



# The U.S. Faster Payments Council – Town Hall Series

October 10, 2019



# Recap of the Federal Reserve FedNow<sup>SM</sup> Service



# Proposed Features of the FedNow Service



Real-time processing of individual credit transfers on a 24x7x365 basis



Final and irrevocable settlement of payments in financial institutions' master accounts at the Reserve Banks



Integrated clearing functionality with messages based on the ISO<sup>®</sup> 2022 standard



Transaction value limit of \$25,000, at least initially



Real-time confirmation of validity of the receiver's account



Access to intraday credit on a 24x7x365 basis consistent with the Federal Reserve's Policy on Payment System Risk

# Proposed Features of the FedNow Service



End-of-day balances calculated each day of the week with reports to support transaction monitoring, reporting, and reconciliation



Payment messages containing additional descriptive information related to payments, such as remittances or invoices



Access through FedLine<sup>®</sup> Solutions, which will be enhanced to support 24x7x365 access



Support for indirect access through agents and correspondent banks



# Auxiliary Features Under Consideration



## **Request for Payment**

Would allow the receiver to initiate a payment by sending a message to the sender



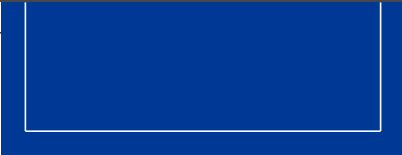
## **Directory**

Would allow a sender to initiate a payment using the phone number or email address of the receiver



## **Fraud Prevention Services**

Fraud-monitoring capabilities to aid in mitigating risk



In the previous two Town Hall meetings, we discussed the proposed design features of FedNow and its directories.

In this final Town Hall, we will dive into the topic of fraud...

# Background of the Fraud Definitions Work Effort

## Form & Engage Industry Work Group

- Establish an industry work group, led by the Fed, to define a consistent and holistic payments fraud classification model

## Focus on ACH, Wire, and Check

- Initial focus on ACH, wire, and check payments but extensible model for future inclusion of other payment types

## Collaborate on Adoption

- Collaborate with industry to align on an adoption strategy that drives consistent and wide-spread use of the model and related definitions

# Fraud Definitions Work Group Objectives

A greater understanding of payment system fraud trends is essential for mitigating risk. The Federal Reserve sees value in evolving towards a more consistent and holistic U.S. fraud perspective through a collaborative approach with industry professionals.

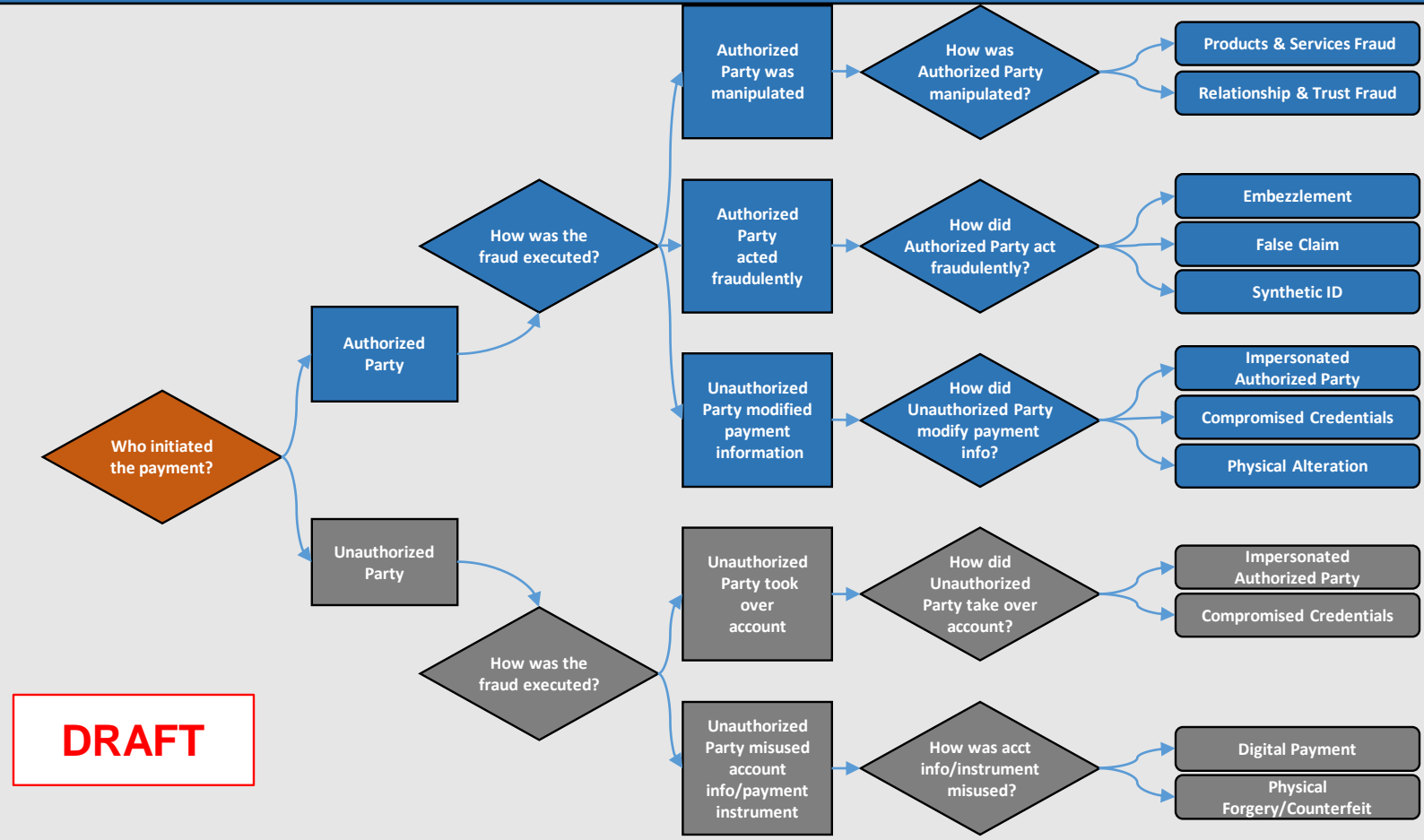
## WORK GROUP DELIVERABLES TO INDUSTRY

**Fraud Classification Model for ACH, Wire, and Check Payments (Model)** that includes detailed definitions and categories that fully describe key fraud data points while enabling analysis and mapping to a higher-level categorization that helps promote a consistent understanding in the industry; and

**Industry Adoption Roadmap** to encourage broad industry adoption of its recommended Model, to include identification of additional opportunities to improve the consistency and timeliness of payments fraud data sharing and analysis.



# Fraud Classification Model for Payments



**DRAFT**

# Industry Adoption of the Fraud Classification Model for Payments

## End-State Goal and Potential Benefits

Achieve widespread industry adoption and consistent use of a fully-populated Fraud Classification Model for Payments and related definitions, resulting in **improved data quality, timeliness, and fraud mitigation effectiveness.**

### Improved Fraud Data Quality

- Proactive Communication

### Timely Fraud Information Sharing

- Faster Access to Fraud Information

### Effective Predictability and Prevention

- Analytics Capability via Consistent & Timely Data

### Accelerated Mitigation

- Reduced Losses via Cross-Industry Collaboration

# Fraud Headlines and Concerns

- “Instant Fraud” related to faster payments
- Misdirected transactions
- Irrevocability considerations
- Bad actors within faster payments
- Technological advances to assist fraud



# Fraud Types

- Possible forms of fraud related to faster payments:
  - Account takeover, resulting from:
    - Stolen credentials
    - Device theft
    - Identity theft
  - Fraudulent payee, resulting from:
    - Spear phishing
    - Social engineering
    - Fraudulent requests and unknown counterparty



# Fraud Prevention Safeguards

- Multifactor authentication
- Maker-checker functionality
- Fraud monitoring systems
- Regular review of fraud monitoring systems
- Prompt investigation of fraud alerts
- Reporting of suspicious or fraudulent activity
- Limits and access controls
- Know Your Customer and Due Diligence
- Compliance with industry rules, laws and regulations
- End-user education
- Callbacks for high-risk/value-bearing instructions
- Cybersecurity controls to prevent phishing

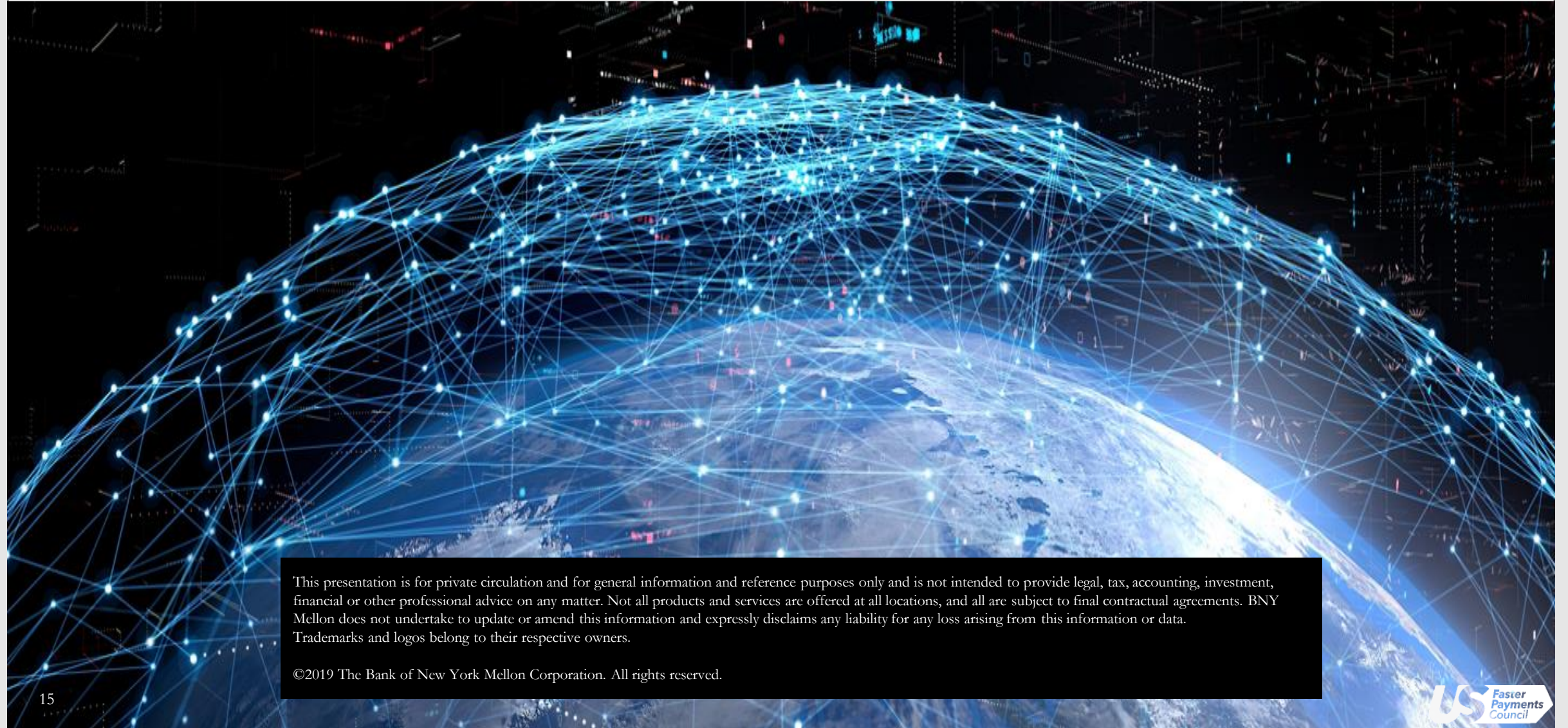


# Fraud Information Sharing Work Group

- Focus: Optimization of Faster Payments Fraud Prevention
- Membership: Banks, FinTechs, Regional Payment Associations
- Sub-Groups:
  - Fraud Prevention Best Practices
  - Fraud Themes and Trends
  - Fraud Prevention Solutions
- Deliverables
  - Short-Term: White-paper encompassing all three sub-group topics
  - Long-Term: Recommendations on next-generation prevention solutions



# Outstanding Questions/Challenges




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# Outstanding Questions/Challenges

## Remaining Questions

- Other countries have implemented faster payments systems. Have they released best practices or created new fraud prevention solutions to address fraud that the US could assess/model as well?
- Where can I learn more about Payments, Fraud and related information from trusted sources?
- Can you speak to the challenge of changing fraud trends and difficulty of keeping detection systems current?
- Do consumer protections, including those as part of Regulation E, apply to faster payments?
- Can existing fraud prevention solutions be utilized by new payment schemes including FedNow?
- I have recommendations for the FedNow system with respect to Fraud Prevention, who can I speak to?
- What can I do if I receive a suspicious email claiming to be from a bank?
- In many countries, it seems the criminals are getting more sophisticated, especially as mentioned earlier with some of the techniques used for account takeover. Do you think this provides an opportunity for non-bank service providers to use technological advances to roll out new fraud prevention programs, or will FIs be reluctant to partner with non-banks in this area due to concerns raised by their regulators (or more complex and costly due diligence required for those vendors by the examiners)?



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