

Webinar Topic: RDC



New Innovations to Manage the Risk & Fully Automate the Paper in RDC

**Thursday, September 8th, 2016
2:00 PM – 2:45 PM (EST)**



**Hosted by Orbograph,
Joe Gregory, Vice President of Marketing**



ReadyTalk: Chat Lower Left



Introducing...

- Ed's background includes executive level experience in general management, product management, and technology leadership.
- Prior to starting Riverstone, Ed was the Executive Director at RemoteDepositCapture.com, the recognized experts on Remote Deposit Capture (RDC), where he remains a partner.
- He has been involved in RDC from the very beginning as a Zions Bank Vice President, and then as a one of the original employees of NetDeposit.
- He is a member of the Board of Directors of NEACH (North East Automated Clearing House Association), is a frequent speaker, and author of numerous articles on RDC, payments and payments technology.

Keynote Speaker:



Ed McLaughlin
Principal, Riverstone Consulting Partners

Disclaimer

This presentation and applicable materials are intended for general education purposes and nothing in this presentation should be considered to be legal, accounting or tax advice.

You should contact your own attorney, accountant or tax professional with any specific questions you might have related to this presentation that are of a legal, accounting or tax nature.

Many of the slides are referenced from presentations I have delivered at/for RemoteDepositCapture.com



Agenda

1. What are the FFIEC guidelines, what do they pertain too, and how have they helped the industry
2. What are the most critical FFIEC checklist items
3. Capture trends for the future
4. Overview of future risk factors in RDC
5. Practical application for few technologies
6. A new value proposition
7. Questions ?????
ATM/Availability/Faster Payments



Remote Deposit Capture

RDC has been around for a decade now!

- Client base started with niche commercial segments.....

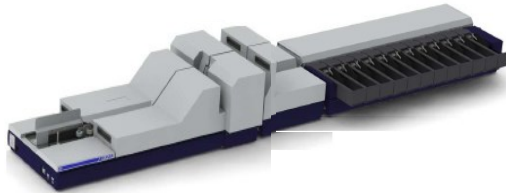


.....and consumer deposit on flatbed scanners

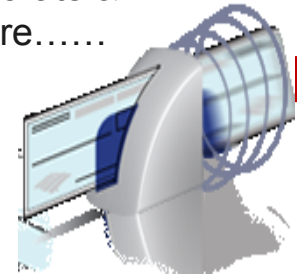
Remote Deposit Capture (RDC) & mRDC

We think of RDC to include everything from...

- Large corporate & capture.....



- Small & medium corporate & remote lockbox capture.....



- Home Office and
- Consumer



...To check deposits on your phone!



But did you know?

- Remote deposit capture actually includes a lot more!
- FFIEC RDC Risk Management Guidance released January 14, 2009
 - RDC risk management process in an electronic environment
 - www.ffiec.gov



FFIEC

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

Promoting uniformity and consistency in the supervision of financial institutions

Polling Question #1 (ReadyTalk)

- Which workflows would also be considered remote capture under FFIEC?
 - Inclearings processing (no)
 - Teller image capture (yes)
 - Branch image capture (yes)
 - Lockbox processing at customer (yes)
 - Point of sale capture (yes)
 - ATM scanning (yes)
 - Kiosk scanning (yes)
 - Concierge table capture (yes)
 - Cash Vault (yes)
 - Other???

BRANCH IMAGE CAPTURE



CENTRALIZED/INCLEARINGS



POINT OF SALE



REMITTANCE PROCESSING



TELLER IMAGE CAPTURE



Sounds Like the OmniChannel!



CONCIERGE TABLET



REMOTE DEPOSIT CAPTURE



MOBILE RDC



VIDEO ATM



SELF SERVICE KIOSK

Regulatory Guidance Overview

1. FFIEC RDC Risk Management Guidance released January 14, 2009
 - Focusing on RDC deployed at a customer location
 - Principles of RDC risk management discussed are applicable to:
 - FI's Internal deployment – ATM, Branch, Teller, Cash Vault
 - Other forms of electronic deposit delivery systems (e.g., mobile banking and automated clearing house [ACH] check conversions).
2. Retail Payment Systems Booklet {& RPS Examination Procedures (N), (M)} – February 10, 2010
3. 2010 Version of the Bank Secrecy Act/Anti-Money Laundering Examination Manual – Updated April 29, 2010
4. Authentication in an Internet Banking Environment – October 12, 2005
Supplement to Authentication in an Internet Banking Environment – June 22, 2011



FFIEC Guidance: RDC is a Delivery System

- RDC is a Payments & Data Processing System
- Scope of implementation and exposure
- Should be incorporated into existing risk management process
- Governance, Oversight & Tactics will, and should, vary by institution
- Non-Public Personal Information
- Type of Risk – Compliance, Reputational, Operational, Credit, Fraud, Continuity Complexity of Risk Identification will vary
 - Internal IT systems, Third-Party Solution Providers
- Involve relevant stakeholders

FFIEC Guidance

Identify

Mitigate

Monitor

Measure

Actionability & Sustainability

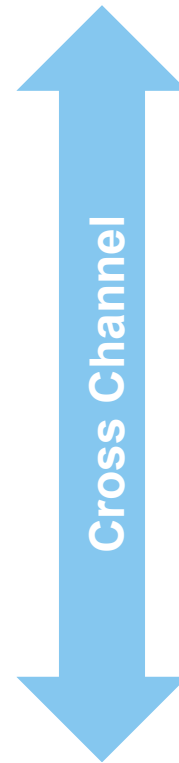
Have You Heard of the “Checklist”?

- FFIEC Guidance Risk Assessment Checklist from RemoteDepositCapture.com
- 235 actionable items

¶	Requirement	Control	Category	Responsibility	Documentation	Status (IorC)	¶
1.	Background and Purpose						1.
2.3.1.	Strategies	What strategies were defined for RDC : Defensive to keep existing customers, limited deployment to select customers, aggressive - to attract new customers and deposits?	Risk Assessment	Senior Management Product Management	Business Plan Risk Assessment Strategic Objectives and Resource Requirements		2.3.1.
2.3.2.	Understand the return on investment	Does the FI have sufficient resources to support the proposed implementation profitably	Risk Assessment	Product Management Finance	Business Plan Risk Assessment Strategic Objectives and Resource Requirements		2.3.2.
2.3.3.	Management's ability to manage the risks inherent in RDC.	Are their sufficient resources to support the scale and scope of the deployment. Are they internal and/or external	Risk Assessment	Senior Management Product Management	Business Plan Risk Assessment Strategic Objectives and Resource Requirements		2.3.3.

Risks Categories in Consumer and Mobile

FI Retains Checks	Customer Retains Checks
Branch	Corporate
Teller	Merchant
ATM	Lockbox
Correspondent	Consumer
Operations	Mobile



Optimal Risk Management

Top 10 Steps to Minimize RDC Risk:

1. **Client Selection / KYC** – Leverage KYC Information to setup parameters.
2. **User / Location / Account Parameters** - Identify & Prevent Fraud & Mistakes, manage exceptions
3. **Education & Training** - Most customers will want to protect themselves.
4. **Functionality Restrictions** – Minimize Fraud Opportunities.
5. **Availability Schedules & Holds** - Don't make short-term loans, allow for returns, effective way to deal with questionable items.
6. **Positive / Negative Databases, Verification & Guarantee**
7. **Integration & Reporting** – Monitor client deposit trends, integrate into bank-wide risk management systems (AML / BSA for example).
8. **Real-time Systems** – Manage systems, Mitigate Risk before / as it happens
9. **Balances** – Competitive advantage, strengthens balance sheet, maximizes revenues and minimizes losses.
10. **Accelerate Clearing & Returns** – Faster Clearing can reduce potential losses.

Tactics for RDC Risk Management

Traditional

- Client Selection
 - Credit Relationship
 - Balances
 - History
- Thresholds
 - Daily and Monthly Deposit \$ & Volume Limits
- Availability

Source,: RemoteDepositCapture.com

Innovation

- Client Selection
 - Leverage KYC, History & Monitoring, Balances
- Availability
- Real-time Monitoring & Transaction Patterning
- Endorsement Identification
- Validation
- Thresholds (Dynamic)
 - Daily and Monthly Deposit \$ & Volume Limits
- Verification & Guarantee
- Enhanced Duplicate Detection
- Location Awareness

Deposit Fraud Schemes

- Duplicate deposit
- Different payee language, timing, and amounts than previously verified
- Transaction originates from a different locations than known customer's location
- Payor pre-printed information and signature do not match
- Payor is present on a sanction list
- Transaction originates from a customer's customer with no payment history, and the payment is in an amount similar to or in excess of payments whom the customer has historically paid and received at times other than when historically made.
- Handwritten changes on the item
- Deposit originate from a customer's employee who is a newly authorized person on the account or is an authorized person who has not previously sent deposits.
- A deposit is received for credit into an account, however, the item names a beneficiary that is not the account holder of record.
- 3rd Party Processors generating ICL (Image Cash Letters) – financial institutions *receiving* compromised account information or account takeover

*Text is based (loosely) on the red flags in the FinCEN Advisory of September 6th and adapted to RDC
FinCEN advisory on email and wire has a lot in common with RDC;
https://www.fincen.gov/statutes_regs/guidance/pdf/FIN-2016-A003.pdf

Polling Question #2:

- What is your top risk concern in RDC – Consumer Capture?
 - Processing errors
 - Customer fraud
 - Customer satisfaction (experience)
 - Compliance violation of customer
 - Compliance violation of bank
 - Customer authentication
 - Measurement and reporting of risk controls
 - Ongoing training

Polling Question #3:

- What is your top risk concern for branch/teller capture?
 - Processing errors
 - Customer fraud
 - Customer satisfaction (experience)
 - Compliance violation of customer
 - Compliance violation of bank
 - Customer authentication
 - Measurement and reporting of risk controls
 - Ongoing training
 - N/A

**Fraud Prevention
with disparate
capture solutions
(OmniChannel)**

**Legal &
Compliance**

**Mobile Payments
& New Capture
Channels (Kiosk)**

**Under Served &
Unbanked – how
do I get their
business**

**Cross Border
Payments &
Faster
Payments**

**Customer
Availability**

RDC & OmniChannel

- OFAC Compliance
 - Automate Suspicious Activity Reports
 - Adhere to Sanctioned Country List
 - Cross Border Considerations
- BSA / AML
 - Logical Approach to Enhanced Due Diligence
 - Know Your Customer & KYCC
 - Integrate Check with Enterprise Monitoring
- Training/Documentation/Process
- New RDC Highlights
 1. “Senior management should identify BSA/AML, operational, information security, compliance, legal, and reputation risks.”
 2. “Conducting appropriate customer CDD and EDD.”
 3. “Obtaining expected account activity.”

RDC must be integrated into a bank's AML / BSA risk management and reporting activities.

Know Your (Biz) Customer

Key Information:

- Understand Business
 - Finances, Customers, Processes
 - CDD (Customer Due Diligence, EDD (Enhanced Due Diligence,
 - CIP (Customer Identification Program)
- Understand Deposits
 - Obtain History
 - Volumes & Values of Items, deposits, returns,
 - Velocity
- Use this data to custom-fit RDC
 - Thresholds, Limits, Holds & Availability Schedules
 - Separation of Duties, Approvals
 - Functional Capabilities
 - Pricing, Balances, monitor deposit & data trends.



RDC Should be customized to each individual client.

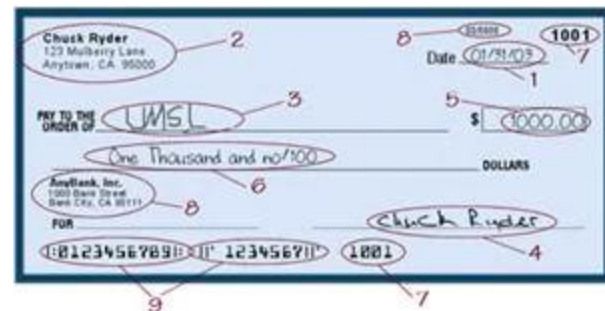
Oversight and Audit

- Guidance by local FDIC examiner:
 - “Think of the spirit of RDC guidance and apply to this new channel.”
- Adding RDC and mobile RDC to BSA/AML Audits
- Use automated routines that will address KYC and risk management
 - Account activity review
 - Deposit/item validation/verification issues
 - Limits
 - Holds
 - Duplicate check detection



New Tricks of the Trade

- Legal Protection
 - Front of the check field validations
 - Endorsement Detection
- Operational Performance
 - Real time check validation/verification
 - Scanner Read Rates / Image Quality
 - Identity verification
- OFAC, AML, BSA Compliance
 - Field Validation, Location Awareness
 - Mobile, Scanner, PC
- Training, Training, Training
- Monitoring, Alerts and Actionability
 - The move towards “Real-Time” processing



Source: RemoteDepositCapture.com

New technologies on the horizon

- Mobile RDC continues to evolve with Video Capture, multiple check deposits and the capture of payment docs
- Better fraud detection tools – enhanced use of ICR and analytics
- Embedded security features in the check stock
- Real time analysis and programmable work flows
- Cross Channel (Omni Channel) implementations



Use Cases of Image Validation for Testing Payment Negotiability

- Payee = Account Holder Name
- Payor \neq Payee or Account Holder Name
- Amount Verification Enhanced Logic

Validations	Execute	Minimum \$	Risk Threshold	Weight
Maximum Amount	<input checked="" type="checkbox"/>	0	<input type="text" value="7000"/>	1.00
Amount Verification	<input checked="" type="checkbox"/>	0	<input type="text" value="20"/>	1.00
Amount Discrepancy	<input type="checkbox"/>	0	<input type="text" value="70"/>	1.00
Image Quality	<input checked="" type="checkbox"/>	0	<input type="text" value="70"/>	1.00
Payee Verification	<input checked="" type="checkbox"/>	0	<input type="text" value="70"/>	1.00
Payer Verification	<input checked="" type="checkbox"/>	0	<input type="text" value="60"/>	1.00
Missing Signature	<input checked="" type="checkbox"/>	0	<input type="text" value="70"/>	1.00
Missing Endorsement	<input checked="" type="checkbox"/>	0	<input type="text" value="70"/>	1.00
Valid Document Type	<input checked="" type="checkbox"/>	0	<input type="text" value="70"/>	1.00
Date In Range	<input checked="" type="checkbox"/>	0	<input type="text" value="70"/>	1.00
Fraud Detection	<input type="checkbox"/>	0	<input type="text" value="70"/>	1.00

A new value proposition

- RDC and mRDC continue to expand in popularity with improved UI and security
- For Business, its about the payment...still
- When will the Federal Reserve introduce the changes to Reg. CC?
- The RDC Platforms can offer more utility...faster clearing, echeck, P2P



Final Polling

- Value: 1-10

Contact Information

- Joe Gregory: 978-621-8729
joe.gregory@orbograph.com
- Ed McLaughlin:
ed.mclaughlin@riverstonecp.com