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# Our topics for today...

What is RDC?

The Rules, the  
Regulations,  
the Guidance

The Risks

The Recovery



# What is RDC?

- RDC is one of the fastest growing products in the financial industry
- Remote Deposit Capture (RDC) technology helps to streamline and improve the efficiency of one area of bank operation: processing check deposits. RDC allows customers to “deposit” checks electronically at remote locations, often via mobile devices, for virtually instant credit to their account.



Merchant  
RDC

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Reduce costs of  
transporting checks

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Faster access to funds

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Marketing strategies

# Rapid Growth – Mobile RDC



Mobile banking and payments will continually change, and the expectation among security and mobile experts is that the mobile channel will soon become consumers' primary financial services platform



Because the channel is convenient and can be customized, users will migrate from PC banking and payments to mobile

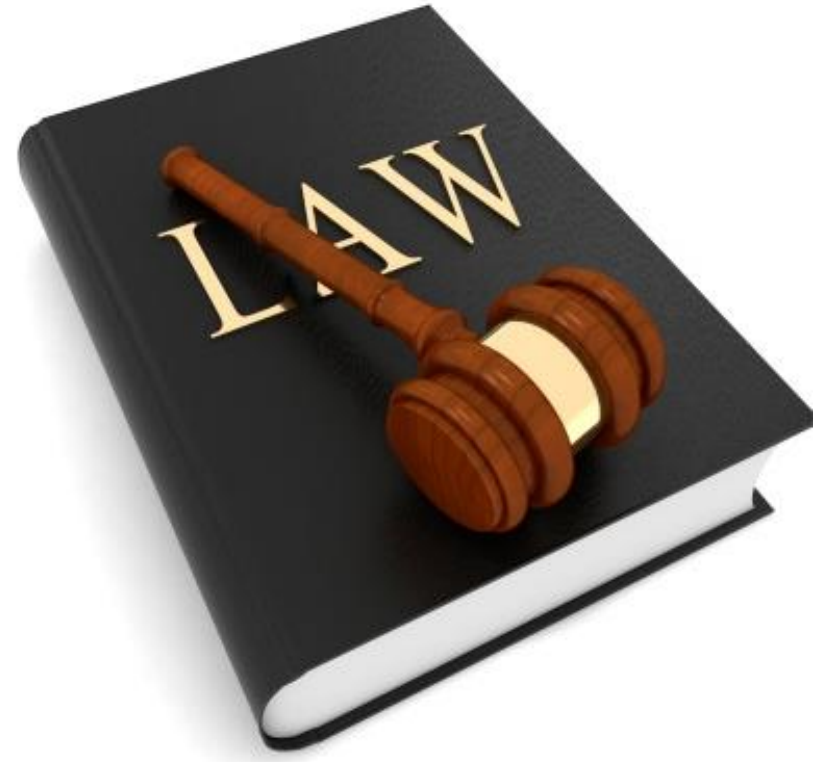


And the more mobile users, the greater the security risk

# Regulation CC

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- Regulation CC
  - - Implements the Funds Availability Act of 1987
  - - Establishes availability schedules, indorsement standards and disclosure requirements
- Regulation CC, Subpart D
  - - Check Clearing Act for the 21st Century Act (Check 21)
  - - Substitute check legal equivalent of the original check



# Regulation J

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- Title 12 Code of Federal Regulations Part 210
- Chapter 2 Collection of Checks and other Instruments by the Federal Reserve and funds transfer through Fedwire
- Reg J applies to financial institutions and banking at the Federal level





# Uniform Commercial Code Article 3

Provides rules for paper-based transactions



Defines negotiable items



Identifies indorsement types



Transfer and presentment warranties

# Uniform Commercial Code Article 4

**Covers check collection, payment, liabilities, timeframes and responsibilities**

- Late returns
- Stop Payments
- Special Circumstances

**Outlines relationship between Paying Bank and customer**

# Operating Circular 3 (OC3)

- Specific terms and conditions for handling items through the Federal Reserve
  - Applies to the handling of all cash items accepted for forward collection and all returned checks accepted for return by the Federal Reserve
    - The Fed is a party to the sending and receiving of items under these rules
    - Incorporates Federal and State regulations (Reg J, Reg CC and UCC) regarding check processing
    - Includes any additional Reserve Bank provisions for Fed exchanges

# More Rules!

## Direct Exchange Agreements

- Direct sends between FIs

## Image Exchange Networks

- Endpoint exchange,  
Viewpoint etc.



# FFIEC RDC Risk Management Guidance

- Released January 14, 2009
  - RDC risk management process in an electronic environment
  - Focusing on RDC deployed at a customer location
  - Principles of RDC risk management discussed are applicable to
    - FI's Internal deployment – ATM, Branch, Cash Vault
    - Other forms of electronic deposit delivery systems (e.g., mobile banking consumer and ACH check conversions)
- Retail Payment Systems Booklet
  - Release February 10, 2010



# Retail Payment Systems – IT Examination Handbook

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- Provides guidance to examiners, financial institutions, and technology service providers to:
  - Identify and control risks associated with retail payment systems and related banking activities
  - Provides overview of retail payment systems including various payment Instruments and clearing, and settlement including:
    - Check-Based Payments (Remotely Created Checks, Electronically Created Payment Orders, Remote Deposit Capture, etc.)
    - ACH network
    - Card-Based electronic payments (Credit cards, debit and ATM Cards, prepaid (stored value) cards, etc.)
    - Emerging Retail Payment Technologies
  - Includes a glossary and various appendices
  - Updated April 2016 – Appendix E. for Mobile Financial Services (MFS)

# Appendix E – Mobile Financial Services

- Include products and services the DFI provides to customers through mobile devices that utilize mobile channels for banking and other financial services
- Appendix E emphasizes need for enterprise-wide risk management approach for effective mitigation of MFS risks
  - Customers less likely to have security controls, virus protection, or personal firewall functionality on mobile devices
  - MFS may involve use of third-party service providers
- Considerations addressed in Appendix E include:
  - MFS technologies
  - Risk identification, measurement and mitigation
  - Monitoring and reporting
  - Discussion of DFIs that offer MFS through technologies such as:
    - Short message service (SMS)/text messaging
    - Mobile-enabled Web sites and browsers
    - Mobile applications
    - Wireless payment technologies

# Authentication and Access to Financial Institution Services and Systems - 2021

- “The Guidance replaces the FFIEC-issued Authentication in an Internet Banking Environment (2005) and the Supplement to Authentication in an Internet Banking Environment (2011), which provided risk management practices for financial institutions offering Internet-based products and services. This Guidance acknowledges significant risks associated with the cybersecurity threat landscape that reinforce the need for financial institutions to effectively authenticate users and customers to protect information systems, accounts, and data”

# What's at Risk

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- Reduction in customer satisfaction and loyalty
- Loss of revenue



# What's at Risk

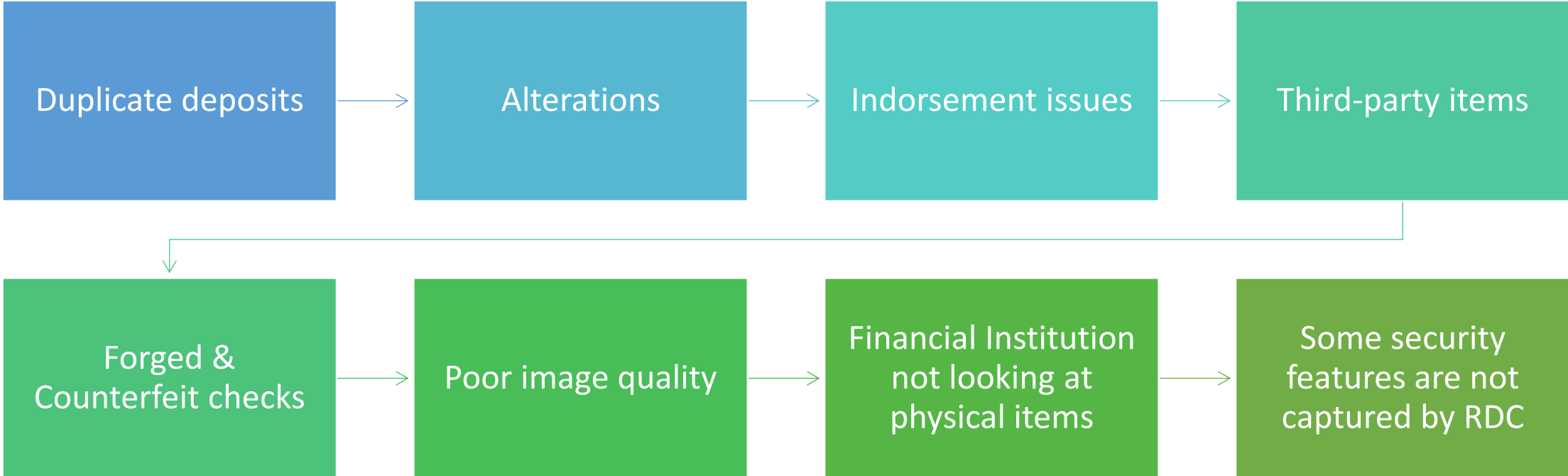
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- Damage to the financial institution's brand as a provider of quality services





# RDC Risks



# Duplicate Deposits

- Financial Institution A sends items in an Image Cash Letter (ICL) to the Paying Bank on Monday. Financial Institution B sends the same items in an ICL to the Paying Bank on Tuesday.
- What recourse does the Paying Bank have and to which bank?

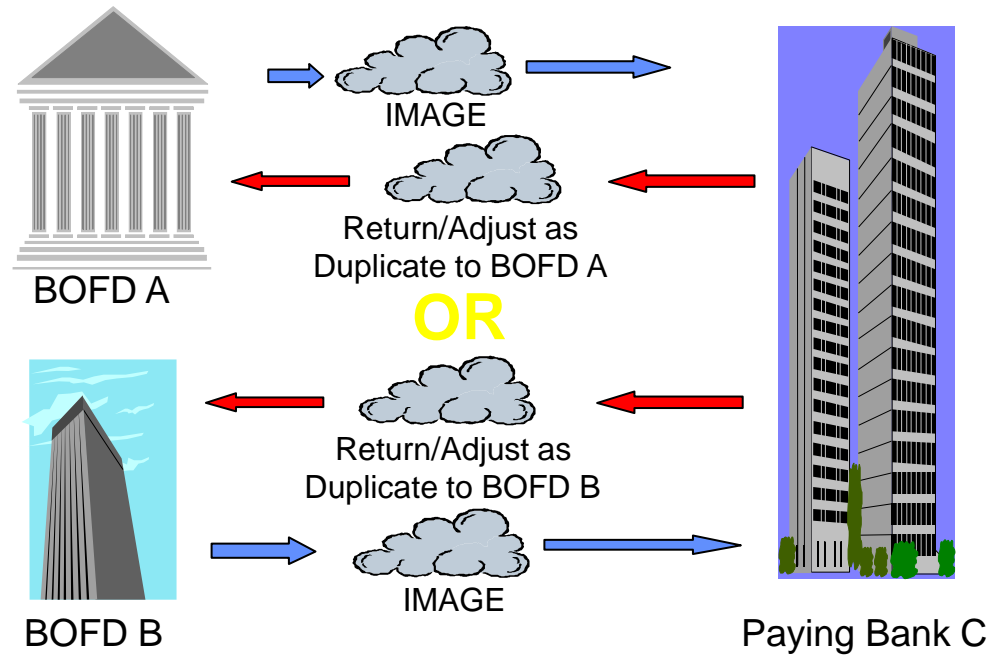




# What does Regulation CC Say about Duplicates?

- Regulation CC 229.34(a)(1)(ii) - No Double Debit Warranty
    - “No person will receive a transfer, presentment, or return of, or otherwise be charged for an electronic check or electronic returned check, the original check, a substitute check, or a paper or electronic representation of a substitute check such that the person will be asked to make payment based on a check it has already paid”
-

# Which BOFD can Paying Bank Make Claim to?



# Paying Bank Possible Actions for Duplicates

## Return within midnight deadline

- Return Code 'Y' for Duplicate
- Return can be better option if consumer mRDC deposit
- Preserves rights in case of fraud

## Adjust: Fed (Paid) ECCHO (Duplicate-Item)

- Adjustment better option if bank error (duplicate ICL)
- More time to research





# Remote Deposit Capture Indemnity

- Indemnity to protect second depository bank that received deposit of paper check that was returned unpaid because the check was previously deposited at another depository bank using RDC service
  - Indemnity provided by first depository bank that
    - Is truncating bank because it accepts the deposit of electronic image or electronic information related to the original check;
    - Does not receive original check;
    - Receives settlement or other consideration for electronic check or substitute check related to the original check; and
    - Does not receive return of check unpaid
-

# Remote Deposit Capture Indemnity

Depository bank indemnifies second depository bank that accepts original check for deposit, for losses incurred by second depository bank if loss is due to check having already been paid

Scope of damages limited to consideration received plus expenses/attorney's fees

Comparative negligence defense available



Depository bank does not make indemnity if original check bore restrictive indorsement inconsistent with means of deposit

Example: “for mobile deposit at [name of first depository bank] only”

# Remote Deposit Capture Indemnity

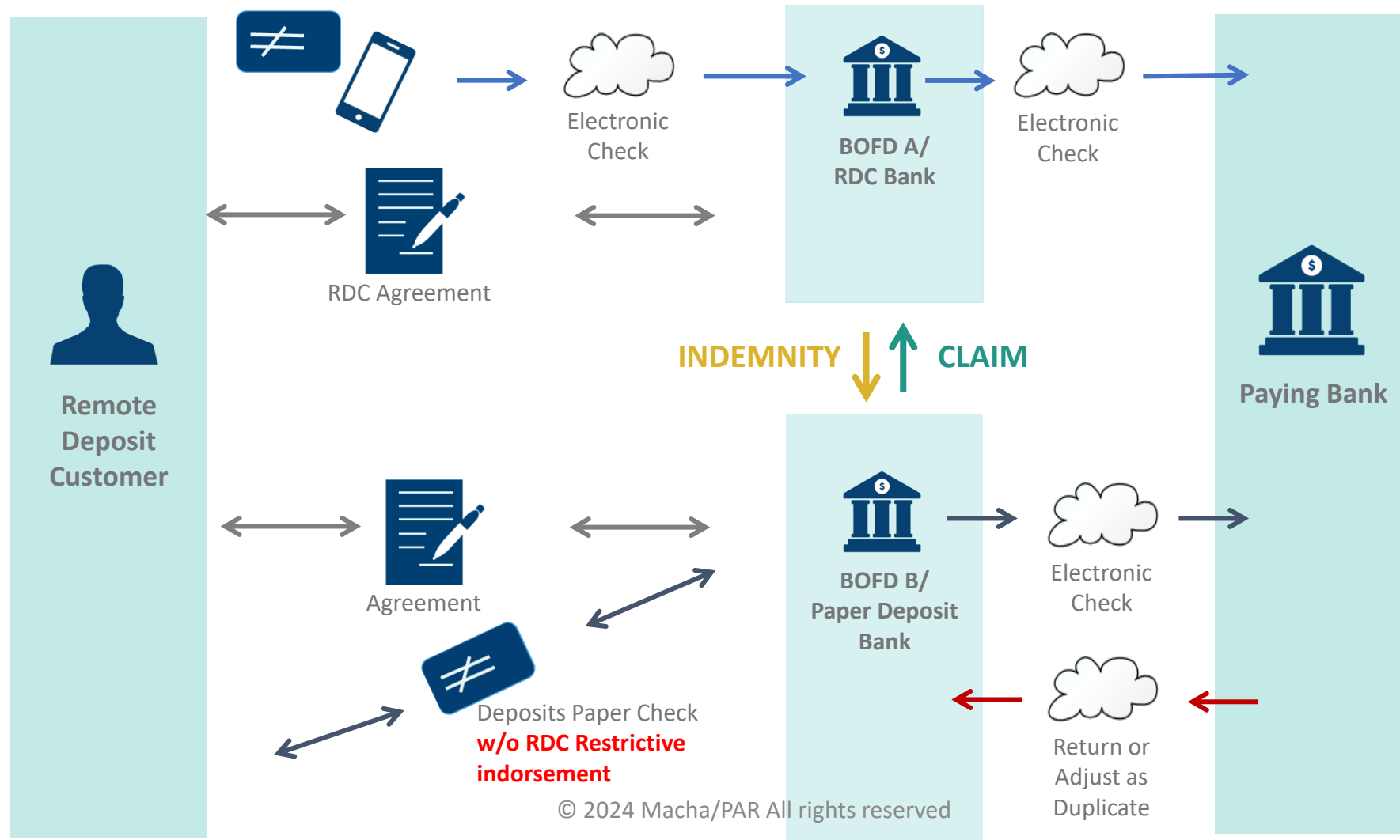
First depository bank's potential liability arises when it permits customer to truncate check and deposit image

- Customer retains original check and may intentionally or mistakenly deposit paper check at another bank

This indemnity permits depository bank that accepts original paper check to make claim against depository bank that allowed customer to truncate

- Claim can be made to any truncating bank, even if multiple truncating banks
- Claim only exists if check returned to bank that accepted original due to the fact that check has already been paid
- Allows truncating bank to allocate loss arising under indemnity to its depositing customer by agreement

# Regulation CC Remote Deposit Capture Indemnity



# RDC Indemnity Claim Processing

RDC Indemnity claim may be made against any RDC depository bank that meets the required conditions for providing the indemnity

- Claim can be made to *any* one RDC bank, even if multiple RDC banks are subject to the conditions of the indemnity



For Fed exchanges, use Warranty/Indemnity Claim (WIC) associated with RDC items with RDC form

- Within 90 calendar days of the PAID adjustment or return letter date (after 90 calendar days deal direct)
- Both PAID items must have been processed by Fed
- Check with Fed to ensure conforming with all requirements



For ECCHO exchanges, use Warranty/Indemnity Claim (WIC) for RDC Indemnity Claims within 1 year according to ECCHO Adjustment Matrix

- Use Sample RDC Indemnity Claim letter to provide necessary information

# Identifying RDC Depository Bank

## Fed exchange

- **BOFD information provided on Paid Item (PAID) cases**
- RDC indemnity claim must be completed within 90 days of PAID case

## ECCHO exchange: Submit Source of Receipt Item adjustment to Paying Bank

- Paying Bank identifies the BOFD who received settlement
- Within one year of cash/return letter date

# RDC Indemnity Disclaim

Assume the RDC Bank has met all the requirements to make the indemnity:

- Truncating bank
- Did not receive original check
- Received settlement/consideration for electronic check/substitute check;
- Did not receive return of unpaid check

Assume Paper Deposit bank accepted original paper check for deposit but it *did* have a restrictive indorsement inconsistent with the paper deposit

- Example: **For Mobile Deposit only at ABC Bank**

**Indemnity is negated in this case**

- If Paper Deposit Bank makes a claim, RDC Bank may disclaim:
  - ✓ Fed OC3: Entry in Error (ERR) adjustment ITYP
  - ✓ ECCHO Rules: May use Sample RDC Indemnity Disclaim Form



# Duplicate Deposit & RDC Indemnity Risk Mitigation

- Restrictive Indorsements
  - Indicates a check:
    - Is already processed
    - How it was processed
    - Restricted to a specific BOFD
  - Prevents duplicate presentment
  - Protects RDC Bank from Indemnity Claims
  - Protects Drawer from paying item twice



# Restrictive Indorsement

“For Mobile Deposit Only to ABC  
Financial RD Service Only”,  
Account Number, & Signature



Indorsement which limits  
further negotiability of a  
negotiable instrument

# Restrictive Indorsement

There is a restrictive indorsement on the *image* of the deposited check the RDC Depository Bank received.

Can the RDC Depository Bank disclaim based on that?

NO – not evidence the **paper** check contained the restrictive indorsement

For RDC Depository Bank to disclaim, the restrictive indorsement must be **on the paper**.

Paper Depository Bank may provide copy of paper check received (front and back) to support its claim that they accepted it **without** a restrictive indorsement

# FAQ: Restrictive Indorsements

- Refer to Reg CC commentary example (general outline)
  - Depository Bank A offers its customers RDC service that permits customers to take pictures of the front/back of their checks and send the image to the bank for deposit.
    - Depository Bank A accepts an image of the check via RDC from its customer
    - Sends electronic check for collection to Paying Bank.
    - Paying Bank, in turn, pays the check; settles with Depository Bank A
  - Same customer who sent Depository Bank A the electronic image of the check then deposits the original check in Depository Bank B.
    - Original check deposited in Depository Bank B bears a restrictive indorsement  
“For mobile deposit at Depository Bank A only” and the customer’s account number at Depository Bank A.
- Result: Depository Bank B may not make an indemnity claim against Depository Bank A
  - Depository Bank B accepted the original check bearing a restrictive indorsement inconsistent with the means of deposit
    - Inconsistent meaning the wording “mobile deposit only” was part of the indorsement on the physical check

What else  
should we be  
thinking about?





# Item Destruction

- When and how is the item destroyed?
- Merchant
  - Method and timeliness in the agreement
- Mobile
  - How?
  - When?
- Holder In Due Course (HIDC)



# Proofing

- Before Check 21 all items were reviewed by the financial institution before being presented
  - Teller
  - Back office
- After Check 21 there is no physical item to review



# Proofing

Are you reviewing files?


All items?

Certain dollar amounts?

Any risk rating assigned?

Are you preventing losses?

Immediate funds availability?



Consumers Still Do  
Not Treat Their  
Smartphones Like  
Computers





## Role of Consumers

- Financial institutions must develop strategies to educate their customers and members about actively managing their own mobile-device security



## Mobile Banking Security Tips

- Never disclose via text message, phone call or email your personal or financial information, including account numbers, passwords, Social Security number or birth date





# Mobile Banking Security Tips

- Avoid storing your banking password or other sensitive information on your smartphone where it could be discovered if your phone is stolen
- Keep your mobile operating system up to date to ensure the highest level of protection
  - Before downloading an update to your mobile device be sure to go to the company's website to confirm the update is legitimate



# Mobile Banking Security Tips

- For your security, sign off when you finish using a banking app rather than just closing it
- If you have suspicions about the authenticity of a mobile banking app, access your account through our mobile banking site or contact the financial institution directly

# Contracts and Agreements

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- You must have strong, comprehensive contracts with merchants/customers
- Should be developed by competent legal counsel
- Ensure your current contract protects your institution from risks identified in the FFEIC guidance as discussed previously



# Contracts and Agreements

- Identify what laws will be incorporated into the agreement
  - Reg CC
  - UCC 3 & 4
- Allowable items
  - Substitute checks
  - RCC
  - Third Party
  - Checks drawn on same business
- How will deal with gaps in the current check law
  - IQA, image usability, returned items, etc
- Ensure that you push warranties back to customer/merchant

# Contracts and Agreements

- Retention of physical items and electronic data
- Describe in detail how the customer/merchant stores and destroys items
- How does the customer/merchant protect the electronic data





# Continuing Education Credits

- Back to RDC School
- This session is worth 1.8 credits
- August 27, 2024



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