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## **The Current Payments Landscape and Real Time Payments**

The ecosystem of payments in the USA is built on the foundation of the **Six (6) Core Payment Systems**. These payment systems touch and involve every single dollar of payment movement in our economy. The six systems, in no particular order, are as follows: cash system, checking system, wire system, ACH system, credit card system and the debit card system. A new payment system has come on to the scene, called Bitcoin. The system is new, untested as to wide spread adoption, and is fraught with many challenges.

All of the many so called new payment systems, including ApplePay and the other mobile and online payments, must utilize one of the existing six systems to actually transfer value between parties. The similarities and differences amongst these payment systems are many, yet, except for cash, there does not exist a 'real time' or 'guaranteed' payment system in the USA. That may change in the future, as the government and the payments industry are finally working on solutions that could make payments real time or close to real time and 'good funds' as soon as the transaction is made.

The **Cash System** is the simplest and easiest of our payment systems and is anonymous. It is the only real time payment system. If you pay with or accept cash, the payment is good, cleared and confirmed real time. The only risk with a cash payment is counterfeit currency and that is rather rare. The problem with the cash system is clear: cash does not work in our electronic and online world. Despite the issues with the cash system, the cash transaction share of the financial payments market has actually been flat for the last 5 years.

The **Checking System** has been a staple of our banking and payments world for many years. Originally, a 100% paper based system, it now has e-check as a core component of the system. It is a system at its basic level where one party, consumer or business, makes a promise to pay the other party. With the checking system, the recipient of a paper or e-check transaction bears the entire risk of the payment being good. It is not a real time system, despite the fact checks clear faster today than they did ten years ago. The checking system processes far fewer transactions today than it did ten years ago. This is due almost entirely to the increase in the use of debit cards.

The **Debit Card System** has surged tremendously in the last ten years and has resulted in decreased use of the checking system. Debit cards and prepaid cards now account for more than 50% of payment card usage in the USA. The debit card system offers more protection to the payment recipient than the checking system, because the transaction is authorized in real

time. However, the payment is not guaranteed. The transaction must still clear the payer's bank account and the payer can challenge the transaction. In addition, there remains a lot of fraud in the system.

The **Credit Card System** is controlled by the big 4 card networks and their issuing bank card partners. It is an enormous system with thousands of service providers and it is by far the most complex of the six core payment systems. It is also the most expensive system for the payment accepting organization. The credit card system has an onerous rate structure with wide variation in costs. The costs vary by: market or industry of the payment acceptor, size of the organization, the data sent with a transaction, the card processor, and many other factors. Like the debit card system, it offers real time authorization, but not real time or guaranteed funds. Payments can be challenged and reversed by the payer and there is also much fraud in the system.

The **ACH System**, which is owned by the banks, is an electronic funds system that is viewed by many as the driver to real time payments. With an ACH transaction, the clearing is no less than one day (not same day) and sometimes longer. Thus, an ACH payment initiated one day does not offer real time funds to the receiving entity or person until at least the next business day. The recipient of an ACH payment bears all the risk. There is an ongoing effort to enhance the ACH system so ACH payments clear in a single day and, ultimately, in real time.

The **Wire System** is actually a system for banks to transfer money to one another. The system cannot be used for entities or individuals to send money to each other directly. You must have a bank account within a bank to initiate a wire transfer from your bank or to accept a wire transfer from another bank. The system is not set up for repetitive and every day transactions for consumers. However, the system makes for a guaranteed payment. Once a wire transfer is initiated and sent through the system, it cannot be reversed. The funds are 'good' for the payment acceptor.

Some Questions to be asked:

- Is our economic world moving to 'real time' and 'guaranteed' payments?
- Do any of the six core payment systems have the ability for real time payments?
- Will a new payment system emerge that will solve all of the issues around payments?
- How expensive will a new payment system be?

The answers to these questions are not known at this time. While the core payment systems now control all of our payments, there appears to be momentum to remaking our payments ecosystem. Rest assured Vizant, as the thought leader in payments, will continue to partner with its clients to provide expertise and leadership in all aspects of receiving and initiating payments.