Point of View Paper

Instant Everywhere

Why Instant Payments Are Becoming
the Predominant Payments Rail

the speed of life®

Real-time payments, which transfer funds almost instantaneously, are opening new opportunities for financial institutions to provide consumers with greater financial control and confidence. To address consumer preferences, financial institutions (and their competitors) are working to ease the payments journey, with most innovation plans being directed toward instant payment rails. Open banking and Request to Pay solutions already leverage instant rails, benefitting both payees and payers. The industry is reaching a tipping point, when instant payments systems become the dominant rail. The direction is clear for financial institutions willing and able to take advantage of the trend.

It may seem like instant payments came to prominence overnight. In fact, the first instant payments system, Zengin System, was developed in Japan in 1973. It still functions today. Fast forward about 50 years, and the payments environment has evolved dramatically. Today, there are more than 60 instant payment systems available globally.

In most cases, these instant payments systems were introduced and used alongside legacy ACH, check- and card-based channels. But at the current rate of evolution in technology and consumer demand, instant payments will soon take over, replacing their heritage counterparts. Financial institutions need to be prepared to keep pace with this fundamental change, which is driven by several, easily identified factors.

1. The Need for Speed
2. The Need for Certainty
3. The Need for Convenience
4. The Need to Lower Costs

The Need for Speed

Industry research confirms that accountholders want faster, 24/7 payments. According to a 2021 study by Javelin Strategy & research, 75% of consumers surveyed believe instant access to funds is important.

Real-time payments, through a variety of channels, make this possible. But financial institutions have some work to do to speed up payments in all categories.

For example, because of transaction value limits on instant payments, high-value transactions have often been handled with separate, slower processes. But now, across the globe, those transaction value limits are increasing or being abolished altogether. In the U.S., the instant payments limit has risen to $1M. In the Netherlands, there are no limits at all for instant transactions. Do financial institutions still need separate, high-value payments systems?

Financial institutions could replace those high-value systems by routing instant payments to real-time gross settlement (RTGS) market infrastructures instead. With instant payments schemes, data and transactions can be processed faster and more economically than with most high-value systems. That makes RTGS market infrastructures ideal for important payments that need complex, central bank, collateralized money for settlement.

The Need for Certainty

The customer experience is greatly enhanced by the assurance of finality and certainty (and real-time notifications of any payer changes) that instant payments afford. For financial institutions, instant payments reduce risk by providing cash-flow visibility and real-time verification. This results in increased efficiency, with less manual processing and immediate account balance updates. There's no exception management or rework involved.

By contrast, traditional ACH systems, which process batches of payments over a period of hours or days, create additional levels of staff work. It's hard to imagine what benefits these older ACH systems provide operators and users in an instant world. Instant payment schemes can remove high exception-processing costs without changing the customer experience. For example, a corporate entity can still send its financial institution a payroll file and receive a consolidated statement against that file.

The certainty and finality of transactions is a compelling advantage of instant payments over traditional ACH.

The Need for Convenience

Bills that are easy to pay are usually the first bills to be paid. Accountholders like to pay their bills when it's convenient for them, with little regard for the payment rail or back-office mechanisms involved.

The expectation of a smooth and convenient user experience continues to drive the move to instant payments. Regulators are also demanding lower user prices, which is further driving payments simplification and rationalization. New players and technologies are entering the market promising even greater ease and convenience, forcing traditional players to re-evaluate their own strategies.

Financial institutions must appreciate the considerable value consumers place on the anytime, anywhere convenience of instant payments, and adjust their offerings accordingly.

The Need to Lower Costs

Instant payments offer positive financial benefits for everyone involved. In addition to easier cashflow management for consumers, businesses gain more stable liquidity when they receive payments more promptly, and financial institutions save through operational efficiency.

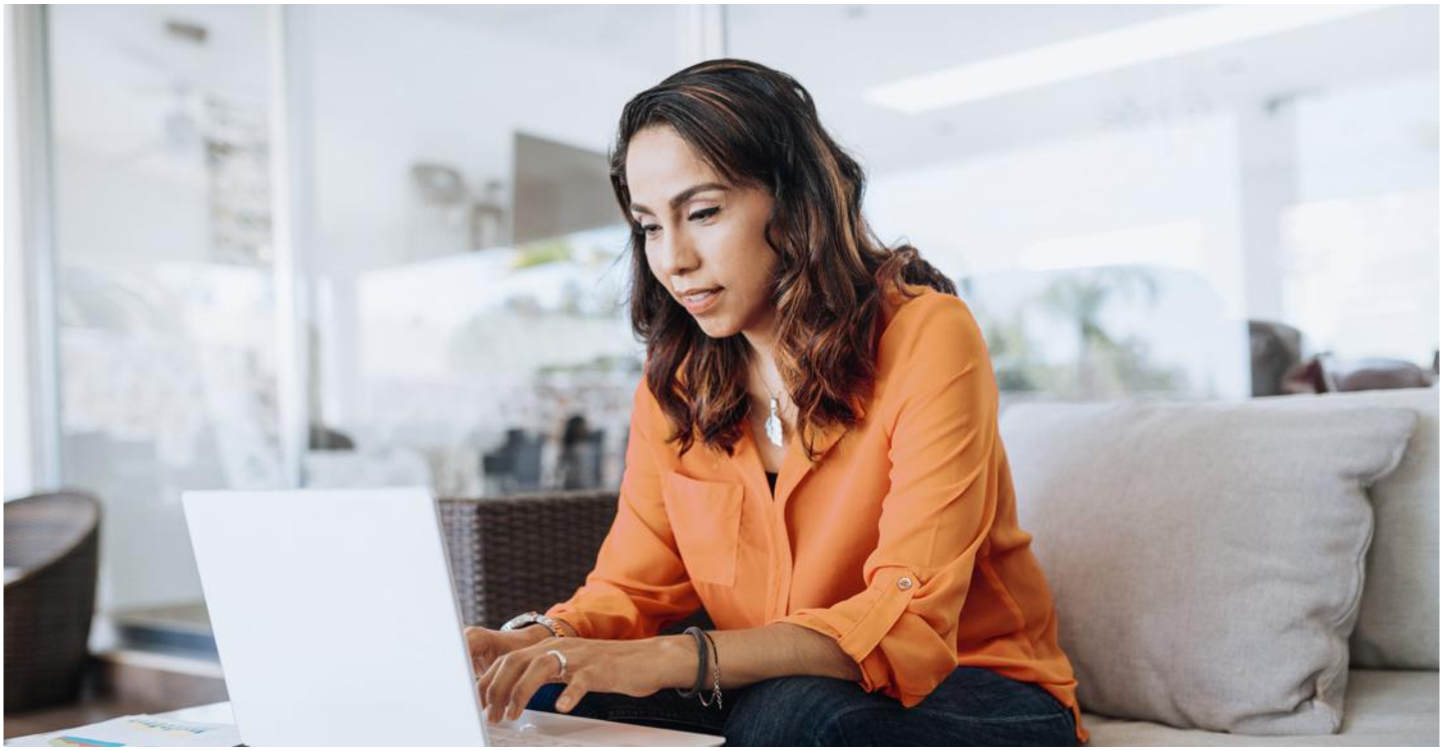
But beyond those positives, there is a stark reality faced by financial institutions: Traditional ACH and high-value transactions already cost more than instant payments on a per-transaction basis, and revenue per transaction is on a downward trend. For institutions to remain profitable and competitive, the costs to process payments must follow suit. Why shouldn't financial institutions choose the cheapest option to operate? As payments volume shifts, legacy systems will eventually be priced out of operation.

The Evolving Future

Our prediction: Someday soon, legacy payments systems will become the exception rather than the rule. Eventually, everything will be instant, and other rails will fade into memory. It may not happen tomorrow where you are located, but it is coming very soon. Consumer expectations, competition and regulatory mandates will require your financial institution to keep moving forward to keep up in the payments arena. Now is the time to plan for the instant future.

About the Author

Steven Anderson currently leads the product function for Enterprise Payment Platform from Fiserv in EMEA. Prior to this role, he worked with Mastercard in London, developing real-time payment solutions in both batch and instant applications, supporting clients and market infrastructures around the globe. With over 25 years financial services experience, Anderson has worked in the United Kingdom, Australia, New Zealand, Hong Kong and China. His roles have engaged with a variety of retail financial solutions, including lending, deposits, insurance and wealth management.



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