

# Why You Shouldn't Count on Real-Time ACH for Retail Payments

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A demand-deposit account is the anchor liquidity instrument for most consumers and businesses. For some members of the unbanked, it's a GPR-prepaid-card account. Policymakers and commercial actors are moving to enable real-time payments between DDAs at thousands of U.S. banks.

Policymakers aim to improve payment-system efficiency and enable new and better services for consumers and businesses, thereby boosting economic productivity. The Fed in particular has used its bully pulpit to good effect, avoiding being prescriptive while encouraging interested parties and potential suppliers to bring their ideas and proposals for faster interbank payments to the fore. Commercial actors hope to sell faster interbank payments to banks and that banks will be able to monetize them directly or indirectly.

In practice, however, while consumers and businesses like the idea of faster payments, for nonretail payments such as peer-to-peer transfers, payroll, and bill payment, they're reluctant to pay for it. For spontaneous retail payments, real-time authorization—but not settlement—is essential, but nothing new. It has been used for four decades.

So, will real-time automated clearing house systems be harnessed for retail payments? Merchants look longingly at this as a means of reducing payment-acceptance costs.

To be sure, interbank ACH payments cost less than retail credit-card payments. The Atlanta Fed's all-in marginal fee to originate and receive ACH transactions for high-volume operators is 0.36 cents. For same-day ACH, NACHA requires a 5.2-cent interchange fee, paid by the originator to the receiver. Banks provide large retailers ACH access for at most a couple cents.

Merchants salivate at the notion of ACH transaction costs in lieu of MasterCard Platinum Select and Visa Signature Preferred credit card acceptance costs. But that choice isn't on offer.

The challenges of achieving mass adoption of a real-time ACH-based retail payment scheme are daunting. If and when it occurs, it must satisfy, and ideally delight, players across the value chain and deliver compelling value to those who want to spend with and accept it. And it will be priced relative to competing retail payment systems like American Express, Discover, MasterCard, PayPal, and Visa.

For example, British banks deliver their new real-time, ACH-anchored retail payment scheme Zapp (Pay by Bank) to retailers through merchant acquirers that price it like debit cards and share the economics with issuers.

Also, any ACH-based payment-network challenger must have a credible path to critical mass. Existing retail-payment systems have critical mass, are competitive, and work well for consumers and merchants across all channels in most developed markets.

Perhaps the most plausible path is to build critical mass first in a branded real-time ACH-based P2P system such as Zelle or Swedish banks' Swish, and then turn one's sights on consumer-to-business payments. With close to a million users in July, 2014, Swish launched consumer-to-business payments, charging 16 to 20 cents per transaction. As of last month, Swish had 4.9 million users, still primarily P2P.

U.S. banks participating in Zelle will build P2P utilization to increase customer engagement. They already have eminently profitable retail payment products such as Visa, MasterCard, Amex, and Star well established in consumers' wallets and with merchants. So if they were to enable Zelle for retail payments, they'd charge merchants. They'd also have to develop robust risk-management and exception-processing tools. And, critically, they'd have to incent consumers to use it in lieu of a wallet or purse chock full of payment products that work well.

They'd also have to persuade merchants to accept it, presumably harnessing existing acquirers. Acquirers would be compensated for delivering acceptance. And, banking's not a charity. Issuers too would want to be compensated.

Alternatively, retailers, mobile network operators, and tech giants such as Google, Apple, Facebook, and Amazon could develop and promote faster ACH-based retail payment products, starting on their platforms.

Retailers have successful cobranded and proprietary credit card programs. They have, however, had no success building general-purpose payment schemes. The Merchant Customer Exchange (MCX) consortium had hoped to fund a significant percentage of its CurrentC wallets via ACH and thereby compete with established payment networks. After three years [it threw in the towel](#).

Target provides consumers with a 5% discount to incent them to use direct proprietary batch ACH debit, but that's more about enrolling riskier consumers in Target's electronic payments and loyalty program than it is about reducing payment-acceptance costs.

In the developed world, high-profile MNO efforts to develop payment networks and branded open digital wallets have failed, starting with those of Vodafone, Orange, *Telefónica Móviles*, and T-Mobile (Simpay), and, more recently, Verizon, AT&T, and T-Mobile (CardSoft). The list also includes U.K. MNOs' Weve, French MNOs' Buyster, and Canadian MNOs' [SureTap](#).

The tech colossi use, and have further ambitions in, payments to enhance their platforms. Why, however, would they risk enormous resources trying to build an ACH-anchored payment network when they can leverage multiple established networks?

In the United States, it's unlikely real-time ACH will be successfully harnessed for more than niche retail-payment applications. Such systems have near insurmountable challenges to achieving critical mass and therefore relevance. And, importantly, they don't solve a real problem. Existing systems blanket the market, work well, and continue directly and indirectly to increase their consumer and merchant value propositions.

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