NACHA Payments Innovation Alliance Meeting

New York, October 22-24, 2014

Summary by Edith Rigler

NACHA´s most recent *Payments Innovation Alliance Meeting* was held in New York on October 22-24. The three-day meeting covered many different facets of four main themes. Since multiple sessions were held concurrently, it is not possible to cover them all in this brief summary. Therefore most, but not all, sessions are summarised along the following main themes:

1. US Payments Strategy and Roadmap
2. Global Payments and Interoperability
3. Innovation and Disruption (Cryptocurrencies, Cybercrime)
4. Bank Customers – Millenials and Corporates

The meeting was well attended: banks, banking associations, ACHs, the Fed, vendors and consultancies were represented.

1. US Payments Strategy and Roadmap

In the session **"The Road to US Payment Systems Improvement"** *Daniel Gonzalez,* Federal Reserve Bank Chicago, reviewed the Fed´s strategic direction and roadmap for payments in the US. Based on extensive research and consultation with multiple stakeholders, the roadmap´s mission is to foster the integrity, efficiency, and accessibility of US payments & settlement systems in support of financial stability and economic growth. Specifically, the Fed aims to achieve faster and more cost-effective domestic payments as well as more timely cross-border payments. It plans to vastly expand its existing network beyond the current 35 countries and offer improved features for business users, as well as remittance customers. Additional goals include achieving payments electronification, driving lower cost to society, and greater innovation. To achieve its ambitious goals, the Fed expects industry collaboration, both within the US and across the globe.

Another session discussed **"Building a Plan for ISO20022 Adoption in the United States"**. Several major markets around the world have announced plans to adopt ISO 20022 in response to regulatory mandates, the development of new systems and/or technology upgrades. In the European Union, the Single Euro Payments Area (SEPA) initiative which was completed in August 2014, moved to ISO200222 as a mandatory uniform format. The question arises whether US payments markets should also adopt ISO20022.

An industry stakeholder group consisting of the Federal Reserve, The Clearing House, NACHA and X9 was formed in 2013 to address this question. An April 2014 assessment shows however that the business case for ISO20022 adoption is just not clear. ISO20022 benefits are largely qualitative at this point and have not been fully realized by anyone yet. Thus, it is difficult to define an overarching financial business case at the industry level in the US. In other markets outside the US, ISO 20022 adoption was typically part of a regulatory mandate.

Nevertheless, momentum does exist for ISO20022 adoption in the US among large global banks and large global corporates. There may be sufficient strategic and competitive reasons for adoption. For example, compatibility with ISO 20022 enables the US to maintain parity with other global markets and USD clearing systems in other jurisdictions that are adopting ISO20022 messaging. Thus this may help preserve the attractiveness of the USD as a global currency.

Despite the lack of a concrete financial business case identified, NACHA seeks to provide leadership for ISO20022 adoption in the US and the ACH network. It will develop education and advocacy recommendations for engaging stakeholders on the use of the ISO20022 in ACH payments and discuss and identify potential implementation strategies.

In a session by *fiserv* on **"The State of E-bills: The Latest Trends and Proven Strategies to Increase Adoption"** the question was asked "Does America Have a Paper Bill Addiction?" Although the benefits of paperless billing are undisputed and there has been slow but continuous growth of e-billing, there are still many obstacles to e-billing, as a result of apathy and physical barriers. However, billers increasingly believe that increased usage of mobile phones will have a significant impact on electronic billing and payment. In addition, "millennials" are expected to drive moving to e-billing.

2. Global Payments and Interoperability

Several sessions covered global payment trends and challenges as well as interoperability issues. Lack of transparency when making payments, slow execution times particularly for cross-border payments, inability to track the status of a payment plus costly FX charges - these are some of the issues that global payments markets has not resolved yet. In a session entitled "**Eliminating Friction in Cross-Border Payments**", *Fidor Bank* in Germany and *Ripple* presented their business models as possible solutions:

- *Fidor Bank* calls itself a "FinTech company with a banking license" which "emancipates" customers from traditional banking. Founded in 2009 and currently serving approximately 260,000 customers in Germany, it is a web-based bank strongly promoting digital currencies.
- *Ripple* is an open-source, distributed payment protocol. It enables free and instant payments with no chargebacks and a number of currencies (currently dollars, yen, euros, Bitcoins). It aims to popularise virtual currencies and make them easier for average users.

A panel discussion on "**Global Trends in ACH Payments"** presented research conducted by *Lipis Advisors* on a number of payment systems around the world. In basically all countries studied, there is interest in increasing the speed of payments (in some countries real-time payments are being introduced), reducing settlement risk, increasing consumer protection, and improving system interoperability. Regulatory requirements are on the increase globally. Coupled with falling transaction fees, revenue and profitability are impacted negatively.

Mark Brule from the *Canadian Payments Association* discussed **"ISO20022 Business Perspectives and Impact"**. There are many benefits and challenges around ISO 20022. The benefits of ISO20022 are undisputed: enhanced remittance data, a common payments language, greater interoperability, increased STP rates, and the opportunity to develop additional value-added services in the competitive space. However, there are equally quite a number of challenges, starting with payment user communication and education, respecting the boundaries between competition and co-operation to ensure international alignment.

Lipis Advisors which had conducted research with banks, clearing houses, IT vendors, payment processors, central banks, and payment associations around the world on "**ISO 20022 Implementation Best Practices"** found that the perceived ISO20022 advantages by far outweighed the disadvantages. Interviewees mentioned most frequently global interoperability, rich remittance data, uniform and reusable messages as advantages. The disadvantages of the standard included the difficulty of building a business case to adopt ISO 20022, different implementations of the standard within the same payments system, and an increased bandwidth needed for ISO 20022 messages.

3. Innovation and Disruption

In a session by the *Financial Services Information Sharing & Analysis Center* on "**Cyber Threats to Payments**", the cost and impact of cybercrime became painfully clear:

- June 2014, *McAfee* and *CSIS* reported that the total cost to the global economy of cybercrime is $445 billion. This includes: losses to cybercrime, costs to companies and banks for defense and recovery.
- The *Financial Times* reported that cybercrime costs the US economy $100 billion per year. The *Ponemon Institut*e estimates that the average cost of a data breach per record was $194.

The actors of cybercrime come from a variety of sources. They can be nation states, terrorists, criminals, activists/hacktivist, external opportunists as well as insiders. Cybercrime activities cover a broad spectrum, from phishing via email, to tricking internet users into unintentionally downloading malicious software, to pharming (modifying the user´s PC).

Although there is now greater awareness of the various methods hackers use to obtain data, disrupt payment systems and take over bank accounts, and although organisations have introduced defense programmes, the threats continue. What´s next? Mobile platforms, social media and supply chain present ideal platforms for launching attacks.

In the session "**Digital Currency – Beyond the Hype**", speakers from *PayPal* and law firm *Arnold &Porter LLP* discussed how virtual currencies, and in particular Bitcoin (BTC), will impact existing payment systems. While BTC offers many perceived advantages (speed of payment execution, no transaction fees, a certain level of anonymity), it also poses numerous challenges. These include regulatory uncertainty, extreme price volatility, irreplaceability (if BTCs are lost, they cannot be replaced and in the absence of a central authority the BTC user has lost his investment), and the fact that BTC transactions cannot be reversed.

BTC´s emergence in the market is being compared to the early days of the internet which was, at one point, dubbed one of the worst business ideas. Will BTC follow that same path and result in eventual mass adoption? PayPal stated that it was" supportive of Bitcoin but proceeding gradually".

4. Bank Customers – Millenials and Corporates

A session by *Carlisle & Gallagher Consulting Group* and *Accenture* focused on retail customers. In the presentation on "**Keeping up with our customers – Millenials and FIs**", interesting details on the so-called Millenials were discussed: there are 80 million 15-35 year olds in the US, and by 2030 they will outnumber the non-millenials. Millennial attitudes are leading indicators of future trends in terms of media consumption, social media usage, marketing, shopping and technology behaviours and financial services usage. The so-called Generation Y accounts for an estimated $1.3 trillion in direct annual spending. By 2020, they will account for 40% of all sales in the US and will be a majority of the workforce. By 2025, Gen Y will account for 46% of US income. Baby boomers will transfer their wealth to GenY, making it the largest wealth transfer ever. For Financial Institutions it is critical to understand the shift in demographics as well as financial services attitudes. Banks should adjust their products and services and plan accordingly.

Turning to corporate customers, *Wipro* and *Lipis Advisors* discussed the **"Future of Corporate Payments".** Compared to retail customers, corporates have many more and more complex requirements including the need for end-to-end remittance information, reconciliation, automation, and cross-border payments. Real-time payments are primarily important for retail customers (P2P payments), but there is also a need for real-time in the B2B, C2B and B2C space. Mobiles are of great interest to corporate customers.