Closed Loop Financial Products And Organized Crime

2011 Mid- Atlantic Anti-Money Laundering Conference
Ceridian Stored Value Solutions is a provider of global prepaid services.

- Ceridian Stored Value Solutions (Ceridian SVS) is a provider in the prepaid market, delivering gift card and promotional platforms for the retailer.

- Managing gift card and other pre-paid programs can be complex.

- Our clients depend on our expertise to skillfully navigate through the complexities of managing and building a strong and profitable gift card program.

- We represent approximately 50% of the retail industry with private label pre-paid products.
VP/CSO and Director of Corporate Security and Safety for USF Corporation.

Massachusetts State Trooper/Investigator OCDETF
Some Definitions

- **Closed Loop** – From store to bank on a proprietary network (gift cards issued by stores and third party providers, usually involves cash in and product out).

- **Open Loop** – From store, to acquirer, to bank on a network system (MasterCard, Visa, American Express, Discover. Usually involves cash in and cash out)
Some statistics

- Globally transactions with reloadable prepaid cards will reach $840 billion a year by 2017.

- The average deposit on prepaid cards amount to $2,500 a month.

- Reports of money laundering is between $590 billion and $1.5 trillion annually.
Frauds in branded closed loop products

Standard closed loop financial products frauds remain stable

- Cloners
- Transactions spoofs
- Internal Theft
Organized Retail Crime in Closed Loop Products

Shoplifting Crew
Hits the market

Return Crew
to different market

Secondary
Venue
The OC Model with gift cards offers more opportunities

- Stolen Credit Cards
  - Acquired Credit Card Information
    - Counterfeit Credit Card or Gift Card Created
      - Purchase Bank Gift Cards (Amex/Visa/MC)
        - Purchase Merchandise
          - Use for Personal Benefit
        - Purchase Store Gift Cards
          - Return Items To Store
          - Pawn/Fence Items
          - E-fence Items Online
Five California residents suspected in a string of scams across the country were arrested Wednesday at Nashville International Airport after security screeners noticed hundreds of magnetic striped cards in a suitcase, Police say the group flew into Nashville on Tuesday from California, rented a vehicle, traveled to area Wal-Mart's and allegedly used stolen credit card information to purchase gift cards.
Organized retail crime in closed loop products

- ORC groups are using cards as a commodity (returns and sales)
- Theft and cloning remain isolated to a small number of smaller groups
- Unreported credit theft and identity thefts use gift cards
- Third party sales outlets for gift cards are being targeted with more frequency
Internal theft

- POS exception reports are the best tool to identify internal dishonesty
- Use the 800# for information
- While not growing represents the largest chunk of closed loop financial products crime
Other issues with closed loop products

- Institutional sales and promotional sales represent interesting opportunities for OC where bulk purchases are made
- Cross border
Intelligence Opportunities

- The 800# and A N I Capture
- Issuer pattern analysis
- Law enforcement resources
BOGOTA, Colombia - Forget bulk cash. It's not the most convenient cross-border conveyance for the 21st-century money launderer – prepaid cards

The "GMT Offshore Prepaid Card," has an annual load limit of $240,000 with no link to any bank account. The card costs $500 plus subsequent transaction fees and is issued by an offshore bank and administered in Panama.
Open loop Financial Products

- There are technical differences between stored-value and prepaid cards. Value can either be stored on the card (chip) or held in a financial institution.

- Card value can often be tracked when value is added and removed or verified through ANI capture.

- Most LE/Intel requests come from agencies with cross-border responsibilities.
Questions and Answers

Paul B. Cogswell  
*Vice President*  
Ceridian  
5301 Maryland Avenue  
Brentwood, TN 37027  
615-376-6939  
Paul.cogswell@ceridian.com  
www.ceridian.com