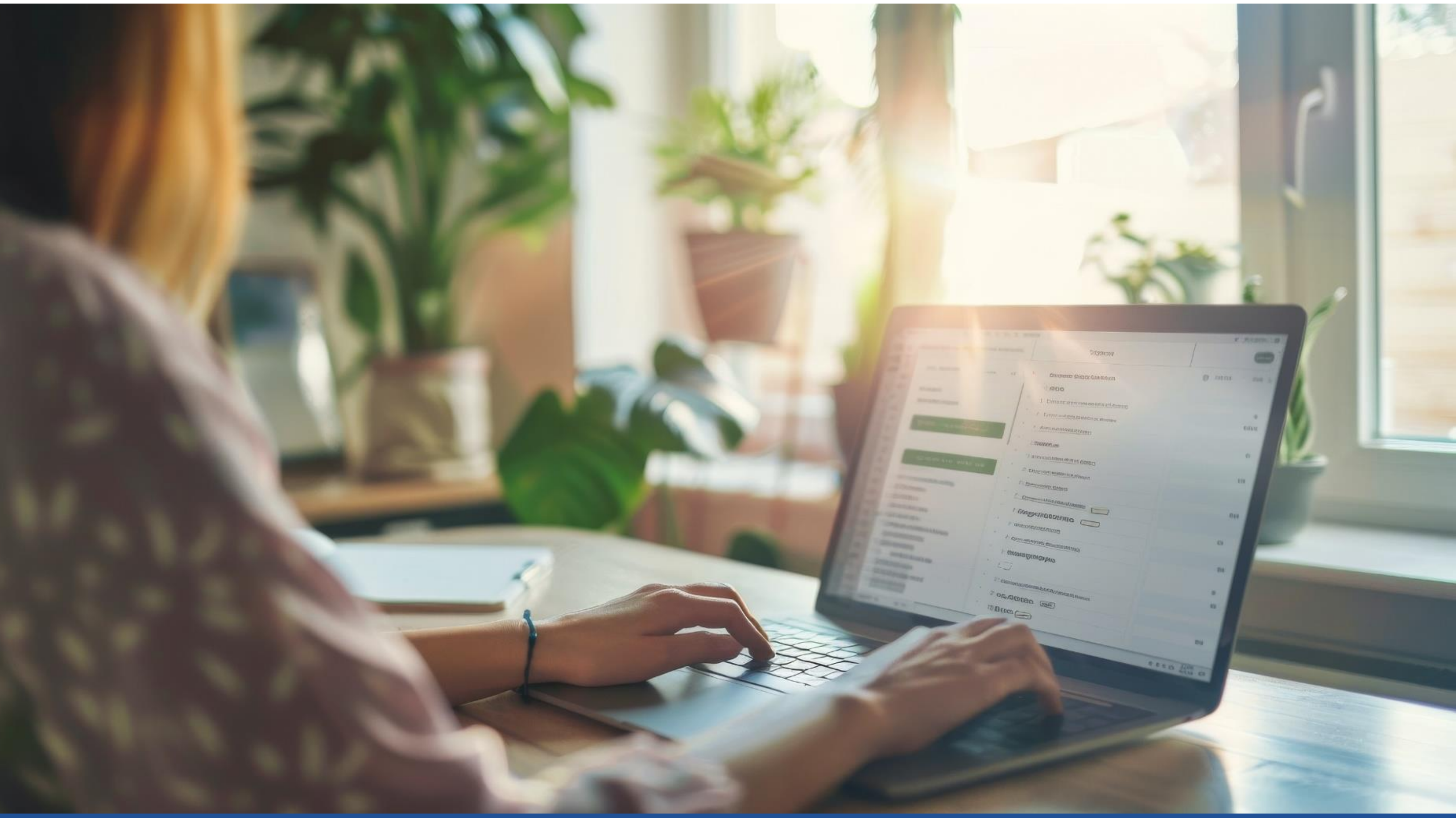

Navigating Instant Recurring Payments: Consumer, Business, and Financial Institution Perspectives

Fasterpaymentscouncil.org

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Introduction

The Faster Payments Council Real-Time Recurring Work Group presents this needs assessment to support instant payments, focusing on the unique attributes of recurring and subscription payments. The team of experts rendered their collective opinions as viewed from various stakeholders' perspectives – specifically consumers (payers), merchants/businesses (payees), and financial institutions. This report will use the terms "merchant" and "business" interchangeably. In some cases, the terms payer and payee will be used; consumers will typically be payers and merchants/businesses will be payees.

Key Components for Recurring Instant[1] Payments

Before diving into the foundational elements and expectations of consumers, merchants, and financial institutions, there are a couple of key components that need to be in place for instant payments to be a viable option for recurring payments.

Request for Payment

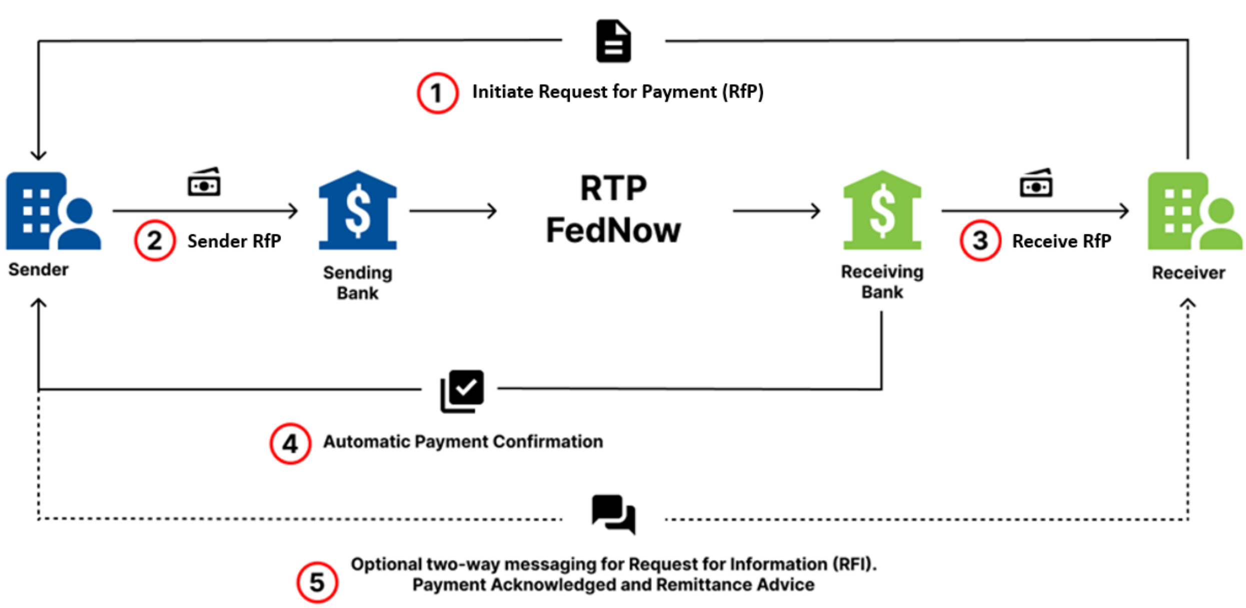
The Request for Payment (RfP) is one of the new features of the instant payments service. This powerful tool is a key component for supporting instant recurring payments. Technically, the RfP is a standardized network message ISO20022 Pain.013[2] which enables a payee to make a request for an instant payment from a potential payer through the network and to keep a record of the payment for the payer. By using RfPs, financial institutions and other service providers can support new value-added instant payment services for their customers.

Standing Approval

Associated with the RfP is the payer's review and approval of the RfP. This consists of two unique steps. First, the financial institution receiving the RfP presents the RfP to the payer for review via the financial institutions online and/or mobile banking solution. Second, the payer approves the RfP which initiates an instant payment credit to the payee that initially requested the RfP.

For instant payments to be a viable option for recurring payments, the RfP must allow for the creation and use of a standing approval. A standing approval is an instruction or set of instructions a payer uses to pre-authorize their financial institution to pay future RfPs without requiring the payer to review and approve each RfP. These standing approvals are maintained at the payer's financial institution and can be revoked at any time by the payer.

References to both the RfP and standing approvals are noted throughout this assessment.



Consumers' Concerns and Expectations

While recurring payments may not represent the majority of transactions that consumers make each day, one would be hard pressed to find individuals or households that do not utilize recurring or subscription payments as they go about their daily lives. Recurring payments are being used for utilities, cell service, insurance, debt payments, investment payments, entertainment, food services, and more. The convenience factor of paying for recurring bills is supplemented by large growth in subscriptions, which doubled between 2019-2022.[3]

As consumer expectations of receiving services on demand have increased, the need for better support of instant bank payments for recurring transactions has as well. There are four key areas that should be considered to address consumer concerns and expectations related to instant recurring payments:

- Ease of Signup and Use of Recurring and Subscription Payments
- Support for Notifications
- Ability to Make Changes and Updates to Scheduled Payments
- Security

Ease of Sign-Up and Use of Recurring and Subscription Payments

The ease of sign-up and use of recurring and subscription payments is a critical factor in addressing the consumer and market needs for instant recurring payments. To successfully meet these demands, it is imperative to offer a secure and frictionless sign-up experience that resonates with consumers. Here are the primary considerations related to the ease of use in instant recurring payments, emphasizing the consumer's perspective.

- **Addressing Consumer Concerns about the Process**: One key aspect of ensuring a seamless instant recurring payment experience is addressing the concerns consumers may have about the process and how it works. Consumer doubts about security, protections, transparency, or the mechanics of instant recurring payments can deter adoption. To overcome these hurdles, financial institutions and businesses need to provide comprehensive education on the concept of instant payments. This education should clarify the benefits, security measures, protections, and steps involved in the process, ensuring customers feel informed and confident.

- **Flexible Setup by Channel Preference:** Consumers have diverse preferences when it comes to managing their finances and recurring payments. While some prefer using a mobile app for convenience, others may opt for their bank's online portal due to familiarity. To accommodate these preferences and facilitate a smooth sign-up experience, it is essential to enable instant recurring payment setup through multiple channels. This can include a user-friendly mobile app or a user-centric online portal, ensuring that customers can easily set up their recurring payments in a manner that suits them best. No one channel should be favored over another, allowing for broad adoption.

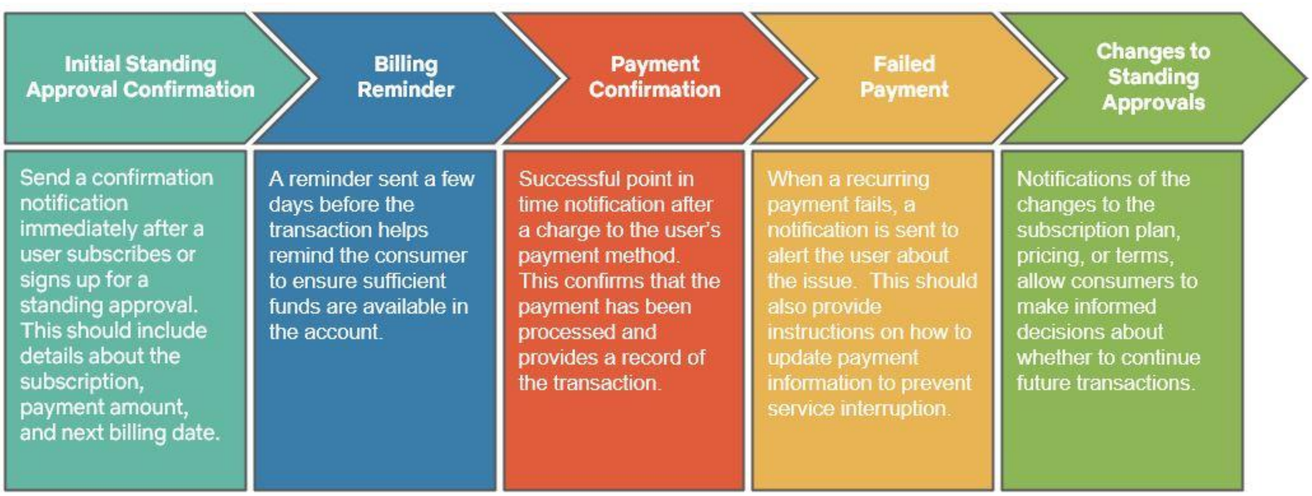
- **Ensuring Proper Endpoint for Payments:** A critical concern for consumers using instant recurring payments is the assurance that their payments are directed to the correct payee. Most of these concerns should be alleviated by the nature of how payees are onboarded by financial institutions (addressed later in this document). However, to increase consumer confidence, businesses should provide robust mechanisms for verifying and confirming payment destinations. This might involve incorporating authentication steps, sending notifications, and offering a transparent process for modifying or confirming recipient information. Assuring customers that their payments will reach the intended recipient accurately is crucial for building trust and encouraging adoption.

Support for Notifications

Standing Approval Notification Categories

Messaging should always be clear when communicating, especially when it comes to instant payment transactions. The goal of notifications is to ensure that critical information around their payment is conveyed to consumers. Clarity reduces consumer payment challenges while enhancing consumer satisfaction.

Standing approval notifications fall into five basic categories:



Any of these categories could be initiated by the payee and/or the payer's financial institution. Some may be optional depending on the type of subscription and consumer payee relationship. Ideally consumers would be able to toggle notifications once a transaction is set up. For example, some consumers may prefer to not be notified of an upcoming payment or only want to be notified if the payment is above a defined threshold. The same could also be true of changes to a subscription.

Ensuring that consumers and payees can have the ability to choose which notifications they receive will provide the greatest value to their relationship and prevents 'notification fatigue'. This is important because one of the added values of a recurring payment is that the consumer does not need to worry about the payment. Receiving unwanted notifications detracts from this value. This flexibility with notifications is kept in check by the consumer's continuous ability to revoke specific standing approvals at any time with their financial institution.

Additional Guidelines on Timing and Frequency

Here are some additional general guidelines to consider when determining the timing and frequency of recurring payment notifications:

- **Preferred Channel**: The timing and frequency of recurring payment notifications depend on the nature of the service, the target audience, and user preferences. Standard automated communication includes email, push notifications, SMS, social media, and phone call. Some users might prefer one channel over another.

- **Preferred Time Zones**: If the user base is spread across different time zones, consider sending notifications at times that are convenient for most users.

- **Customization Options**: Allow users to customize the timing and frequency of certain notifications. Some users might prefer to receive all notifications, while others may want fewer reminders.

Ability to Make Updates and Changes to Scheduled Payments

The ability to easily set up, cancel, or amend a standing approval is critical for the adoption of real-time recurring payments. As the demand for instant and seamless transactions increases, businesses, and consumers (the payee and payer) require the ability to modify their payment schedules with ease, while ensuring convenience, accuracy, and security. Here are the primary considerations:

- **Setting up a standing approval:** One critical consideration is the implementation of dynamic payment scheduling capabilities. One cannot fully articulate all the different possible payee and payer interactions that could benefit from instant recurring payments. As a result, instant recurring payments should be flexible to support varying types of recurring payment scenarios. For example, standing approvals should have the ability to support an authorized payment range for fluctuating bills, such as utility bills, credit payments, etc., implemented consistently with the requirements of federal law and regulations.

- **Modifications:** Rather than requiring the reissuance of new standing approvals, existing standing approvals should have the flexibility to be modified by the payer as allowed by both their financial institution and the payee with whom they entered into the agreement. These changes could include rescheduling, skipping, or pausing payments, as well as adjusting installment amounts. In the cases where certain modifications are not enabled for the payer, the payer always reserves the right to cancel the standing approval. These features enhance convenience and customer control while addressing various situations such as unexpected expenses, changing financial circumstances, and cash flow fluctuations.

- **Cancellations:** Payers should have the flexibility to end a standing approval at any time with their financial institution. In addition, payers should have the ability to end a standing approval with the payee when cancelling their recurring service and/or payment, expanding upon the rights provided to consumers under federal law and regulation[1]. Financial institutions should send communications to both payers and payees when standing approvals have been canceled.

Financial Institution Integration Support

To enable easy updates and changes to standing approvals, robust integration and communication channels are essential. It is the responsibility of the payer's financial institution to house the authorization details, enable the payer to make changes, and act according to the established approval agreement.

Seamless integration of systems with instant updates is crucial to provide flexible management options that enhance user experiences and instill confidence in the payment process. Once authorization is provided, recurring payments need to flow as scheduled without any payer action or additional authorization required.

Security

It is no surprise that consumers care deeply about security when making an online payment, and setting up recurring payments and standing approvals are no exception. At the same time, consumers do not want security measures to be distracting or cumbersome. Doing so often acts as a barrier to commerce transactions that consumers may initially make.

In the world of instant payments there is an added responsibility to ensure that the transactions occurring are well understood and validated by the consumer. Emphasis on a strong yet frictionless authentication at the time a standing approval is setup helps to ensure future recurring payments can happen seamlessly without the fear of fraud and risk to the consumer.

What should that authentication experience accomplish and look like?

- The authentication experience should validate the payer and their payment information.
- Financial institution participants validate payees as legitimate and held accountable to prevent serious cases of abuse or manipulation by payees.
- The market should seriously consider a standardized directory model to help provide payers with a consistent and secure way to authenticate themselves and their payment information.

Financial institutions should also look to standardized guidelines surrounding the consumer authentication flow. Standardized guidelines help with consumer familiarity and adoption. These guidelines should keep friction to a minimum to not impede commerce and to help with adoption.[5]

Merchant and Business Foundational Elements

Against this backdrop of consumer needs and expectations, there are several foundational elements that merchants, businesses, and financial institutions need to implement to support the unique requirements of instant recurring payments.

Request for Payment

In the dynamic landscape of instant payments, RfP emerges as a pivotal tool for businesses to engage their customers, validate payment information, and pave the way for seamless transitions into instant recurring payments. This section explores the synergy between RfP and instant recurring payments, addressing challenges, and proposing foundational elements for effective integration.

Understanding Request for Payment and Instant Recurring Payments

RfP serves as a crucial intermediary step for businesses (payees) and consumers (payers), allowing for enhanced communication and validation of payment details. Unlike traditional methods, combining RfP and instant recurring payments fosters a direct line of communication between the payee and the payer. This instantaneous feedback loop is instrumental in promptly addressing payment failures and ensuring transparent communication.

However, the effectiveness of RfP is contingent upon the connectivity of both the payee's and the payer's FIs to the same network, such as FedNow® or RTP®. This interoperability is essential for the successful execution of RfP transactions.

Challenges with Standing Approvals

The concept of standing approvals, where payers pre-authorize recurring RfPs, presents a challenge in the current instant payment landscape. As it stands, neither FedNow nor RTP supports standing approvals. The absence of this feature requires payers to individually approve each RfP transaction, typically through their financial institution. This procedural hurdle could become a barrier to widespread adoption, especially in eCommerce.

Foundational Elements for Integration

Here are the foundational elements that should be incorporated into the development plan:

- **Strategic Banking Partnership:** Collaborate with a bank proficient in API origination of RfPs to ensure operational efficiency and an enhanced customer experience.
- **Expanding Reach via Multiple Platforms:** Affiliation with both FedNow and RTP broadens coverage, reaches a more extensive audience, ensures a comprehensive approach, and helps maintain redundancy.

- **Seamless Integration with Existing Systems:** Flawless integration of RfP origination APIs into existing invoicing processes or ERP (Enterprise Resource Planning) systems streamlines operations and reduces disruptions.

- **Data Handling and Automation:** Include pertinent customer and invoice details in RfP data fields and link to invoice data to support automation and simplify reconciliation when payments are returned.

- **Coordination of Supplementary Activities:** Efficiently coordinate activities such as setting expiration timeframes in the RfP, facilitating partial payments, and accommodating payments through alternate channels.

- **Round-the-Clock Processing:** Provide 24x7x365 uptime to process RfP requests during non-business hours, ensuring continuous customer satisfaction.

Embracing the capabilities of RfP within instant payment frameworks necessitates preparation and strategic planning. By focusing on these foundational elements, businesses can enhance the payment experience, streamline operations, and cultivate lasting customer trust in the realm of instant recurring payments.

Platform Enhancements

A decisioning platform serves as a valuable tool for merchants and businesses, enabling the automation of key decisions related to onboarding, registration, login, and transaction monitoring, with a specific focus on recurring payments.

To enhance the business platform, a decisioning tool should incorporate a streamlined process for initiating instant recurring payments. Customers (payers) should have the option to easily sign up for instant recurring payments within the business's website or app. This signup process should include a comprehensive explanation of what payers are committing to and what they can expect when they receive an RfP within their banking portal or banking app.

Maintaining a consistent banking experience for RfPs is crucial to ensure that businesses can explain the process to payers, regardless of which financial institution they use.

During this process, payers will be required to provide their bank account and routing number, as this information is essential for initiating payments via RfP. In the future, integration with a directory model may allow payors to provide an alias to facilitate RfP, eliminating the need for sharing detailed bank account information and limiting the opportunities for misdirected RfP messages.

Furthermore, it is essential for the business to keep payers informed throughout the process. The business should continue to send notifications to payers, notifying them that they have provided advanced permission for the business to receive payments from the payer's account. After the initial setup, any changes to the recurring instant payment should be managed directly between the payer and the business, with FIs being connected through APIs as necessary to make any needed updates. This ensures transparency and control for payers in managing their recurring payments and understanding their current standing with the merchant with whom they have engaged in business. Consumers (payers) will have the option of canceling or pausing the recurring standing approvals with their financial institution.

Data Integration and Management

The business's data integration and management system's design should be a collaborative effort between its internal architects and the requirements of the financial institution platform being utilized. Typically, businesses will develop an integration with a banking partner or third-party provider via API to facilitate instant payments. Subsequently, the business may need to adjust their internal data flow to accommodate these instant transactions.

In the near term, developments in this area may include support for open banking and integration with other services, such as personal financial management applications, to offer consumers a broader range of financial services.

An important shift is necessitated in the business's billing systems since they will no longer have insight into the exact timing of funds receipt, as is common with recurring ACH payments. This is offset by 'due by' dates, but the predictability associated with ACH debits is higher than instant recurring payments. Instead, businesses must be prepared to accept funds 24x7x365—linking the RfP to the information needed for reconciliation—and send notifications back to the payment rail as needed.

Security, Fraud, and Compliance Measures

Financial institutions, businesses, and providers need to contemplate multiple security and compliance considerations when developing and standing up a Request for Payment program in the spirit of minimizing needless friction and providing as intuitive an experience as possible. These include:

- **Warranty Frameworks with FedNow and RTP**: Recognize that both FedNow and RTP have laid down warranty frameworks that offer guidelines on security and compliance. Understanding these frameworks is crucial for setting up a secure RfP program.

- **Initial Vetting for Recurring Payments**: First-time recurring payments and standing approvals must be fully vetted to minimize security risks. A single lapse at this stage can compromise the integrity of future payments.

- **First Step Validation via Bank Portal**: To enhance security, the bank portal (regardless of the channel) must be the first point of validation for all transactions. This portal must be fortified with the latest security measures.

- **RfP Reception Through Bank Portal**: RfPs should also be received via the secure bank portal, consolidating transactional activities within a verified environment.

- **Customer Authentication (MFA)**: Multi-Factor Authentication (MFA) is necessary and should be in place to enhance customer identity verification during the setup process. Passive authentication methods provide enhanced security.

- **Standing Approval Data Points**: Standing approval specifications like frequency and dollar amount tolerance can optionally be collected and/or amended after initial authentication has been successfully completed.

- **Notifications and Approvals**: Notifications should be provided to payers as agreed upon between payers and payees at the time of RfP creation. Approvals should be mandatory for any changes that exceed pre-approved thresholds.

- **Document Repository**: The option to attach bills should be offered using a globally unique identifier (GUID), stored in a secure document repository.

- **Recurring Payments**: Additional authentication should only be necessary if there are changes to the pre-approved thresholds such as frequency and dollar limits.

- **Tiered Verification Tools**: Tiered verification tools should be used for additional security layers and integrated into the existing bank portal for a seamless customer experience.

- Receiver Validation: Systematic confirmation protocols should be implemented to ensure that the receiver is legitimate and the intended recipient of the payment.

- Instant Fraud and Sanction Screening: These activities should be performed in real-time to align the timing of mitigation efforts and fraud risk.

- Security Standard Alignment: Security procedures should align with industry standards for payments authentication. Notable standards bodies include EMVCo for card-based payments, FIDO for biometric authentication, FDX for data exchange, and W3C for web-based interactions.

Financial Institutions Receiving RfPs

Enabling consumer and business customers to receive and respond to an instant payment RfP for recurring payments can dramatically improve a financial institution's value proposition to both existing and prospective customers. To successfully offer this type of program, there are several key elements that a financial institution will need to address:

- **Digital/Mobile Infrastructure:** The financial institution's digital and mobile infrastructure serves as the platform where payers will receive and respond to payment requests. Financial institutions need to prioritize creating a user-friendly interface, frictionless user experience design, and backend architecture to provide clients with the necessary customer experience and enable the program to scale as the user base grows. FIs should consider investing in API integrations to enable seamless integrations into other financial systems and databases.

- **Standing Approvals**: Recurring payments represent a significant percentage of bill payments. One method for accommodating this in an RfP infrastructure is supporting standing approvals. Standing approvals enable automated responses to recurrent RfPs, thus reducing the need for payers to manually respond to every RfP. A successful standing approval program will need to accommodate these via inclusion of a mechanism enabling payers to set up, manage, or stop standing approvals.

- **Dispute Processing Mechanism**: While instant payments are irrevocable and will reduce disputes and returns, required consumer protections and RfP warranty guidelines require FIs to maintain a dispute resolution process. This process should be as straightforward as possible, enabling customers to raise concerns easily and receive timely resolution. Included in this process should be an auditable trail for each transaction and dispute.

- **Fraud Prevention, Detection, and Mitigation**: Given the immediate nature of instant payments, fraud prevention measures need to be robust to mitigate instances of customers authorizing invalid RfPs. Best practices for FIs receiving RfPs include strong customer authentication, real-time monitoring, and alerts, among other capabilities.

- **Linked Invoice Capability**: A significant value-add would be the ability to present a linked invoice with each RfP. This makes it easier for consumer and business customers to manage their finances. This could involve API integrations with popular invoicing and accounting software.

- **Compliance with Network Rules Governing Receipt of RfPs:** FIs receiving RfPs need to ensure that they conform with the FedNow and RTP rulesets, which may differ slightly.

Financial Institutions Originating RfPs

Enabling business customers to originate RfPs that support recurring payments on an instant payment network will become a strategic necessity for financial institutions as instant payment adoption grows in the United States. To successfully offer this capability, financial institutions need to contemplate implementation of the following:

- **Capabilities to Originate an RfP with Reconciliation Data**: At the outset, the infrastructure should allow corporate customers to originate an RfP seamlessly, along with data needed for automated reconciliation. Fields should allow for the inclusion of purchase order numbers, invoice numbers, or other identifiers that facilitate auto-matching and reconciliation on the payee's end.

- **Match Process**: The system should also have a robust matching process that aligns inbound credits with originated RfPs. Automated algorithms can ensure that payments are accurately credited and can be easily reconciled.

- **Processes to Assure RfP Validity**: In order to minimize liability exposure from originating invalid RfPs onto an instant payment network, financial institutions need to ensure that there are strong processes in place to confirm the validity of originated RfPs in compliance with RfP warranty requirements. This could include multi-factor authentication, digital signatures, or even smart contracts that validate the RfP before it gets originated onto the network. KYCs (Know Your Customer) of businesses that will be enabled to originate RfPs will be the strongest way to assure validity.

- **AML, Sanctions, KYC Screening**: Regulatory compliance with Anti-Money Laundering, Sanctions, and Know Your Customer requirements will apply to both inbound RfPs as well as the corresponding instant payment credits.

- **Fraud Prevention, Detection, and Mitigation**: Given the real-time nature of instant payments, fraud prevention measures need to be robust to mitigate instances of customers originating invalid RfPs. Best practices for FIs originating RfPs include instant cross-channel monitoring and analytics to identify suspicious patterns, as well as a proactive mitigation strategy that can flag and isolate potential fraud before RfPs get originated onto the network.

- **Ability to Link Invoice to RfP**: The ability to present a linked invoice with each RfP as originators to ensure that customers have the necessary information to authorize a payment in a seamless fashion would be a significant value-add.

- **Compliance with Network Rules Governing Origination of RfPs:** Both the FedNow and RTP networks have rules governing RfPs. Any given RfP for instant recurring payments will have to conform with at least one of these rulesets, if not both, depending on which network is being used to initiate the RfP. As these services mature, rules may change, so FIs will need to ensure that they track developments in this space.

Final Thoughts

This needs assessment by the Faster Payments Council Real-Time Recurring Work Group serves as a comprehensive guide for navigating the intricate landscape of instant payments, with a particular emphasis on recurring and subscription transactions. By bringing together the perspectives of consumers, businesses, and financial institutions, the document illuminates the key components essential for the successful implementation of instant recurring payments. The work group's strategic insights underscore the critical role of features such as the Request for Payment and standing approval, providing a robust foundation for seamless and instant secure transactions. Moreover, this report addresses the multifaceted concerns and expectations of consumers, delving into areas such as user-friendly sign-up processes, notification strategies, flexibility in managing scheduled payments, and the imperative need for stringent yet user-friendly security measures.

As businesses, financial institutions, and stakeholders embrace the principles outlined in this needs assessment, the path toward widespread adoption of instant recurring payments becomes clearer. The focus on collaborative integration, education, and the establishment of standardized practices underscores the commitment to creating a secure, frictionless, and efficient ecosystem. By prioritizing the foundational elements discussed in this report, stakeholders are not only equipped to meet the evolving demands of today's consumers but are also poised to foster innovation and trust in the dynamic realm of instant payments.

Acknowledgements

Real-Time Recurring Work Group

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About the Real-Time Recurring Work Group

The FPC Real-Time Recurring Work Group promotes the development and adoption of real-time recurring payment solutions for business end users and financial institutions.

About the U.S. Faster Payments Council

The U.S. Faster Payments Council (FPC) is an industry-led membership organization whose vision is a world-class payment system where Americans can safely and securely pay anyone, anywhere, at any time and with near-immediate funds availability. By design, the FPC encourages a diverse range of perspectives and is open to all U.S. stakeholders.

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