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# How PASS Aids Regulators and Banks

*By Ryan Bahr*

The Payment Analysis and Screening System, or PASS, is a tool developed by the Federal Reserve Bank of Minneapolis to analyze payment data in order to risk-focus supervisory activities. The tool tracks payment activity of depository institutions (DI) using data from multiple platforms. These platforms include (1) FedCash, which helps DIs meet their cash demands; (2) checks, which are cash letters deposited or withdrawn by DI customers; (3) FedACH, a network that coordinates electronic payments and automated money transfers; and (4) FedWire Funds Service Data, a real-time gross settlement funds transfer system. PASS provides a systematic, controlled, and consistent process for providing Federal Reserve payment data to Federal Regulatory supervisory staff. PASS calculates the daily aggregate value of each DI payment activity. It also provides ongoing, institution-specific analysis and reports and facilitates peer group comparisons. In this article, we will explain how the Federal Reserve uses this data in supervision, how banks benefit when bank regulators use PASS, and how regulators actually use the PASS data.

## How does the Federal Reserve use this data in supervision?

Federal Reserve supervisory staff use payment data to aid in examination scoping, particularly in the areas of operations risk and compliance with the Bank Secrecy Act and Anti-Money Laundering (BSA/AML).

The primary function of PASS is in risk-focusing from a supervision perspective. PASS reports and peer comparisons help identify potentially problematic transactions and the institutions processing them. This enables supervisory staff to focus on problematic areas, reducing supervisory activities in areas that are not high risk. The PASS tool is flexible and allows supervisory staff to create peer groups that share a similar structure or geographic location, such as the same city, district, or asset size. Such customized peer group analysis helps identify problematic or high-risk transactions.

## How do banks benefit when bank regulators use PASS?

The use of PASS data and analysis by bank regulators has benefited banks in two ways:

1. Risk-focused supervision has reduced supervisory burden on banks.
2. Identification of potentially fraudulent activity has helped supervisory staff alert the bank.

Federal Reserve supervisory staff conduct reviews between exams to identify potential risks early on. These reviews allow regulators to work with institutions to ensure appropriate controls are in place and the activity is being monitored on an ongoing basis. For example, PASS-generated reports assist with target reviews of DIs, which result in a more focused on-site review, thus saving time asking bankers questions that could be answered off-site. Additionally, since banks generally know what their own activity is, especially in peak times, banks could potentially identify fraudulent activity by monitoring their own data.

## How do regulators actually use this data?

Supervisory staff analyze and monitor the data to identify spikes in activity levels for various payment types. For example, an increase in ACH transaction volume between exams may suggest a new customer relationship or a new product being offered. The supervisory focus would then be on appropriate risk management practices. A majority of the spikes in activity levels can be explained by comparing current data to past data. A spike in currency and coin orders in the summer months, for instance, may be an indication of a county fair.

However, some spikes in activity levels cannot be explained without additional information from bankers. As an example, one examiner compared transaction data on a month-to-month basis, identified spikes on certain days of the month, and confirmed that payroll was being processed on certain days. These actions allowed supervisory staff to relay the findings to operations exam staff for an upcoming exam, thus saving the exam staff and bankers time by answering questions beforehand.

In conclusion, the PASS tool and the associated banking data contained within the tool provide benefits to both bankers and supervisory staff. Staff members are better informed and prepared for upcoming examinations using PASS data, and bankers benefit from risk-focusing by supervisors and reduced regulatory burden. ■

*Ryan Bahr is a project director at the Federal Reserve Bank of Minneapolis.*

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