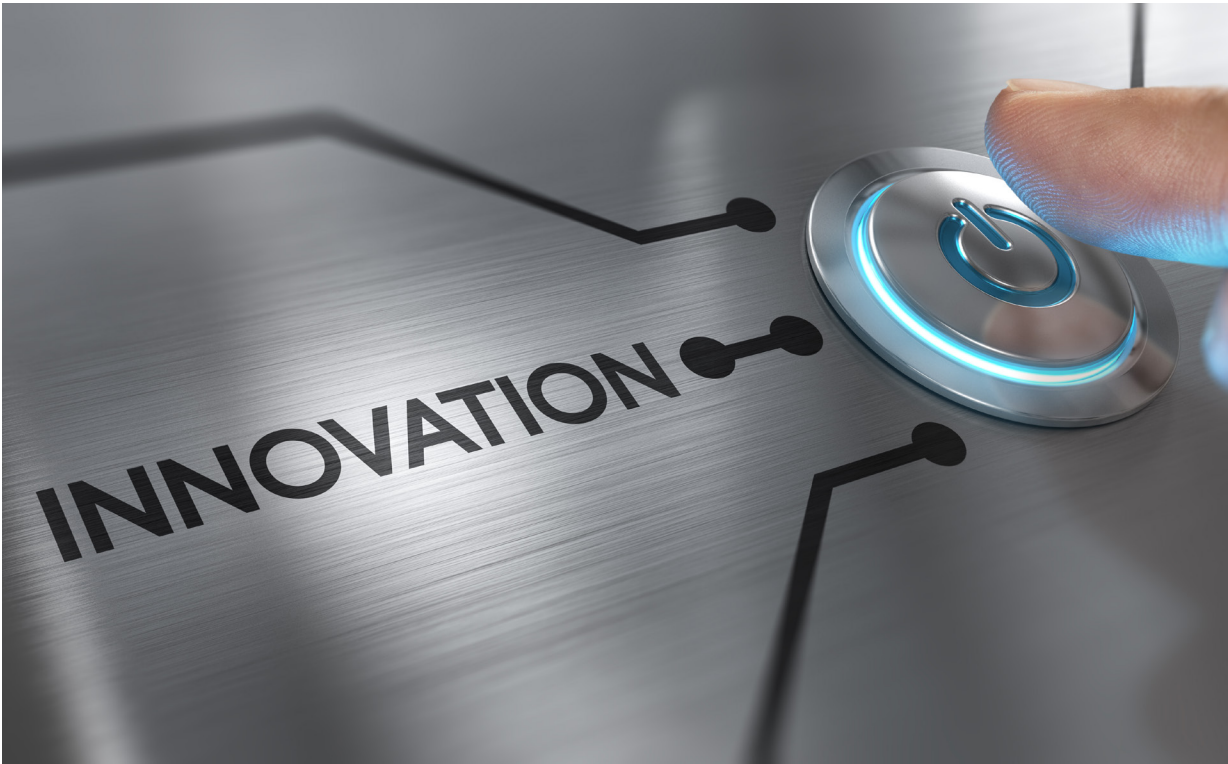


RTP 2.0: Adding Value With Payment Origination & Innovation



The number of financial institutions connected to The Clearing House (TCH) RTP® network continues to grow (now at [65%](#) of U.S. demand deposit accounts (DDAs)). At the same time, TCH has been busy—e.g., launching a pilot for immediate cross-border payments and adding a new tokenization capability. In a Credit Union Times hosted webinar, Keith Gray, Vice President of Strategic Partnerships at TCH, and Mark Majeske, SVP of Faster Payments at Alacriti, discussed the RTP network advances to come.

Fundamentals of The RTP Network

The Clearing House was founded in 1853 and has the same mission statement now as it did when it started—“to improve efficiency and remove risk from payments exchanges—and to be a place for collaboration and innovation.” They run a check imaging network, a wire network (CHIPS), an ACH network (EPN, which interoperates with the network the Fed operates), and in 2017 they launched the RTP network. They have hundreds of credit union and bank clients that use their

networks. That eventually amounts to thousands as RTP continues to grow and expand. They do over 50% of the commercial payments that happen every day in the U.S., which equals \$2.5 trillion, clearing and settling every day.

Gray explained that the key value proposition for the RTP network is that the sender originates the payment and the receiver immediately receives it. “We’re used to delayed availability of funds and low visibility into those payments. Members often wonder, ‘did I pay my bill? Has it come out of my account?’. With RTP, you have both immediate availability and immediate visibility on both sides of the transaction. I know I’ve paid you. You know you’ve received it, and the funds clear and settle immediately. Typical payment networks like our ACH network have a payment reversal capability. You can pull money out, do a debit or reverse those funds. With RTP, there is no reversal capability. The payment is complete and final within seconds. Traditional payment methods have debit capability where you can pull money out of the account. RTP is a credit push network—there is no debit capability. We intended that from the beginning.”

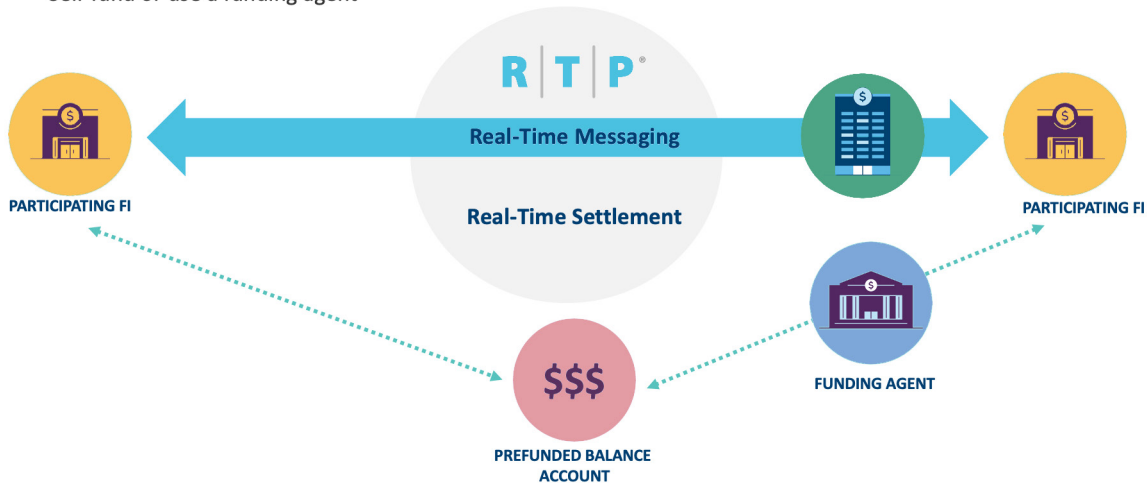
The credit push nature, the visibility, and the payment certainty are key capabilities of real-time payment networks around the world. A value-added capability that the RTP network provides is the ability to send and receive data relating to the payment along with the payment across the same network channel, known as [RFP](#). Traditionally, a member receives a bill via email and goes to pay the bill via a method such as online banking. In that scenario, two different channels have to be reconciled because RTP can carry both the payment and the data. You have tighter integration to a system on both sides because you are receiving information along with the payment. So RTP is really a messaging network that also carries the payment and information along with it. This provides a host of different use cases.

How it Works

The RTP network functions with RTP in the middle and a bank or credit union on both sides (which is called a participating FI on both sides of the transaction). For example, a FinTech can’t directly access the network without a credit union being involved. Gray stated, “We’re very credit union or bank focused in that regard. We have the vast majority of banks and credit unions that are connected through a technology partner. Third-Party Service Providers such as [Alacriti](#) can provide a host of different services on your behalf relating to RTP. They can help you connect to the network, send in and receive payments on the network, as well as a number of other application-focused functionality.”

RTP® connecting and funding options

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



Source: 2022 The Clearing House Payments Company LLC

Every RTP transaction is made possible by a pre-funded balance account that allows TCH to clear and settle the transaction at the same time that the actual transaction is being made. This account is held at the New York Fed. Every credit union and bank on the network has a position with this RTP funding account. This position can be managed by a credit union, or they can use a service of a funding agent e.g., a corporate credit union that provides those services now for wires and ACH and other things. Gray estimated that there are approximately 15 funding agents live on the network.

RTP Network Growth

The RTP network continues to grow in volume and reach. Recent years have seen substantial double-digit growth quarter by quarter. There are currently around 277 financial institutions, about 50 that are credit unions, live on the network. There is steady growth both in transaction volume and financial institutions going live. TCH projects that these numbers will escalate in the next year or so, estimating the number of institutions live will be close to 400 by the end of 2022. Right now, credit unions that are providing real-time payment capability to their members can expect to reach 65% of the account base across the U.S. (which is a number that also continues to grow in small increments).

The number of RTP originators tracks closely with large ACH originators. They have ~30 banks that have origination capability. The majority of the volume comes from ~10 of those large originators. That number is expected to dramatically go up as a couple of the large core processors are launching send-based capabilities this year.

How RTP Capabilities Are Being Used Today

- A2A
- Loan funding
- Gig economy
- B2B
- Payroll
- Merchant funding
- Title companies
- Wallets
- Insurance claims
- Cash concentration

RTP is intended to be the infrastructure to support a range of different applications for both consumers and businesses. “We see a lot of loan funding, especially in the credit union space where there are a lot of car loans,” Gray mentioned. “Insurance companies paying insurance claims immediately is a growing application and use case, as well as gig economy companies like GrubHub, who use the network to pay their drivers. It’s important to note that these companies can’t put a transaction right on the network—they have to leverage the services of the RTP network through their banking relationship.”

There’s a great deal of payroll volume on the RTP network, e.g., on-demand, payroll, adjustment payrolls, or work today/get paid today. “Especially since the pandemic kicked in, we see a lot more of that functionality. Large payroll companies like Paychex and Daily Pay leverage the RTP network to provide those types of services to their employer customers, who can then extend it to their employees,” Gray shared. “One of the unique things about the payroll use case is that it touches many institutions, so typically when a credit union goes live on the RTP network, there’s enough volume and enough widespread use cases where members immediately start receiving payments.”

There are also a lot of merchant funding applications companies like Elavon and Square that use the RTP network to allow their business merchant customers to push money out of their sales receipts immediately into their bank account. For example, a hairdresser that uses Square can immediately push her funds out of her square account that she collected with credit cards all day and put it into her bank account, giving her access to those funds immediately.

Companies like Venmo and PayPal use the RTP network to allow their customers to move money out of their wallet apps into their bank accounts. TCH sees a lot of volume from this type of activity, as RTP enables the immediate access of funds. Typically when a credit union goes live, the first transactions seen are Square, PayPal, and Venmo transactions due to their sheer volume and coverage. And when credit unions go live, they typically start receiving payments within the first hour.

A recent headline in the news has been about [U.S. Bank](#) enabling their business customer, Driveway, to deliver payments instantly to online car sellers. Driveway is an online used-car application. With real-time payments, the buyer can come to see the car and decide to buy, remit the payment to the seller instantly, and drive away without having to wait for the funds to clear.

Another is [Trustly](#) launching instant payouts in the U.S. Trustly has been offering Instant Payouts to businesses in Europe for more than a decade. With their partnership with Cross River Bank, they enable U.S. businesses to provide their U.S. customers with near-instant payouts to their bank accounts.

Another interesting headline is in the sports wager market. A number of gaming and sports wagering apps are using the network to allow you to pull money in or pull money out of your gaming app. A partnership between Mazooma (a gaming industry leader for bank account-based payments) and [Fifth Third Bank](#) allows players to receive payouts immediately into their bank accounts 24/7/365.

New Functionality and Use Cases

TCH continues to add new capabilities and functionality to the network. They've launched a tokenization capability, which allows accountholders to replace their account information with a token on the network. For example, you can have a token that is just for your Netflix bill and set up rules and guidance around those tokens, which give senders more control over the security around those payments.

Last year, TCH launched a Request for Payment (RfP) based bill pay pilot that is in the process of being expanded. RfP involves a biller or a small business putting a bill on the RTP network that gets delivered to the consumer, who can then decide whether they want to pay it or not. Both the information relating to the bill and where the biller wants the consumer to pay it is included in the request for payment. The consumer can just push back payment or wait and ignore the request. RfP allows both the bill and the payment to travel over the same secure network-grade platform. This is related to a document exchange service that TCH just launched: Document Exchange allows a small business to upload a PDF version of the bill. A link can be placed to the bill in the RfP. Document Exchange is not limited to just bill pay and can be used for any piece of information that the biller wants easily accessible to go alongside the payment.

TCH is also launching [cross-border payments](#) with Europe as the first area served. The limited pilot began late last year, and the broader pilot is currently ongoing. Immediate Cross Border (IXB) payments allow real-time processing with synchronized settlement of cross-border payments. TCH anticipates that IXB will be generally available in Europe by the end of 2022, and Canada and Mexico will probably be coming soon as they are big U.S. trading partners.

How RTP Transactions Impact Members

Gray discussed how going live with real-time payments looks for credit unions. “It’s a pretty easy lift to go live with the Receive capability. First, there’s no front-end application or use case you have to build. You don’t have to worry about having fraud monitoring on the Receive side. You can simply turn on Receive capabilities, and immediately payments come to your members. So right away there is a value—your members get paid faster. And then, you can evaluate what your strategy is around offering products that leverage the Send side of the RTP network. For instance, card loan services. Companies like [Alacriti](#) can help you with supporting the RfP capability. Really it’s a three-phase process.” The base level is Receive, then Send and Receive, then Send and Receive and RfP.

How do RTP® Transactions Impact Your Members?

When they...

Receive RTP Credits	Send RTP Credits	Receive and Respond to RTP Request for Payments
<ul style="list-style-type: none"> Your retail and business members will begin noticing a new payment credit into their checking account at your credit union Your members will receive payment confirmations 24x7 via your mobile banking apps Your members will have immediate access to these good funds since the funds are irrevocable – no pull back of funds or returns Your members may receive additional payment details if sender includes in payment message 	<ul style="list-style-type: none"> Your credit union will develop a new way for your members to originate real-time payments (mobile, online, file, API, etc.) Your credit union will deliver these good funds payments 24x7 to support your members transition to digital commerce Network payment transaction limit is \$100,000 (today) and \$1million in April 2021 Type of payments your members could send: <ul style="list-style-type: none"> Payroll Cash concentration Vendor payments 	<ul style="list-style-type: none"> Your retail and business members will receive a non-financial RFP message from their biller/counterparty requesting a payment Your credit union will deliver the request for payment messages via your mobile app for your members to respond or not take action Your credit union will provide a method to originate a payment in response to the RFP request Request for Payment Use Cases: <ul style="list-style-type: none"> Collections Bill payments Small Business Invoicing

Source: 2022 The Clearing House Payments Company LLC

Majeske elaborated on how Alacriti helps credit unions connect to the RTP network. “Alacriti can help remove friction and complexity around joining the RTP network. [Cosmos](#), our payments platform, is a payments as a service solution that is 100% cloud-based and integrated with many banking cores, which is a key differentiator for us. For example, if you’re on an FIS core or Fiserv core, we have an integration with those cores and we’re continuing to expand the number of integrations we have because we’re [ISO 20022](#) native. We have open APIs and smart-routing, which basically optimizes the way you route and provides payment options to your members based on available rails. Cosmos offers connection to FedWire, ACH, the RTP network, Visa Direct, and we will be offering FedNow when it’s available.”

Real-Time Payments Hurdles

There are hurdles in the marketplace for credit unions looking to adopt real-time or instant payments. Real-time payments are often a credit union's first foray into 24/7 transactions. Does your current enterprise fraud system handle real-time payments? Systems that are used for ACH or wire payments have time to consider the transaction before decisioning it. With the RTP network, there are only seconds. So it's important to upgrade your system so that it can compensate for how quickly the transaction is sent.

To assist with this challenge, Alacriti will be offering a fraud solution for real-time payments meant to augment enterprise systems specifically designed for the rails within Cosmos. The solution will be proactive—decisioning transactions before they're sent. Alacriti is partnering with global leaders in the fraud space to utilize its model, which is comprised of a multitude of banks and millions of transactions. Transactions are compared to similar transactions, so there's a score that comes over to the credit union. In this case, a credit union can customize its tolerance levels against that score. So if there's a preference, then it can apply a weighted type of decisioning against it. The transaction is decisioned immediately, so it really is turnkey. It's done while the user is in session which is important to alleviate friction and protect both the credit union and the member. Alacriti also offers full feature activity reporting so that the data Alacriti collects are shared with the enterprise system, thereby strengthening the model on the enterprise system.

The concept of a funding agent service raises a lot of questions. On the RTP network, there is a subaccount that financial institutions have to participate in. For example, if there is a three-day weekend, the value in that account goes up and down based on payments received and sent, but if the account runs to zero on the holiday weekend, financial institutions typically cannot fund that because it would have to be funded with a Fedwire and the Fed is closed. So many institutions look to funding agents, using them a bit like an insurance policy, as it ensures that the account is funded should the account go to zero. Alacriti is partnering with firms to offer this optional service to provide a one-stop shopping experience. Many credit unions and small banks have not had to manage their liquidity in the past, so it depends on the credit union's tolerance for risk when making a decision. "If you're already using a corporate credit union for all those types of services for other payment types, it will probably be very easy to just add RTP to it," Gray commented.

Lastly, one of the other challenges that credit unions have is that once they're connected to the network, they often don't have member-facing pages that allow the member to use the service. Alacriti has created member-facing overlays, accessible through APIs, so both members and credit unions can use the system easily. These can be branded for the credit union specifically. So, for example, if a member wants to send money on a Saturday, the overlay will not show ACH or wire as options because those cannot be sent on a weekend. The members will only see the options available to them and can follow up with their transactions accordingly.

Alacriti

FedNow vs. RTP

The FedNowSM Service will have similar functionality as the RTP network. Many credit unions wonder which network they should be on. Gray answered, “I think the answer is going to be, ‘you need to be on both.’ The vast majority of the real-time payments volume is on RTP. You’re not going to see a lot of the large originators switching networks. So I think as a credit union, you’re going to need to be on both networks. That begs the question, ‘why not just do RTP now?’ A company like Alacriti will serve as a sort of routing engine between the two. The two networks speak the same language as they’re both ISO 20022-based networks, but their implementation of their messaging and some of the rules is different from ours. I think there will be some level of interoperability possible, but I think you’re going to need a company like Alacriti that can help provide some type of transaction routing. My message to credit unions is to go ahead and get live, at least on the Receive side, then figure out what your send based strategy is. As you’re looking for technology providers, make sure you have commitments from your technology provider to support FedNow, so you’re covered either way.”

Gray anticipated the impact of FedNow when it launches to be a “perfect example of the rising tide lifting all boats.” The more it’s available, the more members will want real-time payments, and they don’t necessarily care how they get them.

The Future of RTP

Currently, the RTP network is doing millions of transactions and covers 65% of the account base in the U.S. However, Gray defines ‘mainstream’ at about 90% and estimates that they’re about two years out from reaching that level. “We have a host of companies offering RTP-based services. And it’s just a matter of getting the credit unions onboarded and through the process, which is a straightforward and simple process, to enable RTP once the technology is in place with a company like Alacriti.”

Majeske weighed in. “Now that we have the network up and running, it’s up to payments fintechs and financial institutions to come up with innovative solutions. Once we do that, people will use them. We’re all consumers. Would I use something that enables me to move money in seconds? Absolutely. I think that the market just has to catch up to it.”

“The cross-border payment capability is huge, especially as the world gets more interactive globally. The need for immediate cross-border payment continues to accelerate, and I imagine it’s going to be a big topic of discussion over the next few years. I think the tokenization capability continuing to make those payments safer brings in a whole new realm of control and security that you need for cross-border payments. I’m sure we will see more of the Request for Payment-based initiatives as well, getting billers and merchants, and small business owners involved in communicating with their customers over the RTP network for payment-related things. I envision each of these things will be big topics, and not just in the distant future, but even within the year,” Gray added.

Alacriti

To learn more about what new features and functionality will be available on the The Clearing House RTP network, watch the full webinar, **RTP 2.0: Adding Value with Payment Origination & Innovation**, featuring TCH and Alacriti.

WEBINAR PLAYBACK

**RTP 2.0:
Adding Value with Payment
Origination & Innovation**

WATCH NOW

WHAT'S
NEW?

Alacriti | The Clearing House

Alacriti's centralized payment platform Cosmos Payments, provides innovation opportunities and the ability to make smart routing decisions at the credit union to meet their individual needs. Credit unions can unify payment processing all in one cloud-based platform—ACH, the FedWire Funds Service, TCH RTP® network, Visa Direct and soon, the FedNowSM Service. To speak with an Alacriti payments expert, please contact us at (908) 791-2916 or email info@alacriti.com