

Advocates Applaud the Fed's Faster Payment System, Urge Fraud Protection

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National Consumer Law Center contacts: Jan Kruse (jkruse@nclc.org), (617) 542-8010 or Lauren Saunders (lsaunders@nclc.org), (202) 595-7845

Washington, D.C. – Advocates at the National Consumer Law Center applauded yesterday's announcement by the Federal Reserve Board (the Fed) that it will develop a real-time payment system, while urging the Fed to ensure protection against scammers and criminals who use faster payment systems to receive and move money.

"Faster payments can help consumers manage their money, pay bills in a timely manner, and get quick access to funds needed make ends meet, but fraud protection to prevent both hacking and payment scams is critical in designing a new payment system," **said Lauren Saunders, associate director at the National Consumer Law Center.** "The Fed's decision to build a real time payment system ensures that access will not be controlled by the biggest banks and that the system will be designed by a public agency with a mandate to consider robust consumer protection and the needs of all participants, including consumers, communities of color, small businesses, community banks, and retailers," **she added.**

Currently, both The Clearing House – a banking association and payments company that is owned by the largest commercial banks – and the Federal Reserve Board operate clearing houses used to make ACH payments, a 45-year old system that is the primary mode of moving money electronically today. But ACH payments typically take one business day to clear, meaning that a payment made on a Friday may not appear in the recipient's account until Monday. The Clearing House recently launched the RTP network, a real-time payments platform that financial institutions are eligible to use. There is no other competing real-time system in this country. Services such as Venmo, Zelle, and Square Cash, which appear to move money instantly, actually rely on either the ACH system (with funds made available before they actually transfer) or, in some instances, RTP to move the money.

"Having two operators, The Clearing House and the Fed, operate the older ACH electronic payment system has worked relatively well to keep the system honest and prices low," **explained Professor Cathy Lesser Mansfield, of counsel to the National Consumer Law Center and a member of the board of the Faster Payments Council.** A public role as the new system is developed is critical in to ensure robust due diligence, error resolution, and other requirements for financial institutions, and wide and safe access to the new system."

Speed is one important element of a new faster payment system, but not the only one. In comments to the Fed last fall, 30 consumer, civil rights, and community organizations highlighted prevention of overdraft fees, recourse in the case of fraud, privacy, data security, ubiquity, and access for all as essential elements that the Fed must address in a new payment system.

"A more ubiquitous system that enables anyone to pay or receive money from anyone can also be misused, and strong rules are necessary to keep out criminals and protect consumers who are defrauded," **Saunders explained.** "We have seen far too much fraud with little recompense today Venmo, Zelle, Cash, and other person-to-person systems that have prioritized speed and access over

fraud protection. Security on the front end to prevent hackers from sending money from your account is important but the receiving end is critical as well, and institutions that give scammers access to receive money must take responsibility and compensate consumers who are defrauded by the institution's customers."

Lauren Saunders served on the Fed's Faster Payments Task Force and helped in the development of its Faster Payments Effectiveness Criteria. The National Consumer Law Center is a founding member of the U.S. Faster Payments Council, a membership organization whose mission is to advance a ubiquitous faster payments ecosystem that meets the needs of all stakeholders in a high-quality and secure user experience. **Cathy Lesser Mansfield**, executive director of the Masters in Financial Integrity program at Case Western Reserve University School of Law and of counsel to NCLC, is a member of the first board of directors of the U.S. Faster Payments Council.

Read more about NCLC's body of work on fintech and electronic payments.

Related NCLC Links

Consumer Comments to the Federal Reserve Board Regarding Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments, December 14, 2018

Report: *Fintech and Consumer Protection: A Snapshot*, March 2019; Press Release