The Fraud Impacts of Payment Modernization

The Evolving Payments Landscape

Changes abound in the world of payments. That's likely not news to any organization. The movement that began over the past few years is now peaking as transformation sweeps through nearly every aspect of the payments industry. These changes are global, ubiquitous, and are making fraudsters everywhere salivate at the fresh opportunity to hijack payments. It's important that fraud and other investigation teams understand these changes and are prepared for their impacts.

NEW CHANNELS, NEW CHALLENGES

The introduction of new payment channels has always presented new challenges for investigators, while also presenting new opportunity to aspiring fraudsters. The payments market in the United States has recognized that there is a significant demand to have a payments system that can keep up with the accelerated pace with which business is now being done. The introduction of The Clearing House's RTP® and the impending launch of the Federal Reserve's FedNowSM system in 2023 are direct responses to address these new needs. They are just two examples of a growing number of payment processing options. And while this innovation of the payments industry is good in many ways; it also introduces new risk exposures that need to be assessed by organizations that are looking to adopt these next-generation payment products into their service offerings.

These new payment channels provide customers with faster transactions that can help organizations increase their business output but can also create new threat vectors that malicious actors will look to exploit. This can lead to a rise of risk vulnerabilities that may leave a fraud investigation unit scrambling to disposition more alerts when they are already spread thin. Ultimately, this set of variables can lead to investigator attrition and churn.

Technology can be used to help relieve some of the burden that these new real-time payments will inevitably bring. Through the use of advanced analytics such as machine learning and purpose-bult real-time payment risk indicators, next generation payment strategies can be adopted and responsibly onboarded while keeping risk mitigation a top priority.

The primary customer benefit of RTP is funds move rapidly which become available almost immediately. This speed makes the fast settlement irreversible and requires balance between quick fraud decisioning and mitigating risk.

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INCREASED SPEED AND INNOVATION

Within these new channels, there are two key technical aspects that have a major impact on the fraud landscape:

1. **The speed of settlement and**

2. **ISO-native message formatting**

The primary customer benefit of real-time payments is that funds are transferred rapidly and available almost immediately. This speed facilitates a movement towards more frictionless commerce; however keep in mind that this fast settlement will be irreversible once the transaction is sent out. This will increase the pressure on fraud investigation teams and detection systems to make sure that only legitimate transactions are processed. Finding a balance between quick fraud decisioning and mitigating risk is a key hurdle that organizations will need to overcome.

The other major technical change is around the ISO20022 formatting. The ISO standard offers several benefits: enhanced data models, uniform data structure, and more robust information contained within each transaction. This structure will also include more conversational elements that will provide additional details around entities and the legitimacy of the transactions. Organizations that are able to find technology and workflows that will allow them to process this information quickly and enrich it with external insights will increase operational efficiency, decrease risk, and speed up investigations.

Evolving Your Fraud Strategy for the New World

How does the modernization of the payments industry impact your existing processes? Two essential components to any fraud strategy are process and technology. Your organization can start by reviewing what's in place now. Do current SLAs meet the demands of a real-time payments world? Even if the answer is yes, it's important to know how well the team is meeting those SLAs and investigate any tweaks that may be needed to maintain the expected service levels of the organization. Possible considerations to make sure your team is ready for the increased demands of the industry change include investigation team size, number of different types of investigative teams, jurisdiction of teams, and more.

Those are all important considerations that deserve attention, yet even the best of processes can only take you so far in the race to keep up with the fraudsters. The tools your team uses are just as important and need to be able to meet the moment. The most obvious among those are the fraud detection analytics that are in place. These analytics need to be able to perform with millisecond response times and be ready to scale as volumes increase within the new payment channels. That's not even to mention the need for them to analyze all the new datapoints that come with ISO20022 and use that data to refine the decision engine that raises alerts.

Another consideration on the technology front ties directly into your process review as well. What tools are in place to help expedite an investigation or facilitate more collaboration? Fraud detection solutions should be able to display the relevant details to the applicable user with clearly defined workflow steps on how a particular investigation should be handled. Additionally, Key Performance Indicators should be captured and intelligently presented within the user interface to provide useful business intelligence that leads to actionable insights.

Lastly, visualization of different entities and their relationships is also becoming a powerful tool for use in an investigation. The ability to leverage technology that can visualize how different individuals, companies, accounts, and transactions are connected is a paradigm shift in how investigative teams are bringing all the pieces together. Seeing all this extra information can greatly reduce unknowns for investigators, allowing them to confidently make speedy decisions that keep customers protected and keep their customer experience positive.

CONCLUSIONS

There is a lot of change occurring in the payments industry. Luckily, current technology can handle the performance, security and time sensitivity needs that it takes to accommodate real-time payments. As your organization assesses your next-generation real-time payments strategy, please feel free to reach out to Bottomline for more information on best practices and to leverage our decades of thought leadership within the payments landscape.

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