What's New in Payments?

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The Boring Bits

THE RULES, THE REGULATIONS… BLAH, BLAH, BLAH

- The views presented here are my own (most of the time, anyway) and do not necessarily reflect those of Macha, Nacha, any other "ACHA" or APA for that matter
- I did not go to Law school, so I'm not giving you legal advice
- This document could include technical inaccuracies or typographical errors and individual users are responsible for verifying any information contained herein.

What’s a Macha?

Macha is one of 10 membership-based Payment Associations

Our mission is to be the payments experts for all participants in the payments arena on all payment systems

- ACH
- Check
- Card
- Wire
- Faster/Instant Payments

We provide education and consulting services to financial institutions and corporate members

What we are going to Cover Today

The ACH Network

- The Facts
- What’s New
- Not New Stuff you Still Need to Know
- Some Potentially New Things

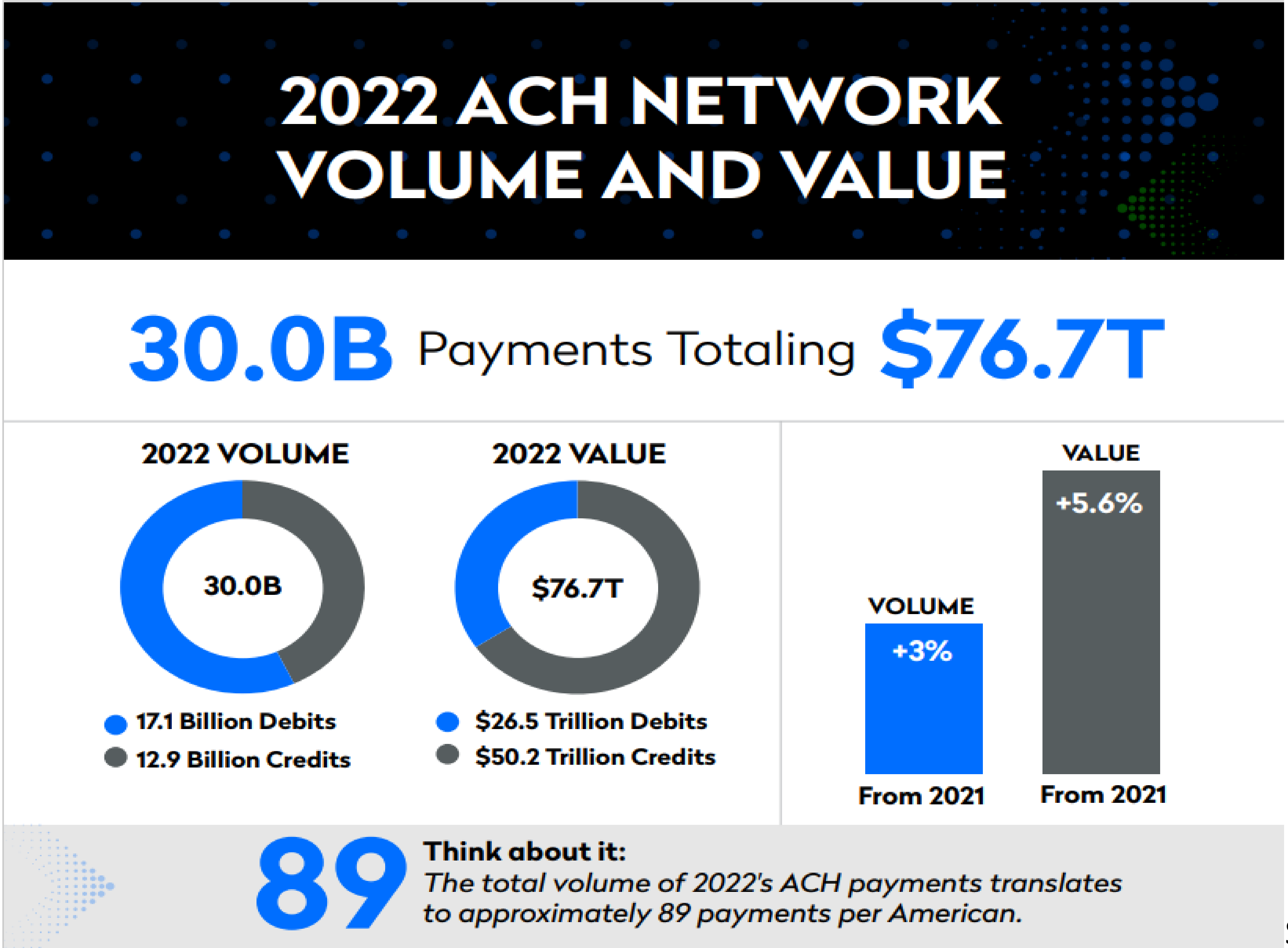
Faster and Instant Payments

- FedNow
- RTP
- Others

Numbers

U. S. Payments *(annual)*

Checks	ACH	Debit Cards	Cash
=	=	=	=
11.2 billion	36.2 billion	87.8 billion	20% all consumer payments



Source: www.nacha.org

New Nacha Rules

Third-Party Sender Roles and Responsibilities

Effective September 30, 2022

- 6-month grace period for certain aspects of each topic

This Rule clarifies the roles and responsibilities of Third-Party Senders

- addresses the existing practice of Nested Third-Party Sender relationships
- makes explicit and clarifies the requirement that a TPS conduct a Risk Assessment

Nested Third-Party Senders

A “Nested Third-Party Sender” will be defined as a Third-Party Sender that has an agreement with another Third-Party Sender to act on behalf of an Originator and does not have a direct agreement with the ODFI.

Nested TPSs will be addressed in ACH Origination Agreements

An Origination Agreement will exist between a TPS and a Nested TPS

Agreement modifications will be required only for agreements entered into or renewed on or after September 30, 2022

Third-Party Senders and Risk Assessments

The rule expressly states that a Third-Party Sender, whether or not it is Nested, is required to conduct a Risk Assessment.

A (Nested) Third-Party Sender must implement, or have implemented, a risk management program based on their Risk Assessment.

No prescribed methodology

Third-Party Senders and Risk Assessments

No Standard				
Credit, Operational, Fraud, Compliance, Reputational	ODFI Requirements – Article One & Two of Rules	CDD, Exposure Limits, Originator Authorization process, data security, ACH entry specific Rule	Guidance issued by financial institution regulators	PCI, TPPP industry groups, FFIEC & Third-Party Payment Processors

Third-Party Senders and Risk Assessments

Risk Management Program of ACH Origination

- Must include, but not limited to:
  - Monitoring the origination & return activity of its Originators or its Nested TPSs across multiple Settlement Dates;
  - Enforcing restrictions on the types of entries that may be originated; &
  - Enforcing the exposure limit set by the TPS or ODFI

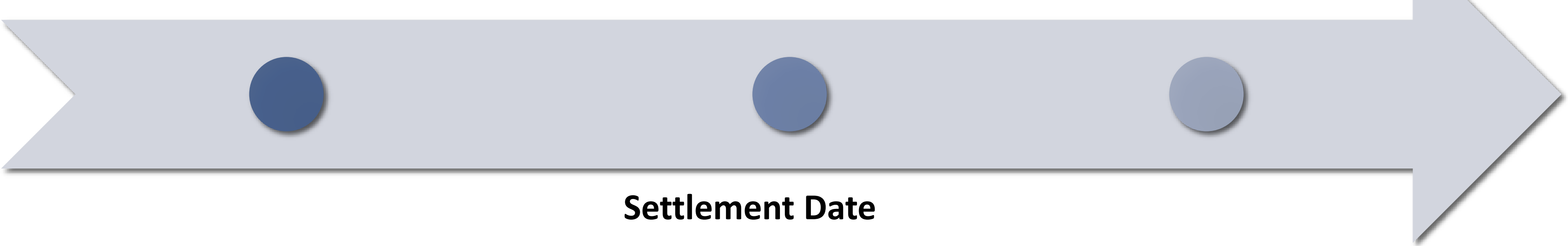
Not new, but you need to know

Dates in the ACH

Effective Entry Date

- Assigned by Originator/ODFI
- YY/MM/DD = **230806**
- Effective Entry Date + Timing of Deposit at ACH Operator
- = Settlement Date

ACH Participants requirements based on **Settlement Date**



Settlement Date

- Assigned by ACH Operator
- Format is Julian Date
- 3-digit day of year
- **August 6, 2023 = 218**

Same Day ACH

Functionality	Same Day ACH Processing
Transaction Eligibility ($1,000,000 Limit, IAT not eligible)	Credits and debits
Same Day ACH Processing Deadlines	10:30 AM ET 2:45 PM ET 4:45 PM ET
Settlement Time(s)	1:00 PM ET 5:00 PM ET 6:00 PM ET
ACH Credit Funds Availability	1:30 PM RDFI local 5:00 PM RDFI local End of Day local

Posting & Funds Availability

Posting / Funds Availability

- Credits – on Settlement Date
  - **may post prior**
- Debits – on Settlement Date
  - cannot post prior
- Credits – Entries that are made available by the ACH Operator by 5 pm on the banking day prior to the settlement date must be made available for cash withdrawal by **9:00 am** on the Settlement date
  - Same Day ACH Credits = 1:30 pm & 5:00 pm funds availability

$$

Beyond Your Control

Financial Institutions choosing to
post ACH credits "early"

Challenge:
Employees of the same employer "believe" they are getting paid on different dates"

Nothing the employer can do

Is it Good or It Needs to be Fixed

PRENOTIFICATION

- Non-Dollar Entry - (test transaction)
- **Optional** for Originators
- RDFI MUST verify the validity of account # **only**
- Incorrect the RDFI must Return or send a Notification of Change (NOC)
- Live entry may be sent 3 days after prenote if not returned by RDFI

NOTIFICATION OF CHANGE (COR)

- RDFI must initiate NOC within **2** banking days following the settlement date of the original entry *(except for merger)*
- Originator must correct prior to next entry or within **6** banking days, whichever is later
  - Except if NOC is for Single Entry – they can then ignore
  - *If NOC in response to Prenote – must correct before live entry*
- Originator may rely on corrected information
- No requirement to contact account holder

Oh No! Should Not Have Sent Entry

Reversals

- Duplicate or Erroneous Payment
- Identified by "REVERSAL" in description
- Initiated within 5 days of original entry
- Notification to Receiver by Originator
- Receiver does not have to provide written authorization
- ODFI indemnifies RDFI
- If funds are not available, RDFI returns **NSF, Closed, ETC**
- ODFI contacts RDFI to request return
  - **RDFI not required to honor request**

No Guarantee of Recovery

Some Potential New Things

Expand Use of Reversals for Fraud Recovery

- The Nacha Rules currently provide for the reversal of entries to correct errors but not for the attempted recovery of fraudulently-originated credits or credits transmitted without authorization of the Originator

- With the recent use of credits for various types of credit-push fraud (e.g., BEC, vendor impersonation, payroll impersonation, etc.), ACH Originators could benefit from enabling the use of reversals in an effort to recover these funds

- The proposal would explicitly allow reversals for use with fraudulently-originated credits and credits transmitted without the authorization of the Originator
  - It is likely that some reversals are being used in this manner already

- The proposal is intended to improve the recovery of funds when a fraud has occurred

- This proposal would not change other permissible reasons for a reversal, nor the language that reasons other than those explicitly listed are not permitted

Expand Use of Reversals for Fraud Recovery

The proposal also would require that a reversal used to attempt to recover from fraud use a distinct Company Entry Description to differentiate it from standard reversals for errors

- Reversals for fraud would use the standard description “REVERSALFR”
  - Adding “FR” to the end of the description “REVERSAL” differentiates reversals for fraud from reversals for errors
  - The description is similar in intent to messages in instant payment systems requesting the return of funds that use a reason code of “FRAD”
  - Providing this indicator in a Batch Header Record field would enable reporting on these transactions

Expand Use of Reversals for Fraud Recovery

In addition, this proposal also includes an expansion to the ability of an ODFI to request a return from the RDFI

- Historically, the permissible reasons that an ODFI can request a return tracked closely to the reasons allowed for a reversal (i.e., to correct errors)
  - One existing distinction between reversal and ODFI requests for return occurs when a request for return attempts to recover for credits transmitted without the Originator's authorization
- It is likely that in practice, ODFI requests for return encompass other reasons

The proposal would expand the ODFI request for a return so that an ODFI could request a return from an RDFI for any reason

- The ODFI would still indemnify the RDFI for compliance with the request
- Compliance by the RDFI would remain optional
- An RDFI's only obligation to the ODFI would be to promptly respond to the ODFI's request
- This proposal is intended to improve the recovery of funds when fraud has occurred

Benefits and Impacts

Anticipated Benefits	Potential Impacts
• Creates additional opportunities to recover funds lost to fraud • Aligns the Rules language for Reversals with anecdotally-understood current business practices for some Originators/ODFIs • Provides more flexibility for ODFIs that want to indemnify and request the RDFI return a transaction for any reason • Allows for improved, systemic tracking of Reversals specific to fraudulent transactions and recovery figures • For RDFIs, the distinct description of a Reversal for fraud provides information from the Originator/ODFI regarding the original entry	• May require procedural changes for Originators, Third-Party Senders and ODFIs • Systems changes would be required to implement the new, distinct Company Entry Description • Education and documentation for all participants on the new reason

Standard Company Entry Descriptions

The Company Entry Description is a 10-character field that the Originator uses to describe the purpose of a payment

- There are required standards for specific Company Entry Descriptions defined in the Nacha Rules such as ACCTVERIFY, REVERSAL, HCCLAIMPMT, and RETRY PYMT

Standardized uses of the Company Entry Description can help parties in the ACH Network identify, monitor and count the volume of payments for specific purposes; and can help manage risk

Standard Company Entry Descriptions

This proposal would establish two new standard descriptions for specific payment purposes

1. For PPD Credits for payment of wages, salaries and similar types of compensation, the Company Entry Description field must contain the description PAYROLL

- RDFIs that monitor inbound ACH credits would have better information regarding new or multiple payroll payments to an account
- A standard description for payroll payments can help support RDFI logic to provide or suppress early funds availability
- The proposal is intended to reduce the incidence of fraud involving payroll redirections

Standard Company Entry Descriptions

This proposal would also establish a second new standard description for a specific payment purpose:

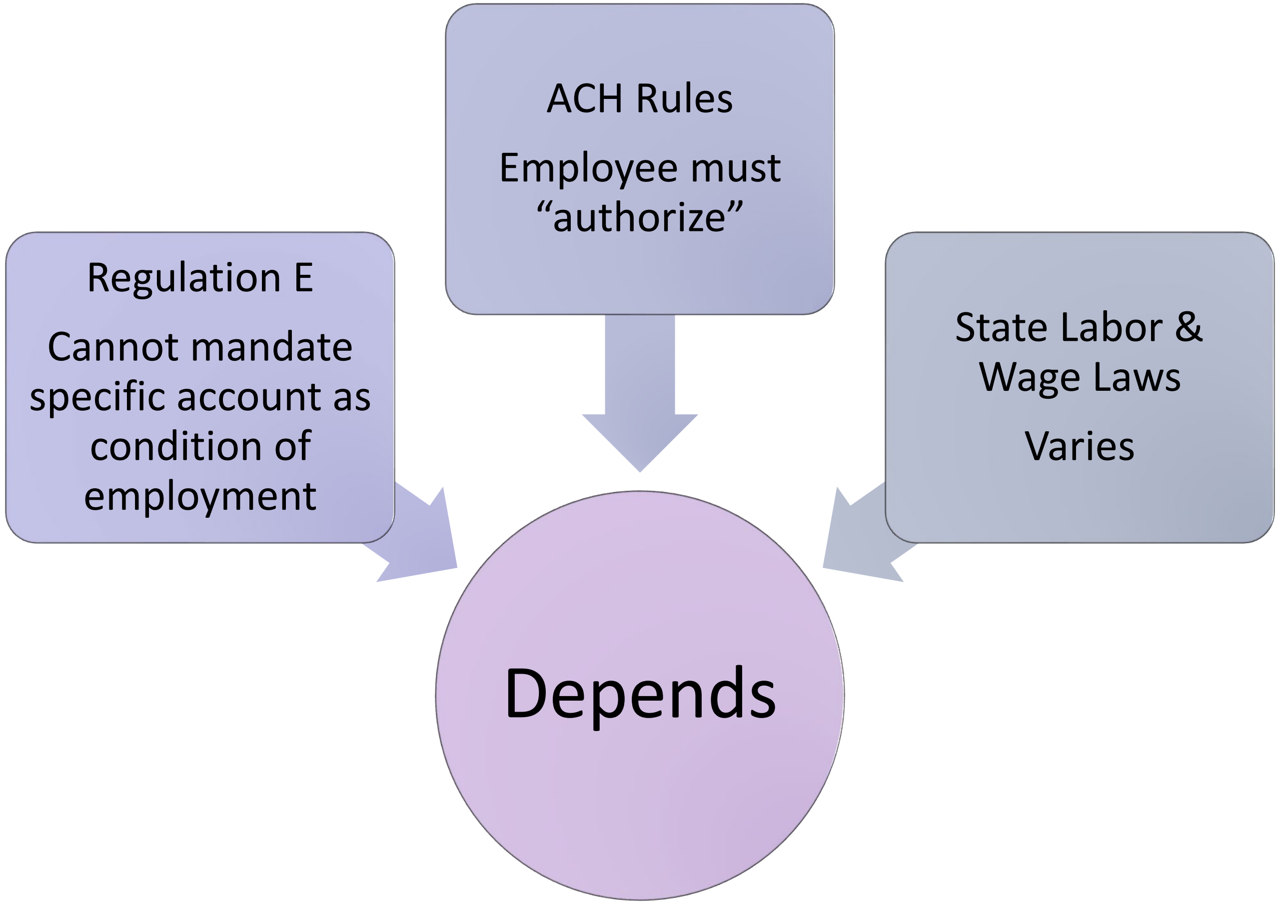
2. For e-commerce purchases, the Company Entry Description field must contain the description PURCHASE

- • For this purpose, an e-commerce purchase is a debit Entry authorized by a consumer Receiver for the online purchase of goods or services. An e-commerce purchase uses the WEB debit SEC Code, except as permitted by the rule on Standing Authorization to use the PPD or TEL debit SEC Code
- • ACH purchases at the point-of-sale would continue to use the POS SEC Code which carries terminal information

• A standard description for e-commerce purchases would enable ODFIs and RDFIs to track volume and other metrics related to transaction quality for this payment purpose (e.g., disputes, returns) and potentially apply additional processing logic

• The proposal is intended to improve ACH transaction quality

Employer Mandate for Direct Deposit



Faster Payments? Instant Payments?

Faster Payment vs. Instant Payment

FASTER PAYMENTS:

Transfer of final funds occurs after the payee’s financial institution has made the payment available to the payee

Settlement can take a day or more

Credit risk

Examples: Visa Direct, Mastercard Send and Zelle*

INSTANT PAYMENTS:

Transfer of final funds occurs with transmission of the payment message and just seconds before the payee’s financial institution makes the payment available to the payee

Settlement happens immediately

No credit risk

Examples: RTP, FedNow and Zelle*

Core Faster Payment Network Rails

This represents a sample of the faster payments solutions in the marketplace as of November 2022.

Funds Availability: Real Time Same Day

	Payment Type (Includes only monetary transactions)	Dollar Limits	Payment Messaging Standard	Amount/Type of Information with Payment	Settlement Timing
Same Day ACH	Push, Pull	$1,000,000	Nacha, ISO 20022, XML, ASC X12 820, ASC X12 835, ASC X12 Data Segments, UN/EDIFACT, Nacha-endorsed banking conventions	Up to 799,920 Characters	Same Day
RTP® Network	Push	$1,000,000	ISO 20022	Unlimited Characters via Extended Remittance	Immediate 24/7/365
FedNow℠	Push	$500,000	ISO 20022	4,000 Characters	Immediate 24/7/365
Visa Direct	Push	$50K per OCT transaction $100K/day (150 txn limit) $250K/week (250 txn limit) $500k/month (750 txn limit)	ISO 8583	Varies by Case	Same Day or Next Day
MastercardSend	Push	P2P: $10,000 A2A: $25,000 B2C: $50,000	ISO 8583	Varies by Case	Same Day or Next Day

Instant Payments

Instant Payments:

- are credit push only
- use real time gross settlement
- enable both payer and payee to see the transaction reflecte(
  immediately
- offer immediate funds availability to the payee
- are final and irrevocable

Settlement

Settlement is the discharge of financial obligations that result from the clearing process between payers' and payees' financial institutions

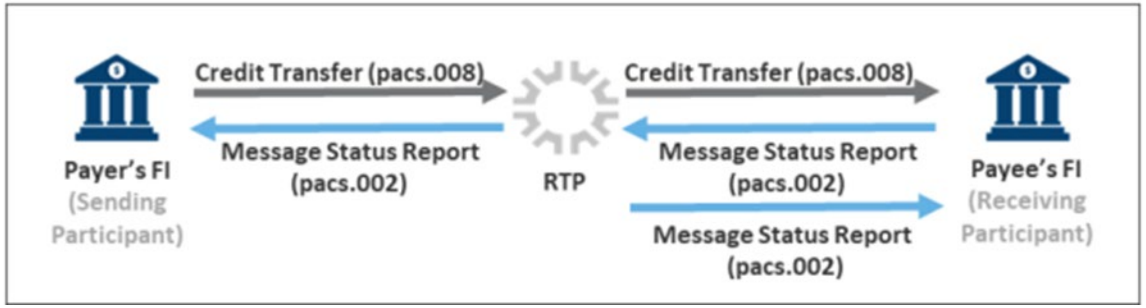
Settlement can:

- Occur with message transmission (in real time) or on a delayed basis (deferred)
- Involve netted or gross amounts

Two models are the most common for settling faster and instant payments:

Real-time gross settlement (RTGS)	Examples: Instant payment services, including FedNow Service and the RTP network
Deferred net settlement (DNS)	Examples: Zelle*, Visa Direct and Mastercard Send

RTP Network Credit Transfer Flow



FedNow Payment Flow

Combatting Instant Payment Fraud

Combatting Fraud

Think in terms of layers of safeguards

- In addition to internal systems and processes, educating customer and leveraging security measures built into the payment network are important complements.

Review fraud solutions and processes

- Identify opportunities for improvement, particularly for those based on batch processing and manual intervention.

Talk with vendors and technology partners

- Discuss new approaches, including applying real-time fraud-detection capabilities and achieving a comprehensive view of transaction patters across all payment types.

Add suspicious accounts and aliases to a watch list

- This will block potentially fraudulent transactions before funds leave your institution.

Stay involved and informed

- Join industry councils or conferences to keep appraised of developments in the fraud landscape and share insights with peers.

Accountholder Education

Explain	Explain how instant payments are different.
Raise	Raise awareness about potential fraud risks.
Provide	Provide reminders of good security practices.

Good Security Practices

CONSUMER

Never respond to suspicious emails, open attachments or click on links

Adopt a zero-trust contact policy

Use strong, unique passwords for different accounts

Enable alerts for transactions

BUSINESS

Verify the source of a request for payment by calling to confirm using a phone number of record for the payee

Implement dual approval for certain types of payments

Continuing Education Credits

AAP™
Accredited ACH Professional

APRP™
Accredited Payments Risk Professional

What's New in Payments

September 21, 2023

This session is worth 1.2 credits

Macha/PAR- Everything Payments- Everywhere

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