion implementation, the ongoing monitoring and screening of accounts and transactions, creation of an eCheck risk toolkit, and the impact of third party services.

BITS Debit Card Working Group, led by Linda Chumley and Kevin Hale, Wells Fargo & Company

- The BITS Debit Card Working Group revised and distributed the "Debit Card Fraud Management Successful Strategies Matrix of Practices and Procedures" to survey participants. The group also met via conference calls to discuss card compromises and security breaches and actively shared input via email on issues submitted by members regarding penny test authorizations, fraud solutions, skimming reports, PIN/sig card losses, and SecureCode questions. The group is currently drafting a white paper that will examine the current landscape of the ATM and debit card environment (including the

connection between debit card and DDA accounts), discuss the real or anticipated fraud losses to the recent information security breaches and compromises, what technologies (chip and PIN) and processes are available to combat this fraud, and what tools and processes are missing.

BITS Electronification Working Group, *formerly led by Lisa Zarzycki, Comerica Incorporated*

- **Remote Deposit Image Capture: The Processes, Risks, and the Strategies used to Mitigate Them.** This paper, published in September 2006, was written by the BITS Electronification Working Group in response to a request from the BITS Fraud Reduction Steering Committee to assess the risk implications of financial institutions offering Remote Deposit Image Capture (RDIC) services to their qualifying commercial clients. This paper identifies both the benefits and the risks associated with offering RDIC and offers strategies to mitigate the risks. It is available at no charge at <http://www.bitsinfo.org/downloads/Publications%20Page/BITSRDICFINALSept06.pdf>

BITS Mortgage Fraud Reduction Project, *led by Susan Dailey, JPMChase & Co.*

- In November, members of the BITS Fraud Reduction Steering Committee and Mortgage Fraud Reduction project group, and members from the Mortgage Bankers Association (MBA) met with officials from the Federal Bureau of Investigation (FBI) and the U.S. Department of Justice (DOJ) to discuss ways these groups can enhance their working relationships to combat mortgage fraud. Each organization provided updates on their efforts and agreed to meet on a quarterly basis to address issues and deliverables identified during the discussions.

Protecting the Elderly and Vulnerable from Financial Fraud and Exploitation, *formerly led by Linda Mill, Wachovia Corporation*

- The Toolkit, which is a follow-up to the “BITS Fraud Protection Guide: Protecting the Elderly and Vulnerable from Financial Fraud and Exploitation” (October 2005), supports the implementation or improvement of a financial institution’s internal program for education and awareness of abuse and exploitation against the elderly and vulnerable. The Toolkit includes a narrative Word document and a PowerPoint to support financial institution’s internal education and training programs. Since its release in February, BITS has been contacted by state agencies who have requested to use and reproduce the Toolkit which is available at no charge at <http://www.bitsinfo.org/downloads/Publications%20Page/BITSRDICFINALSept06.pdf>.

BITS Remote Channel Fraud Working Group, *led by Stan Szwalbenest, JPMorgan Chase & Co.*

- Formerly known as the Internet Fraud Working Group, this group’s scope and name was changed to address all forms of electronic banking channels and activities (Internet, telephone banking- IVR/VRU, account inquiry, bill payment, and account aggregation). The group is currently developing a matrix will outline and identify each

remote channel function (account opening, transactions, etc.) and describe what is needed to achieve the ideal risk environment and mitigate risk for each channel.

BITS Rising Fraud Risk Discussion Forum, *led by Kim Duncan, SunTrust Banks, Inc.*

- The Rising Fraud Risk Discussion Forum was created in 2006 to serve as a cross-channel venue for fraud risk managers to discuss newly identified fraud schemes and types as well as strategies for mitigating the losses associated with them. Since its creation in February the group has discussed topics such as: Internet-based "credit clinics" or "credit enhancers"; increased courier robberies in the Southeast; assisting victims of Internet/mail scams; online services that provide fraudulent employment and payment verification; fraudulent mortgage closings; and increases in counterfeit travelers checks. The following are actions/deliverables produced from these discussions:
 - Talking Points: Issues with the Adjustments Process for Unauthorized Remotely Create Checks
 - Case Study: Fraudulent Closings
 - Discussions with The Santa Fe Group Vendor Council the need for technologies to detect ACH kites
 - A notification to the Mortgage Bankers Association (MBA), Federal Bureau of Investigation (FBI), Federal Trade Commission (FTC), and United States Secret Service (USSS) and California Attorney General's Office regarding companies providing fraudulent employment and payment verification
 - Courier Robberies: Recommendations for Mitigation and Response
 - Distribution of American Express advisory regarding fraudulent travelers cheques and information regarding the tools and services currently available to financial institutions to assist in detecting them.

BITS Shared Database Working Group, *formerly led by Jan Otwell, JPMorgan Chase & Co.*

- The Internal Fraud Prevention Service was launched by Early Warning Services on August 1. In development for several years, this outstanding new service is due to an unprecedented collaborative effort between internal fraud investigators, human resources groups, legal counsel and risk professionals from across the financial services spectrum. Members of the BITS Shared Database Working Group helped develop and pilot the concept of this service. The service enables institutions to screen employment candidates against a shared database of former financial services employees who were released for cause due to fraudulent acts committed against the institution. A group of participating financial institutions has begun to implement the solution and is jump-starting the service by contributing three years of historical data. For more information regarding the Internal Fraud Prevention Service, please contact Tony Selway, TonyS@early-warning.com.

Social Security Number Verification Project, *formerly led by Erik Stein*

- On July 24 BITS hosted a meeting with members of BITS and The Financial Services Roundtable and senior officials from the Social Security Administration (SSA) to discuss suggested enhancements to the SSA's Consent Based Social Security Number

Verification (CBSV) program and to explain how financial institutions protect and secure information. Erik Stein, member of the BITS Fraud Reduction Steering Committee (FRSC), spoke to challenges with the current program and BITS members reviewed a recently completed paper by the BITS FRSC and Security and Risk Assessment Working Group on business, operational and technical requirements for a safe, secure and reliable verification program that would help financial institutions more effectively combat identity theft and fraud. On November 20, BITS released to the Social Security Administration (SSA) and member financial institutions its findings from a member survey regarding demand for their anticipated participation in the SSA's Consent Based Verification Program.

- ***Statement of Erik Stein on Behalf of BITS: Role of Social Security Numbers (SSNs) in Identity Theft and Issues Relating to Enhancing Privacy.*** BITS Fraud Reduction Steering Committee members, Erik Stein testified in a March 30 hearing before members of the Committee on Way and Means' Subcommittee on Social Security. This hearing was the fifth in series of Subcommittee hearings on "Social Security Number High-Risk Issues" and it examined the role of SSNs in identity theft and issues related to enhancing SSN privacy. This testimony is available at <http://www.bitsinfo.org/downloads/Testimony/SteinTestimonyMar06.pdf>. Follow up information regarding the security practices of financial institutions and general business practices for securing information and protecting customer information after account or loan closure was submitted to Rep. Xavier Becerra on May 8. This information is available at <http://www.bitsinfo.org/downloads/Testimony/SSNAddInfo050806.pdf>.
- On February 24, the BITS Fraud Reduction Steering Committee and The Financial Services Roundtable submitted a joint comment letter to the Social Security Administration (SSA) in support of their Consent Based Social Security Number Verification (CBSV) Process. This process will allow institutions to affirmatively verify with the SSA a consumer's name, social security number and date of birth (DOB). While in support of this process, BITS and the Roundtable provided comment on issues such as full name matching, real-time vs. batch submissions, daily limitation of records and expectation of volume, and document requirements. The comment letter is available at <http://www.bitsinfo.org/downloads/Comment%20letters/SSACommentBITSandRoundtableFINALccV2.pdf>

For additional information, contact:

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Appendix A: 2006 Fraud Reduction Steering Committee Participating Institutions

Chair: Jason Beaber, JPMorgan Chase & Co.

Vice Chair: Kim Duncan, SunTrust Banks, Inc.

Bank of America Corporation
The Bank of New York Company, Inc.
BB&T Corporation
Capital One Financial Corporation
Citigroup Inc.
Citizens Financial Group
Comerica Incorporated
Countrywide Financial Corporation
Credit Union National Association (CUNA)
Federal Reserve Bank of Philadelphia
Federal Reserve Board
Fifth Third Bancorp
Independent Community Bankers of America (ICBA)
JPMorgan Chase & Co.
Sovereign Bancorp
SunTrust Banks, Inc.
U.S. Bancorp
Wachovia Corporation
Washington Mutual, Inc.
Wells Fargo & Company