

ARC Fights Fraud

By ARC Risk Management

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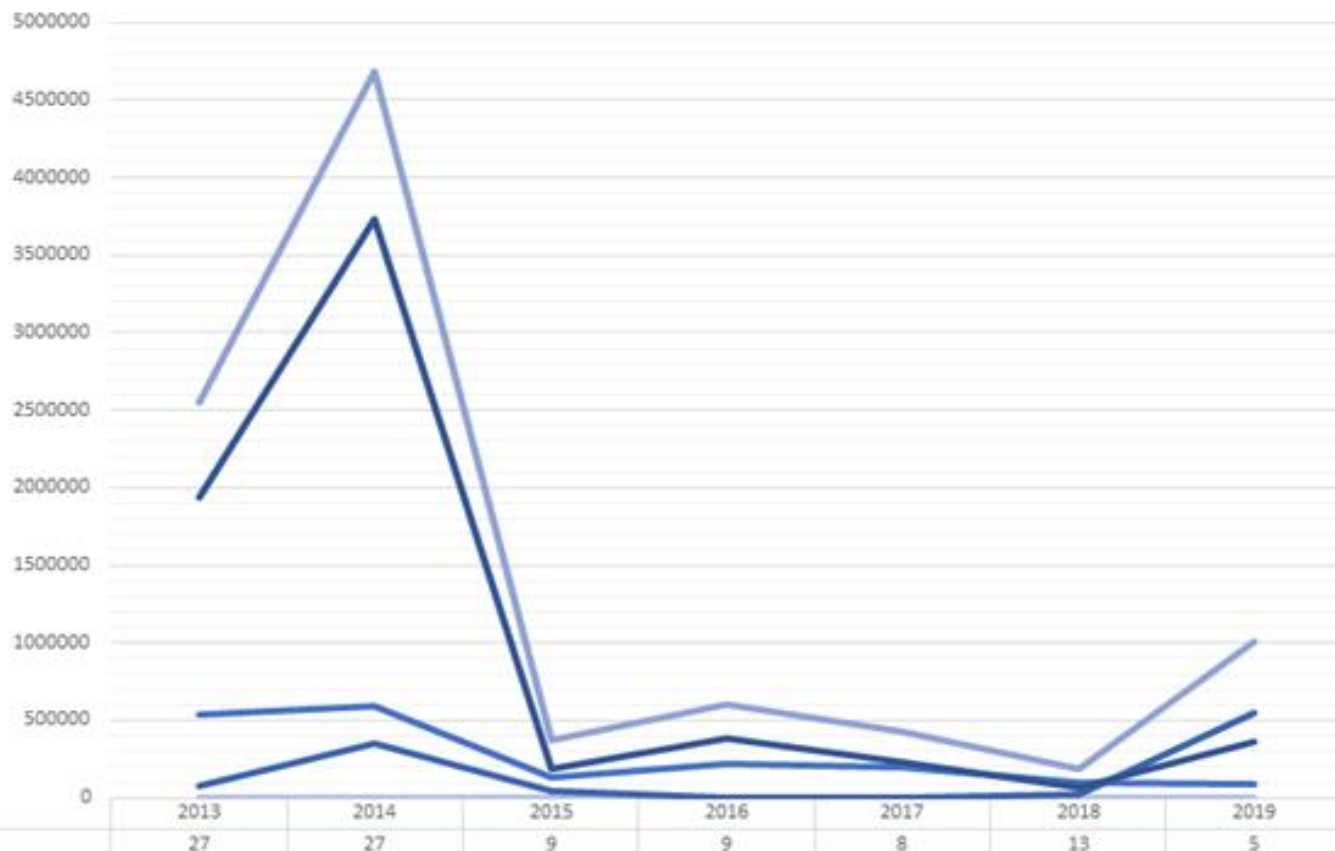
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Fraud by Agents vs Fraud Against Agents

**Nice statistics,
but there's more
to our story...**

**(Overwhelmingly due to
business failures)**

Airline Losses & ARC Recovery

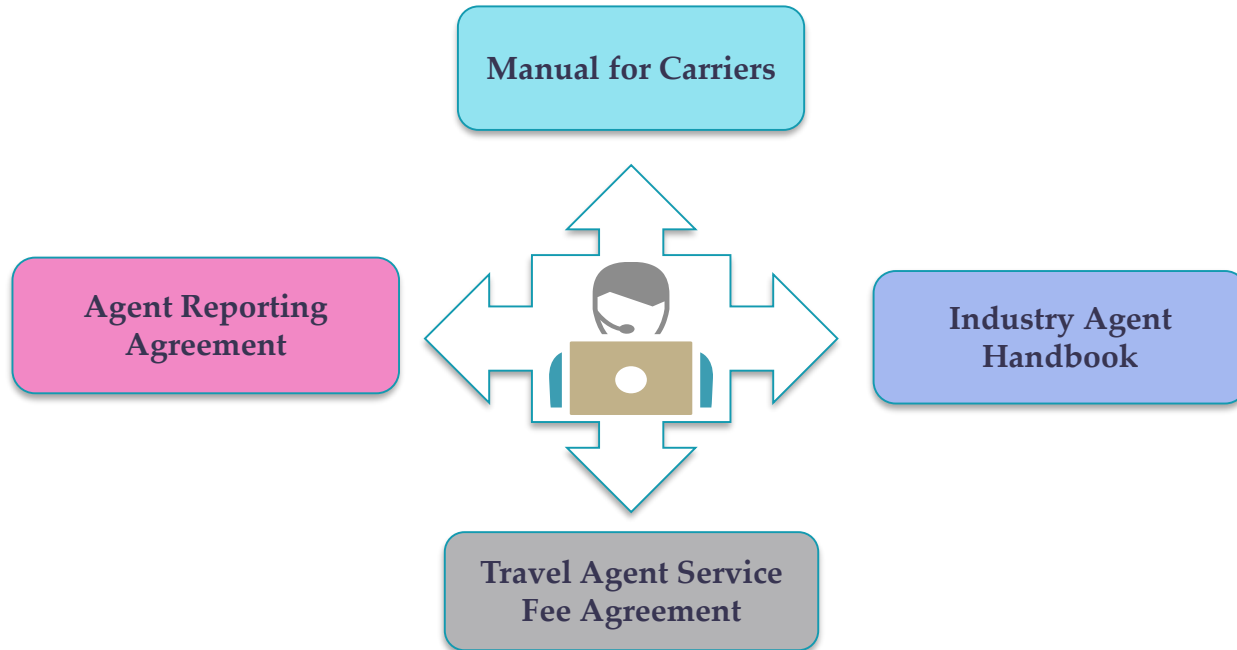


Total # of Terminations	27	27	9	9	8	13	5
Amount owed at Termination	\$2,549,970.48	\$4,682,964.69	\$371,469.57	\$607,322.66	\$426,289.51	\$188,185.77	\$1,007,602.33
Total FI claimed	\$538,486.70	\$596,307.42	\$128,594.87	\$217,473.62	\$194,666.67	\$104,634.57	\$86,868.00
Total Other Recovery (Agent pay, Commission held etc.)	\$75,953.11	\$351,600.45	\$50,268.86	\$5,324.25	\$0.00	\$18,413.97	\$552,666.61
Unclaimed Amount	\$1,935,530.67	\$3,735,056.82	\$192,605.84	\$384,524.79	\$231,622.84	\$65,137.23	\$368,067.72

Why do we have Risk Management at ARC?

Our Mission:

Ensure integrity of products and revenue through the education and compliance of stakeholder agreements



Why do we have Risk Management at ARC?

The Drivers

- **Section 11:** This section contains the terms and procedures applicable to Part VIII of the Carrier Services Agreement - Limitation of Liability on Lost, Stolen, Counterfeit, Missing or Altered ARC Traffic Documents
 - **4. Altered ARC Traffic Documents**
ARC traffic documents reported to ARC in which the value and/or the routing of the flight/exchange coupon(s) differs from the auditor's coupon, or equivalent.
- **Section 12:** Revenue Integrity Solutions
 - Default recovery
 - Carrier Claims and Sharing of Recoveries, Fees, and Expenses
 - Fraud Prevention Program
 - CC Fraud
 - Refund & Exchange Schemes
 - Non-Reporting of Tickets
 - Stolen ARC Traffic Documents (Hacking)
 - Other Fraudulent Activity
 - Fraud Investigations with Law Enforcement
 - Audit Program

Manual For Carriers

- **Section 13:** Travel Agent Arbiter
 - The TAA is empowered to resolve disputes arising out of the Agent Reporting Agreement (ARA), which involve agents and ARC.
- **Section 14:** ARC products and services
 - Revenue Recovery Services (RRS)
 - ARC Memo Manager
 - Ticket Resolution Services (TRS) for ARA Memos
 - Memo Resolution for Non-ARA Memos
 - 3rd Party Contingency Collections for Non-ARA Memos

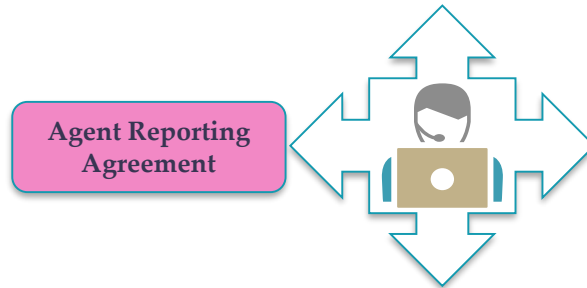


Why do we have Risk Management at ARC?

The Drivers

Agency Reporting Agreement

- **Subsection 8.3** – To be accepted and to remain an ARC Agent, the Agent must meet a list of criteria – 8.3.1 through 8.3.8.4 speaks to that – and our Irregularities & Risk Events are set to look for deviation.
- **Section 9** – Grounds for Removal of Agent from ARC Agents List
 - Result from failures under 8.3
 - Anyone holding financial interest has had an financial interest in a Agent previously removed from ARC, interest in an Agent declared in default under section 33 or has a felony related to financial activities or computer fraud.
- **Section 10** – Agency is required to comply with Applicable Laws. Inclusive of PCI DSS requirements.
- **Section 13** – Reviews of Breaches by Agent
 - ARC has the right to remove an Agent for fraudulent conduct such as falsification of ARC Traffic Documents and sales reports, missuses of IAR, and there is a clear and present danger of substantial loss to ARC or Airlines
- **Section 33** – Conditions under which ARC may deem an Agent to be in Defaults or place under additional Agent Operation Requirements
 - Dishonored ARC draft
 - Unreported Sales and Improperly Reported Transactions
 - Failure to submit sales report
 - Etc.
- **Section 34** – Requirement for Agents Subject to Additional Operating Requirements

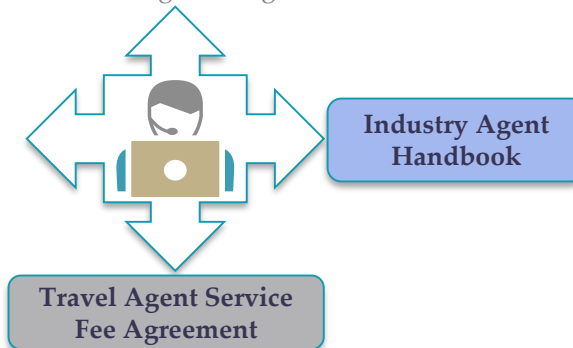


Why do we have Risk Management at ARC?

The Drivers

Industry Agent Handbook

- **Section F** – Provides Examples of Breaches by Agent i.e.:
 - Failure to report all Traffic Documents
 - Issuing CC transactions without the authority of the card holder or against a stolen or fraudulent credit card
 - Failure to account for Traffic Document, exchanges or service coupons
 - Permitting alterations, omission or other falsification on coupons.....
 - Engaging in a pattern of potential bust-out activity
 - Issuing or reporting through IAR, duplicate or invalid CMs or other supporting documents
 - Without authority from the Airline using a credit card in the name of the Agent.
 - Submitting for refund, exchanged or reissuance an ARC traffic document or transaction that has been used or refunded, exchanged or reissued, prior.
 - Misuse of IAR that prevents proper reporting of all sales including exchanges or refunds
- **Section K** – Reports & Settlement
 - Outlines criteria on how an Agent should
 - submit their sales report



Risk Events: The Future is Now

- A Risk Event is to be assigned a severity level.
- Engage earlier with our agents.
- Keeping record of Risk Events will become a business tool that allows us to assess our agents and support predictive analytics in identifying potential business failures.
- Could assist in ranking / rating our agents to support future initiatives and value proposition under NDC
- Identify issues that might be resolved during the Transformation project.
- Incident may be an “Irregularity”

Grouping of Risk Events

To assess and ensure a fair approach - Risk Events are to be grouped as:

- **Administrative/System Integrity** – ensure all records are up to date, no unreported changes posing a risk, such as change of shareholding, ownership (due to a sale etc.)
- **Financial** – potential of loss related to TRS or chargeback claims, Returned drafts, non-authorizers, TASF bounced draft and areas affecting revenue integrity etc.
- **Operational** – business model etc.

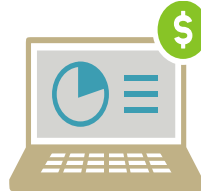


Overview of Irregularities or Risk Events



Admin & System

- Affirmation – Know Your Customer (KYC)
- Unreported sales
- Location change
- Commission fraud
- Extending Void window
- Manual voids
- Invalid exchange/refund
- Invalid certificate
- Payment related



Financial

- TRS - ADMs
- IAR rollovers
- Non-authorizers
- Agent annual fee
- TASF quarterly fees
- Returned drafts
- Compensatory fees
- TASF CB fees



Operational

- Business model (selling on credit)
- Overseas call centers
- Foreign ownership
- Rogue IC's
- IATA fraud intel

Risk Events & Irregularities – Operational overview

How

- Severity level
- Know Your Customer (KYC) process
- Stipulate requirements for action that is to be tied into our ABR environment
- Failure to comply = ARA provisions

Why

- Promotes successful collaboration
- Utilize as a business tool
 - Assessing & recommending agents for business partnerships
 - Support predictive analytics
- Identify system gaps

What it might look like (conceptually)

One or more of the following actions could be applied based on severity :

- Require agent (appropriate staff) to participate in specific ARC training
- Assign a payment plan
- Place into a monitoring program
- Apply **new** compensatory fees
- Apply cease and desist requirements



Test Case

Commission fraud: \$13,470
(100% commission)

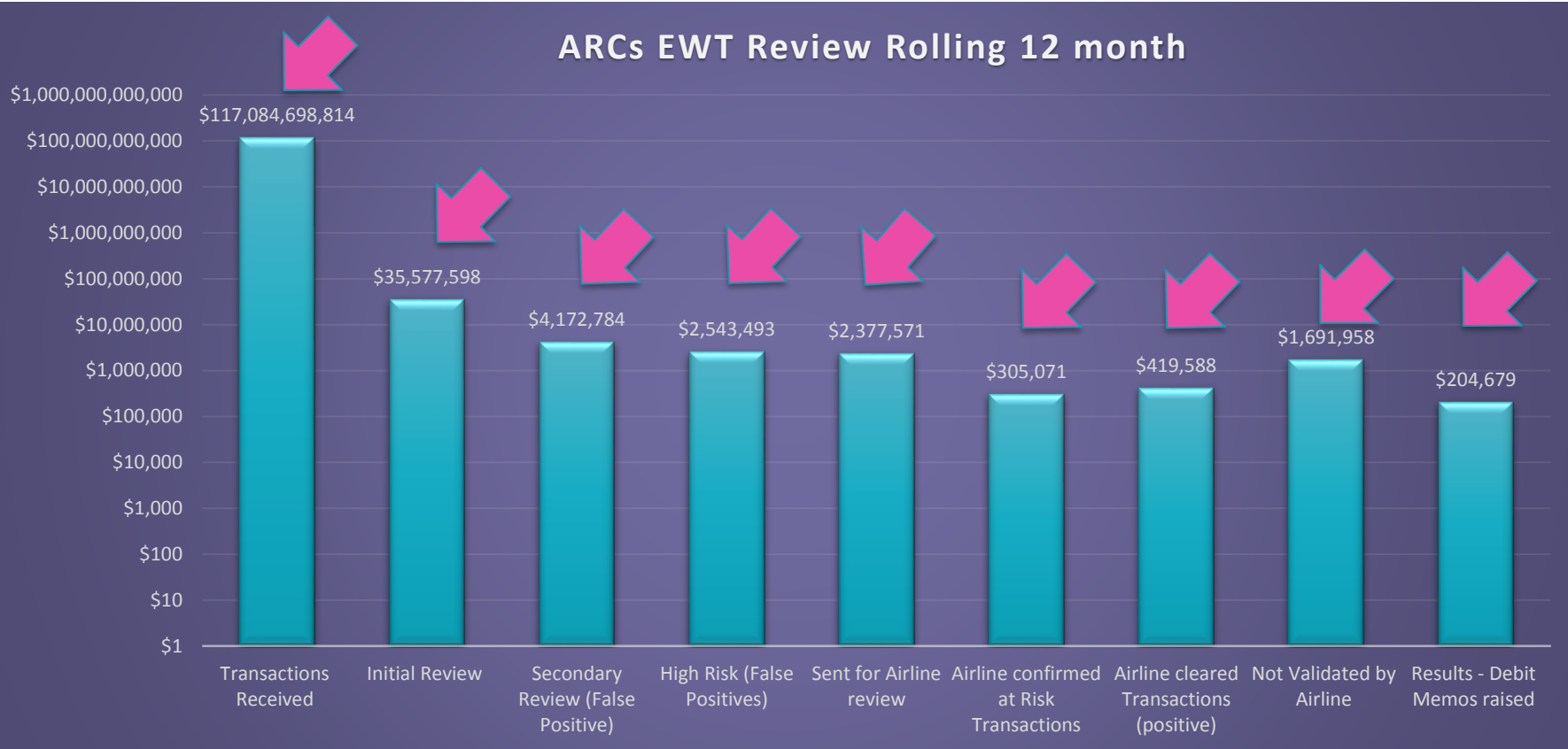
Manual Void fraud: \$26,962
(manual void of tix,
but those tix are open
for travel)

Total: \$40,432

Airlines impacted: 8 (3 more failed to act)

Result: Paid ADM's with no subsequent violations

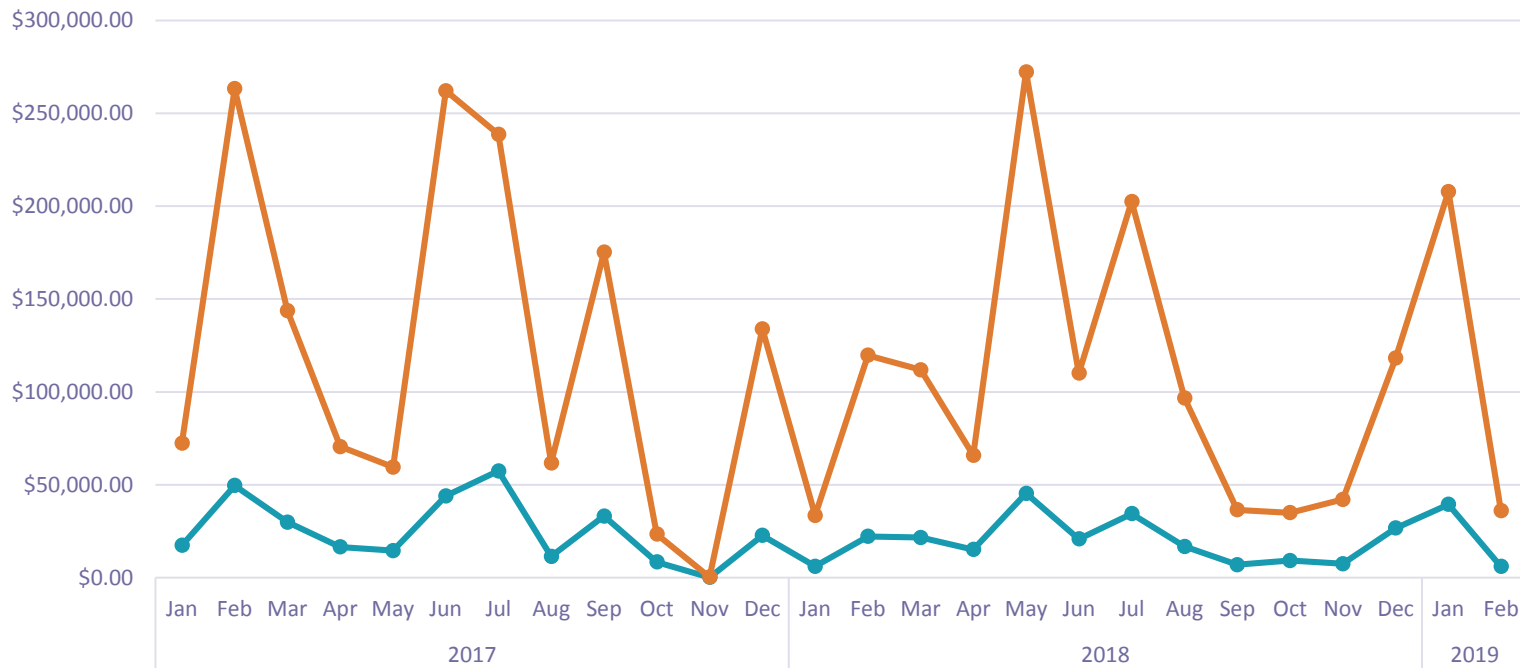
The value of ARC Risk Management – supporting Revenue Integrity



Protecting Agents from Fraudsters

Positive, Effective and Timely Action - Results

Credit Card/FOP Fraud: Fraudsters targeting our industry

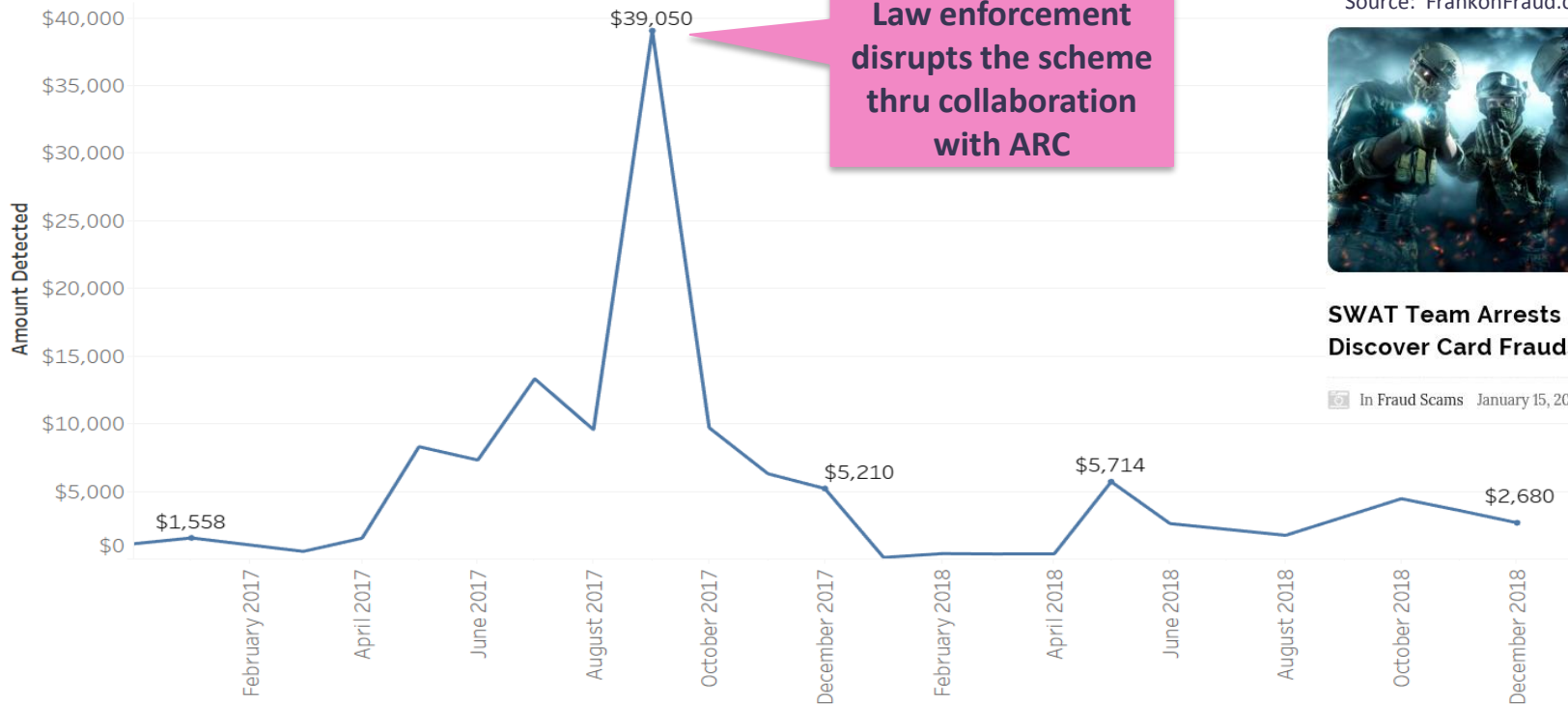


Sum of \$ SAVINGS

Sum of LPA

Positive, Effective and Timely Action - Results

Fraud Investigations



My favorite headline

Source: FrankonFraud.com



SWAT Team Arrests \$3 Million Discover Card Fraudster

In Fraud Scams January 15, 2019

Other Initiatives to better support the industry

Establish an Industry Group

Objective

- Drive collaborating between ARC and Airline Risk Managers or Revenue Management.
- Identify and inform on fraudulent or suspicious activity, affecting the settlement environment
- Help detect / prevent point of sale fraud
- Share appropriate business intelligence within a legally supported frame work
- Establish Best Practices
- Work together to drive change



The Fraudsters do it – so why don't we?

ARC Risk Management

**Ensuring the integrity of products and revenue through the
education and compliance of stakeholder agreements**

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