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The Future of Payments

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The Future of Payments

- What's New With Payments
 - Fast Facts
 - Real-Time or Near-Real Time
 - What is the Rest of the World Doing?
 - Developing a Payments Strategy
- Strategies for Improving U.S. Payment System – Federal Reserve Bank
- Benefits of Offering Faster Payments
- What Is Currently Out There (U.S.)?
- Mitigating Faster Payments Risk



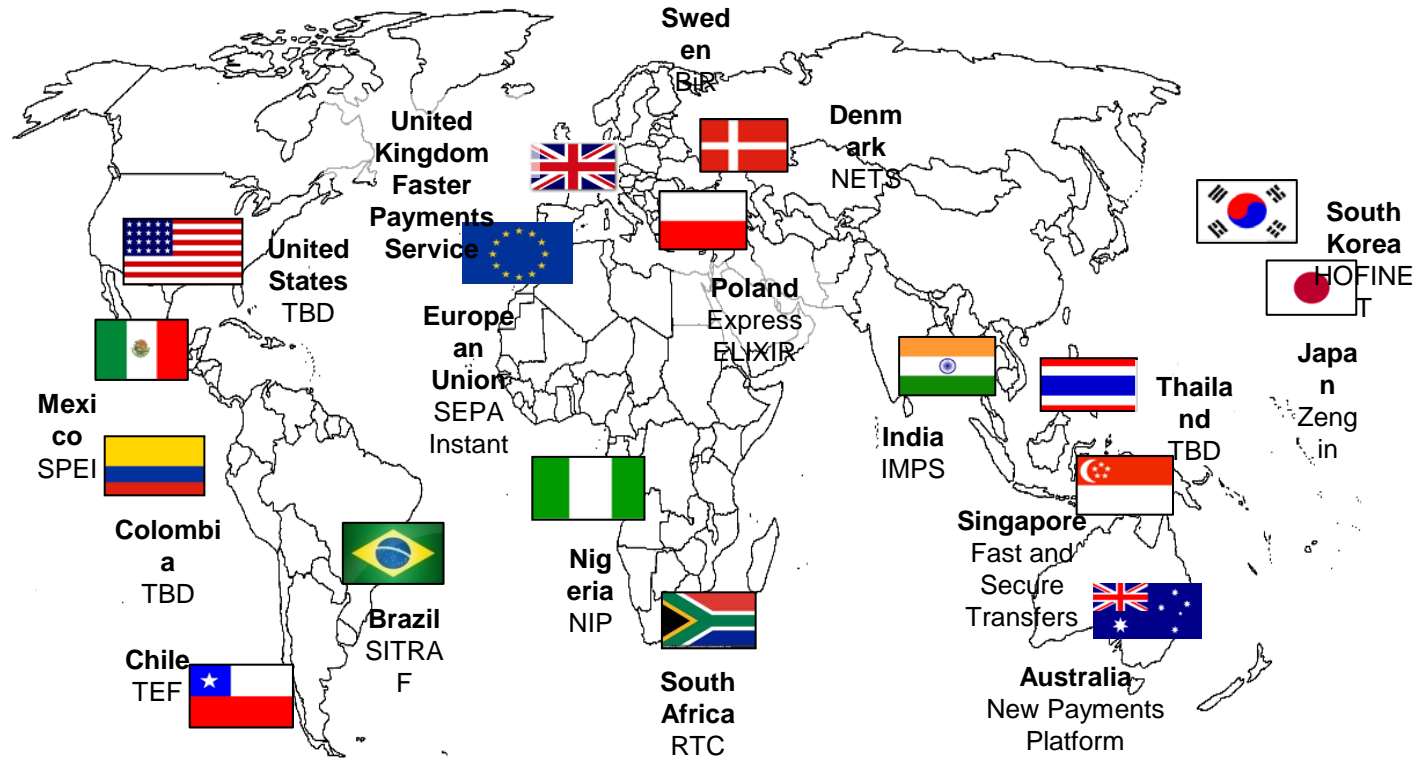
The Future of Payments



Fast Facts

- NACHA -- Same Day ACH
 - 2017 - 75.1 million Same Day ACH entries totaling \$87.1 billion
- Federal Reserve -- working to improve the U.S. Payments System
 - Faster Payments Council's goal is to have a ubiquitous faster payment system by 2020
- The Clearing House creates the first new payment rail in 40 years – reality of Real-Time Payments
- Dollar amount sent via Zelle in 2017 was \$75 Billion
- 65,000 consumers enrolling daily to Zelle
- Venmo users - 10 million
- 2017 - ACH volume exceeded 21.5 billion transactions
- 2017 - ACH volume totaled \$46.8 trillion
- ACH Volume - increased by at least 1 billion transactions every year for the last three years
- ACH Value - increased by at least \$1 trillion every year for the last five years

Real-Time Payments a Global Trend



Real-Time or Near-Real Time

- Faster settlement – real-time or near-real-time payments do not necessarily mean real-time or near-real-time settlement
 - Brazil – account posting in 1 minute; settlement every 5 minutes
 - China – account posting 20 seconds; settlement deferred net various schedules
 - Japan – account posting/real-time; settlement end of day net
 - Mexico – account posting 1 minute; settlement within seconds
- Not all countries offer 24x7x365; some have hours of downtime, some are limited by financial institution

What is the Rest of the World Doing?



What is the Rest of the World Doing

Live with Real-Time Payments

- Australia
- Bahrain
- Belize
- Brazil
- Chile
- China
- Columbia
- Denmark
- Europe
- Finland
- Ghana
- Iceland
- India
- Italy
- Japan (1973)
- Kenya
- Latvia
- Mexico
- Nicaragua
- Nigeria
- Norway
- Poland
- Singapore
- South Africa
- South Korea
- Spain
- Sri Lanka
- Sweden
- Switzerland
- Taiwan
- Thailand
- Turkey

Payments Strategy

As technology continues to advance does your company/financial institution:

- Have a Payments Strategy
 - Long-term performance objectives
 - Keeping up with new payments technologies
 - Identify target markets
 - Identify gaps in operating capabilities
- Meet customer expectations
- Keep up with the competition
- Collaborate with Fintechs

Developing a Payments Strategy

- Consider a Payments Strategy
 - Consistent with brand, mission, and strategic plan
 - Which products and services will we offer – complex and evolving
 - Numerous options available – careful analysis
 - Think strategically about your payment's strategy
 - Relevancy – options relevant to customer base
 - Revenue – recover lost revenue
 - Risk
 - Security risk with new innovation
 - Reputational risk – fraud risk
 - Regulatory risk – rules and guidelines
 - Adoption risk -- invest the time, no bites; customer expectations
 - Determine your risk appetite
 - Relationships – trends, innovation
 - Data – plan strategy around customer data; every transaction tells a story

Strategies for Improving the U.S. Payment System

Federal Reserve Bank

Timeline

2015

- January 2015
 - Publication of Federal Reserve's Strategies for Improving the U.S. Payment System paper
- May 2015
 - Start of the Faster Payments Task Force

2016

- January 2016
 - Publication of the FPTF Effectiveness Criteria

2017

- January 2017
 - Publication of the FPTF U.S. Path to Faster Payments, Part One
- July 2017
 - Publication of the FPTF Final Reports with approval for a governance framework
- Summer 2017
 - Formation of GFFT

2018

- April 2018
 - Publication of GFFT's Operating Vision (draft)
- April – June 2018
 - Stakeholder Feedback
- August 2018
 - Stakeholder Feedback
- Fall 2018
 - Established Faster Payments Council

Five Desired Outcomes

1. Speed
2. Security
3. Efficiency
4. International
5. Collaboration



Federal Reserve – Continuing the Journey

- Enhance the Federal Reserve settlement to support real-time over the long term
 - Understand gaps and requirements in the industry
- Assess whether it is necessary for the Federal Reserve to provide product/services to support the Industry and address the gaps in the faster payments movement
- Strategy going forward: “Work to enhance the timeliness, cost effectiveness, and convenience of cross-border payments”

Federal Reserve Next Steps in the Payments Improvement Journey

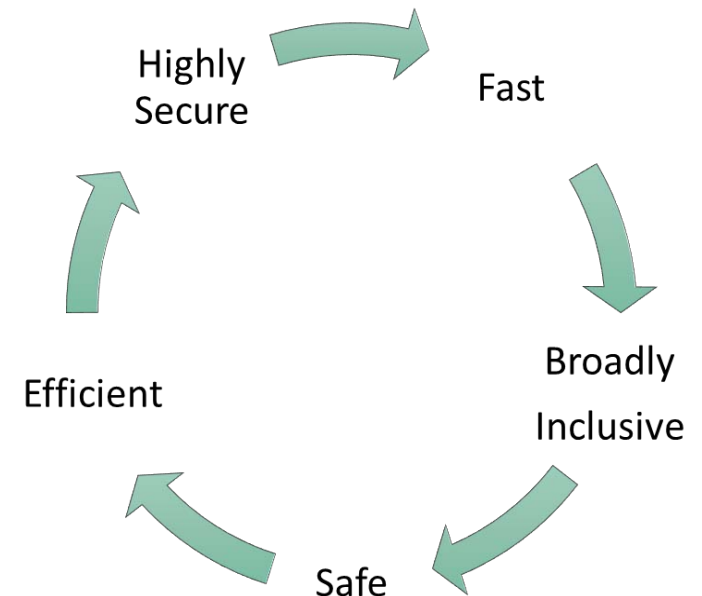
Potential Federal Reserve Bank Actions

- October 3, 2018 – Fed issued for public comment potential actions the Federal Reserve could take to support faster payments in the U.S.
- Comments are being asked on two potential actions
 - Development of a service for real-time interbank settlement of faster payments 24x7x365
 - Creation of a liquidity tool that would enable transfers between Federal Reserve accounts on a 24x7x365
- The Board is not committing to any actions but is seeking input on which, if any, actions the Federal Reserve should take.

Federal Reserve – Continuing the Journey

- Facilitate and support a collaborative effort to achieve the Faster Payments Task Force's vision
- Receive information on task forces and work groups, invitations to live/virtual events, surveys and other online feedback opportunities

FedPaymentsImprovement.org!
YEAR 2020



Benefits of Offering Faster Payments

Benefits of Offering Faster Payments

- Faster Funds Availability
 - Reduce unintentional overdrafts
 - Opportunity to successfully manage funds
- Decrease Cost
 - Reduce processing costs
 - Increase fee income
- Reduce Risk
 - Shortens the delay between payment initiation, clearing and settlement
 - Timely confirmation of good funds
 - Irrevocable

Benefits of Offering Faster Payments

- Remain Relevant
 - Trend setter
 - Competitiveness
- Maintain Customer Relationships
 - Provide customers with the services they will use
 - Ability to reach the upcoming generations
 - Cross-selling opportunities

Faster Payments Benefits

- Financial Institution
 - Solutions may be available through existing service providers
 - Maintain a strong customer relationship and remain highly relevant ability to offer innovative new products
 - Ability to compete with non-financial institution competition
- End Users / Corporate customers
 - Help large and small businesses to better manage cash flow
 - Improved invoices terms to suppliers; increase working capital
 - Remittance information, message and payment
 - Possibly lower interchange fees
 - May lead to innovative practices or services to stand out among competition

What is Currently Out There (U.S.)?

Real Time Payments in the US



- Started with the eWallets revolution
- P2P payments only
 - PayPal, Venmo, Dwolla
- Bank Players
 - Popmoney, ClearXchange (Zelle)
- Other players
 - The Clearing House – Real-Time Payments
 - \$Square Cash
 - Facebook Payments
 - Apple Pay & Samsung Pay
- New Wave
 - Triggered by the market need
 - Federal Reserve's Faster Payments Task Force



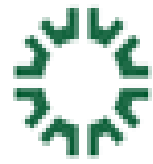
Comparing Attributes of U.S. Faster Payments Solutions

This represents a sample of the faster payments solutions in the marketplace as of April 2017.

Legend

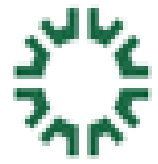
- A2A Account-to-Account
- B2B Business-to-Business
- B2C Business-to-Consumer
- C2B Consumer-to-Business
- P2P Person-to-Person

| | Payment Type (Includes only monetary transactions) | Use Cases | Clearing Mechanism | Payment Messaging | Amount of Information with Payment | Settlement Timing | Funds Posting | Good Funds | Ubiquity | Operational Status |
|---|---|---|---|---|---|---|---|---|---|---|
| |  |  |  |  |  |  |  |  |  |  |
|  NACHA The Electronic Payments Association® Same Day ACH | Credit Debit | P2P B2B B2C C2B A2A | ACH | Same Day | Up to 799,920 Characters | Same Day | Same Day | Credit: Yes | Connects to all U.S. DDAs | Credits & Debits Live |
| The Clearing House Real-Time Payments (RTP) | Credit | P2P B2B B2C C2B A2A | RTP | Real Time | 140 Characters + extended remittance | Prefunded Continuous Real Time | Real Time | Yes | Target ~60% of U.S. DDAs by year-end 2018 | Launch in 2017 |
| ZelleSM | Credit | P2P B2C | ACH, Debit card networks | Real Time | 200 Characters | Same day for debit, 1-2 days for ACH | Real Time | Yes | 76 million mobile users | Live |
| Visa Direct | Credit | P2P B2B B2C C2B A2A | Card | Real Time | 450 characters | May be same day or next day | Real Time | Yes | Connects to all U.S. DDAs | Live |
| Mastercard Send | Credit Debit | P2P B2C G2C A2A B2B | Card | Real Time | Varies by use case | Next Day | Real Time | Yes | Connects to virtually all U.S. debit cards | Live |
| SHAZAM Network | Credit Debit | P2P B2C C2B | Card | Real Time | 170 Characters | Next Day | Real Time | Yes | Connects to all debit card DDAs | Live |



The Clearing House RTP Real-Time Payments

- New payment rail – first in over 40 years
- Access available through direct FI connection, Third Party Service Providers, Bankers Banks, Corporate Credit Unions
- The Clearing House – 26 owner banks
- Participation by four of the country's largest core processors—Fidelity National Information Services Inc., Fiserv Inc., Jack Henry & Associates Inc., and Finastra
- Working with providers of core processing and payment services, bankers banks, and corporate credit union to ensure every financial institution in the U.S. has an easy way to access the RTP network by 2020



The Clearing House RTP Real-Time Payments

- Payment Type
 - Credit – request and send
- Use Cases
 - P2P
 - B2B
 - B2C
 - C2B
 - A2A
- Clearing Mechanism
 - RTP
- Limit
 - \$25,000; likely to change
- 24/7/365
- Payment Messaging
 - Real Time
 - 140 Characters + extended remittance
- Settlement Timing
 - Prefunded Continuous Real Time - immediate
 - Immediate confirmation notice
- Funds Posting
 - Real Time
 - Final and irrevocable
- Ubiquity
 - Target ~60% of U.S. DDAs by year-end 2018
- Operational Status
 - Launch in 2017



- ZELLE went live on June 12, 2017
- As of September 2017, the app can be downloaded from the App Store. Card technology partners include Visa & Mastercard. Processors for this product are Fiserv, Jack Henry, FIS, & Co-Op Financial Services.
- Money sent is typically processed within minutes. Both the sender and receiver must be enrolled in ZELLE.
- ZELLE application does not charge a fee to send money, however, financial institutions may charge for the use of ZELLE through the integrated platform.



- Payment Type
 - Credit
- Use Cases
 - P2P
 - B2C
- Clearing Mechanism
 - ACH
 - Debit card networks
- Payment Messaging
 - Real Time
- Limits – daily \$1,000; weekly \$2,500; may vary based on financial institution
- Amount of Information w/Payment
 - 200 Characters
- Settlement Timing
 - Same day for debit
 - 1-2 days for ACH*
- Funds Posting
 - Real Time
- Ubiquity
 - 76 million mobile users*
- Operational Status
 - Live*



mastercard MASTERCARD SEND

- Domestically, funds can be transferred through debit cards within seconds.
- U.S. consumer debit and prepaid cards
- Also offers:
 - Disbursements- payments from governments, businesses and nonprofits to consumers
 - Cross-border P2P- payments between two consumers in different countries



mastercard MASTERCARD SEND

- Payment Type
 - Credit
 - Debit
- Use Cases
 - P2P
 - B2C
 - G2C
 - A2A
 - B2B
- Clearing Mechanism
 - Card
- Payment Messaging
 - Real Time
- Amount of Information w/Payment
 - Varies by use case
- Settlement Timing
 - Next Day
- Funds Posting
 - Real Time
- Ubiquity
 - Connects to virtually all U.S. debit cards
- Operational Status
 - Live

VISA Direct

- Payment Type
 - Credit
- Use Cases
 - P2P
 - B2B
 - B2C
 - C2B
 - A2A
- Clearing Mechanism
 - Card
- Payment Messaging
 - Real Time
- Amount of Information w/Payment
 - 450 characters
- Settlement Timing
 - May be same day or next day
- Funds Posting
 - Real Time
- Ubiquity
 - Connects to all U.S. DDAs
- Operational Status
 - Live

VISA Direct

- Real-time person to person
- U.S. consumer debit or prepaid card
- Also offers:
 - Funds disbursements
 - Loan payouts
 - Government disbursements
 - Refunds
 - Rebates
 - Reimbursements



- Payment Type
 - Credit
 - Debit
- Use Cases
 - P2P
 - B2C
 - C2B
- Clearing Mechanism
 - Card
- Payment Messaging
 - Real Time
- Amount of Information w/Payment
 - 170 Characters
- Settlement Timing
 - Next Day
- Funds Posting
 - Real Time
- Ubiquity
 - Connects to all debit card DDAs
- Operational Status
 - Live

Same Day ACH

- Payment Type
 - Credit and Debit
- Use Cases
 - P2P
 - B2B
 - B2C
 - C2B
 - A2A
- Clearing Mechanism
 - ACH
- Payment Messaging
 - Same Day
- Amount of Information w/Payment
 - Up to 799,920 Characters*
- Settlement Timing
 - Same Day
- Funds Posting
 - Same Day
- Ubiquity
 - Connects to all U.S. DDAs
- Operational Status
 - Credits Live
 - Debits Launch 9/15/17

The Phases of Same Day ACH

1

Effective September 2016

- Credits only
- Processing windows 10:30 am ET and 2:45 pm ET
- Settlement times 1:00 pm ET and 5:00 pm ET
- Funds availability at the end of RDFI's processing day

2

Effective September 2017

- Credits and Debits
- Processing windows 10:30 am ET and 2:45 pm ET
- Settlement times 1:00 pm ET and 5:00 pm ET
- Funds availability at the end of RDFI's processing day

3

Effective March 2018

- Credits and Debits
- Processing windows 10:30 am ET and 2:45 pm ET
- Settlement times 1:00 pm ET and 5:00 pm ET
- Funds availability 5:00 pm RDFI local time

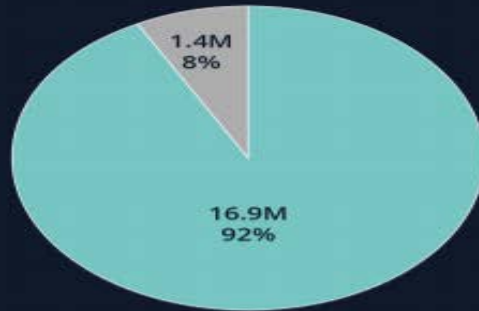
ACH - The Future

| New Rules | Effective Dates |
|--|--------------------|
| Expands access to Same Day ACH by allowing Same Day ACH transactions to be submitted to the ACH Network for an additional two hours every business day | September 18, 2020 |
| Increases the Same Day ACH per-transaction dollar limit to \$100,000 | March 20, 2020 |
| Increases the speed of funds availability for certain Same Day ACH and next-day ACH credits | September 20, 2019 |

2017 SAME DAY ACH VOLUME

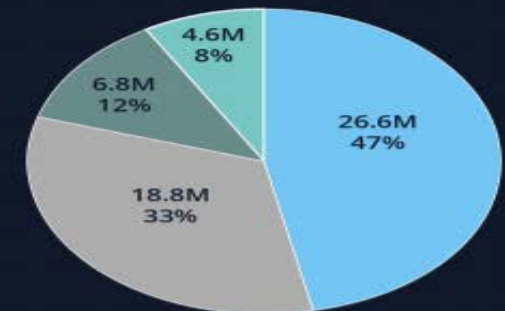
75.1 Million Same Day ACH Payments Were Made in 2017, Totaling More Than \$87.1 Billion.

DEBIT VOLUME



Consumer Bill Pay and Account-to-Account Transfer
Business-to-Business Payments

CREDIT VOLUME



Direct Deposit for Payroll and Other Consumer Dispersements
Business-to-Business Payments
Person-to-Person
Consumer Bill Pay

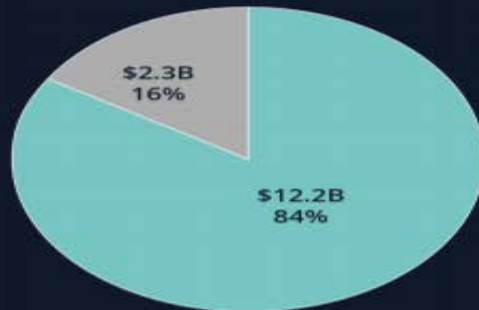
3Q AND 4Q 2017 SAME DAY ACH VOLUME



Consumer Bill Pay and Account-to-Account Transfer
Business-to-Business Payments

Direct Deposit for Payroll and Other Consumer Dispersements
Business-to-Business Payments
Person-to-Person
Consumer Bill Pay

DEBIT VALUE



CREDIT VALUE



To learn more, go to <https://resourcecenter.nacha.org/>



There's Even More

- Venmo
- Square Cash
- Walmart2Walmart
- Google Wallet
- SnapCash
- Dwolla
- Chase Quickpay (now Zelle?)
- Bank of America Mobile Pay

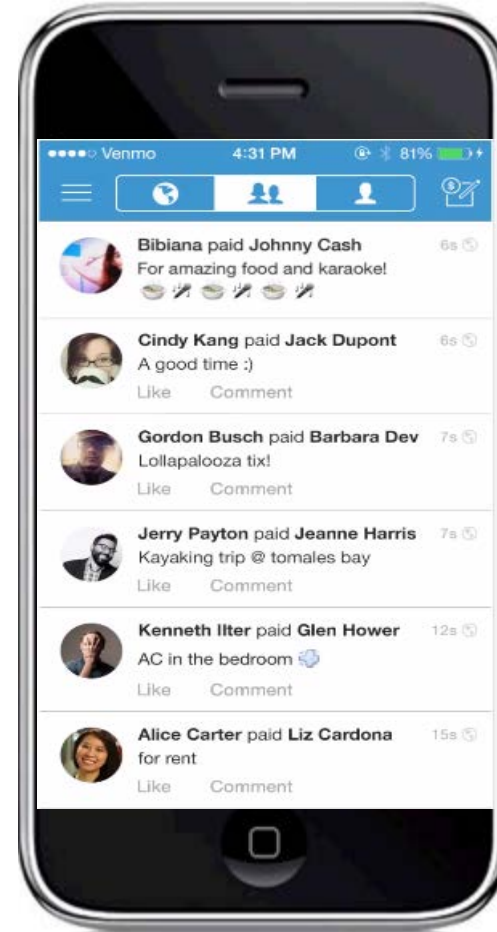
- Western Union
- Paypal
- Popmoney
- Wells Fargo Mobile Banking
- American Express Serve (prepaid debit cards)
- Facebook messenger
- Apple iMessage



venmo



- Founded in 2009, Venmo began as a payment system through text message
- Venmo has capitalized by using the platform as a social network in itself
- Limits \$299.99 a week or \$2,999.99 a week; limits vary
- Usually next day, but could be 1-2 business days, varies based on institution





- Make and Share Payments
 - Pay friends and family with a Venmo account using money you have in Venmo, or link your bank account or debit card quickly
- Connect with people
 - Remember the moments you share with friends. Split dinner, send a birthday gift, or just say hello
- Make purchases
 - Use your Venmo account as a way to pay in mobile apps
- Quickly transfer money to your bank
 - Move money from Venmo to your bank account in as little as **one** business day



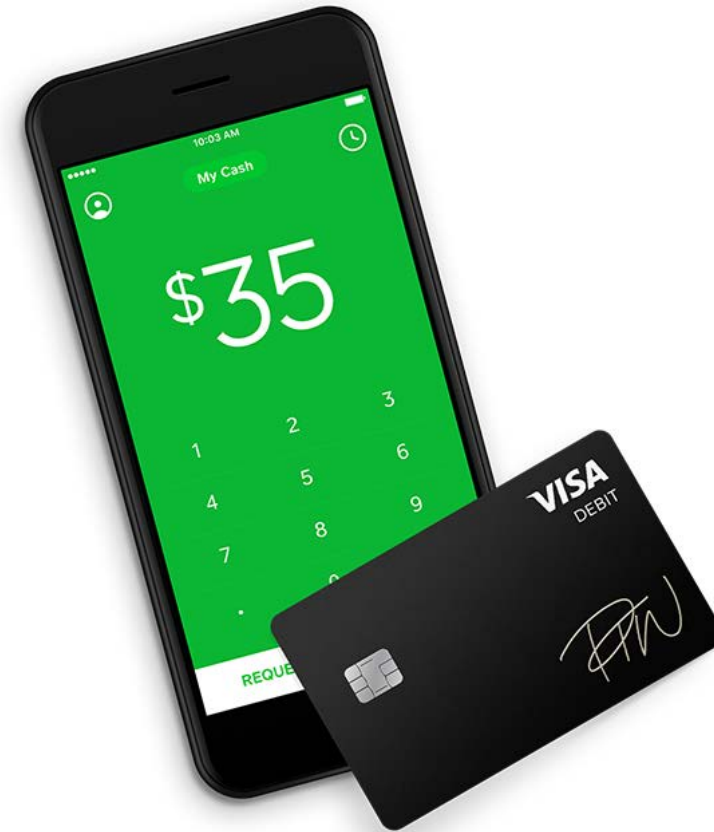
- How does Venmo make money?
- A linked credit card, debit card, or checking account is required to use the service
- Free-to-use platform
- Venmo generates revenue through transaction fees
 - Most free-to-use mobile apps turn to advertisements for revenue purposes
 - Venmo has so far avoided this
- Many of Venmo's services do not incur transaction fees
 - Including transferring funds between friends through a major debit card or checking account
- To cover processing costs, Venmo charges a 3% fee for payments by credit card
 - In comparison, PayPal (Venmo's parent company) charges a 2.9% fee for all debit and credit card transactions



- Cash works through an app by linking it directly to a debit card
- One of the key differences between Square Cash and its competitors is that Square Cash moves money in and out of a users' debit card account directly, instead of keeping cash with the service provider
 - Example, when someone sends money from one PayPal account to another, that money stays inside the recipients' PayPal account until it's withdrawn
 - With Square Cash, the same transaction will see the money go directly to the receivers' debit card account linked with Square Cash
 - Square Cash claims that this process is usually completed instantly, though it can take one to two business days for certain banks
 - Note that Square Cash only works with debit card accounts, not directly with bank accounts or credit cards

Square Cash

- Square Cash Cashcard
- Use the free Cash Card to spend your money anywhere
 - Customize your card with a laser-etching, and they'll deliver it to you
- Free transactions are limited to \$2,500 a week; charges 1.5 percent for debit card or bank acct transactions



Mitigating Faster Payments Risk

Faster Payments Risk

- What do I need to plan for?
 - OFAC
 - KYC
 - BSA/AML
 - Fraud
 - Losses
- Types of Risk
 - Settlement Risk
 - Operational Risk
 - Security/Cyber Risk
- Areas of Risk
 - Online banking – account takeover, bill pay-related fraud
 - Corporate account takeover

Mitigating Faster Payments Risk

- Be aware of potential threats
 - Account takeover- phishing, malware, social engineering
- Upgrade fraud detection systems
 - Less time to review for suspicious activity
- Ensure Originators obtain proper authorization
 - NACHA Operating Rules and Guidelines apply to consumer-to-other-consumer transactions.
- Review policies and procedures
 - Including disaster recovery

Mitigating Faster Payments Risk

- Faster settlement – real-time or near-real-time payments do not necessarily mean real-time or near-real-time settlement
 - Brazil – account posting in 1 minute; settlement every 5 minutes
 - China – account posting 20 seconds; settlement deferred net various schedules
 - Japan – account posting/real-time; settlement end of day net
 - Mexico – account posting 1 minute; settlement within seconds
- Any delay in settlement implies increased risk
- Speed in settlement means less time to scrutinize transaction risk and can give occasion for fraud
- Not all countries offer 24x7x365; some have hours of downtime, some are limited by financial institution

Mitigating Faster Payments Risk

- Not all countries offer 24x7x365; some have hours of downtime, some are limited by financial institution
- Most countries have a dollar limit/threshold, some set different limits for corporates and different limits for consumers, some allow institutions to set their own thresholds
- Robust authentication – layered approach
- Consumer training



SCHEDULE YOUR 2019 COMPLIANCE SERVICES TODAY

- *ACH Audit*
- *ACH Risk Assessment*
- *RDC Audit & Review of Internal Controls*
- *Wire Audits & Review of Internal Controls*
- *Third-Party Sender Audit*
- *Third-Party Sender Risk Assessment*
- *Third-Party Service Provider Audit*
- *Third-Party Service Provider Risk Assessment*
- *Customized Consulting*



First-come, first-serve scheduling basis and dates fill quickly, so schedule today!

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As a benefit of your PaymentsFirst membership, you can now sponsor your corporate customers to take advantage of the valuable services, resources, education and support we provide. The cost for a sponsored corporate subscription is only \$99.00 annually and you choose how to offer it to your customers. We will provide you with a customizable marketing piece with the benefits of the Corporate Advantage Plan and assist you in setting up your customers per your specific wishes.



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- ~ Education, Resources & Operational Support*
- ~ Phone, Email & Chat Hotline Support*
- ~ 2 Free Webinars*
- ~ FREE NACHA Corporate Rules Online*
- ~ Complimentary Quarterly Newsletter*
- ~ 25% off non-member prices for publications*
- ~ 25% off non-member prices for education*

Corporate customers may sign up individually by entering Financial Institution name as sponsor or Financial Institution can sign up on behalf of sponsored corporate customers. Give us a call or email us to tell us how you want to offer this great value to your customers!

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