



Electronic Payments Core of Knowledge

PARTICIPANT GUIDE

Eye of the Tiger: Payment Systems Risk

Welcome to:

Eye of the Tiger: Payment Systems Risk

Program Description

Risk is inherent in all payment systems. We'll define common risks and explore how to best mitigate them to protect your organization from potential losses. Interact with your peers and learn from real-life scenarios by identifying risks and discovering mitigation controls.

AAP/APRP Credits: 1.4

Objectives

- Primary Risks
- Ancillary Risks
- Name That Risk

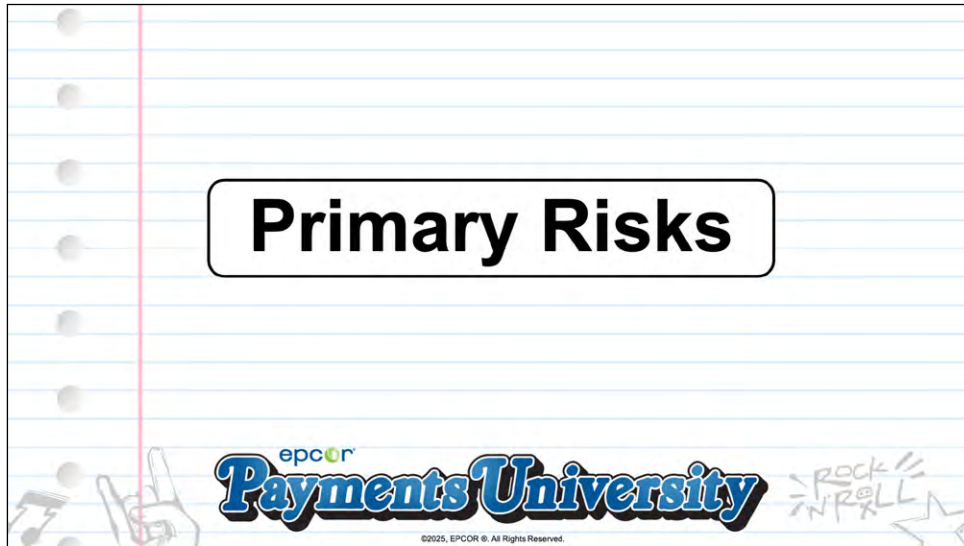
Ground Rules

Please keep the following ground rules in mind to help create a more effective learning experience for everyone. We will discuss additional participation instructions during the online session.

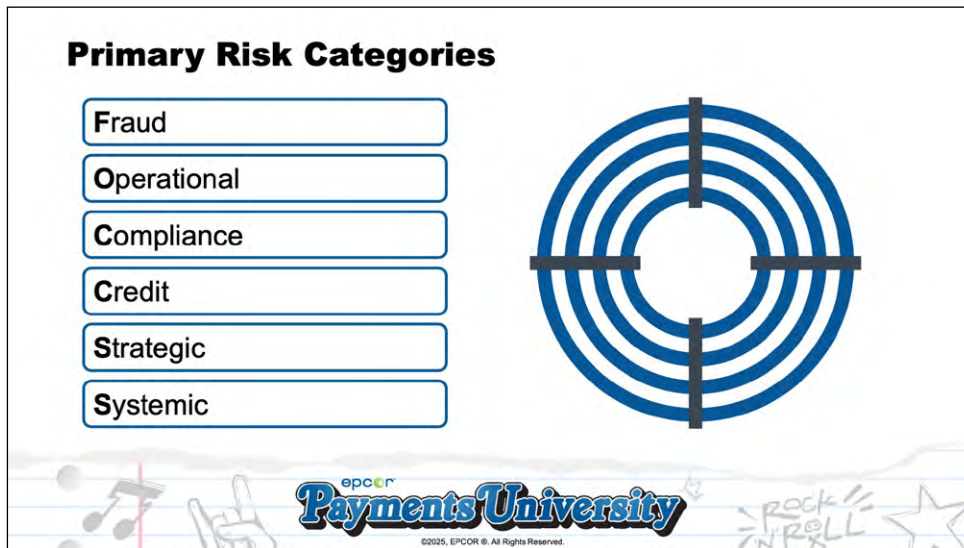
1. Log on to class at least 10 minutes before the scheduled start.
2. Turn off email and phones and clear other distractions away from your training area.
3. Participate and prepare to be called on by name. The online learning environment lends itself to interaction. Participation will keep you engaged and move the class along.
4. Raise your hand if you have an immediate question or comment. Asking questions helps other participants clarify or reinforce concepts.
5. Be patient in waiting for a response to your chat message.

Technical Assistance

Your course invitation email contains step-by-step instructions for logging into this event. If you are having technical difficulty, please call 800.500.0100



A slide with a lined paper background. At the top center, the text "Primary Risks" is enclosed in a rounded rectangular box. At the bottom, there is a logo for "epcor Payments University" with the tagline "Rock n' Roll" and a star. The logo includes the text "©2025, EPCOR ®. All Rights Reserved."




A slide with a lined paper background. On the left, under the heading "Primary Risk Categories", there is a vertical list of six rounded rectangular boxes containing the following text: "Fraud", "Operational", "Compliance", "Credit", "Strategic", and "Systemic". To the right of this list is a target icon consisting of three concentric blue circles with a central bullseye and a crosshair. At the bottom, there is a logo for "epcor Payments University" with the tagline "Rock n' Roll" and a star. The logo includes the text "©2025, EPCOR ®. All Rights Reserved."

Fraud Risk

Fraud risk occurs when a payment transaction is initiated or altered to misdirect or misappropriate funds by any party to the transaction.





Fraud Risk

Payment System	Example
 Check	Counterfeit checks
Mitigation Techniques	
Positive Pay	The act of the merchant providing a list of checks written for the financial institution to compare to checks presented for clearing and settlement.





Fraud Risk

Payment System	Example
 ACH	Account takeover
Mitigation Techniques	
Tokens	Deliver one-time passcodes to authenticate
Call-Backs	Procedure used to verify the sender of the file and the contents of the ACH File
File Confirmation	A form submitted via fax or secure email with the details of the ACH File


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Fraud Risk

Payment System	Example
 Card	Stolen card
Mitigation Techniques	
Anomaly Detection Software	Identifies suspicious activity and flags the transaction

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Fraud Risk

Payment System	Example
 Wire	Unauthorized wire transfers/account takeover
Mitigation Techniques	
Tokens	Deliver one-time passcodes to authenticate
Call-Backs	Procedure used to verify the sender of the file and the contents of the Wire Transfer
Wire Confirmation	A form submitted via fax or secure email with the details of the Wire Transfer





Operational Risk

Occurs when a transaction is altered or delayed due to an unintentional error. Operational risks include clerical error or hardware and/or software failures.




Operational Risk


Payment System	Example
 Check	Bad image
Mitigation Techniques	
Procedure	Scheduled routine cleaning of scanners



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Operational Risk


Payment System	Example
 ACH	Missing payroll file
Mitigation Techniques	
Procedure	Request processing calendar
Procedure	Request file confirmation



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Operational Risk


Payment System	Example
 Card	Forgot to 'hot card' a stolen card
Mitigation Techniques	
"Hot Card"	Require dual controls



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Operational Risk

Payment System	Example
 Wire	Sent money to wrong account holder
Mitigation Techniques	
Procedure	Require dual controls




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Compliance Risk

Occurs when a party to a transaction fails to comply, either knowingly or inadvertently, with Network rules & policies, regulations, and applicable U.S. and state law.




Compliance Risk

Payment System	Example
 Check	Failure to provide funds availability disclosure
Mitigation Techniques	
Procedure	Provide notices at account opening
Procedure	Provide notices at time of deposit




Compliance Risk

Payment System	Example
 ACH	Failure to conduct annual <i>ACH Rules</i> Audit
Mitigation Techniques	
Policy	Outline when your audit will be conducted
Procedure	Detail how your audit will be conducted and follow through




Compliance Risk

Payment System	Example
 Card	Failure to provide timely provisional credit
Mitigation Techniques	
Reg E Procedures	Develop error resolution procedures



Compliance Risk

Payment System	Example
 Wire	Failure to provide UCC 4A notices
Mitigation Techniques	
Procedures	Provide disclosures at account opening





Credit Risk

Occurs when a party to a transaction cannot provide the necessary funds, as contracted, for settlement to occur.





Credit Risk

Payment System	Example
 Check	Excessively overdrawing account
Mitigation Techniques	
Policy	Overdraft
Procedure	Opt-in for overdraft




Credit Risk

Payment System	Example
 ACH	Bankrupt Originator
Mitigation Techniques	
Policy	Require exposure limits and originator reviews
Procedure	Review exposure limits and conduct originator reviews




Credit Risk

Payment System	Example
 Card	Card limit too high
Mitigation Techniques	
Policy	Card limits in place



Credit Risk

Payment System	Example
 Wire	Uncollected funds
Mitigation Techniques	
Policy	Define which funds will be counted against for sending wire transfers
Procedure	Dual controls to verify funds prior to transmitting wire







Strategic Risk

Occurs when management has not dedicated the capital or human resources to any given process or product.



Strategic Risk

Payment System	Example
 Check	Remote Deposit Capture
 ACH	Direct Access to the ACH Operator
 Card	Prepaid Card program
 Wire	International Consumer Wire Transfers

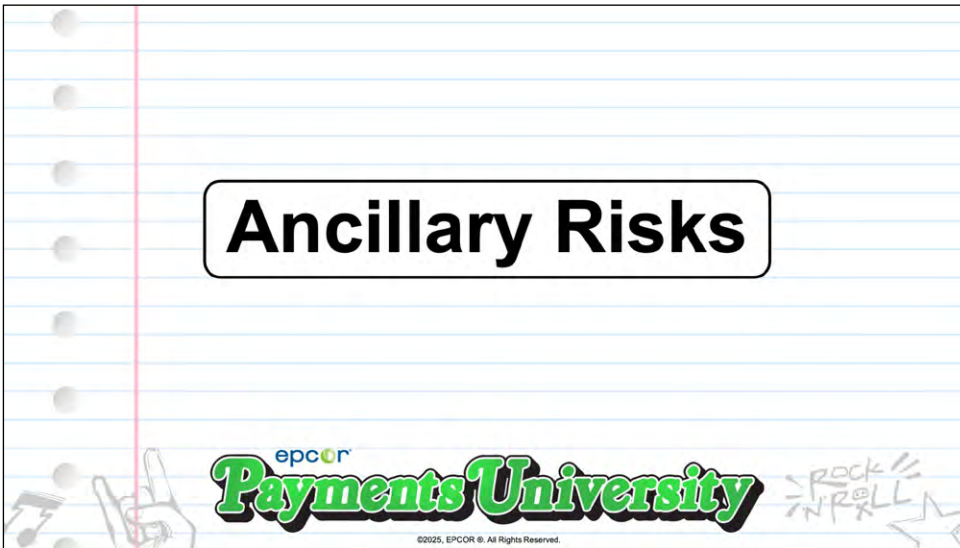


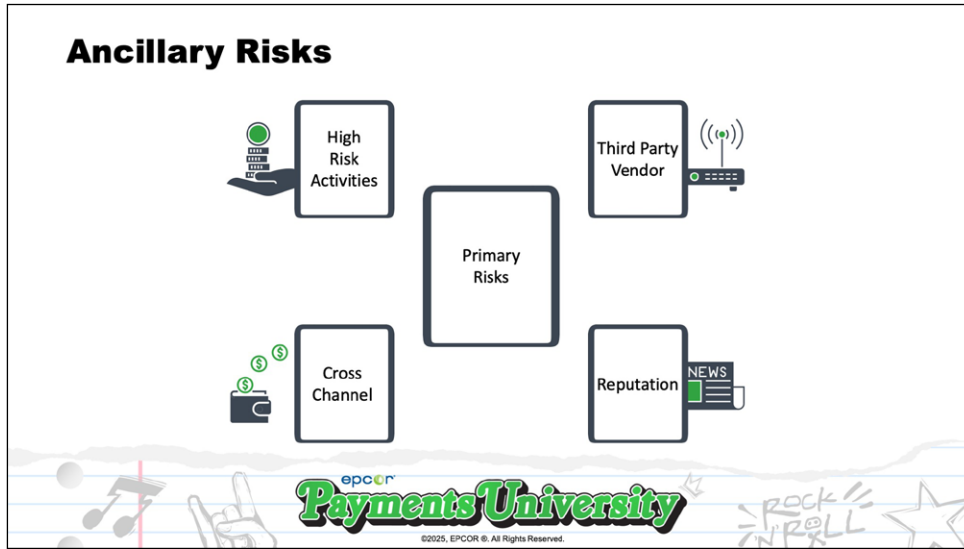
Systemic Risk

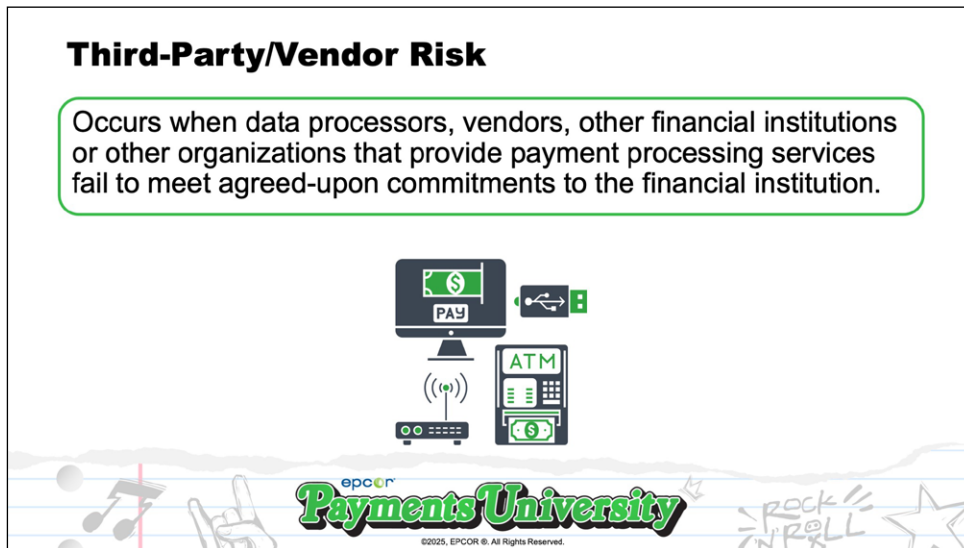
Occurs when the inability of one funds transfer system participant to settle its commitments will cause the other participants to be unable to settle their commitments.



Ancillary Risks







Reputation Risk

Occurs when an account holder's confidence in a financial institution or a specific payment channel will be diminished.



High-Risk Activities

Occurs when a financial institution and/or account holders engage in potentially illegal activities or a high-risk industry.



Cross-Channel Risk

Occurs when there is movement of fraudulent or illegal payment transactions from one payments channel to another.



Name That Risk





Scenario #1: Blue Christmas

A local school district sends ABC Bank a payroll file with 1,200 credits twice a month. The school's payroll clerk is leaving on vacation and wants to send the payroll file a week early (12/16) with instructions to transmit it next Wednesday (12/21). The file has an Effective Entry Date of Friday, 12/23. The ACH Clerk at the bank becomes distracted with holiday preparations and festivities and forgets to transmit the file.



Scenario #1: Blue Christmas

Payment System(s):

Risk(s)/Rationale:



Scenario #2 Part 1: Transposed

As part of a core processing conversion, ABC Bank added branch codes to existing account numbers. New account numbers were given to all customers. A recurring incoming wire transfer, with the old account number structure, was received for a corporate customer. This has been an ongoing issue since the conversion, wire staff know the correct account number and manually post the wire transfer.



Scenario #2 Part 2: Transposed

Two weeks later, the corporate account holder contacts ABC Bank inquiring about the receipt of the wire transfer. During manual posting, the account number was inadvertently transposed. The wire transfer funds were posted to the wrong account number. The account holder of the unintended account withdrew the funds. When contacted, the account holder tells ABC Bank the funds have been spent and cannot be re-deposited.



Scenario #2: Transposed

Payment System(s):

Risk(s)/Rationale:



Scenario #3 Part 1: Duplicate Checks

Molly Madison claims that check #400 for \$98.35 posted twice to her account. After some research, it's discovered that check #400 cleared her account on July 21 and then again on July 31. Research discovered that the July 21 check has no payee endorsement and it cleared through MegaBank A and the July 31 check was endorsed by Quickie Cash and cleared through MegaBank B. Since the second item has an endorsement, a duplicate claim adjustment was sent through the Federal Reserve Bank back to MegaBank B.



Scenario #3 Part 2: Duplicate Checks

When MegaBank B receives the duplicate claim adjustment, it is charged back to the Quickie Cash account. Seven days later, Molly comes back into your bank with a "Holder In Due Course" claim letter from Quickie Cash. The letter states that they are the holder of the physical paper check and demand payment of the \$98.35 immediately or she will be turned over to a collection agency. Fearfully, Molly pays Quickie Cash \$98.35 in cash, but now Molly is demanding the bank re-credit her \$98.35 since she has paid check #400 twice.



Scenario #3: Duplicate Checks

Payment System(s):



Risk(s)/Rationale:



Scenario #4: Rough Water

XYZ Bank's board-approved ACH Management Policy states the only origination offered to its customers are PPD credits for payroll. One night while paying their local water bill, the VP of Operations' husband remarks how he really likes being able to pay the water bill via the Internet. The VP knows the water company is only approved to send PPD payroll files. Upon further investigation, the water company has a new website that takes payments and creates ACH files, and the water company has been offering this new service for 6 months and is now sending PPD debits. Return activity is very low; no other issues are being reported.



Scenario #4: Rough Water

Payment System(s):

Risk(s)/Rationale:



Scenario #5: New Relationship Woes

An incoming wire transfer was received to a new account, open for less than 60 days, for \$23,000. The new account holder comes into the branch the day the wire was received and withdraws \$9,000 in cash. The Originating/Sender Bank contacts your bank to inform you the wire transfer was sent due to an account takeover and requests the funds be returned.



Scenario #5: New Relationship Woes

Payment System(s):

Risk(s)/Rationale:



Scenario #6: Target

Target disclosed a massive data breach that exposed personal and financial information on more than 110 million customers stating that malicious software had infected point-of-sale systems at Target checkout counters. Hackers gained access to Target POS systems using login credentials belonging to a heating and cooling company. Millions of reports of fraud on debit and credit cards caused banks to close existing cards and re-issue new ones.

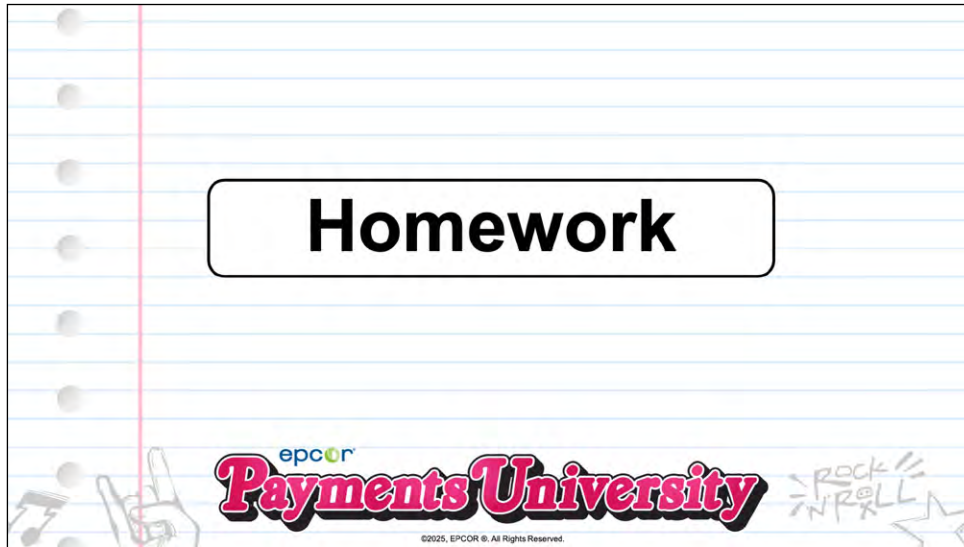


Scenario #6: Target

Payment System(s):

Risk(s)/Rationale:





Homework Scenario: PayPal®

PayPal failed to employ adequate screening technology and procedures to identify the potential involvement of U.S. sanctioned targets in transactions that PayPal processed. Because of this failure, PayPal did not screen in-process transactions in order to reject or block prohibited transactions pursuant to applicable U.S. economic sanctions program requirements. Separately, between October 20, 2009 and April 1, 2013, PayPal processed 136 transactions totaling \$7,091.77 to or from a PayPal account registered to an individual on OFAC's List of Specially Designated Nationals and Blocked Persons (SDN List).

PayPal's automated filter did not initially identify the account holder as a potential match to the SDN List, and when it did, PayPal Risk Operations agents dismissed alerts on six separate occasions after failing to obtain or review documentation corroborating the identity of the SDN.



Scenario: PayPal®

Payment System(s):

Risk(s)/Rationale:



ACH Operational Risk

List two examples of operational risks associated with ACH processing:

- 1.

- 2.



Wire Fraud Risk

List the three mitigation techniques for wire fraud risk that we discussed in class.

- 1.
- 2.
- 3.



Mitigate Compliance Risk

Name three payment systems where Regulation E error resolution procedures could mitigate compliance risk.

- 1.
- 2.
- 3.



Board Approved Policies

Board approved management policies for all payment systems would mitigate which type of risk?

- A. Fraud Risk
- B. Strategic Risk
- C. High-Risk Activities



Homework Scenario Answer: PayPal®

This is the ACH payment system.

This was an actual scenario that involved PayPal and so legal or compliance risk was a factor here for the ODFI as they are the entity that warrants the transactions going into the ACH Network. PayPal had to pay a civil fine of \$7,000,000.00. Not only did PayPal operations not catch the individual on the OFAC list but neither did the ODFI which means Operational Risk would apply here. PayPal's reputation took a hit but so did their ODFI. And remember, systemic risk occurs when the inability of one funds transfer system participant to settle its commitments will cause the other participants to be unable to settle their commitments. So, there is potential systemic risk here as well.



ACH Operational Risk Answers

Missed transmission deadlines for both originated items and return entries

Payroll file not transmitted

System failure, both hardware and software, as well as loss of power

Clerical error(s)

Inadequate procedures

Inadequate training



Wire Fraud Risk Answer

List the three mitigation techniques for wire fraud risk that we discussed in class.

1. Tokens
2. Call-Backs
3. Wire Confirmations



Mitigate Compliance Risk Answer

Name three payment systems where Regulation E error resolution procedures could mitigate compliance risk.

- 1. ACH
- 2. Wire
- 3. Card



Board Approved Policies Answer

Board approved management policies for all payment systems would mitigate which type of risk?

- A. Fraud Risk
- B. Strategic Risk**
- C. High-Risk Activities



Thank You for Attending!

EPCOR is your best resource for:

Expertise—

Payments professionals are just a phone call away to help you resolve issues and understand the complex rules and regulations regarding all types of electronic payments.

Diverse Programs—

More than just the *ACH Rules*, you get a variety of programs on fraud, risk, audits and more to protect your organization against loss and penalty.

Keeping Pace with the Evolving Payment Landscape—

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CERTIFICATE OF COMPLETION

This certificate is awarded to:

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Payment Systems Risk**

This course is worth 1.4 AAP/APRP
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James Carrick
Vice President, Education, EPCOR

