

Considerations for fintech payments companies to manage Paycheck Protection Program risks

Financial technology (fintech) solutions are rapidly changing the payments industry and more consumers are making the switch to fintech versus traditional payment products/services. The Small Business Administration's (SBA) Paycheck Protection Program (PPP)¹ launched under the CARES Act presented an opportunity for fintech payments companies to assist small businesses in securing guaranteed loans from the SBA (at 1 percent interest), which help cover eligible employee payroll and other qualified expense obligations. Some fintech payments companies are seeking and receiving approval from the SBA to offer loans in support of the PPP. As such, these fintech companies should enhance internal processes and controls to effectively manage the risks associated with PPP participation. These fintech companies have used their core competencies of innovation, rapid deployment, and technological prowess to quickly respond to the needs of the community against the backdrop of COVID-19.

As may be expected, executing the PPP has come with its share of challenges, which in turn create risks for fintech companies. Potential risks to manage arguably include operational, credit, fraud, Bank Secrecy Act (BSA)/anti-money laundering (AML), legal, compliance, and reputation risks. As a result, the Secretary of the Treasury announced that the administration intends to audit loans over \$2 million.²

What does this mean for fintech companies?

Fintech payments companies are presented an opportunity amidst these challenges (along with their bank partners) to shore up risk management practices, build upon those practices, and leverage them to help mature risk management in their core business. It is important for companies to understand how current processes are operationalized and conduct quality reviews on loans ("readiness assessments") before these loans are subject to government audit (as communicated by the Secretary of the Treasury). It is also important to delineate compliance and operational roles and responsibilities with the partner banks. Fintech companies should consider the following:

- **Process design and update**—The rapid deployment of the PPP led to an evolution in guidance from the SBA as the program rolled out and continues to this day. Identifying these changes and mapping them to affected processes is critical to maintaining compliance with Program guidelines.
- **Quality assurance (QA)**—Performing QA is essential to confirming that processes are operating as intended. Consideration should be given to the scope of QA reviews and which process steps are prone to error, such as decision points or manual activities. QA may be performed by a dedicated team within the core business, but can also leverage expertise and resources from compliance functions or even outsourced vendors to rapidly upstaff qualified resources.

- **Internal audit (IA)**—The independent assurance provided by IA should quickly be leveraged over PPP related activities. IA may perform a test of design, test of effectiveness, and/or consider "real time auditing" (leveraging analytics) to determine if risk is properly mitigated.

How can we help?

Deloitte's Risk & Financial Advisory's Payments group provides advisory and internal audit assistance to companies that offer alternative innovative payment solutions to consumers and small businesses. Our team includes industry veterans and former regulators who bring first-hand knowledge and experience with regard to risk management, compliance, and internal audit to fintech payments companies. We bring deep industry knowledge and resources to advise our clients and can assist in design operationalization, staff augmentation, data analytics testing support related to their dynamic business needs.

1. <https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program>

2. <https://home.treasury.gov/system/files/136/Paycheck-Protection-Program-Frequently-Asked-Questions.pdf>

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