



FASTER PAYMENTS

Good things come to those who wait

There is a lot to digest when it comes to Faster Payments. Announcements from The Clearing House, FedNowSM and core providers have manufactured anticipation for Faster Payments. But what solution is right for your bank? We encourage you to talk to TBB before deciding on a Faster Payments product.

The Bankers Bank has always operated with one goal: *help community banks run better*. To that end, TBB is currently collaborating with other bankers' banks and vendors across the country to evaluate Faster Payments solutions that will complement the needs of community banks. Our focus is on solutions that are cost effective, easy to use, reduce friction, and do not contribute to the bottom line of our big-bank competitors.

When evaluating Faster Payments, ask these questions:

- Have any of my customers asked about faster or Real Time Payments (RTP®)?
- Am I getting complaints about payment speed or questions about payment security and fees?
- Do I want to be locked into an expensive long-term agreement that may restrict my options moving forward?

Let's discuss Faster Payments and what it could mean for your institution.

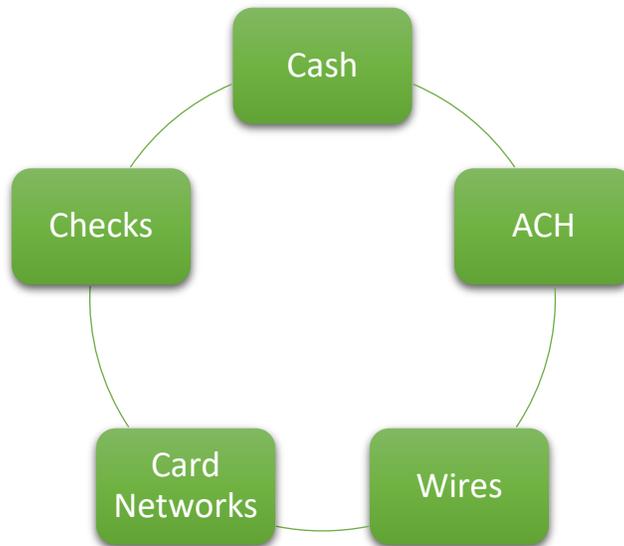
Background

Faster Payments provides for the availability of final funds to the payee to occur in real or near-real time on a virtually 24/7 basis. To meet these criteria the payment option must:

1. Enable both payer and payee to see the transaction reflected in their respective account balances immediately; and,
2. Provide funds that the payee can use right after the payer initiates the payment.

The result is that the payment is irrevocable and cannot be reversed by the payer or the payer's financial institution (FI) after it is sent.

PAYMENT METHODS



The illustration above broadly lays out current payment methods in addition to Faster Payments (we are going to leave digital currency out of this article). Many private networks build off this existing infrastructure. For example, Venmo (by Paypal) links an account (credit/debit card or checking) to a user’s Venmo account, where the user can exchange funds with other Venmo users. If a user wants to transfer funds from his/her Venmo account to his/her checking account, the funds are sent via an Automated Clearing House (ACH) transfer for free or via RTP® for a fee. Which method do you think consumers would choose?

Prior to Faster Payments, the last big technological jump in the payments system was the ACH. In 1974, the Federal Reserve, working with the private sector, developed the ACH network. Today, “ACH handles 90 percent of all electronic transactions in the U.S. — over 25 billion transactions in 2016, with a total money flow of roughly \$40 trillion a year.”ⁱ

With the advent of better communication technology, ACH has some perceived drawbacks. Because ACH is batch processed, payments can take several days to appear in the receiver's account. Additionally, there has been relatively little modification to the back-end processes that move funds throughout the financial system.

Current information on U.S. Payments

By the numbers, most non-cash transactions occur via credit and debit cards. However, by value, ACH is the largest non-cash payment method. Interestingly, while the number of checks written every year goes down, the amount of money transferred via checks remained steady between 2012-2018.

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Figure 1. Trends in noncash payments, by number, 2000–18

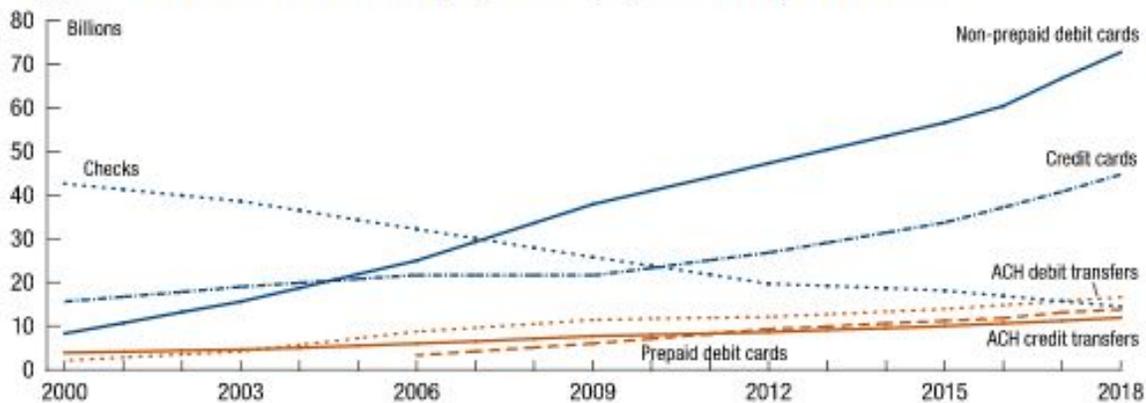
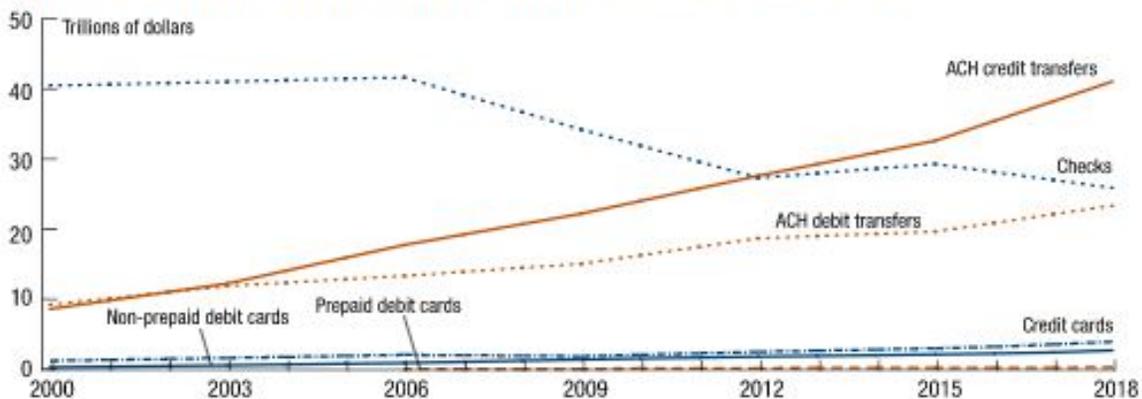


Figure 2. Trends in noncash payments, by value, 2000–18



Where do Faster Payments come in? Obtaining data on Faster Payments is difficult, but is some information we could find:

- Transactions. According to The Clearing House, FIs with \$100M+ in assets could expect “dozens” of transactions a month and FIs with assets of \$500M+ could expect “hundreds” with RTP®. By contrast, in 2019, TBB respondent banks averaged approximately **9,700** per month in images alone.

- Volume. One source forecasted “US real-time payments transaction volume going from \$734 million in 2019 to \$4.2 billion by 2024.”ⁱⁱⁱ Another source forecasted that Faster Payments would grow from \$255 billion in 2017 to \$2.34 trillion in 2021.^{iv}
 - At first glance one might be confused by the vastly different projections, but if you look closer it makes more sense. The first forecast was limited to “real-time payments” while the second pertained to “Faster Payments.” The Faster Payments this forecaster used included products such as **Same-Day ACH**.
 - Even including Same-Day ACH in these projections, Faster Payments in 2024 will still account for less than 2018 credit cards by total dollar amount.

We do not know whether Faster Payments is going to meet these projections. Also, there is little evidence that Faster Payments products are critical to the ongoing viability of commercial banking. To date, Faster Payments have had a bigger impact on consumer payments while business-to-business transactions continue to use traditional payment methods.^v Beyond habit, reasons for not transitioning include higher transaction costs, lack of IT resources, unwillingness of business partners to participate, and fraud concerns. As more Faster Payment providers enter the market, or current products improve, community banks will be provided with more choices amongst a more robust offering of solutions.

Types of Faster Payments

You may have heard about The Clearing House’s RTP®, but you should know it is just one type of Faster Payment. Here are some of the others:

Product	Provider	Notes^{vi}
Same Day ACH	NACHA	<ul style="list-style-type: none"> • \$100,000 Transaction limit • Runs on ACH Network • Governed by NACHA Operating Rules • Same Day Settlement
Real-Time Payments (RTP®)	The Clearing House	<ul style="list-style-type: none"> • \$100,000 Transaction limit • Runs on RTP® network (Currently, less than 1% of all US financial institutions are on the RTP® network^{vii}) • Governed by RTP® Rules, Service Level, Agreements • Immediate Settlement
Zelle®	Early Warning	<ul style="list-style-type: none"> • Transaction limit differs by FI

		<ul style="list-style-type: none"> • Runs on ACH and Debit Card Networks • Governed by Zelle® Operating Rules and other agreements • Same Day Settlement on Debit Card, and 1-2 Days for ACH
Mastercard Money Send	Mastercard	<ul style="list-style-type: none"> • Transaction limit from \$10,000 - \$50,000 depending on transaction type • Runs on Debit Card Network • Governed by Mastercard Rules • Same Day or Next Day
Visa Direct	Visa	<ul style="list-style-type: none"> • Transaction limit from \$10,000 - \$50,000 depending on transaction type • Runs on card network • Governed by Visa rules • Same Day or Next Day
FedNow SM	Federal Reserve	<ul style="list-style-type: none"> • Anticipated release in 2023-24 • Run on Fed-developed network • Real time settlement • Focused on interoperability with other networks
EXCHEQ	EXCHEQ	<ul style="list-style-type: none"> • Transaction limit varies by FI • Runs on ACH Network • Governed by NACHA Operating Rules • Same Day or Next Day Settlement

FedNowSM

TBB anticipates that, when launched, FedNowSM will be the main competitor to RTP® for instant payments. With that said, we believe that ACH, wires, and checks will continue have a strong presence in the payment system.

FedNowSM is not expected to be launched until 2023 or 2024. The Federal Reserve has a long history of developing reliable payment products such as Fedwire® and FedForward® that are competitively priced. The Federal Reserve has stated that the FedNowSM Service will be open to all eligible depository institutions regardless of size or location. Further, the Federal Reserve is prioritizing interoperability with other instant payment services.

As a result, The Clearing House is trying to capture the market on instant payments while it has a perceived monopoly. But, as laid out above, there are other options for payments faster than a standard ACH. Additionally, it is not clear that the demand is worth the cost of implementing any Faster Payments at this time. When factoring in the upfront and monthly costs to join a network, it may be difficult to justify such a large investment in a platform that may have a low probability for payback or profit generation.

The Bankers Bank's Advice

Evaluate whether instant or Faster Payments is going to help you keep your customers or attract new ones. “In order to reap the benefits of electronic and faster payments, businesses have to find clear-use cases in which the advantages of using new and faster payments exceed the cost of implementing them.”^{viii} Otherwise, a bank will be absorbing new costs with no clear benefit.

The Bankers Bank is here to help community banks compete with big banks. If you can wait on Faster Payments, you will likely have better options in the future. Please contact us to talk about Faster Payments and anything else we can do to help your organization.



CONTACT TBB WITH ANY QUESTIONS

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ⁱ Spross, Jeff, “America’s janky payment system, explained”, The Week, Dec. 14, 2018 (available at <https://theweek.com/articles/812493/americas-janky-payment-system-explained>).

ⁱⁱ Figures published by: Federal Reserve Bank, “The 2019 Federal Reserve Payments Study”, available at <https://www.federalreserve.gov/paymentsystems/2019-December-The-Federal-Reserve-Payments-Study.htm>.

ⁱⁱⁱ Deloitte, “Real-time payments and implications of the COVID-19 pandemic: Increased competition, adoption of contactless payments”, available at <https://www2.deloitte.com/us/en/pages/financial-services/articles/real-time-payments-implications-covid-19.html>.”

^{iv} PaymentsJournal, “How Faster Payments Are Impacting SMB Lending, E-Commerce, and the Utilities Industry”, published November 14, 2019, available at <https://www.paymentsjournal.com/how-faster-payments-are-impacting-smb-lending-e-commerce-and-the-utilities-industry/>.

^v J.P. Morgan, “2019 AFP® ELECTRONIC PAYMENTS SURVEY REPORT; Key Highlights, Association for Financial Professionals, available at <https://www.jpmorgan.com/content/dam/jpm/treasury-services/documents/2019e-payments-report.pdf>.

^{vi} Information for this table was found at various sources including: NACHA, “Faster Payments Playbook”, available at <https://fasterpaymentsplaybook.org/>.

^{vii} According to a FIS publication, “More than 130 financial institutions are currently implementing RTP” in the U.S. (available at <https://www.fisglobal.com/en/flavors-of-fast/the-americas#section-two>).

^{viii} See footnote No. 5 supra.