

## Payment space bursting with innovation: industry initiatives and the opportunities they present



By Laura Listwan

*Senior Vice President, New Product Development, Global Treasury Management, U.S. Bank*

Depending on whom you ask, change in the payments industry is either occurring at a snail's pace or at lightning speed. Regardless of which side of the debate you're on, it's apparent that the payments industry poses a prime opportunity for innovation. Innovators abound in the payment space, and the winners and losers are yet to be determined. Here's a brief look at some of the efforts that could ultimately impact your payment practices and efficiency:

**Federal Reserve faster payments** – In October 2012, the Federal Reserve outlined a plan to improve the U.S. payment system within a decade. The plan centers on three areas of improvement: 1) moving transactions faster from origination to settlement, 2) functioning more efficiently and securely, and 3) satisfying end-user preferences. To this end, the Federal Reserve is engaging the industry in discussions on how to improve the U.S. payment system. A Federal Reserve task force has been created, comprised of various industry stakeholders, and in February 2016 it published criteria for a faster payment system, thus providing guidance on developing and accessing faster payment solutions.

**Same-Day ACH** – Same-day ACH will use the existing ACH system to provide a ubiquitous same-day capability for both credit and debit ACH transactions as all Receiving Depository Financial Institutions (RDFIs) are required to receive same-day transactions. Existing one-day and two-day processing and settlement won't be impacted. The first phase, which will be implemented in September 2016, will support same-day ACH credits. Same-day ACH debits will become available in September 2017.

In the first phase, companies may benefit by using same-day ACH to issue a last payroll payment in cases of employee termination, as several states require that the employee receive their final payroll on their last day of employment. In the second phase of same-day ACH processing, companies can offer their consumers expedited payment processing in the case of late or missed payments.

**clearXchange (cXc)** – clearXchange is a network formed in 2011 to move payments from paper to electronic by simplifying the process. Customers of financial institutions in the digital payments network have the ability to send money to anyone with a bank account within the United States, using just their email address or cell phone number. cXc member banks include: Bank of America, BB&T, Capital One, FirstBank, JP Morgan, PNC, U.S. Bank and Wells Fargo. These banks represent

*Continued on page 3...*

*Continued from page 2...*

over 100 million online banking and 50 million mobile banking consumers. cXc offers both standard (three business days) and real-time (within five minutes) payment processing. Late last year, Early Warning, a leader in fraud prevention and risk management, acquired cXc. The combined entity will bring together immediate funds availability, integrated authentication and fraud management capabilities into a single platform.

While cXc supports both recurring and one-time payments, it is uniquely positioned to be able to support one-time B2C payments. This is because consumers register only once with cXc and then anyone can pay them. Corporations don't need to solicit and maintain banking information with consumers who have already registered with cXc. This provides companies the opportunity to electronify their one-time disbursements to consumers without incurring the expense associated with enrolling the recipients.

**Visa Original Credit Transactions/ MasterCard Send** – These solutions enable businesses and consumers to send funds to a consumer's bank account using the debit card network. Companies can send funds to the consumer's bank account or prepaid card using the debit card number associated with that account. Historically, the debit card network supported credit payments as they related to refunds. With this recent enhancement, payments can be credited to the consumer's account without requiring a purchase. Funds are typically made available within seconds.

As with any card-based transaction, payment card industry compliance is required. Additionally, each card-issuing institution can establish individual limits.

This solution may be attractive to companies that need to make payments to the "unbanked," as the payments can be made directly to the consumer's pre-existing prepaid card. It also may be a cost-effective method to pay consumers who may be temporarily located internationally.

**Popmoney®** – Popmoney is a person-to-person (P2P) payment service developed by Fiserv and launched in December 2010. The service enables consumers to send, receive and request money using an email address, mobile phone number or account number. Popmoney is available at approximately 2,400 financial institutions serving 70 million online banking consumers. Popmoney supports standard (two to three business days), next-day and instant (10 seconds) payment processing and settlement.

**The Clearing House real-time payments initiative** – In December 2015, The Clearing House (TCH), which is owned by 24 of the largest U.S. commercial banks, announced it signed a contract with Vocalink, the UK-based faster payment system provider. TCH plans to develop a comprehensive real-time payment network available to all financial institutions. This network will enable U.S. consumers and businesses to send both real-time payments and payment messages (request for payment, remittance delivery, payment acknowledgment) directly from their bank accounts to accounts at any



*Continued on page 4...*

Continued from page 3...

financial institution using an email address, mobile phone number or account number.

The network will be built on ISO 20022 standards, which will position it to support cross border commerce and interoperability with other networks as real-time capabilities evolve in the global marketplace. The implementation target is early 2017.

“Regardless of which side of the debate you may be on, it’s apparent that the payments industry poses a prime opportunity for innovation. Innovators abound in the payment space, and the winners and losers are yet to be determined.”

Laura Listwan,  
senior vice president  
at U.S. Bank

	Same-day ACH	Original credit transaction	clearXchange	TCH Real-time payments	Popmoney
<b>Application</b>	B2C C2B B2B	B2C P2P	B2C P2P	B2C C2B B2B P2P	P2P
<b>Type of payment</b>	<ul style="list-style-type: none"> <li>• Credit (Sept. 2016)</li> <li>• Debit (Sept. 2017)</li> </ul>	Credit (available)	Credit (available)	Credit (2017)	Credit (available)
<b>Information required</b>	Bank account and route transit number	Debit card number	<ul style="list-style-type: none"> <li>• Email address or</li> <li>• Mobile number</li> </ul>	<ul style="list-style-type: none"> <li>• Email address or</li> <li>• Mobile number or</li> <li>• Bank account and route transit number</li> </ul>	<ul style="list-style-type: none"> <li>• Email address or</li> <li>• Mobile number or</li> <li>• Bank account and route transit number</li> </ul>
<b>Receiver availability</b>	<ul style="list-style-type: none"> <li>• End of day (Sept. 2016)</li> <li>• By 5 p.m. local time (March 2018)</li> </ul>	Typically within seconds: 30 minute SLA	<ul style="list-style-type: none"> <li>• Standard: 3 business days</li> <li>• Real-time: 5 minutes</li> </ul>	Within seconds	<ul style="list-style-type: none"> <li>• Standard: 2-3 business days</li> <li>• Next day: 1 business day</li> <li>• Instant: 10 seconds</li> </ul>

Some of the information provided here has been obtained from sources believed to be reliable, but is not guaranteed as to accuracy or completeness. This information is not intended to serve as a recommendation or solicitation for the purchase or sale of any particular product or service. It does not constitute advice and is issued without regard to any particular objective or the financial situation of any particular individual. U.S. Bank is not affiliated with other organizations and entities mentioned.

As appeared in the third quarter edition of Payment Quarterly, July 2016.