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BUILDING BLOCKS FOR SUCCESS IN US REAL-TIME PAYMENTS

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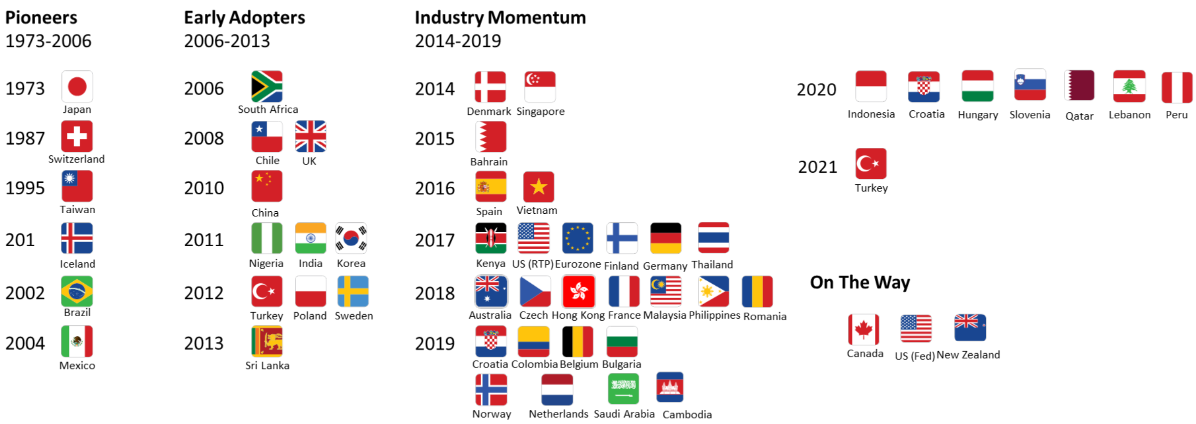
Real-time payments have been around for more than 40 years, present in over 50 countries, and having grown 39% in 2021 alone, volumes exceeded 118 billion globally. The US has a fantastic opportunity to learn from the success of others, and take a short-cut to success. This paper summarizes some of the key building blocks required.

Figure 1: Real-time Payments Have Been Around For More than Fifty Years



Source: Celent

Not Just Speedy

Speed is obviously a key element, but not the sole element that makes real-time payments attractive. By understanding the facets of a real-time payment, financial institutions can start to understand how each one can create value for its customers.

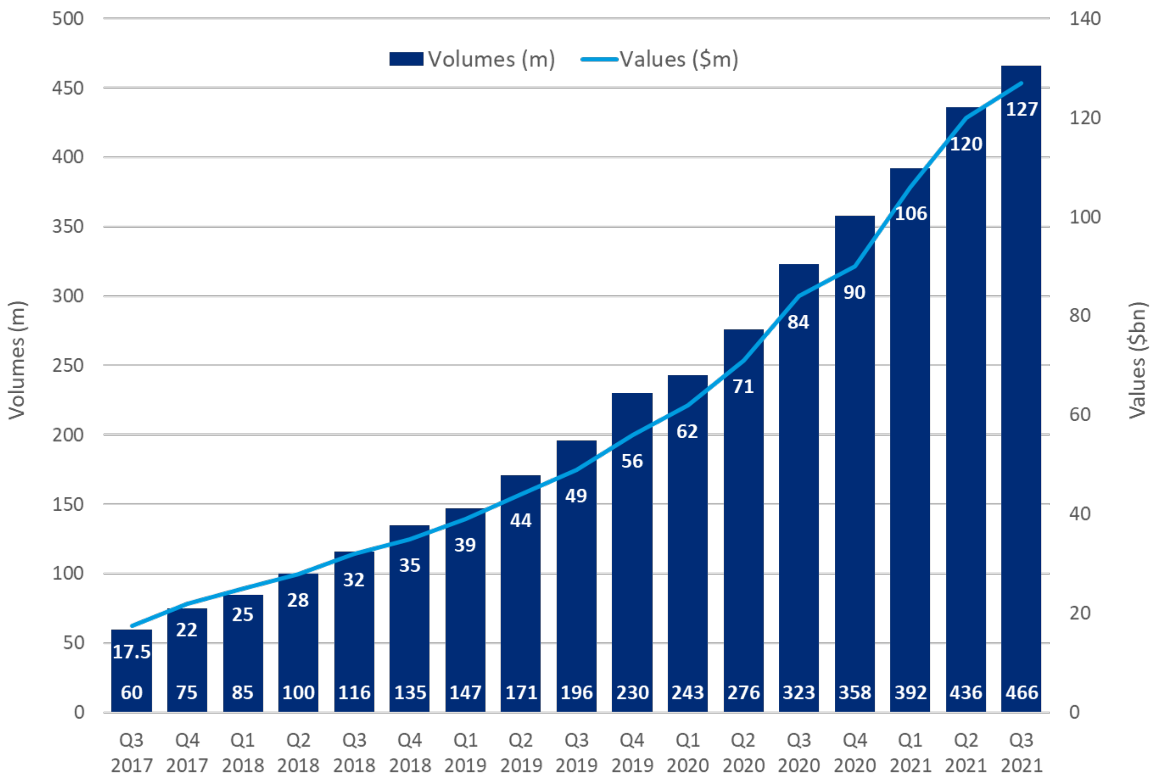
For example, once a real-time payment has left the sending financial institutions, it is irrefutable. The recipient knows when they see it, they can use it. For a small business, that could be an acceleration in working capital measured in days. And it won't bounce days later either. Nor will you have to wait for the financial institutions to open to cash the money – real-time payments operate 24/7/365 allowing users to do what they want, when they want – paying a bill after work, going shopping on a Sunday – and all faster, cheaper and more efficiently than any other payment type.

It is also much simpler to manage through APIs and business processes, and the payment can be embedded in a chain of events, allowing for greater levels of automation. For example, when a factory order reaches a certain stage, it automatically triggers a request for payment. On receipt, there's an automatic release of the goods from the factory gate and the initiation of a shipping request. This process today can take days, if not weeks. On the payor's side, a similar process can take place. The sending of the payment can be based on a set of criteria as well—when there are sufficient funds, for example, or when an early payment discount makes this the optimal time to pay.

It's a Brand New Payment Type

Often in our conversations with US financial institutions, it is clear they believe that real-time payments are a "P2P thing." A second but less frequent theme is that it is a faster Same Day ACH. As such, they often ponder where the demand is. Yet there is a very clear demand for real-time payments, with users of Zelle coming from virtually every financial institution in the US – even if their institution doesn't offer it. Starting with an open mind about real-time payments is critical not just for success in real-time payments, but increasingly payments as a whole.

Figure 2: Zelle Payments Are Growing, Both in Volume and Value



Source: Zelle, Celent

It's All About the Money

One of the first questions financial institutions ask is, how do I make money from real-time payments? This is despite them not making direct revenue from other payment types, nor often understanding the indirect costs and revenue either. Who will pay and why, and the consequences of charging, are concepts to understand.

Typically, consumers don't pay to send or receive payments. But 74% of payments start or finish with a business, and businesses *always* pay. Instead, financial institutions should consider what will drive volumes where they can charge. This focused approach will give the greatest return. For financial institutions with businesses, the key will be encouraging consumers to use real-time payments, for two reasons.

First, they will start to ask the businesses they interact with to offer real-time payments, whether sending or receiving. As critical mass grows, those businesses who do offer real-time payments start to create pressure on those businesses who do not, creating a flywheel effect. This process has been seen many times in many other countries! Second, those consumers will go to work and will begin to ask why if they pay for financial institution services, they get a poorer service, driving demand internally.

Nobody Wants to Make A Payment

Financial institutions don't think about payments very often, and customers think of them even less. Instead, it's a means to an end. Leaving it to chance that customers will understand the benefits real-time payments could give them undermines all the money and hard work that has gone into delivering real-time payments capability in the first place. Globally, the most successful financial institutions in real-time payments are those that have left nothing to chance

Using Payments to Drive Greater Process Efficiency

Use cases are key as in most instances as they are usually displacing other forms of payments. Understanding and communicating why someone should change is critical.

Often it is about speed, but it's also often about certainty, usually about efficiency, and sometimes about other factors too, such as certainty. For high value goods, there is a risk in releasing the goods until the funds are as guaranteed as possible. Even higher value goods bring other challenges, such as complying with AML rules and the aforementioned higher insurance premiums that come with the decision to use cash. Imagine a used car dealer. Many of the forms of payment available to them are either slow, risky, or expensive—and often two or more at once! Real-time payments mean they know that even on a Sunday morning, once they see the funds in their account, it is money they can use straight away, and they can finalize the process of selling the car.

Digital Building Blocks

Key to all opportunities is designing the processes with flexibility in mind. Creating a granular set of processes will allow the reuse of individual elements many times, allowing the creation of different flows and journeys from standard building blocks. That moves the discussion away from instant payments to the increasing number of digital tools that a financial institution has, and how they might solve the client's business problems.

It can also allow whole new business propositions. For example, the Chinese online insurer Zhong An offers ultra-short-term insurance for many things, including travel and for goods being shipped for refunds. Using geofencing, the app recognizes that the customer is at the airport and offers insurance against delayed and cancelled flights (and for duration of the flight, too) all of which can be bought through a simple click in the app. Whether these examples could work in the US or not is not necessarily the point; they show that the tools could disrupt the status quo.

Failure to Prepare is Preparing to Fail

The key to real-time payments success is explicitly getting customers to choose real-time payments. This won't happen by chance, and certainly not at the take-up rates that financial institutions would wish.

Key is understanding the value of a real-time payment to the financial institution. It is important that financial institutions also consider the wider revenue opportunities, not just the transaction fees. The services surrounding a real-time payment typically generate more revenue than transaction fees. After all, a real-time payment is only as real-time as it takes for the client to know they have the payment, who it is from, and to be able to reconcile it. Only then can they use the money from the payment. Therefore, as volumes grow, real-time payments require real-time data, whether to reconcile or to get a real-time cash position.

In many use cases, the business values how it benefits them. The clients may not pay more for the solution, but it will deepen the relationship as the financial institution is demonstrating value and that it's helping the business do more business. The messaging around this, then, is key.

There are Rarely New Challenges

Real-time payments are undoubtedly a learning curve, not least the move to a single message, 24/7/365 operation. Yet, 50 years and 50+ countries later, it's very rare to find a hurdle that is new and unique. Financial institutions should assume most challenges have a solution already. Fraud is a good example. Financial institutions' existing fraud solutions weren't designed for real-time payments. It's not just the speed required, but the patterns of usage. But there are many solutions and best practices in place around the world already. Some things might not even occur to some financial institutions, such as funding which equally has to be available 24/7/365. Many smaller banks rely on funding agents to ensure that their settlement account always has sufficient funds for payments to actually be made. Others are just more practical – how does the bank integrate real-time payments into their customer facing platforms? Again, many vendors offer this already in the form of APIs or ready made screens.

This all reinforces this paper's opening statement: the US has a fantastic opportunity to learn from the success of others and use it to take a short-cut to success. By starting with the assumption of there will already be solutions for whatever they face, financial institutions can short-cut their way to success.

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