

Risk Management, Compliance and Consulting Services



Norman Robinson
CEO
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EasyPay Advisors

CEOCFO: *Mr. Robinson, what are EastPay and EastPay Advisory Services?*

Mr. Robinson: EastPay itself has been an organization as a not-for-profit trade association since 1974. We basically have more than 600 financial institution members, and about 80 corporate or affiliate members. We provide education, training, publications and payment support. We provide a payment hotline for our members on a variety of payments systems. These are typical not-for-profit, tax exempt trade association activities.

EastPay Advisory Services is a for-profit subsidiary of EastPay that provides consulting services. We are in competition with other for-profit companies of consultants and CPA firms and others to provide risk management consulting services to financial institutions and corporations. That is basically the difference between the two.

CEOCFO: *Is it a lot easier to gain attention because you are affiliated with the not-for-profit association?*

Mr. Robinson: Each organization stands alone, but we both serve and overlapping membership. EastPay is a member of the National Automated Clearing House Association; one of thirteen organizations that own the ACH rules. A number of years ago as the association began to put audit and compliance into the rules and require every financial institution in the country to perform an ACH compliance audit, we found that we were really in a better position than anyone to understand those rules and thus be able to help our members comply with them. Risk management is very important, and that is really the outgrowth of our for-profit subsidiary. Because we are owners of the rules our members naturally look to us as payment experts on the compliance side. Both organizations work hand in hand even though we are separate organizations with separate board of directors, websites, etc., however, we do utilize overlapping staff members.

CEOCFO: *What do you understand about compliance that perhaps others do not?*

Mr. Robinson: Financial institutions across the country have really been struggling in the last few years with compliance. There is a lot of focus on risk management and regulatory and legislative compliance. In terms of payments this focus is on consumer protections, unauthorized transactions, causing risk not only to the financial institution, but to all network participants. Originating payment services for companies can provide an attractive and profitable relationship; however there are all types of companies out there and matching the services offered to the risk profile of the financial institution can be challenging. Community banks, large banks, and credit unions have so many things on their plate that it is difficult for them to understand the risk management and liability they have in terms of payments. That is where EastPay and EastPay Advisory Services can step in to help them digest all the regulations and help them become compliant with the payments aspect of their activity.

CEOCFO: *Do all of your clients or prospective clients have to meet the same compliance requirements?*

Mr. Robinson: There are a couple angles to this. All of the financial institutions are bound by the ACH Rules, which has compliance and audit requirements. Every financial institution is required to perform an annual ACH compliance audit, so that is the standard. From other regulatory standpoints, there are national and state chartered banks and credit unions that answer to various regulators – the OCC, CUNA, FDIC, CFPB, the Federal Reserve and etc. We can go in and help them understand what they need to do to be compliant. There has been an effort by the FFIEC to provide a common set of rules for all of the regulators to make sure that they are addressing regulatory compliance similarly across the board.

To answer your question from a different angle, compliance is not as complex for financial institutions that just act as receiving financial institutions. Those financial institutions that originate ACH for companies are held to additional requirements. There is a higher level of burden and requirements on them to be in compliance and to monitor the customers they bring to the table, their overall return rates, unauthorized return rates, exposure limits, etc. There is certainly a higher burden on originating financial institutions. Going a little deeper, there are companies that fall into higher risk categories, due to a number of factors, such as new businesses, businesses with the types of consumer transactions that can generate higher return rates, etc. Risker payments applications can often relate to transactions that are acquired over the Internet or telephone or where there are third parties. There are certain Third Party Sender arrangements where the originating financial institution does not have a relationship or contract directly with the Originator. There is a little higher scrutiny that is put on financial institutions that originate for those types of organizations as well. So you can see that there are several levels of compliance requirements, and when we walk into each one of our members we really have to make an assessment as to who their regulator is, whether they are originating, and a little deeper for whom they are originating.

CEOCFO: *EastPay Advisory Services is fairly new. What has been the response?*

Mr. Robinson: We actually started offering these compliance services a number of years ago under our not-for-profit corporation. As demand grew we determined that we should move these activities under a separate for-profit corporation, recognizing that we wanted to be in compliance ourselves with the IRS regulations since we are in a sense in competition with other consultants who offer these type services. There has been a huge demand for this, and while we just really launched EastPay Advisory Services this past May, we do have a previous track record with a number of clients who turned to us because we are the payment experts in this area. This is a growth opportunity. We just hired another individual for full-time advisory services, and I would suspect that the sky is the limit for future growth.

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CEOCFO: *How do you work with a client?*

Mr. Robinson: A basic engagement would be to help them become knowledgeable and compliant with the ACH Rules and the audit and compliance requirements. For a receiving institution, that is the most basic. There are certainly liabilities that they have, particularly in terms of processing payments, posting payments in a timely basis, making funds available according to the regulations, and most importantly returning transactions properly and on a timely basis whether it is for non-sufficient funds, account closed, or where customers claims an item is unauthorized or something that they just don't recognize. There are a variety of other reasons, and there are specific time frames for them to return them. If they do not return them properly and within the right time frames, then they can own the liability for those payments. A single ACH transaction can be one dollar shy of \$100 million, so the liability can be significant.

Another area in particular for receiving institutions is with government payments. Government payments are a little bit different in terms of social security payments, SSI and other government benefit payments and have some unique rules around them. The financial institutions can have significant liability for those transactions if they are posted to the wrong account or where an individual dies and they do not take immediate action to return or freeze those funds.

It certainly gets more complicated & complex as we work with originating financial institutions as clients. We review their contracts with customers, we look at their due diligence, we look at their staff and training and their knowledge, and we will test some of their transactions to make sure they are compliant with the return codes, etc.

We also provide compliance reviews for more than just ACH payments. We have a number of experts on staff with nine of our thirteen employees holding an Accredited ACH Professional certification from NACHA. Three of them have a National Check Certification professional as well as Certified Check Instructors certification, and a couple of us have Corporate Trade Payment certification from the Association for Financial Professionals. There are also CIA, CISA, CFSA audit certifications on staff.

So we have the capability to perform reviews on ACH, RDC (remote deposit capture), check, risk assessment as well as wire transfer risk assessments. Even deeper than that, when we work with our members that have third parties, we can actually can go into the Third Party to insure that they are also in compliance. The regulators are looking even more closely at the risk related to Third Parties.

CEOCFO: *How do you stay ahead of the security issues?*

Mr. Robinson: That is another whole area of compliance. Cyber threats and data breaches are certainly most worrisome. Spyware, malware, phishing, corporate account takeover and the whole nine yards are important areas of serious concerns. As everyone knows it is very difficult and almost impossible for every organization to stay ahead of the fraudsters that are out there. They morph and move into different areas, so it is very difficult to stay abreast of that. One way that we stay abreast of these areas is with our membership and involvement with FS-ISAC, the Financial Services Information & Sharing Analysis Center. It is a quasi-governmental organization, dedicated to monitoring and sharing cyber and physical threats. I often refer to their daily alerts as a firehose of information about vulnerabilities in various software, vulnerabilities in websites, scams and malicious events such as malware and corporate account takeover. It is a fantastic organization. I served as chair of the payment risk committee, and was on the ground level of understanding and digesting these threats. I am certainly not an expert in that area, but we do have weekly and monthly threat calls. These are very confidential calls among financial institutions, which provide a terrific opportunity for community and larger banks to share in a very confidential way exactly what they are seeing and sharing recommended mitigating actions that can be taken. We try to push that information out to our members. When our members call we are in a better position to help them.

Sometimes it is just the basic risk management functions that need to be improved, such as, dual control separation of duties, not deviating from established procedures (the human factor), etc. Sometimes these core controls do not get the attention they should. There are also various types of software that can help them do data analysis and spot trends or problems. Detecting anomalies is a focus of the regulators and should be a part of each organizations tool kit. Likely everyone has had an occasion where their credit card was compromised or lost. The credit card company might call you and ask if you are making purchases in a foreign country. They are performing anomaly detection to determine whether that is a pattern that fits with your purchases. Financial institutions can do the same thing with ACH, wire transfers and other payments. Does your customer generally send wire transfers to China or Romania? Probably not, and if not, you should be able to detect that. There are things that can be easily identified, but typically we have been a very trusting society and that is not the case anymore. We have to implement a little more due diligence.

CEOCFO: *What is ahead for both of your entities?*

Mr. Robinson: I have been doing this for over 36 years, and previously at the Federal Reserve for six years before that. I will tell you, this is a very exciting time right now. The reason for that is because there are so many things happening in payments, with Apple Pay or other payment disruptors that are taking the payments business from financial institutions. Many have done a very nice job like PayPal and Square. Additionally, there are a lot of things happening with mobile payments and I would venture a good guess that while most of the community banks and credit unions know this is an area that is important, they don't know exactly how to put their foot in the water, whether it is Apple Pay or something else.

The other big news on our front is a recent announcement from NACHA on Same-Day ACH. This is really going to move the ACH network forward significantly and enable the network to be a player in some of the non-traditional payments where you might pay your babysitter, your utility, a friend for lunch, fund your son or daughter's account at college or just transfer funds between accounts more quickly. Same-day ACH will really speed up the settlement of the Automated Clearing House transactions by a full day. Currently debits settle next day. You put them in the system today, they settle tomorrow. Credits settle tomorrow or the day after. We are getting ready in 2016 to move to a Same-Day ACH option, and I think that there is going to be a real floodgate of new transactions. This is another exciting area for our members to understand, digest and with which to get involved.

CEOCFO: *Final thoughts?*

Mr. Robinson: There is a lot happening, it is an exciting area, and I think more financial institutions need to become more diligent and become compliant with their regulatory and ACH requirements. There are a number of resources from education to publications that they take advantage of in order to be compliant, and EastPay certainly wants to continue to be a leader in providing that payments expertise and support to our members.

Interview conducted by: Lynn Fosse, Senior Editor, CEOCFO Magazine

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