

Payments: What to Expect in 2021



2020 is not yet over, and neither are the business challenges. An abrupt halt in economic activity earlier this year saved lives, but at the same time, countless businesses had to shut their doors for good, and tens of millions of people lost their jobs. Hospitality, restaurant, and retail groups have all been fighting to be able to operate as more shutdowns seem to be imminent.

While there have certainly been enough negative things that have impacted our economy this year, there have also been some positive developments. Businesses have adapted to the “new normal” by providing better ways to communicate and serve customers on digital platforms. This is especially true for financial institutions and insurance companies, who have stepped in to help their customers. For example, financial institutions have allowed loan holders to skip payments, and insurance companies have accelerated payouts with digital disbursements.

In this article, we discuss with **Alacriti’s Senior Vice President, Carl Robinson (CR)** and **Payments Practice Lead, Mark Ranta (MR)** what we can anticipate in 2021 for:

Customer Experience

Driven by companies such as Netflix, Uber, and Instacart, everything as a service and an instant experience were already baseline consumer expectations. However, the pandemic has seemingly accelerated the digital transformation of all businesses. What do you think will be the new normal next year?

CR: The first term that comes to mind is ‘intelligent personalized engagement.’

This means meeting customers where it’s convenient for them, with how they want to pay. The importance of partnerships with Fintechs will be clear in bringing these expectations of a better customer and member service to life.

CR (continued): I expect that next year, digital transformation will continue to accelerate with an intelligent and customized approach. Acceptance of this transformation is a given. The only question is the speed at which the transformation continues. Some are saying 3x, while others are saying 10x as fast. The question is, will it continue at this pace, or will we see it plateau?

MR: I think many of the changes we have seen these past eight months were already unfolding, just slowly. Human adaptability doesn't usually happen overnight, but the pandemic forced a habit change. People were pushed further into embracing digitally-driven experiences, and contactless physical fulfillment is here to stay. I have never been a fan of the death to brick and mortar cries, but it is safe to say the evolution of the brick and mortar experiences to be digitally integrated and digital-first is certainly happening—and faster than it was a year ago!

Real-Time Payments

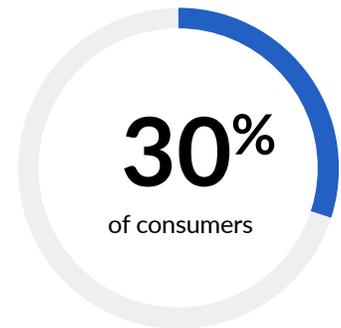
The financial services industry has known about real-time payments for a long time. However, industry changes like [The Clearing House RTP Network®](#) and recent [Nacha rule changes](#) have accelerated the trajectory of real-time payments. Now, consumers are starting to catch on as well. In a recent [PYMNTS report](#), 30% of consumers surveyed believed that access to real-time payments is a key factor when selecting a financial institution. The report also revealed that 24% of consumers would switch financial institutions to access real-time payments. Where do you see the real-time payments trajectory next year?

CR: Real-time payments go hand in hand with digital transformation. What we were seeing in the market as late as August, was a lot of FIs taking a wait and see approach. As the calendar moved into Q4, that wait and see attitude has changed to, "I better get in the game." I've had conversations with executives who said they were waiting but then went ahead and got board approval because the market is "leaving the gate."

I think what is different, is the use cases are coming into the limelight and driving the demand. A few of those include same day payroll and the ability of small and medium business payments to accelerate inventory. In a recent call with The Clearing House, they gave an example where a company executive had been paying a parts manufacturer with real-time payments, which was unlocking inventory faster and then shipment since payment was received. The shipping time went from 5-7 days to the same day!

MR: Next year we will see a tipping point in RTP adoption. We have moved past the initial "early adopters" phase and are squarely in the fast follower stage of the RTP network. I believe 2021 will be the start of the mass market rush to the network. The experiences Carl is articulating in the market are fairly widespread, and we are hearing it pretty much at every event and meeting we are virtually attending. Already, forward-thinking companies are showing enthusiasm for instant paychecks, pushing their banking partners to rapidly meet that need. Additionally, the large payroll processing companies like ADP and Paychex are both leveraging the RTP network, which will allow employees banking at TCH RTP enabled banks to receive their paycheck earlier. That's huge for those living paycheck to paycheck and can potentially alleviate some of the financial stresses many are feeling.

Due to the current trajectory, I predict that 2021 will be a game-changing year for RTP because both demand and use cases will motivate financial institutions to move forward and start those projects Carl mentioned for real-time payments.



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Fraud

Hard times have given fraudsters more opportunity. The CARES Act provided \$300 billion in direct individual checks and \$350 billion in loans for PPP loans for small businesses. In the first half of 2020, fraud attacks increased by 37% over the same period of last year. Already, the government has suffered \$70 million in fraud losses from the small business protection program. It is said that real-time payments make account takeover fraud more popular so fraudsters can move money rapidly, while the account holder may not even be aware that their funds are being stolen. What would you say to those who see real-time payments as an increased vulnerability to fraud?

CR: I don't expect net fraud to increase. Let's not forget that each type of payment comes with risk. Look at the problems with paper checks, which contain all of the information needed to make an ACH payment to whoever sees it. This is not to diminish it, however, you have to keep this conversation in context. With real-time payments, it's about being confident in the network itself, and that you've authenticated and double-checked your payment information. It's more important than ever to be accurate and do the appropriate due diligence and recommended processes your bank has in place to protect you. Digitization takes humans out of the process, but that doesn't mean a human is not involved, so the beginning of the process is really important. Be aware and educated as to who you're sending money to.

MR: Fraud will always be a hot topic of conversation, and for better or worse, it won't go away. However, I believe the evolution of fraud is going to move towards more account takeover, stolen identity, and synthetic identity based as the payment networks continue to harden and get more secure as Carl mentioned.

The fraud we need to protect against really starts at the front line, with protecting the payment credentials of the individual and putting stronger, identity-based procedures further up in the payment experience, and also more education on the finality of the payment. The old adage of measure twice, cut once applies here—double-check you are sending the money to the person you intended to send it to because once you hit send, that money is truly gone!

With that said, I must add that the network is actually very secure. It's more of an education/user experience decision. You have to educate the end-users on the real-time nature of payments. Most of the time, issues are due to user error or user carelessness. There's no such thing as canceling or reversing your mistakes. Similar to the experience of handing cash over to someone, you need to make sure you are sending it to the person you intended to, in the amount you intend to send. Measure twice, cut once!

In general, as digital experiences become more dominant, people will need to be aware. Protect your login credentials, make sure you authenticate, etc.

Liquidity

2020 has put additional pressure on CFO's to prioritize cash and manage liquidity while addressing investor expectations. However, the uncertainty that the pandemic brings makes it extremely difficult to have reasonably accurate budgeting and planning. This year has also brought to light the need to use data more effectively to drive performance and accelerate receivables while reducing costs. What do you think businesses are going to do to increase liquidity despite all of the obstacles?

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— **Mark Ranta**
Payments Practice Lead
Alacriti

CR: Two things—operational efficiency and ethics. Being able to optimize operational efficiency for liquidity and access to cash will be even more important. With modern technology for payments, companies have access to the data they need to make better decisions.

Ethics are an extremely important factor. We will see more companies like Amazon that provide the small businesses owner better access to capital so they don't get overextended in volatile situations (like this pandemic) because those are the ones that suffer the most. Also, we need to ethically think of the value of real-time payments to help these businesses when it comes to transparency and liquidity since they are at the highest risk. With real-time payments, businesses get access to capital in real-time vs. the buyer sending via payment ACH or card. They then have better and immediate use of funds. This is especially important for businesses that are just getting by, which was illustrated by how many businesses in this country had to shut their doors permanently after just one month without revenue earlier this year. Another bonus is that businesses won't have to operate on procurement credit cards the way they used to.

MR: Businesses are, of course, going to be looking at their bottom lines—how to get money quicker while tightening their belts for cash outflow. As a result, I expect an increased focus on digital payments (EBPP, RTP, etc.) overhaul to better manage cash flow in a post COVID-19 recession. There has already been some digital and payments transformation, but the need is now more evident than ever. The finality of payment allows the business to move forward quickly. Because of the inherent benefit, I wouldn't be surprised to see businesses offering even better terms in exchange for using RTP.

New Products

The need to provide more innovative services and products is more pronounced. In such a tough market, it can be expected that businesses will be offering new products and services to attract new customers and members and retain existing accounts. Next year, what types of new products do you expect to see?

CR: We live in a world of instant gratification. Whether you have the money or not, you want the gratification and the experience, even if you have to pay it out over the next five months. As a result, I expect to see better mobile payment options.

Also, retail payments tend to be an innovation driver. With the rising popularity of the buy now, pay later solutions, e.g., Klarna, I expect to see more financial institutions providing the ability to pay off a purchase with no interest and only a fixed monthly fee so as not to be disintermediated by those services.

With the constant push for ethics with fintechs, there will be more products for the underbanked and unbanked.

MR: "Digital Overlays," as we call new banking products, will be the outcome of rethinking what a bank is and what it should offer. All of those products we know today, from P2P to A2A, as well as business payments, will have improved experiences moving forward.

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— **Carl Robinson**
Senior Vice President
Alacriti

MR (continued): We've talked about this in our [webinars](#), but insurance and healthcare technology will benefit greatly with better products such as digital health records and fitness trackers. Chatbots will continue to be more prevalent as consumers continue to demand better and more personalized service. Chatbots allow the speed and 24/7 availability that's now expected, as well as free up support service staff to provide better service to those who need help with more complicated issues.

Alacriti is a leading financial technology company with a comprehensive payments services platform, dedicated to helping our clients accelerate their digital transformation. Built on a flexible, cloud-based framework, our array of solutions integrate seamlessly with internal infrastructures, allowing clients to deliver the payments innovation and experiences that today's users demand.

To speak with an Alacriti Payments expert, please click [here](#) or contact us at (908) 791-2916 or info@alacriti.com.