Real-time payments strategy

Key focus areas for financial institutions to address
Driven by a range of market and government initiatives, countries around the world have moved or are moving to introduce faster payments systems that can move both high-value and low-value transactions in near-real time. In the United States, unlike in most other countries, the government is not driving the move toward faster payments, creating a level of uncertainty about exactly how faster payments will evolve in the American market.

The list of potential “faster” payment options in the US is long and growing, including established organizations such as the Federal Reserve, NACHA (the National Automated Clearinghouse Association) the Clearing House (TCH), Visa, MasterCard and emerging market entrants such as Zelle, Dwolla, and Ripple. NACHA made the first step toward faster payments in the US by launching two same-day Automated Clearing House (ACH) clearing windows in September 2016. While different parties are undertaking the faster payments initiative, they are not all addressing the same use cases or strategic areas. In this rapidly changing environment, US financial institutions are asking: which market solutions on faster payments are most valuable, and what is the best way to integrate them into the overall technology road map for change? This paper discusses the key questions financial institutions need to address when defining their real-time payments (RTP) strategy and the considerations for selecting an RTP solution and/or vendor.
**Illustration 1:** select RTP initiatives by different market players in the US relevant to financial institutions

<table>
<thead>
<tr>
<th>Market player</th>
<th>Highlights</th>
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<tr>
<td>The Federal Reserve</td>
<td>• Established Secure Payments Task Force Steering Committee, which is evaluating approaches for implementing real-time payments in the US</td>
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<td></td>
<td>• Acting as an enabler and not a solution-provider of faster payments</td>
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<td>NACHA</td>
<td>• Launched Same Day ACH, introducing two same-day clearing windows in September 2016; Same Day ACH debits will go into effect in September 2017</td>
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<td>• Working on other ACH modernization efforts such as business-to-business (B2B) directory services, tokenization of the ACH network and API standardization</td>
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<td>The Clearing House</td>
<td>• Designing and building a real-time payments solution that will facilitate real-time messaging (both for money movement and information) with near-real-time settlement</td>
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<td></td>
<td>• Will support all major payment use cases B2B, business to consumer (B2C), person to person (P2P) and consumer to business (C2B) for credit push payments</td>
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<td></td>
<td>• Will provide options to use either TCH services (e.g., directory, tokenization and fraud) or leverage other third-party solutions</td>
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<td>• Working on pilot use cases with leading US financial institutions</td>
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<tr>
<td>Early Warning Services (EWS)</td>
<td>• Provides near-real-time payment solutions to financial institutions as part of the Zelle offering using the clearXchange network</td>
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<td></td>
<td>• Leverages its network directory of registered banks to enable money movement using customer email or mobile phone</td>
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<td></td>
<td>• Supports P2P and also select B2C (e.g., disbursements) and C2B (e.g., consumer to financial institution (FI) bill pay) for credit push payments</td>
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<td>• Partnerships with providers like Fiserv and FIS is helping to broaden the solution reach</td>
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<tr>
<td>Visa and MasterCard</td>
<td>• Provide solutions that leverage debit networks (Visa Direct and MasterCard Send) to deliver funds in near-real time to debit cards of participating FIs</td>
</tr>
<tr>
<td></td>
<td>• Support P2P and select B2C (e.g., disbursements) and C2B (e.g., credit card bill pay) for credit push and pull payments</td>
</tr>
<tr>
<td></td>
<td>• Visa and MasterCard have different partnerships with providers like FIS, JHA, Hyperwallet, PayPal and EWS helping them to broaden the solution reach</td>
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</table>
Defining the RTP strategy and implementation approach opens a host of questions for financial institutions:

- What are the lessons learned from prior RTP implementations around the world?

- What are the right offerings and pricing for addressing customers’ needs? What is the best way to address RTP use cases that will overlap with existing faster payments capabilities (e.g., wires)?

- What are the technology and operations capabilities required to offer RTP solutions, and how will each impact both the core payment processing and supporting functions such as finance, accounting, fraud, risk, controls and compliance?

- What is the impact of the existing technology landscape (from submission through middleware to system of records)?

As financial institutions answer these and other questions, they also need to evaluate the solution options, the right partners and vendor choices.
Illustration 2: key questions that financial institutions need to consider to build the RTP strategy

- What initiatives and standards are likely to succeed in the US?
- How will these efforts ultimately fit with the Fed’s faster payment framework?
- What capabilities are required to launch a real-time payment solution (e.g., process automation, core payments processing, finance/ accounting, fraud, risk/controls)?
- What are the gaps in the existing environment vs. leading practices?
- What are the risks involved in moving from batch processing?
- What scalability, availability or performance issues might be created?
- What is required for tech ecosystem readiness to transition to RTP?
- What are payment channel impacts and overlaps?
- How will new messaging and tokenization standards have impact?
- What are the process, policies, exception handling, risk and compliance impacts?
- What Anti-Money Laundering (AML) and Know Your Customer (KYC) changes are required?
- What is required to allow 365/24/7 support?

Defining the RTP strategy and implementation approach opens a host of questions for financial institutions...
With changing customer expectations, it’s becoming important for financial institutions to prioritize RTP in their organizations’ payments road maps. Identifying a sample use case and building prototypes may help launch a quick product in the market. However, a more holistic approach toward RTP will help support strategic choices that are not tied to a single industry utility, while also helping you leverage this opportunity to advance broader payment initiatives. Thus, building the RTP strategy and implementation plan requires a steering program that understands the market dynamics, considers the organization’s vision and can bring together the business, technology, operations and support functions to execute on the overall vision and plan.
Considerations for a real-time payments strategy

Illustration 3: framework for a comprehensive RTP strategy

1. **Business strategy**
   *Defining a customer-centric business strategy requires alignment with market needs.*
   - Assess current products and services and align RTP core competencies with customer needs
   - Identify pilot use cases, new products and strategic opportunities
   - Develop pricing and non-pricing (e.g., value) strategies
   - Leverage opportunity to advance broad payment initiatives (e.g., payment hub)
   - Capture opportunity to upgrade digital channels

2. **Technology delivery**
   *Scaling the technology architecture requires alignment with the enterprise payments strategy.*
   - Design solution so it leverages standards and is not tied to a single industry utility
   - Model changes to intra-day and batch capacity requirements
   - Standardize shared RTP rails across the bank (e.g., commercial and consumer)
   - Share payment platform for all RTP methods and types
   - Assess impact to high availability/disaster recovery (HA/DR) strategies

3. **Operations readiness**
   *Shifting from a batch environment requires end-to-end processing alignment.*
   - Design cross-channel alignment for consistency across customer visibility and touch points
   - Assess impact of 365/24/7 support
   - Assess impact to supplemental functions, including marketing, liquidity, reconciliation accounting and finance
   - Embed flexibility to make changes to business rules in real time
   - Assess changes to good funds model

4. **Regulatory risk and controls**
   *Designing risk and control measures requires enhanced automation for real-time payments.*
   - Design operational and technical resiliency for availability
   - Put security controls in place that scale to the threat
   - Build or enhance real-time monitoring and alerting capabilities (e.g., liquidity)
   - Consider regulatory inputs (e.g., AML and Office of Foreign Assets Control (OFAC))

“Thus, building the RTP strategy and implementation plan requires a steering program that understands the market dynamics ...”
Defining a framework for RTP vendor selection

Financial institutions need a well-defined framework to evaluate the solutions and vendors that will support and accelerate their RTP road maps. While many vendors offer similar features, each financial institution needs to weigh several factors when determining which solutions and/or vendors best align with the organization’s objectives, customer needs and enterprise payments strategy. It is important that financial institutions mobilize today in a way that allow them to make choices that fit tomorrow.

The table below provides an initial framework for conducting an RTP vendor analysis and can be customized to fit specific organizational requirements.
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<th><strong>Vendor selection criteria</strong></th>
<th><strong>Key questions</strong></th>
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| **Cost**                      | • What are the license costs and/or transaction usage costs for the solution?  
                                | • What are the initial implementation and ongoing maintenance costs?  
                                | • What payment modules are included in the cost, and what is the flexibility in selecting the modules? |
| **Time to market**            | • Does the solution accelerate the time to market for the RTP solution?  
                                | • Does the solution help launch a quick prototype of a select RTP use case? |
| **Technology blueprint**      | • How open is the solution, and what is the support for APIs?  
                                | • Is the solution decoupled, modular and micro-services based?  
                                | • Does the solution follow global messaging protocols suited for RTP (e.g., ISO 20022)? |
| **Functional depth**          | • What capabilities are offered to connect the users (e.g., directory services)?  
                                | • What are the core payment processing capabilities?  
                                | • What are the reporting, fraud and risk monitoring capabilities?  
                                | • Can the solution integrate with all channels and provide capabilities such as notifications and alerts? |
| **Fit with overall payments and IT strategy** | • What are the deployment options (e.g., on-premise vs. hosted, single vs. multi-instance)?  
                                | • How does the solution fit into the broader payments strategy (e.g., payments hub, digital road map)?  
                                | • What is the DevOps cycle and the release and deployment support provided by the vendor? |
| **Maturity**                  | • Does the solution or vendor have experience in other faster payments markets (e.g., the UK, Australia)?  
                                | • Which other financial institutions are participating in the solution? Is the vendor working on pilots with some of the leading RTP schemes (e.g., TCH)? |
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This combination of industry and consulting experience brings a practical and nuanced perspective to transformation activities, balancing the need for transformational change with practical organizational and budgetary realities.

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We would like to give special thanks to Abhay Rathi for his contribution to this paper.
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