

The Sky's the Limit: How Financial Institutions, Businesses, and Consumers Can Leverage Real-Time Payments to Add Value, Convenience, and New Streams of Revenue



Since The Clearing House's launch of its RTP[®] real-time payments network in 2017 (the first new payments network in 40 years), the network has shown steady, but slow, growth. In the first year of RTP, there were only a few dozen financial institutions that were connected to the network. Currently, there are 350 financial institutions connected, reaching [65 percent](#) of U.S. DDA accounts. But even with the increasing number of connected accounts, the field remains wide open for innovative opportunities to leverage—and monetize—real-time payments. And with the Fed launching its own network, the FedNowSM Service, in July of this year, the question remains as to just exactly how financial institutions can leverage real-time payments to add speed, convenience, and value for consumers and businesses—and to increase revenue.

The short answer is the sky is the limit when it comes to ways to use real-time payment rails as the basis for new and exciting products. But adoption could be faster. Financial institutions, in particular, have adopted a mainly “wait and see” posture in rolling out real-time payments functionality for a number of reasons, including questions about profitability and a reactive stance to consumer demand, as well as a lack of imagination about all of the ways real-time payments could act as a foundation for new products to meet the increasing demand for safer, instant payments that add value and create a competitive advantage in a highly commoditized industry.

Here, we will address some of those challenges as well as provide some compelling use cases for financial institution stakeholders.

Challenges to Adoption

The elephant in the room is monetization and profitability. To date, the cost of implementation has been a barrier to adoption for many financial institutions—and with a lack of available profitability data, many financial institutions are hanging back to see how early adopters fare. The problem here is a matter of the chicken and the egg—we can’t get profitability data because not enough institutions have been able to properly monetize real-time payments for a long enough time yet—and if they are monetizing it, they aren’t reporting figures about revenue and profitability, if they’re tracking it at all—so much of the industry remains locked in a stalemate.

Add to this the uncertainty surrounding the effect of the Fed’s FedNow launch as institutions try to figure out which network is best to connect to (or will they need to connect to both?) and progress is halted even further.

Another challenge is drawing out demand from consumers—consumers have had a taste of faster/instant payments and they like it—they’re even willing to pay for the added speed and convenience in some cases, for example, paying a fee to transfer money from their P2P app instantly as opposed to waiting 2-3 days for an ACH transfer to their bank account.

The problem is, while the benefits are tangible and easy for them to see, consumers aren’t going to proactively knock on their financial institution’s door and demand “real-time payments” because they don’t know or care how faster payments happen. It’s up to financial services providers to lead with innovation based on consumer demand and expectations. After all, if you don’t do it, a disruptor will step in for you. A solid example of this can be found in cross-border payments. Many financial institutions still only offer wire transfers to send money internationally. And many financial institutions will say there is little demand for wire transfers these days, especially low dollar amount transfers, but with P2P apps like PayPal and Venmo, sending money internationally is quick, cheap, and easy. The truth is, demand is there, but traditional financial institutions aren’t meeting it, so consumers have had to seek fulfillment from disruptors. This is because business financial institutions could easily recapture using real-time payment rails.

Finally, because the potential for real-time payments is so vast, it can be difficult for some to imagine all the possibilities—and even when ideas for productization arise, they can be hard to justify without the ability to clearly see the revenue and profit implications versus the cost of implementation.

The good news is, in addition to the following use cases, Alacriti makes it as easy as possible to navigate the implementation and rollout of products that leverage real-time payments rails on the network of your choice (or all networks), including integration with existing systems and the ability to scale up or down as needed.

Real Use Cases for Real-time Payments

Use Cases for Consumers

Why are we starting with use cases for consumers? Because it's paramount that financial institutions understand ways they can generate demand—or leverage current or pent-up demand—from consumers.

- **Faster, 24/7/365 P2P and A2A transfers, and C2B and B2C payments.** While consumers have been sending money to each other essentially in real-time via closed networks within apps like Venmo, Cash App, and PayPal for years, they still need a way to move money instantly from those balances into their bank accounts. Savvy app disruptors are currently using real-time rails to upsell the ability to instantly transfer balances or use traditional ACH rails for free with two to three-day delays dependent on business hours. And while an increasing number of banking consumers already have access to instant transfers from their financial institutions via Zelle®, functionality beyond basic P2P transfers and burgeoning bill payment functionality is non-existent (more on this next).
- **24/7/365 loan funding.** Now imagine a consumer goes to the car dealership on Saturday afternoon, finds a car to purchase, and moves into the finance office to complete the purchase. If the consumers' financial institution is closed, there are any number of non-traditional lenders lined up to finance the transaction. But what if the financial institution integrated real-time payments with its digital application and instant decisioning processes? The consumer could quickly apply, receive approval, and order instant disbursement to the dealer of choice—anytime, anywhere. The limitations of banker's hours can be eliminated. This is functionality that well exceeds Zelle's current capabilities.
- **Get paid earlier.** Some financial institutions are already partnering with payroll clients to get direct deposit payroll to employees a few days faster than with ACH using real-time payments as a way to attract and retain consumers. And gig economy workers, e.g., Uber drivers, are benefiting from pay immediately following each shift. According to one report, [63%](#) of Americans are living paycheck to paycheck, so faster/real-time payroll is especially valuable for hourly, gig, or low-pay workers with cashflow challenges—and companies of all sizes are leveraging real-time pay as an attractive benefit for workers.



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- **Secure large transactions.** With constantly increasing fraud, money movement is riskier than ever. In one type of scam, fraudsters targeting property buyers during the closing process will intercept large escrow deposits by sending fraudulent communications directing buyers to deposit funds in a scam account. When the buyers, out tens of thousands of dollars, show up to closing, they realize only then their funds never made it to the actual escrow account. Now imagine if closing companies were given the ability to send a Request-for-Payment ([RfP](#)) instantaneously while on the phone with a buyer, eliminating any doubt about who's requesting payment and preventing any time delays that give fraudsters an opportunity to try to intercept funds.

Use Cases for Businesses

In the same way, banks and credit unions can attract new consumers, real-time payments can also be used to attract and retain valuable business banking clients. In fact, industry analysts believe the most revenue-producing opportunity exists with business clients. While the true revenue potential from consumer-initiated real-time payments remains to be seen, a handful of the U.S.'s largest banks are already monetizing RfP in conjunction with corporate clients and [recent research](#) shows that 56 percent of U.S. companies are expected to use real-time payments by 2024—perhaps the best-supported business case to date.

Businesses are the segment currently driving the most demand for real-time payments and many are lightyears ahead of other users. [Sixty-one percent](#) of businesses believe that real-time payments provide a competitive advantage.

- **Get paid faster.** The most obvious application for businesses is to get paid faster—but in addition to receiving the funds themselves instantly, real-time payments are being integrated into business workflows to reduce friction and improve efficiency. For example, the network enables businesses to send RfPs electronically, instantly, and securely, and allows for real-time dialogue between the business and vendors or customers in which corrections can be made real-time—all while making payment capabilities seamless with the flexibility to pay now or later according to the terms set forth.
- **Ensure timeliness of deliveries.** For COD vendors, much coordination between the delivery driver and receiver can be simplified by sending an immediate RfP which the recipient can take care of right away, eliminating any potential delivery delays resulting from payments held up “in the ether.”
- **Provide value-add services.** Utility companies can use real-time payments rails and built-in capabilities to reduce the number of non-payment disconnects—a win-win for the company and the consumer. Instead of making a trip to disconnect service for non-payment (even when payment may be on the way but held up by analog processes), customers can be given the option when on the phone with the service center to be sent an instant link to pay—and then complete the payment while still on the phone, avoiding a disconnect and saving the utility company the cost of sending an employee to shut off service.



- **Provide a more secure means of payment.** As outlined above, the ability for a business's clients to pay on the spot—or at least receive a RfP—on the spot, reduces the chance that a bad actor can redirect and intercept a payment.

And some insurance companies are using real-time payments to disburse funds to claimants immediately upon approval. Essentially, anytime there is a need, or desire, to pay or be paid faster, real-time payments help businesses with speed, convenience, and security—and help create a competitive advantage for attracting and retaining clients. Real-time payments can also spell significant cost-savings on printing and sending invoices and other correspondence, tapping into new streams of revenue.

Use Cases for Financial Institutions

Now that you have some ideas about the ways consumers and businesses can benefit from real-time payments, we'll outline some use cases for adding value and competitive advantage—and introducing new streams of revenue.

- **Introduce a new revenue stream from expedited service.** As mentioned earlier, consumers are often willing to pay for the additional speed and convenience of real-time payments. As in the case above regarding late utility payments, consumers often have a need to ensure a bill recipient gets paid as quickly as possible, but anytime an account holder wishes to move money between accounts, businesses, or people using traditional ACH rails, there is an opportunity for financial institutions to upsell instant transfers.
- **Improve efficiency/reduce costs.** In addition to eliminating a paper trail, financial institutions can realize significant cost savings by supporting client inquiries regarding the status of transfers. With ACH transfers, stakeholders only have visibility into the start and end points of the transfer. There can be a period of days when the money is moving through the system, but where exactly it may be is unknown until it hits the target account or entity. Imagine the call center hours that can be saved by eliminating these inquiries.
- **Meet increasing consumer demand for instant payments.** As mentioned earlier, consumers have had a taste of instant/faster payments via disruptor apps and leading-edge businesses for years. To some extent, regardless of how the financials of any business cases shake out, financial institutions will need to offer better ways to send and receive money—whether P2P, A2A, between consumers and businesses, or internationally—to retain and attract business.
- **Instant loan funding.** As outlined in the consumer use case above, integrating 24/7/365 instant loan funding with your application and decisioning workflows will help you recapture loan business previously lost to “banker's hours.”
- **Offer an easier way to send cross-border payments.** Wire transfers are clunky and expensive, and no one wants to use them for small transactions. Consumers can currently send money easily, cheaply, and quickly between friends and family, or for business transactions, using apps like PayPal and Venmo, but there are limitations. Sender/receiver fees, credit card fees, and exchange rates can make it difficult for senders to be sure they're sending exactly the right amount

of money—and international money movement using third-party apps can also be fraught with risk, with support from app providers nearly non-existent. As trusted advisors, financial institutions are uniquely positioned to recapture cross-border payments business by offering the same convenience along with greater peace of mind for accountholders.

The bottom line is the payments landscape is changing at the speed of light. If you've been on the fence about how to best leverage real-time payments, waiting to figure out how to monetize it, or hanging back to see what the competition does, you may already be behind the curve.

Orbipay Instant Payments Brings the Future to Financial Institutions

The future is now. Alacriti's [Orbipay Instant Payments](#) brings a modern payments infrastructure to financial institutions. The platform provides access to TCH's RTP® network, FedNowSM Service, and Visa Direct payment rails empowering you to deliver modern money movement experiences to your customers or members.

The real-time payments gateway is cloud-native and built for scale, and its open APIs, and microservices-based architecture mean the sky is the limit for building innovative solutions that can be integrated with your existing systems (Alacriti has pre-built integrations with many core banking solutions and digital banking systems)). The platform also offers a host of built-in features for safety, security, speed, convenience, and ease of use to ensure seamless integration of real-time payments into your existing infrastructure and workflows.

Consumer expectations around speed, convenience, and security of payments (any time and from anywhere) are no longer being met by legacy payment technology. Financial institutions must either deliver in real-time or risk damaging both their revenues and reputation.

The exponential growth of real-time payments is at its tipping point. The [market is expected to grow](#) at a rate of 33% annually over the next 10 years, with volumes forecast to reach \$300 billion by 2032. It's essential that financial institutions place their stake in the ground now to position themselves as innovators and market leaders.

Of course, every bank and credit union must measure the challenges, benefits, and risks of real-time payments based on their own market conditions and customer/member makeup, but whether you decide to dip your toes into the pool slowly, or dive in head-first, the time is now to start thinking about how to leverage real-time payment rails for added value, competitive advantage and new streams of revenue.



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Alacriti's centralized, [payments hub](#), provides innovation opportunities and the ability for members to make smart routing decisions at the credit union to meet their individual needs. Financial institutions can unify payment processing all in one cloud-based platform—ACH, the Fedwire Funds Service, TCH RTP® network, Visa Direct, the FedNow® Service. To speak with an Alacriti payments expert, please [contact us](#) at (908) 791-2916 or info@alacriti.com