

Innovation in Consumer Payments: Staying Relevant and Compliant All at the Same Time

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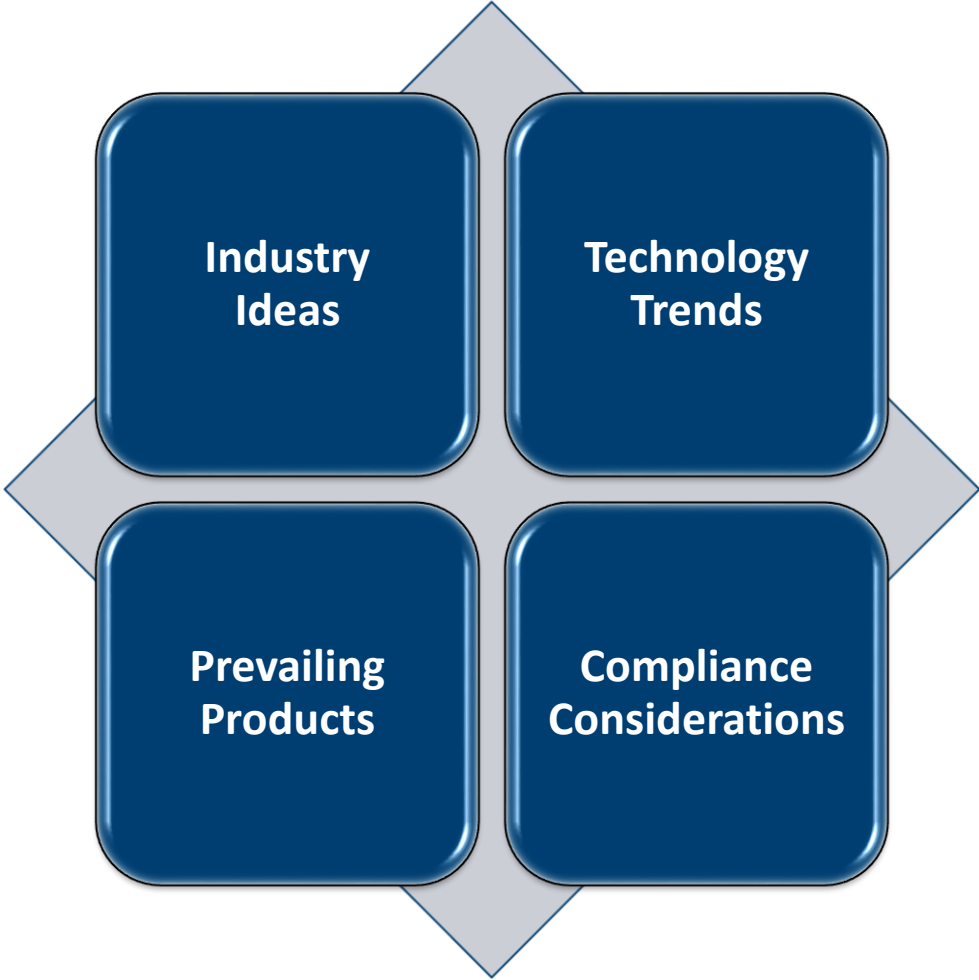
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Up for Dialogue



FRB Payments Improvement

- Whitepaper turned movement
- Industry involvement
- Security and Speed groups gathering
- fedpaymentsimprovement.org



Real-Time Payments Initiative

- The Clearing House - effort to move payments real time in the US.
- Owner banks have completed requirements and architecture and have funded the build.
- Known for other innovation and R&D:
 - ACH operator services
 - Check Image
 - PCI, EMV, tokenization
 - Mobile, Crypto-currency
 - Directory based services (Secure Cloud)



The ACH Journey

The ACH Network has effectively evolved over the last 40 years, and will continue to evolve into the future.

*Payroll & Benefits
One-time & Recurring*

Consumer Credits

B2B

ACH POS Cards

B2B with Data

*Electronic Enrollment
Cross-Border*

*Check Conversion
Internet & Telephone*

*Real-time Messaging
E-Invoicing
Mobile
XML Data
QR Bill*

1970

1980

1990

2000

2010



Looking Out 10 years

Blueprint “attributes” broadly define areas of future focus and opportunity:

- Innovation
- ACH Formats
- ACH Credit Payments
- Routing Data Validation
- User Enablement
- Cross-Border Interoperability
- Remittance Data
- Faster Payments



ACH At A Glance

- In 2014, ACH volume grew to almost 23 billion - increase of almost 5%, or 1 billion transactions over 2013.
- More than \$40 trillion was transferred over the ACH - 3% increase over 2013.
- 2.7 billion CTX and CCD transactions, including 149 million healthcare payments via ACH (CCD). Increase of 7.3%.
- Addenda record use associated with B2B payments grew, with CTX and CCD addenda use collectively increasing 7.7%.



Same Day ACH

- Virtually all ACH transactions, including credits and debits, would become eligible for same-day processing.
 - Same-day ACH credits: payroll, business-to-business, bill payment, and person-to-person payments.
 - Same-day ACH debits: bill payment, account-to-account transfers, check conversion, business-to-business, and e-commerce payments.
 - Most non-monetary transactions – prenotifications, notifications of changes, zero-dollar remittance information transactions, etc. – would also be eligible for same-day processing.
- Ineligible transactions: IAT, and transactions over \$25,000.¹

1 – The \$25,000 transaction limit applies to individual transactions; i.e., a single same-day ACH transaction could not be for more than \$25,000. There is no limit on the aggregate value of a *batch* of same-day transactions.



New Processing Windows

- The ACH Operators would offer two new same-day processing windows¹
 - A.M. window with a deadline of 10:30 AM ET, with settlement occurring at 1:00 PM
 - P.M. window with a deadline of 3:00 PM ET, with settlement occurring at 5:00 PM
- ODFIs would be able to submit files of same-day ACH payments through the two new clearing windows.
- All RDFIs would be mandated to receive Same Day ACH payments.
- RDFIs would make funds available from same-day ACH credits (such as payroll Direct Deposits) to depositors by 5:00 PM local time.

1 - All times in this proposal are Eastern Time unless noted. For purposes of this ballot, these times are estimates; exact schedules and timing would be determined by each ACH Operator. The ACH Operator schedules are not determined by the NACHA Operating Rules, and the inclusion of ACH Operator schedules and other functions in this proposal should not be interpreted as an endorsement by either ACH Operator.



Implementation Phases

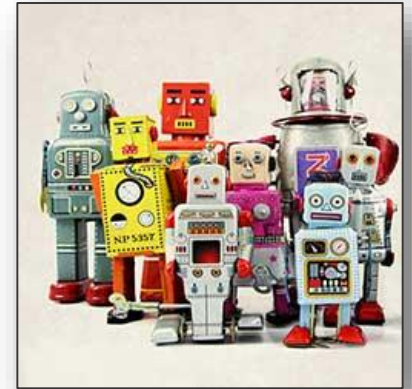
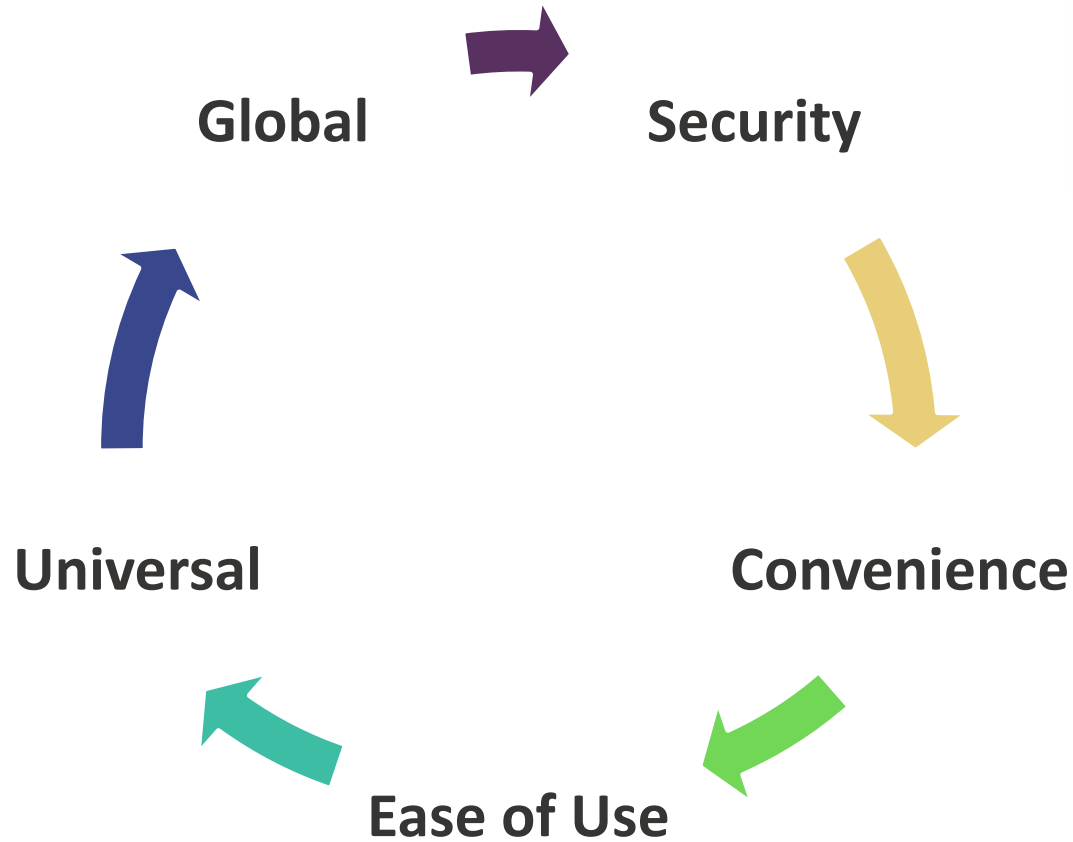
Functionality	Phase 1 ³ Sept. 23, 2016	Phase 2 Sept. 15, 2017	Phase 3 March 16, 2018
Transaction Eligibility (\$25,000 limit; IAT not eligible)	Credits only	Credits and debits	Credits and debits
New Same Day ACH Processing Deadlines ⁴	10:30 AM ET and 3:00 PM ET	10:30 AM ET and 3:00 PM ET	10:30 AM ET and 3:00 PM ET
New Settlement Time(s)	1:00 PM ET and 5:00 PM ET	1:00 PM ET and 5:00 PM ET	1:00 PM ET and 5:00 PM ET
ACH Credit Funds Availability	End of RDFI's processing day	End of RDFI's processing day	5:00 PM RDFI local time

3 – The proposed effective dates of the three phases are contingent on the timely support of the Federal Reserve, as explained on the next slide.

4 – Times shown represent the approximate times for an ODFI's deadlines to transmit same-day ACH transactions to an ACH Operator.



Technology Abounds



Apple Pay: Payments Freedom

- Dependent on the iPhone 6 and 6+.
- Owner to store payment card preferences.
- Uses biometrics (thumb print) for secure access.
- Leverages near frequency communications (NFC) to connect with merchant.
- Issues unique (one time) token for each transaction. Merchant only holds and passes the token for payment/settlement. Bank/CU holds 16 digit card number secure.



Tokenization

- Substituting a sensitive data element with a non-sensitive equivalent, referred to as a token, that has no meaning or value.
- The token maps back to the sensitive data through a tokenization system, rendering tokens infeasible to reverse in the absence of the tokenization system (i.e. random numbers).
- The system must be secured and validated using security best practice, secure storage, audit, authentication and authorization.
- The tokenization system provides processing authority and interfaces to request tokens, or detokenize back to sensitive data.



Near Field Communications

- NFC is a form of contactless communication between devices like smartphones or tablets.
- Contactless communication allows a user to wave the smartphone over a NFC compatible device to send information without needing to touch the devices together.
- Other forms of contactless communication are Bluetooth (10 meter range), WiFi (100+ meter range) and RFID (near range).



The Mobile Space

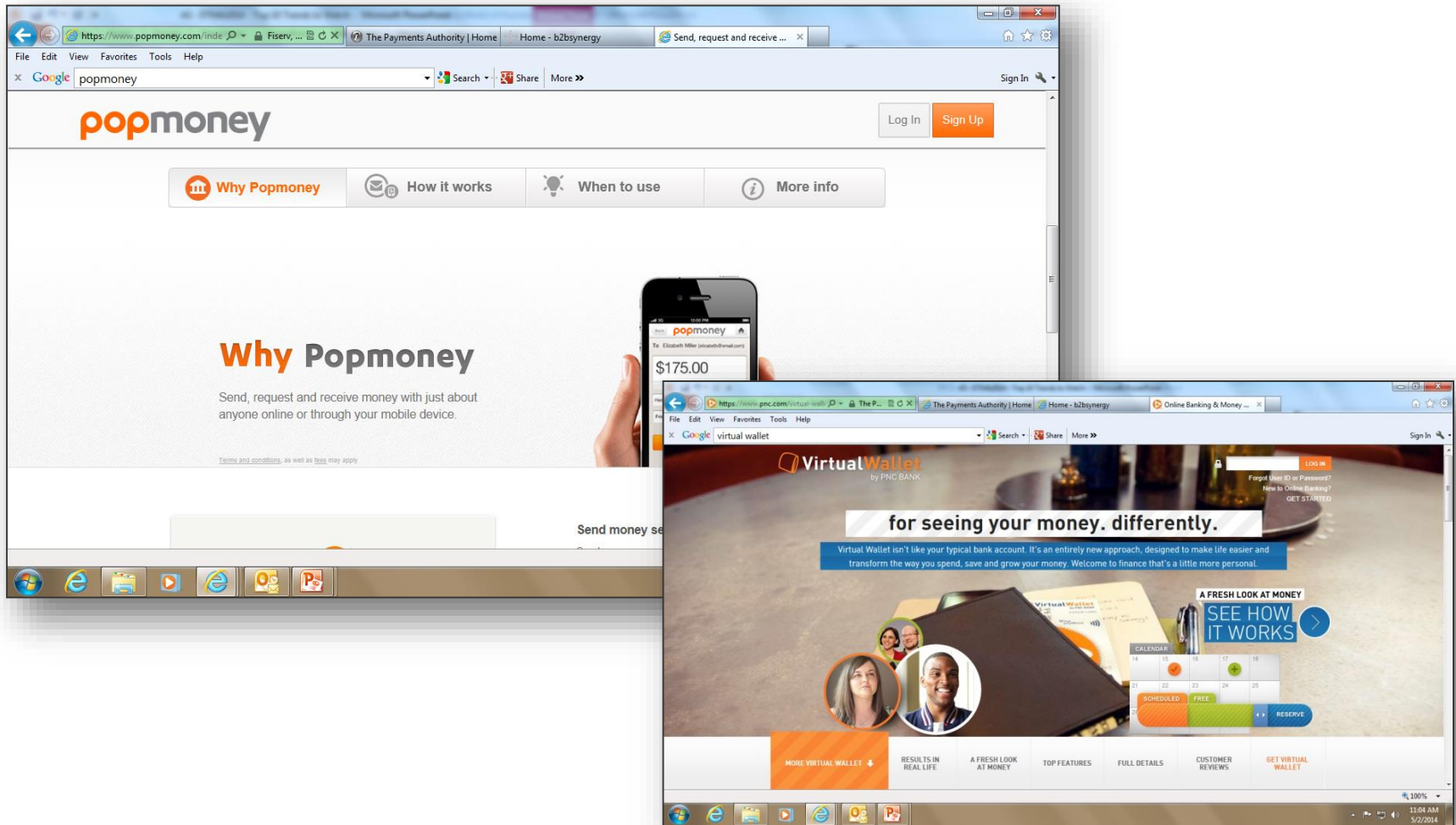


The Others in This Space

- Many non-FI players enabling payments.
- Consumers and many businesses don't care who's moving the \$\$\$ as long as it's EASY and SAFE...or as long as they have recourse if it's not!
- FIs being encouraged to make friends with the enemy!



Innovation: With/Without FIs



The Customer Agenda

“27% of customers would likely consider a branchless digital bank if they were to switch from their current bank/CU.”

according to an Accenture report



The New Payments Reality

- Consumers and businesses want their laptop or mobile device to be their branch of choice.
- Banking is no longer a proximity issue when it comes to payments.
- Understanding the efforts underway, the technology in play, and the applications available is key.
- Solving problems, not selling products!



Your Compliance Team

- Senior management and board support.
- Compliance as a title versus an assignment.
- Operations, retail/branch, member services.
- Vendors...all of them.
- Audit Firm
- General council
- Your regulator



Compliance In Focus

- Ensure all payments related audits and process reviews are complete, timely and compliant. Fix all non compliance issues.
- Know and manage all third party processing relationships. Request copies of their annual reviews.
- If leveraging a core processor, meet with them at least 2 times a year to discuss rules and other updates.
- Get the processors involved on the project team when considering the deployment of new technology.
- Test all new applications prior to deployment.
- Ensure compliance with other organizations supporting various payment channels.



TCHPA Offers ACH Audit Services for RDFIs, ODFIs and TPSPs

NACHA has begun making random inquiries from participants on ‘proof of ACH Audit’! All participating RDFIs, ODFIs, Third-Party Senders and Third-Party Service Providers must complete an **ACH audit of compliance with Appendix Eight** of the NACHA Rules by **December 31st each year!**

- Here’s why you might consider utilizing the audit services provided by TCHPA:
 - Effective **January 1, 2015 to October 3, 2016** there are 17 amendments to the NACHA Rules, some of them will impact your daily operational procedures and ACH Rule compliance
 - We are one of the 12 Regional Payment Associations (RPA) that provide expert payment education
 - All auditors are experienced Accredited ACH Professionals (AAP) and actively participate on NACHA Rules Committees and various RPA Work Groups
 - We come to your site to successfully fulfill this annual requirement in a timely and efficient manner
 - Your staff receives on-site training as we explain in detail the Rule requirements during the audit
 - We review your procedures and controls and share industry best practices
 - We go above and beyond the scope of the NACHA audit to review compliance for processing Federal Government Reclamations and Death Notification Entries, as we understand that non-compliance can be costly

LET OUR PROFESSIONALS ENSURE YOUR ORGANIZATION IS IN COMPLIANCE!

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