ROBOTICS, TECHNOLOGY AND FRAUD PREVENTION

by Steve Brown

Over the years, cameras have become more powerful, electronic parts have become cheaper and more readily available and sensors are better than ever. This has set the stage for robotics to take off according to researchers. The latest focus in this area is creating robots that interact with people. Experts say things are moving so fast that within 10Ys, people will have robots in the home that will perform house chores, monitor the home, serve drinks and other things for as little as $25,000. This will be pretty nifty if it happens. On the banking front, we think robots could also play an interesting role, particularly when it comes to fraud. Maybe we could arm them with futuristic ray guns to stop the bad guys in their tracks or have them wave their arms frantically and shout "danger, danger" when they see something odd. As we wait for technology to catch up to reality, we focus today on analysis from the Information Security Media Group in the area of fraud. They found the five most often cited types of fraud banks had experienced in the past 12 months were: credit/debit card (84%); check (76%); phishing (50%); ACH/wire account takeover (43%); and ATM/ABM skimming, etc. (35%). The crooks have become more sophisticated, so banks have had to adapt to deal with these issues. Much improvement has occurred here, but more can be done. Among some of the most effective techniques banks may want to consider setting up a way for employees to alert management on a confidential basis; improve employee training to help everyone understand what to look for; review business practices end to end to see if there are holes; audit higher risk areas to be sure fresh eyes are looking at potential risks, etc. Teaching customers what to do and where to get computer security updates (as you encourage them to help themselves help you), are also good ways to reduce fraud. Believe it or not, we really aren't that far away from our robotic examples in this area. A few decades back in fact, most banks began to incorporate statistical modeling into their processes in an attempt to review and flag potentially fraudulent transactions. While crooks have become more intelligent and sophisticated in their attacks, this approach remains a good way to monitor customer behaviors over time and flag any that seem out of order. We have heard over and over again from bankers that say their customers are quite happy when they get a call from the bank telling them about a given transaction and asking if it is legitimate. Customers want safety, they crave it in fact, so analyzing transactions and communicating with customers is a great way to protect your bank as you build loyalty. As we close our discussion today, we revisit the original survey to highlight the next 5 areas where banks have experienced fraud in the past 12 months to help keep you informed. This group includes: money laundering (25%); third party POS skimming (23%); internal financial theft (21%); information theft, loss or attack (18%) and online banking breach (17%). These too are all areas where community bankers should have a plan. Whether it is a loss of money, productivity, customers or reputational impact, the consequences of fraud of any sort can be nasty. Until there is a robot to protect us all, we will just have to stay on the alert as we seek to continually protect the bank.

BANK NEWS

Regulatory Change

Financial Crimes Enforcement Network (FINCEN) and the Fed have issued a proposed rule to amend the definitions of "funds transfer" and "transmittal of funds" for BSA regulations. The proposed changes are being done to maintain the current scope of funds transfers and transmittals subject to the BSA in light of Dodd Frank amendments to the Electronic Fund Transfer Act.

Housing Sector

Analysis by TransUnion finds the national mortgage delinquency rate was 5.41% in 3Q vs. 5.49% in 2Q and 5.88% in 3Q 2011. While an improvement, the rate is still well above the more normal 1% to 2% rate seen historically.

Student Loan Sector

The NY Fed reports 11% of student loans are now at least 90 days delinquent and considered seriously delinquent. This is the first time ever that student loan delinquency rates have surpassed credit card debt.

Number of Banks

Research by the FDIC finds the percentage of community banks has declined only slightly since 1985, falling from 97% of all banking organizations to 94% today.

Small Biz Worried

A survey by Wells Fargo and Gallup finds small business owners are the most pessimistic about their operating environment than they have been since mid 2010.

Worse Than Expected

NY Fed President William Dudley said that while it was difficult to put a number on the cost of disruption to economic activity after Hurricane Sandy, indications show it could be substantial.

Auto Sector

TransUnion reports the national auto loan delinquency rate (60+ days past due) was 0.38% in 3Q vs. 0.33% in 2Q and 0.47% in 3Q 2011. The good news here is that the levels are well below the 0.86% peak hit in 2008 and appear to be relatively stable (perhaps one reason you have seen more lending here by Wells and other large banks, as well as CUs).

Interest Rates

Fed research finds the overnight federal funds rate changed 300bp or more in a 1Y period about 15% of the time between 1955 and 2008 (sounds pretty immediate and nearly parallel).

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