



Faster Payments: Opportunities and Challenges

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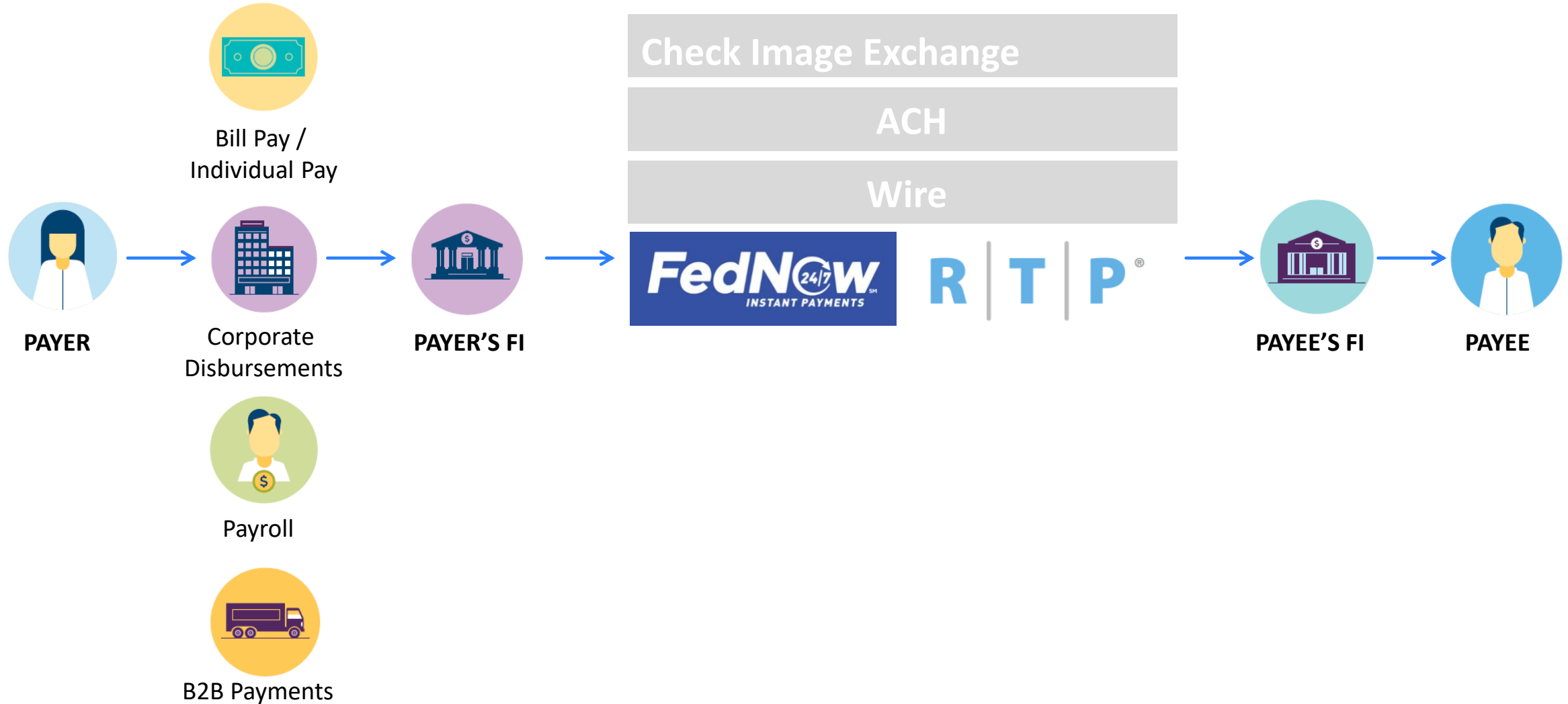
Agenda

- Faster payments overview
- Fraud trends
 - International
 - Domestic
- Detect and prevent fraud
- Resources

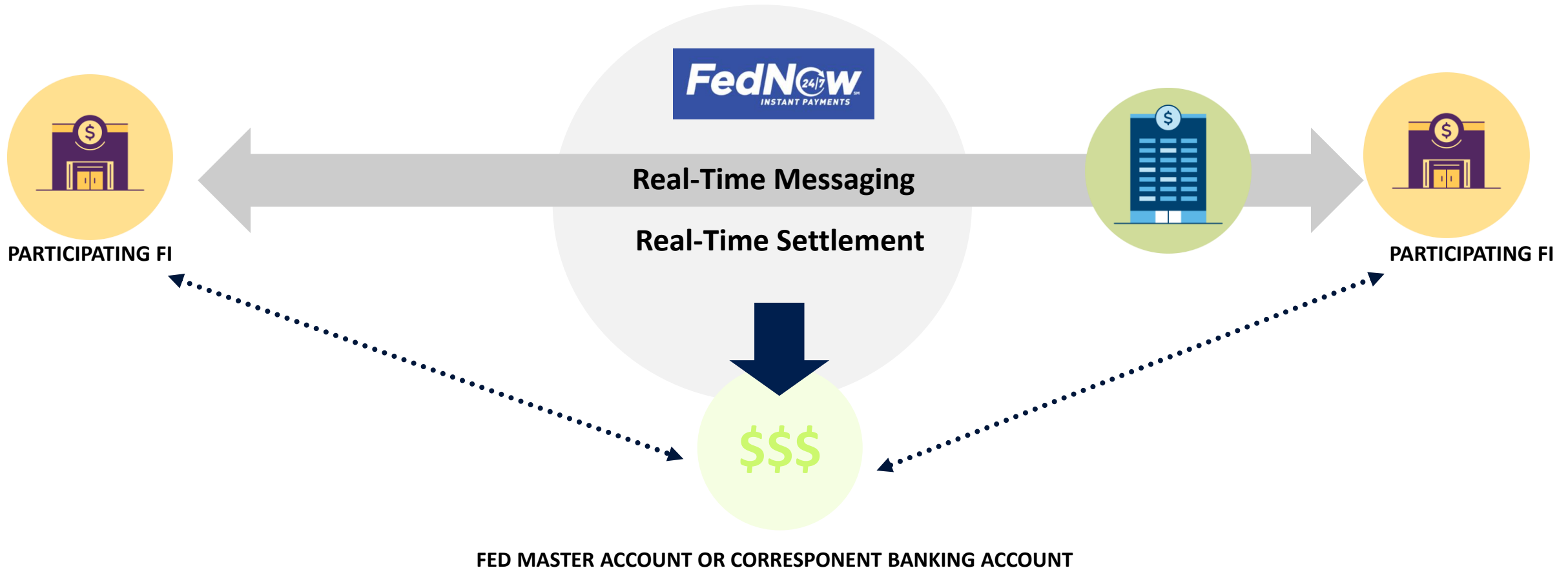


Faster Payment Flows

U.S. Payments Infrastructure



Enabling 24/7 Two-Way Messaging with Real-Time Settlement



Delivering Capabilities Expected of a 21st Century Platform

Credit
Push Only



Payment
Status

Payment
Certainty

Immediate
Availability
of Funds

Complete
AR/AP
Messaging

Fulfillment
Messaging

Always on
24x7



Global
Ready



*FIs have five seconds to accept or reject
an incoming payment*

Instant Payments Use Cases



A2A



**Loan
Funding**



**Gig
Economy**



B2B



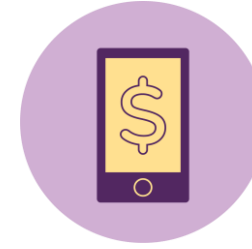
Payroll



**Merchant
Funding**



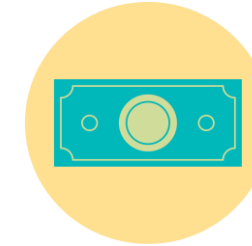
**Title
Companies**



Wallets



**Insurance
Claims**



**Cash
Concentration**

Instant Payments Usage is Growing



- Almost 900 financial institutions live (as of July 12, 2024)
- Hundreds more in current pipeline
- Variability across service providers; provider options continue to expand
- Most community banks that are live are in receive-only mode
- Positive feedback to-date regarding implementations
- Very low transaction volume



- ~600 FIs live on RTP
- 90% of the FIs on the RTP network are CFIs
- Much of the volume is comprised of digital wallet payouts, Zelle over RTP, early wage access payments, and merchant account transfers / A2A payments

Managing Fraud as Adoption Grows

RTP AND FEDNOW are credit-push payment systems → safer design than direct debits

Primary Fraud Risk is Account Takeover/Unauthorized Payments

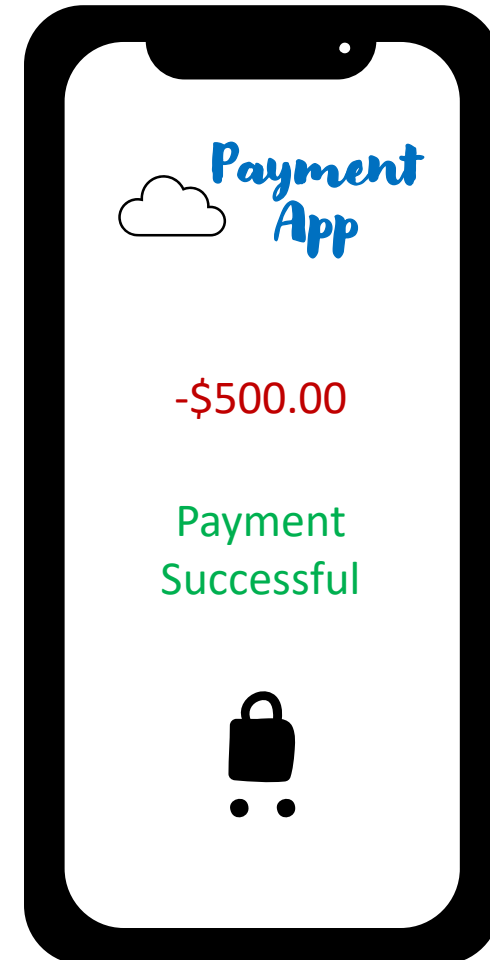
- ✓ **Fraud Prevention:** The most important elements leverage existing industry efforts
 - ✓ **Strong Sender Authentication:** Confirming account holder ID
 - ✓ **Payee Verification:** New payee validation; initial payment limits; payee changes
 - ✓ **Payment Pattern Analysis:** Anomalous / unusually large payments; rapid repeats
- ✓ **“Know Your Payee:”** Improve user awareness of payee scams
 - ✓ **Pre-Payment Pop-Ups:** “Do you know/trust this payee?” “Payment is immediate and final – are you sure?”
 - ✓ **User Education:** How Instant Payments differs from other payments; beware of scam payees

Fraud Lessons from 10+ Years of Faster Payments Internationally

Two main types of fraud have been identified: authorized (e.g. scams) & non-authorized

- ➔
 - Non-authorized fraud:
 - Identity theft
 - Friendly fraud
 - Cybercrime/ data breaches
 - SIM swap

- Authorized Push Payment fraud (APP Fraud):
 - Only the UK and Japan have regulations in place to protect victims from APP fraud.
 - The most common type of APP fraud includes impersonation scams, advanced fee scams, and malicious redirection of payments.



Fraud “use cases” differ by payment type

Credit-Push

Account Takeover

1. Set up a Payee DDA, e.g., mule
2. Access Payer DDA (steal creds, phishing)
3. Unauthorized payments to mule/fraudster DDA

Debit-Pull

Fraudulent Instruction

1. Steal account numbers (lots of them)
2. Make fraudulent instruction (card, CNP, check)
3. Unauthorized anonymous purchases until account frozen

Either

Payee Scam

1. Set up a Payee DDA
2. Dupe Payer into paying; fraudulent inducement
3. Authorized payments to Bad Payee DDA (is this payment fraud?)

Fraud prevention differs dramatically by payment type

Credit-Push

Account Takeover

- Login authentication
- New Payee verification / limits
- Payment pattern analysis

Debit-Pull

Fraudulent Instruction

- Real-time authorization
- Secure large data pools
- Make instrument harder to counterfeit
- Mask account # (tokens)

Either

Payee Scam

- Educate Payer
- Secure emails (BEC)
- Pop-up warnings
- Payee name verification

Instant Payments Fraud Prevention Summary

Instant Payments are Safer By Design But Certain Steps Need to Be Taken

- Strong, multi-factor authentication
- Verify new payees
- Holistic cross-channel fraud detection
- Educate clients and employees



ICBA Instant Payments Pilot Opportunity



Instant Payments Pilot with Pidgin

- Many community banks are starting to participate in instant payments; however, the vast majority are starting out in receive-only mode, volume is low, and participation is not yet translating into tangible value for customers, and revenue for the bank.
- As participation grows and the market matures, the next phase of growth will entail an increase in send volume across institutions of all sizes. Integration across cores, digital channels, and value-add overlay services will help drive this growth.
- ICBA Payments is partnering with a market leading fintech enabler for faster payments – Pidgin. Objective is to prove out the instant payments model for community banks, and share our findings with industry. E.g., the fintech integration model, use cases that resonate with community banks and small business customers, the business case for instant payments, etc.
- If you would like to join us on this journey, we are looking for interested pilot partners!

Additional ICBA Instant Payments Resources

<https://www.icba.org/our-positions-a-z/payment/payments/faster-payments>

Position

ICBA supports the continued evolution of broadly inclusive, safe, highly secure, efficient, and instant payment systems that enable risk mitigation and help community banks remain competitive in meeting the payments needs of their customers. ICBA encourages its members to focus on adopting instant payments.

ICBA encourages instant payment networks to continue to focus on keeping fraud levels low and considering options for making networks interoperable. ICBA recognizes that core processors play a critical role in ensuring community bank readiness and encourages banks to work with their processors and technology partners to adopt instant payments. ICBA encourages the cores to ease entry for community banks through accommodating pricing and supportive project management.

ICBA encourages the U.S. Treasury Department to utilize instant payment methods to deliver government payments to citizens' bank accounts. This would reduce the number of checks in the mail and could contribute to reducing check fraud.

ICBA urges policymakers to continue to assess and review the impact of instant payments on the current legal and regulatory framework.

Background

In 2023, the FedNow Service launched and the RTP network hit its five-year anniversary. With two instant payments networks now live and in the market, financial institutions are moving quickly to begin offering real-time payment capabilities to their customers. ICBA urges all community banks to develop and implement strategic plans to provide instant payments products and services to meet customer needs.

The implementation and ubiquitous adoption of instant payment systems will strengthen the US economy by providing a platform for continued innovation and economic growth. ICBA recognizes that instant payments can play a vital role in sustaining economic growth and ensuring that American businesses and consumers can access payments products and services that meet the needs of the 21st century economy. In addition, increased adoption of instant payments could help to reduce check fraud.

The attributes of real-time payments potentially impact consumer protection and risk mitigation strategies. Many of the protections included in the existing legal and regulatory framework need to be revisited to accommodate new payments settlement networks such as FedNow, RTP, or card-based solutions.

ICBA encourages the federal government to continue to utilize instant payment methods to reduce inefficiencies associated with issuing checks and promote the benefits of electronic payments and bank accounts. Policymakers should support community banks as they prioritize instant payments by eliminating undue regulatory burdens that may impede adoption.

Related

- [Instant Payments](#)
- [ACH](#)
- [Digital Assets and Cryptocurrency](#)
- [International Payments/Remittance Transfers](#)
- [Innovation, Payments and Banking Technology](#)
- [Payments Access, Choice, and Governance](#)
- [Payment Cards](#)

Staff Contact

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Relevant Resources

ICBA Payments Strategy Resources	^
Faster Payments and ISO 20022	^
Mastercard and Visa	^
The Clearing House's RTP Network	^
FedNow	^
Faster Payments Solutions	^

Market Trends & Analysis

Faster payments are quickly becoming a priority for banks across the country to support a variety of use cases for their customers. Although the drive for faster payments started many years ago with the publication of [Strategies for Improving the U.S. Payment System](#) by the Federal Reserve, the Covid-19 pandemic has accelerated many community banks' plans to implement faster payment solutions. With many businesses and customers now unable or unwilling to process manual payments, such as cash and checks, due to concerns about the virus, a new generation of instant and contactless options can deliver safe, secure, and efficient payments.

Faster payments bring the promise of greater speed and control for consumers and businesses. The faster credit-push model and the use of requests for payments put recipients in much greater control of the funds in their bank account. This benefit cannot be understated because it marks a vast improvement for consumers and businesses that paid by check, only to be left wondering when the check would be cashed.

New faster payment systems are also designed from the ground up to be smarter, with enhanced risk management systems considered and built from the very beginning. Rules and system controls, such as the ability of banks to set transaction limits, will help banks safeguard users and serve as a check against any would-be bad actors.

However, there are many other ways in which faster payments will make a positive impact. There is a growing interest by companies to have the ability to pay people immediately after a job is completed, such as a contractor finishing a project or ride-share driver seeking payment at the end of the day. With faster payments, companies will be able to instantly send payment in those cases, which will improve cash management for companies and satisfy recipient expectations.

The market for faster payments is small but is rapidly growing as more community banks partner with technology providers to access a range of solutions. Faster payment options include, but are not limited to, the following products and systems:

- Same Day ACH
- RTP[®] Network
- FedNowSM (expected to launch in 2023)



Thank you

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