

Payments Exception Handling

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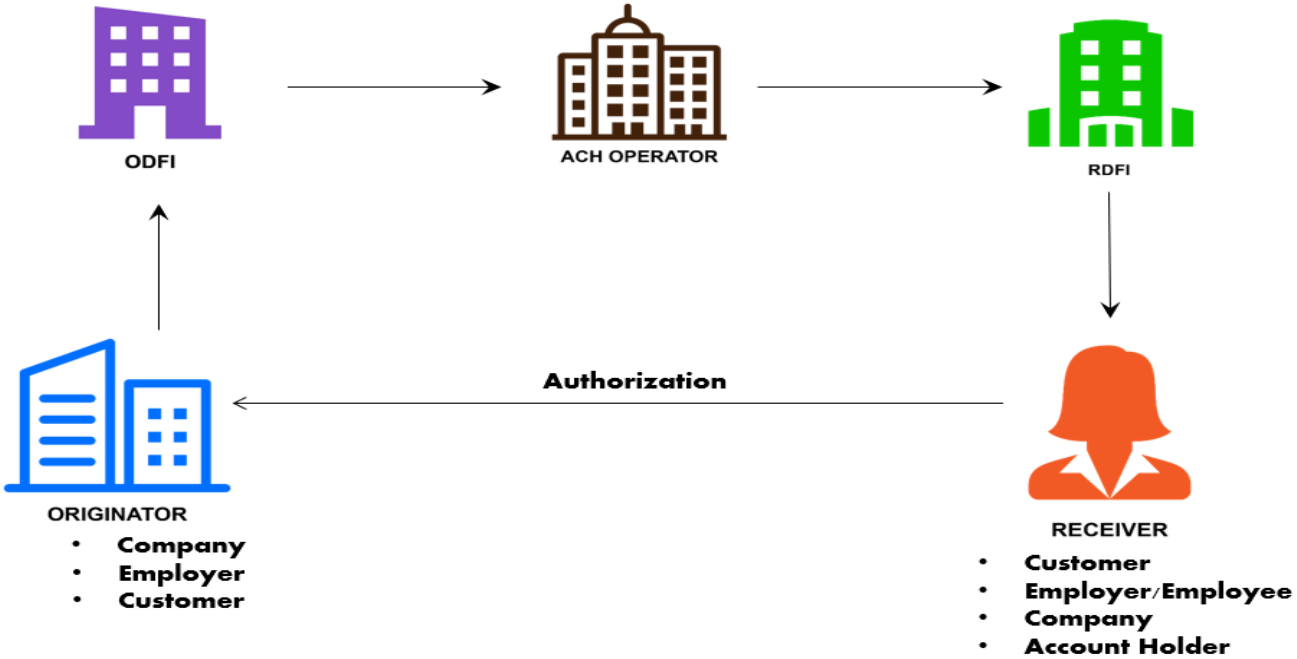
Agenda



ACH

Payments University

ACH Payment Flow



Authorization Warranty

The Entry Is Authorized by the Originator and Receiver

Article Two, Subsection 2.4.1.1

(a) The Entry has been properly authorized by the Originator and the Receiver in accordance with [Nacha Operating] Rules.

(b) The Originator's authorization has not been revoked, the Origination Agreements concerning the Entry have not been terminated, and neither the ODFI, any Third-Party Sender, nor the Originator has actual knowledge of the revocation of the Receiver's authorization or of the termination of the agreement between the RDFI and the Receiver concerning the Entry.

How is a Breach Handled?

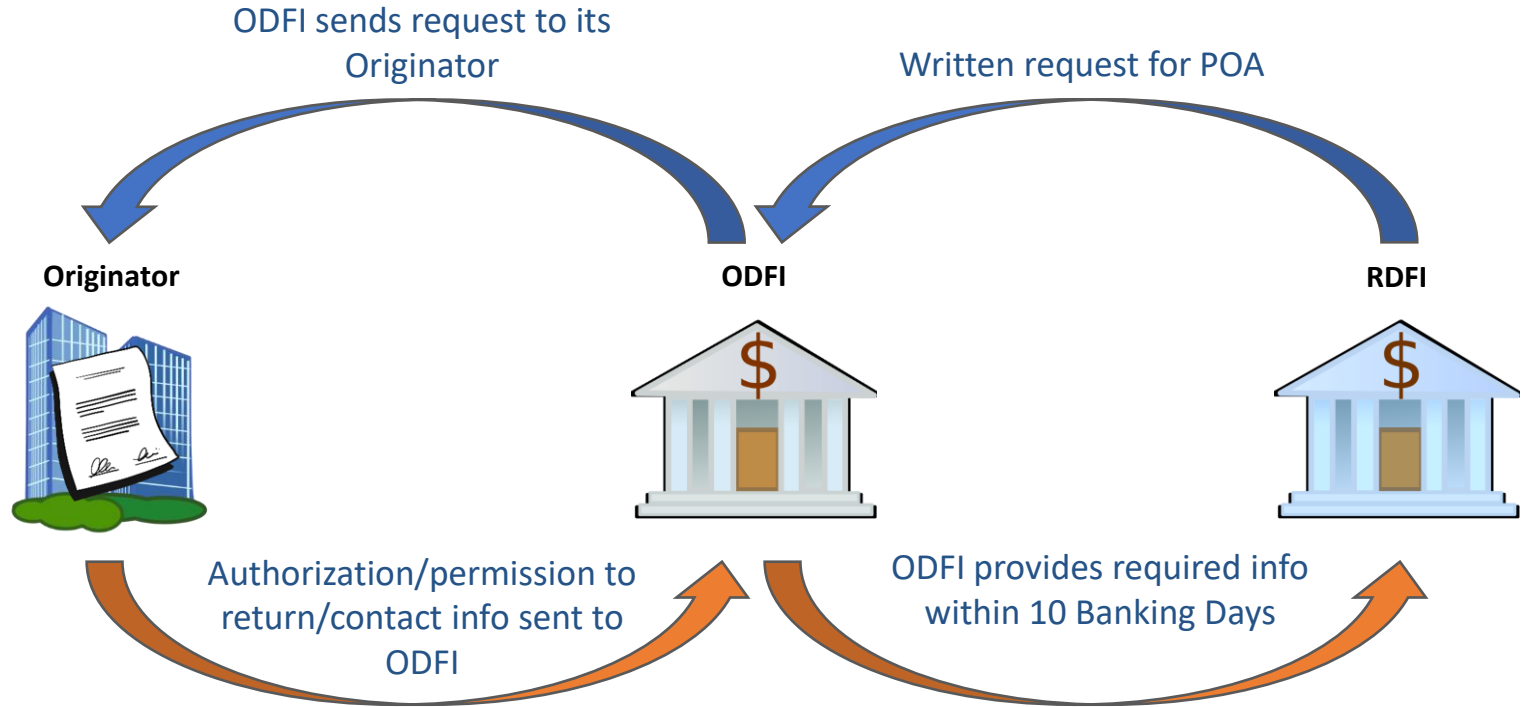
Within 60 Calendar Days?

- Obtain a Written Statement of Unauthorized Debit
- Process an Extended Return Entry (e.g. R05, R07, R10, R11, etc.)
- Life is good – RDFI and Receiver are happy!

Outside 60 Calendar Days?

- Sigh and wonder why the Receiver didn't report the issue timely
- Buckle in for some fun

Proof of Authorization Request



Proof of Authorization Response

The ODFI must provide to the RDFI a copy of the authorization, permission to return, or contact information (when applicable) within 10 Banking Days of the RDFI's written request

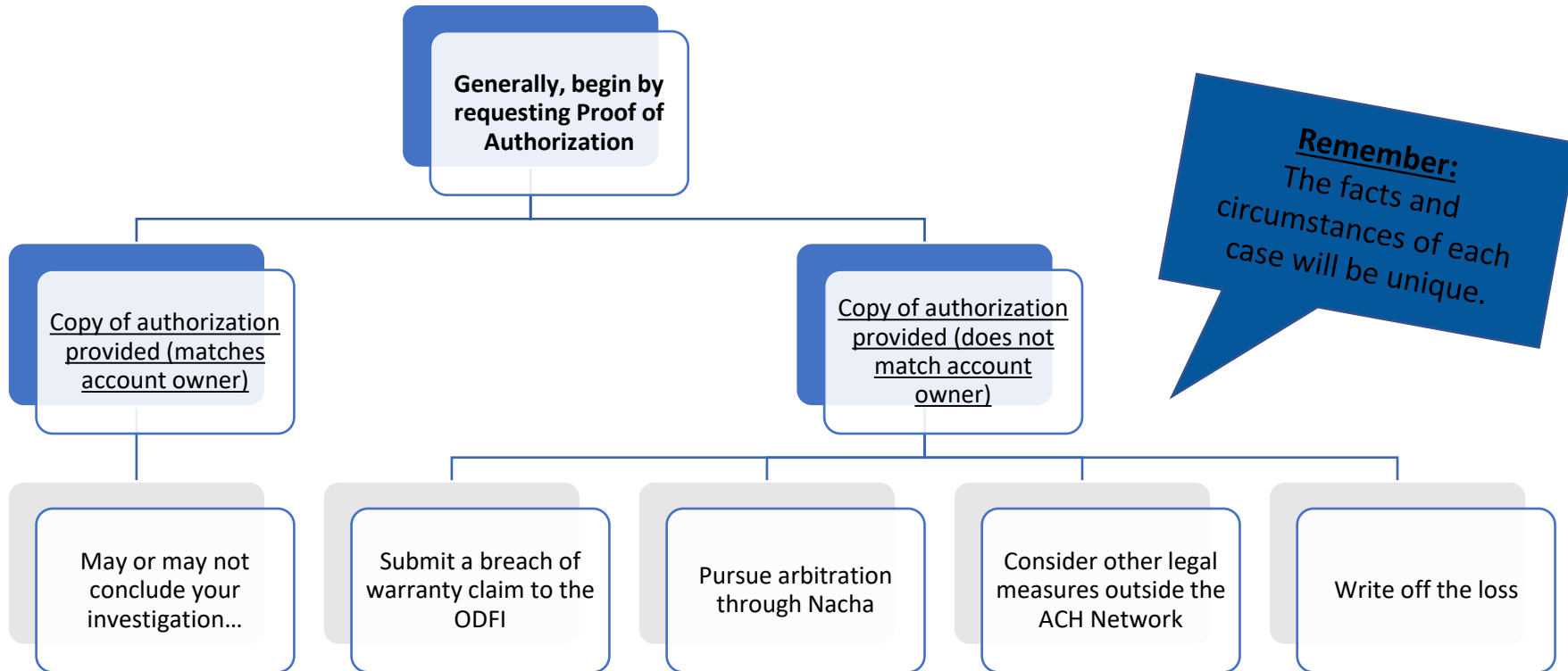
For Consumer Entries...

- ODFI must provide:
 - Copy of the authorization; **or**
 - Permission for the RDFI to return the Entry in lieu of providing the authorization*

For Non-Consumer Entries...

- ODFI must provide:
 - Copy of the authorization; **or**
 - Permission for the RDFI to return the Entry in lieu of providing the authorization*; **or**
 - The name and phone number or email address for the Originator

How is a Breach Handled?



How Do We Assert Breach of Warranty?

- No official process described in the Rules
- Could begin with a...
 - Phone call
 - Email
 - Fax
 - Written letter via snail mail

Best Practice

- Put the claim in writing and send via ODFI's preferred channel for submission

Sample Breach of Warranty Claim

[DATE]

[ODFI NAME]

ATTN: ACH Investigations

RE: Breach of Warranty Claim – Unauthorized Entry

[Entry Information]

[Asserted Breach of Warranty Claim Details]

[Resolution of this Investigation, Next Steps]

[ODFI Response Options]

[Name, Title, Signature]

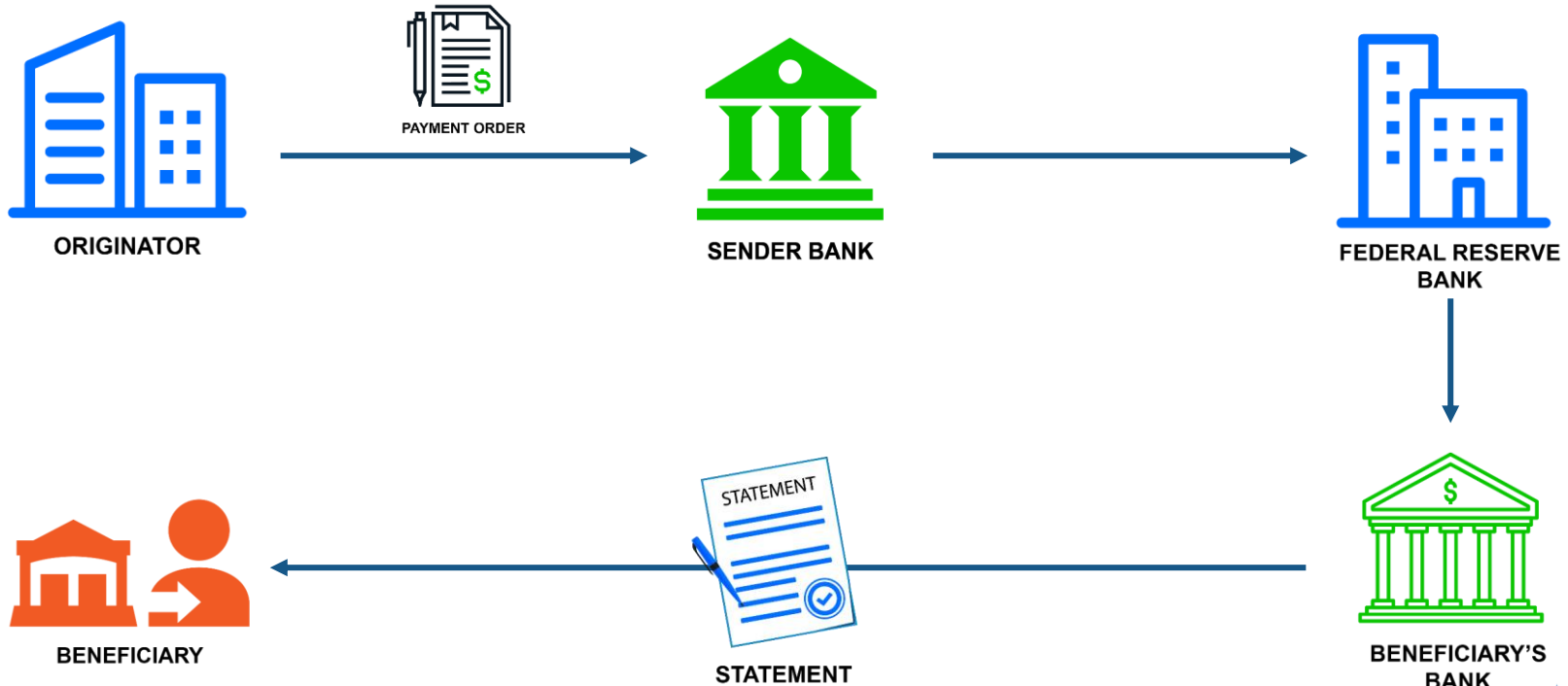
[Enclosure – WSUD]



Fedwire Funds

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Fedwire Participants



Fedwire Funds Service

The Fedwire Funds Service is a credit/push system in which only Originating/Sender Bank (an eligible Fedwire participant) can remove (push) funds from its Federal Reserve Bank account

Acts as a real-time, gross-settlement (RTGS) system that allows electronic transfer of funds

RTGS = Processes transfer-by-transfer (one at a time)

Provides immediate finality and irrevocability of settlement once the transfer is processed by Federal Reserve Banks

Receipt of a Wire

§ 4A-207. MISDESCRIPTION OF BENEFICIARY

- (b) If a payment order received by the beneficiary's bank identifies the beneficiary both by name and by an identifying or bank account number and the name and number identify different persons, the following rules apply:
 - (1) Except as otherwise provided in subsection (c), **if the beneficiary's bank does not know that the name and number refer to different persons, it may rely on the number as the proper identification of the beneficiary** of the order. The beneficiary's bank need not determine whether the name and number refer to the same person.
 - (2) If the beneficiary's bank pays the person identified by name or **knows that the name and number identify different persons, no person has rights as beneficiary except the person paid by the beneficiary's bank if that person was entitled to receive payment** from the originator of the funds transfer. If no person has rights as beneficiary, acceptance of the order cannot occur.

Fraud Risk and Wires

Account Takeover

- Fraudster obtains an accountholder's online banking credentials and can transfer money out of an account

Business Email Compromise (BEC)

- Fraudster impersonates a real superior, vendor, business partner, etc. and convinces an employee to transfer funds or modify transfer account information

Money Laundering

- Fraudster may convince an accountholder to receive illicit funds and then transfer those funds to another institution using a wire or EFT

Lack of Dual-Control and/or Segregation of Duties

- May be leveraged by dishonest employees or interlopers

Wire Recovery

Because of the irrevocability of wires, time is of the essence in a situation where an erroneous or fraudulent wire has been sent



Contact
the
Receiving
FI ASAP



Submit
report to
FBI via
IC3.gov

FED

Contact
the
Federal
Reserve



Consult
Legal
Counsel

Wire Recovery (cont.)

Federal Reserve's E-Payments Routing Directory

- [Search Fedwire Participants](#)

FBI's Internet Crime Compliant Center (IC3)

- www.ic3.gov

Fedwire Customer Support

- (800) 327-0147

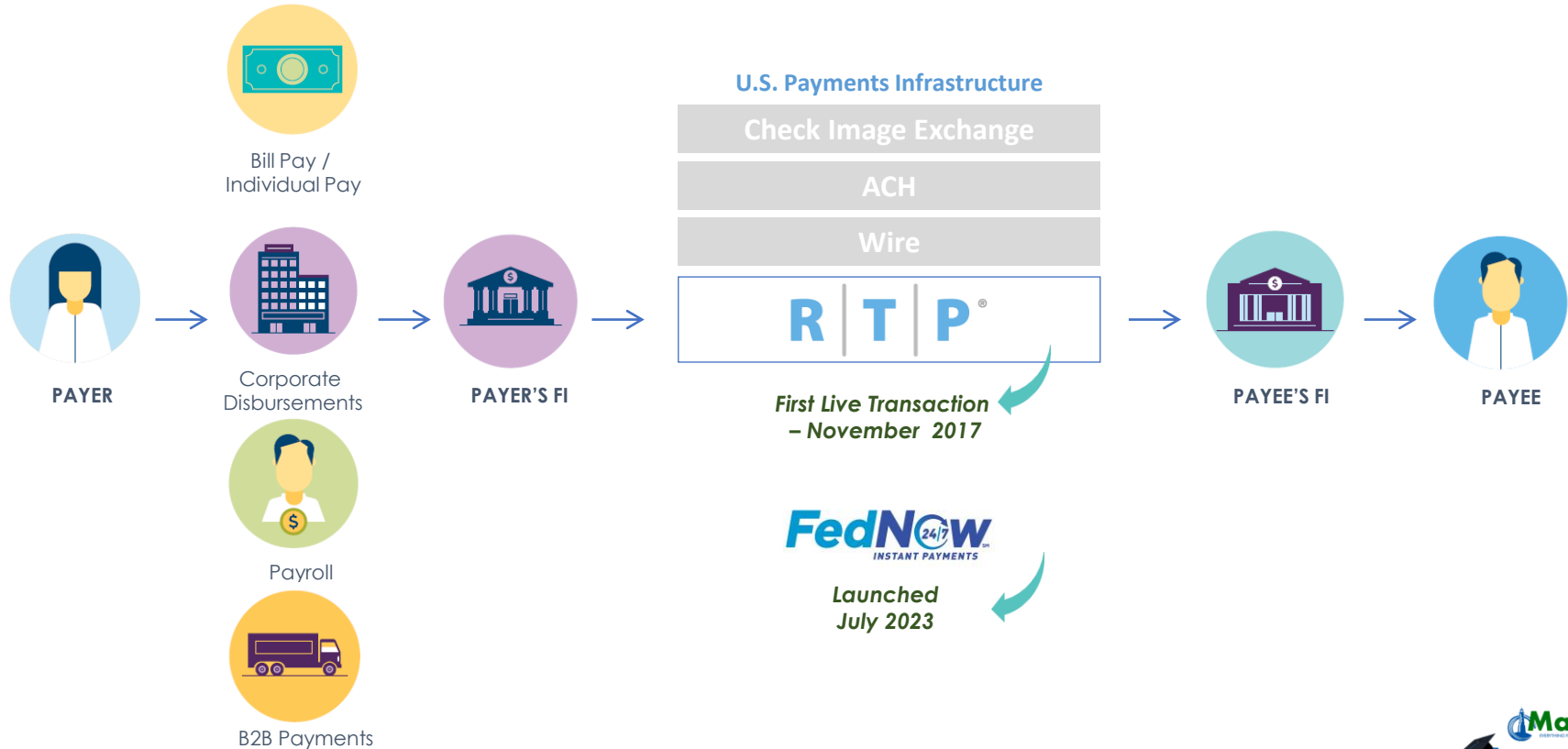
Instant Payments

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Faster Payments Landscape



Instant Payment Networks



Instant Payments and the Back Office

FIs will need to incorporate the unique nature of real-time processing into your back offices

- This will require modifying current processes and creating new ones
- Who and how will depend on whether you have a TPSP relationship and the services they provide



24x7x365



Immediate
Confirmation



Real-Time
Funds Availability



Settlement



Customer
Service

Unauthorized Instant Payments

Consumers

- The limitation of liability and error resolution requirements of the EFTA and Regulation E are applicable to erroneous and unauthorized consumer payments conducted through an instant payment rail.
- As instant payments are a credit push-payment system, claims of unauthorized instant payments, which are errors for purposes of Regulation E, would be made by the Sender.
 - The Sending Participant, which allowed the payment to be sent, would have an obligation to investigate, report, and re-credit the Sender, if the payment was in fact unauthorized.

Non-Consumers

- The requirements of Article 4A of the New York Uniform Commercial Code apply with respect to erroneous or unauthorized RTP[®] transactions that are not subject to the EFTA.
 - The requirements of Article 4A will also apply with respect to erroneous or unauthorized instant payments over the FedNow Service.
- With respect to unauthorized instant payments, liability between the Sender and the Sending Participant will be determined based upon Article 4A's security procedure framework.

Payment Exception Scenarios

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Adam's ACH

- Adam called State Bank's call center on July 19 to dispute several \$300 PPD transactions that were on his statement. Adam stated he had not authorized any of the payments. State Bank's investigation discovered the first transaction occurred on January 5th and then the 5th of every month after that, through July. The first statement containing one of the transactions was dated January 21.
 - Is this a Reg E error?
 - What is Adam's liability for these seven transactions?
 - What can the FI do to get the money back?

William's Wire

- William, a consumer, is purchasing a tractor from Dennis in Des Moines. Dennis no longer needs the tractor and just wants it out of his barn, so he's priced the tractor at just \$5,000, even though it's worth much more than that.
- William doesn't want to lose out on this deal and agrees to purchase the tractor based on the pictures and information provided online by Dennis.
- Dennis asks him to wire the money today to hold the tractor and he will contact William this weekend to arrange a for pickup.

William's Wire

- William is in your office with the wire transfer instructions and would like to send the money to Dennis as soon as possible.
- Being a seasoned banker, you're uncomfortable with William's wire request because of the red flags
 - The tractor is priced very low
 - William hasn't seen the tractor in person
 - There is a rush to send the money

William's Wire

- Despite your best efforts, William insists on sending the wire transfer today.
 - Does your financial institution have additional steps for staff in these instances?
- You follow your financial institution's process and send the \$5,000 wire transfer to Dennis.
- William thanks you and tells you he'll be by next week to tell you that you were worried for nothing.

William's Wire

- First thing Monday morning, William is in your office
- He states that Dennis never contacted him, and he is no longer responding to messages. It seems that Dennis has disappeared with William's \$5,000.
- It seems William was the victim of a scam, now what?
 - Contact the Beneficiary Bank to request the funds be returned via wire
 - Assist William in filing a report of Internet Crimes on ic3.gov
 - William could pursue legal action against Dennis

William's Instant Payment

- What if William sent an Instant Payment via RTP or FedNow to Dennis for the Tractor instead of a wire transfer?
- Instant Payments also have final and irrevocable settlement; therefore, we may follow similar steps to attempt to recover funds
 - Contact the Payee's financial institution
 - Send a Request for Return message
 - Assist William with an Internet Crimes report on ic3.gov
 - William could pursue legal action against Dennis

- Each payment system has its own process for handling exceptions and disputes
 - Financial institution staff should be aware of these processes and incorporate them into procedures
- Don't forget about Regulation E
 - Consumers may be allowed additional protections for electronic funds transfers



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