

Remote Capture: Risk Mitigation Strategies

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Norway Savings Bank Profile Information

- \$930 million in assets
- Mutual, community bank
- Twenty-one branches in southern and western Maine
- Provide retail and commercial services



Agenda

- Determine Remote Capture Strategy
- Identify the Risks
- Mitigate to the extent possible
- Evaluate Remaining Risk
- Questions?

Remote Capture Strategy

- Choice of strategy will likely impact the level of risk involved!
 - Merchant Capture
 - Sell / price aggressively?
 - Or use as an additional “tool”
 - Branch Capture
 - Roll out approach is critical
 - Consumer Capture
 - High-worth customers only?
 - Cell phone capture?
 - Or open to all consumer-customers?

Merchant Capture - Identify Risks

- Biggest risk: you are allowing your business customers to enter transactions into the payments system on your behalf!
- Associated risks include:
 - Legal/Compliance Risks
 - Check 21 / Reg CC / Reg J / OFAC
 - Operational Risks
 - Duplicate files / old checks processed?
 - Fraud Risk
 - Transactions processed for credit fraudulently

Merchant Capture – Mitigate Risks

- Effective Merchant Capture Agreement
 - Find attorney with industry experience!
 - Key components include:
 - Who is responsible for maintaining the hardware (scanner)?
 - Customer responsible for sending a balanced file
 - Retention- timeframe, secure, no duplicates
 - Image quality- ANSI
 - Funds availability
 - Contingency plan
 - Warranties

Merchant Capture – Mitigate Risks

(Cont'd)

- Customer Qualification process
 - Know Your Customer!
 - Have a documented process in place
 - Integrate with other services (ACH, Wire)
 - Be able to show due diligence
 - Initial approval and annual review
 - Maybe not quite underwriting, but...
- Effective training (including remedial)
- Ensure strong controls are in place at the merchant site

Branch Capture – Identify Risks

- Operational Risk – Ensure that staff around the bank out at the branches follow the same set of procedures
- Legal / Compliance Risk
 - Ensure that funds availability policy is in sync with check clearing
 - Check image quality must meet Check 21 and other standards
- Fraud Risk (limited)

Branch Capture – Mitigate Risks

- Controls and procedures for the following:
 - Balancing
 - Processed checks
 - Retention / destruction
 - Quality control – outgoing files
- Training
- Scanner maintenance & cleaning
- Understand Check 21 – warranties , etc

Consumer Capture – Identify Risks

- All of the risks identified for merchant and branch capture **times 2** (or more?)!!!
- Risk of fraud would seem to be significant

Consumer Capture – Mitigate Risks

- Know Your Customer
- Educate your customer
- Monitor transactions

Remote Capture – Shared Areas of Risk

- Security of Transmissions
 - Multi-factor authentication
 - SSL connection
 - SFTP
- Contingency Planning
- Physical security of processed/transmitted checks

Evaluate Remaining Risk

- Identify the remaining risks for each – merchant, branch and consumer capture
- Evaluate those risks
- Is additional mitigation required and/or possible?
- Decide whether to accept the remaining risk (offer the service) or not (don't offer)!

Questions?

