

Faster Payments 101

An Introduction to Faster
Payments in the US



Payments
Innovation Alliance™



The term “faster payments” is broadly used in the payment industry to indicate simply that increased speed, convenience and accessibility are essential features for the future of the payment and settlement system.

Same day. Instant. Immediate. Real time. A wide variety of approaches to faster payments are emerging in the marketplace.

The industry is taking bold steps to create faster, secure solutions for a variety of payments needs: new capabilities have been added to existing payment networks, fintech companies are introducing customer-facing interfaces that leverage these networks in new ways, and new rails are being created to meet the needs of today and the future.

The term “faster payments” is broadly used in the payment industry to indicate simply that increased speed, convenience, and accessibility are essential features for the future of the payment and settlement system. In addition to the expedited movement and availability of funds, the more efficient and transparent provision of information about the transaction is a key component of the faster payments value proposition.

Since the launch of PayPal in 1998, other funds transfer solutions have been introduced into the market by other providers such as Venmo (acquired by PayPal in 2013), Cash App (formerly Square Cash), and Facebook Messenger. While not initially instant (many of these solutions now are) and with delivery via app to customers’ mobile devices, adoption is significant and growing – particularly among younger consumers. In addition, such faster payments solutions are gaining ground with businesses.

Now is the time for FIs of all sizes and types – including credit unions, community and regional banks – to become educated on this changing environment and the faster payments options available to them, so they can meet the needs of their customers. Likewise, it is important that businesses that sell products and services to consumers, as well as buy from or sell to other businesses, understand the various faster payments solutions and how they can benefit their payables and receivables needs.

The Payments Innovation Alliance, comprised of a diverse membership of corporates, third-party processors, fintechs and FIs, has created this educational primer to impart some foundational understanding of faster payments and the momentum behind its adoption in the U.S. This resource provides at-a-glance information allowing users to compare solutions and provide resources for more information on how to assess the faster payments landscape.

Faster Payments 101 is a necessary precursor to the Faster Payments Playbook, currently under development by the Alliance, which will assist organizations – both FIs and business end users – in determining which solutions may be best for them and/or their customers and how best to develop a faster payments strategy.

While the Playbook is a deeper dive into faster payments, this introductory tool is not just a primer, but it is also a call to action. While there is no mandate to adopt a faster payments strategy, now is the time for organizations to put aside any lingering anxiety about faster payments so they can better plan for the future. Becoming fully informed about the faster payments landscape will help organizations to make decisions about potential investments in offerings that improve the customer experience. Having their own strategies also will help organizations more proactively support the faster payments needs of their business clients as well.

There are multiple departments within organizations that can benefit from this resource. This baseline tool is designed for everyone from the corner office to legal and compliance to operations to create further dialogue and exploration – and to ultimately propel the industry forward.

*This tool is not intended to be exhaustive nor does it represent an endorsement of a particular solution. Organizations will make decisions based on their own business needs and use cases.

Timeline of Payment Milestones

Advancements in types of payments are constantly evolving. As technology changes so does the ability to make and receive payments. The timeline to the right details major payment milestones since the invention of the check. As noted, many of these solutions that might be considered “legacy” are actually fairly new entrants to the payments ecosystem.



Federal Reserve Activities

2013:

Federal Reserve issues *Payments System Improvement Public Consultation Paper* for comment

2015:

Federal Reserve issues *Strategies for Improving the U.S. Payments System*, leading to the formation of the Faster Payments Task Force

2018:

Federal Reserve announces formation of Faster Payments Council

Checks – 1762: The first printed check.

National Banking Act – 1863: The U.S. Congress passed the Act to create a national banking system and establish a national currency.

Wires – 1872: The first widely used service for wire transfers was launched.

Credit cards – 1950: The first universal credit card, which could be used at a variety of establishments, was introduced by the Diners' Club Inc.

ACH Network – 1974: ACH Associations from California, Georgia, New England and the Upper Midwest region formed Nacha to write and maintain the rules for the Network.

Debit cards – 1984: The first nationwide debiting system was implemented, built on the credit card infrastructure and ATM networks already in place.

Electronic check (E-check) conversion – 1998-2007:

ACH Network adopts the functionality of allowing paper checks to be converted into an ACH debit.

Check 21 Act – 2004: The Check Clearing for the 21st Century Act (Check 21) is a federal law designed to enable banks to handle more checks electronically, which makes check processing faster and more efficient.

Same Day ACH – 2016: Same Day ACH goes live, enabling businesses and consumers to send and receive payments and payment-related information on the same day through the ACH Network. Additional enhancements are planned through 2021.

MasterCard MoneySend, RTP® network, SHAZAM Network (faster payments), Visa Direct, Zelle® – 2017

ExcheQ – 2019

Steps in a Transaction

Considerations

Consumer/Business End-User Support Layer (mobile, online, app)

What end-user portal or channel is supported?

Authentication/Addressing

Can you reach all parties and is the sender of the payments always known?

How is the initiator of the payment securely identified?

How and on what channel is authorization/authentication recognized?

Messaging and/or Information with Payment

Do messages require instant acceptance and response?

How much information is included directly with the payment and in what format is the information?

Will the information be easily integrated into AR, AP or ERP systems?

How will AR and AP flows and reporting be impacted by the receipt or delivery of information?

Is the amount and format of information adequate for corporate processing?

Faster Payments Mechanism

What is the solution that moves the payment?

What gateway processors support it?

Funds Posting

When are funds considered “good funds”?

How soon is the payment available and when is it posted to the recipient’s account?

Settlement (ACH, distributed ledger, Fed account)

When and how does settlement occur between the parties?



Visit web.nacha.org/resource/fasterpayments for more information.



In addition to existing banking regulations, faster payments solutions are governed by rules relating to each individual mechanism.










Same Day ACH is governed by the *NACHA Operating Rules* but transactions must also adhere to regulations such as Regulation E or UCC 4A. The Clearing House has Operating Rules and Participation Rules for RTP transactions, but a series of Service Level Agreements might exist between partners to the transaction and other regulations including Regulation E. Understanding how private sector rules interact with other banking regulations and the roles and responsibilities of each party in the transaction may impact the decision to offer a specific solution. The chart below is not exhaustive of the various rules and regulations for each solution, but provides an idea of what an institution should be aware of when embarking on a faster payments strategy.

Example Governance for Faster Payments Mechanisms

Mechanism	Main Governance Source	Other Prevailing Laws or Regulations
Nacha Same Day ACH	<i>NACHA Operating Rules</i>	Regulation E, UCC 4A, etc.
The Clearing House RTP® network	RTP® Operating Rules RTP® Participation Rules	Regulation E, UCC 4A, etc. Service Level Agreements
Early Warning Zelle®	Zelle® Operating Rules	Regulation E, Service Level Agreements, UCC 4A (for B2B transactions)

Comparing Attributes of US Faster Payments Solutions

This represents a sample of the more commonly used faster payments solutions in the marketplace as of February 2019.

		 Payment Type (Includes only monetary transactions)	 Dollar Limits	 Clearing Mechanism
Nacha Same Day ACH 		Push, Pull	\$25,000 (will increase to \$100,000 on March 20, 2020)	ACH Network
The Clearing House RTP® network 		Push	\$25,000	RTP®
Early Warning Zelle® 		Push	Varies by FI	ACH Network, Debit Card Network
Visa Direct 		Push	P2P: \$10,000 Disbursements: \$50,000	Card Network
Mastercard MoneySend™ 		Push	P2P: \$10,000 A2A: \$25,000 B2C: \$50,000	Debit Card Network
SHAZAM Network 		Push, Pull	\$49,999	Card Networks
ExcheQ 		Push	Varies by FI	ACH Network

Funds Posting:  Real Time  Same Day

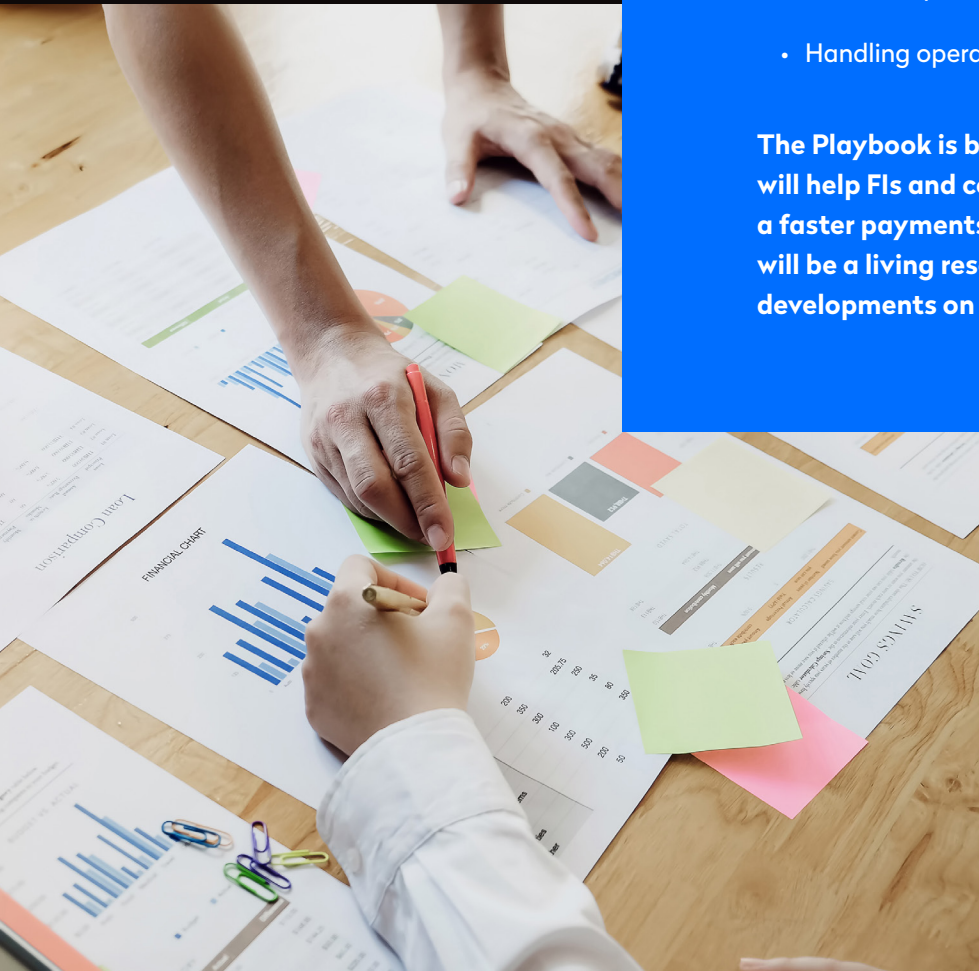
 Payment Messaging Standard	 Amount/Type of Information with Payment	 Settlement Timing	 Primary Governance
Nacha, ISO 20022, XML, ASC X12 820, ASC X12 835, ASC X12 Data Segments, UN/EDIFACT, Nacha-endorsed banking conventions	Up to 799,920 Characters	Same Day	<i>NACHA Operating Rules</i>
ISO 20022	140 bytes	Immediate 24/7/365	RTP® Rules, Service Level Agreements
Proprietary, Nacha, Debit Card	200 Characters	Same Day for Debit Card, 1-2 Days for ACH	Zelle® Operating Rules, Card Agreements, Service Level Agreements
ISO 8583	Varies by Case	Same Day or Next Day	Visa Operating Rules
ISO 8583	Varies by Case	Same Day or Next Day	Mastercard Operating Rules
ISO 8583	170 Characters	Next Day	SHAZAM Operating Rules
Nacha	Standard Nacha information + email/SMS	Same Day or Next Day	<i>NACHA Operating Rules</i>



The Payments Innovation Alliance introduces the Faster Payments Playbook. The Faster Payments Playbook will coach organizations on:

- Why a faster payments strategy is needed
- How to develop a strategy
- The consequences and opportunity costs of not developing a strategy
- How to implement a chosen strategy
- Handling operational and post-implementation challenges

The Playbook is both an educational and decisioning platform that will help FIs and corporates, as well as additional audiences, develop a faster payments strategy – from concept to reality. The Playbook will be a living resource that will change over time to reflect new developments on the faster payments landscape.



For more information on the Faster Payments Playbook initiative or to join the Project Team, visit alliance.nacha.org.