



Mitigating Your Risk with Remote Deposit Capture



Disclaimer

This course provides an overview of remote deposit capture and the FFIEC guidance. Responsibility for compliance with all legal and regulatory requirements remains at all times with individual users. This presentation and the information contained in it are not intended to be used as legal advice and Viewpointe provides this material “as is” without warranty of any kind, either express or implied, including, but not limited to, the implied warranties of merchantability or fitness for a particular purpose. This document could include technical inaccuracies or typographical errors and individual users are responsible for verifying any information contained herein.

The information in this document and discussed in this presentation is the exclusive property of Viewpointe Clearing, Settlement & Association Services, LLC. It may not be copied, disclosed, or distributed, in whole or in part, without the express written permission of Viewpointe. © 2010 Viewpointe Clearing, Settlement & Association Services, LLC. All rights reserved.

Agenda

RDC and The FFIEC Guidance

Remote Deposit Capture

RDC FFIEC Guidance

Resources and Reference Tools

Questions



Remote Deposit Capture

- Remote Capture?
 - Capture of the paper items at a location other than the depositing financial institution's check processing operations center
 - May include branch locations, ATMs or corporate client locations
- Branch Capture?
 - Image capture of paper checks at a branch location
 - Capture at image-enabled ATMs

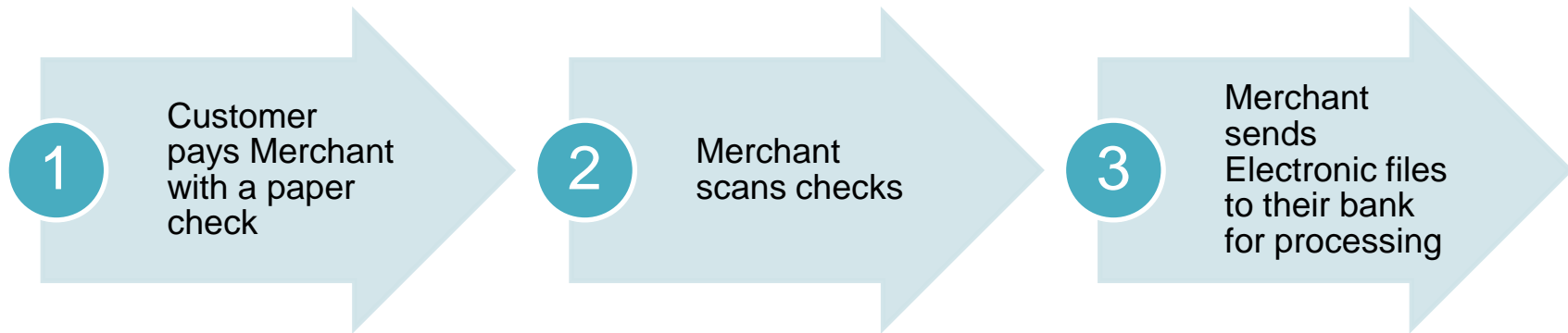


Remote Deposit Capture

- Corporate/Merchant Capture?
 - Image capture of paper checks at a corporate customer's location
 - Paper retention / destruction by customer
- Consumer Capture?
 - Image capture of paper checks at a consumer customer's location
 - Paper retention / destruction by customer



Remote Deposit Capture





Remote Deposit Capture

- Making the business case
 - Why should we do it?
 - New business and/or expansion
 - Maintain old business
- Financials
 - Increase revenue
 - Decrease expenses
 - Cost versus ROI



Remote Deposit Capture

- Shop around for the vendor that meets your needs
 - Due diligence
 - Examine functionality
 - Compare with other vendors
- Training
 - Staff at financial institution
 - Staff at corporate entity



Remote Merchant Capture

- Customers can make deposits remotely by using a check scanner and software provided by the financial institution
 - Customer does not have to come to the financial institution
 - Customers can bank with financial institutions outside of their local area
 - Customers with multiple locations across the country can consolidate their deposits with one account
 - Customer can make deposits 24 hours a day



Remote Deposit Capture

- Establish procedures to properly separate, handle and secure physical checks
 - Avoid accidentally reimaging the checks
 - Avoid sending imaged check out in a paper cash letter
 - Avoid having checks stolen and mishandled



Remote Deposit Capture

- If you are truncating checks, how long do you keep original checks?
 - What if there is a forged endorsement and the original check is required to prove it
 - Corporations converting checks to images will be safe keeping not only on-us items, but also transit items (That's a lot more checks)
 - Corporations will need to decide which checks to keep and for how long based on their tolerance for risk



Remote Deposit Capture

- Business resumption and incident response plans are often forgotten when adding new products and procedures
- Take the opportunity to proactively update these plans before an incident occurs



MICR Repair

- Must accurately represent *entire* MICR line
- Issues
 - Even with enhanced MICR reading software, manual keying by operators will occur
 - Must strongly consider how MICR repair will be handled in Remote Merchant Deposit applications
 - Make sure this is covered in agreements



Remote Merchant Capture Risk

- Customers can scan items more than once
 - Accidentally
 - Fraudulently
- Customers will often key dollar amounts
 - Similar to customers that encode their own checks
 - Financial institution assumes warranty risk
- Customer must safe keep and destroy checks
 - Fraud risk
 - Operational risk
- Know your customer



Agreements, Agreements, Agreements

- Remote Merchant Capture Agreements:
 - Make sure that you pass back risks that are out of the financial institution's control back to the customer
 - Destruction of checks
 - Warranty claims (encoding errors)
 - Indemnity claims (better image or original item)

Agenda

RDC and The FFIEC Guidance

Remote Deposit Capture

RDC FFIEC Guidance

Resources and Reference Tools

Questions



RDC FFIEC Guidance

- FFIEC - Federal Financial Institution Examination Council
- Guidelines issued January 2009
- Examination manual issued February 2010
- Addresses the necessary elements of an RDC risk management process in an electronic environment, focusing on
 - RDC deployed at a customer location
 - Mobile banking
 - Automated clearing house (ACH) check conversions



RDC FFIEC Guidance

- Guidance versus requirements
 - While the guidance is not required, examiners' reviews will be based on the guidance
- Mandatory versus demonstrated
 - The guidance does not make anything mandatory, but it states throughout that you must ensure or demonstrate that you meet the following requirements



RDC FFIEC Guidance

- RDC New Delivery System not a New Service
- Senior Management Involvement
 - Identify and Assess: legal, compliance, reputation and operational risks
 - Understand RDC compatibility with institution's business strategies
 - Understand the Return on Investment (ROI)
 - Understand ability to manage the risks inherent in RDC



RDC FFIEC Guidance

- Risk management legal and compliance
 - Information security guidelines
 - Federal Reserve Board Letter “00-17”
 - Guidance on the Risk Management of Outsourcing Technology Services
 - Multifactor authentication
 - Applicable law
 - Reg CC, Reg E, NACHA Rules, Check Law
 - Bank Secrecy Act, USA PATRIOT Act, OFAC



RDC FFIEC Guidance

- Risk management: operational risk
 - Customer controls
 - Multifactor authentication
 - Physical controls
 - Increased fraud risk
 - Check alteration
 - Counterfeit checks
 - Duplicate presentments
 - Employee fraud
 - Forged or missing endorsements
 - Identity theft



RDC FFIEC Guidance

- Risk management: mitigation and controls
 - Risk management policies
 - Customer due diligence and suitability
 - Approval process
 - Credit approval
 - Insurance adequacy
 - Vendor due diligence and suitability
 - Agreements – partner not security or compliance officer
 - Training for customers



RDC FFIEC Guidance

- **Contracts and agreements**
 - Acceptable items
 - Customer obligations
 - Original versus image
 - Customer internal controls
 - Customer procedures for image quality
 - Deposit thresholds
 - Funds availability
 - Governing law
 - Rules and regulations



RDC FFIEC Guidance

- Contracts and agreements (continued)
 - Item retention and destruction
 - Liability, warranties indemnification and disputes
 - Performance standards
 - Financial institution
 - Customer
 - Periodic audits
 - Roles and responsibilities
 - Termination policy



RDC FFIEC Guidance

- Business continuity
- Other mitigation and controls
 - Security and integrity of data
 - Separation of duties
 - Endorsing and franking
- Risk management measuring and monitoring
 - Financial institution
 - Customer



RDC FFIEC Guidance

- Performance measuring
- Management reporting to senior management/board
 - Duplicate entries
 - Reject and corrections
 - Violation of deposit thresholds



RDC Checklist

- Assessing the types of risks
 - Legal
 - Compliance
 - Operational
 - Fraud



RDC Checklist

- Assessing the risks
 - Scope of implemented
 - Type of customer
 - Risk associated with customer
 - Application
 - Equipment
 - Fraud



RDC Checklist

- Agreements/Contracts
 - Comprehensive
 - Governing laws, rules, regulations and guidelines
 - Roles and responsibilities
 - Performance standards
 - Liabilities and warranties
 - Items allowed
 - Funds availability
 - Security
 - Procedures
 - Retention requirements
 - Right to audit
 - Fees
 - Termination



RDC Checklist

- Ongoing analysis/review
 - Annual
 - History
 - Business changes
 - Review of limits (if limits were set)
- Ongoing oversight/monitoring
 - Activity
 - Reports
 - Financial institution
 - Corporate/merchant



RDC Checklist

- Types of reports
 - Return items
 - Duplicate presentment
 - Exceptions
 - Received images
 - Large items
 - Activity
 - Customer
 - User
- Training
 - Corporate/merchant staff
 - Financial institution staff
 - Support staff



RDC Checklist

- Other areas to consider
 - Vendor management
 - Business continuity
 - Information security

Agenda

RDC and The FFIEC Guidance

Remote Deposit Capture

RDC FFIEC Guidance

Resources and Reference Tools

Questions



Resources and Reference Tools

- Financial Institution Account Executives
- RemoteDepositCapture.com
- FFIEC website
 - www.ffiec.gov

Agenda

RDC and The FFIEC Guidance

Remote Deposit Capture

RDC FFIEC Guidance

Resources and Reference Tools

Questions



Questions?

Angie Smith, AAP

Senior Manager, Education Services

Viewpointe, LLC

410-496-4299

angie.smith@viewpointe.com

www.viewpointe.com



Closing Comments