

REAL-TIME PAYMENTS INNOVATION PLAYBOOK

October 2018

The **Real-Time Payments Innovation** Playbook, in partnership with Mastercard, examines survey data collected from nearly 400 financial decision-makers in more than 12 different industries. Our findings provide a comprehensive overview of the demand for real-time payments in the B2B market, what's motivating or inhibiting businesses from using them and how that inhibition is set to change.

TABLE OF CONTENTS

The Real-Time Payments Innovation Playbook was done in collaboration with Mastercard, and PYMNTS is grateful for the company's support and insight. PYMNTS.com retains full editorial control over the findings presented, as well as the methodology and data analysis.

01

KEY FINDINGS

05

**THE TIP
OF THE
ICEBERG**

23

**THE
FAR-REACHING
BENEFITS OF RTP**

35

CONCLUSION

03

INTRODUCTION

13

**A MATTER
OF COMPANY
CULTURE**

29

**HOW LACK OF
KNOWLEDGE
STIFLES THE
ADOPTION OF RTP**

37

METHODOLOGY

KEY FINDINGS

KEY STATS

 **33%**

share of companies that
intend to adopt RTP within
the next three years

 **60%**

portion of companies that
are interested in RTP that
**also intend to pursue B2B
payment innovations**

 **59%**

share of companies that
view **improved cash flow
and certainty** as
benefits of RTP

 **79%**

share of companies that
view **enhanced security
and fraud protection** as
vital features of RTP

 **51%**

portion of companies
deterred from adopting
RTP because of
a lack of knowledge

 **36%**

portion of companies
deterred from adopting
RTP because of
fraud concerns

KEY TAKEAWAYS

- Real-time payments (RTP) is **the most popular B2B payment innovation** among U.S. companies, a third of which intend to adopt it in the coming years.
- The enthusiasm for RTP is especially strong among businesses that are Leaders in adopting new innovations.
- Businesses are more interested in the fact that RTP brings certainty and efficiency to their payment operations, rather than its speed.
- Lack of knowledge remains a major impediment to the widespread adoption of RTP. There needs to be a concerted education campaign within the financial and business communities to explain real-time payments and their benefits.
- Another major barrier to RTP adoption is concerns around fraud. More needs to be done to assure would-be users of the system's safeguards and security, and narrow the awareness gap.

INTRODUCTION

The U.S. financial ecosystem, with its massive size and complexity, is not just diverse in the number and types of FIs it includes, but also in the number of faster payments options available to banks and businesses. Unsurprisingly, it has taken longer for real-time payments to become mainstream in the United States than it has elsewhere.

The U.K.'s Faster Payments Service (FPS) has been up and running for about a decade now, and similar networks are emerging across Europe and much of Asia. Faster payments initiatives have been live in the U.S. since September of 2016, when Same Day ACH (SDA) went live across all FIs in the country. A year later, SDA for debit payments followed. Finally, the Real-Time Payments (RTP) system, which is offered by The Clearing House (TCH), went live with a small number of banks in the fall of 2017.

While the United States may be late to the real-time payments game, businesses' appetites for accessing faster payments, including in real time, have seemingly increased.

In the Real-Time Payments Innovation Playbook, PYMNTS and Mastercard collaborated to survey nearly 400 financial decision-makers at U.S. companies to learn about what B2B payments solutions they use, why they use them, and if and how they are planning to change them going forward. According to our research, a growing

number of businesses are prioritizing innovations that leverage real-time payments.

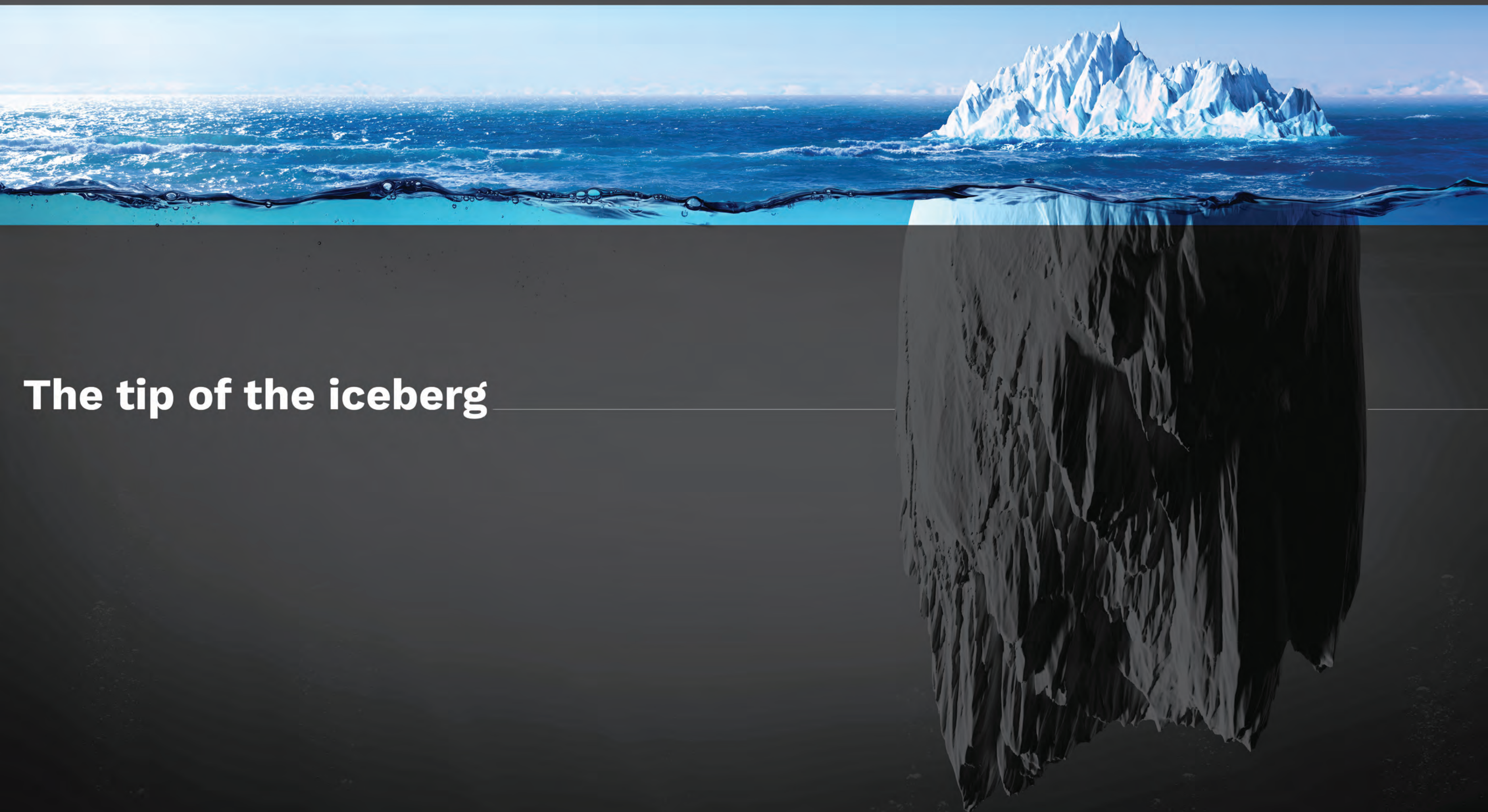
We also examined how committed companies are to innovation, dividing them into Leaders, Mid-Fielders and Laggards based on how many new payment technologies they intend to adopt, and how this relates to their attitudes toward real-time payments solutions. Our findings show that 33 percent of U.S. businesses plan to adopt real-time payments within the next three years, making it the most popular innovation businesses are looking into.

This, however, only touches the surface of how real-time payments are poised to transform the B2B payments space. For Leaders, real-time payments is far and away the highest priority, with 60 percent of those firms planning to adopt it in the next three years.

Companies and institutions that don't adopt this technology risk being left behind.

That said, there are several impediments standing in the way of both Leaders and Laggards looking to adopt real-time payments. Chief among them is a lack of knowledge about the benefits of the system, which we will explore in depth later in this playbook.

Before taking this first step forward, it is imperative to analyze the root of the problem: Why are companies still making payments with paper checks in the first place?



The tip of the iceberg

When it comes to paying and getting paid, people like transactions to be as smooth and as close to instantaneous as possible. How else to explain the wildfire popularity of apps like Venmo or the wide array of digital payment options

retailers offer their customers today? These, of course, are peer-to-peer (P2P) and customer-facing services.

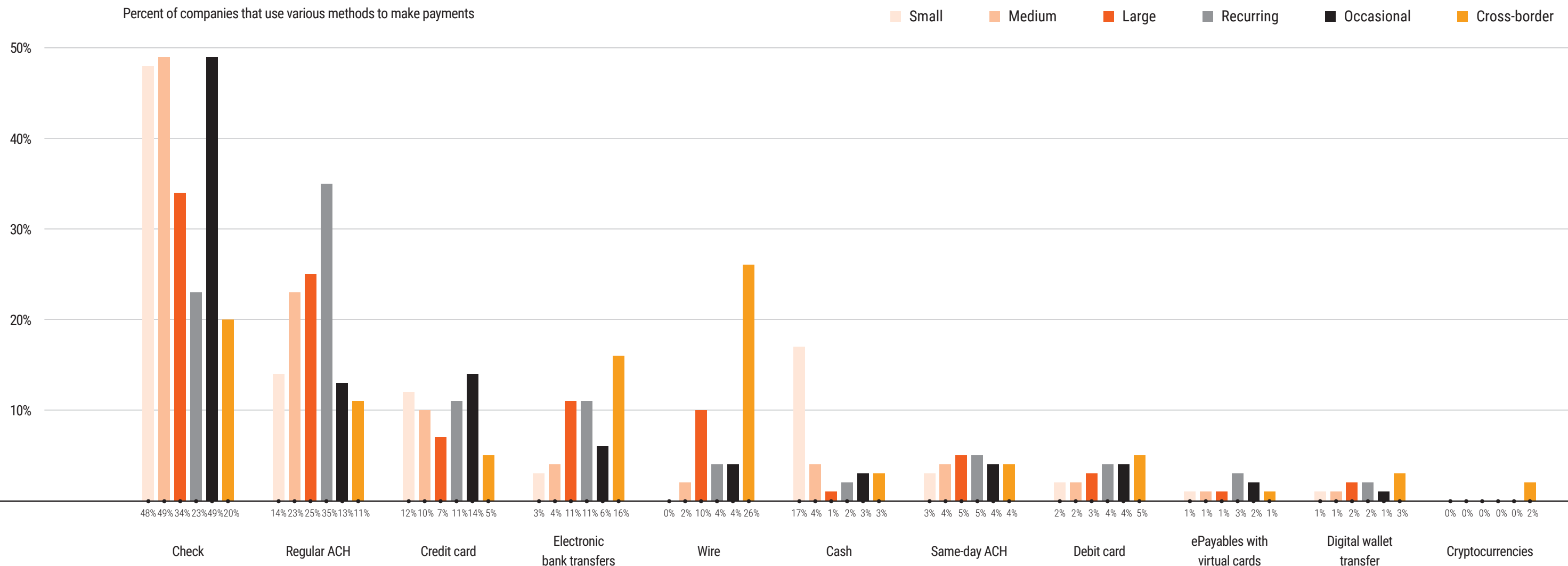
Unlike the fast, seamless payments solutions available in the P2P market, checks remain the most common B2B payment method. Nearly 50 percent

of businesses use them to transact on a daily basis, which makes them more common than all other types of payments – except for when it comes to sending and receiving recurring and international payments. Those use cases are led by ACH – the electronic

bank network that debuted in the 1970s – and wire, respectively. In both of those cases, checks are the number two payment method. Only a small fraction of companies rely on newer payment options, such as ePayables and digital wallets.

FIGURE 1:
COMPANIES' CURRENT B2B PAYMENT METHODS

Percent of companies that use various methods to make payments



29%
of businesses say
checks are neither easy nor convenient.

While the use of paper checks continues to be high, it doesn't necessarily speak to businesses' affinity for using them — many admit that they dislike using checks, with 29 percent saying that checks are neither easy, nor convenient. Twenty percent dislike using checks

because they are worried about payment fraud, and another 18 percent say checks are too expensive. The same portion is worried about data security.

Old habits die hard, which is one of the biggest reasons that companies still use

FIGURE 2:
COMPANIES' CURRENT B2B PAYMENT METHODS

Percent of companies that use various methods to receive payments

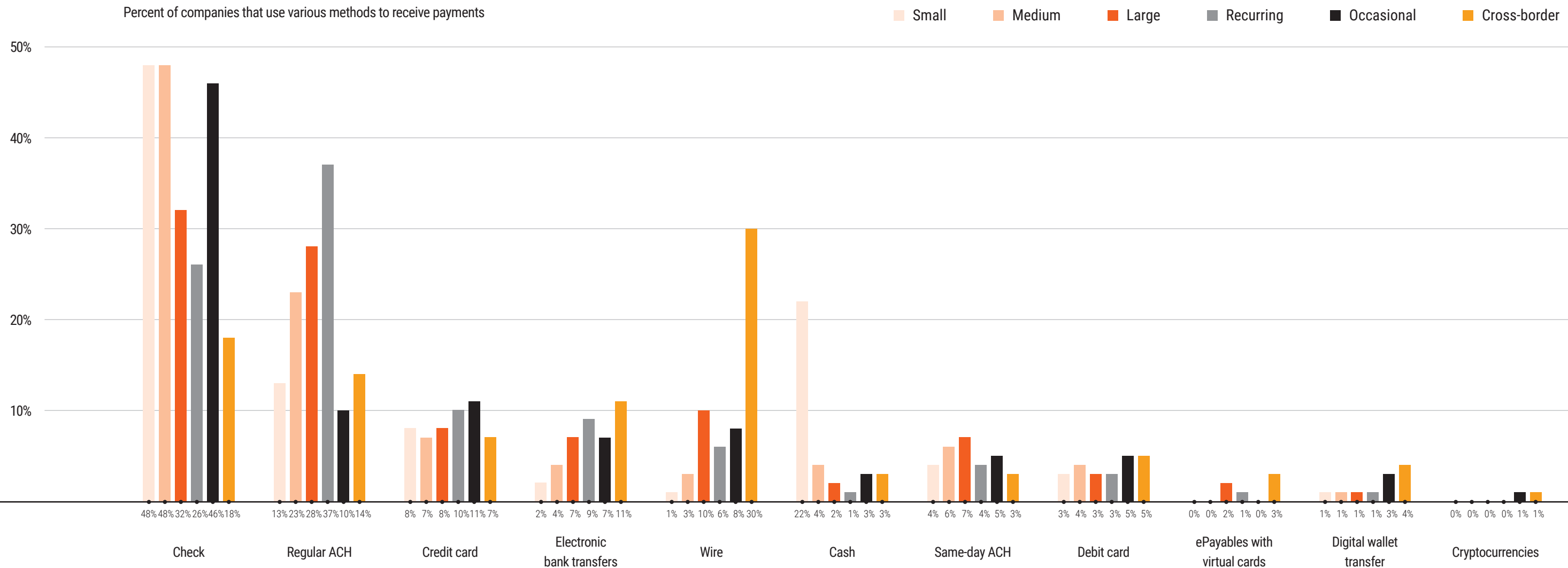
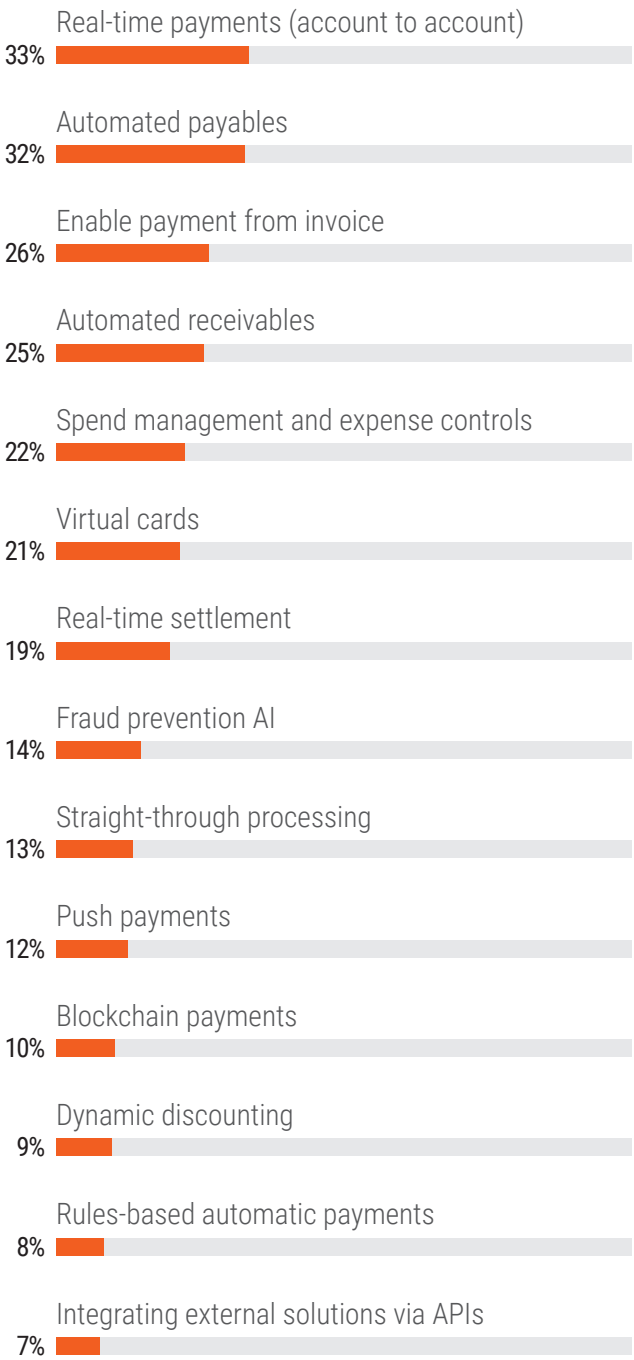


FIGURE 3:
PLANNED PAYMENT INNOVATIONS

Percent of companies that plan to implement various types of innovations over the next three years



checks – despite their inefficiencies, most suppliers still accept them, which is cited by 42 percent of all businesses as a reason why they use checks.

A third of businesses plan to upgrade their B2B systems by incorporating new payments innovations, including real-time payments, ePayables and even blockchain.

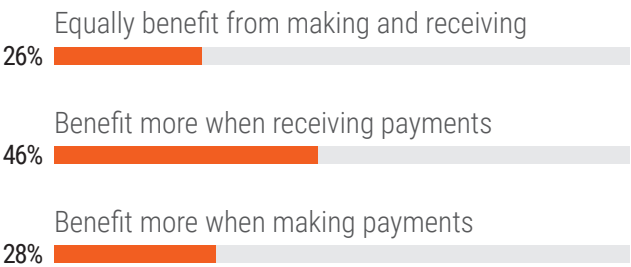
This is just the tip of the iceberg.

Real-time payments are also one of the few innovations for which interest is relatively robust, regardless of a business’s size. Companies with revenues of \$100 million to \$1 billion and those with revenues under \$10 million plan to pursue real-time payments technology in roughly equal measure. Interest in real-time payments is not something that is only confined to the realm of big corporations with well-resourced accounting departments – it extends to a myriad of small businesses.

The interest comes into sharper view when we asked whether companies thought real-time payments would

FIGURE 4:
MAKING AND RECEIVING PAYMENTS WITH REAL-TIME PAYMENTS TECHNOLOGY

Percent of companies that see greater benefit in making versus receiving real-time payments



benefit them more when sending or receiving funds. Nearly 50 percent of companies said the greater benefit would come in receiving payments, compared to 28 percent that chose the other side of the ledger.

Companies are acutely aware of the shortcomings of checks for B2B payments, such as the wait, the potential for fraud, the uncertainty and the inconvenience. So, why haven’t more of them adopted faster technologies yet?



A matter of company culture



Some companies tend to embrace new technologies, while others stay set in their ways – this is most certainly the case with B2B payments. The question is: Why?

To find out, we broke the respondents down into three profiles based on the number of payment innovations they intended to pursue and the benefits they expected to accrue from them:



LEADERS

plan to implement four or more innovations and expect at least three benefits.



MID-FIELDERS

plan to implement four or fewer innovations and expect two or fewer benefits.



LAGGARDS

plan to implement three or fewer innovations and expect two or fewer benefits.

Doing so revealed two things. First, it showed the characteristics of the companies that plan on innovating, and what types of innovations they plan on pursuing. Second, it revealed which innovations companies are planning on adopting.

38%
of businesses generating
less than \$10M in revenue plan
on adopting real-time payments.



As shown in Figure 5, real-time payments is popular among businesses of a variety of sizes. In fact, 38 percent of the smallest businesses in our sample said that they were planning on adopting real-time payments, as did 39 percent of the largest, showing that a firm’s willingness to innovate isn’t necessarily related to its access to resources or size.

While a greater share of large companies – those with revenues in excess of \$1 billion – are Leaders, the intention to innovate can be found in companies of all sizes. Whether a company wants to adopt real-time payments relates more to its company culture than its annual revenue, and companies that make innovation a priority tend to be the most prolific innovators.

FIGURE 5:
PLANNED PAYMENT INNOVATIONS AND COMPANY SIZE

Percent of companies that plan to implement various payment innovations, by company revenues

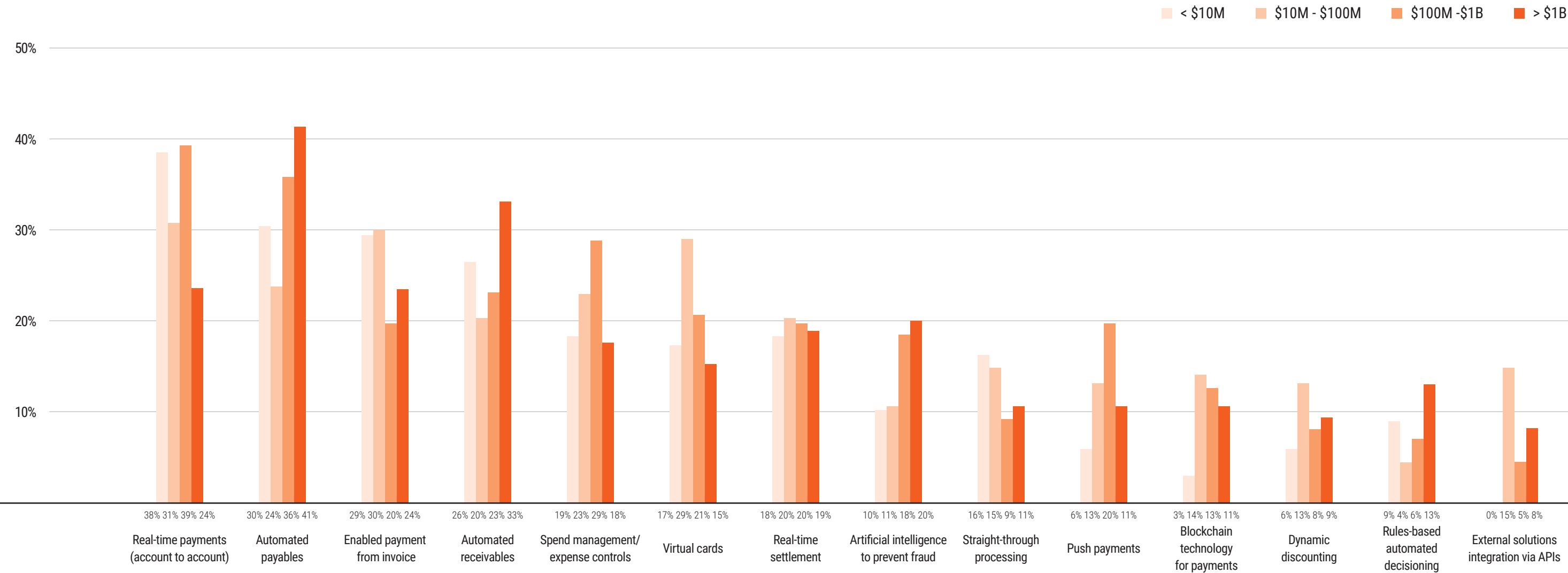
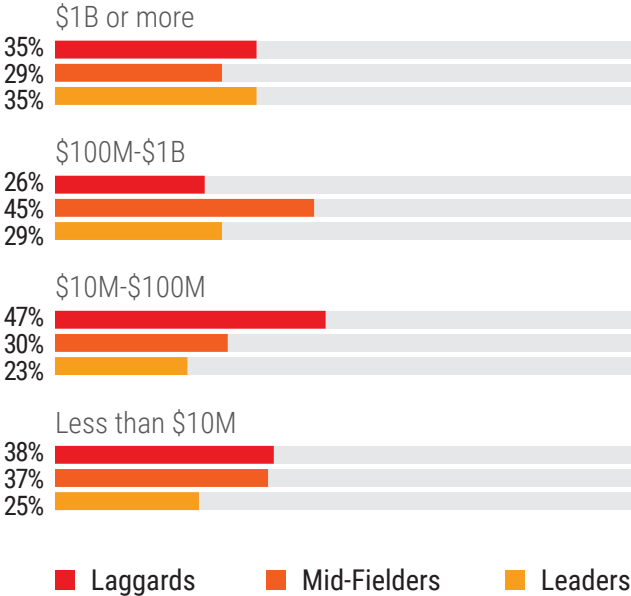


FIGURE 6:
PERCENT OF LEADERS, MID-FIELDERS AND LAGGARDS

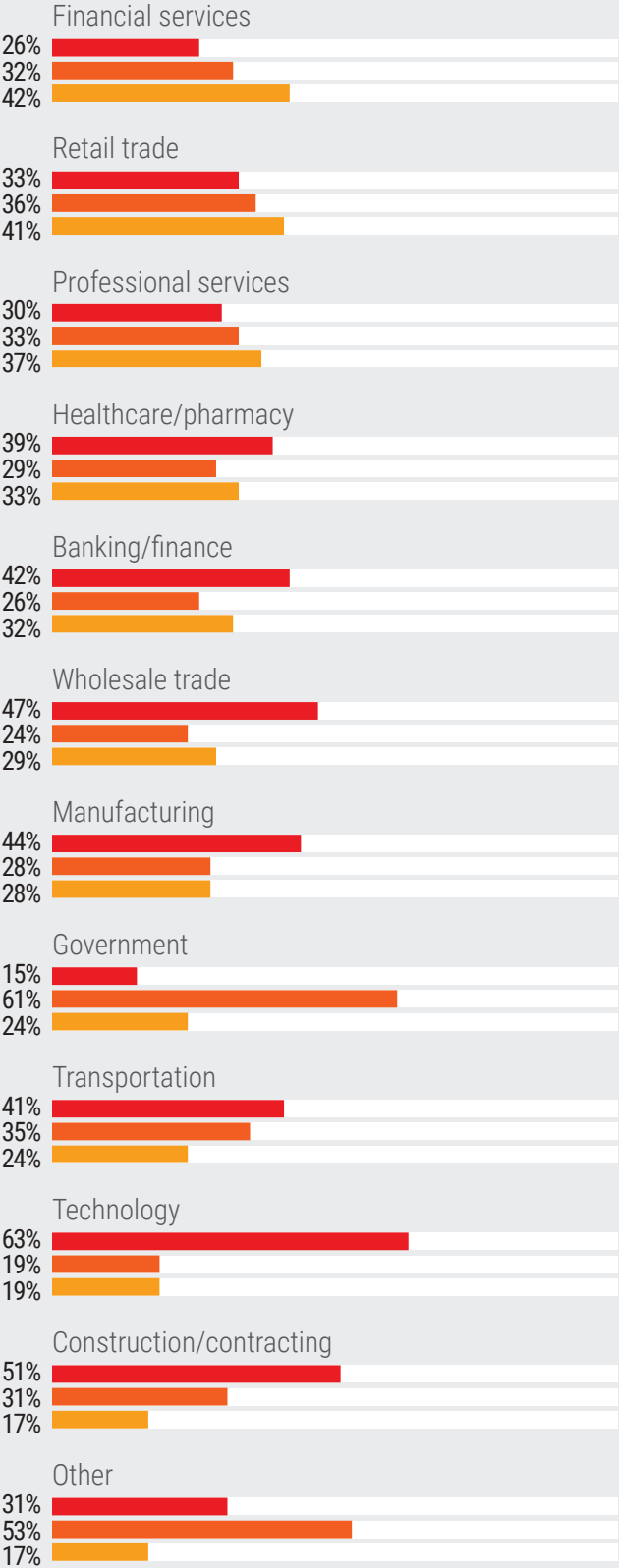
Distribution of companies, by revenue and industry

BY ANNUAL REVENUE



60%
of Leaders plan
to implement
real-time payments in
the next three years.

BY INDUSTRY



Leaders were more likely to come from the financial services industry than any other sector, with 42 percent of such companies being Leaders – just 17 percent of all construction or contracting businesses were innovation Leaders.

Our research also revealed that for Leaders, the importance of real-time payments is much greater than for Laggards or Mid-Fielders – they are far more likely than their peers to adopt real-time payments. As much as 60 percent of Leader firms plan to

FIGURE 7:
ALL COMPANIES' INNOVATION PLANS

Percent of companies interested in implementing various payment innovations, by innovation profile

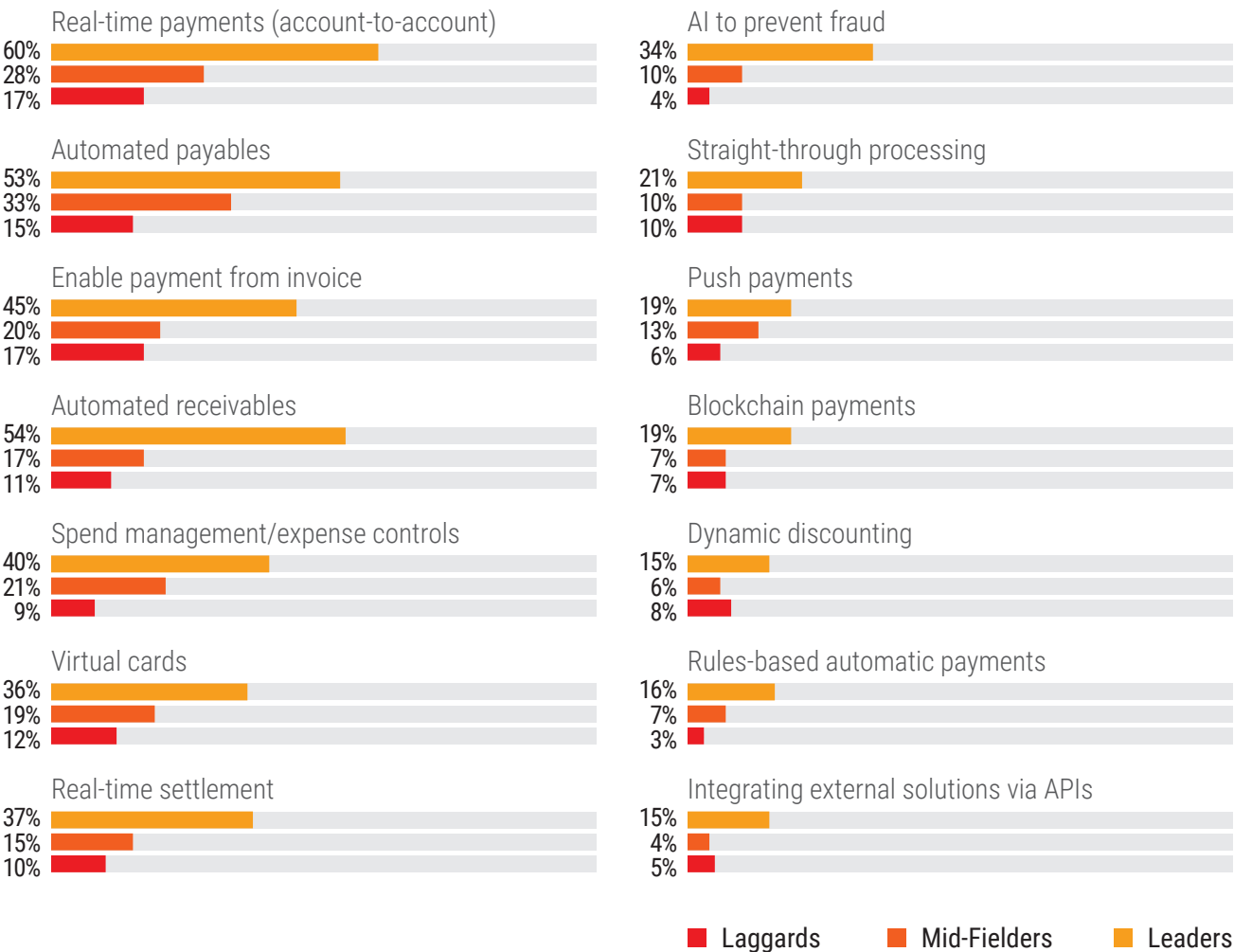
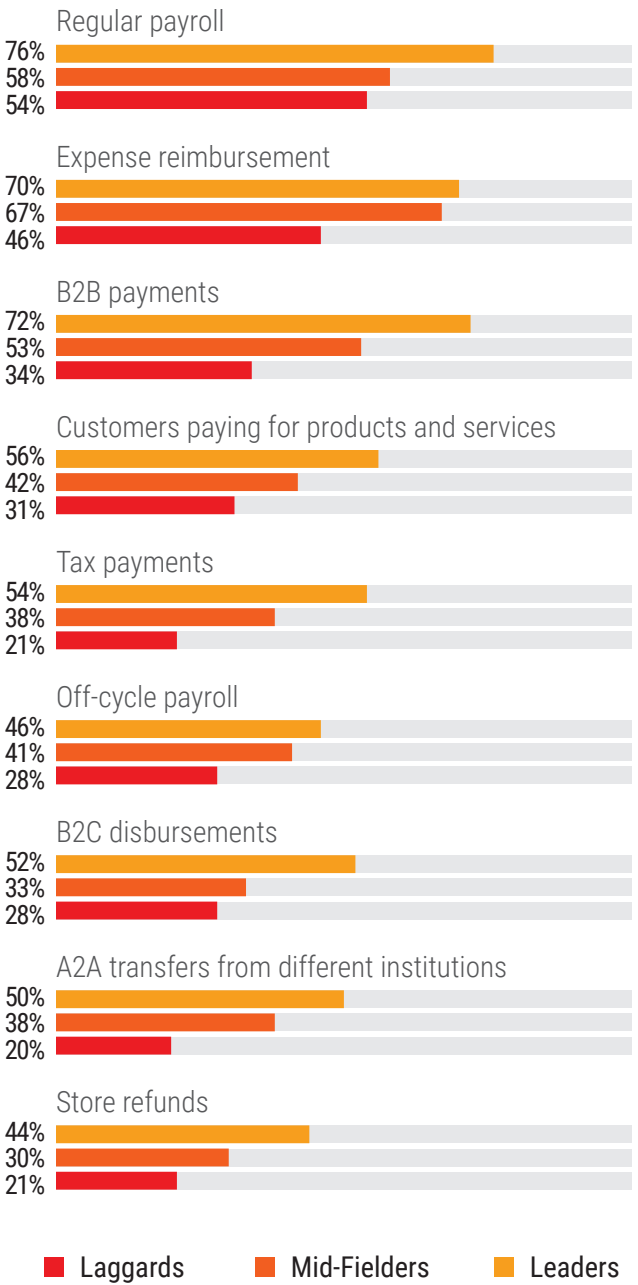


FIGURE 8:
APPLICATIONS OF REAL-TIME PAYMENTS

Percent of companies that believe real-time payments will be useful in various functions, by innovation profile



implement real-time payments within the next three years, compared to just 28 percent of Mid-Fielders and 17 percent of Laggards.

The fact that innovative companies are much more gung-ho about real-time payments suggests they may know something that other firms don't. Specifically, innovation Leaders know that real-time payments can benefit many of their operations, with as many as 72 percent of Leader companies saying they are confident that real-time payments could greatly improve how they handle payroll, expense reimbursements and B2B payments.

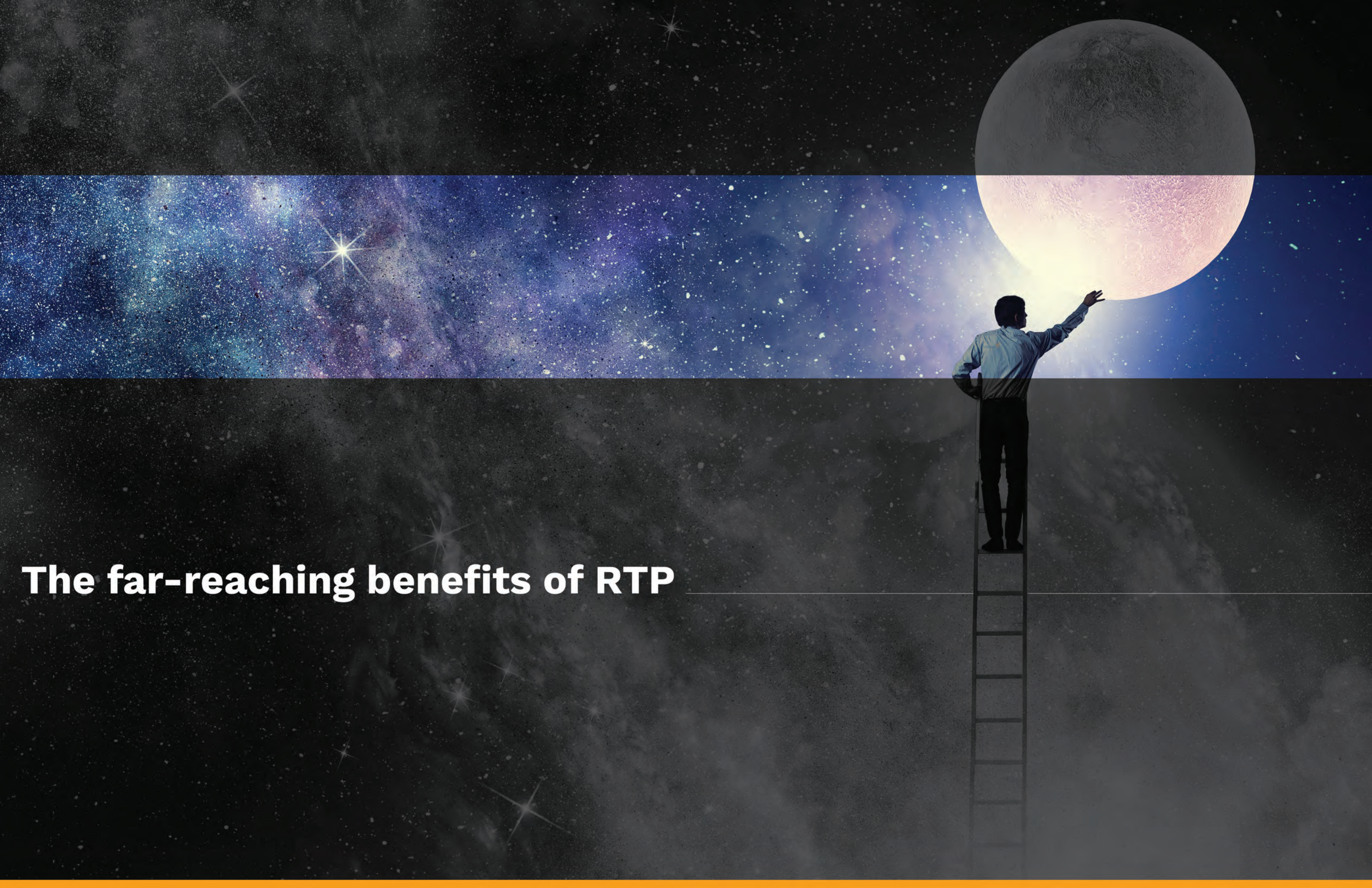
While a certain portion of Mid-Fielders and Laggards see the benefits of adopting real-time payments, a greater share of Leaders expect real-time payments to benefit them across various use cases.

This points us to an inevitable conclusion: innovation Leaders plan to adopt real-time payments because they know that this technology can benefit them in a myriad of ways.

**MAIN
TAKEAWAY**

**What innovation
Leaders know better
than the rest**

- ☐ It is their top priority to implement real-time payments to improve their B2B payment system.
- ☐ They view real-time payments as key to improving payments made to employees and business partners.
- ☐ They regard real-time payments as the best way to ensure funds are available immediately.
- ☐ They consider real-time payments to be highly versatile for existing and future applications.



The far-reaching benefits of RTP

Companies that are not innovation Leaders still understand that real-time payments can benefit their businesses. Most recognize that real-time payments have the potential to improve cash flow and certainty around payments, with nearly 60 percent of firms citing this as a point of interest, followed by flexibility (53 percent) and efficiency/lower costs (52 percent).

Companies don't weigh all of the benefits of real-time payments equally,

though. When asked which features they consider "very" or "extremely" important, most businesses put enhanced security at the top of the list (79 percent).

Other features businesses considered "very important" by at least 70 percent of firms included instant funds availability and improved reconciliation of funds with enhanced data. Interestingly, these features were considered more important than the much hyped always-on nature of real-time payments.

79%
of businesses rank enhanced security and fraud controls as a key benefit of real-time payments.

FIGURE 9:
PERCEIVED BENEFITS OF REAL-TIME PAYMENTS
Percent of companies that see various benefits from real-time payment solutions

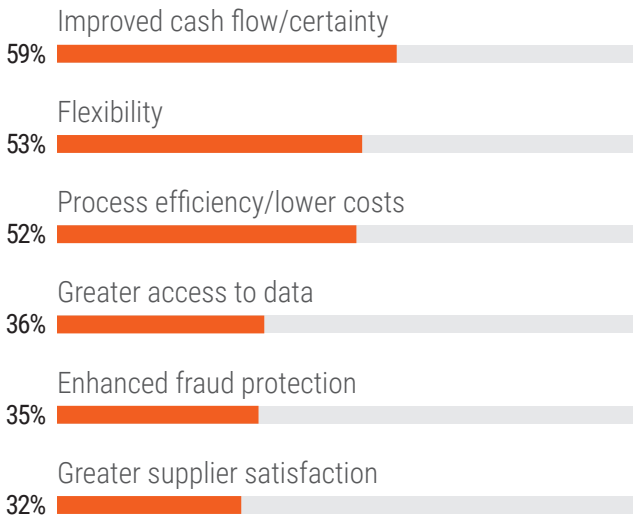
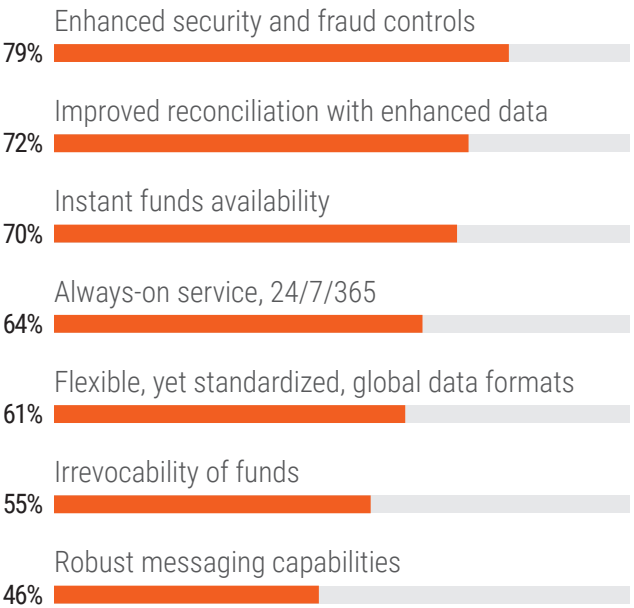


FIGURE 10:
THE MOST IMPORTANT FEATURES OF REAL-TIME PAYMENTS
Percent of companies that regard various features of real-time payments as "very" or "extremely important"



All of this suggests that many companies – even those that have not distinguished themselves as particularly innovative – understand that real-time payments can benefit them. The adoption of real-time payments technology, therefore, is not a matter of "if," but rather a matter of "when."

59%
of businesses are interested
in real-time payments for improving
cash flow and certainty.

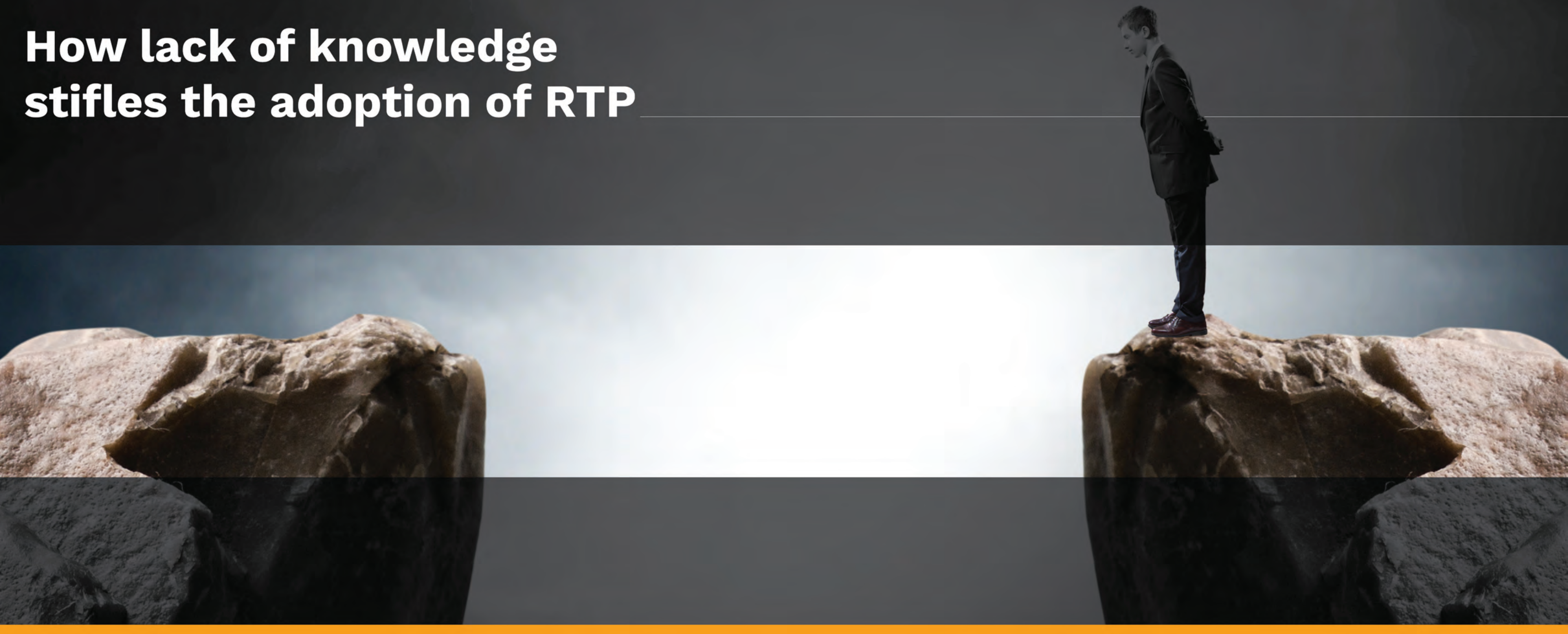


MAIN TAKEAWAY

**Real-time payments’
selling points:**
 which features
 most appeal to companies

- ☐ **Cash flow:**
 Adopting real-time payments technology allows businesses to improve liquidity and planning.
- ☐ **Efficiency:**
 Businesses that adopt real-time payments avoid the delays, paperwork, and back-office labor associated with ACH. They also enjoy the enhanced reconciliation of funds, as information is passed along with the transaction.
- ☐ **Data:**
 Employing real-time payments helps businesses enjoy the benefits of both financial channel and data channel capabilities, providing users with vital information and metrics with each transaction.
- ☐ **Security:**
 Businesses that use real-time payments offer more secure payments services, such as fraud and data protection measures that are built into the system.
- ☐ **Global competitiveness:**
 Businesses that use real-time payments are more competitive, as the technology is becoming the standard for global commerce.

**How lack of knowledge
stifles the adoption of RTP**



As we have seen, most companies see the benefits of adopting real-time payments, but many have yet to do so — they do not entirely understand what it is. Even so, many banks are working to integrate the new rail into their operations.

Given the complexity and scope of real-time payments solutions, it is understandable that many banks have not yet adopted real-time payments technology. It is, after all, not a distinct product, but a whole new payment rail. The U.S. financial system hasn't seen such a wide-reaching disruption since the introduction of ACH. One FinTech executive recently wrote, "The industry needs a broad-based education program aimed at consumers, corporates, banks and credit unions that outlines real-time payments' myriad opportunities and benefits."¹ Without education, neither businesses nor consumers are likely to appreciate the extent to which real-

¹ Prabhakar, Vinay. A key element of real-time-payment adoption in the U.S.: Education. PaymentsJournal. 2018. <http://www.paymentsjournal.com/a-key-element-of-real-time-payment-adoption-in-the-u-s-education/>. Accessed October 2018.

time payments have the potential to transform their day-to-day financial dealings.

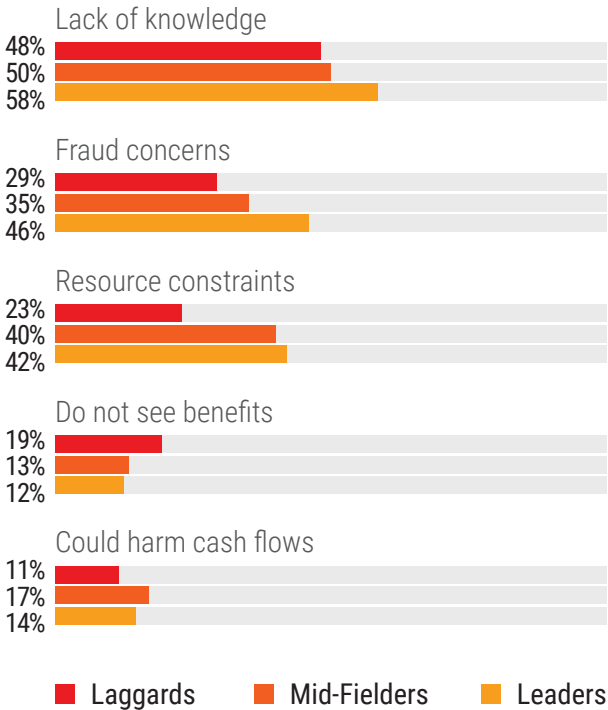
FIs and payments service providers need to take an active role in educating the market about real-time payments. As demonstrated by the findings of our survey, there is a general lack of knowledge and understanding of what real-time payments is, and what it can and cannot do.

When asked to explain why they wouldn't be interested in real-time payments, more than 50 percent of companies said they didn't know enough about it, making this the most common hindrance by far. This is even an issue for Leader companies, with 58 percent citing this as the main reason they weren't interested. Overall, concerns about fraud followed at 36 percent, and technology or resource constraints came behind that at 34 percent.

48%
of Laggards say
they know enough
to adopt real-time
payments.

FIGURE 11:
REAL-TIME PAYMENTS INHIBITORS
AND OPTIMIZATION

Percent of companies citing select reasons for not being interested in real-time payment solutions, by level of optimization

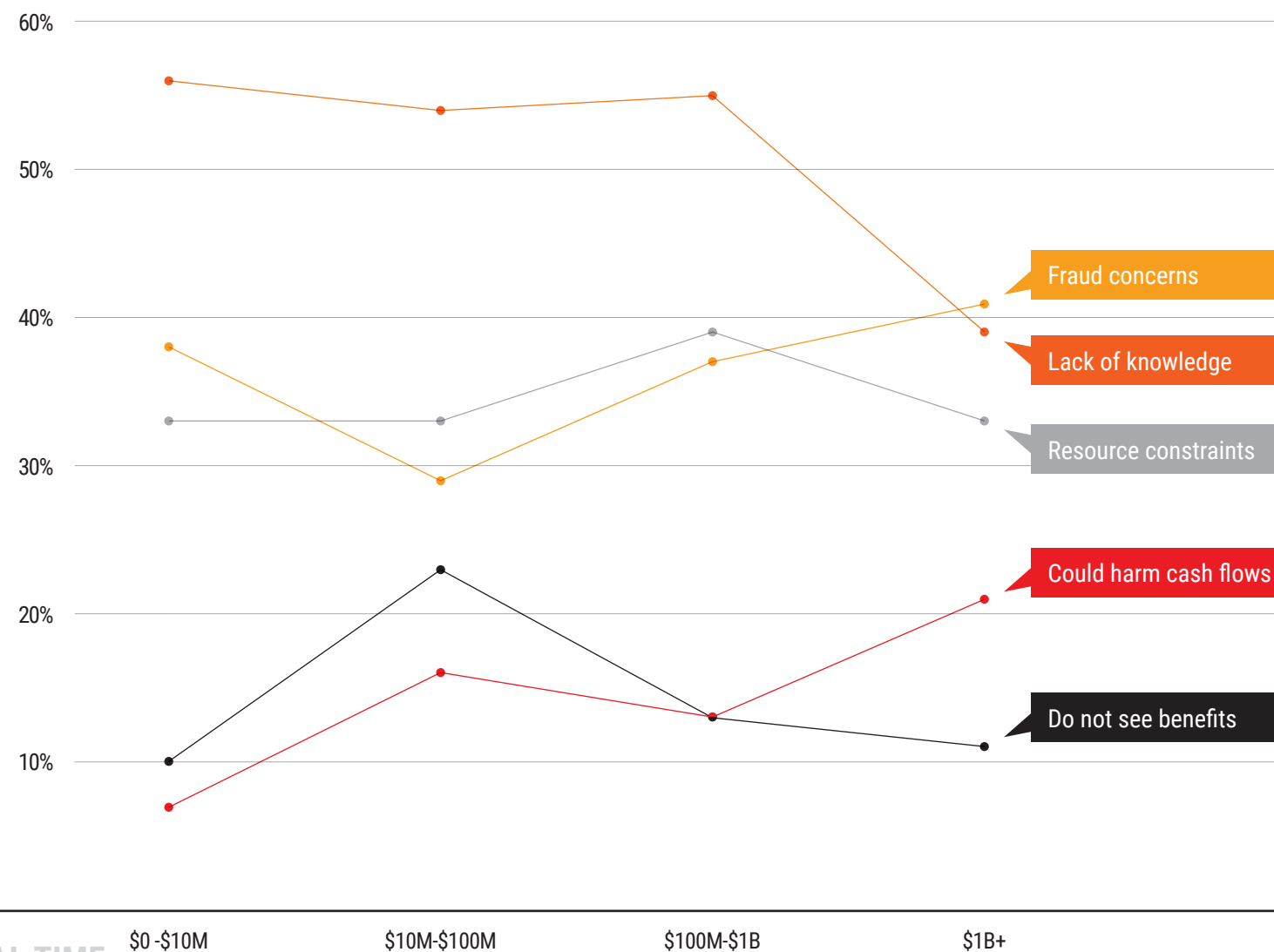


This data underscores the importance of education about real-time payments, and the benefits it can bring to businesses that adopt it. Banks and service providers are therefore encouraged to develop comprehensive, actionable real-time payments strategies, including not only technological integration, but also education initiatives to familiarize their customers and employees with the technology, and its benefits.

Not surprisingly, concerns about real-time payments vary depending on a company's size and resources. Lack of knowledge was a far greater concern for small and mid-size companies than it was for large ones – those with more than \$100 million in revenue. Large companies also tend to be more concerned about fraud and how real-time payments might negatively impact cash flow.

FIGURE 12:
REAL-TIME PAYMENTS INHIBITORS AND COMPANY SIZE

Percent of companies with various concerns about real-time payments, by annual revenue



MAIN TAKEAWAY

Overcoming reservations surrounding real-time payments

- ☐ **Education is key:**
Understanding what it is, how it works, and the benefits it provides is imperative.
- ☐ **Speed can be scary:**
Security mechanisms are built into the infrastructure of real-time payments. This is one of the attributes that Leaders find most compelling.
- ☐ **Speed isn't the only benefit:**
Companies consider its ability to deliver enhanced data and reconciliation of funds to be even greater benefits.
- ☐ **Know your audience:**
Smaller companies tend to be less knowledgeable about the basics of real-time payments, while larger ones are more concerned about fraud and security.
- ☐ **Plan and secure the budget to implement real-time payments:**
More than half of companies expect real-time payments solutions to improve their process efficiency and lower costs.

CONCLUSION

The real-time payments train has left the station, and it is rapidly picking up steam. A third of U.S. companies plan to adopt real-time payments in the next three years, and for innovation Leaders, that figure is as high as 60 percent.

The reasons for this are clear. For one, companies want the improved cash flows and payments certainty that real-time payments can deliver, as well as the security and anti-fraud mechanisms that are considered to be among its most important features. Businesses want to leverage them to enhance key areas of their business, including payroll, expense reimbursement and B2B payments.

Nevertheless, there are still impediments to the widespread adoption of real-time payments, with a lack of understanding being the biggest barrier of all. More than 50 percent of companies say they don't know enough about how the system works and its specific benefits, and a significant portion of firms are concerned about fraud and the costs associated with incorporating real-time payments into their operations.

Despite these concerns, our findings indicate that companies that embrace real-time payments could enjoy considerable competitive advantages, including enhanced data security and fraud protection, among many others. They just don't know it yet.



METHODOLOGY

We surveyed 387 company leaders, asking a broad range of questions concerning their current B2B payment systems and plans for the future. The surveyed leaders were responsible for such matters as accounts payable, accounts receivable, financial planning and analysis, payroll and treasury management, and the companies involved ranged from small – those with at least 10 employees and \$1 million in annual revenue – to those with more than \$1 billion in annual revenue.

TABLE 1:
INNOVATION PROFILES

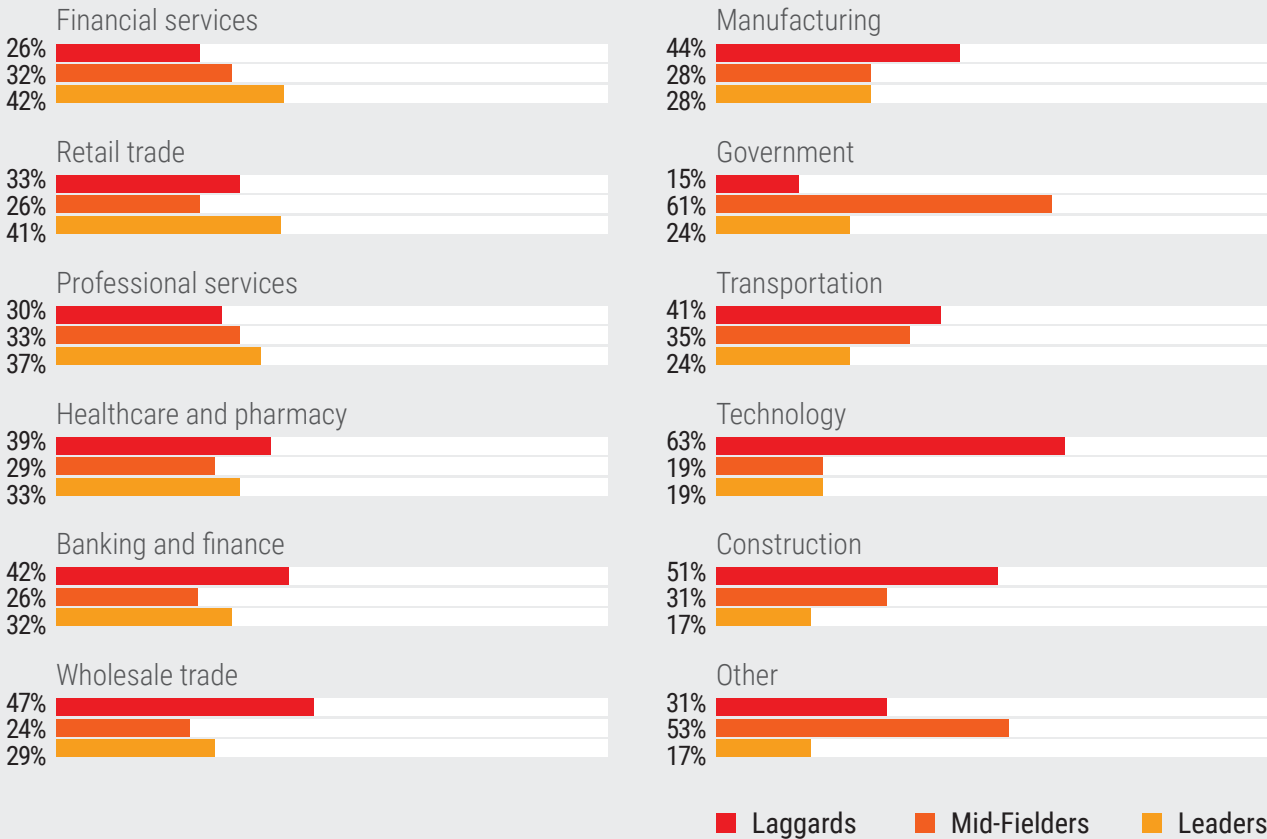
Distribution of businesses, by number of innovations planned and the benefits they expect to derive from them

	Number of perceived benefits			
	0-2	3	4	5+
No innovations	5.4%	0.5%	0.3%	0.8%
One innovation	17.6%	4.9%	3.4%	3.1%
Two innovations	10.9%	5.7%	2.6%	2.6%
Three innovations	3.6%	6.7%	3.9%	3.6%
Four or more innovations	3.1%	3.4%	5.2%	12.9%

■ Laggards ■ Mid-Fielders ■ Leaders

FIGURE 13:
INDUSTRIES AND PAYMENT OPTIMIZATION

Percent of companies in various industries, by level of optimization



To arrive at our innovation profiles for businesses – Leaders, Mid-Fielders and Laggards – we divided the companies in our survey based on the number of innovations they planned to pursue in the next three years and the number of benefits they expected to derive from them.

We also divided businesses by commitment to innovation and industry. The largest share of Leaders could be found in the financial services, professional and banking and finance sectors, followed by trade industries – such as construction – where Leaders made up less than 20 percent of companies. There are, however, a significant presence of both Leaders and Laggards in all industries.

ABOUT

PYMNTS.com

[PYMNTS.com](https://pymnts.com) is where the best minds and the best content meet on the web to learn about “What’s Next” in payments and commerce. Our interactive platform is reinventing the way in which companies in payments share relevant information about the initiatives that shape the future of this dynamic sector and make news. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovation that is at the cutting edge of this new world.



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.

DISCLAIMER

The Real-Time Payment Innovation Playbook, in collaboration with Mastercard, may be updated periodically. While reasonable efforts are made to keep the content accurate and up to date, PYMNTS.COM: MAKES NO REPRESENTATIONS OR WARRANTIES OF ANY KIND, EXPRESS OR IMPLIED, REGARDING THE CORRECTNESS, ACCURACY, COMPLETENESS, ADEQUACY, OR RELIABILITY OF OR THE USE OF OR RESULTS THAT MAY BE GENERATED FROM THE USE OF THE INFORMATION OR THAT THE CONTENT WILL SATISFY YOUR REQUIREMENTS OR EXPECTATIONS. THE CONTENT IS PROVIDED “AS IS” AND ON AN “AS AVAILABLE” BASIS. YOU EXPRESSLY AGREE THAT YOUR USE OF THE CONTENT IS AT YOUR SOLE RISK. PYMNTS.COM SHALL HAVE NO LIABILITY FOR ANY INTERRUPTIONS IN THE CONTENT THAT IS PROVIDED AND DISCLAIMS ALL WARRANTIES WITH REGARD TO THE CONTENT, INCLUDING THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, AND NON-INFRINGEMENT AND TITLE. SOME JURISDICTIONS DO NOT ALLOW THE EXCLUSION OF CERTAIN WARRANTIES, AND, IN SUCH CASES, THE STATED EXCLUSIONS DO NOT APPLY. PYMNTS.COM RESERVES THE RIGHT AND SHOULD NOT BE LIABLE SHOULD IT EXERCISE ITS RIGHT TO MODIFY, INTERRUPT, OR DISCONTINUE THE AVAILABILITY OF THE CONTENT OR ANY COMPONENT OF IT WITH OR WITHOUT NOTICE.

PYMNTS.COM SHALL NOT BE LIABLE FOR ANY DAMAGES WHATSOEVER, AND, IN PARTICULAR, SHALL NOT BE LIABLE FOR ANY SPECIAL, INDIRECT, CONSEQUENTIAL, OR INCIDENTAL DAMAGES, OR DAMAGES FOR LOST PROFITS, LOSS OF REVENUE, OR LOSS OF USE, ARISING OUT OF OR RELATED TO THE CONTENT, WHETHER SUCH DAMAGES ARISE IN CONTRACT, NEGLIGENCE, TORT, UNDER STATUTE, IN EQUITY, AT LAW, OR OTHERWISE, EVEN IF PYMNTS.COM HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

SOME JURISDICTIONS DO NOT ALLOW FOR THE LIMITATION OR EXCLUSION OF LIABILITY FOR INCIDENTAL OR CONSEQUENTIAL DAMAGES, AND IN SUCH CASES SOME OF THE ABOVE LIMITATIONS DO NOT APPLY. THE ABOVE DISCLAIMERS AND LIMITATIONS ARE PROVIDED BY PYMNTS.COM AND ITS PARENTS, AFFILIATED AND RELATED COMPANIES, CONTRACTORS, AND SPONSORS, AND EACH OF ITS RESPECTIVE DIRECTORS, OFFICERS, MEMBERS, EMPLOYEES, AGENTS, CONTENT COMPONENT PROVIDERS, LICENSORS, AND ADVISERS.

Components of the content original to and the compilation produced by PYMNTS.COM is the property of PYMNTS.COM and cannot be reproduced without its prior written permission.

You agree to indemnify and hold harmless, PYMNTS.COM, its parents, affiliated and related companies, contractors and sponsors, and each of its respective directors, officers, members, employees, agents, content component providers, licensors, and advisers, from and against any and all claims, actions, demands, liabilities, costs, and expenses, including, without limitation, reasonable attorneys’ fees, resulting from your breach of any provision of this Agreement, your access to or use of the content provided to you, the PYMNTS.COM services, or any third party’s rights, including, but not limited to, copyright, patent, other proprietary rights, and defamation law. You agree to cooperate fully with PYMNTS.COM in developing and asserting any available defenses in connection with a claim subject to indemnification by you under this Agreement.