

RTP: How to Connect?

Current Options to Connect to RTP



In the market, there is some confusion between real-time payments and faster payments. Let's begin here by clarifying the difference. Real-time payments are under the category of faster payments. However not all faster payments are necessarily real-time. Real-time payments (or generically denoted "RTP") refer to payment clearing and settlement systems that share a few characteristics. First, they are real-time, initiating, clearing, and settling in a matter of seconds. Second, real-time payment networks are 24x7x365, meaning they are always online and available. Payment channels that don't match these categories, but provide a greater advantage in respect to speed compared to heritage or legacy payment systems, are faster payments.

As defined by the [Federal Reserve's](#) Faster Payments Task Force, faster payments are: "A ubiquitous, safe, faster electronic solution(s) for making a broad variety of business and personal payments, supported by a flexible and cost-effective means for payment clearing and settlement groups to settle their positions rapidly and with finality."

There are several ways community banks can connect to provide customers with the advantages of real-time payments.

RTP® Network from The Clearing House (TCH)

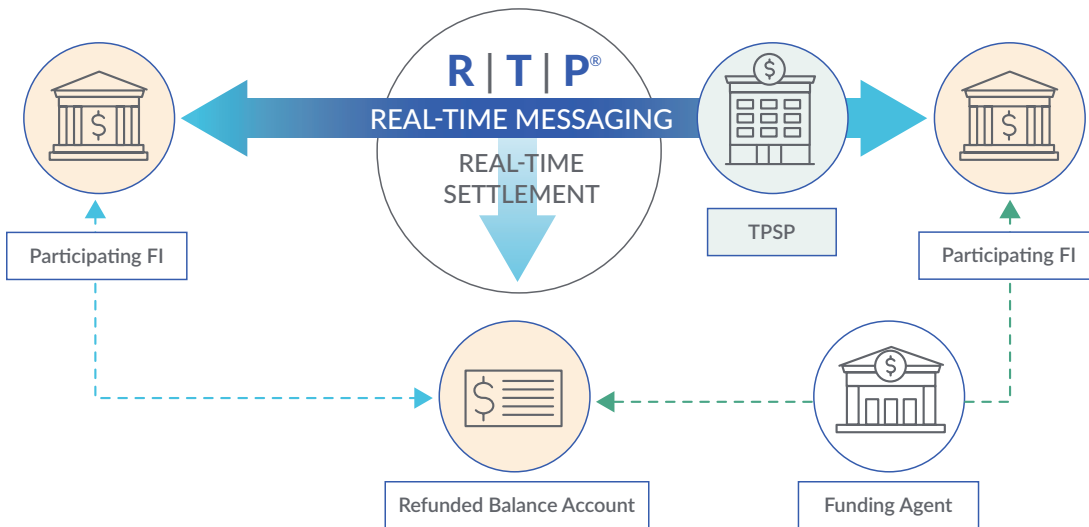
The only live real-time payments network in the U.S. that meets our two criteria is The Clearing House's RTP® network which went live in 2017. The RTP network was built for financial institutions of all sizes and enables them to deliver new products and services to their customers. The network provides payment processing services, orchestrating the movement of payments and value-added messages to and from FI participants. It also provides fraud detection services to scan and report network-level fraudulent activity.

Financial institutions can integrate into the RTP network directly through third-party service providers (such as a core processor, a hosted gateway, a bankers' bank, or a corporate credit union). This network delivers real-time payments for several use cases such as B2B, P2P, Payroll, and Request for Pay (RfP).

According to TCH, your best path to enabling RTP for your customers or through a fintech.

RTP® CONNECTING and funding options

- ▶ Connect directly or through a third party (core processor, gateway, bank)
- ▶ Self-fund or use a funding agent



Ways To Connect:

Fintechs/Third-Party Service Providers

Financial institutions that connect to the TCH RTP network almost always work with a technology provider to help make and maintain the connection. According to TCH, if you're a bank or a credit union, your best path to enabling RTP for your customers or members is through a fintech. Technology providers like Alacriti provide a range of different RTP-related services that provide an easy path to access the network. Alacriti can also help community banks figure out which networks beyond RTP serve their needs, as it can be pretty complicated to parse out the different aspects.

Third Party Aggregator

Community banks might choose to connect through a third-party aggregator, such as a:

- Core processor provider
- Correspondent bank
- Banker's bank
- Community bank
- Corporate credit union

These entities provide connections to the RTP network as well as settlement services for community banks that may not want to connect directly to the RTP system due to the planning and process integration needed for implementation. Correspondent banks offer connectivity and liquidity services. However most still require a Third Party Service Provider for connectivity to the network. For the settlement account, they also act as funding agents that manage a bank's position in the funding account if they choose not to.

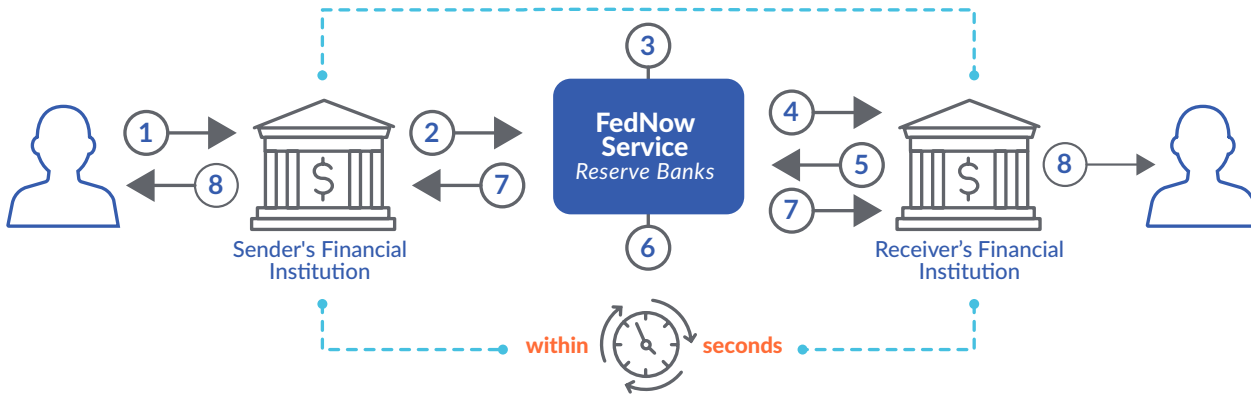
Directly to TCH RTP Network

Community banks have the ability to directly connect to the core RTP infrastructure to provide real-time payments capability and value-added payment-related services to their customers. However, this is typically reserved for the largest banks in the U.S. as it requires a significantly higher level of investment both from a time and resources perspective.

FedNowSM from the Federal Reserve

The Federal Reserve has announced it will launch its own Real-Time Payments network in 2023 (the Federal Reserve refers to real-time payments as instant payments). The FedNowSM Service is an "interbank 24x7x365 RTGS service with integrated clearing functionality to support instant payments in the United States". It's intended to be an efficient payment system that creates a foundation for depository institutions to build modern, innovative, and safe instant payment services. It's accessible to virtually all U.S. depository institutions—including smaller institutions in rural and remote areas of the country.

The FedNow Service will work by settling obligations between depository institutions through debit and credit entries to balances in their master accounts at the Reserve Banks. There will be a requirement that participants make the funds associated with individual payments available to their end-user customers immediately after receiving notification of settlement from the service. Fraud tools will be included, such as the ability to set lower transaction value limits and specify conditions where transactions would be rejected.



In Jan 2021, the FedNow pilot program launched, which has over 200 financial institutions and processors that will help support the success of FedNow. Alacriti will be in the FedNow Ecosystem Participants Pilot toward the end of 2021.

Ways to Connect:

Similar to the options for TCH's RTP, participants will be able to access the network through third-party service providers and fintech's that have a sponsored connection to the Fed via FedLine Direct. Additionally, third-party aggregators and correspondent bank setups similar to the Fedwire setups today will be used. Additional methods and or options will be announced as the pilot programs move forward. However, thinking about your strategy to have FedNow connectivity for your customers is recommended today.

Conclusion: Start Your Real-Time Journey

There is a lot of action in this space today, and still, plenty of dust to settle in terms of volumes and use cases. Alacriti sits on the U.S. Faster Payments Council's Education and Awareness working group. In this group, discussions on new use cases and which networks can support what functionality takes place real-time, as details of the new networks become available and operating rules and transaction limits change. Working closely with a fintech will help your community bank navigate today's changing landscape and maximize your flexibility to adapt to this rapidly changing market, all while meeting your customer's needs of today.

Alacriti's Cosmos for RTP® enables community banks to quickly and seamlessly connect to The Clearing House's RTP® network without the burden of significant infrastructure overhauls or capital investments. To speak with an Alacriti real-time payments expert, please contact us at (908) 791-2916 or info@alacriti.com