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Breakfast Meetings
8:30—10:00am

June 14, 2011

August 16, 2011

October 18, 2011

December 13, 2011

February 21, 2012
(Economic Luncheon)

April 17, 2012
(Education Luncheon)

June 12, 2012

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Chapter Newsletter 2011– 2012

HRAFP President's Corner

Joe Everitt

Welcome to the Hampton Roads Association for Financial Professionals (HRAFP). On behalf of the officers and directors, we would like to thank our 2010-2011 speakers, members and guests for supporting our organization.

The next Breakfast meeting is scheduled for June 14, 2011. Are you registered?

Our 2011 Economic and Education Conference were both outstanding. Thank you Michael Brown and Robert McClintock for providing us with a detailed report on the economy and the Hampton Roads economic structure at our Annual Economic Conference. Thank you Delegate Paula Miller for the very informed overview of our region at Annual Education Conference. Charles Brown's brought insightful

recommendations for business success. Mike Locher provided us with very detailed insight on tax credits we can all benefit from.

We thank each and every one of you for supporting HRAFP. We are planning events for our new 2011-2012 term. What topics would you like to hear? Your thoughts are greatly appreciated and heard. Below are your responses to our recent survey. Over 85% are very interested in topics relating to Fraud. In this issue, we cover topics on fraud. We hope you enjoy them.

Warm Regards,

Joe Everitt



Your Voice Heard

<u>Topic</u>	<u>Very Interested</u>
Payables	44.4% (12)
Receivables	40.7% (11)
Investments	48.1% (13)
Fraud (and Scams)	85.7% (24)
Health Care	25.0% (7)
Tax Credits 1	4.3% (4)
Business Continuity Planning	29.6% (8)
Internal Controls	59.3% (16)
Economic Indicators	57.1% (16)
Legislative Updates	35.7% (10)

Upcoming Chapter Events

Bringing topics of interest to our members and their guests...

We are so excited about our upcoming Conference scheduled for June 14, 2011. The topic is “Merchant Services 101” to be presented by Mr. Rich Toomey, Wells Fargo Bank, N.A.

This session will provide information concerning:

- Effectively managing your interchange rate
- Timing of funds settlement – *Are you settling within 24 hours?*
- The Durbin Amendment –

caps interchange costs associated with debit card transactions

- What you should expect of your Merchant Provider – *Timing of merchant account reviews, analysis of interchange clearing levels, industry changes and card association regulations, etc.*

Please join us on **June 14, 2011 at 8:30am** at the **Residence Inn Select** located at 1570 N. Military Hwy Norfolk.

The Durbin Amendment Explained

by Anisha on March 3, 2011

The [Durbin Amendment](#), a last-minute addition to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, has sparked fierce debate. The amendment is rather complex, but the two provisions that are under the most scrutiny are :

1. A cap of 7 to 12 cents on most debit card swipe fees, a decline of about 80% from present levels
2. The introduction of competition, by giving merchants a choice as to which debit network they process transactions over. For example, present arrangements effectively force merchants to process many Visa transactions over the STAR network, even if competitors like PULSE and NYCE offer to conduct the same transaction at a lower processing price. Banks and credit unions are against the amendment, because debit card swipe fees mostly accrue to the financial

Institution that issued the debit card. Card issuing banks typically take in about 1.3% of every dollar you spend on your debit card, as a fee from the merchant. This amounts to nearly \$3 billion a year of very high profit margin revenue for Bank of America, for example, a number which looks to decline by ~80% unless Congress, the Department of Justice, or the Federal Reserve intervenes.

This fee is supposed to cover the risk of fraud, transactional costs, and other overhead, but due to the lack of negotiating power on the merchant side, the fee is now a major source of profit margin at every bank that offers checking accounts. Subsequently, competition between banks has caused this profit center to be used in subsidizing free premium services, like free checking accounts and surcharge-free ATMs. If this fee

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“I was so glad I attended the HRAFP Educational Conference. I brought back some great ideas for our company to consider.”

Networking Opportunities

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Any questions regarding this HRAFP newsletter, please contact Monica Rey-Zangerle at mzangerle@hotmail.com

Membership News



Welcome New Members & Board Members!

Cathy Kincaid, AVP, BB&T

Tina Thomas, Controller, Dixon Hughes Goodman LLP

Joseph LaFond

*****Renew 2011-12 memberships before June 30, 2011.*****

Individual Membership
\$160 per year

Corporate Membership
\$195 per year

Visit our website at www.hrafp.org to complete the renewal application.

CTP and CPE Credits

Certified Treasury Professionals are required to earn and report 36 continuing education credits every 3 years to maintain this credential.

One (1) recertification credit is equivalent to 50 minutes of instruction in an approved topic area.

All cycles run July 1—June 30.

Financial Facts

- The highest denomination note issued for public circulation in the United States was \$10,000. The highest denomination currently in circulation is \$100. (Source: www.money-zone.com)
- The US Treasury first began printing paper money in 1862. The denominations were as low as 3 cents! (Source: US Treasury)
- Between the Fort Worth, Texas and the Washington DC facilities approximately 18 tons of ink per day are used. (source: BEP)



Do you know...

How do Visa and MasterCard Perks Compare?



It's often difficult to disentangle the various banks, networks, and processors that surround the credit card industry. You may carry a Visa card in your wallet, but it's issued by Bank of America, and when you pay with it, the transaction is processed on the PLUS Network, which is owned by Visa...confused yet?

Here's what you need to know: Visa and MasterCard (and American Express and Discover) are networks. Visa and MasterCard (the dominant networks) don't actually give you your credit card or set its terms. Rather, they make money every time you use your card and the transaction is processed between your bank and the merchant. Banks like Chase or Capital One, on the other hand, are the ones that issue the card. They determine your rewards, set your interest rate, and handle any fraud or customer service issues you may encounter. So even if you have a MasterCard with a rewards program and travel insurance (for example), you're getting those benefits from somewhere else.

So I don't get rewards from Visa or MasterCard?

The networks don't dole out rewards themselves; the banks that issue the cards do. This means that when you look specifically at rewards – airline miles, cash back and such – you shouldn't ask whether you've got a Visa or a MasterCard. Instead, you should look at the bank. Asking, "Are Visa rewards better than MasterCard rewards?" isn't going to help you very much. It's much more helpful to ask, "Does the [Capital One Venture Rewards card](#), issued by Visa, offer better rewards than the [Continental Airlines OnePass Plus](#), which, by the way, is issued by MasterCard?" So, sorry, no easy answers there.

But what about enticing good customers to get a Visa/MasterCard with rewards?

"Good" credit card customers – rewards cardholders who earn juicy in

terchange fees and aren't likely to default – are indeed in high demand. Both banks and networks reach out to these customers, but in different ways, and for different reasons.

Banks like the rewards cardholders because they're considerably less risky. When wave after wave of cardholders defaulted during the financial crisis, banks got spooked, and retreated to the safe ground of excellent credit scores. They're throwing out all kinds of rewards promotions to get these low-risk customers. Visa and MasterCard have a different incentive. Remember, they make money every time you swipe your credit card. But different cards have different fees. Debit cards are the cheapest to process, and in any case they may soon be regulated [by the Durbin Amendment](#). On the other end of the spectrum, rewards credit cards command the highest fees, so the more you swipe a rewards card, the happier Visa and MasterCard are.

How do Visa and Mastercard perks compare? *(continued from page 3)*

Where the networks do differentiate themselves

In the battle of [Visa vs. MasterCard](#), the two networks don't deal with rewards, but they can compete with other perks – that's how they encourage people to use their rewards cards. The four networks (Visa, MasterCard, American Express and Discover) are required to have some features, namely fraud protection. But beyond the standard practices, the networks compete by offering added services. Even within a network, you'll see different levels of service. For example, the Visa Signature, which rakes in a higher interchange fee than the Visa Classic, offers better perks. The extra benefits, then, are where you can differentiate Visa and MasterCard... and even without rewards, Visa beats MasterCard.

The networks' perks

Discover is the runt of the network litter: it offers little beyond what's required by law, and most places don't even accept the card. The other

three networks offer concierge service for their premium credit cards to help book plane tickets, hotel rooms and dinner reservations. The travel benefits are pretty comprehensive: many offer travel emergency assistance, lost luggage reimbursement, and a one-year warranty extension beyond what the manufacturer offers.

MasterCard fares quite well compared to Discover: they offer return protection if you buy something the merchant won't let you return for 60 days after purchase, and while they're vague on the details of their purchase protection that covers lost or stolen goods, they offer coverage for 90 days. Visa provides both of these protections for 90 days, beating out MasterCard's 60-day return protection.

Many Visa Signature cards come with return protection; the benefit

applies to relatively few MasterCards rewards cards.

In terms of travel protections, the benefits differ slightly: MasterCard offers trip cancellation insurance, while Visa covers accidental death and dismemberment. The cards also offer rental car collision insurance for the time(s) that you crash the car you borrowed, but Visa's coverage is more wide-ranging. By a slim margin, the victory goes to Visa.

American Express actually offers the best perks: it has higher limits on how much it will shell out for purchase and return protection, and offers these benefits on all cards, not just its premium credit cards. It also introduced premium return protection, which extends and broadens the free version, and is available for purchase even on non-AmEx cards. However, the American Express network is not nearly as large as Visa or MasterCard; cards are far more likely to be de-

Source: www.nerdwallet.com

The Durbin Amendment Explained *(continued from page 2)*

were to drop to 7-12 cents per transaction, as proposed by the amendment, this would create a large wealth transfer from debit card issuers to merchants, and will likely end many free premium services at banks. The amendment's supporters in Congress theorize that the wealth transfer from the banks to the merchants will result in lower prices for all consumers, as competitive forces between merchants force them to pass on lower costs to customers, in the form of lower prices. *(continued on page 5)*

Source: www.nerdwallet.com

Prime Bank Note Fraud

International fraud artists have invented an investment scheme that supposedly offers extremely high yields in a relatively short period of time. In this scheme, they claim to have access to "bank guarantees" that they can buy at a discount and sell at a premium. By reselling the "bank guarantees" several times, they claim to be able to produce exceptional returns on investment. For example, if \$10 million worth of "bank guarantees" can be sold at a two percent profit on 10 separate occasions—or "tranches"—the seller would receive a 20 percent profit. Such a scheme is often referred to as a "roll program."

To make their schemes more enticing, con artists often refer to the "guarantees" as being issued by the world's "prime banks," hence the term "prime bank guarantees." Other official sounding terms are also used, such as "prime bank notes" and "prime bank debentures." Legal documents associated with such schemes often require the victim to enter into non-disclosure and non-circumvention agreements, offer returns on in



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Find us on
the
Internet!**

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Payments Fraud Continues at High Rates

Jonathan Starkey

Despite a continuing shift to electronic payments, corporate payments fraud is as prevalent as ever, and account takeover has emerged as serious threat, according to findings of the *2011 AFP Payments Fraud and Control Survey*, underwritten by J.P. Morgan.

“We are now seeing companies fall prey to corporate account takeover attempts, where someone gains access to a company’s credentials and uses those to empty business accounts,” said David Bellinger, CTP, AFP’s director of payments. According to the findings of the 2011 survey, fraudsters continued to target checks most frequently. Some 93 percent of organizations reporting attacks said that their checks were involved. Here’s how other payments formats stacked up:

- ACH debit (25 percent)
- Consumer credit/debit cards (23 percent)
- Corporate/commercial cards (15 percent)
- ACH credits (4 percent)
- Wire transfers (4 percent).

Seven out of ten organizations responding to the survey said they were targeted for payments fraud in

zations were targeted most frequently. Some 82 percent of organizations with revenues north of \$1 billion were targeted, while 58 percent of organizations with sales of less than \$1 billion were fraud targets. Twenty-nine percent of the survey’s respondents said that fraud attempts increased in 2010.

Here’s some good news: 71 percent of organizations that reported being targets of payments fraud reported no financial loss as a result of those attempts. Among those who did report a loss, the typical loss was \$18,400. Twenty-one percent of organizations surveyed with revenues of \$1 billion or more reported potential losses of \$250,000 or more. The median potential loss among those organizations was \$28,600.

According to findings, most payments fraud in 2010 resulted from an outside attack—meaning the fraudster was not part of the organization. Some 87 percent of organizations that reported a financial loss from payments fraud said that fraud was carried out by someone outside the organization. Nine percent of organizations were attacked internally. Paradoxically considering a dramatic

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How Durbin hopes to ease the burden on consumers and merchants *(continued from page 4)*

The Federal Reserve believes that merchant exchange fees far exceed the cost of fraud protection. They further believe that the steep markups persist because the two major card networks, Visa and MasterCard, have such control over the credit and debit card markets that merchants, card issuers and consumers have no choice but to accept the prices that they set.

In order to correct this, the Fed proposed a cap that it believes accurately reflects the true cost of securing the debit cards used. If they have correctly judged the cap, banks will not suffer a loss to their bottom line, and will continue to provide the same services to consumers while merchants are able to offer better prices. They also introduce competition to previously monopolistic markets by requiring each debit card to be covered by at least two networks. However, the amendment fails to address credit card interchange fees, which are significantly higher than debit.

Although the regulations make an exception for small institutions, this exemption is meaningless as card issuers will have to accept the lowest exchange fee offered, whether or not it covers their security costs. This is an undue burden on credit unions, which are generally smaller and pay more to protect their customers. This is not to say that the “swipe” fees are grossly overpriced, and that government reform of the market will not benefit consumers. However, the Federal Reserve must be careful to preserve the advantages offered by credit unions.

Payments Fraud Continues at High Rates *(continued from page 5)*

shift to electronic forms of payment in recent years, data from the 2011 fraud survey show that incidence of fraud has not measurably declined in recent years. Seventy one percent of organizations reported being targets of fraud; that's down from 73 percent last year, but flat with results in 2007 and 2008. Organizations are turning to a number of fraud control tools to beat back fraud attempts. Some 84 percent of organizations reported using positive pay or reserve positive pay. Other frequently-used fraud control tools include:

- ACH debit blocks (76 percent)
- ACH debit filters (61 percent)
- Payee positive pay (58 percent)

But J.P. Morgan Executive Director Stephen W. Markwell, who wrote an introduction to the results, called the fraud incidence "stubbornly high" and stressed the need for diligence in combating the attacks. "The importance of objective information and trend monitoring in fighting payments fraud cannot be underestimated," Markwell wrote. "This survey, the seventh annual, presents an important tracking tool for organizations and their banks, helping them understand their vulnerabilities as well as the effectiveness of certain technologies and practices in preventing fraud. Acting on the knowledge gained from this research and others in the marketplace is the real task."

Source: Excerpted from AFP Payments Newsletter. Copyright © 2011 Association for Financial Professionals, Inc. Used with permission. This is a link to AFP's complimentary newsletters. <http://www.afponline.org/pub/store/periodicals.html>.

Prime Bank Note Fraud *(continued from page 4)*

vestment in "a year and a day", and claim to use forms required by the International Chamber of Commerce (ICC). In fact, the ICC has issued a warning to all potential investors that no such investments exist.

The purpose of these frauds is generally to encourage the victim to send money to a foreign bank, where it is eventually transferred to an off-shore account in the control of the con artist. From there, the victim's money is used for the perpetrator's personal expenses or is laundered in an effort to make it disappear.

While foreign banks use instruments called "bank guarantees" in the same manner that U.S. banks use letters of credit to insure payment for goods in international trade, such bank guarantees are never traded or sold on any kind of market.

The best to fight payments fraud

Eliminating checks continues to be the single best way for organizations to combat fraud. Card networks are more secure than checks, but card fraud attempts and losses from such fraud continue to occur at high rates. (They only seem low when compared to the incidence of check fraud.) Corporates must remain vigilant in monitoring their accounts against fraud and make the best choices they can when choosing to accept or pay with checks and cards. They must also adopt best practices against hackers and corporate account takeover situations—the instances of fraud are growing in this area and appropriate precautions must be taken.

Finally, corporates need to decide if they are collectively doing enough to demand secure payment services—ones that minimize disruption to their internal payment operations, support full automation/STP, and are provided at a reasonable cost. Corporates also need to make sure they do their part to support the industry in developing and sustaining initiatives that work to each organization's ultimate benefit. That support includes offering guidance to their banks and other vendors as well as by providing direct input and leadership on payments industry initiatives

Tips for Avoiding Prime Bank Note Fraud:

- Think before you invest in anything. Be wary of an investment in any scheme, referred to as a "roll program," that offers unusually high yields by buying and selling anything issued by "prime banks."
- As with any investment, perform due diligence. Independently verify the identity of the people involved, the veracity of the deal, and the existence of the security in which you plan to invest.
- Be wary of business deals that require non-disclosure or non-circumvention agreements that are designed to prevent you from independently verifying information about the investment.

*Source: Federal Bureau of Investigation
(www.FBI.gov/scams-safety/fraud)*