



Instant Payments Can Lead to Instant Problems

payments P2P faster payments

Summary: Financial institutions are finding that instant payments come with their own array of issues, including outages, fraud, and reputational challenges. We review these challenges and provide ways to handle them if they arise.

The concept of Murphy's Law is summed up into one simple phrase: "Anything that can go wrong will go wrong." This idiom is attributed to [Captain Edward A. Murphy](#), an engineer with the Air Force in the mid-20th century, who vocalized what would become the key tenet of Murphy's Law when a human-error sensor malfunction for high-speed rockets caused a test to fail.

Murphy's Law is useful to keep in mind when dealing with instant payments, as well. Instant payments are great — except when they're not. If they hit an unexpected snag, then instant transfers are not so instant and excellent. Payments get momentarily lost, and people get worried.

This year, there were two wake-up calls for some of the largest financial institutions. In January, [Bank of America payments through Zelle](#) got hung up in a technical problem. In July, [J.P. Morgan Chase had a Zelle outage](#). Both problems were fixed, and stalled payments went through.

Instant Outages

Perhaps the two incidents were just isolated individual problems, but the outages highlighted concerns about modern payment systems trying to operate around older and often clunky bank architecture. The unexpected can and does happen.

Outages may not be the worst of it. Fraudsters have nibbled at the edges of early instant payment applications. Criminals will use trickery to dupe customers into sending payments, referred to as authorized fraud, or they'll take over accounts to make fake payments, known as unauthorized fraud. Many of the early instant payment services are separate from financial institutions (FIs), so there is no opportunity for the FI to mitigate risk from the front end of the payment. Often, the customer calls their FI for assistance when this occurs. Unfortunately, if the payment was processed by an application not provided by the FI, there is little they can do to assist. A payment lost to fraud through these types of payment applications is often truly lost to the customer.

There are a variety of payment apps out there being used by consumers, each with its own methods and systems. None, however, are immune to outages or problems. Zelle, whose parent company is co-owned by large financial institutions, is offered by some community financial institutions (CFIs). Other banks opt for Venmo, which faced its own [outage challenges last January](#). PayPal and Cash App are also popular with users, and [both of those platforms have faced outages as well](#). The issue doesn't seem to revolve around a particular app, but rather newer, unseasoned technology — or, in the case of fraud, more sophisticated social engineering schemes not easily caught by fraud systems that were designed before the emergence of modern payment app technology.

New Capabilities on Old Systems

This can be a particular problem for CFIs trying to keep up with instant payments while also struggling to scrape together the funds to pay for upgrading or replacing older in-house systems with technology that will evolve to relieve some of these issues. The urgency of keeping technologically current has accelerated with the recent [launch of the FedNow® Service](#), the government payment system that serves as a backbone for instant bank transactions. FIs have started joining and using the service.

The need for speed in payments is also being driven by consumers, who are increasingly demanding fast payment options. Almost [75% of consumers used mobile payment options in 2022](#), according to a Federal Reserve survey.

Remedies for Instant Payment Headaches

For CFIs, it is increasingly important to understand the risks posed by instant payments, whether or not the service is directly provided by the CFI itself. Here are a few of the risks to be aware of, as well as ways to try to stay ahead of them.

- 1. **Fraud.** There are several strategies CFIs can pursue to [combat fraud in instant payments](#). CFIs should follow organizations like the [FedNow Community](#) and the [US Faster Payments Council](#) to stay current on instant payment issues. They can work with vendors on real-time fraud detection options and monitor for suspicious accounts and aliases.
- 2. **Customer responsibility.** Customers play an important role in understanding the nature and risk of instant payments. CFIs need to have active and effective education programs advising customers about the risks of instant payments, and the fact that payments are not as protected as they are within the banking system. For example, the Consumer Financial Protection Bureau recently issued an alert [warning consumers not to stash cash in payment apps](#) like Venmo, PayPal, and Cash App because those funds may not be held in an FI covered by federal deposit insurance. In a crisis, those funds could be lost.
- 3. **Reputational risk.** CFIs that have frequent instant payment outages can face reputational risks that can tarnish the rest of the enterprise. With instant payments in such high demand, customers could decide to look elsewhere for a more reliable instant payment service. Maintaining vibrant, modern banking core systems can help avoid these types of reputational risks.

Consumers are expecting faster payments. Financial institutions are trying to stay ahead of the trend, but spiffy new apps can create problems for old legacy bank systems, and long-standing problems like fraud need to be defended against. By addressing these key concerns, the road to instant payments could go a lot smoother.

PCBB IS A CERTIFIED FEDNOW® SERVICE PROVIDER

FedNow, the Federal Reserve’s instant payment service has officially launched! The service allows participating institutions to send and/or receive account-to-account transfers, requests for payment, bill payments, and many other transactions in real time. As a certified provider, PCBB offers [Settlement and Liquidity solutions](#) to participating community financial institutions. Contact us to get started.

ECONOMY & RATES

Rates As Of: 11/20/2023 05:37AM (GMT-0800)			
Treasury	Yields	MTD Chg	YTD Chg
3M	5.50	-0.09	1.08
6M	5.39	-0.15	0.63

1Y	5.23	-0.21	0.52
2Y	4.89	-0.20	0.46
5Y	4.48	-0.38	0.48
10Y	4.47	-0.47	0.60
30Y	4.63	-0.47	0.66
FF Market		FF Disc	IORB
5.33		5.50	5.40
SOFR		Prime	QBER
5.32		8.50	5.32

Copyright 2023 PCBB. Information contained herein is based on sources we believe to be reliable, but its accuracy is not guaranteed. Customers should rely on their own outside counsel or accounting firm to address specific circumstances. This document cannot be reproduced or redistributed outside of your institution without the written consent of PCBB.