

# Secure Payments Task Force Meeting Federal Reserve Bank of Chicago June 21-22, 2016 Meeting Summary

## Welcome and Opening Remarks<sup>1</sup>

Gordon Werkema, Federal Reserve Payments Strategy Director, welcomed meeting participants to the Secure Payments Task Force (SPTF) meeting and stated that he is encouraged by the progress the SPTF has made over the last several months. Mr. Werkema highlighted that SPTF members have kicked off Work Groups that are now working to address complex security issues in the U.S. payment system. He thanked the Work Group Chairs for their leadership and encouraged SPTF members that have not yet signed up for a Work Group to do so. Mr. Werkema reaffirmed the Federal Reserve's commitment to supporting SPTF efforts and maintaining a high level of transparency to payment system stakeholders. He thanked SPTF members for their continued commitment and contributions. Mr. Werkema then introduced Todd Aadland, Secure Payments Strategy Leader, to provide an overview of the meeting activities ahead.

Mr. Aadland welcomed meeting participants and reviewed the meeting objectives, agenda, and key SPTF accomplishments in 2016 to date. Mr. Aadland also summarized changes to the SPTF's membership following the adoption of the revised participation agreement, highlighting that the SPTF retained more than 77 percent of existing members. He also noted that the SPTF attained 14 new members and introduced the new members to those in attendance. Mr. Aadland encouraged members to continue to seek out potential SPTF recruits, especially for small segments with few members. He then introduced Connie Theien, Federal Reserve Bank of Chicago, to provide an update on the Faster Payments Task Force (FPTF) work effort.

## FPTF Work Effort and SPTF Commentary Period for Proposals

Ms. Theien provided an update on the FPTF work effort to assess end-to-end faster payment solutions, including an overview of the timeline, process, and roles and responsibilities of the various parties involved. Ms. Theien stated that 22 proposals were submitted for assessment – well above what was expected – highlighting that the overall timeline for FPTF deliverables has been extended by 40 business days to accommodate the high volume of proposals. She also noted that the commentary period for the SPTF to review proposals (with a focus on security aspects) will run from October 1 to December 31 (following McKinsey's independent assessment of proposals, scheduled to conclude September 30).<sup>2</sup> Ms. Theien also summarized the key topics that will be included in the FPTF's final report – including sections on FPTF background, the payments landscape, assessment of proposals, and challenges and opportunities – and noted that the report will likely be released in phases. She stated that the FPTF's Challenges and Opportunities Work Group recently launched, noting that this group may engage with the SPTF in the near future on the topic of safety and security.

Ms. Theien provided an overview of what SPTF members should expect during the proposal commentary period, highlighting that the primary objectives during this period are to (1) evaluate whether the proposal assessment process has met the QIA objectives and proposals have been

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<sup>1</sup> John Yanish, Federal Reserve Bank of Minneapolis, reminded those in attendance to participate in a manner consistent with Anti-Trust and other applicable laws.

<sup>2</sup> During this commentary period, both the SPTF and FPTF will review proposals concurrently.

assessed appropriately against the Effectiveness Criteria; (2) provide checks and balances to the QIA process; (3) provide solution enriching feedback to proposers; and (4) identify potential challenges and opportunities the industry will face for implementing proposed solutions. Ms. Theien stated that the commentary process will be segmented into three phases (education on the process, dialogue and commentary on proposals, and insights and implications arising from SPTF commentary) to help ensure that the process is accessible and transparent to SPTF members. In response to a question, Ms. Theien stated that there may be less than 22 proposals for the SPTF to review because proposers have the opportunity to drop out at various points during the assessment process.

Ms. Theien solicited feedback from SPTF members on how to structure the proposal commentary period. One SPTF member suggested that the proposals be released in batches to help smooth out the review work over time. In response, Ms. Theien stated that the FPTF and QIA Advisory Group considered this approach but ultimately decided to release all proposals simultaneously to ensure equal treatment across proposals. One SPTF member suggested structuring the commentary period to allow for use-case specific feedback because security needs vary across use cases and many individuals have expertise concentrated in a particular use case. Ms. Theien also asked SPTF members to respond to a series of flash polls to capture their feedback on various aspects of the commentary period. With respect to engagement during the education phase, respondents generally favored educational webinars over drop-in calls and written reference materials.<sup>3</sup> In addition, a majority of respondents (85 percent) indicated that they would take advantage of the opportunity to attend the FPTF in-person meeting in November to dialogue on the proposals and assessment process during the commentary period.<sup>4</sup> Ms. Theien stated that her team would incorporate the feedback received into the commentary period process and noted that the Federal Reserve will consider moving the November SPTF meeting to overlap with the November FPTF meeting.

### **Federal Reserve Payments Study: Overview of Fraud Data**

Steven Cordray, Federal Reserve Bank of Atlanta, provided an overview of the Federal Reserve Payment Study. Mr. Cordray stated that the purpose of the Study is to measure the number and value of noncash payments and associated fraud in the U.S. He highlighted the various surveys used to collect data for the Study, including surveys to financial institutions, networks, processors, and issuers. He also discussed the evolution of the Payment Study over time, noting that the report has been published on a triennial basis since the inaugural Study in 2001 and that the 2013 Study was the first to include information on payments fraud. In addition, Mr. Cordray highlighted a number of enhancements to the Study in response to industry feedback – including feedback from the SPTF at a prior meeting – such as expanded fraud data reporting in the upcoming 2016 Study as well as the introduction of interim-year reports beginning in 2017 that will provide top-line summary information for years in between the more-comprehensive triennial reports. In response to a question, Mr. Cordray stated that the Federal Reserve is unable to provide the SPTF with early-access to results of the 2016 Study before the summary report is published in December.

Mr. Cordray asked SPTF members to engage in a table-top exercise to provide input on how the Federal Reserve can enhance the fraud data collected in future reports. Meeting participants

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<sup>3</sup> SPTF members were asked to respond to the statement: “Which of the following opportunities proposed to support the education period would you utilize?” The results are as follows: Educational webinars (55%); Drop-in calls (20%); Reference materials on Knowledge Central (25%).

<sup>4</sup> SPTF members were asked to respond to the statement: “If the opportunity were available, would you attend the Faster Payments Task Force in-person meeting in November for the opportunity to dialogue with other task force members about the proposals, assessments, challenges and opportunities?” The results are as follows: Yes (85%); No (15%).

were asked what key payment fraud and security data they would like to see included future reports, how their organizations would use this information to advance business objectives, and what inputs their organizations could provide to support future reports. A few tables suggested broadening the scope of data included in the report, such as information on methods used by fraudsters to perpetrate fraud and information on data breaches. A few tables suggested increasing the report frequency to quarterly to make the information more actionable to the industry. Mr. Cordray noted that the Federal Reserve would compile the feedback collected during the table top exercise and consider potential changes for upcoming reports.

### Verizon Data Breach Investigations Report

Dave Ostertag, Verizon, provided an overview of the 2016 Verizon Data Breach Investigations Report. Mr. Ostertag stated that the report is recognized as the most comprehensive report available on data breaches, noting that more than 67 organizations from around the world contributed to the report. Mr. Ostertag highlighted that since 2009, social engineering has been on the rise and, at the same time, data breaches have become more automated as the prevalence of malware has increased. He also provided a description of the threat actors perpetrating data breaches, highlighting that most are external actors (e.g. external to the organization being breached). In addition, he noted that the threat actors' prime motivation is financial gain, followed by espionage. Mr. Ostertag stated that recovering from a data breach is a long-term process, noting it can take years for a breached organization to remove every point of compromise within its network. He stated the most important thing an organization can do is to prepare for a breach to occur since breaches are inevitable. He also underscored the importance of having a multilayered approach in addressing data breach threats. In response to a question, Mr. Ostertag stated that the most effective authentication techniques rely on multiple factors including randomly generated passwords.

### Work Group Sessions

Meeting attendees broke out into individual working sessions to advance the deliverables of the active work groups:

- The Payment Identity Management (PIM) Work Group met collectively to review and provide feedback on work completed by Subgroups 1 and 2, including the use cases for ACH, signature credit, and PIN debit as well as a potential approach to facilitate risk-based evaluations for each of these payment types.<sup>5</sup> In addition, Subgroups 1 and 2 met individually to review the feedback and discuss next steps on their work efforts. Subgroup 3, which held its inaugural meeting during the working sessions, discussed how to incorporate the work of the other subgroups to develop a PIM framework.
- The Information Sharing for Mitigation of Payment Risk / Fraud Work Group met collectively to review and provide feedback on the information sharing inventory developed by Subgroup 2.<sup>6</sup> The group agreed to investigate additional potential information sources and revise the document before the next subgroup meeting. The Work Group also reviewed and further refined the feedback provided by the SPTF on the Federal Reserve's Payment Study. In

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<sup>5</sup> The PIM work group has divided its work efforts into three subgroups. Subgroup 1 plans to inventory and understand the relative adoption rates of the existing processes by which identity is established, verified, and subsequently authenticated. Subgroup 2 plans to develop and complete a risk-based process to assess the strengths and weaknesses of those existing processes. Subgroup 3 plans to explore possibilities to bridge gaps in PIM practices and to develop a framework to establish, create and propose PIM policies, practices, and protocols to guide the industry.

<sup>6</sup> The Information Sharing work group has divided its work efforts into three subgroups. Subgroup 1 plans to identify key information sharing terms and document applicable reporting standards and metrics. Subgroup 2 plans to identify and inventory the types of information currently shared within the payments industry. Subgroup 3 plans to develop information sharing best practices.

addition, Subgroup 3 held its inaugural in-person meeting and reached consensus on proposed deliverables and associated time frames.

- The Data Protection Work Group held its first in-person meeting during the working sessions. The Work Group reached consensus on a problem statement, identified desired outcomes, and brainstormed work efforts to achieve these outcomes. The Work Group also began mapping out how to align work efforts, and initially divided its work efforts into three subgroups and identified leaders and participants for each subgroup.
- The Standards Assessment Team discussed an approach to assessing relevant payment standards for the Work Groups, and met with each Work Group individually to provide an overview of the standards documents it had compiled to date and to discuss next steps with respect to collaboration.

### **Panel Discussion on Trends in Payment Security Threats**

Claudia Swendseid, Federal Reserve Bank of Minneapolis, moderated a panel discussion on the latest threats in payment security. The panel consisted of three industry experts: John Carlson (FS-ISAC), David Lefferts (SWIFT), and Elizabeth Garner (Merchant Advisory Group). Panelists stated that business email compromise (typically associated with wire fraud) and malware attacks have intensified recently, noting that parties most vulnerable to these attacks tend to be end users and third-party vendors. Panelists also discussed what their respective organizations are doing to address threats in the ecosystem. Mr. Carlson noted that FS-ISAC is focused on improving information sharing within the financial industry and on developing tabletop simulations to help organizations prepare for a cyberattack. Mr. Lefferts stated that SWIFT is working on a customer security program focused on initiatives in five key areas: information sharing, guidelines and best practices, security tools and techniques, anomaly detection, and third party providers. Ms. Garner stated that the Merchant Advisory Group is working on developing best practices for mitigating card-not-present fraud, which is expected to increase in the future. With respect to potential future areas of focus, panelists generally agreed that regulatory harmonization is important given that payment technologies continue to evolve at a rapid pace. Panelists had differing views on whether the industry should focus on modifying incentive mechanisms within the industry to reduce fraud (e.g. chargebacks). Panelists generally agreed that the industry should focus on developing principle-based (as opposed to prescriptive) best practices and frameworks to address security issues.

### **Table Discussions: Adoption Best Practices to Support Work Group Desired Outcomes**

Ms. Theien asked meeting participants to engage in table discussions to provide their perspectives on effective tactics to drive industry adoption of payment mechanisms (e.g. tools, technologies, best practices, standards, etc.). She noted that the output from the session will help the SPTF begin thinking about approaches to drive industry adoption of forthcoming SPTF work group deliverables. One table stated that a strong business case and engagement with end users during the development process are key factors for successful industry adoption. Another table discussed the importance of engaging with regulators early on in the adoption process. Ms. Theien stated that the Federal Reserve will aggregate the output from the table discussions and reflect it back to work group leaders so that they are positioned to dialogue on next steps.

### **Closing Remarks**

Mr. Aadland closed the meeting and asked participants to respond to a series of flash polls. In response to one poll, the vast majority of respondents agreed or strongly agreed that SPTF

members are effectively collaborating on payment security issues within the work groups.<sup>7</sup> In response to another poll, all respondents agreed or strongly agreed that the topics covered were relevant to advancing SPTF objectives.<sup>8</sup> Mr. Aadland thanked participants for their contributions and high level of engagement during the meeting.

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<sup>7</sup> SPTF members were asked to respond to the statement: "I feel the task force is effectively collaborating on payment security issues within the work groups." The results are as follows: Strongly Agree (49%); Agree (43%); Disagree (5%); Strongly Disagree (3%).

<sup>8</sup> SPTF members were asked to respond to the statement: "I feel the topics covered were relevant to advancing Secure Payments Task Force objectives." The results are as follows: Strongly Agree (48%); Agree (52%); Disagree (0%); Strongly Disagree (0%).