



Payments Regulatory Update

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Gnesbitt Consulting

- Independent consulting firm specializing in banking and payment activities and issues.
- Our goal is to help financial institutions and companies understand and comply with the myriad payment rules and regulations that govern the payments landscape.
- We help organizations understand and mitigate the risks associated with participating in the various payment systems.
- We help organizations establish payment programs that are efficient, effective and compliant with all appropriate rules and regulations.



Agenda

- ACH Update
 - What's New
 - The regulatory landscape
- The Fed's FedNow
 - What is it
 - The regulatory framework
- The Clearing House RTP product
 - Current status
 - The regulatory framework



Two US twenty-dollar bills are shown in the top-left corner, overlapping each other. The top bill is clearly visible, showing the portrait of Andrew Jackson and the serial number BE 78772823D. The bottom bill is partially obscured.

ACH Update

- 2022 Volume
 - 30 Billion items worth \$76.7 Trillion
 - Increase of 3% in volume & 5.6% in value over 2021
 - Same Day ACH
 - 697.5 million items worth \$1.7 Trillion
 - Increase of 15.5% in volume & 86.3% in value over 2021
 - Single item limit was raised to \$1,000,000

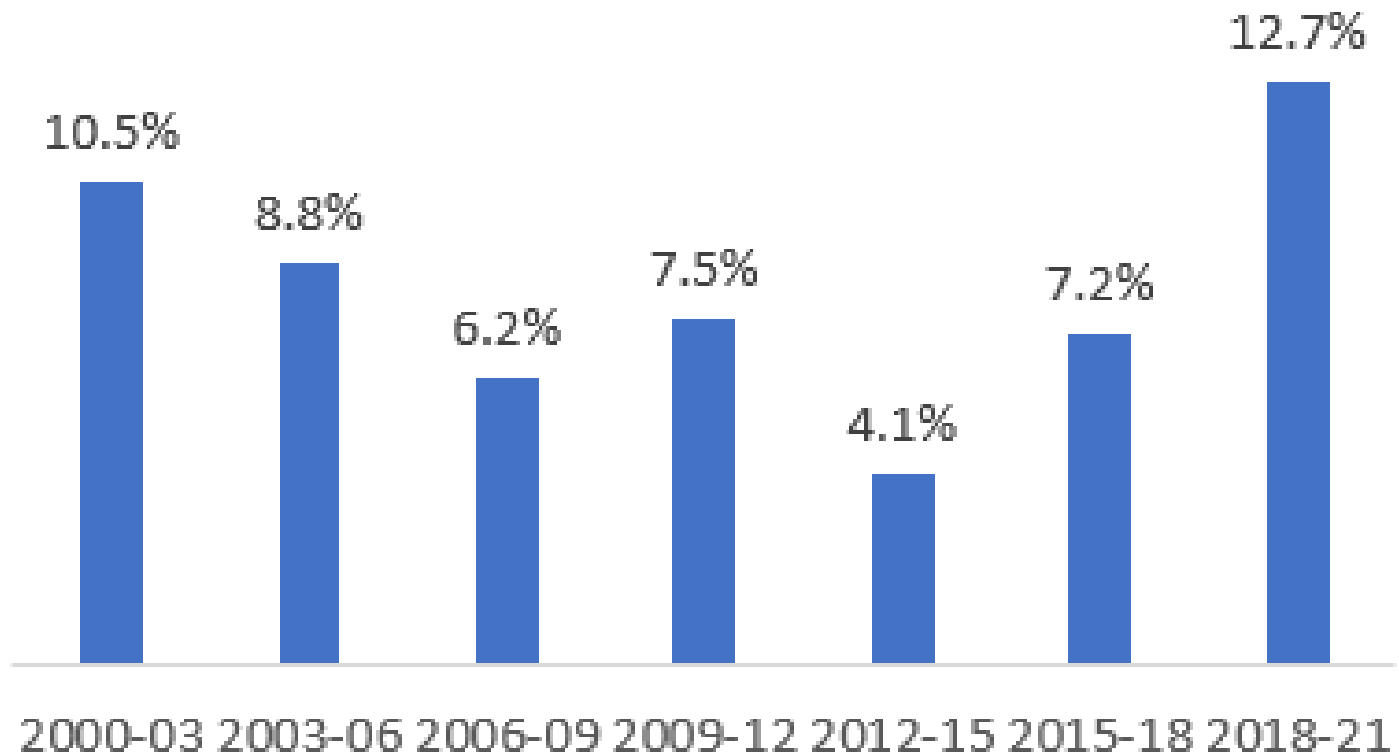
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ACH Regulatory Framework

- Nacha Operating Rules
- UCC4A
- Regulation E (for consumers)
- Regulation CC
- FRB Operating Circulars
- Other Federal regulations (BSA/AML, OFAC, FinCen, etc.)


ACH Growth Trends

Per-year growth rates, value of ACH transfers



Source: Federal Reserve Payments Study


2009 Payment Systems Comparison



Type	Transaction Volume (Billions)	Dollar Volume (\$Trillions)	Average Payment Amount
Checks	24.5	31.6	\$1,292
Wires	124.7 (Millions)	631.1	\$5,006,000
Debit Cards	37.9	1.42	\$38
Credit Cards	21.6	1.96	\$89
ACH	19.1	37.2	\$1,947

Source: FRB Retail Payments Study 2009
Press Release (December, 2010)


2018 Payment Systems Comparison



Type	Transaction Volume (Billions)	Dollar Volume (\$Trillions)	Average Payment Amount
Checks	14.5	25.8	\$1,779
Wires	158.4 (Millions)	716.2	\$4,520,000
Debit Cards	86.4	3.10	\$36
Credit Cards	44.7	3.98	\$89
ACH	28.5	64	\$2,250

Source: FRB Retail Payments Study 2018
Press Release (December, 2019)

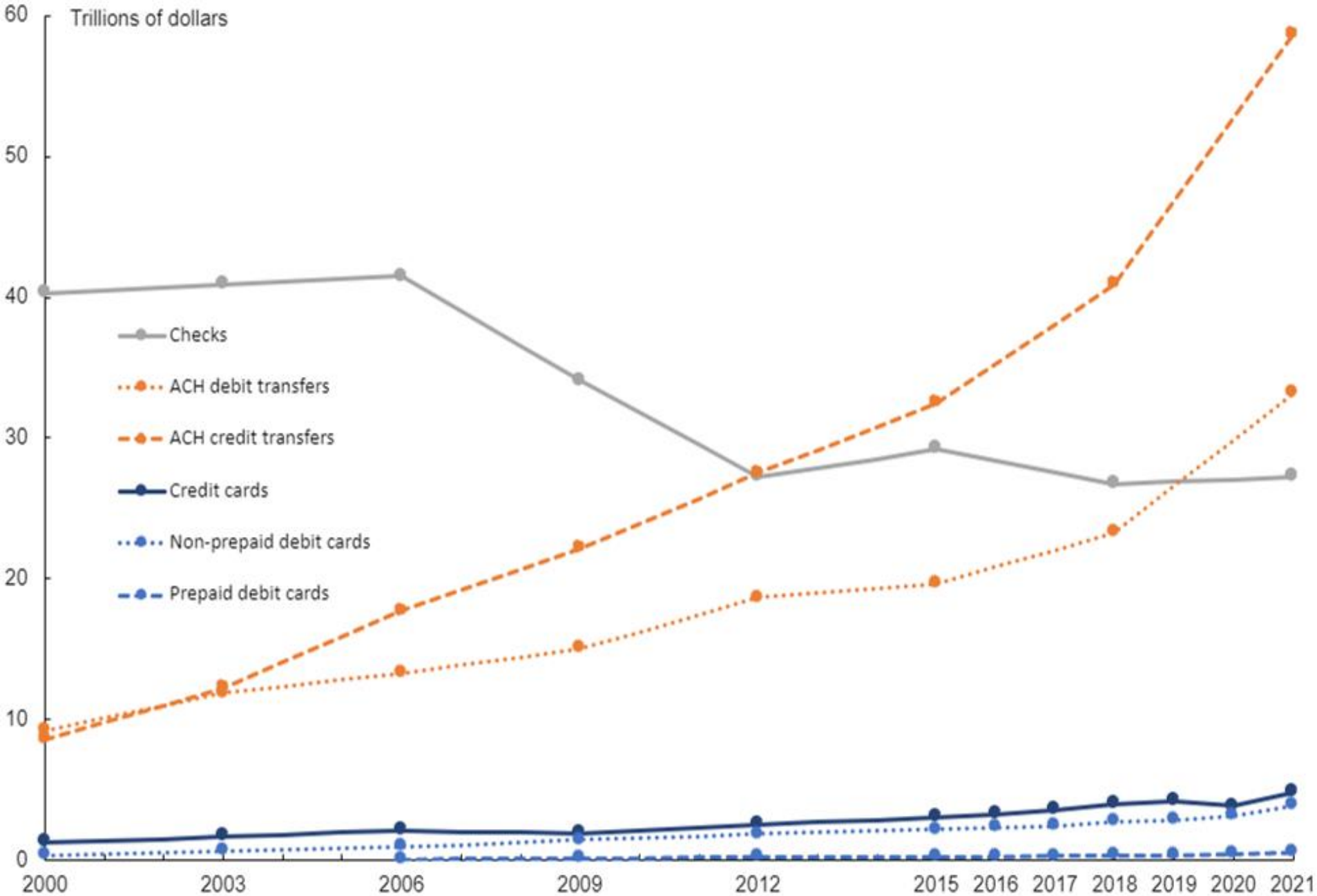
2021 Payment Systems Comparison



Type	Transaction Volume (Billions)	Dollar Volume (\$Trillions)	Average Payment Amount
Checks	11.2	27.2	\$2,430
Wires	196.1 (Millions)	1,060.2	\$5,410,000
Debit Cards	106.0	4.55	\$43
Credit Cards	51.1	4.88	\$96
ACH	30.0	76.7	\$2,536

Source: FRB Retail Payments Study 2021
Press Release (December, 2022)

FRB Payments Study Results 2021



NACHA's Risk Management Efforts

- Efforts began number of years ago
- Identify risks to network and develop methodologies to reduce
- Incorporate risk management efforts into the Nacha Rules which would then require all FIs to utilize those methodologies



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Recent ACH Rules

- Requirement for all participants to perform annual ACH audit; previously only required ODFI & RDFI. Now 3rd parties are required (TPSP & TPS)
- Account verification processes (e.g. Micro Entries)

Real Time Payments RTP



- The Clearing House product for real-time payments
- Development began in 2013, supported by Vocalink (used by the U.K. Faster Payments program)
- First LIVE transaction happened in Nov. 2017, focusing on B-to-B
- RTP is a new payment rail, not a product
- Two large banking vendors have signed agreements with TCH to offer the service to its customers (FIS and Jack Henry)

RTP

- Key Features

- Credit push network – payments are irrevocable
- Request for Credit
- Built on ISO 20022 framework – global compatibility
- Robust messaging capabilities
- Immediate acknowledgement of a transaction
- Real-time status on payments
- 24/7 365 processing and settlement
- Integrated tokenization and directory services (use of alias's supported)



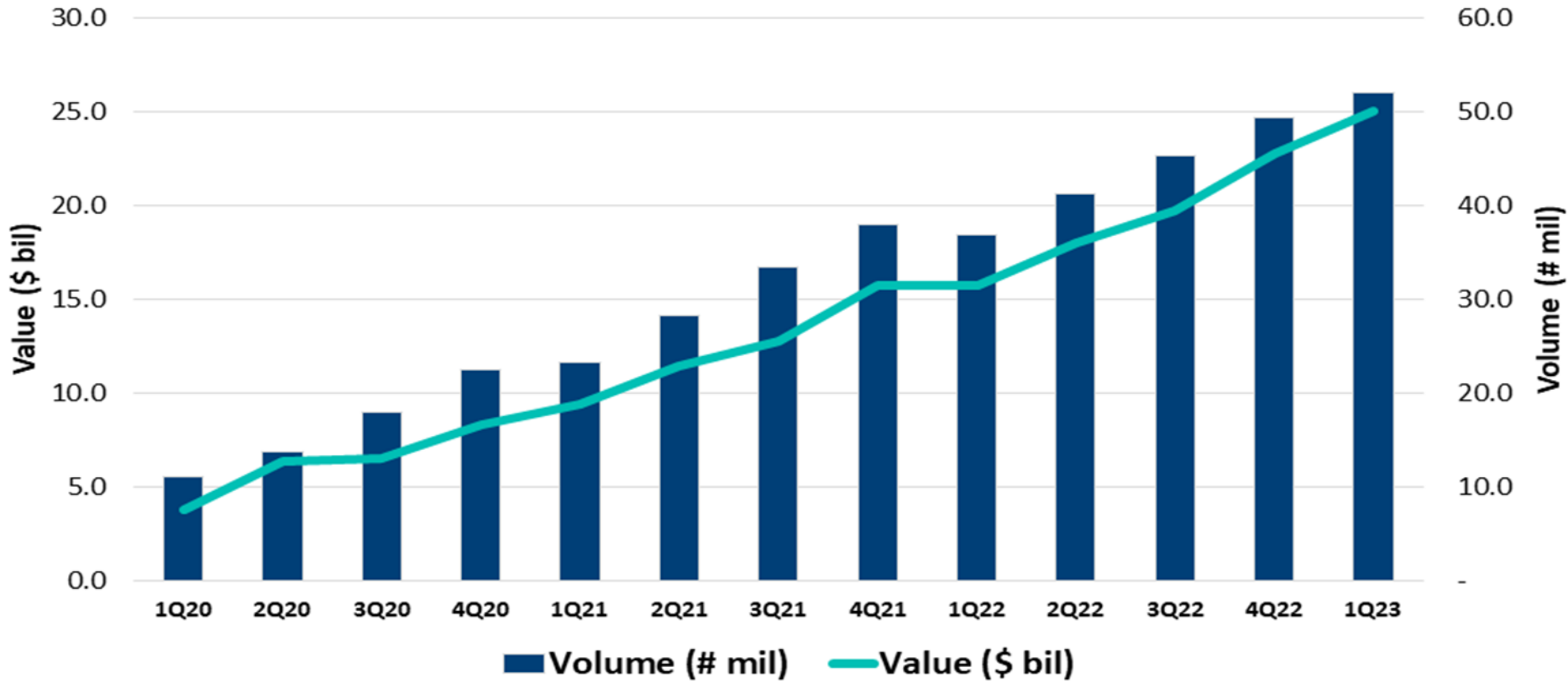


RTP Legal Framework

- RTP Operating Rules – this is similar to Fed’s Operating Rules since it governs relationship between TCH & FIs.
- Relationship between FIs & customers will likely be covered by UCC4A
- Other Regs may also cover parts; Reg E, Reg CC, BSA/AML, OFAC



RTP Quarterly Payment Activity (1Q23)



1Q23

- 52 million transactions for \$25 billion
- 5% volume growth and 8% value increase from 4Q22



FRB FedNow Service

- FedNow Service is a new instant payment infrastructure developed by the Federal Reserve that allows financial institutions of every size across the U.S. to provide safe and efficient instant payment services.
- FedNow will be a credit push like RTP & Fedwire but does have “Request for Payment” options.
- Will use the ISO 20022 payment format standards
- Target date of July 2023 for “go-live”



FedNow Legal Framework

- FedNow Service will be governed by new Subpart C of Reg J
 - Regulation only governs FRB & FIs, not the corporate or consumer clients
 - Subpart A covers checks
 - Subpart B covers Wire Transfer
- Relationship between FIs & customers will likely be covered by UCC4A
- Other Regs may also cover parts; Reg E, Reg CC, BSA/AML, OFAC

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RTP vs. FedNow

- Currently there are no announced plans for RTP and FedNow services to be interoperable like ACH
- But as volume grows and more FIs adopt faster payments, there may be movement by TCH and FRB to make interoperability possible
- Both built using the ISO 20022 standards




2022 AFP Payments Fraud & Control Study

The key findings of the 2022 AFP Payments Fraud and Control Survey include:

- 65% of organizations experienced attempted or actual payments fraud in 2022. This number went down from 71% in 2021.
 - Large organizations were more likely to have experienced payments fraud than were smaller ones.
 - **Business Email Compromise (BEC) was highlighted in study as major area of concern.**
 - 71% of corporations reported losses from BEC.
- Six out of ten organizations (63 percent) that experienced attempted or actual payments fraud in 2022 were victims of check fraud. The percentage of organizations affected by payments fraud via other payment methods were:
 - ACH debit (30%)
 - Corporate/commercial cards (36%)
 - ACH credits (30%)
 - **Wire transfers (31%) down** from previous year
- ACH reported fraud had increased from previous years;
 - Perhaps due to Same Day ACH settlements being faster?

Faster vs. Fraud

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- Since RTP and FedNow are sent & settled almost instantly, they are very similar to wire transfers.
 - They are also credit push and final when settled, like wires.
 - Hence the parties involved have little time to identify and take appropriate actions with regard to fraud.
 - ***Speed vs. risk ????***



Where Do We Go From Here?

- What Faster Payment services does your organization need/want?
- What business cases does your organization have that would benefit from Faster Payments?
- What Faster Payment services does your Financial Institution offer?

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Resources

- ACH information
 - www.nacha.org
- The Clearing House RTP
 - <https://www.theclearinghouse.org/payment-systems/rtp>
- The Federal Reserve FedNow
 - <https://www.frbservices.org/financial-services/fednow>



Questions?

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