

eBook



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FedNow Challenges: What Small & Mid-Market Banks Need to Know

Consumer and business demand for real-time payments (RTP) capabilities is growing. With the upcoming FedNow Service anticipated to launch sometime between May and July 2023, mid-market and small financial institutions (FIs) must prepare for the potential challenges associated with offering and protecting this real-time payments service from complex fraud.



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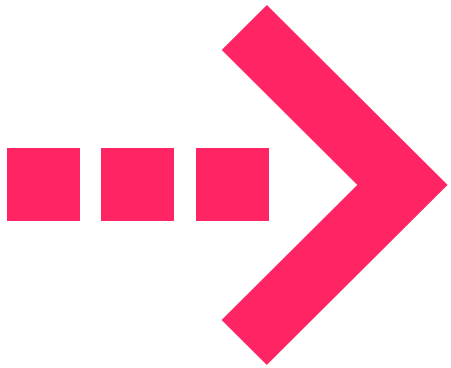


The Boiling Point: Mid-Market & Small Banks Set to Enter a Heated RTP Market

The global movement towards faster and instant payments—which gained a strong foothold among consumers and businesses during the height of the pandemic—will continue dominating payment rails with the Federal Reserve’s forthcoming FedNow Service in the US.

Expected to launch in a phased rollout beginning Spring 2023, the service FedNow intends to support a wide range of instant payments via a neutral, agile platform that enables banks of every size to offer RTP services to customers. The system is designed to provide a fast, efficient way for individuals and businesses to send and receive payments in real-time—24/7/365.

Mid-market and small FIs have an opportunity to compete in a quickly heating RTP market by delivering innovative instant payment solutions. But success as an RTP innovator hinges on mitigating potential challenges surrounding operationalizing and safeguarding instant payments from sophisticated, varied fraud threats.



Upwards of
90%

of respondents in the Federal Reserve’s business and consumer studies indicate a desire for faster payments capabilities.¹

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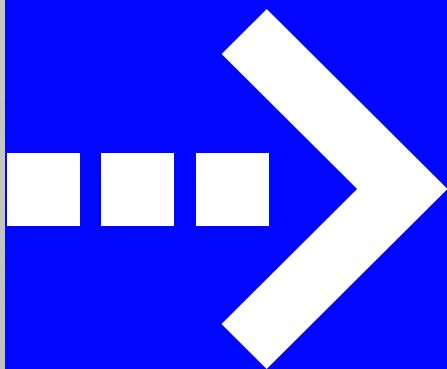
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Operational Obstacles May Stall FedNow Adoption

Many small and mid-market FIs continue to view faster and instant payments in respect to cost center vs profit center, rather than a value-add.² This mindset has traditionally restricted RTP innovation.

Additionally, these FIs also could face obstacles in offering the FedNow Service, which may stall adoption:

- **Implementing a new payment system requires a significant investment** in technology, infrastructure, and staff—which could limit the ability to offer the service for small and mid-market FIs with limited financial resources.
- **Legacy systems may be incompatible** with the new FedNow system, and integration could be complex and time-consuming.
- **Small and mid-market banks could be at a competitive disadvantage** against large FIs who are able to adopt the service quickly.
- **Consumer adoption may take time**, despite the anticipated popularity of the service. Investment in education and outreach may be necessary to help customers understand the benefits and how to use it.
- **Additional compliance and security measures** may be required to ensure the safety of customers’ transactions, which could increase the costs of offering the service.
- **RTP capabilities require systems to be monitored and available 24/7**, which outdated systems often cannot accommodate.



Real-time transaction volume in the US is predicted to reach
8.9 billion by 2026,
up from **1.8 billion** in 2022.³

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Strategic RTP Advantages & Expanding Use Cases

Despite the potential challenges of offering FedNow Services, the benefits of RTP are undeniable.

For example,

63% of credit unions who currently provide RTP indicate that RTP have minimized transaction errors;

56% have acquired new members;

50% have been able to meet the expectations of their members; and

46% have accessed new markets.⁴

RTP use cases are also expanding across person-to-business (P2B), account-to-account, business-to-business (B2B), government-to-consumer (G2C), and person-to-person (P2P):⁵

- Employee reimbursements and wages
- Gig economy payroll
- Loan repayments
- Supplier payments and refunds
- Legal settlements
- Insurance claims
- Tax refunds
- Medical co-pays
- Remittances to friends and family

Whether or not small and mid-market FIs can exploit emerging use cases will depend on infrastructure modernization to support FedNow Services, and the ability to successfully monetize RTP offerings.

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Irrevocable Payments Means Irresistible Fraud Opportunities

The irrevocability of real-time payments complicates the ability to facilitate these offerings—which may further deter small and mid-market banks from adoption.

Authorized push payment (APP) fraud, account takeover (ATO), new account fraud (NAF), money mule activity, synthetic identity fraud (SIF), P2P fraud, and a staggering variety of socially engineered-driven scams are becoming increasingly synonymous with faster and instant payments.

**APP fraud losses
will comprise
0.0025%**

**of the total value of real-time
transactions by 2026.⁷**

Additionally, P2P systems (like Zelle) are under growing scrutiny at both the public and government level due to the degree in which consumers are being coerced by fraudsters into making irreversible payments.⁶

While FedNow will not be a direct-to-consumer service, FIs who intend to offer the RTP service must ensure their risk management policies and fraud prevention measures can efficiently protect within the minimal available window to process and manage real-time transactions.

These measures will be vital given the transforming US regulatory landscape, which is shifting towards obligatory reimbursement for victims of fraud. Potential Reg E reinterpretation might extend to transactions that are authorized via manipulation and distribute liability between both sending and receiving banks.

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New Payment Rails = New Fraud Management Challenges

Protecting FedNow service offerings from persistent, often unpredictable, fraud will be key to exploiting the myriad of business benefits of RTP rails.

As they move to RTP, small and mid-market banks may face fraud management challenges:

- Siloed or piecemeal approaches to fraud detection systems that are ineffective for RTP monitoring and detecting diverse fraud typologies throughout all channels and payment mechanisms.
- Transaction volumes may increase, making it difficult to detect fraudulent transactions in a timely manner—particularly if fraudsters blend in with legitimate transactions.
- Data silos that prevent FIs from detecting fraud attacks at early stages and intervene prior to money movement.
- Manual reviewing processes that result in inefficient investigations.
- Risk exposures unique to small and mid-market FIs, including insecure email networks, outdated fraud prevention systems, compromised personnel data, and invalid or expired SSL certificates.
- Lack of experience or resources to develop effective countermeasures against new and emerging fraud attack vectors.

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Commit to RTP Capabilities with Purpose-Built Fraud Prevention

Artificial intelligence (AI), machine learning, behavioral analytics, and high-quality data must be embedded into the DNA of fraud mitigation strategies to enable a holistic approach to risk management—while securing and fast-tracking faster payments service launches.

Xceed FRAML, NICE Actimize’s single-platform financial crime prevention solution purpose-built for small and mid-market FIs, features integrated fraud and AML to mitigate threats in real-time and deliver contextual intelligence.



- Promote a seamless customer journey and respond to new threats via self-learning behavioral analytics that automatically identify new threats.
- Expedite time-to-protection with out-of-the-box AML and fraud models and data connectors.
- Accelerate accurate risk scoring and utilize trustworthy insights according to contextually enriched customer profiles.
- Increase investigation efficiency via real-time KYC and CDD entity-link analysis and pre-populated case details for regulatory reports.
- Minimize false positives and securely lower friction for legitimate payments.
- Monitor accounts in real-time via enterprise API integration.
- Enable real-time intervention for fraudulent payments to improve loss-prevention.

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The expanding RTP landscape represents a definitive transformation in how consumers and organizations interact.

Small and mid-market FIs must eliminate traditional techniques that increase fraud exposure and prioritize investments in advanced AI and machine learning capabilities to cultivate instant insights in a real-time threat environment.

Constantly evolving payments demand agile tools, practices and processes that enable greater defense against continually manifesting scams and fraud. The FedNow Service launch is right around the corner—don't wait to optimize risk management programs and position your organization as an early RTP adopter.

Ready to modernize your mid-market bank's fraud prevention? Contact us at info@niceactimize.com

➔ Get Started

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About NICE Actimize

NICE Actimize is the largest and broadest provider of financial crime, risk and compliance solutions for regional and global financial institutions, as well as government regulators. Consistently ranked as number one in the space, NICE Actimize experts apply innovative technology to protect institutions and safeguard consumers and investors assets by identifying financial crime, preventing fraud and providing regulatory compliance. The company provides real-time, cross-channel fraud prevention, anti-money laundering detection, and trading surveillance solutions that address such concerns as payment fraud, cybercrime, sanctions monitoring, market abuse, customer due diligence and insider trading.

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