EXECUTIVE SUMMARY

Webinar

Payments Audits & Risk Assessments:

Reality, Requirements, Simplification

March 2018

The payments landscape has evolved a lot in the last decade, creating complexity and exposing financial institutions (FIs) to risk. Traditional risk management is manual, siloed, and inefficient. While it can be difficult getting organizational buy-in for change, FIs willing to embrace new processes and technology can greatly reduce their risk exposure and improve back-office efficiency.

In this webinar, risk management experts outline these challenges and others, describe their experiences, and offer best practices and actionable steps to help FIs better manage risk.

Context

Brad Johnson of Centrix Solutions and David Payne of ePayAdvisors, Inc. describe the state of risk management and offer insights into best practices and ways to simplify and improve risk-management processes.

Key Takeaways

Payments Transformation

The payments landscape has grown and changed significantly over the last decade. There's ACH activity to monitor, including Same Day ACH; there are also remote deposits, card payments, payment apps like Zelle, and even cryptocurrencies to consider in this big picture. Individually, each presents risk; together they create a very complex landscape filled with compounded risk; and as the speed of settlement increases, managing this risk and complexity becomes even more difficult.

- The industry has responded with fraud monitoring, reporting, annual customer risk reviews, and other policies and procedures.
- Unfortunately, these responses are often siloed and don't offer a comprehensive view of FIs' real risk exposure.

Traditional Risk Management

- **Customer level viewpoint**—Historically, risk has mostly been evaluated at the customer level: what the customer is doing and not doing, the flow of money in and out of a specific account. This is a very siloed approach.
- This outdated approach can create **cross-channel risk**, where money is moved from one payment channel into another. The Bank Secrecy Act (**BSA**) has historically provided guidance on cross channel risk, but most of this monitoring is geared towards very specific kinds of risk related to compliance.

> "Payments keep becoming more complex. You've got a huge combination of processes—you've got your ACH network, remote deposit, same-day ACH—which increases the speed of settlement. You've got card activity, card processing … Zelle … Cryptocurrencies … How do we handle all of this? What's the risk involved?"
>
> — David Payne
> Vice President, Payments Risk & Compliance,
> ePayAdvisors, Inc.

- In order to grow and adapt their risk management, FIs should take a more holistic approach—evaluating ACH origination, remote deposit activity, wire activity, etc., across the entire payment system.

Other Risk Management Challenges

- **Confirmation bias** can limit your ability to manage risk from both a strategic and origination standpoint.
- Logging activity manually in Excel is slow; as is traditional calendaring—sending calendars to originators then logging their submissions manually. These methods require a lot of work, are prone to error, and don't create a holistic view of customer activities or their associated risk.
- **Change can be slow.** If an FI has never faced serious consequences from their risk, they may be slow to improve their risk management. Lack of executive buy-in, budget constraints, and faith in manual procedures can also delay upgrades to risk management processes.

"There is no silver bullet solution. There is just not one thing you can do that's going to take care of all your risk when it comes to payments. There just is not. It's really a multi-tiered approach."

— Brad Johnson
Director, Solutions Consulting, Centrix Solutions

Risk Management Best Practices Through Technology

Tools that can:

- streamline annual ACH exposure limit reviews,
- automate return rate and management reporting, and more
- automate ACH calendaring
- perform cross-channel risk analysis
- create an ACH reporting archive
- offer ACH filter/block services

Automation not only helps identify risk, but can increase efficiency, saving time and money.

Building a business case can help drive change.

The efficiencies gained through automation and potential reduction in losses can easily outweigh the cost of investing in risk-management technology.

Biographies

Brad Johnson
Director, Solutions Consulting,
Centrix Solutions

Brad has been involved with financial technology for more than 30 years. With experience in implementation, training, product management, and sales, he brings vast experience to every client and prospect engagement. Prior to Centrix Solutions being acquired by Q2, Brad was a partner with Centrix, with his primary role directing all sales and marketing efforts. In his current role as a Senior Solutions Consultant, he works with clients to share best practices for maximizing Centrix products, while also working with the sales team to offer his expertise during prospect engagements.

David Payne, AAP, NCP, CIA, CFSA
Vice President, Payments Risk & Compliance,
ePayAdvisors, Inc.

David is a self-proclaimed payments geek who would rather be doing an audit or risk assessment than just about anything! (Except maybe leading seminars on the COSO framework, implementing risk-based auditing, fraud, or payments systems.) He is an expert in payment systems risk management and compliance—with a fascination in fraud, psychology, BSA/AML risk management, and how technology impacts risk. David holds certifications in ACH (Accredited ACH Professional), check processing (National Check Professional), and auditing (Certified Internal Auditor & Certified Financial Services Auditor-Banking).

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