



Is Faster Payments Fast Enough for a Real Time World?

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As long as consumer interest continues to grow, stories about faster payments solutions will remain in the news. Yet what are some of the important elements to consider in developing solutions for faster payments, and are real-time payments the optimal goal for where we should head?

Are Faster Payments Fast Enough for the Emerging Generations?

When considering solutions, ask along what rails are transactions being processed, and how quickly funds are made available to the receiving bank or credit union. Does the solution require transactions to be sent for processing or posting through ACH? Typically, ACH rules provide multiple windows throughout the day to send transactions, but it is up to the sending bank as to how often they use this option. ACH is a batch file process that can be sent throughout the day for processing rather than real time.

With faster payments, the sending bank may guarantee funds to the receiving bank, but

the benefits of a true real-time payment solution (i.e. instant send and instant receive) is missing. And that's what we expect in an always-on, real-time world.

What do Members Expect Today?

Imagine trying to teach millennials about how batch-processed transactions occur in banking. The expectations with today's technology capabilities are to move toward real-time payments solutions. The big economy expects instant responsiveness. For example, members are accustomed to requesting a cab and it arriving within minutes if not seconds. The Uber experience taught us that we can instantly know the fees for the services prior to entering the car. The experience is seamless, including payment. And now Uber drivers can receive payment for their fares throughout the day, helping them instantly manage their financial state to meet their needs.

The expectations for payment's systems are that they too, are instant, on demand and seamless—real time. While it will take years to convert legacy systems to meet

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modern expectations, the goals are to move toward real-time payments systems. The industry gathered together on this important endeavor, and working with the Federal Reserve, published the white paper, “Strategies for Improving the U.S. Payment System: Federal Reserve Next Steps in the Payments Improvement Journey”.

The Road to Real-Time Payments Systems

The Clearing House, owned by the world’s largest commercial banks, is part of the core payments infrastructure working to change payments processing to a real-time proposition. The Clearing House invested in bringing to the U.S. the real-time payments platform supported in the U.K., Vocalink. (Mastercard now owns the Vocalink platform.) The Clearing House wants to create value by delivering a real-time payments solution with a “send” transaction sent in real time; a “receive” transaction that is received immediately after it is sent; and a settlement transaction that relies on funds being available in a settlement account.

The benefits associated with The Clearing House solution deliver on the ability of organizations to deliver a real-time payments platform, unique product solutions that can be custom branded,

and an opportunity to support the go-forward industry ISO 20022 message. The Clearing House platform provides flexibility to design solutions that benefit credit unions. This new ISO standard offers the opportunity to send much more detailed information about transactions in the message, including invoicing information, and much more. The ISO message provides new transaction types including a credit transfer, a request for information, a request for payment, and acknowledgement by receiver and an invoice/remittance advice. These new transaction capabilities result in faster problem resolution for businesses, and improved opportunities for online posting of invoice information.



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The payments industry is ripe for change. We will succeed through understanding member pain points, designing new product solutions, and looking to a future where real-time payments often meet unidentified needs. The needs of small business and commercial members are also changing, and we will see more adaptation to fulfill or compete to meet their needs. Product solutions riding the real-time payment rails serve the gig economy through real-time deposits or payroll to their accounts. The expectation is that payroll deposits can serve a broad population including the underbanked who have a need for more immediate funds. We will see expanded product-solution sets emerge with these new payment rails.

We are only at the beginning of the phenomenal payments shift that aligns with the real-time expectations of emerging generations. Movement toward real-time payments is the future, but it is also now.

PSCU 'Money in the Age of Now' White Paper

PSCU engaged with Glenbrook partners on a white paper that provides insights on this topic. It can be downloaded here: <http://www.pscu.com/money-in-the-age-of-now-download>