



COVER STORY

DOES THE FUTURE OF FASTER BANK PAYMENTS REQUIRE SEXY SOLUTIONS?

In the push toward the successful implementation of same-day transactions and real-time payments, splashy technology may not be the right fit for our financial institutions. As banks make a concerted push toward [real-time payments](#), one industry expert believes it is increasingly unlikely that FinTech innovations like the blockchain will be viable to serve as the backbone for an integrated solution.

Although our venerable financial institutions can learn lots from independent technology players as they develop their own secure, regulated real-time offerings, they will likely need to work atop existing infrastructure to rein in risk and meet regulatory compliance requirements. Innovative, independent FinTech options potentially open windows for risk (mostly unforeseen) that just seems too great for risk averse financial institutions and their customers to take on.

As for the blockchain itself, which has generated tons of press and general heavy breathing, MPD Founder Dr. David S. Evans offers an interesting comparison. The blockchain, Evans posited, “is the Kim Kardashian of financial technology.” People love to talk about sexy technology, he said, and the blockchain sure seems sexy, but financial institutions may not find that it is so practical to live with. The blockchain is a technology that was first used for bitcoin and requires a distributed decentralized group of “miners” to run computers to process transactions.

There are many other software innovations in financial technology beyond the blockchain, Evans pointed out. He added, “The thing that should make everyone nervous about the blockchain is all of the problems that the bitcoin itself has had using the blockchain.” In other words, the blockchain is high-maintenance.

If banks were to actually utilize the blockchain, which seems unlikely, Evans said, the blockchain would need to be divorced from bitcoin itself. While it's not out of the realm of possibility to create a blockchain that doesn't depend on bitcoin, the cost of implementing and organizing a new distributed group of miners may be prohibitively costly and [complicated](#). Creating a governance system and standards has proven challenging for bitcoin — and would likely be a problem for anyone who tried to create

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their own blockchain.

According to Evans, when it comes to faster payments, the banks are going to be central players. “We may complain about them, but we actually like putting our money in heavily regulated institutions,” Evans said. “And central banks and governments like the fact that there is some control over the financial system. So the notion that we’re going to go to something that is not connected to the financial system, that’s just not going to happen.”

The vast majority of Americans keep their money in depository accounts, Evans pointed out. And many who don’t would like to, if they could afford it, he noted. As a practical matter, he added, the odds are stacked against the possibility of the current financial system being displaced by something else outside of the system.

So then why does it seem that banks are paying legitimate attention to FinTech innovations like the blockchain? According to Evans, a few million dollars’ investment from individual heavyweight financial institutions doesn’t mean a seismic shift is imminent. Banks, like other companies seeking to retain customers and grow, need to invest in innovation research. “But it’s not like it’s a big deal,” Evans said. It’s only millions of dollars, which are, “tiny, tiny, tiny investments being made by massive institutions,” he noted. It’s sort of like people buying lottery tickets, he said. In other words, it’s a small investment to make to potentially hit the technological jackpot.

Along with the cost and complexity of removing cryptocurrencies from technologies, there’s also the tall task of ensuring control and the highest security standards. When it comes to banks and technology, three things inextricably intertwine: technology, security and regulation.

“It is inevitable that technology and regulation will continue to change, and security processes will therefore also evolve,” said Janet O. Estep, president and CEO of NACHA – The Electronic Payments Association. “We have seen this with the ACH Network, which has continuously evolved since its beginnings – adapting as the environment changes. The next change for the ACH Network will be moving its payments and information to [same-day clearing and settlement cycles](#). The tools and processes that are developed around the ACH Network to support end users and

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mitigate fraud will be helpful as the U.S. moves to even faster payment cycles.”

In order to ensure new technology is properly developed to solve banks’ faster payments needs, existing [rails that underpin the payments](#) must work more effectively than they do today. “Everyone talks about faster payments and real-time payments and so forth,” Evans said. “But what’s really going on is there is a desire to come up with a better set of rails.”

The solution to clearing the hurdle to develop an industrywide software layer may well be inspired by current technologies, but it will likely need to be custom-made for the financial industry, perhaps taking learnings from multiple platforms and creating an entirely new technology. Just because financial institutions are popping the hood on innovations like the blockchain, doesn’t mean they are going to start using it.

So, what’s next? Whatever the solution(s) may be, they’ll need to be developed to work with banks’ existing software systems and, as we put forth in the first 2016 Faster Payments Tracker, a massive effort is underway, led by the Fed, for real-time payments ubiquity by 2021. And as NACHA begins to rollout its [Same Day ACH](#) solution this year, the ride could get interesting.

Buckle up for faster payments!

NACHA - THE ELECTRONIC PAYMENT ASSOCIATION

SAME DAY ACH IS A 'WIN-WIN SITUATION'

Stacy Nascimento, Webster Bank's Vice President and Product Manager of Treasury and Payment Solutions, weighed in on her annual dryer vent cleaning and [Same Day ACH](#) on nacha.org.

She writes that because there is no single service that would enable easy peer-to-peer payments for things such as splitting dinner bills, these kind of payments can be inconvenient in today's environment. Same Day ACH can be that solution, she says, as it will speed up the payment process and cover consumer payment needs.

Nascimento also highlights, from a bank's perspective, how important opportunities are emerging from the changes in the speed of payments by utilizing ACH. For Webster Bank, she says, Same Day ACH is a win-win situation because it will increase operational efficiencies and enable faster processing. This capability will also enable Webster Bank to be more internally innovative and, as a result, customers will benefit.

WILL SAME DAY ACH CHANGE THE BILLING GAME?

In [an opinion](#) piece about Same Day ACH from Kathleen Romano, the executive director responsible for payments and bill printing at Verizon, she discusses how speed will allow Verizon to manage its costs versus cash flow and simultaneously foster better customer service.

For Verizon, ACH has always been a dependable way to collect payments from customers, but it isn't always the payment option chosen by customers. The late or missed payments that follow can be costly to both the company and the customer. Romano considers Same Day ACH to be a positive for consumers, because they would more likely pay on time and avoid late fees and/or disruption of service, and they would also be able to quickly see if their transaction cleared and settled in their account.

Romano sees Same Day ACH as a "game changer" that will allow Verizon to explore even more options related to the future of payments.

EARLY WARNING COMPLETES CLEARXCHANGE ACQUISITION

In our first edition of the [Faster Payments Tracker](#), we noted that Early Warning, a fraud prevention and risk management company, acquired clearXchange in October 2015, creating an expansive, financial institution-led, real-time payments network. In January, [Early Warning announced](#) that it had completed the acquisition.

The company expects that the first phase of the real-time platform will go live in 2016's Q1, allowing instantaneous P2P payments and check deposits. All banks and credit unions in the U.S. will be able to participate in the network.

According to Early Warning's CEO Paul Finch, the company's acquisition of clearXchange will create the largest and most secure real-time ecosystem in the country. Sending and receiving payments in a secure system with unique speed through our network will be possible. Finch said the integration will eliminate friction from real-time payments, "with unparalleled speed, accuracy, and security."

THE FEDERAL RESERVE BANK

FED PARTNERS WITH IBM TO MODERNIZE ACH SERVICES

The Federal Reserve Bank of Atlanta's Retail Payments Office, one of the largest interbank ACH and check clearing systems in the country, [recently announced](#) that it has partnered with IBM to modernize its ACH services to help them process payments efficiently and adapt faster to the changes in the ACH and the electronic check payments environment.

To process its billions of annual transactions for commercial banks and credit unions throughout the country, the Federal Reserve will now use IBM's Financial Transaction Manager. This new infrastructure will cost-effectively allow the Federal Reserve to input, process, clear, settle and provide billing/accounting functions for all ACH payments across the system.

This project would indicate a step forward in the new field of real-time and mobile P2P payments. And it's likely indicative of [similar ACH system upgrades](#) to come in the next couple of years as [NACHA's Same Day ACH Rule](#) pushes toward industry-wide same-day capability.

WILL ISO 20022 ADOPTION AID IN FACILITATING CROSS-BORDER PAYMENTS?

It seems some industry analysts agree with the idea that the worldwide adoption by banks, companies and institutions of a payments messaging standard – ISO 20022 – can also support a variety of payments.

According to Richard P. Dzina, executive vice president and head of the wholesale product office of the Federal Reserve Bank of New York, to aid the adoption of this standard, the U.S. has to start from the ground up. This means the Fed needs to work with all stakeholders in this process, such as The Clearing House Payments Company, NACHA, the Accredited Standards Committee X9 and others.

THE FEDERAL RESERVE BANK

The adoption of this payments messaging standard will mean eased cross-border wire payments with less friction and compliance. In [a recent interview with PYMNTS](#), Dzina described this effort as “exhaustive.”

The widespread adoption of a new messaging standard will be gradual. Dzina offered a tentative timeline, conceptually plotting how the adoption of ISO 20022 for wire payments would develop over the next few years:

- 2017: Publication of the new ISO format specification
- 2018: Internal testing and application development
- 2019: Wire and chip customer testing
- 2020: Full rollout begins

According to Dzina, those embracing ISO 20022 adoption will be ready for the future.

FASTER PAYMENTS TASK FORCE LAUNCHES CAPABILITY SHOWCASE

The Federal Reserve’s Faster Payments Task Force recently launched its [Capability Showcase](#), inviting submissions for innovative ideas to make payments faster.

The Capability Showcase is a Web forum where anyone (who elects a capability and accepts the Knowledge Central User Agreement) can present new “payment component capabilities that can support end-to-end faster payments solutions.” The capability submissions should address at least one of the Faster Payments Effectiveness Criteria and be intended as a component of an effective end-to-end payments solution. The submissions themselves are not required to be end-to-end solutions.

BLOCKCHAIN

FINTECH STARTUP FREEMIT TO LAUNCH

This January, John Biggs, an author and former East Coast Editor of TechCrunch, [announced](#) he was leaving the publication to launch the FinTech startup [Freemit](#), a no-fee bitcoin blockchain-powered exchange.

According to its [CrunchBase company profile](#), “Freemit is a financial travel companion that empowers 3.6 billion travelers, students and others with a digital wallet, giving them financial independence to instantly access their financial resources using bitcoin.”

In a Freemit [blog post](#), the company compares the open ledger based on blockchain technology as being as potentially transformative and revolutionary as email and eCommerce before it. According to the company, the blockchain technology is a simple and trustable system that will enable individuals and businesses to make money transfers instantly and will end the need for centralized banking transactions. Like the rise of email changed the way the world communicates and eCommerce created a global market of outsourced services, the blockchain infrastructure may be the catalyst for an instant, cost-free, worldwide money transfer system.

“Bitcoin, like the Internet, is part of our worldwide infrastructure,” Biggs wrote in [his 2016 TechCrunch predictions post](#).

BEHIND R3 CEV’S BLOCKCHAIN TEST

R3 CEV — a blockchain startup with 42 member banks that is focused on improving the next generation of global financial systems technology — recently [announced](#) the completion of a [blockchain technology test](#) with 11 big banks, including Barclays, UBS and HSBC.

The test connected participants on a private peer-to-peer distributed ledger hosted on a private network on a Microsoft cloud platform, running simulated financial transactions

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without using a centralized third party. The global transactions were executed and verified in real-time.

The blockchain experiment was the first in a series of tests they plan to perform with the group's members in 2016 using a variety of distributed ledger technologies. The desired benefit, as expressed by bank leaders within the consortium, is the potential to make their operations more efficient and more transparent.

MORE FASTER PAYMENTS NEWS

BANCORP RELEASES ITS LATEST FINETICS STUDIO VIDEO

Last October, Bancorp announced the release of its executive interview series, Finetics™ Studio, featuring one-on-one conversations with important and influencer companies from the innovative payments and FinTech industry.

Early last month, it released the third Finetics™ Studio interview series: [“The Future of Faster Payments and Innovation.”](#) In this latest release, Sarah Gill, moderator and senior reporter with PaymentEye, conducted exclusive interviews with industry leaders [Janet O. Estep](#), CEO of NACHA; [Rahul Gupta](#), Group President of Billing and Payments at Fiserv; [Sean Rodriguez](#), Faster Payments Strategy Leader and Senior Vice President of Federal Reserve System; and [Matt Carberry](#), Vice President Business Development, Payments at The Bancorp.

In the series, the interviewees discuss the challenges of bringing faster payments to fruition, as well as the widespread implications on businesses and consumers.

FASTER PAYMENTS FROM A CORPORATE TREASURER'S PERSPECTIVE

Patricia Hui, CTP, senior corporate treasury manager at Mentor Graphics Corp., recently discussed her perspectives about the importance and benefits of faster payments during an [interview at the Association for Financial Professionals' \(AFP\) Annual Conference](#).

As a member of the Fed's Faster Payments Task Force, Hui's mission is to identify and evaluate how to implement faster payments in the U.S. And, she points out, the Fed recognizes that the U.S. payment system has to make several improvements in order to continue to be competitive worldwide.

MORE FASTER PAYMENTS NEWS

ARE REAL-TIME P2P PAYMENTS THE KEY TO THE FUTURE OF MOBILE PAYMENTS?

As reported by [Wireless Week](#), payment industry experts believe that P2P payment capability in real-time is the crucial element to turn mobile payment systems into a real digital wallet.

According to Mark Ranta, ACI Worldwide's head of Digital Banking Channels, same-day clearance and settlement of transactions is key to improving mobile payment systems. There are a lot of serviceable P2P mobile platforms, he said, but they are closed loop systems that need a settlement out to ACH if a user wants actual cash.

Moving forward, Ranta predicts large players will have the best shot at driving consumer adoption as the market competition continues to heat up.

ABOUT

NACHA — THE ELECTRONIC PAYMENTS ASSOCIATION

Since 1974, NACHA – The Electronic Payments Association has served as trustee of the ACH Network, managing the development, administration and rules for the payment network that universally connects all 12,000 financial institutions in the U.S. The Network, which moves money and information directly from one bank account to another, supports more than 90 percent of the total value of all retail electronic payments in the U.S. Through its collaborative, self-governing model, education, and inclusive engagement of ACH Network participants, NACHA facilitates the expansion and diversification of electronic payments, supporting Direct Deposit and Direct Payment via ACH transactions, including ACH credit and debit payments; recurring and one-time payments; government, consumer and business transactions; international payments; and payments plus payment-related information. Through NACHA's expertise and leadership, the ACH Network is now one of the largest, safest, and most reliable systems in the world, creating value and enabling innovation for all participants. Visit nacha.org for more information.

QUESTIONS? COMMENTS? BRILLIANT IDEAS?

If you would like to be included in this report and/or would like your information to be updated, please contact us at **fasterpayments@pymnts.com** and we will send you the data sheet required for submission.

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