

Real-Time Payments in the U.S. Market *Speeding Up, or Slowing Down?*



The U.S. has come a long way to get to where we are today with real-time payments, with TCH and Zelle available in the market and FedNow just around the corner. However, only 3% of financial institutions are presently signed up for a real-time payments system. In a recent Banking Exchange hosted [webinar](#), Celent's Gareth Lodge, Senior Analyst, Global Payments, and Alacriti's Mark Ranta, Payments Practice Lead, discussed the findings in the Celent research report *Real-Time Payments in the US Market: Speeding Up or Slowing Down?*

Real-Time Payments Defined

It's important to clarify first what real-time payments are, and it boils down to a couple of key facets. According to Gareth Lodge at Celent, a real-time payment can be defined as follows:

An inter-bank, account-to-account payment posted and confirmed to the originating bank within one minute

It is not:

PayPal, Venmo, Cash App, Same Day ACH, push-to-card, etc

The customer/member gets value within that one minute on an open loop system, with money clearing and settling at the customer's/member's bank account. Closed-loop systems, e.g., Paypal, are generally more limited in reach to the end account, though trends in that space are closing that gap. Rather than B2B, or B2C , etc.,

real-time payments are any to any, giving reach from any DDA (demand deposit account) to any DDA, regardless of institution where that account is held. Users may mistakenly think that services such as Venmo and Cash App are real-time, however, they actually settle to the DDA account via the ACH rails. To the consumer, it may appear that the transfer of money was instantaneous, but the actual physical dollars don't really move right away. Institutions have to think about the backend money movement, customer support, and where the liability ultimately lies.

Where Does the U.S. Stand?

The closed loop services have their value, but real-time payments have additional possibilities as they're not limited to a particular rail or use case. Right now, the U.S. is relatively late to the market in terms of the largest 20 countries globally when it comes to real-time payments. The U.S. is the only country in that group without widespread adoption of real-time payments. To put it in perspective, Japan had real-time payments before most U.S. banks had ATM networks or debit cards.

Lodge shared some interesting data points, "We see all sorts of interesting data from a recent survey that we [Celent] carried out and looking just at the U.S. banks, 59% have started their real-time journey. On the flip side, that means 40% of banks are already falling behind. The stats you heard in the introduction about only 3% of banks is somewhat misleading. There are only maybe 3% of banks, but they do represent an awful lot of clients, both retail and corporates. And so that critical mass in terms of volume is coming. So that's 7% who say, have no plans in the next three years. Those who have already adopted it, 40% of them saw an increase in real-time payment volumes. So we saw that switch as a result of COVID to more instant payments away from more paper-based payment, nearly all of them now as a central part of their payments portfolio as a whole."

According to Lodge, most of those banks are now looking at managed SaaS solutions to get there because the time to market and the cost of ownership adapt much better than trying to create a solution on-premise or trying to build out one of these existing technology platforms.

Ranta has a unique perspective on the U.S. laggard status. "Where we stand today can actually be seen as a strategic advantage to the U.S. market. By waiting out that growth period of cloud technology, the hosted environment technologies and where we are today as an industry, that waiting game actually set us up perfectly for banking-as-a-service payments. This point is where you can actually start taking advantage of the application and what you can do with these payment types quicker, faster, and easier than could have ever been possible in the more heritage on-prem deployed software space."

Over the last five years, many financial institutions have been starting to look at the cloud differently. Alacriti has seen a tremendous shift in interest in cloud from our consulting arm for Amazon's AWS services. Taking advantage of the cloud goes hand in hand with SaaS, which involves such a significantly less investment both financially and in personnel. It's not just the operation that is outsourced. It's also the management of the cloud and the management of the service itself. This frees up resources to nurture the volumes in other parts of the payment ecosystem.

5 Things that FIs Need to Do to Ensure Real-Time Payment Success

Lodge went on to present five key things that banks and credit unions need to be doing to ensure their success in real-time payments.

1. Don't wait!

Look for SaaS solutions to get the agile and cost-effective route to market. Perhaps the greatest benefit of the cloud is that it's a great leveler. You can deploy technology for both very large and small institutions. In fact, U.S. financial institutions below \$200-500m in assets are using more and more technology on a cloud hosted basis. Waiting for FedNow instead of going on TCH might not be the best choice if your clients are going to benefit from the use cases now. Also, with so many institutions on TCH, chances are that you will want to interact with one of their clients to receive or send something with them.

2. Manage it as a product

Real-time payments are fundamentally different and are likely to be the foundation of our business for the next 50 years. Think about real-time payments as a product and manage it as such. It isn't a faster ACH or cheaper wire and shouldn't be treated that way. Rather, the focus should be on the use cases. The facets of real-time such as single message, 24/7 availability, and good funds all add value to clients.

3. Think holistically

Real-time payments could cannibalize wires, but that business may leave to another FI if you don't offer real-time payments. Think of the margins and add-ons, especially for business clients that go beyond the money movement. It's not just the faster money movement. It's the information and the data that can go along with the payment. There are many possibilities with ISO 20022.

4. New normals

Real-time payments are 24/7, and your system needs to work that way too. This absolutely makes a difference to clients. For example, a corporate client doesn't want to send a same day ACH on Friday only for it not to arrive until Monday. Or a car dealership on a Saturday morning that doesn't want to use cash because of the risk, or credit or debit cards because of interchange fees. Also, remember that real-time doesn't suffer more fraud. It simply finds the faults in your system more quickly. In this case, the dealership could have immediate use of funds with real-time payments.

5. New business models

Think of real-time as part of your digital toolkit to help create new product innovations. Around the world, the most successful banks are the ones who've really broken down what a real-time payment is to their clients, whether it's a corporate or a consumer, and then figured out the individual use cases that could benefit the client, how they can improve efficiency, automation, or work capital or whatever that might be.

Lodge shared that some of the *most* successful banks are the ones who have really pushed real-time payments to their consumers first, rather than their corporate clients, because of two things:

1. They might not be generating any revenue from those clients, but those clients then go into work and say, “How can I do something at home that I can't do at work?” So that drives corporate usage. And of course, corporates always pay to send and receive money. It's the perfect circle—the more you get the consumers interested in it, the more likely a corporate is going to be wanting to get it as well.
2. They are looking at adoption plans holistically. It's not a retail or corporate bank discussion, it's the whole juncture. TCH and the Fed are going to be based on [ISO 20022](#), which has all sorts of promise. Every solution in the U.S. will have to become ISO 20022 compliant over the next probably three to five years at the absolute maximum because the rest of the world has moved. Look at the value of mixing and matching. Instead of cannibalizing the wire, you could actually add value to the wire. Imagine a client sending a payment transaction saying, “This needs to go by the end of the day, and you missed the cutoff.” You can easily pass that into a real-time payment, assuming it meets the value considerations. Whether a consumer, small business, or commercial entity, think about ACH, wire payments, RTP, FedNow, etc., as money movement solutions and what value you're adding to your customer/member.

Money Movement

What customers are looking to do should help define which channel the payment will go through. *Things to consider:* dollar amounts, when the payment needs to settle, the time of day. This information can be gathered in a [user experience layer](#) (a payments services hub). Then, on the back end, the financial institution can strategically decide how to route the payment (a payment as a service platform). For instance, sometimes the ACH network makes the most sense because the payment doesn't need to be at its destination for two or three days. However, a million-dollar transaction for the closing of a house may need to arrive immediately via FedWire. The customer shouldn't need to choose which clearing channel should be used; the need of the use case and timeliness of funds transfer should.

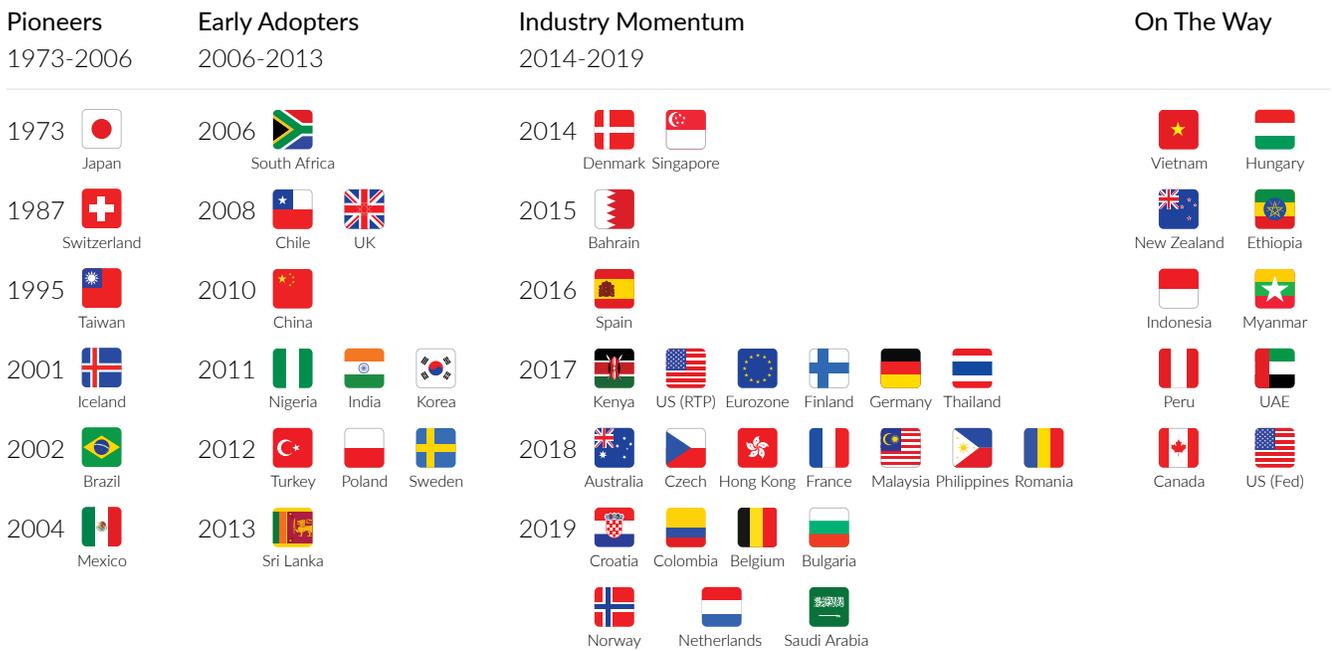
From extended hours on same day ACH to new payment rails, we're starting to get more into a 24/7 availability of systems reality. We have to come to terms with, as a market, that the system is moving that way. The evolution of the market has also gone from point solution to platform. Platform solutions allow financial institutions, even those small in size, to take advantage of real-time payments immediately.

What We Can Learn From the Rest of the World

ISO 20022 plays into cross-border interoperability. The ability to play in a much broader international money movement and talk to other systems can make us much more competitive in the market. From an international perspective, it's puzzling that some U.S. vendors are building out ISO 20022 slowly since it's already used in almost 90 countries. However, we can expect more and more ISO 20022 adoption, which will be a great opportunity for financial institutions.

One of the things Celent says to their clients is, “You’re only digital as the least digital part of your bank.” And payments have been for many organizations, the least digital part. You can do a loan application and get a decision within seconds, but then many U.S. banks send a check in the mail. Those funds can then potentially take weeks to hit your account. Think about real-time payments as part of a broader digital toolkit, and start to think about how you link that with other things. “Now, what we’ve seen in many countries, particularly where open banking exists, the combination of APIs and real-time payments creates all sorts of new opportunities, because it exposes the ability for third parties, whether the fintechs, whether the consumers, whether they are large corporates to start embedding those APIs into their ecosystem, into their business.” explained Lodge.

The Rise of Real-Time Payments



Source: Celent 2021

Fraud

Celent is commonly asked whether or not real-time payments are more prone to fraud. Their answer is yes and no. “The reality is yes, we do see more fraud in real-time payments at first, but that’s for a couple of reasons, both of which are easily addressed and fixable,” said Lodge. The first is that real-time payments aren’t more fraudulent— it just exposes the issues that you have in your processes that much quicker. In the UK for example, ‘man in the browser’ attacks meant occasionally somebody could set up a new payee in an account, clear the account, and then delete that payee without anybody knowing in the matter of seconds. That’s just browser security, and that’s nothing to do with real-time payments. It’s like blaming Ford for a bank heist just because the getaway car was a Ford. The other thing to think about is how you look at fraud in the organization. How do you identify

it? Celent sees many organizations try to apply CART models because they think it's going to be the same because that's their best reference point. And it's a fundamentally different tool being used in a different way. And quite often, they're not even not updating their models more than two or three times a year. A key learning for many countries is to have a flexible live real-time model and build those models as you go. And it will be a learning curve, but again, setting expectations with the clients around what's a good experience, what's a normal experience, also helps to address many of those issues.

Ranta expounded on the fraud topic. "Business Email Compromise (BEC) is a big topic because faster money movement enables a quicker removal of the money from the account. There are steps that you can take from an educational standpoint because these systems are real-time, and the money moves at the equivalent of handing cash over. So therefore our market education has to improve." Account-holders really need to know who they're sending money to and understand how fast the payment is moving. And the institutions themselves can take steps to validate the account. The Web Debit Nacha Rules that just came out are focused on validating the account identified for the payment. There are providers out there in the fintech space that can actually send back the owner of the account and the name, which could be used beyond just ACH payments and give users another tool to stop fraud in its tracks. Using that same method, algorithms, or even an Excel sheet that tells you what to do with fraudulent activities that worked well 15 years ago isn't going to work that well when applied to real-time payments; they are fundamentally different payment types than we have had up to this point in the market.

Another way to minimize risk is starting with receive-only before jumping all the way into sending and receiving real-time payments. While OFAC and AML checks are required on your own inbound money movement, there's not the risk of money fraudulently leaving your institution with receive-only. This is a good way to get used to the 24x7 nature of real time payments, without the associated risks of outbound money movement..

Conclusion

Rather than worrying about cannibalizing your revenue stream, remember that the size of the payments pie is going to grow. It's expected that commercial entities and consumers will start to transact more using real-time payment rails. This volume growth sets the stage for you to be attractive for commercial entities looking for real-time payments for things like real-time payroll and gig economy employees.

Since the U.S. has had a slow start, now there's an opportunity to take the lead. Partnering with a [fintech](#) can provide you with the tools to develop and get there faster. For example, PNC announced in May that they've already signed up 250 corporates for their RTP services. Clearly, the interest is out there, and your institution can be amongst the first to get it right.

To learn more about the state of real-time payments in the U.S. watch the full webinar, **Real-Time Payments in the U.S. Market**, featuring Celent and Alacriti.



Today's legacy and siloed banking technology infrastructure limit financial institutions' ability to rapidly innovate. It's time to look at money movement in a new way. Alacriti's Orbipay Unified Money Movement Services does just that. Whether it's real-time payments, digital disbursements, or bill pay, our cloud-based platform enables banks and credit unions to quickly and seamlessly deliver modern digital payments and money movement experiences. To speak to an Alacriti payments expert, please call us at (908) 791-2916 or email info@alacriti.com

Alacriti