



## A MESSAGE FROM COMMISSIONER ENTRINGER



I hope 2012 turned out to be a great year for all of you and I certainly wish you a successful and prosperous 2013! We are well into the 2013 legislative session and both of the department's bills have already been heard by the House Industry Business and Labor committee; the banking bill is already scheduled for consideration on the House Floor. To date, we do not foresee any problems getting our proposed legislation passed. Along with monitoring the Department's legislation, we are following a number of other Bills, but so far nothing unusual.

One issue that I would like to bring to your attention is wire transfer fraud. We are aware of a couple of instances wherein a bank receives a request for a wire transfer to a foreign country; although, this type of fraud could easily be domestic. Somehow the fraudster has obtained enough information to make the wire transfer request and the bank employee processing the request either (a) does not do a call back to verify that the account holder actually instructed the bank to transfer the funds or (b) does a call back to a number controlled by the fraudster. Obviously, once the money is sent it is very difficult to retrieve the funds and the bank could potentially be held liable for the fraudulent transfer. I want to encourage all of you to implement call back procedures for wire transfer requests including a dollar threshold at which a call back is mandatory. You should set the threshold at a level that you feel comfortable in the event of a fraudulent transfer. Also, the procedure should mandate that the bank employee use the bank's own information to contact the account holder as opposed to calling a new number provided by the fraudster to verify the request. I realize this may sound like common sense but it has happened, and is continuing to occur, not just here in North Dakota but elsewhere around the nation. Additional tips are listed on page 2.

As always if you have questions or concerns you would like to visit about feel free to call me anytime.

## FACTS & FIGURES

As of December 31, 2012:

- ◆ Average Adversely Classified Items Coverage Ratio: 21.86%
- ◆ Average Adversely Classified Assets / Total Assets: 2.21%
- ◆ Average Adversely Classified Loans / Total Loans: 2.77%
- ◆ Average Past Due & Nonaccrual Loans / Total Loans: 1.78%

*Averages are of the 75 North Dakota state-chartered banks.*

### *North Dakota Banks Improving*

As of year-end 2012, 92 percent of the North Dakota state-chartered banks had a composite rating of 1 or 2, compared to 82 percent 2 years ago.

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## WIRE TRANSFER FRAUD

Several of our local community banks have experienced wire transfer fraud in the most recent months. We recommend that you never cease to be diligent in protecting yourself from fraud, and that you implement proper policies and procedures to protect you. Here are some procedures to assist you in preventing wire transfer fraud from happening at your bank:

- ◆ *Enforce call-back procedures.* Especially if you receive a request via fax! Call the customer back directly on the phone number listed on your system to verify that he/she actually requested the transfer. This procedure is to protect your customer, not to question their honesty. Most customers will appreciate your thoroughness—especially in today’s world where identity theft is prevalent. You can set a threshold for your call-back procedures; however, take a look at your blanket bond and make sure your threshold is commensurate with the risk you are willing to take.
- ◆ *Maintain dual control and segregation of duties.* This protects you against possible insider abuse.
- ◆ *Know your customer.* Does this customer usually send large transactions to Russia?
- ◆ *Enforce your funds availability policy.* Has the deposited check cleared? You’ve probably heard of scams where a customer gets a check for larger than a purchase and then they need to wire money back; if you restrict wires on uncollected funds, you help your customer as well. If you do allow wires on uncollected funds, make sure policies are in place and that the appropriate person (perhaps loan officer) approves the transaction.
- ◆ *Make sure your staff is well-trained.* Do they know why you have call-back procedures in place and why you require due diligence in this area? Do they know the ramifications – that as soon as the money is wired out, it is gone?



As we all know, any losses related to wire transfer fraud are most often taken by the bank. Although you have insurance, the insurance companies will only cover losses if you can prove you did your due diligence and had proper procedures (that were followed) in place.

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## CORPORATE ACCOUNT TAKEOVER

Corporate Account Takeover is a form of business identity theft where cyber thieves gain control of a business’ bank account by stealing employee passwords and other valid credentials. Thieves can then initiate fraudulent wire and ACH transactions to accounts controlled by the thieves.

Businesses across the United States have suffered large financial losses from electronic crimes through the banking system. These thefts have ranged from a few thousand to several million dollars. They have occurred in banks of all sizes and locations. And, they may not be covered by the bank’s insurance. Along with the financial impact, there is also a very high level of reputation risk for financial institutions.

Recognizing the importance of having banker developed practices specifically to assist the banking industry, the Conference of State Bank Supervisors (CSBS) and the Financial Services - Information Sharing and Analysis Center (FS-ISAC) have joined with the United States Secret Service (US Secret Service) and Texas Department of Banking to make practices for mitigating the risks of Corporate Account Takeover available to financial institutions nationwide. For more information and to access “Best Practices,” go to the CSBS website link as follows: <http://www.csbs.org/ec/cato/Pages/cato.aspx>

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