

# In Pursuit of a Better Payment System

Faster Payments Task Force



## ***Faster Payments Effectiveness Criteria - What's Next?***

**March 2016**

*Presented by Kylie Stewart*



## Welcome and Agenda Review

# Agenda



Background: Faster Payments Task Force and Effectiveness Criteria



Process: How were the Effectiveness Criteria developed?



What's next: How the Effectiveness Criteria will be used



## Background: Faster Payments Task Force

# Faster Payments Task Force Objectives

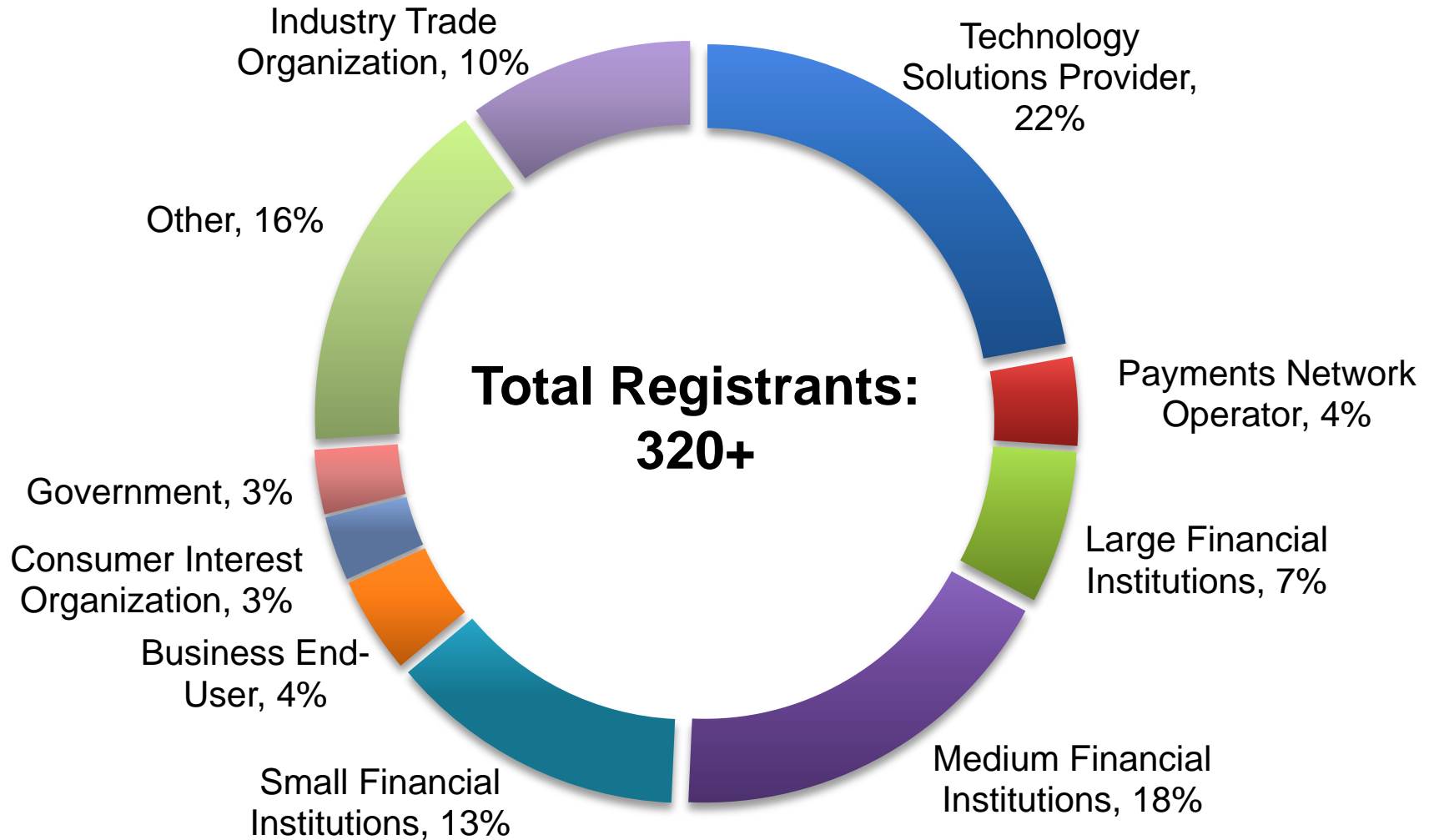
The Federal Reserve's *Strategies for Improving the U.S. Payment System* established the Faster Payments Task Force in support of its strategy to identify effective approach(es) for implementing a safe, ubiquitous, faster payments capability in the United States.

**Represent...**  
views on future  
needs for a safe,  
ubiquitous faster  
payments solution

**Assess...**  
alternative  
approach(es) for  
faster payment  
capabilities

**Address...**  
other issues  
deemed important  
to the successful  
development of  
effective  
approaches

# Faster Payments Task Force Composition





## Background: Effectiveness Criteria

# Purpose of the Effectiveness Criteria

A description of stakeholder needs that can be used by the market to guide faster payments innovation

**Faster  
Payments  
Effectiveness  
Criteria**

A framework to be used by the Faster Payments Task Force for identifying effective approaches to faster payments



# Effectiveness Criteria Key Points

**1**

The Effectiveness Criteria are intended to provide guidance versus a hard and fast rule.

**2**

The Effectiveness Criteria are neither a *minimum* nor *maximum* set of requirements.

**3**

The Effectiveness Criteria should be viewed holistically as many of the criteria are interrelated and sometimes have tradeoffs.

**4**

The Effectiveness Criteria reflect all of our work efforts and knowledge to date; we are prepared to update them should we uncover needed, small adjustments.

# Effectiveness Criteria

## Ubiquity

- U.1 Accessibility
- U.2 Usability
- U.3 Predictability
- U.4 Contextual Data capability
- U.5 Cross-border functionality
- U.6 Applicability to multiple use cases

## Speed (Fast)

- F.1 Fast Approval
- F.2 Fast Clearing
- F.3 Fast Availability of Good Funds to the Payee
- F.4 Fast Settlement among Depository Institutions and Regulated Non-bank Account Providers
- F.5 Prompt visibility of payment status

## Efficiency

- E.1 Enables competition
- E.2 Capability to enable value-added services
- E.3 Implementation timeline
- E.4 Payment format standards
- E.5 Comprehensiveness
- E.6 Scalability and adaptability
- E.7 Exceptions and investigations process

## Governance

- G.1 Effective governance
- G.2 Inclusive governance

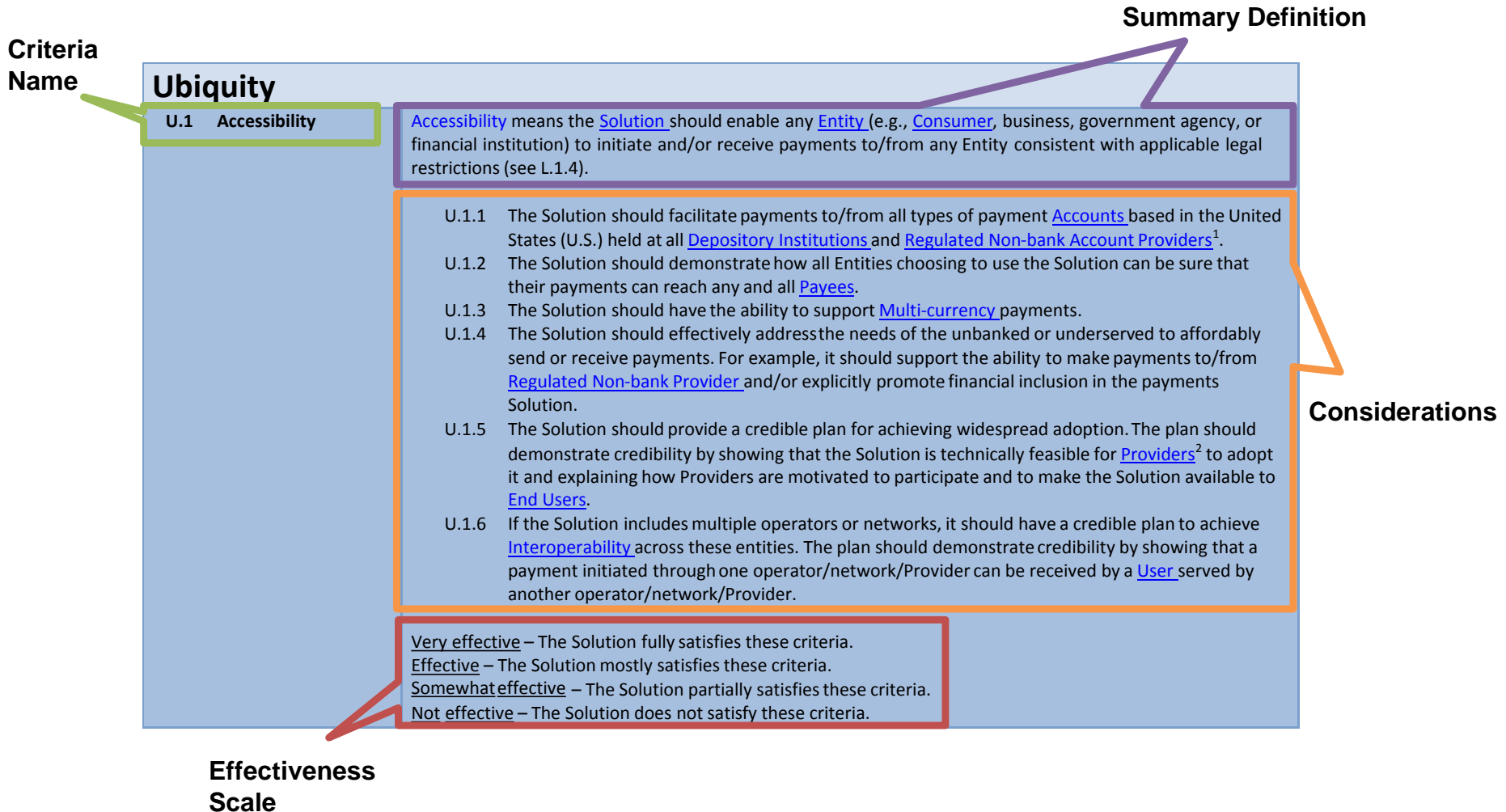
## Safety and Security

- S.1 Risk management
- S.2 Payer Authorization
- S.3 Payment Finality
- S.4 Settlement approach
- S.5 Handling disputed payments
- S.6 Fraud information sharing
- S.7 Security controls
- S.8 Resiliency
- S.9 End-User Data protection
- S.10 End-User/Provider Authentication
- S.11 Participation requirements

## Legal

- L.1 Legal Framework
- L.2 Payment System Rules
- L.3 Consumer protections
- L.4 Data privacy
- L.5 Intellectual property

# Each Individual Criteria is Comprised of Several Components



# Ubiquity

Criteria	Definition
<b>U.1 Accessibility</b>	Accessibility means the Solution should enable any Entity (e.g., Consumer, business, government agency, or financial institution) to initiate and/or receive payments to/from any Entity consistent with applicable legal restrictions (see L.1.4).
<b>U.2 Usability</b>	Usability means that the Solution should provide a straightforward and simple End-User experience and be available anytime, anywhere, any way, using a variety of access points.
<b>U.3 Predictability</b>	Predictability means that the Solution should have a reliable and standard End-User experience for its baseline features.
<b>U.4 Contextual Data capability</b>	Contextual Data capability means that the Solution should support the transfer or association of relevant information needed by End Users. Such information describes the reason for, or is otherwise related to the funds transfer, as appropriate to the use case.
<b>U.5 Cross-border functionality</b>	Cross-border functionality means that the Solution should enable convenient, cost-effective, timely, secure and legal payments to and from other countries.
<b>U.6 Applicability to multiple use cases</b>	Applicability to multiple use cases means that the Solution should support payments in multiple use cases (including at least one targeted use case), and should demonstrate its ability to be extensible and flexible to additional payment use cases in the future.

# Efficiency

Criteria	Definition
<b>E.1 Enables competition</b>	Enables competition means the Solution should allow Providers to compete with each other to offer services.
<b>E.2 Capability to enable value added services</b>	Capability to enable value-added services means that the Solution should enable Providers to offer additional services beyond the Solution's defined baseline features.
<b>E.3 Implementation timeline</b>	<p>Implementation timeline means that the Solution should have a credible plan to achieve Initial Implementation and Ubiquity (as defined in the glossary) by the target dates described in the effectiveness scale below.</p> <p><u>Very effective</u> – Achieves Initial Implementation by 2018 and Ubiquity by 2020.</p> <p><u>Effective</u> – Achieves Initial Implementation by 2019 and Ubiquity by 2021.</p> <p><u>Somewhat effective</u> – Achieves Initial Implementation by 2020 and Ubiquity by 2022.</p> <p><u>Not effective</u> – Implementation timeline not credibly estimated or Initial Implementation after 2020 or achievement of Ubiquity after 2022.</p>
<b>E.4 Payment format standards</b>	Payment format standards means that the Solution should be Interoperable with current payment format standards (e.g., ISO 20022) and adaptable to future needs and standards.
<b>E.5 Comprehensiveness</b>	Comprehensiveness means that the Solution should support all steps of the payment process from Initiation to reconciliation.
<b>E.6 Scalability and adaptability</b>	Scalability means the technical design of the Solution should readily support projected transaction volumes, values, and use cases. Adaptability means the technical design of the Solution should be able to readily adjust to ongoing environmental developments.
<b>E.7 Exceptions and investigations process</b>	Exceptions and investigations process means that the Solution should provide End Users, Providers, and any other relevant Parties with tools and protocols to minimize, identify, investigate and resolve exceptions.

# Safety and Security

Criteria	Definition
<b>S.1 Risk management</b>	Risk management means that the Solution should have a Framework (rules, policies and procedures) to address (identify, measure, monitor, and minimize) legal, credit, liquidity, operational, and other risks across the end-to-end payments process.
<b>S.2 Payer Authorization</b>	Payer Authorization, including pre-authorization, means that the Solution should require payments to be initiated only with the explicit and informed consent (see U.3.2) of the Payer to the Payer's Depository Institution or Regulated Non-bank Account Provider.
<b>S.3 Payment Finality</b>	Payment Finality means that the Solution should define a point in time after which a payment is Irrevocable. (See S.5 regarding protections to Payers for Fraudulent or erroneous payments).
<b>S.4 Settlement approach</b>	Settlement approach means the Solution should, by its design and rules, determine when and how Depository Institutions and Regulated Non-bank Account Providers settle their obligations between each other; it should also determine the mechanisms to pro-actively manage any related credit and liquidity risks.
<b>S.5 Handling disputed payments</b>	Handling disputed payments means that the Solution should have rules, processes and timeframes for effectively addressing unauthorized, Fraudulent, erroneous, or otherwise disputed payments, and, for each of these, have an appropriate allocation of liability among, and substantive liability limits for, all Parties, including the Payer, the Payee, and the Providers involved in the payment. (See S.3 regarding payment Finality).

## Safety and Security (continued)

Criteria	Definition
<b>S.6 Fraud information sharing</b>	Fraud information sharing means that the Solution should require and facilitate timely and frequent sharing of information among all Providers, operators and regulators to help them manage, monitor, and mitigate Fraud and evolving threats in accordance with applicable law (see L.4).
<b>S.7 Security controls</b>	Security controls means that the Solution has layered and robust technical, access, operational, procedural, and managerial controls to address and foster security, including but not limited to the integrity and protection of confidential, private and sensitive Data.
<b>S.8 Resiliency</b>	Resiliency means that the Solution has mechanisms and systems to ensure high levels of end-to-end availability and reliability under normal and stressed operating conditions.
<b>S.9 End-User Data protection</b>	End-User Data protection means that the Solution should have controls and mechanisms to prevent the unintended exposure of End-User Data. End-User Data, both digital and physical, should be protected in transit and at rest, before, during, and after a transaction, so that it is not exposed in-the-clear.
<b>S.10 End-User/Provider Authentication</b>	End-User/Provider Authentication means the Solution should require robust identification and verification for enrolling and transacting with End Users and Providers.
<b>S.11 Participation requirements</b>	Participation requirements means that the Solution should establish and monitor compliance with transparent requisites that Providers must adhere to on an ongoing basis as appropriate to their roles in the Solution.

# Speed (Fast)

Criteria	Definition
<b>F.1 Fast Approval</b>	<p>Fast Approval means that the Solution should require and enable the Payer's Depository Institution or Regulated Non-bank Account Provider to assure Good Funds for each payment in a timely manner, as indicated by the effectiveness scale below.</p> <p><u>Very effective</u> – Within 2 seconds.                      <u>Somewhat effective</u> – Within 15 seconds.  <u>Effective</u> – Within 5 seconds.                                      <u>Not effective</u> – Over 15 seconds.</p>
<b>F.2 Fast Clearing</b>	<p>Fast Clearing means that the Solution should require and enable the Payer's and Payee's Depository Institution or Regulated Non-bank Account Provider to exchange payment information in a timely manner, as indicated by the effectiveness scale below.</p> <p><u>Very effective</u> – Within 2 seconds.                      <u>Somewhat effective</u> – Within 1 minute.  <u>Effective</u> – Within 5 seconds.                                      <u>Not effective</u> – Over 1 minute.</p>
<b>F.3 Fast Availability of Good Funds to the Payee</b>	<p>Fast availability of Good Funds to the Payee means that the Solution should require and enable funds and contextual Data, as appropriate (see U.4), to be received by the Payee, such that the funds can be withdrawn or transferred in a timely manner, as indicated by the effectiveness scale below.</p> <p><u>Very effective</u> – Within 1 minute.                      <u>Somewhat effective</u> – Within 1 hour.  <u>Effective</u> – Within 30 minutes.                                      <u>Not effective</u> – Over 1 hour.</p>
<b>F.4 Fast Settlement among Depository Institutions and Regulated Non-bank Account Providers</b>	<p>Fast Settlement means that the Solution should require and enable obligations between the Payer's and Payee's Depository Institution or Regulated Non-bank Account Provider to be discharged in a timely manner, as indicated by the effectiveness scale below.</p> <p><u>Very effective</u> – Less than 30 minutes and otherwise fully satisfies these criteria.  <u>Effective</u> – Less than 2 hours and otherwise mostly or fully satisfies these criteria.  <u>Somewhat effective</u> – No later than end of day and otherwise partially, mostly, or fully satisfies these criteria.  <u>Not effective</u> – Next day or longer, or does not otherwise satisfy these criteria.</p>
<b>F.5 Prompt visibility of payment status</b>	<p>Prompt visibility of payment status means that the Solution should enable mechanisms by which both the Payer and the Payee can track the payment at various stages of the end-to-end payment process in a timely manner, as indicated by the effectiveness scale below.</p> <p><u>Very effective</u> – Within 5 seconds.                      <u>Somewhat effective</u> – Within 1 minute.  <u>Effective</u> – Within 15 seconds.                                      <u>Not effective</u> – Over 1 minute.</p>



# Legal Framework

Criteria	Definition
<b>L.1 Legal Framework</b>	Legal Framework means that the Solution should describe the legal sources which will govern the operation of the Solution and/or impose any compliance obligations on the Solution or End Users, and describe any contemplated changes or additions to existing laws necessary to support the Solution.
<b>L.2 Payment System Rules</b>	Payment System Rules means that the Solution should have requirements, standards/protocols and procedures that govern the rights and obligations of all End Users, Providers, Payers and Payees.
<b>L.3 Consumer protections</b>	Consumer protections means that the Solution should have a Legal Framework and procedures that allocate legal responsibility, allocate financial responsibility and support Error Resolution for payments made to or from natural persons for personal, family, or household purposes (see also S.5).
<b>L.4 Data privacy</b>	Data privacy means that the Solution should have an approach to identify whether and how payment and related information can be collected and disclosed, consistent with applicable policy, law, and End-User preference. The Solution should also have an approach, consistent with law, to secure information that should not be disclosed (see also S.6 and S.9).
<b>L.5 Intellectual property</b>	Intellectual property means that the Solution should have an approach to address any risks arising from third-party rights related to patents, trademarks, copyrights, and trade secrets.

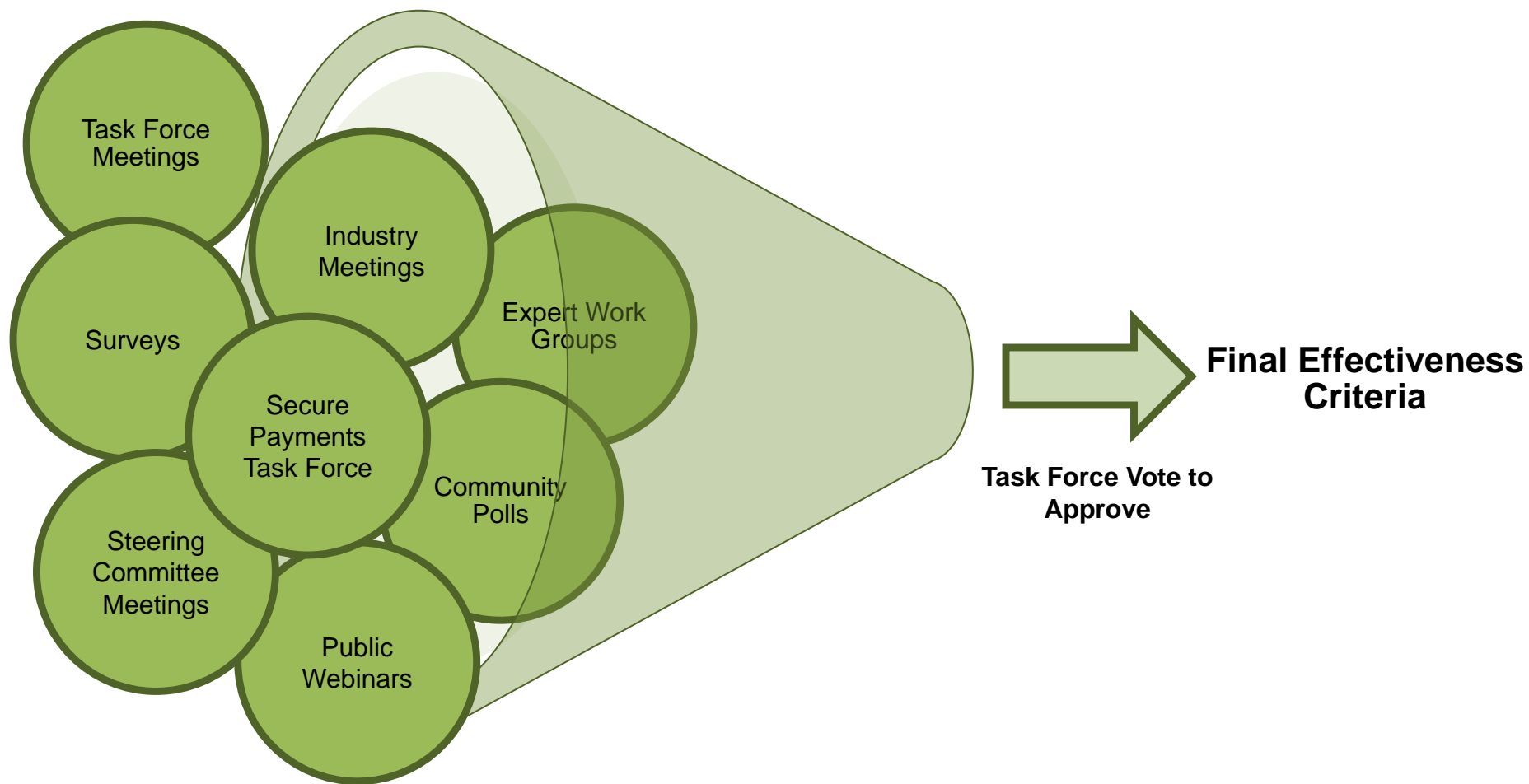
# Governance

Criteria	Definition
<b>G.1 Effective governance</b>	Effective governance means that the Solution should have decision and rule-making processes that are transparent and support both the Solution's objectives and Public Policy Objectives.
<b>G.2 Inclusive governance</b>	Inclusive governance means the Solution should allow for input and representation from diverse stakeholders (e.g., End Users, operators, Providers, and regulators), and supports the public interest.

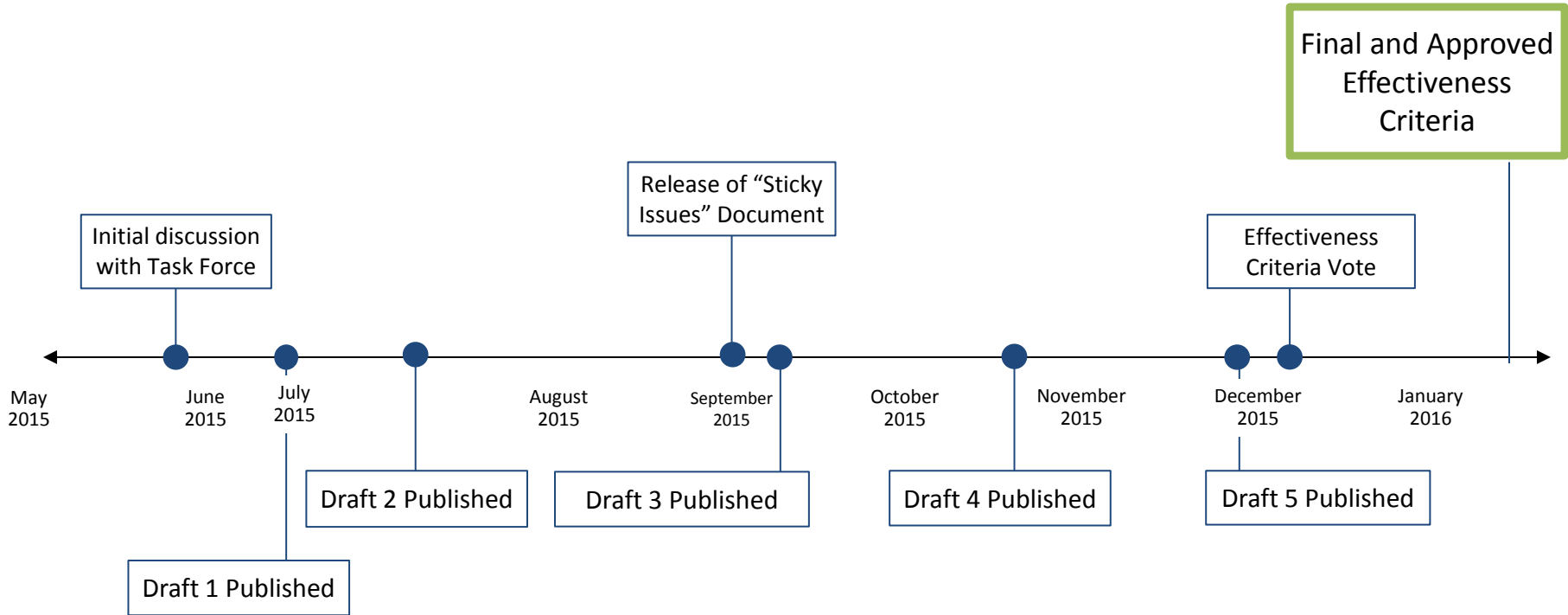


## Process: How were the Effectiveness Criteria developed?

# Process: Developing the Effectiveness Criteria

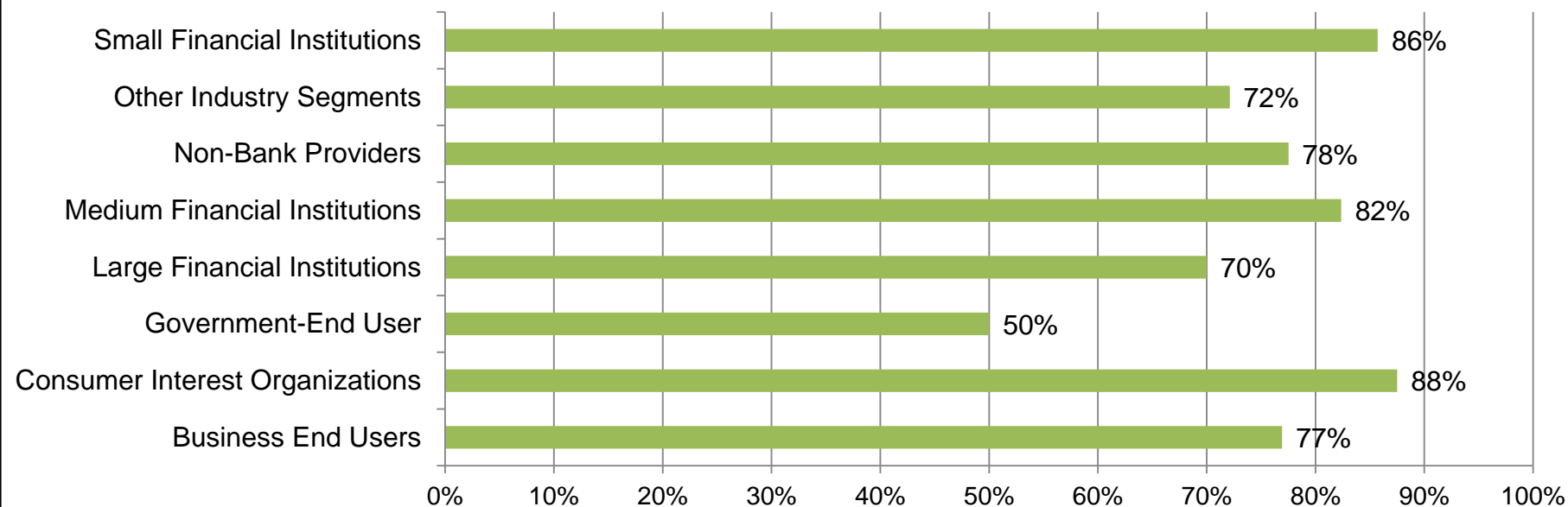


# Process: Timeline of the Criteria Development



## Process: Finalizing the Effectiveness Criteria by Vote

### Achieved Overall Participation Rate of 77%



That resulted in a **97%** overall consent rate



## What's Next: How the Effectiveness Criteria will be used

# Faster Payments Effectiveness Criteria: What's Next?

## Capability Showcase

Launched January 19

- Short industry videos of capabilities that could support end-to-end faster payment solutions
- Capabilities may support one or more of the Effectiveness Criteria
- Offers opportunity for capability providers to collaborate
- Educates task force on marketplace capabilities

## Proposal Submissions

April

- Any Faster Payments Task Force member is eligible to submit a proposal for an end-to-end payments solution
- Proposals should describe how they meet the Effectiveness Criteria
- Proposal Template was provided to guide proposers on the detail to include in their proposal

## Proposal Assessment

April – November

- Assessment undertaken by Qualified Independent Assessment Team
- Qualitative assessment against the Effectiveness Criteria
- Task force will provide commentary on the assessments and proposals

## Final Task Force Paper

Completed March 2017

- Publish proposal, assessment against the Effectiveness Criteria and task force commentary
- Identify strategic issues, gaps, barriers and opportunities to implementing faster payments solutions



**Questions?**



# Get Involved

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