

THE CHANGING CHECK DEPOSIT LANDSCAPE: AN OBSTACLE COURSE FOR FRAUD MANAGEMENT

As the banking industry marches into the digital age, the check deposit landscape has seen a series of paradoxical shifts that affect the way in which fraud management teams must approach their deposit risk assessment. The increase in digital customer engagement has caused an exponential growth in mobile remote deposit capture (RDC) services offered by both retail and commercial banks. Although check usage has been steadily declining, checks continue to be a target for fraudsters and the amount of check fraud remains relatively steady. Banks now offer multiple channels, both traditional and digital, to customers, but these same channels are also available to fraudsters looking to perpetrate check fraud schemes against the bank. There are several factors in the new channels that give fraudsters the openings they need to exploit the check process, including the lack of cross-channel risk management across legacy systems, and fraud risk programs where deposit-taking risk and in-clearings risk are handled in siloes.

FRAUD FOLLOWS SPEED: THE HURDLES FINANCIAL INSTITUTIONS FACE

The instantaneous nature of mobile and digital banking applications and the convenience they offer have carried over into customer demands for faster funds availability. Today, customers expect to have immediate access to the funds they deposit, but for most financial institutions (FIs), the lack of real-time clearing systems mean the best they can do is to provide next day availability. To stay competitive and to improve customer satisfaction, banks are seeking ways to approve funds faster, shortening the window in which fraud management teams have to detect, alert on, investigate, and prevent fraud. This drive for competitive advantage also places a strain on the institution to meet funds-availability requirements.

“The truth is, much like customers, fraudsters follow speed, flexibility, and convenience.”

Wesley Wilhelm, Fraud Subject Matter Expert, NICE Actimize

New technologies, while providing benefits to the customer, also enable fraudsters to take advantage of the gaps in risk assessment processes. Traditional methods of check fraud, including exploiting clearing times, funds availability, and “Day 2” monitoring also impact mobile deposit and image-enabled ATM channels. Fraudsters now have more channels in which to work their attacks. Current risk management, often based on fixed, low fund availability limits, is not sustainable, nor will it allow banks to remain competitive. Customer frustration with restricted availability and limits, low daily item and amount limits, as well as multi-day holds can drive customer attrition.

NAVIGATE TO THE SAFETY OF A DATA-RICH, CROSS-CHANNEL RISK STRATEGY

It is becoming clear that to benefit from the new digital reality and to effectively fight deposit fraud attacks, banks must have the ability to find the intelligence hidden within the massive quantities of accessible data. A successful program can improve suspicious activity detection, reduce false positives, and successfully manage deposit risk. To do so, financial institutions need to integrate data from both new and existing tools, including data from all channels, improve customer experience with real-time scoring and decision making, and ensure that image capture capabilities gather all the necessary, relevant data points which are typically available on a physical check. Together this information provides the necessary context fraud management teams need to provide richer and more predictive suspicious activity detection and prevention.

INTEGRATE NEW & EXISTING TOOLS

Current banking environments demand the integration of multi-channel activity and multiple risk assessments into the financial institution’s overall fraud management strategy instead of keeping them relegated to disparate legacy systems. Existing tools typically include disparate, point-specific tools that evaluate specific areas of risk, but do not provide full-fraud context. These tools can include customer risk segmentation, ABA routing validation, intelligent limits, suspicious activity alerts, automatic holds, as well as CAR/LAR validation. Modern fraud tools, such as an integrated fraud platform, allow financial institutions’ fraud teams to evaluate fraud risk automatically, in real time, and across multiple channels and payment types. With the sophisticated nature of today’s fraud threats, it has become imperative that disparate point solutions work together in one, well-defined and integrated technology platform. Adopting a layered defense to assess risk, and using a wide net of data to drive those risk assessments, can ensure better protection against deposit fraud.

EXPAND REVIEW TO INCLUDE ALL CHANNELS

The expansion of banking channels offered to retail and commercial customers means that a check deposit today does not occur in a vacuum. The days of a branch deposit being the only option are long gone. The shortening window with which to catch and alert on possible fraudulent activity means that more than ever, a fraud management team must be able to see deposit activity in the context of activity in all of the other channels a customer is utilizing. There is an argument to be made that remote deposit is actually the safest channel - advances in both technology and fraud management processes mean that these deposits are thoroughly, accurately, and quickly reviewed against rules and processes set or agreed upon by the bank's fraud strategy and policy team. Comparing deposits made via this safest channel against activity in other channels can ensure that fraud management teams have a more complete and accurate picture of the deposit risk the institution is incurring.

USE RISK SCORING TO IMPROVE CUSTOMER EXPERIENCE

As customers continue to demand more convenience and faster access to their funds, real-time decision-making, supported by real-time tools, must become the status quo. Risk scoring presents a numerical representation of the risk inherent in a single deposit and, combined with predictive modeling, can be used to assess the risk level and assist in the decision-making process. A risk score correlates data from controls such as thresholds, transaction analysis, account history, device history, customer data, and holding data from image analysis, providing the fraud strategist with an encompassing view of these controls and customer activities. Banks that segment, or group into like-risk levels, their customer base, can further their understanding of customer activity and risk by enabling appropriate and intelligent limits. Together the combination of the above data establishes context for a given deposit and enables fraud management teams to make faster, more informed decisions, and bring money into the bank faster. Financial institutions not following these processes will risk delaying deposits from legitimate customers and potentially losing them to their competitors. A consistent and frictionless customer journey is critical to competing for and maintaining customer relationships.

ENSURE COMPREHENSIVE IMAGE CAPTURE

Finally, the image capture capabilities of a financial institution's RDC program can help ensure that the FI is capturing the necessary data to make smarter decisions with regard to fraud risk. As they strive to keep pace with updates in technology, financial institutions should consider whether their current check imaging systems identify routing numbers, capture data for the payer name on the printed check, indicate whether the pictures of the front and back of the deposited check are from the same size check stock, and tell if an endorsement is stamped or handwritten. While not an absolute requirement, combining the above capabilities with customer behavior data can help a financial institution ensure that they can support fraud risk prevention beyond just the clearing and settlement data currently captured by most legacy systems.

THE FINISH LINE: A MOVING TARGET

Neither check deposit technology nor fraudsters seeking to exploit gaps to their own gain are finished evolving, but what is clear is that mobile deposit is here to stay. The convenience that mobile deposit provides to retail banking customers, the ease of commercial deposits and the potential it provides to small businesses, giving them the ability to improve cash flow by depositing checks on the go, all mean that the immediacy of the technology helps move cash more quickly through the economy, to the benefit of all. A truly integrated fraud management platform can ensure that legacy point systems and new technologies work together to meet the challenges of this changing check deposit fraud landscape and that banks can remain competitive, gaining and maintaining customer relationships and ensuring that assets are protected from the latest fraud threats.

“Financial institutions have been too reliant on hard RDC limits in their attempt to mitigate check deposit risk. A holistic approach is needed – one that spans all channels and balances prudent risk management with ever-increasing consumer expectations.”

Bob Meara, Senior Analyst, Banking Practice, Celent

