What Do You Need to Know to Know Your Customer?

Discussion Today

- What Does ‘KYC’ / ‘KYCC’ Really Mean?
- Types of Customers
- Risk Profiles - Using the Data
- Ensuring Compliance with Rules & Regulations

KYC - Know Your Customer & KYCC - Know Your Customer’s Customer

- Goes beyond account opening processes/procedures
- Ensure you understand the risk associated with this particular customer utilizing these particular services
- Focus today is on ACH Origination and Remote Deposit Capture
Due Diligence

- **Due diligence** is the investigation of a potential payments product user to confirm facts, such as review of financial records, creditworthiness, etc.
- Essentially, the care that should be taken before entering into an agreement or financial transaction with another party.

Know Your Payments Products and Services

- **ACH Origination**
  - ACH Policy - Board Approved
  - SEC codes allowed
  - Risk Tolerances
  - Agreements

- **Remote Deposit Capture - Business/Mobile**
  - Board Policy
  - RDC Risk Assessment
  - Agreements

ACH Board Policy

- Unique to your FI and part of overall risk management program
- Establishes the scope of all ACH activities
- Origination and Receipt
- Identifies Board and Management as responsible for ACH compliance and risk management
- Specifies reporting requirements
- Establishment of exposure limits
- Identifies high risk activities
- Third-Party Senders

Required by the ACH Rules and FFIEC - OCC 2006-39
ACH Origination Onboarding

- Who will you offer ACH services - prohibited business types?
  - Review application
  - Verify legitimacy of business
  - Background check - D&B or other verification of good standing
  - Principle owners
  - Relationship with FI
- Evaluate creditworthiness - includes financial analysis
  - Credit rating - years in business
  - Establish exposure limits
  - Pre-funding or collateral
- List permissible SEC codes

ACH Origination Agreement

- Require compliance with ACH Rules and other regulations including BSA/AML
- Outline type and timing of information from Originator
- Must include ODFI ability to:
  - Suspend or terminate contract
  - Audit Originator ACH audit activities
- Provide Originator with their exposure limit or restrictions on SEC codes
- Require data security procedures be established by Originator

RDC Board Policy

- Senior Management & Board establish parameters of RDC program and identify risks
- RDC Risk Assessment recommended prior to implementing program
- Establish policies for qualifying customers for the service
  - Onboarding
  - Limits & Thresholds
  - Agreements
  - Education of Mobile RDC users

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RDC Onboarding

- Who will you offer RDC services - business types?
- How do you risk rate?
  - Are you compliant with BSA/AML requirements for RDC?
  - Do you review:
    - Customer application
    - Financials
    - Years in business
    - IT relationship history
    - Credit rating
    - Nature of business
    - PCI compliant
    - Dun & Bradstreet or similar
    - Premises via on site inspection

Mobile RDC

- Mobile App? Access through online banking?
- Qualifications?
  - Length of time as account holder
  - Age requirements
  - Average balance
  - NSF History
  - Limits
  - Agreement/Terms & Conditions
- Educating Mobile RDC users

RDC Agreements/Terms & Conditions

- Best Practices
  - Governing Law
  - Payment Processing
    - Transmission of Items
    - Fraud Availability
    - Policies
    - Deposit Limits
    -培育 / Process if exceeded / filing limits
- Termination Clause
  - FI may suspend / Customer may suspend
  - Reason
Manage Risk - It's Your Job

- Appropriate controls in place to manage ACH/RDC risk posed by any customer
- Identify High Risk customers
- Third-Party Senders pose additional risks
- Same Day ACH - Credits and Debits

How Do You Manage the Risks?

- DUE DILIGENCE
  - Understanding the risks associated with your payments products
  - Clear policies/procedures related to those payments products
  - Knowing everything you can about a payments product user
  - Verifying information supplied to you
  - Seeking out information on the Internet
  - Solid agreements that protect both the FI and the payments products users

Ongoing Risk Management - Ensuring Compliance and Adherence to Policies

- Board / management reporting
  - Metrics and trend analyses on forward and return volumes
    - By transaction types
  - Percentage of deposit base using ACH/RDC services
  - Summary of return rates by customer
  - Capital adequacy relative to volumes and level of risk associated with users
  - Audits of compliance with regulations and rules
Questions?

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