

Five Ways Financial Institutions Can Break Barriers to Benefit from Instant Payments

Findings from the U.S. Faster Payments
Council (FPC) and Finzly Survey



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EXECUTIVE SUMMARY

from Finzly



Booshan Rengashari

Founder and CEO, Finzly

Instant payments are, no doubt, the lynchpin of modern payments. With their ability to respond to the payment needs of everyone from consumers to small businesses to global corporations, instant payments not only answer market demands, but they also open up a wealth of new revenue opportunities for financial institutions (FIs).

Yet, as with any new product offering, adoption takes a while to escalate. Our customers are sharing that they are sending instant payments and taking full advantage of all of the opportunities they present, but they are eager to expand their potential as other FIs join FedNow® and RTP®. Hearing that feedback, we decided to partner with the U.S. Faster Payments Council (FPC) to canvass the industry to understand the factors prohibiting more robust adoption more fully.

In May 2024, the FPC and Finzly partnered and launched a survey to assess where FIs see opportunities and what obstacles have emerged. This joint research found that while the majority of FIs believe having both sending and receiving functionalities will result in additional customer adoption, many saw legacy systems, fraud solutions, and implementation costs as issues keeping them from instant payments offerings.

From those findings, this paper was born. A combined effort between the FPC and Finzly, it serves as a practical guide to help FIs strengthen their footing on the path ahead. We developed it to more fully explore how FIs can break barriers and realize the possibilities of instant payments. It speaks not only of the challenges, but of actionable solutions that will get FIs out of the waiting game and into today's instant payments economy.

Because the future of payments has arrived. As FIs seek to capitalize on instant payments as a source of non-interest income, they will need to surmount challenges in their path—not just today but on a full payments modernization journey. With a strong partner to support them, they will be able to clearly chart a path to profitability, and no matter where they are today, that journey begins now.



FOREWORD

from the U.S. Faster Payments Council

We've come to an industry crossroads with faster payments. In today's landscape, they are quickly becoming table stakes, responding to both business and consumer demands for instant gratification. In fact, the Federal Reserve recently revealed data that demonstrated 86% of businesses and 74% of consumers said they used faster or instant payments in 2023, and 74% of businesses and 79% of consumers reported looking to their financial institution (FI) to provide these services.ⁱ

FIs increasingly are stepping up to ensure they offer the faster payments services their customers and members are seeking. As of early July 2024, the Federal Reserve lists more than 850 FedNow[®] participating FIs and The Clearing House reports more than 82 million transactions totaling \$55 billion crossed the RTP[®] Network in Q2 2024, an increase of 7% in volume and 30% in value over Q1.^{ii,iii}

But despite this growth, many FIs cite ongoing challenges that prohibit them from fully leveraging the potential of instant payments. That's why the U.S. Faster Payments Council (FPC) partnered with Finzly to explore strategies for profiting from instant payments. This survey dove into the main barriers to leveraging instant payments and offered insights into the thought processes behind today's lingering concerns.

From the Finzly survey data, this collaborative white paper was born. Offering actionable steps to address hurdles, this paper, while not prescriptive, serves as a thought starter for FIs exploring the potential of faster payments within their organizations. We also have canvassed a number of FPC members to gain their input on these points, and their perspective is represented throughout.

Above all, we hope that as FIs read this paper, it sparks ideas for ways in which faster payments may be implemented, applied, and supported through their organizations. It is our goal to advance faster payments in the United States, which includes helping FIs surmount obstacles in their way to ensure their customers' and members' needs are being met.

There is no doubt that faster payments are the future of payments, and now's the time for FIs to ensure their place in that future.



Reed Luhtanen

Executive Director,
U.S. Faster Payments Council



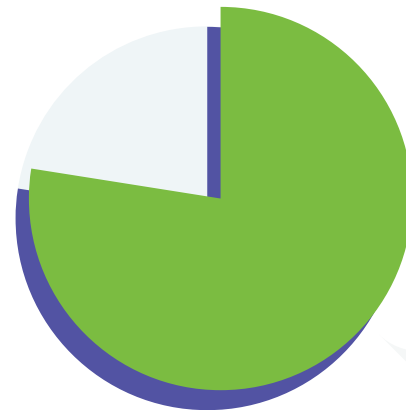
INTRODUCTION:

Findings from the U.S. Faster Payments Council (FPC) and Finzly Survey

With instant payments growing in popularity – the Federal Reserve reports 86% of businesses and 74% of consumers said they used faster or instant payments in 2023 – financial institutions (FIs) have begun deeper assessments of not just how to offer but how to leverage faster payments for business success.^{iv} With that in mind, in May 2024, the U.S. Faster Payments Council (FPC) and Finzly jointly issued the survey, *Strategies for Profiting from Instant Payments*, to determine how FIs are leveraging instant payments as revenue sources. The survey revealed that while many FIs have been successful in planning for financially lucrative instant payments initiatives, many more are seeking to put revenue-generating plans in place.

For instance, the FPC and Finzly survey found that FIs cite use cases including loan disbursements, invoice payments, loan repayments, instant funding of newly opened accounts, payroll processing, and utility bill payments as top contenders for instant payments [see chart on following page]. Yet, by far, business payment solutions bubble up as the primary revenue target for FIs as they explore instant payments, with the survey revealing that 44.9% of FIs believe small and medium businesses (SMBs) present the biggest revenue potential from instant payments, while another 32.7% think corporates will offer that financial opportunity.

And they have reason to believe that businesses are a strong instant payments target: Research from the Federal Reserve shows businesses are already using faster payments because it helps them reduce costs (48%), provides flexibility to pay and be paid as customers prefer (39%), and offers a 24/7 opportunity with instant payment services (35%). In addition, that same study showed 74% of businesses want to access their faster payment services from their primary financial institution.^v



77.6% of FIs point to corporates as the biggest source of instant payments revenue potential

Source: U.S. Faster Payments Council and Finzly Survey, "Strategies for Profiting from Instant Payments," May 2024



Payment standards also bring with them potential. The rich data that is supported by the ISO 20022 format in instant payments creates added possibilities for FIs in offering solutions to their business customers. In fact, a separate Finzly survey indicated that 71% of FIs believe enterprise and corporate customers will benefit from ISO 20022, while 39% also see potential with small and medium businesses.^{vi}

Data doesn't lie. With all of this potential awaiting FIs in instant payments, time is of the essence to ensure a competitive advantage and early-to-market offerings that meet growing business requirements.

Yet, many FIs are struggling today to get new products out of the gate. The FPC and Finzly survey found that challenges from legacy systems to unprepared partners hinder development and launch of solutions. Fortunately, in many cases, these issues can be circumvented by simple alterations to approach and broader consideration of market elements. Read on to determine ways to address vent the top five barriers to instant payments profitability.

Instant Payments Use Cases



Loan disbursements

85.7%



Invoice payments

73.5%



Loan repayments

69.4%



Instant funding of newly opened accounts

61.2%



Payroll processing

46.9%



Utility bill payments

44.9%

Source: U.S. Faster Payments Council and Finzly Survey, "Strategies for Profiting from Instant Payments," May 2024

BARRIER #1:

Addressing Legacy Systems

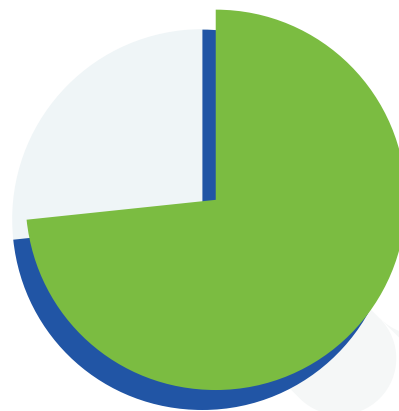
It comes as no surprise that most FIs are working with legacy systems that weren't initially built to manage today's 24x7x365 environment of real-time processing. With instant payments, settlement happens in seconds—that's not only a function of the systems but a requirement of their operating procedures. Legacy systems weren't created for that timing because they were developed with settlement as an afterthought last step; many take days to actually move the money in final settlement—which simply won't work in an instant payments environment. In fact, the joint FPC and Finzly survey found that nearly three-fourths (73.4%) of FIs cite moderate to severe challenges with legacy systems in handling instant payments send.

So, as many make the choice to introduce FedNow and RTP, they feel they are beholden to their core providers to upgrade their offerings. In many cases, this requires first an investment in a core upgrade and then a synchronization with instant payments services. To do both requires a significant investment of time, resources, and dollars, and it can deter FIs from taking the next step. Or, alternatively, FIs must resign themselves to what the core offers when it becomes available, putting many FIs at the end of a waitlist for receive and with no possibility for send functionality because it is not yet ready. These requirements drive FIs to believe that they have to wait to do everything at once or they can't offer instant payments.

But that's not the case.

Through the use of application programming interfaces (APIs) and the broader accessibility introduced by core providers, today's payments environment is much nimbler than it has been in the past. FIs can engage with a solution provider who can offer a richer payments experience, but still communicate with core systems to ensure clarity in reporting.

This "sidecar core" approach means that FIs can seek out modern solutions, designed to be cloud-native, 24x7x365, and ready for instant payments from the start. In short, FIs don't have to cobble together an updated core to enable FedNow and RTP, they can create a communication pathway between the core and a modern payment hub with smart routing capabilities.



73.4% of FIs indicate they have challenges in their backend legacy system managing instant payments send

Source: U.S. Faster Payments Council and Finzly Survey, "Strategies for Profiting from Instant Payments," May 2024

The payment hub concept comes as an added bonus when an FI selects a sidecar core for instant payments: It doesn't have to only be used for faster solutions. An FI can modularly, and over time, weave other payments rails like ACH, wire, or SWIFT international payments over to the hub and leverage a completely ISO 20022- and cloud-native platform. Because when introducing a modern infrastructure to run instant payments seamlessly and communicate necessary information back to the core, why not leverage it for centrally processing payments for all rails? It's about offering both a heightened customer/member-facing experience and a stronger internal processing environment [see sidebar]. With this approach, FIs will be better positioned to optimize and enhance the user experience, as well as their back-end rails.

By enabling a modern payment hub, FIs actually will open doors to more than just instant payments revenue potential.



Why Payment Hubs and Sidecar Cores Offer a Better Instant Payments Experience

- **FI Experience and Efficiency:** Sidecar cores combined with payment hubs provide the optimal solution. A sidecar core supports all payment rails and handles transaction accounting from various channels, allowing seamless integration into core and third-party systems without requiring manual posting. Additionally, sidecar cores can function as 24/7 real-time platforms, overcoming the limitations of core downtime and batch processing. Payment hubs, with centralized processing and connections to all rails, offer a unified API, reducing costs through a single operational team, unified interface, and streamlined upgrades and training. This approach boosts banker satisfaction and attracts younger talent to operational roles.
- **Customer/Member-Facing Experience:** A robust payment hub leverages a single API to connect to all payment rails. Moreover, smart routing empowers a payment orchestration layer to employ rules-based selection for processing transactions. This significantly enhances the customer/member experience, ensuring it is seamless and indifferent to the underlying rails. Customers/members enjoy faster and more cost-effective transactions while the system proactively prevents failures by rerouting based on set limits, the receiving FI's capabilities, or specific preferences, ensuring a smooth and reliable payment process every time.

BARRIER #2:

Reducing Implementation Costs and Time

Legacy systems aside, another barrier to implementing instant payments comes courtesy of perceived costs. The FPC and Finzly survey found that 18.4% of FIs expect costs to be a severe challenge for launching these payments, with another 69.4% stating it will be at least a moderate challenge.

However, perception does not always meet reality. When partnering with the right provider, FIs have found implementation to be cost-effective and efficient. It comes down to having a partner who can manage all instant payments needs, including send, receive, and request for payment (RFP), for both FedNow and RTP, through one integrated solution for better return on investment (ROI).

“We have been through our fair share of onboarding with new solutions, so we were expecting hurdles in the process as we prepared to launch instant payments on RTP and FedNow. We intentionally chose a service provider that closely aligned with our own timelines and goals, and this made for a remarkably smooth process. We were up and running on the first day of the FedNow launch with send and receive capabilities.”

Andrea Short, President and CEO, 1st Source Bank

In addition, having a modern infrastructure that is designed for today's demands, and includes ISO 20022 readiness and a cloud-based environment, offers long-term opportunities. FIs who are looking at layered integrations on core systems may miss the potential opportunities for long-term ROI on a future-proofed ISO 20022-ready platform. Again, sidecar core solutions, which run a parallel track alongside the core by leveraging APIs for connectivity, provide advantages not only because

they keep integration costs low, but they also set the FI up to evolve into the future.

“When we collaborate with clients, we advise them to play the long game. That same mindset applies to FIs considering implementation of FedNow and RTP. It's tempting for both to sample and test the new offerings, going for a bunt or a single to get started while the industry figures out what the attractive business models are and what everyone has to do to make them work. But the explosive improvements in areas like title and escrow, disbursements, and real-time account funding we're experiencing already tell us now's not the time to swing for a short-term win when they can hit a home run by futureproofing their digital payments strategies. It's all about finding a partner, and a purpose-built platform, which can help them with that journey now.”

Steve Mott, Principal of consulting firm BetterBuyDesign



87.8% of FIs feel that the cost of implementing technology to send instant payments creates challenges

Source: U.S. Faster Payments Council and Finzly Survey, "Strategies for Profiting from Instant Payments," May 2024

BARRIER 3:

Supporting Fraud Mitigation

Another critical hurdle—particularly with sending instant payments—lies around fraud mitigation. For example, while the Fed has indicated that FedNow offers fraud management capabilities and that future releases of the service will add even more capabilities, the onus of fraud mitigation falls on the FI.^{vii} It's no wonder that 42.9% of FIs feel fraud prevention is a severe challenge for enabling instant payments send capabilities – making it the top-cited concern in the FPC and Finzly survey.

“Where there are payments, there will be fraud. I have confidence FIs will determine and put in place the right controls to create relatively safe experiences as they have with innovations such as remote deposit capture and online banking. Instant payments will require adjustments to accommodate instant and credit push. FIs need to work with partners who have adapted to the real-time world.”

Peter Tapling, APRP, Managing Director,
PTap Advisory, LLC

Concerns about fraud with instant payments don't have to hold up progress. FIs can manage risk around these solutions just as they do with other payments; it's about making sure to have the right programs in place. For instance, FIs should seek out partners who not only offer real-time fraud monitoring, but have it integrated at the transaction level. They also should ensure account validation APIs are in play. Also referred to as “confirmation of payee” in other geographies, these validations are quickly becoming mandates for instant payments on a global scale.

In short, FIs can manage their instant payments risk best when they select a partner that has a prewired ecosystem for payments that includes Anti-Money Laundering/Bank Secrecy Act (AML/BSA) screening, Office of Foreign Assets Control (OFAC) compliance, real-time fraud monitoring integrated through partners, and the ability to integrate existing fraud systems into the solution. Having those offerings via one modern payment hub provides additional peace of mind for the FI, reducing time to market, simplifying integration efforts, and at the same time, providing best-in-class offerings with the option to shift and evolve as fresh solutions emerge in the industry.



42.9% of FIs feel that fraud prevention is a severe challenge for enabling instant payments send capabilities

Source: Findings from the U.S. Faster Payments Council (FPC) and Finzly Survey

BARRIER 4:

Capitalizing on Customer/Member Demand

A perception remains among some FIs that customers/members aren't asking for instant payments, so they are a nice-to-have, rather than a necessity. However, the FPC and Finzly survey demonstrated that approximately 90% of FIs believe that there is customer/member demand for instant payments and are interested in offering services to them.

While current volumes still reflect those of early-stage products, all signs point to growing adoption. In fact, The Clearing House reported that in Q2 2024, consumers and businesses sent over \$1 billion in instant payments on June 28 over the RTP network, and the network also experienced a record 82 million transactions in the second quarter, valued at a record \$55 billion.^{vii}

"This is not a Field of Dreams situation; it's not 'if we build it, they will come.' They are already coming. Instant payments are here, and they are becoming table stakes."

Reed Luhtanen, Executive Director, FPC

In addition, the latest data from the Federal Reserve shows businesses are ready to capitalize on instant payments: Businesses believe key use cases that benefit from instant payments include business-to-business (92%), business-to-person (71%) and account-to-account (40%). Many businesses also believe instant payments will be useful for digital wallet funding/defunding (50%) and earned wage access (25%).^{ix}



65.3% of FIs believe offering both sending and receiving functionalities for instant payments simultaneously will result in more customer adoption

Source: Findings from the U.S. Faster Payments Council (FPC) and Finzly Survey

As these use cases are normalized in the market, business customers will be looking for FIs to provide faster payments solutions that support:

- **Request for Payment:** FIs can offer payment experiences for businesses, consumers and tellers [see pg. 11]
- **Cash management:** Instant reconciliation enables businesses to have real-time line of sight into their cash on hand, and by using advanced features like instant sweeping, businesses can control their cashflow better
- **Simplified payments:** Payment hubs with API connections create options for recurring payments, group payments, processing payment requests through files, and better user-facing digital experiences

- **Rail-agnostic experiences:** These will speak more to payment speed than kind of transaction
- **Collaboration opportunities:** Fintech businesses may be seeking ways to work with FIs on embedded banking and/or sandbox environments to test instant payments transactions, connectivity, and operations (e.g., 24x7x365, etc.)

“APIs continue to support new opportunities for FIs. In today’s payments landscape heading towards open banking and open finance, APIs are a competitive differentiator for FIs that strategically employ them.”

Reed Luhtanen, Executive Director, FPC

Businesses believe key use cases that benefit from instant payments include:

92%

business-to-business

71%

business-to-person

40%

account-to-account



Many businesses also believe instant payments will be useful for digital wallet funding/defunding (50%) and earned wage access (25%).^x

Source: The Federal Reserve. (2024, May 6). Federal Reserve surveys: U.S. businesses, consumers increasingly adopt faster and instant payment services [Press release].

The Request for Payment (RFP) Opportunity

RFP is a secure messaging system that leverages instant payment rails. By doing so, it gives billers and payees more control and flexibility over payments. RFP makes paying bills, splitting costs, or managing invoices smoother and more efficient for everyone involved.

Specifically, RFP functionality offers significant benefits to key audiences:

- FIs gain new revenue streams by offering RFP to business customers, who are seeking greater control over bill payments and more seamless billing processes.
- Billers receive payment faster because when a customer receives a biller-initiated payment request, the transaction is almost immediate, with the funds instantly available.
- Businesses can send and receive invoices more efficiently. The RFP feature allows seamless integration of instant payments into Accounts Payable and Accounts Receivable systems, automating the reconciliation process. This reduces errors and the need for handling exceptions.
- Consumers can manage payment requests instantly within their banking app to avoid late fees and overdue invoices. They also can easily split restaurant bills, pay rent, or reimburse friends and family with just a few taps for seamless person-to-person payments.



BARRIER 5:

Addressing the Lack of Readiness by Digital Banking Partner

A final hurdle for FIs stems from their current providers. Many are not ready to support an instant payments environment as evidenced in the FPC/Finzly survey, which found that 61.2% of FIs say that their provider does not offer the ability to send instant payments.

The positive side: Those who have a sidecar partner who offers the instant payments back-end plumbing and front-end customer/member experience to send instant payments now will gain a competitive advantage. They will be able to offer business and consumer experiences including RFP, send, receive, and more advanced invoicing experiences, with real-time notifications via APIs. Because the APIs allow the sidecar partner to run a parallel track with the traditional infrastructure, the FI has an integrated experience, with both the sidecar and core “talking to” one another and integrating existing digital banking relationships seamlessly.

To that point, engaging with a partner that has prior experience integrating with major ecosystem players helps simplify things for FIs—and cuts down on integration costs with other systems. In addition, when a partner maintains direct, certified connections with The Clearing House and the Federal Reserve, launching RTP and FedNow is a faster, more efficient process.

“For FIs to remain competitive, speed to market with instant payment-enabled products is key. Time is money, so working with a partner who can have an FI up and running quickly—with send functionality—can make all of the difference in gaining market share.”

Steve Ledford, Industry Consultant



Nearly 2/3 of FIs indicate that their provider does not offer the ability to send instant payments

Source: Findings from the U.S. Faster Payments Council (FPC) and Finzly Survey

Conclusion

The time is right for instant payments. As the desire for these solutions grows amongst businesses and consumers, those FIs with products firmly in place will snag market share and drive industry evolution.

For FIs seeking to offer instant payments, having the right partner is key to breaking barriers and ensuring product profitability. Experts agree that looking for a modern, cloud-native platform with ISO 20022 standards in place will simplify the process of preparing for the future of payments. In addition, ensuring an advanced infrastructure

that can integrate easily with the core helps ensure both a modern solution and one that reconciles with legacy systems.

Above all, FIs should seek a partner who will continue to evolve to meet market demands. Because payments are anything but static, and as the industry evolves, so do the solutions that FIs are offering. Shouldn't FIs have a partner in place who anticipates these shifts and equips them to be a market leader? Those with a competitive advantage would say yes.

For more information on how Finzly can support your instant payments journey, visit [FedNow Solution - Finzly](#) and [RTP Solution - Finzly](#).



About Us

About Finzly

Finzly empowers banks, fintechs, and businesses to seamlessly offer and access financial services in an open, connected, embedded, and real-time ecosystem. At the core of this infrastructure is [Platform - Finzly](#), a modern, cloud-based, API-enabled operating system that serves as a parallel payment processing platform to a bank's core. Finzly offers a wide range of turnkey banking solutions, including a multi-rail payment hub for traditional payments on ACH and wires, instant payments on FedNow and RTP, foreign exchange trade finance, virtual accounts, compliance, and commercial banking digital experiences. Learn more about Finzly's game-changing solutions here: [Solutions - Finzly](#).

About the U.S. Faster Payments Council (FPC)

The FPC is an industry-led membership organization whose vision is a world-class payment system where Americans can safely and securely pay anyone, anywhere, at any time and with near-immediate funds availability. By design, the FPC encourages a diverse range of perspectives and is open to all stakeholders in the U.S. payment system. Guided by principles of fairness, inclusiveness, flexibility and transparency, the FPC uses collaborative, problem-solving approaches to resolve the issues that are inhibiting broad faster payments adoption in this country. For more information, please visit FasterPaymentsCouncil.org.



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