

## **HARD WORK WINS THE RACE**

In high school I ran Cross Country. One thing I will always remember about those days was something my coach used to say – “The season is won in the winter and spring, not in the summer!” What did he mean? Coach was letting us know that our hard work in the off season, running those many miles and lifting those many weights, built the solid foundation we would need later for a successful season. Where am I going with this? As 2021 gets its legs and we move into mid-year, we heading into what is, for many, budgeting and strategic planning season. To be successful with something you haven’t done before, something like faster payments, your bank should be doing the hard work now to lay the groundwork for the successes to come, working to build on your institution’s strengths and anticipate your customers’ future needs.

Of the roles I play at Bankers’ Bank, one of my favorites is serving as ambassador and champion for faster payments. When speaking to bankers I often get asked “Where are payments going and how are we going to get there? And what are ‘faster payments’ anyway? I’ll try to touch on the first of those questions below, but as for what faster payments are, they could be person to person instant payments. They could be Same Day ACH transactions. They could be RTP® transactions, and one day, they will include FedNow<sup>SM</sup>. These are all examples of faster payments, means of getting money moved more quickly than on traditional rails. Together these innovations represent the biggest step forward in payments in 40 years.

And the trends for faster payments are all going in the right direction. What is ultimately going on behind the scenes with payments in the U.S. is an evolution in infrastructure and the advent of real-time, or more real-time, settlement. Volumes are growing and changes are being made to allow more transactions to ride faster rails. We’ve seen this in Same Day ACH, with more settlement windows and NACHA’s recent announcement that the Same Day limit will soon be raised to \$1 million. These changes will make it quicker and easier for your customers to send and receive money via ACH and may signal a move away from batch settlement to something more like real time. Growth in the RTP Network has been smooth and steady, and today approximately 60% of all depository accounts in the U.S. can send and receive RTP payments. This will grow to 70% or more by year-end. The Federal Reserve announced earlier this year that FedNow pilot participants will be live on the platform in 2023. And this barely scratches the surface – the payments space is bursting with innovation. How will your bank keep up? Could you better leverage the capability of Same Day ACH as a faster payment solution, one you already have access to, by helping your customers understand its advantages? If you haven’t already, is it time to look into a faster payments rail like RTP?

Circling back to the same kind of thinking as my Cross Country coach, why does a community banker need to be planning for faster payments now, and not push it down the road 3 to 5 years? The pace of change is accelerating, and it could pass your bank by if you wait. Worse yet, you could hitch your bank to the wrong train, one that doesn't meet your needs. Contracts can be long, and by the time you could make a change it may be very hard to get back on track. Here are some thoughts on doing some strategic planning now, despite the uncertainty inherent in the fast-evolving payments space:

1. It's important to think broadly about risk and reward, and to be clear about what needs to change at your bank to make new payments strategies successful. What are your hurdles to integrating key systems that support faster payments? How will you help your customers understand the advantages of the new products you develop? How will your team manage risk by limiting access to faster payments, at a global or at an individual account level? How will you handle fraud detection, within faster payments or cross-channel? What changes about "Know Your Customer" in a faster payments world? What do you need to know about a customer before you allow them access to faster payments? How do your internal policy and procedures need to change? How will your bank support later settlement times? Could you need to implement a second shift? Could it make sense to partner with a provider who can handle later settlement windows so your team can be home with friends and family?
2. Some banks tell me that their customers are not yet asking for faster payments, but even if that's true it's important to start planning. Your first faster payment customer could be your own bank! Imagine performing loan disbursements through a faster payment rail, providing the money instantly and eliminating phone calls to and from another financial institution to double check the payment. How much time could you save your operations team daily? How happy will your customers be at how fast their money moves?
3. In addition to all of this, your bank should develop an understanding of critical technologies and maintain enough in-house expertise to successfully complete projects in pursuit of your strategy. There are many components of this. Is a solution you are developing too siloed? Will there be enough communication and integration between solutions or payment rails? Is your bank planning to evolve existing solutions? How long would such a re-write take and will it be able to support faster payments? Are you planning on building stronger relationships

with technology partners to help with some of this heavy lifting? If so, are your technology partners approaching payments with a hub type solution, incorporating multiple payments types, or are you working on a one-off project that touches only one type of payment? And importantly, are you taking the time to discuss what these roadmap items mean to your bank *before* you renew technology agreements. In my experience, key providers like to sign long term agreements, which can have advantages for both sides. But being trapped in an agreement can be ruinous if your vision and theirs do not match. A lengthy contract with a provider that does not meet your needs could put you at a severe competitive disadvantage. If your vendors are not looking at the future of payments holistically you may need to switch. And of course that itself takes time.

In the past banks had years to plan big changes. Bankers knew their brand of service, the quality of their lenders, and what would make a competitive difference for their bank. Today we are faced with a faster pace of change and higher expectations from customers. Banks themselves are becoming more mobile, more attuned to conducting business remotely. Think of how your bank interacted with customers and key vendors during the pandemic. Was this easy for your bank to implement or was it a challenge? This could be a bellwether on how mobile-ready your bank really is. The next generation of business owners or potential home buyers grew up with “mobile first” technology. They are expecting speed and convenience, almost instant gratification in their banking. In the future, how will you make it easier for your customers to bank how and when they want and not how and when you want them to? Have you considered where your customers could interact with your bank in the future? Increasingly the answer is anywhere with cell service or access to secure Wi-Fi. As important as a branch footprint may be, a growing number of customers will see the apps in their pockets as their bank. Are you seeing an increase in mobile banking activities? Have you started analyzing transaction data on your deposit accounts? Take a look at how much money is being moved on a monthly basis through PayPal, Venmo, Square or Zelle. Winning over the next generation of customers will require analysis, methodic planning and a clear vision of where to position your bank.

As an industry, all of us are still near the beginning of a very long race, and the stakes are high. Community banks are highly liquid right now, but cycles come and go. Banks that improve the payment experience will attract and retain deposits, and will be better positioned when liquidity becomes tight again. Creating a strong user experience, delighting customers, is critical. A consequence of faster payments is money can move more quickly, into *or out of* your bank. And despite today's excess liquidity, many customers are facing cash flow problems. Banks that can help manage these and other challenges through implementing successful payment products will be out front. Given expense and lead times, we need to get the next generation of payments solutions in place *before* customers ask for them.

You are not in this long race alone, there are many ways to begin to get educated on faster payments, your State/National Associations are hosting events, attend. We are here to help with education, contact your local Bankers' Bank representative or myself, we will gladly help educate your Bank on what we are seeing not only the transaction side of faster payments but the settlement side in addition to the roadmap sessions

Beginning to get a plan in place to develop and support your future payment products, including in faster payments, will position your bank for future success. This is the time for us all to put in the hard work. Thanks for the analogy coach!

Interested in learning more about RTP from The Clearing House or FedNow from the Federal Reserve Bank and how these "faster payment rails" can help your Community Bank be more competitive? Please reach out to the author Todd Koehn from the Bankers' Bank [tkoehn@bankersbank.com](mailto:tkoehn@bankersbank.com) or you Bankers' Bank Correspondent Banker to schedule a RTP/FedNow education session.