



Payments at the Speed of Light A look at Faster Payments in the U.S.

Patty Presta, AAP
Vice President
Professional Development

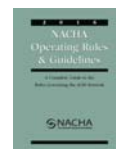
Sharing our passion for payments



New Rules & Faster Payments

- » Refresher Course
 - Improving Network Quality
 - Same Day ACH

- » Real Time Payments



© 2016 Western Payments Alliance. All rights reserved. No reproduction/distribution without prior written consent.

Improving ACH Network Quality

Effective: October 3, 2016

» Unauthorized Entry Fee

- Establishes a fee paid by the ODFI to RDFI for return of unauthorized debits
- Fee \$4.50
 - Reevaluate in 3 years
 - Additional data on RDFI cost will continue to be gathered to validate fee amount



© 2016 Western Payments Alliance. All rights reserved. No reproduction/distribution without prior written consent.

3

Improving ACH Network Quality

- » Fees will be collected / distributed by the ACH Operators
 - Monthly statements
- » NACHA is not a beneficiary of the fees
- » IAT debits excluded



© 2016 Western Payments Alliance. All rights reserved. No reproduction/distribution without prior written consent.

4

Improving ACH Network Quality

» Hey, wait I have proof of authorization!!!

- Signed document
- Recorded phone authorization
- Fingerprints & blood samples

» Consider civil action

- Originator vs. Receiver



© 2016 Western Payments Alliance. All rights reserved. No reproduction/distribution without prior written consent.

5

Same Day ACH

Payments at the speed of sound



© 2016 Western Payments Alliance. All rights reserved. No reproduction/distribution without prior written consent.

6

Executive Summary

- » Enables same day settlement for domestic ACH entries
 - Up to \$25,000
 - IAT excluded
- » 3 phases
 - Distribute costs and implementation efforts
 - Industry acclimation
- » Fee of 5.2 cents per entry helps RDFI recover costs
- » Does not affect existing ACH entries



© 2016 Western Payments Alliance. All rights reserved. No reproduction/distribution without prior written consent.

7

Phased Implementation Approach

Functionality	Phase 1 September 23, 2016	Phase 2 September 17, 2017	Phase 3 March 16, 2018
Transaction Eligibility	Credits	Credits & Debits	Credits & Debits
Processing Deadlines	7:30 AM PT & 11:45 AM PT	7:30 AM PT & 11:45 AM PT	7:30 AM PT & 11:45 AM PT
New Settlement Times	10:00 AM PT & 2 PM PT	10:00 AM PT & 2 PM PT	10:00 AM PT & 2 PM PT
ACH Credit Funds Availability	End of RDFI's processing day	End of RDFI's processing day	5:00 PM RDFI local time



© 2016 Western Payments Alliance. All rights reserved. No reproduction/distribution without prior written consent.

8

SDA Implementation


- » Create policy for what SDA solutions you'll support
 - Corporate originator expectations
 - Consumer expectations
 - Internal origination benefits
 - Pricing
- » Consider competition
- » Fraud Risk
 - Define minimum security protocols for SDA Originators



© 2016 Western Payments Alliance. All rights reserved. No reproduction/distribution without prior written consent.

9

Credit Risk

- » SDA reduces origination credit risk for ODFIs
 - Less lead time between file submission and settlement
 - Potential for faster returns (phase 2)
 - Impacts to Originator's exposure limit?
- » Prefunding
 - Balanced Files 
- » Funding impacts
 - New procedures for Originator



© 2016 Western Payments Alliance. All rights reserved. No reproduction/distribution without prior written consent.

10

Origination Timing Considerations



- » What deadline will you publish for your Originators?
 - Time needed before ACH Operator deadline
- » Less time for exceptions!
 - Staffing impact
- » Origination Agreements/Addendum changes



© 2016 Western Payments Alliance. All rights reserved. No reproduction/distribution without prior written consent.

11

Optional Company Descriptive Date

- » Optional assistance to validate Originator SDA intent 
- » Company Descriptive Date Field: “SD1300” or “SD1700”
 - Positions 64-69 in Batch Header Record
-  » ACH Operator only edits on Effective Entry Date
 - So ODFI + Originator still responsible for correct EED and submitting file to Operator in correct window



© 2016 Western Payments Alliance. All rights reserved. No reproduction/distribution without prior written consent.

12

Optional Company Descriptive Date

⚠️ » If used, how will your FI treat conflicting EED and CDD fields?

- Hold file for next day processing window?
- Suspend/reject and contact you?
- Override/edit EED based upon CDD description?
- Originator Agreement modifications needed?

⚠️ » Stale date/invalid EEDs become SDA batches!

- Invalid = blank or “garbage”
- Only applies to SDA windows!

⚠️ » No matter what ODFI decides, you need training!!!



© 2016 Western Payments Alliance. All rights reserved. No reproduction/distribution without prior written consent.

13

SEC Code Considerations

» Language in e-check notifications that debit may clear same-day:



- ARC
- BOC
- POP
- RCK



© 2016 Western Payments Alliance. All rights reserved. No reproduction/distribution without prior written consent.

14

SEC Code Considerations

» WEB Credits & CIE

- Consumer expectations of same day capabilities to:
 - Pay bills – CIE
- Potential impacts to internal origination

» TEL

- Notification of single TEL Authorization must be sent prior to settlement of entry (revised Subsection 2.5.15.2)

» All Originators should review their disclosures & ensure they can provide same-day credit to customers/partners



© 2016 Western Payments Alliance. All rights reserved. No reproduction/distribution without prior written consent.

15

Real Time Payments

Payments at the speed of light



© 2016 Western Payments Alliance. All rights reserved. No reproduction/distribution without prior written consent.

16

Faster Payments – Some History

- » UK first launched 2008
- » Growth aligned with online and mobile adoption
- » Represents new phase of payments evolution
- » Brought opportunities and challenges

- » *Did not cannibalize wire revenue*

- » U.S. is behind the curve



© 2016 Western Payments Alliance. All rights reserved. No reproduction/distribution without prior written consent.

17

Global Common Traits



- » Real-time (or near time) payments systems share common characteristics that differentiate them from traditional clearing
- » Shared characteristics include:
 - **24x7**
 - Payments sent and received all day, every day
 - **Instant payments**
 - Sent & received within seconds
 - **Irrevocability**
 - Payments sent cannot be recalled



© 2016 Western Payments Alliance. All rights reserved. No reproduction/distribution without prior written consent.

18

Global Common Traits



» Shared characteristics (cont.)

- **Certainty**
 - Payments received are actively acknowledged or rejected
 - Provides certainty payment was / was not received



© 2016 Western Payments Alliance. All rights reserved. No reproduction/distribution without prior written consent.

19

UK Lessons Learned

- » Titled “Faster Payments Service – FPS”
- » 24/7 real-time credit transfers to virtually any UK account
- » Annual transactions exceed one billion
- » Average transaction value £821 (\$1,067 USD)
- » Nearly half of FPS entries are business transaction



© 2016 Western Payments Alliance. All rights reserved. No reproduction/distribution without prior written consent.

20

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



© 2016 Western Payments Alliance. All rights reserved. No reproduction/distribution without prior written consent.

21



© 2016 Western Payments Alliance. All rights reserved. No reproduction/distribution without prior written consent.

22

Key Drivers

- » Positive end user experience with full functionality
- » Open network / Global
- » Economic models to ensure that all providers can expect a return on initial / ongoing investment



© 2016 Western Payments Alliance. All rights reserved. No reproduction/distribution without prior written consent.

23

TCH 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



© 2016 Western Payments Alliance. All rights reserved. No reproduction/distribution without prior written consent.

24

TCH Solution

- » Available to all U.S. FIs
 - Not just owners of TCH

- » Current processors already on board
 - FIS
 - Jack Henry
 - Davis & Henderson (D+H)



© 2016 Western Payments Alliance. All rights reserved. No reproduction/distribution without prior written consent.

25

Features & Benefits

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



© 2016 Western Payments Alliance. All rights reserved. No reproduction/distribution without prior written consent.

26

Real-Time Payments Message Set

- » Credit Transfer
 - Multi-purpose payment message with remittance data
- » Request for Payment
 - Supports P2P funds request, e-invoice or e-billing
- » Payment Acknowledgment By Receiver
 - Message from receiver to the sender regarding payment disposition (e.g. invoice paid, goods, shipped, etc.)
- » Request for Information & Response
 - Receiver request for additional information about a payment (e.g. requesting customer account number, invoice number or purpose of payment)



© 2016 Western Payments Alliance. All rights reserved. No reproduction/distribution without prior written consent.

27

FAQ

- » 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



© 2016 Western Payments Alliance. All rights reserved. No reproduction/distribution without prior written consent.

28

FAQ

- » 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



© 2016 Western Payments Alliance. All rights reserved. No reproduction/distribution without prior written consent.

29

FAQ

- » 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 bank 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



© 2016 Western Payments Alliance. All rights reserved. No reproduction/distribution without prior written consent.

30

FAQ

- » If the receiver bank 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 bank 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



© 2016 Western Payments Alliance. All rights reserved. No reproduction/distribution without prior written consent.

31

Applications / Advantages

- » So many apps, all work different
 - Delayed settlement
 - Registration requirements
- » Advantage
 - Ubiquity!
 - Connect through various platforms
- » Uses
 - eCommerce
 - P2P transfers
 - Collections
 - B2B



Your Bank Branded APP

popmoney

venmo

obopay



© 2016 Western Payments Alliance. All rights reserved. No reproduction/distribution without prior written consent.

32

Resources

- » **WesPay**
 - www.wespay.org
- » **NACHA**
 - www.nacha.org
- » **The Clearing House**
 - <https://www.theclearinghouse.org/>
- » **Fed Faster Payments Task Force**
 - <https://fedpaymentsimprovement.org/faster-payments/task-force/>



© 2016 Western Payments Alliance. All rights reserved. No reproduction/distribution without prior written consent.

33

Questions? Please contact us at:

Western Payments Alliance

300 Montgomery St, Suite 400

San Francisco, CA 94104

Phone: 415-433-1230

Fax: 415-433-1370

www.wespay.org

Payments Hotline - 415-373-1200 or info@wespay.org

Sharing our passion for payments



© 2016 Western Payments Alliance. All rights reserved. No reproduction/distribution without prior written consent.

34