Combating ACH Fraud:

What's a Payroll Company to Do?

December 7, 2017

Integrity in Payroll Processing

ALLIED MEMBER

Atlantic Capital

Bank in the right direction

Presenters

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Mr. Ottinger has over 20 years of experience in corporate banking and payment services and leads ACB's Payments Banking Group. Prior to joining ACB, Nathan held client management roles with SunTrust Bank, Silicon Valley Bank and High Street Partners. He graduated from Florida State University with a BS/BA degrees in Finance and Economics.

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Ms. Getz provides treasury services for mid-size companies and emerging growth businesses. She has over 20 years of experience serving the financial needs of local, national and international companies.
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Mr. Gleaton has 5+ years of corporate banking experience providing portfolio management and credit administration support across a variety of industry segments. Sam graduated from Louisiana State University with a BS degree in Business Administration & Finance.

Atlantic Capital Bank: *Overview*

Organic Growth Story in Desirable Market	▪ Opened in 2007 to serve middle market in Southeast US ▪ Acquired FSG Bank in 2015 to form Atlantic Capital Bank, N.A. with $2.8 billion in assets ▪ Regional & National footprint. Headquartered in Atlanta, GA ▪ NASDAQ: ACBI
Disciplined Risk Management	▪ Consistently superb asset quality
Accomplished Management Team	▪ Led by Douglas Williams, former senior Corporate Banking, Capital Markets and Credit Executive at Wachovia ▪ Executives average over 30 years experience
ACH Payments Focus	▪ Processed approximately $50B in ACH volume in 2016. ▪ Named Top 50 ACH Bank in the US in 2015. ▪ Work with 40+ payroll clients around the US.

Agenda

I. ACH Risk – Funds Flow Timeline

II. ACH Fraud Examples

* Hack / IT Security Fraud
* Email Spoofing / Phishing Fraud
* Account Take-over
* Other

III. Onboarding Best Practices / Risk Management Tools

IV. What to do if you have been hit

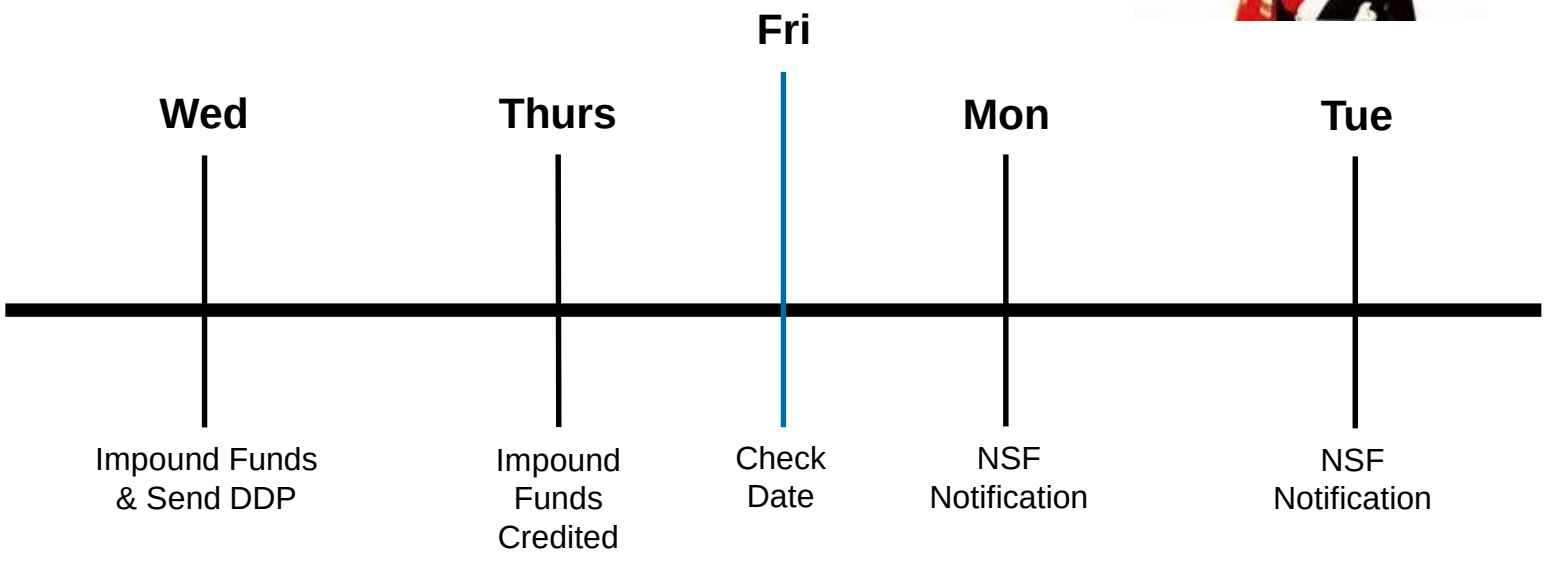
V. Q&A

Who’s the More Effective Crook?

ACH Risk - The Timeline

TIMING DIFFERENCE

- The timing difference between when a payroll service bureau impounds funds and when the final settlement of the funds are known.
- Fraudsters take advantage of this settlement timing
- Same Day ACH is not a fix



ACH Fraud Examples

1. System / Data Hacking
2. Phishing / Email Spoofing
3. Account Takeover Fraud
4. Other

Example 1: Systems / Data Hack

Why do you rob a bank?
That's where the $$ is.

Why do you hack a payroll company?
That's where the account data is.

Situation:

* Fraudster uses virus / keystroke mirror to get access to your payroll software system and access account records and client information.

* IT / Network Security threat

Cyber Attacks Are Often Triggered By Scam Emails These Range From the More Obvious . . .

- In the past, attacks were much easier to spot.
- One example was the "Arabian Prince" type emails that were full of misspelled words. Fraud was not subtle . . .

From: Armondo Travlio (atavaliow!@#7%@gmail.it)
To: Bob Servant
Subject: Delete This At Your Peril
FROM HIS ROYAL HIGHNEST, PRINCE TAVLIO

Dear Sir,

Permite me to inform you of my desire of going into business. I am Armondo, only son of late King Arawil of tribal land. My father was a very wealthy traditional ruler, poisoned by his rivals. Before his death here in Togol he told me of a trunke containing $75m kept in a security company. I now seek a foreign partner were I will transfer the proceads for investment as you advize. I am willing to offer 20% of the sum as a compensation for your effort/input and 5% for any expenses. If you are willing to help, transfer $1000 to Bank of Tribal Account Number: 3486022200 Routing Number: 12647774 as a show of good faith.

Thanks and God bless,
PRINCE TAVLIO

Today Scams Are Much More Sophisticated:
Emails that appear to be from legitimate companies that you do business with are designed to entice you to click on links or open attachments.

FedEx Service <details@feedeex.com> August 13, 2012 6:54 AM
To: booking@hopeforthedying.com Details
FedEx delivery problem # Error ID4900

FedEx
Federal Express

Unfortunately we failed to deliver the postal package you have sent on the 27th of July in time because the recipient's address is erroneous.

Please print out the label copy attached and collect the package at our office.

Print a shipping Label

at&t

Manage myAT&T Accoun

Voicemail Message

You have received a voicemail at 2013-19-12 35:31:25 CST.

You are receiving this message because we were unable to deliver it, voice message did not go through because the voicemail was unavailable at that moment.

* The reference number for this message is qvfi_cjl09-9107319601-2125579909-62.

The length of transmission was 24 seconds.
The receiving machine's ID: YJH35-TW410-F37JZL.

Thank you,
AT&T Online Services

Contact Us
AT&T Support - quick & easy support is available 24/7.

Receiving ID:
YJH35-TW410-F37JZL

From Number(s):
459-330-7200

Getting To Know AT&T
Watch helpful videos to get you better acquainted with your new AT&T service.
View the videos

We value and appreciate your business!

*Mobile Broadband coverage not available in all areas.
** Based on U.S. carriers.

Attention New Jersey customers and small businesses: FREE e-cycling for electronic devices with video screens more than 4 inches at nearby collection sites. http://www.nj.gov/dep/dshw/ewaste/collectionsites.pdf or 1-866-DEPKNOW

This is a system-generated message from a send only address. Please do not reply to this email.

Scams that Appear to be Secure or Encrypted Emails [Add instructions on what to do]

To: gfleming@atlcapbank.com
From: j.richman@aol.com
Re: ENCRYPTED EMAIL Signed Application Attached

You have received an encrypted email from SecureEmail.

Click here to login to download email

New User: Click *here* to register

Confidential email correspondence: If you are not the intended recipient, please delete and do not open.

Scam Requests for Payment

The example below includes both a potentially dangerous link and a demand for payment.

Common sense and awareness:

- You should know if you've gotten a parking ticket. A legitimate email would include contact information for questions.
- The sender's email address does not look like an official email address.
- A legitimate email would not be signed "Police Department."

From: Traffic Police Department <gbpftif@ad.maxart.it>
Date: April 19, 2017 at 6:19:01 PM CDT
To: Joe Stewart <jstewart@atlcapbank.com>
Subject: Parking Ticket #9856125332

You got a parking fine!
26-143 – Unattended car
Required to appear in trial
Parking ticket number PTD9856125332

Check Parking Ticket

To pay your parking fine, download your ticket and choose one of 2 convenient ways:

1. Online – Pay online by Visa or Mastercard, $2 processing fee.
2. By phone (automated system) - Pay by Visa or Mastercard at 866-562-4828

Best Wishes,
Police Department.

Data Hack - Mitigates

- Intrusion detection software
- Home grown software systems?
- Hosted on your premises?
- SOC 1 – Internal Controls Review
- Cyber-liability insurance
- In-house IT / Outsourced IT
- IT Security Audit
- Software Updates / Network Patches

Example 2: Phishing / Email Spoofing

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Situation:

* Fraudster has gained access and/or mimicked the email identity of someone that you have a business relationship with already (client, vendor, employee.)

Scam Requests for Payment - External

- This email appears to be from one of your client contacts. The executive claims to be unable to talk with you in person but needs you to change beneficiary account numbers for direct deposit (employees or 1099s or tax payments.)
- The sender's email address is a red flag.
- BUT NOTE: A hacker may have ghosted the executive's account such that the email address looks accurate.

From: Doug CEO <dougceo@childrens-healthcare.com>
Date: April 2, 2017 at 2:12:01 PM EDT
To: John Smith <jsmith@payrollcompanyXYZ.com>
Subject: New Employees – URGENT

Hi,
I'm out of the office in a meeting with John Richman. We just had 3 new employees start with us this week and need to send payment. This needs to go out in today's payroll run.

Joe Smith - $3,348.45 to South State Bank, Routing # 351578040, Account # 5831365839887.

Sam Jones - $2,343.17 to Main Street Bank, Routing # 351578040, Account # 5831365839887.

Keith Johnson - $1,756.23 to King State Bank, Routing # 351578040, Account # 5831365839887.

- It can't wait.

Regards,
Doug
President CEO

Scam Requests for Payment - Internal

- This email appears to be from a familiar company executive. The executive claims to be unable to talk with you in person but needs you to wire or send funds immediately.
- The nature of the transactions request should seem unusual.
- BUT NOTE: A hacker may have ghosted the executive's account such that the email address looks accurate. NEVER send or wire funds without face-to-face confirmation or without confirmation procedures.

From: James <james@payrolcompanyXYZ.com>
Date: April 2, 2017 at 2:12:01 PM EDT
To: John Smith <john@payrollcmpanyXYZ.com>
Subject: Client Reimbursement – URGENT

John,
I'm out of the office in a meeting with our client ABC Company. They requested a refund of last 3 months fees totaling $5,500.

Please immediately ACH $5,500 to South State Bank, Routing # 351578040, Account # 5831365839887. Let me know when complete. It can't wait or we are going to lose this client.

Regards,
James
President CEO

Example 3: Account Take Over Fraud

Situation:

* Fraudster has stolen someone's identity or corporate identity and opened up a fictitious Bank account

or

* Fraudster has compromised the online banking credentials of a legitimate company and has access to a legitimate company's bank account

or

* Fraudster has acquired the bank account details of a legitimate business and tries to run a payroll off of an account they don't control

Scam Requests for Payment - External

- Fraudster signs agreement with payroll company for payroll services.
- Fraudster has acquired the bank account details of a legitimate business and tries to run a payroll off of someone else's account.
- Fraudster runs a payroll off of a bank account that is not theirs and typically these funds are ending up on payroll cards.

From: Doug <doug@charitysuppportservices.com>
Date: April 2, 2017 at 2:12:01 PM EDT
To: John Smith <jsmith@payrollcompanyXYZ.com>
Subject: New Employees – URGENT

Hi John,
We just completed the new payroll agreement with our sales rep James and want to process our first payroll as soon as possible. Below are our new bank account details for our payroll account to debit for Friday's payroll.

South State Bank, Routing # 351578040, Account # 5831365839887.

We would like to get this setup for our Friday payroll.

Regards,
Doug
President CEO

Example 4: Other

Situation:

* Fraudster uses a consumer account as the funding account and then uses the ACH consumer rules (60 day return window) to reverse the transaction. Account info may be stolen.

Onboarding Fraud Warning Signs

- Not meeting at place of business
- Use of all pay cards (16 digit acct #)
- All 1099’s
- All funds going to same account number
- In a big hurry
- All email contact
- Out of geography / unknown referral source
- Not price sensitive
- Only one contact at company (no call tree)

Existing Client Fraud Warning Signs

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- Change request to pay cards (16 digit acct #)
- Add 1099's rush request
- All funds going to same bank account number
- In a big hurry / Out of the Office story
- All email contact
- Spelling errors in email
- Won't verify call back details
- Don't do a reply to the request email (start fresh for verification)
- Changes to normal pay cycle
- Off cycle bonus runs / unusual activity

What Can a Payroll Company Do?

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MARKET FACTORS

1. Impound funds sooner
2. Require reverse wires
3. Limit use of direct deposit

ENHANCE DUE DILIGENCE / TACTICS

1. Visit client offices
2. 2 years financials / tax returns
3. Credit bureau on owner(s)
4. 3 months bank statements
5. Google search / social network search
6. Understand corporate structure
7. Owner guarantee of DDP exposure
8. Right to offset from other funds
9. Manage NSFs aggressively
10. Copy of driver's license / Articles of Incorp.
11. Require tax service for DDP service
12. Update client agreement
13. Employee training
14. Payroll Fraud group involvement
15. SOC 1 – internal controls review
16. Micro-Deposit Account Verification

Software tools for client due diligence

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1) Bank Verification Software
    * MicroBilt, Yodlee, Plaid

2) Verified Email Software
    * Truststamp, Return Path, Mozilla, Secured Email

3) Credit Verification Services
    * Lexis/Nexis, Experian, D&B

4) Push your Payroll Software Providers (user groups)

What to do if you have been Hit?

1) Develop a playbook / procedures document

2) Contact your ACH Processor / Bank (speed is critical here)
   a) Reversal of ACH file
   b) Letter of Indemnity from ODFI to RDFI
   c) RDFI may put freeze on account if acct. takeover concern

3) Review client agreement for remedies / warranties

4) Contact legal counsel

5) Contact law enforcement

6) Review Cyber-crime / fraud insurance policy

Other Considerations

1) If funds end up on payroll cards its probably gone. Limited return rules.

2) Best way to protect yourself is up front, client due diligence.

3) Do not take payment changes over email without confirmation.

4) Client agreement that helps indemnify standard of control if your client's email is spoofed or email is hacked.

5) Have a call tree with your clients for verification, explain why this is important and why you might call.

5) Train staff, make sure that they are aware that you are a target for Fraudsters. Sales team clawback if onboarding controls are not followed.

Q & A

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