

# The Advantages and Disadvantages of ACH Payment Security



More than 26 billion payments were made on the [Automated Clearing House \(ACH\) Network](#) in 2020, according to the National Automated Clearing House Association (NACHA), the organization that governs the ACH Network. That represents an increase of 8.2% over the prior year and a 10.8% increase in the value of payments. In total, nearly [\\$62 trillion worth of payments](#) were made using ACH and 2 billion new payments were made.

One reason financial institutions and retailers have embraced ACH payments is security.

## Security Advantages of ACH Payments

By comparison, paper checks are the most popular ways [payment fraud is committed](#). Checks contain bank routing numbers, account numbers, and identifying information such as name, address, and telephone number.

During processing, paper checks get handled by several people from postal carriers to business receptionists, clerks, and processors. They can get lost or misplaced or fall into the hands of unknown entities.

ACH payments are simply more secure. They won't get lost in the mail and they are handled electronically. ACH payment security is robust.

Businesses can also implement additional security measures to make ACH payment security even better by using a third-party provider that ascribes to secure payment methods similar to what's used by the [US Customs and Border Protection](#).

- Information about users is not stored online. A unique Payer Unit Number (PUN) is used to process ACH transactions.
- Only the original filer can transmit payment authorization.
- A broker can only use the PUN for specific statements.
- Fund transfer cannot begin until authorized by the user.
- Payments are only authorized when the user's statements match statements.

The best third-party ACH payment processes will end-to-end encryption using a locked algorithm. This prevents anyone from being able to use any information that is intercepted during transmission. Even if an unauthorized user gained access during transmission — such as a hacker doing a [Man-in-the-Middle attack](#) — the data would be undecipherable.

## **ACH Fraud Protection**

ACH Debit is safer than checks and safer than using a debit card. Errors in payments can be reversed and consumers are protected against fraud by [federal law](#).

Recipients of the funds transferred by ACH typically need a US bank account. This means they have to prove their identity which provides another layer of fraud protection. In case of fraud or illegal activity, it makes it much easier for law enforcement to track down criminals.

## **Fewer Errors**

Businesses also see fewer errors when ACH payments are used. There's no rekeying information or transferring data from one system to another.

ACH payments don't get misplaced in the accounting department or lost on the way to depositing them at your financial institution. When the physical handling of checks decreases, so does the error rate and the opportunity for fraudulent activities.

It also saves you time since you don't need to do bank runs for deposits.

## **Risks of ACH Payments**

There are some risks involved in ACH payments that you should be aware of.

## **Credit and Debit Risk**

If the person paying the bill does not have the funds available to make the payment, the ACH payment will not go through. The financial provider facilitating the ACH transaction has the biggest risk in this case.



Debit risks can occur when thieves get account details and make unauthorized debits from a customer's account. Both customers and financial institutions can suffer losses, although many banks will cover losses within limits.

## **Operational Risk**

Computer failures, power failures, or natural disasters do occur on occasion. This can lead to data loss, duplication, or alteration if the proper safeguards have not been put in place.

## **Fraud Risk**

There is a risk of fraud from inside threat actors. For example, if a bank employee has access to customer account data and ACH payment facilities and makes unauthorized transactions. There is also the risk of cybercriminals breaching security at financial institutions.

## Systemic Risk

There can also be a systematic risk, especially when high dollar or high-volume transactions are involved. When one customer does not have the money available to settle an account, this can cause a chain reaction. The recipient may be unable to settle their account, and so on. The systemic risk is similar to that caused by a bounced check for a large amount.

Bankruptcies and financial difficulties are typically the culprits when this occurs.

## Safeguarding Against ACH Fraud

The choice of an ACH service provider is an important decision in your ACH fraud prevention strategy. Whether you are handling consumer transactions, electronic billing, and click-to-pay, or payroll and direct deposit services, your ACH service provider should follow these guidelines to mitigate risk.

- ACH providers should be [SSAE 18 Type 1 or Type 2](#) examined, which include annual audits from an accredited CPA firm to verify control policies and procedures are being followed.
- All employees at ACH providers should pass background checks before being hired.
- ACH providers should carry a minimum of \$2 million of liability and malfeasance insurance, although the best ACH providers will carry \$5 million.
- The best ACH providers will have robust disaster recovery and business continuity plans to avoid shutdowns.
- ACH providers should avoid processing high-risk transactions from any customers.
- ACH providers should under yearly financial audits and pass financial stress tests.

Unfortunately, not all ACH providers will take all of these steps. Complying with these stringent self-imposed rules along with industry regulations cuts into a provider's profitability. However, they are essential for fraud protection and to ensure you get the safe, quality service you need to run your business.

## National Payment: Secure ACH Services

National Payment is the nation's largest third-party processor of ACH payments. Handling more than \$115 billion annually for more than 228,000 nationwide ACH clients, National Payment provides unmatched value and peace of mind for its customers with a [broad range of ACH services](#).

National Payment is fully compliant with all NACHA rules, regulations, and best practices which means you get the best possible service and security for fraud protection.

[Contact National Payment today](#) for more information.