strategy in place by the end of this year that you execute in 2018. If you don’t, you will find yourself playing catch up.”

While speaker after speaker issued a clear call to action, some attendees remained tentative. “I’m not sure it will take off,” one attendee was overheard saying. “Our customers really aren’t asking for faster payments.”

Holding onto this school of thought could play out in missed opportunities. The industry is changing quickly, and the choices financial institutions make today, and the timing of those choices, will determine their future—and their legacy.

What are these changes? And what can financial institutions do to stay relevant and viable for the long haul?

Let’s take a closer look.
Changes Driving Faster Payments

In her session, “Demystifying Faster Payments—Separating Hype from Reality,” Nasreen Quibria, Managing Director and Founder of Q Insights, referred to the “global march to faster payments,” pointing out the vast number of countries around the world with faster payments networks in place.

Other speakers lingered on this point as well. “Several countries have either developed or are developing ubiquitous, or faster payments, and the United States is at risk of falling behind,” pointed out speaker Marianne Crowe, Vice President of Payment Strategies for the Federal Reserve Bank of Boston, in her session, “Update on Faster Payments in the U.S.”

With the Federal Reserve making such statements as the U.S. is “at risk for falling behind,” on their Fed Payments Improvements website, is there really any doubt that faster payments are here to stay?

In addition to pressures to keep pace with global payments systems, other factors are driving industry change and accelerating the push toward faster payments, including:

- Digital Age: Creates an all-electronic mentality
- Tech Innovation: Opens the door for new payments competitors

Industry Changes & Initiatives

The good news is that the faster payments revolution has unleashed a wave of innovation in the industry, including the following key solutions.

NACHA—The Electronic Payments Association: Same Day ACH

On September 23, 2016, NACHA—The Electronic Payments Association paved the way for other forms of faster payments with its release of Phase 1 of the Same Day ACH (SDA) implementation process (credit entries with funds available at the end of RDFI processing day). For the purpose of clarity, Same Day ACH enables the same day processing and settlement of payments through the ACH Network.

Within the first few months, volume growth for Same Day ACH was strong, up by 13.6 percent with more than 13 million Same Day ACH transactions, totaling nearly $18 billion. Numbers like these suggest that the implementation of phases 2 and 3 will result in even greater growth.

On September 15, 2017, Phase 2 of SDA goes into effect, which enables credit and debit entries with funds available at the end of the RDFI processing day. Currently, the industry is preparing for the implementation of Phase 2 and looking ahead to Phase 3, which will go live on March 16, 2018 (credit and debit entries with funds available at 5:00 pm RDFI local time).
Given the timing and certainty of these changes, financial institutions should be finishing up their preparations for the implementation of Phase 2 of Same Day ACH and well on their way in preparing for Phase 3. Financial institutions might also consider SDA use cases and whether or not they can generate revenue or enhance customer loyalty by offering their customers new services or products.

In her session, Quibria mentioned ten primary use cases for SDA and 63 sub-use cases—all of which are potential opportunities for financial institutions.

**The Federal Reserve Faster Payments Task Force: Encouraging Market Action**

The Federal Reserve is another standout when it comes to innovation.

Marianne Crowe from the Boston Fed, in her session, “Update on Faster Payments in the U.S.,” provided a helpful overview of the work for the Federal Reserve’s Faster Payments Task Force. She made the point that payments are becoming more complex with the involvement of more financial institutions and non-banks.

“We felt a collaborative effort—The Faster Payments Task Force—was the best way to proceed,” she said.

According to their website, “The Federal Reserve System’s Faster Payments Task Force will engage a diverse array of stakeholders in advancing the work outlined in *Strategies for Improving the U.S. Payment System* (PDF), published in January 2015. The mission of the Faster Payments Task Force is to identify and assess alternative approaches for implementing safe, ubiquitous, faster payments capabilities in the United States.”

The image below, adapted from her presentation, illustrates the breadth of diversity among Task Force members.

### 10 Primary Use Cases for SDA

**C2B:**
- Bill Pay
- eCommerce
- POS Check Conversion
- Merchant Debt Collections

**C2C:**
- Person-to-Person
- Account-to-Account

**B2B:**
- Multiple Uses

**B2C:**
- Payroll
- Insurance, Refunds
Crowe summarizes the work of the Task Force, citing five core strategies in pursuit of five desired outcomes that drives their work:

<table>
<thead>
<tr>
<th>Strategies</th>
<th>Desired Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stakeholder Engagement</td>
<td>Speed</td>
</tr>
<tr>
<td>Faster Payments</td>
<td>Security</td>
</tr>
<tr>
<td>Payment Security</td>
<td>Efficiency</td>
</tr>
<tr>
<td>Payment Efficiency</td>
<td>International/ Cross-Border Payments</td>
</tr>
<tr>
<td>Enhanced Federal Reserve Services</td>
<td>Collaboration</td>
</tr>
</tbody>
</table>

She made many compelling points during her presentation, but one comment stands out and reflects an opportunity for financial institutions: “Faster payments capabilities have the potential to draw more of the unbanked/under-banked population into the economic mainstream.”


According to Crowe, “The vision for the Final Report is to influence stakeholders to move toward a faster payments capability in the United States.”

As for what’s next for the Faster Payments Task Force in 2017, it boils down to these initiatives:

1. Continue to work through task force recommendations and implementing next steps for implementing faster payments.
2. Identify efforts beyond the publication of the final report to achieve the desired outcome.

The Bureau Adopts Faster Payments?

In other Government news, the Bureau of Fiscal Services is accepting the NACHA Rules for Same Day ACH, pending final approval.

Operationally, Treasury is committed to participating in Same Day ACH as of September 15, 2017, beginning with the capability to receive tax and non-tax Same Day ACH credits. Concerning origination of Same Day ACH, Treasury will have the capacity, beginning in October 2017 for Electronic Federal Tax Payment System (EFTPS) debits. Other Treasury programs will adopt the capability later in 2018.

Treasury’s participation in the receipt and origination of Same Day ACH transactions is dependent on the publication of a final 31 CFR Part 210 rulemaking as proposed. Proposed amendments to 31 CFR Part 210, including the adoption of NACHA’s Same Day ACH rules, were published in November 2016. Public comments on the proposed rule did not indicate any opposition or requests for changes to Treasury’s adoption of the NACHA rules changes to Federal Government participation in Same Day ACH.

So what are the implications for financial institutions?

As a financial institution, consider the following questions:

1. How are we using Same Day ACH now?
2. Which use cases might we want to consider going forward that would better serve our customers and drive our revenue?
3. Which use cases do we want to understand and research more deeply?
4. How can we mine the opportunities inherent in these use cases to drive revenue and build our customer base?

Same Day ACH origination is another business opportunity financial institutions might want to consider. (For a comprehensive discussion of SDA origination, see NEACH’s white paper, *Is Same Day ACH Origination Right for Your Organization*, which is available in NEACH’s member forum and on NACHA’s Same Day ACH Resource Center.)
ACH origination software vendors and third-party processors providing ACH origination services need to know that Federal Government routing numbers will be operational to support Same Day ACH credit receipt as of September 15, 2017. Thus, financial institutions should consider checking with their third-party vendors and processors to ensure they are ready to receive government routing numbers by the date specified.

Innovators: Introducing Faster Payments Alternatives

Financial institutions should understand that when it comes to faster payments, innovation is occurring both inside and outside of the industry.

For example, consider Zelle, a real-time bank-account-to-bank-account, person-to-person (P2P) mobile payments platform powered by Early Warning Services, L.L.C., which recently launched. The new bank-centric platform competes directly with PayPal, Square Cash, and Venmo.

According to a news release issued by Early Warning Services, the service will go live for some 30 participating financial institutions. Toward the end of 2017, Zelle will also launch a stand-alone mobile app, to further broaden the reach of the service.

Another innovator, Ripple, a blockchain-based payments and settlement provider that enables direct, real-time transactions, recently added ten new financial institutions to its global payments network. The financial institutions will leverage Ripple’s Network to address speed, cost, and scalability for cross-border payments.

With so much innovation by banks and non-bank players, it’s important for financial institutions to develop a faster payments/real-time strategy sooner than later to avoid revenue opportunities to fintech organizations in the faster payments space.

The Clearing House: Building a Real-Time Payments Network

The Clearing House is building an industrial strength clearing and settlement system to support real-time payments for the U.S. According to their website:

This new system allows consumers and businesses to send and receive payments instantly, directly from their accounts at financial institutions. It also includes data and non-payment messages that financial institutions can use to build innovative digital commerce solutions.

In his session, “Business Considerations for a Real-Time Payment System,” Tim Mills announced that the Real-Time Payments (RTP) Network will go live in August 2017, with seven large U.S. banks expected to be on board by the end of this year. According to Mills, he expects all 25 of the biggest banks in the country to be on board by the end of 2018.

Mills pointed out key differentiators of real-time payments:

- Continuous input and output
- 24/7 clearing
- Continuous settlement
- Immediate confirmation/simplified reconciliation
- Real-time posting and visibility
Currently, the RTP Network can handle 2,500 transactions per second. What’s more, financial institutions can connect directly through The Clearing House or a third-party or processor. From a connectivity perspective, most community banks and credit unions will have access to the network through their core processor or corporate credit union. What does this mean for financial institutions? Simply put, RTP offers new opportunities to drive revenue:

**TREASURY MANAGEMENT**

**Payables**
- Payment Origination
- Mobile payment authorization
- Request for payment receipt & payment
- Integrated payables
- Emergency payroll
- Receipt confirmation
- Real-time reporting

**Receivables**
- RTP receipt
- Real-time reporting
- E-lockbox
- E-invoice delivery
- E-bill deliver (original and reminder)

**CONSUMER/SMALL BUSINESS**

**Bill-Pay**
- Request for payment incentives
- Expedited payment fees

**Small-Business Online Banking**
- Payment origination
- Payroll
- Request for payment receipt and payment
- E-invoice delivery
- E-bill delivery (original and reminder)
- Mobile access

**BANK AS RTP USER BENEFITS**

**Bank as Biller**
- Request for payment incentives
- Expedited payment fees

**Loan Disbursements**
- Provides a competitive advantage

And that’s not all. There are opportunities to decrease costs and increase benefits as well, including:
- Option to decommission payment systems over time and rationalize infrastructure
- Reduced system maintenance and license costs
- Improved STP, which reduces re-work/reconciliations and, therefore, operational costs
- Modernizing and consolidating processes and technology can lead to significant cost savings
- Banks can improve their bottom line by substituting higher-cost payment types and channels
- Greater cash flow control, and the ability to offer more effective credit term incentives to customers
- The implementation of RTP can be the catalyst for developing more enhanced fraud and risk detection mechanisms

In speaking about RTP and the many opportunities it provides, Mills urged attendees to think about the many competitive opportunities inherent in real-time payments.

“Don’t wait,” said Mills. “If you do, you will be at a disadvantage.”

That message resonates regardless of how a financial institution assesses its opportunities with faster payments. The industry has spoken, and now’s the time for all organizations to determine just how fast they want their payments to be.

For more information on developments with faster payments, visit NEACH’s online faster payments community at engage.neach.org.