

Understanding the Nacha 2021 Rule Change



The new Nacha WEB Debits operating rule will become effective on March 19, 2021. So what does that mean for insurers and financial institutions? Just like all organizations, they will have to make sure any application that is initiating web debit transactions is compliant with the rule.

Who is Nacha?

[Nacha \(National Automated Clearing House Association\)](#) has been in existence since 1974, serving as trustee of the ACH Network, which manages the payment network that universally connects all 12,000 financial institutions in the U.S. A part of this management is facilitating the expansion and diversification of electronic payments. This includes the support of Direct Deposit and Direct Payment via ACH transactions, including ACH credit and debit payments, recurring and one-time payments; government, consumer and business transactions; international payments, and payments plus payment-related information.

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Supplementing Fraud Detection Standards for WEB Debits Rule

The [Supplementing Fraud Detection Standards for WEB Debits Rule](#) has been imminent for a long time – the rule was approved by Nacha members in November 2018 and was originally set to take effect on Jan 1, 2020. The new effective date is March 19, 2021.

Right now, ACH originator WEB debit entries are already required to use a “commercially reasonable fraudulent transaction detection system” to screen WEB debits for fraud. This new rule explicitly calls out “account validation” as part of a “commercially reasonable fraudulent transaction system” and applies to the first use of an account number, or changes to the account number.

In plain language, anytime an electronic ACH debit payment is made online for the first time from a consumer checking account, the account number must be validated first. This includes when a consumer changes the account number to make payments they’ve made before. “Validate” means to determine that the account is a legitimate open account with sufficient history that accepts ACH entries. Ownership of the account does not have to be validated at this time.

The goal of this rule is to help protect against fraud on the ACH Network and financial institutions from posting fraudulent/incorrect unauthorized payments. Merchants and Billers, along with their processing partners, are in the best position to fight payments fraud. This is because you can validate that an account is legit before you make a transaction against it. A fraudster cannot open up a ghost account with zero dollars in it and initiate a web debit against the account to make it go into a negative balance, and then abscond with a financial institution’s money.

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EXCLUSIONS:

- Payments made by Business/Corporate/Government entities (B2B/B2G/G2B)
- Consumer payments when the account number has successfully been used for a previous payment
- Recurring payments after the first payment
- First-time consumer payments taken and initiated via methods that do not use the internet
- Any other payment method, including credit and debit cards

Who is Responsible for Complying with this Rule?

The updated rule impacts any organization that allows consumers to make purchases or payments via the internet or mobile devices and directly and electronically withdraw payments from their checking accounts. This applies to all industries of any size and government. Compliance is mandatory.

How Can First-Use Consumer Account Information be Validated?

The updated rule is neutral regarding specific methods and technologies used, and the Nacha website states that there are three possibilities:

- An ACH prenotification
- ACH micro-transaction verification
- Commercially available validation service

How Can Alacriti Help Me Prepare?

Nacha recommends that organizations contact their financial institutions and/or payments and technology vendors as soon as possible. Then, use the remainder of this year to prepare an implementation plan and update policies and documentation. The good news is that the rule applies on a go-forward basis, so the Originator does not have to verify account numbers for all existing WEB debit customers. In fact, account numbers with a proven history of prior successful payments have sufficient validation.

Alacriti is a Preferred Partner and is listed on [Nacha's website](#) for Third-Party Validation Service Vendors. Powered by [Microbilt](#), Alacriti's [Orbipay Instant Bank Account Validation](#) services simplifies the real-time bank account validation process. In addition to instant account ownership and status validation, the solution leverages one of the largest financial transaction databases to perform predictive analysis and risk scoring in a flexible rule-based framework. Microbilt's scoring is a value add to the mandatory rule adoption. Built on advanced APIs, Orbipay Bank Account Validation facilitates seamless integration of instant account validation services into products and transaction workflows e.g., new account opening and funding, account-to-account transfers, ACH enrollment, digital disbursements, and bill payments.

With Alacriti, your organization doesn't have to worry – we take care of compliance on your behalf. In addition, we will continue to look beyond this rule in anticipation of future requirements to ensure that you stay in compliance. Remember, reviewing what changes are necessary for compliance is also an opportunity to see where innovation and overall improvement is possible. This subject is explored in [Nacha's June 2020 webinar](#) that discusses what the updated rule means in terms of unlocking an opportunity for innovation. At the very least, the risk of fraud and misdirected payments will be reduced, which will reduce costs and ultimately lead to a better experience for everyone (with the exception of the fraudsters).

For more information on how you can prepare for this change, please [contact us](#) at (908) 791-2916 or info@alacriti.com.