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Financial Professionals®*

2011 Northwest Summit: AFP Payments Update

David Bellinger
Director of Payments
Association for Financial Professionals

Agenda



1

Introduction and background on 2 recent AFP surveys

2

Review experiences w/electronic payments and fraud

3

Review key payment industry initiatives

4

Questions

About the Surveys



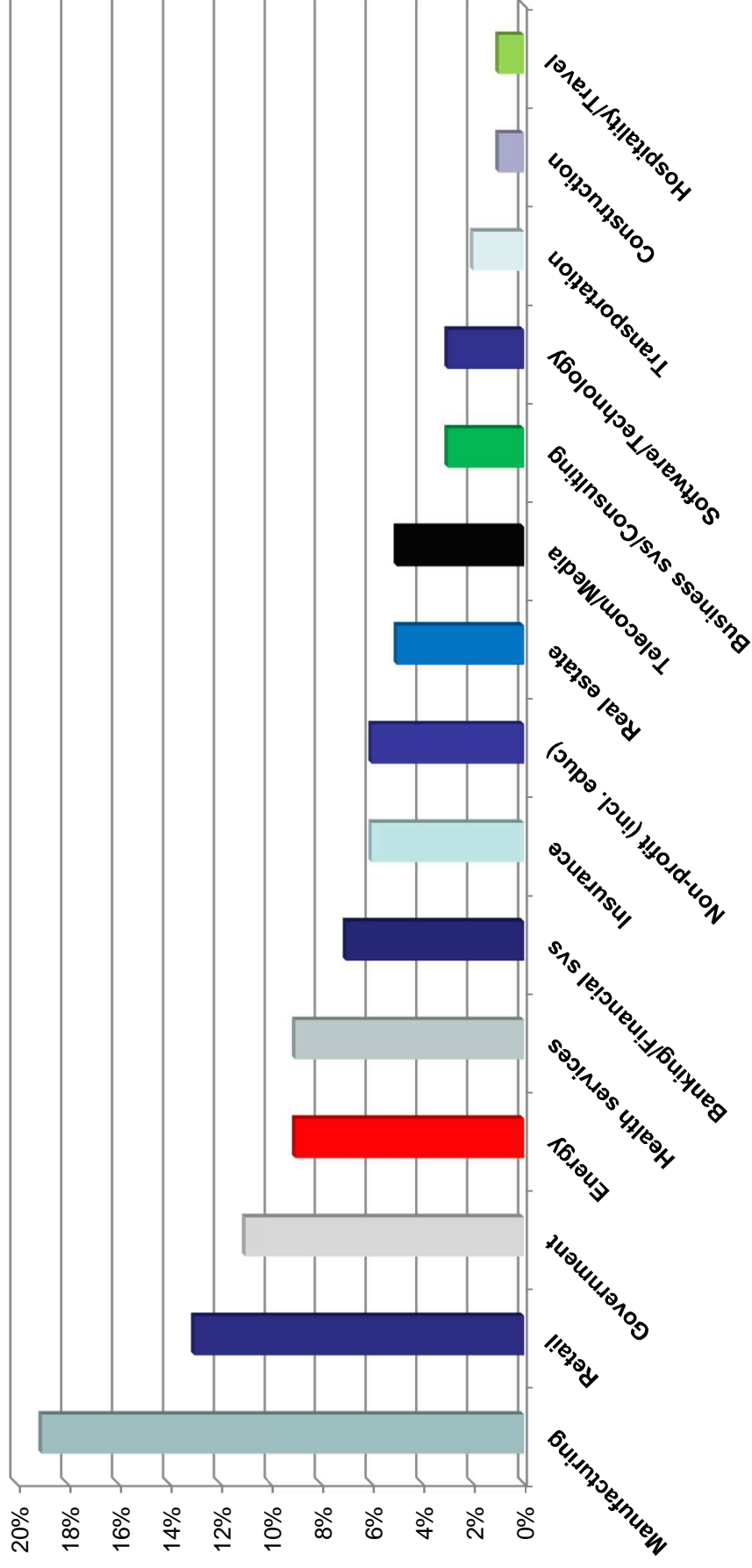
- Electronic Payments Survey questionnaire performed in September 2010
- Fraud survey questionnaire performed in January 2011 for activity in 2010
- Only corporate practitioners surveyed (400+ responses)
- AFP Research Department solely responsible for questionnaires/reports design, content and conclusions
- Both surveys underwritten by JP Morgan (Thanks)



About the Results – Diverse Industry Representation



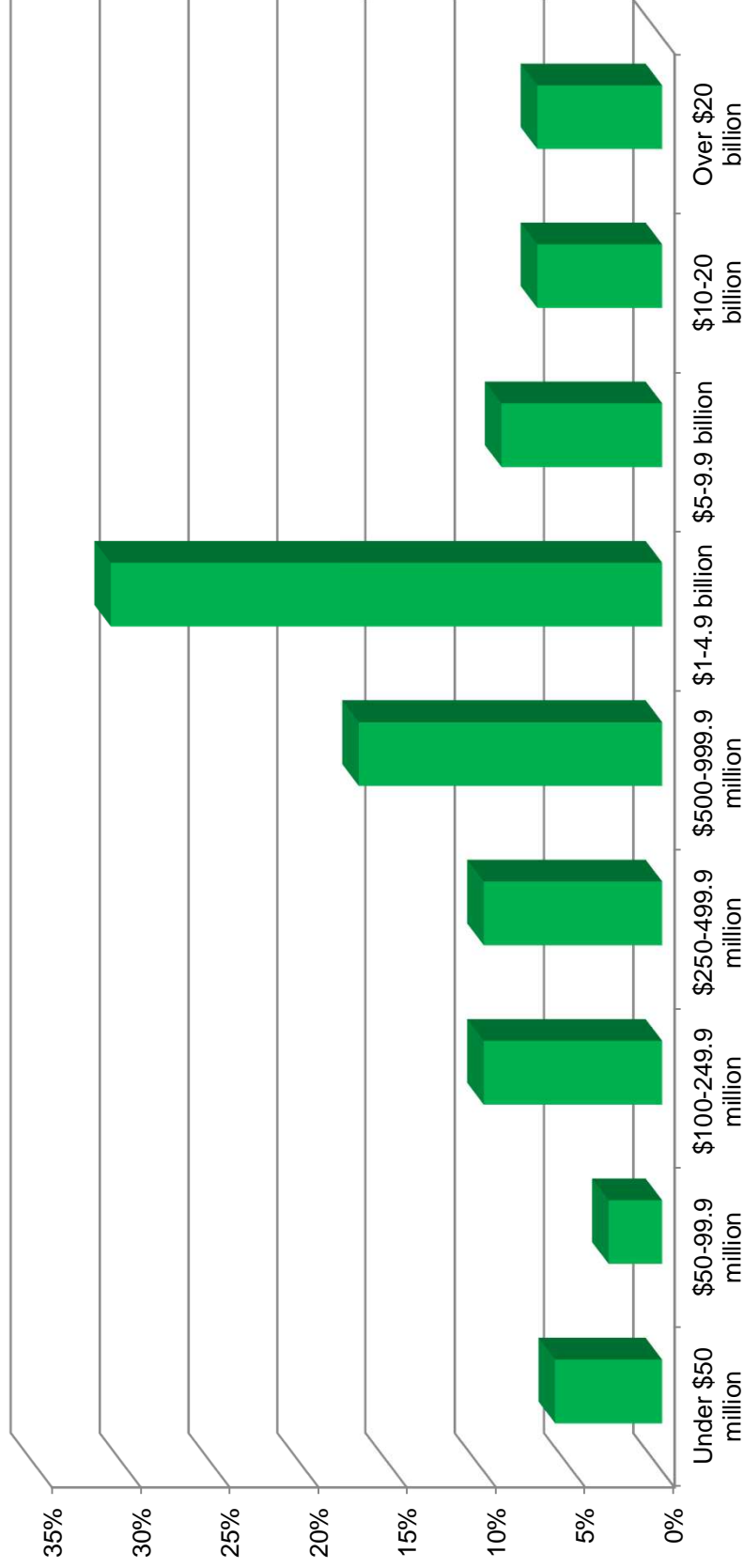
% of Responders in Industry Classification



About the Results – Wide Range of Company Sizes



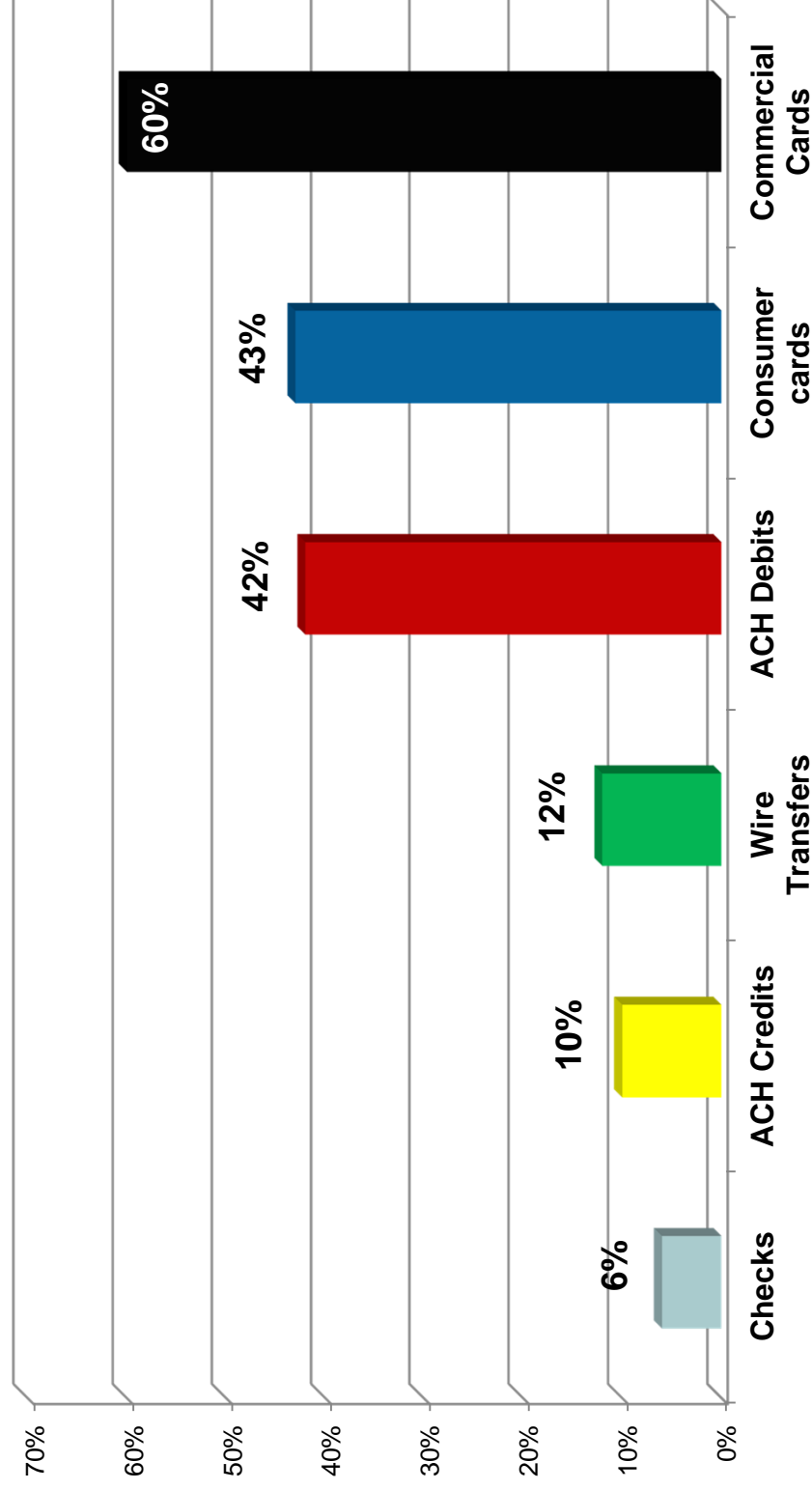
% of Responders in Annual Revenues Range



About the Results – Payment Acceptance Practices Skew to B2B



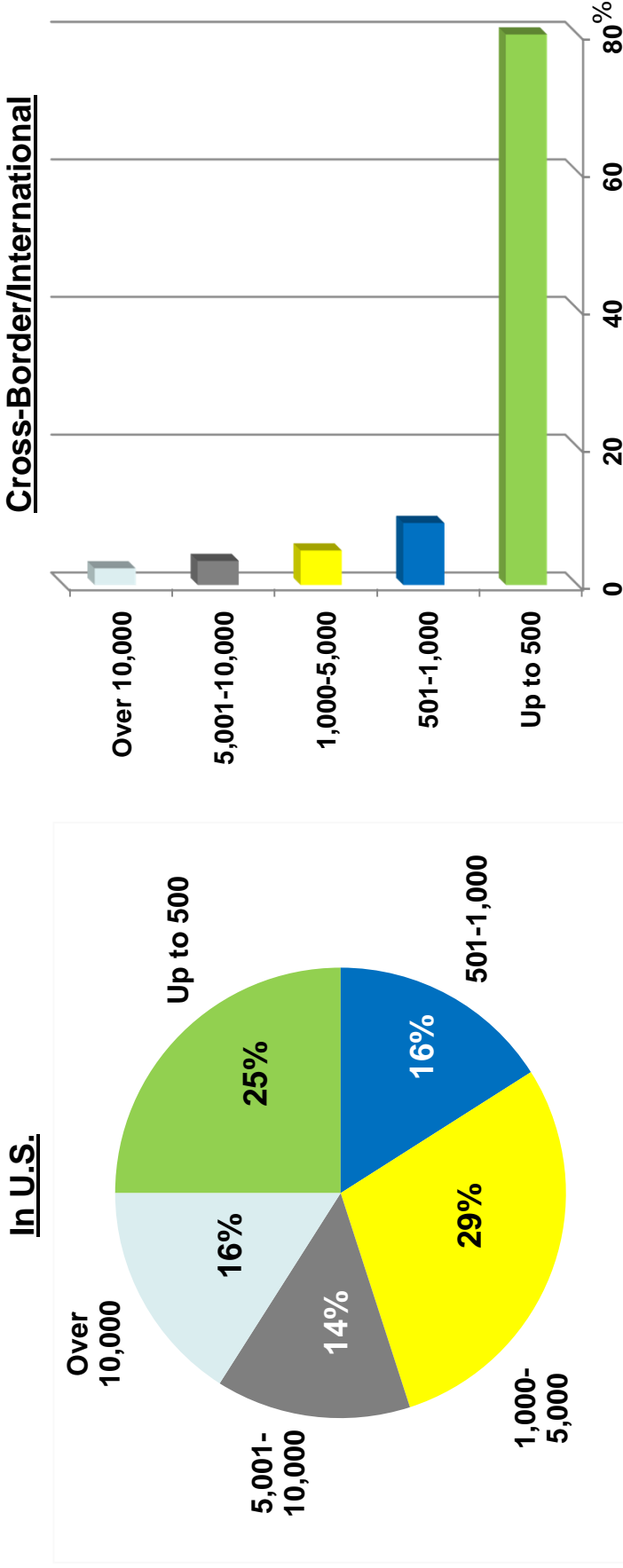
% of Organizations that do not Accept/Receive Payment Type



Payment Volumes balanced in the U.S. and limited volumes the norm for global



Number of Business-to-Business Payments Made per Month



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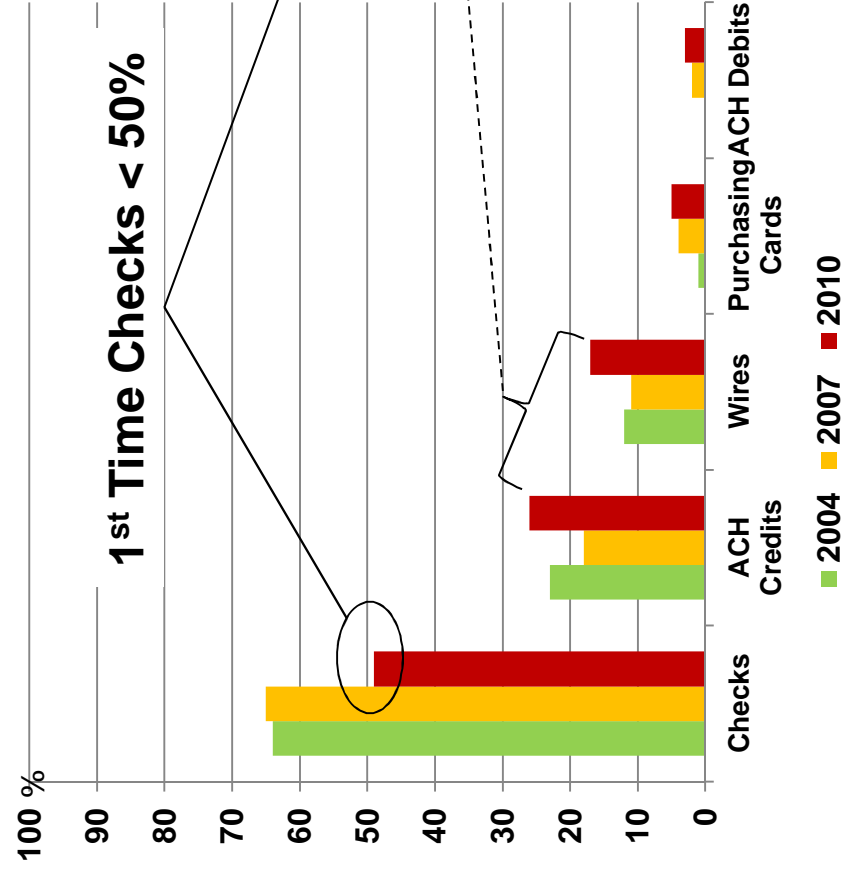
4

Questions

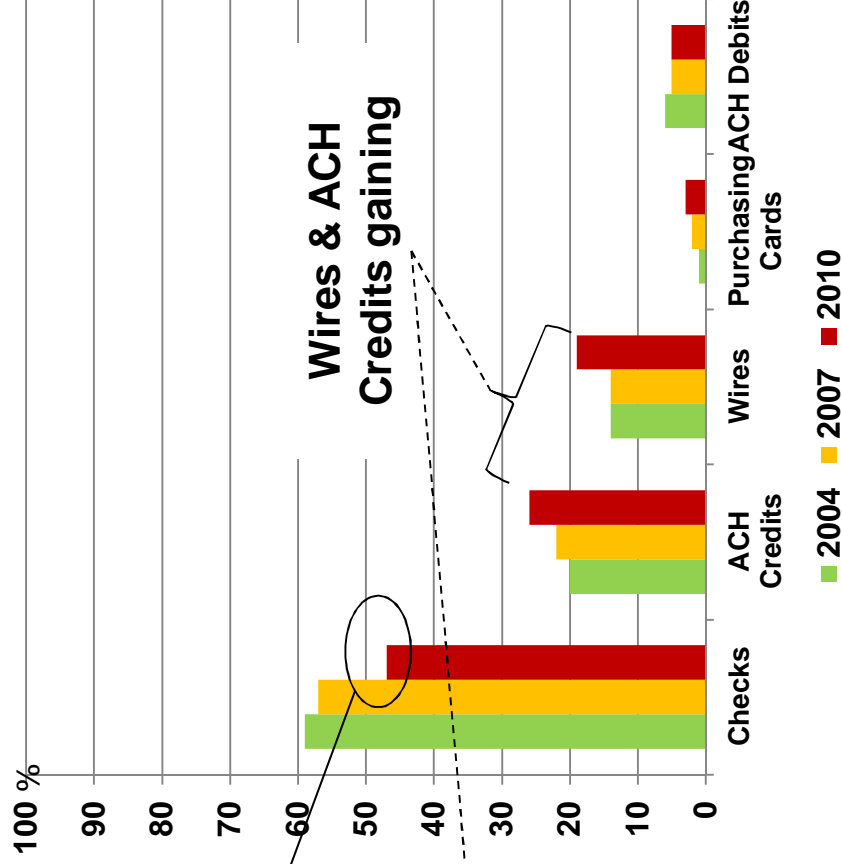
Corporates see most success moving major trading partners to electronic payments



Payment Methods Used to Pay Major Suppliers



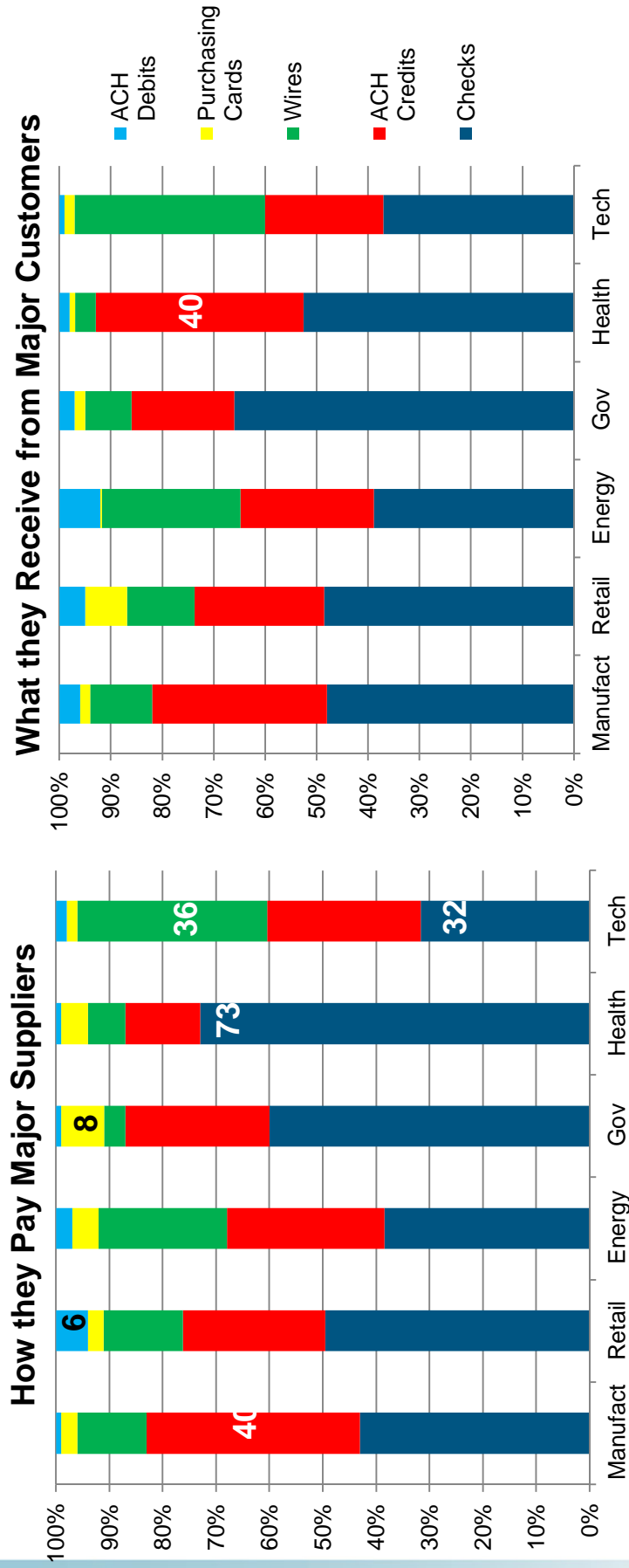
Payment Methods Received from Major Customers



Payment practices vary widely by industry



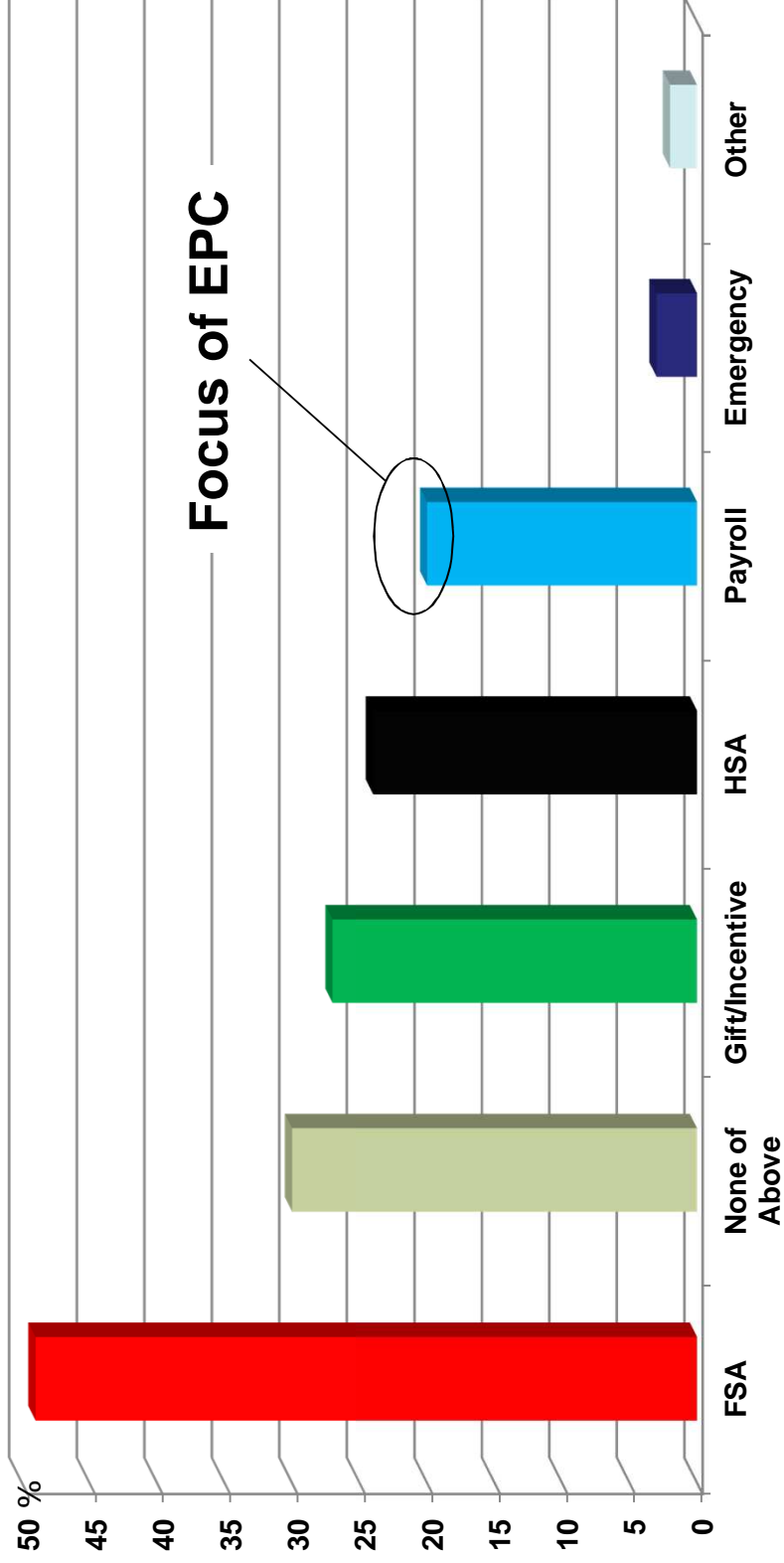
Payment Method by Industry



Business payments to employees via cards has plenty of room for wider adoption



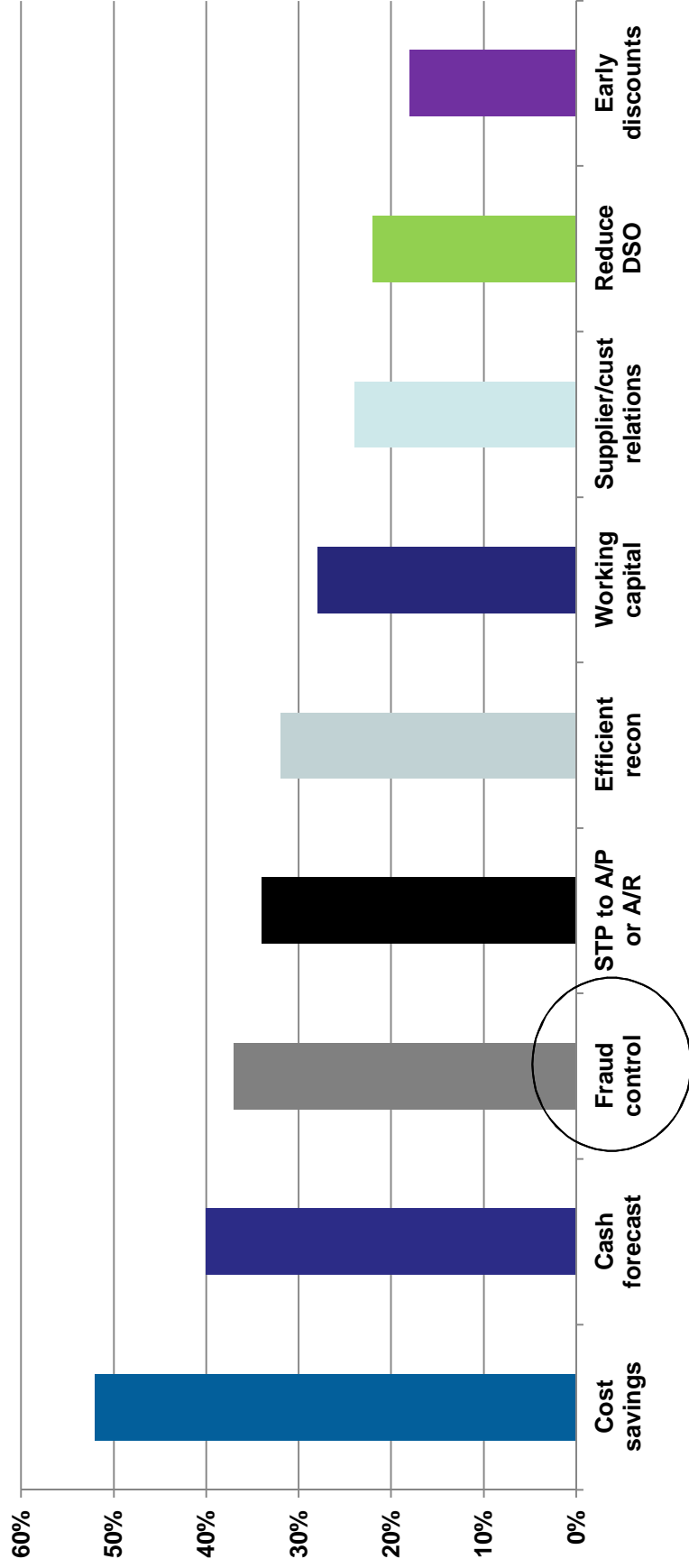
Cards Utilized to Disburse Employee Pay and Benefits



Broad array of benefits supports the drive to adopt electronic payments



Top Three Benefits of Sending or Receiving Electronic Payments

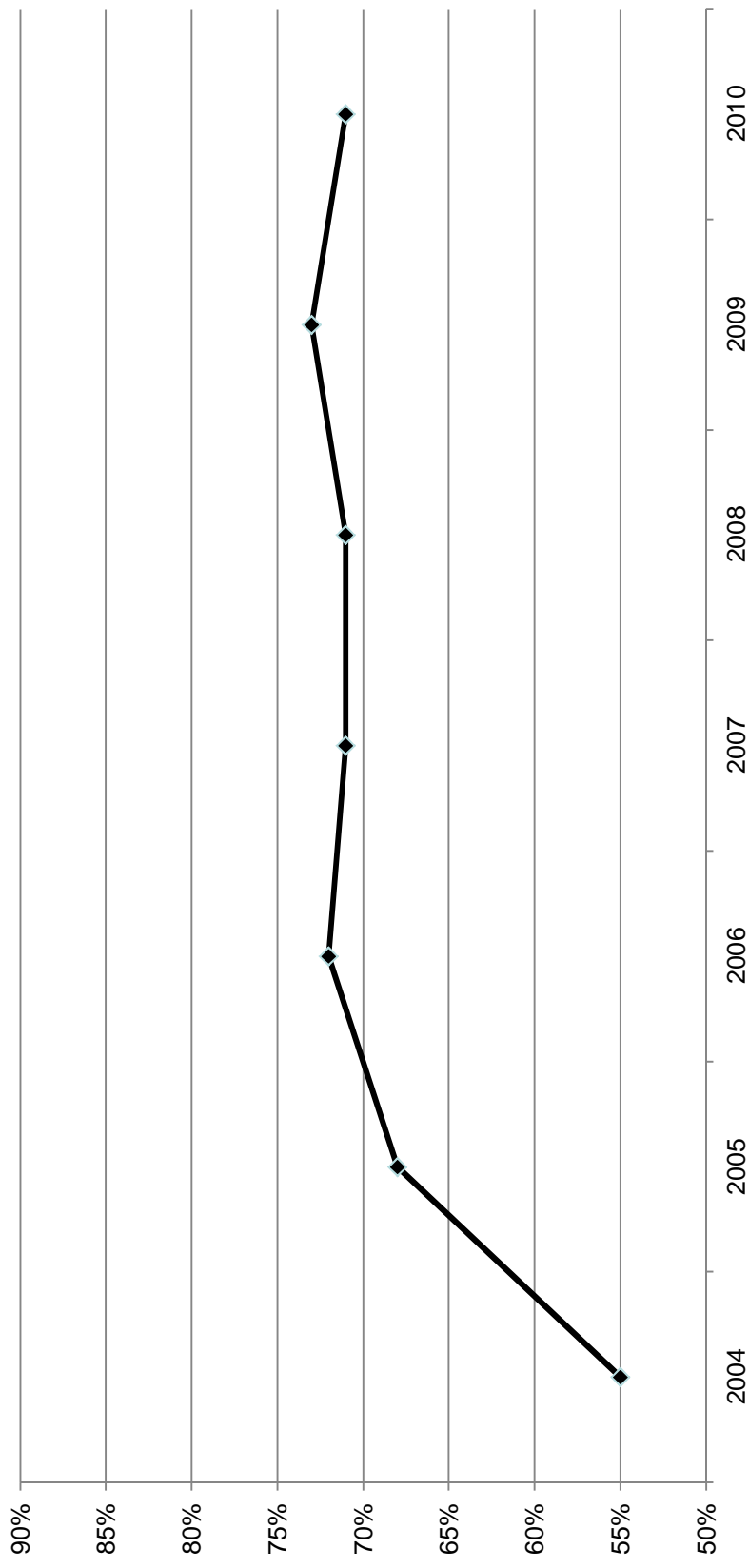


The Business of Fraud Continues to Thrive



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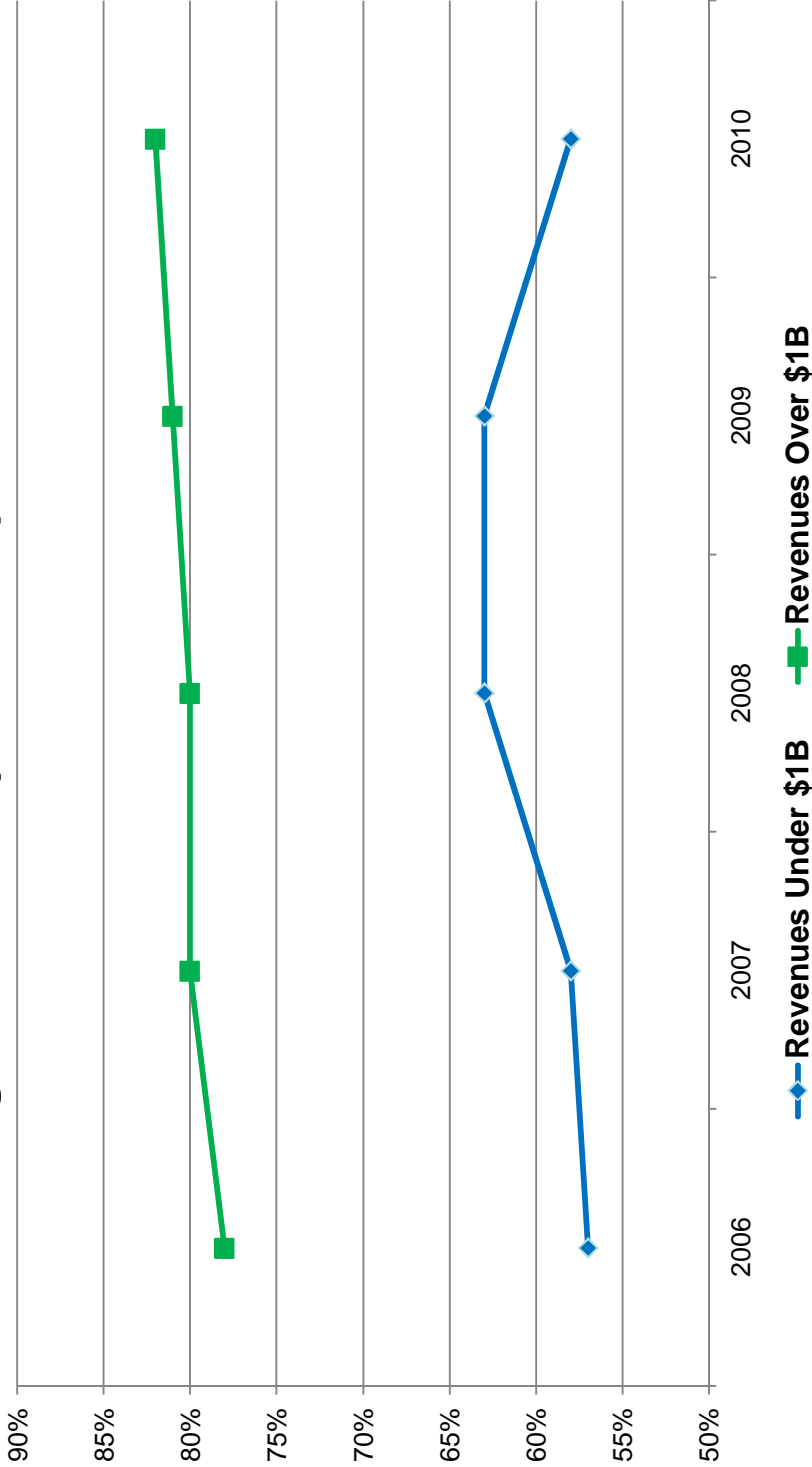
% of Organizations Subject to Attempted or Actual Fraud



With Larger Businesses More Likely to be Targeted



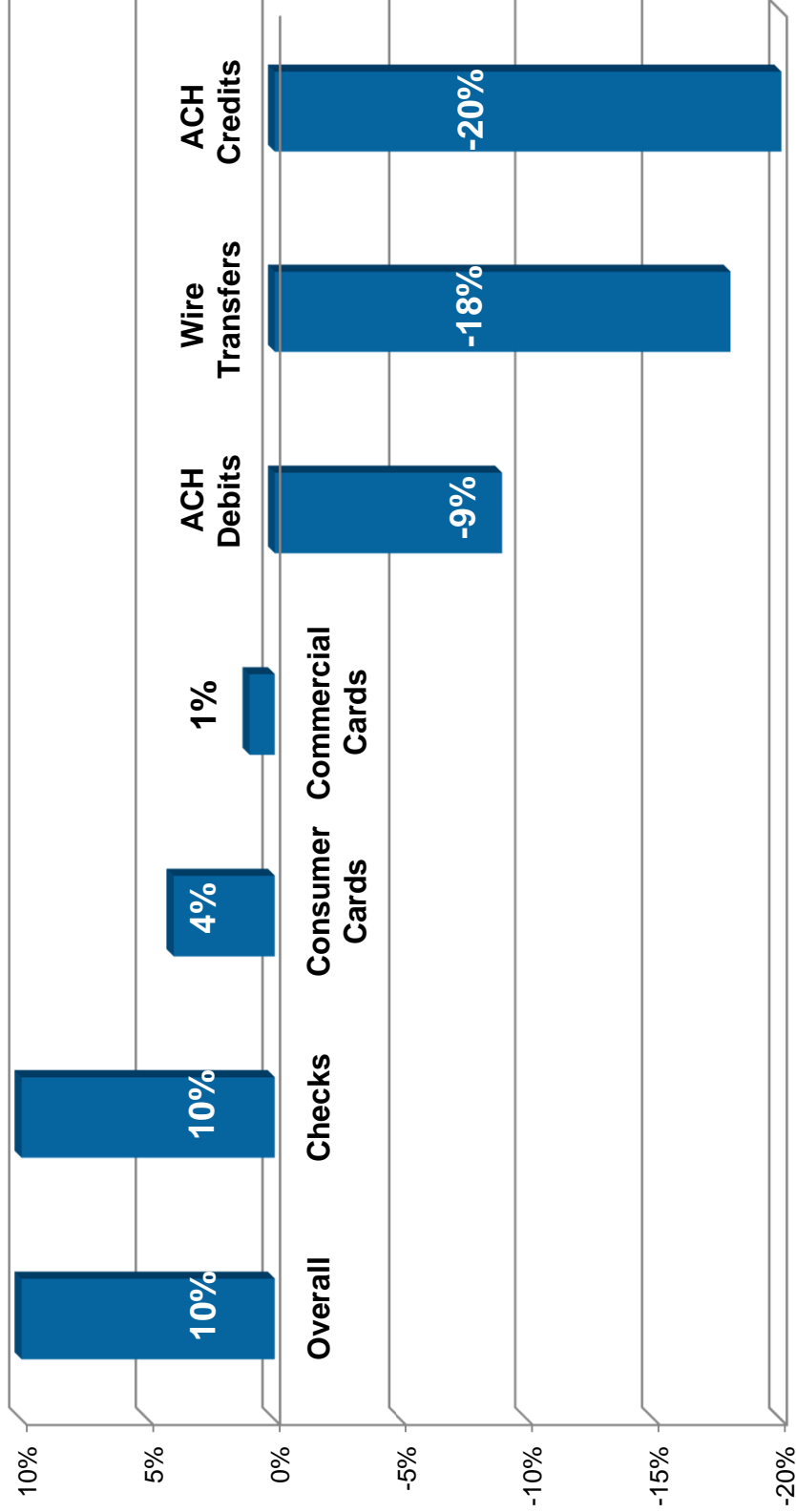
% of Organizations Subject to Attempted or Actual Fraud



Criminals Were More Active Overall in 2010 vs. 2009



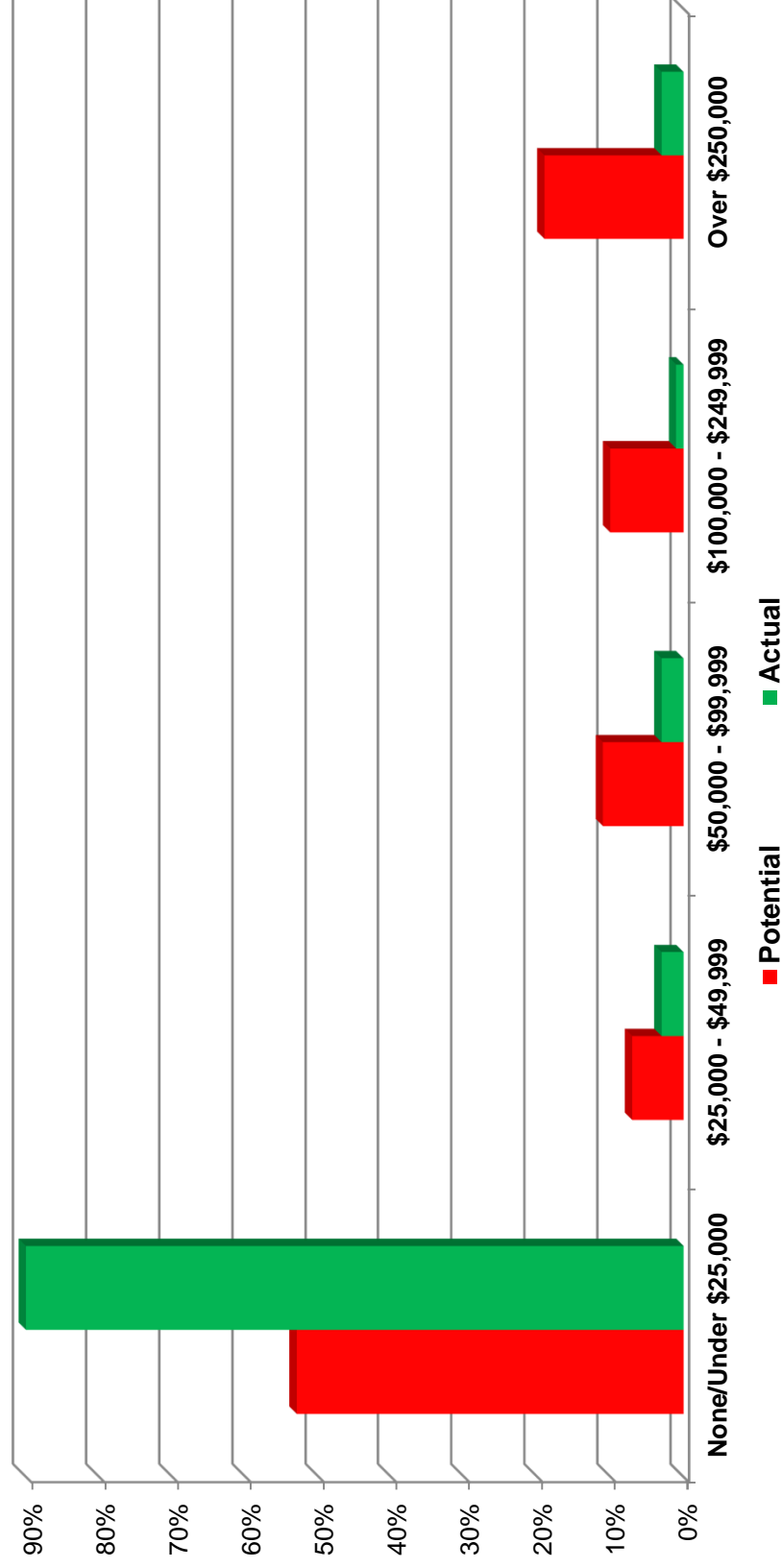
Net Change in Frequency of Fraud Attempts at Organizations



Risk of Loss can be High— but is Largely Controlled



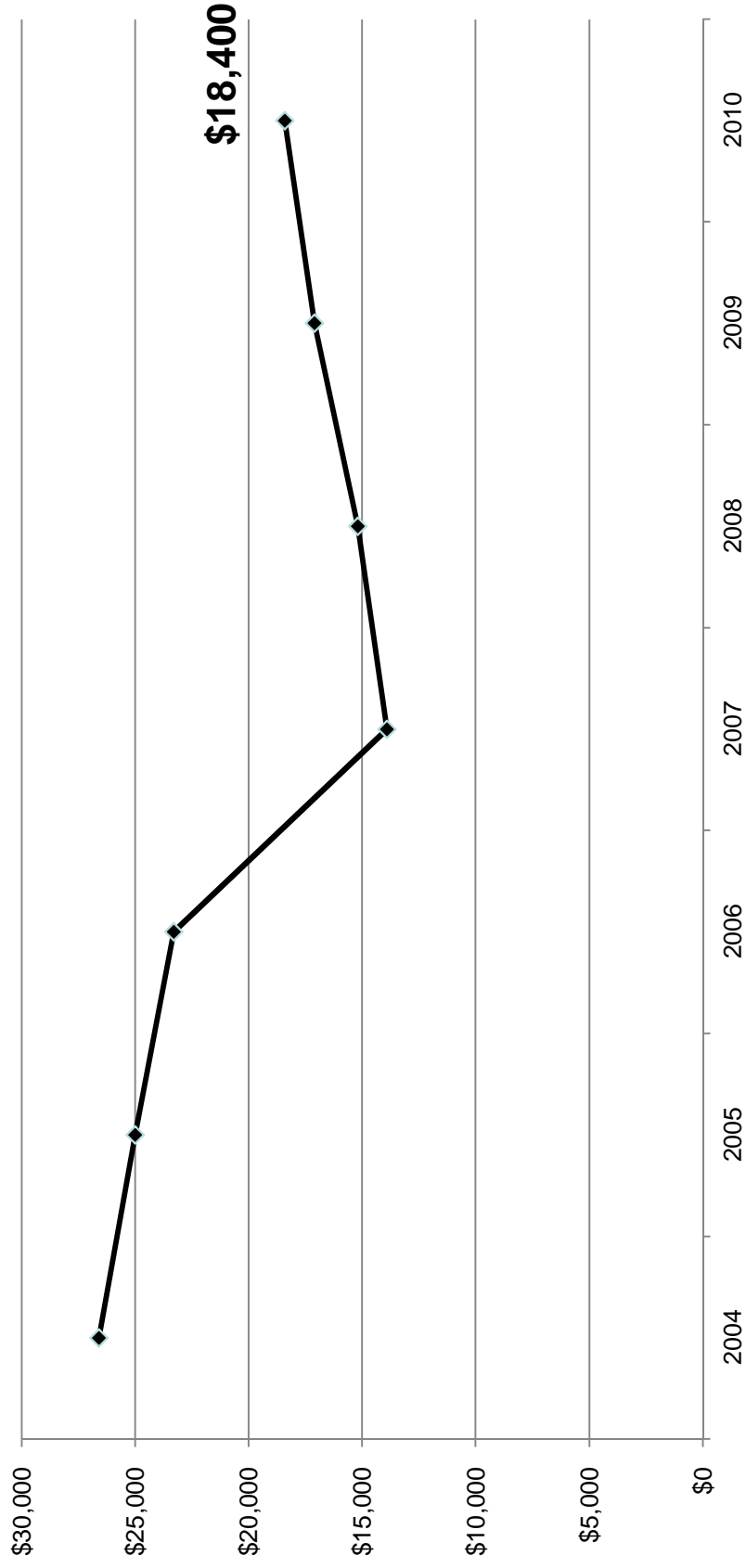
Potential vs. Actual Financial Losses from Attempted Payments Fraud in 2010



Cost of Failure to Prevent Fraud Continues to Increase



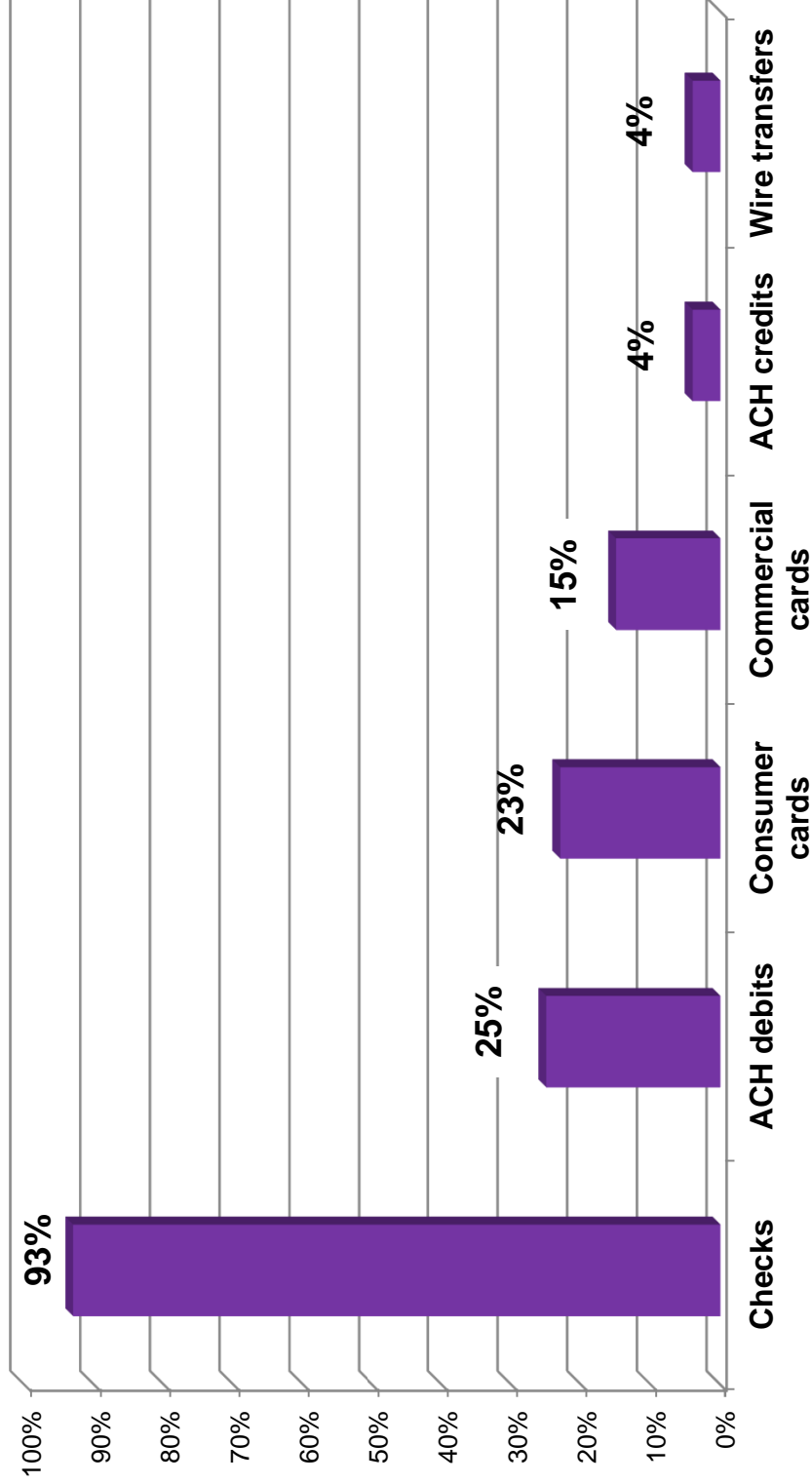
Median Actual Financial Loss Due to Fraud (All Payment Types)



Checks Were the Bad Guy's Method of Choice to Commit Fraud



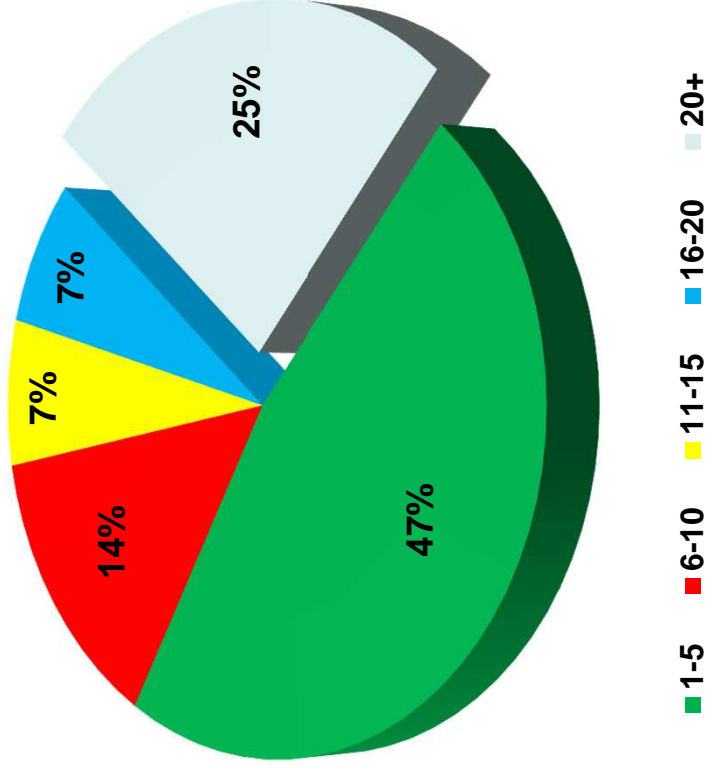
If Attacked, Payment Methods Used to Commit Fraud



Near-Constant Check Fraud Attacks at 25% of Companies



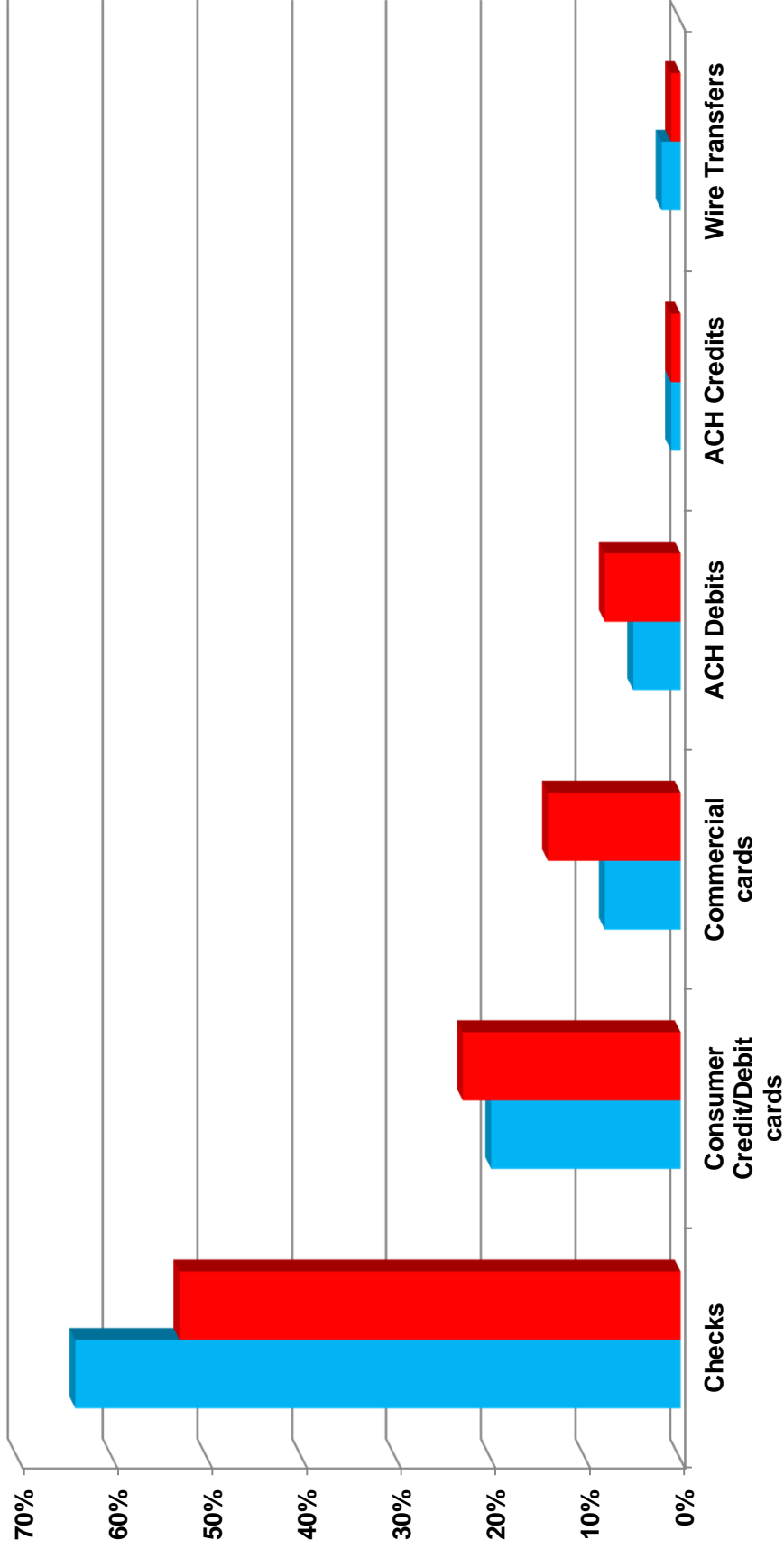
Frequency of Attempted or Actual Check Fraud in 2010 (# Attempts/Year)



And Checks Also Continue to be the Biggest Money-Maker



Payment Type Organizations Cited as the Largest Source of Financial Loss from Payments Fraud



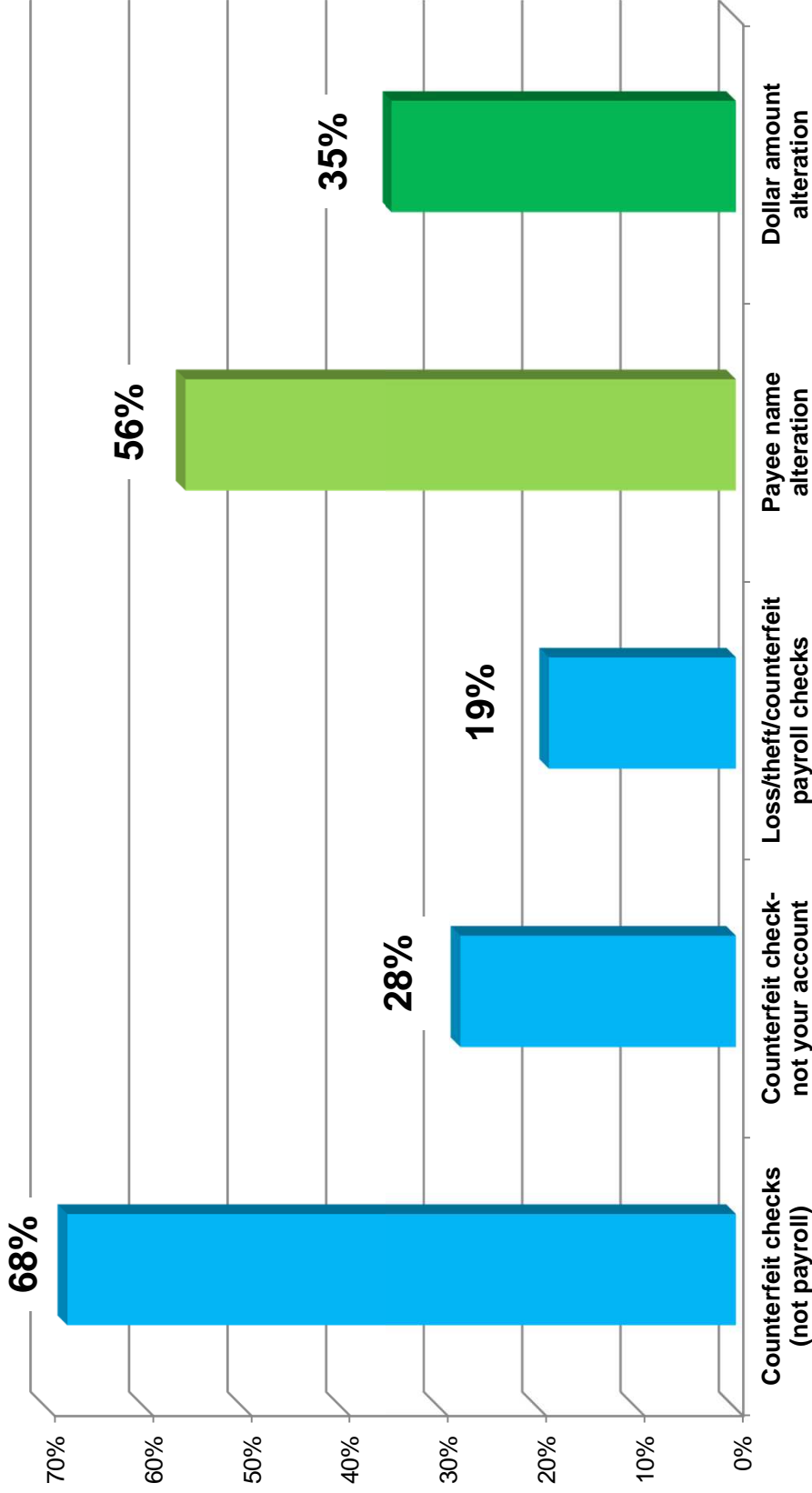
■ 2009 ■ 2010

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The Techniques for Committing Check Fraud are Well Established



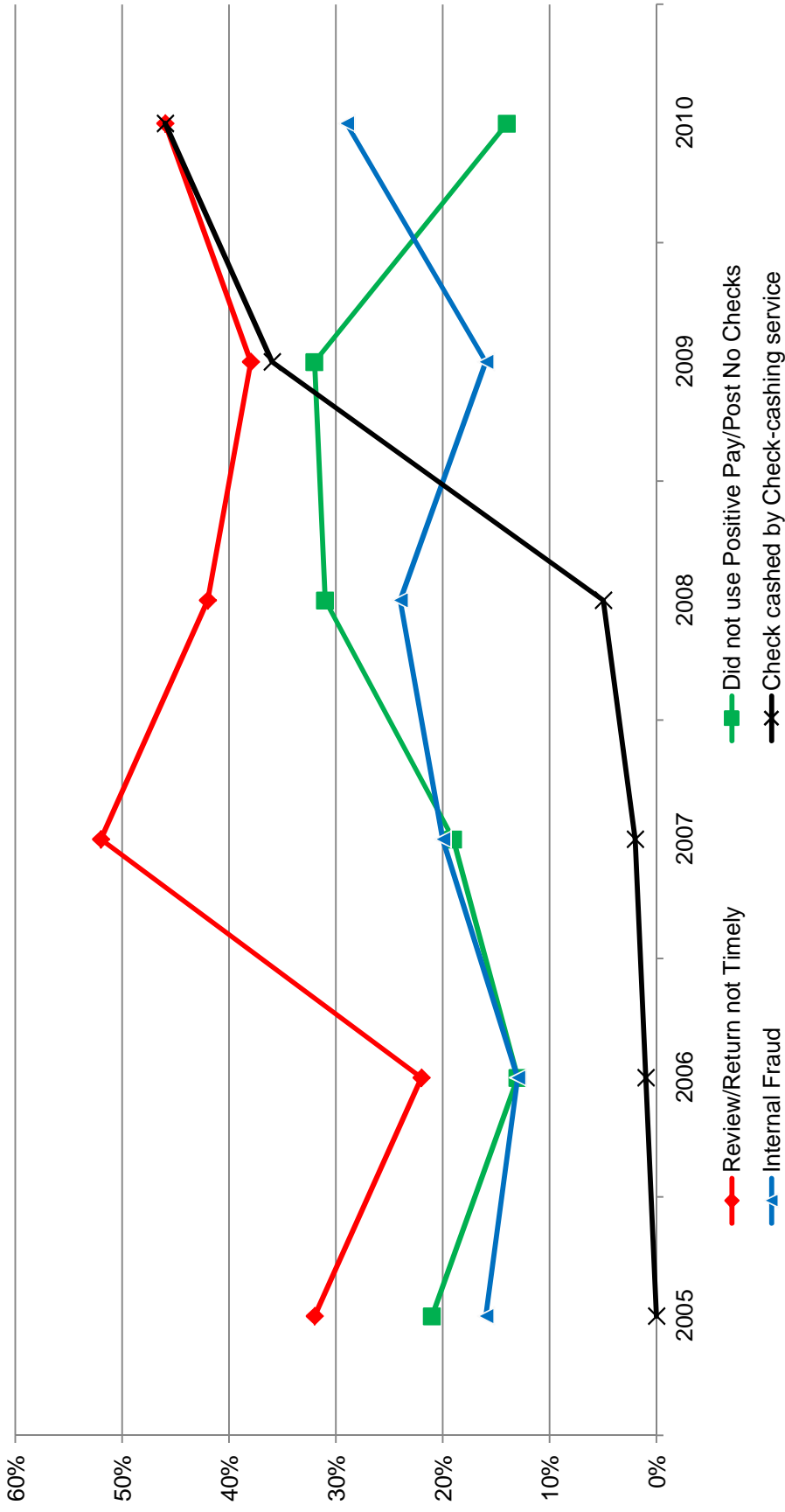
Types of Fraud Resulting from Using Checks



The Reasons Organizations Suffered Check Losses Vary



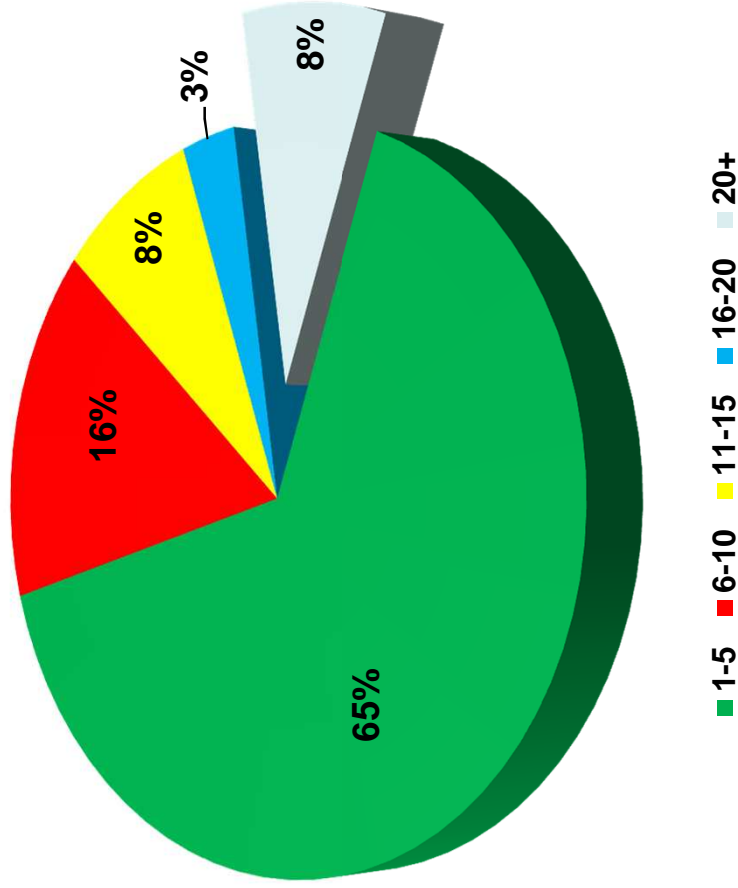
Percent of Organizations that Suffered a Loss Resulting from Check Fraud in 2010



ACH Attacks Less Frequent than Checks— But Still a Concern



Frequency of Attempted or Actual ACH Fraud in 2010 (# Attempts/Year)



Attack resulted in:

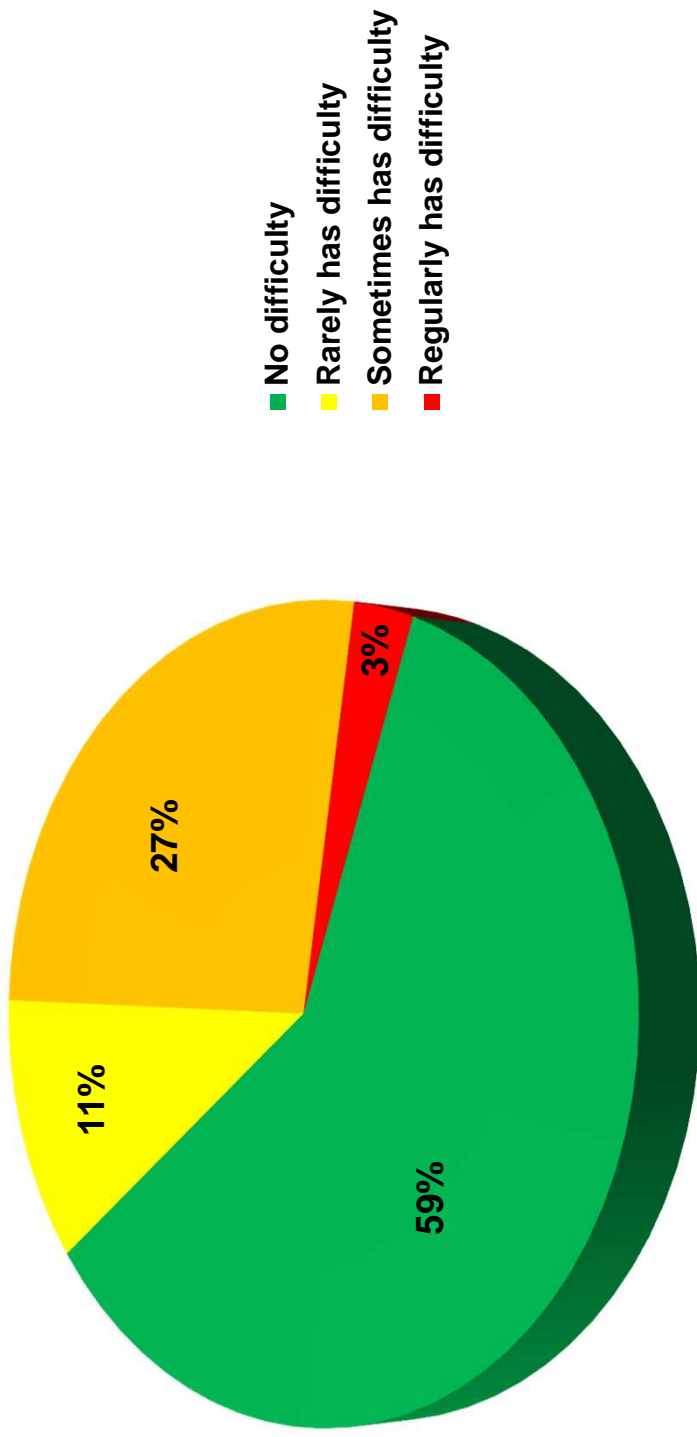
Financial Loss 12%

No Financial Loss 88%

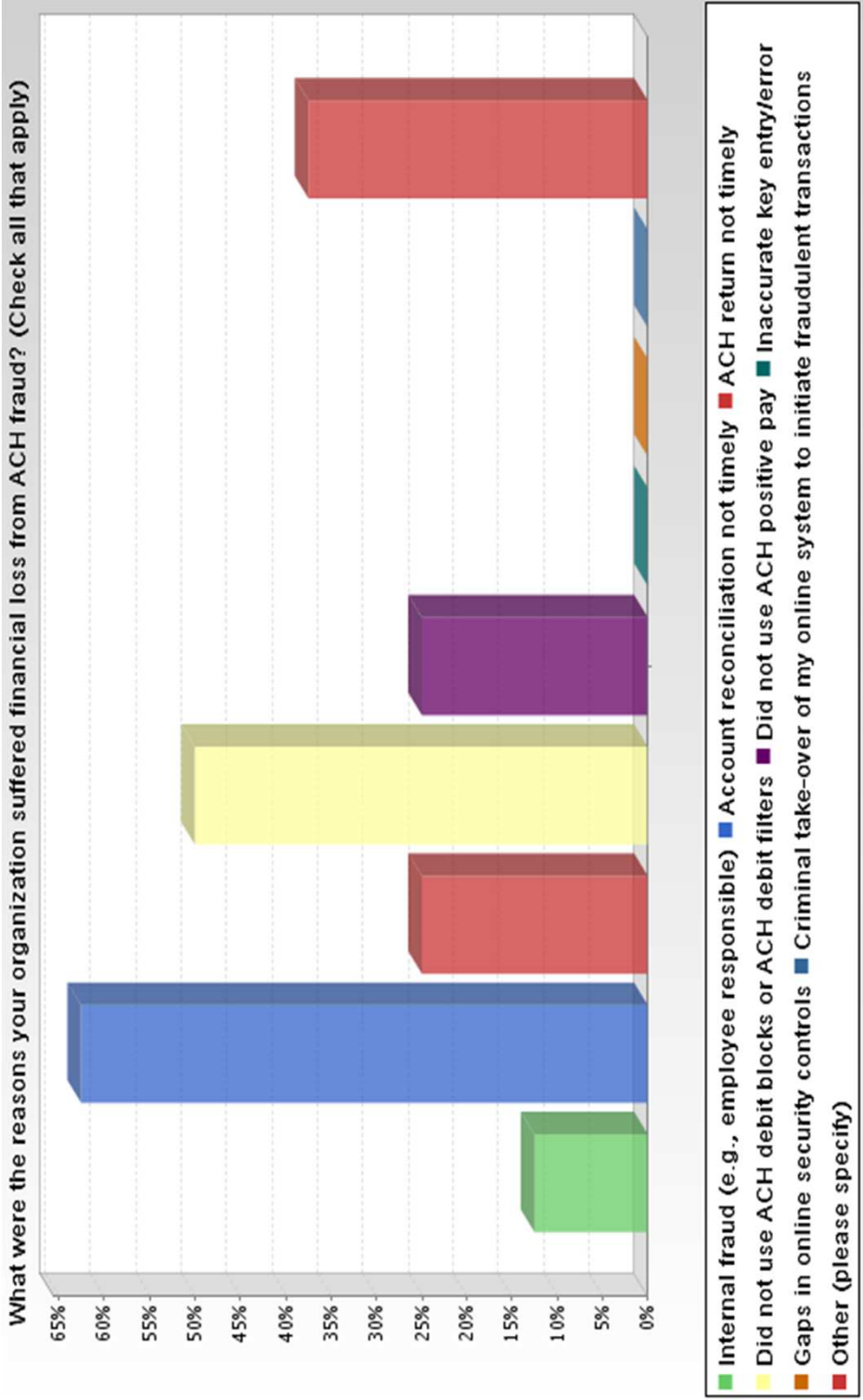
24-Hour Return Deadline Generally Not an Issue for Most Organizations



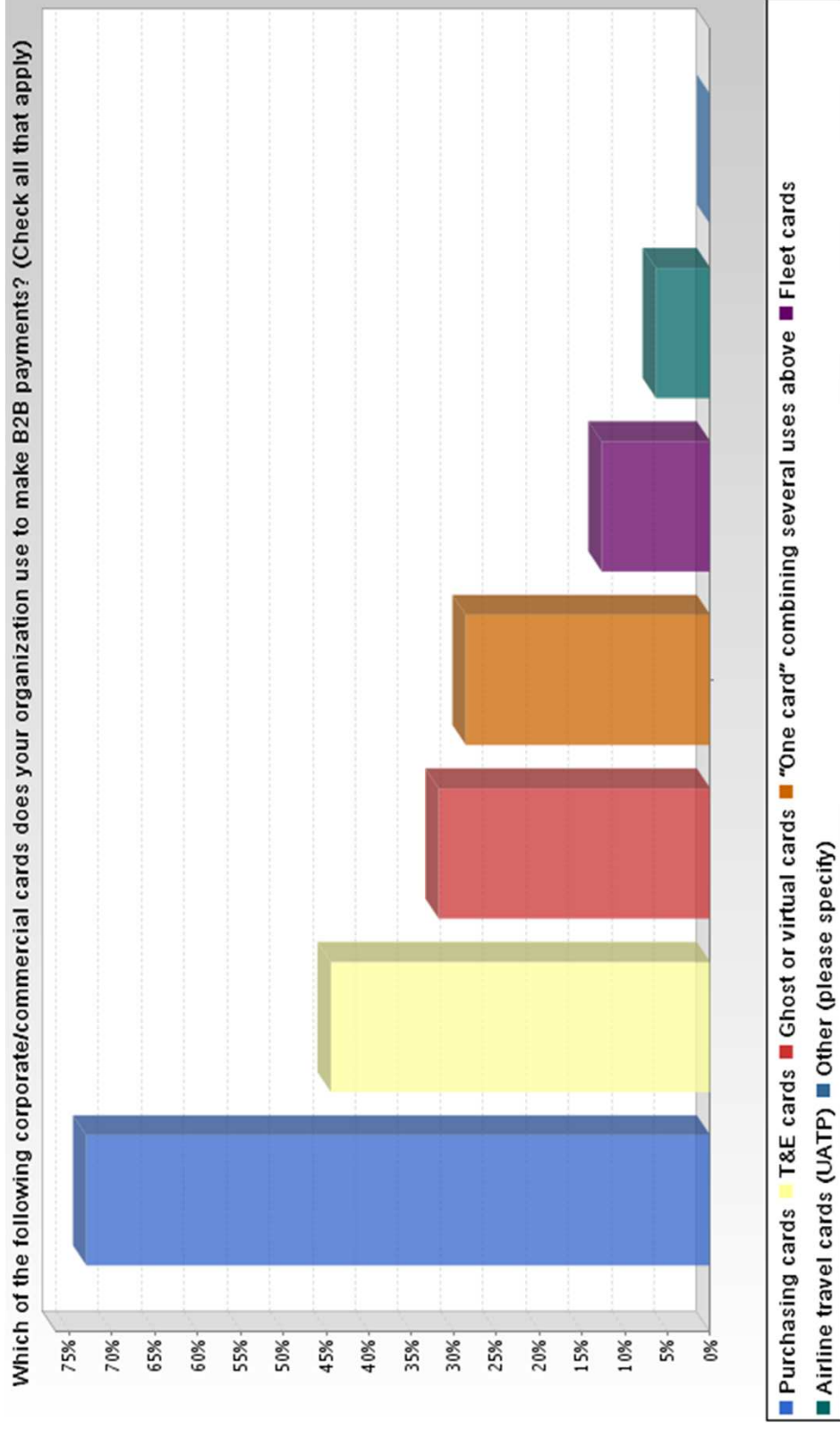
Organizations' Experience in Meeting 24-Hour Deadline for Returning ACH Debits



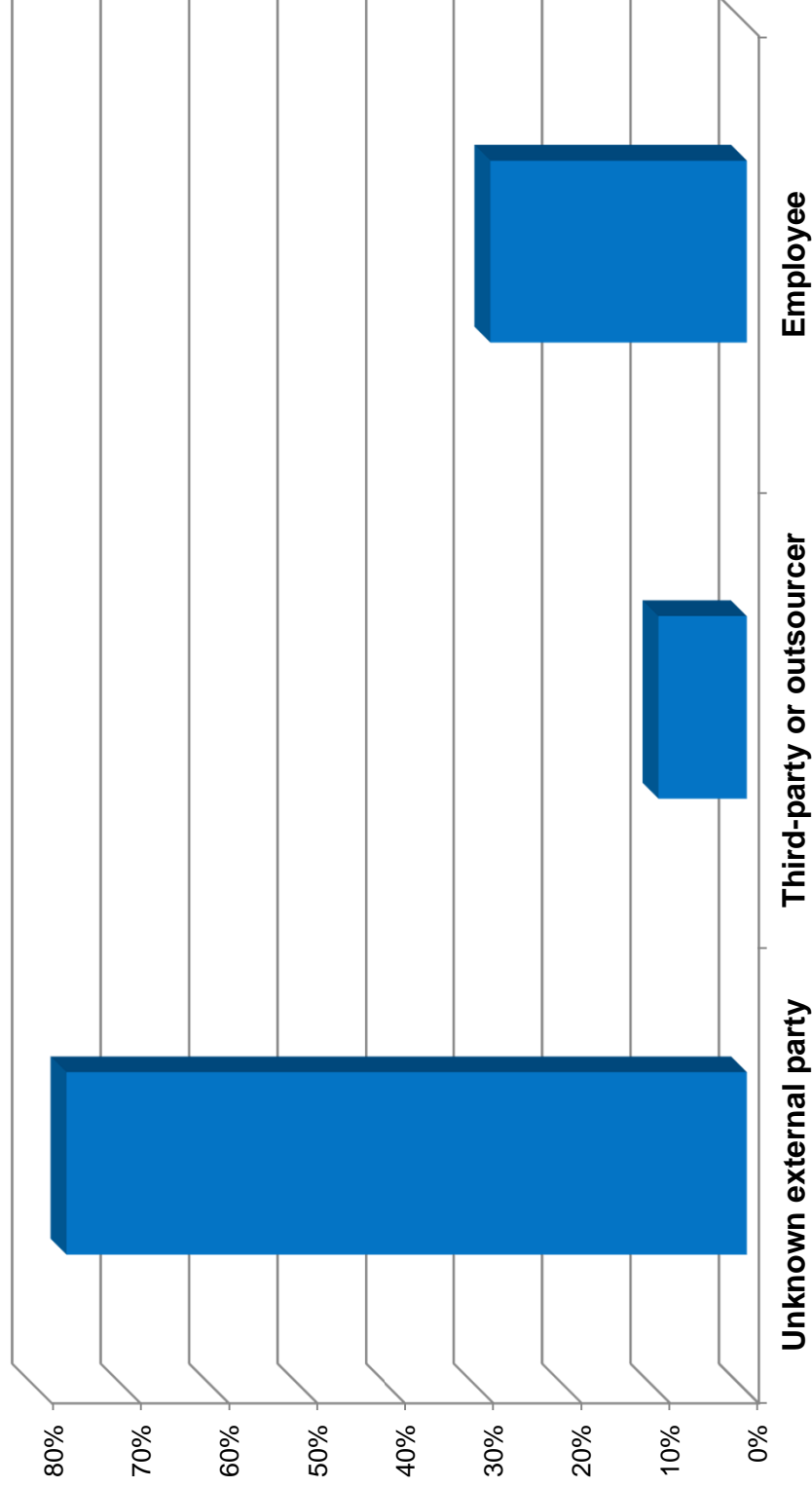
Lack of Controls Account for Most Losses from ACH Fraud



Commercial Card Fraud Losses are Limited (< 10%) Despite Broad Usage



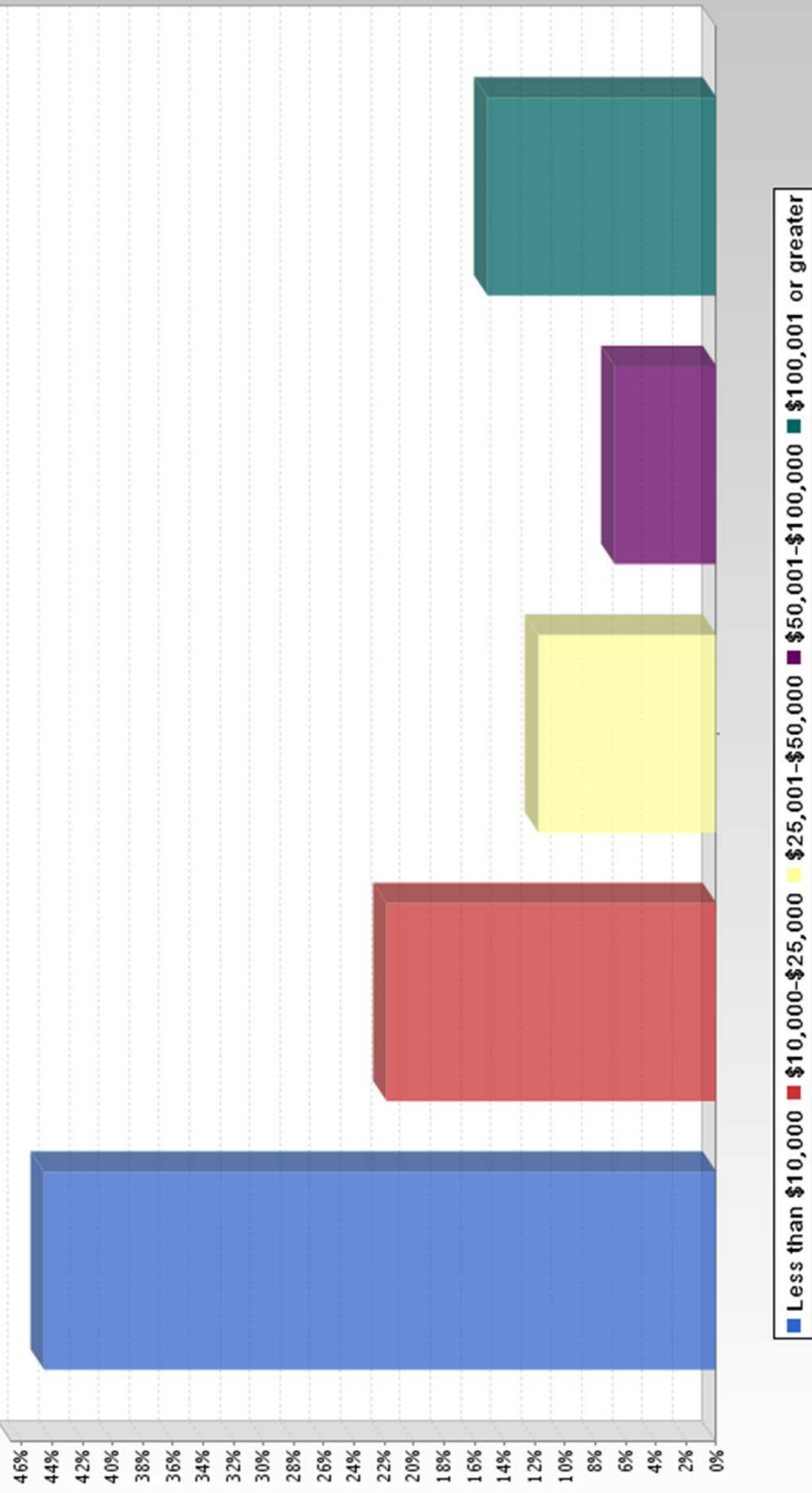
Commercial Cards Fraud Losses Mostly Result from External Parties



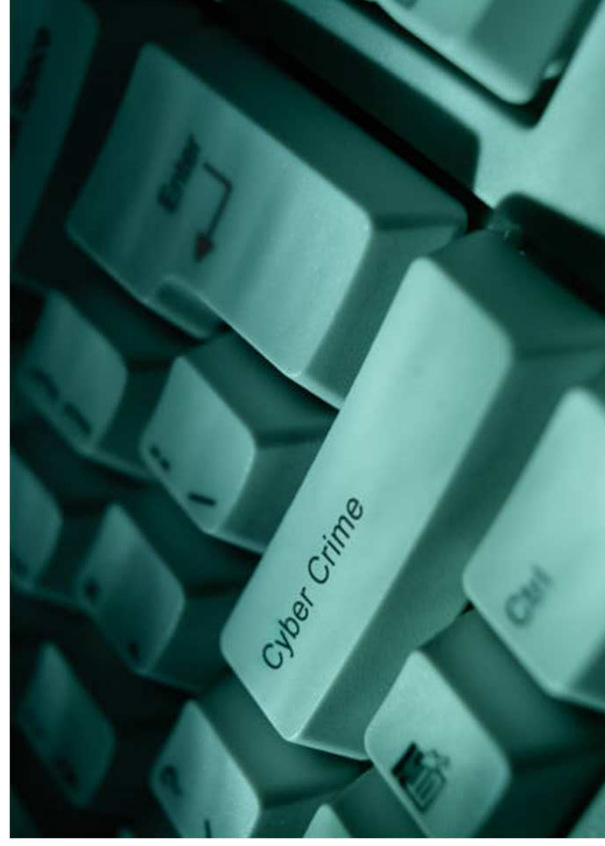
PCI Costs are an Ongoing Burden— and Expensive for Many Organizations



If your organization is subject to the PCI Digital security standard (DSS), what is your estimated cost for compliance on an annual basis?



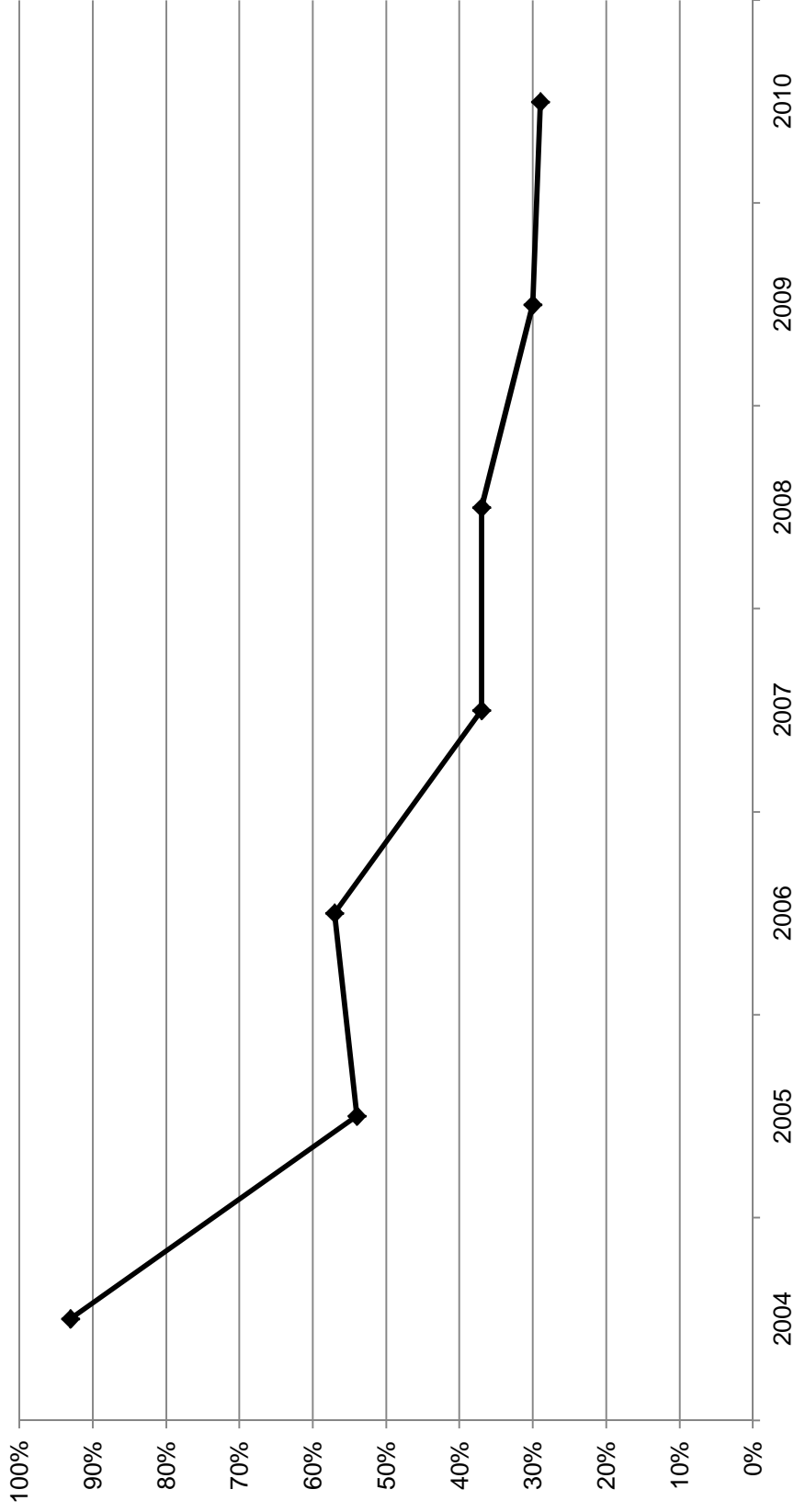
How Do Companies Control Fraud?



Companies Continue to Improve Their Ability to Avoid Losses



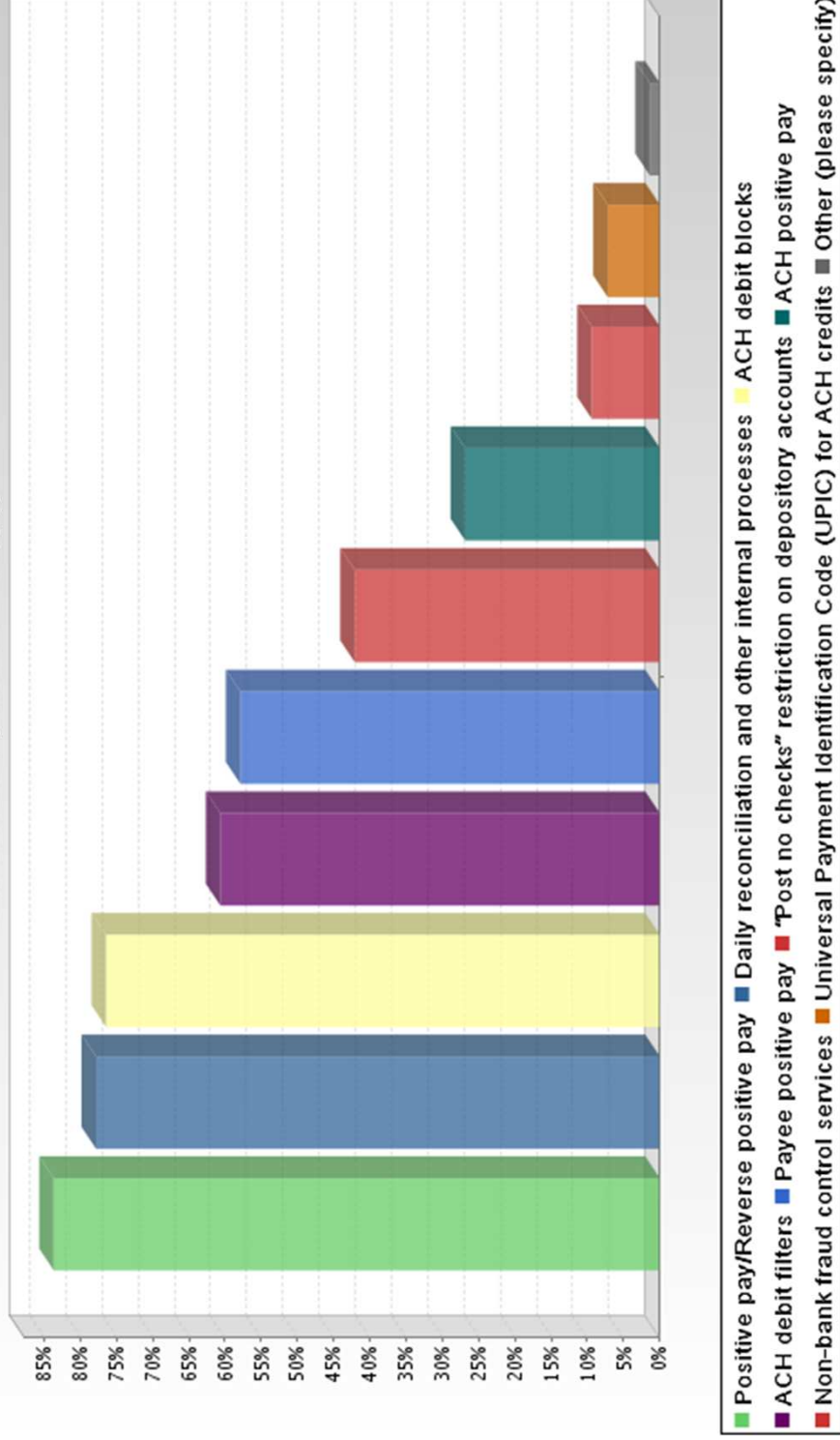
% of Organizations Taking a Loss When Attacked



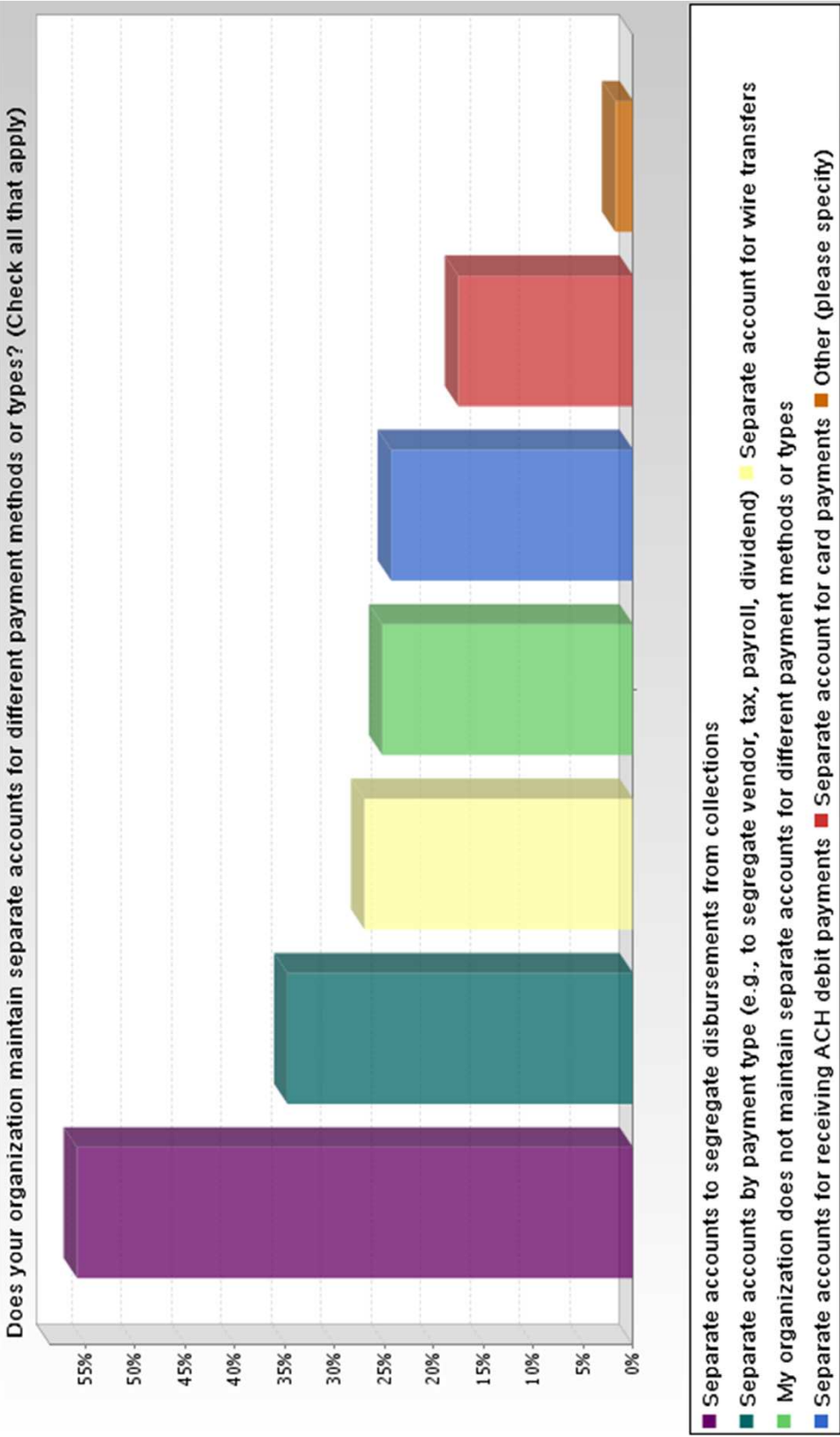
Companies Use a Wide Array of Tools, Providing “Layers” of Controls



Which of the following fraud control procedures or services offered by your banks does your organization use to protect its bank accounts? (Check all that apply)



Companies also rely on account-level techniques & processes to control fraud



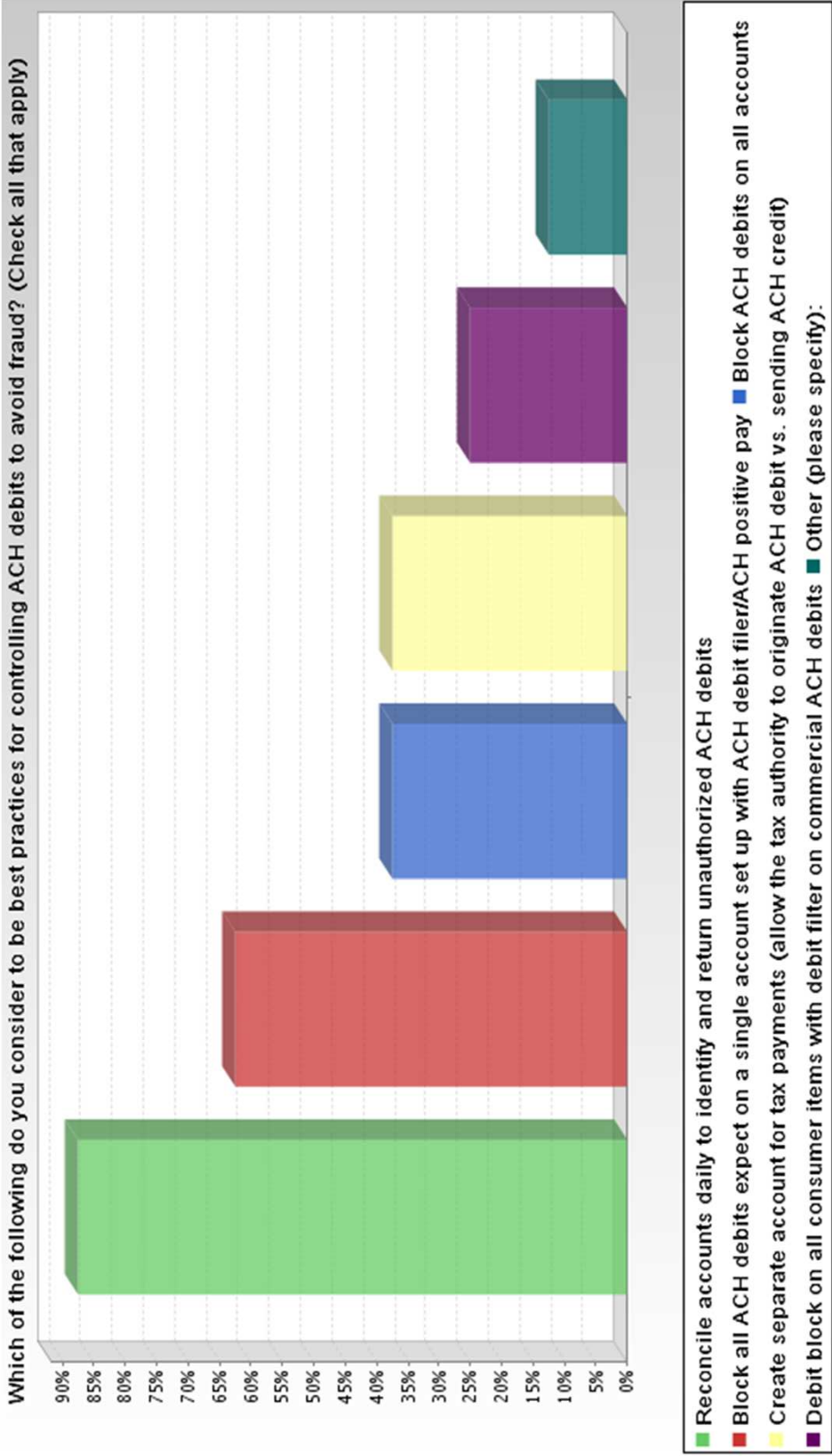
Vast Majority of Companies Now Take Full Advantage of Fraud Control Tools



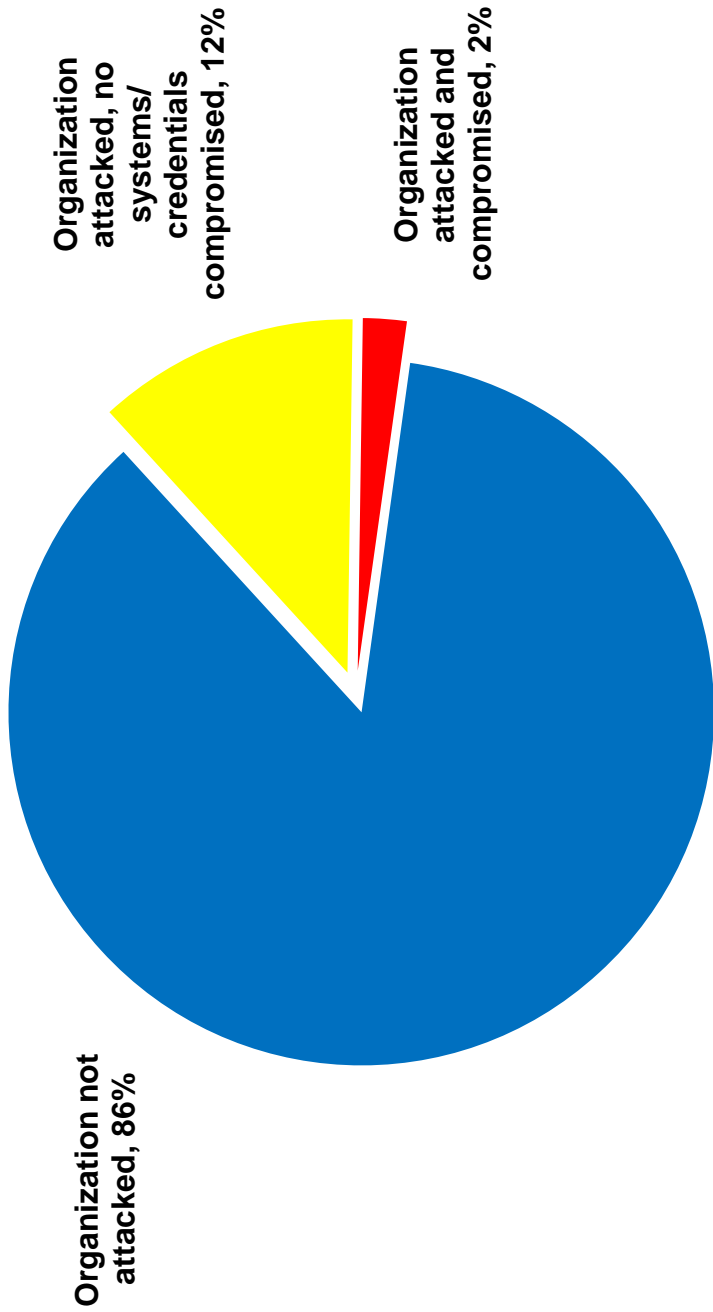
If your organization does not use positive pay services, debit blocks or UPIC, what is (are) the reason(s) for not using the services? (Check all that apply)



Several Recommended Best Practices for Controlling ACH Fraud



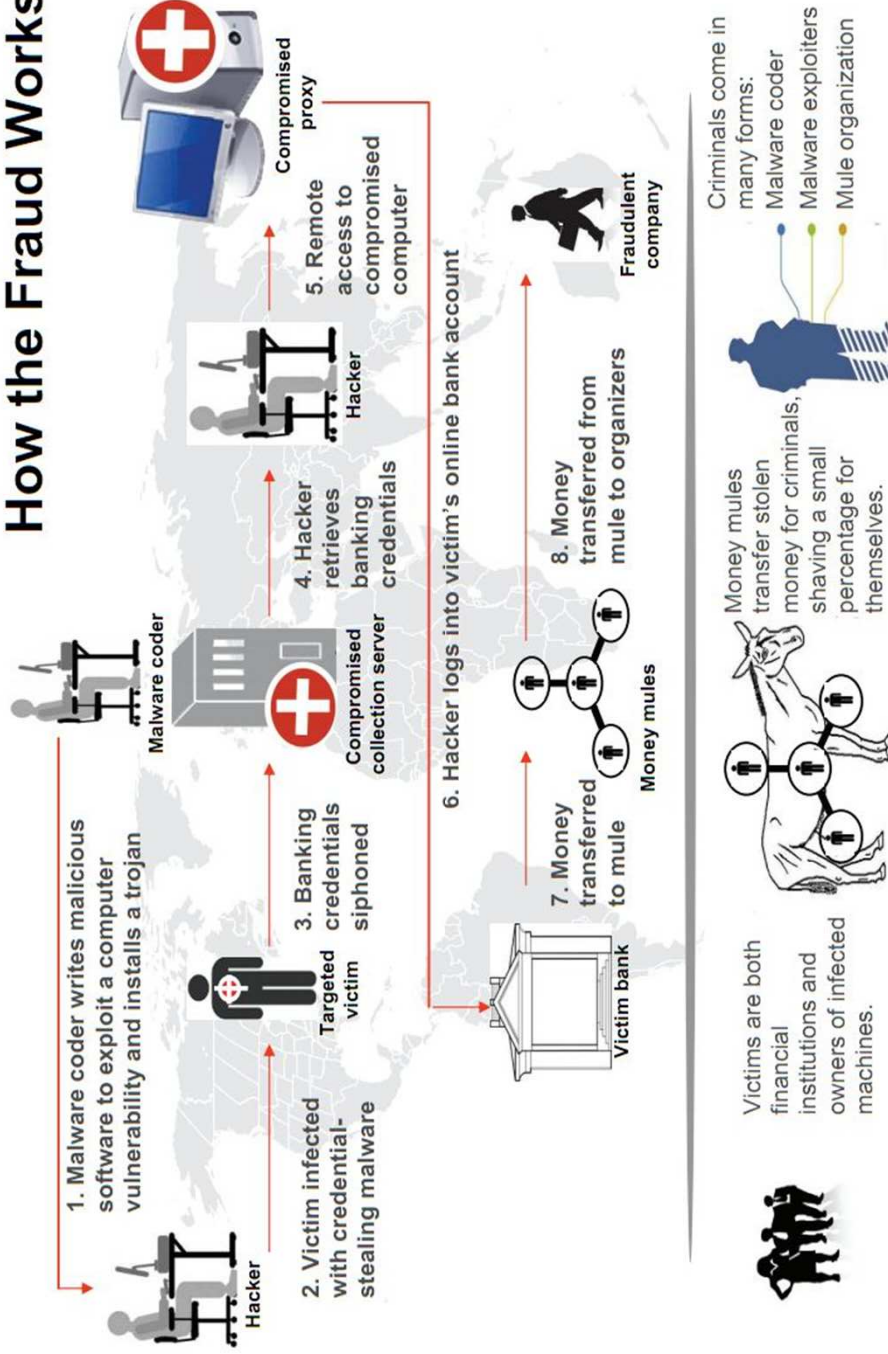
14% of Orgs Experienced Corporate Account Takeover Attempts Last Year



The Cyber-Fraud/Hacking Process

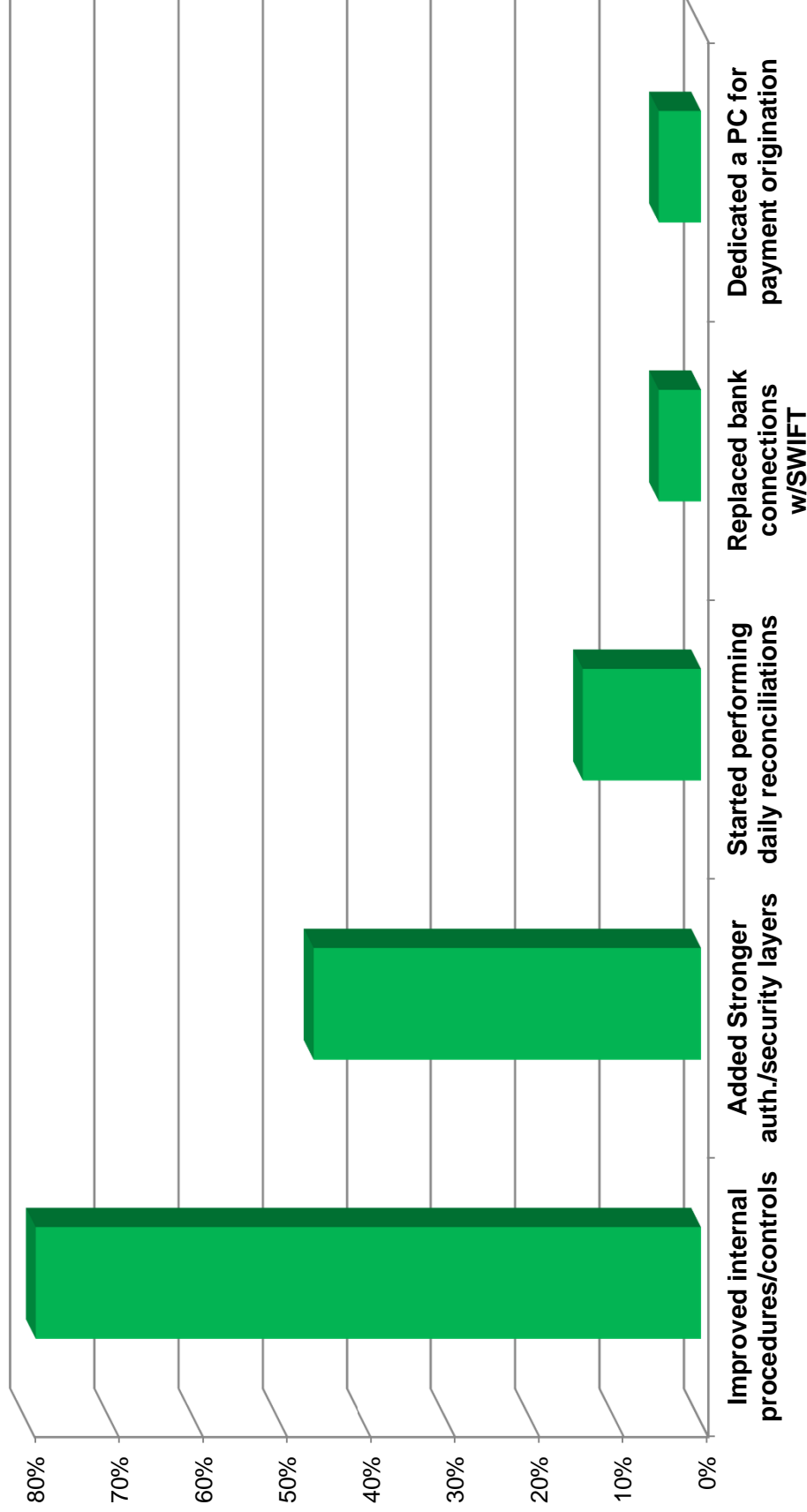


How the Fraud Works



Source: FBI Cyber Division

Most Orgs Taking Action to Deal with Corporate Account Takeover Attempts



Most Recent Cyber-Fraud Advisory



Fraud Advisory for Businesses: Corporate Account Take Over



This product was created as part of a joint effort between the United States Secret Service, the Federal Bureau of Investigation, the Internet Crime Complaint Center (IC3) and the Financial Services Information Sharing and Analysis Center (FS-ISAC).

Problem:

Cyber criminals are targeting the financial accounts of owners and employees of small and medium sized businesses, resulting in significant business disruption and substantial monetary losses due to fraudulent transfers from these accounts. Often these funds may not be recovered¹.

N.Y. Firm Faces Bankruptcy from \$164,000 E-Banking Loss

European Cyber-Gangs Target Small U.S. Firms, Group Says
e-Banking Bandits Stole \$465,000 From Calif. Escrow Firm

Available on www.afponline.org/cps and select Hot Topic: [Cybersecurity](#)

FBI Suggestions: First, Protect Yourself



- Educate Everyone – Beware Unsolicited E-mails, Pop-ups, Scareware
 - Enhance computer and network security
 - Use dedicated PC for payments, especially large-value items
 - Try alternative browsers (Microsoft/IE is favorite target)
 - Use AV, firewall, anti-spyware software
 - Keep it all updated, including Windows
 - Block all pop-ups
 - Enhance security and procedures for bank services
 - Use Dual control, Dual computers
 - Use Out-of-Band authentication
 - Pay Attention: Any difference in login screens should immediately be suspect
 - Monitor accounts once per day
 - Understand Your Liabilities
-

If You're Attacked, the FBI Recommends:



- Cease all activity and isolate your computer(s)
 - Immediately call bank
 - Disable online access
 - Change passwords
 - Review transactions, payees, etc.
 - Document all actions
 - Evidence
 - Insurance claims
 - Contact Law Enforcement
 - File a local police report
 - FBI and IC3.gov (Internet Crime Complaint Center—multi-agency)
 - Activate contingency plans
 - Alternate computers, accounts, computer network analysis
-

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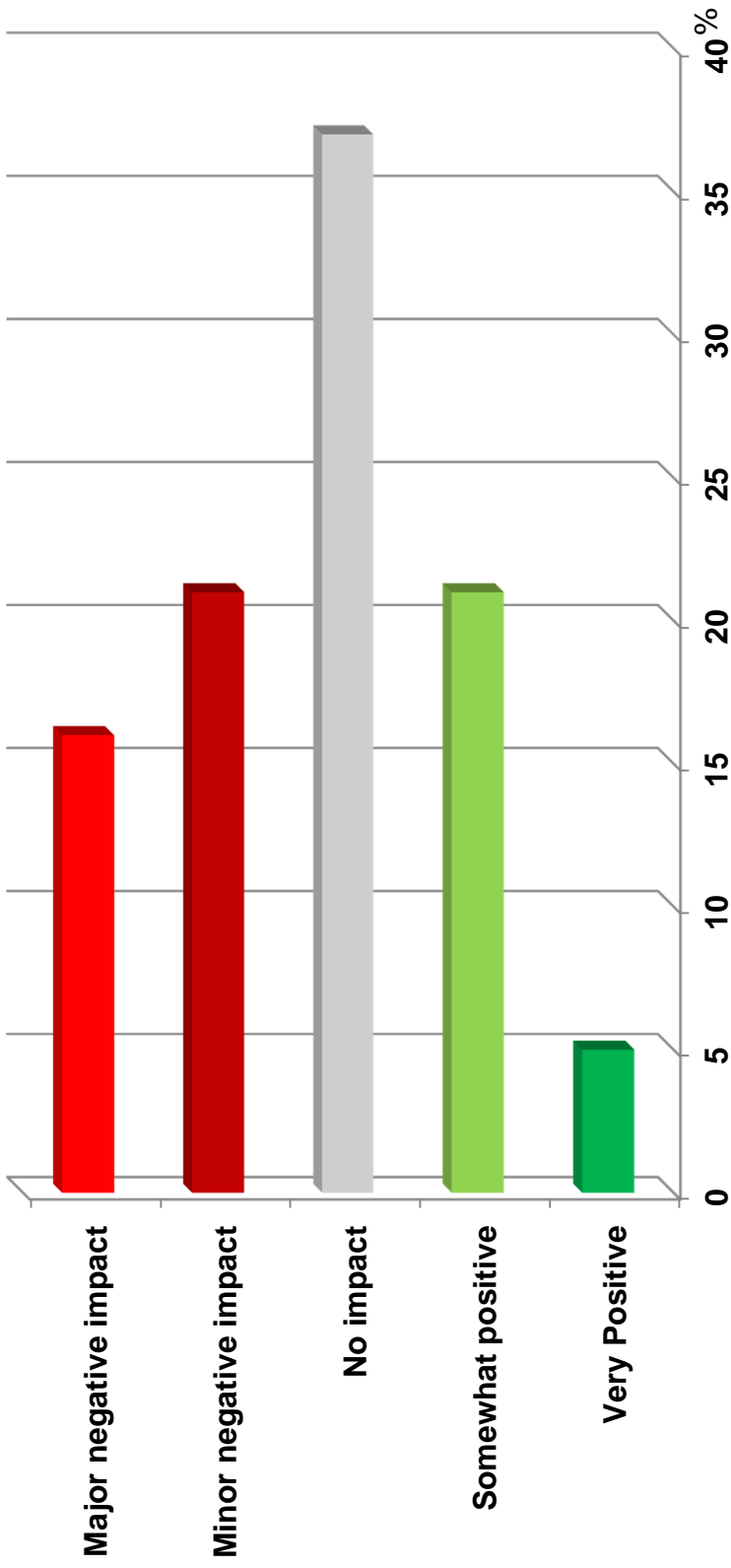
4

Questions

Converting Business Checks to ACH Won't Happen Unless/Until Concerns Addressed



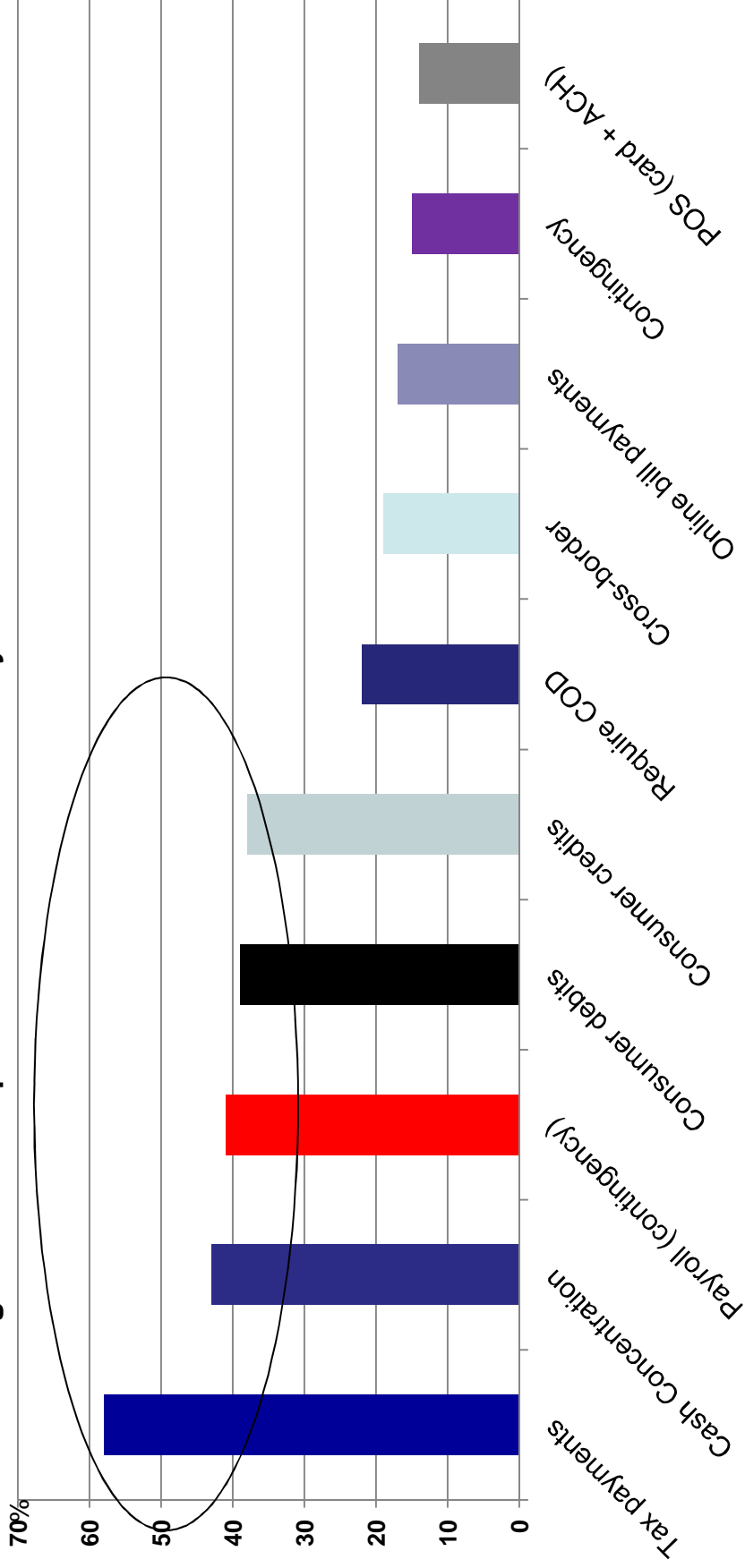
What impact (if any) would this rule change have on your organization?



Broad interest in availability of Same-Day ACH services



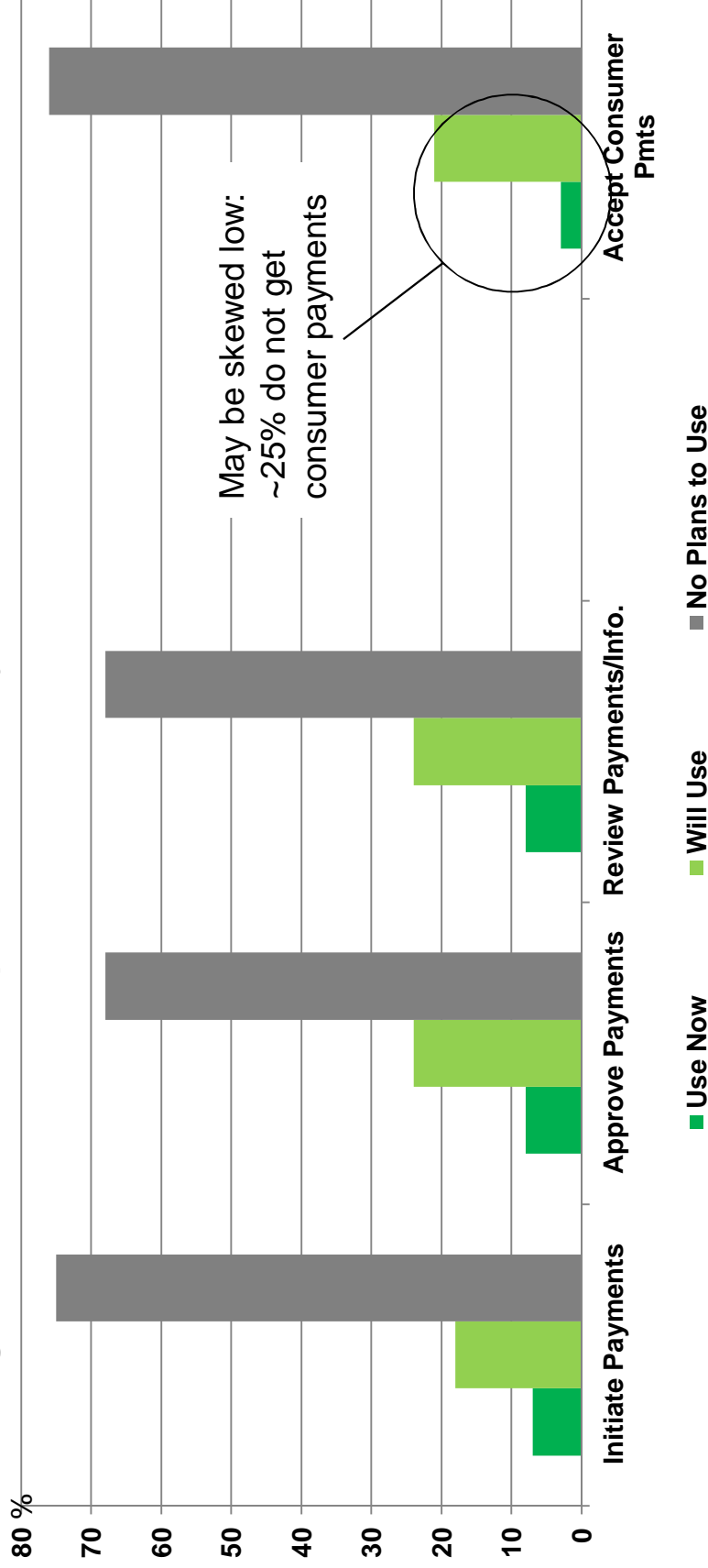
Services Organizations Expect to Use when Same-Day ACH Settlement Services Available



Most Corporates Skeptical of Mobile, but Usage to Rise Over Next 3 Years



Organizational Plans to Implement Mobile Payments Over the Next Three Years



Questions?



2010 Electronic Payments and

2011 Fraud Survey available at:

<http://www.afponline.org/research>

Contact Information

David Bellinger
301-961-8611
dbellinger@afponline.org

