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

October 10, 2019
### Proposed Features of the FedNow Service

1. **Real-time processing of individual credit transfers on a 24x7x365 basis**
2. **Final and irrevocable settlement of payments in financial institutions’ master accounts at the Reserve Banks**
3. **Integrated clearing functionality with messages based on the ISO® 20022 standard**
4. **Transaction value limit of $25,000, at least initially**
5. **Real-time confirmation of validity of the receiver’s account**
6. **Access to intraday credit on a 24x7x365 basis consistent with the Federal Reserve’s Policy on Payment System Risk**

*ISO* is a registered service mark of the International Organization for Standardization.
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® 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…
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

- **Who initiated the payment?**
  - **Authorized Party**
  - **Unauthorized Party**

**How was the fraud executed?**
- **Authorized Party**
  - How was the fraud executed?
  - Authorized Party was manipulated
  - Authorized Party acted fraudulently
  - Unauthorized Party modified payment information

**How did Unauthorized Party modify payment info?**
- Unauthorized Party took over account
- Unauthorized Party misused account info/instrument

**How did Unauthorized Party take over account?**
- Impersonated Authorized Party
- Compromised Credentials

**How did Unauthorized Party misuse account info/instrument?**
- Impersonated Authorized Party
- Compromised Credentials

**How was acct info/instrument misused?**
- Digital Payment
- Physical Forgery/Counterfeit

**How was Authorized Party manipulated?**
- Products & Services Fraud
- Embezzlement
- False Claim
- Synthetic ID

**How did Authorized Party act fraudulently?**
- Impersonated Authorized Party
- Compromised Credentials

**How was the fraud executed?**
- Physical Alteration

**How did Unauthorized Party modify account?**
- Impersonated Authorized Party
- Compromised Credentials

**How did Unauthorized Party take over account?**
- Impersonated Authorized Party
- Compromised Credentials

**How was acct info/instrument misused?**
- Digital Payment
- Physical Forgery/Counterfeit

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## 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.**

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<th>Improved Fraud Data Quality</th>
<th>Timely Fraud Information Sharing</th>
<th>Effective Predictability and Prevention</th>
<th>Accelerated Mitigation</th>
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<td>• Proactive Communication</td>
<td>• Faster Access to Fraud Information</td>
<td>• Analytics Capability via Consistent &amp; Timely Data</td>
<td>• Reduced Losses via Cross-Industry Collaboration</td>
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Fraud Headlines and Concerns

- “Instant Fraud” related to faster payments
- Misdirected transactions
- Irrevocability considerations
- Bad actors within faster payments
- Technological advances to assist fraud
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
Financial institutions and providers can take action to address fraud risks:

- 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
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)?
WE ARE THE ONLY INDUSTRY GROUP WHOSE SOLE FOCUS IS TO ADVANCE THE ADOPTION OF UBIQUITOUS FASTER PAYMENTS.

THANK YOU FOR JOINING US.