

Maryland Financial Bank Advisory Board Meeting - January 2018



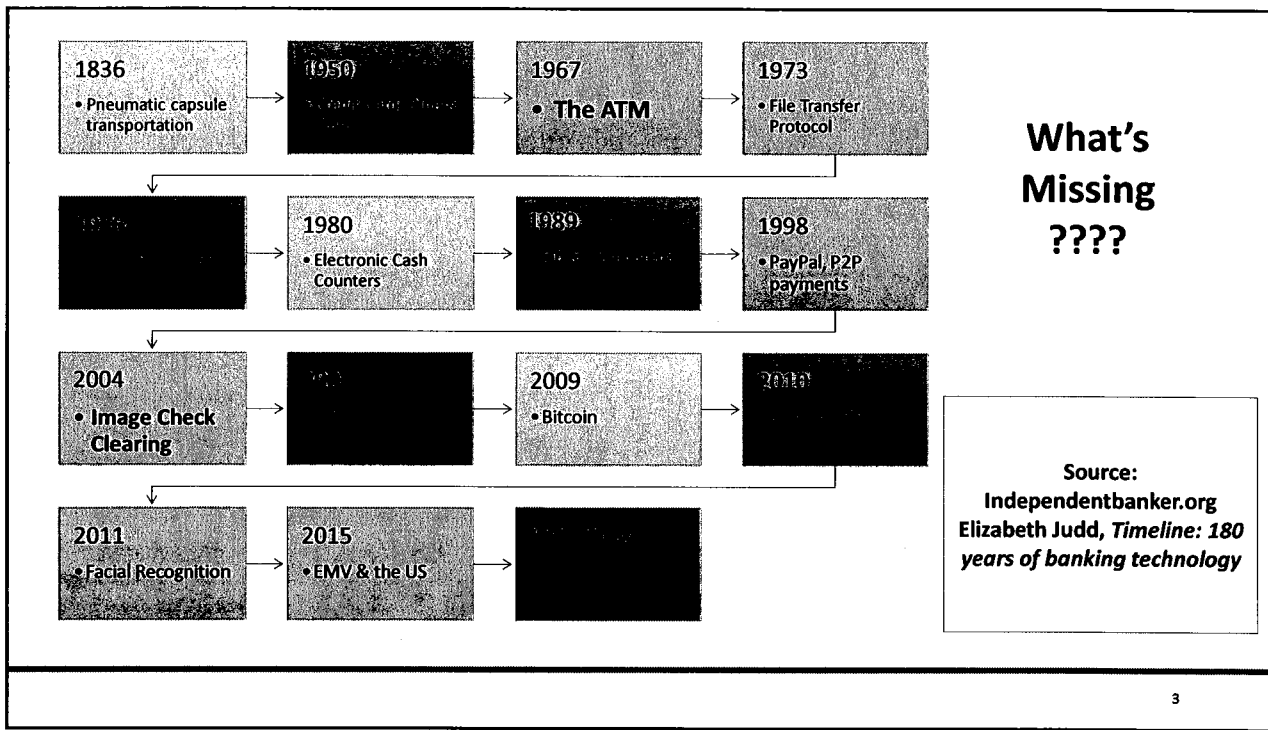
Payments: Which Rail, How Fast – Your Choices

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MACHA – The Mid-Atlantic Payments Association
www.macha.org



Payments Headlines?!?!?





Payments Touch Point

Bryan Jordan, chairman, president, CEO of First Horizon, American Banker, January 8, 2018 – "Technology is going to present the greatest opportunities and the greatest challenges for this industry over the next five to 10 years."

Survey Data suggest more than 85% of financial institutions do not have formal payments strategy

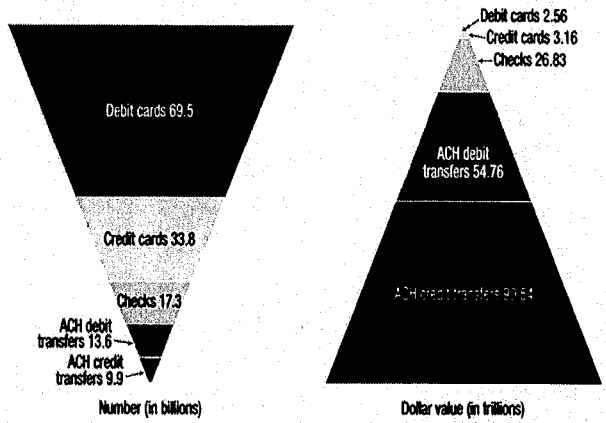
STRATEGY

Counting Payments

- Federal Reserve Payments Study 2016

- <https://www.federalreserve.gov/newsevents/press/other/2016-payments-study-20161222.pdf>
- 144 billion noncash payments = \$178 trillion

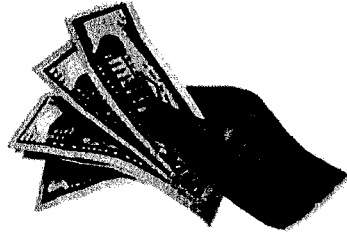
Figure 1. Distribution of core noncash payments by type, number, and value, 2015



Note: Debit card includes non-prepaid debit, general-purpose prepaid, private-label prepaid, and electronic benefit transfers. Credit card includes general purpose and private label. Check, automated clearinghouse (ACH) credit transfers, and ACH debit transfers include interbank and on-us.

Opportunities

- Cash is still a preferred method
- 1/3 consumer payments in U.S.
 - Perception – safer
 - Better Budgeting
 - Immediacy
 - Even Millennials



I'm Not Sure About This

- Outstanding Consumer Credit rose by \$27 billion in November from the previous month, the largest increase in **16** years
- Household debt totaled \$12.9 trillion dollars in 3rd qtr
 - Highest on Record
- Of interest to me
 - Consumer confidence declined
 - But – consumers' expectations remain at historically strong levels

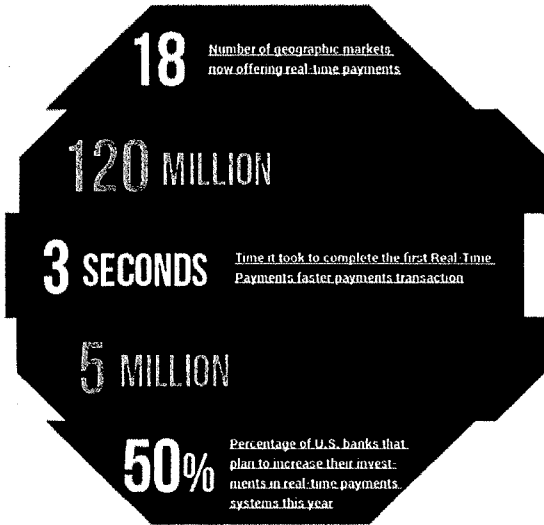
Your Shoe Size – You Tell Me

ACH	Cards	Checks	Wires
<ul style="list-style-type: none">• Received<ul style="list-style-type: none">• Dollars• Volume• Originated<ul style="list-style-type: none">• Dollars• Volume• Returned	<ul style="list-style-type: none">• Debit<ul style="list-style-type: none">• Dollars• Volume• Investments	<ul style="list-style-type: none">• Paid<ul style="list-style-type: none">• Dollars• Volume• Account Type• Returned<ul style="list-style-type: none">• Dollars• Volume• Account Type	<ul style="list-style-type: none">• Received<ul style="list-style-type: none">• Dollars• Volume• Account Type• Sent<ul style="list-style-type: none">• Dollars• Volume• Account Type

P.S. I think this is the most important slide in the discussion

FIVE FAST FACTS

Pymnts.Com
Faster Payments Tracker
January 2018







Same Day ACH: The Story to Date

My Volume: On average most financial institutions are receiving **7.53** entries per day


Why Important?
Current Proposal to add another settlement window at 6:30 pm

A FIRST LOOK: SAME DAY ACH DEBIT VOLUME

11 PROCESSING DAYS IN SEPTEMBER (SEPT. 15-30, 2017)

<p>Nearly 2 Million Same Day ACH Debit Transactions</p>  <p>Average of More Than 178,000 per Processing Day</p> <p>LEADING SAME DAY ACH DEBIT USE CASE Consumer-to-Business Payments</p>  <p>94% of Initial Same Day ACH Debit Transactions</p>	<p>Estimated Total Volume of \$1.5 Billion in Same Day ACH Debits</p>  <p>Average of \$135 million per Processing Day</p> <p>TOTAL SAME DAY ACH CREDIT & DEBIT VOLUME Same Day ACH Volume Nearly \$1.5 Billion in Sept. 2017</p>  <p>Same Day ACH Volume Since Inception: Nearly \$3 Billion (Sept. 2016 - Sept. 30, 2017)</p>
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To learn more, go to <https://resourcecenter.nacha.org/>



Federal Reserve Faster Payments Task Force

Outcomes

- Speed
- Security
- Efficiency
- International
- Collaboration



In Pursuit of a
Better Payment
System

Strategies

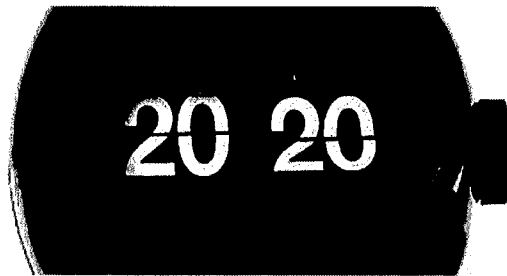
- Engage stakeholders
- Identify effective approaches
- Reduce fraud
- Efficiency for domestic & cross border
- Enhance FRB settlement & risk services

Priority Focus

- Rules
- Governance
- Infrastructure
- Sustainability

“Directory Models”

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“ubiquitous faster payments capabilities in the U.S. by 2020” – *The Federal Reserve’s Governance Framework Formation Team*

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Building a New Payment Rail

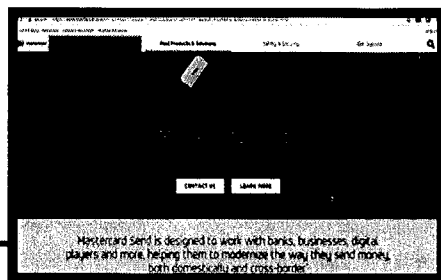
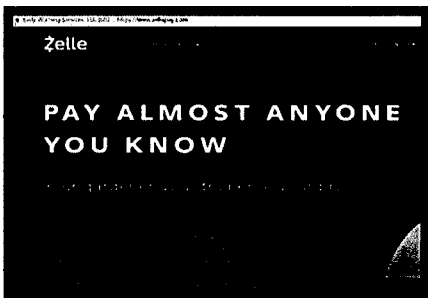
- The Clearing House
- <https://www.theclearinghouse.org/payments/real-time-payments>

Real-time Payments

This new system allows consumers and businesses to send and receive payments instantly, directly from their accounts at financial institutions. It also includes data and non-payment messages that financial institutions can use to build innovative digital commerce solutions.

Now The system is all new, built for a digital economy. - 24 x 7 x 365 - Fast and Final - Modular architecture to adapt to changing needs Read More	Better Banks are combining payments, data and messaging capabilities to create services like: - Business Invoicing - Just-in-time supply orders - Increase client disbursements Read More	For All FCFS Real-time Payments System will be open to all US depository institutions - Consistent with Federal Reserve and CFPB guidelines - Compatible with global standards Read More
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Moving Payments Faster – Marketplace



Bedside Reading

- *Flavors of Fast - FIS*
- http://empower1.fisglobal.com/rs/650-KGE-239/images/FIS_Flavors_of_Fast_2017.pdf

FLAVORS OF FAST

 A TRIP AROUND THE WORLD
OF IMMEDIATE PAYMENTS

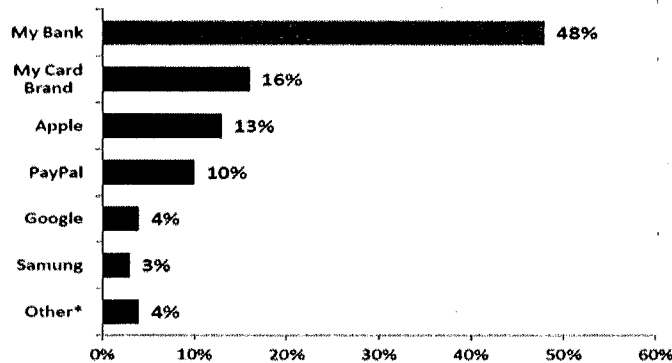
The Flavors of Fast definition of a faster payment:

“ **Inter-bank** fully electronic payment systems in which irrevocable **funds are transferred** from one bank account to another, and where **confirmation** back to the originator and receiver of the payment is available in **one minute or less.**”

Mobile Wallets – How Do You Change My Behavior

Figure 3: Mobile Wallet Provider Preferences

*Of those that prefer a single wallet:
“If you were to choose one provider of a mobile wallet app,
which would be your preferred provider?”*



*Includes Amazon, Facebook, Walmart, Starbucks, and wireless provider.

Source: First Annapolis Consulting, Study of Mobile Banking & Payments (March 2017).

How Fast Do You Need Your Donuts

- Dunkin Donuts App
- Set up MasterPass
- On-the-go mobile ordering

Is this a behavioral modification or possibly a disintermediation between you and your customer?



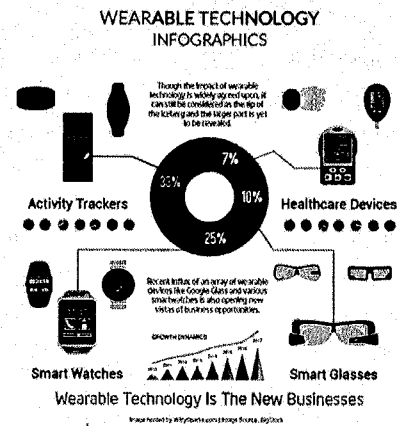
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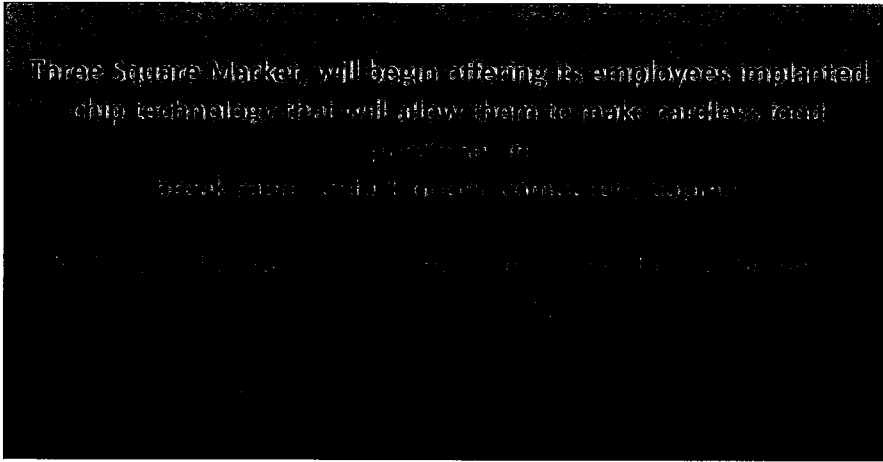
Wearables (giggles and grins for now)

- Testing payments
- NFC Technology
- EMV terminals have NFC

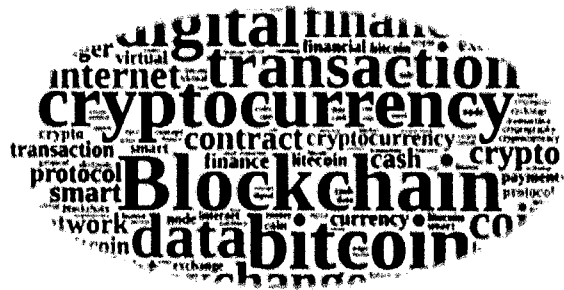
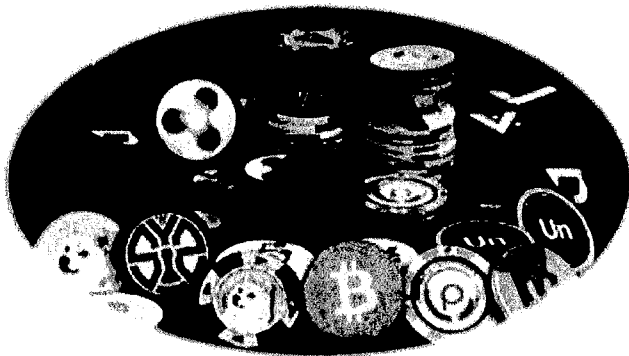
Consumers can shop/purchase within a VR experience
App works with Visa Checkout



Chip Technology & Payments ??????!



Boom or Bust



Payments Headline Not Really Seen Before

CanPay Expands Marijuana Mobile Payments to Oregon

Technology & Crime & Payments

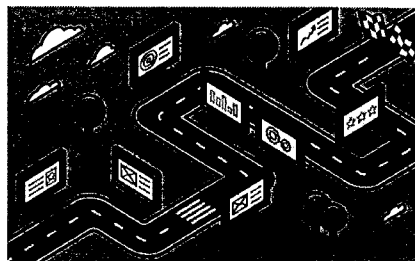
Cyber theft fastest growing type of crime in U.S.
Estimates of damages \$6 Trillion by 2021



Card Fraud will grow by
additional 42% by 2020
Total Global Fraud Losses \$31
billion by 2020

Your Route

- You first need to measure
- How do you want to play
- All in or Selective
- Needs, Wants
- Technology, Costs, Support
- Protection



Talking Payments

MACHA

The Mid-Atlantic Clearing House Association, Incorporated, trading as MACHA - The Mid-Atlantic Payments Association is a member-based organization recognized as the premier resource for information related to all payment rules and networks.

MACHA is a Regional Payments Association established in 1975 that serves financial institutions, businesses, and municipalities in Maryland, the District of Columbia, Delaware, Northern Virginia, Northeast West Virginia, and Southern Pennsylvania.

Our mission is to increase the understanding and use of payment networks by providing education, operational support, and advocacy to payments professionals.

MACHA shares a common strategy with its membership in the pursuit of maximized business efficiencies, improved and evolving payment processes, reduced risk and cost, and increased participant satisfaction. MACHA is a certified ECCHO Check Educational Partner and as a Direct Member Regional Payments Association of NACHA, is a specially recognized and licensed provider of ACH education, publications, and support.

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