

Instant Payments: A Credit Union Perspective



With the launch of the FedNow® Service, instant payments are more of a hot topic than ever before for credit unions. However, before credit unions embark on this transformative journey, it's crucial to comprehend the impact and ensure preparedness. In a Callahan-hosted [panel discussion](#), credit union leaders and payments experts (Amanda Ott, Digital Integration Analyst at Veridian Credit Union, Cassandra Tucker, Director of Operations at ABNB Federal Credit Union, Mark Majeske, SVP Faster Payments, at Alacriti and Jeff Bucher, Senior Product Manager, at Alkami) delved into the intricacies of instant payments and what lies ahead for credit unions.

Monetizing External Transfers

Alkami's Jeff Bucher started the discussion by sharing their first use case for faster payments—external transfers. They have a lot of financial institution clients that have users with multiple financial institutions (as most do). “Linking up the external accounts to their current accounts is a priority for

a lot of our financial institutions so they can become the main financial institution, keep most of their funds there, and have easy access to moving funds between accounts at other institutions.”

They have a linking process that is simple to use, and there are two ways to do it. The first way is the instant account verification option, where an accountholder can link up an account instantly by putting in credentials. The second option is trial deposits/micro-deposits. Alkami can send micro-deposits to other financial institutions that can be verified by the user and then link up the account. Alkami will add Alacriti’s instant transfer technology to this process so consumers can transfer to an account at another financial institution instantly via the RTP® network, the FedNow® Service, or Visa Direct.

Visa Direct makes it possible for Alkami’s financial institutions and their users to link debit cards within the transfer widget, making it possible to pull off of a debit card or push into a debit card. “We’re partnering with Alacriti—they’re a great partner. We chose them over several other partners because they were farther along in understanding faster payments,” explained Bucher.

For eligible accounts, the option to transfer instantly is presented. This represents a monetization opportunity for the credit union. They can have a dropdown menu for the member to choose to transfer instantly or the standard transfer. Alkami recommends to their financial institutions to charge some type of convenience fee. According to Bucher, between \$1 and \$1.50 for instant transfers is standard, and sometimes financial institutions do percentages with those transfers (1-2% of the amount transferred).

Majeske, who helped with the launch and design of the RTP network, shared a couple of payment trivia items. “A lot of people don’t realize it, but RTP has been in existence since the late 1800s, and it actually served or acted as the Fed before there was a Fed. It helped banks to reconcile between each other long before the Fed was in existence. Today, The Clearing House clears half of the U.S. ACH and wire transactions on a daily basis, and they move \$2 trillion per bank business day. The Fed moves the other half, so the two actually have a symbiotic relationship.”

Instant Payments Use Cases

Bucher then presented some helpful use cases for real-time payments:



C2B

Bill Pay: RTP, FedNow, Card Funding

- Ecommerce
- Investment account funding



B2B

RTP, FedNow, Push to Card

- Urgent payments
- Invoice payments
- Invoice payment requests



Government

RTP, FedNow

- Tax Payments
- Distributions
- Stimulus checks



B2C

RTP, FedNow, Push to Card

- Requesting payments
- Refunds
- Insurance claims
- Payroll
- Loan distributions
- Investment distributions



P2P

Zelle, Venmo, Paypal, Google Pay

- Friends & family
- Informal services



A2A*

Instant External Transfers

- Instant push transfers
- Loan payments (Debit Card)
- Instant account funding

Bucher explained that A2A transfers are a great first use case to start with as it's simple yet gets traction. There is a lot of demand for users to be able to move funds instantly between their linked accounts at other financial institutions rather than waiting for the ACH to clear. B2B and B2C are two really important use cases that are coming up. Businesses tend to use ACH very often—and some still use checks, making B2B and B2C options an ideal next step. For P2P, Zelle, Venmo, PayPal, Google Pay, etc., act as faster payments. C2B is typically a bill payment option. Bucher has noticed that the volume has been dropping over time, perhaps because of other options coming into play, including P2P and other faster payment options that outdo bill pay.

Myth or Reality?

Since there is a lot of information out there about faster payments, everyone in the panel discussion addressed common questions and misconceptions.

Faster Payments are only for consumers. My FI's businesses can't use it.

Mark Majeske (Alacriti):

I would say that this is a myth. When we launched RTP, we thought it would be for businesses only, and in actuality, it was quite the opposite. As we move forward through our payments evolution, we will start to see RFPs (Requests for Payments) come into play. Once you see that, businesses will use instant payments to send invoices, which will be a game changer. It alleviates a lot of friction in the process of sending invoices and getting paid. I predict that next year, there will be many more Requests for Payment transactions, which will heavily reflect what kind of transactions are done on the business side.

If I have FedNow, then I have little need for RTP or Visa Direct.

Mark Majeske (Alacriti):

That is a myth in today's environment. We know that RTP and FedNow are not interoperable. So I wouldn't want to marry myself just to one of the rails. I do find that customers (in this case, credit unions) are looking at offering both Send and Receive. Some may do Receive for both and then choose Send on just one or the other. Also, Visa Direct is a great solution when you're trying to send money to someone and their institution is not on FedNow or RTP. It's a great solution which fills that gap.

RTP/FedNow isn't needed because people have Zelle, Venmo, PayPal, Etc.

Amanda Ott (Veridian Credit Union):

I see this as a myth. We often hear from our members that we need to offer the ability to transfer and move funds easier and faster while also extending more flexible payment options—all within their online and mobile experience. In reviewing the last year plus of our online and mobile surveys, the comments

included over 200 mentions rooted in money movement feedback. Some of those themes were, “You need to make it easier to pay from a different bank or credit union,” or “It needs to be more user-friendly and flexible to make payments to loans.” Payments in the transfer process are very slow. Member service is a top priority for us. Not only do we want to help move funds faster, we want to offer a more reliable service, a more secure service, and that familiar person to connect with to help support the service. So, knowing that nearly 40% of our users and members are taking the time to voice their feedback about the lacking or possibly even dissatisfied experience of the current money movement options, that is more than enough to tell us that the RTP and FedNow is a need in our digital experience.

Faster Payments will seriously reduce my existing ACH and Wires revenue.

Mark Majeske (Alacriti):

I would say that’s a myth, and it’s a question we often get. A lot of people wonder if this is going to be a replacement for ACH or for wire, and I don’t see it being a replacement. I think we’ll always be using ACH and wire for various purposes. However, the delta is in the time—the 24/7 aspect of things and the expediency of the payment. What we’re seeing is a shifting versus a total annihilation of one or the other. As we start to see new use cases come into play for instant payments, yes, in some cases, it will reduce your ACH or wire activity, but certainly not reduce it to zero. There’s room for everyone.

My FI is too small to implement this and my accountholders won’t use it.

Cassandra Tucker (ABNB Federal Credit Union):

This is, to me, a myth. We’re not a huge financial institution. And for us, this was a priority, especially because of our size. For credit unions, specifically the smaller ones, it’s very clear that we need to have an identity—who we are and who we want to be. For us, that’s being digital first and making sure we can serve all of our members, and we’re looking to capture our younger membership. The credit union market space is compressing pretty rapidly, and it’s important to stay ahead of technology and be at the forefront so that you can compete with fintechs and the larger banks.

Instant payments give you the ability to be competitive. Because of our size, we have a small operations team, and we’re drowning in processing and exceptions and all of those things that are related to check processing and wires and ACH. Those are cumbersome and timely processes, whereas instant payments is a fully automated service for the most part. So this is actually going to be a drastic improvement for us as an institution. I look at it as a life preserver or a safety net to help us as we grow. I think it’s vital for smaller businesses because it helps with resource constraints and takes some of the pressure off your back-office team.

Identifying your organization's use cases is a priority.

Amanda Ott (Veridian Credit Union)

Of course, this is reality. We learned early on in our road to implementation that understanding our use cases for our business model was critical to the success of launching real-time payments. Our internal teams engaged in several exercises to identify all possible use cases and how they would be facilitated. We also worked through the ROI case by case and determined our cost, where we might implement a potential fee for that use case and risk assessment. We needed to know what was going to be the best experience, satisfy the highest demand, as well as what's most beneficial to us as an organization.

Building those channels for each of the use cases does take time, effort, and investment to deliver. This is why it's so important to identify and prioritize your organization's use cases to best determine the appropriate path for your implementation. Also, identifying the use cases early on allowed us to design a strategic two-year and plus business plan for the rollout of all the RTP components. We have specific details on how we will integrate the multiple payment channels. We have assigned priority levels on the identified use cases, so we know the order in which we're going to roll these out timeline goals for each of the key deliverables and plans for how our payment hub will allow us to eventually have a centralized payment processing system with the help of Alacriti to have comprehensive analytics so that we can mine into that data for the future. So, it is absolutely a reality to identify your organization's use cases as a priority.

Faster Payments are at higher risk of fraud than other payment types.

Mark Majeske (Alacriti):

My positioning on this is that this would be a myth, and a lot of people would probably think otherwise, but the way I look at it is this. Each payment rail has its own risk. Fraudsters are interested in every single rail. Is it a higher risk of fraud than other payment types? I would say, no, it is not. In fact, in a lot of cases, it's a credit push-only transaction, so you don't have the debit exposure that you would normally have. The things we have to be careful of is the account takeover and we have to be able to monitor for mule accounts. We are building systems and offering systems that do that. I would say it's a different type of fraud for instant payments, but it is not a higher-risk payment type as a result.

My current enterprise fraud system should be adequate for faster payments.

Amanda Ott (Veridian Credit Union)

I would say this is a myth. There definitely needs to be some due diligence done before, assuming that your current system is adequate. You obviously

can't have the RTP conversation without including the topic of fraud. There will be new risks and challenges with faster payments, so it is essential to complete a full review of your current fraud systems and tools. We might not be able to anticipate and prevent everything. However, there are actions that can be taken to mitigate risks while also not taking away from the goal of faster payments.

What we've done is, together with all of our partners involved in the flow of RTP, ensured there is a strong understanding of how this is different from other payment channels. We've done a lot of reviewing and managing of our rules and different systems and reviewed limits and processes within the various fraud tools and systems. We've updated different configurations that were already available. We just needed to have the conversation to know what needed to be done. In finding ways for direct connections to the data endpoints, we've been able to confidently get to an accept and reject status faster. So, if that transaction doesn't meet the criteria established, the transaction is rejected within less than 15 seconds. It's a work in progress, and we know rules will change as we continuously monitor what's working and what's not working. But simply relying on your current fraud system does have the potential to introduce avoidable gaps. It's important to have your fraud resources in place from an overall knowledge monitoring, alerting, decisioning, and strategic direction perspective.

We don't have the resources to implement and maintain the new payment rail.

Cassandra Tucker (ABNB Federal Credit Union)

That could be determined by who your partner is that you choose. For us, that's a myth because we chose Alacriti for our venture into the instant payment space. We're a small shop, so resource allocation and resource management is something that's a huge priority for us. Working with Alacriti, they do so much of the heavy lifting for the implementation of this payment rail that it made it feasible for us. As long as you are choosing a true partner to take this endeavor with, resources should not be an issue. Frankly, our lack of resources is what drove us to this product. This is so much more simple than dealing with exception processing for ACH or the things associated with share draft processing. The actual backend maintaining that rail is seamless. It's an automated process—you're able to accept or deny decisions in 15 seconds, and in some cases, it's going to be less than that. So, this is definitely not something that should hold you back from looking at instant payments. I think it's something that you should use to look at more closely for instant payments.

We can definitely wait to implement at a later time, and we have other priorities.

Amanda Ott (Veridian Credit Union)

This is a myth for us—waiting wasn't an option. Regardless of also having other priorities, as we all do, this just became one of the higher ones. We had been watching the RTP landscape for a while. When a couple of our large fintech relationships approached us a few years ago asking what our plans were, that really ignited our interest and motivation to act and act fast. Alacriti has been a big part in getting us prepared. Having a partner is important, and one who is knowledgeable, whose goals align with your organization, is future thinking, and has a system and infrastructure that's adaptable. Alacriti has taken a lot of the lift and effort off our internal teams. It really has been a minimal resource allocation needed to get this up and running.

Cassandra Tucker (ABNB Federal Credit Union)

This was a priority for me and for my team from day one. When you're working in a credit union space, you will have some legacy thought processes that don't understand why someone would choose to pay a fee to send a payment instantly. But Venmo has shown us that people want transfers—and they want them instantly.

Our members have made it very clear to us that they want to be able to move their money when they want and how they want, and they want to be able to do that independently. Just from seeing that and also understanding the future of this space, this was something that we wanted to look at very early on. This also plays into fee revenue for us. There are a lot of regulations and conversations happening about different fees that institutions are not going to be able to charge—overdraft fees, NSF fees, etc. As these additional regulations come through, how can we create additional revenue that actually offers value? Charging a fee for Send—that's something that people are comfortable paying. Venmo, PayPal, and Cash App have already paved the way for us to be able to comfortably charge a fee for that service. And then also looking at things like our indirect loan funding. What would \$5 a loan do for us as an institution, from a financial perspective, or \$10 or \$15? It also helps us acquire membership right now in a time where everybody is looking for deposits due to the economy and understanding that things are going to be tight. Coming out of this COVID environment, we need to look for ways to be creative in getting fee revenue, retaining membership, and acquiring membership and being first out of the gate.

As my FI grows, we will need to increase my operations team.

Cassandra Tucker (ABNB Federal Credit Union)

Operations is near and dear to my heart. That's where I've lived and breathed my entire career. We recently had to do a two and five-year plan for our internal human capital structure. What we're expecting and the ability for us to not

have to staff up for our back office item processing areas was solely because of our expected implementation of FedNow and RTP. And because we are expecting some of those ACH transactions to transfer over, that's actually allowing us to take a much more modest approach to staffing increases over the course of the next two to five years. This product is very simple. The transaction goes through, or it doesn't. You don't have to worry about returns. You don't have to worry about exception processing. This alleviates those issues that take up too much of our operations team time every day and is actually allowing us to take a slower growth approach to our staffing.

We will have only one or two payment networks in the future.

Amanda Ott (Veridian Credit Union)

For us, this is a myth. We believe the money movement network is going to continue to grow and become more competitive. We will monitor our members' behavior as we onboard more fintech relationships, and evaluate the payment processing analytics, and keep a pulse on the landscape. We will definitely stay open-minded to how many and which payment networks to participate in. Right now, we don't envision a future of limiting it to one or two networks. In actuality we are planning for how to build a more robust payment option suite that really enables intelligent routing to move the money. The member just says, "I need to move money," and we handle all of that on the backend for them in the fastest, most streamlined, and cost-effective channel. The member doesn't need to know any of that, but we've handled it on the backend. Being able to provide our members with the ability to do all of their banking through a single source is the ultimate goal (that single source being our online and mobile platform). So, we are not going to say that we're going to limit to one or two networks in the future.

Cassandra Tucker (ABNB Federal Credit Union)

That was a definitive decision why we decided to go with Send for both RTP and FedNow. We want to make sure that we can reach as many of our members as possible and give them all of the options that they're looking for. And we want to make sure that we've got continuity and service. We wouldn't want one member to go in and try to do an instant payment transfer and be able to, and another not because maybe their external FI is on RTP versus FedNow. Looking at those networks, understanding the value in all of them, and implementing as many of them as you can makes sense. It also helps you provide a wider reach to your membership.

Faster payments channels will be the same around the world in the future.

Mark Majeske (Alacriti):

I think it would be a reality. The one entity that ties this all together is ISO 20022 messaging. When we were building out the RTP network, we were very cognizant of the fact that we wanted to eventually look at cross-border

payments. From a Fed Now and an RTP perspective, I would say in the next two years we're going to start seeing that. RTP is already doing some proof of concepts on it. It creates an environment where we all speak the same language. If we're all structuring transactions in ISO 20022, it's very easy to send a transaction to another country and do the FX as part of that solution. If we didn't, we're basically stuck where we are today, where it's not as easy.

Do faster payments intersect with blockchain in the future?

Mark Majeske (Alacriti):

Yes—I look at blockchain as a tool. From a network perspective, what is my use case, and does my use case lend itself to creating a blockchain experience where everyone who is utilizing that network needs to share the same data? I think there are use cases that we will start to see using blockchain. But I think it's the use case that's using it and less so the network. If it fits, then I would use it.

Connecting

Majeske explained more about [Alacriti's payments hub](#) and how it works to connect credit unions to payment rails. "We've designed it as a payments-as-a-service solution. We are 100% cloud-based and integrate with many banking cores, which is key because a lot of people think that if they're on a specific banking core, they cannot use instant payments with another provider. We're also [ISO 20022](#) native—it's very important that we all speak the same language. We use a lot of open APIs because it creates a lot of flexibility."

Orbipay Payments Hub offers smart routing. For instance, if a credit union is sending a batch file and wants to disperse those transactions under certain circumstances, e.g., low-cost routing, Orbipay Payments Hub can do so with Fedwire, ACH, RTP network, the FedNow Service, and Visa Direct (with more to come). Credit unions can choose which rails they would like to connect to, with additional rails being very simple to turn on after the initial connection has already been made. A huge strength for Alacriti is the short time to market. Credit unions can go live within 90 days if there is already a core integration. In addition, Alacriti offers collaborative sessions with other credit unions so everyone can share their experiences and the processes that they've changed to accommodate instant payments. There is also an opportunity to influence the roadmap.

To discover the impact of instant payments on credit unions, watch the full webinar, **Instant Payments A Credit Union Perspective**, featuring Alkami, ABNB Federal Credit Union, Veridian Credit Union, and Alacriti.



WEBINAR PLAYBACK

**Instant Payments:
A Credit Union Perspective**

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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](tel:9087912916) or info@alacriti.com

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