Ffiec handbook retail payment systems

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Retail payments are usually related to transactions between two consumers, between consumers and businesses, or between two businesses. Wholesale payments are usually between businesses. Although there is no definitive separation between retail and wholesale payments, retail payment systems tend to have higher transaction volumes and lower average dollar values than wholesale payment systems. This section provides background information about payments typically classified as retail payments. Below are examples of typical retail payments. These retail payments may include the use of various retail payment tools or access devices (e.g. checks, ACH, cards, phones, etc.). Purchase of goods and services-buying goods and services can take place at the point of sale (POS) (for example, in person in a trading place, online or over the phone). These payments include the participation of POS payments for goods or services such as those with traditional retailers, and unattended payment transactions, both with vending machines. Increasingly, traditional retailers such as grocers and home improvement stores are using unattended payment systems on POS as well. As technology advances, consumers can purchase goods and services remotely without a physical presence in POS, such as the Internet or phone/mobile phone. Payment tools for retail purchases of goods and services have gone beyond traditional vehicles (i.e. cash, checks, credit and debit cards) to prepaid cards, contactless debit and credit cards and other contactless devices such as keychains, mobile phones. In addition, merchants can convert checks into electronic forms into POS, as well as use the ACH system for cleaning and processing. Bill Payment-Consumers may choose to pay (or provide payment instructions) repetitive or non-recurring accounts and invoices via electronic payment of the account. Periodic invoices for a specific invoice may be paid electronically individually or customized to automatically pay into the payment schedule. In recent years, there has been a growing trend towards paying recurring and non-recurring bills using online billing services. P2P Payments- The vast majority of payments from consumer to consumer are conducted with checks and cash, with some transactions using electronic payment systems P2P. The expansion of systems that allow customers to make P2P payments is expected through account transfers (A2A) that use ACH or Automated Teller Machine (ATM) networks to move funds. A2A Payments-With A2A payments, the consumer transfers funds from his account in the financial institution to the account of another person or business in the same another financial institution. The emergence of a network of ATMs for the movement of funds can allow on the same day much less than traditional remittance systems. Cash withdrawals and advances-consumers use retail payment tools to obtain cash from merchants or ATMs. For example, consumers can use a credit card to receive an advance in cash through an ATM or ATM or debit card to withdraw cash from an existing account. Consumers can also use a personal identification number (PIN) based on debit cards to withdraw cash from an ATM or get cash back at some POS locations. Retail payment systems continue to evolve with the development of technology. These advances enable financial institutions to develop new products and services, reduce barriers to business penetration for small institutions, and exploit economies of scale. Recent changes in payment technology have influenced three important trends in retail payments. First, as firms seek economies of scale, the banking industry has seen rapid consolidation of retail payment service providers, credit issuers, merchants, processors, processors, and check processors. As a result, some small and medium-sized financial institutions went out of business and transferred some of the retail payment process functions to larger financial and non-ecoly profits. Non-bankers, in particular, play a more important role in retail payment systems such as clearing and settlement payment functions, as well as the issuance and processing of electronic payment cards and other devices. The second trend is to move from paper to electronic payments, as technology has converged with changing consumer and merchant preferences for convenient and inexpensive payment alternatives. The most significant increase is observed in debit and prepaid cards (stored value cards) followed by more frequent use of online services such as online banking and account payment. Checks and cash payments continue to decline, with cash use declining at a much slower pace. The emergence of new electronic payment facilities in the U.S. is expected as they are accepted on the global market. The use of automated pay is the third important trend. Although consumers have traditionally used checks for a significant portion of U.S. account payments, direct payment through the ACH system is becoming increasingly popular. Recently, retailers have been using ACH's check conversion processes to ensure electronic payments, thereby reducing the number of checks that go through the payment system. International retail payments are relatively new in the ACH industry and are largely driven by businesses and consumers seeking to reduce to transfer funds across borders. Some financial institutions have their own systems, and recently the Reserve Banks have started offering international FedACH services. FedACH International provides funds for transfer of funds between the U.S. and other other using NACHA rules - Electronic Payments Association (NACHA). Beginning on September 18, 2009, the new Standard Entry Class (SEC) code has become effective, which is expected to facilitate due diligence using the ACH system for international payments. The ACH SEC International Deal Code (IAT) will allow financial institutions to identify international ACH payments and conduct due diligence required by the U.S. Office of Foreign Assets Control. Consumer and trade recognition of all technological changes is vital to the success of new retail payment systems and products. Consumers have demonstrated a willingness to adopt new retail payment technologies faster because of the convenience of these new services. Financial institutions should adapt their risk management strategies to the nature and complexity of their participation in retail payment systems, including any support they offer to clearing and settlement systems. Financial institutions must comply with federal and state regulations, as well as clearing houses and bank card regulations. From initiating a retail payment transaction to calculating it, financial institutions are exposed to certain risks. For individual retail payments transactions, there are always risks associated with compliance issues and potential operational failures, including fraud. Operational failures can increase costs, reduce revenue opportunities, and reduce an institution's ability to accurately reflect its financial condition. Participation in retail payment systems can expose financial institutions to credit, liquidity and operational risks, especially in the course of settlement activities. In addition, the credit, liquidity and operational risks of a financial institution may be interdependent with payment system operators and third parties. Risk profiles vary greatly depending on the size and complexity of the financial institution's retail payment system, IT infrastructure and dependence on third parties. Effective internal controls should include financial, accounting, technical, procedural and administrative controls necessary to minimize risks in retail payments, clearing and settlement processes. These measures reduce operational and credit risks, ensure the validity of individual transactions, mitigate processing and other errors. Effective controls also support IT infrastructure and network infrastructure, and promote the integrity of retail payments transactions, privacy, and accessibility. Financial retailers should be aware of the risks inherent in these activities. Financial Financial Always offered a variety of retail payment services; however, recent technological advances have been expanding opportunities to develop innovative payment products and services. Financial institutions must recognize the reputation and strategic risk of new products and services that may not be consumer. Often, participants will also face uncertainty about how state laws and regulations will apply to new payment systems. The ongoing transition from paper to electronic payments increases the participation of non-bankers in various payment functions, such as payment processing. Financial institutions should have a comprehensive and effective risk management and supervision programme by service providers and third-party service providers. The FFIEC IT Examination Handbook, The Retail Payment Systems Booklet (booklet) provides recommendations for experts, financial institutions and technology service providers (TSPs) to identify and control risks associated with retail payment systems and related banking activities. Financial institutions accept, collect and process various payment instruments and participate in clearing and settlement systems. In some cases, all of these tasks are carried out by financial institutions. However, independent third parties are increasingly involved in this process, creating new risks affecting the security of financial institutions. Financial institutions operating either in consortia or on their own remain the main suppliers for businesses and consumers of most retail payment instruments and services. Federal government suppliers and operators, such as the Federal Reserve Banks, also compete with numerous financial institutions and private sector firms to provide a variety of services to support retail payments. Recently, there have been a number of new payment tools, which are mostly or completely electronic. Electronic payment systems improve efficiency by ensuring the rapid and convenient transfer of payment information by members of the system. However, the advent of a new payment mechanism can also ensure the rapid spread of fraud, money laundering and operational failure in the event of data compromising. Another trend associated with emerging payments is the increased involvement of non-bank third parties in retail payment systems and elongated transaction chains, which may increase the risk in payment processes. Managing the risks of retail payments is becoming increasingly complex and requires careful oversight by third-party service providers. Much of the guidelines in this brochure, including traditional retail payment systems, have not been substantially revised due to maturity systems in the product lifecycle. Mature payment systems are better understood, while new payment systems require better understand the risks and related controls. The new guidance is proposed for remotely created checks (RCCs), electronically created payment orders, automated clearing houses (ACH) transactions, clearing check for the 21st century law (Check 21), and trading card processing in connection with recent events in these areas. In addition, this brochure includes a new section that covers some new technologies in retail payment systems. Particular attention is being paid to the need to improve operational, credit, legal and compliance risk processes for retail payment products, especially for the deployment of remote check and verification systems based on the Internet and ACH. Examination recommendations for retail payment systems are presented in three sections, followed by examination procedures, glossary and references: Retail Payment Systems Review- The first section of the booklet presents an overview of retail payment systems, grouping of retail payment instruments in various categories, including: checks, electronic card-based payments and other electronic payments, such as from person to person (P2P), electronic translation of benefits (E.P.) Payment Tools, Clearing and Settlements - The second section of the booklet describes the retail payment system tools typically offered by financial institutions and the roles of various payment system participants, including third parties. Retail Payment Systems Risk Management - The Third Section describes the risks associated with various retail payment systems and instruments using regulatory risk categories: reputation, strategic, credit, liquidity, settlements, legal/compliance and transactional/transactional risks. This section also presents the risk management practices that financial institutions are required to implement in order to mitigate the risks described, and concludes specific controls consistent with a number of retail payment instruments. A summary of management actions on individual risks and functions is also included in this section, which provides a brief overview of the risks and risk management practices described in the text. This brochure contains a number of references to other information technology brochures, including Information Security, Business Continuity Planning, Audit, Technology Services Outsourcing, Electronic Banking and Wholesale Payment Systems. In addition, there are references to FFIEC's recommendations for banking secrecy examinations, which are relevant to retail payment systems and check 21. In addition to describing IT risks and controls, the brochure also addresses certain credit and liquid risks retail payments may also be present. Full retail review of a particular financial institution institution a system environment will require an interdisciplinary team of experts with experience, credit, liquidity and compliance risks. Experts should use expertise procedures to assess risks and risk management practices in financial institutions that offer retail payment systems. These procedures relate to services and products of varying complexity; therefore, experts should adjust procedures if necessary from the perspective of the exam volume and the risk profile in the institution. Procedures can be used independently or in conjunction with the procedures used in other IT brochures and directories and agency-specific guidelines. Documents. ffiec retail payment systems 2010 handbook