

162 Tede Forman Payments

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Theresa Witham 00:03

You're listening to the CUES Podcast, episode 162. Welcome to the CUES podcast where leaders and experts discuss the top topics in credit unions today. I'm Theresa Witham, Vice President of publications and publisher of the CUES credit union management magazine. In this episode, we talk about real-time payments with our guests TD Forman, TD is president of payments solutions at CUES supplier member Jack Henry, he leads the company's strategy and solutions for payments. We had an interesting conversation about instant payments. And the work Jack Henry has done with FedNow, as well as how they are helping credit unions think about and be ready for real-time payments. TD joined Jack Henry in 2011. And he has more than 35 years of financial services and technology experience this expertise shows during our interview, so let's get started. We always like to start with a couple of questions that help listeners get to know you better. So do you have a leadership quote or mantra that you live by? Yeah,

Tede Forman 01:17

Theresa's Sure. I really believe strongly in collaboration, communication, and transparency. And making sure from a team perspective, we really have a diverse background of folks that are contributing. So you know, transparency, collaboration, communication, don't hide the elephant, let's you know, we can all figure out how to solve a problem. So really, really just being you know, very open and transparent, I think really helps lead constructive discussions and dialogue and help us get kind of where we need to go.

Theresa Witham 01:51

So I couldn't agree more. I love that. If we were honest, I think it'd be more out in the open. And I feel like we could solve a lot more problems.

Tede Forman 02:01

Absolutely. I mean, you know, there's not always any right or wrong answer to some, you know, so let's open up. Let's be fully transparent, because if we need to course correct, that's fine. Just be transparent, forthcoming.

Theresa Witham 02:14

Well, thank you for that. Why don't we start talking about the topic at hand and payments? Jack Henry actively participated with the Federal Reserve to help develop its real-time payments network now can you tell us why Jack Henry wanted to be on the leading edge of the FedNow launch? Yeah,

Tede Forman 02:34

you know, we really wanted to offer this opportunity to all of our community FIs, you know, specifically credit unions right from the start, really to give them the horsepower to drive innovation. We also saw this as kind of the foundation for meeting kind of current needs, but also building future payment solutions. You know, there's going to be a lot of innovation and transformation with instant payments, you know, from P to P to business, and really felt like getting in on the front end would one you know, help the credit union understand operational processes as well, while volumes were low, and then also think through use cases that could be leveraged in the credit union space with instant payments. We basically if you think about FedNow, in specific, we probably have probably around 30-33% Of all the FIS that are live on the FedNow rail, or actually a Jack Henry

Theresa Witham 03:37

FYI. Oh, wow. That's great. I'm sure you're talking with credit unions about fat now a lot. What are some of the most common questions you're getting about that now? And how do you answer them?

Tede Forman 03:50

So two, probably the most common questions from credit unions basically are which network should I participate in? You know, FedNow, ACH, RTP? Why should I join FedNow, if I already have RTP. And we basically kind of informed them or tell them, you know, it's really, really important to have receive turned on for both networks, because the use cases are really different. That way, you know, no member is at a disadvantage to receive funds in real time if a merchant or a biller or whomever is connected to one rail versus another. So that's, you know, one of the big questions that we kind of walk through. And another one really is how difficult is it to implement FedNow, as a lot of the early adopters that we've turned on, there's really not a lot of lift for them from an implementation process, because it's pretty simple. The one thing we did at Jack Henry is we really built a repeatable process that allows us to basically bring on 20 fis in a single day, based on our turnkey approach to turning on instant payments. So those are probably two, probably two of the most more frequent questions we get asked.

Theresa Witham 05:05

And this may be more of a question for me to clarify. But is there anything that would stop a credit union from being on more than one, one of the different networks?

Tede Forman 05:15

No. And, you know, again, we really believe it's table stakes to make sure credit unions turn on receive only. And then as use cases get built, you can determine which network you want to go to, but receive shouldn't be table stakes, because really, they are different use cases. So if you think in terms of what the clearing house has done, they've got a lot of the gig economy workers, same day access to payroll as an example. So you know, as those gig economy workers are cashing out of those corporate apps, they're getting instant money moved down to the Community Bank space FedNow, you know, they're building some different use cases, there's going to be government payments that leverage that eventually, there are same day wage access. So again, their use cases are different. And we recommend turning both on specifically, little bit different ways on how liquidities managed between the two networks. But you know, it's easily managed. Plus coming on early also allows backroom operations to really understand the difference in how reconciliation works from your traditional three day ACH versus instant payment. And then reconciling with the liquidity processes that you've put in place.

Theresa Witham 06:32

Thank you for that, that makes a lot of sense. There's really not a risk and turning on receive is what it sounds like, that would be correct. Speaking of risks, what are some of the common risks or barriers that make a credit unions hesitant implement instant payments, like bad now and other real time payments? And what you tell them?

Tede Forman 06:53

Yeah, I mean, the potential for fraud associated with instant payments is probably the largest risk making credit unions, you know, hesitant to implement them, we're, you know, what we're looking at. And what we suggest is having multiple layers of security within an application that's originating send payments, you know, and having a fraud solution really is key to reducing fraud in general. The other piece too, is really around education. And that can drive significant reduction in risk, because a lot of risks that we see with instant payment is account takeover, right where you were, I give away our credentials to someone else. And you know, at that point, you know, you've unlocked the doors. So really, education and continuing education is truly important. And it should be available to all credit union associates as well as their members. So, you know, understanding kind of what fraud is, what the different categories of fraud are, and then help for associates and members on how to mitigate that. You know, as far as barriers, many credit unions are really concerned about the opera realization to support instant payments, not the implementation. And, you know, we found institutions and credit unions, you know, really that are looking for operational guidance, you know, a Jack Henry, we also come in and help set up and operational model, what to look for how to balance what reports but access to a portal that's available to do reconciliation, and then little shout out or can definitely share some appreciation for the work that's being done by the Faster Payments Council out there, right now, to address the needs, you know, in a series of their publications that they basically put together on operational considerations. There's a couple of links, I'm happy to share with you, Theresa, if you want is, you know, a link that kind of shows some guidance comes from the Faster Payments Council, and it's really guidance around things that financial institutions consider for instant payment receive. Yeah, that

Theresa Witham 09:03

would be wonderful. We will put that in the show notes. listeners can find them there. Do you have any data you can share about the use of and demand for instant payments?

Tede Forman 09:13

Yeah, no, good question. So I'll break it down into kind of the three different kinds of faster payment solutions that are really live today. You know, you've got Zell, you've got RTP. And you've got FedNow, we've got just north of 300 financial institutions that are live on the Zell network, and we're processing about just north of \$14 billion in transaction volume. And as an example, between the end of September and the end of February, we saw a 44, almost 45% increase in dollars processed across the Zell network. If you look at RTP as an example, we have just north of two 160 financial institutions live. And that represents I think I mentioned earlier 60 65% of the FIS that are live on the RTP network, or Jack Henry F eyes, we've seen between September and February about a 40% increase in dollars processed. And we're processing about four and a half billion dollars worth through the network. And

then specifically with FedNow, we're north of 160. Live, we've got over 265 contracts that are signed for FedNow rails. And this number is huge, because you got to think about the starting point. But we've seen a 15,000% increase in dollars processed on the FedNow rails, and we're processing over a million dollars a month in transaction volume for specifically for FedNow, knowing it's only been live since July and pilot mode. So again, the takeaway here is significant increase in transaction dollars and volume. And Zell is both send and receive, but RTP and FedNow right now these numbers only represent receive. So you can imagine, when use cases get developed around send and request for payment, the significant increase in adoption that you'll start seeing with those rails as well.

Theresa Witham 11:24

Absolutely, it really seems like there's no going back on this. It's too popular. It's certainly is very handy when you're trying to pay someone for yard work I had done last summer, right? It's so easy to just give them that payment directly instead of getting the cash or the cheque writing a

Tede Forman 11:45

check. Yep, exactly. But I think you'll see, you know, as use cases get developed around small business merchant apps that can leverage these faster payment rails to get paid immediately. So yeah, that's less risky for them.

Theresa Witham 11:59

What about, can you tell us how instant payments can help credit union members improve their financial health?

Tede Forman 12:08

So a couple things, one, think in terms of faster access to funds. So deposits, for gig economy workers or day to day workers, you're talking about earned wage access, where payroll companies or merchants are small businesses can push, you know, earn wages access immediately. So again, I think one big one is faster access to funds. I think the other piece that's still evolving, is really financial health management for members of a credit union. You know, if you start combining AI, or predictive analytics, with instant payments, members can really better manage their cash flow. So within an example of, you know, our money movement platform that we've built a Jack Henry, we've got some predictive analytics baked in there where, you know, Theresa, if you had missed your paying your utility payment, or you had been paying your utility payment, all of a sudden you didn't make a payment, we have the ability to do a push notification to you, Hey, Theresa, do you want to go ahead and schedule and make that payment, you could do it. And then we're integrating Instant Payment rails basically into that money movement platform, so really gives a credit union's member better access to understand cash flow and financial health. So I think those are faster access to funds, as well, as you know, the ability to manage and improve financial health are two things that I think you could see a lot of use cases that are getting developed for instant payment.

Theresa Witham 13:41

Sure, absolutely. And having that access to the funds much more quickly, could hopefully help members resist the call of the payday lender or the predatory lenders that are taking advantage.

Tede Forman 13:54

Exactly. No, you're exactly right. Exactly. Right.

Theresa Witham 13:57

What is your vision for the future of instant payments?

Tede Forman 14:03

A couple things, I think, instant payments as a foundation, on top of which, you know, we'll see kind of innovative solutions build up. I think this is just the beginning at this point. I think you'll see merchants, once really rails become hardened. And the security and fraud is in place. I think you'll see merchant apps pop up that allow consumers to pay for goods and services at those merchants and think in terms of you know, a merchant potentially then not having to pay as much interchange, if someone was using a card versus a merchant app that's got instant payment rails built into it. So you know, I think you'll see some of that. I think the ability to embed Payment Capabilities into value chains. I think these opportunities are going to grow. So think in terms of fintechs that you embed my gross payment, microservices in are going to grow. And then the other piece really I think that you'll see is, as the US moves ahead with our domestic adoption, I truly think you're going to see that set up the future. For more Global Payment Capabilities were instant payments, rails can connect to other regions countries with Instant Payment Capabilities. So instead of wiring somebody, you would probably leverage the ability to do instant payments as an example. So whether it's cross-border or international payment capabilities, as we become more of a global economy, I think these instant payment rails will basically set up the ability to move funds that way. Another example I like to use think in terms of the mortgage business today here in the US, right? Traditionally, you have to wire money by 10am. So you can close by two o'clock in the afternoon. If you think in terms of instant payments, it can really open up the opportunity to you could close any time, right, you could close on a weekend, because these rails are 24/7. You no clothes in the morning processes fraud have to be baked into that. But I truly think the mortgage industry is ripe for a use case developed around instant payments. Very cool. Sorry, I'm somewhat passionate about it.

Theresa Witham 16:30

So no need to apologize. That's it's good to have people like you who are passionate about these topics have such a profound impact on the industry. It's

Tede Forman 16:40

exciting. I mean, it's you know, I think there's a lot of exciting times ahead for us with instant payments as these continue to get hardened. But

Theresa Witham 16:49

the various payment channels being silos in most credit unions that inherently create disparate user experiences and operational burdens. What are the benefits to see with a true money movement platform?

Tede Forman 17:05

Well, the biggest one, really, I see as a single platform that can provide consolidated data for analytics and fraud mitigation. I think that's huge. You know, if you think in terms of all the disparate systems that are out there today, and they're siloed, you know, if you have one portal, one pane of glass, that you can go in and be able to do analytics and look at fraud across your solutions. That's huge, seamless experience. So improving that user experience, not only for the end users, but the account holders, but also the f5 teams, right. So the credit union associates themselves easier for operational teams to have a single administrative tool as an example, for settlement and reconciliation, you know, managing and supporting the members across multiple payment channels. To me, that's huge in operational efficiency. Keeping

Theresa Witham 18:01

employees happier by making their jobs easier is certainly something that most credit unions would aspire to, I think we know that instant payments are a real game changer. But what other payments innovations, do you believe our current or emerging game changers? Gonna start with consumer payments? And then tell us about business payments?

Tede Forman 18:23

Yeah, you know, I think probably many of them apply to both. So I mean, if you start thinking about embedded Payment Capabilities, as an example, what we're calling and you know, Jack Henry, we built out payment as a service payment hub. But it really is the ability to have API micro services, and being able to embed them in both, whether it's a consumer or a small business solution for basically moving money faster. The other piece that I think, you know, inherently as an industry, we're going to be moving to a common data standard, you know, the ISO 222. That really simplifies the exchange of information between systems. I think that's huge. And then I think we'll see Gen AI applications, improve payment processes, and really enhance fraud and risk mitigation and management. So you know, probably three key things that I would see see out of that.

Theresa Witham 19:23

Can you tell us about the expected impact of a request for payment functionality for small or medium businesses?

Tede Forman 19:33

instant payment requests for payments functionality solves a lot of issues. You know, it offers speed, finality, and saves the SMB time and resources it really helps them manage their cash flow better. If you take a step back timely collection of payments is a challenge for many SMBs think in terms of streamlining their invoices and payments is a challenge today. Often payments are outstanding small business owners, you know, spend extra time tracking them, sending reminder emails, you know, every billing cycle. And even when their customers send payments, there could be uncertainty in exactly when those funds will be available to them, or the remittance process on how they're balanced. So really, the whole process could be tedious, and potentially negatively impacting their cash flow. So that's why I said at the beginning, you know, Instant Payment Request for Payment really solves these by speed, finality, and then time and resources, it really helps them improve their cash flow.

Theresa Witham 20:40

absolutely, thinking about paying my cat sitter, when we go away, and how I don't get her invoice for sometimes up to a month, that must be a bit of a challenge, right?

Tede Forman 20:51

So to get it, did she send you electronic invoice and then want you to write a check and mail it to her normally? Yes,

Theresa Witham 20:59

that's how it usually works. But and by that point, I've forgotten all about the fact that we used her services. So and obviously, if I'm a little late getting it sent off to her, then that's not very helpful. So if I could just pay her right away, right, when I get home and see that my cat still healthy and happy and well fed, that would be wonderful. So as we, before we wrap up, what about a final question, what would you tell a credit union that does not have a formal, constantly evolving payment strategy?

Tede Forman 21:31

Well, first thing is, I tell all financial institutions, credit unions, it is very important that you develop a payment strategy. You know, I sometimes use the term death by 1000. Duck bites. I don't know, you might need to edit that out trees. I don't know. But I love that. If you think in terms of you know, one or two duck bites aren't going to, you know, really hurt. Yeah, but 1000s of duck bites. Yeah, they could take off an arm. So think of the fragmentation. And the displacement that's happening today in the payment world, as payments typically drive about a third of a financial institutions net income. When you start thinking about these duck bites, you know, one or two, probably you don't see the impact, but 1000s do. And as credit union members find other ways to conduct payment business, they may not come back to that credit union to do that. So really, one of the first steps we like to do would be to have a conversation on payments, you know, at the top of the organization, how can payments help achieve a credit union's missions and goals? Consider the segments you want to focus on, and then plan on addressing those segment needs, and really need to promote payments, education among the teams to learn about payment trends, keeping up with the industry. You know, Jack Henry, we do offer like some webinars and talks on the relative topics, plus we offer a payment strategy service. And this isn't a I walk into the credit union and hand you a white paper. It's really sitting down with leadership, and helping connect the dots on what's important to the credit union, how do you connect the dots between payments and income? What's important to you from a business driver perspective, and then really help formulate a strategy on solutions that help keep payments in that credit unions ecosystem. So members and small businesses continue to use the credit unions digital experience to do all their payment business. That to me is key. Absolutely.

Theresa Witham 23:40

That's wonderful. Is there anything that I didn't ask that you wish I had or anything you want to add? Before we wrap up?

Tede Forman 23:48

I think you covered the gamut very well, Theresa, I mean, I again, I appreciate the opportunity to spend some time with you and kind of share with you my passion on payments and how it can help credit unions so excited that we got the time to talk. Thank you,

Theresa Witham 24:05

listeners. Thank you for taking time out of your busy schedules to listen to today's episode of the CUES podcast. Also, thank you to TD Forman of Jack Henry for sharing his vast knowledge about payments with us. You can learn more about today's guest and sponsor Jack Henry at Jackhenry.com. You can also reach out to TD AT T Forman at Jackhenry.com That's the letter t f o r m a n at Jackhenry.com. The guide he mentioned about setting up receive for real time payments is linked in the show notes along with a full transcript of this episode at sea.youmanagement.com/podcast/162 You can also find more great credit union specific content at sea.youmanagement.com I'd love to hear from you. Send me questions that you'd like to hear answered on a future episode of the CUES podcast. My email is Theresa@cues.org That's Theresa with an h t h e r e s a at CUES dot o R G. Thanks again for listening CUES is an international credit union association that champions and delivers effective talent development solutions for executives, staff and boards to drive organizational success.