Alacriti

Guide: Preparing for Real-Time Payments

There is little doubt that the need to offer real-time/instant/faster payment capabilities is imperative. With the current rate of adoption and usage of networks like the RTP® network (The Clearing House (TCH), Zelle® (EWS), Visa Direct, and MasterCard Send®, in addition to the anticipated success of the FedNow℠ Service network launch (2023)—consumers and businesses will soon be exposed to many new ways to move money and do business than ever before. People's expectation and demand to transact whenever they want is becoming the "new normal." This demand does not stop at domestic transactions and will ultimately move to include cross-border transactions. People will expect to do business in U.S. dollars but will also expect cryptocurrency options as well. Banking hours will no longer matter!

The value of real-time payments goes beyond the ability to move money 24/7 in seconds—the capacity to exchange data is also significant. Financial institutions (FIs) will be able to offer their business account holders products that offer instant payroll and expense disbursements, tax filing, and disbursements directly to their customers (B2B, B2C), with the recipient selecting the rail based on when and how they would like to receive the funds. Financial institutions can also offer the ability to distribute and track invoices that sync up with existing accounts receivable systems. Consumers will be able to purchase a car with financing on a weekend when the financial institution is not even open. It will be possible to purchase a house seven days a week and remit any funds owed during a virtual closing via a Request for Payment (RfP).

As the move to real-time payments continues to evolve, for many financial institutions, there are still unanswered questions and apprehension about moving forward. The following are guidelines to follow to help your financial institution navigate the journey to provide your account holders with the ability to send and receive real-time payments. As you begin this journey, one thing to keep in mind is that although the TCH RTP network and the FedNow Service are options with similar capabilities, they will not be interoperable. That means RTP network payments can only be sent between other financial institutions on the RTP network, and FedNow service payments can only be sent to other FedNow Service financial institutions. For full ubiquity, a financial institution will need to support both of these faster payment rails. Consider this when starting a project to fully participate in the real-time payments scheme.

Different Paths to Real-Time Payments

Real-time payments support three personas, Receive Only, Send and Receive, and Request for Payment (RfP).

Receive Only

1. The fastest way to begin your real-time payments journey is to start with receive only, which establishes the ability to receive real-time payments. The Receive Only persona requires the least amount of work for the financial institution and sets the financial institution up for an easier process for the next step, send and receive. The Receive Only persona requires these steps:

   a. Select a vendor like Alacriti that can assist you in establishing your connection to the real-time payment rails and provide comprehensive reporting and fraud monitoring tools. It is key to understand the timeline for deliverables from your selected provider on when you can expect to be live with Receive Only and Send and Receive when you are ready for that functionality. With Alacriti, you can enable your financial institution to go live with Receive Only in as fast as 6–8 weeks and Send and Receive in an additional 8–10 weeks.

   b. Since real-time payments operate under a good funds model, the FI needs to set up an account (Alacriti can also assist with this) with the real-time payments provider to receive funds in real-time. This same account will be used to send real-time payment funds when the FI begins the send process.

   c. Establish a real-time interface from your real-time payments provider to your FI's core so that incoming payments can be deposited in real-time to the receiver's account. Alacriti can provide the majority of the real-time interface connection work—allowing your technical resources to focus on other priorities.

   d. Establish training for internal personnel to understand what operational changes may need to occur to support the 24/7/365 nature of supporting real-time payments.

   e. Communicate with your account holders the value that real-time payments can provide.

Alacriti

Send & Receive

2. While working on the steps identified above for Receive Only, you can begin to establish plans for offering the ability to Send AND Receive real-time payments.

    a. Contact your online banking provider(s) for consumer and business banking to understand their timelines for supporting the origination of real-time payments.

    b. Define the origination channels you plan to utilize to offer the initiation for real-time payments: mobile, online, etc.

    c. Speak with your account holders, primarily your businesses, to understand the potential use cases they may have that real-time payments can accommodate.

    d. Establish a plan to ensure that your real-time payments account will be funded appropriately over weekends and holidays.

    e. Determine whether you would like to have a funding agent or self-fund. A funding agent will manage your balance with The Clearing House or the FED to ensure that sufficient funds are available for sending RTP's 24/7/365. You would establish an account at the Funding Agents FI that would be used to provide funds to the RTP accounts accordingly. Alternatively, one of Alacriti's banking partners can provide that service for a fee, similar to how they handle small credit unions' ACH or wire transfer processing today.

    f. Establish training for internal personnel to understand what operational changes may need to occur to support the 24/7/365 nature of supporting real-time payments.

    g. Communicate with your consumer and business customers around how they can leverage real-time payments. Investigate ways to monetize the service for the value it brings.

Alacriti

Request for Payment

3. While working on items 1 & 2 above, begin planning on how you can offer the Request for Pay (RfP) functionality. Request for Pay (RfP) is a financial messaging scheme built on the rails of real-time payments that enables billers to initiate real-time payments from bill payees with the click of a button. The request includes all relevant invoicing information, and the payee can pay immediately or at a scheduled time, giving them more control over when the funds are taken from their account. It's a win-win—the biller benefits from irrevocable, good funds, and the payee gets more visibility and control over when the bill is paid.

    a. Contact your online banking and bill pay provider(s) for consumer and business banking to understand their timelines for supporting the origination of RfP.

    b. Define the origination channels you plan to utilize to offer the initiation of Request for Pay: Mobile, Online Banking, Bill Pay, AR/AP systems, etc.

    c. Understand the use cases from your account holders and that that Request for Pay can be utilized for better liquidity management and cash flow. See potential RfP use cases below:

        • 5 Request for Pay (RfP) Use Cases for Billers

        • Top RfP Test Cases, Use Cases, and Case Studies We're Watching

    d. Talk with your business account holders to understand which AR/AP systems they are using and when they anticipate the ability to import/export RfP and RTP information.

Alacriti

Pillars for Successful Rollout of Real-Time Payments

1. **What Do Account Holders Want?**

   When creating new products, it's best to start with market research to determine what problem needs to be solved or identify addressable gaps in satisfaction. Gauge what account holders' needs are today while considering their needs in the next five years to ensure the faster payments option selected will be appropriate for tomorrow's volume. It's recommended that market research is executed in parallel with searching the market for potential solutions. Consider the business case around the offering to ensure that it's not just a great new capability for account holders but also offers sustainable cost savings, stickiness, and even revenue.

2. **Customer Facing Applications:**

   Once account holder needs are determined, start to strategize and design potential applications that can be offered in your online and/or mobile banking or other channels (don't forget the branch) within your financial institution. These applications can be built internally (this is a good opportunity to innovate and differentiate) or may be available from a third-party service provider (TPSP) who can easily provide access to innovative new methods of meeting your account holder's needs. Remember, real-time payments are more than just moving money quickly. Think about ways your financial institution can partner with account holders to make their interaction more fulfilling. In a faster payments world, financial institutions will be expected to offer more than just money movement.

3. **Fraud Detection:**

   So how can fraud that uses 24/7 transaction capabilities be prevented? The saying, 'faster payments, faster fraud' reflects this concern. Many fraud service providers are developing new modules and products specifically designed for faster payments. There is a need to use advanced tools to detect fraudulent activity in a faster payments environment. Fortunately, many solutions are being developed and are currently on the market, which offer amazingly fast capabilities to address this issue. One important attribute is that these systems are taking a more proactive approach to fraud detection. By utilizing advanced AI and machine learning capabilities, combined with new methods of predictive modeling, new fraud systems are being designed to react in milliseconds to assist in preventing fraudulent transactions before they occur. Financial institutions can investigate their current enterprise fraud systems and update them with new faster payment modules or elect to use more product specific fraud systems that detect potential fraud at the product level while sharing data back to existing enterprise systems.

Alacriti

4. **How Will Your Financial Institution Integrate with a Faster Payment Solution?**

There are several areas or 'touchpoints' within a financial institution that will need to integrate with any faster payment capability. The more common areas include access to DDA System(s), GL, Payment Processing/Payment Operations, Regulatory/Risk, Fraud, and Liquidity management, to name a few. Do not be unnecessarily alarmed by this. Many third-party service providers have developed integration capabilities which easily accommodate financial institutions in making the process as stress-free as possible. A frequent question is: as financial institutions will be moving funds 24/7, do they need to hire internal staff to manage transactions? Al Griffin, a product manager at Alacriti with over 20 years of experience in the banking industry, provided his perspective. "In most cases, I have witnessed (smaller to mid-sized FI's), there are little to no additional internal resources required to manage real-time payments into their existing payment operations. This is an important question to ask when searching for a real-time payments solution. Others include: what functions will the bank have to perform daily (e.g., reconciliation, responding to Request for Return of Funds, etc.) and how will the financial institution receive reports and manage liquidity?"

ALL financial institutions, large and small, benefit from real-time payments. There are larger banks creating solutions that are consumer and business facing enabling new and innovative ways for people to interact financially across the world. When a financial institution participates in real-time payment networks, its account holders benefit. This might mean faster ways of receiving their payroll, buying a car or house, moving funds to their checking account from another payments service or FI, sharing the cost of a meal with a friend, or sending emergency funds to family or friends on a weekend or holiday. The key is to keep pace, if not stay ahead, of the new payment paradigm.

For more information on how to connect to real-time payment rails, read RTP: How to Connect*.*

Alacriti's centralized payment platform, Cosmos, provides innovation opportunities and the ability to make smart routing decisions at the financial institution to meet their individual needs. Financial institutions can take full ownership of their payments and control their evolution with ACH, Wire, TCH RTP® network, Visa Direct, and the FedNow℠ Service, all on one cloud-based platform. To speak with an Alacriti payments expert, please contact us at (908) 791-2916 or info@alacriti.com.