

Faster Payments Tracker



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Can The Insurance Industry Get Aboard The Faster Payments Train?

**Federal Reserve to release faster payments
report in 2017**

**Survey shows 15 percent of banks could be
running blockchain solutions in 2017**

Fed to release blockchain paper later this year

**Survey shows checks most popular payment
method for corporations**

What's Inside

Since the first phase of the [Same Day ACH rollout](#) in late September, a task force of the U.S. Federal Reserve has been busy investigating ways to enhance faster payment systems nationwide.

The Federal Reserve Faster Payments Task Force, comprised of hundreds of members from across the payment industry, has started examining nearly 20 proposals for faster payment solutions. The task forces are focused on exploring new ways to expedite the payment process while at the same time increasing security related to these transactions.

In January 2017, the Fed Task Force is expected to release the first installment of its two-part report, with the second part to be released in the middle of the year. The first part will provide details related to the task forces and examine the different ways consumers and businesses can benefit from faster payments.

What's happening in Faster Payments

Aside from the Fed's recent initiatives, there were also multiple developments in the blockchain space of faster payments.

A [survey](#) by the IBM Institute for Business Value revealed that 15 percent of financial institutions could be using blockchain technology within a year. About 30 of the 200 banks surveyed indicated that they aim to launch commercialized blockchain tech next year.

Meanwhile, multiple banks recently partnered to create a [global payments](#) interbank group focused on distributed ledger technology, according to financial settlement provider Ripple. The banks, which include Royal Bank of Canada and Santander, are working on reducing the costs and time associated with settlements.

ANZ Banking Group and Wells Fargo recently conducted several months of [blockchain testing](#), which they believe can reduce the time and expenses involved with transferring funds. As part of the process, the two companies tested a distributed ledger that processes settlements between the banks.

For this month's Faster Payments Tracker™ cover story, PYMNTS spoke with Chad Hauff, director of premium billing at Safety Insurance, to discuss the challenges and opportunities Same Day ACH offers within the insurance industry.

Check out the Tracker's News section for the latest updates from across the Faster Payments landscape.



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Can The Insurance Industry Get Aboard The Faster Payments Train?

When Hurricane Matthew’s Category 5 bluster wreaked havoc on U.S. homeowners this fall, thousands were forced to seek shelter far from home only to later return and find their homes destroyed or severely damaged by the storm.

Of the displaced masses, the Consumer Federation of America expects more than 100,000 insurance claims to be filed and anticipates payouts to top \$7.5 billion. And these hurricane victims need payouts to happen quickly and easily, because any processing delays have the potential to pose additional problems as the victims attempt to get their lives back on track.

But it’s not just hurricane victims and other individuals who have experienced devastation expecting fast resolution. Today’s consumers increasingly expect payments to be processed quicker than ever before, and insurance companies are turning to newly introduced faster payment initiatives such as Same Day ACH to accommodate the demand.

To discuss the challenges and opportunities that faster payments initiative present to the insurance industry, PYMNTS recently caught up with Chad Hauff, who oversees payment and billing operations as director of premium accounting for [Safety Insurance](#). In the interview, Hauff discussed how insurance companies are trying to expedite the payments process using aging technology platforms.

Overcoming the antiquated

For the insurance industry, one of the biggest challenges is extending modern-day faster payment solutions through old-school legacy information technology platforms. Many companies across the insurance space are reliant on common business-oriented language (COBOL)-based platforms, which have been in existence since the late 1950s.

“You’re working with multiple systems that need to talk to one another,” Hauff said. “It’s tough to change a system that’s been in place and working for years. I don’t think anybody is averse to it. Consumers want it and insurance companies want to provide it. It’s just always a lot more complicated than you really want it to be.”

Despite using decades-old billing and payments systems, the insurance industry has made strides toward making both more streamlined. From mailing paper bills to receiving them online, the industry is changing head to toe – from modernizing information distribution for its customers to upgrading its payments processing machinery.

“That’s the biggest change we’ve seen: the ability to transact electronically versus paper checks, money orders and cash,” he said.

While processing payments would ordinarily take days or more than a week, faster payment offerings such as Same Day ACH have now made it possible for insurance companies to process transactions almost instantaneously.

Even with the payment processing times being reduced, consumers for the most part are unlikely to fully appreciate the behind-the-scenes nuances that go into faster payments.

“I suspect most people don’t understand banking regulations or the complexity that goes into payments, settlements and that sort of thing,” he said. “It’s known but not understood. The closer you can get to what’s considered normal, which I think for consumers is real-time, is where the insurance industry would benefit ... meeting expectations that are being set outside the industry.”

But with many insurance companies relying on legacy systems, they are finding themselves in a position where even if their customers were able to send them insurance premiums faster, they wouldn’t necessarily be able to apply them to accounts quicker.

“You have your payment systems and payment collection process, but then you have your back-end billing systems and they don’t always talk,” he said. “The connection is becoming better between the two, so the timeframe it takes to get from collecting the money and posted to your billing account is shorter and shorter.”

When looking at the payment collection-to-posting situation, insurance companies are making progress but aren’t quite where they need to be yet.

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Maximizing Same Day ACH opportunities

Hauff sees Same Day ACH opportunities on the claims side of the insurance business as well.

“If you have the option and capability to use ACH services now, we’re in a position where we can cut a check, put it in the mail or maybe even overnight it to you, but now you as a consumer have to walk it to the bank, deposit it and wait for it to clear,” Hauff said.

Being able to deliver funds to policyholders shortly after they request payment would be a significant accomplishment, he said. Case in point? Homeowners affected by Hurricane Matthew.

When they returned shortly after the storm to their devastated properties, the last thing they should have had to worry about was how long it would take them to get to their insurance claim check, Hauff said.

“Mail trucks aren’t going to be going through those neighborhoods,” he said. “Individuals are going to have a hard time getting access to a lot of the normal things for a little while, so I see that the ability to just take care of it and get the money to them that same day is going to pay off in a lot of different ways.”

Once insurance companies process refunds faster, they will start to exceed consumers’ expectations and, in turn, help make them long-term customers and increase retention rates, he added.

From a non-claims perspective, Same Day ACH also presents opportunities for insurance companies to pay commissions quickly to vendors.

“Usually you have a system or arrangement in place to pay them, but sometimes mistakes happen,” Hauff said. “When you’re dealing with someone — a supplier, an agency or a contractor — you’re not talking about small dollar amounts. Sometimes you’re talking about big dollar amounts, and they are looking to get paid, so it’s important to make sure they get paid in a timely fashion.”

Whether it’s paying vendors or processing consumers’ insurance claims following a natural disaster, speed and accuracy are critical components in both scenarios, as Hauff noted. But will legacy systems prevent companies from being able to make faster payments even more quickly than they are processed today? Stay tuned for updates as we monitor the industry’s track.

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Same Day ACH Payments

Survey shows business payment trends

AFP recently conducted a [survey](#) that explored how businesses are going to use Same Day ACH. The research, called the Association for Financial Professionals' 2016 Electronic Payments Survey, found that the most common ways to use Same Day ACH are likely to be for last-minute bill payments and emergency payroll, although the research was conducted before Same Day ACH's actual rollout, so it remains to be seen exactly how it will be used by businesses. The survey also revealed an increased use of paper checks by corporations. A one percent uptick in corporate check use represented a change from past surveys, which saw a decreased use of the payment method. With the recent increase, checks again became the most popular corporate payment option at 51 percent.

Dwolla launches Same Day ACH pilot

Dwolla recently rolled out a Same Day ACH [pilot program](#) to enable organizations to initiate credit transfers to their customers using the company's White Label API. Dwolla intends for the program to help provide funds quicker to participants. The company, which will enroll new participants into the program over the next few months, also claims it will offer seamless and cost-effective transactions.

Federal Reserve

Federal Reserve Task Force to release faster payments report in 2017

The U.S. Federal Reserve Faster Payments Task Force and the Secure Payments Task Force recently announced that they have started reviewing 19 proposals from organizations proposing new solutions to make America's payment systems faster. Between both task forces, there are nearly 500 members from several industries, including financial technology companies and payment services providers.

One team is looking at how to bolster security for the payment systems, while the other is concentrating on making payments quicker. The task forces plan to release the first half of their two-part report in January 2017 and the second installment sometime in the middle of the year. The first part will provide a background on the task forces and an overview of the payments industry, as well as how customers can potentially benefit from faster payments. Meanwhile, the second part will delve into the 19 proposals and examples of a faster payments system.

ICBA proposes ways to enhance faster payments

The North American Banking Company and Independent Community Bankers of America (ICBA) have jointly pitched a [plan](#) to the U.S. Federal Reserve's Faster Payments Task Force for various ways to enhance the faster payments platform nationwide. According to an ICBA press release, the proposal includes a payments directory and a white-label mobile app that allows payments to process through the ACH Network. The

application, dubbed the All Payments App, can make payments to more than 150 million account holders and also allows bank account holders to send funds to the unbanked.

Fed to release blockchain paper later this year

Before 2017 arrives, the U.S. Federal Reserve is expected to distribute a paper that looks at possible uses for [blockchain](#) and distributed ledger technology (DLT) and its potential effects on payments. In the Fed's [announcement](#), a member of the Fed's board of governors said, "We recognize the potential of distributed ledger technology, or blockchain, to transform the way financial market participants transfer, store and maintain ownership records of digitized assets." Digital asset storage and P2P networking are a few of the features the agency stated as being key to the security of the payment process.

ClearXchange/Early Warning

Citibank last major U.S. bank to join clearXchange

After being the last holdout of the major U.S. banks, Citibank has joined the [clearXchange](#) partnership while setting its sights on releasing Zelle, a bank-supported smartphone P2P app expected to be released in 2017. As a member of the group, Citibank is now teamed up with several other banks, including Bank of America Corp., J.P. Morgan Chase & Co., U.S. Bancorp and Wells Fargo & Co. Zelle, which will enable network users to send money by using a cell phone number or an email address, is intended to compete with the popular Venmo app.

Blockchain

IBM Survey shows 15 percent of banks could be running blockchain solutions in 2017

A [blockchain survey](#) conducted by IBM's Institute of Business Value recently found that 15 percent of banks could be using the technology within a year. Researchers surveyed 200 global banks for the "Leading the Pack in Blockchain: Banking Trailblazers Set the Pace" study. Of the banks surveyed, about 30 said they plan to implement commercialized blockchain solutions in 2017. The study also revealed that more than half of the banks said regulatory issues are impediments to success.

Banks create global payments group

Several banks recently teamed up to form a [global payments](#) interbank group focused on distributed ledger technology, according to financial settlement provider Ripple. According to a [press release](#), the Global Payments Steering Group (GPSG) is comprised of banks including Bank of America Merrill Lynch, Royal Bank of Canada, Santander, Standard Chartered, UniCredit and Westpac Banking Corporation. The GPSG will monitor the implementation and maintenance of Ripple payment capabilities and rules. The banks are trying to cut

down on the time and costs related to the settlement process while also introducing new low-value, high-volume global payment practices.

BAML, Microsoft team up on blockchain project

Bank of America Merrill Lynch (BAML) and Microsoft have partnered on a [blockchain technology](#) project intended to make financial trades quicker and more cost-efficient. The companies are building and testing the technology and hoping to manufacture a blockchain framework that could potentially be sold to businesses looking to make faster transactions.

ANZ, Wells Fargo partner on blockchain testing of X-border payments

After completing six months of [blockchain testing](#), ANZ and Wells Fargo have stated they believe the technology can cut down on the risks associated with cross-border payments as well as the costs related to transferring funds. The companies constructed and tested a distributed ledger that handles settlements between two financial institutions. Both firms also say blockchain technology can expand access to cash.

More Faster Payments News

IBM to introduce real-time payments support

Global technology firm IBM announced its [instant payments](#) system aimed at helping banks' customers with real-time transactions. The system, dubbed the Financial Transaction Manager (FTM) for Immediate Payments, will enable banks in Asia, Europe and the U.S. to complete payments in a matter of seconds. According to a [press release](#), the FTM will also increase the accessibility of funds for The Clearing House in America and the Pan-European Instant Payment system in Europe, when those systems become operational in 2017 and beyond.

PayCommerce launches instant cross-border payments

U.S. [payment consortium](#) PayCommerce recently announced the rollout of its global program that provides banks with instantaneous cross-border payments. According to a [press release](#), the clearing and settlement initiative is aimed at expanding access to payment tech for financial institutions and cutting transaction costs.

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