

Banking/Financial Services

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LOCKS ON SECURITY

Institutions face impending deadline for online security

BY JOYCE PELLINO CRANE
SPECIAL TO THE JOURNAL

Gerald T. Mulligan isn't exactly sweating over his bank's ability to meet a fast-approaching deadline to enhance online security services.

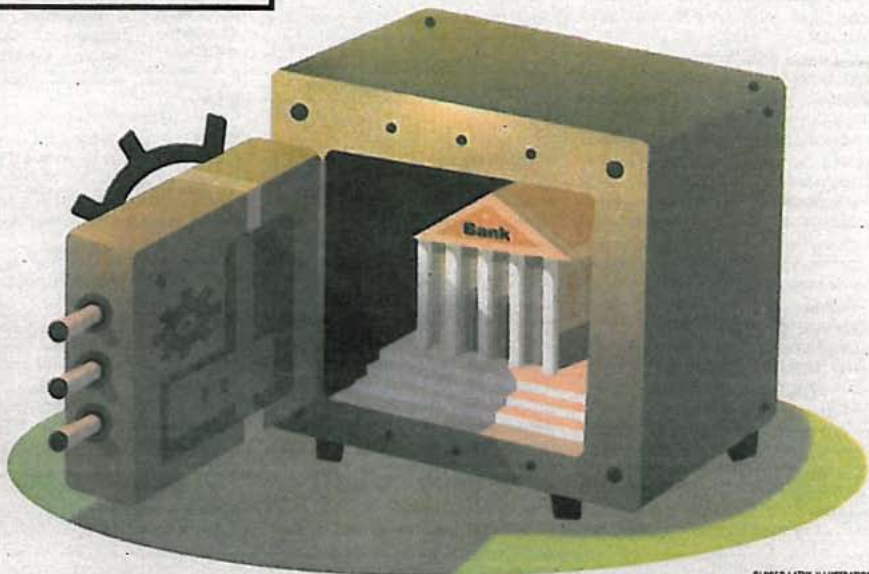
"I'm an old banker and an old regulator," said Mulligan, president of RiverBank in North Andover and himself a former state commissioner of banking. "We're in a good position — at least as well as other institutions of similar size. I think if we have a good faith effort, that the regulators will be sympathetic and understanding."

RiverBank, with \$521 million in assets, may be in better shape than a lot of its peers as the Dec. 31 deadline looms for financial firms to upgrade their online security.

Recent studies indicate that a significant number of the country's financial institutions will not have safeguards up and running by the end of the year, and industry watchers say implementation of these guidelines will be a struggle for smaller institutions.

In just a month and a half, financial institutions across the nation must have upgraded online security under a set of guidelines issued last year by the Federal Financial Institutions Examination Council, an interagency regulator of industry practices and

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OLIVER LATYK ILLUSTRATION

Grappling with the rising price tag of attempted check fraud

BY CHUCK GREEN
SPECIAL TO THE JOURNAL

Tom Johnson has a theory when it comes to check fraud — a big-bang theory, at that.

"The real danger is not the impact asteroid from the sky — it's those thousand little pin pricks," said Johnson, director of consumer banking for Cambridge Trust Co., which has nearly \$1.3 billion under management. "I fear lots of items of a moderate amount as much as I do the one big bang."

Big or otherwise, the fear is legitimate. Attempted check fraud at the nation's banks rose to \$5.5 billion in 2003, according to the latest American Bankers Association Deposit Account Fraud Sur-

vey Report. Bank regulators at the Federal Deposit Insurance Corp. issued 168 special alerts related to counterfeit checks in 2005, up from 75 in 2004.

While attempted check fraud continued to rise, actual dollar losses remained relatively stable at \$677 million, down slightly from the \$698 million that banks lost in 2001, the last year of ABA's biennial survey. Banks' check fraud prevention systems were credited with keeping actual losses significantly lower than the attempted fraud numbers. Attempted fraud totaled \$4.3 billion in 2001.

To fight check fraud, banks must marshal their line of defense on several fronts; there's no one de-

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FRAUD: Check scams get pricier

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finite strategy, Johnson said.

"No single approach is going to corral this problem because it's really exploding," said Johnson. "We've tried to work it across the whole bank."

For instance, he said, Cambridge Trust encourages greater communication with its customers through tools such as statement stuffers and by posting information on its Web site on how to fight fraud.

Customer education has become a point of emphasis for many banks, said Stephen Reilly, a partner with the Boston-based law firm of Sally & Fitch

thentic. Now you can't. It's too easy to replicate a signature with a scanner or other technology," which she noted can be purchased inexpensively.

Like Cambridge Trust, Boston Private believes bank customers are key to crimping fraud. "We counsel our relationship managers to make our clients understand the nature of this risk is higher than it was five or 10 years ago, and to regularly look at their activity online," said McCarthy. "Our goal is to sensitize them to the need to inform us if they see anything unusual.

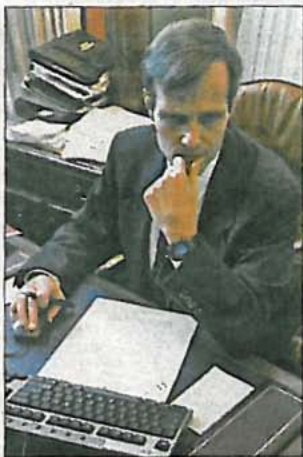
As with security at airports, the world has changed."

But even with all the latest in technology and better educated clients, the role of bank employees in stifling fraud is key, Johnson said.

"You have to have the human beings to run the issue down, including working with your branches to get in touch with customers. That takes a lot of manpower," said Johnson, who noted the systems are "far better than they were years ago at bringing suspect items through. We spend a lot more time training our people on the front line. We want them to have their eyes and ears open if they hear an innocent

customer that might about to become a victim of check fraud. We've tried to make it an institutional response, but that's not to say some items don't still get through."

McCarthy added that while her bank works continually to overcome the latest tactics used to commit fraud and maintains ongoing communication with law enforcement, the process remains a perpetual challenge. "I wish I had a crystal ball and could say, 'This is what criminals are doing now and what we should expect to see,'" she said. "But I don't know if there's a way of predicting that. I look forward to being able to do so."



BY MARC BERKSAU | BUSINESS JOURNAL

Cambridge Trust Co.'s Tom Johnson says communication is key in fighting fraud.

LLP, which represents banks and other financial institutions. "The customers have the opportunity — indeed, the obligation — to look promptly at their periodic account statements, and to make sure that all the checks that have been paid during that period were properly signed and authorized," he said.

To help facilitate customer vigilance, many new technologies and services designed to help eliminate or limit check fraud are available. Among those, Reilly cited "Positive Pay," a Web-based check reconciliation service offered by many banks. Positive Pay offers a browser interface for bank customers, thereby eliminating the need to install software on client workstations.

Ironically, in the minefield of check fraud, technology and the Internet also can be a bank's Achilles' heel, said Maureen McCarthy, director of the financial intelligence unit at the \$5.3 billion Boston Private Bank & Trust. McCarthy said the volume of check fraud has spiked, and technology is behind it.

For instance, she said, it's gotten trickier for members of her staff to identify forgeries.

"It used to be you could check a signature against a signature card and be reasonably sure whether it was au-

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