

Real-time Payments Striving for speed: now is the time to prepare

BACKGROUND

Payment systems in the U.S. and around the world are undergoing significant changes. Advancements in technology, the nature of commerce, shifts in demographics, and an increasingly global economy are putting pressure on domestic and global payment systems to increase the speed at which payments are sent and settled. More than 20 countries around the world—including the United Kingdom, Singapore, Australia, and Mexico—currently have real-time payment infrastructures in place designed to address these changes.

Over the last few years, the Federal Reserve assessed the U.S. payment infrastructure and concluded that the U.S. needs to revamp its payment network and move toward faster payments in order to remain competitive in the global economy.

The Federal Reserve formed a Faster Payments Task Force comprised of more than 300 experts representing organizations across the payments ecosystem to identify and evaluate approaches for implementing a safe, ubiquitous faster payments capability for the U.S. The ultimate goal is to establish a real-time payments system that is universally available in the U.S. by 2020.

At this point, it is important for organizations to anticipate and prepare for this change by understanding:

1. What real-time payments are and how they work
2. How your organization can both send and receive real-time payments
3. How your company can accommodate and make the most of the opportunities presented by real-time payments

Real-time payments offer advantages to both payers and payees. Organizations need to prepare for this inevitable change in the way they make and receive payments and manage their working capital.

For corporations to remain competitive, they need to begin evaluating their current infrastructures to determine how real-time payments can be integrated into the way they conduct business with customers and suppliers. The implications of real-time payments run deep, so now is the time to think ahead.

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WHAT ARE REAL-TIME PAYMENTS?

- Can be sent anytime 24/7/365 and are immediately available upon receipt
- Domestic payments only (for now)
- \$25,000 or less (for now)
- Credit push only, but will have the ability submit a request for payment
- Payment certainty (i.e., cannot be retracted)
- Confirmed by message when the transaction completes or rejects
- End-to-end transaction time within seconds¹
- ISO 20022 format enabling data-rich messaging

¹Real-time payments are expected to be settled within seconds after the issuing banks release them into the network. There may be additional time required due to each issuing bank's required validation work (e.g., Office of Foreign Assets Control (OFAC) review, fraud screening) before payments are released.

ADDITIONAL DETAILS ABOUT REAL-TIME PAYMENTS:

| Feature | Summary |
|------------------------|---|
| Always on | Wire and ACH payments clearing and settlement times are set by the Federal Reserve. This slows the movement of funds. Because real-time payments are always on, they can be sent and received at any time removing all business hour, weekend, or holiday constraints associated with other payment types. |
| Cash management | Borrowing strategies may change if a company's incoming real time payments become significant due to the immediate availability of funds. This is especially true in the power and utility industry. When you make payments at the very last second to pay vendors, you can optimize your liquidity with greater accuracy. |
| Data | Each real-time payment will use the ISO 20022 format that helps standardize data as well as enable richer data. ISO 20022 prepares the payment network for international payments and allows payment data to be transmitted with remittance information. Enterprise Resource Planning (ERP) systems may need to be updated to ingest real time payments to accommodate for the additional remittance data that could come with the actual payment. Additional remittance data can make it easier to reconcile invoices and provide better visibility for tracking, research, and cash projections. |
| Speed | Send and receive money in real time. The speed of making and settling payments is becoming increasingly important in a mobile and digital world. Specific use cases to consider include disbursements for gig-economy payments, payroll, server tips disbursements, just-in-time shipments, etc. |

PAYMENT COMPARISON

Consider how real-time payments compare to traditional payment methods.

| Payment Attribute | ACH | Same Day ACH | Wire | Real-time Payment |
|----------------------------------|---|------------------|------------------------|---|
| Clearing | Once Daily | 3x daily | 21 hours/business days | 24/7/365 |
| Funds Availability | 1-2 days | Same or next day | Up to several hours | Instant |
| Settlement | Once Daily | | Real-Time | Real-time |
| Payment Finality | 60 days after last statement for debits; credit reversible until settlement | | Immediate; Irrevocable | Immediate; Irrevocable |
| Payment Status | Not Available | | Not Available | Real-time visibility |
| Contextual Data | 9,999 addenda records of 80 characters each | | 9,000 characters | 140 characters plus extensive remittance advice |
| Support for Non-Payment Messages | Not Available | | Limited | Extensive |
| Dollar-Value Supported | Low dollar | | High dollar | Low dollar |
| Payment Confirmation | Only if returned | | Inter-bank | End-to-end |

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REAL-TIME PAYMENT APPLICATIONS

Review how real-time payments will affect your customer and vendor relationships.

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|---|--|
| Just in Time Payment for Delivery of Goods | Suppliers frequently require payments before delivery of goods. Now payments can be made in real time without waiting for checks or card payments. Suppliers benefit from real-time payments because they collect payment immediately and eliminate the risk of insufficient funds associated with check payments. Because the buyer can make reliable, fast payments, suppliers may be willing to provide discounts. |
| Fewer Service Cutoffs with Immediate Consumer Payments | Organizations that provide ongoing services (e.g., power, electric, water, cable, mobile, insurance) work with customers who pay as late as possible before service cutoff. With real-time payments, those customers who are waiting until the last second to make payments can make them immediately. The end result is a better customer service experience that eliminates working within today's payment restrictions. |
| Simple, Lower-Cost Refunds | Companies mailing large numbers of refunds can reduce printing and mailing costs associated with disbursing paper checks. With real-time payments, funds can be sent and deposited immediately. Escheatment associated with disbursed uncashed checks is then reduced because the funds are immediately deposited into each recipient's account as opposed to waiting for the recipient to deposit the funds. |

CASE IN POINT: REAL-TIME PAYMENT APPLICATIONS BY INDUSTRY

Consider how real-time payments affect certain industries.

1 POWER & UTILITY COMPANIES

Real time payments will allow power and utility companies to send request for payment notification to its delinquent clients giving them an opportunity and an alternative payment channel to bring the account back into good standing prior to disconnecting the service.

With greater real-time payment adoption, escheatment activities can be reduced because of visibility into the receipt of each payment.

If the volume of real-time payments increases significantly, treasury management and borrowing is significantly affected.

2 GOVERNMENT AGENCIES

Agencies need to make it easy for taxpayers who want and need to make tax payments at the last possible minute.

There is also pressure by taxpayers for agencies to process refunds quickly.

In both cases, taxpayers who make and receive real-time payments have an enhanced customer service experience. Real-time payment acceptance also helps agencies streamline administrative processes.

3 INSURANCE COMPANIES

In disaster relief situations where funds need to be processed quickly, real-time payments enable funds to be made available immediately to the insured customers.

For those customers who want to pay for insurance up to the last possible minute without risking loss of coverage, real-time payments allow them to make payments immediately, enhancing the service experience.

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PREPARE NOW

Although real time payments are in their infancy in the U.S., they have become a standard form of payment for many countries around the world, and we should expect to see the same trends in the U.S. For example, the U.K. went live with faster payments in 2008. In 2016, 18-percent of all U.K. payments were faster payments². 30 percent of those were business-to-business payments. Similarly, we should expect to see similar type growth in the U.S. as people become comfortable and familiar with the payment channel.

As an organization, you should start considering how you might leverage the real time payment ecosystem. You may choose not to send or receive real time payments. You may only choose to issue but not receive or vice versa, but it is important to have a strategy. Begin by thinking about how real-time payments might affect your business practices and systems requirements. ERP and accounting systems will likely need to be updated to leverage the full benefits associated with the real-time payment ecosystem (i.e., ability to accept and apply real-time payments to invoices and bills in near real-time).

That strategy can then be used to determine what changes would be necessary throughout the organization to support a real time environment including system enhancements, accounting procedures, customer support models, liquidity and borrowing needs, etc.

Examine your own use cases for real-time payments. Then, consider the implications within your:

- Treasury management and accounting practices
- Systems
- User interfaces
- Network connectivity
- Operations support and infrastructure required for 24/7 payments
- ERP systems and accounting infrastructure

²Statistics, Faster Payments Scheme Limited. <http://www.fasterpayments.org.uk/statistics>.

QUESTIONS TO CONSIDER

- How will you do business differently?
- How will your processes change due to faster collections and the ability to extend payables?
- How will your borrowing, treasury management, and accounting be affected by real-time payments?
- How can you optimize your business and administrative tasks when you no longer need to consider the lag time required and time restrictions (e.g., after hours, weekends, holidays) associated with receiving and making payments via wire and ACH?
- What does the real-time payment interface look like?
- What kind of visibility and reporting is needed for outgoing and incoming payments?
- How does the value of your service or product change by allowing real-time payments (e.g. customer support model, shipping, inventory, distribution)?
- How can you leverage real-time payments to provide new businesses, products, and services?
- What do your staffing models look like?
- What do you need to change from an infrastructure standpoint to send/receive real-time payments?
- How do real-time payments affect your suppliers and your relationships with them?

HOW MUFG CAN HELP

We see the future of payments in real-time and are deeply involved in writing the rules for implementation within the U.S. The bank is an owner of The Clearing House, which is making significant investments into its own real-time payments infrastructure. The bank also served on the Federal Reserve's Faster Payments Task Force that identified and assessed approaches to implementing safe, ubiquitous, and faster payments capabilities in the U.S.

As a participant in the real-time payments infrastructure development process, we are well-positioned to help you understand and plan for how real-time payments will impact your cash management and accounting, as well as customer and supplier relationships and workflow. We are also here for you as a resource as real-time payments impact the current payment system bringing about changes and opportunities.

LEARN MORE

Contact your Treasury Relationship Manager to learn more about how you can prepare for real-time payments.