By offering real-time payments, what is the risk to wire transfer fee income? Why might a member choose a wire over real-time payments?

There is some risk to wire transfer income by offering real-time payments. The reality is it depends upon whether you are referring to consumer or business payments, domestic or international money movement, and the amount of the money transfer. The most likely impact, in the nearer term, will be on reducing wire transfers from consumers, domestic money movement, and those with a lower transfer amount. Keep in mind that there are legal requirements governing international, B2B and high value consumer money movement that requires oversight and management which will likely be associated with fees, but will take time to build out for real-time payments. Thus the implementation time frame needs to be considered as well. Real-time payments are in their infancy and still need to be built out and even when they are, the member may still choose wire transfer over real-time payment for the following reasons:

- Dependability
- Legal issues, especially in dealing with international markets
- Size of the transaction (large transactions)

In addition, while a real-time payment could replace a wire in some instances, that does not necessarily imply a lower price point than a wire. Each CU will control which origination applications it elects to offer to members, and the end pricing for those solutions.

Won't real-time payments cannibalize wire transfers, cash, checks, and debit cards? How will CUs replace the revenue stream from debit cards?

The simple answer is yes, but it depends. Real-time payments will cannibalize all forms of current payments to some extent. Consumer P2P payments will replace small ticket bills, such as babysitters, handymen, or cleaning services according to 57% of consumers in the April 2013 Consumer Action P2P Study. Almost 50% of consumers said they would even pay a large bill using P2P, such as rent or equipment leases.

Credit Unions could replace the revenue stream from debit cards with fees attached to P2P or real-time ACH-type transfers. P2P companies today are assigning fees in certain types of situations, including international transfers and multiple individual payments. One could envision other specialized services in the future that would accommodate fees, such as splitting a payment between multiple individuals and potentially in different amounts (such as a restaurant bill).

Is this the end of ACH? You note that this improves ACH and EFT but I was wondering if it will replace those.

This is far from the end of ACH or EFT. First, the development of real-time payments networks or the Federal Reserve or NACHA ACH has a reasonably long development time ahead. ACH is expected to go through same day ACH transformation followed by a real-time transformation. Again, that is expected to take some time. No matter how you look at it, batch ACH will change over time, and there may be pricing differences ahead in terms of real-time vs. batch mode ACH. Will it replace ACH—probably not within our generation. Will ACH exist in some form in the future—yes.

New solutions such as CO-OP’s real-time payments network with PayNet offering support a different value proposition and will create new transaction applications, as well as see some migration from other payment alternatives. But if the experience in the UK with Faster Payments is indicative, while solutions like ACH may see slower growth while new payment options take root, they will continue to be used.

Notably, the Fed has estimated that 12% of all payments will move to a Faster Payment method in the next 5 years.
Aren’t debit card transactions real-time payments?

Debit transactions occur in two forms: signature debit and PIN debit. Signature debit, the larger share of today’s debit transactions, ride on the credit card rails and occurs in batch mode with clearing and settlement overnight. PIN debit occurs real-time through the EFT networks. Of note, while they occur real-time, PIN debit is a card-based transaction and does not facilitate person-to-person payments.

In your opinion and based on the reality of the marketplace as is stands today, when do you feel this technology will actually take off?

Nothing happens overnight and real-time payments will not happen that way either. It will grow based on market need.

The adoption of real-time transactions will occur in phases. It is likely that real-time payments will be needed in segments based on “use cases.” Those segments will gravitate to real-time payments because that is the most efficient or needed delivery method of payment. Consumers or businesses that have real-time needs will be the early adopters. These might be students, family members traveling abroad, frequent travelers, families with significant others living outside the U.S. (immigrants/migrant workers), and others. Real-time payments services will “take-off” on a segment level in the relative near term—once the infrastructure (once a critical mass of financial institutions are participating and more so when international partnerships are developed) is more fully built out.

These segments will then lead to a ramp-up to the mass market—but that will not occur immediately.

Will merchants and financial institutions both have to “enroll” in the real-time payments network, or would merchants be offered that option through Visa or MasterCard?

This real-time payments network with PayNet will not likely gain aggressive adoption at existing POS terminals, as using cards are more convenient than providing a routing transit and account number. However, as adoption of mobile wallets become more prevalent, that situation could change. PayNet does not currently interconnect to existing Visa or MasterCard networks.

Regardless, it is likely that PayNet would be offered to merchants—perhaps more aligned as an ACH alternative for payments at a biller site than at POS—via existing merchant acquirer solutions.

As various customer-facing networks, such as Google and MCX, evolve and emerge, these will all be evaluated for partnerships. Consumers will ultimately have the choice at the POS for their method of payment.

Can merchants participate in this payments system?

Yes, but likely as an option for ecommerce or online bill payment option, such as the following use cases outlined by the Fed:

- B2B ad-hoc low value (e.g., just-in-time supplier payments)
- B2P ad-hoc high value (e.g., insurance claims, legal settlements)
- P2P transfers (e.g., rent repayment to roommates, splitting dinner bill)
- B2P ad-hoc low value (e.g., temporary employee wages)
- P2B ad-hoc, remote (e.g., emergency bill pay)

Again, and as mentioned in the above question, it is likely that PayNet or networks like it will be expanded at some point to include merchant endpoints.

Do online payments improve security for the buyer’s confidential financial information?

Online—and more specifically mobile—payments have the promise of improved security by eliminating one key aspect of the payment chain—the physical card swipe. Card skimming, for instance, can be eliminated. In addition, as tokenization alternatives become more powerful and prolific in mobile transactions, there is additional insulation between the participants in the payment chain and the confidential payment credentials of a consumer.
How many institutions are currently participating in PayNet?

There are currently more than 600 institutions connected to and receiving transactions in the PayNet network.

How would you propose to access the local ACH providers or clearing systems for cross-border transactions?

Through establishment of network interoperability agreements, as well as strategic partnerships with existing local payment providers, PayNet can expand beyond the US financial system footprint. Implicit in this is additional functionality be supported by, or in conjunction with, the network—such as mechanisms to support currency conversion/foreign exchange.

Currently, the plan is to evaluate and potentially provide cross border functionality in 2015. This would be an option available for Credit Unions to add when available, assuming that the relevant regulatory and security issues can be addressed.

Do real-time payments via PayNet transactions fall under Reg E?

Yes. If a transaction initiated today using an existing payment rail would be subject to Reg E, it would continue to be subject to Reg E when utilizing PayNet.

Do you have any references (other credit unions) that we can contact to ask how they like PayNet?

CO-OP is soon rolling out real-time payments via PayNet which is an exciting partnership for both CO-OP and FIS. We do not currently have other CUs in the network, which is why you will have the opportunity to be an early mover and innovator.

In your opinion and based on the reality of the marketplace as is stands today, when do you feel this technology will actually take off?

Nothing happens overnight and real-time payments will not happen that way either. It will grow based on market need.

The adoption of real-time transactions will occur in phases. It is likely that real-time payments will be needed in segments based on use cases. Those segments will gravitate to real-time payments because that is the most efficient or needed delivery method of payment. Consumers or businesses that have real-time needs will be the early adopters. These might be students, family members traveling abroad, frequent travelers, families with significant others living outside the U.S. (immigrants/migrant workers), and others. Real-time payments services will take-off on a segment level in the relative near term—once the infrastructure (once a critical mass of financial institutions are participating and more so when international partnerships are developed) is more fully built out.

These segments will then lead to a ramp-up to the mass market—but that will not occur for many years.

What recourse does the consumer have to dispute a PayNet transaction?

Consumer transactions would fall under Reg E, affording the consumer the same rights to refute a real-time PayNet transaction as they have today with other electronic transactions.

What is the benefit of participating with CO-OP through PayNet as opposed to AFFN?

CO-OP has developed turnkey implementation utilizing existing integration through the shared branching capabilities as well as originating real-time PayNet transactions via the Sprig® by CO-OP mobile device. CO-OP is committed to delivering comprehensive capabilities, while minimizing your deployment effort and optimizing time to market. In addition, CO-OP has partnered with the FIS PayNet system because we share the vision of the importance of a critical mass of participants.
Is there a cost for the Credit Union to participate the Network? If so, what is it, and is the cost a one-time charge or is it annual?

As a participant in Sprig, there are no additional fees to participate in the network. All documented transaction fees remain the same and will apply. For other access methods to the real-time payments network, including "White Label Sprig" and the P2P standalone API, pricing will be announced soon.

We only use CO-OP for shared branching. Can we also use Sprig and real-time payments?

Any CO-OP credit union is eligible to participate in real-time payments or Sprig but access to our AccountConnect platform is required. As a shared branching participant you already have that connection. All Sprig participants will automatically have access to ”pay anyone” real-time payments. No new enrollment is required.

When will the PayNet feature be available?

Our new ”Pay Anyone” functionality powered by PayNet will be available in September.

Can you share when the Fed sees real-time payment as a standard method?

Their initiative will take years to implement, so this is probably something that will become more standard, i.e. broadly used, in the 5-7 year range. In August 2010, the Fed began offering “FedACH SameDay”. This initial attempt failed due to several factors. In April 2013, the Fed began a new push for same day ACH settlement, which included debits and credits with certain specific exclusions. Some credit unions are current participants of the “opt-in” service. Until the Fed mandates “same day” ACH it will likely be several years before all financial institutions participate.

Is there any way to put these applications (say the “Pay Anyone”) behind my current online banking PIN? Or some type of single sign on method? I do not want to require members to sign on to a bunch of different sites.

The P2P (person-to-person) Pay Anyone API may be integrated into your existing mobile and online products. The person receiving the payment, don’t they have to be signed up for the P2P also? If their financial institution doesn’t offer it, the payment wouldn’t work, correct?

The receiver of the payment is not required to be enrolled or have a P2P app. A message is sent to the receiver who would then, by providing certain account information, indicate where they wish the funds to be deposited. Alternately the sender can enter the financial information of the recipient if the sender has that information, negating the necessity for the receiver to do so.

How much is the Real-Time Payments program?

As a participant in Sprig, there are no additional fees. All documented transactions fees remain the same and will apply. Fee schedules are in development for ”White Label” Sprig and the P2P API.

Is there a fee for the member?

Credit Unions can decide for themselves whether they want to charge their members a fee for real-time P2P payments.