

Discussion Today New 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 - DBB 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

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RDC Board Policy

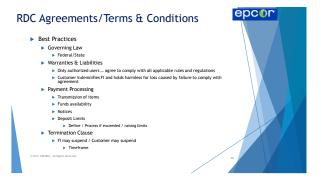
- ► Senior Management & Board establish parameters of RDC program and identify risks
 - ▶ RDC Risk Assessment recommended prior to implementing program
 - Establish policies for qualifying customers for the service
 - ▶ Onboarding
 - ► Limits & Thresholds
 - ► Agreements
 - ► Education of Mobile RDC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

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FFIEC Guidance - Risk Management of Remote Deposit Capture







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
- \blacktriangleright Audits of compliance with regulations and rules

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