Berkley
Financial Specialists
| a Berkley Company

757 3rd Avenue | 10th Floor | New York, NY 10017
866.539.3995 | **berkleyfs.com**

LOSS CONTROL TOOLS

Funds Transfer Risk

Criminals prefer easy methods to conduct fraud that moves money quickly and makes it difficult to get back. The following outlines some basic controls for reducing risk and implementing best practices to manage funds transfer exposures and fraud.

Risk Factors

Funds transfers represent heightened degrees of risk depending on frequency of requests, dollar amount, geographic risk considerations of the originator and beneficiaries, and relationship of the originator or beneficiary to the financial institution. Potential fraud may be identified through transaction profiling of accounts and historical activity or through methods of communication used to initiate a transfer request.

Risk Management

The most important part of any risk management program is to have documented policies and procedures. Many financial institutions develop easy-to-follow flow charts, which help to identify important steps and questions to ask. Policies should make clear that no funds are transferred for non-accountholders and should not be processed against uncollected and settled funds. These two items can be easily incorporated into a flow chart.

Policies should also outline dual control through segregation of duties so that no single individual can execute a transfer from beginning to end. All acceptance and authentication of transfer requests should be separated from the processing and approval of the requested transaction. In smaller institutions, where segregation is not always practical, controls should be used to ensure proper checks and balances, and to provide a second review removed from the transaction. Accountholders that have never transferred from a line of credit or conducted internal or large-dollar transfers should raise additional concerns, and policy should require elevation through levels of management.

Establishing limits on transfer authority should also be a part of any policy. Limitations on who can initiate a transfer and to what limit ensures that dual control mechanisms are being utilized. At least annually, a review of all individuals should be conducted to ensure administrative restrictions are in place within systems, approval limits are reviewed and affirmed, and that those users with permissions have a logical purpose for that authority.

Providing service to accountholders is often manipulated by fraudsters in perpetrating a scam, causing erosion of established controls. Methods such as fax, phone and internet banking or e-mail are common, and advancing technological capabilities are introducing additional methods. Regardless of the method accepted by the financial institution, each should be assessed for risks and such a review should be a foundation for establishing controls. Each method may involve a different set of controls. It may be in the interest of the accountholder and the financial institution to establish a separate funds transfer agreement, especially in situations of frequent transfer activity.

Policy and procedure should include a form of verification. This is commonly accomplished with a callback procedure on all transfers over a certain threshold. Verification methods should be outlined within the policy and procedures and included in any flow charting for

Berkley Financial Specialists provides effective and efficient insurance solutions and claims handling to the financial services industry and our empowered industry experts are dedicated to providing personal service you can rely on. Berkley Financial Specialists is backed by the strength and protection of the W.R. Berkley Corporation.

Products and services are provided by one or more insurance company subsidiaries of W. R. Berkley Corporation. Not all products and services are available in every jurisdiction, and the precise coverage afforded by any insurer is subject to the actual terms and conditions of the policies as issued. Certain coverages may be provided through surplus lines insurance company subsidiaries of W. R. Berkley Corporation through licensed surplus lines brokers. Surplus lines insurers do not generally participate in state guaranty funds and insureds are therefore not protected by such funds. For additional information concerning W.R. Berkley Corporation's insurance company subsidiaries, please visit: http://wrbc.info/Licensing/License.htm

©2021 Berkley Financial Specialists

the process. Verification questions should rely upon information an accountholder would know but would not be easily obtained. For this reason, removing reliance upon questions such as the last four digits of a social security number, an accountholder mother's maiden name, and date of birth are important to mitigating fraud. Questions related to account activity (amount of most recent deposit, last purchase with your debit card, year of the vehicle loan on file, etc.) should be used, along with the establishment of a passphrase on accounts. This should be a code only the accountholder would know and can be confirmed easily in a callback scenario. Some financial institutions are relying upon Lexis-Nexis or other third-parties to use out-of-wallet questions in verifying identity and implementing multi-factor authentication.

Training throughout the process should be ongoing and include encouragement of skepticism. Encouraging employees to trust their gut and pose additional questions when something seems wrong is important to reducing risk. In our experience, when asked following a fraudulent wire activity, the employee usually admits that there was something that didn't 'feel' right. Trusting instincts is important in reducing fraud, and taking additional precautions when suspecting something unusual is prudent and should be encouraged. All employees authorized to conduct transfers should be trained to perform due diligence throughout the process, reviewing all documentation and asking questions.

Any policy should end with a review and audit of the process and procedures. This final step can be conducted internally or with an external party but should be performed to identify opportunities for improvement and any potential fraud. This final step is easy to ignore until a loss, and then the cost could be substantial and go beyond the lost funds to include investigation, legal and reputational damage.

Additional Risk Measures

In addition to strong policy and procedures, it is prudent for a financial institution to review their insurance coverage to ensure the procedures comply with any insuring requirements. Many insurance contracts outline steps that can help reduce losses and may also limit situations where coverage applies.

Financial institutions should also review the policy and procedures with their insurance agent and third-party providers. This may include core processing vendors, risk advisors, auditors, electronic payment vendors and others involved in the processing and systems designed to make financial institutions efficient. Many core processors offer enhancements that help to identify recent transaction activity that can help identify potential fraud. Relying on their experience and services may prove beneficial in reducing exposure to funds transfer and other frauds.

Please Note:

This material is provided to you for general information purposes only. Establishment, adoption and enforcement of any policy, procedures or audits arising from such practices is the responsibility of each financial institution. We make no representation or warranty, express or implied, that our activities or advice will place you in compliance with the law; that your premises or operations are safe; or that the information provided is complete, free from errors or timely. We are not liable for any direct, indirect, special, incidental or consequential damages resulting from the use or misuse of this information. You are not entitled to rely upon this information or any loss control activities provided by us, and you may not delegate any of your legal responsibilities to us.