



UK Faster Payments:

# A Model for U.S. banks to Follow in Their Journey to Real-Time?

WEBINAR WRAP-UP



## Introduction

As the United States progresses towards widespread adoption of real-time payments (RTP) through the launch of FedNow, valuable insights can be gleaned from the United Kingdom's experience with implementing real-time payments.

In a recent Form3 webinar we heard from Connie Blacklock, EMEA Head of Real-Time Payments at JP Morgan, and Miriam Sheril, Head of US Product at Form3, discuss the comparisons and contrasts between the two regions and shed light on what U.S. banks can anticipate as they transition to real-time payments.

### Speakers:



Miriam Sheril,  
Head of Product  
**FORM3**



Connie Blacklock,  
EMEA Head of Real-Time Payments  
**J.P. MORGAN**

# A tale of two schemes

### Settlement Model: Real-Time Gross Settlement vs. Multiple Settlements

One of the primary differences between Faster Payments in the UK and RTP in the US is the settlement model. In the UK, settlement occurs a few times a day, while in the US, both RTP by The Clearing House and FedNow by the Federal Reserve operate as Real-Time Gross Settlement Systems. This means that transactions are settled immediately and individually, rather than being netted and settled in batches.

This distinction has significant implications for banks' liquidity and risk management strategies. As Miriam, pointed out:

"In the UK, there's settlement a few times a day for these payments. And that's between the financial institutions, while the messaging is real time and the funds are made available in real time. And so that's different in the US."

Understanding the settlement model is crucial for banks to effectively manage their liquidity and risk exposure when participating in these systems.

### Participation Models: Direct Bank-to-Bank vs. Intermediaries

Another key difference between the UK and US systems is the participation model. In the UK, intermediaries are allowed to access the Faster Payments scheme, meaning that banks can use another bank to process transactions. In contrast, the US has stricter rules requiring direct bank-to-bank participation in both RTP and FedNow, with no intermediaries allowed.

Additionally, the US restricts participation in RTP and FedNow to federally chartered banks, whereas the UK allows non-bank financial institutions to join the Faster Payments scheme. This has led to a more diverse range of participants in the UK, potentially driving greater innovation and competition in the payments space.



### Funds Availability: Strict vs. Flexible

Funds availability is another area where the UK and US systems differ significantly. In the UK, banks have more flexibility regarding when they make funds available to customers, with the option to queue up payments if they cannot be processed in real-time. In the US, however, banks must make funds available 24/7, or risk rejecting payments and negatively impacting their end users. This requirement places additional pressure on banks to ensure their systems can support around-the-clock processing and funds availability.

### Liquidity and Third-Party Liquidity Providers

In both the UK and US systems, banks need to be aware of their liquidity obligations when participating in Faster Payments and RTP. Banks must ensure they have sufficient funds to cover their net settlement obligations in the UK, and must also pre-fund accounts or provide collateral to participate in the scheme. Connie emphasized the importance of understanding liquidity requirements:

"So while we have may not have RTGS, we have a net settlement. And so you still have to have a really good idea of what your ins and outs are going to be because the three net settlements that happen each day, each working day, if you don't have enough funds to cover your net settlement, settlement stops for the whole scheme."

In the US, third-party liquidity providers can participate in RTP and FedNow if they are banks, and both systems have specific roles and participation types for these providers. This can help

banks manage their liquidity more effectively, but it is crucial for banks to understand the requirements and options available to them when participating in these payment systems.

In conclusion, while Faster Payments in the UK and Real-Time Payments in the US share a common goal of enabling instant, secure, and efficient transactions, there are significant differences in their settlement models, participation models, and funds availability requirements. Banks and financial institutions must be aware of these differences and the implications for their liquidity and risk management strategies when participating in these payment systems. By understanding these nuances, banks can better position themselves to benefit from the innovation and growth opportunities offered by these transformative payment technologies.

### The Importance of End-to-End Flow

Connie, from JPMorgan, emphasized the need for banks to consider the end-to-end flow of payments. This includes not only the real-time payments platform but also the integration with downstream systems and reporting. Connie explained, "it's thinking about all the downstream systems that you have to feed into some of which, especially in some larger, more, you know, Legacy banks may not have all the data services may not be real time."

In addition to addressing technical aspects, banks must also think about the reporting side of real-time payments. Connie suggested that reporting should be a top priority, as it is essential for providing clients with the data they need to run their businesses effectively.

### Resiliency and Stability

As real-time payment systems handle millions of transactions in a matter of seconds, it is crucial for banks to ensure their platforms are stable and resilient. Even a small blip in a system could result in the loss of thousands or millions of transactions. It's more important than ever to make sure that your platforms are stable, and can stand up to the speed and volume that real time payments will bring.

Moreover, Connie stressed the importance of having a recovery plan in place for when issues do arise. She advised that banks should automate as many processes as possible in recovery mode to prevent the need for manual intervention, which would be inefficient and time-consuming.

### Preparing Teams for 24/7 Support

Implementing real-time payment systems requires more than just a technology upgrade; it also demands a shift in mindset for bank employees. Connie argued that banks need to prepare their operations, client service, and implementation teams for the new world of 24/7 payments. "It isn't just your tech that needs to be 24/7; it's the people in the organization too," she explained.

### UK vs. US Real-Time Payment Systems

The UK and US real-time payment systems differ in several ways, including the way banks can participate. In the UK, banks can be either directly connected settling participants or directly connected non-settling participants. The UK mandated that banks should be able to send and receive faster payments, resulting in 99.9% of bank accounts being reachable. Miriam noted that the US has not followed the same path, saying, "I don't see the US doing that. I mean, I haven't seen it right. We've never mandated."

Despite this difference, both countries have implemented Request for Pay (RFP) features in their real-time payment systems. However, RFP has not yet gained significant traction in either country. Connie explained that while there are "tons of really valuable use cases" for RFP, it has not yet become widespread. Miriam shared a similar sentiment, stating that there is "noise about Bill Pay and things

like that," but banks are still waiting to see if RFP proves useful.

In conclusion, implementing real-time payment systems presents a multitude of challenges for banks, from technical considerations to operational adjustments. By prioritizing end-to-end flow, ensuring resiliency and stability, and preparing teams for 24/7 support, banks can successfully navigate the new landscape of real-time payments.

### Key Takeaways

- Banks must prioritize end-to-end flow, including downstream systems and reporting, to ensure a smooth transition to real-time payment systems.
- Resiliency and stability are essential, as even a minor issue could lead to the loss of thousands or millions of transactions. Banks should have a recovery plan in place and automate as many processes as possible.
- Preparing teams for 24/7 support is a crucial aspect of implementing real-time payment systems. The mindset of bank employees must shift to accommodate the new world of round-the-clock payments.
- Differences between the UK and US real-time payment systems include the way banks can participate and the lack of mandated adoption in the US. Nevertheless, both countries have implemented Request for Pay features, although their usage has not yet become widespread.





# The evolution of RTP

## Embracing Real-Time Payments: The Future of Financial Transactions

In a recent webinar, industry experts discussed the importance of adopting new technologies and API processes to ensure success and future growth in real-time payment (RTP) systems. The speakers emphasized the significance of education and preparing for exponential growth in the industry. They also highlighted the role of technology, specifically APIs and cloud-based solutions, in handling increasing transaction volumes and maintaining resilience.

## The Evolution of Faster Payments and the UK Experience

The evolution of Faster Payments in the UK over the past decade has demonstrated significant growth, especially in the retail space and industries such as the gig economy and direct-to-consumer businesses. The adoption of Faster Payments has allowed for instant transactions, providing

businesses and consumers with an efficient and convenient payment method.

"The potential for P2P (peer-to-peer) payments to drive significant volume in the US is immense, and we're curious to see if the US will follow the UK's growth trajectory in terms of Faster Payments."

This potential growth raises questions about whether the US will experience a similar trajectory as the UK in terms of RTP adoption. The UK has already seen considerable success in adopting RTP, which has led to more efficient transactions and reduced reliance on traditional payment methods. As the US moves toward adopting RTP, it is crucial to examine the lessons learned from the UK experience and implement those best practices to ensure successful integration.

## Importance of Understanding Clients' Needs and Driving Adoption

To ensure the success of RTP, it is essential to understand clients' use cases and educate them on the benefits of instant payments. Clients need to recognize the value of RTP and understand how it can improve their businesses or personal financial transactions. This understanding is vital to drive adoption and promote the use of faster, more efficient payment methods.

"Understanding clients' use cases, educating them on the benefits of instant payments, and offering easy implementation are crucial to driving adoption and promoting the use of faster, more efficient payment methods."

Offering easy implementation and tailored solutions will help drive adoption and lead to increased usage of RTP systems. This process may involve working with clients to develop customized solutions that address their specific needs, as well as providing ongoing support to ensure a seamless transition to RTP.

## ACH vs. Instant Payments: The Shift in Use Cases

As transaction limits increase, there is a possibility that some flows from ACH (Automated Clearing House) to instant payments may be cannibalized. This shift may result in a change in the way businesses and individuals conduct transactions, opting for faster and more efficient payment methods.

The speakers discussed the difference between ACH and instant payment use cases, noting that certain transactions are better suited for instant payments, while others may still benefit from the traditional ACH system. Understanding the distinction between these use cases will be essential for businesses and financial institutions as they transition to RTP.

Some industries may experience a more significant shift in payment methods than others, depending on their specific transaction needs. For example, the gig economy, which relies heavily on fast and flexible payments, may see a more substantial shift to RTP as transaction limits increase and instant payments become more accessible.

## The Role of Banks in Facilitating RTP Adoption

Banks play a critical role in promoting the adoption of RTP and can differentiate themselves through the client experience and implementation process. As one speaker mentioned: "It's important for banks to take the lead in facilitating the adoption of RTP, and they can differentiate themselves through the client experience and implementation process, which is essential for driving adoption..."

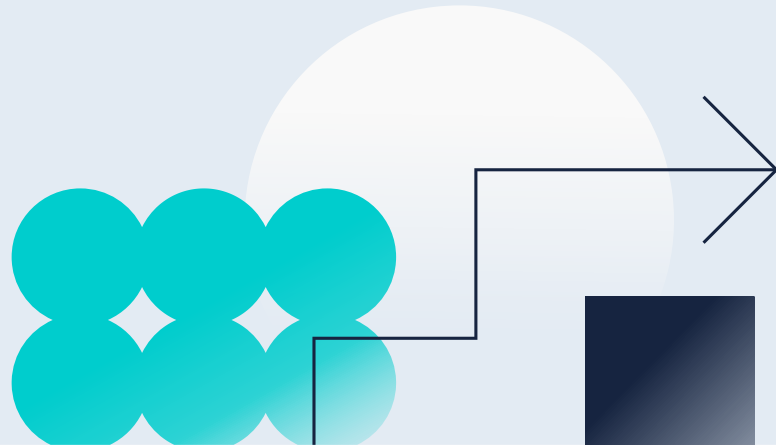
By taking the lead and offering a seamless experience, banks can support the widespread adoption of RTP systems. This process may involve investing in new technology and infrastructure, providing educational resources for clients, and developing tailored solutions that address the unique needs of each client. By providing a high level of support and assistance, banks can foster trust and confidence in the RTP system, encouraging more businesses and individuals to make the switch.

## The Outlook for RTP Adoption in 2023

The panelists predict that more US banks will sign up and start planning their budgets to accommodate RTP adoption in 2023. Meanwhile, the UK is expected to continue exploring new use cases and growth opportunities. As the US moves forward with RTP adoption, it will be essential to monitor the progress and learn from the UK's experience to ensure a successful transition. Banks and financial institutions in the US must begin preparing for RTP adoption, including investing in new technology, infrastructure, and employee training. As more banks embrace RTP, it will likely become a standard payment method, with businesses and consumers expecting instant transactions as the norm.

## Combating Fraud in Real-Time Payment Systems

To ensure the safety and security of RTP systems, the industry must proactively address fraud. Machine learning and collaboration within the sector can help identify and mitigate fraudulent activities. The speakers stressed the need for effective fraud detection systems that minimize false positives without compromising the speed



of real-time payments. They also discussed regulatory measures, such as Account Validation services, as an additional step to reduce fraud.

The panelists agreed that banks need to build up their anti-fraud capabilities and that the responsibility lies primarily with the banks themselves to develop these systems. While network providers, such as FedNow and The Clearing House (TCH), provide some fundamental services, it is crucial for banks to invest in cutting-edge technology and collaborate with other institutions to combat fraud effectively.

Collaboration within the industry will be essential for addressing fraud in RTP systems, as sharing information and best practices can lead to more robust and comprehensive fraud detection and prevention measures. By working together, banks and financial institutions can stay ahead of emerging threats and ensure the continued safety and security of RTP systems.

### The Role of Regulation and Compliance in RTP

As RTP systems become more widespread, regulation and compliance will play a crucial role in ensuring the safety and security of transactions. The speakers discussed the importance of regulatory measures, such as Account Validation services, which can help reduce fraud and ensure compliance with industry standards. Regulators and financial institutions must work together to develop clear guidelines and best practices for RTP systems, balancing the

need for security with the desire for speed and convenience. By fostering a strong regulatory environment, the industry can build trust in RTP systems and promote widespread adoption.

### Final Thoughts

The future of real-time payments depends on the industry's ability to embrace new technologies, educate clients, and prepare for exponential growth. By understanding clients' needs and offering tailored solutions, banks can help drive adoption and promote the use of more efficient payment methods. Additionally, proactive measures to combat fraud and investment in advanced technologies will ensure the safety and security of RTP systems.

As the US moves toward RTP adoption, lessons from the UK experience can provide valuable insights and guidance. By learning from the successes and challenges faced by the UK, the US can implement best practices to ensure a smooth and successful transition to RTP.

In conclusion, the widespread adoption of RTP systems has the potential to revolutionize the way businesses and individuals conduct financial transactions. By embracing new technology, collaborating within the industry, and addressing security concerns, the future of real-time payments promises increased efficiency, convenience, and growth for all involved.

## Listen to the full webinar

Real-time payments implementation: Lessons from across the pond.

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Head of Product  
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and where you're headed