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Enhancing Sponsor Bank Compliance:

Guide to Synctera's Risk and Compliance Tools

October 2024

Executive Summary

Banking-as-a-service (BaaS) infrastructure has enabled a surge of financial innovation and a new way for banks to grow their business by increasing core deposits and generating revenue through non-interest income and other fees. However, since legacy core systems are traditionally not set up to effectively manage sponsor banking programs, banks are faced with dispersed data, multiple tech integrations, difficulties with reconciliation, and scattered communications – making it difficult for banks to effectively perform oversight and manage operations.

The Synctera Platform was built with compliance front and center, resulting in a platform that facilitates a direct relationship between sponsor banks and customers, where transparency, risk controls, and data visibility are of utmost importance.

The Synctera Platform includes a comprehensive suite of risk and compliance tools, supporting sponsor banks at every stage—from onboarding new programs to managing risks as those programs scale and everything in between. Using the Synctera Platform to manage a sponsor banking program enables banks to:

1. **Improve Operational Efficiencies:** The Synctera Platform is designed to be used across teams within a bank, including executives, relationship managers, risk and compliance analysts, and payment operations specialists, providing them with tools and workflows built to support their sponsor banking partnerships.

2. **Enhance Risk Mitigation:** Synctera arms sponsor banks with infrastructure and tools to understand and effectively manage risk. All of the tools are designed to work together to ensure that banks can implement and accurately monitor their BaaS program in line with their internal risk management policies.

3. **Ensure Scalability and Flexibility:** The Synctera Platform is designed for scalability and flexibility so, as the bank grows its partnerships, it can always meet the needs of the bank and its regulators. With a modular architecture and no core provider limitations, the Synctera Platform can flex to accommodate a wide range of requirements.

4. **Centralize Data and Program Activity:** With all program activity centralized in a single platform, data is easily surfaceable by the entire bank team. This enables team members to effectively perform their roles and gives the bank the ability to provide regulators with all of the data required during a routine audit or exam.

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The Synctera Platform is purpose-built to support a bank's entire risk and compliance team, from the Chief Compliance Officer to a BSA / AML Analyst. Synctera is focused on empowering sponsor banks to perform effective oversight, manage and mitigate risk, and have full data visibility into each of their programs.

The Synctera Console, the user interface for the Synctera Platform, is the access point for a wide variety of risk and compliance tools. From KYC and risk mitigation tools to transaction monitoring and limit controls, Synctera has sponsor banks covered. Let's dive in!

Cases: Communicate in a centralized and trackable location

Banking is an industry full of exceptions and nuances that sponsor banks and customers must investigate and solve – together. Cases is a tool that facilitates direct collaboration between sponsor banks and customers. It serves as the central repository for workflows that require communication and collaboration between sponsor banks and customers, keeping partnerships aligned at every stage of growth. Cases aids in facilitating everything from compliance-related investigations to requests for marketing asset approval. Here are some of the most frequented workflows that are resolved through Cases:

1. KYC and KYB Alerts: automated alerts during the end-user onboarding process that require customers to approve, reject, or request additional information from the applicant.

2. Fraud Alerts: automated alerts based on pre-configured fraud monitoring rules, such as transaction frequency (e.g. five or more transactions in 5 minutes) and number of different receivers per sender (e.g. 10 receivers per sender in the past 24 hours).

3. AML Alerts: automated alerts based on anti-money laundering rules and regulations, such as threshold rules (e.g. transactions >$ 10,000) and unusual transaction patterns (e.g. sudden increase in deposits or withdrawals).

4. Information Requests: request created by a customer or bank to request information from the other party.

5. Transaction Disputes: track end-user card and transaction disputes, upload supporting documentation, and centralize communications between the customer, sponsor bank, and Synctera's Compliance Operations team to reach a resolution.

6. Partner Monitoring Request: automated alerts to the customer based on a bank's Ongoing Monitoring schedules, which are used to automate the collection of ongoing due diligence documents, such as customer complaint logs and executive team changes.

7. Marketing Materials: customers can submit marketing assets, request approvals, and receive feedback from their sponsor bank to ensure that marketing messaging is compliant with all applicable regulations.

Company Profile: Streamlining initial and ongoing due diligence processes

Before partnering with a company as their sponsor bank, it's crucial to perform thorough due diligence to understand and assess the risks of new FinTech or embedded finance programs. The sponsor bank must deeply understand the business they're partnering with and the product they'll be launching before finalizing a partnership together. Banks must understand and evaluate the product, target customer, company, any third-party relationships the prospective customer utilizes, and more.

As an extra layer of risk mitigation, Synctera also performs its own due diligence on a prospective customer.

The due diligence process starts with the Company Profile. The Company Profile is the first step of a customer's journey and builds a complete picture of their business for Synctera and sponsor banks to review.

The Company Profile centralizes all of the documentation and information required to conduct due diligence, making it easy for sponsor banks to audit and reference on an ongoing basis. The Company Profile consists of four sections, each aligned with areas highlighted in guidance issued by bank regulators:

1. Company Profile: basic business information, including business legal name, company website, business description, Tax ID or EIN, business plan, and more.

2. Team Info: management team and board of directors information, as well as a full organizational chart for larger organizations.

3. Financial Condition: funding information, current financial status, financial and user acquisition projections, and financial statements.

4. Legal & Regulatory: a legal, risk, and compliance questionnaire so sponsor banks can better understand current policies and procedures.

After the initial due diligence process is completed, additional information for due diligence is requested so customers can open an operating account with the sponsor bank. These documents also strengthen the responses provided during initial due diligence and create an audit trail for regulatory purposes. Here's a look into the types of additional documents requested:

1. Identity Verification: customers are required to undergo identity and screening processes before the sponsor bank can open an account.

2. Business Ownership: customers must provide identification of Ultimate Beneficial Ownership (UBO) and Certification of Incorporation and By-Laws.

3. Proof of Registration: customers must provide Employment Identification Number (EIN) and Certificate of Good Standing from the Secretary of State's office.

4. Financials: customers must provide bank statements and capitalization tables.

5. Background Check: customers must undergo a background check for criminal and credit history.

Risk changes over time, but a bank's responsibility to understand it doesn't. In addition to initial due diligence, sponsor banks using the Synctera Platform are equipped with an ongoing monitoring tool to improve the way they perform ongoing due diligence on their programs, ensuring they always have the most up-to-date information needed to properly oversee them.

Ongoing Monitoring, a feature within the Synctera Console, automates the process of requesting and gathering updated due diligence documentation. Sponsor banks have complete flexibility for how they create the monitoring workflows. They can create monitoring schedules for one or all of their programs, set the preferred cadence for when

this documentation needs to be updated, and specify what documents must be provided by their customers.

Once a schedule is created, cases are automatically created in accordance with the cadence specified, alerting the customer that new information is requested. Once the customer uploads the necessary documentation into the Synctera Platform, the Company Profile will automatically be updated, ensuring that updated information is always accessible to compliance personnel.
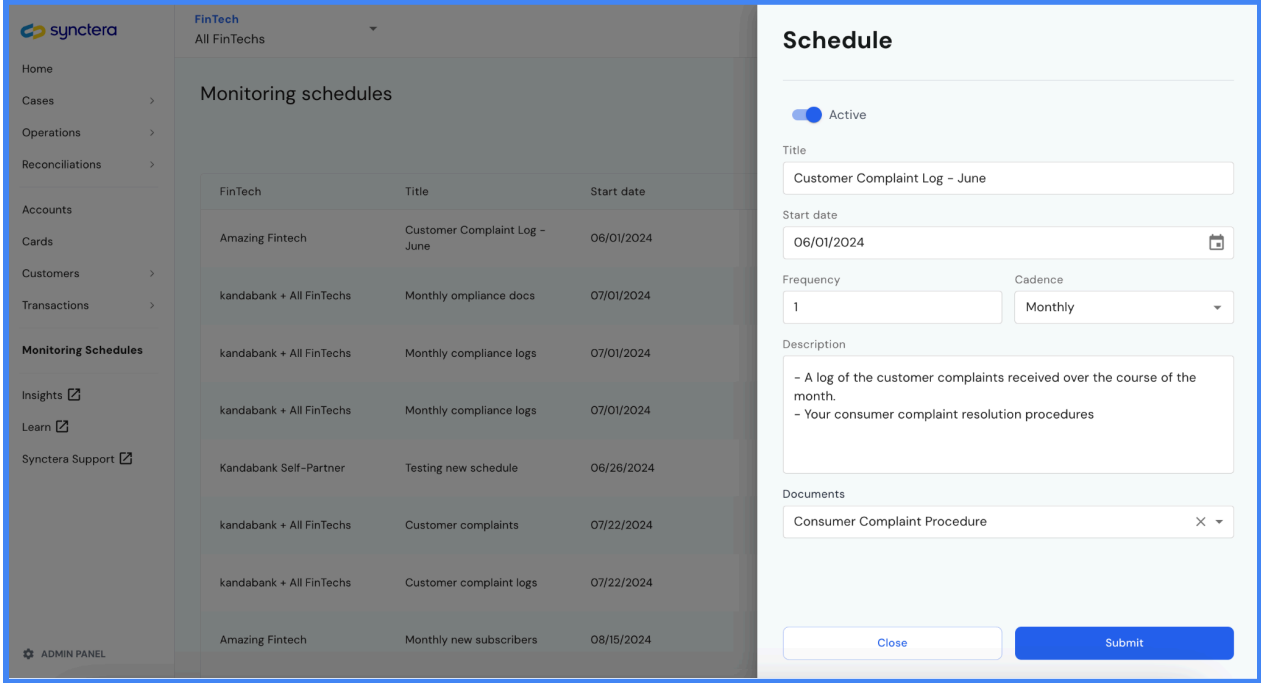
Insights: Data visibility for regulatory reporting, key risk indicators (KRIs), and payment operations support

With customer, account, and transaction data flowing through the Synctera Platform, sponsor banks need a data analytics tool that empowers a wide range of internal stakeholders to access the insights and information they need to succeed in their roles.

Synctera Insights supports just that – allowing everyone from bank executives to BSA / AML analysts to tap into their programs' data, either at an aggregate view or by drilling down into specific partners, to make better-informed decisions and monitor compliance-related metrics. Pre-built reports are provided to enable sponsor banks to better manage compliance and payment operations, but they can also build custom reports of their own.

Here are some examples of out-of-the-box reports sponsor banks leverage through Insights:

- ACH File Settlement Validation: validation data for ACH postings on the Synctera Ledger.

- Card Settlement Reporting: detailed information on the number and value of transactions on each card network daily, with the sum of gross amounts, various fees, and net settlement amount.

- NACHA ACH Return Rate Reporting: ACH return reporting with return reason codes.

- AML Case Summary: dashboards to identify trends and alert sponsor banks when there may be an increase in rules being triggered.

- Case Resolution Overview: detailed overview of all cases between sponsor banks and their customers with filters for case type, status, and customer.

Reconciliation: Keeping track of every penny

Every time a transaction occurs, data is recorded across multiple systems, including those of technology providers, banking partners, and various payment networks. Reconciliation plays a critical role in ensuring that this transaction data is consistent across all systems and is essential for maintaining accurate records of money movement and account balances.

The Synctera Platform makes it easy for sponsor banks to keep track of every penny flowing in and out of their programs, in one centralized interface. Synctera's reconciliation engine auto-reconciles >98% of transactions, enabling banks to spend less time manually matching transactions. Within the Console, there is a snapshot of account balances so banks can quickly see if there are any discrepancies. For transactions that are not auto-reconciled, the Console makes it easy for the Synctera Payment Operations team to match Synctera Ledger transactions with those from payment networks, like Fedwire, Automated Clearing House (ACH), or the card networks.

The Reconciliation section of the Console includes:

1. Daily Snapshots: quickly and easily view the reconciliation status and balances of a program. It's a bank's first stop to investigate any differences between balances, in collaboration with the Synctera Payment Operations team.

2. Open Items: view all of the transactions that were not auto-reconciled by Synctera's reconciliation engine. This tab is used to manually reconcile transactions that require further investigation and bring them to resolution.

3. Post-processing: review transactions that can't be automatically attributed to a specific customer's account. Easily review the transaction and attempt to match it to a customer's account based on the transaction file data.

4. Reconciled: view a list of all of the transactions that have already been reconciled, both automatically and manually. This section of the Synctera Console also provides the ability to undo reconciliations that might have occurred in error.

In addition to the Console's reconciliation tooling, Aging Analysis reporting is provided in Synctera Insights to support the fact that reconciliation happens in different time horizons. For example, a card transaction that is posted on an end-user's account might be settled in a few days. On the other hand, an outgoing ACH created on the Synctera Platform should be reconciled on the same day. Aging Analysis reporting helps uncover the full amount of unreconciled transactions at risk for the sponsor bank.

Along with the data transparency provided through the Synctera Console and Insights, Synctera's bank partners are also provided with daily extracts of all account and transaction information. These extracts provide the bank with complete access to all money movement history and end-user balances in the event of any system disruption.


Customer Onboarding: Meet Customer Identification Program (CIP) requirements

One of the most vital components of compliant sponsor banking partnerships is ensuring that the identities of all new end-users are verified before onboarding and approving accounts. This verification process aids in the prevention of money laundering, terrorist financing, and fraud. Synctera supports a bank's CIP requirements with integrated Know Your Customer (KYC), Know Your Business (KYB), and sanctions screenings, ensuring that all customer identification data is centralized within the Synctera Platform and Console.

When a customer uses the Synctera APIs to onboard an end-user, they are required to pass consumers and businesses through a KYC or KYB decisioning workflow. The Synctera Platform provides flexibility to support different ways of ensuring CIP compliance. Sponsor banks have complete control and visibility into the CIP requirements, whether it's leveraging Synctera's integrated KYC and KYB solution or using the "off-us" KYC API to pass along KYC and KYB results from their preferred vendor.

If a KYC or KYB decision is not automatically approved or rejected, it will trigger a manual review, which automatically creates a case. This allows the customer and the sponsor bank to collaborate on a resolution based on the sponsor bank's KYC or KYB standards.
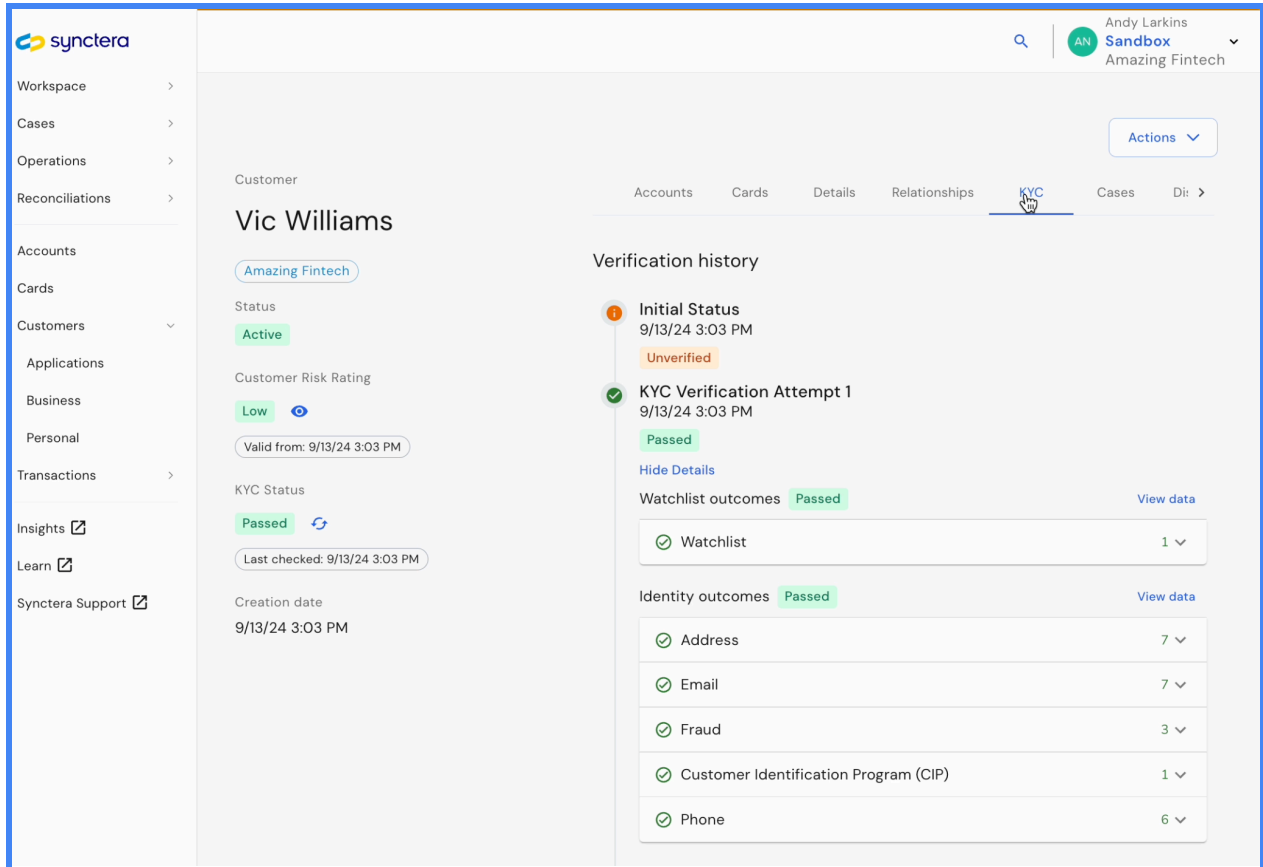
AML Monitoring: Ensure compliance with Anti–Money Laundering (AML) regulations

Sponsor banks must adhere to a wide range of established policies and procedures to comply with AML regulations, including monitoring transactions and reporting on suspicious activity. Synctera's AML technology helps prevent financial crime by automating and streamlining AML workflows, from AML checks and transaction monitoring to case management. All data is centralized within the Synctera Platform so alerts can be properly addressed and tracked.

In collaboration with the sponsor bank and customer, Synctera configures the appropriate AML monitoring rules and operational workflows according to the bank's risk management policies. Once configured, Synctera sends aggregated customer, account, and transaction data through a transaction monitoring engine for evaluation. The Synctera Platform automatically executes AML checks based on predefined rules and agreed–upon thresholds. When further investigation is required, a case is automatically created.

In the event suspicious activity is escalated to the bank as an Unusual Activity Report (UAR), the case will be reassigned to the bank's designated AML staff and, if required, they can submit a Suspicious Activity Report (SAR) to FinCEN.
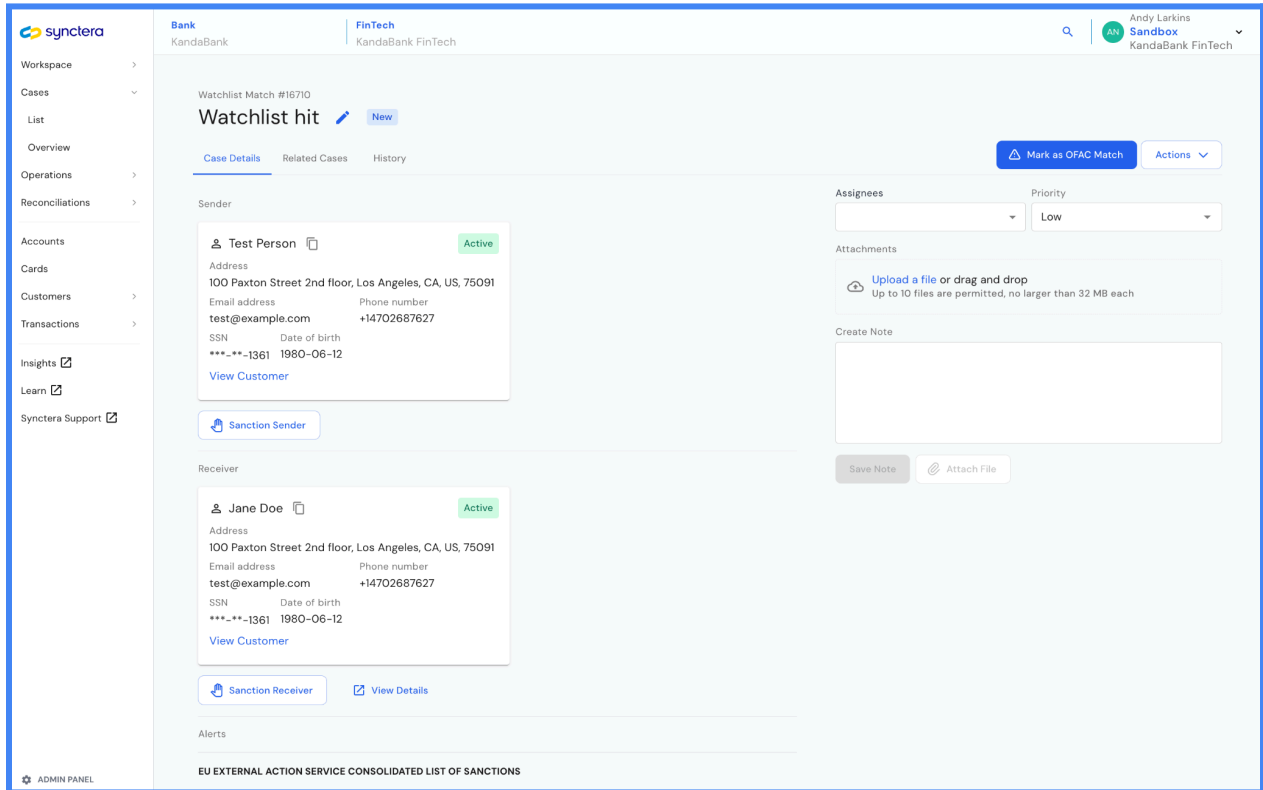
Fraud Monitoring: Defend against fraudsters

In addition to AML transaction monitoring, Synctera provides a built-in fraud monitoring and detection tool. Without a proper fraud monitoring tool, losses can impact a customer's bottom line, ultimately affecting the bank's ability to generate revenue. Synctera's fraud monitoring tool is built with configurable rules and risk models that can adapt to the needs of customers and sponsor banks. It monitors money movement in real time, automatically flagging and declining transactions that may be fraudulent. By being integrated with the Synctera Platform, the fraud monitoring functionality works in conjunction with the rest of Synctera's suite of risk and compliance tooling. Cases are automatically created to track, investigate, and resolve fraud events, ensuring data is centralized to maintain proper audit trails.
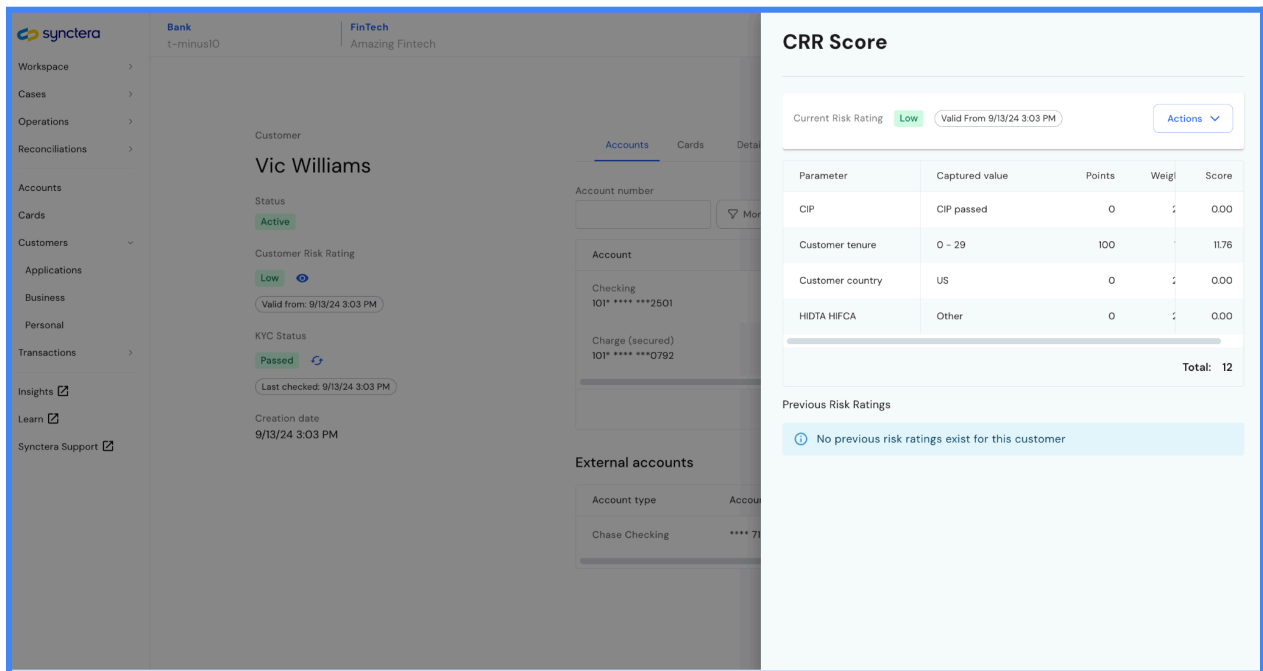
In addition to monitoring transactions, Synctera offers several fraud controls, such as identity banning, which allows customers to ban end-users and prevent money movement or additional account applications, and authorization gateway, which allows customers to participate in the transaction authorization flow with their own fraud control criteria.

Customer Risk Rating: Improve the understanding of end-user risk

Synctera's Customer Risk Rating (CRR) was designed to quantify the risk associated with an end-user, categorizing them into three levels: Low, Medium, and High. The CRR is calculated after KYC or KYB processes and is based on several end-user parameters, such as geography and tenure. Customers can also upload additional end-user information to factor into CRR using the Enhanced Due Diligence API. A recalculation is triggered whenever an end-user's parameters change. CRR enables sponsor banks to better understand the risk profiles of their customers and end-users.

An end-user's CRR can easily be viewed in the Synctera Console, including details on what parameters affected the score.

Disputes: Manage card and payment disputes with ease

To adhere to various regulations, sponsor banks and customers are required to resolve disputes for debit, credit, and ACH transactions. There are several ways for sponsor banks and customers to handle disputes on the Synctera Platform.

First, the Disputes API allows customers to build the card dispute process into their product, allowing end-users to create new disputes and upload supporting documentation. When an end-user initiates a dispute, a dispute case is automatically created in the Synctera Console and is populated with the necessary information, such as transaction details and investigation deadlines.

Alternatively, the customer's support team can submit debit, credit, and ACH disputes on behalf of an end-user directly from the transaction listed in the Synctera Console. Once submitted, a dispute case is created, allowing sponsor banks to track and monitor its resolution.

Spend and Limit Controls: Take control with better risk mitigation

There are two important controls that sponsor banks can implement to manage the risk of specific customers: spend and limit controls.

Spend controls are rules set to limit where and how much end-users can spend. Both customers and sponsor banks can implement these controls. Spend controls are used in real-time during transaction authorization. There are two main types of spend controls:

1. Authorization Controls: these limit where users can spend (e.g. specific MCC or countries)

2. Velocity Controls: these limit how much end-users can spend within a certain time period.

Sponsor banks have the option of declining all transactions that are part of the controls or generating cases to notify relevant parties when certain thresholds are met.

Limit controls are used to set maximum thresholds for spending or other financial activities on a program-level (e.g. limit on outgoing debit ACH transactions). These limits are designed to help sponsor banks manage liquidity risk. Notifications can be set up to alert when certain percentages of the limit are reached (e.g., 20%, 70%, and 90%). When the limit is fully utilized (100%), a case is created and assigned to the relevant parties.

Synctera's commitment to compliance

The Synctera Platform empowers sponsor banks to confidently navigate the complex regulatory landscape of BaaS. With comprehensive solutions for case management, due diligence, data accessibility, risk monitoring, and more, Synctera provides sponsor banks with the tools they need to manage risk, maintain compliance, and foster resilient partnerships. By centralizing data and automating key workflows, Synctera helps banks improve operational efficiency and scale their programs safely, while ensuring regulatory confidence every step of the way.