COLLEEN: Welcome, this is Colleen Morrison on behalf of NEACH’s Pacing Payments, your trusted resource for faster payments news and information. Today I’m bringing you the inside scoop on a key player in The Clearing House’s real-time payment system build. I’m sitting down with VocaLink to get the details on their role and how they fit into the grand structure of all things faster in the U.S. As you know, VocaLink was responsible for the build of the U.K.’s Faster Payments system. From lessons learned in design to out-of-the-gate volume strategies, VocaLink’s team has an unparalleled depth of expertise that we can benefit from.

So what is The Clearing House learning from VocaLink and how will it help shape the future of real-time payments in the United States? George Evers, product director of real-time payments at VocaLink is here with us today to shed some light on these very questions. George, thanks for joining us.

GEORGE: It’s very nice to be here, Colleen.
COLLEEN: So I am glad to have you today and I want to start with a little history just to give that background and context. You have formally announced that you’re going to be partnering with The Clearing House to build this real-time payment network in the U.S. What does that mean? What does your role look like?

GEORGE: Okay. So VocaLink’s history, I think you referenced it here, is we design, develop, and operate real-time payment structures here in the UK. A few years ago, we made a decision to develop that capability and solution itself as a product. And that was used to support our expansion in terms of national markets. We have a new product platform, which we’ll be underpinning -- already underpins real-time payments and structure in Singapore. And also then it is that product capability that we are delivering to The Clearing House in order for them to build their real-time payments infrastructure.
So in essence, what we provided is based on our knowledge of operating and running. We developed this brand new platform, which we are providing as a core to The Clearing House’s real-time payments’ service. There are a number of modifications and changes and additions that they’ve made to that platform to make sure that it delivers the most value to the U.S. market. And that’s based on a) the understanding of what the U.S. market needs, but also based on, I think, learning from other real-time payment implementations. And also a lot of thought into delivering additional value to a lot of the bank’s corporate customers through some additional messages that we think are going to be real value-add and also that we don’t think see some of the older real-time payments infrastructures as well. So, I mean, it will literally be the most advanced real-time payment platform in the world when it goes live.

COLLEEN: And that’s amazing. And I think part of the thing that goes hand-in-hand with this sort of depth of advancement is the fact that the U.S. has such a
massive scale compared to some of the other geos that have already undergone this effort. Can you talk a little bit about that and how that impacts your role?

GEORGE: Yeah, I mean, impacts us in a couple of ways. One is we have to think about that scale so The Clearing House was very clear that they wanted this solution to be ubiquitous and that really meant that access was going to be available to any and all of the 14,000 banks in the U.S. And also the way that the banks access that infrastructure would vary from segment to segment as well. So it was a very large once having direct access through their existing gateways to other smaller banks that access that service through aggregated or third-party solution providers.

But also, they wanted the system to mirror against the different roles in the U.S. in terms of organizations that provide liquidity for groups of banks to access the payments, etc. So that was a challenge really. You know, the sheer scale of their
ambitions in terms of thinking about how we would provision for and manage 14,000 banks. Clearly in terms of the U.S. as a payments market, it’s enormous and also thinking -- looking to the future for real-time payments platform. It is a platform upon which, a) we’ve seen in the U.K. huge growth just on real-time payments on their own, but also it can become a target platform for other payment types as well that already exist. So we also had to design for that future use. So they set this very challenging target in terms of through person transactions per second. So moving from, you know, some of the largest countries with real-time payment systems live, doing under 1,000 transactions per second, we’ve set the challenge of being able to manage 5,000 transactions per second.

So they’re thinking way ahead into the future in terms of the growth of volume in that platform as well. And we have to think about that today. And so scale is a big area, but also complexity in terms of
the number of participants and the different ways in which they’re going to gain access to that real-time payment platform.

COLLEEN: And getting into some of the weeds, I guess, a little bit here of that complexity. As you described this, my brain is just churning with, you know, how do all of these various parties come together to make sure that this happens? Is there sort of a Clearing House Master Project Manager role? Or how do you guys work on the backend to make sure that you’ve thought through all of these?

GEORGE: Yeah. So I mean, I think this development is just one aspect of The Clearing House’s overall projects. So we are going to be delivering the technical backbone. So we have to think about all of those different participants and think about scale, as well as the core functions of the switch itself. There is another kind of aspect, which I think starts to -- which has really been met by The Clearing House, which is coordination across the industry and how those other participants will access, I think,
the structure. And the approach, I think, is really sound -- what they’ve done is if they’ve worked with those organizations that already have already provision services to banks for them to access payments infrastructure and said, “We want you to engage with this project. We want you to work with your existing customers, your existing groups of customers, and develop solutions that will help them connect to the real-time payments infrastructure.”

And that’s quite unusual, but I think absolutely necessary in the U.S. because banks should be able to use or reuse or just grow the existing solutions they have to access that real-time payments infrastructure, rather than a new gateway being made available that everyone has to take. And that’s quite different from some of the other markets we’ve worked in. So Singapore, for example, a new gateway was mandated for all banks. That just wouldn’t work in the U.S. because I think the market is too diverse and I don’t think you should put those sort of
limitations on the way in which organizations can access the infrastructure.

So they’ve been very open, but I think it’s created a work stream for them and a lot of effort to reach out to those different communities of banks and reach out to different providers of services to have them work on supporting their customers to access the infrastructure. But ultimately, I think it it’s going to be the only way they can be really sure of success in meeting that ubiquity objective because no one will be constrained in terms of the way in which they choose to access.

COLLEEN: And I think you raised a good point alluding to sort of that government involvement or higher-level involvement in other geographies. And I think in the U.S. we do have the Federal Reserve running a Faster Payments Task Force that’s really trying to act, I think, as a catalyst to drive the industry forward. How does the work that they’re doing factor
into the work that you’re doing with The Clearing House?

GEORGE: So, I mean, my view is that the Fed’s Task Force approach -- actually, I think I’m starting to see it kind of emulated in other territories because I think it was a very well balanced approach to, you know, raising awareness on the topic, gaining alignments on what the topic meant and what the key issues were that needed to be worked through. But also, having a community of people interested in understanding that and making things happen, giving them a forum in which they could discuss and share their thinking and their ideas. And that would allow them to have outreach to other participants.

I think, you know, in a country the scale of the U.S., with the complexity and the volume of banks, etc., I think it was absolutely necessary. And I think it’s been of real benefit to our projects and to The Clearing House, especially around the opportunity to engage with the community and talk
about and present the ideas and the solutions that we put together. And I think in the absence of it, it would have been -- it’s probably kind of slightly harder to gain traction and gain access to that wide audience who I think are important for that challenge of creating a ubiquitous system that all participants can access and gain access to.

I don’t think it means there’ll only be one solution in the U.S. There are already kind of competing ideas. That’s likely to happen. But I think for a payment system being a common approach or ubiquitous service is actually the most powerful -- of most benefit to the community overall. So I think it’s been helpful and I’ve talked about it in other territories as being a really effective process of balancing industry engagement with regulatory oversight, so people know it’s fair and consistent and dealt with an even-handed way, without the need to assert regulatory change and push the community to make changes, which doesn’t always result in their
being good customer innovation, good customer propositions.

COLLEEN: So as we look at all of the work that you’ve done across the globe, in Singapore and the UK, I understand that you obviously have a firsthand account of some of the technical challenges and opportunities. What do you think is the main technical difference when you compare what we’re doing in the U.S. with a real-time payment system to what is happening in other geographies?

GEORGE: Yeah, so there are a few things. So I mean, if we reflect on -- you know, the U.K. system went in in 2008. So if we take that as a baseline, there are some elements of what’s happening in the U.S. now that we’re seeing consistently being implemented around the world. So the ISO 20-022 -- 222 message set. And what The Clearing House is really focused on is not just the core payment or credit transfer messages, but also lots of value-add messages. So things like reconciliation for payment, administration messages that help participants in the
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community and the banks to deliver more services across the switch that take out operational overhead, so requests for refunds. The requests for payment is a really powerful proposition because it allows corporates and businesses to send a request to be paid, but also to accompany that with data that’s associated with the payment as well. So it’s a really powerful proposition for the banks and that doesn’t exist certainly in Faster Payments where the focus really has been on moving the money.

So there’s a lot of kind of additional value capability in the U.S. switch. And then the other things that we talked about a bit earlier -- just the ability for the switch to scale to support that huge banking community and also that huge throughput as well. You know, in the U.K. there are 10 directly connected banks at the moment. There are going to be more over the next two years. But in the U.S., you know, having to think about how you provision for
those 14,000 banks again is a very different, a very unique set of circumstances.

So I think some more functionality, a whole lot more performance, greater scale, and the ability to reach wider number of participants are really key differences between the U.S. system and systems we see elsewhere.

COLLEEN: And is there anything different operationally that would be maybe not the same as a technical implementation, but something in how we’re going to use the system that might be different?

GEORGE: Yeah, so, I mean, I think it will be how the end uses. So, operationally, once you move to real-time payments platform, again, designed into the system is that the central infrastructure is always available, always on. We can manage upgrades and improvements and changes it to it whilst keeping it running. So that’s quite unique and that’s one of the underpinning principles around real-time payments, is it’s not something that you can close down at the end
of the night, or over the weekend. It has to be always available. And actually, your end users were to get used to that, so that’s an operational change that I think is...is consistently seen within real-time payments infrastructure.

And then the other things in terms of operational benefits; we talked about the operational benefits for corporate businesses out to process payments at the time that they want to. Anytime, like today, and know that the value will reach the participant instantly. The request for payments, or the ability to go and ask for money to be, to pay for you; you’re not taking it, but you’re putting the payer in control, so they can then look at what they’re being asked to pay for. They can look at the data associated with it and they can decide to send that payment back, again, in real time. So that’s an operational benefit to those organizations.
The other thing is, one of the things, characteristics of real-time payments platform, is absolute certainty. So a transaction either works or it doesn’t. But you know within a few seconds that that payment that you’ve initiated has reached the account of the person you want it to get to, and they’ve got access to those funds as well. So an operational benefit of that is, in a slower payment system, where the payment is initiated and then arrives a day or two or three days later, there is an operational overhead for all participants, really, because you might get from a bank, did you get the payment I submitted?

COLLEEN: To that point, is there a difference that you would see with a US consumer versus the UK consumer or another geography may be experiencing?

GEORGE: So in terms of those kind of corporate supports of, that what the UK consumers are used to now, is just that the money, when they send the money, that it just gets there immediately. So everyone is used to being able to, you know, if you
need to make an ad hoc payment, or buy a car, or buy something expensive, then you can use the pre-applied payment’s infrastructure to send that money across, and it’s as good as cash. So in terms of some of those aspects, it’ll be consistence, but there are, as I said, there’s some value-add features that have been built into The Clearing House system that will allow those consumers to have more data with that payment, or more data with that request for payment. So request for payment doesn’t exist here in the UK; it’s a credit push, so customers might receive a request to pay in terms of an invoice, and then send that back through the real-time payment’s infrastructure. Whereas with TCH, I’ll see the invoice information and the request to pay and I can do that. So they’re also thinking really hard about integrating it with billing platforms as well, so it becomes available to large-scale billers who want to make it easier for people to pay their bills, etc.
So I think the key difference will be, in the US versus the UK, is it’ll be much more integrated into the business flows and in terms of the process that happens before a payment happens. Whereas in the UK, a lot of those processes, such as getting an invoice or someone asking you to pay something, happen outside of the core infrastructure. So it’ll be more efficient to lead and to use for the participants and be more integrated with their life. So I think that’ll be some of the differences for the US consumer versus UK.

COLLEEN: So from that perspective, were there lessons learned from the UK Faster Payments implementation, or anything from Singapore that maybe would apply to the work you’re doing in the US?

GEORGE: Yeah, I think so. Certainly lessons learned in terms of how do you design and develop a system that’s always available. So that’s what we took into the design of our core product. I think there are some lessons learned around thinking through and devolving lots of different use cases in advance of
the system being built, because then you can integrate those use cases into the design and build there, and we’ve talked a few times about things like request for pay. So I think it can work eventually in the UK because the change was driven by a regulatory change. The banks were asked by the regulator to move towards a faster payments infrastructure. A lot of that customer proposition work couldn’t be done. Also, I think that timewise, it was done in 2008, and the [unintelligible] been launched at that stage. So we’re living in a very different world where the expectation around access to information; the immediacy of transactions and whether it’s access to content, etc. So I think you have a much more expectant set of end users as well.

COLLEEN: So the other thing that we hear a lot about is fraud. There’s a lot of concerns that with things moving faster, fraud will move faster. What did you find in the UK and what advice do you have based on what you’ve seen there?
GEORGE: Again, 2008, a very different time, to launch the system. And probably a couple of things on, actually, in terms of volume of fraud through the Faster Payments infrastructure, I think, peaked; there was a period of time that there’s some Payments Council research. There was about one pound sixty per thousand. It is now down to not quite, it’s down to seven pence per thousand, in terms of the volume of fraud.

There is a kind of; I don’t think the core infrastructure itself drives more fraud, because actually fraud is perpetrated at a different place within the payment flow. So it tends to be that people’s PCs were targeted with malware; people’s security on their internet banking or their mobile banking wasn’t strong enough. And if [unintelligible] people were tricked into sending payments. That tends to be the characteristics of fraud, which don’t have anything to do with the speed at which the money is moved. And the banks have been working; that’s quite
a mature level of understanding there. So there are lots of tools now, either in place or available for banks or protecting those consumer channels, and those tools are still as relevant for real-time payments infrastructure as they are for a slow one, and their behavioral profiling software that protects a PC from malware, etc., understanding a customer’s existing payment patterns as well. That’s all information that is available today and is still very relevant to real-time payments infrastructure.

So in and of itself, it doesn’t drive increased fraud. Actually, the channels of fraud volumes are much lower in things like cars, etc. So it’s a pretty safe experience in the UK. It is a safe infrastructure. And that’s the shift towards real-time, didn’t really see an increase in fraud. It was more that those customer channels were being attacked. There is one thing to think about when the money can move quite fast, and this is something that VocaLink [unintelligible] are working the
[unintelligible] in the UK is being able to track that money through as it moves from one account to another, etc.

COLLEEN: So I think we’re having good discussion here about fraud topics, but what about those folks that are just out there saying “You know what? This real-time system is a solution without a demand.” What about those skeptics? What’s the volume like in the UK when you launched versus now, and what do you say to them?

GEORGE: Okay. So I think in the UK, Faster Payments has been a terrific success, so it is still growing at 17 percent a year. It has not replaced our ACH volumes, which still remain steady as well. So it is new transactions and new use cases. So things like insurance payouts, government benefit payments, small invoices, daily and weekly wages, prepaid [unintelligible] etc. These are all use cases, but really, a slower payments infrastructure couldn’t support those effectively. So interests me within the UK, again, because the infrastructure is caught in a
mandatory change. You could argue there is even less kind of real demand for it. So what we’ve seen in the UK is the use cases have built up over time. So people are now expecting to be able to use it through their internet banking channels, but also we see higher and higher business adoption.

All of the examples I gave previously are beneficial to businesses. So an assurance company wanting to distribute money very quickly, the government needing to get money to an individual or an organization quickly and safely and securely. Hugely beneficial if you can do that in real time, and because in those emergency situations that really matters. So what we’ve seen, as I said, it’s still growing at 17 percent a year. So massive growth within the UK from a relatively low base. Let me just take remote single payment transactions per month. Let’s start it off in January, 2008; probably under five million? And it’s now up at around 18 million transactions per month. So that is, that system is being used 18 million
times every month by either consumers or businesses. So massive growth.

And the other thing I think to consider for the US is the thought that’s gone into the design of the system to add even more value to especially businesses. It’s really important for businesses to be able to manage their receipt books and collect money and also they have to manage outgoings in as efficient a way as they can. So some of the features within the TCH platform, in terms of request for payment, administration messages requests for refunds, etc., will all drive greater adoption and greater value to the participants. We don’t have all of those features here in the UK, but we still saw that very strong growth.

COLLEEN: And do you think it’s fair to say that sometimes people need to see the system to envision the solution, and that’s some of the reason that the adoption may take a little longer? Or is there a different reason?
GEORGE: I think that it’s important for; when end users see the system, they’ll be when the banks made the functions available to it as well. So once they start experiencing what the system can do for them, then what we saw with people’s behaviors change so they didn’t need to use cash. They were able to stop using expensive, slower tools, like checks or bankers drafts, to make those higher-value purchases, like if I were to go and buy a car from another individual, I wouldn’t have to pay cash or a banker’s draft or wait for a check to clear. I can then send that as an immediate payment. So I think people need to be educated and made aware that the features are there. I think that the banks will have to do a good job in explaining the value of the capability to their customers, and there’ll be competition amongst the banks as to how they position this new capability. I think the banks that focus on it and see if there’s a [unintelligible] for innovation will do the best, as to those participating banks; because it delivers real value to both consumers and businesses. So I
think it’s really about the banks getting by and the propositions and thinking about the value that those propositions can create for their own customers, and being confident about that.

COLLEEN: You know, there’s no question that this has really changed the way payments are done in the geographies where they have been implemented, and I know that VocaLink was acknowledged for that, with the 2016 George Mitchell Payments System Excellence Award from NACHA. What did that mean to you? What does that recognition say?

GEORGE: Enormous amount. I mean, I think we; I said at the beginning of the call when we set out with the [unintelligible] looking to expand into international markets, based on our experience of real time in the UK. We knew it was ambitious. We knew it would be challenging, and I think that the success we’ve had, especially in the US with The Clearing House, and the acknowledgement that came back from the George Mitchell Payments Systems Excellence Award was, we were so proud and very pleased to have received that
and receive that recognition and what for us is the most important payments market in the world in the US. So a very proud moment for us and very proud on behalf of the whole team that have been making this happen for VocaLink over the last three years.

COLLEEN: And you’ve already mentioned that the system that’s being built is probably the most advanced that you’ve done in partnering with The Clearing House so I think you have a complicated banking system in the US, with the newly designed and highly advanced system, and I think it’s going to be really exciting for all of our users, all of the financial institutions, to kind of get on board and to have this new opportunity to move payments faster.

Is there anything else that we haven’t touched on that you want to add today?

GEORGE: No, not really. I think we need to agree with that last statement. I think it’s a hugely exciting time and I think that there’s going to be a market
that really innovates and builds a huge amount of value from an infrastructure like this, it’s going to be the US.

COLLEEN: And I think it’s a great point that you’ve raised. It’s that this whole interview has been a great reminder to all of us as we move into this brave new world of faster, the challenges and opportunities that really await. So thank you again, George, for taking the time to be here today.

GEORGE: You’re welcome. Thank you for your time, Colleen.

COLLEEN: Until next time, this is Colleen Morrison for NEACH’s Pacing Payments.