

Faster Payments

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Taking The Y2K Fear Factor Out Of Same Day ACH



Illinois regulator is **first in U.S.** to join R3 blockchain consortium.



In survey of financial institutions, **zero percent** report **increase in fraud** because of Same Day ACH.



Same Day ACH Phase 1 was the same thing [as Y2K] ... The industry had to catch up to what the rule really meant to them.



Joe Casali, senior vice president for operations and IT of the NEACH association

Table of Contents

03 What's Inside

How faster payments solutions are opening new international markets for companies and banks.

05 Feature Story

Taking The Y2K Fear Factor Out Of Same Day ACH

Joe Casali, SVP of operations and IT for the New England Automated Clearing House, on what the group's member banks need to know about ACH availability.

08 News and Trends

Check out the latest headlines from around the space.



What's **INSIDE**

From blockchain technology to real-time payments and same-day transfer capabilities, there are a number of ways that companies are demonstrating their willingness to embrace faster payment solutions.

In almost every corner of the world, banks, financial institutions and corporations are investing in solutions that can deliver money between parties — and, in some cases, between borders — at a faster pace. These solutions are offering players the ability to offer real-time payments, faster compliance capabilities and instant credit transfer solutions. Over the past month, notable developments in the advancement of these fields have been seen in North America, Europe and Asia.

But as these new tools and abilities become available to banks, many institutions have questions about how the changes will impact their operations. In an effort to inform these players on what faster payments solutions can offer, NACHA is hosting a series of educational seminars at the [PAYMENTS 2017 conference](#), which kicks off on April 23 in Austin, Tex.

Speaking of education, for this month's Tracker Feature Story, PYMNTS recently caught up with Joe Casali, senior vice president of operations and IT for the [New England Automated Clearing House \(NEACH\)](#), on how his organization is working to help banks and other institutions prepare for the changes that come with the availability of Same Day ACH.

Here's what's happening around the world of Faster Payments:

A recent [report](#) indicates the value of global blockchain technology is expected to reach \$7.74 billion by 2024, and a handful of companies are moving forward with plans to invest in its market potential.

But the rise in the availability of blockchain solutions is also prompting more organizations to regulate the technology to ensure the transactions are secure. PYMNTS' Karen Webster recently spoke with PayCommerce founder and Chairman Abdul Naushad, who shared how banking consortiums are working to keep [cross-border blockchain transactions secure](#). Meanwhile, the Illinois Department of Financial and Professional Regulation became the first U.S. regulator to join the [R3 blockchain consortium](#). The move could help blockchain technology expand across the U.S.

Beyond the U.S., other regions are seeing more experimentation of faster payments solutions. In Europe, artificial intelligence solutions provider Pelican recently [launched](#) a real-time payments and compliance tool that will allow payments to be instantly processed between 34 different European nations. In China, a move by FairFX Group will allow customers there to make [same-day payments](#) and could help companies with business ties to the region receive payments in just minutes.

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

FIVE FAST FACTS

NACHA: Zero percent of surveyed financial institutions report increase in fraud because of Same Day ACH.

In cross-border payments, 44 percent of businesses cite payment settlement times as the key source of delays in foreign exchange transactions.

60 percent of surveyed corporations said lack of standardization across formats between banks is among their top concerns.

80 percent of supplier organizations said their most important issue when submitting invoices to customers is getting paid faster.

Report: Global blockchain technology market is expected to reach \$7.74 billion by 2024.

“Same Day ACH Phase 1 was the same thing [as Y2K],” Casali said. “There was a lot of work, there was a lot of effort, there was a lot of training and the industry had to catch up to what the rule really meant to them.”

Taking The Y2K Fear Factor Out Of Same Day ACH

The past 12 months have been busy for faster payments. And it's only getting started.

Phase 1 of the Same Day ACH rollout that made credit transfers a reality was completed last year. Phase 2, which will allow debit transactions on the same day, is planned for September 2017. The third phase, which will usher in faster ACH credit funds availability, is on track to occur in March 2018. Each phase has brought or will bring with it a new way for financial institutions to exchange money between customers and their partners and is promising to put financial institutions in the fast lane to addressing their customers' evolving financial needs.

While these new ACH offerings are promising to quicken the pace of monetary transactions, the changes are also bringing new rules and regulations that directly impact how banks and other financial players operate. But how to abide by these new practices are not always clear to financial institutions. As new rules about ACH credits and debits are introduced, some institutions can benefit from guidance to make sure their products and operations are up to date.

There are several [Regional Payments Associations](#) that work to assist these banks and credit unions with navigating the changing world of faster payment. These organizations are focused on understanding and communicating what

the new ACH capabilities mean for financial institutions and providing members with educational resources to help them stay compliant.

To discuss the status of how financial institutions are adjusting to new payment capabilities, PYMNTS recently caught up with Joe Casali, senior vice president for operations and IT of the New England Automated Clearing House (NEACH) association. For the most part, Casali painted a rosy picture about how the Same Day ACH rollout has progressed so far for NEACH's members. But as the rollout dates for the next phases of Same Day ACH get closer, he anticipates plenty of questions from members about what the changes mean for their operations and how to handle them.

What's so scary about faster payments?

NEACH helps roughly 500 financial institutions and companies throughout New England with questions, opportunities and concerns about staying in step with the latest ACH changes. The association's membership includes banks, savings institutions and credit unions, and its services include training around using ACH, regulations, risk management and cybersecurity, among other services. NEACH also offers test preparation assistance to help

members get certified as an Accredited ACH Professional (AAP) or a National Check Professional.

In addition to helping member financial organizations stay on top of changes to ACH, Casali said NEACH also helps them stay compliant with local laws and serves as a resource for members to gain a clear understanding about what the rules mean for their particular businesses. Without these resources, Casali said, many financial institutions could be navigating a sea of complex payment procedures without the help of a compass.

“The ACH rules are complicated, so we do find situations where there’s a certain understanding of the rules, but it’s not comprehensive,” he said.

For example, he said some NEACH members were surprised when some Same Day ACH entries did not post by 5 p.m. local time after Same Day ACH Phase 1 rolled out in September 2016. But Casali explained to NEACH members that they were misinformed and this feature will not be mandated for all until the completion of Phase 3 in March 2018. Fortunately, no serious problems occurred as a result of the confusion, he said.

Casali said organizations like NEACH must work to address these misunderstandings and address the questions banks and other institutions might have whenever a new rule is introduced. When changes are introduced, it’s understandable that these organizations will have questions, but he encourages them to turn to associations like NEACH for guidance, especially because failing to understand the rules can be expensive. He said originating and receiving banks that

misunderstand and violate the rules could be subject to fines that range from \$1,000 to \$500,000.

Today, Casali said many financial institutions have questions about how the rollout of the next two phases of Same Day ACH will impact their operations. But he noted these concerns tend to arise whenever institutions are faced with big changes to their practices. He pointed to the late 1990s, when many players in the financial industry were anxious about the then-unknown effects of Y2K and noted similarities to how Phase 1 of Same Day ACH rollout progressed last year.

“The entire banking system geared up around Y2K and how much of a problem it was going to be and panicked that the computers were going to blow up and was asking, ‘What do we do if there’s a crisis situation?’” he said.

As we know now, Y2K hoopla turned out to be much ado about nothing. As clocks around the world struck midnight on January 1, 2000, good preparation meant that a hyped-up disaster scenario failed to materialize. The fear at the time, however, was real for many.

“It ended up being a whole lot of nothing,” he said.

Recently, as financial institutions faced the prospect of a new set of rule changes as a result of Phase 1 of the Same Day ACH rollout, Casali said he saw a similar sense of confusion. But in the end, just like with Y2K, working to get these institutions educated about how changes will impact their business paid off in the long run.



My hope is banks look at the new options available to them and embrace them.



UNDER THE HOOD



How do payment directories help enable faster payments?

“Payment directories are directories used to facilitate moving a payment from one place to another. Simply said, if I log in to my bill payment service with my financial institution, I can say, ‘I want to pay this vendor,’ and the financial institution may have in their directory automated payment information for that vendor. The directory takes care of creating an ACH payment.

But one issue is there are no central directories, so a concept being discussed is what could a centralized directory do in regard to speeding payments up and making them secure. In order to make an ACH payment, I would need to know the recipient’s account number and routing number. But what if instead all I needed to know was the recipient’s email address? That would make sending payments much easier. Payment directories could help with that.”

Joe Casali, SVP of operations and IT for [NEACH](#)

“Same Day ACH Phase 1 was the same thing [as Y2K],” Casali said. “There was a lot of work, there was a lot of effort, there was a lot of training and the industry had to catch up to what the rule really meant to them.”

And when Phase 1 of Same Day ACH rolled out in September 2016, that training and education paid off, he said. On the day the change was implemented, Casali said he waited (and waited) for members to call him with questions about the changes.

Calls received: zero.

“I was waiting for the phone lines to blow up, but there was nothing,” he said.

New challenges on the same-day horizon

Casali said the next phase of the Same Day ACH rollout will bring additional challenges, and more educational efforts will be needed to help financial institutions understand and abide by the new procedures.

Casali is concerned that Phase 2 of the Same Day ACH rollout could be a headache for some institutions and their customers, when the new rule goes into effect in September. This new rule will make same-day debits available, which could come as a rude awakening for originating parties. When the change goes into effect, Casali said parties initiating a debit payment will need to ensure they utilize the specific date authorized for the payment or funds may be inappropriately debited. All originators will need to be diligent by properly using the effective entry date for payment settlement.

“If you send me a credit early, I’m not going to complain,” Casali said, of a typical anticipated member reaction scenario. “When you send me a debit earlier than I expect ... that causes problems that I may not have prepared for.”

The rollout of Phase 2 will once again require banks and financial institutions to communicate to stay on top of the latest compliance regulations. When same day debiting becomes a reality, Casali said these institutions will also have to communicate what the changes mean for their customers’ payment habits.

“People have gotten so used to ACH that they know if they go online today and make a bill payment, that’s not going to come out of their account until tomorrow or perhaps at a date that they specify in the future,” he said. They will now be able to authorize a payment due today, and it will come out of their bank account today so that the bill is paid on time.

Casali said institutions should focus on the advantages the new rules could provide.

“It gives folks the ability to make that last-minute payment where they wouldn’t have been able to do that before,” he said. Faster posting of authorized debits will also mean that customers have a more accurate view of their bank account balance.

NEACH intends to keep working with members to help these institutions stay informed about the changes brought on by the Same Day ACH rules changes. In May, the company will host its 2017 Payments Management Conference, which is focused on updating and educating members about how their operations will change as a result of new and upcoming ACH rules.

At the end of the day, he encourages NEACH’s financial institution members to invest and adapt to changes in the industry. Doing so will help them stay competitive with newer FinTech innovators, he said.

“Companies like Venmo and Zelle are competing with financial institutions in an industry that financial institutions should own,” Casali said. “My hope is banks look at the new options available to them and embrace them.”

News & Trends

Getting a Faster Payments education

What Canada can teach the world about faster payments

For more lessons on deploying faster payments initiatives, look north to Canada. PYMNTS' Karen Webster recently spoke with Mark O'Connell, CEO of Canada's Interac Association/Acxsys Corporation, who [shared his opinion](#) about which principles are important in order to make faster payments work. O'Connell explained how older players like the banking community and newer players in the FinTech space should compete through collaboration (a process he calls "coopetition") for faster payments to benefit all sides. Through the coopetition process, O'Connell said banks will have to rely more on the improved connectivity offered by FinTechs instead of solely trying to compete with them. O'Connell sees Interac as a player that helps bridge the divide between the two sides.

At PAYMENTS 2017, NACHA offers a Faster Payments education

At the upcoming [PAYMENTS 2017](#) conference, NACHA will offer attendees the Faster Payments Experience, which will feature a series of seminars and lectures that highlight real-time, same-day and other faster payments initiatives. Companies presenting at the event include The Clearing House, Fiserv, Dovetail, InterComputer and SHAZAM. The conference will take place from April 23 to April 26 in Austin, Tex. In a statement, NACHA President and CEO Janet Estep said the Faster Payments Experience will provide attendees with "a complete and unparalleled examination of the rapidly emerging faster payments landscape."

News around the blockchain

How blockchain impacts instant cross-border payments

As more consumers gain access to smart devices, trade between other countries is poised to escalate. But with the ease of market entry into various parts of the world economy come new security challenges. Blockchain technology is often used as the go-to source to enable faster and safer

transactions, especially for smaller players in the retail market. PYMNTS spoke with Abdul Naushad, founder and chairman of PayCommerce, about how [blockchain technology](#) has impacted the changing retail payments space and what the future holds for it. Naushad also discussed the latest developments in regulatory technology, such as artificial intelligence, as well as how banking consortiums work to regulate cross-border blockchain transactions to make sure the transactions are secure.

Illinois regulator first in US to join R3 blockchain consortium

In other regulation news, the Illinois Department of Financial and Professional Regulation has announced it has joined the [blockchain consortium](#) headed by startup R3, a distributed database technology provider that leads a consortium of roughly 80 financial institutions and regulators. The consortium collaborates to produce distributed ledger technologies and then bring them to the global financial markets. The Illinois regulator is the first Chicago-based exchange to join the consortium and the first U.S. regulator to become a member and could allow blockchain technology to grow in the U.S. Other members include the Bank of Canada and the Securities & Futures Commission of Hong Kong. The move could open the door to blockchain technology growing in the states following the Securities and Exchange Commission's [earlier rejection](#) of a proposed rule change that would have allowed the creation of a bitcoin-based ETF.

Faster payments come to Europe, Asia Pelican launches real-time payments processing in EU

Artificial intelligence solutions developer Pelican recently launched its [real-time payments and compliance tool](#), PelicanFast, in the EU. PelicanFast allows payments to be processed instantaneously between 34 European countries. The solution offers banks and corporations real-time payments processing capabilities that enables these institutions to make and receive international real-time payments. With the move, EBA Clearing, which is owned and operated by over 50 major banks in Europe and oversees the pan-European payment

infrastructure, will include Pelican on its “Fronrunner Service Providers” list. The list was created to identify companies that enhance early adopters’ connection to the group’s infrastructure.

CGI launches SEPA instant credit transfer service

Another company already on EBA Clearing’s “Fronrunner Service Providers” list recently rolled out its own [real-time payment solution](#) for European banks. CGI, an IT and business process services provider based in the Czech Republic, announced the launch of a new, real-time Single Euro Payments Area (SEPA) instant credit transfer solution. According to the company, the new solution was created for banks and payment service providers in Europe that want to implement SEPA instant credit transfers, as defined by the European Payments Council’s SEPA Instant Credit Transfer Rulebook. The solution connects to the EBA Clearing instant payment infrastructure service. As a Fronrunner Service Provider, CGI can offer its European corporate and consumers clients access to real-time payment service 24/7.

Same-day payment service comes to China

Beyond the European continent, other companies have recently made progress bringing real-time payments to Asia. International payment service provider FairFX Group Plc recently launched a new service in China that allows customers to make [same-day payments](#). By offering the service in China, FairFX aims to help companies that conduct business in the region with the ability to credit funds within 20 minutes. In a statement, FairFX’s chief commercial officer James Hickman said the company sees “a huge opportunity for growth” in China. Offering same-day payments makes FairFX one of the few providers to offer multi-currency transactions in the Chinese market.

Banking on faster payment solutions Dwolla launches same-day bank transfer

Software-as-a-service provider Dwolla released a new solution that allows businesses to transfer funds to an end user’s bank account within 24 hours. Dwolla’s [same-day transfer](#) capability is considerably faster than the one to two business day wait period that banks normally face when making ACH transactions. Dwolla CEO and founder Ben Milne said the service can be used for “emergency payouts, improving customer satisfaction through faster refunds or allowing partners to capture float or vendor discounts.” Dwolla launched a pilot program to serve several of its existing Access API

customers in October 2016 and confirmed that Same Day ACH could be used to reduce wait times when getting access to money and to quicken the pace of business. In a statement, the company claims customers can implement Same Day ACH by adding three lines of code to a transfer request.

Big banks officially release Zelle to take on Venmo

While Dwolla is offering a new same-day transfer capability to businesses, some big banks are ready to let Zelle [exchange money](#) at a much faster pace. Leading the charge, Bank of America (BoA) announced that it is officially the first of the larger banks to incorporate the Zelle platform into its banking app. With Zelle, BoA customers will be able to transfer funds, P2P, in just a few minutes. The service will also allow BoA’s bank customers to split bills. BoA and 18 other banks, including Chase, Citigroup, Wells Fargo and U.S. Bancorp, have signed on to Zelle with the intention of competing with PayPal’s Venmo in the P2P space.

ACI, Jack Henry team up to speeding up real-time payments in US

Other companies are making their own efforts to allow banks to offer their customers faster access to their money. Real-time electronic payment and banking solutions provider ACI Worldwide has [announced](#) that Jack Henry & Associates, Inc., will start using ACI’s UP Immediate Payments solution to offer financial institution clients and their customers access to real-time payment networks such as The Clearing House’s real-time payments system and Zelle. By partnering, the two companies expect to more quickly be able to offer financial institutions the ability to market and streamline back office integration to meet the real-time expectations of end users.

Swift inks deal with Federal Reserve bank, TCH for Swift gpi

Payment processing firm Swift announced that it reached an [agreement](#) with the Federal Reserve Bank and The Clearing House to support a standardized market practice for end-to-end wire payment tracking. The move allows Swift to take a step forward to pursuing its goal of delivering its global payment innovation (gpi). The Swift gpi was launched in February 2017 and is designed to help banks make faster, more transparent and more predictable cross-border payments. Swift gpi offers faster, same-day use of funds, based on the time zone of the receiving gpi member, E2E payments tracking and delivery of unaltered remittance information. Swift currently has 12 major banks using the gpi service and expects more participants to join in the coming months.

Volante preps banks for real-time payments

Volante Technologies, another payment processing firm, is making its own efforts to help banks in the U.S. and around the globe get ready to accept real-time payments. The company recently announced its [new solution](#), VolPay Hub: RTP Suite, which will launch with the first of several RTP processors that will support The Clearing House's real-time payments Initiative. The VolPay Hub: RTP Suite is specifically configured to handle the integration, processing and organization of real-time payments. In a statement, Steve Ledford, SVP for product and strategy at the Clearing House, said the solution is aimed at giving financial institutions "a robust modern architecture" that will enable them to build digital commerce solutions.

Credit unions explore real-time payments with D+H

Besides banks, credit unions are also taking an interest in offering real-time payments to clients. Global payment provider D+H recently announced it will work with Corporate One Federal Credit Union to offer [real-time payment services](#) to its corporate clients. Under the agreement, the credit union will use D+H's cloud-based testing sphere to explore a real-time payment solution connected to The Clearing House's real-time payments network. Corporate One believes the ability to test real-time payment solutions and eventually offer the service to its own customers enhances the credit union industry's overall ability to attract new customers and meet current customer demand for faster payments.

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