



Developing a Strategy for Faster Payments

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Let's Talk Strategy

- Why is this important?
- Who needs to be involved?
- What happens if you fail to plan?
 - Then plan to fail
- Don't wait to take a number!
 - Other FIs are in the queue

 Check	 ACH	 Virtual Card
<ul style="list-style-type: none">• Manually intensive• Expensive and less secure• Generates no revenue	<ul style="list-style-type: none">• Manual process (recurring payments optional)• Minimal fees and more secure• Generates no revenue	<ul style="list-style-type: none">• Condensed process (recurring payments optional)• Costs less and most secure• Generates significant revenue

Strategy Starts with Asking Questions

- You may find yourself behind the wheel of a large automobile
- And you may find yourself in a beautiful house
- And you may ask yourself, “Well how did I get here?”

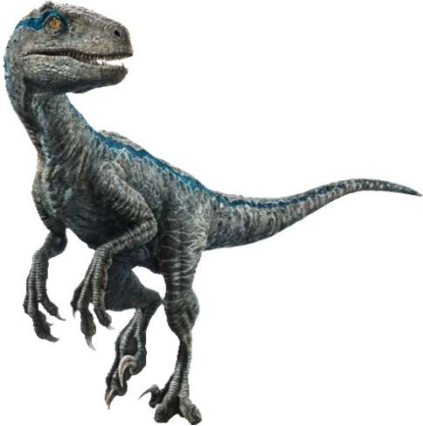




Well, how *did* we get here?

							
6000 BC	1000 BC	800's	1800s	1950s	2014	2017	2023

Disruptors!



Payment Disruptors

- Called “Disruptors” for a reason
 - Taking away your business
- Funds may be moved prematurely from your FI
 - Large volumes reduce overall DDA balances
- Moves clients to outside solutions
 - Creation and growth of FinTechs
 - My bank/credit union doesn’t provide all of the financial tools I need
- Diminishes fee income
 - Primarily for businesses requiring advanced payment needs

Examples of Disruptors

- US Postal Service



- Western Union / MoneyGram



- Target Red Card



Internet of Things

- The inter-networking of physical, connected devices, vehicles, buildings, and other items
- Embedded with electronics, software, sensors, actuators, and network connectivity
- Connected objects are enabled to collect, exchange, and react to data.





What's Connected at Your House?



wiseGEEK



So, what's your point?

- The Whirlpool Smart Kitchen Suite app, once configured, will send a push notification to users' phones when it senses its supplies running low. From there, it's a simple confirmation to ensure a new order of soap from Amazon is on its way.



Machine Learning is Valuable

- As we purchase, our habits are learned
 - What we buy
 - How much
 - How often
 - Price Sensitivity
 - Current interests forecast future recommendations
- Search on Amazon and see on Facebook
- FinTechs do this . . . *why not banks & credit unions?*



Use Data to Mitigate Fraud

- Beyond tokens & multi-factor
- Remember the previous slide?
 - Habits are learned
- Card channels have been doing this for years
 - Banks only adopting last >10
- Wire / ACH File habits
 - Dates / Times
 - File / Transaction Amounts
 - Payees
- Geoanalytics



What's your Product Inventory?

- What are your current payment products?
 - Consumer
 - Business
- Make a list of all payments products
- Consider all access points
 - Online Banking
 - Mobile App
 - Text Commands
 - Paper products and Branch Access
 - Yeah, some people still use these!
 - Yes, even Gen Y and Z



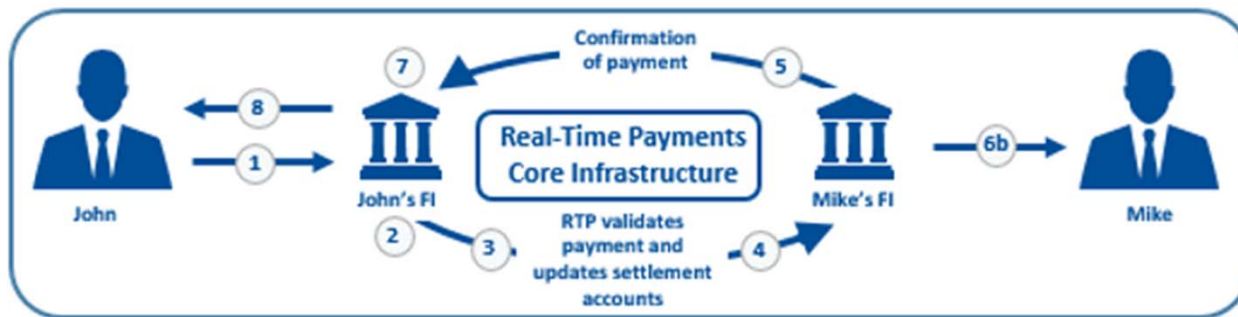
Think Outside the Rails



- How can you make old processes more effective?
- If we can convert a check via ACH, why not RTP or FedNow?
 - ACH, RTP, and FedNow are Rules-Based networks

High-Risk Solutions

- What about your high-risk business clients?
 - Payday lenders
 - eCommerce
- Consider moving from a Card / ACH debit environment
- Instant Payments are *Credit Push Only*
 - *Request for Payment = Eliminating Unauthorized Returns*



Stop Asking Old Questions

- How would you like to send that payment?
 - ACH
 - Card
 - Check
 - Wire
 - Carrier Pigeon



Base Payments on Speed, Cost and Need

- How much do you need to send?
 - Review limits on payment channels
- Is this staying in the U.S.?
 - Not all rails are international
- How quickly does it need to be there?
 - Next day, same day, sometime later, immediate
- Are you sending just a few or a large volume of payments?
 - Multiple payments may cause price sensitivity
- How much are you willing to pay for expedited processing?
 - ACH (< \$0.01), RTP / FedNow (\$0.045), Same Day ACH (\$0.052)

Will Instant Payments Replace ACH?

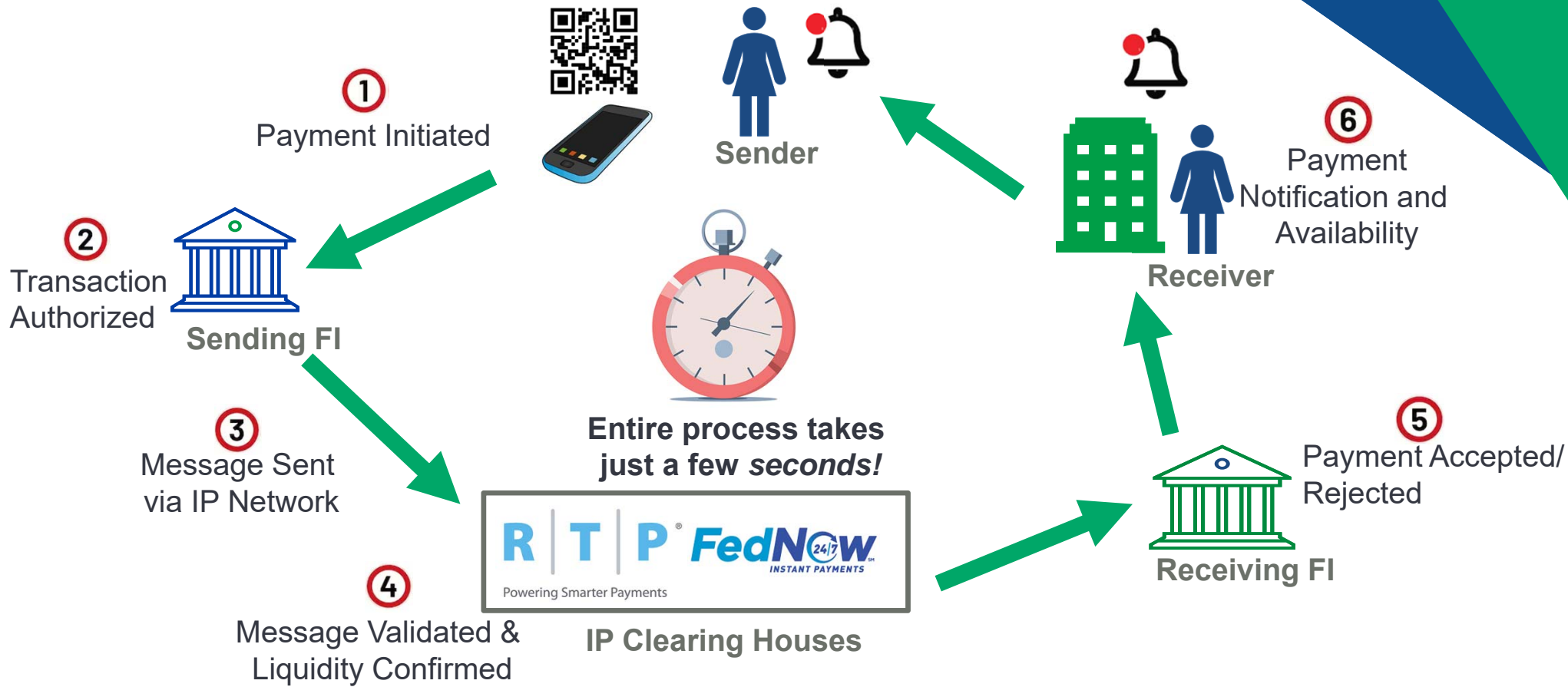


- Why would you pay more?
- How would you handle debits?
 - Request for Payment?
- Why reengineer a tried-and-true process?

Faster vs. Instant Payments: Key Differences

Characteristic	Faster Payments (e.g., Same Day ACH, Zelle)	Instant Payments (FedNow & RTP)
Payment Type	Debits & Credits	Credits Only
Clearing/Availability Timeframe	Seconds to Hours	Seconds
Settlement Timeframe	After Clearing (Hours to Days Later)	During Clearing (Within Seconds)
Credit Risk?	Yes	No
Network Operating Hours	Defined Network Operating Hours (e.g., Closed Weekends)	Always On (24/7/365)

Instant Payment Transaction Flow



Operational Concerns

- Transactions will occur around the clock
 - Similar to existing card networks
- Consider staffing models to support a 24/7 environment
 - For Receive
 - Send availability up to sending FI
- Implement balancing procedures for timely reconciliation



Fraud Considerations

- Faster payments are more attractive to fraudsters
 - Irrevocable once sent
 - Receiving FIs must make funds available in seconds
 - Funds can be moved to multiple accounts quickly
- Controls need to prevent fraudulent entries from happening
 - Strong authentication controls
 - Dollar and velocity limits
 - Restrictions on new payees
 - Lower dollar amounts
 - Extra verification steps such as dual control



. . . And more on Fraud

- Client education on scams
- Business email compromise
 - CEO impersonation
 - Vendor payment change
 - Employee payroll update



Fictitious Vendor Fraud

- Consumer fraud
 - Romance scams
 - Grandma, I'm stranded (in jail, car broke down . . .)
 - IRS: You owe taxes



Applicable Regulations

- Existing Rules apply to Instant Payments
 - Uniform Commercial Code Article 4A
 - OFAC
 - BSA/AML
 - Regulation E
- Network Rules
 - RTP Operating Rules
 - Operating Circular 8
 - FedNow Service Operating Procedure
 - Purpose
 - Network rules define the rights and responsibilities of the Participants and the networks to ensure the safety, soundness, security, and reliability of the networks and to ensure consumer protection



PROJECT TEAM



John Curtis, *AAP, APRP, NCP*

SVP, Consulting Business Leader

SELECT AREAS OF EXPERTISE:

- Commercial Product Management
- Retail Banking
- System Conversions & Integration
- Third-Party Sender Due Diligence
- Corporate ACH Origination

As SVP, Consulting Business Leader, John Curtis oversees the development, rollout, marketing and sales related to Wespay Advisors' Payments Consulting. Mr. Curtis is responsible for ensuring clients receive quality, timely and relevant program evaluations related to risk & compliance, payments strategy, faster payments and fraud mitigation techniques, critical for success in today's ever-changing payments landscape.

John came to WesPay with over 30 years of banking and technology experience and has held positions in Retail Banking, Operations, Corporate Training and Development, Information Systems and Treasury Management. He sits on the *APRP* (Accredited Payments Risk Professional) oversight panel and is a member of Nacha's Risk Management Advisory Group (RMAG). John is a former member of the ABA Task Force on Payments Law and past Board Chair of Payments Resource One.

John holds the *AAP*, *APRP* and *NCP* accreditations and lectures frequently on payments topics including industry trends, legal issues, emerging technologies, audit considerations, compliance and risk.

PROJECT TEAM



Brian Stearns, AAP, NCP, CIA
VP & Supervisor Risk Management Services

SELECT AREAS OF EXPERTISE:

- Credit Union Management
- Wire Transfer Rules & Regulations
- Risk Management & Compliance
- Consumer Payments

Brian Stearns is a Senior Payments Consultant with Wespay Advisors, in addition to his role as Vice President, Supervisor of Risk Management Services. Brian spent almost 10 years working for credit unions processing and managing electronic payments systems, including over 6 years at Farmers Insurance Group Federal Credit Union where he managed the ACH, Share Draft, and Wire Transfer payment channels. He has an extensive background in risk management and leveraging risk mitigation to pursue strategic goals. Brian has consulted with clients on a variety of projects, including developing an E-Banking Risk Review, Remote Deposit Capture risk management, implementing ACH origination, and operations process improvements.

Brian served on Wespay's Rules Advisory Council where he acted as a voice for credit unions regarding rule changes in the ACH Network. He earned a Bachelor of Science in Business Administration from Argosy University and is an Accredited ACH Professional (AAP), National Check Professional (NCP), and Certified Internal Auditor (CIA).



| Questions