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Risk Managment in the ACH World

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Risk Management in the ACH World

by Steve Pereira, Vice President & General Manager of NatPay

You can't pick up a business journal or industry magazine and not notice that fraud is definitely on the rise. It has always been a problem lurking on the edges of our businesses, but it has now become a daily worry and concern. Risk management in the ACH world may seem quite daunting. Which is why it is critical to partner with an experienced ACH vendor that has a proven track record in loss mitigation.

Over the past 25 years NatPay has perfected several methods to combat criminal activity. Even though a multi-faceted approach is required to reduce risk and minimize fraud, there are a few simple rules to follow for effective risk management:

1. **Meet your customer.** Almost one hundred percent of fraud aimed at payroll processors occurs under the following situations:

    a. No in-person contact with the new client
    b. Only phone calls, no on-site visits
    c. Their application is sent to you by email or fax
    d. All contact has been through email

    Believe it or not, you are able to eliminate practically all attempts at fraud by making it a standard business practice to always meet clients in person.

2. **Don't rush new account setup.** A new customer that is in a big hurry to begin processing is a red flag – especially if the rush doesn't seem warranted. Experience has proved that circumventing standard security checks and altering underwriting procedures during the application / account setup process usually results in trouble that could have been avoided.

3. **Be wary of unreasonable complaints about paperwork.** If a potential client balks at paperwork, it also should be considered a red flag. Remember, you are not able to open a bank account and get a bank to skip underwriting steps just because of paperwork complaints. The same holds true in the ACH world. Having the proper paperwork for each client is now a matter of compliance and regulation.

4. **Establish a strong company reputation.** If you establish a reputation as a company that doesn't cut corners, it becomes a tool to help discourage customers old and new from attempting fraudulent activities. Criminals simply move on to the next unsuspecting processor with lax underwriting procedures.

5. **Initiate a probation period for new clients.** Even if it isn't necessarily your policy, tell new clients that you or your ACH processor may place them on a probation period for ACH transactions. During this period a customer's first payroll may need to be funded several days in advance so that the proper security procedures may take place to verify funds with the client's bank.

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6. **Educate new clients on the funds verification process.** Because of the funds verification process, a very limited Power of Attorney is required to allow a bank to verify funds and the names on the accounts. Criminals are usually deterred once they learn of this process because mis-matched account names, closed accounts, and non payroll accounts are good indicators of attempted fraud.

7. **Learn to spot fraudulent activity.** Losses almost always consist of criminals funding their transactions from a false or stolen bank account. But remember, criminals have to put the money somewhere. If you pay attention to where the direct deposits are going, clues may arise highlighting accounts that may be fraudulent.

   The following steps help to detect fraud before it occurs:

   a. Check with the client's bank directly to verify the account details. Make sure the name of the business matches the documentation that the client provides. A quick and easy way to accomplish this is by contacting the bank during a meeting between you and your client to sign the paperwork. A good client will not mind the request.

   b. Verify account access by performing a pennies verification. This security check requires your client to have access to the funding account to verify specific amounts of deposits and credits. If a criminal stole or came across bank account information that they are attempting to use, there is a high probability they don't have access to the account, and won't be able to verify the amount of the transactions. This crucial step stops most fraud attempts, and is an industry-standard way to effectively verify account access.

   c. Examine employee names and bank account numbers for scheduled ACH transactions. Criminals are not always inventive. Therefore, they sometimes cut corners which provide clues to spot fraudulent activity. Consider these questions to help analyze ACH transactions:

      - Are they all to people with the same last and/or first names?
      - Are they all for even or the same dollars amounts?
      - Are they all to the same bank account?
      - Are they all to the same bank?
      - Are they to debit card accounts? PLEASE NOTE: You cannot retrieve money from a debit card account. These types of accounts do not accept ACH debits, and are the most common type of account criminal use to steal money. These accounts are easy to spot. They usually have more than the standard 10 digit bank account number. They also almost all belong to Bancorp. (You are able to look up a sample of the routing and transit numbers on Google.)

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Most businesses may have one or two employees that don't have a regular checking account but use pay debit cards. Analyze the business. If the business is one that has professional level employees, the chances are that no one uses a debit card account. The markets that the debit cards accounts support are usually the very young adult or the unbankable individual.

The clues mentioned to help spot fraud don't automatically indicate a problem, but they should put you and your staff on alert to be more diligent when underwriting clients.

8. **Partner with a reputable ACH provider.** Partnering with providers who understand the scope of ACH fraud, as well as provide modern tools to minimize it is extremely important for stronger fraud protection and peace of mind.

   NatPay offers the following suite of services to help ease some of the pain of risk mitigation:

   - Automatic pennies verification/pennies check on new accounts
   - Funding bank account matching for incoming payrolls
   - Free prefunding entries for higher risk customers
   - Funds verification for new customers debiting at least 2 days before pay date
   - LexisNexis business information verification for all new accounts
   - IRS TIN matching and TIN verification for all new customers
   - OFAC check for all new payroll customers
   - Weekly OFAC check of ALL transactions received during the prior 7 days
   - Reverse-wire services
   - Expedite/No Expedite options for all payrolls
   - High-dollar item verification
   - Physical review of all new payroll transactions
   - Multi-tiered user account security
   - Real-time or nightly transmission verification reports
   - Managed intrusion detection on all website activity

   NatPay's suite of fraud protection services are always changing and expanding to meet new threats and the needs of our clients.

9. **Don't ignore "gut feelings" about potential clients.** In addition to the precautions mentioned earlier, you cannot discount "gut feelings." A good future client won't mind an extra question or two, or mind taking care of some additional paperwork. If they do, NatPay has learned that it could potentially lead to trouble. It doesn't take more than one or two "hits" to your business, to erase years of hard work and earnings. NO business is always better than BAD business.

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