



Preparing Credit Unions for Faster Payments

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Financial Strategy Symposium
Catalyst Strategic Solutions
July 25, 2019



Payments Sub-Committee:



- Monitor, review, and advise CUNA staff & Make recommendations to the Advocacy Committee on operational & public policy issues related to:
 - Payments systems
 - Data security
 - Cybersecurity
 - Credit Unions' access and utilization of the latest developments in payments

WesPay's Association Service

Information Services

- Payments Hotline
- Third Party Roundtable & Quarterly Member Call
- Payments Briefing, Compliance and Rules Briefings, Washington Update, White Papers

Education Services

- Workshops, Webinars, and Online Training
- ACH and Check Boot Camps
- WesPay Certificates
- AAP and NCP Prep Programs

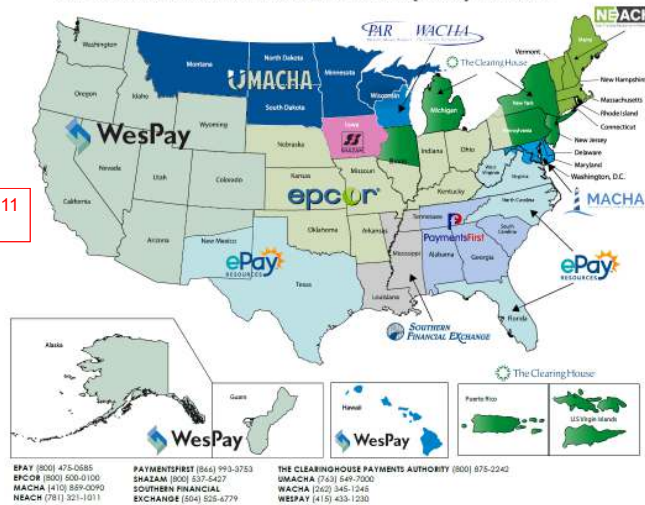
Advisory Services

- Policies Advisory Services
- ACH Audit and Risk Management Reviews
- RDC Risk Management Review
- Originator Online Assessment Tool



REGIONAL PAYMENTS ASSOCIATIONS (RPAs) as of 11/2018

WesPay is 1 of 11 RPAs



5

The NACHA Story

They make sure money gets from **Point A...**

1970 by CA Bankers exploring electronic payments

1974: CUNA started pilot project to issue share drafts
1976: Banks sued
1980: CU's showed up in DC (400 people; 150K grassroots letters); HR 4998 signed by President Carter

...to Point B safely.

e-complish

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6

NACHA and Its Inter-related Roles

ACH
Network
Adminis-
trator

+

Industry
Association

+

Other Rules
& Standards

=

NACHA

- Represents nearly **ALL** financial institutions
 - 31 are Direct FI Members, and
 - others are represented via 11 Regional Payments Associations
- Administers the Accredited ACH Professional (AAP) Program and the Accredited Payments Risk Professional (APRP) Program

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7

NACHA engages a variety of end users, fintechs, solution providers, and financial institutions in many ways

Convenes payments system stakeholders for dialogue and innovation:

- Board Advisory Group
- Payments Innovation Alliance (200+ companies with commitment to payments innovation)
- Afinis Interoperability Standards (e.g. API standards)
- GRAG

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8

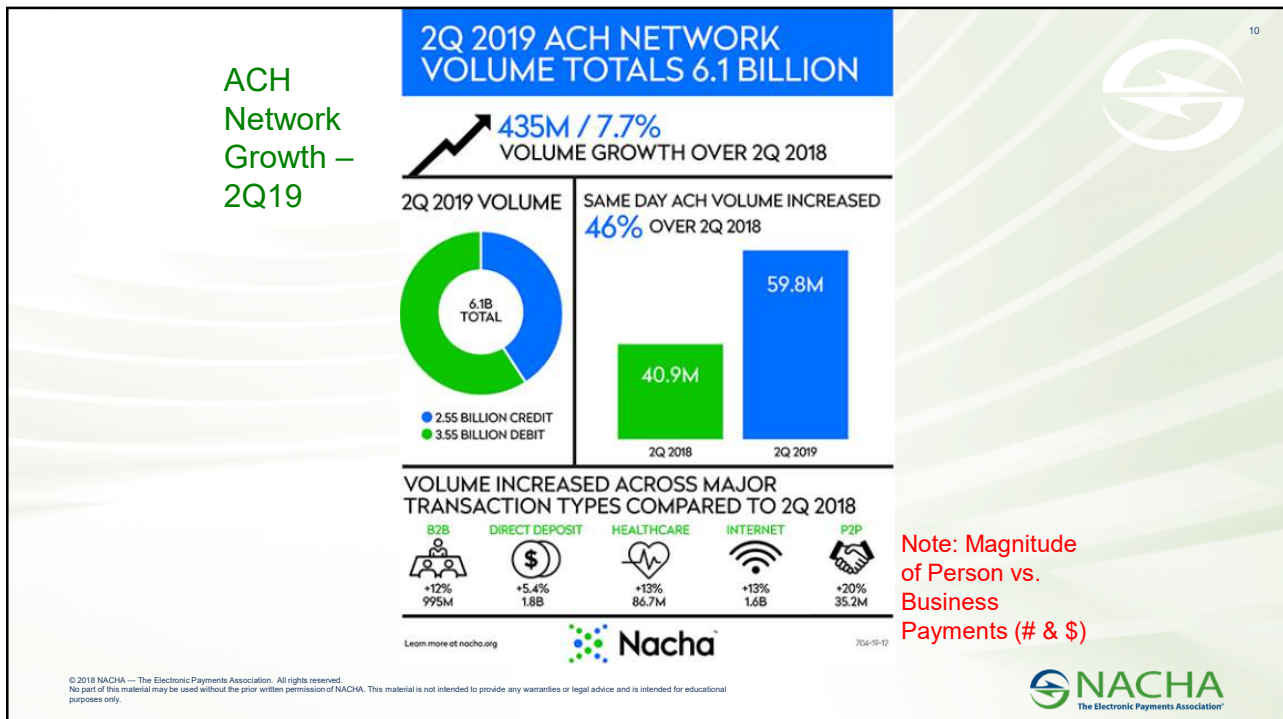
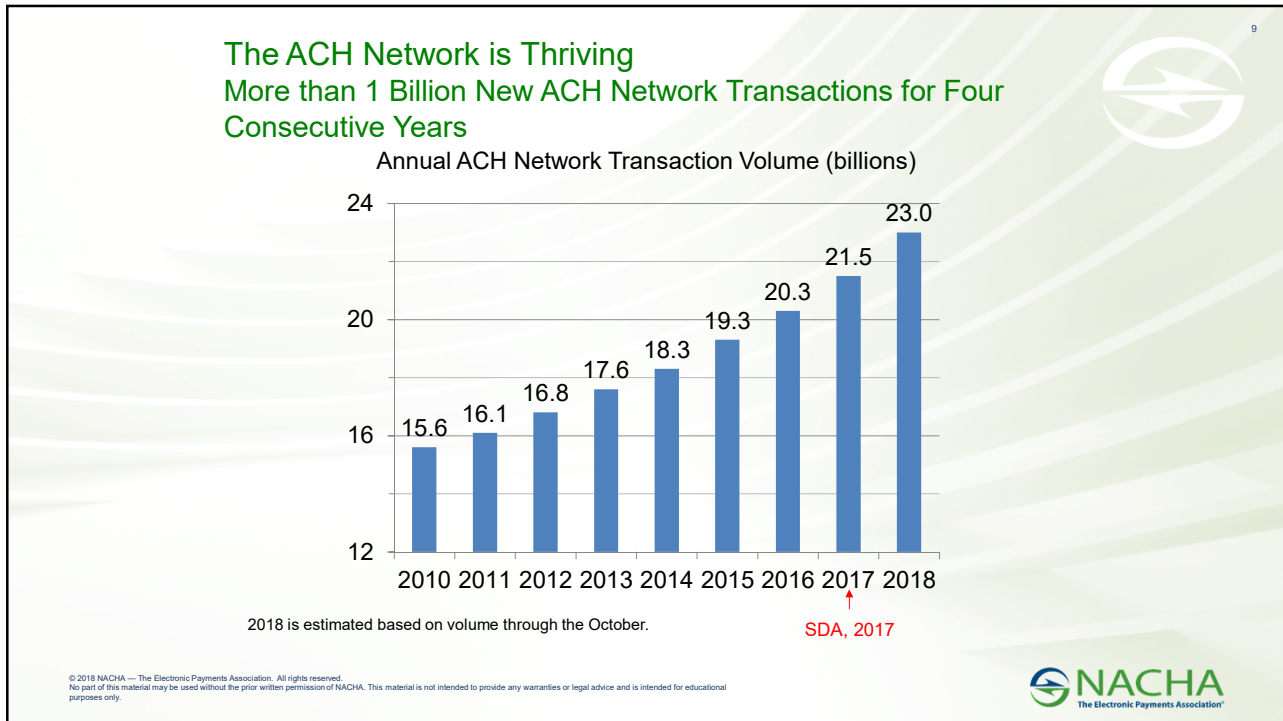
Non-Cash Payments Volumes (2000-2017)

Figure 1. Trends in noncash payments, by number, 2000–17

Note: National estimates for card, automated clearinghouse (ACH), and check payments are available on a triennial basis from 2000 to 2015. National estimates for card payments are also available for 2016 and 2017. Prepaid debit card payments include general-purpose prepaid, private-label prepaid and electronic benefits transfer (EBT) card payments. Credit card payments include general-purpose and private-label credit card payments. Automated teller machine (ATM) withdrawals are not included. Prepaid debit card estimates are not available for 2000 and 2003.

Source: The Federal Reserve Payments Study: 2018 Annual Supplement

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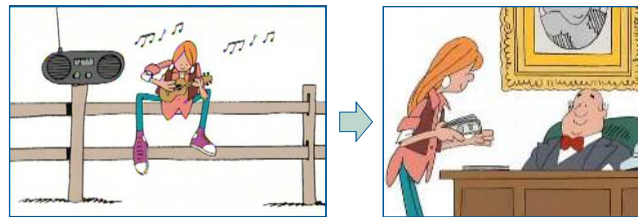
Schoolhouse Rock! (circa 1970s)



Dollars & Sense...



Dollars & Sense...



(circa 2000s)

Friends Don't Let Friends Overspend!
Learn Your Money Personality

Cha-ching, cha-ching: the sound that savings brings
So Put it in the Bank!

Your Financial Future is in Your Hands
So Put it in the Bank!

WesPay

Flash Forward 40 Years...It's a Different Storyline

Deposits

Lending

Banking

Payments

WesPay

Topics to Discuss

- Payments Systems Disruptors
- Drivers for Adoption of Faster Payments
- Business Case for Faster Payments
- Emerging Payments Landscape

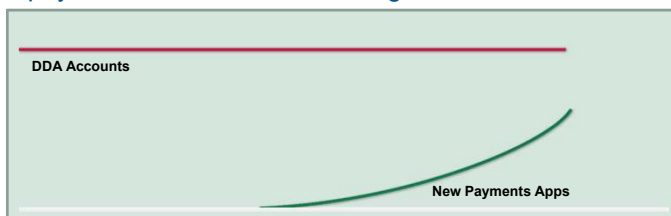


THE DISRUPTORS



What is the Threat?

- Are we going to lose the account relationship?
- 2016 Fed research:
 - New payments apps up 50%
 - Number of FI payments accounts hasn't budged



> Consumers are accumulating financial relationships!
Where?



The First Payment Disruptors

- US Postal Service
 - Money Orders → Checks
- Western Union / MoneyGram
 - Funds Transfers → Wires
- Target Red Card
 - Decoupled Debit Card →
General Purpose CR / DR



Second Generation Disruptors



- Established in 1998
 - New ecommerce environment
 - Peer-to-Peer electronic payments
- Evolved to be a "Wallet" for commerce
 - Deteriorating deposits for FIs
 - For every \$3.00 transferred to PayPal
 - Only \$1.00 comes back



Fintech Disruptors

- Who is going to eat your lunch?
- Who do you worry most about?
 - Apple?
 - CryptoKit (Open Money)
 - Apple Pay?
 - Amazon?
 - Facebook?
 - Libra?
 - Calibra?
 - Google?
 - Currencycloud?
 - Gpay?
 - Square?
 - Snapchat?
 - Bitcoin?
 - Alipay?



Is the Disruptor *Really* a Threat?

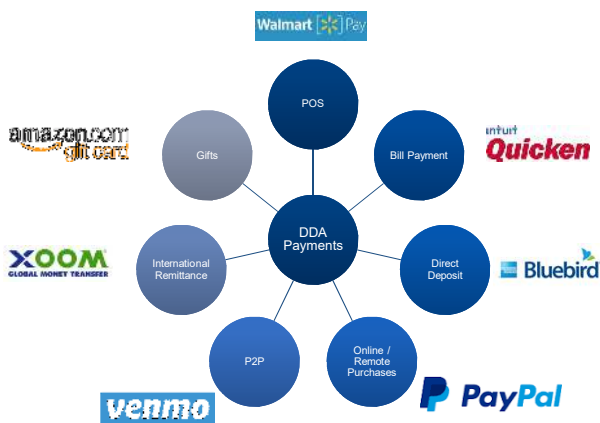
- Many new payments methods create business for us
 - 80% are card transactions
 - Wave your phone and this happens:

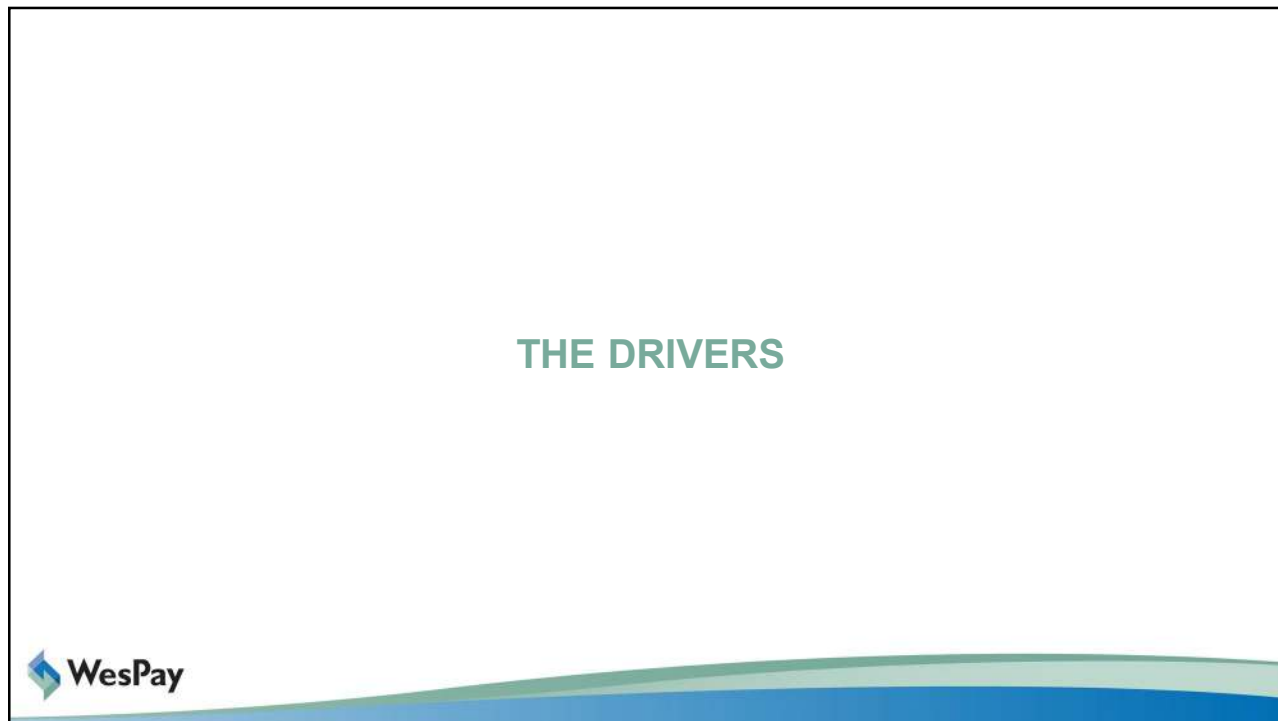


Is this still our payment?



The Member Relationship





Faster Payments – Some History

- Launched in the UK in 2008
- Growth fueled by online and mobile adoption
- A new phase of payments evolution
 - 24/7/365 real-time credit transfers
 - To virtually any UK account
- Brought opportunities and challenges
- Did not cannibalize wire revenue

The U.S. is lagging in payments innovation

WesPay

Is This Still “Faster Payments”?

2 hours

5 seconds

3 hours

Is 5 hours and 5 seconds faster enough?

Credit unions may bear costs of systems & operations

Faster Payments Momentum – Recent History


- There is global momentum
 - Nearly 20 countries have faster payments
 - Another 30 countries have programs in development
- Same Day ACH is the first <small>step in the U.S.
- Fed launched the Faster Payments Task Force in 2015
 - 300+ organizations participated
 - Supported by the Fed and McKinsey Consulting
 - Twenty-two organizations submitted proposals
 - Final study published in August 2017
- Real-time payment systems
 - 2017 = 25 rtp systems
 - 9/2018 = 40 rtp rails were live
 - By 2020 = +16 more

Real-time Gross Settlement (RTGS):


- RTGS – Now in place:
 - Norway
 - Sweden
- U.S. – Fed RFC for RTGS – October 2018

U.S. Faster Payments Task Force – Effectiveness Criteria

<p>Ubiquity</p> <ul style="list-style-type: none"> U.1 Accessibility U.2 Usability U.3 Predictability U.4 Contextual Data Capability U.5 Cross-Border Functionality U.6 Multiple Use Cases 	<p>Efficiency</p> <ul style="list-style-type: none"> E.1 Enables Competition E.2 Capability to enable value-added services E.3 Implementation Timeline E.4 Payment Format Standards E.5 Comprehensiveness E.6 Scalability and Adaptability E.7 Exceptions and Investigations Process 	<p>Safety and Security</p> <ul style="list-style-type: none"> S.1 Risk Management S.2 Payer Authorization S.3 Payment Finality S.4 Settlement Approach S.5 Handling Disputed Payments S.6 Fraud Information Sharing S.7 Security Controls S.8 Resiliency S.9 End-user Data Protection S.10 End-user/Provider Authentication S.11 Participation Requirements
<p>Speed (Fast)</p> <ul style="list-style-type: none"> F.1 Fast Approval F.2 Fast Clearing F.3 Fast Availability of Good Funds to Payee F.4 Fast Settlement among Depository Institutions and Regulated Non-bank Account Providers F.5 Prompt visibility of payment status 	<p>Governance</p> <ul style="list-style-type: none"> G.1 Effective governance G.2 Inclusive governance 	
<p>Legal</p> <ul style="list-style-type: none"> <li style="width: 33%;">L.1 Legal Framework <li style="width: 33%;">L.2 Payment System Rules <li style="width: 33%;">L.3 Consumer Protections <li style="width: 33%;">L.4 Data privacy <li style="width: 33%;">L.5 Intellectual privacy 		



THE MOTIVATION





1. Retaining Member Relationships



2. Retaining/Growing Core Deposits





3. Expanding Non-Interest Income



THE EMERGING SOLUTIONS



Zelle

- Emerging push payment capability
- Bank-centric P2P solution
 - Initiated in a digital channel – Internet or mobile
 - Utilizes “social alias” (e.g., email, mobile #, userID)
 - Leverages existing payments rails
 - Points of innovation:
 - Nationwide directory of users
 - Consumer branding
 - User interface
- Implemented by 17 large U.S. FIs

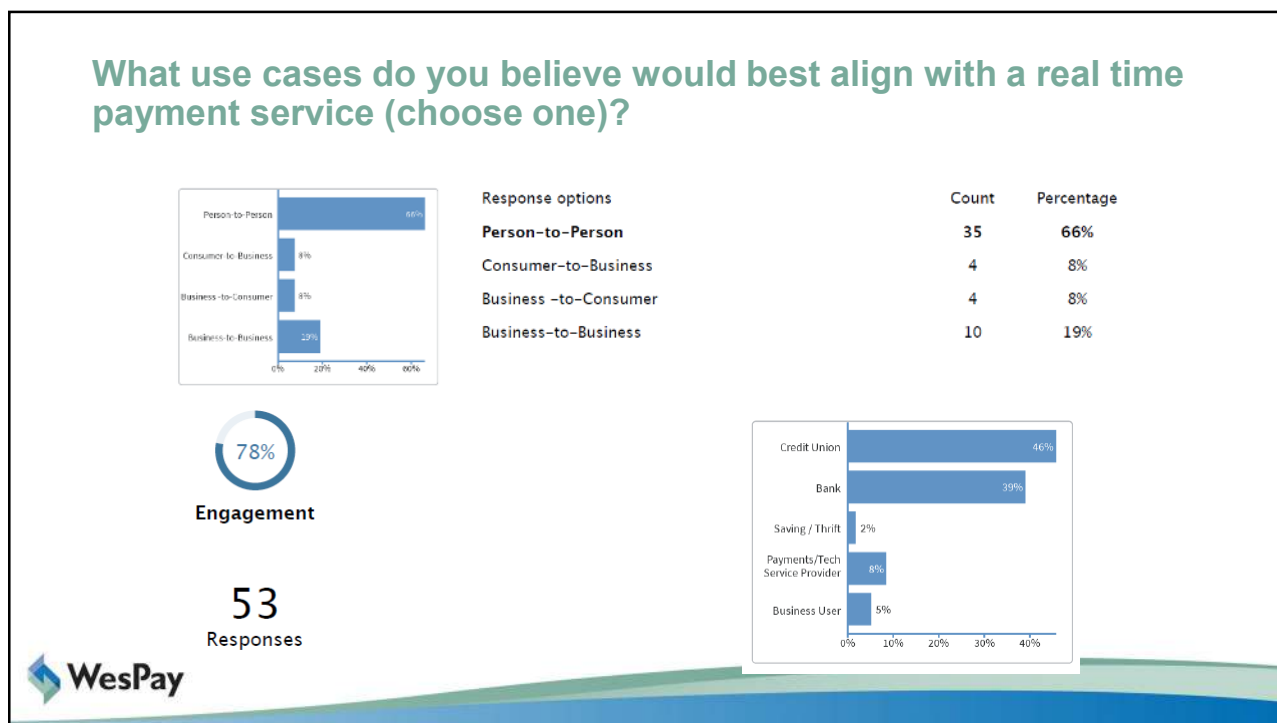
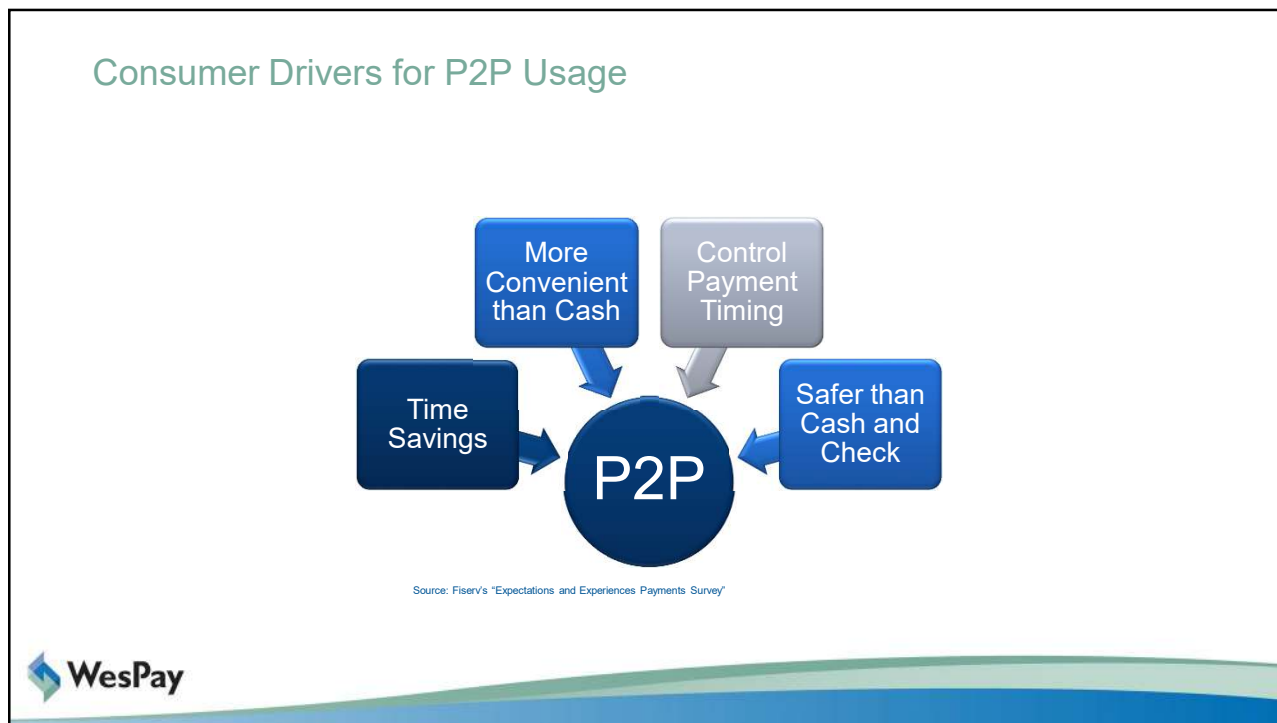


Top Uses of P2P Transfers

1. Gifts (birthday, holiday, wedding, etc.)
2. Repay purchased goods / shared cost
3. Charity / Personal fundraising
4. Split restaurant bill
5. Repay purchased services / shared cost

Source: Fiserv, Alte Group survey





REAL-TIME PAYMENTS

In what timeframe do you expect your bank or credit union to offer a real time payments solution?

- A) Now
- B) Within 12 months
- C) 1 to 2 years
- D) 2 to 5 years
- E) > 5 years
- F) Not until the Fed offers a solution



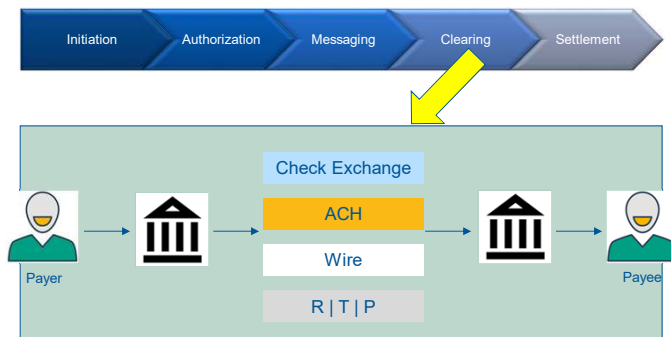
39

REAL-TIME PAYMENTS (RTP)

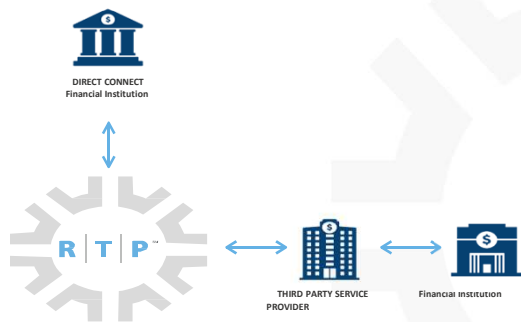


40

RTP: A New Payments Rail



Role of Third Party Service Provider



TCH expects most FIs to depend on a third-party service provider for operational implementation



TCH CONFIDENTIAL

Managing Fraud in “Real Time”

- Assumptions:
 - Credit-push is inherently safer
 - Real-time heightens risk sensitivity
 - Sender is first line of defense
- What are possible risks with the Sender:
 - Account Takeover - #1 issue
 - Bad Payee
 - Instrument fraud – N/A
- Approaches
 - KYC
 - Strong authentication

Thoughts about
fraud as payments
get faster?



Federal Reserve: RFC on real-time payment service: (1) Real-Time Gross Settlement

44

Potential 24X7X365 RTGS Settlement Service

- Real-time, payment-by-payment interbank messaging and settlement in Federal Reserve accounts
- 24X7X365: Operating around the clock, every day (weekends and holidays)
- Full payment information (clearing and settlement) carried in payment message
- Available to depository institutions eligible to hold a Federal Reserve account
 - Agents could submit payments on behalf of a depository institution
 - Access through Reserve Banks channels
- End-of-day balances recorded for each day of the week

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45

(2) Liquidity Management Tool

Potential Liquidity Management Tool

- A way to move money outside standard business hours between a master account and another Federal Reserve account used to support 24X7X365 real-time settlement service for faster payments
- Potential functionality:
 - Bank-initiated transfers
 - Agent-initiated transfers
 - Automatic transfers/standing instructions
- Thoughts about liquidity as payments get faster?

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46

NACHA's Response: Remember the Role and Needs of ACH, as well as the broader Fed Role

- **Continue Fed enhancements to support more ACH settlement options each day**
- Design the liquidity management tool to support ACH
- **If directories are considered, include more payment types**
- Improvements to existing payment services can help the industry move forward incrementally and prepare for greater future change

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WesPay's Response to Fed

- **Fed should play a role in faster payments**
- **Fed's proposed action to act as an operator will slow current faster payments momentum**
 - Long term will aid broad adoption of faster payments in U.S.
- Fed's solution should not be restricted to the Faster Payment Service
 - Include ACH, wires, etc.
- **Proposal will introduce significant complexity**
 - **Designed solution must be interoperable with other faster payments solutions**
 - **To allow community Fis to operate in safe and cost-effective manner**

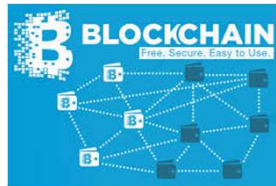


CUNA's Response:



- Supports Fed developing real-time payments network:
 - Interoperable with private sector real-time payments rails
 - **Require all FI's to develop capability to receive payments from Fed rtp network**
 - Should include liquidity management tool
 - Continue to support legacy payments systems
 - **Communicate quickly whether it will develop a real-time payments system**
 - **otherwise market is frozen**

Block Chain and Distributed Ledger Technology



Blockchain

- What is blockchain?
 - Underlying technology
 - Many use cases; Bitcoin is one example
- Why it's getting so much attention
 - Uses Distributed Ledger Technology (DLT)
 - Records maintained in many places
 - Kept secure with sophisticated cryptography
- Simple way to remember
 - Blockchain is the rail
 - Bitcoin is the train riding the rails



SUMMARY



Implications for Credit Unions

- Innovation – There is no Lack of Choice
- Choose Wisely
 - Define your strategic frame
 - Look around you
 - Determine your timing
 - Choose your partners
 - Retain flexibility
- Keep a strategic focus



NACHA and the Regional Payments Associations



- *Introduction to Faster Payments in the U.S.*
- Foundational educational tool for FIs and businesses
- Provides base upon which to build ongoing education delivered by RPAs and NACHA
- Compares and contrasts various faster payment solutions by attribute

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The Fed's "SIPS Report" and Their Industry Engagement Has Outlined Next Steps (Strategies for Improving US Payment Systems)



- SIPS Report published January 2015
- Faster Payments Task Force Report Published July 2017
- Fed RFC on enhanced Settlement Services published October 2018

* SIPS: Strategies for Improving Payment Systems

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Supporting Credit Unions



- Payments Hotline
- Education & Events
- Quarterly Member Updates
- Publications & Tools
- **Connect** Member Forum





- Payments Strategy Consulting
- Risk Management Reviews
- Treasury Management Services


SOUTHERN FINANCIAL EXCHANGE


Advisory Services





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