

RTP vs. FedNow: Is There a Wrong Choice?

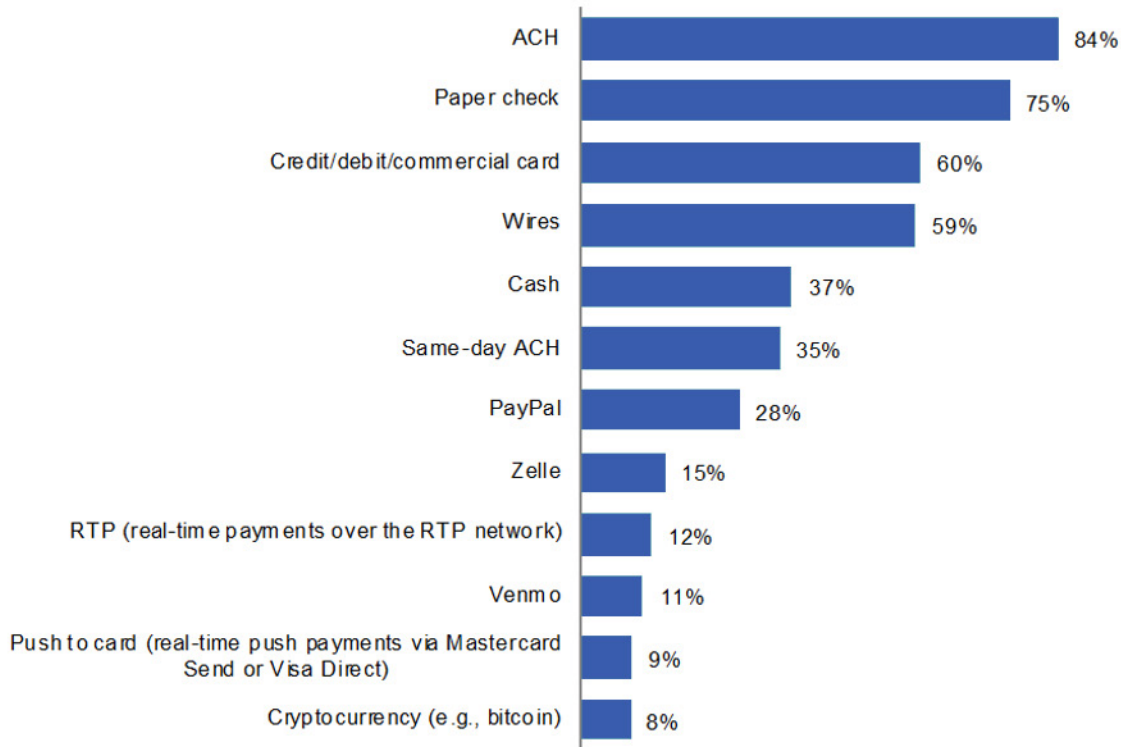


Credit unions have been placed in a difficult position when it comes to real-time payments. They could either offer the benefits of real-time payments right away with real-time payments by leveraging the TCH RTP® network, or wait for the FedNowSM Service. Now, the FedNow Service is scheduled to go live in 2023. With both rails as viable options, it begs the question, 'which one is better?'. Alternatively, credit unions could embrace both networks. In a NACUSO hosted [webinar](#), Erika Baumann, Sr. Analyst for [Aite Novarica](#), and Al Griffin, Product Manager at Alacriti, discussed how the FedNow Service and the RTP network should fit into a credit union's payments strategy.

State of the Market

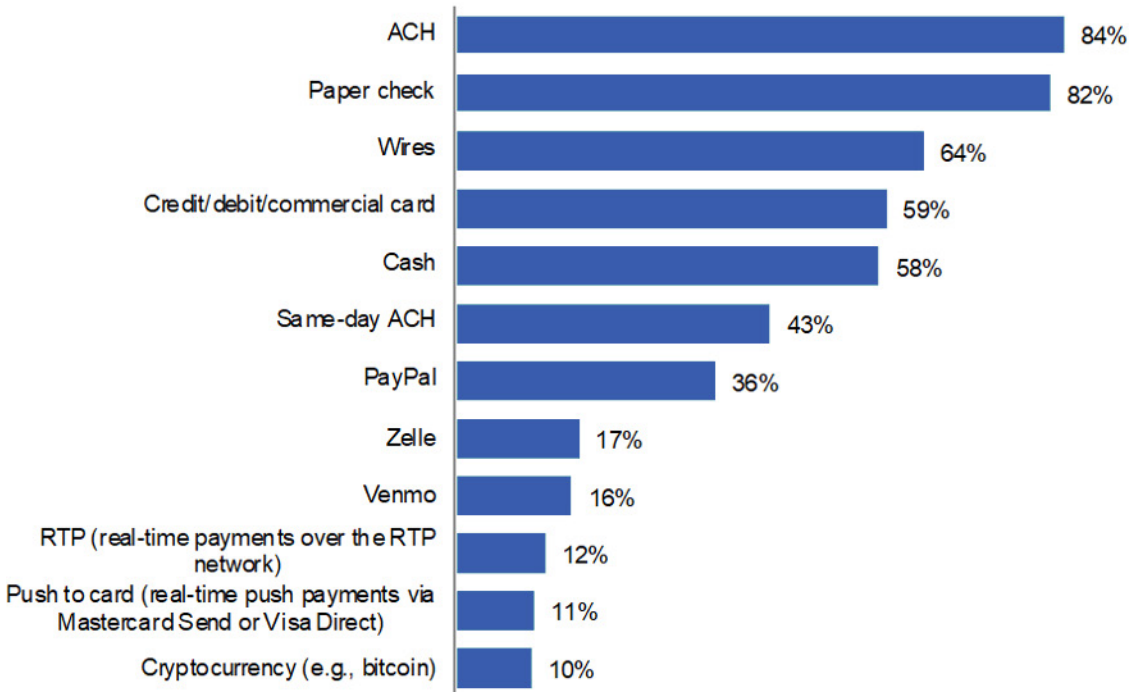
The way businesses handle payments used to be primarily ACH. However, it is now starting to become more varied. Baumann observed, "We see that companies are disbursing in more ways than ever before. And they're also trying to make it as easy as possible to pay them as quickly as possible."

Q. Which of the following payment methods does your company use to disburse/make payments today? (n=213 mid and large companies)



Source: [Aite-Novarica Group](#) survey of 213 U.S. based midsize and large businesses, February 2021

Q. Which of the following payment methods does your company accept from payees today? (n=213 mid and large companies)

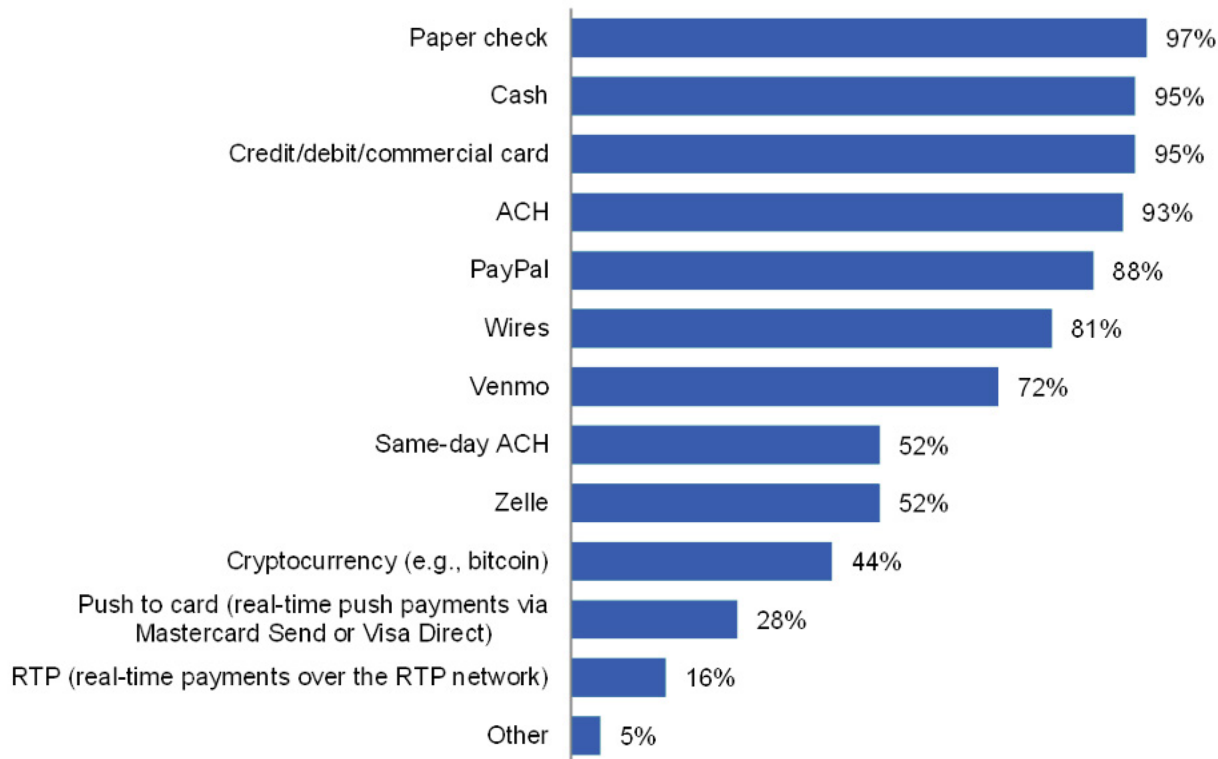


Source: [Aite-Novarica Group](#) survey of 213 U.S. based midsize and large businesses, February 2021

While it's great to be flexible and responsive to the market, this creates a complexity that members aren't accustomed to. They need to understand what their credit union is offering that can help them become more competitive in the marketplace. Small businesses are often more aware of different payment types than FI's give them credit for. Baumann dispelled some common misconceptions about small businesses. "A lot of times I think small businesses are really underestimated. There's this perception that they're simple and won't adopt new technology or invest in it. And that's really not necessarily true. Small businesses are doing a great job of getting educated on what's happening in the market. One of the factors that is playing a big role is that fintechs are going to your members directly and explaining the value proposition of their niche products. Your competitors in the market, whether other credit unions, community banks, or fintechs are actively seeking growth in the small business space because there is so much opportunity."

Griffin agreed. "We are seeing the same thing. There's an adoption of more non-traditional payments, and they are really starting to evolve and affect where small businesses can get involved. In particular, the buy now, pay later option that's taking hold as well as offering other additional payment channels that are somewhat nontraditional."

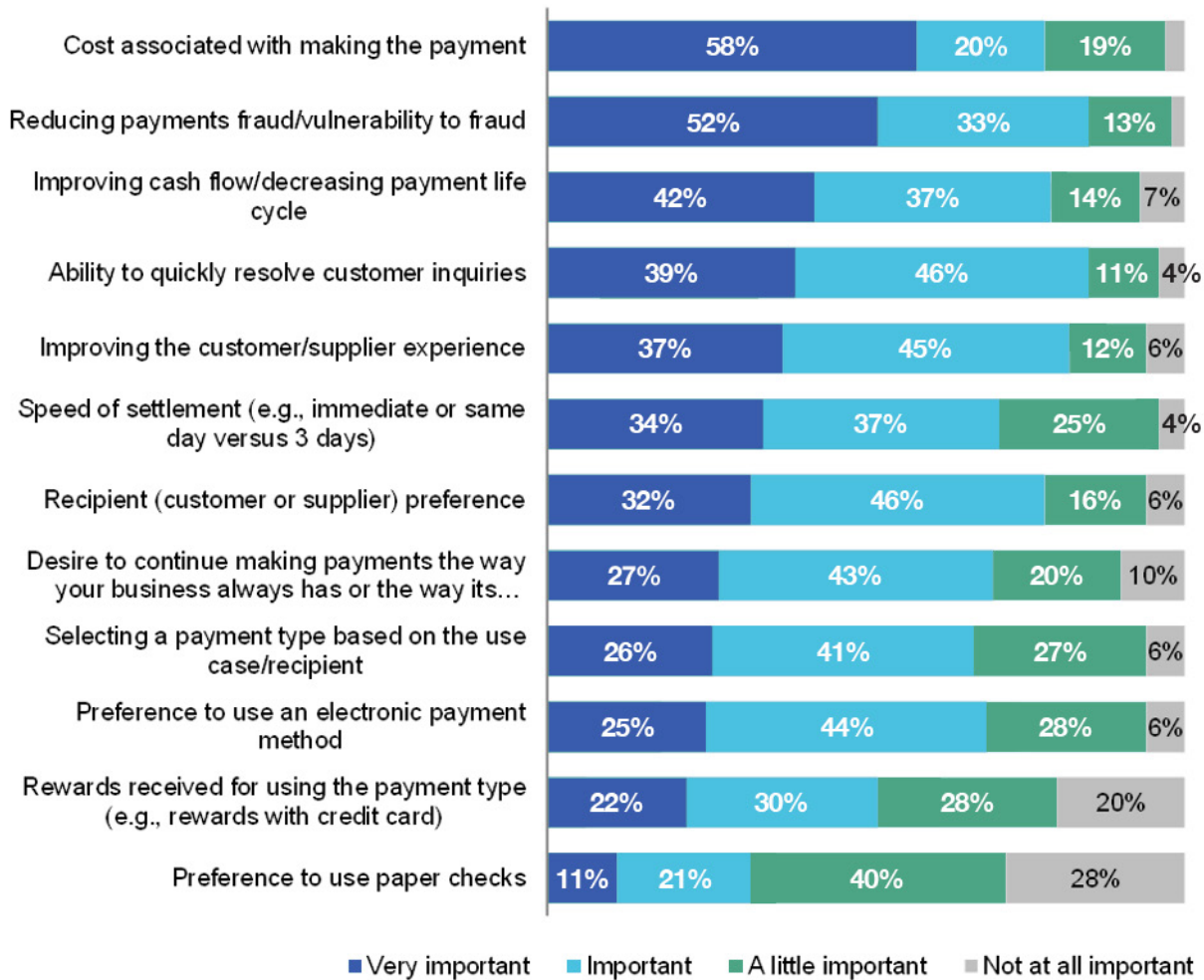
**Q. Which of the following payment methods are you familiar with?
(n=100 small businesses)**



Source: [Aite-Novarica Group](#) survey of 213 U.S. based midsize and large businesses, February 2021

It's probably not much of a surprise that most (68%) small businesses prefer electronic payments over paper checks. However, the umbrella of 'electronic payments' is much more complex now that it refers to digital wallets, e.g., Zelle, Venmo, the TCH RTP network, the FedNow Service, etc. When figuring out what your offerings are to your members and how to position them in the market, it's important to consider what small businesses actually want. Key considerations are cost, lowering fraud vulnerability, and speed.

Q. When your business determines the payment method to use when making payments (e.g., credit card versus other electronic payment versus paper check), how important are each of the following factors in that decision? (n=100 small businesses)



Source: [Aite-Novarica Group](#) survey of 213 U.S. based midsize and large businesses, February 2021

Even though fintechs can serve businesses of all sizes, they tend to go after small businesses because they understand that they represent a huge market opportunity. Baumann shared Aite's research findings. "Our research clearly shows that the perception that small businesses are not willing to pay, and want everything for free is actually not true. If you can show the value proposition for how something makes a small business safer or how it makes their job easier, they absolutely are willing to pay. And if they can't get that with the financial institution that they're with, they will find it somewhere else. Of course you have to be very sensitive to their budgets but if you're speaking to their business problems, and how technology can actually reduce the overall cost of payments, help them to be safer, and make a difference to their recipients— it can create loyalty and market differentiation."

Waiting vs. Not Waiting

Smaller businesses have been slower to adopt real-time payments primarily because of low availability for small businesses. Also, awareness of financial institution-provided real-time payments is low. However, [79%](#) believe real-time capabilities would positively impact customer satisfaction. In addition, almost half of businesses think offering the latest payment capabilities is a differentiator. This explains why there was a shift in the market where the top four banks were actually losing the percentage in the market of the total businesses that they bank.

Aite-Novarica found in their research that even small businesses are starting to move using their primary banking services outside of their online banking for their value-added services, going to fintechs directly. From their perspective, it's necessary because it's taking too long for the market at large to be able to offer faster payments. Credit unions may not have members currently asking for this. However, Baumann asserts, "A lot of times members don't know how to ask for a specific piece of technology. They're thinking about opportunities in the market, differentiation in liquidity management, or just being able to receive faster payments and paying just on time. There are a lot of business problems that can be solved with faster payments that we find financial institutions are not necessarily positioning to their customers or members." Griffin agreed. "Real-time payment has an enormous influence for businesses of all sizes on liquidity, cash management, and how funds get in and out of their accounts."

By educating members, credit unions can equip their teams to understand what real-time payments mean for them. That helps answer the question as to where it fits into your strategic roadmap plan. When considering whether or not to wait, remember that offering the latest payment capabilities is a competitive differentiator. Businesses of all sizes can benefit. Also worthy of consideration is disintermediation. It's not just about satisfaction, it's about access to technologies. Value-added services can help your credit union recognize a quick return on investment on your technology as well as make your members sticky. For just small businesses, [17%](#) are saying that they are already using a fintech provider, and there's even a small slice

that say they've been able to completely skip using their financial institution. While these numbers are not yet huge, they are certainly impactful.

Key factors driving small businesses to make payments through a fintech provider:

- Ease of submitting a payment file (52%)
- Reporting and analytics capabilities (38%)
- Failure of FIs to offer real-time payments (24%)
- FIs doesn't offer the functionality they need (29%)

There is No Wrong Choice

The threat of disintermediation comes from providers that make payments easy, and provide reporting and analytics that they say businesses cannot get from their financial institution. They are also offering the ability to reach all of the emerging payment sites. It's a very concerning trend, and it leads to the point that there is no wrong choice between TCH RTP Network and the FedNow Service. The real issue, or the wrong choice, is to make no choice.

Almost [250](#) banks have already implemented TCH RTP Network, representing over [60%](#) of the total DDAs in the U.S. That number continues to grow, which means real-time payments have already become an expected offering for a large part of the market. The FedNow Service is only going to help increase the demand for real-time payments, and validates where the market is going. It's not about a particular rail, it's about the ability to move forward and prepare for what's to come.

The use cases for real-time payments have proven to be very appealing to the market. For instance, the ability to offer non-traditional payroll has become a huge factor in being able to attract and maintain workers in a difficult labor market. Just being able to offer receive only has been crucial for small businesses who are so vulnerable to failing because of their liquidity issues. The ability to collect funds quickly means being able to keep doors open the next day.

When asked about the difference between TCH RTP Network and The FedNow Service, Griffin answered, "There's not really any difference between the two platforms. Really the decision you need to make right now is, when do you want to get real-time payments? And when can you afford to get into the real-time payments game? From a functionality standpoint, they're all, they're both gonna be pretty much one in one in the same as we mentioned, there's no wrong choice either way."

Moving Forward

Griffin provided advice for credit unions who had not yet made a choice for real-time payments. "Don't look at planning for real-time payments as a huge monolithic effort, because with today's capabilities you can gradually get into the pool. So if you haven't identified a plan to participate in real-time payments, I encourage you to begin that process immediately so that you're ready as soon as you possibly can be. Think about

the three different types of personas that are out there from a real-time payment perspective. 1) There's receive only where essentially you're just setting yourself up as part of The Clearing House Network or part of the FedNow Service to be able to receive real-time payments. That's the simplest way—you just need a real-time connection to your core for these payments to post. 2) Send and receive is a little more involved because you're going to need more capabilities 3) The third one is the send, receive, and request for payment. Alacriti [offers](#) the ability for your credit union to start with receive only, and then elevate to meet the needs of send and receive, and then send and receive and request for payment when that becomes a priority.”

Speak with your members and educate them on real-time payments, and also take the time to understand what can help them be more efficient in their business. Some needs may be more specific to a particular niche marketplace that you serve, and addressing those needs can differentiate your credit union.

A really common use case in the industry today is A2A. Traditionally, an A2A transfer was settled within 1–3 days with ACH. Real-time rails allows members to see their money move instantly between their accounts from one institution to another. Alacriti is working with several of its online banking partners to facilitate the ability to transfer in and out of digital wallets (e.g., Venmo or Cash App), where previously there would be a waiting period of days or weeks. Currently digital wallets charge a fee from an instant transfer. Since people are accustomed to paying a fee, that's an opportunity to monetize real-time payments.

Cost and Time to Implement

Regarding costs, Baumann provided her perspective. “It's not just about cutting costs. Of course you want the implementation to be as efficient as possible, but the first thing you have to think about is the opportunity cost of not moving forward. There's going to be a cost to creating infrastructure change. The key question is *what is the opportunity cost* if I do nothing? For implementation, finding the right partner is the most important piece. A partner that has helped other financial institutions solve the problem of moving away from batch, and that can then utilize the same infrastructure and architecture within their platform to be able to connect to whatever comes next.” Griffin added that some of those costs can be offset. “The monetization of faster payments is not something that's going to be new to anyone. People are accustomed to paying a fee to have money instantaneously. There's an opportunity to monetize those services, because of the value of what you're providing.”

The possibilities of real-time payments are endless. Alacriti's [Cosmos Payments](#) solution offers low total cost of ownership with a flexible pricing model that's scalable. What makes it different is the ability to connect credit unions to multiple rails, whether that be the Fedwire Funds Service, Visa Direct, the upcoming FedNow Service, TCH RTP network etc. It's also not a time-intensive process—credit unions can be up and running in approximately 8-10 weeks for receive only, and 20 weeks for send and receive. In addition, the platform is ISO 20022 native, meaning that there is no need

to adapt to any of the upcoming ISO 20022 formats that are coming to be required. Its API-first and microservice-based architecture makes the solution very nimble, fast, and adaptive. Cosmos Payments also offers very deep reporting analytics that allow credit unions to report not only on the platform, but connect and report across all platforms within the institution.

To learn more about how the FedNow Service and TCH RTP network should fit into your payments strategy, watch the full webinar, **RTP vs. FedNow: Is There a Wrong Choice?**, featuring Aite-Novarica Group and Alacriti.



WEBINAR PLAYBACK

**RTP vs. FedNow:
Is There a Wrong Choice?**

WATCH NOW

Alacriti | Aite-Novarica

The banner features a dark, textured background with a large white play button icon in a circle. To the right of the play button is a white graphic of a road splitting into two paths, symbolizing a choice. The text is in white and yellow, with a yellow button that says 'WATCH NOW'. The logos for Alacriti and Aite-Novarica are at the bottom left.

Alacriti's centralized payment platform Cosmos Payments, provides innovation opportunities and the ability to make smart routing decisions at the credit union to meet their individual needs. Credit unions can unify payment processing all in one cloud-based platform—ACH, the FedWire Funds Service, TCH RTP® network, Visa Direct and soon, the FedNow ServiceSM. To speak with an Alacriti payments expert, please contact us at (908) 791-2916 or email info@alacriti.com

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