
AFP – Southwest Ohio

Update on the Faster Payments Landscape

October 2020

Session Overview



- Meeting Objective -

Provide the audience an overview of prevalent Faster Payment methods (including RTP, FedNow, Same Day ACH, Zelle, etc.), current trends in the marketplace, risk considerations and tips for your organization as you look onto offering or leveraging additional payment methods.



**Tristan Thompson | Senior Vice President
Payments Group Manager
UMB Bank**
Tristan.Thompson@umb.com

Payments Level Set



-
- **Current Environment**
 - **Payment Products vs. Payment Rails**
 - Examples of payment products include Zelle, Venmo, VisaDirect
 - Examples of payment rails are FedACH, RTP, FedNow
 - **Faster Payment Common Features**
 - 24/7/365 operations
 - Typically Credit Push
 - Good funds model
 - Near real time notice and access to funds
 - Irrevocable payments
 - Non-batch, single payment processing

Various Faster Payments Solutions



venmo

zelleSM



VISA Direct

 The Clearing House[®]

R | T | P[®]

Powering Smarter Payments

FedNowSM
INSTANT PAYMENTS

 **NACHA** | **SAME DAY ACH**
The Electronic Payments Association[®] | **RESOURCE CENTER**

Same Day ACH



- **What is Same Day ACH?**

- Same Day ACH gives customers the ability to affect same day payments for virtually all types of ACH credits and debits, excluding international transactions and payments over \$100K
- Same Day ACH was adopted by the National Automated Clearing House Association (Nacha), which is the organization that governs the ACH network
- Use cases include: B2B, B2C, C2B, P2P

- **What are the Benefits?**

- Expedited payments of ACH credits and debits
- Accelerates payments while maintaining more traditional payment features
- Near ubiquity as banks and credit unions are required to receive transactions
- Enables faster settling of invoices along with remittance information
- Pay your suppliers faster in order to receive your materials on time
- Improved liquidity

- **What's New?**

- Beginning March 19th 2021 a new later Same Day ACH window will be available providing an additional 2 hours in the day



Push to Card – Visa Direct / MasterCard Send



- **What is Visa Direct and MasterCard Send?**

- Visa Direct and MasterCard Send allow customers to send and receive funds instantly through debit card transactions
- Sometimes referred to as an Original Credit Transaction (OCT), this allows for a credit push onto the debit card and associated account.
- Banks serve as program managers and acquirers and can offer the service directly to their business and retail customers.

- **What are the Benefits?**

- Ubiquity: availability to send funds to almost any Visa or MC debit card in the country
- Funds are available immediately
- Flexibility to control the user experience / branding
- Funds movement and related messages all handled via API
- Use cases include P2P and B2C

VISA Direct



Zelle



- **What is Zelle?**

- Zelle is the Bank centric person to person payment solution allowing customers to Send, Request or Split payments
- Zelle's parent company (Early Warning Systems) is owned by the largest US Banks
- Participation is open to any US bank that wants to join the Zelle network
- Benefits include it's network and brand

- **Who is using Zelle?**

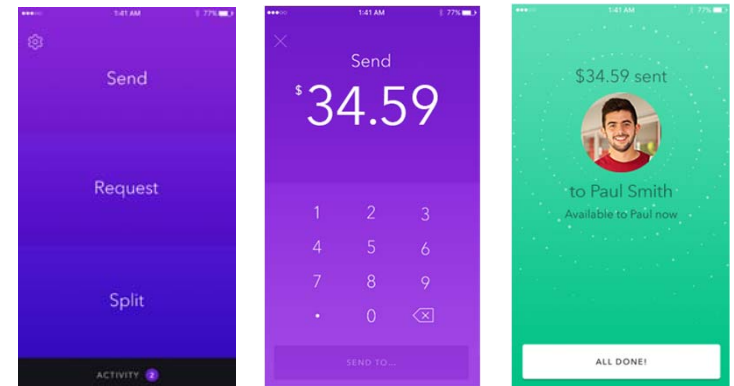
- 462 banks live with a total of 924 with signed contracts
- Jan-June 2020 volume = \$133 billion, 519,000,000 transactions
- Growing ~%20 per quarter
- Over 2x more volume with Zelle compared to Venmo

- **What's New?**

- Further expansion into other use cases such as B2C
- Upcoming partnership to leverage the RTP rails to settle transactions



THIS IS HOW MONEY MOVESSM



Real Time Payments (RTP)

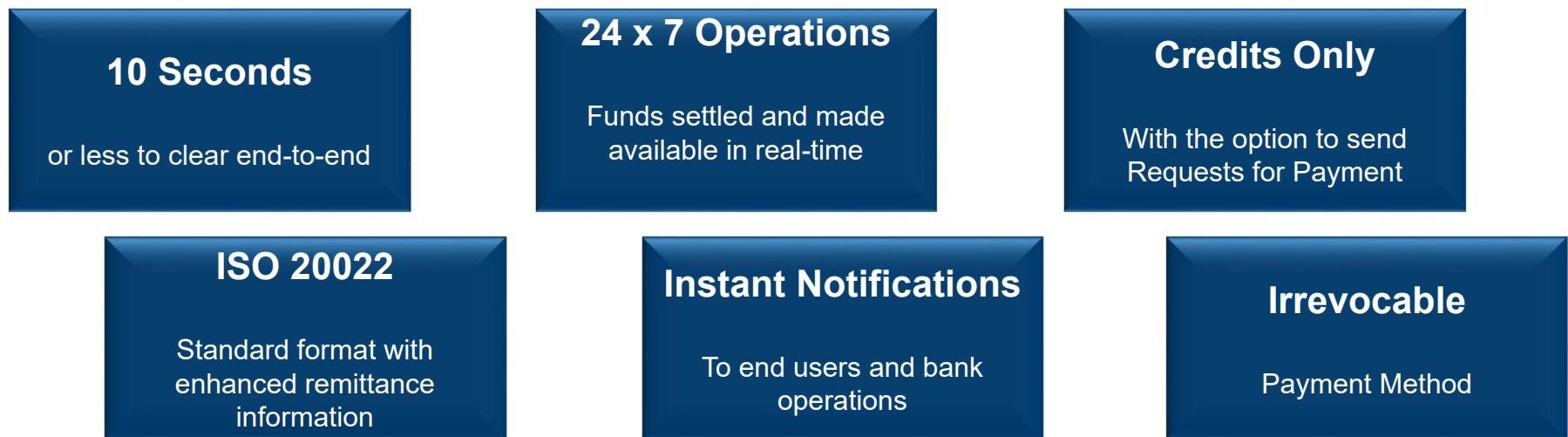


The Private Sector Real Time Payments Network is open to all financial institutions; however banks/credit unions must be a member of the network to send and receive payments.

Current State

- Globally, more than 20 countries including the UK and Singapore already have “Real Time Payment” payment rails in place. Many of these were government mandated and include a single operator.
- The U.S. did not have a mass adopted Real Time Payment rail up until November 2017 when The Clearing House rolled out their RTP network.
- All of the Top 25 US Banks are live with a total of 48 banks live on the network (56% of all US DDAs):
 - 2 Trillion a day is being settled via RTP
- Use Cases have evolved significantly since roll out

How is RTP Defined



Federal Reserve's RTP Solution ("FedNow")



New public sector RTP solution announced by the Federal Reserve expected to go live in 2023 / 2024



What is FedNow¹:

- Public sector Real Time Payments network offered by The Federal Reserve Bank
- Expected launch of 2023 / 2024
- Very similar feature / functionality as the Private Sector Solution

Considerations:

- Will not be in market for a few more years
- Undetermined how this solution and the Private Sector solution will interoperate together
- Does have a clear benefit over the private sector as Banks/Credit Unions can use their Fed account and do not need to "pre-fund" into a joint account
- Only planned to roll out with a \$25k transaction limit compared to private sector solution that has \$100k
- Technology providers will need to provide tools to connect to both networks in the future
- Should further increase adoption of RTP across the U.S.

¹ Solution and feature functionality subject to change prior to rollout

Faster Payment Type Comparison



Characteristic	Same Day ACH	Push to Card	Zelle	TCH RTP	FedNow ¹
Speed	Intraday and batched	Less than 30 minutes	Less than 5 minutes	Within seconds	
Ubiquity	All U.S. Financial Institutions	All DDA's tied to a fast funds enabled debit card (~93%)	At least one party in the transaction but be signed up on the network	Closed Network, FI's must sign up	Closed Network, FI's must sign up
Routing method	RT and Account #	Receiver debit card #	Alias Directory (phone or email)	RT and Account #	
Transaction limit	\$100k	\$2,500 P2P*	Varies by sending bank	\$100K	\$25K
Operating Hours	Banking Business hours	24/7/365			
Remittance Information	9,999 records of 80 characters each	Available card remittance data	180 characters	Unlimited with introduction of ISO20022	
Transparency of Payment Status	End of day	Immediate			
Payment Types	Credit & Debit	Credit	Credit & Request for Payment		
Cross Boarder Capable	No	Yes	No	No	No

¹ Solution not live, characteristics may change before roll out

Why is the industry moving to Faster Payments?



- ***Revenue and Customer Growth***

- Increased revenue opportunity
- Replace declining revenue from Check volume
- Attract new customers
- Customer retention

- ***Evolving Technology***

- Financial Institution payment technology modernization
- Non-bank FinTech presence developing new technology schemes and ways to move money
- Emerging payment options such as mobile apps, digital wallets, push to card, etc.

- ***Customer Expectations***

- Customer demand - shifting expectations around an immediate everything
- Changing expectations around what products FIs provide as well as how customers interact and are serviced by Banks
- Cost reduction / efficiency opportunities within AP and AR

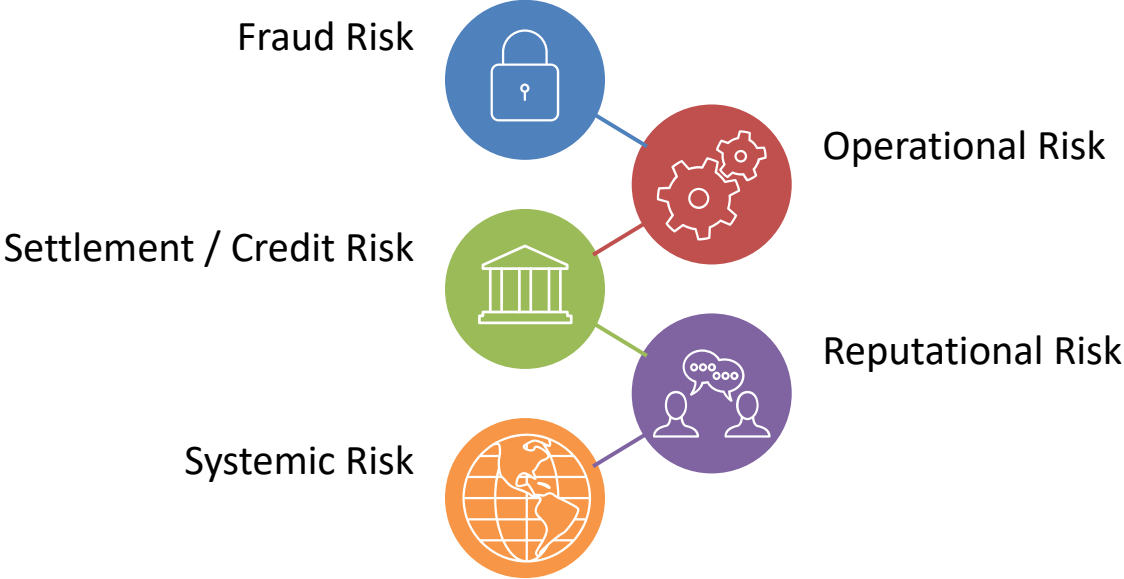
- ***Risks / Opportunities with Existing Payment Channels***

- Lack of transparency as it relates to funds availability
- Need for expedited payment and remittance info as well as expedited funds access

- ***Regulatory Influence***

- Regulatory bodies such as the CFPB have stated concerns and opportunities for improvement with existing payment channels, urging FIs to make RPT a priority

Payments Risks

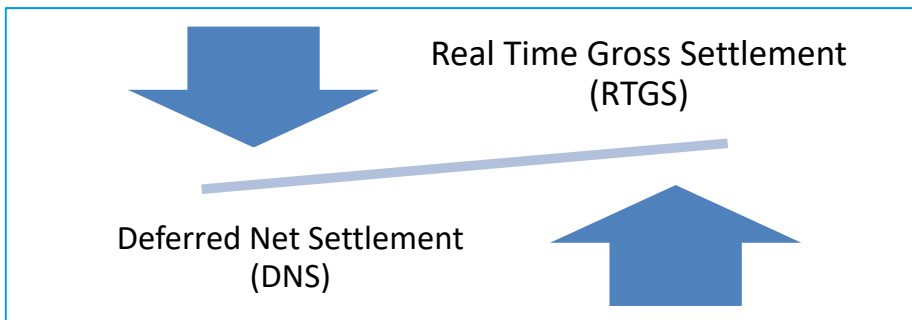


Payments Risk Examples



Settlement / Credit Risks

- Longer settlement introduces higher degree of risk
- Other party only has a promise to pay



Operational Risks

- Shorter or additional settlement windows with ACH
 - Less manual time for reviews
 - Additional considerations for ACH filtering
 - Staffing considerations
- 24 / 7 Payment processing considerations with RTP
 - System downtime
 - Operational support / banking hours
 - End of day processing
 - Shift from manual to automated processes
 - Liquidity Management

Closing Thoughts



Q&A