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## *The Future of Faster Payments:*

# [ **The Year Ahead** ]

*by Joe Casali*

*The faster payments movement advanced significantly in 2016 and is quickly gaining momentum. What were the biggest successes of 2016? Where might faster payments go in 2017? What should financial institutions do to prepare?*

Same Day ACH (SDA), which launched on September 23, 2016, is one of the most significant payments successes of the year. During its first full month, SDA volume totaled nearly 4 million transactions and nearly \$5 billion transferred by SDA for a total of nearly 191,000 transactions daily.

"Just over two months after implementation, we're seeing a wide variety of use cases and support of the new capability by both large and small banks and credit unions," Jan Estep, NACHA president and CEO says.

Experts cite ubiquity and its near flawless implementation as key drivers of this adoption.

"Ubiquity is the great equalizer," Karen Webster, CEO, PYMNTS.com, adds. "It democratizes the role of all banks. When it's done properly, small banks can benefit as much as large banks, and that's the way it should be," she says.

**Not only is Same Day ACH off to a strong start, it is quickly gaining momentum.**

On November 30, the Department of the Treasury, Bureau of the Fiscal Service, began the process of adopting, with some exceptions, recent

updates to the *NACHA Operating Rules* as the rules governing the use of the ACH Network for federal agencies. Changes proposed to *The Green Book* include accepting all three phases of Same Day ACH.

While Same Day ACH is a portal for the faster payments movement today; the work of the Federal Reserve's Faster Payments Task force is advancing faster payments into the future.

"The work we [Faster Payments Task Force] did with 300 people agreeing on 36 criteria and, eventually, 31 pages of material with 126 points of emphasis was quite a feat to pull off in seven or eight months," Sean Rodriguez, the Federal Reserve's Faster Payments Strategy Leader and chair of the Faster Payments Task Force, says, referring to The Faster Payments Effectiveness Criteria.

Despite this monumental lift, the work of the Task Force is not done. Right now, the group is in the process of reviewing 19 proposals submitted by various proposers across the industry that outline potential end-to-end approaches to faster payments systems and security in the United States.



# New Frontiers for Faster Payments

One of the proposals under review is The Clearing House's (TCH) Real-Time System, which is designed to allow consumers and businesses to send and receive payments instantly directly from their accounts at financial institutions. According to TCH, the system is designed to facilitate thousands of simultaneous transactions per second, processing payments 24 hours a day, seven days a week. Rules for TCH's Real-Time Payments System are set to release at year-end.

Although it is impossible to predict with 100 percent accuracy what will happen in the future, one thing is clear: Faster payments is a movement unlike any other. The financial services industry can expect significant changes in the next five years.

Looking at the near horizon, Phase 2 of Same Day ACH will launch on September 15, 2017. According to NACHA, "Phase 2 will introduce the fast processing and settlement of debit transactions, in addition to credit transactions. This phase will support additional use cases such as consumer bill payment for utility, insurance, telecom, mortgage, loan and credit card payments."

Due to the nature of faster processing and settlement of debit transactions, new challenges may arise. Consider the following scenario: With an inadvertent Same Day ACH credit, the ODFI faces risks associated with funding for credits and monitoring for exposure limits. In the case of an early debit, the same ODFI issues exist, compounded by others. For example, mistakes could lead to a Rules violation, a Reg E exception, a breach or warranty for the ODFI, or a customer overdraft and return, not to mention the frustration for all parties involved.

**It's a pivotal point for financial institutions, one that Estep is well aware of.**

"An important point for users of Same Day ACH debits is to date transactions correctly with the proper settlement effective date," she says. "For anyone whose first use of Same Day ACH will be with ACH debits, correct transaction dating should be on their implementation checklist."

These operational complications around moving payments faster have been a point of discussion with the Federal Reserve's Faster Payments Task Force as well, and the industry will catch a glimpse of some of that dialogue when the Task Force releases its first installment of a two-part report in January. This initial report will detail the Task Force's work and the ways in which consumers and businesses can benefit from faster payments. The second installment of the report, which will include a discussion and assessment of specific proposals, is due to release mid-year.

This mid-year timeframe will be well into the implementation of real-time payments, according to Tim Mills, vice president of Real-Time Business Development for the Clearing House. "In 2017, we're going to be rolling out a brand new payments network — The Real-Time Payments (RTP) System. I think that is going to revolutionize a lot of what we're seeing in the payments space."

Beyond the implementation of a brand new payments rail, Mills predicts additional enhancements will take place to other faster payments offerings in the marketplace today. He points out that such solutions as Zelle, Venmo, and PayPal, are riding on legacy rails to provide faster payments and that may need to adapt.

Stepping away from these current implementations, industry experts also are beginning to examine how faster payments needs may evolve beyond what has been envisioned to date.

"We need to shed this whole vocabulary around faster," Webster says. "What the faster payments imperative has focused on recently is what makes payments better. Maybe it's faster, but maybe it's better, too, with data traveling with payments, which is critical in a business environment."

**No matter the area of emphasis, with changes like these looming large in the new year, what should financial institutions do to prepare?**

Rodriguez makes a critical point, "Certainly we want faster, but we are not going to sacrifice security for faster payments." He points to the work of a second Federal Reserve Task Force closely aligned with his faster payments group — the Secure Payments Task Force. Taking their lead from the Fed, financial institutions should continue to explore the safety and security of any faster payments effort they undertake.

As they assess, one question for FIs to ask themselves is this: If we are considering a faster payments solution, have we already investigated how we can maximize our usage for Same Day ACH? Financial institutions also will want to continue communicating deadlines and expectations with customers and educating staff.

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Above all, financial institutions can evaluate what is right for their organizations by staying informed, understanding the solutions and the industry, and identifying trends, challenges, and opportunities as the payments paradigm shifts to faster.

A crystal ball isn't necessary to predict the future of payments. As the industry settles in to a new year and embarks on a new frontier, payments will continue to get more complicated, and NEACH will be there to support financial institutions in charting the course ahead.