Risk in the Real World

Primary Risk Types

Primary Risk

Types of Risk
Systemic
Compliance
Credit
Operational
Fraud

Operational Risk

Occurs when a transaction is altered or delayed due to an unintentional error, operational risk includes clerical error or hardware and/or software failures

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Operational Risk

	Payment System	Example
	Check	Bad image
	ACH	Missing payroll file
	Card	Forgot to ‘hot card’ a stolen card
	Wire	Sent money to wrong account holder

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Fraud Risk

Occurs when a payment transaction is initiated or altered in an attempt to misdirect or misappropriate funds by any party to the transaction

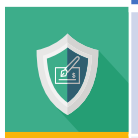
Fraud Risk

	Payment System	Example
	Check	Altered checks
	ACH	Account takeover
	Card	Stolen card
	Wire	Unauthorized wire transfers/account takeover

Compliance Risk

Occurs when a party to a transaction fails to comply, either knowingly or inadvertently, with network rules & policies, regulations, and applicable U.S. and state law

Compliance Risk

	Payment System	Example
	Check	Failure to provide funds availability disclosure
	ACH	Failure to conduct annual *ACH Rules* Audit
	Card	Failure to provide timely provisional credit
	Wire	Failure to provide UCC 4A notices

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Credit Risk

Occurs when a party to a transaction cannot provide the necessary funds, as contracted, in order for settlement to occur

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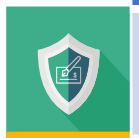
Credit Risk

	Payment System	Example
	Check	Excessively overdrawing account
	ACH	Bankrupt Originator
	Card	Card limit too high
	Wire	Uncollected funds

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Systemic Risk

Occurs when the inability of one funds transfer system participant to settle its commitments will cause the other participants to be unable to settle their commitments

Secondary Risk Types

Strategic Risk

Occurs when management has not dedicated the capital or human resources to any given process or product

Third-Party Risk

Occurs when data processors, vendors, other financial institutions or other organizations that provide payment processing services fail to meet agreed-upon commitments to the financial institution

Reputation Risk

Occurs when an account holder's confidence in a financial institution or a specific payment channel will be diminished

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Cross-Channel Risk

Occurs when there is movement of fraudulent or illegal payment transactions from one payments channel to another

Cross-Channel Risk

Example

Check and Card

- Deposit a large fraudulent check to increase account balance, then use debit card to remove funds at an ATM and make large dollar purchases

Mitigations

BSA/AML monitoring across all channels

- Check – Duplicate Item detection
- Card – Fraud detection system

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Cross-Channel Risk

Example

ACH and Wire

- Account-takeover situation where an ACH File is sent. Credit entries are sent to increase an account balance, then funds are wired out of the account

Mitigations

BSA/AML monitoring across all channels

- ACH – Exposure Limits, layered security
- Wire –verification of collected funds and large deposits

Risk Case Studies

Name the Risk Type and Mitigating Controls

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Risk Case Studies

When an originator’s payroll file was delivered to the ODFI for transmission, the ODFI employee accidentally deleted the file.

Risk Case Studies

Multiple counterfeit items have been timely reported by an accountholder. Unfortunately, the return deadline for the items has passed.

Risk Case Studies

The fintech that maintains your ACH application experiences a breach and both employee and accountholder data have been compromised.

Risk Case Studies

A frontline employee has been declining to take reports of errors if the consumer's report is more than 60 days from the date of the activity.

Several consumers make complaints to the CFPB, post on social media and interview on the news.

Risk Case Studies

Your business accountholder receives emails updating payment instructions from several of their vendors. They initiate payments, via wire transfer, to settle several outstanding invoices.

A week later, they reach out stating the emails were not legitimate. Unfortunately, the funds are not recoverable.

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Risk Case Studies

The ACH team had a team bonding event over the weekend and due to a stomach bug have now all called off on Monday morning.

For this reason, numerous NSF and stop payment entries are not returned.

Risk Case Studies

A corporate Originator transmits several files on Wednesday for anticipated settlement on Friday. The files are credit files totaling $486,000.00.

On Friday, the Originator's settlement account becomes overdrawn more than $250,000.00. FI employees are unable to contact anyone at the business.

Two weeks later, your legal team receives a notice from a Bankruptcy attorney notifying the FI that the business if filing for bankruptcy.

Risk Case Studies

Every Friday, Suzy deposits her payroll checks through her mobile app using her cell phone. Rainy Day Credit Union requires a restrictive endorsement on all items deposited through mobile capture. Unfortunately, the credit union does not have a procedure in place to review deposited items for compliance with the restrictive endorsement.

Rainy Day Credit Union begins receiving the items back as duplicate items. They attempt to charge the items back to Suzy's account, but the funds have all been withdrawn.

Risk Case Studies

Mr. Washington was out shopping and received a text message from his bank's fraud department confirming a transaction on his debit card. He was confused and replied that the transaction was fraud. He immediately realized that he had made a mistake and drove to his bank. The customer service representative called the card department and explained the situation. She was informed that according to policy, the card was to be closed and she was instructed to order a new card for Mr. Washington. Mr. Washington requested that his existing card remain open. The card department employee relented and reactivated the card.

Later that day, a bank employee came to Mr. Washington's home and explained that they had made a mistake and that the card did in fact need to be closed. He asked for Mr. Washington's PIN and explained that he was going to take the card and destroy it and have a new card made and sent to Mr. Washington. Mr. Washington complied with this request.

Three days later, Mr. Washington noticed a number of purchases and ATM withdrawals on his account that he did not conduct. He immediately contacted his bank to report the unauthorized transactions, totaling $7,000. The bank employee denied Mr. Washington's claim stating that Mr. Washington gave the fraudster his card and his PIN.

Risk Case Studies

On Monday, Isabelle logged into her online banking and requested an external transfer in the amount of $125,000. The funds were pulled from County Community Bank and deposited into her account at City Credit Union on Tuesday.

On Wednesday, Isabelle went to a City Credit Union branch. She purchased a cashier's check in the amount of $75,000 and withdrew $5,000 in cash.

Later that day she deposited the cashier's check into her account held with Peoples Bank through an ATM.

On Thursday, Isabelle went into a Peoples Bank branch and requested a wire transfer in the amount of $75,000.

On Friday, County Community Bank returned the ACH debit, R10 unauthorized. City Credit Union placed a stop payment on the cashier's check.

On Monday, City Credit Union returned the cashier's check to Peoples Bank, Refer to Maker.

Risk Case Studies

A large regional bank maintains a relationship with a Third-Party Sender but does not have any due diligence on file as to who the Originators of the Third-Party Sender are. Most of the Originators originate WEB debit entries. While the company has always had some return volume, on Wednesday last week, a large spike in unauthorized return activity occurred, totaling amounts over what the Third-Party Sender maintains in their settlement account. Additionally, your compliance officer notifies you that your bank as well as your customers are now popping up on many consumer complaint websites related to these transactions.

Questions?

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