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Industry Alert ⚠

Understanding the New NACHA Rule and Its Impact on Financial Institutions

As of October 1, 2024, Nacha started to roll out critical rule changes aimed at bolstering fraud detection and risk management across the Automated Clearing House (ACH) network, particularly in addressing credit-push payment fraud. This change signifies a pivotal shift for US financial institutions, and they must quickly adapt to meet these new requirements. Although the rule is framed around fraud detection, it has broader implications for operational processes and technology infrastructure that cannot be ignored.

What's Changing with the New Nacha Rules?

Nacha's new rules aim to address the growing risk of fraud schemes involving credit-push payments—where funds are authorized and pushed from an account by the payor, such as in business email compromise (BEC), vendor impersonation, payroll fraud, and other account takeover schemes. This rule places specific emphasis on Receiving Depository Financial Institutions (RDFIs), which have historically had a passive role in fraud detection. Under the new regulations, RDFIs must take a more active role in detecting fraud and handling fraudulent transactions.

The updated framework introduces several key provisions:

1. **Expanded use of return reason codes:** RDFIs will now be allowed to return payments for suspicious activity under Return Code R17 to include the term "under false pretenses" (i.e SCAM), and ODFIs (Originating Depository Financial Institutions) will have more ability to request returns for erroneous or unauthorized entries.
2. **Monitoring incoming ACH credit transactions:** RDFIs will be required to implement fraud monitoring procedures for incoming ACH credits, starting with large-volume institutions in 2026 and expanding to all RDFIs by mid-2026. Money mules and new account fraud were highlighted as a problem.
3. **Increased responsibility on RDFIs:** RDFIs are now expected to help identify and return funds fraudulently sent to mule accounts—accounts used by fraudsters to receive illicit funds.

Timeline: NACHA has proposed a three-stage change to some of its rules.

Risk Management Topics – October 1, 2024	Fraud Management Phase 1 – March 26, 2026	Fraud Management Phase 2 – June 19, 2026
These are procedural changes that require no changes to the software systems	Includes changes for ODFIs and RDFIs with Limits	Incudes changes for all ODFIs and RDFIs

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Here's Why Financial Institutions Need to be Prepared for the Change

1. **Operational Burden:** RDFIs will now face an increased burden of real-time fraud detection and case management. Detecting and preventing ACH fraud traditionally fell under the purview of ODFIs, but with this shift, RDFIs will have to dedicate resources to monitor suspicious transactions and potential fraudulent activity. This means increased workloads for already stretched operations teams, who will now be required to flag and investigate suspicious incoming transactions in real -time.
2. **Increased Risk Exposure:** While there isn't a direct shift of liability, the new rules may imply a transfer of liability when RDFIs fail to detect fraudulent transactions or handle fraud returns adequately could face legal and financial repercussions, potentially damaging their reputation and bottom line. The ability to recover funds will also depend on how quickly RDFIs identify fraudulent transactions—a process that could become increasingly complicated without the right technology and processes in place.
3. **Complexity in Fraud Detection:** Financial institutions may not have the infrastructure to handle complex fraud schemes involving synthetic identities, mule accounts, and cross-channel frauds. The need for AI and advanced analytics within their fraud detection tools will be critical for compliance and to avoid becoming an easy target for fraudsters.

The new NACHA rule changes represent both a compliance challenge and an opportunity for financial institutions to strengthen their fraud detection and prevention frameworks, ensuring regulatory compliance, reducing liabilities, and enhancing operational efficiency.

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