




What Do You Need to Know to Know Your Customer?

SFE Conference May 3, 2017
Biloxi MS

2017


Southern Financial Exchange
Conference & Expo
Biloxi MS - May 3-4



Discussion Today

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

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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

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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

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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

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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

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

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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

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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

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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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FFIEC Guidance - Risk Management of Remote Deposit Capture

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
 - ▶ FI relationship history
 - ▶ Credit rating
 - ▶ Nature of business
 - ▶ PCI compliant
 - ▶ Dun & Bradstreet or similar
 - ▶ Premises via on site inspection

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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

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RDC Agreements/Terms & Conditions

- ▶ Best Practices
 - ▶ Governing Law
 - ▶ Federal/State
 - ▶ Warranties & Liabilities
 - ▶ Only authorized users ... agree to comply with all applicable rules and regulations
 - ▶ Customer indemnifies FI and holds harmless for loss caused by failure to comply with agreement
 - ▶ Payment Processing
 - ▶ Transmission of Items
 - ▶ Funds availability
 - ▶ Notices
 - ▶ Deposit Limits
 - ▶ Define / Process if exceeded / raising limits
 - ▶ Termination Clause
 - ▶ FI may suspend / Customer may suspend
 - ▶ Timeframe

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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

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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

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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

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Questions?

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