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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 doesn't provide all of the financial tools I need
- Diminishes fee income
 - Primarily for business requiring advanced payment needs

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The First Payment Disruptors

- US Postal Service
 - Money Orders
- Western Union / MoneyGram
 - Funds Transfers
- Target Red Card
 - ACH Card
 - Issuing FIs losing interchange revenue



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2nd Generation Disruptors

- Funds Transfer Apps
 - For every \$3.00 leaving FI via PayPal, only \$1.00 comes back
 - FIs are losing deposits
 - FI has no knowledge of where payment is headed
 - May be international
 - PayPal sends IATs to comply



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Agenda

Types of Faster Payments

Preparing for Faster Payments

Regulatory Considerations



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Payments That Settle in Real Time are “Instant Payments”

Faster Payments

- Transfer of final funds occurs after the payee’s financial institution has made the payment available to the payee
- Settlement can take a day or more
- Akin to the payee’s financial institution extending short-term credit to its customer — and taking on risk — until it receives final funds
- Examples: Visa Direct, Mastercard Send and Zelle

Instant Payments

- Transfer of final funds occurs with transmission of the payment message and just seconds before the payee’s financial institution makes the payment available to payee
- Settlement happens immediately
- No credit risk to payee’s financial institution
- Examples: the RTP network, FedNow Service and Zelle*

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P2P Entries

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P2P Overview

- Person-to-Person Payment (P2P)
 - a.k.a. Peer-to-Peer Payment
 - Online technology that allows a person to transfer funds from their bank account or credit card to another individual's account via the Internet or a mobile device
- How Does it Work?
 - User utilizes a mobile app to initiate or receive funds
 - Recipient is designated by a social token
 - Bank account or card information is stored within the third-party app

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P2P Payment – A Simple Process

- Download a free payment app
- Create a user profile
- Input the account number of a payment source
- Find your recipient - via a social token
- Invite that person to sign up for the same service
- Choose the amount of money to send
- Press “send” or “pay” to complete your transaction



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P2P App Similarities

- Credit push
- Request for funds
- Split transactions
- User agreements to participate
- Use of social tokens
- Standalone apps or web-based
- Stored value or pass through
- Sender may not cancel once sent
- Receiver may not decline if received



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Same Day ACH

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Same Day ACH

- Three Same Day ACH allows SDA files to be submitted to ACH Operators until 4:45 p.m. ET (1:45 p.m. PT)
- Increased dollar limit from \$100k to \$1m
 - 3/18/2022



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Expanding Access to Same Day ACH (SDA)

Processing Window	ODFI Deadline	RDFI Receipt	Settlement	Funds Availability
Same Day ACH (1 st Window)	10:30 a.m. ET	12 noon ET	1:00 p.m. ET	1:30 p.m. RDFI Local Time
Same Day ACH (2 nd Window)	2:45 p.m. ET	4:00 p.m. ET	5:00 p.m. ET	5:00 p.m. RDFI Local Time
Same Day ACH (3 rd Window)	4:45 p.m. ET	5:30 p.m. ET	6:00 p.m. ET	RDFI End of Day Processing
Next Day ACH	2:15 a.m. ET	6:00 a.m. ET	8:30 a.m. ET	9:00 a.m. RDFI Local Time

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Real-time Payments (RTP)

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RTP Network

- The RTP network is the first new core payments infrastructure in the U.S. in more than 40 years
 - Currently accessible to FIs that hold 75% of U.S. demand deposit accounts (DDAs)
 - Network currently reaches 61% of U.S. DDAs
 - Open to all federally insured U.S. depository institutions
 - Provides the ability to send payments 24/7 with immediate funds availability
 - Enhanced speed, security, and messaging capabilities create unique offerings for retail and corporate customers

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RTP is Always On



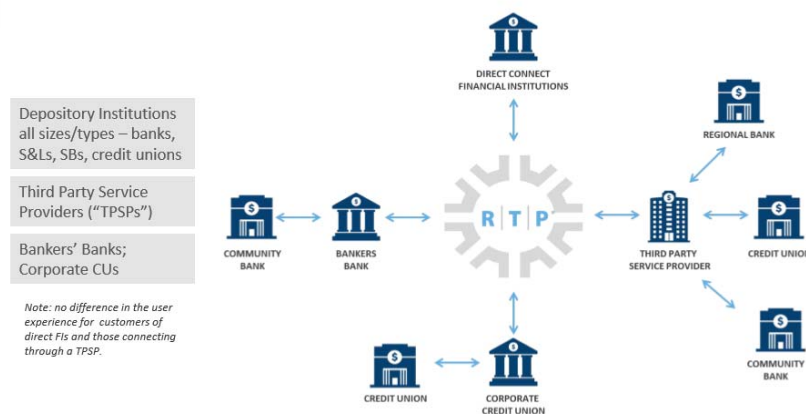
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RTP Ecosystem



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FedNow Service

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FedNow Service

- The Federal Reserve Banks are designing the FedNow Service for proposed launch in 2023
- Financial institutions of all sizes across the United States that are eligible for Federal Reserve Financial Services will be able to use the FedNow
- With the FedNow Service, financial institutions, their service providers and others in the payments industry can unlock a range of innovative instant payment use cases

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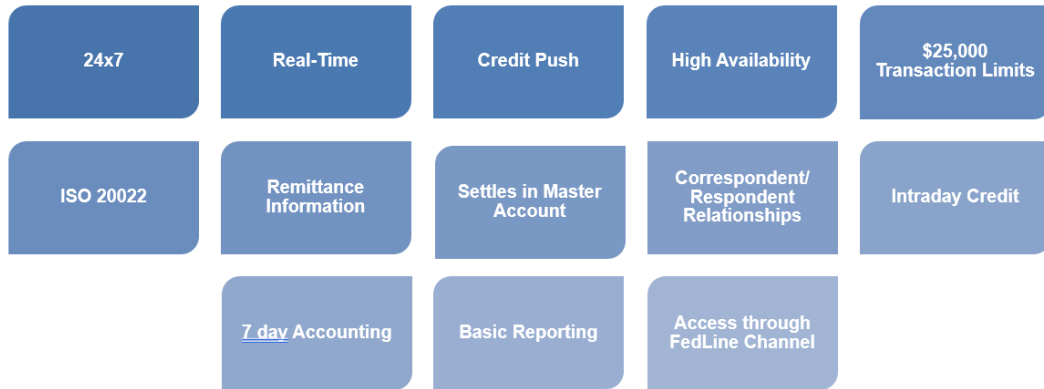


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FedNow Service

Proposed Features for Initial Launch

Features would be released during initial launch, pending industry validation



ISO is a registered service mark of the International Organization for Standardization.

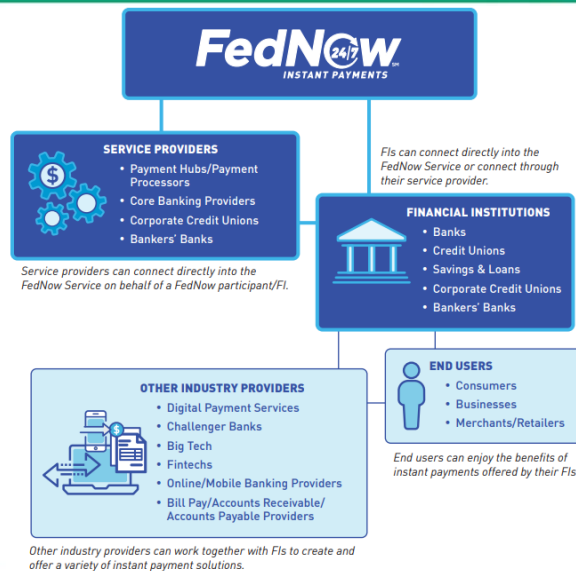
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FedNow Service Ecosystem



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Distributed Ledger vs. Bitcoin

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Distributed Leger vs. Blockchain

- Distributed Ledger
 - A distributed ledger is a database that exists across several locations or among multiple participants



- Blockchain
 - A specific type of distributed ledger where each entry is dependent on a logical relationship to all its predecessors



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Digital Currency vs. Cryptocurrency

- Digital Currency (Virtual Currency)
 - A medium of exchange, electronically created/stored typically used to buy goods and services in a closed environment
- Cryptocurrency (Bitcoin)
 - A type of digital currency that uses Blockchain for exchange between participants who agree to accept it for value



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Types of Cryptocurrencies

- “Altcoins” – unbacked or unsecured by any asset
 - NFT – Nonfungible Tokens
- Stablecoins – back by securities of fiat currency
- Central Bank Digital Currency (CBDC) – backed by a central bank (i.e., the Federal Reserve)



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Agenda

Types of Faster Payments

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Regulatory Considerations

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Are your customers voting with their feet?

Current usage

- 4 in 5 Americans use mobile payment apps
- Digital wallets fuel nearly 30% of e-commerce
- Merchants are increasingly accepting digital wallets at points of sale

Forecasted usage

- Mobile wallet usage is projected to grow nearly 50% by 2023
- Digital wallets could grab 16% of in-store purchases by 2024
- Transactions could exceed \$10 trillion by 2025

Sources: [NerdWallet](#), [Statista](#), [The Financial Brand](#), [Finaria](#), [Juniper Research](#), [FIS](#), [Research and Markets](#)

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What makes alternative financial services attractive?

It's not just about P2P any longer

- Direct deposit and early access to wages
- Ability to pay a growing number of merchants
- Immediate confirmation of payment
- Contactless transactions with QR code scan
- Easy funding and defunding

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What do businesses want?

"It is becoming an instant world as far as payment systems are concerned and not having [access to faster payments] would put us at a competitive disadvantage."

"We want to see confirmation of payments ASAP"

"We want to improve financial efficiency and accelerate liquidity."

Business

"[We want an] enhanced ability to track invalid payments and other potential efficiencies and cost savings"

"To have funds in real time allows for more accurate numbers and reporting... In 2021, this should be normal. We shouldn't be reporting outdated numbers while funds wait to clear."

"I need an integrated solution"

Source: "Businesses Look to the Future with Faster Payments," Federal Reserve Market Readiness Brief, August 2021.

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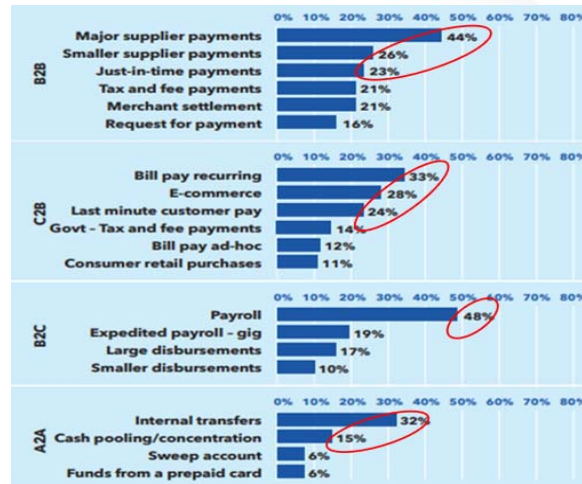
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Solutions for complex use cases are a priority

Top Uses for Faster Payments (Percentage of Businesses)



Source: "Businesses Look to the Future with Faster Payments," Federal Reserve Market Readiness Brief, August 2021



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Instant Payments are Beneficial for Many Transaction Types

Person-to-Person (P2P)

Individuals to friends, family, others

- Babysitting, rent, utilities, meals

Account-to-Account (A2A)

One account to another account typically owned by the same customer

- Bank account to brokerage account

Consumer-to-Business (C2B)

Individuals to businesses

- Groceries, haircuts, gym memberships

Consumer-to-Government (C2G)

Individuals to government entities

- Taxes or fees for park passes, licenses

Business-to-Business (B2B)

One business to another

- To suppliers for inventory, rent, services

Business-to-Consumer (B2C)

Businesses to individuals

- Rebates, wages

Business-to-Government (B2G)

Businesses to government entities

- Federal or state tax payments

Government-to-Consumer (G2C)

Governments to individuals

- Tax refunds, Social Security benefits



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Agenda

- Types of Faster Payments
- Preparing for Instant Payments
- Regulatory Considerations

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Uniform Commercial Code (UCC) Article 4A

- Governs “wholesale credit entries”, including wire transfers, Non-Consumer ACH credits and RTP
- Comprehensive body of state law
 - Choice of law
- Some provisions may be altered through agreements while others cannot
- Determines liability of parties
- Key concept – acceptance of payment order

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UCC4A and the Sending Bank

- Disclosures need to contain following:
 - Responsibility based on acceptance
 - Execution date can be varied by funds transfer rule
 - Liability cannot be varied if instruction is improper or delayed
 - Sender must pay Sender's bank on execution date
 - Non-acceptance by notice only

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UCC4A - Commercially Reasonable Security

- To determine commercially reasonable, you should consider:
 - Size of financial institution
 - Type of customer
 - Type of payment order
 - Frequency of transactions
 - Nature of business
 - Similarly situated customers doing similarly related activity

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UCC4A - Commercially Reasonable Security

- Sender and Sending Bank must agree to security procedures
 - Signature comparison alone is not considered to be commercially reasonable
- When offered by FI, if refused by Sender, alternate procedures by Sender must be agreed upon
 - Sender accepts liability

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Regulation E Compliance

- Implements the Electronic Funds Transfer Act (1978)
- Governed by the Consumer Financial Protection Bureau (CFPB)
- Consumer rights, responsibilities and liabilities for EFTs
- Provides guidelines for reporting & resolving disputes regarding “unauthorized” transactions

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Regulation E - Definition of Error

- Unauthorized EFT (Reg. E): an EFT from a consumer's account initiated by a person other than the consumer without actual authority to initiate the transfer and from which the consumer receives no benefit
 - **Includes a transfer initiated by a person who obtained the access device from the consumer through fraud or robbery**
- Examples of what is NOT included:
 - Initiated by person furnished with access device
 - Initiated with fraudulent intent by consumer or accomplice
 - Initiated by financial institution or its employee
 - Reversal of direct deposit made in error (Official Interpretation)

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Regulation E Compliance

- Consumer Transfer Risk
 - Transfer originated from one FI to credit account at a different FI
 - Key Provisions of Regulation E
 - 1005.6 (b)(3)2 Transfers not involving access device
 - 1005.6 (b)2 Consumer negligence
 - Transfer originated by one FI to debit account at a different FI
 - ACH Rules - 60 days right to return Entry
 - ODFI warrants Entry was authorized

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Legal/Compliance Risk Mitigation

- Account agreements
 - UCC4A, Regulation E & CC disclosures
- BSA/AML
 - CIP Program
 - Requirements for filing SARs & CTRs
 - Travel Rule
- Update OFAC SDN list
 - Continuous screening of accountholders
 - Screening for applicable transactions
- Network participation agreements
- Terms and conditions of services

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Questions

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