**2615.11: Real-Time Payment Options – Risk and Controls**

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[[CUname]] (Credit Union) provides members with access to real-time payment (RTP) options through several different channels. Many real-time payments are processed through third parties that offer person-to-person (P2P) transactions. This procedure and risk analysis, along with *2615.10: Electronic Fund Transfers*, outline the potential exposure and mitigation to the Credit Union. The Board of Directors has delegated the authority to Management to identify and mitigate the associated risk with RTP options.

**Risk Analysis**

The Credit Union understands that not all risk associated with RTP options can be mitigated. The following risk analysis will be used as part of the Credit Union’s program and will continue to be evolved.

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| **FRAUD RISK** | | |
| **Risk** | **Mitigant** | **Residual Risk** |
| Heightened risk of fraud (fraudsters prefer fast transactions and target members) | * Employee training * Member education and awareness * Transaction monitoring, real time analytics and ability to detect unusual patterns or anomalies. |  |
| New enrollment fraud | * Effective training and onboarding of members * Enforce strong authentication for (e.g., MFA, biometrics) |  |
| Irrevocability of payments sent in real time. |  |  |
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| **OPERATIONAL RISK** | | |
| **Risk** | **Mitigant** | **Residual Risk** |
| New process and functionality | * Employee training * Employee and member awareness |  |
| Inability to revoke instant payments | * Enforce strong authentication for (e.g., MFA, biometrics). * Procedures for identification of payee. |  |
| System failures/outages | * Stress testing, incident response plans, backup systems. |  |
| Human error | * Ensure proper staffing levels and training are in place. |  |
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| **REGULATORY AND COMPLIANCE RISK** | | |
| **Risk** | **Mitigant** | **Residual Risk** |
| Understanding how the RTP was processed and what applicable regulation applies | * Employee procedures are in place for error resolution based on the type of transaction, for example:   + RTP transactions through **online banking** (Zelle) are processed through **ACH.**   + RTP transactions processed through members’ **debit cards** are subject to Regulation E (and Visa/MC rules).   + RTP transactions process through members’ **credit cards** are subject to regulation Z (and Visa/MC rules). |  |
| Multiple avenues of transaction processing based on the type of payment | Internal audit function to transaction test. |  |
| Not delivering payment products or services as expected or as disclosed. | UDAAP policies and procedures, along with associated training. |  |
| General Bank Secrecy Act risks, which may increase depending on the BSA/OFAC risk assessment. |  |  |
| Third party risk exposure |  |  |
| **LIQUIDITY RISK** | | |
| **Risk** | **Mitigant** | **Residual Risk** |
| Potential Losses related to unrecovered payments. |  |  |
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| **REPUTATIONAL RISK** | | |
| **Risk** | **Mitigant** | **Residual Risk** |
| Not delivering payment products or services as expected or as disclosed. | Security of payment technology infrastructure, reliability of payment systems and effectiveness of payment problem escalation/complaint resolution processes. |  |
| Third party relationships | Vendor due-diligence program |  |
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| **CREDIT RISK** | | |
| **Risk** | **Mitigant** | **Residual Risk** |
| Settlement risk – when one participant in the payment system may be unable to honor their obligations. |  |  |
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**Real-Time Payments**

Many real time payments are processed through third parties that offer person-to-person (P2P) payment services. Common forms of P2P options utilized include:

* Venmo
* ApplePay
* Zelle

Credit union members may associate their account, phone number or email address to transfer and receive funds. Many of these transactions are typically settled through ACH or the card networks.

Real-time payment (RTP) systems like the Federal Reserve Banks FedNow Service or the RTP System launched by The Clearing House enable participants to immediately send payments directly from eligible accounts 24 hours a day, 365 days a year, except as necessary for risk management, legal, or compliance purposes.

**Third-Party Risk Management**

The credit union will leverage their third-party vendor management policy and procedures when choosing a vendor to provide payment systems, products and services.

**Internal Controls**

The Board of Directors has delegated Management the responsibility for developing, implementing, reviewing, updating and periodically testing internal controls. Internal controls should include procedures with the following minimum guidelines:

1. The Credit Union will perform proper diligence on personnel hired for sensitive positions in the Accounting area, overseeing real-time payments.
2. The Credit Union will develop and implement a training program designed to ensure accurate performance of sensitive activities and a thorough understanding of internal controls. The program will also train employees to identify and report possible fraud schemes.
3. Human Resources will have proper protocols in place to ensure sensitive member information is restricted in accordance with information security policies.
4. Locations where real-time payment transactions are performed are restricted to authorized employees only, in accordance with physical security policies.
5. Separation of duties exist and are properly tested.
6. A supervisory review process is in place to ensure transactions are processed in accordance with procedures and applicable regulations.

**Unauthorized Transactions**

Regulation E applies to any P2P or mobile payment transaction that meets the definition of an electronic funds transfer (EFT), including transactions processed through a debit card, ACH, prepaid account, or other electronic transfer to or from the member’s account. Regulation E also applies to an EFT that authorizes the Credit Union to debit or credit a member’s account. Accordingly, the Credit Union will follow their error resolution procedures in compliance with Regulation E.

Regulation Z (applicable Visa/Mastercard rules would also apply) applies to any real time payment transaction processed through a member’s credit card. The Credit Union will follow their error resolution procedures in compliance with Regulation Z for these transactions.

**Board and Management Reporting**

Board reporting regarding the credit union’s RTP program may be provided through different channels, including annual critical vendor reviews, review of annual internal/external audit results, outlying AML issues that may require a suspicious activity report filing, any significant incidents and associated root cause analysis, etc.

The Board and Management may elect to create additional reporting at their discretion to review certain performance metrics related to the program such as threshold limits, risk tolerances, portfolio compensation, policy exceptions, etc.