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# Time for Action! Making the Business Case for Real-Time Payments

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**Prepared for:**

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# EXECUTIVE SUMMARY

*Time for Action! Making the Business Case for Real-Time Payments*, commissioned by Mastercard and produced by Aite Group, takes a closer look at how to build a timely business case for real-time payments by looking at the market opportunity, IT and operational impacts, and optimal use case value propositions.

Key takeaways from the study include the following:

- Consumer expectations are shaping the future of payments for both businesses and financial institutions. Real-time clearing and settlement, combined with robust messaging, offer modernization opportunities for banks.
- Bank strategy can vary depending on bank size, client base, culture, and legacy technology. Recognizing customers' unique needs and spending and payment patterns is critical to successful and accelerated adoption.
- Understanding clients and how real-time payments can augment their payments strategy is a key component to future-proofing a portfolio. This spans business cases across business-to-business (B2B), business-to-consumer (B2C), consumer-to-business (C2B), and person-to-person (P2P) payment capabilities.
- The market suffers from a lack of education around real-time payments. This includes front line financial institution employees as well as consumers and corporate clients. Bridging this gap is increasingly important.
- All financial institutions should be taking action to develop a real-time payment strategy appropriate for the customer segments they serve.

# INTRODUCTION

The global importance and reach of real-time payments have had an impressive impact on the financial industry. Over 40 countries currently have a local real-time payment scheme live, with at least eight to 10 more announcing plans to go live before 2023. In the U.S., The Clearing House introduced the RTP system in 2017 specifically for B2B use cases. However, real-time payments were possible before that with the power of the card rails as well as through the concept of digital wallets. Due to legacy processes, mindsets, and the complexity of integrating enterprise resource planning systems, use cases for business payments have been slower to mature.

This white paper helps financial professionals understand how to build a focused business case for real-time payments by highlighting the importance of taking action, barriers that need to be addressed, how to evaluate the market opportunity, and the importance of educating their internal and external clients.

## METHODOLOGY

This white paper leverages data and information from several Aite Group surveys. The first is a December 2018 survey of 85 financial professionals at 57 U.S. financial institutions. The banks are categorized into three ranges of annual revenue: less than US$15 billion, US$15 billion to US$100 billion, and over US$100 billion. The smallest participating bank has approximately US$65 million in assets, and the largest participating bank has approximately US$370 billion in assets.

The next is the Real-Time Payments for Corporate Clients Roundtable event held in Atlanta in August 2018 sponsored by The Clearing House. Fourteen U.S. institutions in various stages of implementing real-time payment capabilities for their customers were represented. Financial institutions ranged in annual revenue size from US$800 million to over US$450 billion. Titles of executives in attendance included director of payments strategy, executive vice president of treasury, senior product manager, and director of innovation. These individuals are responsible for forming and implementing real-time payment strategies at their organizations.

And finally, information is included from a January through March 2018 survey of 20 of the top 60 U.S. banks. Executives interviewed are responsible for forming and implementing real-time payment strategies at their organizations and have titles such as real-time payments product manager and director of strategy. Given the size and structure of the research sample, the results of the survey provide a directional indication on the conditions of the market. These banks are broken out into four ranges of annual revenue: US$20 billion to US$34 billion, US$35 billion to US$99 billion, US$100 billion to US$299 billion, and greater than US$300 billion. The smallest participating bank has approximately US$20 billion in assets.

# REAL-TIME PAYMENT LANDSCAPE IN THE U.S.

In a society of wanting and expecting most everything here and now, money movement is no exception. It is hard to believe that platforms like Venmo and PayPal have been around for more than a decade, making payments between friends and family easy and simple. While the settlement of payments into a digital wallet can be slow on the back end, the appearance of real-time payments is addicting. Push payments such as Mastercard Send and Visa Direct entered the market facilitating usage of the debit card rails to simply push money into a bank account. But these advancements have primarily served consumer needs in the P2P payment space. The market demand for faster payments has been skyrocketing and expanding beyond P2P payments. In November 2017, the first RTP transaction brought attention to B2B use cases.

Real-time payment schemes worldwide have been born out of one of two factors: government-mandated regulations or market demand. The U.S. faster payments trends are powered exclusively by the expectations and demands of the market. The emergence of new market economies, like the gig economy, innovative fintech offerings, and open banking, are helping to move adoption forward. Real-time payments are not route regulated, spawning innovation in the space that allows for businesses to create differentiation and efficiencies using payments. However, many of these businesses are at the mercy of their financial institutions for both education and enablement of a faster payments strategy. Banks that are able to both launch and guide their clients through real-time payments are taking an important step to future-proof their portfolio.

## REAL-TIME PAYMENT OPTIONS

Market innovations have enabled corporations and banks to have many paths in the real-time payments arena. The various rails enable B2B, B2C, C2B, and P2P real-time payments (Table A). Some distinguishing features among these methods include the information required to initiate the payment to the recipient, settlement to a digital wallet or bank account, and settlement speed outside of the rail for availability outside of the platform. Understanding the payment platforms, appropriate use cases for each platform, and similarities and differences is important in developing an effective payment strategy both for businesses and the financial institutions serving those businesses.

**Table A: Examples of Faster Payment Methods**

| Payments type | Primary use cases |
|---|---|
| **RTP system** | B2B, B2C, G2C, and C2B domestic payments that provide immediate availability of funds |
| **Mastercard Send** | Primarily B2C, P2P, B2B, and G2C domestic payments when the recipient has a debit card. Primarily B2B, B2C, C2B, and P2P cross-border payments. |
| **Visa Direct** | Primarily B2C, P2P, B2B, and G2C domestic payments when the recipient has a debit card. Primarily B2B, B2C, C2B, and P2P cross-border payments. |
| **Ingo Money** | B2C domestic and cross-border payments through endpoint gateways |

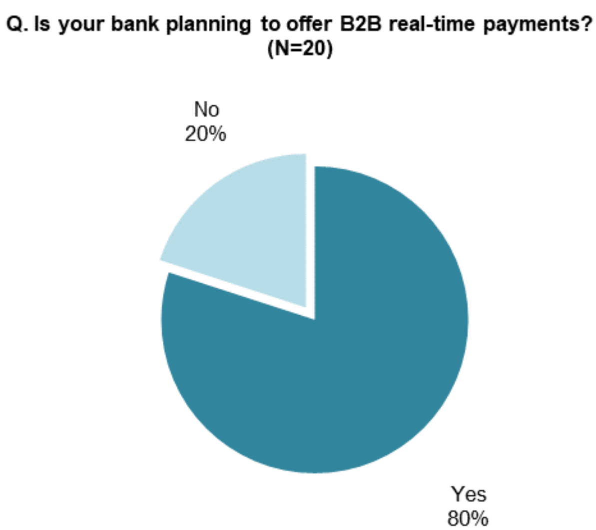
| Payments type | Primary use cases |
|---|---|
| **SWIFT gpi** | Cross-border payments with in-network bank-to-bank settlement |
| **Zelle** | P2P domestic payments received in real time for individuals who have enrolled with batch settlement between banks |

*Source: Aite Group*

## U.S. BANK ADOPTION OF REAL-TIME PAYMENTS

Eighty percent of U.S. banks plan to offer and enable B2B real-time payments for their corporate clients (Figure 1). However, many of these banks are challenged to quantify the opportunity and justify the investment in real-time payments.

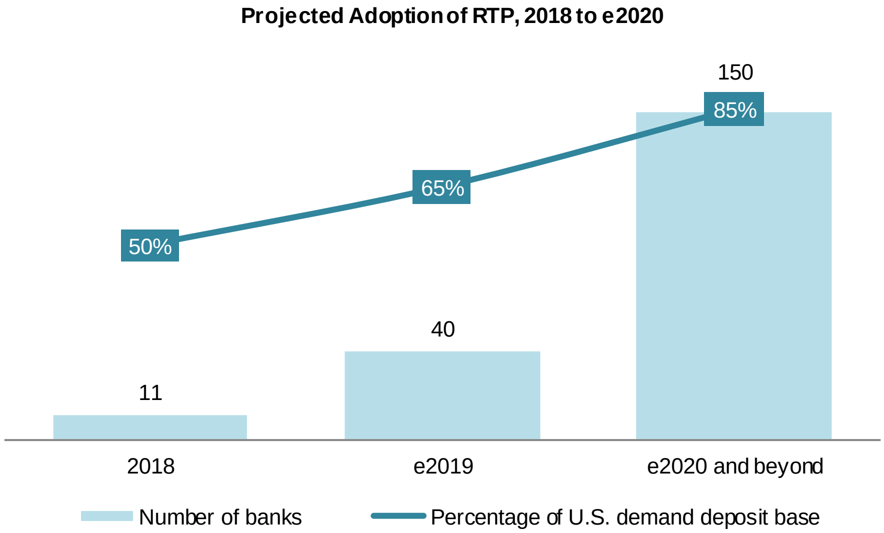
**Figure 1: Banks Planning to Offer Real-Time B2B Payment Capabilities**




*Source: Aite Group survey of 20 of the top 60 U.S.-based financial institutions, January through March 2018*

Currently, there are 15 banks live on the RTP system. This represents a 50% coverage of demand deposit accounts in the U.S. By the end of 2019, this penetration is on track to reach 60% to 70% (Figure 2). Becoming RTP-enabled requires time and financial investments. Therefore, it is critical for banks to determine their RTP strategy today. Inaction could create a significant opportunity loss and competitive positioning risk to overcome in the future. Also to be considered are the potential opportunity gains by being earlier to the market than direct competitors.

**Figure 2: Projected RTP Adoption**




*Source: Aite Group*

## UNCERTAINTY AROUND THE FED OFFERING

When discussing the current trajectory of real-time payments in the U.S., it is important to acknowledge the potential offering of the Federal Reserve. In late 2018, the Federal Reserve issued a public registry notice requesting comment on the potential Federal Reserve development and launch of a real-time gross settlement system (RTGS) and liquidity tool. A public comment period was opened that produced over 400 comments.

For those in favor of the Fed moving forward, only one was a large financial institution. Based on the comment letters, smaller institutions are open to and find value in the Federal Reserve coming to market with a real-time solution. This is understandable for several reasons. First, not all smaller financial institutions have explored how to connect to existing fast-payment rails in the U.S. Second, as the central bank authority of the U.S., the Fed is viewed as a trusted source of power and authority. However, the private sector, with input from the Fed, has already moved forward with the RTP system. In the most recent town hall meeting, the Federal Reserve announced that the next step will be another public notice targeted for the end of 2019 that will reveal whether the Fed plans to move forward. With this elongated timeline, financial institutions should be investing in the development of a real-time strategy that will enable their competitive positioning and prevent being left behind.

# MACRO VIEW OF BANKS' REAL-TIME PAYMENTS ENABLEMENT

As discussed, real-time payments are market driven and are based on how customer expectations and applications are influencing payments in all arenas. With no regulatory requirements around real-time payments, it can be difficult to understand the business case timing. It is okay that different banks are at different stages. The current landscape of banks can be simplified into three main groups: innovators, fast followers, and wait-and-seers. Each of these categories demands a unique approach to a business case based on the market they are serving and the demands of their clients.

## INNOVATORS

Innovators are generally market leaders capable of making and willing to make the cost and time investment to come to market quickly with agile and robust solutions. Innovators in the market can implement complex solutions, test them, and then learn from those solutions as to what does or does not work. For real-time payments, the innovators include many of The Clearing House's member banks, but not exclusively. These banks understand and have implemented the necessary IT and operational requirements to function in a 365/24/7 "always on" environment. They are evolving from a state of early implementation to mature, stable offerings. The business case has already been proven; however, for solutions that have not come to market yet, these banks are particularity good at research and development work that can shape the future of the industry. At this point in the real-time payments journey, the innovators are expanding their use cases, which could be a threat to banks that do not yet have a solution and need to protect their current portfolios.

## FAST FOLLOWERS

Fast followers strike early after the innovators have proven the market demand and use cases. The business case for those in this middle category is seeing what works and duplicating it quickly, before the market opportunity is lost. For those financial institutions that consider themselves to be fast followers, it is critical that they have an RTP strategy ready for implementation. The business case should center around the current market traction and look closely at the needs of their client base. Fortunately, real-time payment technologies, options, and market understating have matured at an incredibly fast rate in the last 12 to 18 months to help with market entry.

Many of these institutions will find that their competitors are already talking to their clients and prospects about a real-time payments strategy and have some use cases in mind. These include midsize to large businesses that have a high volume of low-dollar checks, businesses that have been experiencing an uptick of pain around the reconciliation process of electronic payments, or businesses that make a lot of B2C payments where speed and certainty of payments are now becoming table stakes in loyalty and retention. Also important, if not more important than real-time functionality itself, is the education of the client-facing sales and services teammates that

need to be able to articulate the bank's future plans. These fast followers may have a clear roadmap, but it is common in this category to hear from customers that they are not understanding the message and value of the functionality. If a fast follower is not in the process of implementation and has not trained internal stakeholders on the coming features and value proposition, the business case needs to calculate not only client demand but also the cost of client attrition that is surely coming.

## WAIT-AND-SEERS

The wait-and-seers have not really started thinking a lot about real-time payments. Many of these are smaller financial institutions that are not in this category by choice but out of necessity due to fewer resources, limited funding, or dependency on third-party or core providers. It is perfectly okay to be in this category, at least for the time being. What is critical is that the wait-and-seers are keeping a close watch on the market and are educating their front-line client-facing counterparts on what other financial institutions are offering and how market offerings are changing. The business case for the wait-and-seers will be more specific in nature, as the clients that will utilize real-time functionality are likely to be narrower and in a smaller portfolio. Of considerable importance are the operational benefits that come from the messaging and rich data that move along with the payment. The business case for the wait-and-seers includes not only analyzing the portfolio to see where they can find customers that fit into the use cases that the innovators and fast followers have already proven, but in digging deeper into the unique portfolio of small and midsize businesses and understanding that real-time payments will become table stakes to them as the payments landscape of the economy around them is moving more in real time. As many small businesses rely on their financial institution in this category to help them with the tools they need to survive, real-time payments are more about liquidity management. A shocking number of small businesses in the U.S. fail annually not due to bad service or product, but because of a lack of liquidity to keep the lights on between payments. The ability to improve the cash conversion cycle can be life or death to many of these small businesses. There may not be overwhelming client demand to include in the business case, but there certainly is industry movement that will make real-time payments table stakes.

# THE IMPORTANCE OF TAKING ACTION

As with most innovations in a free market economy, demand drives progress and adoption. Where there is a market opportunity, innovators will capitalize. In this case, fintech providers and payment processors are meeting needs, whereas banks are lagging. This is taking potential payments revenue from the financial institutions. We have seen this happen in other areas of corporate treasury services such as integrated receivables and cash forecasting. Regardless of a financial institution's current status, not taking action to progress real-time payments opens the door for not only other banks but also fintech providers with expertise in the industry to poach clients.

The next steps that a financial institution should take to prevent client attrition and opportunity loss depends on current state status. Table B outlines high-level practical next steps in the process.

**Table B: Next Steps in Implementing Real-Time Payments**

| Current state | Next steps |
|---|---|
| **Ground zero (no real-time strategy started)** | Commit to understanding options and payment types accommodated by each available platform. Encourage payments professionals at your institution to educate themselves on industry trends and current market adoption. An analysis of your clients and the potential for those clients to seek services from a competing institution is helpful in understanding potential losses. |
| **Strategy in early stages** | Understand the needs of your specific client base. Voice-of-the-client efforts are critical in this stage, keeping in mind that your clients may not ask for solutions but will express needs in the form of a problem. It is important to understand how your clients are transacting, the current customer journeys, and how those journeys will change with the inclusion of real-time payments. Begin to educate leaders within your financial institution where the future of payments is headed to gain early buy-in. |
| **Strategy in development** | Review client needs and develop market launch activities. This includes selecting industry verticals and use cases for early adoption. Depending on your financial institution, the easiest point of entry may be starting with P2P payments and evolving to more sophisticated use cases. Begin thinking about technology strategy, which includes talking to vendors, core providers, and industry peers. |
| **Implementation planned in next 12 months (no solution selected yet)** | At this point, specific needs of the financial institution's clients need to be clear. For banks outside of the top 20, how real-time payments fit into the payment strategy and impact the liquidity of small businesses is key. With the many options for entry available in the market, conversations with vendors need to progress to narrow down those that can meet the need for the appropriate use cases for your client base. |

| Current state | Next steps |
|---|---|
| **Implementation planned in next 12 months (solution has been selected)** | One of the biggest barriers to adoption is educating both internal and external clients of the financial institution. Planning how to execute the education strategy, including fraud prevention and best practices, at this point in the process will be key to a successful launch. Also critical is the workflow for initiation and the front-end workflow changes that clients will experience. While there is always some pain with change, marketing the positive impact of how the bank's direction is helping to future-proof your client's businesses is a central theme. |
| **Implementation in progress** | Zero in on the industries and use cases that will help realize a quicker return on investment (ROI) for your specific client portfolio. Efforts to update procedures, marketing materials, and sales information should be a primary focus. If the front line is not prepared to sell real-time payments as part of a holistic payments strategy, volume will struggle to materialize. Be sure to work with vendors to reduce redundancies wherever possible. |
| **Early stages post-launch** | At this point, refreshing client-facing teammates about the most practical use cases for quick adoption is key. Marketing and education materials should be readily accessible. Financial institutions should consider making training sessions and reviews mandatory across functional areas of the bank. Losing out on opportunities at this stage is a big loss and likely unnecessary. The market is not yet saturated with solutions, so there is plenty of opportunity to capture. Creating thought leadership and case studies for your clients is immensely powerful. |
| **Execution complete** | Capturing market share during this early market stage of adoption is much easier if your financial institution is currently offering real-time payments. Creating thought leadership and cases studies for your clients is a very useful tool. At this stage, it is possible to start looking at a deeper variety of use cases that penetrate your portfolio. Conversations about payments strategies can quickly be turned into action plans, so these should be standard practice. Helping educate the industry as a whole will allow transaction volume to increase at a quicker rate. |

*Source: Aite Group*

It is important to consider these steps, know where the bank fits, and prepare to take the appropriate next steps. Not doing so may prevent the financial institution from serving the needs of clients in the future, creating opportunity loss.

## TIMING IS EVERYTHING

To capture and prevent losing market opportunity, it is important to know when the right time is to move forward. Table B outlines some high-level action steps, but timing of these steps is not the only consideration. Other considerations include necessary systems upgrades, internal education, budget prioritization, and client customer segments and need. Again, it is critical to

assist clients in understanding the value that real-time payments have for them. This will be different by industry and customer segment.

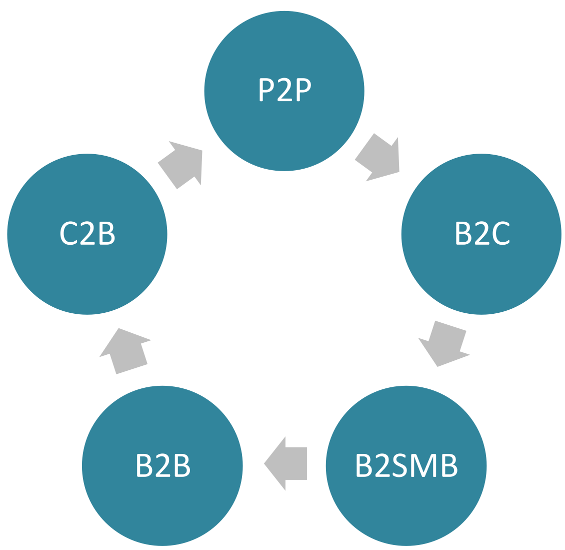
It is not essential to be a leader in providing RTP capabilities for all client segments to be able to meet clients' needs. Not all clients need real-time payments in equal time. The largest banks and leaders in the industry now have consistent volumes of real-time payments, some in the millions per month. These banks are meeting the needs of a segment that not all banks are serving.

So, when is it too late? The answer to that question depends on clients' needs and how the financial institution positions its solution offering. While there is currently no specific date by which a bank is "too late," if direct competitors have a roadmap that better serves the needs of a client base, it may be too late. Inaction is not an option. Regardless of where any financial institution is in the process, there is a next step.

# THE EVOLUTION OF THE MARKET OPPORTUNITY

While the previous section touched on some use cases that are important for financial institutions to focus on if they are an innovator, fast follower, or wait-and-seer, the market is continuing to evolve, grow, and mature. The use cases have really started with P2P payments. Digital wallets and Zelle changed the way individuals interact with each other when performing financial transactions. As fewer physical wallets involve a pocket full of cash, the market innovated a way to still pay dues, split tabs, and chip in on gifts without having to find an ATM, or worse, a checkbook. Once individuals realized they could pay each other in a frictionless and even fun way, the expectation begin to spill over to businesses. The concept of the push-to-card began to mature as businesses that already had card information on file could use the rails to go backwards and pay individuals back through the debit card network. The cycle has continued, and B2B payments became a viable use case with RTP. As seen in Figure 3, the next evolution is into C2B payments, making bill pay the next big market use case opportunity. Utilizing real-time payments, the bill pay process becomes simplified for both the consumer and the business, with the payment information staying conveniently intact with the payment itself.

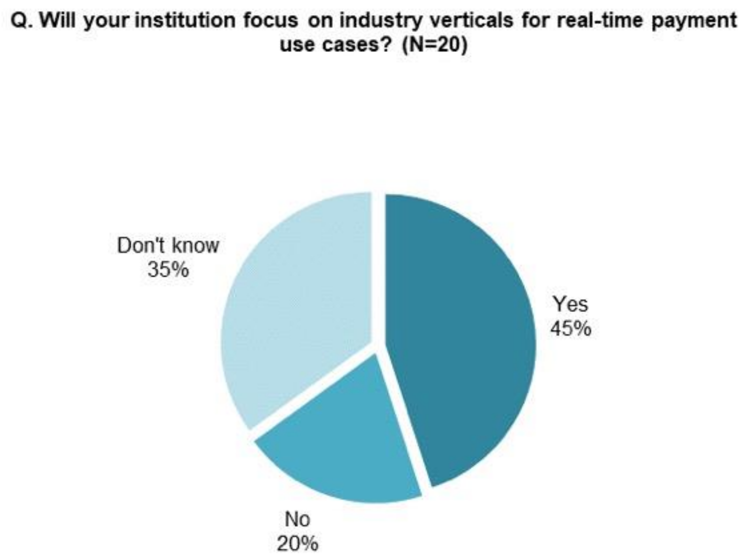
**Figure 3: Use Case Evolution**




*Source: Aite Group*

The use cases will continue to evolve across industries. Almost half of financial institutions plan to roll out real-time payments by targeting priority industry verticals that will help with a more immediate ROI (Figure 4). This could include developing and marketing specifically, for example, to insurance companies on how to improve the experience of claim payments. Another example is telecoms, using the request for payment functionality to package the billing, payment, and reconciliation processes into one easy workflow. For small businesses, the ability to have access to a pay-on-delivery application for a service or good in an easy way could be a true market differentiator and liquidity tool, made possible with real-time payments and API calls within a payment application.

**Figure 4: Focus on Industry Verticals**

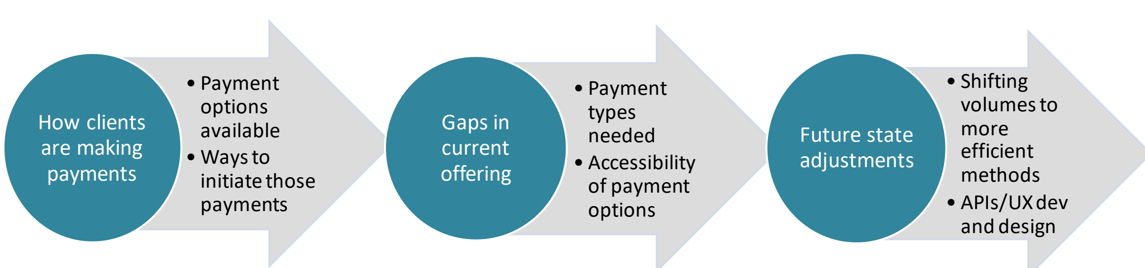



*Source: Aite Group survey of 20 of the top 60 U.S.-based financial institutions, January through March 2018*

## ZERO IN ON THE APPROPRIATE OPPORTUNITY

Financial institutions can get overwhelmed with the prospective use cases. As mentioned, implicitly understanding the specific needs of a client base is so important. Not all use cases will reap enough volume to make an impact on ROI for all financial institutions. Zeroing in on the opportunity includes thinking about strategy and not just transactions. Part of assessing the opportunity can be done by creating a customer journey map. Customer journey maps can help institutions evolve their internal strategies to better find the right opportunities for their clients (Figure 5).

**Figure 5: Journey Map Sample**



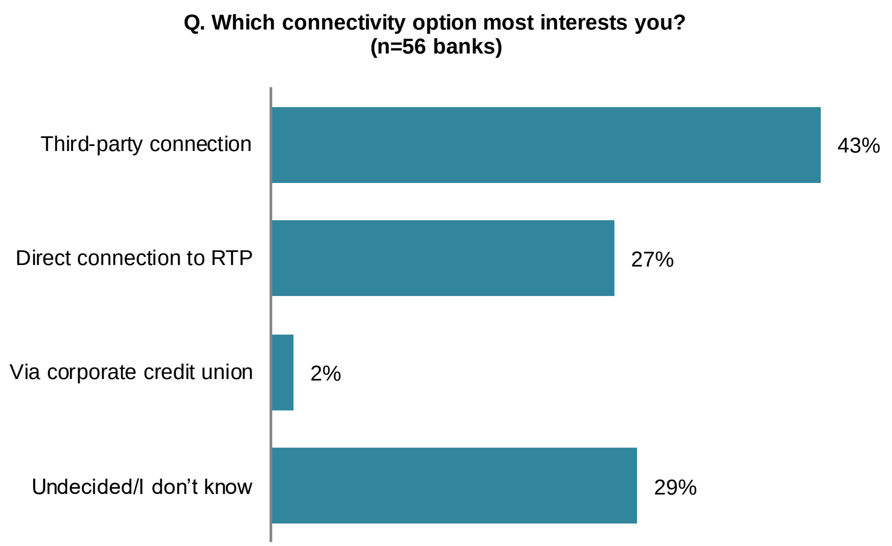

*Source: Aite Group*

Financial institutions also need to be prepared to educate clients on the implications of money not only coming in faster but also potentially going out faster. Using the outcomes of the journey map, there is an opportunity to shape the client conversation into a truly consultative strategy session that considers the bank's entire payments capabilities, including card services, supply chain finance, trade finance, and cash forecasting tools, and how real-time payments can augment a strategic approach to the payments life cycle.

# THE STRATEGY OF TECHNOLOGY

The next step to rounding out the business case for real-time payments is to understand connectivity. Some financial institutions may connect directly to The Clearing House; however, the reality is the great majority will not. In early 2018, over half of U.S. banks did not know how they would connect to the RTP system and only 20% planned on connecting through a third-party service provider (TPSP). As the market is maturing and understanding how the technology works, the number of banks that plan to connect via a TPSP has risen to 43% (Figure 6).

**Figure 6: Plans for Connectivity**




*Source: Aite Group survey of 57 U.S. banks, December 2018*

Some TPSPs are also channel partners of The Clearing House that have sales, services, and resource capabilities comparable to The Clearing House directly. Regardless of the path chosen, the technology available is making real-time payments more accessible to institutions of all sizes. The evolution of use cases in the market is dictating that banks should consider any path that helps them properly serve their clients.

Some other technology considerations go beyond just the connection. Most financial institutions are set up to operate in a batch environment. Real-time availability of funds also means 24/7 uptime of systems and servicing with no downtime or end-of-day process. There is also consideration of ISO 20022 standards and understanding clients' expectations and usage of the ISO format to automate their payment application processing.

# SELECTING PARTNERS

A trusted vendor partnership can help ease the pain points of executing a real-time payment strategy. Vendors that are experts in the real-time arena have demonstrated knowledge of the market and opportunities. Many vendors have innovation labs, and research and development teams have been focused on how to help the fast followers that may be lagging a bit and the wait-and-seers that will be needing an easier point of entry to the market. A vendor that has worked with some of the innovators can help a financial institution seize the opportunity for its client use cases as well as assist in building the value of the business case. It is beneficial to take advantage of vendor investment in quality advisors and technology to limit the burden of implementation. Utilizing the expertise of a partner has been proven to help reduce time to market, streamline the project timeline, and decrease internal demand on resources.

# CONCLUSION

There is no doubt that real-time payments have become an essential part of the U.S. payments landscape that will continue to grow in maturity and usage. Regardless of the current state of the real-time payment strategy at a financial institution, actions can be taken to make sure market entry is not occurring too late. There are several points to keep in mind wherever you are in the journey:

- Real-time payments are a reality of the payments landscape in the U.S. Uncertainty of future rails is not a reason to delay action that progresses a financial institution’s real-time strategy.
- While not all banks should be or need to be market innovators or even fast followers, waiting too long to act can cause client attrition and loss of revenue opportunity. Assessing a financial institution’s client portfolio to understand the right time to strike is critical.
- The market opportunity is continuing to evolve. All payment types, including P2P, B2C, B2SMB, B2B, and C2B, need to be considered in the strategy as old features and functions, such as bill pay, evolve into the new real-time environment.
- Targeting specific industry verticals can help materialize a quicker ROI on the real-time investment. Creating a journey map of your current offerings, gaps in offerings, and the desired future state can help zero in on the appropriate opportunities.
- Technology options continue to increase, and access to the RTP rails is becoming more accessible to financial institutions of all sizes. Also to be considered are the technology changes that will need to occur in a new real-time environment and how solutions can work together to make this easier.
- Educating both internally within the financial institution and externally to clients is critical to a successful launch. The market as a whole is lacking in expertise, so education needs to be intentional and thorough, using lessons learned from vendors, market leaders, and industry experts.
- The vendor landscape continues to grow, providing financial institutions with vendors ready to help develop and execute a real-time payments strategy. Finding the right partner can reduce time to market and friction during implementation.

# ABOUT MASTERCARD

Mastercard is a technology company in the global payments industry. Its global payments processing network connects consumers, financial institutions, merchants, governments, and businesses in more than 210 countries and territories. The company's products and solutions make everyday commerce activities—such as shopping, traveling, running a business, and managing finances—easier, more secure, and more efficient for everyone. Visit www.mastercard.com/businesspayments for more information.

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## AUTHOR INFORMATION

**Erika Baumann**
+1.617.398.5042
ebaumann@aitegroup.com

## CONTACT

For more information on research and consulting services, please contact:

**Aite Group Sales**
+1.617.338.6050
sales@aitegroup.com

For all press and conference inquiries, please contact:

**Aite Group PR**
+1.617.398.5048
pr@aitegroup.com

For all other inquiries, please contact:

info@aitegroup.com