A New World of Faster Payments

SAME-DAY ACH AND REAL-TIME TRANSACTIONS ARE ON THE WAY

Faster Payments in Context .....................2
Same-Day ACH...........................................3
Banks on Board ...........................................3
Same-Day Payment Scenarios .................4
Real-Time Payment Coming Soon ...........4
The speed of payment systems is accelerating. In the United States, the first phase of same-day Automated Clearing House (ACH) processing begins this fall, and real-time execution is on the horizon for 2017.

“Real-time services are part of the once-in-a-generation modernization of payment systems infrastructure, and they herald profound change in the [financial services] industry and in the wider economy,” according to a recent study by Aite Group.¹

The United States is lagging behind several other countries in the transition to faster payments. As it rapidly catches up, new opportunities will unfold for American businesses and individuals to send and receive payments more efficiently and on a very timely basis – ultimately, within seconds.

What, precisely, is changing? What’s driving this trend? How will the faster payments movement unfold in the near term, and how might corporate treasury managers benefit? In this report, we’ll provide some answers.

**Faster Payments in Context**

Different motivations have driven adoption of real-time systems in pioneering countries. In Brazil, for example, instituting faster payments was a response to high inflation rates. When the purchasing power of one’s currency is degrading rapidly, slow receipt of payment is costly. Meanwhile, regulatory pressure to reduce float drove implementation in Chile, and a push to facilitate internet banking and direct transactions between individual consumers and businesses got the ball rolling in the United Kingdom, Denmark and Sweden.

In 2015, the U.S. Federal Reserve System launched a Faster Payments Task Force. Its goal, as stated in its charter, is to bring about "ubiquitous, safe, faster electronic solution(s) for making a broad variety of business and personal payments, supported by a flexible and cost-effective means for payment clearing and settlement groups to settle their positions rapidly and with finality.”²

The Fed said it was motivated by the following four primary concerns:

- A lack of coordination, despite high levels of innovation in the U.S. payment system, that is creating fragmentation, inhibiting ubiquity and creating confusion
- The risk of falling behind faced by the United States, as several countries have or are developing ubiquitous, faster payments capabilities
- Clear stakeholder momentum in the United States to pursue faster retail payments on a comprehensive, industry-wide basis
- Faster payments capabilities with the potential to draw more of the unbanked/underbanked population into the financial mainstream

¹ The Faster Payments Revolution: Build It and They Will Come, Aite Group, LLC, January 2016.

“Real-time services are part of the once-in-a-generation modernization of payment systems infrastructure, and they herald profound change in the [financial services] industry and in the wider economy.”
Same-Day ACH

In the United States, advances in faster (but not real-time) payment are on track to begin this year with the same-day ACH initiative of NACHA – The Electronic Payments Association. Years in the making, the NACHA effort is independent of the Fed task force. The same-day ACH implementation timetable was finalized in May 2015, and the first of a three-step rollout begins this September.

Initially only credit “push” payments will be allowed in the network, but this will shift to debit “pull” payments in late 2017 for same-day processing. However, accelerated payment through the ACH will be limited to domestic transactions and amounts not exceeding $25,000. A bank might set a lower limit for clients that rarely or never issue payments that large.

Beginning Sept. 23, 2016, ACH credit transactions initiated from originating depository financial institutions (ODFIs) will be eligible for same-day processing through two new clearing windows: a morning submission deadline at 10:30 a.m. ET, with settlement occurring at 1 p.m., and an afternoon submission deadline at 2:45 p.m. ET, with settlement occurring at 5 p.m.

Banks on Board

Although under the NACHA same-day ACH rule banks are required to receive and process same-day payments, they are not required to offer their customers the ability to initiate such payments. However, banks have recognized this will be a value-added service and nearly 95 percent of large member banks surveyed by NACHA reported plans to offer a same-day ACH service by the end of 2016. The same survey found 86 percent of banks were planning to offer the service to all their customers, while the remaining 14 percent will offer it selectively, based on need.

BB&T’s ACH processing system is being upgraded to allow both same-day receipt and origination processing. We plan to pilot same-day ACH origination services starting late September and begin offering to qualified business originators in early November. Initial same-day ACH origination channels will include CashManager OnLine Platform, Commerce Gateway Payables and ACH Data Transmission. It will be a premium ACH service offering. Small Business Online will not be enabled at this time.

In the second phase, by Sept. 15, 2017, banks will support same-day debits. In the third and final implementation step, as of March 16, 2018, receiving depository financial institutions (RDFIs) will be required to credit customer accounts no later than 5 p.m., as opposed to the end of their processing day. However, many institutions are expected to comply sooner than that deadline.

Most banks may charge additional same-day-initiation fees for the value provided and to recoup the network required processing cost, so the service will be adopted by those who have the greatest need for same-day payments.

---

**Same-Day Payment Scenarios**

Common same-day ACH credit push payment scenarios in Phase 1 are expected to include:

- Businesses that want to pay an invoice on its due date or accelerate payment of an overdue invoice, or need to have a supplier’s account credited before purchased goods can be shipped
- Same-day payroll to cover, for example, payments to hourly workers on the final day of the pay cycle; terminations requiring payments on the last day of work; and off-cycle payroll when payment is needed for bonuses, advances or errors
- Business-to-person (B2P) payments, such as insurance claims, refunds and rebates
- Time-sensitive, person-to-person (P2P) payments for emergency assistance, reimbursement for purchases, child support and split bills
- Account-to-account transfers involving different financial institutions to cover payments issued by an account that would otherwise be overdrawn

Use cases for same-day pull by ACH are expected to include:

- Large billers and merchants seeking to accelerate collection of checks for faster availability, minimize risk of items returned for insufficient funds, and speed the receipt of returned transactions
- Merchants using same-day debit at the point of sale to speed collection of funds and returned transactions
- Automatic installment payments for rent, insurance policies and utilities

Although same-day ACH processing has been in the works for years, many businesses have yet to plan for it. To do so, they need to think about scenarios in which the benefits of exploiting the opportunity would justify added cost. In addition, businesses need to consider the effects of receiving same-day ACH payments, since banks must make funds available to recipients by no later than end of day, affecting balances.

**Real-Time Payment Coming Soon**

Same-day ACH payment, for all its potential to advance financial operational efficiency, may represent just a first step in preparing businesses for real-time payments, which are expected to be available in the United States as early as 2017. Several solutions for real-time payments are beginning to take shape; however, the final recommendations of the Federal Reserve’s Faster Payments Taskforce, which will be reviewing a majority of these solutions, are not expected until mid-2017.

The differences between same-day ACH and anticipated real-time payments capabilities are highlighted in the table that follows on Page 5.
Comparing Same-Day and Real-Time Payment Systems

<table>
<thead>
<tr>
<th></th>
<th>Same-Day</th>
<th>Real-Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Posting</td>
<td>Sometime during the day but not immediate</td>
<td>Immediate (usually considered within seconds)</td>
</tr>
<tr>
<td>Information Availability</td>
<td>By the end of day or at another specified time, and carries some remittance data</td>
<td>Immediate; carries rich remittance data</td>
</tr>
<tr>
<td>Settlement</td>
<td>At a specified time – usually at the end of the day</td>
<td>Can be within a very short period of time, multiple times a day or even the next day</td>
</tr>
<tr>
<td>Payment Types</td>
<td>Credits and debits</td>
<td>Credit only (push payments)</td>
</tr>
<tr>
<td>Processing</td>
<td>9 to 5 p.m.</td>
<td>24/7/365</td>
</tr>
<tr>
<td>Limits</td>
<td>Up to $25,000 per item</td>
<td>Up to $25,000 per item</td>
</tr>
</tbody>
</table>

The Clearing House (TCH), the oldest banking association and payments company in the United States, owned by 24 of the country’s largest banks, including BB&T, is at the forefront of the real-time payments drive. The new system it is building is designed to ensure payments are not only faster, but safer too. Initial implementation of the new real-time payments rail will be for domestic U.S. payments only, but ultimately the system aspires and is being built to support real-time international transactions as well.

TCH expects the primary demand for real-time payment will be for business-to-business transactions. It projects such transaction volume will grow from $500 million in 2017 to $3.8 billion by 2023, reflecting a 40-percent annual growth rate. The process of using TCH’s real-time payment system for business users is described in the sidebar article on Page 4. Key features of the system will include:

- **Confirmation of payment**: Payers will receive immediate notification that funds have been successfully transferred to payees.

- **No returns**: Because funds must be available at the time of the transfer, there can be no returns and payees will have certainty of good funds.

- **Request for payment**: Requests delivered through the payment system will support receivables products such as e-invoicing and e-billing, reducing remittance errors.

- **Fulfillment messages**: Payees will receive messages that they have received funds, along with information about the nature of the payment (e.g., invoice paid) and goods shipped with tracking information.

- **Complete payables/receivables messaging**: Multiple messages will be able to be sent linked to the same transaction.

As with same-day ACH payment, real-time payment in the business-to-business and business-to-consumer contexts likely will be used selectively, where business requirements make it practical and desirable. In time, however, faster payments will become the new normal for many business transactions, just as mobile banking and commerce (i.e., Amazon, Facebook, etc.) have reset expectations for digital consumers.

BB&T and other financial institutions are playing a leadership role in the development of these powerful and evolving real-time payment capabilities and can serve as resources to help companies best determine when and how to harness them.

For more information about how to prepare for the world of faster payments, contact your BB&T relationship manager.