

Faster Payments Tracker

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Faster Payments Tracker™

Cover Story

Coming Together To Bring Faster Payments To Life

When The Clearing House (TCH), the payments firm owned by commercial banks, along with global software and services provider FIS, [recently submitted](#) their proposal to the Fed's Faster Payments Task Force in order to evaluate their real-time payments system proposal, it signified a milestone along the path toward real-time payments.

The implications of the joint proposal, as it turns out, go beyond the solution itself. According to TCH, the milestone toward a complete solution indicates an industry acknowledgement that partnerships and collaboration among providers is recognized as productive toward satisfying the Faster Payments Task Force's established effectiveness criteria, which ultimately were designed with an end-to-end solution in mind.

On the heels of the announcement of the proposal submission, PYMNTS caught up with Steve Ledford, TCH's Senior Vice President for Product and Strategy, and Russ Waterhouse, TCH's Executive Vice President for Product Development and Strategy, who described the partnership with FIS as an important step toward their goal of a new set of real-time payments rails with ubiquity. FIS has 3,000 financial institution relationships, which, when combined with those from TCH partners Jack Henry and D&H, gives TCH the potential to reach more than 10,000 financial institutions – something that both Ledford and Waterhouse acknowledge is critical to its success.

Ledford and Waterhouse also acknowledged that collaboration with players including Early Warning System and clearXchange (acquired by Early Warning last October) – industry competitors – is an essential part of bringing real-time payments to fruition – work that complements rather than competes with TCH's vision to enable faster, and better payments for people and businesses.

Thinking it through – getting from here to there...

Ledford and Waterhouse agreed that what makes the U.S. real-time initiative different than others that have preceded it is that those were driven by regulatory mandate. So, not only is TCH hoping to learn from those who have gone down the faster payments road before them, but also they recognize that the system has to deliver significant value to participating banks. This means keeping a close eye on faster payments developments around the world.

“If you look elsewhere in the world, and I don’t know if there’s an exception to this, it’s all been forged by mandate,” Waterhouse said. “And as a consequence of that, I think the banks have said, ‘OK, I have to do it,’ and in some cases have put in the limited solution, which is whatever the minimum requirement was to kind of pass the hurdle.”

However, because the arrival of real-time payments in the U.S. was not brought about by a mandate, TCH has focused on how the solution must be attractive to banks and customers, Waterhouse said.

“We’ve tried to be very thoughtful about the designs, make sure it’s economically viable, make sure it actually does meet the needs of banks and their customers to compete going forward,” he said. “That’s something we’ve taken a keen interest in, to make sure it really does deliver value. As you look at the design and the system, I think it stands apart from anything else that’s been implemented in the world in that regard.”

Ubiquity, ubiquity, ubiquity

For its real-time pilot program, TCH is focused on bill payment as its first use case. One driving reason, Ledford said, “is that bill payment is one of those applications where you can do something meaningful, even while you’re ramping up to ubiquity.”

By getting major billers, such as wireless providers and utility companies, on board, he said, customers can get used to paying regular, recurring bills through their banks. Once billers are represented, it’s up to the banks themselves to provide a positive customer experience, he said.

Banks will ensure customers can pay their bills securely, conveniently and quickly, while on the other end, service providers must be able to accept payments just as easily. If the direct bill presentment process through the bank channel is compelling, Waterhouse said, it will create an opportunity for payees and billers to move away from biller-hosted payment sites.

“That’s what we’re really looking for – how can we change the bill payment experience so it really works for everybody,” Ledford said.

The ultimate goal, Waterhouse said, is ubiquity – namely, to make real-time payments mainstream.

“We clearly understand and recognize that, for this to work, it’s got to be ubiquitous like an ACH or check is,” Waterhouse said. “But it’s also got to bring value that’s way beyond just delivering money quickly. And that’s why, you think about the design and the approach that Steve [Ledford] and the team have taken, it’s not just about the speed – it’s about the full function of the system, in terms of what it provides to the banks in terms of a development platform. There are a lot of non-payment messaging capabilities that we think will provide tremendous opportunity for innovation.”

And the “delivering value” piece is not to be underestimated in the pursuit of ubiquity. TCH recognizes that having access to 10,000+ banks is different than having connectivity to 10,000 banks. Crossing that chasm is a function of making sure that the value is there for both the receiving and originating banks, and that the economic proposition makes sense. The biggest fear that all banks have in the move to faster payments is the cannibalization of existing revenue streams, coming at the same time banks are under tremendous competitive pressure to make the move to digital.

As a result, Waterhouse said that TCH has a framework for a system that would work for as many stakeholders as possible to reach all financial institutions.

“It brought a lot of folks together who wouldn’t have otherwise,” Ledford added.

Real-time payments – all hands on deck – clasped together

Waterhouse emphasized that since TCH “represents the largest banks in the U.S.,” it believes it is well-positioned to provide “the unifying standard and that unifying design” which will give people confidence in the new systems. But not without help.

When it comes to the importance of partners and collaborators, Ledford said, “If you look at the scope and breadth of what the task force is looking for, it’s clear that real-time payments is not just a system – I don’t think any one system would be a complete solution.” He added, “When you look at the initiation of payments all the way to the end, all the elements – the clearing, the settlement, the security – it’s going to take partnerships to satisfy all those pieces.”

“We see the efforts of EWS/cXc and TCH as complimentary, their focus is first and foremost on enhancing the consumer experience of banks P2P offering, which is a highly competitive space for all banks. In this they leverage core capabilities around IDV/security, directory, a common, easy and safer consumer experience with real time availability. Final clearing and settlement is happening over ACH. It’s possible that once our real time system is up, and available, they can leverage the real time rails, migrate that volume over from ACH.”

Ledford said that when it comes to competing sets of rails, “there’s a lot of crossover investment” banks can take advantage of. The primary cost, he said, isn’t really connecting to different rails, “the cost is mostly with what you have to do in your own applications, your own customer experience, online banking payments, that type of thing.”

And it is the solution itself that takes priority. “The attributes of what is being designed, we believe, are kind of fully in the interest of all banks and should be embraced by all banks,” Waterhouse said.

Stay tuned for the next installment from the faster payments frontlines. Things are starting to move, well, fast...

What's Inside

Following the approval of an ACH Network rule last year, the industry is moving towards implementation of Same Day ACH payments; these rapid transactions will arrive as soon as September 2016. As the prospect of these payments becomes a reality, both challenges and solutions continue to emerge surrounding the transition.

This month's Faster Payments Tracker, powered by NACHA, highlights notable news stories surrounding the worldwide push to streamline and quicken financial processing.

Here's a peek into recent notable developments around the Faster Payments world:

In a [recent NACHA survey](#) that queried 22 of the top 25 ACH-originating institutions, 100 percent of respondents said they would be looking to offer same-day payroll, and 95 percent said they were planning to offer same-day B2B services. Companies are also interested in how ACH could influence expedited bill pay as well as person-to-person functionality and payments options.

Despite the positive processes that are likely to emerge as a result of Same Day ACH, some financial players are concerned about the risks that faster payments may pose.

This was evident in the results of the '[Same-Day ACH Fraud Preparedness Survey](#),' which revealed that 93 percent of U.S. financial organizations think the transition to Same Day ACH will increase fraud threats. The severity of this belief appeared to be exacerbated by a lack of preparedness, as over 50 percent of survey respondents indicated they had no fraud solutions for dealing with the risk posed by Same Day ACH.

Meanwhile, concerns about hackers using Same Day ACH as a catalyst to access U.S. money may have stemmed from the results of the U.K.'s transition to Faster Payments, despite the U.K. service being real-time movement of money vs. same day settlement of funds in the U.S. After adopting Faster Payments in 2008, the U.K. saw a [significant hike in fraud](#) with losses increasing from £22.6 million in 2007 to £59.7 million in 2009.

Important lessons the U.S. can take away from the U.K.'s experience include streamlining the "recouping" process, preparing for an increase in Remote Access Trojan (RAT) fraud, and sharing threat data between banks.

Check out the Tracker's News section to read more about what is trending in the world of Faster Payments.

NACHA

Speeding along to Same Day ACH payments

Following the approval of an ACH Network rule last year, the industry is in the midst of planning for the implementation of [Same Day ACH payments](#). These rapid transactions, which will arrive as soon as September 2016, are expected to have major impacts on processes like payroll and B2B services. According to a survey from NACHA, 100 percent of financial institutions that responded are looking to offer same-day payroll, and 95 percent are planning to offer same-day B2B services. In reference to other payments, firms are eyeing expedited bill pay as well as person-to-person functionality and payments options.

NACHA says ACH booming for B2B

Overall annual volume information from NACHA revealed that [the use of ACH payments](#) in B2B transactions expanded significantly in 2015. Businesses are taking advantage of the unique ability of the U.S. ACH Network to move payment funds and significant information together. Almost 2 billion addenda records containing invoice and other payment-related information were transferred over the ACH Network by B2B transactions, an increase of 9.1 percent over 2014.

Winners of 2016 NACHA Challenge announced

NACHA [revealed the winners](#) of its first NACHA Challenge at the PAYMENTS 2016 conference in Phoenix, Arizona. United Bank took home the Judges' Choice Award (\$15,000) for its proposal of an updated Standard Entry Class Code, while the Audience Choice Award (\$10,000) went to the Royal Credit Union for its proposed real-time validation solution.

The Clearing House

The Clearing House partners with FIS to test real-time payments platform

The Clearing House recently [announced a collaboration](#) with Fidelity National Information Services. FIS, a FinTech firm, will gain access to TCH's infrastructure, which it will use to develop new client-facing services. In turn, the company will assist TCH with launching a pilot program for early adopters of real-time payments.

The Federal Reserve Bank

Fed reveals new addition to Faster Payments Task Force

McKinsey & Company will be supporting the Federal Reserve's [Faster Payments Task Force](#), by assessing proposals for comprehensive faster payments solutions from providers across the industry. The proposals will be evaluated against the effectiveness criteria identified by the task force, which is a collaborative effort focused on advancing the payments industry.

ISO 20022

Volante Technologies supports ISO 20022 Real-Time Payment Group global practice guidelines

Volante Technologies recently [announced its support](#) for the ISO 20022 Real-Time Payments Group (RTPG) global market practice guidelines. The guidelines are meant to standardize real-time payment solutions and offer a blueprint to emerging real-time infrastructures.

ISO 20022 message guidelines approved and published

ISO 20022 message guidelines were recently [approved](#) by the ISO 20022 Registration Management Group. The organization also published the [guidelines](#), which will be developed into a catalogue with additional real-time payments instructions, as they emerge.

Treasury struggles to build case for ISO 20022

SWIFT, Microsoft and AFP [collaborated](#) on a presentation at the PAYMENTS 2016 conference that explored the hurdles surrounding corporate integration of ISO 20022 guidelines. Cost, sustainability and difference in efficiency were prominent challenges discussed.

Blockchain

CGI announces its solutions are now blockchain-enabled

CGI's payment solutions will now be [enabled](#) with Ripple's blockchain technology. The adoption of Ripple's distributed financial infrastructure means CGI's clientele will be able to make instant international transactions, access more payments networks and use numerous clearing channels.

MIT advances blockchain research with Ripple

MIT recently declared its ongoing commitment to blockchain studies by [forging a partnership](#) between its research initiative, MIT Connection Science, and blockchain organization Ripple. MIT will run a validator for the Ripple Consensus Ledger and develop projects around financial services and enterprise data. The school will also offer a class titled Future Commerce: FinTech Innovation, in conjunction with the Ripple collaboration.

Blockchain's next trillion-dollar market

Depository Trust & Clearing Corp., a major player in the repurchasing (repo) market, is [researching blockchain technology](#) to see if it could benefit this \$2.6 trillion industry. Within the repo sector, blockchain would allow both sides of transactions to monitor payments in real-time. The repo market is ripe for improvements to its financial processes, as an estimated \$120 billion remains "tied up" as a result of regulatory requirements.

Digital Asset and DTCC team up on distributed ledger solution

Software company Digital Asset recently [announced its partnership](#) with post-trade market infrastructure organization DTCC. The two institutions will work together on developing a distributed ledger technology intended for use on repo agreements. According to a press release, the repo market was targeted because there is an immediate need to streamline its financial processes.

More Faster Payments News

FIS, VocaLink first to receive Faster Payments accreditation

FIS and PayPort by VocaLink recently [earned U.K. Faster Payments accreditation](#) through the New Access Model, becoming the first companies of their type to do so. At least four other FinTech firms are expected to earn the same accreditation in the near future.

New data reveals that Same Day ACH could increase fraud risk

Information from the '[Same-Day ACH Fraud Preparedness Survey](#)' revealed that 93 percent of U.S. financial organizations think the transition to Same Day ACH will increase fraud threats. Over half of the survey respondents indicated they had no fraud solutions for dealing with the risk posed by Same Day ACH, and 70 percent plan to employ intelligent authentication as a weapon against attacks.

Taking a page from the UK's Faster Payments experiences

Although the Faster Payments launch in the U.S. has financial institutions preparing for an increase in fraud, there are places these organizations can look for [advice and solutions](#). In particular, the U.K., which adopted Faster Payments in 2008 – a real-time payments service that moved money almost immediately from one bank account to another. U.K. banks saw its losses increase from £22.6 million in 2007 to £59.7 million in 2009. Important lessons the U.S. can take away from the U.K.'s experience include streamlining the “recouping” process, preparing for an increase in RAT fraud, and sharing threat data between banks.

Chargent teams up with Bank Centric Payments on gateway solution

Chargent, the payment processing software on the Salesforce AppExchange, recently [merged](#) with Bank Centric Payments to offer a gateway option that supports real-time payments. Bank Centric Payments is powered by Linked2Pay, and the payments technology provider will now appear on the Salesforce dashboard under Chargent.

The fastest path to Faster Payments in the US

Adoption of faster payments in the U.S. has been met with significant resistance due to anxieties about fraud. PYMNTS.com's Karen Webster explained that by eliminating the source of friction between businesses and consumers (namely, the [continued use of paper checks](#)), faster financial transactions could be an almost immediate reality. Killing the check would eliminate expensive check cashers, save banks and businesses money, and improve B2B payments.

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