

Why Banks and Credit Unions Need Multiple Real-Time Payments Options



Real-time payments occupy a unique niche in the payments industry, both for its diversity and its [rapid growth](#). The Clearing House RTP® network processes more than \$16 billion each quarter, and Zelle processes more than \$120 billion. Direct push payments such as Mastercard Send and Visa Direct settle payments in less than thirty minutes and usually within seconds, and same-day Automated Clearing House (ACH) payments settle within hours.

All these options have different use-case benefits and combine to create a [very rich environment](#). However, this level of choice can confuse financial institutions (FIs) as they discern where to place their bets based on what their customers will find most important.

To learn more about how FIs need multiple payment rails to achieve true payments innovation and why it is key for FIs to access rails through a unified “payments hub,” PaymentsJournal sat with [Mark Majeske](#), SVP of Faster Payments at Alacriti, and [Sarah Grotta](#), Director of Debit and Alternative Products Advisory Service at Mercator Advisory Group.

Banks Should Not Just Focus on One Payment Rail

With the myriad choices available to FI executives, one might wonder why they do not simply focus on a one-stop-shop payment rail. “Not all rails have the same advantages,” Majeske explained. The RTP network, which was launched in 2017, covers 60% of the U.S. [demand deposit account](#) (DDA) market, so if a bank or credit union wants to cover the other 40%, it needs another payment rail.

Other options have similar blind spots or unknowns. The FedNowSM Service is coming out in 2023 with high expectations but zero ubiquity. Conversely, ACH is well-established but generally does not process payments over the weekend. “I don’t think there is one rail out there that is going to satisfy everyone’s needs,” Majeske continued. “There has to be a level of flexibility within financial institutions and service providers to provide a broad number of opportunities for banks to service their needs.”

Once banks and credit unions identify the needs of their customers and members, they can move to [monetizing real-time payments](#) as well. “When you identify a big need, there is also the opportunity to actually charge for that solution—if you have found an area that can create real value,” Grotta added. Currently, FIs tend to look at faster payments in terms of cost center vs. profit center, which has restricted innovation. But FIs should start thinking about real-time payments as a value-add. “I think the tide is changing,” said Majeske.

Consumers Are Willing to Pay for Speed

Recent evidence shows that consumers are willing to pay extra for the convenience of real-time payments. PayPal, for example, has for the first time begun enabling customers to send funds to their bank demand deposit account on weekends and holidays—at about a 70% adoption rate. Venmo has also been charging for faster payments, and consumers are paying. Clearly there is value there, and even if in the past consumers [did not see the extra value](#) in real-time payments, there will be more opportunities to enrich the payment experience by adding additional offerings such as messaging.

“We have to look beyond the movement of money as just a ‘to-and-from’ transaction,” said Majeske. “We are going to see Amazon-like solutions being put in front of us that add enough value that customer[s] will pay for it, and I think financial institutions have long awaited that period of time.”

Moreover, banks and credit unions have a way to ease into these new payment offerings—payment hubs. Right now, adding real-time payments functionality as a one-off for every different rail each time a consumer wants to complete a transaction is extremely time-consuming and costly. “Payment hubs can play a huge role in this to make it easy for banks to follow a ‘grow-as-you-go’ model,” Majeske noted.

Integrating New Payment Types

Bringing that “grow-as-you-go” model to life requires the integration of new payment types as needed. For example, [Alacriti’s Cosmos Payments service](#) currently includes the FedNow Service, and though no one can say with certainty what the next five years will bring, industry experts can make educated assumptions. “The key is flexibility and design,” said Majeske. That way, banks and credit unions can overcome the inherent hurdles in adopting new rails.

One such roadblock is fraud, which can cause FIs to endlessly fret and prolong implementation as they try to set up robust defenses for essentially unpredictable criminal activity. “Enterprise-level fraud systems are designed and built for wire and ACH, but not for real-time instant decisioning on transactions that happen to be going out on Saturday and Sunday,” explained Majeske. “[Alacriti’s] Cosmos product, in addition to offering rails, can offer the capability of satisfying the need to augment [banks’ and credit unions’] current fraud systems.”

On the back end, banks and credit unions might also want to bring in a [funding agent](#) to help manage liquidity, which will help avoid weekend dead zones with low funding and even enable rolling transactions over a three-day weekend. Overlays are also important for launching a real-time payments product. TCH RTP network and the FedNow Service are designed on the premise that the FI will create the UI/UX experience for the customer, which also makes it take longer to create innovative products. As such, Alacriti is also looking at delivering ready-made FI-branded models so financial institutions do not have to worry as much about the customer-facing element.

Because of course, with mounting payment choices available to financial institutions, the most important determining factor is the needs of the customer. “When you look at payments in general, in the past five years we have had more change than we have [had] in the previous forty years,” Majeske emphasized. “And I think we’re going to see even more in the next five years.” Whittling down real-time options in the modern world is not always easy, but starting from the roots of customer service is always a safe bet.

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