

# RISK Alert

ACTIONABLE INSIGHTS FOR BOND POLICYHOLDERS.



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GROUP

Alert Type

Awareness

Watch

Warning

## NYDIG Allows Members to Buy / Sell Bitcoin

NYDIG, a digital asset management firm, has partnered with the nation's largest online banking solution providers to allow account holders to buy, sell and hold bitcoin. Credit union members can now trade bitcoin through online banking and mobile banking channels. Offering this service to members significantly increases a credit union's exposure to account takeovers.

### Details

[New York Digital Investment Group, LLC](#) (NYDIG) - a digital asset management firm specializing in bitcoin - has partnered with the nation's largest online banking solution providers, including Alkami, FIS, Fiserv, NCR, and Q2, to allow individual investors to buy and sell bitcoin through online and mobile banking channels. Rather than going through a cryptocurrency exchange to buy and sell bitcoin, members can now buy and sell bitcoin through the credit unions' online and/or mobile banking channels.

Offering this service to members significantly increases the risk of account takeovers involving the unauthorized sale / redemption of members' bitcoin holdings. Consider the following hypothetical fraud scenario:

- A fraudster impersonates a member and social engineers a call center employee into changing the member's mobile phone number and/or email address. Alternately, a fraudster could impersonate a member and social engineer the member's mobile phone carrier into activating a replacement SIM card on the account or port the member's mobile service to a different carrier.
- The fraudster requests a password reset using the online banking system's "forgot password" feature which generates a one-time-passcode (passcode) sending it to the member via SMS text message; however, the message is sent to the fraudster.
- The fraudster uses the passcode to log in to the member's account and changes the online banking password.
- The fraudster accesses the member's NYDIG account through an API in online banking and issues a sell order.
- NYDIG sells the member's bitcoin holdings & wires proceeds to the credit union.
- The credit union credits the member's account upon receiving the wire.
- The fraudster transfers the funds via online banking to an external account under their control.

**Date:** September 28, 2021

**Risk Category:** Online / Mobile Banking; Cryptocurrency; Digital Currency; Bitcoin; Account Takeovers

**States:** All

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### Facing risk challenges?

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Coverage for fraud losses involving the unauthorized redemption of a member's bitcoin holdings is typically not provided by the credit union's fidelity bond insurance.

An additional consideration is members could be drawn to the possibility of earning substantial returns by investing in cryptocurrency. However, investing in cryptocurrency is highly speculative due to the highly volatile nature of the price. Members may believe the credit union is promoting bitcoin as an investment by virtue of the credit union's relationship with NYDIG. A member could lose their entire investment, albeit through a panic sale when the price drops, and may attempt to hold the credit union liable for their investment losses.

## Risk Mitigation

Credit unions contemplating this service should consider the following loss controls:

- Adopt reasonable daily buy/sell limits along with a rolling 30-day limit.
- Deploy strong layered security controls for online banking:
  - **2-Factor Authentication:** Avoid using a 2-factor authentication method (also referred to as out-of-band authentication) for online banking that relies on transmitting passcodes to members via automated phone call, email, or SMS text message. Fraudsters have easily intercepted passcodes using these delivery methods – primarily through hacking email accounts and/or social engineering tactics. Instead, deploy a more secure 2-factor authentication method, such as a passcode generating token (hardware or software).
  - **Fraud Monitoring:** Deploy a real time fraud monitoring solution with behavioral analytics.
- Verify the sale/redemption of bitcoin with the member before crediting the account with the proceeds from the sale. NYDIG wires the proceeds from the sale/redemption of bitcoin to the credit union, and the credit union, in turn, credits the member's account.

## Risk Prevention Resources

Access CUNA Mutual Group's [Protection Resource Center](#) at [cunamutual.com](http://cunamutual.com) for exclusive risk and compliance resources to assist with your loss control efforts. The Protection Resource Center requires a User ID and password.

- [Two-Factor Authentication Risk Overview](#)
- [Online Banking Risks & Controls](#)



**Access the Protection Resource Center for exclusive resources:**

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