
EasCorp President Calls on Credit Unions to Innovate and Educate

In a panel discussion at the NAFCU Congressional Caucus on Wednesday, September 13, 2023, Cynthia Nelson, President and CEO, EasCorp, shared her thoughts on the Federal Reserve's new FedNow® Service. She called upon the credit union community to both adopt and innovate on the new instant payments rail and, citing the rail's capacity to vastly improve financial inclusion in the United States, to take a leadership role in educating consumers of its safety and security. We sat down with EasCorp's President to follow up on her remarks.

Interviewer: What do you think are the most promising use cases for the FedNow Service?

Nelson: Instant payments are necessary not only to modernize the US economy but also to meet growing market demand, both commercial and consumer, for payment tools on par with those available in global markets. The FedNow Service will, of course, serve a number of existing use cases—account to account transfers, person to person payments, etc.—many of which are satisfied now by available private network tools. But, the greatest opportunities of the FedNow Service are the paradigm-shifting innovations to come.

In 2009, could you imagine ordering a ride in a privately-owned car on your mobile phone? Sharing that car with a stranger? Ending your ride without taking out your wallet? Within 5 years of its launch, Uber was operating in 43 countries; its mark on transportation was undeniable. The company not only addressed some basic problems, including supply and demand challenges, cost of inventory, etc. but also built the gig economy, transformed our concepts of safety and user experience, defied permitting and regulations, exploited the capabilities of GPS tracking and banking integrations, and so much more.

The FedNow Service lays a foundation for a similar revolution. By building the infrastructure but not the consumer- or business-facing products, the Fed has passed the gauntlet to us, to financial institutions and their service providers, to develop digital banking integrations, apps, and new tools. They rely on our understanding of the needs of our members today and to anticipate their needs in the future. And, this is where credit unions thrive.

Still, ubiquity is needed for the rail to be impactful, and it will take time. We need a critical mass of financial institutions sending and receiving money to truly understand, and capitalize on, the rail's full potential in terms of both innovation and revenue.

Interviewer: Do you think credit unions and other participants have the tools they need to manage fraud risk in an instant time payments environment?

Nelson: I do. Risk mitigation for instant payments will require staff and member training, technology, and member-centric policies, the same factors we consider for other payment rails. I do not want to downplay our industry's fraud concerns, but remind our readers that we have extensive experience in mitigating fraud and other risks. We train our teams on the principles of "Know Your Customer" and we monitor accounts and identify patterns of fraudulent behavior using AI and other digital applications. We participate in industry conversations with security experts, hold each other to high standards in the application of security standards, and participate in shared fraud reporting to improve security for all. When we integrate instant payments into our digital banking applications, we can control access, establish use policies, and set risk-based transaction

limits. And, integrating fraud solutions are becoming more sophisticated and responsive to emerging risks.

Instant payment are irrevocable and cannot be recalled or cancelled by the payor, and, the payee can withdraw the funds immediately. As payments expert Peter Tapling warned, consumers have come to expect that their financial institutions will recuperate their funds and make them whole based on the protections on other payment rails, such as credit cards. How will you reconcile this expectaiton with the irrevocable nature of instant payments? Carefully consider how you will address false claims, social engineering scams and authorized push payment fraud, suspicious accounts, money mule activity as both a sending and receiving institution. How you manage liabilities, recompence, and member service, and how you educate your members about the differences between instant payments and other payment rails, will be critical.

Additionally, the Federal Reserve states that they are “exploring other features that could be made available as part of future releases to aid participants in managing fraud risk, including, for example, value limits that could be tailored to certain uses, aggregate value or volume limits for specific periods (for example, per business day), and/or centralized monitoring performed by the FedNow Service such as functionality that leverages advanced statistical methods and historical patterns to identify potentially fraudulent payments.” We look forward to working with them on the implementation of those tools when available.

Interviewer: In your remarks at the NAFCU event, you encouraged credit unions to actively educate their members about the FedNow Service. Why do you believe that to be important?

Nelson: The great promise of the FedNow Service is that it will lead to a more inclusive economy, one that better serves all demographics across our nation. The Federal Reserve was uniquely equipped to build public infrastructure accessible to financial institutions of all sizes across the United States, and by extension, to reach into the communities served by credit unions and community banks.

Instant payments improve money management for vulnerable populations, and are expected to incur fewer fees than other payment rails, perhaps encouraging new account openings at mainstream and regulated financial institutions. Instant payments offer businesses numerous benefits as well, from improved liquidity and cash flow to better account management. Economic mobility, a competitive market for financial services, and advanced technologies benefit the economy at large. The FedNow Service has the potential to expand these to the margins.

Unfortunately, myths about the FedNow Service and its purpose abound. (We’ve addressed some of these in the last two issues of the *Inside EasCorp* newsletter.) In mainstream media and on social media, from the halls of government to our tellers’ counters, misinformation threatens consumer trust in not only the instant payments rail, but the central bank itself. And, worse, many of these smear campaigns target the vulnerable communities we are trying to reach.

Credit unions are among the most trusted financial service providers in the world. Our communities value our expertise, and recognize our interest in their financial wellbeing. If we could harness that goodwill and trust in support of the Federal Reserve and the expansion of this payments rail, it could be very powerful and our vision of an inclusive economy more soon realized.