The list of those looking to speed up payments is growing and includes organizations such as the Federal Reserve, the National Automated Clearing House Association (NACHA), the Clearing House (TCH) and emerging new market entrants such as Dwolla, Ripple Labs, Early Warning’s clearXchange, FIS’ PayNet and Fiserv’s Popmoney. With so many others making moves, has your organization considered how it will evolve in this new, faster world? Are you ready?

For years, pressure has been building from businesses and consumers to send and receive payments faster. From delivery drivers needing to know payments have cleared before releasing cargo to consumers wanting to transfer money fast, momentum is shifting to a faster payment environment. NACHA has made the first step toward faster payments in the US by announcing two new same-day Automated Clearing House (ACH) clearing windows to launch in September 2016. This paper considers the near-term changes such as NACHA’s same-day ACH as well as longer-term implications for aligning with the changing clearing and settlement infrastructures.

In the near term, financial institutions will need to address a number of pressing questions, including:

- Has your organization considered the impacts to customer experiences and communications?
- How can you evolve your legacy technology infrastructure to provide long-term agility?
- Which operational changes will need to be made (e.g., call center staffing, posting policies)?
- How will key businesses (e.g., retail banking, mortgage, business banking) be affected?
- Which regulatory impacts and compliance concerns need to be on your radar?
- How will your organization participate in shaping the long-term evolution of the US payment landscape?

And, of course, the biggest question of all: are you ready?
Has your organization considered the impacts to customer experiences and communications?

Shifts in the timing of payment clearing and settlement will have implications for customers (businesses and consumers). What are you going to say to your customers? The most straightforward communications will be about new capabilities that add customer value, enabling customers to move money more quickly or get paid faster. However, depending on how those changes are implemented, the timing of new faster payment options may not line up with all customer-facing communications or reporting tools. Implications for everything from real-time alerts to batch-updated online banking files may be affected.

With the new same-day ACH windows, certain business practices may need to change as it will no longer be possible to treat all ACH transactions the same way for communications, fee assessment and posting purposes. For example, the way that same-day ACH transactions will be identified is by the date in the “effective entry date” field of the transmission. But some customers as a regular practice put the current date in this field. Today, a transaction with the current date would be cleared on the subsequent day at no additional charge. However, under the new rules, it would be cleared the same day, which would mean that the originating company would be charged same-day fees. Avoiding these unintended charges will require a change in practices and a good deal of up-front customer education. Do you know what all the nuances are? Are you proactively identifying impacted customers in advance? What are you planning to do to manage customer communications?

For all types of changes, a thorough customer communications plan that covers both customers and employees who will engage with customers can help support good customer relations.
Is your organization ready for faster payments?

How can you evolve your legacy technology infrastructure to provide long-term agility?

As your organization seeks to move toward faster payments, the issue of aging legacy infrastructures will come increasingly into focus. The move to faster payments will take place in stages, with potentially a variety of different approach options coming not only from NACHA, but also from players like TCH, the Federal Reserve and even potentially non-bank innovators. As organizations assess the near-term changes associated with same-day ACH, they must also consider future faster payment options. Legacy architecture with inflexible payment systems that each must link to a host of other core applications will be increasingly problematic to maintain in this dynamic, faster payment environment. So technology plans for the near-term, same-day ACH changes would do well to lay a foundation for longer-term payment architecture challenges. The goal is to make choices that address both today’s and tomorrow’s needs, and that are grounded in thorough cost and benefit analyses that balance the needs of customer experience, cost, agility and future growth.

Which operational changes will need to be made (e.g., call center staffing, posting policies)?

Once the world speeds up, how will you staff your call centers and prepare your employees for the inevitability of new questions? Which processes will change? What will happen to your fraud exposure? On the clearing and settlement front, how will your business adjust to the impacts to float, settlement and posting processes, and intraday liquidity management? How will you deal with processes and organizations where manual activities are still standard operating procedure? Are those practices sustainable in a real-time environment? From fraud and risk management to impacts to third-party vendors, organizations will face a range of impacts to operations, all of which need to be understood and planned for.
How will key businesses (e.g., retail banking, mortgage, business banking) be affected?

The economics of faster or real-time payments are multi-layered. Potential fee revenue may offset increased operating costs and lost interest income. Reduced credit risk resulting from faster receipts may be balanced against the heightened costs and challenges of managing transaction risk in a real-time environment. However, in the current market environment, the move in the direction of near-real-time payments is inexorable, and payment organizations must determine how best to balance the potential economic advantages with the challenges. There are also gains to be realized in far more areas.

Financial institutions will want to consider how they address key payment opportunities, including the following:

- Same-day payroll from employers to employees
- Urgent claim payments and refunds from businesses to consumers
- Invoice payments from one business to another (just in time or late)
- Tax payments from businesses to the government
- Person-to-person payments
- Account-to-account payments for consumers
- Bill payment from consumers to businesses (just in time or late)
- Point of sale check conversions
- Businesses collecting payments from consumers
- Merchant payments

In each use case, financial institutions will want to consider the profit opportunities, risks, operational impacts and regulatory considerations. In addition, they will need to create actionable road maps and change management plans.
Which regulatory impacts and compliance concerns need to be on your radar?

Anyone who has lived through the last decade in the financial services industry can attest to the dramatic impact of regulatory and compliance issues. For every change, it continues to be important to look at the regulatory implications such as impacts to anti-money laundering practices, customer communications and unfair acts and deceptive practices, and the myriad other regulations that can be impacted when money moves faster.

The challenges of compliance, especially regarding customer transparency, will become particularly challenging if customer expectations in relation to real-time money movement aren't matched with real-time online account updates, changes to credit “open to buy” limits and other outcomes. Because so many payment systems operate in batch mode, alignment of payments that are initiated in near real time may not match how the payments are received, potentially resulting in customer confusion or erroneous treatment (e.g., late payment fees).

As payments speed up, organizations need to plan how they will address the fundamental regulatory risks.

The world is moving, and there is a window that is closing for participation in how the world evolves.
How will your organization participate in shaping the long-term evolution of the US payment landscape?

Beyond considering the near-term issues discussed thus far, there is the longer-term question of preparing for the future of faster payments. One thing that is clear from looking at countries such as the United Kingdom, Finland, Australia, Singapore, Brazil and Mexico, where faster payment networks are enabling transactions to clear in minutes or even seconds, is that for systems to work, there need to be common standards, wide-scale adoption and economic incentives to participate.

In the US, the structure and complexity of the banking system make it difficult for players to coalesce around a single approach for new payment infrastructure. Further, the federal government tends not to mandate major payment system changes. By contrast, in most of the countries that have established faster payment systems, government participation has been a key component of change. In the US, the Federal Reserve is facilitating a conversation about potential options and has issued a paper calling for change, but has not mandated a specific path forward.

As potential options for faster payment are discussed, organizations have an opportunity to participate in and shape the conversation. In addition to conversations happening at the Federal Reserve, there are a number of other groups and companies working on faster payments. TCH, a payment company that represents 24 of the largest US commercial banks, announced a multiyear effort to build a new network complete with messaging and tokenization features, leveraging the Vocalink infrastructure being used in the UK. Dwolla, a start-up partnering with BBVA Compass, has created its own real-time payment network that boasts a low cost for users. Ripple Labs, a blockchain company, has created a system for settling transactions in real time using distributed ledger technology. And Early Warning’s clearXchange, FIS’ PayNet and Fiserv’s Popmoney have all introduced person-to-person money movement capabilities that have the potential to move money rapidly within their networks. Each of these potential systems involves different technologies, processes and rules. That level of market uncertainty makes it critical that interested organizations be involved in shaping the future direction of relevant approaches.

The world is moving, and there is a window that is closing for participation in how the world evolves.
Are you ready?

In this dynamic new world, Ernst & Young LLP (EY) stands ready to help you navigate a course toward integrating faster payment capabilities into your service offerings. Right now, many questions need to be answered before an organization will know how the market shifts, including how imminent same-day ACH changes will impact your organization and your customers. EY can help your organization assess leading ways to balance near-term risks and impacts with longer-term considerations so that your organization is well positioned to move forward in an uncertain environment.
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