Monmouth-
Ocean
Development
Council

UNDERSTANDING THE COSTS OF FINANCIAL BUSINESS FRAUD

Learn the steps you can take to protect your business

PRESENTED BY THE MODC TECHNOLOGY COMMITTEE

SEPTEMBER 26, 2019

PANELISTS

- Michael Feliz, General Partner, Shore Merchant Services (a TSYS ISO)
- Kellie Spawton, Vice President, OceanFirst Bank
- John Casagrande, Vice President, Danskin Insurance Agency

Monmouth-Ocean Development Council

GOALS OF TODAY'S SESSION

- Discuss the costs and risks of **Business Fraud**
- Identify common mistakes businesses make that leave them exposed
- Review some recent stories
- Highlight what **you** can do to protect your business and reduce your risk

Monmouth-Ocean Development Council

BUSINESS FRAUD ON THE RISE

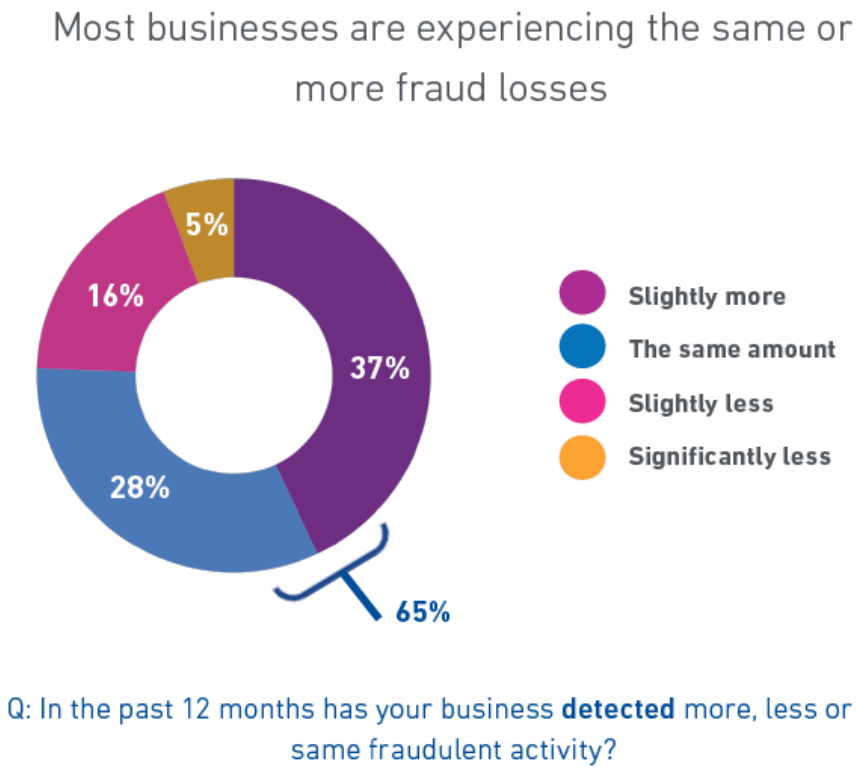


Figure 8

2018 Experian Fraud Report

- Business Fraud is a growing threat
- Consumers expect businesses to protect them
- Lack of visible security #1 reason consumers abandon a transaction

Monmouth-Ocean Development Council

Monmouth-
Ocean
Development
Council

FRAUDULENT TRANSACTIONS

MICHAEL FELIZ, GENERAL PARTNER, SHORE MERCHANT SERVICES

TSYS®

FRAUD COMES IN MANY FORMS

- Billing Schemes
- Wire Transfer Schemes
- Social Deception
- Cyber Crimes
- Expense Reimbursement Schemes
- Register Disbursements
- Payroll Schemes
- Cash Larceny
- Check Tampering
- Inventory Theft
- Financial Statement Fraud
- Corruption Schemes

Monmouth-Ocean Development Council

FRAUDULENT TRANSACTIONS

Most Common Types of Scams We See Today:

- Identity Theft
- "Dummy" Companies
- Credit Card Fraud
- Credit Card / Data Breach
- Expense Reimbursement Schemes
- Social Deception via Phishing Emails

Monmouth-Ocean Development Council

EMERGING TRENDS

Javelin Strategy & Research Study (Forbes Magazine):

- Credit Card Fraud is on the decline
- Focus shifted to account takeover and new account fraud
- Targeting merchant debit cards, prepaid cards, reward programs and cell phone accounts
- Most fraud discovered via credit monitoring services
- Fraud perpetrated by someone the victim knows grew from 7% to 15% (51% for new accounts)

Monmouth-Ocean Development Council

COMMON MISTAKES

Most Common Mistakes Businesses Make

- Not verifying the identity of a customer making large purchases
- Not completing the PCI Compliance Test
- Not hiring an IT Security company to protect their business from a breach

Monmouth-Ocean Development Council

FRAUD EXAMPLE

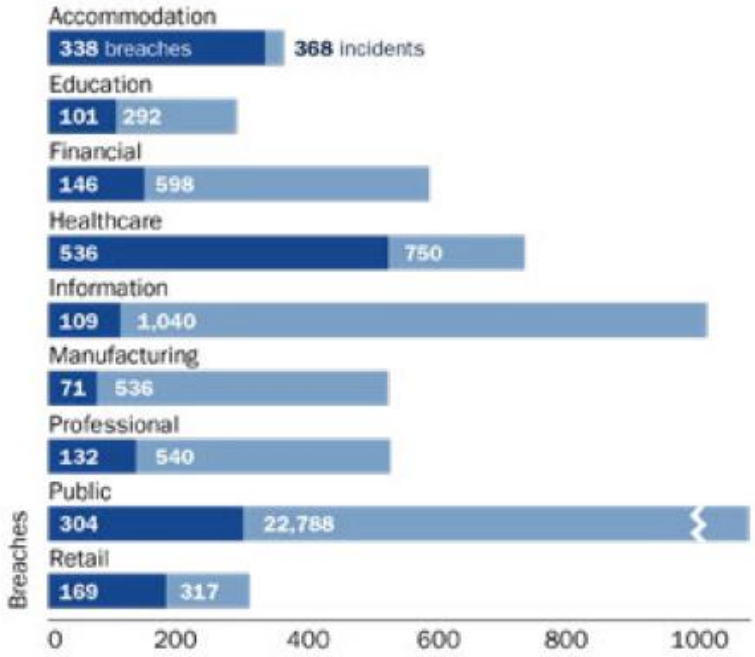
- A company sets up a merchant account for a veterinary hospital in Palm Beach, FL
- Existence of bank account enables the merchant account approval
- After 1 month, chargebacks start to come in from stolen cards
- Account is discovered to have been set up through Identity Theft and is shut down
- Victim is now in the unenviable position of having to prove his innocence!

Monmouth-Ocean Development Council

OTHER CONSIDERATIONS

Nearly every business and institution is a target of cyber-attacks:

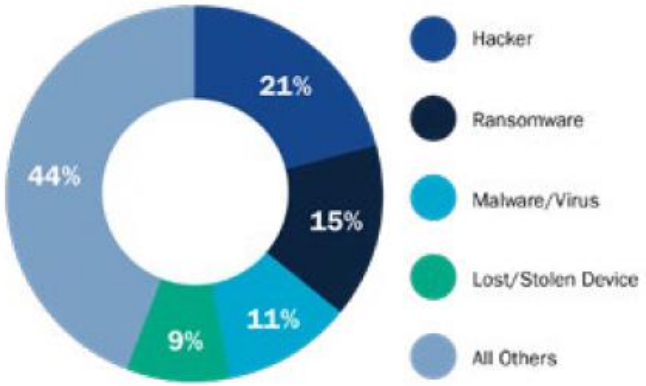
NUMBER OF INCIDENTS AND BREACHES BY SECTOR



Source: Verizon's 2018 Data Breach Investigations Report[4]

Malware attacks are a serious threat:

CAUSE OF LOSS



Source: 2018 Cyber Claims Study from NetDiligence[3]

Monmouth-Ocean Development Council

BEST PRACTICES & SOLUTIONS

- Verify cardholders identity for large credit card purchases
- Always check your credit to protect yourself against identity theft
- Take the PCI Compliance test – including the network vulnerability scan – if you accept credit card payments
- Hire an IT company to ensure your network is secure and protect your data
- Do not give out personal information on email if you have <u>any</u> suspicion

Monmouth-Ocean Development Council

Monmouth-
Ocean
Development
Council

BANKING & FINANCE FRAUD

KELLIE SPAWTON, VICE PRESIDENT, OCEANFIRST BANK

OCEANFIRST
BANK

CASE STUDIES

- The Perfect Bookkeeper
- This Wire Needs to be Sent Right Away!
- Let's Go Fishing: Mailbox Theft
- No One Saw Me Click That Link…right?!?

Monmouth-Ocean Development Council

COMMON MISSTEPS

How do we become victims?

- Misplaced Trust
- Lack of Security Awareness
- Fear of reporting
- Complacency

Monmouth-Ocean Development Council

HOW TO PROTECT YOURSELF

- Protecting Information
- Understanding Red Flags
- Protecting Systems
- Understanding Social Engineering

Monmouth-Ocean Development Council

THE RECOVERY PROCESS

- Forming a Plan
- Investigations
- Clean-up

Monmouth-Ocean Development Council

FOR MORE INFORMATION

- www.ftc.gov
  - Tips and Advice: Business Center

- Kellie Spawton, VP Security, OceanFirst Bank
  - kspawton@oceanfirst.com
  - 888.623.2633 x2122

Monmouth-Ocean Development Council

Monmouth-
Ocean
Development
Council

INSURANCE & RISK MANAGEMENT

JOHN CASAGRANDE, VICE PRESIDENT, DANSKIN INSURANCE AGENCY

Danskin
Agency

TRADITIONAL BUSINESS FRAUD

What risks did businesses have to worry about?

- Cash & Monetary Instruments
- Handling Transactions
- Employee Dishonesty
- Inventory Theft
- Expense Reports/Payroll Schemes
- Financial Statements

Monmouth-Ocean Development Council

EMERGING THREATS

What do businesses (also) have to worry about now?

- Identity Theft
- Ransomware
- Social Engineering / Cyber Deception
- Funds Transfer Fraud
- Computer Fraud
- Phishing / Invoice Manipulation

Monmouth-Ocean Development Council

CYBER ATTACKS / DATA BREACHES

CYBER-ATTACKS BY THE NUMBERS

Data breaches continue to become more costly year after year

2018 Stats:

Average total cost of a data breach:
$3.86 million

Average total one-year cost increase:
6.4%

Average cost per lost or stolen record:
$148

One-year increase in per capita cost:
4.8%

Likelihood of a recurring material breach over the next two years:
27.9%

Source: IBM & the Ponemon Institute's 2018 Cost of a Data Breach Study[1]

Monmouth-Ocean Development Council

INSURING AGAINST FRAUD

How do we normally insure ourselves against fraud?

- Traditional Business Insurance Policies – Businessowners Policy, Commercial Package
- Crime Policy
  - Credit Card / Forgery / Counterfeit Money
  - Employee Dishonesty
- Bonds

Monmouth-Ocean Development Council

CYBER COVERAGE CONSIDERATIONS

- 1st Party Coverages
  - Business Interruption, RANSOM payments, Data Restoration, Forensic Costs
- 3rd Party Coverages
  - Privacy/Security Liability, Regulatory Defense, Media Liability, PCI Compliance, Professional Liability (if applicable)
- Incident Response
  - Breach Coach, Legal, Forensics, Notification Costs, Credit Monitoring, Call Center, Public Relations

Monmouth-Ocean Development Council

CYBER COVERAGE DISCUSSION

Important Cyber Coverage Concepts:

- What is covered in Crime Policy?
- "Terrorism" Exclusions
- Period of Restoration
- "Insured vs Insured" clause
- Definitions – "System" "Network" etc.
- Coverage for "System Failure" vs. "Breach"

Monmouth-Ocean Development Council

CLAIMS EXAMPLES

- Employee on vacation lost access to account; requests payroll routed to new bank
- Title agency was handling a $3M closing; $350,000 deposit requested to be wired to an account in Hong Kong
- Consulting firm's email was compromised; hackers create fake invoices to large client for services never rendered; large client sends payment to hackers accounts

Monmouth-Ocean Development Council

WHAT TO DO IF THE WORST HAPPENS

You've been hit! Now what?

Steps to take in the event of an incident:

- Execute Incident Response Plan
- Alert IT Resources
- Cyber Carrier – 1-800 Number
- Engage Breach Coach
- Get Forensics Engaged ASAP

Monmouth-Ocean Development Council

PROACTIVE RISK MANAGEMENT

Here is what you can do today:

- Review Your Insurance Coverage
  - Cyber Insurance Policy?
- Defensive IT Infrastructure
- Employee Training
- Incident Response Planning
- Business Continuity Planning

Monmouth-Ocean Development Council

Monmouth-
Ocean
Development
Council

ANY QUESTIONS?

THANK YOU FOR COMING!

PANELIST CONTACT INFORMATION

- Michael Feliz, Shore Merchant Services
  - shoremerchantservices@yahoo.com
  - (732) 682-5019
- Kellie Spawton, OceanFirst Bank
  - kspawton@oceanfirst.com
  - 888.623.2633 x2122
- John Casagrande, Danskin Insurance Agency
  - jcasagrande@danskin-ageny.com
  - (732) 449-3800

Monmouth-Ocean Development Council