



SECURING FASTER PAYMENTS

Protecting your Organization and Customers
from the Risks of Same Day ACH Debits



Same Day Debits will soon be a reality for financial institutions, payments providers, businesses, and consumers. Though the benefits of faster payments have been well-documented, there are significant new challenges that organizations need to understand and address prior to launching same day debits.

This paper explores the potential impact to organizations evaluating the benefits and risks that will emerge with same day ACH debit payments and provides recommendations on how they can adapt their internal risk management processes and technology as they prepare for faster payments.

Key Takeaways

- 1** Same Day ACH debits create new opportunities for fraudsters to use the shortened settlement windows to bypass existing fraud prevention tools and defraud financial institutions, payment processors, and their customers.
- 2** Legacy account validation processes -- including prenotes and trial deposits -- will be ineffective at identifying and preventing fraudulent debits, potentially resulting in higher rates of unauthorized and administrative returns, fines and penalties, deteriorating customer experience, and unacceptably high fraud losses.
- 3** Organizations planning to offer Same Day ACH debits need to update their existing systems and processes to validate both account status and ownership in real time in order to prevent a surge in fraud and take steps to proactively reduce unauthorized and administrative returns before making same day debits available to customers.

Same Day Debits: Greater Convenience, Increased Risk

Beginning September 15, 2017, NACHA rules mandate that Same Day ACH payments will be available for debit payments. This is the second phase of NACHA's deployment of same day ACH payments which began in September 2016 with same day credits. NACHA reported that, of the 25 billion ACH transactions that moved across the network in 2016, 26 million of those were same day. Additionally, between the fourth quarter of 2016 and the first quarter of 2017, same day payments increased 13% on the network.

If statistics on same day credit payments provide any indication of future adoption of debit transactions, both businesses and consumers will quickly adopt same day credit payments. The low cost, convenience, speed, and ubiquity of same day payments across the ACH network make it an attractive option to many types of users. Currently, 100% of network members are able to receive same day payments. When the capability for same day debit transactions goes live in

September 2017, NACHA claims that 92% of financial institutions currently onboard the network will be ready to offer same day debits.

NACHA predicts that ACH Originators will generate approximately 1.4 billion same day ACH payments per year within ten years of implementation and rollout. Though there has not been a notable increase in fraud losses since same day credits were launched, same day debits represent a substantial risk to originating financial institutions (ODFIs) and their customers.

Debit transactions on the ACH network have historically been more susceptible to higher return rates than credit transactions, and the risks associated with debit transactions will be exacerbated by the transition from delayed payment to same day. The systems and processes that many payment providers currently have in place to identify potential fraudulent transactions are not adequate to protect themselves and their customers from the increased risk associated with the move to same day settlement.

Many organizations are looking at same day payments as a differentiator that will allow them to offer superior service and faster payment speed to their customers. Organizations that are looking to be early adopters with same day debit payments need to upgrade their

account verification systems so that they can validate the account status and ownership in real time before allowing the debit to be processed.

Relying on existing fraud reduction or account validation tools gives fraudsters a window of opportunity to exploit. Particularly at risk are service providers with high volumes of automated or customer-initiated debit payments. These include cell phone service providers, utilities, cable companies, insurance, and retailers, just to name a few.

When processing same day ACH debits, there is little room for error on the side of processors. Speed is on the side of fraudsters who can take advantage of the shortened window that processors have to identify fraudulent transactions. Legacy validation systems currently in-place for standard ACH transactions are not adequate to protect banks, processors, or customers from the risks associated with same day processing.

Same Day ACH: The Phased Approach			
Functionality	Phase 1 (Proposed implementation: September 15, 2016)	Phase 2 (Proposed implementation: September 15, 2017)	Phase 3 (Proposed implementation: March 16, 2018)
Transaction Eligibility (\$25,000 limit; IAT not eligible)	Credits only	Credits and debits	Credits and debits
New ODFI ACH File Transmission Times	10:00 a.m. ET 3:00 p.m. ET	10:00 a.m. ET 3:00 p.m. ET	10:00 a.m. ET 3:00 p.m. ET
New Settlement Times	5:00 p.m. ET	5:00 p.m. ET	12:00 p.m. ET 5:00 p.m. ET
ACH Credits Funds Availability	End of RDFI's processing day	End of RDFI's processing day	5:00 p.m. RDFI local time

Source: AITE Group

Connecting the Dots to Ensure the Safety of Same Day ACH

Organizations should evaluate their current risk mitigation practices to ensure they are fully prepared for same day debits. Before offering the service to customers, they need to consider the following recommendations in order to smoothly facilitate same day payments without increasing the potential for higher return rates, fines and penalties, and fraud losses.

First, improve defenses against customer impersonation and account takeover with better customer intelligence. This can only be accomplished through a robust upfront validation of not only account status and account ownership, but also the consumer's name, address, phone number, email, and social media. This provides a truly comprehensive view into the risk associated with that customer and gives a solid verification on their authority to transact on the account in question. If not, financial institutions and processors that solely rely only upon traditional fraud prevention systems, such as account status, will find

themselves targeted by fraudsters who realize that the institution has no enhanced fraud prevention tools specifically designed for same day processing.

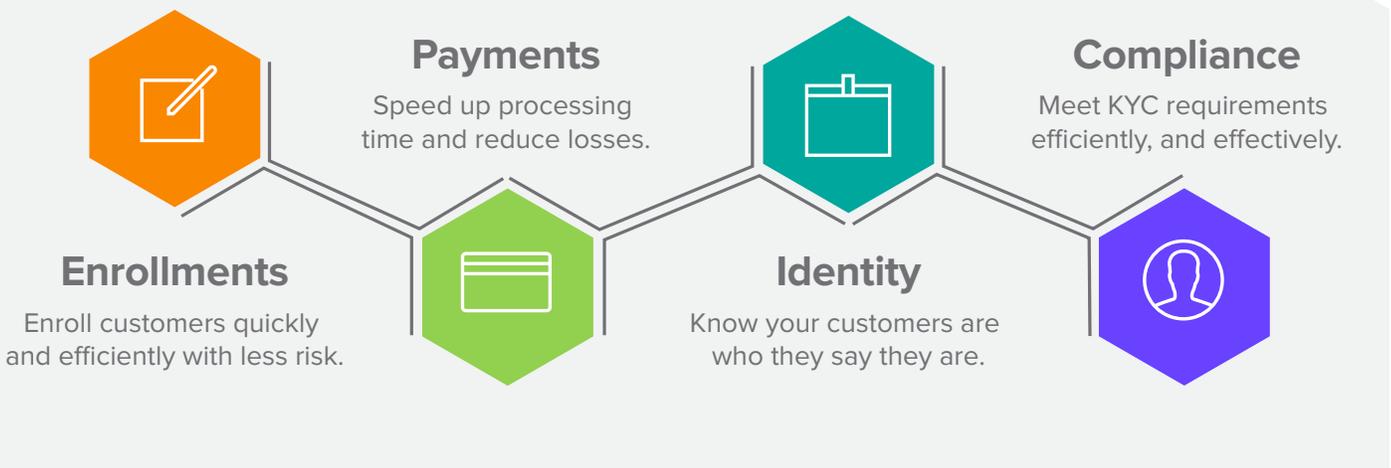
Second, automate and accelerate transaction reviews to enable faster risk analysis and transaction decision making. Many of the fraud reduction systems in use today are manual and housed independently in organizational silos that require hours, if not days, to identify risk. This makes a comprehensive, simultaneous screening that includes OFAC checking, identity verification, and payment validation impossible when moving to a same day environment.

Third, stop relying on customer-initiated transaction flagging as a stop-gap to prevent fraudulent or mistaken transfers. With the move to same day, most customers will no longer have time to identify suspicious debits and alert their financial institution or service provider before the payment is debited. This will require payment providers confirming account ownership and verifying transaction authority prior to the transaction being approved. Those organizations that continue to rely on customer reporting of suspicious transactions or that perform little or no account owner validation will experience record levels of both unauthorized and administrative returns.

About GIACT™

GIACT™ is on the forefront of helping companies eliminate payments risk and identity fraud, verify customers, and stay in compliance with KYC requirements. Our technology solutions are currently used by over 1,000 companies, from Fortune 500 companies to sole proprietors and spanning a diverse range of industries that rely on our customer intelligence to provide complete payment confidence and protect their customers. **For more information, visit www.giact.com.**

About the EPIC Platform™



GIACT's EPIC Platform is a comprehensive suite of payment, identity, authentication, and compliance applications that can be implemented using a single API. EPIC protects companies and their customers from payments and identity fraud through a fully-integrated, customizable set of solutions that takes a multifaceted approach to fraud detection and risk mitigation.

EPIC can be delivered using both a single direct-connection API or a virtual web portal, giving companies a cost-effective way to defend against multiple types of fraud across the entire lifecycle of a transaction while minimizing customer friction.

The EPIC Platform's capabilities include:

- Single API integration allows companies to rapidly deploy customized solutions for enrollment, payment, identification, and compliance processes with minimal cost and operational disruption;

- Positively identify consumer and business accounts using multiple traditional and non-traditional data sources to improve underwriting, risk management, and KYC process;
- Real-time account verification and authentication of consumers and businesses, including funds verification, prior to customer enrollment or ACH payment processing to confirm status and verify funds availability before item processing;
- Minimize unauthorized ACH and check returns, which are costly and damaging to a company's reputation;
- Mobile authentication, identification, and verification in real-time across all customer touchpoints;
- Ensuring OFAC compliance with real-time processing while reducing false positives.
- Real-time identity verification and authentication of scanned ID's and check payments