# Risk Management in a digital world

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# Agenda

- Evolution of Payments
- What is PayPal?
- PayPal Australia Fast Facts
- PayPal's approach to risk management
  - Holistic enterprise wide
  - Typical risk scenarios in a digital context
- Closing



30 November 2015 • Sydney



# **Evolution of Payments**

Pre 1960s

Cash and barter



The credit card, the ATM and automated payments ACH

# 1970s

The mag stripe, cross-border payment messages, barcodes and deregulation

# 1980s

Frequent flyer rewards, telephone banking, digital TV, online payments, connected POS devices

# 1990s

The internet, PayPal, pre-paid transit systems, online banking

# 2000s

iTunes, Facebook, Chip and Pin, price comparison, iPhone, contactless payments, Bitcoin

# 2010s

Mobile wallets, Facebook, Credits, tokenization, cloud services, mobile



















Source: 21st Century Regulation Putting Innovation at the heart of payments regulation





# PayPal?

Digital Wallet

Website Checkout

PayPal Here Payment Network 學 40 000 Tue 1022 AM Q 運 C Ship checkmut.com/curt · CONTINUE SHOPPING .... YOUR CART ₹4 10:22 CHARGE 19 GET FREE SHIPPING ON ORDERS OVER \$200 \$270.00 PROMO COOK . 40.00 \$29.37 USD APPLE Faucet Installation Color: Vinte \$40.00 Style#: 2627502 195 Reta Standard Shipping Ready to accept payments. 9 Credit & Debit Cards 6 P Payfiel x-3426 **VISA** 3 X ADD













# PayPal Australia Fast Facts

- 1. One of the toughest financial services regulatory environments for PayPal globally, however we have built good regulatory understanding/relationships and are proactively assisting with shaping the payments landscape.
- 2. PPAU is a 'Square Peg in Round Hole' from a regulatory perspective. PPAU is unique as the only holder of an ADI / Purchased Payment Facility Licence ('PPF') in AU.
- 3. PPAU has 3 primary regulators:
  - 1. APRA (Prudential & Banking Regulator),
  - 2. ASIC (Companies Regulator and Consumer Protection 'Watchdog'), and
  - 3. AUSTRAC, (Financial Intelligence Unit).



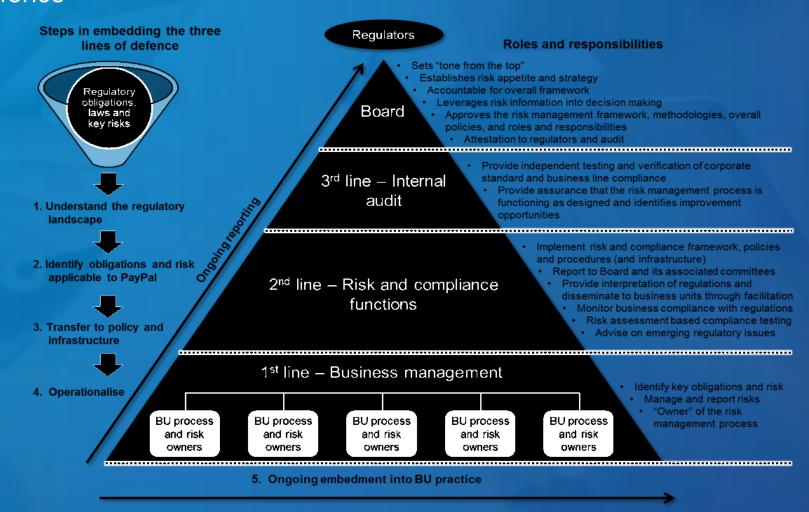


**Enterprise Risk** 



# PayPal's Approach to Risk Management

# Three lines of defence





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# PayPal's Approach to Risk Management

# Holistic enterprise wide



### **Compliance Business Self Risk Assessment Workshops**

- The Compliance Risk Management function evaluates its compliance risks by 'drilling down' into the obligations that PayPal Australia is required to comply
  with.
- The obligations are allocated to the appropriate obligation owner, from the AU senior management team, who will be accountable and have oversight of the arrangements.
- These obligations are reviewed and discussed during the quarterly compliance partnership meetings, and PPAU Regulatory Forum.
- On an annual basis, the Compliance Business Self Risk Assessment Workshops are scheduled to assess the inherent risk associated with each obligation, determine what controls to implement to demonstrate compliance and mitigate associated risks, assess the control strength and determine whether the residual risk is within the Board's risk appetite.
- Once these obligations are identified and assessed, both the PayPal Australia Compliance Risk Management and ERM functions can leverage this
  information to accurately evaluate the state of PayPal Australia's overall 'compliance risk'.



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# PayPal's Approach to Risk Management

# Typical risk scenarios in a digital context

### Cyber fraud

- 1. Evolved over the years physical to digital impersonation (badges, ID cards, uniforms)
- 2. To today's risks including electronic identity theft, social media theft, IP masking, account take over
- 3. Dark web using layer beneath the internet layer to penetrate businesses and organisations

# Merchant risk

- 1. Significantly not as described (SNAD) goods/services misrepresented mitigated by feedback
- 2. Disputes / complaints leading to significant chargeback risk
  - 3. Financial risk inability to provide services

# **Payments risk**

# **Money Laundering**

- 1. Global landscape increased sophistication and techniques
- 2. Lack of centralised repository for entity types trusts, associations, charities
- 3. Increased rate of trusts and other opaque vehicles being used

# **Terrorist Financing**

- 1. Global landscape increase rate of threat
- 2. 'Cheaper' to perform acts of terrorism London bombings only cost 30-50 pounds
  - 3. Harder to trace beneficial ownership and source of funds



Underpinned by proprietary systems that detect and prevent these types of risks from occurring during the lifecycle of the customer relationship – from onboarding to ongoing management



Thank you.

