

Why Banks and Credit Unions Need Real-Time Payments

Can Real-Time Payments Be the Key to Unlocking Competitive Differentiation?



As if the regular operating environment for financial institutions wasn't tough enough, the global pandemic has thrown even more obstacles at the industry. Increasing competition from both traditional and non-traditional financial services providers, product commoditization, an increasingly tighter regulatory environment—and now the demand to escalate digital transformation—means financial institutions must be on the lookout for new ways to create value, remain relevant, and build competitive differentiation.

More than simply adjusting rates and fees, adding features and functionality to digital banking, or broadening traditional product offerings, groundbreaking creative thinking will be necessary to make the kind of paradigm shift required to remain relevant and viable in the near future.

One compelling area to consider includes real-time payments. While digital transformation has been on the minds of forward-thinking financial institutions for a while, real-time payments—which arguably can fall within the realm of digital transformation—might be a more elusive topic.

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Now is the Time for Real-Time

While everybody has been fixated on digital transformation in one way or another—the need for which has been escalated by the pandemic and the resulting increased demand for contactless, self-service technology—there has also been a lot of disagreement about what digital transformation really means. At one end of the spectrum, some see adding new features and capabilities to existing digital banking as transformation. True digital transformation, however, encompasses tearing down existing digital infrastructure and reinvesting in new technologies as well as out-of-box thinking about how to leverage available technologies to become indispensable to consumers.

One pathway to digital transformation—and one that offers the most flexibility for innovative thinking—may just be real-time payments.

Around the world, real-time payment initiatives have been ongoing for over two decades, but the U.S has been slower to respond to payments modernization. This is mainly due to the unique complexities of this market, including its size and the number of financial institution players with differing operating models and varied technology platforms.¹

However, banks and credit unions can no longer afford to delay thinking about real-time capabilities and how to productize them. Technology advances, private businesses, and central bank adoption, among other drivers, are pushing real-time payments adoption forward—and none more so than consumer demand for instant/faster payments²—opening the door to a host of unique revenue-generating, value-added products and services.

Build Differentiation and Added Value with Real-Time Payments

While initially slow to respond, it will be essential for financial institutions to embrace real-time payments sooner rather than later for innovation, while some of the potential value-added benefits are still being flushed out.

Some early adopters of real-time payments have recognized the ability for real-time payments to improve the consumer experience (CX) and potentially create new revenue streams. Innovation leading to improved CX may be the last bastion of competitive differentiation for traditional financial institutions.

Bill pay, for example, with its multi-day turnaround and/or lag in receiving credit for payment from billers, is an outdated process that does not live up to consumer expectations for 21st century speed and convenience. The ability for account holders to pay bills and receive payment credit immediately can help them avoid late payments and fees—a convenience they may be willing to pay for, creating a new revenue growth opportunity—or simply allowing the financial institution to differentiate itself by providing an elevated experience that improves the financial wellbeing of its customers or members.

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¹ Accenture, [“Getting Real About Real-Time Payments In The United States.”](#) Sept. 13, 2019

² Ibid.

Another opportunity to build competitive differentiation cuts to the current competitive advantage owned by non-traditional person-to-person (P2P) and account-to-account (A2A) payments providers. Currently, in the absence of a centralized real-time payment network, solutions that appear to consumers as “real-time” within the P2P and A2A space are really just a patchwork of provisional debits and credits and batch processing with a messaging network on top.

While payments can be moved within these proprietary systems in what seems like real-time, once consumers attempt to move funds outside of those systems—transferring to their share draft account, or checking account for example—they face a one to three-days wait time for the transfer to their account to be completed. Financial institutions implementing real-time payments, however, can streamline P2P and A2A payments between account holders and other participating financial institutions.

Real-time capabilities also provide the ability to more seamlessly link payor and payee (or to and from) accounts for P2P and A2A services by eliminating the need for parties to enter provider-specific account setup, meaning it will be much easier and more enticing for customers or members to use these services while also increasing relationship “stickiness.”

In addition to thinking about new product and service offerings to customers or members, real-time payments can also offer differentiation based on increased operational efficiency and reduced costs.

Within the current ACH framework, when a bill is paid or money is transferred from person to person or account to account, once the “send” button is pressed, there are many stops along the payment’s route that neither account holders nor financial institution staff have visibility into before the money reaches its intended destination. This lack of visibility not only creates discomfort for account holders, driving calls into sending and receiving institutions, it also places the bank or credit union in the uncomfortable position of not being able to explain exactly where the account holder’s payment is either until it is received by the next destination in the system.

Greater visibility also empowers consumers to be better shoppers by providing transparency into the line of fees. Greater transparency into how many hands or taking a piece of the pie will bring greater pricing pressure and the ability for financial institutions to showcase their value by offering less expensive money movement options than are available within the current payments infrastructure.

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Looking Forward

While still in its infancy at U.S. financial institutions, flushing out the true value-added benefits—as well as challenges—of real-time payments initiatives will take some trial and error. That is why it’s more important than ever to begin strategizing now about how your financial institution might be able to leverage real-time payments for retention and competitive differentiation through the nearly limitless potential for innovation they can offer. Getting a head-start on the benefits and challenges of real-time payments sooner rather than later can help ensure a smooth rollout that delivers on expectations for speed and accuracy, as well as contributes to the financial strength and competitive viability of the financial institution.

Alacriti is a leading financial technology company with a comprehensive payments services platform, dedicated to helping our clients accelerate their digital transformation. Built on a flexible, cloud-based framework, our array of solutions integrate seamlessly with internal infrastructures, allowing clients to deliver the payments innovation and experiences that today's users demand.

To talk with an Alacriti Real-Time Payments expert about Orbipay Cosmos for RTP, please click [here](#). You can also reach one of our experts at (908) 791-2916 or info@alacriti.com.