

Faster Payments Tracker

PYMNTS.com

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The Electronic Payments Association

Putting Banks on the Fast Track Toward **Faster Payments**

82 percent

of American workers
are being paid through
Direct Deposit via ACH

73 percent

say Direct Deposit via
ACH helps them pay
bills on time

80 percent of consumers still pay
bills via paper check

Faster Payments Tracker™

What's Inside

Driven by consumer expectations and enhanced technological standards, the U.S. is accelerating full-speed ahead toward comprehensive Faster Payments. As the nation undergoes this digital and economic transition, government agencies, businesses and financial institutions of all sizes are zeroing in on how to support, integrate and develop an ecosystem that securely enables rapid transactions.

For this month's Tracker cover story, PYMNTS.com caught up with Kathleen Oldenborg, Director for Payment Systems Policy for the Office of the Comptroller of the Currency, to dive into the country's multi-sector push to make the Faster Payments dream a reality. For an in-depth look at the future of real-time transactions in the U.S., and a look at how the OCC is impacting this shift, check out this Tracker's Cover Story.

Also included in this month's Tracker are news highlights from across the Faster Payments ecosystem. Here's a look at some recent headlines that showcase the magnitude of the cross-industry movement toward high-speed transactions:

Faster Payments: A National Movement

While players in numerous fields are contributing to the advancement of Faster Payments, the efforts are being led by the Federal Reserve. The Fed's [Faster Payments Task Force](#) has been vetting proposals from tech firms looking to establish their solutions as the framework of the country's rapid transactions. This month, the banking institution received a submission from [FinTech startup Dwolla](#), whose solution, FiSync, will join existing proposals in the Fed's extensive review process.

Although Faster Payments have yet to gain widespread use, digital financial solutions that expedite the payment process are winning over U.S. consumers.

A new survey from NACHA revealed that consumer awareness and adoption of [Direct Deposit via ACH](#) has expanded significantly over the past five years. Currently, 82 percent of U.S. employees are compensated by Direct Deposit via ACH, compared to 74 percent in 2011. Additionally, nearly 80 percent of workers who aren't paid through this solution are aware of its existence. The study reported that Direct Deposit users are predominantly fans of the technology, as 87 percent of respondents indicated they were highly satisfied with it – a main reason being that it provides them with faster access to their pay.

What's Inside

This overwhelming consumer demand, a key driver in the journey toward Faster Payments, is largely based on a national desire for secure, efficient and streamlined fiscal solutions. This widespread sentiment has extended beyond the walls of financial institutions and into the processes of companies and federal agencies – even among those that are not known for their commitment to technological innovations, like the U.S. Postal Service.

According to a new report from the Office of the Inspector General, the [USPS](#) is looking to join the Faster Payments movement by potentially adopting blockchain technology. The report explained that the Postal Service could benefit from using blockchain to create a bitcoin-style currency (“Postcoin”) that would allow the organization to serve unbanked consumers as a “global payment service.”

Check out the Tracker’s News section to read more about what is trending around the world of Faster Payments.

“Improvements to **speed and efficiency** have the potential to **completely transform** the banking industry.”

Putting Banks on the Fast Track Toward Faster Payments

As consumers adapt to the conveniences new technologies offer them, their expectations surrounding speed, reliability and efficiency increase for all areas of their lives – including personal banking. The same person for whom it’s intuitive to order an Uber with a swipe of their finger or ask Siri to forecast the weather, is also likely to expect his or her financial transactions to process seamlessly, as quickly as possible.

At the intersection of banking and technology is the Office of the Comptroller of the Currency – the U.S. Treasury bureau in charge of regulating and overseeing national banks, federal savings associations, and federal branches of foreign banks. As a member of the FED’s Faster Payments Taskforce as well as several working groups, the federal agency is supportive of a secure and reliable payments ecosystem in which rapid transactions can thrive.

PYMNTS.com recently caught up with Kathleen Oldenborg, Director for Payment Systems Policy for the OCC, about where the future of faster payments is headed and what the agency’s role is in getting it there.

The banking and tech bond

The relationship between payments and technology is a long-standing, and arguably natural, one. Digital advancements have been influential in shaping the processes and infrastructure of the banking world, Oldenborg explained.

“The banking system has a history as a leader in adopting new technology and implementing systems to meet the needs for efficient delivery of products and services,” Oldenborg said. “The changing needs and demographics of the customers they serve have also been a key driver in the evolution of the banking business.”

In a world where banking apps are increasingly used by both consumers and businesses, and checks can be deposited via smartphone camera, faster payments is the next frontier for regulators and issuers. “Faster payments represents the natural progression of developments in technology, the delivery channels available to the system, and client expectations,” she said.

The need for speed necessitates enhancements to security

Oldenborg explained that banks entering the largely uncharted territory of instant transactions are met with numerous challenges, mostly pertaining to risk management and consumer authentication. Banks will likely need to directly embrace cutting-edge methods of authentication, including solutions like tokenization and biometrics, while placing an increased focus on fraud detection and prevention. Another key component is customer education, she said.

“Internal system modernization may be needed, as well as recognition of the potential new impacts that a faster turnaround will have on credit, operational, liquidity and compliance risks,” she said.

As the OCC works with the Federal Reserve and other institutions to establish a framework for these transactions, the agency is also identifying faster payments’ biggest threats.

According to Oldenborg, today’s most significant threats are the unlawful use of the payments system for illegal business and fraud.

“The pace of change in the technology and the challenge of business processes and controls to keep up with those changes is also a prime concern,” she said. “By focusing on sound policies, procedures, and processes, financial institutions may reduce the potential harm arising from these risks. Financial institutions should utilize sound risk management to identify, monitor, and mitigate fraud risk.”

Although existing OCC regulations are still considered applicable to banks implementing faster payments, Oldenborg acknowledged that new rules will likely emerge as needed.

“As the new systems are implemented, and best practices are developed and recognized, some additional guidance may become required, especially those rules that may be more prescriptive and do not allow for a broader interpretation that can apply to newer products and processes,” she explained.

The future of faster payments

As faster payments continue to grow in accessibility and use, and cement the relationship between banking and technology, digital solutions will keep playing a major role in the financial ecosystem.

According to Oldenborg, it’s too early to confidently speculate on the future of the faster payments rails system, though she believes it will likely be enhanced down the line.

“ I have no doubt that we are entering the next phase of this evolution...”

“We will probably emerge with a more cohesive and interoperable set of systems (or rails) that will allow greater flexibility. For those that remember the early days of computer programming when a single program of code was replaced with iterative, module-based coding and how it revolutionized the business of application development,” she said.

Whatever the faster payments infrastructure looks like a few years in the future, one thing is fairly certain: Improvements to speed and efficiency have the potential to completely transform the banking industry.

“I have no doubt that we are entering the next phase of this evolution when open architecture, apps, and APIs will transform the payments business as it now exists. Each delivery channel and system (ACH, real-time payments, mobile, wire transfers, or the card networks) currently plays an important and distinctive role in the payments ecosystem. How this will all shake out is anyone’s guess at the moment,” Oldenborg said. “However, the magnitude of change brought about by faster payments will allow the financial industry’s capabilities and options to better serve customers, companies, and communities.”

Look for transformation, going on around you – now.

NACHA

Survey reveals increased adoption of Direct Deposit via ACH

A new study from NACHA showed that the number of American workers being paid through [Direct Deposit via ACH](#) is currently at 82 percent, up from 74 percent five years ago, and 87 percent of users are highly satisfied with it. Users cite faster access to pay (53 percent), no cost (47 percent), decreased risk of losing a paper check (38 percent), safety factor (37 percent), and convenience (37 percent) as the key drivers for Direct Deposit use. Additionally, over 70 percent of Direct Deposit users chose this option as it allows them to better manage their money, helps them feel in control of their finances, and helps them pay bills on time. Among the small number not yet using Direct Deposit, 37 percent indicate that their employer does not offer Direct Deposit as an option.

The Federal Reserve Bank

Dwolla submits Faster Payments proposal to Fed

As the race toward [Faster Payments](#) continues, FinTech startup Dwolla is looking to get ahead of the pack. The company recently submitted its Faster Payments proposal to the [Federal Reserve's Faster Payments Task Force](#), which is tasked with reviewing and assessing payment solutions. Dwolla submitted FiSync, "a communication and interoperability protocol for banks and credit unions," which has been utilized by financial institutions since 2012. Notably, Dwolla was fined \$100,000 by the Consumer Financial Protection Bureau for data security issues, for which the company publicly apologized.

D+H

White paper shines light on America's journey to Faster Payments

D+H recently published a white paper, "Real-Time Payments and Settlement Comes to the United States," which tracks the U.S. movement toward fully embracing [Faster Payments](#). The report explained that the Federal Reserve is driving this transition through its Faster Payments Task Force, though NACHA, Early Warning Services and The Clearing House are all influential players in this movement as well.

Blockchain

DigitalX forges Latin American partnership

DigitalX, the U.S.-based, Australian-listed [blockchain solutions](#) group, recently announced a strategic Latin American partnership with major telecommunications organization, Telefonica. The collaboration will allow DigitalX to better market AirPocket, its money transfer app, throughout the Latin American region. The partnership also lets Telefonica customers in the U.S. and Canada send money directly to people on the Telefonica network in Argentina, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Mexico, Nicaragua, Panama, Peru and Uruguay.

Looking to the future, U.S. Postal Service considers blockchain solutions

In an effort to modernize and boost efficiency, the U.S. Postal Service is looking to adopt [blockchain technology](#). The Office of the Inspector General, in collaboration with Swiss Economics, recently published a report outlining the potential benefits that blockchain solutions could have for the Post Office. The report explained that embracing the technology would allow the agency to create a digital currency (“Postcoin”), verify identities, integrate with IoT devices and keep track of mail.

IBM announces blockchain technology for health care, government and financial services

IBM recently launched [a new blockchain system](#) for the IBM cloud. The technology is being touted as the first “highly secure” blockchain system, and is being marketed toward organizations in the health care, government and financial service sectors. The blockchain solution was developed with the highest Federal Information Processing Standards and Evaluation Assurance Levels to bolster its security features.

Align Commerce gains insurance coverage for blockchain transactions

Align Commerce, a next-generation payments provider, recently obtained insurance for its SMB clients making [international transactions](#). Align’s policy protects against physical and cyber breaches, operational errors and theft, and is intended to boost adoption of blockchain systems among SMBs.

Deloitte offers integration with Ripple and Temenos Core Banking Software

Major accounting institution Deloitte recently announced a [full integration](#) with Ripple protocol and the Temenos Core Banking Software. The goal of the Ripple integration is to give financial institutions the ability to send local and international payments in real-time without relying on banks to act as liaisons.

R3 Blockchain Consortium gains new member, looks for additional funding

The R3 Blockchain Consortium recently gained its first Latin America-based member, as Brazil’s [Itau Unibanco](#) became an official partner in the initiative. The Sao Paulo-based institution is the 45th international bank to join the consortium. In 2014, the bank experienced \$6.1 billion in profits, in addition to \$101 billion in assets under management. The consortium has also been seeking extra funding to further explore the potential of blockchain technology, and recently announced plans for an [equity capital raising](#) of \$200 million later this year.

More Faster Payments News

Moving banks, big and small, to real-time payments

As demand for [instant financial transactions](#) continues to grow, banks and developers remain committed to developing a safe and reliable digital infrastructure to support these payments. An example of the push for Faster Payments comes from independent IT technology provider Icon, which recently launched its [Instant Payments Framework](#). IPF is a software that supports secure real-time payments and can be integrated with current office and core banking applications. The technology is intended to extend the lifespan of companies’ existing systems, which is a less risky option than implementing an entirely new infrastructure.

Wells Fargo rated 'Fastest Lockbox Network'

While digital banking is quickly becoming the norm, 80 percent of consumers still pay bills via paper check. According to a recent survey, [Wells Fargo](#) helps physical checks reach their destinations as soon as possible. The financial institution was named as running the fastest lockbox network in the industry. The organization runs 18 lockboxes in cities through North America, for which it performs numerous mail pickups each day.

SWIFT heists raise questions about Faster Payments in the U.S.

The SWIFT hacking debacle took center stage at May's [CTC Corporate Treasurers Forum](#) as industry leaders attempted to identify whether the breach should affect Faster Payments adoption in the U.S. According to a press release, the SWIFT hacks have caused the Fed to reassess whether its currently unnamed real-time payments framework is secure enough for widespread use, or whether implementing it now would enable hackers to access loads of sensitive data.

How to make UK Faster Payments faster

While the U.K. is being touted as a shining example for other countries looking to safely adopt [Faster Payments technology](#), there's plenty of work to be done within the nation's infrastructure to make it quicker and more secure. In an interview with Karen Webster, William Proctor, vice president and product line manager of UP Immediate Payments at ACI Worldwide, explained that the U.K. has eliminated many of the initial barriers it faced when first adopting faster payments. Currently, the country's largest Faster Payments challenges include reaching the consumers and small businesses who are not customers of direct member banks and enabling larger businesses to integrate real-time processing into their back offices.

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