LUCID POINT

2025 Heartland ACFE Annual Training Presentation

3 Sessions

Aaron Frye
Founder & CEO – Lucid Point Consulting

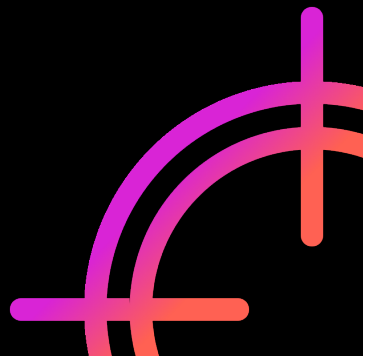
ACFE
Association of Certified Fraud Examiners
Heartland Chapter

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Session 1: Fraud Risk Orgs & Controls Overview

Session 2: Fraud Risk Regulation Challenges

Session 3: Fraud Vendor Selection & Management



Session 1 Agenda:

Fraud Risk Orgs & Controls Overview

1. Lucid Point Consulting Overview
2. Relevant Industry Experience
3. Overview of Fraud vs AML vs Cyber Functions
   - What are the differences and organization chart options
4. Overview of Verification vs Authentication vs Risk Scoring
   - Definitions and layering use-cases



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Risk Consulting

- Fraud Risk & Payments Risk
- Vendor Management
- Other Risk related

Sales Consulting

- Product Review
- Sales Cycle
- Customer Success

LPC Partners' Experience

(Direct Industry Experience)

GE Capital

BBVA

accenture

AMERICAN EXPRESS

SUNTRUST

TRUIST

PNC

Scotiabank

SWIVEL An SWBC Company

BE THE CONSULTANTS WE WISH WE RECEIVED IN THE INDUSTRY

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My background in fraud risk management

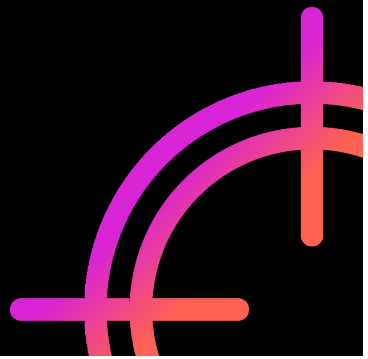


Company Name	Function	LOB	Function Maturity	Risk Owner
GE Capital	Fraud Reporting & Strategy	Commercial Leasing/Lending	• Infancy & Centralized	CRO
SunTrust Bank *now Truist Bank*	Fraud Governance & Vendor Risk Controls	Consumer	• Mature & Centralized	CRO or ERO
BBVA USA *acquired by PNC Bank*	Fraud Vendor Management	Consumer & Commercial	• Immature & Centralized	CTO/CRO
PNC Bank	Fraud Governance	Consumer	• Mature-*ish* & Decentralized	CISO
Swivel *fka SWBC Payments*	Payments Risk Governance & Compliance	Payments	• Non-existent & Embedded	CCO

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Part 1: Fraud Risk Orgs



AML
vs
Fraud
vs
Cybersecurity

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"Official" Definitions



An · ti-Mon · ey Laun · der · ing (AML)

/ˈanˌtī/ˈmənē/ˈlôndər/iNG/

adjective

The set of laws, regulations, and processes to prevent criminals from disguising the source of illegal funds and concealing them.

Fraud

/frôd/

noun

Wrongful or criminal deception intended to result in financial or personal gain.

Cy · ber se · cu · ri · ty

/ˈsībər/səˈkyo͝orədē/

noun

The state of being protected against the unauthorized use of electronic data, or the measures taken to achieve this.

AML
vs
Fraud
vs
Cybersecurity

LPC's Definitions



An · ti-Mon · ey Laun · der · ing (AML)

/ˈanˌtī/ˈmənē/ˈlôndər/iNG/

adjective

Keep bad money from coming in.

Fraud

/frôd/

noun

Keep good money from going out.

Cy · ber se · cu · ri · ty

/ˈsībər/səˈkyo͝orədē/

noun

The electronic division of information security trying to stop unauthorized access of data.

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AML
vs
Fraud
vs
Cybersecurity

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Risk & Loss Differences



An · ti-Mon · ey Laun · der · ing (AML)

- Distortion of economies
- Enables drug trafficking, terrorism, human trafficking, etc.
- Reputational risk and customer/public trust
- Sanctions & business closures
- Fines

Fraud

- Distort business operations
- Reputational risk and customer trust
- Customer information alterations
- Financial loss *(money movement)*

Cy · ber se · cu · ri · ty

- Distort business operations
- Data stealing
- Fines
- Financial loss *(ransomware payments)*

Governing Regulations Differences



AML

1. Bank Secrecy Act (BSA) *[FDIC] – Interchangeably used w/ "AML"*
    - *KYC, KYB, CDD, EDD*

2. Financial Crimes Enforcement Network (FinCEN) [U.S. Treasury] – Filing SARs

Fraud

1. Financial Crimes Enforcement Network *(FINCEN) [US Treasury]* – *Filing SARs*

Cybersecurity

1. Payment Card Industry Data Security Standard *(PCI DSS)*
2. Sarbanese-Oxley ACT *(SOX)*
3. Personal Information Protection and Electronic Documents Act *(PIPEDA)*
4. Cybersecurity Information Sharing Act *(CISA)*
5. Federal Information Security Management Act *(FISMA)*

+ More

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How do they work together



Examples: **Account Funding** **Account Takeover** **Social Engineering**

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Fraud Risk Structure Pillars



Fraud Risk Leader

- EVP/SVP of all fraud risk pillars
- Point of contact for C-Suite, Board, and Lines Of Business (LOB)/ Product leaders on fraud risk

Fraud Analytics

- Manages fraud rules (Testing & writing)
- Reporting of exposure, losses and rules performance

Fraud Strategy

- Manages project prioritizations
- Fraud Risk Appetite
- Manages program enhancements needed
- Fraud Vendor Management*
- Scams**

Fraud Operations

- Manages alerts, case management, and SAR filings
- Quality Assurance (QA) of the alerts function's duties
- Investigations

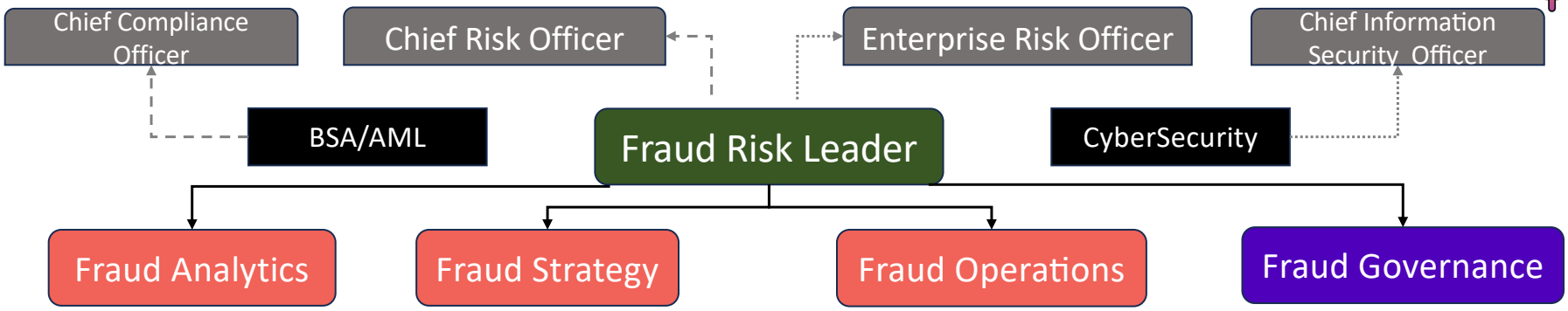
Fraud Governance

- Develops & manages policies & procedures
- Performs function gap assessments
- Manages pre-audit reviews
- Program change management

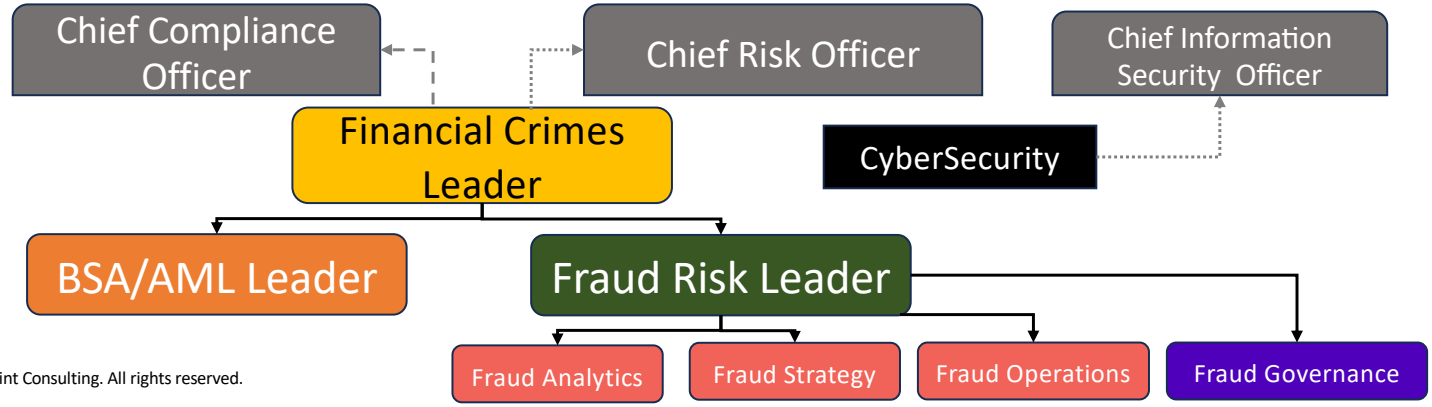
This role rarely exist or is positioned incorrectly
*** Could be a separate pillar based on function capacity*

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Ideal Fraud Risk Structure (Option 1)



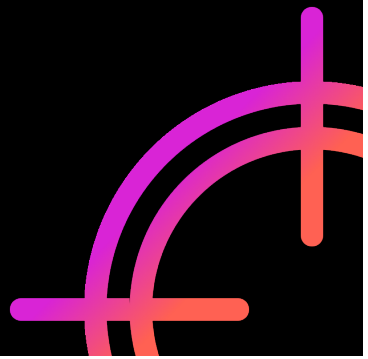
Ideal Fraud Risk Structure (Option 2)



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Part 2: Controls Overview



"What are controls?"

"What do they do?"

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Defined



Con · trols *(risk management)*

/kən'trōl/

noun

The specific measures, policies, procedures, or processes put in place to mitigate or eliminate potential risks and ensure an organization's objectives are achieved

Control Types

Preventive

- Proactive measures to prevent risk from occurring

Detective

- Identify & communicate risk events after they have occurred

Corrective

- Actions taken to reduce the likelihood of an incident to occur again

"What fraud types are the controls supposed to mitigate?"

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Frauds to Stop



1st Party Fraud

An individual or organization uses their own identity to commit a dishonest act for personal or financial gain

Examples:

Chargebacks

Dispute Abuse

Loan Stacking

Fronting

2nd Party Fraud

An individual willingly provides their information to scam someone or a business to commit illegal activity

Examples:

Scammer transfers

Social Media Schemes

Tax Fraud

3rd Party Fraud

An individual or organization commits fraud against a person or business without being directly connected

Examples:

Identity Theft

Synthetic Identity Theft

Phishing Scams

Account Takeovers

Most Difficult Fraud to Manage

Internal Fraud

Collusion

Verification
vs
Authentication
vs
Risk Scoring

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“Official” Definitions



Ver·i·fi·ca·tion

/ˌverəfəˈkāSHən/

noun

An action taken to find proof that establishes some type of information is true.

Au·then·ti·ca·tion

/əˌTHen(t)əˈkāSHən,ôˈTHen(t)əˈkāSHən,äˈTHen(t)əˈkāSHən/

noun

The process or action of proving or showing something to be true, genuine, or valid.

Risk Score

/risk/skôr/

noun

A numerical representation of the severity or likelihood of a potential risk, typically derived by combining probability and impact factors.

Verification
vs
Authentication
vs
Risk Scoring

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LPC's Definitions



Ver·i·fi·ca·tion

/ˌverəfəˈkāSHən/

noun

Find out if the data exists.

Au·then·ti·ca·tion

/əˌTHen(t)əˈkāSHən,ôˈTHen(t)əˈkāSHən,äˈTHen(t)əˈkāSHən/

noun

Validate if you're interacting with the correct person or entity.

Risk Score

/risk/skôr/

noun

A numerical stat that determines the severity of a problem.

Fraud Prevention & Detection Controls



External Fraud Control Options

Verification	Authentication	Risk
Identity Verification	Identity Authentication	Fraud Risk Scoring
Document Verification	Entity Authentication	Email Risk Scoring
Account Verification	Fingerprint Biometrics	Device Risk Scoring
Business Verification	Device Tokenization	Transaction Monitoring
Device Fingerprinting	Facial Biometrics	Device Spoofing
Address Verification	Voice Biometrics	Visual Deepfakes
		Audio Deepfakes

Internal Fraud Control Options

Access Controls	Governance	Awareness	Audit*
InfoSecurity	Policies & Procedures	Training & Reporting	Specialized audit

***Opinion**: Audit function should have fraud risk specialized guidance for their best practices reviewing fraud risk related programs

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Fraud Risk Regulation Challenges



Session 2 Agenda:

Fraud Risk Regulation Challenges

1. Overview of Regulation Gaps in Fraud Risk Management
   - Regulation that “exists” and the impact on fraud
   - Gaps, gaps and gaps vs Impact of Gaps, gaps and gaps
2. Fraud Misclassification Issues
   - Accounting issues



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Part 1: Fraud Regulations + Gaps



"What regulations exists?"

Current "Regulations"

Federal Deposit Insurance Corporation (FDIC)

Section 9.1 Bank Fraud and Insider Abuse (18 pages)

Summary: If you think its fraud or suspicious, you SHOULD take actions

United States Department of Treasury

Financial Crimes Enforcement Network (FinCEN)

Summary: Created the Bank Secrecy ACT (AML program) and if you believe it's fraud, file a SAR based on business type and applicable dollar amount combined which can very if there is or isn't a suspect identified.

Card Brand Networks

VISA, Mastercard, Discover, American Express

Summary: Based on chargebacks reason codes of fraud, they each have a threshold before they'll no longer allow transactions with a merchant

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"What regulations DO NOT exist?"

Where are the "gaps" in regulation?

Fraud is not on Financial Statements

Investors, Board Members, C-Suite, etc. usually aren't paying attention to fraud

Fraud Experience Level in Leadership

Many fraud risk leaders don't have fraud risk backgrounds

Fraud risk function structures

Not consistency in fraud risk programs to reduce exposure and losses

Fraud Risk Appetite Measures

Different measurements of "fraud tolerance" hurts the overall economy

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Who should govern new regulations?

Regulator	Oversight	Regulation
FDIC	Provide guidelines for protecting depositors with insurance	1. Include fraud losses on financial statements 2. Standardizes fraud risk program structures
FinCEN	Provide guidelines on combating financial crimes	Minimum fraud risk experience to be deemed a fraud program leader*
State Legislators	Require licensing for businesses	Include fraud losses on financial statements

*Will vary by institution size and products offered

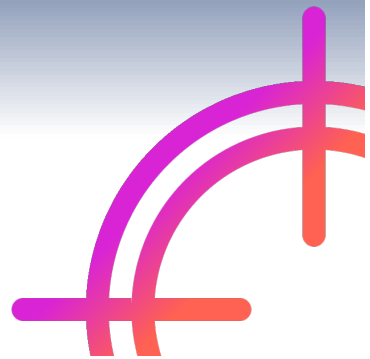
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Part 2: Fraud Misclassification Issues



Who knew fraud losses are not reported on Financial Statements?



"Where are Fraud Losses in Accounting?"

Accounting Line Items

- Operational Losses
- Credit Losses
- Fraud Expense
- Miscellaneous Losses
- Acceptable Losses
- Mixed Accounting

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"How should Fraud Losses be reported?"

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The Dream

METRIC	THIS YEAR (2025)
LOSSES:	
Gross Fraud Loss	$XX,XXX,XXX
Fraud Recoveries	$XXX,XXX
Fraud Recoveries *(Insurance)*	$XXX,XXX
Net Fraud Loss	**$X,XXX,XXX**
Gross Scam Loss	$XX,XXX,XXX
Scam Recovery	$X,XXX
Scam Recovery *(Insurance)*	$X,XXX,XXX
Net Scam Losses	**$X,XXX,XXX**

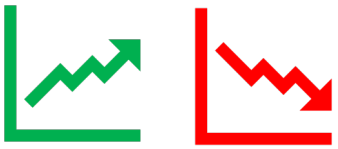
"What might happen if Fraud Losses were on Financial Statements?"

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The Theory



Budget Increase



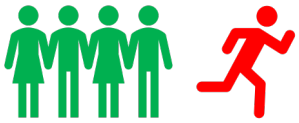
Stock Value Change



Reputational Risk…



Org Chart Structure Changes



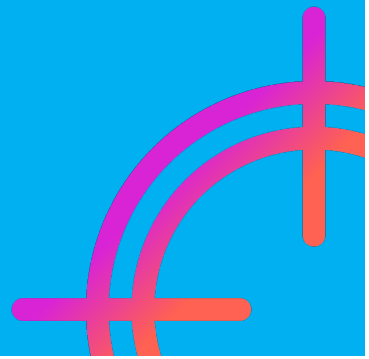
Fraud Leadership Decision(s)…



Set Fraud Risk Appetites

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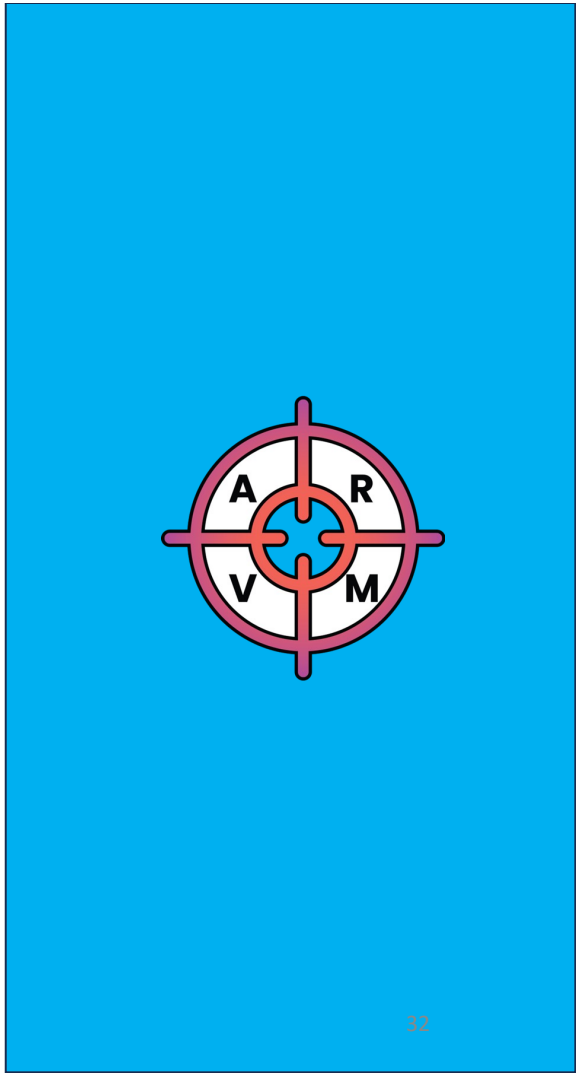
Fraud Vendor Selection Management



Session 3 Agenda:

Fraud Vendor Selection & Management

1. Relevant Industry Experience
2. Fraud Vendor Sourcing Best Practices
   - Common mistakes in vendor selection
3. Fraud Vendor Management Best Practices
   - Accounting issues



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My experience with fraud vendors

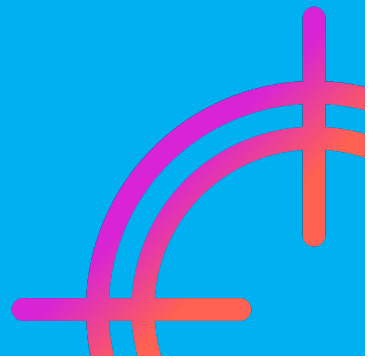


Company Name	Function	Role Results
GE Capital	Fraud Reporting & Strategy	• Identified fraud vendors across 12 lines of business • Provided vendor control recommendations to close gaps
SunTrust Bank *now Truist Bank*	Fraud Governance & Vendor Risk Controls	• Performed Fraud Risk Assessments on +300 vendors • Documented process flows to include vendor controls
BBVA USA *acquired by PNC Bank*	Fraud Vendor Management	• Developed a fraud vendors dashboard • Service Owner of +35 fraud vendors • Lead RFP for multiple fraud projects + more *(Vendor ROI; Requirements Documentation, etc.)*
PNC Bank	Fraud Governance	• Developed Product Owner vendor analysis guidelines • Identified duplicate vendors/services utilization • Developed a fraud vendors dashboard
Swivel *fka SWBC Payments*	Payments Risk Governance & Compliance	• Lead Transaction Monitoring vendor RFP selections • Developed vendor change requirements • Created vendor onboarding user-manuals

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Part 1:
Fraud Vendor Sourcing Best Practices



"What are fraud vendors?"

The Definition

fraud ven · dor

/frôd/ˈvendər,ˈvenˌdôr/

noun

A company offering a solution or service with an intended outcome to reduce your exposure and/or losses due to fraudulent behavior

Example:

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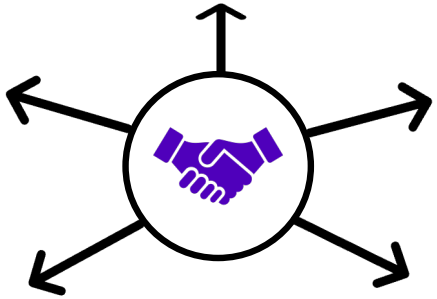
What's the internal impact of fraud vendors?

Technology

- Solution Architects
- Developers
- Application Management

Fraud Management

- Operations
- Strategy
- Governance
- Analytics & Reporting



Business Strategy

- Product/Line-of-Business Owners
- Customer Experience
- Marketing Campaigns

Finance

- FP&A
- Cost Center Owners

Procurement/Sourcing

- Vendor Management
- Vendor Risk Management
- Legal

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"What is the fraud vendor sourcing process?"

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The Process

1. **DOCUMENT** all internal requirements to operationalize the new vendor
2. **DETERMINE** if there are known gaps in your internal data points
3. **INCLUDE** all end-users of the product in the vendor's demo
4. **KNOW** your success criteria for a POC
5. **ALIGN** with your Third-Party Risk Management function

4th Party Vendors Overview

"What are 4th Party vendors?"

4th par · ty ven · dors

/fôrTH/'pärdē/ 'vendərs,'ven,dôrs/

noun

Your 3rd party vendor's vendors utilized in their solution provided to your company.

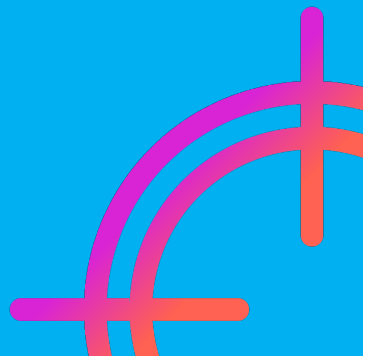
Questions for 3rd Party Vendors

1. Do they use 4th party vendors?
2. What data does the 4th party have access to?
3. Are they storing any data?
4. Who are the 4th party vendors?
5. Which component(s) of their service do they perform?
6. What's the continuity plan if their service fails?

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Part 2:
Fraud Vendor Management Best Practices



"What does fraud vendor management entail?"

The Management

1. **Dashboard of all relevant fraud vendor information**
2. **Return On Investment (ROI) analysis**
3. **Understand differentiators between vendor and their competitors**
4. **Vendor check-in meeting cadence**
5. **Solution performance assessments**
6. **Refreshed POCs with new releases**
7. **Categorize your vendors by criticality with continuity plans**
8. **Review contractual risk on existing vendors**

+ more

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What does the contract say?

Potential Risk	Mitigating Language
Unknown 4th party vendor within their solution	Include 4th Party entity names and components
Price increase post service sunset	Locked-in pricing for 1st year of sunset version
Revenue loss during campaign due to system outage	Service cost reimbursement and financial penalty tiered based on loss of revenue
Invoiced for non-implemented services	Billing to commence after service is implemented
Unresponsive customer support or account manager during urgent matters	Service Level Agreements (SLAs) with response times during urgent matters
Underperforming service providing low ROI	Set particular ROI metrics based on POC results

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THANK YOU!

Aaron.Frye@LucidPointConsulting.com