

Will Faster Electronic Payments Mean Faster Fraud?

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Faster payments have a lot of potential. A modernized payments system could help consumers to pay bills at the last minute, enable employers to make emergency wage payments, and allow friends to pay one another instantly for dinner and cab rides. It's likely to be more secure, accessible, easy to use, and cost-efficient than our current system.

But faster payments could also make it easier for people to unwittingly send money to scammers — and make it harder for fraud victims to get their money back. The Faster Payment Task Force assembled by the Federal Reserve Board is considering criteria to evaluate potential new payment systems. Strong protections to prevent and remedy fraud, including fraud where the victim is induced to send money, are a critical part of any new system.

The core goal of a faster payment system is to make it simple for anyone to make near-instantaneous payments to other parties in the United States and potentially beyond. To pay a bill at the last minute, a consumer would not need to turn over a bank account and routing number. Instead, the consumer could make a payment directly simply by entering minimal information about the payee, such as an email or username. The payee would receive and could access the funds immediately.

Limiting the exchange of sensitive information will help prevent fraud. But it could also help scammers, who would not have to overcome their victims' reluctance to turn over account numbers and who might even be able to hide behind a false username.

Even more concerning is the idea system rules would likely make payments irrevocable once they are sent in order to make money immediately available to the recipient. Consumers would still have the right to contest unauthorized payments and errors, as they do today. But will a payment be considered unauthorized or erroneous if the consumer did in fact send the money but was induced into doing so through fraud? The answer is unclear.

Consider seniors who [succumb](#) to the threats of phony debt collectors, consumers [duped](#) by fake IRS calls, and affinity [scams](#) that target immigrant communities. A look at the scams listed on the Federal Trade Commission's website offers a sense of the endless variety of frauds that entrap millions of consumers into sending money.

Under a new payment system, the consumer might be able to request a refund and hope that the scammer (or the scammer's bank) complies. But if scammers and their banks refuse, some in the payments industry suggest that the consumer will be out of luck.

As we overhaul our current payments system, we must seize the opportunity to prevent, detect, remedy and punish fraudulent uses of all sorts. Regulators can help by making clear that consumers can contest payments induced by fraud under existing laws. But that right should be also built into the system — and extended to small businesses as well — without waiting for regulatory updates. After reimbursing the consumer, the consumer's bank should be able to collect from the scammer's bank in order to allocate liability appropriately and create incentives to look for signs of fraud.

The system should also be designed to detect and ward off scams. Automatic mechanisms could collect reports of fraud to spot patterns, block payments when fraud alarms sound, cut scammers off and identify victims in need of compensation. Fraud reports could be aggregated to reveal problems even if a scammer spreads the con among various institutions and processors to avoid detection.

Fraud monitoring is part of the electronic payments system today. But it relies too much on the willingness and ability of the scammer's bank or the payment processor to notice and address potential issues. Regulatory efforts including Operation Choke Point and Bank Secrecy Act enforcement help address the issue by reminding financial institutions of their obligation to vet their customers and to look for red flags. New initiatives by Nacha, the industry trade group that oversees the ACH network, will also increase the monitoring obligations of financial institutions and payment processors. But a new system can make preventing, detecting and remedying fraud even easier.

We are creating a new payment system from the ground up. This means we have a chance to create a new system that can stomp out scammers who want to take the money and run.

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