



Executive Technology Brief

Faster Payments for Faster Times

The digital horizon is rapidly expanding, and with it, the payments sector is entering an unprecedented phase. Consumers and businesses alike, in their quest for efficiency and immediacy, are increasingly gravitating towards faster payment solutions. Companies and government agencies are opting to use same-day and instant payments while consumers increasingly use app-based payments services that pay in minutes.

Developing a vibrant faster-payments regime in the U.S. will require heavy investments in the ubiquity of the network done by all of us working together.

Adoption has been accelerating for some time now, but 2023 could be the year real-time payments come into their own in the United States. Real-time payments, also known as instant payments, promise faster processing times and improved security compared to traditional methods.

Instant payments services have reached an inflection point among financial services providers, with more than 60% using or setting up the RTP service and more than 40% setting up FedNow. Zelle is approaching 80%, while same-day ACH use tops 85% of providers, according to the 2023 FasterPayments Barometer.

More than 83% of businesses use some form of faster payment, according to the latest Federal Reserve Payments Insight Brief. At the same time, three-quarters of gig workers want to be paid essentially on demand, while some 60% of businesses report that they would use end-of-shift payroll services “often” or “frequently” if the service was available.

And as e-commerce accelerates, the ability to continually push purchases, sales, and deliveries calls for faster liquidity management. Real-time payments can enable a corporate treasury to maintain flexibility and immediate turnaround on the day-to-day needs of an enterprise.

It’s a big change from how liquidity had been managed. Banks processed payments in blocks at designated times throughout a 5-day workweek, which made predicting liquidity relatively easy. Contrast that with today: increasingly, transactions move 24/7, 365 days a year. Corporate treasurers can take advantage of new tools to enhance business decisions, and the best routes are through taking advantage of those very systems to move capital fast.

The launch of the FedNow service this summer may prove to be an inflection point for faster payments in the United States. Unlike the most common faster payments apps used by consumers, Zelle and Venmo, FedNow will settle transactions immediately. This is not itself a new technology, but the Federal Reserve’s entry into the field should increase the adoption of these already-growing technologies.

However, the new payment systems in the United States can be difficult to navigate.

Current U.S. Faster Payment Options

Several instant payment options currently exist for both peer-to-peer (P2P) and business-to-consumer (B2C) transactions.

FedNow

FedNow, a real-time payment service developed by the Federal Reserve, went live in July, presenting some competition to the Real-Time Payments Network. Designed to provide both individuals and businesses with instant, secure payment capabilities, this service has been anticipated since its announcement in August 2019. The ability for instantaneous fund transfers between accounts positions FedNow as a transformative solution catering to the growing demand for instant payment options.

In addition to fostering financial inclusivity, the significance of FedNow is recognized by many, especially for small to

Faster Payments Types

- **Instant Payment Services:** Credits the payee's account within seconds and can include extended remittance details.
- **Same Day ACH:** Credits the payee's account by end of day, provided it's initiated by midday.
- **Push to Card:** Credits the payee's debit card within minutes of initiation.
- **Digital Wallet Apps:** Credits the digital wallet within minutes; funds must transfer to a bank for external use.

midsize businesses. While it may take some time for retail customers to discern its true value, instant payments could breathe new life into bill pay programs. Participation in the FedNow service is purely voluntary, as the Federal Reserve hasn't mandated it through any law or regulation. However, experts anticipate that a majority of institutions will choose to partici-

pate, even if some initially opt for just the "receive mode."

Around the time of its launch, [an IntraFi survey revealed substantial interest](#) in the FedNow service. It indicated that 23% of the banks surveyed "definitely plan" to utilize FedNow, 48% are contemplating it, and the remaining 29% have no intentions to adopt the service.

How It Works

Businesses and individuals are now able to send and receive

instant payments conveniently through financial institutions participating in the FedNow Service, and recipients will have full access to funds immediately, giving them greater flexibility to manage their money and make time-sensitive payments. The FedNow Service provides market choice for clearing and settling instant payments, as well as promote resiliency through redundancy, in keeping with the Federal Reserve's historical role of providing stability and integrity to the nation's payment infrastructure.

“FedNow aspires to be use case-agnostic, flexible, cloud-based, and extendable, accommodating a wide range of service providers, fintechs, banks, retailers, and others to develop tailored experiences on top of this innovative platform.”

Paul Amisano, [Federal Reserve Bank of Boston](#)

Real-Time Payments

Real-Time Payments (RTP) is a payment service for businesses and financial institutions offered by The Clearing House (TCH), which was first launched in November 2017. RTP provides a secure and efficient platform for users to make real-time electronic transactions at any time, which can improve cash flow management. TCH's RTP service adheres to rigorous security standards, which ensures a reliable and secure real-time payment processing experience.

Same-Day ACH

The Automated Clearing House (ACH) payment system is a service from The Electronic Payments Association that was first made available in 2016. Same-Day ACH helps businesses and individuals initiate same-day credits and debits, which expedites fund transfers. This service provides greater flexibility and responsiveness to help settle time-sensitive payments, such as payroll, bill payments, and urgent transactions.

Venmo

First launched in 2009, Venmo is a popular peer-to-peer (P2P) payment service that allows users to send and receive money quickly and easily through a mobile app. Venmo has gained popularity among individuals for its social payment features, which enables users to share payments, split bills, and make requests within their social network. The app also offers a social feed where users can see their friends' transactions and interact with them through likes and comments. Venmo's seamless integration with bank accounts and debit cards make it a convenient choice for P2P transactions and social payments.

Visa Direct

Visa Direct is a payment service offered by Visa (first available in 2010), which enables real-time, secure, and convenient person-to-person (P2P) and business-to-consumer (B2C) payments. With Visa Direct, users can send and receive funds directly to their Visa debit, credit, or prepaid cards. This service is used for many purposes like person-to-person transfers, merchant payouts, gig economy payments, and bill payments. Visa Direct's extensive global reach and interoperability make it a viable solution for individuals, businesses, and financial institutions seeking efficient and accessible payment options.

Zelle

Zelle is a peer-to-peer (P2P) payment platform in the United States developed by Early Warning Services. First available in June 2017, Zelle allows users to send and receive money instantly using their mobile devices or computers. Zelle is integrated with many major banks and financial institutions, which makes it easily accessible to a wide user base. Zelle simplifies and accelerates the process of splitting bills, paying friends or family, and conducting other personal or small-scale financial transactions securely and conveniently.

Same Day ACH: Meeting the Urgency

As an embodiment of this demand for swiftness, the growth of Same Day ACH stands out. Although founded on the already established ACH infrastructure, it has been revamped to cater to the modern market's urgency. The augmented volume and value, coupled with extensions in operating hours and the higher per-payment limit, is a testament to America's fast-paced payment aspirations.

Volume continues to steadily increase year-over-year, and though adoption rates have slowed over the last few years, transfer value continues to skyrocket.

Real-Time Payments: A Competitive Landscape

In the rapidly evolving realm of real-time payments, the rivalry between the Clearing House's RTP network and the

“ Gen Zers do not accept that they can purchase goods and services in real-time but not access the money they earned until it clears a day or two later or until their pay is direct-deposited a week or two later during the scheduled pay period. Unsurprisingly, a majority of Millennials and Gen Z are more interested in jobs that provide same-day pay.”

Elena Whisler Senior Vice President, [The Clearing House](#)

newly introduced FedNow is garnering attention. The RTP network, having been established in 2017, benefits from the credibility of time-tested infrastructure and governance. This

longevity translates to stability and a foundation of user trust that new platforms often have to spend time cultivating.

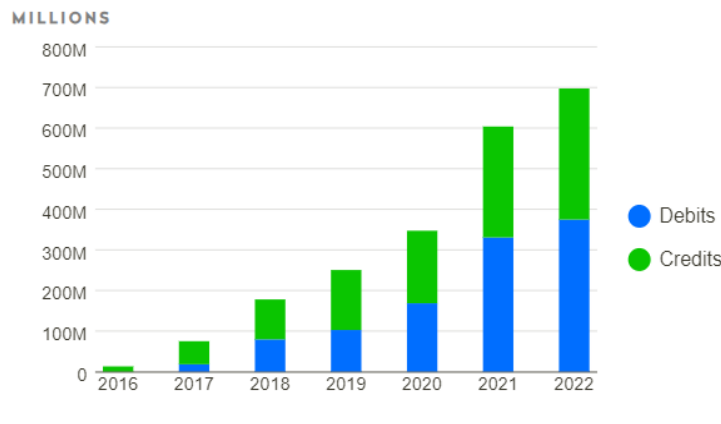
However, the newly introduced FedNow carries the weight and endorsement of the Federal Reserve, which immediately boosts its credibility in the competitive market. While the RTP network has the advantage of an early start, the Federal Reserve's backing of

FedNow suggests a strong potential for the platform to catalyze innovative changes in the payment sector.

Furthermore, FedNow's primary objective is to democratize access to instant payments, targeting a wider range of financial institutions, including those of smaller stature. The Federal Reserve's overarching message aligns with this goal: they have laid down the foundational "rails" for the system, and it's now up to private depository institutions to leverage this infrastructure for innovation and broader outreach. As these institutions tap into the potential of FedNow, customers stand to gain immensely. The promise includes the possibility for individuals to instantly access their paychecks, eliminating the traditional waiting period for checks to clear. Moreover, consumers might find the flexibility to pay their bills just in the nick of time, potentially sidestepping late fees. The Federal Reserve envisions the FedNow Service as a complement to existing private sector instant payment services, aiming for a symbiotic relationship that elevates service levels for end-users.

Rapid Growth of Same Day ACH Since Inception in 2016

Payment Volume of Same Day ACH



Source: <https://www.nacha.org/content/ach-network-volume-and-value-statistics>

The RTP network, in the meantime, is seeing steadily increasing volume.

P2P Platforms: Beyond Traditional Boundaries

The momentum isn't restricted to institutional advancements; P2P platforms have also been part of this monumental shift. Platforms like Zelle, Venmo, and PayPal have not only seen significant adoption rates but have also evolved beyond their traditional remits. Their integration into businesses and varying transaction values underscores their adaptability and expansive potential.

Zelle, Venmo, and PayPal: Comparative Dynamics

Zelle: Predominantly integrated with financial institutions, Zelle's 2022 data showcases 2.3 billion processed payments, worth \$629 billion. Interestingly, Zelle's user engagement has led to heightened interaction with their checking accounts.

While Zelle has a smaller user amount compared to competitor Venmo, it processes by far the largest dollar amount of any of the Peer-to-Peer payments services. Despite being a relative newcomer to the payments space, [Zelle reports more than \\$1.5 trillion in payments](#) since its launch in 2017, and is projected to reach 63.7 million users in 2023.

Venmo: Venmo's journey from its 2009 inception to its acquisition by PayPal speaks volumes about its significance. Processing \$244 billion in transactions in 2022, it catered to over 78 million users, primarily in the U.S.

PayPal: Still one of the juggernauts in this space, with a 23 year history that makes it ancient in P2P payments, PayPal reported a Total Payment Volume of \$376.5 billion in Q2 2023, with net revenues of \$7.3 billion. Its vast ecosystem, with 431 million active accounts, continues to make it a key player in the digital payments sector.

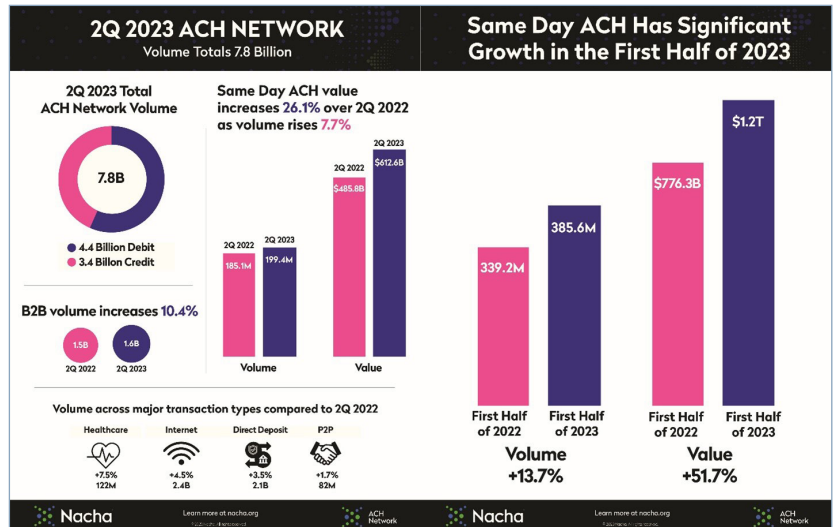
While Zelle's embrace by numerous banks showcases its stronghold, Venmo's social features make it a favorite among younger demographics. Meanwhile, PayPal's expansive ecosystem and robust financial metrics underline its continued market dominance.

Future Outlook: The Payment Renaissance

Gazing ahead, the payment industry is on the brink of a revolutionary era. With the rise of faster payment solutions, players like Zelle, Venmo, and PayPal are not just part of the narrative—they are shaping it. The evolving metrics suggest a

more profound shift, one that aligns with the instantaneous demands of the present day.

The drive towards faster payments isn't merely about speed—it's about revolutionizing the way we perceive and conduct financial exchanges in the digital age.



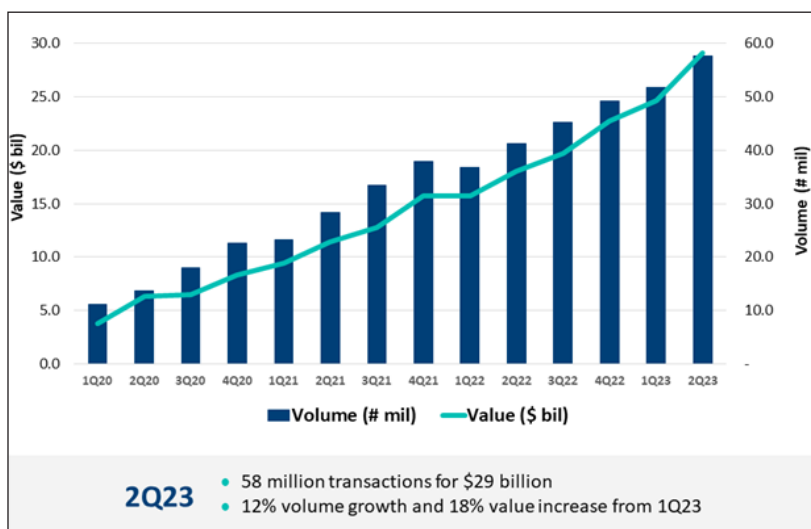
Source: <https://www.nacha.org/content/ach-network-volume-and-value-statistics>

Faster Payments Solution Highlights

In today's fast-paced digital era, real-time payment solutions like those offered by PayPal and the RTP Network have emerged as crucial players. These platforms, while not always officially linked, harness the power of instantaneous transactions, reflecting a trend towards immediate financial access and management. Their growth is also underpinned by strategic alliances, as seen in PayPal's partnership with JPMorgan Chase, which has not only increased service reach but has also introduced new functionalities that cater to modern-day business demands.

These instant payment mechanisms, spurred by innovations from companies like PayPal, Payability, and Square, are reshaping the financial landscape. They cater to a growing need among businesses, especially small-scale merchants, for swift access to funds. This accelerated payment method ensures better cash flow management, enabling businesses to respond more dynamically to market demands and financial obligations.

Meanwhile, for individual workers, the challenge of living paycheck to paycheck in a shifting economic climate has led to the rise of solutions like Earned Wage Access (EWA). Designed to offer financial breathing room, EWA systems allow employees to access their earned wages before the typical payday. Popular platforms such as Wisely by ADP



Source: <https://www.nacha.org/content/ach-network-volume-and-value-statistics>

and PayActiv make this a reality, albeit often with a small withdrawal fee. Still, the immediate access to funds proves invaluable for many, acting as a buffer against financial uncertainties.

From a broader perspective, the benefits of such systems are myriad. For corporations, they present an opportunity to enhance their market appeal, especially in competitive sectors. The introduction of EWA, for instance, has been shown to increase loyalty, particularly among younger workers. For end users or employees, these systems combat financial stress, promote improved productivity, and act as safeguards during personal financial crises. They offer a two-fold advantage: enabling better financial decision-making on a day-to-day basis while also providing a fallback for unexpected financial challenges.

Same Day ACH Changes the Nature of Cash Positioning

NACHA's ACH payments are an enormous piece of a treasury's payments portfolio, but those transactions can still have multiple-day waiting periods while transactions are approved through more traditional means. SameDay, as the name implies, expedites this process, with banks processing ACH payments more frequently and payments posting to accounts by end of day or earlier.

SameDay ACH payments, which were adopted in 2016, have transaction limits, though. But even with the current limitations, there are myriad ways to take advantage of the benefits SameDay offers. They're a major benefit to consumer bill payments – from due date/late payments to avoid loss of services or fees, to any bill payments in which credits are offered immediately.

Those benefits also extend to business-to-business transactions, permitting much faster settlement of time-critical and emergency off-cycle payments. This facilitates a real change in approach to cash positioning for treasury managers; by holding invoices until the day they're due, funds can be conserved over longer periods. Newly available credits make same-day small loans to maintain liquidity a practical way to prevent short-term cashflow challenges.

Instant Payments: What Works

For treasurers, this shift to real-time payments means empowering for a fundamentally new approach, built on a combination of real-time balances and real-time transaction reporting. It can vastly improve cash visibility, as well as, liquidity which is especially important in the current economic environment.

Examples of benefits associated with real-time payments include:

- Reduced operational risk
- Improved working capital position
- More payment freedom for buyers
- Companies can wait to receive funds before releasing payments

The Future is Here

As the curtain falls on traditional payment methods, we're gearing up for the next evolution in the world of digital transactions. Our upcoming technology report delves deep into the forefront of digitally native payments, spotlighting innovations such as central bank digital currencies, stable coins, and cryptocurrencies.

Experience from other countries adopting faster payment systems showcases a notable uptrend in consumer adoption. There's every reason to believe that U.S. consumers will embrace this shift with similar enthusiasm. While we're not bidding goodbye to cash and paper check transactions just yet, real-time payments have undoubtedly arrived, poised to revolutionize the strategies of treasurers and reshape the financial landscape.

To stay informed and gain exclusive insights into these transformative changes, subscribe to the FinTech Rising newsletter. Don't miss out on leading the charge in the next wave of financial technology.

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