

FFIEC Guidance on Remote Deposit Capture

Speaker

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• Dan Fisher

- Dan is President and CEO of The Copper River Group offers consulting and research services to the financial industry with an emphasis on payments systems, information and technology strategies for independent community banking organizations.
- He has been in technology and banking for over 30 years. He has been a director of the Federal Reserve Bank of Minneapolis, Chairman of the ABA Payments Committee, a member of the ICBA Payments Committee and participated in the industry effort with the Federal Reserve that ultimately succeeded in the passage and implementation of the Check-21 legislation. He has authored or co-authored six books and has written numerous articles and white papers on technology, operations and the payments system. His most recent book titled, Capturing Your Customer, focused solely on Remote Deposit Capture.

Presentation Content

THIS PRESENTATION IS DESIGNED TO PROVIDE ACCURATE AND AUTHORITATIVE INFORMATION REGARDING ITS SUBJECT MATTER. IT IS PRESENTED WITH THE UNDERSTANDING THAT THE PRESENTERS ARE NOT RENDERING LEGAL, ACCOUNTING, OR OTHER PROFESSIONAL SERVICES.

- **FFIEC Press Release 1-14-09**

- Focus on Risk
- Identifies the essential elements of risk
- Engages the senior management in their responsibilities
- FFIEC Retail Payments Exam Procedures manual will be updated in 2009 to include RDC

- **Overview**

- Guidance should not be construed as a specific regulatory requirement, however, the expectation is that, within the scope of the guidance, financial institutions, service providers and other entities should take steps that are at least equivalent in compliance with the guidance

- **Scope (The Guidance raises the bar!)**
- Goes beyond just a discussion of technology
 - It engages:
 - The Board of Directors
 - The senior management team
 - All potential stakeholders
 - It sets a new tone in regard to exam scrutiny and signals increased rigor, intensity and accountability

- **The Guidance**

- Remote Deposit Capture is defined as:
 - Deposit transaction delivery system (digitizing of deposit documents)
 - Transmission of Non-Public information
 - Movement of money

• **The Guidance**

- Expands the scope of Remote Deposit Capture to include:
 - Commercial RDC
 - Retail RDC
 - ATM Capture
 - Teller Capture
 - Branch Capture
 - Image Capture (back office operations)

Note: Also includes Fax and Cell Phone pictures of checks

- **Risk Management**

- Asserts that RDC does in fact create additional risk
- Establishes the expectation of conducting a Risk Assessment prior to the implementation of the product

- **Risk Management**

- Engages senior management in the process
- Establishes that RDC should be consistent with the strategic direction of the organization

- **Risk Management**

- Establishes that the ability of the organization to manage the risk should be identified and demonstrated
- Establishes that RDC should be incorporated into the organizations risk assessment and information security processes.

- **Risk Management**

- Engages Board and management to review and approve:
 - Plans
 - Performance
 - Risk Management
 - Implementation
 - Reports of ongoing progress

- **Risk Management**

- Modify information security program to include the identification of associated risks relative to RDC
 - Internal
 - External (customers and service partners)
 - Type (i.e. ACH)
- Establishes that the Board and senior management are ultimately responsible

- **Risk Management – Classical Risk**
 - Legal Risk
 - Compliance
 - Operational Risk
 - Transaction Risk
 - Fraud Risk
 - Systemic Risk

- **Operations Risk**

- Asserts that senior management should understand the operations risks
- That your organization should conduct a thorough review of the effects of the product and the technology options

- **Operations Risk**

- Controls and information Security (the internet)
- RDC is considered a movement of deposits
 - Additional security is needed (i.e. MFA, security layers and other methods)

• Risk Mitigation

- Caveat... *Metrics inform but they do not protect!*
- Organizations will need to implement a dynamic and constant risk management plan to include:
 - Metrics
 - Monitoring with ratings or limits
 - Activity reporting
 - Intervention

- **Risk Mitigation**

- And not at the end of the month
- The guidance is a very good indication of what is to come....

- **Risk Mitigation**

- What are the steps that can be taken to implement program that will adequately respond to the guidance
- Develop an involvement plan with the Board of directors, senior management team and all potential stake holders.

- **Risk Management and Best Practices**
 - Update the Risk Assessment and Management policy of the organization
 - Review prior to implementation
 - Reporting (ongoing)
 - Mitigation and intervention
 - Update the Information Security Plan

- **Risk Management and Best Practices**
 - Technology Management Policy
 - Product definition (where applicable)
 - Risk Policy
 - Customer Due Diligence Procedure

- **Risk Management and Best Practices**
 - Vendor Due Diligence Procedure (w/RFP)
 - Credit review (Note: Not your regular loan review)
 - Deposit transactions and payments are on the liability side and affect liquidity (directly and indirectly)

- **Risk Management and Best Practices**
 - **Implementation Procedures**
 - Approval Authority (no shades of gray)
 - Installation responsibility
 - Vendor contact authority
 - Ongoing
 - Customer implementation
 - Contract execution
 - Approved pricing
 - Scheduling

- **Risk Mitigation Program**

- Activity monitoring (real time)
- Intervention
- Authority for intervention – in contract
- Specific intervention procedures
- Specific criteria for intervention

- **Risk Mitigation Program**

- Update risk assessment process to include:
 - Internal (application, sales and implementation)
 - External (application, sales and implementation)

- **Business Continuation Planning (BCP & DRP)**

- In a crisis or service failure, reverting to the old way will not suffice!

Note: Perspective, a remotely located borrower could be adversely impacted if their ability to scan is not functional and an branch office is not nearby.

- Distance relationships are the norm

- **Business Continuation Planning (BCP & DRP)**
 - Have a plan for identifying trouble in advance, not at the last minute
 - Have specific procedures defined out
 - In House Systems
 - System Specific BCP
 - Out Sourced Systems
 - Vendor specific BCP

- **Summary**
- **Questions**

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