

FDIC Symposium

# COMBATING COMMERCIAL PAYMENTS

L. William Seidman Center • Arlington, Virginia • May 11, 2010



# WELCOME

On behalf of the Federal Deposit Insurance Corporation, welcome to the L. William Seidman Center and thank you for attending this symposium on commercial payments fraud. We are pleased to engage a diverse group of payments experts and stakeholders to consider the challenges of effectively combating cyber-related commercial payments fraud.

FDIC-supervised financial institutions and their business customers continue to experience cyber-related commercial payments fraud resulting in losses in the millions, frayed business relationships, and litigation. Over the past several months, the FDIC has observed an increase in the number of incidents targeting small to midsized businesses, such as local school districts, churches, small manufacturing companies, charitable organizations, and retail businesses. While overshadowed by other challenges facing the banking industry at this time, these losses are creating financial hardships to organizations as diverse as the communities they serve.

These schemes often involve compromised access credentials to online business banking software that are subsequently used to make fraudulent electronic funds transfers through the automated clearinghouse (ACH) and wire transfer systems. Although a variety of techniques may be used, the most common tactic involves malicious software inadvertently downloaded to a business' computer designed to infiltrate the system and steal access credentials. Criminals use this information to initiate funds transfers from the compromised business account to knowing or unknowing accomplices, known as "money mules," who eventually send the funds to the organizers of these schemes after retaining a percentage of the amount.

Government agencies, financial institutions, law enforcement agencies, technology service providers, and businesses all play important rolls in combating corporate payments fraud. The primary objectives of this symposium are to engage all these stakeholders to raise awareness, promote collaboration, and seek solutions in combating cyber-related commercial payments fraud.

The FDIC Division of Supervision and Consumer Protection is pleased to sponsor this symposium and hopes that it will serve as a catalyst for strengthening efforts to combat cyber-related commercial payments fraud.



**Sandra L. Thompson**, Director  
FDIC Division of Supervision and Consumer Protection

# COMBATING | An FDIC COMMERCIAL PAYMENTS FRAUD Symposium

L. William Seidman Center ▪ Arlington, Virginia ▪ May 11, 2010

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**8:00 a.m. – 8:30 a.m. Registration / Continental Breakfast**

**8:30 a.m. – 8:35 a.m. Welcome Address**

Sandra L. Thompson, Director  
FDIC Division of Supervision and Consumer Protection

**8:35 a.m. – 9:10 a.m. Morning Keynote Address**

Howard A. Schmidt, National Cyber Security Coordinator  
The White House

**9:10 a.m. – 9:15 a.m. Symposium Host/Moderator Introduction**

Michael B. Benardo, Chief  
FDIC Cyber Fraud and Financial Crimes Section

**9:15 a.m. – 10:15 a.m. Current Landscape / Emerging Threats**

*As criminals become increasingly sophisticated, the number and breadth of fraud schemes directed toward commercial payments have increased. To set the groundwork for this forum, a panel of law enforcement and payments experts will: examine some of the recent cases of commercial payments fraud; provide perspectives on how payments fraud is evolving; and discuss what it means for banks and businesses.*

Patrick Carney, Chief (Acting)  
Federal Bureau of Investigation (FBI) – Cyber Criminal Section

Bryan Nash, Senior Vice President/CIO  
McHenry Savings Bank - McHenry, Illinois

Dennis Simmons, President/CEO  
SWACHA – The Electronic Payments Resource

Samuel A. Vallandingham, CIO/Vice President  
First State Bank - Barboursville, West Virginia

*Moderator:*

*Michael Kaiser, Executive Director  
National Cyber Security Alliance*

**10:15 a.m. – 10:30 a.m. Break**

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**10:30 a.m. – 11:30 a.m. Costs of Commercial Payments Fraud - Who Pays?**

*Unlike consumer fraud, the overwhelming cost of commercial payments fraud is borne by businesses; however, banks also can be subject to financial loss and risk losing a valuable commodity — business customers. This panel will explore the legal framework for the allocation of costs associated with commercial payments fraud as well as provide business and bank perspectives on these costs/losses.*

Joel D. Feinberg, Partner  
Sidley Austin, LLC

Thomas A. Fox, Partner  
Schwartz & Ballen, LLC

Dan Salsburg, Assistant Director  
Federal Trade Commission, Division of Marketing Practices

*Moderator:*

*Sara D. Lipscomb, General Counsel  
U.S. Small Business Administration*

**11:30 a.m. – 1:00 p.m. Luncheon / Keynote**

*Fatal System Error - The New Crime Lords Who are Bringing Down the Internet*  
Joseph Menn, Author/Journalist

**1:00 p.m. – 2:00 p.m. Challenges in Business Banking Authentication**

*With criminals utilizing increasingly sophisticated techniques to obtain compromised credentials to access commercial business accounts, existing techniques for authentication may be rendered ineffective. This panel will examine the ongoing battle to provide adequate authentication for online consumer and commercial banking applications that protect payment transactions and satisfy regulatory expectations.*

Dr. Mark Bregman, Chief Technology Officer  
Symantec Corporation

John Walp, Admin. VP / Corporate Information Security Officer  
M&T Bank

George Tubin, Senior Analyst  
Tower Group

Murray Walton, Senior Vice President & Chief Risk Officer  
FiServ

*Moderator:*

*Jeff Kopchik, Senior Policy Analyst  
FDIC Technology Supervision Branch*

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2:00 p.m. – 2:15 p.m.    **Break**

2:15 p.m. – 2:45 p.m.    **Afternoon Keynote Speaker**

*Understanding the Challenges to Small-Mid Sized Business*

Stephen A. Cox, President/CEO

National Council of Better Business Bureaus

2:45 p.m. – 3:45 p.m.    **Alternatives for Managing Commercial Payments Risk**

*While online criminals are leveraging all aspects of technology to commit payments fraud, a disciplined approach to utilizing operational controls can mitigate the risk posed by sophisticated criminal schemes. A rigorous approach to managing payments activity (e.g., dual-control measures, daily reconciliation, etc.) and the use of available technology (e.g., positive-pay, debit blocks, etc.) serve as the foundation of an effective defense to protect the interests of both banks and their business customers. This panel will examine the critical partnership between banks and businesses needed to ensure that best practices/technology for managing payments risk are utilized.*

Larry Clinton, President/CEO

Internet Security Alliance

David Bellinger, CTP, Director – Payments

Association for Financial Professionals

Deborah Shaw, Managing Director - Network Enforcement & Risk Management  
NACHA

*Moderator:*

*Richard Oliver, Executive Vice President / Director*

*Federal Reserve Bank of Atlanta – Retail Payments Risk Forum*

3:45 p.m. – 4:00 p.m.    **Closing Remarks**

Michael L. Jackson, Associate Director

FDIC Technology Supervision Branch

4:00 p.m. – 5:00 p.m.    **Closing Reception**

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S P E A K E R S

**Honorable Howard A. Schmidt, CISSP, CSSLP**  
Special Assistant to the President and Cybersecurity Coordinator

Howard A. Schmidt has had a long distinguished career in defense, law enforcement, and corporate security spanning more than 40 years. He brings together talents in business, defense, intelligence, law enforcement, privacy, academia and international relations through his distinguished career. He currently is Special Assistant to the President and the Cybersecurity Coordinator for the federal government. In this role Mr. Schmidt is responsible for coordinating interagency cybersecurity policy development and implementation and for coordinating engagement with federal, state, local, international, and private sector cybersecurity partners.

Previously, Mr. Schmidt was the President and CEO of the Information Security Forum (ISF). Before ISF, he served as Vice President and Chief Information Security Officer and Chief Security Strategist for eBay Inc. He also served as Chief Security Strategist for the US-CERT Partners Program for the Department of Homeland Security.

Before eBay, he served as the Vice Chair of the President's Critical Infrastructure Protection Board and as the Special Adviser for Cyberspace Security for the White House. Prior to the White House, Howard was Chief Security Officer for Microsoft Corp., where his duties included Chief Information Security Officer, Chief Security Officer, and forming and directing the Trustworthy Computing Security Strategies Group.

Before Microsoft, Mr. Schmidt was a supervisory special agent and director of the Air Force Office of Special Investigations (AFOSI) Computer Forensics Lab and Computer Crime and Information Warfare Division. While there, he established the first dedicated computer forensics lab in the government and was responsible for Criminal and Counter Intelligence investigations against Department of Defense systems.

Before AFOSI, Mr. Schmidt was with the FBI at the National Drug Intelligence Center, where he headed the Computer Exploitation Team. He is recognized as one of the pioneers in the field of computer forensics and computer evidence collection. Before working at the FBI, Mr. Schmidt was a city police officer from 1983 to 1994 for the Chandler Police Department in Arizona.

Mr. Schmidt served with the U.S. Air Force in various roles from 1967 to 1983, both in active duty and in the civil service. He had served in the Arizona Air National Guard as computer communications specialist from 1989 until 1998, when he transferred to the U.S. Army Reserves as a Special Agent, Criminal Investigation Division, where he served until 2010 with the computer crime investigations unit at CID HQ.

Mr. Schmidt also served as the international president of the nonprofit Information Systems Security Association (ISSA) and was the co-founder and first president of the Information Technology Information Sharing and Analysis Center (IT-ISAC). He was the Vice-Chair of the Board of Directors for (ISC)<sup>2</sup> and Security Strategist for the Board. He is a former executive board member of the International Organization of Computer Evidence, and served as the co-chairman of the Federal Computer Investigations Committee. He is a member of the American Academy of Forensic Scientists. He had served as a board member for the Cyber Crime Advisory Board of the National White Collar Crime Center.

He served as an augmented member to the President Clinton's Committee of Advisors on Science and Technology (PCAST) in the formation of an Institute for Information Infrastructure Protection (I<sup>3</sup>P). He has testified before congressional committees, written books on cybersecurity, and received numerous awards, including the CSO Magazine "Compass Award," Baseline Magazine's "The 50 Most Influential People in Business IT," and the Federal 100 Award, to name just a few.

Mr. Schmidt has been a member of the Information Security Privacy Advisory Board (ISPAB). He has also been a member of the Permanent Stakeholders Group (PSG) for the European Network Information Security Agency (ENISA). He was a member of the High Level Experts Group (HLEG) for the ITU and the Global Cyber-security Agenda (GCA).

Mr. Schmidt holds a bachelor's degree in business administration (BSBA) and a master's degree in organizational management (MAOM) from the University of Phoenix. He also holds an Honorary Doctorate degree in Humane Letters. Howard was an Adjunct Professor at GA Tech, GTISC, Professor of Research at Idaho State University and Adjunct Distinguished Fellow with Carnegie Mellon's CyLab and a Distinguished Fellow of the Ponemon Privacy Institute.

Howard is a Ham Radio operator (W7HAS), a private pilot, outdoorsman and an avid Harley-Davidson rider. He is married to Raemarie J. Schmidt, a forensic scientist and researcher and instructor in the field of computer forensics.

**DAVID BELLINGER**

Director for Payments, Association for Financial Professionals

David Bellinger is the Director for Payments at the Association for Financial Professionals (AFP), which is the global resource and advocate for the finance profession, providing certification, products, education and training for treasury and corporate finance professionals. David is the staff subject matter expert for payments and e-commerce, and has responsibility for all payments resources, programs, and communications distributed by the AFP to its members. Bellinger's credentials include an MBA from the Darden School at the University of Virginia, a CTP certification from the AFP. David is the inventor on three US Patents in the field of check image processing.

**DR. MARK BREGMAN**

Executive Vice President and Chief Technology Officer, Symantec

Dr. Mark Bregman is executive vice president and chief technology officer at Symantec, responsible for the Symantec Research Labs, Symantec Security Response and shared technologies, emerging technologies, architecture and standards, localization and secure coding, and developing the technology strategy for the company. Dr. Bregman guides Symantec's investments in advanced research and is responsible for the company's development centers in India and China. Dr. Bregman holds a bachelor's degree in physics from Harvard College and a master's degree and doctorate in physics from Columbia University. He also serves on the Board of Directors of ShoreTel and the Bay Area Science and Innovation Consortium.

**PATRICK CARNEY**

Acting Chief, Federal Bureau of Investigations (FBI), Cyber Criminal Section

Patrick Carney has been with the FBI for over 19 years, where he has worked as a language specialist, intelligence analyst, and Special Agent. Patrick has served the FBI in New York, Washington, San Diego, Pittsburgh, and Johnstown, Pennsylvania. For most of his career, he specialized in counterintelligence. For the past two years, he has helped lead the transformation of the FBI's approach to cyber crime. Prior to joining the FBI, Patrick was an intelligence analyst in the U.S. Army.

**LARRY CLINTON**

President and CEO, Internet Security Alliance (ISA)

Larry Clinton is President and CEO of the Internet Security Alliance (ISA). ISA is a multi-sector industry group created by the former Chairman of the U.S. House Committee on Intelligence and Carnegie Mellon University. ISA's mission is to integrate advanced technology with the business needs of the owners and operators of the Internet and to create enlightened public policy that leads to a sustainable and secure Internet. Prior to his work with ISA, Larry held a teaching position at the University of Illinois and was the Legislative Director for the current Chairman of the U.S. House Subcommittee on Telecommunications and the Internet, Rick Boucher.

**STEPHEN A. COX**

President and CEO, Council of Better Business Bureaus (CBBB)

Stephen Cox became President and CEO of the Council of Better Business Bureaus October 2009. In addition to his undergraduate degree in Criminal Justice from the University of Tennessee at Chattanooga, Stephen has a Master's Degree in Marketing and a Master of Business Administration from the University of Maryland. Stephen is also a distinguished graduate of the Department of Defense Information School. For the past six years, Stephen has also worked with the William Randolph Hearst Foundation's United States Senate Youth Program. Annually he leads a team in mentoring more than 100 of the nation's top high school students while coordinating activities with staffs at the White House, Supreme Court, and Departments of Defense, State, and Justice.

**JOEL D. FEINBERG**

Attorney, Sidley Austin LLP

Joel D. Feinberg advises financial institutions and financial institution investors on regulatory counseling and transactional matters relating to depository institution formations, acquisitions, investments, mergers, joint ventures and other business arrangements. Joel has extensive experience counseling depository institutions and payment networks regarding regulatory issues with respect to the development of new products and distribution networks, including prepaid card products and funds transmission products. Joel earned a B.A., summa cum laude, from the University of Maryland in 1990 and a J.D., cum laude, from Georgetown University Law Center in 1994. Joel is a member of the District of Columbia and Maryland bars.

**THOMAS A. FOX**

Attorney, Schwartz & Ballen LLP

Thomas A. Fox is a partner in Schwartz & Ballen LLP. Mr. Fox advises clients on federal and state legal matters for bank and non-bank financial institutions and their service providers. His expertise involves legal issues related to paper and electronic payments, including check-clearing houses, check image collection, card networks, Internet payment products and prepaid cards. He also advises clients on matters arising under the Electronic Fund Transfer Act, the Gramm-Leach-Bliley Act, among other payments laws. Tom received his J.D. degree magna cum laude from Georgetown University Law Center in 1991 and earned his B.A. degree cum laude from Duke University in 1988. He is a member of the District of Columbia and Maryland Bars.

**MICHAEL KAISER**

Executive Director, National Cyber Security Alliance (NCSA)

Michael Kaiser joined the National Cyber Security Alliance in 2008. As NCSA's chief executive, Michael engages diverse constituencies—business, government, other non-profit organizations—in NCSA's broad public education and outreach efforts to strengthen the nation's cyber infrastructure, including leadership of NCSA's premier outreach and awareness campaign, National Cyber Security Awareness Month. Michael has served on several non-profit Boards. He is currently Chair and a founding Board Member of SPINUSA a national non-profit based in Massachusetts, and has served on the Board of Trustees of the College of the Atlantic in Bar Harbor, Maine, and the New Destiny Housing Corporation in New York City.

**JEFFREY M. KOPCHIK**

Senior Policy Analyst, Federal Deposit Insurance Corporation (FDIC), Division of Supervision and Consumer Protection

Jeffrey M. Kopchik is a Senior Policy Analyst in the FDIC's Technology Supervision Branch primarily responsible for technology supervision-related matters. He is involved in monitoring developments in information technology and helping to formulate the FDIC's position. Mr. Kopchik was the Team Leader of the FDIC's December 2004 study Putting an End to Account-Hijacking Identity Theft and the June 2005 Study Supplement. Mr. Kopchik received his A.B. from Colgate University and his J.D. from Boston University School of Law.

**SARA D. LIPSCOMB, ESQ.**

General Counsel, Small Business Administration

Sara D. Lipscomb was appointed General Counsel of the Small Business Administration in March 2009. Prior to that, in January 2007, Sara launched a new business providing temporary General Counsel, compliance, risk mitigation, and business services to middle market private equity firms and their portfolio companies. Sara has served as Counsel to the Chair of the Commodity Futures Trading Commission, and before that, as Senior Counsel in the Division of Enforcement of the Securities and Exchange Commission in Washington, D.C. Sara earned a J.D. degree from Stanford Law School and an A.B. degree in Latin from Calvin College.

**JOSEPH MENN**

Author, Journalist

Joseph Menn's third book, "Fatal System Error: The Hunt for the New Crime Lords Who are Bringing Down the Internet," was published in 2010. Part true-life thriller and part expose, it became an immediate bestseller. Joseph has reported on technology for more than a decade at the Financial Times and the Los Angeles Times. Joseph is a two-time finalist for the Loeb Award, the most prestigious in financial journalism. He was taught advanced technology and business writing at the University of California at Berkeley's graduate school of journalism. Joseph began his professional career at The Charlotte (N.C.) Observer. He graduated with honors from Harvard College, where he was executive editor of The Harvard Crimson.

**BRYAN NASH**

Senior Vice President and CIO, McHenry Savings Bank

Bryan Nash is SVP/CIO of McHenry Savings Bank. He has over 28 years of experience and expertise in the community bank environment. His current responsibilities and commitments include Membership on the Bank Executive Committee, managing the areas of Information Technology and Back Office Operations. Bryan serves the banking industry proudly as a member of ABA Payment Systems Administrative Committee, the ABA Enterprise Risk Management Working Group, and the ABA Information Security Working Group. He is also a voting member of the Routing Number Administrator Board and the Strategic Planning Council for the Fiserv Cleartouch platform.

**RICHARD R. OLIVER**

Federal Reserve Bank of Atlanta, Executive Vice President

Richard R. Oliver is an executive vice president with the Federal Reserve Bank of Atlanta, and has been with the Bank since 1973. Since 1998 he has served as retail payments product manager for the Federal Reserve System. In this capacity, he has responsibility for managing the Fed's check and ACH businesses nationwide. Richard received a bachelor's degree in math from the University of Nevada, a master's degree in information and computer sciences from the Georgia Institute of Technology, and an MBA in management from Georgia State University. He has also completed executive development programs at Harvard University and the University of Tennessee.

**DAN SALSBERG**

Assistant Director, Federal Trade Commission (FTC), Division of Marketing Practices

Dan Salsberg supervises matters involving telemarketing and internet-related fraud, including enforcement actions against payment processors. Prior to becoming an Assistant Director, Dan served as an FTC staff attorney, a Counselor to the Director of the FTC's Bureau of Consumer Protection, and as a Senior Trial Attorney with the Commodity Futures Trading Commission.

**DEBORAH L. SHAW**

Managing Director, NACHA, Network Enforcement & Risk Management

Deborah Shaw is the managing director of network enforcement and risk management. Deborah is responsible for managing the resources and processes that support network enforcement, compliance, and risk management. Deborah oversees the National System of Fines related to enforcement of and compliance with the NACHA Operating Rules, which helps to ensure the quality of ACH services and the satisfaction of Participating DFIs and their customers. Deborah is an Accredited ACH Professional (AAP) and a Certified Treasury Professional (CTP) with nearly nineteen years of ACH rules expertise.

**DENNIS SIMMONS**

President and CEO of SWACHA, AAP

A frequent speaker and recognized expert on payments system issues, Dennis Simmons is a former member of the Board of Directors of the National Automated Clearing House Association (NACHA), the Chair of NACHA's Government Relations Committee, the immediate Past Chair of NACHA's Electronic Check Council and immediate past Co-Chair of NACHA's Risk Management Advisory Group which he continues to serve as a member. Dennis is an Accredited ACH Professional (AAP), with over 20 years experience as the senior operations officer of several Dallas area banks. He holds a bachelor's degree in business administration from Oklahoma State University.

**GEORGE TUBIN**

Senior Research Director, TowerGroup, Cross-Industry and Financial Information Security

George Tubin is a Senior Research Director for TowerGroup's Cross-Industry and Financial Information Security research services. George's areas of expertise include consumer online and mobile banking, online fraud and identity theft prevention, customer authentication, and enterprise fraud management strategies, as well as general delivery channel strategies and technologies. George has over 20 years of experience in the consumer banking and high-technology industries. George received an M.B.A. from Babson College and holds a B.S. in industrial engineering and operations research from the University of Massachusetts, Amherst.

**SAM VALLANDINGHAM**

Vice President and CIO, First State Bank

Sam Vallandingham is Vice President and CIO, First State Bank, Barboursville, West Virginia. He is responsible for managing the information technology needs of the bank. Sam holds two bachelor degrees in Finance and masters of banking degree. He formerly served on the National Automated Clearing House Association (NACHA) Rules and Operations Committee, and is presently serving on their Risk Management Advisory Group. Sam serves on the EastPay Rules & Ops Committee. He also helps out his community by serving on several charity boards.

**JOHN WALP**

Administrative Vice President and CISO, M&T Bank

John Walp has more than 18 years of Information Technology experience, more than half of which has been focused on information security challenges. John is responsible for forming and executing the overall strategy for Information Security and Privacy at M&T Bank. John is a Certified Information Systems Security Professional (CISSP) as well as a Certified Information Security Manager (CISM). He is a graduate of the FBI Citizens Academy and serves as the Executive Vice President of the FBI's Buffalo InfraGard Membership Alliance. A veteran of the United State Air Force, John holds a Bachelor of Science in Computer Information Systems from State University of New York College at Buffalo. He and his wife Laurie have four children and live in Amherst, NY.

**MURRAY WALTON**

Senior Vice President and Chief Risk Officer, Fiserv, Inc.

Murray C. Walton is the Senior Vice President and Chief Risk Officer of Fiserv, Inc., a leading provider of transaction processing, electronic commerce, and information management solutions to the financial services industry. Mr. Walton's career in financial services operations, risk and compliance has spanned more than 25 years, including executive and legal staff positions in traditional commercial banking, non-bank financial services, and financial services technology organizations. In addition, he serves as a board member and a strategic advisor to three public companies outside the financial services industry.