# National Financial Services Tools

* Minnesota / Green Dot Pilot Results

* Sharing Best Practices

* Measuring Results

* ACH Common Naming

* External Leads

* R17

# Minnesota / Green Dot Pilot Summary

## <u>Referral Program</u>

87 account were referred to SIRF from MN
- 56 were already blocked
- 31 had a block added based on the referral

From those 87, Green Dot found links to an additional 15 accounts.
- 10 were already blocked
- 5 had a block added based on the referral

2 Fraudulent refunds for $9,836 were stopped due to the referral processes

Of the 102 accounts linked to these referrals:
- 65 Cards purchased at retail stores, of which only 12 were at MN retail locations
- 37 were purchased online
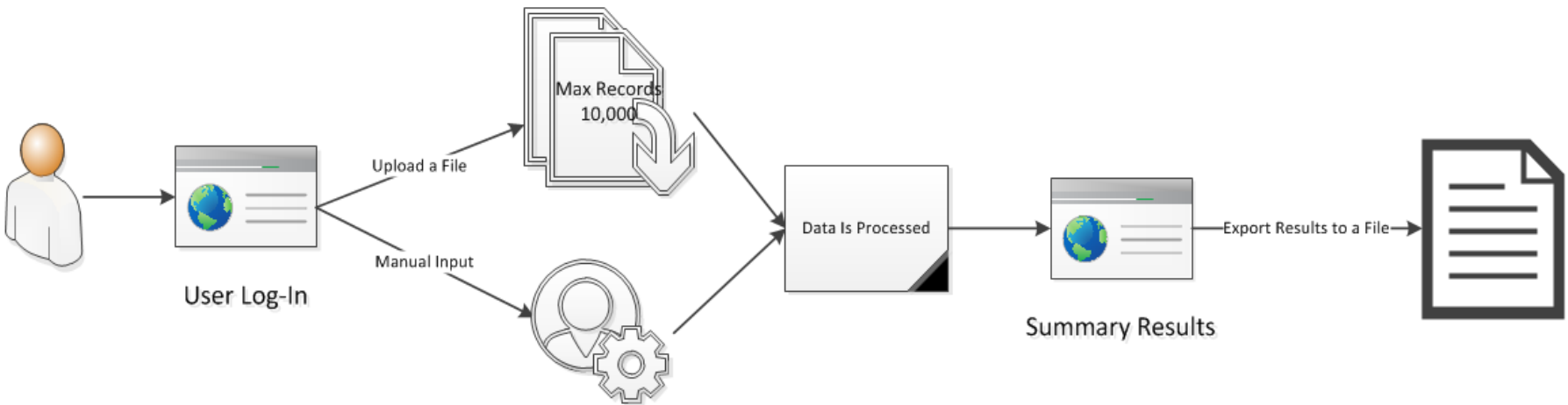- Only 24 accounts have been unblocked by the customer uploading their ID

# Minnesota / Green Dot Pilot Summary

## __Deposit Account  Verification Prior to Funding__

1,079 Received
- 394 Rejected (37%)
- 685 Accepted (63%)
  o  653 Funds Released to Customer (95%)
  o  32 Fund on Hold / Requiring Customer verification (5%)

# Green Dot Deposit Verification Portal



| Sample Export Data | | | | | | |
|---|---|---|---|---|---|---|
| **DD#** | **Risk Score** | **Last Name** | **First Name** | **Last4SSN** | **Refund Amount** | **Decision** |
| 123 | High | Doe | John | 9999 | 500.00 | Approved |
| 124 | Low | Smith | John | 8888 | 400.00 | R1, R2, R3, R4, R5 |

Low = 0-100
Medium = 101-500
High = 501-999

**Reject Reasons**
R1 = SSN/Name Mismatch
R2 = Invalid DD/SSN #
R3 = Blocked/Closed Account
R4 = Max Balance
R5 = Deceased Recipient

# Fighting Tax Refund Fraud - Best Practices

## For Tax Administrators:

- **NACHA Naming Convention –** Send direct deposits in accordance with the new NACHA naming convention, including taxpayer information, so that issuers can identify mismatches and unusual deposits.

- **NACHA R17 –** Participate in the NACHA R17 program to identify high risk rejected deposits.

- **Process to Identify Suspicious Activity –** Create models and/or rules engines to identify suspicious tax return filings based on historical data and patterns of activity.

- **Authentication Process –** Implement a strong yet taxpayer-friendly authentication process, such as ID scanning, for use in cases of suspicious return filings. Out of wallet questions are no longer as effective as they have been historically.

- **LEADs –** Establish a LEADs process to accept funds that have been secured by issuers.

- **Partnerships –** Continue to partner with industry and the IRS to improve security across the entire tax ecosystem.

# Green Dot Observations
## Year over Year Comparison

- Increased acceptance rate (4% Improvement)
- Block Rate after funding went down 52%
- Percent of Customers able to remove the hold improved by 215% (less fraudsters)
- Suspicious Funds (Rejected + Blocked and Not Released) went down 76% while Good Funds stayed flat year over year
- In 2015 we returned over $275mm to the IRS. In 2016 we will return less than $65mm – a 75% reduction.

## Tax Refund Metrics - Comparisons

| | Acceptance Rate | % Blocked | % Unblocked | % Still Blocked | Suspicious Funds |
|---|---|---|---|---|---|
| **Legacy Green Dot** | | | | | |
| **2015 YTD** | 93% | 19% | 22% | 78% | |
| **2016 YTD** | 96% | 9% | 69% | 31% | |
| | 4% | -52% | 215% | -61% | -76% |

# National Financial Services Tools

* ACH Common Naming

* External Leads

* R17

# ACH Common Naming

* Financial industry could identify IRS tax refunds, but the could not necessarily identify state tax refunds.

* Developing a common naming strategy was the foundation for setting up other programs states could participate in.

# ACH Common Naming

* How your ACH file should be formatted:
  * Company Entry Description Field  - Lists the IRS assigned four digit MEF code and the phrase TAXRFD (NYSTTAXRFD)

  * Individual Name – Last name, first name, middle initial display the first 22 characters

  * Individual Identification Number – Full SSN or last 4 digits without dashes

# ACH Common Naming

* Benefits of the Common Naming:
  * Industry can identify the ACH tax refund issued
  * Industry can notify you of a questionable ACH tax refund and do it more quickly
  * Industry can implement technology that allows them to reject more fraudulent refunds
  * States can reduce the risk of their refunds being sent to the IRS in error
  * States can reduce the risk of the tax refund being used as the vehicle for fraud
  * States can participate in other fraud prevention programs developed in partnership with the financial industry and IRS

# ACH Common Naming

* Few things you may want to do:
  * Coordinate the file changes with your treasury department and/or the financial institution you use.

  * Work with your internal technical team.  It may be beneficial to look at all three programs and coordinate programming.

  * Success of the programs is based upon making the full ACH name change.

  * If you decide to participate, send us an email Terri.Steenblock@state.mn.us and Tim.Lessard@state.mn.us.  Tell us the date it will be effective.

# Financial External Leads

* This program is modeled off of the IRS program.

* It allows the financial services industry to send you leads on questionable refunds.

* You can review the lead and make a determination on how you want industry to proceed with the refund.

* You may get all or part of the funds returned.

# Financial External Leads

* We have created a common spreadsheet the financial industry will send via secure email and password protected.

* The spreadsheet contains all information you need to review the return/refund.

* You will respond acknowledging receipt of the email and spreadsheet.

# Financial External Leads

* You will review the returns/refunds on the spreadsheet and make a determination.  You must respond to industry  within 10 days.

* You respond  by completing  a few fields on the spreadsheet and send it back to the financial partner.

* The financial industry is holding these refunds and if you have a "where's my refund" application, the taxpayer thinks it's already been sent. This is why it's important to respond quickly.

* You then request the funds using the indemnification process.

# Financial External Leads

* To participate in this program:
  * Tell us you want to participate.  Send an email to:
    * Terri.Steenblock@state.mn.us and Tim.Lessard@state.mn.us . Share the date of implementation and your email address with us.
    * Set up an email box where the financial industry can send you leads.  SFILeads@….
    * Consider creating an automated acknowledgement for receipt of the spreadsheet
    * Implement a process to make sure refunds sent back by industry don't automatically go out as a paper check.

# R17 Program

* R17 is an ACH return code that is used by the financial industry to return a questionable refund to you.

* For this program, you must have the financial institution you contract with sign an Originating Depository Financial Institution (ODFI) agreement .

*  Once this is done your name and the name of the ODFI goes on the NACHA website.  This signifies to an RDFI that you and your financial institution are participating in this program.

# R17 Program

* With this program the full refund will come back to you.

* You do not need to indemnify and you won't be asked by the financial industry if you want it back.

* Make sure to program your system so ACH refund returns with the R17 reason code do not get automatically sent out as a paper check.

* If you have a "where's my refund" application, the taxpayer may think the refund is already sent so think about how you will communicate with them.

# R17 Program

**Michigan's results**

| Calendar Year | Number of R17 Rejects | Total Dollars | Number of R17 Determined to be Fraud | Total Dollars Recovered |
|---|---|---|---|---|
| 2015 | 109 | $54,523.76 | 13 | $19,600.00 |
| 2016 (as of June 30th) | 676 | $559,985.33 | 229 | $392,855.86 |

# R17 Program

* Tell us you want to participate.  Send an email to [Terri.Steenblock@state.mn.us](mailto:Terri.Steenblock@state.mn.us) and [Tim.Lessard@state.mn.us](mailto:Tim.Lessard@state.mn.us).

*  Include the date you are ready to participate.

# What's Next For Financial Services Team?

* We've got a few things on the horizon
    * Outreach to financial institutions
    * Zero dollar leads
    * Unsuccessful CIP
    * Reporting framework

* We'd like to expand the pilot that Eric talked about. If you are interested in participating in it, please let us know. Terri.Steenblock@state.mn.us and Tim.Lessard@state.mn.us

* We will be asking for your refund strategy.

# Where Can You Learn More

* Documents about these program and checklists to help you get started are available on the FTA website.

# Thank you

Questions?