COLLEEN: Welcome. This is Colleen Morrison on behalf of NEACH’s Pacing Payments, your trusted resource for faster payments, news, and information. I’m bringing you the latest in our podcast series on faster payments. Chatting with Steve Ledford, senior vice president, product and strategy, at The Clearing House.

As our listeners know, The Clearing House has announced its intent to build a real-time payment system to better meet consumers and businesses’ expectations in this increasingly digital economy. Since that initial announcement, there has been a significant amount of movement towards real-time payments. In fact, The Clearing House has signed a contract with VocalLink to develop a national, real-time payment service in the US.

With the nuts and bolts of the system starting to solidify, there’s a lot of talk around the actual
build and when and how it will be completed. NEACH is sitting down today with Steve Ledford at The Clearing House to get more information on where things stand and where they're headed. Steve, thanks for joining us today.

STEVE: Thank you.

COLLEEN: So, you know, I know a tremendous amount has happened since The Clearing House announced its intention to create the system. Can you talk us through that timeline and what's happened so far?

STEVE: Of course. Yes, well, we actually announced our intention to create a real-time payment system for the US back in October of 2014. Through most of 2015, we were in the planning phase, defining the requirements, exactly what the system would do. Our approach for really bringing it to market in a way that would be ubiquitous. And so we are now transitioning from the -- from that planning stage into execution.
We -- first of all, a few things about what we're doing, it is a new payment system. When we looked at what the -- the various use cases would require, we felt that that was most appropriate way to do it. To build a payment system that's designed for the digital age. So the other thing is that this is designed to be a ubiquitous payment system.

Yes, it's being built by The Clearing House, but it's designed for really the entire financial institution community to take part. And so we're moving now, we have already moved into the execution phase. As you mentioned, we've chosen technology on which to build this from our colleagues over at VocaLink, and we are well down the way in terms of, you know, the finding and getting ready to really start building that foundation. But there's a lot of other things that go into launching a payment system.

You have to think about all of the legal requirements, you know, what are the rule sets,
things like that. We're also doing a lot of work individually with financial institutions, with technology vendors, to make sure they know what they need to do to implement this real-time payment system. And of course, a great deal of this is an outreach to the industry. We want to make sure that everyone in the industry knows what it is that we're doing and how we want to work with them to -- really to bring this to life.

COLLEEN: So that’s really exciting information. And I know that as you mentioned, right, you have a lot of technology partners and folks that you’ve sort of established relationships with. I think you’ve said Vocalink will be the builder but you’ve also mentioned FIS as a partner on the project. Can you explain a little bit more about how that collaboration’s going to work and how you’re envisioning all these parties coming together?

STEVE: Yes. Certainly. You know, there are many pieces to a payment system. You know, what The Clearing
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House is doing is we're building that core payment system and we're doing it with technology provided by Vocalink. This is tested, proven technology they've deployed in other markets. And so what that does is it allows us to -- it allows us to be very confident that yes, we'll be able to deliver, we don't have to build a system from scratch. We're going to adapt it for the U.S. market, as well as for some of the unique requirements of what we want to deliver. We wanted to make sure we're delivering a lot of functionality, because, quite frankly, if you're building a new payment system, you want to make sure it's a lot better than what already exists, at least for the use cases that you define.

So they're in the process right now of, you know, making those enhancements that we're requesting. They're providing that core technology, but that alone does not deliver a payment system. There are applications that financial institutions need to have that can receive and initiate these payments, whether
they're done in-house or whether they're using a third party. There's also the need to connect financial institutions up with the payments network. There's a need to go out and service the thousands of financial institutions that there are in the country, and we're looking to our partners at FIS to really help us do that. They have a number of payment applications that are used by financial institutions of all sizes, so we're looking to them to enable those.

We're looking to them to help provide technology that will help financial institutions link with the network. As well as they're well-developed service organizations, so there's a lot of different roles. And we're talking to other technology partners as well who can fill specific roles. Our goal is to make this as easy to implement for every financial institution in the country as possible so that we can get to that goal of ubiquity. And I think that'll take a lot of partners to help us do that.
COLLEEN: So I'm betting that given the unique way that you're pulling this together, this is not going to just be a replication of the U.K.’s Faster Payments.

STEVE: It -- no, it won't, and there's a number of reasons. First of all, the U.S. is a different market. We have thousands of financial institutions in the United States and that presents a different kind of challenge than what Vocalink faced for the faster payment scheme in the U.K. that they went to market. And so we need to make sure that both structurally, in terms of the scale, is also much larger. So we had to make sure that yes, the system is capable of handling the volumes, which I'm happy to say that it is. And so there are those differences.

One of the other differences though, is that in addition to the core functionality, which is fairly similar to what you see in the U.K. and some other markets, we wanted to make sure we were enabling a wider range of transactions. So in fact, we find
these non-payment transactions should be every bit as important to the way financial institutions and their customers are going to use this as the payments. An example, one of the transactions is a request for payment. A request for payment can be the foundation for maybe delivery of an electronic bill to a consumer, or an invoice to a business. There are combination messages.

Imagine you pay your electric bill, the electric company being able to say yes, we've received your payment and it's been applied to your account. There's additional information, the ability to carry rich amounts of data along with the payment or in a separate message, perhaps having to do with business-to-business invoice payments. And so these additional types of methods we think are going to be -- these are going to be really a toolkit that banks and credit unions can use to build really innovative products, and that’s one of the things that we have
asked Vocalink to add to the capability that they've already deployed in other countries.

One other thing, we are basing this on the ISO 20022 standard, which is being used in a number of countries. Don't want to get too geeky, but what this does allow is it allows us to have a level of standardization in a similar way that is being deployed in other countries. It's also a very flexible and data-rich format. And it's also written in a -- it's written in a language that is compatible with the web. It's digital from the start so we think that is also another advantage of the way that we're deploying this, and that is another difference between what was actually deployed in the UK.

COLLEEN: Yeah, and I think that standardization is a theme that I've seen emerging in the industry. And I know for certain that the Federal Reserve, you know, the Faster Payments Task Force that they have put together has been discussing this. And I believe they specifically have put forth some effectiveness
criteria for a future faster payment capability and set it into big categories -- ubiquity, efficiency, safety, security, speed, legal and governance. Which, I think, gets to some of the points that you’ve already referenced today.

I'm just wondering, like, how is what you're doing aligning with their work?

STEVE: I think it aligns very well. First of all, we are actively participating in the Federal Reserve Task Force. Very enthusiastic about the work of the Task Force and what it's doing to advance the cause of faster payments in the U.S. It's -- I would say it is a unique forum for bringing together all of the different constituencies and all of the different perspectives. And it has been enormously helpful to us as we've been moving forward with our plans for real-time payments.

You know, when you look across the six categories -- ubiquity, efficiency, safety and security, speed,
legal and governance -- as the criteria were developed, you know, version one, two, three, four, five, we continuously compared it to some of the requirements that we had established for what we were planning to build.

And, it was informative. What we were able to do is adapt our plans, but in most cases, we found that there was a great deal of consistency between the Fed’s effectiveness criteria and what we were planning to do. And I think it's because we're -- we're coming from a similar motivation. What does it take to deliver a new payment system that really does meet the needs of a changing, increasingly digital economy? And so I think we had common drivers, but we have also used the process of the taskforce to help inform what we're doing and make sure it's adapting to what the needs of the broader community are.
Our feeling is that what we are building will do a really good job of meeting these criteria, and we look forward to doing that.

COLLEEN: And clearly one of the main criteria, or the first reference, right, is the ubiquity component. You’ve already mentioned today that that’s important to The Clearing House and it's supposed to be for all financial institutions. You know, what is your vision for that? How do you plan to engage financial institutions who are not Clearing House members?

STEVE: Well, one thing we're going to do is we're going to participate in podcasts with NEACH to make sure that we're getting the word out. As well as others. You know, first of all, we have several different approaches. A lot of it is just getting the word out, what it is we're doing. So whether it is working with organizations like NEACH and the other Regional Payment Associations, whether it's working, you know, conferences, publications. We want to make sure folks know what it is we're doing.
The other thing we are doing is we are directly reaching out to a lot of financial institutions. Not just those that are members of The Clearing House, but, you know, we're reaching out, we're having discussions, you know, trying to recruit folks who want to be part of this first wave of implementing and then the subsequent waves. The other thing we are doing -- I mentioned this already, but we are talking with -- we actually have agreement with FIS and we're talking with others who can provide a channel to the very broad market, the thousands of institutions that we need to incorporate if this is going to have that ubiquitous reach.

And so a number of different ways we are engaging with financial institutions to make sure that we have a path for everybody to participate in this network.

COLLEEN: That’s wonderful. I mean I think that our members will be happy to hear that for sure. And I do think the question on peoples’ minds is so what's
the timeline? When is this going to happen? When are we going to be operational?

STEVE: Okay, we are still working on finalizing all of the details of exactly when we'll be able to turn the lightswitch on. But things are moving along at a very rapid pace. I think it is safe to say that the system will be going live in 2017, hopefully earlier rather than later, and, you know, our intention is to, once we are live, to quickly move to ubiquity. We want to get there as soon as we can because that just increases the value of the payment system. But, you know, we haven't announced a live date yet but it's not that far off.

COLLEEN: Yeah, 2017's going to be here sooner than we think.

STEVE: Oh, believe me, I know.

COLLEEN: I'm sure you do. You know, to that point, you kind of referenced this, but wave one, wave two, wave three, that sort of thing, do you plan to pilot the system first and how are you going to go about who’s
part of that pilot and how smaller institutions are going to become involved, etc.?

STEVE: Yeah. We are talking to a number of financial institutions who are interested in very early on, perhaps pre-launch, you know, bringing certain targeted use cases or targeted markets up as a way of piloting the technology. Nothing definitive on that yet. You know, for a pilot, you need to have the right participants, that type of thing, but that is something we are talking about. No announcements there, but I feel that there will be some very early adopters that will be able to demonstrate what the payment system can do.

COLLEEN: Which we'll be looking forward to seeing. I think what's on every, you know, institution’s mind at this point, big and small, is what do I need to do? Like we've got some definitive things around the system that we know that we have to prepare for moving forward, but how does that fit and what do we do to get ready for real-time payments? What would be your advice?
STEVE: Okay. The first thing I would do is think of this as a business initiative and not just a technological implementation. And what I mean by that is learn what type of capabilities and functionality the real-time system will be bringing to market and then think through every single one of your products, every single one of your market segments, every single one of your channels. What kind of impact could it have here? As my customers, as receivers of these payments, my customers as initiators of these payments, what type of pain points could this address? What kind of innovative new services could this enable?

And I would start with that customer-focused view, think about it in the perspective of the products and services you're offering, and figure out where does real-time payments fit into that. Once you’ve done that, you can then start thinking okay, if that’s the case, which of my technology platforms do I need to enable in order to make that happen? But by starting
it and looking at it as a customer and business proposition first, I think what you'll find is that it really drives a much more effective way of moving forward with this and implementing, as well as it’ll let you know how it's going to affect your overall business strategy.

And I think that’s important. It’ll help you prioritize what needs to be done and the other thing about it, quite frankly, we've done a lot of work with financial institutions. Working with them as they are exploring what are some of the business implications. It’ll help generate the excitement and the momentum it's going to take to really implement this effectively. Because when you start thinking about what this new capability can do, it really is exciting and it really will enable things that we don't have now. And one thing people ask is what are some of the kinds of products and services that this will enable? And we can come up with a nice list.
We've thought a lot about specific use cases, specific product ideas.

But what I'm more excited about are the opportunities that we can't imagine or we don't imagine now. And when I think of the Internet, the Internet was around for many years. It was originally an academic project, the World Wide Web, you know, again, was originally a way of sharing research papers. But look what it turned into? And I don't think Tim Burners-Lee, when he was dreaming up the protocols or the World Wide Web, I don't think he was thinking about Uber, but, you know what? Uber happened and so did Airbnb and so did Amazon. All of these things that we aren't necessarily imagining that this payment platform can do are going to be enabled and I think it's going to be a fascinating, you know, I think it's going to -- I think it's going to put financial institutions in the position of really being the innovators that are bringing the new services to the customers.
COLLEEN: So foundation for innovation.

STEVE: Foundation for innovation and think about it from the customer’s point of view. That’s how you start.

COLLEEN: That’s great. So I think one of the things that you referenced early in that response was that people need to really understand the functionality of this new system and what it's going to enable. Where can our members learn more about your work on real-time payments and about the specifics of the system?

STEVE: We want to talk to you. We want to make this information available to you. We have overviews that we can make available. You know, be happy to do that through organizations such as NEACH more directly. We want folks to know about this and as folks get more and more serious, you know, I think we will find that your technology providers, they’ll have information to help, they can support you but we have -- we have resources that we can provide that can help you understand what it's going to take to bring real-time payments to market.
COLLEEN: And we'll make sure to get the resources from you to be able to share with our members on Pacing Payments, because I think it's exactly the kind of options and solutions that we want to make available in that platform. So that’s great. You know, is there anything else that we haven’t talked about that you want to add? You want to make sure that you're leaving our members with today?

STEVE: You know, I think -- so one thing I would just like to leave you with is that, you know, real-time payments, faster payments in general, it is an area of a lot of focus, there is a lot of confusion out there what's actually happening, but if I could leave you with anything is real-time payments are happening. Not that long from now, U.S. consumers and businesses are going to be making real-time payments. We think it's going to be a really good opportunity for really every banking and credit union in the country, I think it’ll be good for your customers and it's happening fast.
You really do need to be thinking about this now so that you can be ready for it.

COLLEEN: And I think that the information you’ve shared today will help our members start thinking about it now and be serious about evaluating business opportunities as you advised. I think it was a great piece of information. So thank you. I think the information you shared today will be valuable in helping our members as they prepare for the future of payments. So thank you again, Steve, for taking the time to be with us today.

STEVE: Thank you, Colleen, for inviting me to talk to you and I really enjoyed it and look forward to future opportunities.

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

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