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
Evolution of Payments

**Pre 1960s**
Cash and barter

**1960s**
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
What is PayPal?

- Digital Wallet
- Payment Network
- Website Checkout
- PayPal Here
Payments regulatory landscape

PayPal operates in 203 markets and 26 currencies.
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).
PayPal’s Approach to Risk Management

Three lines of defence

1. Understand the regulatory landscape
2. Identify obligations and risk applicable to PayPal
3. Transfer to policy and infrastructure
4. Operationalise

Steps in embedding the three lines of defence

Regulators

Roles and responsibilities
- Sets “tone from the top”
- Establishes risk appetite and strategy
- Accountable for overall framework
- Leverages risk information into decision making
- Approves the risk management framework, methodologies, overall policies, and roles and responsibilities
- Attestation to regulators and audit

Board

3rd line – Internal audit
- Provide independent testing and verification of corporate standard and business line compliance
- Provide assurance that the risk management process is functioning as designed and identifies improvement opportunities

2nd line – Risk and compliance functions
- Implement risk and compliance framework, policies and procedures (and infrastructure)
- Report to Board and its associated committees
- Provide interpretation of regulations and disseminate to business units through facilitation
- Monitor business compliance with regulations
- Risk assessment based compliance testing
- Advise on emerging regulatory issues

1st line – Business management
- Identify key obligations and risk
- Manage and report risks
- “Owner” of the risk management process

5. Ongoing embedment into BU practice
PayPal’s Approach to Risk Management
Holistic enterprise wide

Enterprise-wide Risk Assessment

ERM risk assessment is intended to evaluate risks across the company.

27 Risk Types
- Counterparty Risk
- Credit
- Political
- Capital & Liquidity
- Market Risk
- Communications
- Marketing
- Continuity of Operations
- Human Capital
- Info Protection & Data Security
- Internal Fraud
- Legal
- Operational Transactions
- Outsourcing
- Privacy
- Safety & Security
- Technology
- Transaction Loss
- Corporate Governance
- Business Development
- Competition
- Business Model
- Customer/ Merchant Satisfaction
- Financial Operations
- Product
- Tax

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’.
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

**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

**Payments risk**

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.