

# Real-Time Payments Primer

Mobile technology and digital commerce are driving the need for a faster and safer payments system in the U.S. There are many “faster payment” or real-time approaches available around the globe aimed at expediting the availability of funds. Yet a single approach for the industry has not yet evolved. With multiple options available in the marketplace, here are a few things to consider as you strategize your approach.

A photograph of a modern glass skyscraper, likely a financial institution, with a blue-tinted sky in the background. The image is positioned on the left side of the page, partially cut off by the edge.

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## What are real-time payments?

Real-time payments meet four basic criteria:

1. They are irrevocable
2. They are immediate (instant confirmation of payment receipt)
3. Funds can be transacted against instantly
4. They are considered to be always on, 24/7/365. They can also be driven by regulation, payment modernization initiatives, or customer/market demand for instant gratification

Additional value of real-time payments:

- They are built with the intention of being accessible to all financial institutions regardless of size.
- They support very rich and flexible messaging that supports reconciliation
- They support extended communication via messaging. It's the first conversational type payment designed for businesses
- Architecture built on the global ISO20022 standard that combines the payment with the related account and underlying details

## What is happening with real-time payments in the U.S.?

U.S. trends are being driven by customer expectations and market demand, as opposed to regulation. There are a number of real-time or faster payment methods available today in the U.S.

- RTP® system from The Clearing House
- Zelle
- Mastercard Send
- Visa Direct
- Venmo

The Federal Reserve has also announced a competing service called FedNow, expected by 2023 to 2024.

## How should banks be talking to customers about real-time payments?

It's not too late, but you need to be thinking about what you will do and proactively start communicating. Your commercial customers are expecting you to be able to guide them. After all, real-time payments leaks from personal life into business, and our personal behaviors often influence our business decisions.

Some banks are using an “industry verticals” use case approach – that can help you find a quicker path to get to market and deliver future benchmarking and best practices. One way you can do that is to segment your customers and find out where they would benefit from real-time payments.

For example bill pay - billers using the rails for receivables – is important and expected to gain traction. The real value is the ability to carry invoice and remittance information. A biller can send all the information needed, and it is easier to receive and reconcile. The Clearing House is a good example of how real-time providers are thinking about innovation in the space. They have a billers playbook available on their website and are going to commercialize the strong tie between real-time payments and billers in 2020.

There are lots of potential use cases, if you are not sure where to start, the AFP payments symposium or the RTP Network website are good references.

Aité Group also has the following reports available for purchase:

**Time for Action! Making the Business Case for Real-Time Payments** by Erika Baumann <https://www.aitegroup.com/report/time-action-making-business-case-real-time-payments>

**Best Practices to Thwart Fraud in Real-Time Payments** by Shirley Inscoe <https://www.aitegroup.com/report/best-practices-thwart-fraud-real-time-payments>



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## Benefits of RTP

The business case for RTP goes beyond enhanced speed - other valuable benefits include:

- Immediate and automated payment status updates through detailed, instant-messaging-type conversations about each payment
- Standardized message types designed to handle common scenarios in the life cycle of a transaction
- Integrated remittance and payment information
- Traceability so all payment-related conversations are in one place, providing a cohesive view for both parties
- Instant request for payment functionality
- These conversations are occurring through YOUR online channel or Mobile Application so YOU are squarely in the center of this communication!
- Interaction directly within the payment system, communications don't require counterparties to switch to an email system to compose a free-form email or interrupt their workflow with a phone call or fax



How real-time payment use cases will add value for **bank** stakeholders

- *Lower payment processing costs*
- *Potential reduced overhead from automation*
- *Expected increase in transaction volume*
- *Improved and forward looking customer engagement*
- *Access to increased payment data and opportunity for monetization*

## Personas to be supported

Banks will be required to declare their RTP participation level as one of the 3 Bank Persona types below. Each persona has a set of required standard message sets that must be supported in order to qualify to declare that level of participation.

1. Receive Only
2. Send and Receive
3. Request for Payment (inclusive of Send and Receive)

Bottomline's Digital Banking online payments and cash management solution will support all three personas from an online channel origination perspective. However as noted above, Bottomline will not provide any gateway service provider functions for connections to The Clearing House and RTP.

## What about potential fraud implications?

So as the trends and use cases for real-time payments continue to evolve, and banks look at the potential use cases they need to support, there is one aspect that is critical to plan and implement from the start: real-time fraud detection and transaction interdiction are foundational requirements. In fact, this is so vital that any bank or FI that does not have a clear set of real-time payment fraud capabilities should reconsider offering real-time payments.

A sound cross-channel fraud strategy will go a long way to blocking payment fraud. Here are a few strategic recommendations to consider:

- Understand the market demand for faster payments and consider your customers' potential use cases before you decide to offer Zelle, RTP, and/or others
- Then set up your detection and interdiction capabilities before launching real-time payments
- Machine learning models and artificial intelligence should be incorporated, with appropriate feedback loops to improve models
- Include the ability to set a transaction aside for further scrutiny to authorize or deem fraudulent
- Train your contact centers on what to look out for, and consider utilizing specialized fraud agents

This list is by no means complete – it is worth talking with experts who not only understand the real-time payment space, but also are trusted experts in payment fraud prevention. A thoughtful approach now will help protect you and your customers as real-time payments gains traction.



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## Are all real-time payment services the same?

No, there are a number of differences to consider.

The **RTP® network** from The Clearing House is industry infrastructure, in the same way that ACH, wire and check image exchange are infrastructure, created for financial institutions to use. It is the first new payments infrastructure in over 40 years, and specifically built to support digital transactions. Currently there is a payment limit of \$25,000 however that is expected to increase to \$100K in 2020. The network has a single price for all participants with no volume discounts, no volume commitments and no monthly minimums to ensure that financial institutions of all sizes participate on the same terms. Financial institutions pay only for the transactions they originate. For details go to [https://www.theclearinghouse.org/-/media/new/tch/documents/payment-systems/rtp\\_-pricing\\_02-07-2019.pdf?la=en](https://www.theclearinghouse.org/-/media/new/tch/documents/payment-systems/rtp_-pricing_02-07-2019.pdf?la=en)

**Zelle** is a US-based digital payments network owned by Early Warning Services, a private FI owned by banks such as Bank of America, BB&T, Capital One, JPMorgan Chase, PNC Bank, US Bank, Citibank and Wells Fargo. The Zelle service enables individuals to electronically transfer money from their bank account to another registered user's bank account (within the United States) using a mobile device or the website of a participating banking institution.

Although there is overlap between Zelle and the RTP system, it is not account to account real-time settlement and banks are currently giving these transactions away for free.

***A convergence between the RTP network and Zelle is expected to be announced in 2020.***

**Mastercard Send™** is designed to work with banks, businesses, digital players and more, helping them to modernize the way they send money, both domestically and cross-border. It's partnered with banks, businesses and digital wallets to deliver money to bank accounts, prepaid debit cards, mobile wallets and select cashout locations.

**Visa Direct** enables fast payments to over a billion cards worldwide and allows convenient, safe, real-time funds delivery directly to financial accounts using card credentials. It is essentially a real-time payments network for business and person-to-person (P2P) payments, and is helping financial institutions and technology companies allow their customers to transfer funds to a debit account in 30 minutes or less.

The Federal Reserve's **FedNow** will also be based on the ISO 20022 standard, and is expected to be available by 2023 to 2024. Like other private sector solutions, the FedNow Service will process and settle individual payments within seconds, 24 hours a day, 7 days a week, 365 days a year. The Federal Reserve is gathering industry feedback on the key features and functionality of the service, for those planned at launch and those available incrementally after the service is operational.



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## What else should a bank consider?

Although banks may fear this may disrupt the current payment stream, this is not a replacement. It should be considered as a play for future scalability and remaining relevant, and helping your clients to be more efficient.

As analyst Erika Baumann of Aite Group has stated, "Banks that are not taking steps to offer real-time payments to their business clients are at risk of losing valuable revenue, specifically to competitor banks that are able to clearly articulate the value of real-time payments as part of an effective and efficient payments strategy."

## What is Bottomline doing about real-time payments?

Bottomline has expanded the Digital Banking IQ™ suite to The Clearing House RTP® network, enabling a bank's corporate customers to send and receive real-time payments, request payments, and to leverage complete and integrated payment detail. Although available through our payments and cash management platform, you will need to consider how you will connect to the network.

- Are you connected to the RTP network? We can implement right away.
- Not connected to the RTP network yet? You can install a private connection, use a VPN, or connect through a third party service provider.

Bottomline is not currently a gateway provider, however we can work with you on building a suitable strategy. The experience is the same no matter how you connect.



### Connect with us



### About Bottomline Technologies

Bottomline Technologies (NASDAQ: EPAY) helps make complex business payments simple, smart, and secure. Corporations and banks rely on Bottomline for domestic and international payments, efficient cash management, automated workflows for payment processing and bill review, and state of the art fraud detection, behavioral analytics and regulatory compliance solutions. Thousands of corporations around the world benefit from Bottomline solutions. Headquartered in Portsmouth, NH, Bottomline delights customers through offices across the U.S., Europe, and Asia-Pacific.

For more information, visit [www.bottomline.com](http://www.bottomline.com).

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