

# Real-Time Payments – Will You be a Market Leader, Fast Follower or Left Behind?

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These are exciting times to be working and innovating in the U.S. payments space. As geographic borders become blurrier and customer demands continue to revolve around the need to maintain control of both money and data, now is the time to be at the forefront. It is in the financial services industry best interests to help the U.S. financial system navigate the oft-times choppy waters of sailing towards faster payments. By keeping a steady hand to manage the delivery of real-time payments to all consumers while ensuring the co-existence with established legacy systems, will surely build a win-win proposition for all.

History shows that the introduction of various funding modalities; from the first printed check in the U.S. mid-18th century to the introduction of credit cards, electronic funds transfers (EFT), Automated Clearing House (ACH) transactions, virtual credit cards and now Real-time Payments (RTP) does not launch the existing payment methods into obscurity.

On the contrary, each payment modality has simply provided consumers with options. Options for cash flow and expense management. The ability to decide if a transaction requires the benefit of immediate settlement and availability (e.g. wire transfers), or the ease and convenience to deliver payments via check or ACH at a fraction of the cost, allows for customized payment solutions. This complementary approach is especially true about the real-time payments initiative.

A hallmark of a modern economy is the existence of an efficient payment system, and banks have historically been the backbone for U.S. payments. In 2017 the U.S. responded to global market pressure and The Clearing House launched RTP; the first new payment system in the U.S. in over 40 years. Building on global experience, U.S. Real-time Payments provides instant funds availability, 24/7 always-on service, emphasis on security, data, dynamic messaging and global interoperability.

## **What are Real-Time Payments (RTP)?**

- Account 2 Account credit transfer, typically customer initiated 'push payments'
- Certainty, based on "good funds" with authorization, confirmation and clearing
- Real-time clearing (1.5-15 seconds), settlement may be deferred or real-time
- Irrevocable, payment cannot be cancelled or recalled
- Based on richer data (ISO20022) to drive improved efficiency and innovation
- Solution is accessible 24x7x365 across all channels and devices



Clearing takes place 24/7 | 365 with immediate funds availability. Payment is irrevocable and can be initiated through multiple digital channels

Source Deutsche Bank

In short, RTP is an additional tool in your payments portfolio. One more rail to get payments where it needs to be.

### Why RTP?

For many modern businesses, lengthy payment execution times are no longer acceptable. RTP offers ubiquity, speed of payment, extensive data exchange, real-time messaging and 24/7/365 availability. RTP can improve cash flow, operational efficiencies, customer engagement, data transparency and accuracy.

Whilst it is easy to see speed as a key benefit, the real value of RTP lies in its robust data and messaging capabilities. The adoption of the extensible ISO20022 format enables the attachment of extensive data to the transactions. This data, available in real-time, will help improve business performance, monitor for fraud and manage risks.

RTP can be viewed as the first step on the journey to a real-time treasury. Looking ahead, instant payments mean that liquidity buffers become obsolete, allowing businesses to use that surplus cash to make its resources work harder faster to increase the return on assets.

				
<b>Consumers</b> <ul style="list-style-type: none"> <li>• 24/7/365</li> <li>• "Zero" friction payments</li> <li>• Security from anytime emergency payments</li> </ul>	<b>Corporates</b> <ul style="list-style-type: none"> <li>• Efficiency e-invoicing and billing</li> <li>• Improved liquidity management</li> <li>• Optimized working capital management</li> </ul>	<b>Government</b> <ul style="list-style-type: none"> <li>• Anytime, traceable, emergency benefit payments</li> <li>• Increased tax revenue from GDP growth</li> <li>• Global harmonization</li> </ul>	<b>The Economy</b> <ul style="list-style-type: none"> <li>• Increased velocity of money</li> <li>• GDP growth from higher payment volumes</li> <li>• Market efficiency from competition</li> </ul>	<b>Society</b> <ul style="list-style-type: none"> <li>• Reduction of crime and security issues related to cash handling</li> <li>• Reduced systemic risks (e.g., fraud, AML)</li> <li>• 24/7 service culture</li> </ul>

Source: MasterCard

The real question is surely “Why not RTP?”

### Why Now?

The payments industry is riding a new wave of change to take advantage of new payment systems, technologies, standards, and regulations. In the process, it will create more value for users and providers of payment services. Real-time payments and open banking are two of the most prominent changes in payments and financial services in decades. Everything is moving to a real-time exchange of information and data, and payments are no exception.



#### Regulation

In some countries the support of instant payments is mandatory



#### Globalisation

Customers demand a standardised offering in various locations around the world



#### Clients

Are expecting payments to be easy and secure, always and everywhere available, executed in real-time



#### Innovation

New technological enhancements enable innovation that provides customer value



#### Market infrastructure

The use of ISO standards is recognised as a key element to exchange structured information in real-time

Instant payments is expected to become the “new normal” in payments

Source Deutsche Bank

With the announcement in 2019 that The Fed will be implementing FedNow by 2023, the move towards ubiquity becomes inevitable. As more and more companies gain access to RTP through their banks or Third-Party Providers, RTP will significantly disrupt the status quo as both a new payment rail and a new technology. RTP will help drive business payments from check towards account-based payments.

More than two-thirds of executives surveyed for the January 2020 [\*\*Making Real-Time Payments a Reality\*\*](#) say they’re “very” to “extremely” aware of RTP, and over 85 percent report that they are now implementing RTP, or plan to, over the next three years.

The question isn’t “Why now?” the question becomes “Will you be a market leader, a fast follower, or left behind?”