



The text below is an excerpt from the ICI Mutual risk management study *Shareholder Authentication: Managing the Risk of Fraudulent Transactions*. The full study may be accessed at www.icimutual.com/ShareholderAuthentication.

Risks Associated with Authentication Systems

Shareholder authentication is not a static issue. For this reason, fund groups may find it appropriate to regularly assess and re-assess the risks associated with their authentication systems. In this regard, fund groups may wish to consider not only the continued effectiveness of their current systems, but whether there are cost-effective new technologies or techniques that could further reduce the potential for transactional fraud.

The impetus to review the effectiveness of an existing authentication system can sometimes arise from actual or potential fraudulent transactions. For example, one fund group consulted for this study, after experiencing and investigating a small number of fraudulent transactions that appeared to have been initiated by identity thieves, undertook a comprehensive review of its approach to shareholder authentication, and closely analyzed and reconsidered how to approach different types of transactions.

Of course, fund groups may wish to re-assess their approaches even in the absence of actual or potential incidents. One fund group consulted for this study has a team of personnel dedicated to the identification and evaluation of emerging risks with regard to shareholder transactions. The team reviews and analyzes new technologies and other risk management techniques, and makes recommendations to a fraud prevention committee.

About ICI Mutual: ICI Mutual is the predominant provider of D&O/E&O liability insurance and fidelity bonding for the U.S. mutual fund industry. Its insureds represent more than 60% of the industry's managed assets. As the mutual fund industry's dedicated insurance company, ICI Mutual is owned and operated by and for its insureds.