



# E-Risk and Your Institution

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## Disclaimer

The views and opinions expressed in this presentation are mine and do not reflect the official policy of the Federal Reserve Bank of Richmond or the Federal Reserve System.



# Discussion Points

- Electronic payment systems
  - Risk
  - Risk mitigation
  - Red flags
  - Technical compliance
  - Innovation
- Final Thoughts



# Electronic Payment Systems

- Mobile Banking
- Automated Clearing House
  - International ACH Transactions
- Wire Transfer
- Prepaid Cards
- Remote Deposit Capture



# Mobile Banking

## •What is mobile banking?

- The ability to conduct banking with a mobile phone device
- Payments are referred to as mobile payments or M-Payments

## •Types of mobile banking

- Direct mobile banking
- Indirect mobile banking

## •Risk

- Access control
- Near field communications (NFC)
- Third party anonymity
  - With indirect arrangement



# Mobile Banking

## •Risk Mitigation

- Identifying the payment channel
- Establishing customer profiles
- Setting transaction limits
  - Dollar volume
  - Geographic restrictions

## •Red Flags

- Unusual activity
- Accounts for phone companies



# Mobile Banking

- Technical Compliance

- CIP
- Suspicious activity reporting
- Potential for concentration accounts

- Innovation

- Near field communications (NFC) technology
- Person to person mobile payments



# Questions







# Automated Clearing House (ACH)

- What is ACH?

- A payments system that facilitates the clearing of electronic items between banks

- Examples

- Direct deposit of payroll
- Clearing bank checks
- Clearing electronic transactions



# Automated Clearing House

## •Risk

- Unauthorized Returns
  - Survey/Wachovia
- Invalid Returns
  - Phishing
  - Fraud

## •Risk Mitigation

- Establish strong originator underwriting standards
  - Credit and AML due diligence
- Identify and monitor high-risk activity
- Compliance testing
- OCC Bulletin (2006-39) - ACH Risk Management Program Gap Analysis Tool



# Automated Clearing House

## •Red Flags

- Unauthorized returns
- Invalid returns
- Consumer complaints
- Accounts opened and closed quickly

## •Technical Compliance

- CIP
- Suspicious activity reporting

## •Innovation

- What's new?



# Questions





# International ACH Transactions

## •What is an IAT?

- A cross border ACH transaction requiring the Standard Entry Classification (SEC) code
- Identifies international ACH transactions

## •Risk

- OFAC Entity
- Gambling
- Fraud

## •Risk Mitigation

- Effective risk assessment
- Resources for identifying high-risk geographies
  - [www.kyc.com](http://www.kyc.com)
  - <http://www.gao.gov/new.items/d0389.pdf>



# International ACH Transactions

## •Red Flags

- Receiving the IAT is the red flag

## •Technical Compliance

- OFAC
- Suspicious activity reporting

## •Innovation

- Segregation
- How to use the information



# Questions





# Wire Transfer

- What is a wire transfer?

- Fedline/Correspondent
- Domestic v. international

- Risk

- Unauthorized originator
- Multiple channels for requesting a wire transfer

- Risk Mitigation

- Multi-factor authentication
- Customer authorization verification processes
- Secured access to web site forms
- Dollar limit thresholds
- Customer agreements





# Wire Transfer

## •Red Flags

- Wire request by any electronic means
- Wire request not fitting customer profile
- Wire request to foreign country

## •Technical Compliance

- OFAC
- Suspicious activity reporting
- Travel rule

## •Innovation

- Expanding methods of request
- Ability to identify wire activity in a customer's statement



# Questions





# Prepaid Cards

- What is a prepaid card?

- Gift cards
- Payroll cards
- Benefit cards

- Risk

- Anonymity
- Portability
- International access
- ATM access
- Excessive vendors



# Prepaid Cards

## •Risk Mitigation

- Strong due diligence on the vendor
- Aggressive monitoring
- Geographic restrictions
- Daily sales limits

## •Red Flags

- Foreign activity
- Similar addresses
- Unusual account names
- ATM activity



# Prepaid Cards

- Technical compliance

- CIP for bank's customer
- CTR for cash loads at bank
- Suspicious activity reporting
- OFAC
- Due diligence

- Innovation

- Competition with M-payments
- Collaboration with M-payments



# Questions





# Remote Deposit Capture (RDC)

- What is RDC?

- Scanning checks for electronic deposit to account
- Typically used by commercial customers

- Risk

- Duplicate presentments
- Fraudulent presentments
- Errors caused by poor readers



# Remote Deposit Capture

## •Risk Mitigation

- Due diligence
  - Conduct site visit
  - Develop customer profiles
  - Verify customer controls
  - Establish customer selection criteria
- Monitoring
  - Adherence to customer profile
  - Double presentments

## •Red Flags

- Variance from customer profile
- Double presentments
- Increase in returned deposited items





# Remote Deposit Capture

- **Technical Compliance**

- Suspicious activity reporting
- Customer due diligence

- **Innovation**

- Consumer applications
- Mobile phone scanners



## Final Thoughts

- Evaluate and understand the product/service
- Perform risk assessment
  - Customer
  - Product
- Conduct appropriate due diligence
- Implement adequate controls
- Contact your regulator



# Questions





## Additional Questions/Comments?

Please send your additional questions or comments to the BSA Coalition at:

<http://www.bsacoalition.org/QuestionForm.cfm>

For further resources go to:

<http://www.bsacoalition.org/>