

Real-Time Payments: 5 Things Credit Unions Should Do



Driven by consumer expectations for instant gratification set by retail and tech trailblazers, the world has been on a steady trajectory toward 24/7/365 availability for years already. This need for instant gratification is now impacting payments in a way that is more urgent than ever, necessitating actionable plans for financial institutions to begin their digital payments transformation journey.

A general movement toward digital transformation has been ongoing, with differing opinions about what exactly that encompasses. However, the global pandemic of 2020 has moved those projects front and center – if they weren't already. Credit unions must begin to modernize their digital infrastructures – with payments as a foundation – to improve the member experience to meet rapidly increasing member expectations for access, convenience, transparency, and functionality.

The Current State of Payments and the Need for Change

The limitations of current payment infrastructures, coupled with the demand and proliferation of peer-to-peer (P2P) and account-to-account (A2A) payments applications, have led to central payments infrastructure overhaul and modernization efforts around the world. The launch of RTP by The Clearing House in 2017 – the first new central clearing and settlement network to hit the market in the United States in four decades – has kicked off the race toward real-time account-based payments and slowly away from the legacy networks.

Credit unions must begin to modernize their digital infrastructures – with payments as a foundation – to improve the member experience to meet rapidly increasing member expectations for access, convenience, transparency, and functionality.

Around the world, real-time payment initiatives have been ongoing for over two decades, but the U.S. has been slower to respond to payments modernization, mainly due to the unique complexities of this market, including its size and the number of financial institution players with differing operating models and varied technology platforms.¹

But it is clear that credit unions can no longer afford to delay strategizing the rollout of real-time capabilities. Technology advances, private businesses, and central bank rollouts, among other drivers, are pushing real-time payment adoption forward – and none more so than consumer demand for instant/faster payments.²

At the center of the changes needed to embrace real-time payments, adoption lies with the definition of digital transformation. For many, rolling out next-generation digital experiences defined by new features like remote deposit capture qualifies as digital transformation. But conflating new features and functionality with reimagining banking operations from the ground up is where confusion around the definition of transformation lies.

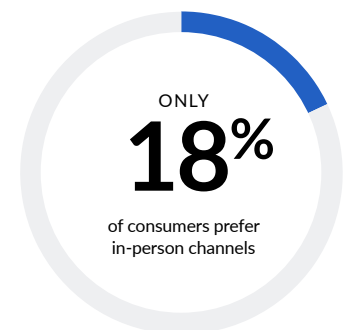
Digital transformation relies on using the latest digital payment innovations as a foundational layer. By doing this, it opens up a nearly endless world of product and service innovation at a time where competitive advantage is essential to not only surviving but thriving, now and into the not-too-distant future.

While adoption of real-time payments today is mainly being driven forward by leading businesses seeking faster ways to get paid, it is becoming increasingly clear that financial institutions need to embrace real-time payments sooner rather than later to remain relevant as new value-added benefits and digital overlay services continue to be identified and adopted in the market. At a minimum, however, credit unions can leverage real-time payments to meet member demand for faster payment and remittance options and to improve the member experience, with options like instant payroll from industry behemoths like ADP and Paychex, getting member's paychecks in their accounts potentially days earlier than traditional ACH processing.

Unique Challenges Faced by Credit Unions

Due to their distinctive operating models and mission, credit unions may face additional, unique challenges related to digital payments transformation.

As not-for-profits dedicated to enriching the financial lives of their members, credit unions have always found ways to do more with less – and it's even more critical to remain operationally efficient in the current competitive, economic, and regulatory environment. This constant quest for efficiency and need to control costs to maximize benefits to members have traditionally made credit unions early-adopters of technological innovation, but in recent years, many have lost their edge. According to [Credit Union 2.0](#), credit unions lag behind the “real world” in every area of technology adoption—analytics, cloud computing, fintech – and digital transformation – among other areas. With only 18 percent of consumers preferring in-person channels, credit unions must make digital transformation a top priority or risk alienating up to 82 percent of members. Increasing competition from big banks, community banks, and non-traditional financial services providers means credit unions must find ways to operate and serve members with the same level of sophistication as competitors while controlling costs and maximizing value to members.



Credit unions must make digital transformation a top priority or risk alienating up to 82% of members.

¹ Accenture, [“Getting Real About Real-Time Payments In The United States.”](#) Sept. 13, 2019

² Ibid.

Credit unions also face a unique challenge related to the sometimes-insular demographic makeup of their membership due to the select employee groups (SEGs) or community-bases making up their charters. For example, a credit union with a primarily manufacturing-based membership may have a much different digital delivery strategy than one with a Silicon Valley-centric membership primarily composed of millennials and Gen Zers.

That is not to say that digital transformation may be more or less important based on these factors, but credit unions must make a concerted effort to understand their member-base to design products, communications, and member education strategies that will be successful and lead to seamless implementation and maximum adoption by members.

5 Things Credit Unions Must Do to Begin Digital Payments Transformation

1. AGREE UPON THE DEFINITION OF DIGITAL TRANSFORMATION.

True digital transformation is a paradigm shift involving reimagining the entire credit union – its operations, its culture, and its products and services – all enabled by technology. And while technology is certainly the driving force of digital transformation, organizational culture is equally important. One without the other will certainly result in failure.

Organizational objectives must be clearly defined and communicated, and everyone from the C-suite to the front line needs to be operating with those objectives in-mind or risk botching up digital transformation in a way that may be unrecoverable.

The credit union's executive team must take a step back and be willing to objectively question every aspect of its operations, culture, and product development.

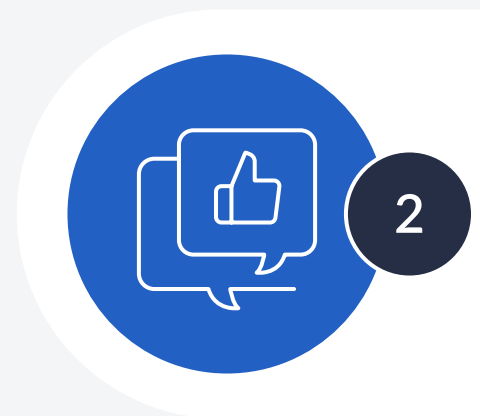


2. RETHINK YOUR ORGANIZATIONAL CULTURE AND OPERATING MENTALITY.

Achieving the true culture change needed to implement digital transformation means more than just stating your intention and rolling out incremental features and functional improvements. For example, the imminent shift of the legacy payments infrastructure, our batch-based ecosystem, to a real-time one that is always on and always connected, will precipitate a need to not only re-engineer internal processes, but also reimagine the products and services your credit union brings to members.

Most of the products we have today are simply a continuation of the legacy paper-based, pre-digital world. ACH was meant to replace the paper check and the digital or mobile wallet is a replacement for handing over cash or swiping plastic. While enhanced overlay features, like new alerts, are continually added, traditional rails are still at the heart of these payment methods.

As credit unions modernize their technology infrastructures and embrace the equally important cultural shift, they will have free reign to reimagine products and services free from the restraints of an ecosystem that only runs from 9 to 5 each day. Financial institutions have unconsciously been limping along working around those restrictions for the past 30 years, but to deliver the next 30 years of innovation, the foundation must be rebuilt.



This will also greatly impact how you deliver member service – answer questions, address concerns, and even complete transactions. Once again, leading-edge technology provides the answer.

In the post-9-to-5, 24/7/365, always-switched-on, digital world in which we're now operating, it's essential your credit union provides access to answers and information whenever members need it. This should be done over the channels they prefer, and since those preferred channels are increasingly digital, chatbots powered by artificial intelligence (AI) can help.

Chatbots allow you to deliver real-time, personalized, and context-aware interactions through your members' preferred digital channels. And today's chatbots can do much more than provide predefined answers to common questions and concerns – they can also complete transactions, like bill payments and transfers, as well as provide reminders and notifications. Such chatbots can be integrated with digital assistants like Amazon Alexa or Google Assistant, making it easy for members to initiate interactions without the need to login to your credit union's digital banking site.

3. FUTURE-PROOF BY CONNECTING TO ALTERNATIVE PAYMENT NETWORKS.

By leveraging new models, like “as a Service”, credit unions are able to quickly connect to established alternative networks (such as Zelle or Venmo) or newly emerging networks, such as TCH's RTP with minimal risk. By choosing a platform approach, financial institutions can connect once to a platform and take advantage of the various networks that the provider is connected to. The only truism in payments is that we are going to see more, not less, new payment rails and no one knows which payment rail will become the dominant option in the market for the next 10-20 years. With Payments as a Service options coming into the market, credit unions no longer need to wait and see what wins out, taking advantage of early adopter movement without having wasted investment.



4. IMPLEMENT BEST PRACTICES FOR LAUNCHING PAYMENTS TRANSFORMATION.

As with the rollout of any new technology, educating staff, members, and prospects is key to a successful rollout.

For example, when companies were asked why they would not be interested in real-time payments, over 50 percent indicated they didn't know enough about it.³ Education as well as a strategic marketing and communications plan are essential to ensuring consumer interest in and adoption of real-time payments services.

Top educational considerations will focus on the features, benefits, and risks of real-time payments. A multi-channel strategy for outlining the differences in terms of speed, pricing, and risks associated with real-time payments versus legacy transaction types and networks being used by the credit union will be essential to successful adoption by members.



³ PYMTS.COM & Mastercard, [“The Real-Time Payments Innovation Playbook”](#)

Also, educating staff, members, and the marketplace on the value proposition of real-time payments services for cross-sell/up-sell purposes, as well as a way to attract additional market share by offering cutting-edge innovation, will help ensure program profitability.

One major point that will require very clear communication to both staff and members is the immediacy and permanence of real-time payments. Consumers moving money over real-time payment rails will need to understand that once a payment is sent, it is gone from their account and immediately available to the recipient, making the payment irrevocable.

Operational procedures should be in place to ensure members are 100 percent certain about the accuracy of payment information. Credit unions can also alleviate liability by making sure members are informed of the risks of using real-time services.

5. CREATE A STRATEGY UNIQUE TO YOUR CREDIT UNION'S OBJECTIVES.

With real-time payments adoption by financial institutions just approaching the jumping-off point, there are still many questions to be answered, including when to make the move and to what extent to become involved. These are additional issues your credit union must consider when creating a strategy for launching real-time payments.

The Federal Reserve has announced that its real-time payments network, FedNow, is expected to launch in 2023 or 2024. This multi-years-away launch may not be soon enough to meet the increasingly immediate consumer demand for faster payments. The alternative is for credit unions to join The Clearing House's RTP service sooner — a service owned by big banks. By partnering with a Fintech that will [connect your credit union to the RTP](#) network without changing your infrastructure, you can provide faster payments service to your members now without the risk of being locked in.

Credit unions will have to decide if they want to be “all in” with real-time payments or decide to join as a “receive-only” institution. Even if your credit union takes a wait-and-see approach to offering outbound real-time payments as a product/service offering, there is value in joining with the ability to only receive payments in real-time. This will allow credit unions receiving payrolls and other remittances to members via ACH to eliminate the three-day processing window currently in place — a value-add service that can help bolster loyalty and improve member engagement as well as confer a competitive advantage.

In terms of outbound real-time payments, credit unions would be remiss not to keep non-traditional payment networks like Venmo, PayPal, Zelle, etc. into consideration or not far from their plans. Those systems were born out of the necessity and demand for faster payments — the appeal being their pseudo-real-time capabilities. While moving money within the services' closed-loop ecosystems is real-time, there is typically a one to three-day turnaround time to pull money out if the consumer wants it deposited to a bank account. Credit unions offering both receive and send real-time capabilities may be able to leverage a competitive advantage over those services or give members more seamless experiences with them.



The New Normal and the Acceleration of Digital Demand

If the world wasn't already approaching "digital everything" at break-neck speed, the increased demand for self-service, contactless, and instant product and service delivery due to the pandemic has only accelerated it further.

Credit unions wishing to retain members and fulfill their mission to improve their financial well-being must take a more aggressive approach to unlock the digital siloes currently hindering the optimal implementation of 24/7/365, on-demand availability. Credit unions can no longer afford to view digital services as independent of each other and tied to specific systems with weak integration to the core and other third-party applications. Digital delivery, including digital payments, must be the driving force behind credit union operations – and consumers expect seamless delivery. Digital transformation with payments as its foundation offers an unprecedented opportunity to deliver a leading-edge member experience that is a win-win for credit unions and their members.

Digital transformation means more than simply adding-on to current digital banking capabilities – it means looking ahead into the digital landscape of the not-so-distant future and strategizing now about how to recreate banking to remain relevant to members and the marketplace. Real-time payments adoption offers credit unions the opportunity for innovation and competitive advantage not seen for many years.

Alacriti's Cosmos for RTP® enables credit unions to quickly and seamlessly connect to The Clearing House's RTP® network and deliver innovative real-time payment services to their members. Alacriti's solution allows financial institutions to rapidly leverage the power and convenience of RTP to drive new revenue without the burden of significant infrastructure overhauls or capital investments.

To speak with an Alacriti real-time payments expert about Orbipay Cosmos for RTP, please contact us at (908) 791-2916, info@alacriti.com, or [click here](#).