

Realizing the Value of Real-Time Payments for Credit Unions

2021 Projected to Be a Watershed Year for Faster Payments



Real-time payments (RTP) have been discussed for decades, but they only achieved true momentum within the last few years. Industry changes, combined with the effects of the pandemic, have accelerated the trajectory for mass-market adoption of real-time payments. The U.S. payments industry is rapidly moving to a true digital payments era with a vast increase in new payment technology coming online. In 2017, The Clearing House (TCH) launched the [RTP®](#) Network, which was the first central clearing and payment system to come online in over 40 years. Also, FedNow is introducing its own RTP facility in 2024, and changes to the Fedwire system have provided longer windows with same-day ACH. At the same time, the COVID-19 pandemic has placed immense strain on cash flow, supply chain operations, and the financial status of households, driving the need for real-time payments forward.

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The Payments Market

We are in-between operating models – the traditional analog payments era vs. a true digital payments era where everything is 24x7x365 – always on and always available. We have certainly come a long way. When The Clearing House was first introduced in 1853, people sat at desks and did a manual and physical clearing of checks. The next payments technological upgrade came in the 1970s with the advent of ACH. Now, digital payment trends prevail – going from card to cardless, touch to touchless, and batch to real-time. Accenture predicts that [2.7 trillion](#) transactions (worth \$48 trillion) will go from cash to cards, interbank payments, alternative payment instruments (e.g., P2P or buy now, pay later). In another study by Capgemini, [41%](#) of consumers said they used contact cards for the first time, and 35% who owned a card added it to a digital wallet during the pandemic.

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How TCH RTP Works

In a [recent webinar](#) with TCH and Alacriti hosted by NACUSO, Keith Gray, Vice President of Strategic Partnerships for TCH, explained why TCH launched the RTP® Network. The impetus behind the launch of RTP was the changing expectations of their retail and business customers. “It got to the point where Amazon could deliver a package faster than you could clear the payment,” said Gray. Launched in November 2017, “RTP is a separate infrastructure and a separate rail, with different capabilities than wire and ACH than other payment networks that are available.”

So how does the RTP Network work? An RTP transaction over the RTP Network has two layers. The messaging layer is what moves the payment and the information associated with it from one institution to the other. The RTP Network sits on top of a jointly owned, pre-funded balance account that’s housed at the New York Fed. Every transaction that happens across the network is cleared within the pre-funded balance account. And every financial institution on the RTP Network has a position in this balance account. For example, if a participating credit union is sending money to another, as that money is transferred, TCH is also hitting that balance account to do immediate clearing. In many cases, the larger FIs are connected directly to TCH. However, the vast majority of the banks and credit unions on the network are connecting through a third-party service party provider like [Alacriti](#) that has the connectivity, messaging, and infrastructure in place, so financial institutions don’t have to. When TCH launched RTP, they knew that the majority of FIs would leverage the services of a third-party provider and they built the network to support that.

RTP is not only available to TCH member credit unions and banks. Financial institutions have the flexibility to choose their level of participation (e.g., Receive Only, Send, or Send and Receive) within the RTP system. As an example, most participants starting on the network begin with ‘receive only.’ This allows them to set up the technical connections to the network without the long pole requirements of initiation systems in place for their digital banking solutions while still getting their members the benefit of receiving payments in real-time from the system (e.g., Payroll Direct Deposit).

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Vice President of Strategic Partnerships, The Clearing House

Why is the RTP Network Different?

The RTP Network is a credit push network. There is no concept of a debit. The sender initiates the payment, and the receiver confirms that payment is received. Both sides of the transaction always know the status, so everyone knows where the payment stands at any moment. The payment is certain, and the funds are available immediately. In addition to the immediate payment benefits, the data that goes along with the payment is also immediately available and transparent. This includes accounts payable information, fulfillment, etc. that exists on the same bank-grade secure network that's always available 24x7x365. The value of that is clearly being utilized – the busiest time for the RTP network is 5:00 p.m.–8:00 p.m. on Fridays.

As of December 2020, over [57% of all DDA balances](#) in accounts in the U.S. are able to receive RTP, and that number continues to grow rapidly. Volumes have grown from a few hundred thousand to millions a month and continue to grow daily. Because of the volume and demand across the network at this point, new entrants immediately begin to receive RTP payments. There are 799+ RTNS listed on the RTP Routing Table. To find out approximately how many RTP transactions your depository institution will receive each month based on asset size, you can visit the TCH website to access the [RTP Network Volume Calculator](#).



How Close Are We to RTP Mass Market Adoption?

During the NACUSO webinar, Mark Ranta, Payments Practice Lead at Alacriti, asserted that the outlook for RTP in 2021 is very positive, and the network is getting closer to mass-market adoption. The volume and growth experiences are significant – doubling every quarter. For the credit union market specifically, [Aite Group](#), in a 2020 study, found that over half of the credit unions surveyed were already offering faster payments products. For example, Same Day ACH led the way at 53%, and RTP was already up to 8%. “I think that the number is going to grow precipitously,” said Ranta. “Many of your credit union peers have begun this journey. But over 36% haven’t started.”

The Faster Payments Council recently released their Fall 2020 Faster Payments Barometer Study in which institutions gave an update on where they are in the post-COVID-19 space. [Fifty-nine percent](#) of organizations said they haven’t deferred their faster payments implementation plan. 20% said they were actually accelerating their plan. COVID-19 has accelerated plans to adopt faster payments making them a ‘nice to have’ to a ‘must-have’ funded project for 2021. RTP is reaching ‘Mass Market’ which will lead to a tipping point in transaction volume. The volumes will probably continue to double every quarter, as Keith mentioned. COVID-19 has accelerated faster payments, not slowed it down.



RTP Use Cases

RTP has spurred a lot of new developments across the payments ecosystem, enabled by new capabilities on the RTP Network. RTP messages are the building blocks for new products and include credit transfer, request for payment, receipt confirmation, request for information, and invoice/remittance detail. All messages are based on ISO20022 and are immediately accepted or rejected. Faster payments for businesses improve payroll, reduce check usage, and provide liquidity.

The Clearing House continues to get positive feedback on the immediacy of the payment and confirmation on the network. With A2A (moving from one account to another), giving account holders immediate availability of their funds when they need it is a huge advantage of the network. Credit unions are seeing an increase in loan funding applications, such as car loans. For example, credit unions have a number of products getting ready to launch around automating the whole process around car loans.

The gig economy (for example, Uber and GrubHub), which pay their drivers immediately after they work for the day, has been a huge volume driver. Immediate payroll has become a differentiator for employers. They can advertise 'work today, pay today.' TCH is seeing millions of dollars in transactions in payroll, and over [40,000](#) payroll payments are currently being made each day over the RTP Network. The difference is felt with the end-user – those who don't have access to a RTP Network at their financial institution get paid later.

Real-time payments can apply to merchant services. For example, [Elavon Inc.](#) has provided a very popular service allowing merchants/small businesses to get their receipts immediately after taking credit cards all day (even weekends). This is a stark contrast with waiting a couple of days for an ACH transaction for their sales receipt deposit to hit their account. They then get paid immediately with the RTP Network. This is a huge advantage to their clients, especially those smaller organizations who are strapped for cash.

Digital wallet providers like [Digit](#) provide an automated savings plan that is typically used by a younger demographic. Digit facilitates automatic savings and on-demand withdrawals, and they don't have to wait several days to get paid. Digit has paid more than [\\$7 million](#) to date and saves its customers more than 31,000 years of waiting for ACH transactions.

Michigan State University had a loan program where students could get up to \$300 and then repay it by the following semester. The process was very manual. A student built an application and connected it through the campus credit union to the RTP Network. This allows students to apply for loans through their mobile device and receive funds immediately.

Overall, the growth of RTP has created the opportunity for a new ecosystem of tech providers, such as [Alacriti](#), to develop technology that allows FIs to cost-effectively deliver the faster payment experiences their customers demand while providing a future-proof platform for innovation.

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Next Steps for Credit Unions

The possibilities that faster payments bring to your members are endless. The ability to pay hourly workers as they finish their shift will make members more loyal to your credit union. With RTP, you can reduce check volume and keep the accounts receivable and accounts payable data with the payment itself, as well as anything you would put on a check memo line. Your small business members will appreciate the ability to improve their liquidity vs. having their money tied up in payment rails. While you may have P2P, it doesn't solve the problem for individuals who have more than one account since the alias look up tables only allow for one unique identifier per account. Also, consider emotional payments like insurance disbursements where your members can receive their claim payouts much faster.

The benefits are clear, so what are the next steps for a credit union looking to implement real-time payments?

MEMBER PERSPECTIVE

Start by establishing which use cases are important to your members. Talk to your members and find out what resonates with them. Leverage that information as building blocks to build your payments strategy. For example, if it's a priority for members, explore receive only use cases until you've built the rest of your payments strategy.

TECHNOLOGY UPGRADE?

Microservices-based architectures and the cloud are mature, secure, and reliable. Due to the flexibility of today's cloud-based services, massive technology upgrades aren't necessary. You can quickly implement and roll out [real-time payments](#) (end-to-end or as individual use cases) without ripping out your current infrastructure. Also, if your credit union has a core provider that doesn't have plans for RTP, that doesn't mean you have to wait. They typically have an API system that allows third party access for a fintech like [Alacriti](#).

The biggest concern we have to reckon with is going from batch-processing to real-time processing (24x7x356). As an industry, we need to move past daytime and traditional processing windows and toward always-on functionality. Consumers are already demanding it: the busiest hours on the RTP network are after hours on Friday.

FRAUD PREVENTION

Real-time payments are a secure payments system, providing non-repudiated settlement in 15 seconds. It's important, however, to educate your members that this is the same as giving someone cash. Therefore, you really need to know who you're sending the money to. A lot of the advantages lie in the ability to share information about payments in real-time, in contrast to ACH networks and RTGS systems that have inherent downtime and batching processes, which adds more time to the transaction.

RESOURCES

Finally, use the [TCH RTP Network Readiness Checklist](#) as a guide for educating your members and the recommended process to participate in RTP.

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In Conclusion

Today's credit unions understand the importance of meeting your member where they want to pay with how they want to pay. You may decide to offer all of the capabilities or RTP or roll it out in stages. Either way, partnerships with fintechs build stronger digital acceleration strategies. 2021 will be THE year for adoption, so be sure to have a plan to move forward.

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 watch the webinar, **Realizing the Value of Real-Time Payments for Credit Unions**, with Keith Gray from The Clearing House and Mark Ranta from Alacriti, [click here](#).



To speak with an Alacriti real-time payments expert about Cosmos for RTP, please [click here](#). You can also reach one of our experts at (908) 791-2916 or info@alacriti.com.