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On-time treasury: prepare for on-time risk and fraud

With new technology come new opportunities but also new threats. Treasurers may inadvertently leave themselves vulnerable in a rush for digital and data tools. Only by aligning workflows and policies with technologies can treasurers maintain the best practices that are the cornerstone of digital security and risk management.

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A misconception we have repeatedly addressed through this series of articles is that 'instant' is always better. With risk and fraud, instantaneous execution can provide both opportunity and new challenges. While there is a significant amount of pressure on treasurers to digitize and automate, the reality is that many treasuries are simply not ready for the immediacy of some digital innovations.

Without careful forethought, the speed of new capabilities can have material security and fraud implications. For instance, real-time payment solutions proliferate through a 24x7x365 basis, giving fraudsters the opportunity to attack at any time. Yet traditional payment rails are built around the nine-to-five working day, with banking compliance and controls to support them. In contrast, the instant nature of real-time payments requires a different approach. The application of controls around speed and finality in instant payments require upfront validation controls be bolstered and items "held" until meeting your firm's payment guidelines.

In fraud cases, the speed of the reporting process is directly linked to the potential for recovery. Therefore, faster payments without a corresponding improvement in reconciliation will increase the risk of fraud and make any fraud recovery more challenging.

Even more broad are the risk implications for insurance policies. The language of most financial insurance policies is built around current payment technologies, which means that the policies, like the technology, are less dynamic than the "on-demand" and "always-on" commercial world. So, for example, if instant data flows mean a new beneficiary is paid before being verified under policy conditions, that may nullify a fraud insurance policy.

The rapid pace of change is acutely evident in the development of artificial intelligence (AI) applications. While regulatory oversight is being discussed, there is not a federal regulatory framework established yet. Companies will need to determine what internal governance will need to be established. AI is a risk consideration, with possible failures in transparency, accuracy, safety and ethical standards, which will increase the risk for all, including treasurers.

Key takeaways

- New technologies like real-time payments introduce new risks to the treasury function, for which treasurers must prepare.
- The sales pitch of "plug and play" is a misconception, and any new technology requires both upstream and downstream assessments to workflows and policy.
- Best-practice workflow adherence is often the best fraud prevention and security tool for a treasury.
- Through workflow awareness, treasurers can maintain best practices while adopting new technology by utilizing available data resources and mature applications.

The intersection of technology, workflow and risk

These examples highlight the integrated policy/risk considerations required in digital transformation initiatives. In the past, building a digital facade with manual spreadsheet operations behind closed doors was possible. With the pace of newer technology, this is no longer the case: Instant payments require instant monitoring and controls.

In an on-time treasury, process workflows must match technology needs to support true automation, regardless of schedule or timing. Current workflows have been optimized for traditional "nine-to-five" payment infrastructure in many treasuries. This typically involves separate functions such as onboarding new payees, reconciling, and initiating payments. To maintain these best-practice levels, turning on new payment rails without considered process redesign is fraught with potential process issues and unintended consequences.

This reengineering goes further than an assessment of downstream systems and users. Technology is so fundamentally changing how we do things that upstream treasury workflows and policies must also be assessed. Real-time technologies require changes to risk management policies and strategies that include data security and privacy and standardized processes for adopting new payment methods.

No such thing as "plug and play"

All of this means that there is no such thing as "plug and play" technology in a treasury. Moreover, the concept — or sales pitch — of "plug and play" is a misnomer that gives the impression of simplicity and reduced workload when the reality is far from this.

On the other hand, "plug and play" should not be confused with the concept of "microservices," a more practical and accurate term focused on bite-sized technology investments to reduce the complexity of a modern digital transformation.

Regardless of the size of the project, any digital change will have an impact on continuity and redundancy planning, risk monitoring and controls, employee education and policy and strategy. The firm's digital strategy and policy framework will drive needed updates to the firm's continuity and redundancy planning, employee education, risk monitoring and controls.

While this shouldn't stifle innovation or require an army of resources, treasurers must understand the strengths and weaknesses of new technology from a risk and security perspective to avoid blind spots that lead to making errors faster.

The problem is the solution

As with all other aspects of an on-time treasury, data plays a central role in security and fraud processes. This ranges from user authentication data (login or biometric details) to the growing area of adaptive technology using device finger printing such as secure tokens that allow a firm to continuously assess risk and provide proportional enforcement.

The speed and volume of transactions and data are increasing the complexity of risk management. Nevertheless, these same drivers also create the data to manage risk effectively. The same transactional dataset can provide the backbone of advanced fraud protection systems through master data integrity and accuracy and error and anomaly detection.

Much of this data is readily available, often from core banks. But, as with all data, the challenge is finding practical applications that put the data to work simply and effectively to solve a problem. This is a topic we discussed in our last article in this series, illustrating the tangible value of tried and tested data visualization use cases. For instance, Bank of America's CashPro infrastructure now provides data insights, such as disbursement accounts without a debit block, highlighting account configuration and controlling best-practice gaps to support better risk management processes.

Maintaining best-practice processes

Needless to say, error and anomaly detection are not the cornerstones of security and fraud risk readiness. Rather, given that the majority of fraud results from human error, it is the adherence to process and system best practices that reduces the ability of fraudsters to manipulate weaknesses and lessens the impacts of transaction fraud.

Workflow awareness and the data that underpins process transparency and automation are a large part of the solution to treasury risk and fraud. Workflow best practice provides the base from which to implement new technology effectively.

Treasury risk and fraud will continue to evolve as the current wave of technological innovation matures. With the right data, and a strategy that avoids the hype of immediacy and focuses on solving a need when it is needed, treasurers will be well prepared.

To support our clients, Bank of America is investing in an infrastructure of tools and educational support to improve workflow transparency and highlight best practices. Our approach to solutions is never "plug and play." Instead, we believe in solving a need when it is needed — on time, looking beyond the technology to the supporting policies and processes that encompass the strategic role of a modern treasurer.

This series of articles and podcasts will highlight the key misconceptions and opportunities of on-time treasury. We trust you will find this frank approach refreshing. Speak to a Bank of America representative to understand our practical approach to on-time treasury, led by our treasury advisory group.

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