

Small banks deliver needed lift to real-time payments rail

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The Clearing House's Real-Time Payments hasn't grown as fast as it would like, but recent small-bank adoption is providing momentum for a network that assumes the Federal Reserve won't start its own real-time service.

TCH needs to attract users, since it's operating as if it will be the only faster payments option other than bank-powered P2P, despite the [Federal Reserve seeking input](#) on a possible real-time settlement service of its own.

TCH is getting a lift from the RTP rails' operation as a credit-push network, with banks taking a shine to the security and customer-control provided by the "Request for Payment" feature that takes the place of traditional debit-pull payments.

"We don't have debit on our system, but there are ways that people can ask to send money, when a bill is due and requesting for payment of that bill," said Steve Ledford, senior vice president and RTP product executive at TCH. "In those cases, we are requiring the financial institution that is banking that biller to monitor the activity, and following the rules built into our service to prevent an unauthorized transfer."



Steve Ledford, senior vice president and RTP product executive at The Clearing House.

For those who may be wary of security measures along the RTP rails, or have linked the lack of a debit-pull service to a fear of unauthorized transactions, Ledford feels the Request for Payment provides security and easier customer monitoring.

"We don't have debit because our service puts the customer in control," he said. "The customer whose money is being spent is in control of the payment, and we feel that is a valuable addition to the market to have a payment network that operates in that way."

TCH set up Request for Payment to serve the market demand for debit, while giving the customer the authority over making that payment. In that way, the customer knows when, where, who and how much money is going to be taken from their account.

The service "bridges the gap" for being able to create debits through RTP because the speed of near-instant payments otherwise complicates any risk mitigation tools with regular debit payments, said Sarah Grotta, director of debit card advisory for Boston-based Mercator Advisory Group.

"You simply don't have time to really make good risk decisions," Grotta said. "If we were to allow RTP to instantly debit accounts, it could create a tremendous amount of havoc."

It would not be difficult for a fraudster to obtain account data through other breaches and then instantly drain consumer accounts through RTP debit, she added. "And there would not be a whole lot you can do about that from a control aspect."

RTP's security and usage guidelines are helping small banks recognize an opportunity to help other small financial institutions or credit unions connect.

"It's an important step for smaller banks, as some are looking to be the agent bank for others as the bridge to RTP, and it is important that we have some technology providers who are sitting in the middle helping the integrations," Grotta said.

The first connection with a smaller bank, the tech-savvy Massachusetts-based [Avidia Bank](#), last month turned a new page for The Clearing House, which previously dealt with the

perception — and reality — that smaller banks couldn't see a clear path to real-time payments rails that larger banks were embracing.

The network followed that up with an announcement last week that it was bringing RTP connections to technology company PayFi. The company formerly known as Push Payments will sell the connection to its small-bank clients.

Avidia Bank and PayFi have collaborated with linked2pay to lure small banks with technology that increases payments and merchant onboarding, a bundle that recently added RTP as an option.

"When we made our initial move into faster payments in 2016 with our partners Avidia Bank and PayFi, our roles were around the provisioning of risk management, merchant onboarding and the delivery of value-added payment solutions," said Jay McShirley, founder and CEO of linked2pay. "It is amazing and rewarding to see how far we have all come, and how we are positioned to help others get on board."

The migration to the RTP rails can be challenging, and includes an extensive IT project, contends Travis Dulaney, founder and CEO of PayFi. "The key to building a two-sided network is to enable first and then initiate second," Dulaney said, adding that's driving the payment companies that are vital to RTP to partner to reduce friction, time to market and delivery of the new payment rail.

The Clearing House had to overcome industry politics it initiated in order to continue to garner interest from smaller banks. A month before revealing the Avidia Bank deal, TCH had put small banks back on their heels in [declaring its pricing for the RTP network](#) would be the same for all depository institutions only if it was the only real-time payments service operating. In other words, it didn't want to get bogged down by a Federal Reserve push to develop its own real-time settlement service.

Specific details of the deals for smaller banks to connect were not disclosed, but TCH has been able to allay those fears for now, probably because no one knows if the Fed will create its own service.

The **RTP went live** in November of 2017, with its early adopters being Citi, JPMorgan, PNC and SunTrust. The system was designed by The Clearing House's 25 owner banks and followed the guidelines of the Federal Reserve's Faster Payments Task Force.

At that time, The Clearing House targeted 2020 as a goal of reaching RTP ubiquity among the country's financial institutions. It currently has 15 major banks using RTP, representing a market segment in which more than half of the country can send instant payments.

"We are still pushing as hard as we can to get as many credit unions and community banks on the network as quickly as possible," TCH's Ledford said. "There is no mistaking that the uncertainty created by the Federal Reserve clearly slowed down the decision making for financial institutions."

Regardless of what the Fed is planning to do, TCH is "here and doing everything we can to bring on smaller institutions, as they are going to be an important part of this faster payments network moving forward," Ledford added.

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