

RTP[®] Send: Starting the Research Project

REVIEW OF RESEARCH PERFORMED BY CU*ANSWERS TO DATE

Prepared for the CU*Answers Board of Directors

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Introduction

Sending real time payments remains a moving target and early adopters are just beginning to understand the complexities of it. The number of payments are picking up but the originating financial institutions appear to be those that built the product through The Clearing House. FedNOWSM is slated to be released in July of 2023 but that also has been a date that most feel unsure of at this point. We also have uncovered that fact that unlike the ACH system, RTP[®] will not be interoperable, which means participants will either have to build an interface to both or partner with a third party that normalizes both to one interface. CUs would need to be on both rails in any case.

This document is a compilation of research, web conferences with firms developing third party interfaces, and firms who serve as settlement agents. This research is ongoing and at this point considered incomplete as many of the rules and interfaces nuances appear to be in flux and have not been given a final stamp of approval.

Components of Sending Real Time Payments

TCH Rules Effective 8/22/2022

- Participants must satisfy the requirements in the operating rules to participate in both sending and receiving, as well as requirements found in the technical specifications, fraud control requirements, and the RTP information security standards and requirements.
- No correspondent participation.
 - No foreign transaction (for now)
 - Sending on behalf of another FI with exceptions
- Can only initiate for the sender's account; may not exceed \$1,000,000; may establish limits.
- TCH does have a mechanism for requesting a return of funds for unauthorized payments and participants must reasonably cooperate amount themselves, but TCH will not be a participant in disputes unless TCH was at fault.
- Prior to submitting a payment FI must satisfy the prefunding requirements.
- Once the receiver clicks "accept" the sending agent is obligated to pay without recourse.
- Payment message cannot be canceled for any reason.
- TCH can monitor activity for erroneous or fraudulent activity but makes no warranties and assumes no risk.
- TCH has the right to fine participants for violations of the operating rules. (These fines are not small.)

Fraud Component

- Must at a minimum utilize multi-factor authentication (MFA) as outlined in the Risk Management and Fraud Control requirements.
- Must utilize a fraud and risk screening measure prior to submitting a payment message.
- Must regularly review performance of fraud monitoring system.
- Must report fraudulent activity to TCH in accordance with operating rules.

Funding Component

Pre-funding is required, and based upon our research we believe that funding will be through third parties such as corporate credit unions, as the reserve requirements require frequent calculations, so corporates are stepping in to complete funding and settlement on behalf of credit unions.

Legal and Audit

- Financial institutions indemnify all participants from just about everything.
- Must prevent any money service business (MSB) as defined by FinCEN from engaging in sending payments.
- Liable to TCH for failure to have reasonable risk-based measures in place to prevent fraud.
- TCH has the authority to audit for compliance with the rules.
- TCH has the authority to revoke an FI's ability to participate at any time.
- Some RTP payments are subject to the New York UCC 4-A for receiving and sending.
- TCH has the authority to audit participants and third party service providers.
- Participants are required to do a self audit annually.
- TCH will provide participants with their audits to meet regulatory requirements.
- Surety bond required in the event there is a legal issue with the sending institution.
- Must maintain an error resolution reserve requirement.
- Must maintain an information security program in accordance with OCC Bulletin 2011-16, with an annual risk assessment including all aspects of a general IS&T assessment.

Compliance Component

- Erroneous payments are governed by UCC-4a for commercial payments.
- Consumer payments are governed by the EFTA.
- Participant must have a written OFAC compliance program reasonably designed monitor for OFAC compliance.
- Must have procedures reasonably designed to meet BSA/AML requirements.

Settlement Component

- Settlement will be handled with the assistance of a funding agent. Based upon our research we do not believe credit unions will establish pre-funding accounts at the chosen bank of New York but will rather use their corporate for managing pre-funding reserves using their corporate account dollars. To date we only know of two, including Corp One and Vizo.
- TCH will provide reconciliation reports; however, the timing of these reports is not set in stone and will be determined by TCH.
- No cut-off time can be established by an FI so we are anticipating balancing may have challenges.
- Fees for sending are set out in the fee schedule and are automatically withdrawn from the participant's account at a rate of 4.5 cents. Other fees are listed for things such as a request for payment, but that is outside the scope of this document

Interface Component

More questions than answers at this point, but here are some of the key considerations:

- Mechanism for real-time fraud monitoring
- Configuration and mechanism for CU-desired restrictions, such as:
 - Min/max \$ amounts per day and/or other period
 - CU-level, member-level, and (for MLO) employee-level controls
 - Time of day restrictions
- Mechanism for CU approval prior to send
- Mechanism for OFAC scan integration
- Mechanism for indemnification agreements/recording member acceptance
- Mechanism for member fees
- UI for members via online/mobile banking
- Tracking and analytics mechanisms