



Executive Briefing

Decisions at the Speed of Now

How account validation is making a real-time shift to meet higher demand, increasing risk, stricter compliance, and greater opportunity

Contents

Unprecedented demand and changing behaviors are reshaping how the world transacts business
2

The increasing demand for online transactions has created a massive increase in digital fraud
2

Today's digital-first customers are harder to reach, expect immediate gratification, and defy tradition
3

The state of verification
4

Online Banking (OLB) verification
5

Database validation
5

Bottom line
6

Three keys to Bank Account Validation (BAV) success
6

Introducing Accelitas bank account validation
6

A choice of validating solutions
7

The Accelitas advantage
8

Unprecedented demand and changing behaviors are reshaping how the world transacts business

It's no secret that businesses must move fast to stay ahead of developing trends. But today's digital world has both increased the speed and raised the stakes. From unprecedented volume to sudden behavioral shifts, companies must rethink the way they do business — and rethink quick.

Success will depend on the ability to address two major trends shaping the industry.

1. The increasing demand for online transactions has also increased digital fraud

The pandemic has accelerated the transformation to digital purchasing, but it has also attracted the attention of fraudsters. To protect both consumers and businesses, new compliance rules are addressing fraud and providing secure transactions. Businesses must learn to navigate these new

compliance and privacy rules, or risk increased fraud or financial punishment.

2. Today's customers are harder to reach, expect immediate gratification, and defy tradition

The next generation of digital-first consumers (Millennials, Gen Z) don't play by the previous rules. They are harder to reach by traditional methods, and expect a fast and seamless customer experience, or risk abandonment. Reaching this next generation of customers and successfully balancing both security and customer experience will require a new set of tools.

Bank account validation (BAV) will play a critical role in helping businesses navigate this transaction-driven world, and access to this new generation of consumers.

This document will highlight the real-time shift required to meet higher demand, provide an update on the compliance rules now in place, review the account validation options available, and introduce the next generation of fast, fair, and frictionless BAV solutions designed to grow business.

TREND #1

The increasing demand for online transactions has created a massive increase in digital fraud

The pandemic has accelerated the transformation to digital purchasing, jumping 32% in 2020 alone. Digital transactions will exceed \$1 trillion for the first time this year and are expected to reach \$4.3 billion a day in 2025.¹

The increase in transaction volume and real-time payments has also attracted the attention of fraudsters. More than \$20 billion in fraud was reported in 2021 — an 18% jump from the previous year — costing everyone involved.²

Online payments are a prime target for fraudsters as they don't even need to have the real card, they only need the card details which can be stored digitally. It's also easier to get away with it, because it's harder for the business to verify who is really making the purchase. As the rapid growth of alternative payment methods like BNPL open the door to account takeovers and synthetic fraud, financial services providers must continually deploy more high-tech fraud prevention measures.

As a result, Nacha has implemented new account validation rules to address fraud and provide secure transactions.

¹ eMarketer 2021

² Juniper Research 2021

Transaction security always made sense. Now it's mandatory.

A new rule from Nacha, which governs the Automated Clearing House (ACH) Network, requires that account verification now be part of anti-fraud efforts and initiatives.

Nacha's Web Debit Account Validation Rule is designed to protect financial institutions from posting fraudulent, incorrect, or unauthorized payments; make payments safer and more secure; enhance payments quality; improve risk management within the ACH Network; and meet consumer demand for fast, frictionless payments.

Nacha requires that ACH originators of web debit entries use a "commercially reasonable fraudulent transaction detection system" to screen web debits for fraud. The new rule supplements that screening requirement,

making it explicit that "account validation" is part of that detection system. Nacha's supplemental requirement applies to the first use of an account number or changes to the account number.

Nacha defines web debit as one that has occurred over the internet or any other unsecured network. The rule applies to any organization of any size in any industry.

Nacha's phrase "commercially reasonable" is associated with an organization's specific set of facts and circumstances. The organization using the ACH Network should determine what is commercially reasonable to them when choosing solutions to comply with the rule.

As of March 2022, the Nacha Web Debit Rule is mandatory and enforceable.

TREND #2

Today's digital-first customers are harder to reach, expect immediate gratification, and defy tradition

One of the major challenges in financial services is reaching next generation consumers that no longer follow traditional rules or methodology. But this trend also presents a major opportunity: businesses that recognize these potential customers — and deliver seamless online experiences — will enjoy a significant advantage.

Today's business needs to be a strategic balance of access, security, and user experience.

The pandemic accelerated an existing trend away from traditional brick and mortar transactions, and there is no sign it will slow down anytime soon. Businesses are quickly implementing ways to digital onboard 100% of their customers. A historic shift to intuitive digital technology and consumer expectations are already making this happen. According to a J.D. Power study, a record 41% of U.S. retail bank customers are now classified as digital-only.

This shift is driven by a new generation of customers that expect 24/7 digital and mobile access delivering fast, seamless solutions. Comprised of Millennials and Generations Y & Z, they are often referred to as digital natives, although the term is increasingly used to describe anyone more comfortable using technology for everyday activities.

In essence, the fast, frictionless personalized omni-channel experience is now the customer's *minimum* expectation for their financial interactions.

Changing consumer habits have created an invisible marketplace

Digital natives represent the future of commerce. Although Millennials and Gen Z comprise 70 million Americans and come loaded with purchasing power, many businesses don't even recognize them. The fact is, 30% of adults in today's financial markets are virtually invisible to traditional screening methods.

One reason is the significant change in spending and saving behaviors. Digital natives don't spend money

like their parents — or grandparents. They are more likely to Venmo over Visa, Uber instead of buying a car, and rent rather than own a home. This has created thin-file and no-file credit profiles that make it difficult for business to evaluate and make accurate decisions.

Reaching this next generation of digital-first customers will require a new approach to bank account validation that increases coverage while maintaining a seamless user experience.

The state of verification

New criteria, compliance standards, and methodology choices are attempting to address these trends. Understanding the options are crucial for businesses moving forward.

The need for better account validation

Bank account validation goes beyond fraud. It is an important tool for businesses who originate ACH credits and debits. Using an incorrect routing and transit number and/or account number for the recipient of an ACH transaction can cost a business both time and money. It can damage a company’s relationship with employees, customers, and vendors; result in fees from a company’s financial institution; delay the start of an employee’s Direct Deposit of payroll; cause payments to suppliers to fail; and delay the collection of funds from customers. Using bank account verification enables businesses to reduce returned transactions, in the case where an account number was incorrectly entered, and in the case of fraudulent payments, where the wrong account number was purposefully entered.

It also helps to provide a positive customer experience while reducing the number of service calls and lost customers.

Existing account validation choices don’t always match the times

Bank account validation services such as micro-deposits and ACH pre-note transactions have existed for years, but these approaches can take days to complete and create a great deal of friction for consumers, putting the service at odds with today’s digital-first consumer demands.

The key challenges for online business are to maximize coverage for hard-to-reach consumers, navigate often complicated privacy and compliance issues, and balance a positive customer experience with the need for protection. Providing consumers with their preferred path as an option is critical.

Evaluating two popular account validation methods

Of the real-time versions of account validation, the two most popular are

- » Online Banking (credentialed)
- » Database validation (non-credentialed)

	Manual Verification	ACH “Pre-Note”	Micro Deposits	Database Validation	Bank Login
Friction	~W~ ~W~ ~W~	~W~ ~W~ ~W~	~W~ ~W~ ~W~	↔	~W~ ~W~ ~W~
Cost (including time spent)	\$ \$	\$ \$	\$ \$	\$	\$ \$ \$

Online Banking (OLB) verification

Credentialed Verification

A credentialed log-in process requires consumers to provide their personal online banking credentials (username and password). This method provides a plethora of information including the current balance, transaction information, verification of ownership, income verification, and more. Consumers have been trained — rightfully so — not to share their usernames and passwords with anyone, so not surprisingly, the OLB-credential powered options suffer from a very high abandonment rate when offered as the only option. Who can blame them, what’s more sensitive than their online banking username and password after all?

There are additional “sign-in” or “instant” verification methods, which require a consumer to provide their online banking credentials so an account validation solution provider can login as the consumer to check the account information and validate the consumer’s identity. These solutions are effective and easy for the consumer to use but increase the risk of financial information falling into the wrong hands. Companies who utilize third parties for these account validation solutions need to be sure to perform the appropriate due diligence and weigh any accompanying risks to themselves or their customers.

It is not considered an industry best practice for consumers to give out their online banking credentials, and, in fact, some financial institutions spell out in their agreements the consumers’ liability if they do so. Some large financial institutions have even gone so far as to block access for these third parties in order to maintain their consumers’ privacy. In addition, use of these types of applications can increase abandonment rates, as many consumers are hesitant to provide this sensitive information.

Privacy and compliance issues are ramping up

Consumer complaints exploded in 2021; expect a recharged Consumer Financial Protection Bureau (CFPB) to aggressively protect consumers from unfair lending and business practices. One OLB provider recently settled a class-action lawsuit in which consumers alleged that the company used dubious tactics to gather bank account data to share with fintech clients.

Database validation

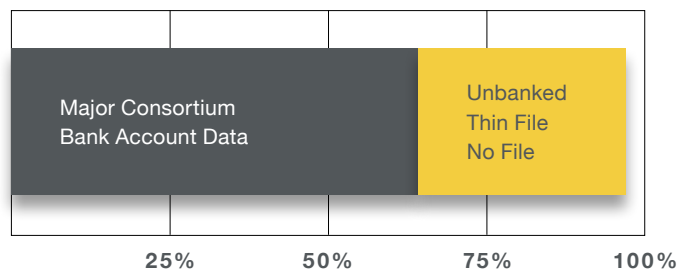
Non-Credentialed Verification

The other way to obtain bank account validation is through a non-credentialed, database validation method. For this method, consumers do not need to provide their sensitive, online banking credentials, simply provide a bank routing number and account number and the real-time service provides a validity response. The benefit of not requiring a consumer to provide their sensitive, online banking credentials is that there is zero friction added to your application process — the database validation happens in the background in real-time.

Some financial institutions and third parties have access to a large number of bank accounts (both theirs and others) and may offer a product that leverages this information. A company can access these services for scoring as to the likelihood of correct bank account information and/or the account holder’s identity and/or insights into the bank account behavioral activity. These responses can be real-time, same-day, or next-day.

Traditional bank data often misses the market

To date, businesses that rely on rapid online transactions typically rely on major bank account validation services using traditional bank data consortiums. That would seem to make sense. But in fact, most U.S. validation services come up short when it comes to coverage — as much as 30% short — limiting insight and considerably hindering a business’s reach. It’s estimated that bank consortium data and conventional scoring methods miss 30 percent of the U.S. population.



Bottom line

The key challenges for online business are to maximize coverage for hard-to-reach consumers, navigate often complicated privacy and compliance issues, and balance a positive customer experience with the need for protection.

SOLUTIONS

Three keys to BAV success

Bank account validation will play a critical role in helping businesses increase financial access to this new generation of consumers and navigate this transaction-driven world. To be successful, the next generation of BAV solutions must be fast, fair, and frictionless and provide the greatest coverage to safely grow the business.

We've identified three key factors that define the next generation BAV solution, delivering both Nacha compliance and improved customer experience:

1. Real-time transactional data sources to provide greater coverage
2. Predictive analytics to make smarter real-time decisions
3. Customization and close loop monitoring to provide continuous optimization

Introducing Accelitas bank account validation

Fintech innovator Accelitas® has enlisted unmatched coverage of U.S. bank accounts, and real-time data updates to provide what traditional verification players can't — instant bank account validation tuned to a company's specific business needs.

These frictionless solutions allow instant validation of bank accounts without the use of Online Banking (OLB) credentials. The non-credentialed bank account validation service provides a more intelligent and economical alternative, delivering real-time confirmation of active accounts to create a better customer

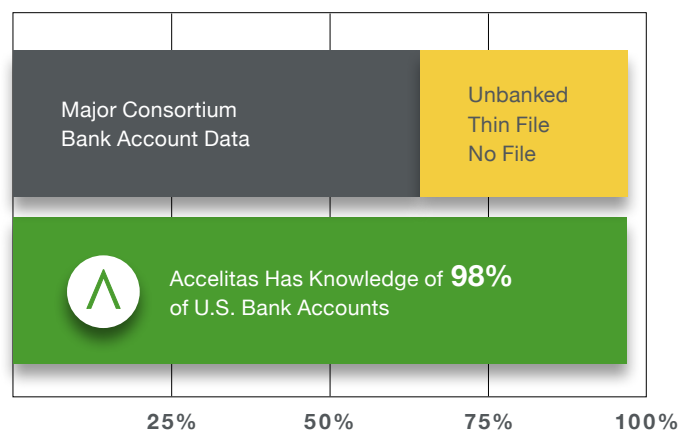
experience, including the elimination of “fat-finger” errors when manually entering routing and account number.

Accelitas users improve ACH success rates, reduce returns, and mitigate risk while staying compliant with the Nacha verification rules.

Accelitas is a Nacha Preferred Partner for account validation.

Added coverage is crucial

Traditional bank data and credit tools have limited insight and a historical perspective only. Accelitas provides up-to-the-minute account information with unmatched coverage, routinely testing at 98% knowledge of all U.S. bank accounts. Businesses that validate with Accelitas typically see a 30% lift in coverage compared to businesses that use traditional bank data consortiums.



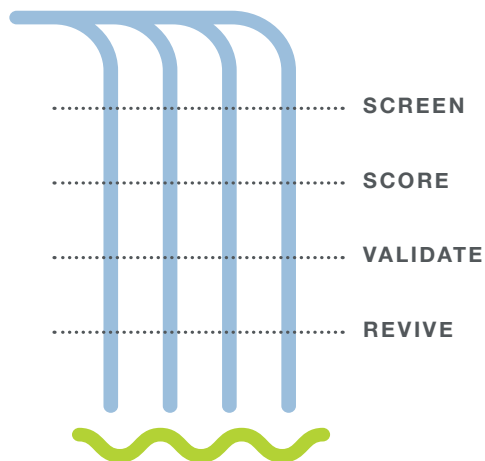
Real-time makes a real difference

Real-time validation includes daily updates from 400K+ merchants, billers, utilities, and government entities, including data from essential retail businesses — all updated in real time. This data is rich with behavioral insights and can even become a proxy for employment based on continued spending and velocity. Instead of data provided months ago, Accelitas BAV users can gain retail data insights from the customer shopping on-line or at the grocery store just 15 minutes ago.

Fine-tuned analytics deliver dynamic scoring

Predictive analytics help deliver frictionless ACH validation, while dynamic scoring can be tailored to each business's needs, complementing, or replacing existing scores.

Accelitas BAV solutions can be optimized for First Payment Default (FPD) or profitability and fine-tuned for strategic spots in the decision waterfall. They provide ACH-ability and Nacha compliance and utilize FCRA and non-FCRA data with explainable decisions.



Close-looped monitoring provides continuous optimization

The multi-disciplinary AI approach uses machine-trained classifiers to maximize the separation of data, and all models are customized to the business to ensure improvement over time. Accelitas BAV solutions are explainable, ensuring fair credit and lending decisions.

A choice of validating solutions

Accelitas has extensive experience with predictive analytics in credit risk modeling. Watching the rapidly evolving payments marketplace, the company recognized the need for robust, consumer-friendly bank account validation.

In 2020, Accelitas developed and launched two bank account validation services — Ai Validate Bank Data and Ai Validate BAV | FCRA — and introduced a third non-FCRA service in January, 2022.

» Ai Validate Bank Data

This account validation service combines proprietary analytics in risk modeling to produce indicators on the validity, association and the risk of the bank account information submitted. This service is typically used for lower value/lower risk ACH transactions (e.g., utility payment at account opening).

» Ai Validate BAV

This service leverages the same powerful analytics but adds unique data sources that are tuned for higher value/higher risk ACH transactions, where the client either does not want or cannot use FCRA data for BAV. Real-time bank account transactional data & status is leveraged (e.g., auto loan payment at account opening).

» Ai Validate BAV | FCRA

This service is typically used for higher value/higher risk ACH transactions. (e.g., funding a consumer loan). Accelitas service provides real-time consumer behavioral data in the response to the client and can be used for Adverse Action purposes.

The Accelitas advantage



UNMATCHED DATA COVERAGE

98% of U.S.
Bank Accounts



REAL-TIME VALIDATION

Daily Updates from
> 400k Merchants



PREDICTIVE ANALYTICS

Frictionless ACH
Validation



CUSTOMIZED SCORING

Dynamic Scoring
Customized to Your
Business



SEAMLESS INTEGRATION

SOC Compliant
SaaS API Platform

About Accelitas

Accelitas® is reimagining financial access through the transformative power of data. Our AI-powered predictive analytics and alternative data sources deliver fast, fair, and frictionless ways to help businesses grow. Powered by the real-time web services of its Accelerated Insight® Platform, the company provides innovative ways to seamlessly validate accounts, accept more creditworthy borrowers, and streamline payment services.

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About Nacha

Nacha governs the thriving ACH Network, the payment system that drives safe, smart, and fast Direct Deposits and Direct Payments with the capability to reach all U.S. bank and credit union accounts. Nearly 29 billion ACH payments were made in 2021, valued at close to \$73 trillion. Through problem-solving and consensus-building among diverse payment industry stakeholders, Nacha advances innovation and interoperability in the payments system. Nacha develops rules and standards, provides industry solutions, and delivers education, accreditation, and advisory services.

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