CONNECTICUT BANKERS ASSOCIATION

TO: THE MEMBERS OF THE BANKS COMMITTEE

FROM: THE CONNECTICUT BANKERS ASSOCIATION
CONTACTS: TOM MONGELLOW & FRITZ CONWAY

RE: S.B. NO. 114: AN ACT CONCERNING PREVENTION OF FRAUD IN ELECTRONIC TRANSACTIONS

DATE: FEBRUARY 21, 2008

POSITION: SUPPORT

The Connecticut Bankers Association encourages the adoption of S.B. No. 114. This legislation is necessary to help banks adequately protect against fraud in certain electronic banking transactions. If enacted, the legislation will help to protect Connecticut residents by reducing incidents of electronic thefts of consumer funds.

By way of background, federal law compels banks to make deposited funds available for withdrawal on an "expedited" basis (sometimes before the funds are actually received by the bank). However, this *federal* law does not apply to *savings* accounts. Notwithstanding this important exemption, Connecticut *state law* extends the "expedited availability" provisions of federal law to savings accounts.

In the context of funds deposited by *electronic* transfers, federal law would generally call for the funds to be available for withdrawal on the *next* business day. This next-day availability requirement exposes the banking system to assorted fraud risks. Electronic deposit transactions, in general, are inherently difficult to manage from a fraud prevention and detection standpoint (because of the remote and potentially anonymous nature of the relationship).

More and more, banks are now exploring the possibility of opening *savings* accounts *online* with the expectation that the funds will be deposited electronically. With these accounts, banks need adequate time to prevent or detect fraudulent transfers. When given adequate time, banks can often prevent a cyber-thief from walking away with (withdrawing) electronically deposited funds that have been stolen from the accounts of unsuspecting victims.

S.B. No. 114 would create an exception under existing state law for *electronic deposits* to savings accounts. By providing additional time, this amendment will allow banks to better detect and prevent online fraud, and thereby protect Connecticut residents from fraudulent activities.

(860) 677-5060 10 Waterside Drive Farmington, Connecticut 06032-3083 FAX: (860) 677-5066