

Risk Assessments on Emerging Payments

Lauren Howle, Chief Strategy Officer
Corporate America Credit Union



1

Risk Averse or Risk Taker?



2



3

Goals for Today

- Where to Start
- Who to Include
- Types of Risk
- Framework

4



"...and by tomorrow, I'll need a list of specific unknown risks that we'll encounter with this project."



5

Where to Start?

Education Resources

- ▶ Southern Financial Exchange - <https://www.sfe.org/aws/SFE/pt/sp/seminars>
- ▶ The Clearing House - <https://www.theclearinghouse.org/payment-systems/rtp>
- ▶ FedNow - <https://explore.fednow.org/>
- ▶ The Payments Professor - <https://www.youtube.com/c/PaymentsProfessor>
- ▶ Payments Nerds Podcast
- ▶ Bankers' Banks and Corporate Credit Unions
- ▶ Your Peers!



6

Real-Time Payments – The Clearing House

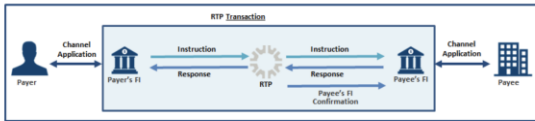


Figure 2. The RTP System's end-to-end Message flow. This example shows a Payment Message flow.

Source: https://www.theclearinghouse.org/~/media/new/tch/documents/payment-systems/introduction_to_the_rt_system_october_2020.pdf



7

FedNow Instant Payments

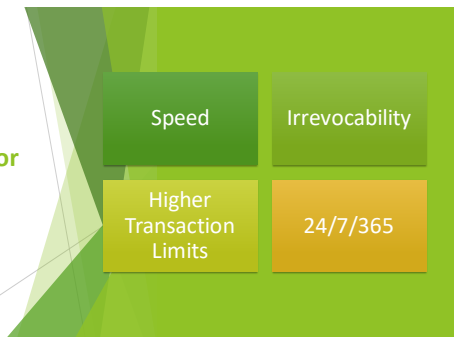


Source: <https://explore.fednow.org/resources/fednow-product-sheet.pdf>



8

Benefits or Risks?



9



What are the Risks?

- ▶ Compliance
- ▶ Credit
- ▶ Information Technology
- ▶ Liquidity
- ▶ Operational
- ▶ Reputational
- ▶ Strategic

10



What are the Risks?

- ▶ Compliance
- ▶ Credit
- ▶ Information Technology
- ▶ Liquidity
- ▶ Operational
- ▶ Reputational
- ▶ Strategic



11

Risk Categories

Compliance Risk

- ▶ Risk arising from violations of, or non-conformance with, laws, rules, regulations, prescribed practices, or ethical standards.

Credit Risk

- ▶ Risk arising from a third-party's failure to meet the terms of any contract with the FI or otherwise fail to perform as agreed.



12

Risk Categories

Information Technology Risk

- ▶ Risk arising from lack of effective control with computing services and delivery. The risk is a function of internal controls, information systems, employee integrity, and operating practices.

Liquidity Risk

- ▶ Risk arising from inability to meet obligations without incurring material costs or unacceptable losses. It includes the inability to manage unplanned decreases or changes in funding sources.



13

Risk Categories

Operational Risk

- ▶ Risk arising from from inadequate or failed internal processes, people, systems, or external events, resulting in the inability to deliver products or services, maintain competitive position, or manage information.

Reputational Risk

- ▶ Risk arising from negative public perception, such as negative reviews from dissatisfied customers or members.



14

Risk Categories

Strategic Risk

- ▶ Risk arising from poor or adverse management decisions, improper implementation of decisions, or lack of responsiveness to industry or environmental changes.



15

Brainstorm Sessions

- ▶ What are the Risks?
- ▶ All Key Stakeholders
- ▶ No Siloed Convo
- ▶ Regular Meetings



16

Brainstorm Sessions

- ▶ How do we want to participate?
- ▶ What are our use cases?
- ▶ Receive only? Send and receive?
- ▶ Technology needs? Third Party Service Providers?
- ▶ Funding Agent or Correspondent relationship?
- ▶ Compliance & fraud concerns?



17

Risk Outline – Receive Only

Risk Category	Considerations
Compliance	RTP Participation & Operating Rules Electronic Funds Transfer Act (Reg E) UCC 4A BSA/AML/OFAC NCUA/FDIC/State Regulators
Credit	Not applicable – irrevocable payments received
Information Technology	24/7/365 Connectivity
Liquidity	Little risk – funds management considerations
Operational	Immediate Funds Availability Accept/Reject/Accept without Posting
Reputational	Member Education Fraud Considerations
Strategic	Staff/Board Education Roadmap for Payments Strategy



18

Risk Outline – Send & Receive

Risk Category	Considerations
Compliance	RTP Participation & Operating Rules Electronic Funds Transfer Act (Reg E) UCC 4A BSA/AML/OFAC NCLUA/FDIC/State Regulators
Credit	Not applicable – irrevocable payments received
Information Technology	24/7/365 Connectivity Multi-Factor Authentication Risk Management & Fraud Controls Physical & Logical Security Access Controls Third Party Service Providers/Application Providers
Liquidity	Self-funding or Funding Agent/Correspondent Funds Management



19

Risk Outline – Send & Receive

Risk Category	Considerations
Operational	Immediate Funds Availability Accept/Reject/Accept without Posting Which customers/members can send? What limits are in place for send? Risk Management & Fraud Controls Fraud Reporting Obligations
Reputational	Member Education Fraud Considerations EVERYTHING ultimately impacts reputation
Strategic	Staff/Board Education Roadmap for Payments Strategy



20

Sample Risk Assessment Template

Item #	Risk Category	Potential Sources of Risk	Inherent Risk			Key Control to Mitigate Risk	Documentation of Control	Quality of Control	Residual Risk
			Exposure	Impact	Risk Rating				
1	IT	Network outage resulting in inability to post payments 24/7/365	3	5	15	Backup secure in place for DR. Contingency operations at DR site. Automatic failover established.	Business Continuity/DR Plan	85%	2.25
2	Operational	Account takeover/fraudulent transactions	3	5	15	MFA in place in service application. Limits on first time sends. AGL measures to add new payee. Member/customer education.	RTP Policies/Procedures; IS Policies/Procedures	80%	3



21

Typical Risk Rating Scale



22



Risk Assessment to Risk Management



23

Questions?

Lauren Howle, Chief Strategy Officer
 Corporate America Credit Union
 (205) 581-0164
lhowle@corpam.org



24