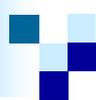


Third Party Relationships



Agenda

- Third Party Relationships
- Third Party Payment Processors (TPPPs)
- Reference Materials
- Questions

Background

- FIL-44-2008: Guidance for Managing Third Party Risk
- FIL-127-2008: Guidance on Payment Processor Relationships
- FDIC Supervisory Insights Article (Summer 2011): Managing Risks in Third Party Payment Processor Relationships
- FIL-3-2012: Payment Processor Relationships (Revised Guidance)
- FDIC National Teleconference on Fair Lending (December 18, 2012)
- PR-56-2013: Second Installment of Technical Assistance Videos



Third Party Relationships

- An entity that has a business relationship with the bank
 - Bank or Nonbank
 - Affiliated or Nonaffiliated
 - Regulated or Nonregulated
 - Domestic or Foreign

Benefits of Third Party Relationships

- Facilitate customer access to products and/or services
- Assist in attaining strategic objectives
- Access expertise or efficiency
- Enhance competitiveness
- Provide diversification

Risks Associated with Third Party Relationships

- Strategic
- Reputation
- Operational
- Transaction
- Credit
- Compliance
- Legal

Effective Risk Management of Third Party Relationships

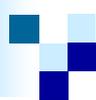
■ Four Key Elements

- Risk Assessment
- Due Diligence
- Contract Structuring and Review
- Oversight



Third Party Payment Processors

- Deposit customers that use their banking relationships to process payments for third party merchant clients



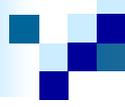
Payment Types Used by TPPPs

- Credit and Debit Card Transactions
- Traditional Checks
- Automated Clearing House (ACH) Debits
- Remotely Created Checks (RCCs)



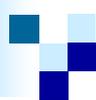
ACH Transactions

- Common Uses
- TPPP Uses
- Fraud Risk
- Consumers' Rights Under Regulation E



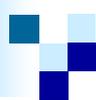
Remotely Created Checks

- Description
- Common Uses
- Fraud Risk
- Liability for Unauthorized RCCs



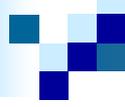
Red Flags for High Risk TPPPs

- Consumer Complaints
- High Return/Charge Back Rates
- High Level of Fee Income
- Using More Than One Bank to Process Payments



Risks of TPPP Relationships

- Strategic
- Reputation
- Compliance
- Legal



Nested TPPPs

- Nested processors and aggregator relationships pose additional challenges and elevated risk.

Risk Controls

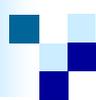
- Due Diligence and Underwriting
 - Policies and Procedures
 - Thresholds for Unauthorized Returns
 - Possible Actions for Exceeding Threshold
 - Reporting to Board and Senior Management

Risk Controls (cont.)

- Due Diligence and Underwriting
 - Payment Processor Assessment
 - Review Promotional Materials
 - Review Policies, Procedures, and Processes
 - Review for Independent Sales Organizations and/or Gateway Arrangements
 - Identify Major Business Lines, Volume, and History of Returned Items

Risk Controls (cont.)

- Due Diligence and Underwriting
 - Payment Processor Assessment (cont.)
 - Review Corporate Documentation
 - Visit TPPP's Operations Center
 - Law Enforcement Actions
 - Conflicts of Interest



Risk Controls (cont.)

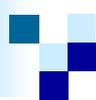
- Due Diligence and Underwriting (cont.)
 - Information on Merchant Clients
 - Verification of Legitimate Business
 - Obtain Operational Audits

Risk Controls (cont.)

- Ongoing Monitoring
 - High Rates of Returns or Charge Backs
 - High Levels of Unauthorized Returns or Returns Due to Insufficient Funds
 - BSA/AML
 - Consumer Complaints
 - Audits

Bank Actions

- Act Promptly to Minimize Consumer Harm
 - File a Suspicious Activity Report
 - Require TPPP to Cease Processing for Merchant
 - Freeze Certain Deposit Accounts
 - Terminate the Relationship with the TPPP



Supervisory Responses

- Informal Enforcement Action
- Formal Enforcement Action
- Civil Money Penalties
- Liability for Violations of Law
- Restitution

Reference Material

- **Financial Institution Letters**

Third Party Risk: Guidance for Managing Third Party Risk (FIL-44-2008)

<http://www.fdic.gov/news/news/financial/2008/fil08044.html>

Guidance on Payment Processor Relationships (FIL-127-2008)

<http://www.fdic.gov/news/news/financial/2008/fil08127.html>

Payment Processor Relationships-Revised Guidance (FIL-3-2012)

<http://www.fdic.gov/news/news/financial/2012/fil12003.html>

- **Press Releases**

FDIC Releases Second Installment of Technical Assistance

Videos (PR-56-2013)

<http://www.fdic.gov/news/news/press/2013/pr13056.html?source=govdelivery>



Reference Material (cont.)

- **FDIC Supervisory Insights Articles**

 - Managing Risks in Third Party Payment Processing Relationships*

 - <http://www.fdic.gov/regulations/examinations/supervisory/insights/sisum11/managing.html>

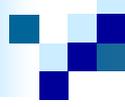
- **FDIC's Third Party Risk Examination Procedures**

- <http://www.fdic.gov/regulations/compliance/manual/pdf/VII-5.1.pdf>

- **FDIC National Banker Teleconference on Fair Lending (December 18, 2012)**

- <http://www.fdic.gov/news/news/financial/2012/fil2049a.pdf>





Questions

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