Faster Payments – The Need for Speed

NACHA Payments 2016
April 20th
Speakers

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The Need for Speed

All use cases show a benefit

**Business to Business (B2B)**
- A *small business* paying an urgent invoice in order to receive goods or services
- A *restaurateur* who pays for farm-fresh produce from the local farmer to serve that evening’s dinner specials

**Business to Consumer (B2C)**
- A *utility company* requesting payment for services from a business or consumer
- A *small businessman* who is paying temporary employee salaries or tips on an ad hoc basis
- A *retail bank* distributing personal loan proceeds to a dealership on behalf of a customer who is at the showroom buying a new car
- An *insurance company* adjuster reviewing a claim, determining a settlement amount, and immediately providing funds to the policy holder
- A *large corporation* paying employees for travel expenses in time for payment of corporate credit cards

**Person to Person (P2P)**
- College *roommates* splitting monthly rent and utility payments
- A *head of household* sending emergency funds to a family member on vacation

**Consumer to Business (C2B)**
- A *busy working individual* paying for general services around the house such as the gardener, cleaning services, or child care provider
- A *day trader* sending real-time money transfers to his or her investment account to take advantage of the most recent market swing

**Government to Consumer / Consumer to Government (G2C/C2G)**
- A *government agency* paying out emergency disaster relief funds to citizens impacted by a natural disaster
- A *tax payer* making his or her tax payment in time for the April 15 deadline

**Benefits for Consumers**
- Increased payment speed and an option for emergency payments
- Immediate completion of a payment transaction
- Immediate access to funds
- Mobile payments (incl. payments from mobile number to mobile number)
- Quicker delivery after IP

**Support all segments**
- B2B
- B2C
- P2P
- C2B
- G2C/C2G

**Benefits for Businesses**
- Expedited access to sales proceeds for inventory purposes
- Liquidity forecasting
- Cash concentration
- Substituting ubiquity and convenience of checks with reduced risk and float time
- Quicker delivery

Source: Capgemini Financial Services Analysis 2015; The Clearing House playbook
How can US move Forward...Faster?
Same-Day ACH Adoption Around the World

The race to same day is almost over

- **NEFT**: Hourly settlement, posting within 3 hours
- **Equens CSM**: Continuous, configurable settlement
- **Bankgirot**: 28 settlement cycles daily
- **PaymentsNZ**: Continuous

Source: Lipis & Lipis
Same-Day ACH in the U.S.

Key Points

NACHA Same-Day ACH Rule

• Finalized May 19, 2015

• Requires acceptance of same-day ACH items

• Allows optional origination of same-day ACH

• Origination institution would pay an “Same Day Entry Fee” to the receiving institution

• Effective over three phases starting in September 2016
  – Phase I – September 23, 2016 – Same-day ACH credits
  – Phase II – September 15, 2017 – Adds same-day ACH debits
  – Phase III – March 16, 2018 – Adds a second mid-day settlement time
RTP Adoption Around the World

The race is on to real time and constant availability

Notes: 1) At the National Forum on the Payment System (June 2015), Dutch banks have set 2019 target for instant payments. Carried out through the Dutch Payments Association, the plan will require a completely new infrastructure, which fits into SEPA.

RTP Adoption Around the World

The race is on to real time and constant availability

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Source: Lipis & Lipis

Continuous clearing, settlement, and posting

Real-time settlement of most messages, posting typically within seconds

Real-time posting, defined settlement times

Real-time posting, single settlement time
RTP– Flows and Key Characteristics

The race is on to real-time and constant availability

RTPs are retail payments that move between accounts at different organizations where the recipient receives and can use the value instantly, and where the sender has confirmation of the status of the transaction.
Updates from Around the World

Singapore

- 33,000 trn for S$64M in the first 2 days of operation.
- The volumes continue to grow but at a slower rate.
- Instant Direct Debit is live (2Q15), but the growth is modest.
- Limits increased from S$10,000 to S$50,000

Mexico

- Mobile: Attach cell number to the unique account; Process the Transfer Order applications via Mobile Devices
- Availability: The issuers participants must receive and process the applications for Transfer Order, every day of the year. 24x7x365
- Speed: Transfers through Mobile Devices, must credit the amount of Transfer Orders accepted in 5 sec. Generate the CDAs in 5 minutes

UK

- SIPS grew 40% CAGR between 2009 – 2014
- P2P: PingIt/Paym;
- B2B: Zapp (SME) Service;
- P2B: BuyIt/Zapp e/m commerce;
- B2C: DCA
- New Access Model
- Limits increased to £250,000. Increase to £1MM is planned for 2016.
“a multi-faceted plan for collaborating with payment system stakeholders to enhance the speed, safety and efficiency of the U.S. payment system”
U.S. Real-Time Payments

Industry Drivers
- Friction due to aged national infrastructure
- Unmet consumer and business needs
- Benefits already proven in other countries

Business Case considerations
- U.S. RTP volume projected to be 3 - 4 billion transactions annually.
  Up to 35% of the volume will involve a smaller FI
- Opportunity in reduction of infrastructure costs through platform rationalization
- Federal Government is currently not engaged

What FIs should do now
- Engage Product Management early
- Review internal business and IT roadmaps for synergies with simplification
- Evaluate fraud security and compliance implications across the organization

Deployment considerations
- Industry investment of $4 - $6 billion will be required
  - $250K - $5MM per FI, with ~60-90MM for the largest FIs
- Creation of a new rail based on ISO 20022
- Phased deployment of real-time payment standards

Additional considerations
- Multiple settlement windows
- Data security is a key concern
- Point of sale as an origination channel
Implementing a New RTP Scheme is Now Routine

The country context and history matter a great deal

**U.K. Trends**

- **It took FPS 4 years to surpass Debit Cards and Checks (by 2012)**

**U.S. Trends**

- The non-cash payments volume in the US is about 15x that of UK (116B vs 8B)

**Sources (UK Data):**
- UK Payments Council
- UK Cards Association

**Sources (US Data):**
- 2013 triannual FRB Payments Study
- FedWire and CHIPS (Wire)
Other “Instant” Rails

Compete, Complement, Interoperate?

- **Cash**
  - Ubiquitous
  - Subsidized
  - Domestic
  - Anonymous

- **Cards**
  - Ubiquitous
  - Interchange
  - Delayed availability
  - Revocable
  - Fraud

- **Wallets**
  - Fragmented
  - Varying delivery times, transfer ceilings, costs
  - Settlement

- **Electronic Cash**
  - A type of a wallet
  - Currency issued by?

- **Bitcoin**
  - Complete in < 1 hr
  - Cash in/Cash out costs (similar to interchange)

- **Virtual Ledgers**
  - Clearing and settlement in seconds
  - Global
  - Best for small amounts
## FMUs, Market Participants, etc.

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<thead>
<tr>
<th>Org.</th>
<th>Products</th>
<th>Reach</th>
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<tbody>
<tr>
<td>FRB - FedACH TCH - EPN</td>
<td>Same day ACH</td>
<td>All FIs required to received. Origination is optional</td>
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<tr>
<td>FRB</td>
<td>Fed Faster taskforce</td>
<td>N/A</td>
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<tr>
<td>TCH RTP</td>
<td>Central scheme, Directory/Proxy, Tokenization, Fraud mgmt., E&amp;I, Data</td>
<td>Over 20% banks Over 90% accounts</td>
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<tr>
<td>EWS ClearXhange</td>
<td>P2P network, Directory/Proxy, Fraud mgmt, Acct validation</td>
<td>visibility to 95% of the DDA accounts and 45% of the teller lines and ATMs</td>
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<tr>
<td>FIS - Paynet</td>
<td>P2P network w x-border component</td>
<td>600+ banks</td>
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<tr>
<td>Fiserv - PopMoney</td>
<td>P2P network</td>
<td>None</td>
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<tr>
<td>Ripple</td>
<td>X-border clearing</td>
<td>Small</td>
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<td>Dwolla</td>
<td>Wallet, Directory/Proxy</td>
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<tr>
<td>FacebookPay, PayPal/Venomo, SquareCash</td>
<td>P2P network, Directory/Proxy</td>
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<td>ChasePay, ApplePay, AndroidPay</td>
<td>Wallet, Q/R codes</td>
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<tr>
<td>VISA, MC OTC</td>
<td>Cash withdrawal</td>
<td>Almost 100% FIs</td>
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“A Journey Of A Thousand Miles Begins With A Single Step.”

Laotzu
Thank You
gene.neyer@dh.com