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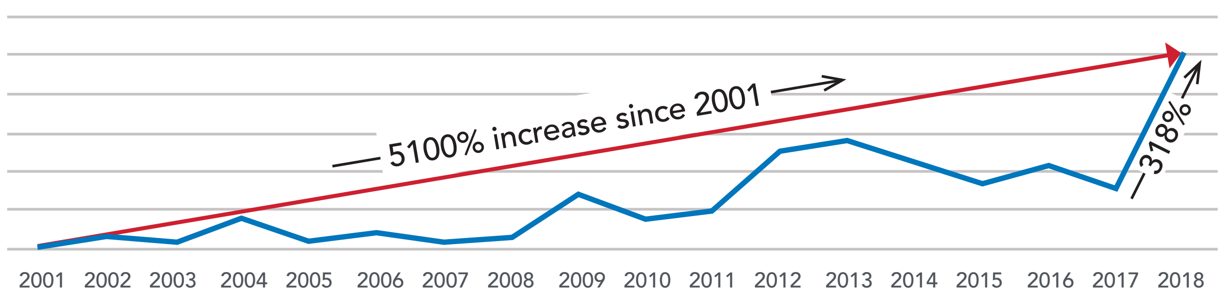
Safe Talk®
Loss Control Bulletin

Wire Transfer Fraud Loss Prevention:
The importance of written agreements and following funds transfer procedures

Wire fraud losses continue to grow at astounding rates. In 2018, ABA Insurance Services saw a 318% spike in wire fraud claims.[1] Over an 11-month period in 2018, the FBI's Recovery Asset Team (RAT) handled 1,061 incidents related to fraudulent transfers involving over $257 million in losses.[2]

The number of wire claims has been steadily trending upward over time...and then it spiked in 2018.



What can your bank do to prevent wire transfer fraud?

It's imperative that your staff understand the importance of your bank's written agreements and following instructions and procedures in place. Taking shortcuts may cause claims.

At face value, a written agreement is simply a customer relationship management document that outlines how a bank will honor and execute customer requests to transfer funds electronically. Below the surface, however, a written agreement is a critical component of a bank's risk management program with important operational and insurance coverage ramifications. In this article, we offer a basic construct of a written agreement, discuss their importance in today's banking and insurance environment, and conclude with a few best practices to follow.

What is a "written agreement" and why are they necessary?

A written agreement is a document that authorizes a bank to rely on email, voice, online, or fax instructions from a customer to transfer funds. It should be in place for both retail and commercial customers and include the customer's explicit authorization for the bank to transfer funds.

The agreement should include the names of the people who are authorized to initiate transfers or validate transfer instructions. Be sure to include contact phone numbers and titles, if applicable, of everyone who is granted authority.

The written agreement needs to outline a commercially reasonable procedure that will be utilized by the bank to authenticate all requests. A phone call to a pre-determined number is still one of the best ways to prevent fraud. When a callback is not practical, use an out-of-band verification procedure, such as a numerical code sent via text message to the customer's phone number of record. In all cases, make sure the verification method is clearly spelled out in the written agreement.

Finally, it is suggested the written agreement explicitly state the bank will not to act upon an instruction if:

- The bank is unable to obtain proper and satisfactory verification of the instructions; or
- There is inconsistency between such instructions and information previously supplied to the bank by the customer; or
- Instructions are not submitted in accordance with security procedures established by the bank; or
- Instructions are suspected by the bank to not be genuine.

Sources:
1. 2018 ABA Insurance Services Inc. claims data
2. fbi.gov/news/pressrel/press-releases/fbi-releases-the-internet-crime-complaint-center-2018-internet-crime-report

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While there is no standard written agreement template, they are generally similar from bank to bank, with minor modifications made for unique circumstances. Regardless of your bank's unique situation, it is recommended you review your written agreement with legal counsel to ensure it is commercially reasonable and meets your needs.

How do written agreements tie to insurance coverage?

Most insurers require a written agreement between a bank and its customer when evaluating the applicability of insurance coverage in the event of a claim. As a condition precedent to coverage, you must have a written agreement in place with your customer in order for insurance to respond to a loss, regardless of how the instructions are received. The policy language governing this requirement is generally found in the funds transfer coverage part or in the definition of customer of your financial institution bond.

Transfer requests and written agreements are commonly confused. A transfer request is nothing more than the initiation point for the movement of funds, it is not the same as a written agreement and will not satisfy insurance policy requirements.

Best practices to follow

1. **Have a written agreement in place before the first request to transfer funds.**
   As a standard course of action, written agreements should be executed at the time an account is opened or at some point before a transfer request is made, not when a customer is on the phone seeking to move money.
2. **Train your employees to trust their gut and stick to the written agreement instructions.**
   Fraudsters can be very convincing, and they are often great at manipulating situations in their favor. Your employees are your best defense against fraud. Give them the authority to trust their gut and stick to the instructions in the written agreement, even in the face of considerable push-back from a customer.
3. **Scrutinize certain types of requests closely.**
   Transfer requests tied to real estate transactions, HELOC accounts, and international destinations should be evaluated extremely closely as they are more prone to fraud. You should also designate all transfer requests made by elderly customers as high risk. Unfortunately, elderly people are more prone to fall victim to fraud, and instances of financial abuse against senior citizens are well-documented.

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