

# Fraud Definitions Work Group

## In-Person Meeting Summary

### September 12-13, 2019

THE **FEDERAL RESERVE**  
FedPayments Improvement



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The Fraud Definitions Work Group held its fourth and final in-person meeting for 2019 at the Miami Branch of the Federal Reserve Bank of Atlanta on September 12 and 13. During this meeting, the Federal Reserve shared a draft proposal for a three-phase Industry Adoption Roadmap for the Fraud Classification Model for Payments (Model) and provided an overview of how the various components of the roadmap all fit together, as well as engagement opportunities to further socialize the Model within the payments industry. The Federal Reserve also provided an update on the Fed's role in faster payments in light of the recent announcement that the Federal Reserve Banks will build and operate the FedNow<sup>SM</sup> Service.

## Agenda Topics

- Welcome and Opening Remarks
- Fraud Classification Model for Payments: Work Group and Industry Socialization  
*Update on efforts to socialize the Model with the Fraud Definitions Community Interest Group (CIG) and understand how the industry would apply the Model to payments fraud scenarios; obtain feedback from work group members related to conversations with respective senior leadership teams*
- Industry Adoption Roadmap
  - ◇ Overview  
*Build on the three-phase – Crawl, Walk, and Run – philosophy; discuss the overall approach to the roadmap and key areas for discussion and/or exploration as part of building the roadmap*
  - ◇ Crawl Phase  
*Refine and finalize the goals and description of this phase based on work group feedback received*
  - ◇ Walk Phase  
*Build on the Crawl Phase; begin to explore what the Walk Phase looks like*
  - ◇ Run Phase  
*Build on the Crawl and Walk Phases; begin to explore what the Run Phase looks like*
  - ◇ Piecing It All Together  
*Recap the overall construct of the adoption roadmap and discuss the intended scope, key activities, and general considerations*
- The Federal Reserve's Role in Faster Payments  
*Update on recent announcements made related to the Fed's role in faster payments*
- Secure Payments Update  
*Provide update on other initiatives led by the Federal Reserve Secure Payments team*
- The Path Ahead (60-Day Outlook)  
*Review near-term focus and meeting reflections from the work group*
- Closing Remarks

## Opening Remarks

*Jim Cunha*

Jim Cunha, Senior Vice President of Treasury and Financial Services, welcomed members of the work group to the fourth in-person meeting in Miami, FL. Cunha kicked off the meeting by providing an overview of the planned agenda topics and thanking all the work group members once again for their continued engagement and dedication to this effort.

## Fraud Classification Model for Payments: Work Group and Industry Socialization

*Mollie Stevens*

Mollie Stevens, Industry Relations Representative, provided an update to the work group on the Fraud Classification Model for Payments survey that was being prepared for the Fraud Definitions Community Interest Group (CIG), noting that the survey would go live on September 13 and remain open through September 30. The intent of the survey is to understand how the industry applies the current Fraud Classification Model for Payments (Model) when presented with real-life payments fraud scenarios and to identify potential opportunities for further clarification of the Model. All work group members agreed that the perspectives provided by survey participants would be vital to advancing and finalizing the Model.

Stevens then led a discussion with the work group about socializing the Model with senior executives from their respective organizations. This led to a few key themes emerging:

- ◆ There is a critical need for a clear value proposition for each adoption phase, as this will drive receptivity to conversations about adoption and possibly adoption itself.
- ◆ Operational complexities exist for adopting the Model and must be considered when looking at the required lift in comparison to the projected value.
- ◆ Key questions continue to be posed around what data sharing may look like and the specifics around how it will be supported/facilitated (e.g. a portal, push out, call report, etc.).

The discussion was brought to a close after work group members affirmed the intuitiveness of the Model, with the question remaining as to the degree of adoption that can be achieved. The work group also noted that it would be prudent to continue evaluating opportunities to leverage the Model for other payment types (e.g., card, faster, etc.).



## Industry Adoption Roadmap Overview

*Mike Timoney*

After recapping recent discussions related to the Model's potential end state, Mike Timoney, Vice President of Secure Payments, shared a proposed industry adoption roadmap with the work group, in which adoption of the Model could be achieved through a three-phase approach: Crawl, Walk, and Run. Each subsequent phase would build off the progress of the previous phase.

Timoney explained the key differences across the three phases and how each could be implemented within an organization and emphasized that this draft roadmap is intended to serve as a starting point to promote discussion among the work group members in order to advance and evolve the roadmap together.

# Industry Adoption Roadmap

## Crawl Phase

*Beth Reynolds*

Beth Reynolds, Senior Consultant for Secure Payments, updated the group on the progress made related to the Crawl Phase and the work group feedback obtained through recent 1:1 discussions with work group members. Reynolds noted general work group support for the vision, which describes that within an organization, fraud activity is classified according to the Model for at least one payment type, for at least a subset of the data. Work group members expressed that the roadmap should be intentional as to which payment type is selected for initial classification as opposed to letting each organization select a different payment type.

Several work group members then described what this phase could look like for their respective organizations, agreeing that implementation may look different for each organization and that a proof of concept may be beneficial in this phase to begin testing out the Model on a smaller scale.

## Walk Phase

*Andrés Rapela*

Andrés Rapela, Assistant Vice President of Secure Payments, shared a draft vision of the Walk Phase, highlighting the difference from the Crawl Phase includes classifying all fraud activity (versus just a subset) for ACH, wire, and check (versus just one payment type), with the ability to analyze and share information external to one's organization on a predetermined basis.

The work group then discussed what this phase might look like across the industry, which would include organizations who have implemented the Model for part of their data sets and/or payment types expanding to all fraud activity within all in-scope payment types. Additionally, processors and tech solution providers need to have products and tools available to support the Model and respond to customers' needs, assuming achievement of desired market penetration. The work group also noted that organizations would need to adapt policies and practices to support the Model and operationalize the Model in collaboration with the industry.

## Run Phase

*Andrés Rapela*

Similar to the discussion regarding the Walk Phase, Rapela opened the discussion of the Run Phase by sharing the draft vision for the phase, highlighting the difference or evolution from the Walk Phase which includes sharing data across the industry and doing so likely in an automated manner.

The conversation focused on the aspect of increased fraud information sharing in this phase, in terms of what information would be shared, how often it would be shared, and through what means. Detailed discussions ensued among the work group on what information may be necessary and/or appropriate to share in order to accomplish this phase and the associated challenges that may result with this approach.



## Piecing It All Together

*Mike Timoney*

Timoney concluded the Industry Adoption Roadmap topic by providing a brief recap of the overall construct of the adoption roadmap and the supporting work streams that the group reviewed previously. Following this review, the work group split into breakout groups to discuss two of the three work streams: 1) Communication, Socialization and Driving Adoption and 2) Fraud Information Sharing and Analysis. During these breakout discussions, the groups focused on the intended scope, key activities, and general considerations for each work stream.

The work group will continue to advance the roadmap through early 2020, and will continue to communicate progress to the broader industry.



# ***The Federal Reserve's Role in Faster Payments***

*Ken Montgomery*

Ken Montgomery, First Vice President and Chief Operating Officer of Federal Reserve Bank of Boston and FedNow Program Executive, provided an update on the Fed's role in faster payments, specifically, the recent announcement that the Federal Reserve Banks will build and operate the FedNow Service, a new interbank 24x7x365 real-time gross settlement service with integrated clearing functionality to support faster payments in the United States.

Montgomery highlighted that since its founding, the Federal Reserve has played a key operational role in the nation's payment system by providing infrastructure to move funds and information between financial institutions, also known as interbank clearing and settlement. He noted that pursuant to the Federal Reserve Act, the Federal Reserve Banks operate payment services in the United States, including check processing, ACH, and wire transfer.

Continuing, Montgomery emphasized the importance of interconnectivity with other service providers in this space in efforts to achieve ubiquity as well as the focus on resiliency through redundancy, by having more than one service-provider for faster payments and concluded with sharing how organizations can comment on the recent Federal Register notice announcing the FedNow service.



## ***Secure Payments Update***

*Mike Timoney*

Timoney provided an update on another Secure Payments work stream, the Synthetic Identity Payments Fraud effort, sharing that the Federal Reserve held a webinar on September 4 which highlighted key findings from the first synthetic identity white paper released earlier this year. The webinar featured a few guest speakers from the FBI and the payments industry who shared their perspective on how to combat synthetic identity fraud.

He also shared the second industry whitepaper is expected to be published in October, with the intent to educate the industry about synthetic identity payments fraud and the detection of synthetic identities.

## ***The Path Ahead (60-Day Outlook)***

*Mike Timoney*

Timoney reviewed the near-term focus, which includes finalizing the Model based on insight from the Fraud Classification Model for Payments survey, continuing to develop and refine the adoption roadmap, and defining the transition plan from development to execution of the roadmap.

## Closing Remarks

### Ken Montgomery and Jim Cunha

Montgomery and Cunha closed the meeting thanking the work group for the rich dialogue and expressing how impressed they've been with this work group. Work group members shared their reflections on the meeting and the work effort itself, with positive sentiments about the Model and noting that while the adoption roadmap will be difficult, group discussions are helping to unpack some of the key aspects that must be explored.

Everyone noted their mutual respect of their work group colleagues and how much they've enjoyed being part of this effort.

## Meeting Attendees

- **Dorothy Anderson**  
*Federal Reserve Bank of Chicago*
- **Gasan Awad**  
*Fiserv*
- **Dondi Black**  
*FIS*
- **Tim Boike**  
*Federal Reserve Bank of Chicago*
- **Jim Cunha**  
*Federal Reserve Bank of Boston*
- **Natalie Diana**  
*Bureau of Fiscal Service, Department of Treasury*
- **Adriana Guaderrama**  
*First Century Bank*
- **Chris Guard**  
*State Employees' Credit Union of North Carolina*
- **Mike Herd**  
*NACHA—The Electronic Payments Association*
- **Kin Wah Koo**  
*Federal Reserve Bank of New York*
- **Rakesh Korpai**  
*JPMorgan Chase*
- **Lee Kyriacou**  
*The Clearing House*
- **Danny Luong**  
*PricewaterhouseCoopers*
- **Kyle Marchini**  
*Javelin Strategy & Research*
- **Ken Montgomery**  
*Federal Reserve Bank of Boston*
- **Roy Olsen**  
*American National Bank & Trust*
- **Carla Palma**  
*XPOLogistics*
- **Rene Perez**  
*Jack Henry & Associates*
- **Kim Plaughter**  
*Navy Federal Credit Union*
- **Andrés Rapela**  
*Federal Reserve Bank of Boston*
- **Beth Reynolds**  
*Federal Reserve Bank of Kansas City*
- **Sergio Rodriguera**  
*SAS*
- **Mollie Stevens**  
*Federal Reserve Bank of Chicago*
- **Kathy Stokes**  
*AARP*
- **Mike Timoney**  
*Federal Reserve Bank of Boston*
- **Eric Tran-Le**  
*Guardian Analytics*

