



Banking in the Digital Age: Online Account Opening and External Transfers

PRESENTED BY:

**MACHA/PAR – EVERYTHING
PAYMENTS - EVERYWHERE**

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Risk vs. Reward



- ▶ Risk: All payment systems have inherent risk
- ▶ Reward: Ability to offer a variety of services to your account holders



Online Account Opening

Online Account Opening - Risks

- ▶ Identity theft
- ▶ Synthetic identity fraud
- ▶ Money mule accounts
- ▶ Accounts used in scams
- ▶ Loan fraud
- ▶ Violating USA Patriot Act
- ▶ Collecting inaccurate information
- ▶ Account funding transactions



USA Patriot Act – Customer Identification Program

31 CFR 1020.220 Customer identification program requirements for banks

- ▶ Banks must implement a written Customer Identification Program (CIP) appropriate for the bank's size and type of business
- ▶ The CIP must include risk-based procedures for verifying the identity of each customer to the extent reasonable and practicable
- ▶ The bank must form a reasonable belief that it knows the true identity of each customer
- ▶ The CIP must contain procedures for opening an account that specify the identifying information that will be obtained from each customer
- ▶ The CIP must contain procedures for verifying the identity of the customer within a reasonable time after the account is opened

USA Patriot Act – Customer Identification Program

Banks must collect:

- ▶ Name
- ▶ Date of birth, for an individual
- ▶ Address, which shall be:
 - ▶ (i) For an individual, a residential or business street address;
 - ▶ (ii) For an individual who does not have a residential or business street address, an Army Post Office (APO) or Fleet Post Office (FPO) box number, or the residential or business street address of next of kin or of another contact individual; or
 - ▶ (iii) For a person other than an individual (such as a corporation, partnership, or trust), a principal place of business, local office, or other physical location; and
- ▶ Identification number, which shall be:
 - ▶ (i) For a U.S. person, a taxpayer identification number; or
 - ▶ (ii) For a non-U.S. person, one or more of the following: A taxpayer identification number; passport number and country of issuance; alien identification card number; or number and country of issuance of any other government-issued document evidencing nationality or residence and bearing a photograph or similar safeguard.
- ▶ When opening an account for a foreign business or enterprise that does not have an identification number, the bank must request alternative government-issued documentation certifying the existence of the business or enterprise.

USA Patriot Act – Customer Identification Program

- ▶ For a bank relying on non-documentary methods, the CIP must contain procedures that describe the non- documentary methods the bank will use.
- ▶ These methods may include contacting a customer; independently verifying the customer's identity through the comparison of information provided by the customer with information obtained from a consumer reporting agency, public database, or other source; checking references with other financial institutions; and obtaining a financial statement.
- ▶ The bank's non-documentary procedures must address situations where an individual is unable to present an unexpired government-issued identification document that bears a photograph or similar safeguard; the bank is not familiar with the documents presented; the account is opened without obtaining documents; the customer opens the account without appearing in person at the bank; and where the bank is otherwise presented with circumstances that increase the risk that the bank will be unable to verify the true identity of a customer through documents.

USA Patriot Act – Customer Identification Program

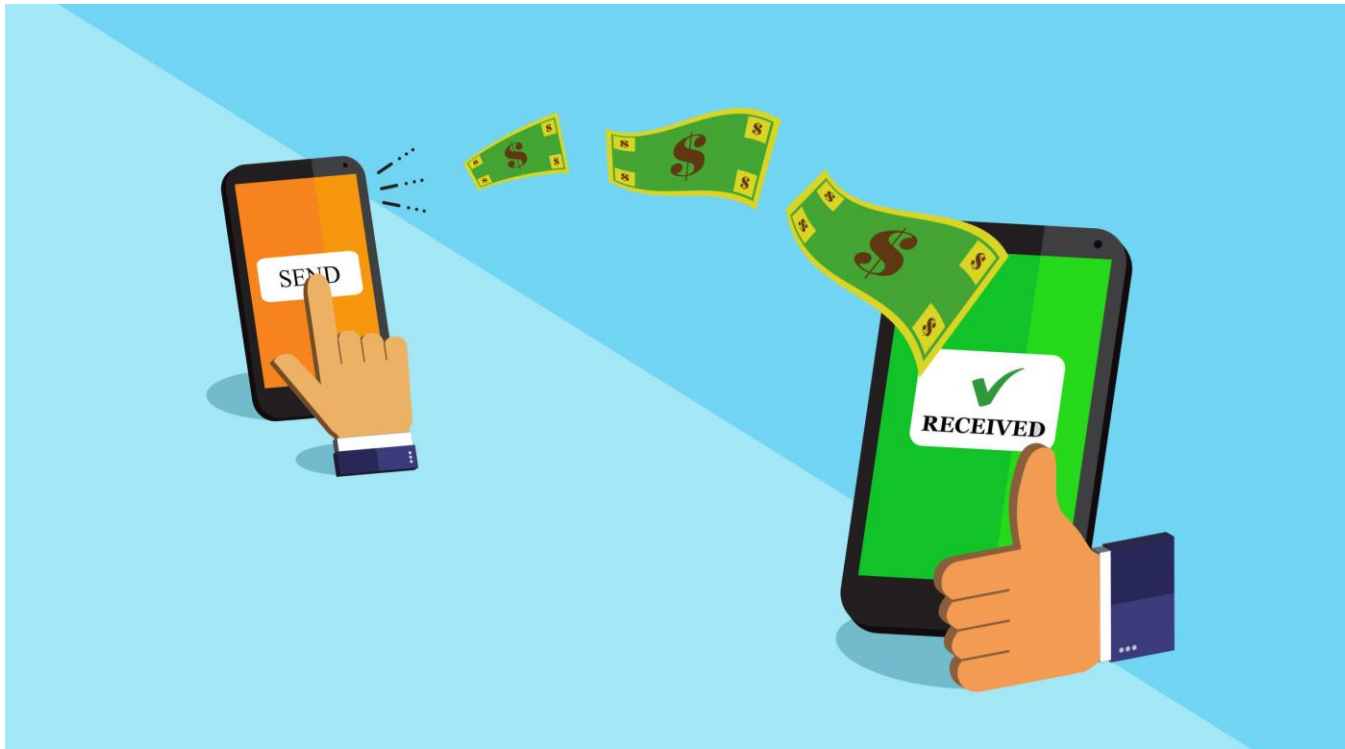
- ▶ The CIP must include procedures for responding to circumstances in which the bank cannot form a reasonable belief that it knows the true identity of a customer. These procedures should describe:
 - ▶ (A) When the bank should not open an account;
 - ▶ (B) The terms under which a customer may use an account while the bank attempts to verify the customer's identity;
 - ▶ (C) When the bank should close an account, after attempts to verify a customer's identity have failed; and
 - ▶ (D) When the bank should file a Suspicious Activity Report in accordance with applicable law and regulation.
- ▶ The CIP must include procedures for determining whether the customer appears on any list of known or suspected terrorists or terrorist organizations issued by any Federal government agency and designated as such by Treasury in consultation with the Federal functional regulators.
 - ▶ The procedures must require the bank to make such a determination within a reasonable period of time after the account is opened, or earlier, if required by another Federal law or regulation or Federal directive issued in connection with the applicable list.

Controlling Online Account Opening Risks

- ▶ KYC and Due Diligence
- ▶ Information and Document Verification
- ▶ Suspicious Activity Monitoring
- ▶ Behavioral Biometrics
- ▶ Machine Learning
- ▶ Multi-factor Authentication (MFA)
- ▶ Secure Communication Channels
- ▶ Layered Security

Controlling Online Account Opening Risks

- ▶ Call backs or thank you cards
- ▶ Mailing all initial documents to physical address associated with TIN/SSN
- ▶ Establish prerequisites to electronic services
- ▶ Value, volume and velocity limits



External Transfer

What are we talking about today?

- ▶ Electronic consumer transfers via ACH
- ▶ Referred to as:
 - ▶ P2P (person-to-person)
 - ▶ A2A (account-to-account or me-to-me)
 - ▶ External Transfers
 - ▶ FI to FI transfer

What are we NOT talking about today?

Consumer Bill Pay

Loan Payments

Credit Card Payments

Venmo, PayPal, CashApp, Google Pay, Apple Pay, etc.

Do you know
the difference?

- ▶ Person-to-Person (P2P)
 - ▶ Consumer Transaction Accounts are owned by different Consumers
- ▶ Account-to-Account (A2A)
 - ▶ Both Consumer Transaction Accounts are owned by the same Consumer

**Authorization is not required for credits between natural persons.

The Rules allow:

- ▶ Sending a **Credit** to myself or someone else
 - ▶ My financial institution will “debit” my account and send an ACH **Credit** to another financial institution.
- ▶ Pulling a **Debit** from myself
 - ▶ My financial institution will “credit” my account and send an ACH **Debit** to another financial institution.



One consumer cannot authorize another consumer to debit their account.

Risk-Pushing Credits

- ▶ Incorrect Account but a valid account at the other financial institution
- ▶ Authorized credit push fraud
- ▶ Online access compromise
 - ▶ Your account holder's credentials are compromised
 - ▶ Imposter generates transactions
 - ▶ Regulation E issue

Risk-Pulling Debits

- ▶ Returns
 - ▶ NSF, account closed, incorrect account number
 - ▶ Debited valid account but “wrong” account
 - ▶ Automatic 60 day right of return in ACH
 - ▶ ODFI warranties
 - ▶ Your account holder’s credentials are compromised
 - ▶ Imposter generates transactions
 - ▶ If you offer both Credit push, debit pulls
 - ▶ They debit an account at another institution (not theirs)
 - ▶ They push that money to their account at another institution

Delaying Funds Availability vs. Holding ACH Credits

You are an ODIF. Your account holder initiates an external debit entry to pull funds into their account at your FI. When do you make the funds available to that account holder?

1. Can you place a hold on the funds?
2. Can you delay the availability of the funds?

Delaying Funds Availability vs. Holding ACH Credits

What do the Rules say?

What Rules apply?

1. Nacha Operating Rules?
2. Regulation CC?
3. Regulation E?
4. UDAAP?
5. Anything else?

You Decide!

- ▶ What services do you want to offer?
 - ▶ What types of entries?
 - ▶ Rules compliance based on type of entry
- ▶ Who is allowed to use the service?
- ▶ Internal Controls

What?

- ▶ Credit push and/or Debit pull
- ▶ Account-to-Account and/or Person-to-Person
 - ▶ Means of authorization
 - ▶ Security requirements

Who?

- ▶ Things you should consider:
 - ▶ Account relationship
 - ▶ Tenure of relationship
 - ▶ New account holder??
 - ▶ History of account activity
 - ▶ Account balances
 - ▶ NSF's
 - ▶ Regulation E Claims
 - ▶ Recurring Deposits

Exposure Limits

Frequency Limits

Suspension or Termination
of service

Security



Internal
Controls

Educate!

- ▶ Be Proactive, Not Reactive!
 - ▶ Know current fraud trends and scams.
 - ▶ Provide education/information to your staff and account holders
 - ▶ Social Media
 - ▶ Flyers/Brochures
 - ▶ Videos
 - ▶ Emails
 - ▶ Newsletter

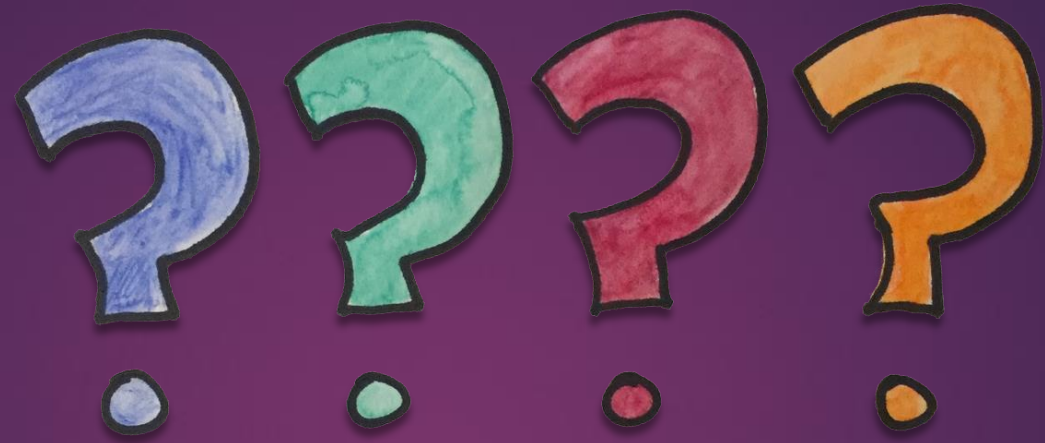
Moral of the story...

Be selective

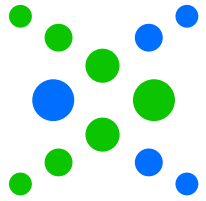
Implement strong controls

Review, Revise, Repeat

Educate!



Questions



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Banking in the Digital Age

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