



# **Faster Payments**

## **The What, When, How and Why It's Critical for All of Us**

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*Sharing our passion for payments*

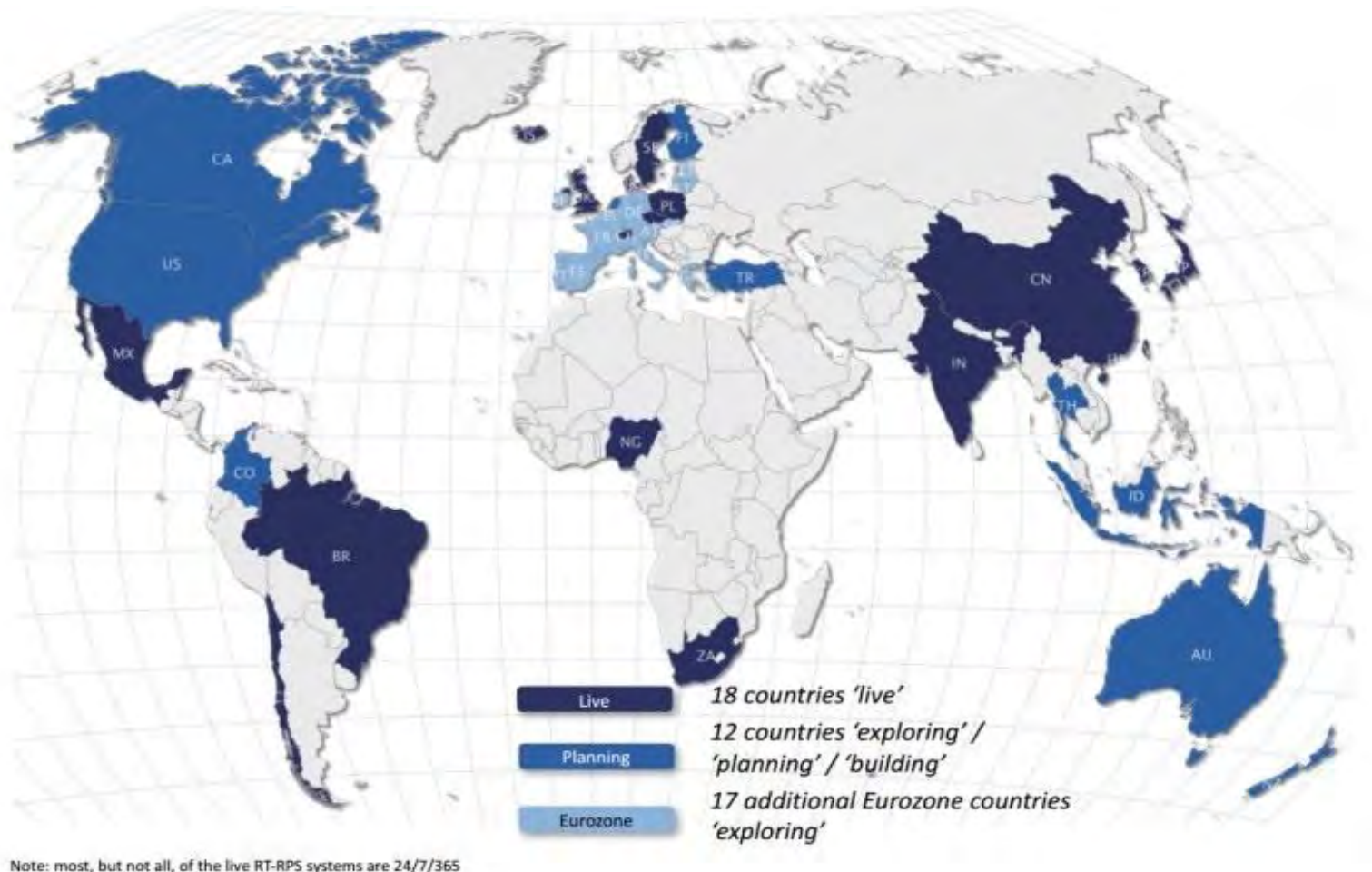


# Faster Payments – Some History

- » Launched in the UK in 2008
- » Growth fueled by online and mobile adoption
- » A new phase of payments evolution
  - 24/7 real-time credit transfers
  - To virtually any UK account
- » Brought opportunities and challenges
- » Did not cannibalize wire revenue



# Real-Time Growth Around the Globe



Source: SWIFT

# U.S Landscape

- » Although less time to clear, checks expected to have continued usage for the foreseeable future
- » Wire payments (near) real-time
  - Expensive
  - Not well suited for low value / spontaneous payments
- » Ubiquity drives business case for ACH
  - Traditionally still a next-day option
- » Cards can be processed in real-time
  - Expensive by comparison to other payment channels
  - May require days to settle
- » Industry needs better solution for faster payments

# Faster Payments Task Force



- » Launched in 2015 with 200+ Fed and industry leaders
- » Objectives
  - **Represent** views on future needs for a safe, ubiquitous faster payments solution
  - **Address** other issues deemed important to the successful development of effective approaches
  - **Assess** alternative approach(es) for faster payment capabilities
- » Determined key factors critical to Faster Payments
- » 36 criteria defined
- » Industry invited to submit proposals on solutions

# Faster Payments Task Force

## Part 2



- » Dwolla, Inc
- » Intercomputer Corp.
- » Mobile Money Corp.
- » Nanopay Corp.
- » N. American Banking Co. & ICBA
- » Ripple
- » Shazam, Inc.
- » Token, Inc.
- » University Bank
- » Hub Culture, ECCHO, XAlgorithms
- » Kalypton Group Ltd. & ECCHO
- » Swapstech
- » The Clearing House & FIS
- » Thought Matrix Consulting, LLC
- » Wingcash
- » World Currency USA



# Faster Payments Task Force

## Part 2



### » Foundational Issues to achieving success

1. Broad Adoption
2. Safety, Integrity, and Trust
3. Interoperability
4. Ecosystem

# Faster Payments Task Force

## Part 2



### » Goals and Recommendations

- Governance and Regulation
- Infrastructure
- Sustainability and Evolution

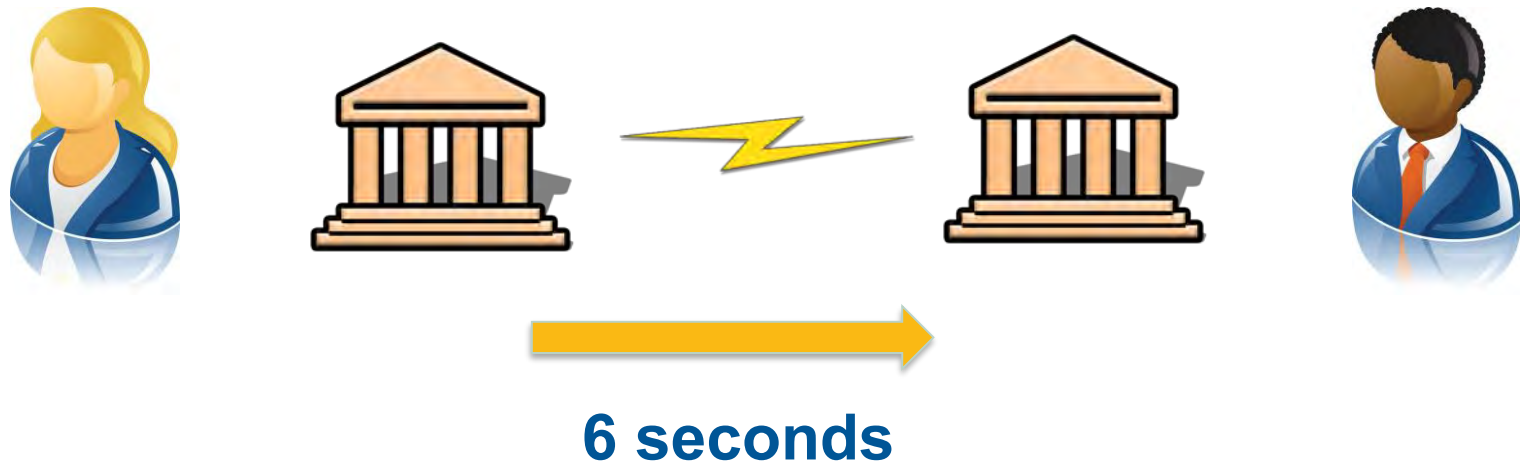
### » Next Steps

- 2017
- 2018

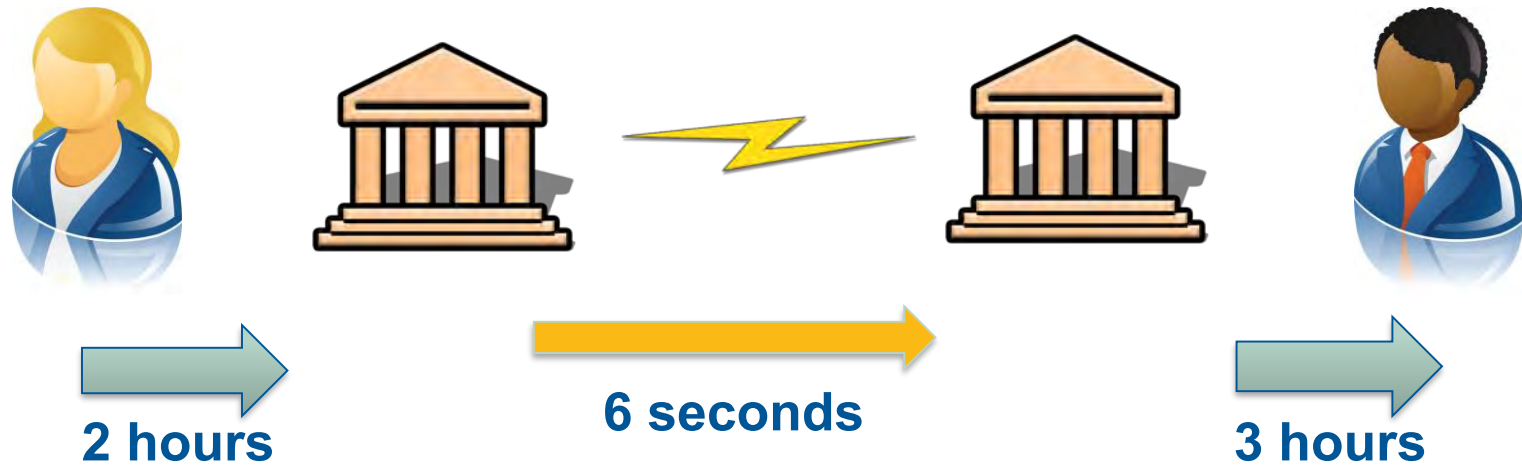


# What is Faster Payments?

The expectation:



# Is This Still “Faster Payments”?

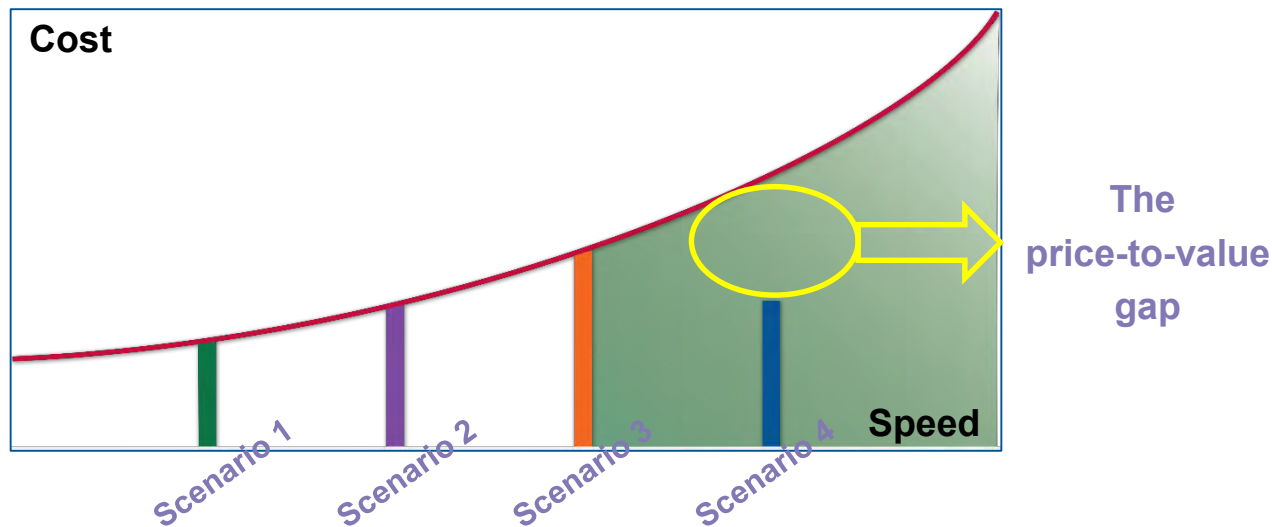


*Is 5 hours and 6 seconds faster enough?*

**Credit Unions face costs of updating systems and operations**

# How fast is fast enough for my members?

» Assumption: As speed increases, so does the cost



» The strategic question: What use cases will result in volume to justify the cost?

# Faster Payment Characteristics

- » 24 / 7 / 365
- » Clearing and settle in real time or near real time
- » Provide immediate funds availability
- » Allow for non-monetary messaging
- » Finality of settlement



# Potential Use Cases

## » Employers

- Hourly employee wages
- Emergency payroll

## » Commercial

- Just in time payments to suppliers
- Bill payments
- EOD Investments
- Various purchases

## » Individuals

- Late bill payment
- Rent payment to a roommate
- Emergency funds for a family member
- Babysitting, lawn care

## » Government

- Disaster relief



Source: The Clearing House

# Why did this take so long?

- » U.S. is behind the curve
- » Regulatory environment
  - CFPB
  - OFAC
  - Regulations CC, D, E, GG . . .
- » Legacy channels “assumed” adequate
- » Over 10,000 financial institutions




Your payment is very important to us.  
Please continue to hold.

# Today's Payments Rails





# Flow of Funds at the FI

Channel	Authorization	Settlement	Clearing	Posting to Receiver	Flow of Funds
<b>Cash</b>	Real-time	Immediate - Next-day	Immediate	Immediate - Next-day Availability	Credit Push
<b>Check</b>	Real-time	Same-day – Next-day	Varies (based on clearing process)	Immediate - 7 days	Debit Pull
<b>Wire</b>	Real-time	Real-time (during operating hours)	Real-time (during operating hours)	Real-time (during operating hours)	Credit Push
<b>Cards</b>	Real-time	Next-day	Real-time or near real-time (pin debit); once daily (signature)	Real-time or near real-time	Debit Pull
<b>ACH</b>	Varies	Multiple times daily	Multiple times daily	Multiple times daily	Credit Push or Debit Pull
<b>RTP</b> 	Real-time	Real-time & continuous	Real-time & continuous	Real-time	Credit Push

# zelle<sup>SM</sup>

# Zelle

- » Primarily P2P
  - We will see expanded use
- » Shared directory
  - Mobile phone #
  - Email
- » Settlement between sender and receiver within minutes
- » Settles between FIs is via ACH
  - Gross settlement



# Zelle

- » Integration with financial institution branded mobile Apps
  - In conjunction with Zelle brand
- » Utilized multiple fraud analytics in risk mitigation
- » Risk tools through Early Warning
- » Geolocation
- » Value / Velocity
- » Phone registry



# REAL-TIME PAYMENTS



# Real Time Payments Solution

- » New clearing and settlement system to support Real-Time U.S. Payments
- » Designed for faster/safer payments
  - Consistent with the CFPB's consumer protection principles and criteria set forth by Fed Faster Payments Task Force
- » Will allow consumers and businesses to send and receive payments instantly from their FI accounts
- » Supports sending / receiving of data and non-payment messages

# Real Time Payments Solution

- » Available to all U.S. FIs
  - Not just owners of The Clearing House (TCH)
- » Current partners already on board
  - ACI
  - Davis & Henderson (D+H)
  - FIS
  - Fiserv
  - Jack Henry
  - IBM



# Features & Benefits

Feature	Real-time Platform Advantage
Credit Push payments	<ul style="list-style-type: none"><li>• Users send payments from existing accounts, providing engagement and transparency</li></ul>
Standard but extensible message formats	<ul style="list-style-type: none"><li>• Supports independent product development</li><li>• Extensible standard messaging for eCommerce integration</li></ul>
Real-time messaging with “bank-grade” security	<ul style="list-style-type: none"><li>• Gives financial institutions tools to create a superior member experience in applications such as mobile banking, P2P transfers, bill payment, and just-in-time B2B transactions</li></ul>
Integrated tokenization	<ul style="list-style-type: none"><li>• Eliminates need for members to share sensitive account information or know the routing details of recipients</li></ul>
Global compatibility	<ul style="list-style-type: none"><li>• ISO 20022 payment formats and global conventions</li><li>• Allows FIs and members to use same formats, technology and processes across borders</li></ul>

# RTP vs. Same Day ACH?

- » RTP is a NEW payment channel
  - Same Day ACH is just that
- » Funds availability is immediate
  - As opposed to 5:00 pm local time
- » Credit push only
  - ACH credit and debit
- » RTP has a current entry limit of \$25,000
  - ACH entry limit is \$99,999,999.99
- » RTP supports ISO messaging
  - NACHA has a Request for Proposal for DFI to DFI messaging



# RTP Myths

- » RTP will only be available to TCH member / owner banks
  - All financial institutions, regardless of size or charter type, may participate in RTP
  - FIs may choose level of participation
    - Receive only
    - Receive and send
    - Allows for payment requests

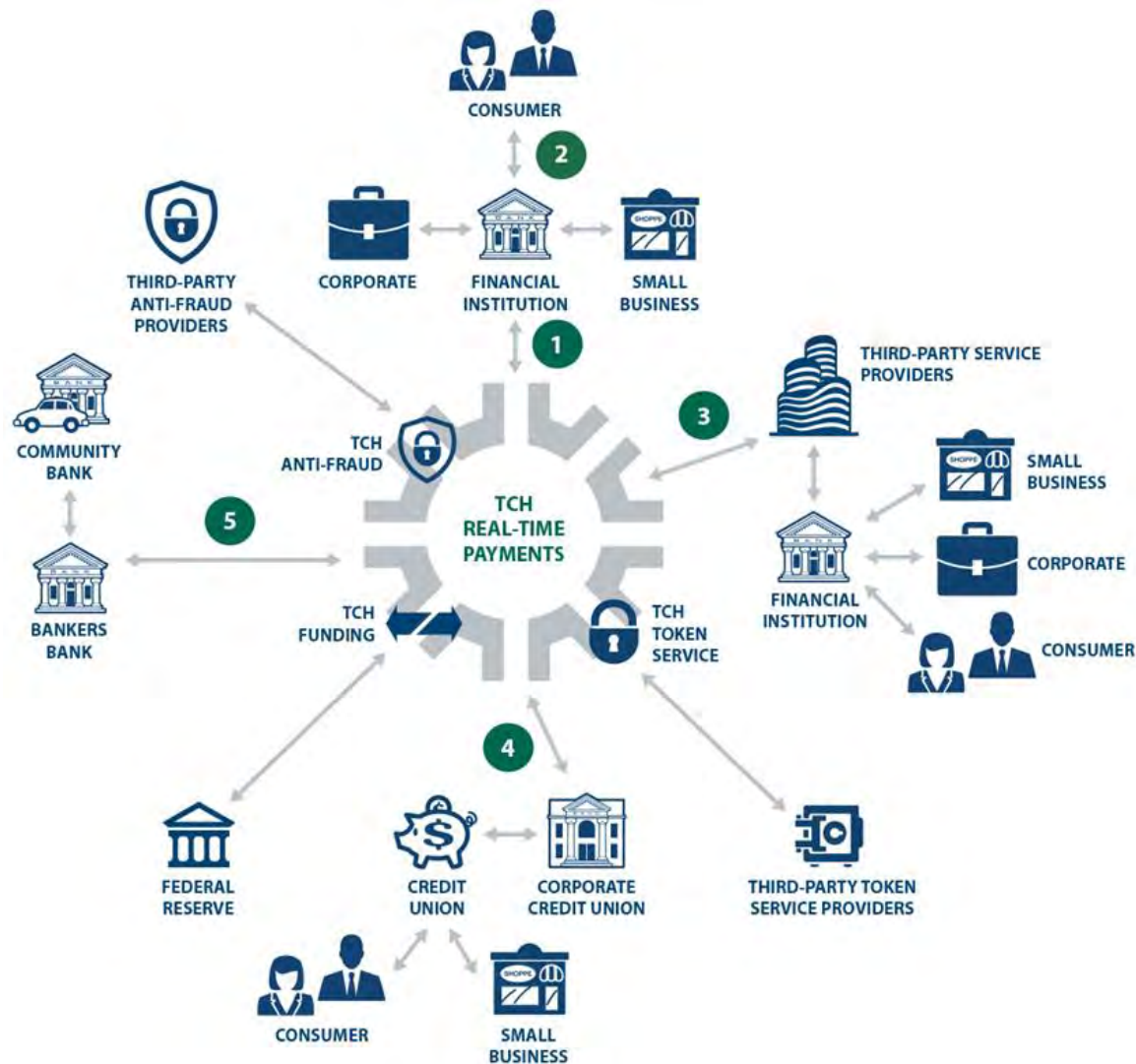


# RTP Myths



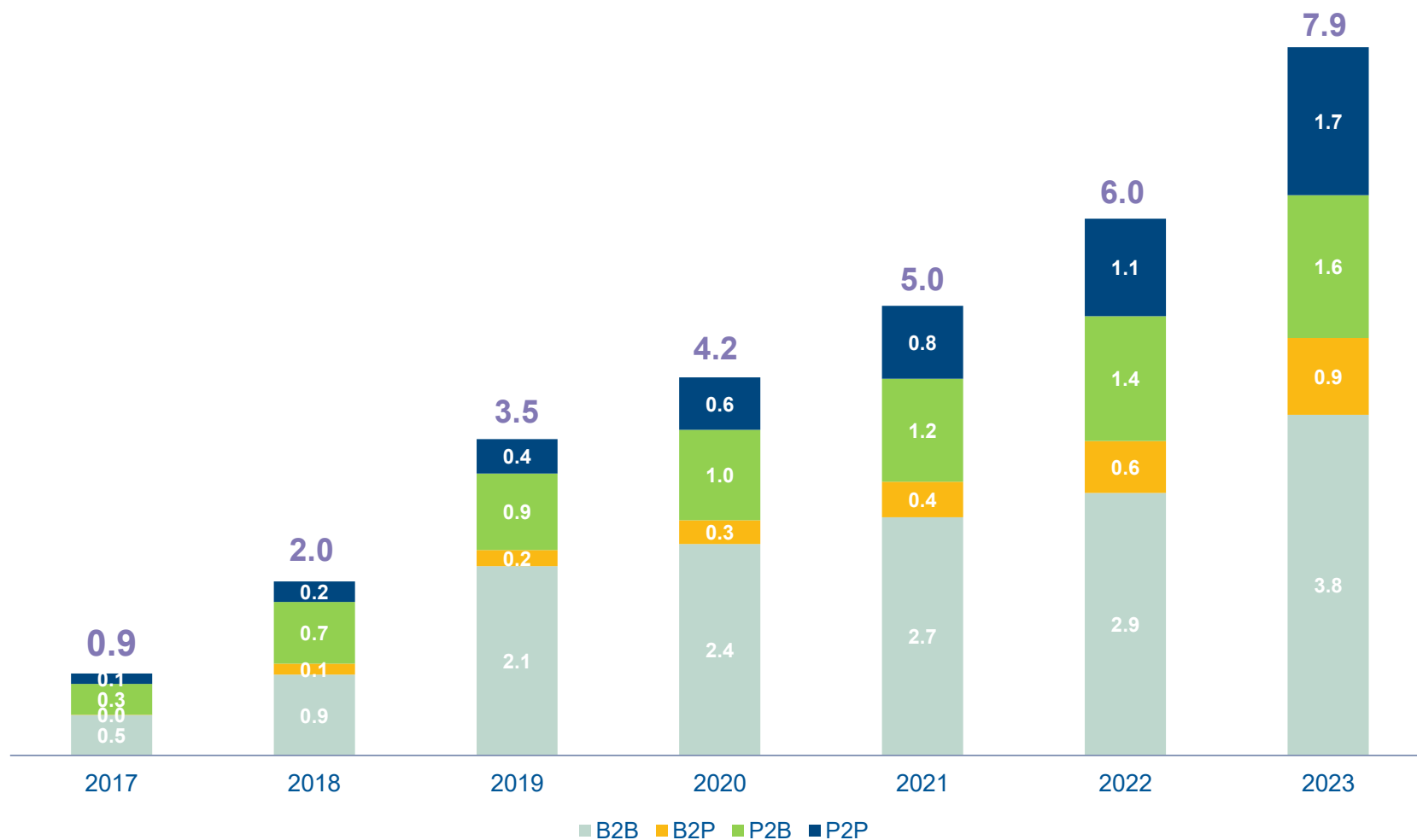
- » RTP is only for P2P
  - RTP is designed to meet needs across all segments. This includes B2B, B2C, C2B, P2P, G2C
  - Provides solutions for business, consumers and government
- » OFAC requirements cannot be met in real time
  - Data required for OFAC screening will be included in payment transactions
  - Initial rollout of RTP is domestic, not requiring OFAC screening

# Defining the RTP ecosystem



# TCH Projections for Faster Payments

## Real-time Payments Transaction Volumes (billions, projected)



# Strategic Objectives to Consider

- » Retaining Relationships
- » Growing Core Deposits
- » Expanding Non-Interest Income





# Questions to ask

- » What role does payments play in your member relationships?
- » Are payment services a driver for new account openings?
- » How committed is executive management to your institution's payments strategy?
- » Does your FI have an appetite for increased technology expenditures?
- » How tied is your institution to your core system provider?
- » Who are your competitors? Community banks, other CUs or Chase and Wells Fargo?



# Strategy in Payments

» We are in a very dynamic period

- Technology
- Regulation
- Competitors
- Members

» We cannot run a business on hypothesis



# Sample of Fintech Disruptors

» Which of the following do you worry most about?

- Dwolla
- Square
- Stripe
- Samsung Pay
- Apple Pay
- Bitcoin
- PayPal
- Facebook

# Is the Disruptor Really a Threat?

- » Many new payments methods create business for us
  - Around 80% are card transactions
  - When we wave our phone to pay, this typically happens:



**Isn't this still our payment?**

# What is the Threat?

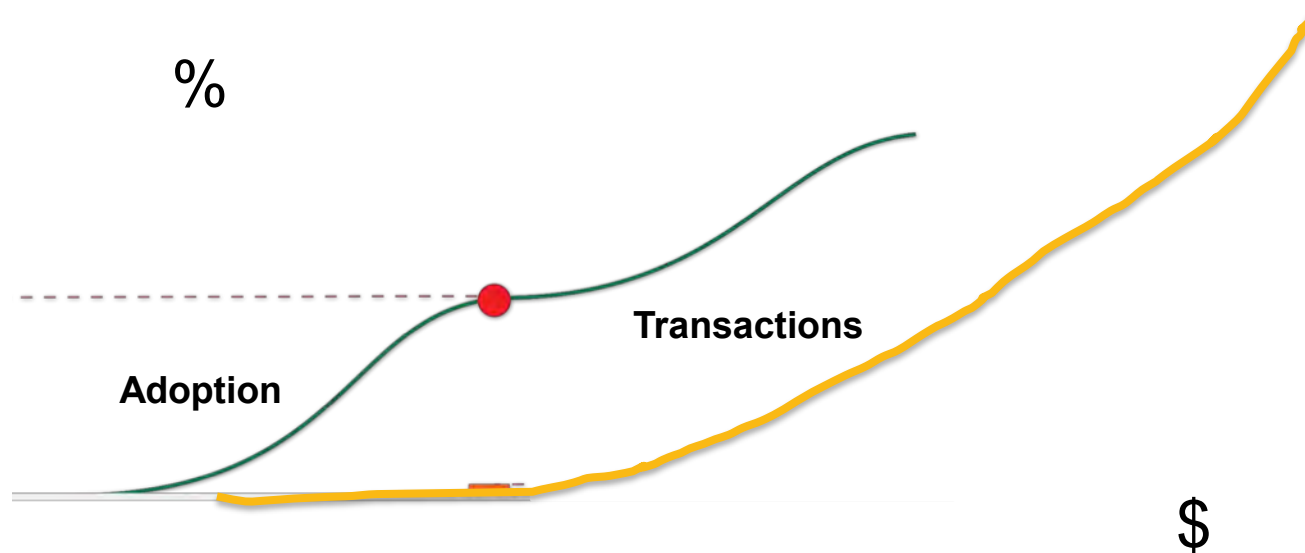
- » Are we going to lose the account relationship?
- » 2016 Fed research:
  - New payments Apps up 50%
  - Number of FI payments accounts hasn't budged



- » Consumers are accumulating financial relationships

# Is the Disruptor a Threat?

- » When the disruptor reaches 50% of the adoption curve...



- » .....transaction volume will explode

**We must remain vigilant!**

# What is the Threat?

Why do people keep financial institution accounts?

- » How else to complete 80% of transactions?
- » How else to get their paycheck?
- » What else could be used to back a loan?
- » Where else to deposit RDCs?
- » How else to get a statement of all your transactions?

**There is a risk in complacency**



# The Strategic Challenge

Questions remain....

- » Is speed determined by:
  - Notification?
  - Availability?
  - Settlement?
- » Do members need Faster Payments? For what?
- » Will members pay for it?



**Significant cost in making a wrong decision**

# Thinking Strategically

» What is strategically essential for payments?

1. Trust
2. Transparency
3. Surety
4. Full knowledge of both parties
5. Effective regulation members believe in
6. No errors
7. Trained and certified experts
8. Stable pricing

# WesPay Members Faster Payments Level of Engagement

	Clear Exchange / Zelle	Real-Time Payments	Visa Direct / MC Send	Faster Payments Task Force
1) I am unaware of this service	71.9%	28.6%	60.6%	33.6%
2) I have heard of this service but have only high-level knowledge	16.7%	47.1%	26.3%	46.1%
3) I am familiar with the functionality and advantages or disadvantages of this service	4.6%	17.8%	9.7%	12.8%
4) I have done significant research / reading on this service	0.6%	2.2%	0.6%	3.7%
5) My company/organization is actively considering implementation at this time	6.2%	4.3%	2.8%	3.7%

Responses= 324

# Resources

## » WesPay

- [www.wespay.org](http://www.wespay.org)

## » NACHA

- [www.nacha.org](http://www.nacha.org)

## » Zelle

- [www.zellepay.com](http://www.zellepay.com)

## » The Clearing House

- <https://www.theclearinghouse.org>

## » Federal Reserve Faster Payments Task Force

- [www.fasterpaymentstaskforce.org](http://www.fasterpaymentstaskforce.org)

# Resources to Assist



- » Payments Hotline
- » Education & Events
- » Quarterly Member Updates
- » Publications & Tools
- » **Connect** Member Forum



- » Payments Strategy Consulting
- » Risk Management Reviews
- » Custom Staff Training

# Thank you

**WesPay**  
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**San Francisco, CA 94104**  
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**Fax: 415-433-1370**  
**[memberservices@wespay.org](mailto:memberservices@wespay.org)**

**Payments Hotline - 415-373-1200 or [info@wespay.org](mailto:info@wespay.org)**

**[www.wespay.org](http://www.wespay.org)**

## Sharing our passion for payments

# Supplemental Information on Real Time Payments

# Frequently Asked Questions about RTP

- » Is RTP already approved and in development or proposed?
  - RTP has been funded and is in active development
  - Available for bank testing in late 2016
  - Projected live in early 2017
- » With which accounting systems will this integrate?
  - TCH is working with a number of core processors on integration
- » Is RTP suitable only for online payments or also POS?
  - Developed to support use-cases that are currently not effectively or adequately covered by the legacy systems
  - Will be able to support ecommerce transactions
  - Not envisioned to support POS use cases
  - POS transactions satisfied by current card products



# Frequently Asked Questions about RTP

- » Can RTP network handle International payments?
  - Initially will support domestic payments exclusively
  - Being designed to inter-operate with other real-time systems around the globe
  - Future plans to support cross border payments
- » How are disputes handled?
  - Covered by the Real-Time Payment System Rules and other governing regulations (Reg. E and UCC 4A)
  - Credit-push only model, so instances of disputes will be lower than current debit based systems
- » Who assumes payment liability?
  - Governed by the Real-Time Payments Operating Rules
  - Generally, sending institution will be liable for payments sent

# Frequently Asked Questions about RTP

## » What about fraud protection?

- Credit push which will lower the instances of fraud prevalent in debit systems
- Will incorporate transaction monitoring to identify suspect patterns
- Transaction cap of \$25K to limit exposure
- Each FI ultimately will be responsible for implementing fraud controls

## » Is each FI required to pre-enroll? Each participant? Is this a closed-loop network?

- RTP will be an open network similar to the ACH
- Enrollment process required to join
- Any eligible financial institution will be able to participate

# Frequently Asked Questions about RTP

- » If the receiver FI is not a network participant, what is the disposition of the payment? Will it be declined or routed through an alternate payment channel?
  - If the receiving institution is not a participant, the sending FI will know that in advance of generating the credit payment message
  - Alternate payment method will need to be used
- » Since the payments are immediate, what is the settlement timing / Who holds the float?
  - Settlement is real-time, therefore, there is no float