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Making the (Use) Case for Faster Payments

The U.S. has been a bit behind the rest of the world when it comes to real-time payments. However, adoption is now growing rapidly, with the benefits now being well understood. When making the case for real-time payments, questions about potential revenue generation and the benefits beyond speed must be answered. On a BAI-hosted panel discussion, Reed Luhtanen, Executive Director at the U.S. Faster Payments Council (FPC), Keith Gray, Vice President, Strategic Partnerships at The Clearing House, and Mark Majeske, SVP Faster Payments at Alacriti discussed how financial institutions are winning with instant payments.

What is a Faster Payment?

The webinar started with a poll question, "How interested are your business customers or members in instant payments". Almost 60% answered 'somewhat'. To Luhtanen, these results affirmed the need for education on real-time payments. He level set the terminology used for

faster payments. The FPC uses the Bank for International Settlements' Committee on Payments and Market Infrastructures definition of a fast payment, which is: *A payment in which the transmission of the payment message and the availability of final funds to the payee occur in real time or near real time on as near to a 24-hour and seven-day (24/7) basis as possible.*
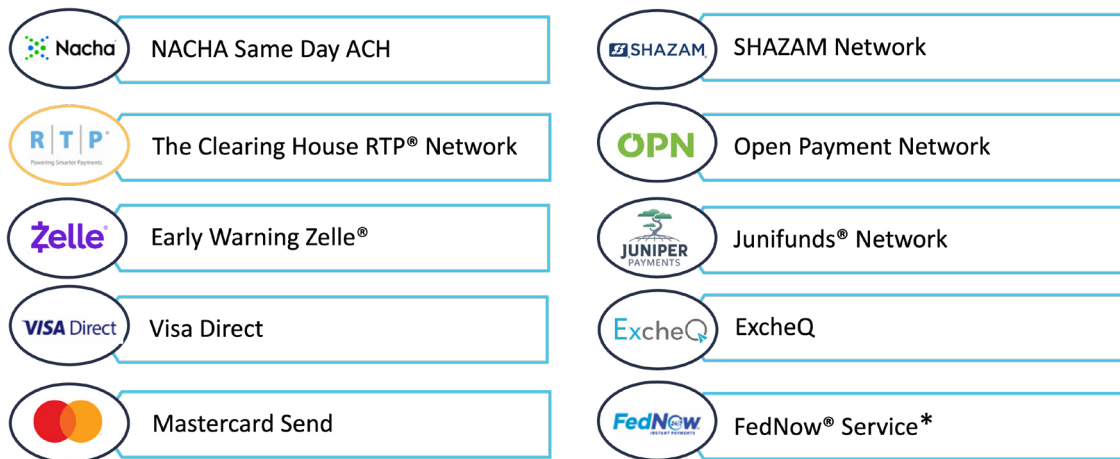
- Same day: Same Day ACH speeds up the conventional ACH process, which used to take multiple days and now in many cases, those transactions can be completed on the same day. The effective date is the same as the date the entry was initiated by the sender.

- Immediate: Available 24/7/365 and offer immediate settlement of the transaction

- Instant: Available 24/7/365 and receive a response within 15 seconds.

Luhtanen talked about the interest that business end users have been showing for faster payments. "In the last few months, we've seen a large number of large corporates joining the Faster Payments Council— Starbucks, Kroger, Disney, Best Buy, Publix, Verizon, and McDonalds have all come on board, adding to a group that already included Walmart, Target, Microsoft, Netflix, Airbnb, and Nationwide Insurance. These are huge companies but also very diverse in terms of their interests, and many are the leaders in the space that they operate. The corporates I've spoken to are (not surprisingly) very keen on the consumer-to-business use case. With e-commerce specifically, there's also definitely some interest in the momentum behind bill pay which has a very large C2B use case. Leveraging the Request for Pay feature can really make that a much better experience for the customer than we have today. It's not yet clear to me whether there's an appetite from financial institutions to make some of those use cases around e-commerce or point of sale a priority."

Luhtanen went on to say that the potential benefits of B2B hasn't yet resonated, so there's a lot of work to be done on educating the corporates and the business end users. He provided examples of the value that real-time payments bring for B2B:

- The data that can flow along with the payment

- The ability to use a product like Document Exchange from The Clearing House to associate documents with payments and bring in context

- Speeding up:
  - Reconciliation
  - Dispute resolution
  - Error processing

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Luhtanen explained that there are a lot of networks out there with different faster payments capabilities:

Nacha	NACHA Same Day ACH	SHAZAM	SHAZAM Network
RTP	The Clearing House RTP® Network	OPN	Open Payment Network
Zelle	Early Warning Zelle®	JUNIPER PAYMENTS	Junifunds® Network
VISA Direct	Visa Direct	ExcheQ	ExcheQ
Mastercard	Mastercard Send	FedNow	FedNow® Service*

*In development, planned for 2023

Source: 2022 The Federal Reserve

Same Day ACH is ubiquitous now, but there are many different options for faster payments capabilities, which requires financial institutions to figure out which networks fit what they're trying to achieve and what their customers/members are looking for.

The Faster Payments Council (Alacriti and The Clearing House are members) has different work groups with members that come from all the different segments of the payments ecosystem. However, their biggest segment is financial institutions. Work groups include Real-Time Recurring, Cross-Border Payments, Digital Assets in the Financial Industry, Financial Inclusion, Secure Instant & Immediate Payment APIs, Operational Considerations for Instant & Immediate Payments, QR Code Interface, and Fraud Information Sharing. These work groups assist the FPC with goals such as broadening the reach of the networks, getting more financial institutions to implement, figuring out the use cases that will work for corporates, and working on cross-border payments.

The Digital Assets work group examines where the intersections are between faster payments and digital assets. Just because financial institutions have adopted a network and there's a connection between one DBA at one FI and the DBAs at another financial institution, that doesn't mean that there's a user experience that actually will allow a consumer to business to cause a payment to happen and receive that payment. So the FPC is looking at things like QR codes and directory services to make it easier for people to find each other, and APIs to connect different apps and software together. The FPC is also looking at implementing recurring payments in an environment through RTP® and

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FedNow® where there is not an ability to debit an account. Trust is a huge challenge for adoption. Two factors can contribute to this—fraud and financial inclusion. Financial inclusion is about developing products and services that meet people who choose not to be banked. And then also trust needs to be built around the operational consideration.

For preparation for faster payments, Luhtanen advised what should be in place for a financial institution. "Once this becomes business as usual in terms of staffing, fraud & transaction monitoring, and technology, think about how you're going to build out business interest. It's not just talking to businesses and saying, "Hey do you want to do instant payments?", because that doesn't really mean anything to them. You have to show them how these payments will create experiences that will resonate with their employees or customers in a way that can be a game changer for them."

RTP Usage

The Clearing House launched the RTP network in November 2017. On any given day they process over half of the commercial payments in the U.S., which adds up to somewhere over $2 trillion a day. Gray shared the latest numbers from The Clearing House. At the time of the webinar (May 2023), there were ~340 financial institutions on the RTP network, which equates to about 65% of the customer base. Ninety percent of RTP Network Participants are credit unions and community banks. "The account base in the U.S. tends to be a little heavier on the coasts and a little thinner in the middle of the country, but it averages out to about 65% countrywide. The other thing we track as we're measuring the impact of RTP is the actual transaction volume. The RTP network grows by about 15-20% per quarter," Gray said.
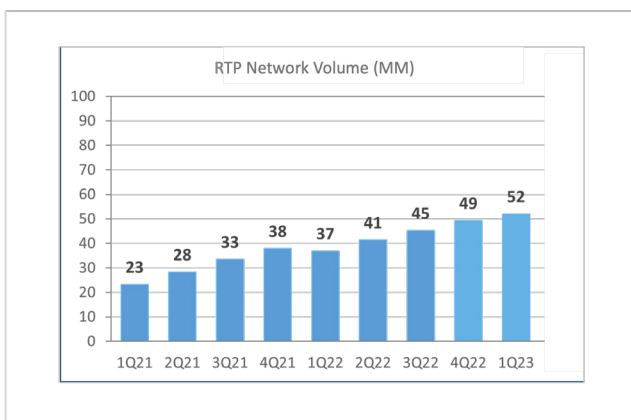
VOLUME/VALUE	GROWTH/REACH

Source: 2022 The Federal Reserve

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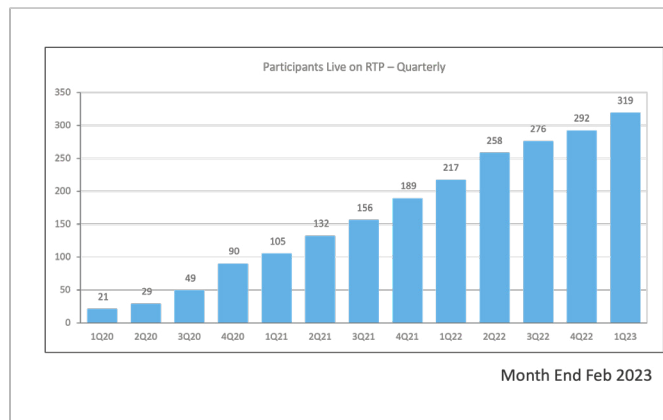
Use Cases

According to Gray, the growth is driven by new products, services, and volume coming across the network from a host of different use cases. "It helps to remember that RTP is not a product—it is a network. It is a platform that facilitates a host of different products or use cases. These products or use cases are typically delivered through technology companies like Alacriti, directly from the bank, or with a combination of a bank and fintech. I saw recently that some 130,000 businesses have actually sent an RTP payment through their banking relationship. And somewhere around 3 million consumers have sent RTP payments, and those are typically A2A or P2P payments. Some of the heavier volume use cases that we see on the network are payroll and what I think of as payroll related types of services," said Gray.

One example of payroll is earned wage access companies. If an individual needs money funded directly to them by leveraging RTP, they could get access to $100 to hold them over until their payday on Friday. Payroll could be just a regular payroll cycle that's run on RTP, or it could be same-day payroll. The Clearing House is seeing more and more same-day payroll such as work today get paid today types of services. Employers in certain segments like restaurants are using that as an added value to attract new employees. Friday is the biggest day on the RTP network and the busiest time on the RTP network from a volume standpoint is close of business Friday. Gray explained that it has a lot to do with a lot of adjustment payrolls that are getting run on Friday afternoon. Also, the transportation sector is one of the biggest users of the RTP network, as truck drivers need money for fuel or to pay suppliers that they're picking up items from.

"Most of the time when a bank goes live on the network, one of the first transactions they see almost immediately is our merchant transactions moving money from companies like Square and Elevon that use the network to push money from their merchant account to bank accounts 24/7. We see a lot of that kind of volume on weekends as well. Let's say I'm a small business owner. I take credit card payments all week; it ends up in my merchant account. I need to pay my bills and pay my suppliers. It happens to be Saturday—everything's closed from the financial standpoint except RTP. So they have the ability to move money from their Square account right into their bank account, and they can pay their bills. We see a lot of volume with that. And one of the really growing segments is business to B2B based transactions. The perfect timing carries a lot of weight with corporations. If I'm a treasurer at a corporation and owe a supplier a million bucks tonight, I can wait until 11:59 and initiate that payment exactly when I owe it. I can keep that money earning interest in my bank account, which is much more important these days in a higher

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interest environment. And then I can execute that payment and it's cleared and settled within seconds," said Gray. "And all of the information needed on both ends is delivered with the payment which is another value of the RTP network. I saw a large title company that launched (through their banking relationship) an RTP-based service for home closings which they can do on Saturdays and Sundays. There are hundreds of use cases that are growing every day with new products and new services that are getting launched because of the new capabilities of the RTP network.

Many wonder if the new volume on the RTP network is taking away from wire or ACH. Gray shared that actually The Clearing House is seeing growth in those networks as well, and it seems like the RTP network isn't taking away from anything except perhaps cash and checks. Most of the RTP volume is driven by the new capabilities and new use case functionality.

Tomorrow's RTP Network

The Clearing House aims to not only offer faster payments, but safer and more secure payments. They recently launched a new tokenization capability which allows the replacement of actual account information with a randomly generated token or tokenized number, which provides more control over and the ability to limit certain functionality. The Clearing House is already seeing an interest in this.

Request for Payment (RfP) makes it possible for the invoice to come directly across the network from a biller. It can be delivered to the consumer who can then make the decision as to whether they want to pay it right away or not. Then the payment can travel right across the same rail. This makes bill pay work as a much cleaner transaction as opposed to the way it works now, where oftentimes the bill is delivered via email, and then the customer can only pay at the biller site or go into their online banking account to pay it, and then everything has to be matched up on the backend.

To support RfP, The Clearing House launched Document Exchange, which is the ability for a merchant to take an actual image of the bill and upload it to the cloud-based service, which then creates a link that can be embedded in the Request for Payment. The consumer receives the Request for Payment, and just clicks on a link to open the bill. This functionality has the opportunity to create new products driven by B2B as well as consumer bill pay.

Lastly, the Clearing House has a cross-border payment initiative with the U.K. that will most likely begin in early 2024. Cross-border real-time payments have generated a lot of interest in the industry as well.

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Generating Revenue with Real-Time Payments

Another poll question was asked during the webinar, "Do you anticipate real-time payments as a revenue opportunity for your financial institution." The results were about half and half. Gray was not surprised as he sees financial institutions frequently ask about how to build a business case around real-time payments and how they can drive revenue. There are several capabilities that financial institutions can launch on the network. The base service is allowing customers or members to receive incoming payments. There's enough volume on the network now where every financial institution (regardless of size) that goes live starts receiving payments, whether it's Square, Venmo, PayPal, Amazon, etc. Most financial institutions turn on Receive first. The business case around this is providing a service that your customers or members want—they want to be paid better, smarter, and faster. It creates a new revenue channel for the financial institution, driving the ability to make additional loans.

It is usually assumed that the big originators for things like ACH are the big originators for RTP. In some cases that's true—the large financial institutions are some of the largest originators on the RTP network. However, two of the largest originators and two of the top five are small community-sized institutions that have big customers that are using the network. The Send function allows the financial institution to decide the use cases based on who they are targeting e.g., businesses or bill pay, etc., and then bill for it. For instance, Request for Payment adds value to billers and is a revenue opportunity. "Customers are willing to pay for better and faster service—that's where it begins. And the revenue trickles down from there," Gray said.

How RTP Transactions Affect Your Business

Receive RTP Credits	Send RTP Credits	Receive and Respond to RTP Request for Payments

• Your retail and business customers will begin noticing a new payment credit into their checking account at your bank
• Your customers will receive payment confirmations 24x7 via your mobile banking apps
• Your customers will have immediate access to these good funds since the funds are irrevocable – no pull back of funds or returns
• Your customers may receive additional payment details if sender includes in payment message
• Type of payments they could receive:
  – Merchant settlements
  – Vendor payments
  – Wallet Disbursements
  – Payroll Payments
	• Your retail and business customers will begin noticing a new payment credit into their checking account at your bank
	• Your customers will receive payment confirmations 24x7 via your mobile banking apps
	• Your customers will have immediate access to these good funds since the funds are irrevocable – no pull back of funds or returns
	• Your customers may receive additional payment details if sender includes in payment message
	• Type of payments you could receive:
	  – Merchant settlements
	  – Vendor payments
	  – Wallet Disbursements
	  – Payroll Payments
		• Your retail and business customers will receive a non-financial RFP message from their biller/counterparty requesting a payment
		• Your bank will deliver the request for payment messages via your mobile app for your customers to respond or not take action
		• Your bank will provide a method to originate a payment in response to the RFP request
		• Request for Payment Use Cases:
		  – Collections
		  – Bill payments
		  – Small Business Invoicing

Source: 2022 The Federal Reserve

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Majeske shared a use case from a small financial institution from West Virginia that he met at the EPCOR conference in Columbus, OH. "We were talking about use cases, and they let me know that they've only been on RTP for a year. They already have a car dealer use case and a title company use case that is functioning today, which they are monetizing. They were quite pleased about that. Whether your organization is large or small, there are ways that you can participate and monetize the network."

Connecting

The next poll question in the webinar was, "Are you connected, or plan to connect to real-time payment rails?" The majority (75%), said yes, through a third party service provider,18.75% said directly, and just 6.25% said they had no plans to connect. Majeske discussed what to consider when planning to connect to real-time payment rails. "Look for a [payments hub](#) that's SaaS, that provides you with the flexibility to choose the rails you want and when you want to add them. You shouldn't have to add them all at once. If the solution is cloud-based, it provides a lower operation cost to load and maintain software and an increase in speed and flexibility in terms of additional volumes. Also, look for something that integrates with many banking cores. A lot of people think they have to go with their core vendor. Actually, that's not the case. Through the use of APIs, a lot of systems can integrate with a multitude of cores and offer more services. ISO 20022 should already be in use. The RTP network and the FedNow Service are using ISO20022, so it's a good idea to choose a partner that is already using this messaging system. Open APIs are necessary for everything from integrating the core to communicating, to providing customer facing pages for use cases. Lastly, smart routing. If you're sending a batch file and you want some of those payments to go through ACH, maybe some through wire, and some through real-time payments, make sure you choose a partner that has the capability of filtering and routing those payments on your behalf, making the process a lot easier."

Majeske asserted other things to consider as well. It's a good idea to have a fraud system to address instant payments for Send. When doing Receive Only, there's not a large need to upgrade the fraud system at the time, but Majekse recommended that FIs keep their eye on what's new, and what their system does and does not do today. For instant payments, most fraud occurs in account takeover and mule accounts. "So if you're shopping for a fraud system, keep in mind that those two items should be top of the list as to what they can accommodate. You don't necessarily have to purchase an entirely new fraud system to accommodate the RTP network or the FedNow Service. However, with Send, you may want to consider laying or finding another solution to layer on top of your existing fraud system. The fact of the matter is that there's fraud in every rail, and it's not more prevalent in instant payments. What you really need is the

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right tools to address it." The solution needs to be proactive, meaning that transactions are scored and decisioned before they go to the network. This gives the FI the opportunity to respond quickly. Choose a solution that offers AI and machine learning, which will identify changes in patterns that fraudsters are using.

Gray was asked by an audience member whether fraud was faster on the RTP network. "Well, thankfully not. And I always knock wood a little bit when I say this, but our experience to date is there is literally no measurable fraud on the RTP network. That's probably due to a number of reasons. One of which is the very nature of the network being a credit push network. There is no debit capability, so you can't pull money out of someone's account. A lot of the fraud in the other networks we run, ACH as an example, is typically done with a debit, and you don't have visibility into what's come out of your account. The other thing is, from the beginning, we knew it was very important to secure the front end of the transaction. And as an industry, we were already doing a good job with things like biometrics and secure passwords and things like that on the devices themselves. That really plays a strong part in protecting our RTP transactions. It's something you have to be ever vigilant on. With RTP, we provide tools to help the industry or the network know who the bad actors are and when there is a fraudulent transaction. So you have network capabilities, but like Mark was saying, having a 24/7 fraud capability is something that's very important with any real-time payment."

Another audience member asked whether financial institutions should be reviewing their internal operations models to support 24/7/365, and how existing Send financial institutions have adopted their operations to support the instant model. "As a TPSP provider, Alacriti does a lot of the functions on behalf of the organization. From talking to people at conferences, the implementations and the changes on the processing side for the financial institution were minimal. When you have a TPSP who can connect to your core, they can actually do the transactions on your behalf, and present the reporting to your institutions. There's not really a heavy lift. In most cases, additional people didn't have to hire additional people. Look at that carefully when you speak with possible partners," Majeske answered. Luhtanen commented as well, "As an industry, we've been supporting 24/7 for 30+ years. We started with ATMs, then online banking, and then mobile banking. And as Mark referred to, I'm not aware of anyone that had to staff up or change their support models. They just incorporated real-time payments into existing support models."

Another thing to consider prior to connecting to real-time payments is whether or not to leverage a funding agent. Funding agent services are provided as a liquidity management tool. FIs have to decide if they need a funding agent. For instance, if an FI is on the RTP network and has a

sub-account as it sends transactions, the amount in the account goes down as it receives them, so the balance has to be managed. There needs to be enough money over the weekend because the account can't be funded without using a Fed wire, and the Fed is closed over the weekend. This creates a vulnerability. A funding agent ensures that an FI has funding 24/7/365.

In Conclusion

Customers and members don't really think of themselves as an RTP network or FedNow Service user. They see themselves as getting their payroll faster, going to a car dealership and being able to buy a car on Saturday, initiating the loan on a mobile device and walking out with a set of keys, etc. Instant payment rails are not products—they're capabilities. So it's important that when FIs put the UI in place, they think about the overall user experience. "It's not about talking to your customers or members about RTP or FedNow, it's about talking to them about the capabilities that they have now as an accountholder and talking to them about the things they can leverage capabilities to do. Look at what they're doing today with payments and how this new ability enhances or enables things that would be beneficial to them," Luhtanen concluded.

*To find out more about how financial institutions are winning with instant payments, watch the full webinar, **Making the (Use) Case for Faster Payments**, featuring the U.S. Faster Payments Council, The Clearing House, Alacriti.*

WEBINAR PLAYBACK
Making the (Use) Case for Faster Payments

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

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