

# Innovation in Consumer Payments: Positioning For Success

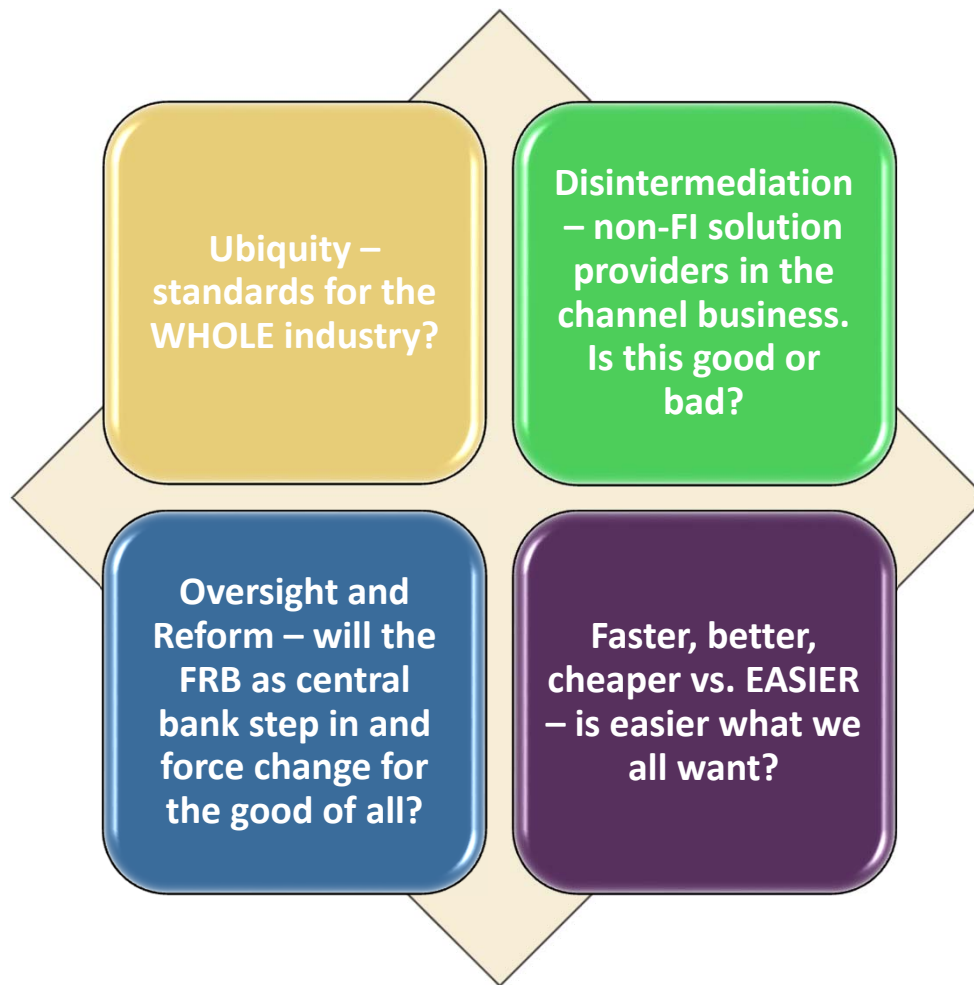
**Amy Smith, AAP, CAE  
VP, Executive Director**

**MCUL Lending & Marketing  
Conference**

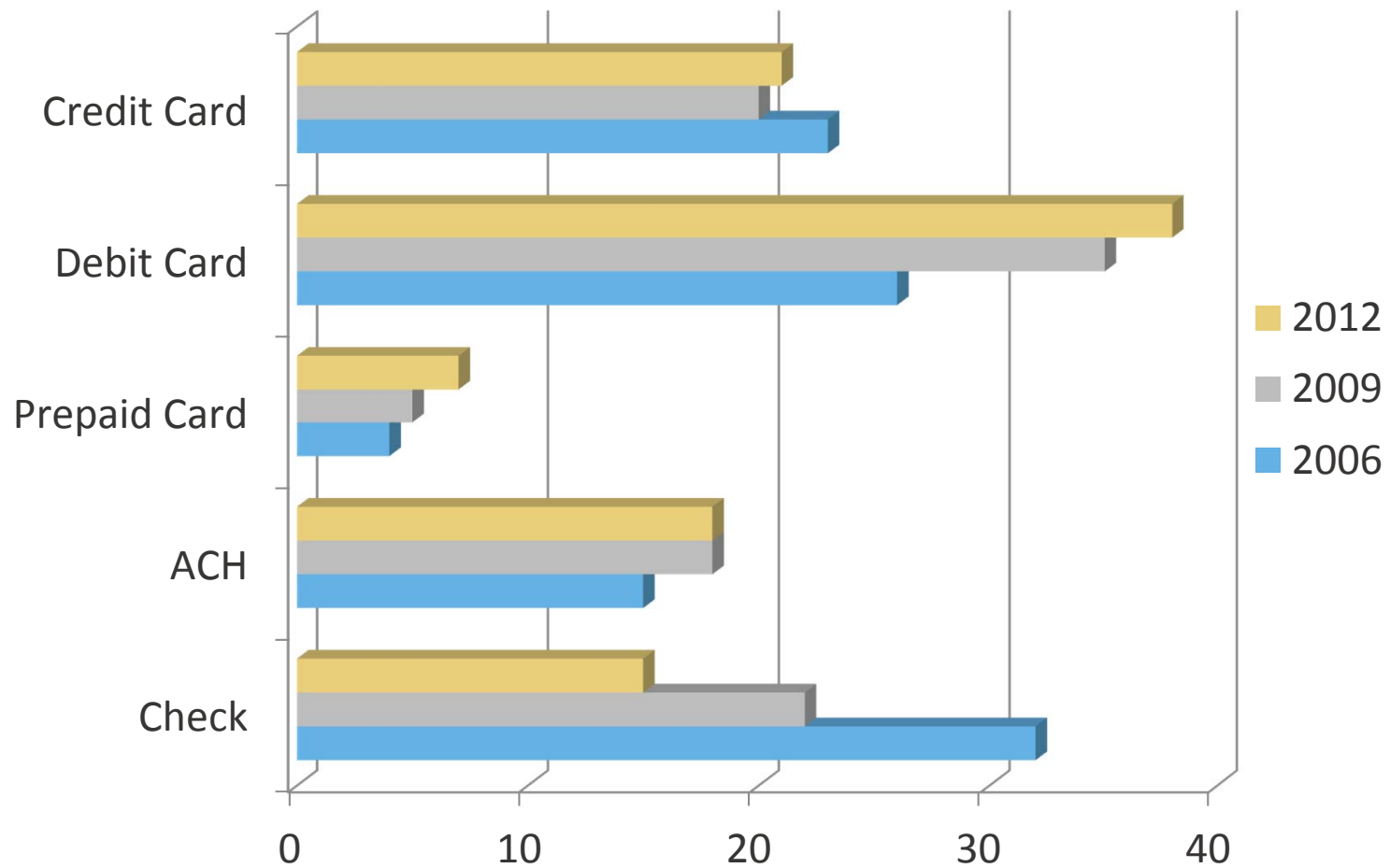
**February 10, 2016**

**Radisson Hotel, Kalamazoo**

# Key Points of Dialogue

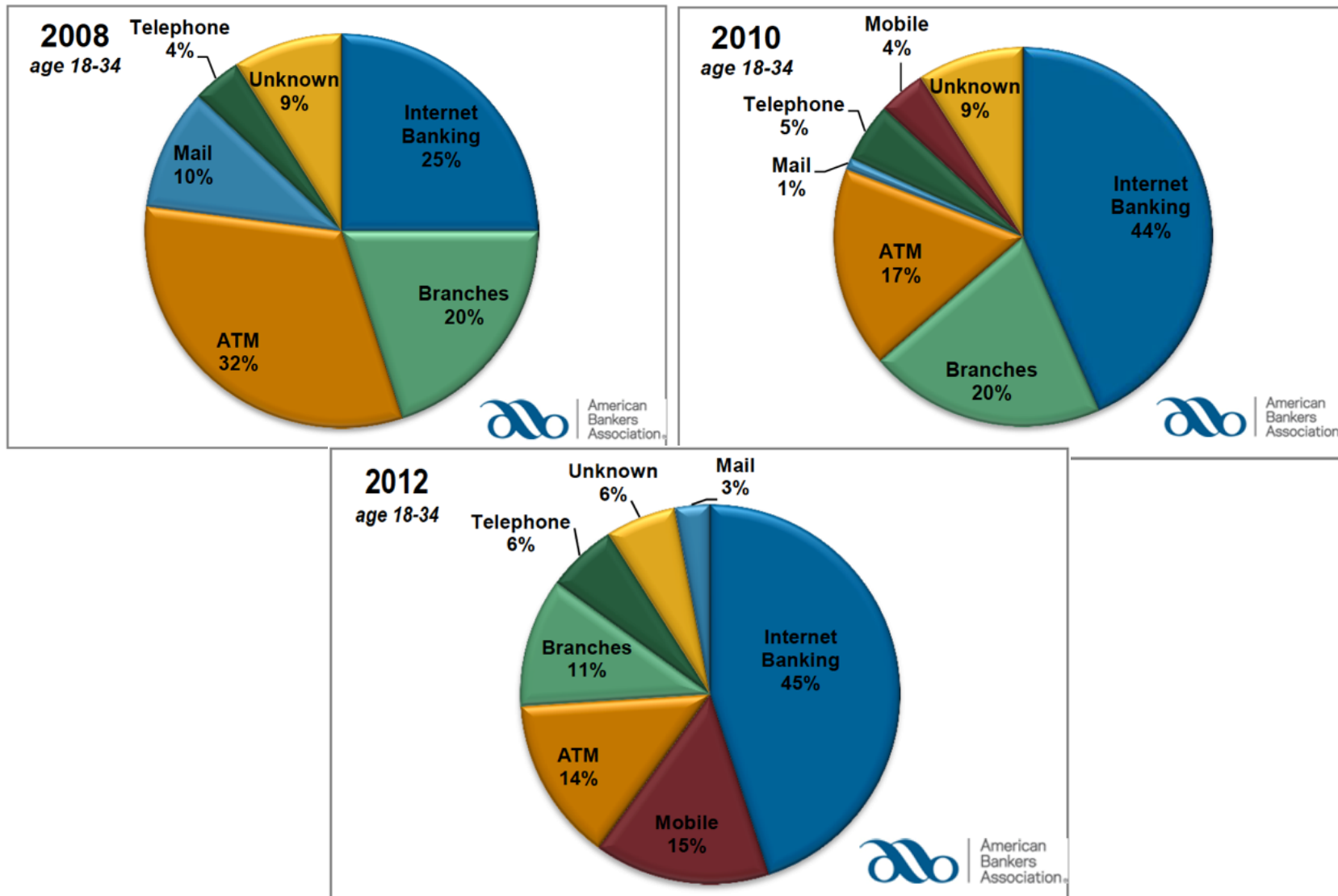


# Where are we?

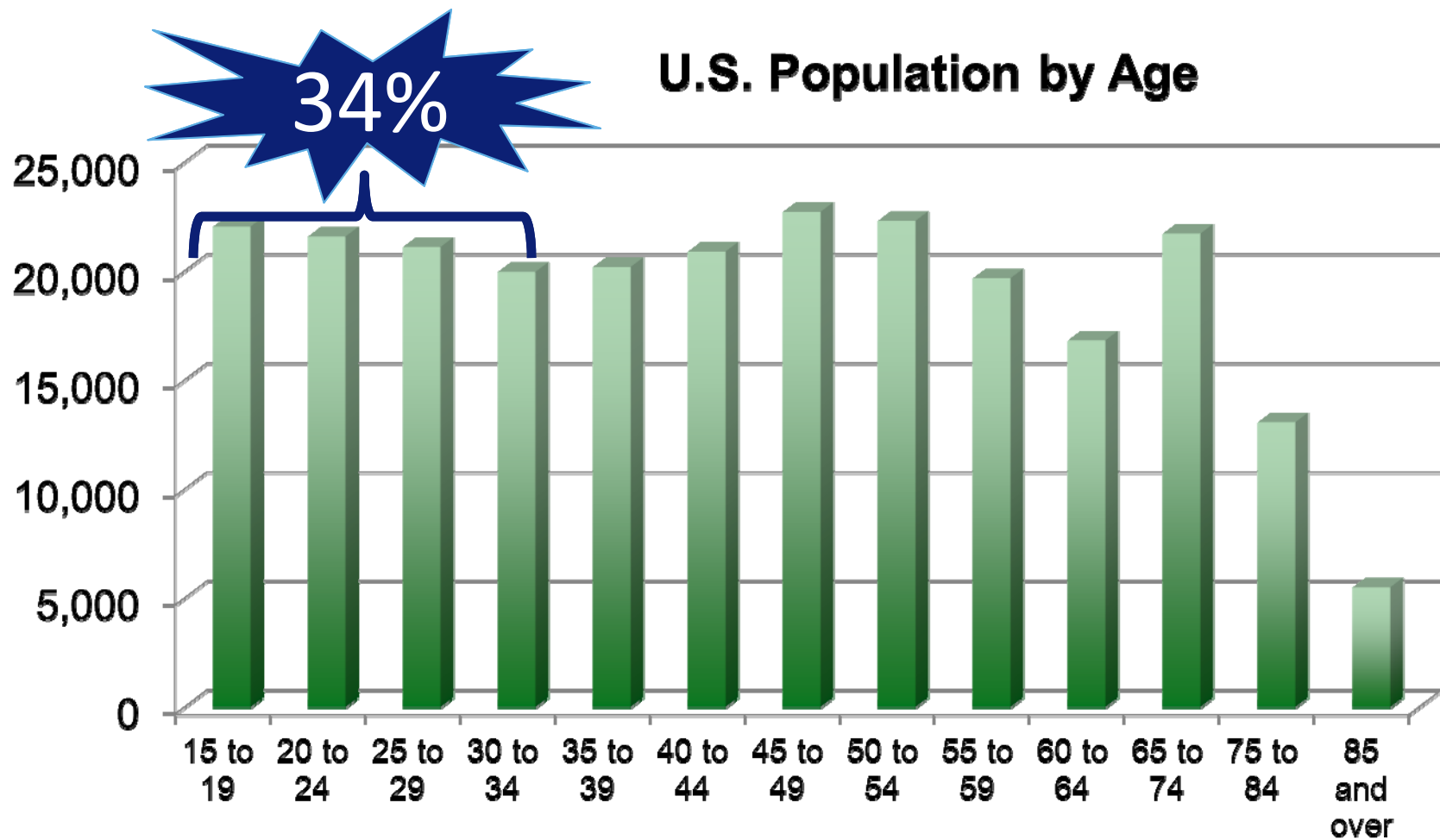


# The Changing Face of Banking

Source: American Banker's Association, Consumer Survey Conducted by Ipsos Public Affairs 2012



# Young Adults Changing the Face of Banking



Source: U.S. Census Data, 2010, census.gov



Digital Natives...your next members?



# Payment and Technology Convergence

Multiple Payment Channels

Multiple Connected Devices

Multiple Payment Devices

Face-to-Face

Mobile

E-Commerce



Alternative Payments

Debit/Credit/  
Prepaid/Gift Cards

Rewards  
Currency



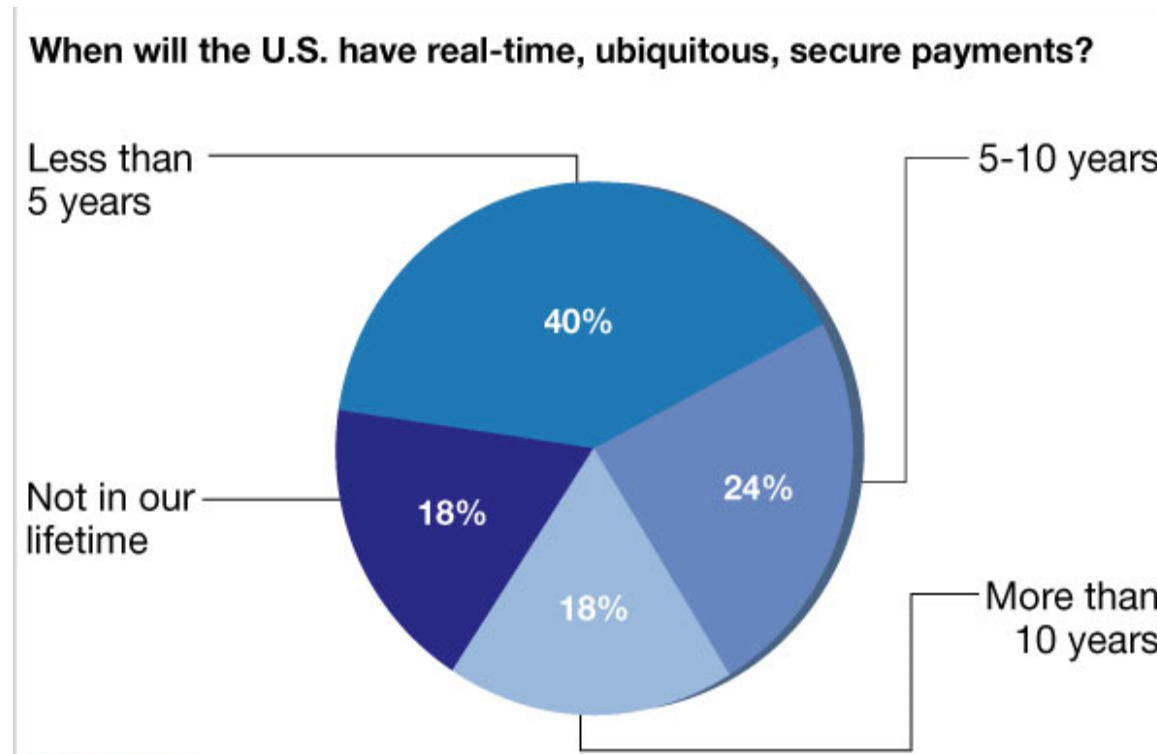
# Making Payments Faster

- Checks have long existed in the United States and are expected to have continued usage for the foreseeable future. Although they no longer require several days to clear and settle, they still are not considered fast.
- Wire payments are real-time in most cases, however, they are expensive and not well suited for low value or spontaneous payments.
- The ACH has ubiquity at the heart of its value proposition, but is still at best a next-day vehicle with a same day flavor arriving in the Fall.
- Card transactions can be processed in near real-time but can require days to settle.
- Meanwhile, the payments industry continues to clamber for faster payments.





## Recent American Banker Survey



# FRB's Vision for Payments in the U.S.

- In the 2013 *Consultation Paper*, the Federal Reserve proposed five desired outcomes for an improved U.S. payment system.
- In response to *Consultation Paper* feedback and the results of several other initiatives, the Federal Reserve has refined the desired outcomes and now seeks stakeholder support to achieve them.
- The FRB believes that these desired outcomes will be realized only through collective effort by all stakeholders; they are not the sole responsibility of the Federal Reserve.
- The FRB's final desired outcomes are :
  - Speed
  - Security
  - Efficiency
  - International
  - Collaboration



## FRB's Efforts to Speed Up Payments

- 1. Speed:** A ubiquitous, safe, faster electronic solution(s) for making a broad variety of business and personal payments, supported by a flexible and cost-effective means for payment clearing and settlement groups to settle their positions rapidly and with finality.
- 2. Security:** U.S. payment system security that remains very strong, with public confidence that remains high, and protections and incident response that keeps pace with the rapidly evolving and expanding threat environment.
- 3. Efficiency:** Greater proportion of payments originated and received electronically to reduce the average end-to-end (societal) costs of payment transactions and enable innovative payment services that deliver improved value to consumers and businesses.
- 4. International:** Better choices for U.S. consumers and businesses to send and receive convenient, cost-effective and timely cross-border payments.
- 5. Collaboration:** Needed payment system improvements are *collectively* identified and embraced by a broad array of payment participants, with material progress in implementing them.



# TCH Vision for the Future of the U.S. Payments System

- 1. Provide an end user experience and functionality that fulfills needs that are not adequately met by existing payment systems.**
  - Significant enhancements or changes to the payment system, including potentially faster clearing and settlement should address actual, demonstrated needs to ensure that the new payment system capabilities provide additional value to end users.
- 2. Set risk management and fraud protection standards that are appropriate for the essential characteristics of a payment (speed, value, debit or credit, etc.) rather than the clearing system or form of the payment.**
  - A faster payment system will require that system participants synchronize the speed of their anti-fraud, AML and OFAC processes with the speed of clearing and settlement.
  - It may also require updated payment finality and dispute resolution rules that account for the changes in speed and risk.
  - Additionally, higher value payments, regardless of how they are initiated, present unique challenges for security and liquidity management.
- 3. Be an open, global-ready platform.**
  - This means a payment system that is not limited to users of a single proprietary platform but, similar to today's check and ACH systems, supports exchange between different payment operators.
  - A system that adopts consistent global payment standards, and possibly supports multiple currencies, will assist financial institutions in serving the needs of their respective global customers.
- 4. Provide economic models that ensure that all service providers in the payment system can expect a return on initial an ongoing investment.**
  - The best way to achieve widespread participation, spur innovation, and identify applications that benefit customers is for payment service providers to have an opportunity to earn a reasonable return on their investment.



# Feedback has Been Positive

Jim Aramanda, President and CEO of The Clearing House added, "Consumer safety and privacy are core competencies of the banking industry that will be brought to bear in the development of this system. Real-time payments will incorporate strong safeguards to protect account information, building on The Clearing House initiative to develop and implement tokenization."

In today's announcement, The Clearing House also applauded the Federal Reserve for playing a leading role in promoting the need for payment systems improvement and expressed a commitment to continue working with the Federal Reserve and others in the industry to create an ubiquitous, national, real-time payment service.

Established  
Unit  
millions  
provide  
clear  
and  
organize  
inter  
web



Press Release

Media Contact  
Sean Oblack, 202.649.4629  
[sean.oblack@theclearinghouse.org](mailto:sean.oblack@theclearinghouse.org)

## The Clearing House to Undertake a Multi-Year Effort to Design and Develop a Secure, Real-Time Payment System

New York, NY – October 22, 2014 –The Clearing House and its member banks today announced plans to undertake a multi-year effort to build a real-time payment system to better meet consumers' and businesses' expectations in an increasingly digital economy. The real-time payment system will be designed to address gaps in payment processing and will enable consumers and businesses to securely send and receive immediate payments directly from their accounts at financial institutions.

"The digital economy moves in real time and our customers expect us to keep pace," said Richard Davis, Chairman, President, and CEO of U.S. Bank and Chairman of The Clearing House. "We will work with the industry to build a real-time payment infrastructure, which will enable consumers to pay and get paid securely and conveniently."

Implementing ubiquitous real-time payments is a comprehensive multi-year endeavor, requiring coordination among financial institutions of all sizes and their service and technology providers. The innovative real-time system will be designed to address unmet customer needs and allow them to initiate payments directly from their bank accounts in a safe and secure manner.

Some of the core customer benefits will include:

- Convenience – consumers will be able to pay each other directly from their existing accounts using online or mobile banking;
- Account Data Privacy and Ease of Use – the system will route payments based on tokens that cannot be used to debit accounts, so senders and receivers will not need to provide complex, sensitive bank account details;
- Cost Savings – an efficient real-time payment service provides a superior alternative to costly funds transfers, check cashing services and last-minute bill pay;
- Certainty – senders and receivers will receive immediate notification of payment, and risk of returned payments will be eliminated, because sending financial institutions immediately verify good funds;
- Safety – sending and receiving financial institutions, which have existing relationships with their customers, will be responsible for authentication; and
- Cash Management – the ability to send and receive payments immediately will give customers more control over cash flow, which is particularly important for cash-constrained small businesses and consumers.

*"(Same-day ACH and real-time payments) are all complementary ways to work on moving payments faster. Moving to same-day ACH, I don't see that at all as conflicting with changes in the ecosystem that will support real-time payments."*



**Jan Estep**  
NACHA President  
October 22, 2014

*"We're pleased with the Clearing House and members' announcement. They're taking on a process that would actually help support some of our desired outcomes."*

**Dan Gonzalez**  
Vice President Industry Relations, Federal Reserve Bank of Chicago  
October 23, 2014

*"The effort to bring faster payment settlement to the United States gained momentum this week with an announcement by The Clearing House Payments Co. LLC... ."*



**John Stewart**  
DigitalTransactions.net  
October 23, 2014

*"The Clearing House is to be commended for moving forward and keeping the pressure on the financial industry to accelerate the speed with which payments are made in the U.S."*

**Rene Pelegero**  
Former PayPal, Inc. and Amazon.com Inc. Executive, in *American Banker*  
October 23, 2014

*"The movement to develop a faster U.S. payment system has a new, influential convert."*



**Sarah Todd and Kevin Wack**  
*American Banker*  
October 22, 2014

## Real-time payments will provide significant benefits to customers

- **Convenience** – consumers will be able to pay each other directly from their existing accounts using online or mobile banking;
- **Account Data Privacy and Ease of Use** – the system will route payments based on tokens that cannot be used to debit accounts, so senders and receivers will not need to provide complex, sensitive bank account details;
- **Cost Savings** – an efficient real-time payment service provides a superior alternative to costly funds transfers, check cashing services and last-minute bill pay;
- **Certainty** – senders and receivers will receive immediate notification of payment, and risk of returned payments will be eliminated, because sending financial institutions immediately verify good funds;
- **Safety** – sending and receiving financial institutions, which have existing relationships with their customers, will be responsible for authentication; and
- **Cash Management** – the ability to send and receive payments immediately will give customers more control over cash flow, which is particularly important for cash-constrained small businesses and consumers.



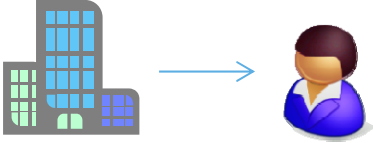
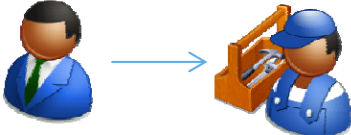


# TCH Real-time Payments Top-level Business Requirements

- Credits only
- Ability to send or receive payments 24/7
- Real-time access to payment status information for senders and receivers
- Immediate availability of funds for receivers
- Extensive set of payment and non-payment related messages
- Payment certainty for receivers
- Process to request return of erroneous payments
- Value limits on transactions
- Settlement approach that mitigates material risk of loss
- Use of tokens to protect account data
- Ability to initiate payments based on alias instead of an account number (Directory Services)
- Requires minimum threshold level of security and privacy protection of participating financial institutions
- Support for anti-fraud, anti-money laundering and OFAC/sanctions compliance process
- Global compatibility to the extent it is compatible with domestic needs

**Business requirements support a consistent end-to-end customer experience**



# The Clearing House real-time system will be designed to address unmet customer needs across a number of targeted use cases

<p><b>Business to Person</b></p> 	<ul style="list-style-type: none"> <li>• Temporary / part-time employee wages</li> <li>• Irregular payments from employer (e.g., payroll error correction)</li> <li>• One off, low value government to person payments (e.g., jury duty stipend)</li> <li>• Large, one off payments from business / government to individuals (e.g., medical insurance reimbursements)</li> </ul>
<p><b>Person to Person</b></p> 	<ul style="list-style-type: none"> <li>• Non-commerce payments (e.g., rent payment to a roommate, emergency funds for a family member)</li> <li>• Payment for informal services (e.g., babysitting, lawn care)</li> </ul>
<p><b>Person to Business</b></p> 	<ul style="list-style-type: none"> <li>• Expedited bill payments</li> <li>• Online purchase</li> </ul>
<p><b>Business to Business</b></p> 	<ul style="list-style-type: none"> <li>• Expedited inventory purchases, shipping</li> <li>• Just in time payments to suppliers</li> <li>• Expedited treasury payments</li> <li>• One off government agency payments to vendors</li> </ul>





## Same-day ACH and Real-time Payments are two distinct, complementary ways to speed payments

	Same-day ACH	Real-Time Payment
	<ul style="list-style-type: none"> <li>• Improved online billpay</li> <li>• Hourly payroll</li> <li>• Expedited B2C (e.g. insurance payouts)</li> <li>• Cash management</li> <li>• Faster B2B</li> <li>• Accelerated card merchant settlement</li> </ul>	<ul style="list-style-type: none"> <li>• P2P</li> <li>• Urgent A2A</li> <li>• Immediate billpay with acknowledgment</li> <li>• Emergency payroll, temporary payroll</li> <li>• Emergency B2C (e.g. disaster)</li> <li>• Just-in-time B2B</li> </ul>
Type of Payment	Credit or Debit	Credit Only
Notification to Receiver	Same-day (receipt of transaction)	Immediate
Other Messaging	Remittance data included with payment	Receiver acknowledgment, request for payment, remittance data, others TBD
Payment Finality	Reversals and Returns Allowed	Payment Certainty for Receiver
Receiver Availability	Same-day	“Immediate”



# Positioning for Success

- ✓ Track the emerging trends related to faster payments.
  - FRB Payments Improvement Website
  - Trade Conferences (regional and national)
  - Attend RPA training and educational events
  
- ✓ Begin to inventory your operational processes with a view to supporting faster payments.
  - Changes to posting
  - Extended processing day
  - Streamlining exception processes
  - Consider reporting changes
  
- ✓ Think about potential technology changes
  - Discuss with Third Party Service Providers
  - Determine whether vendors are prepared for the changes
  - Ensure Vendors are Preparing to Keep Up
  
- ✓ Consider new product and service opportunities
  
- ✓ **DON'T PUT YOUR HEAD IN THE SAND!!!!**



# Your Best Next Steps

- Track the foundational work underway to reshape the US payments system. Ask your processor what role that will play to bring innovation to your door step.
- Talk to your peers about mobile solutions like ApplePay and others. What experience are they having?
- Test for compliance as you implement. Be sure you are keeping your products in check.
- Take the time to understand your member base. What do they want and why?
- Analyze your work. What type of customers to you have? What are they doing now?
- Build a strategy, gather a team, define the business requirements, pick the solutions and implement.



Questions?

[www.theclearinghouse.org](http://www.theclearinghouse.org)

