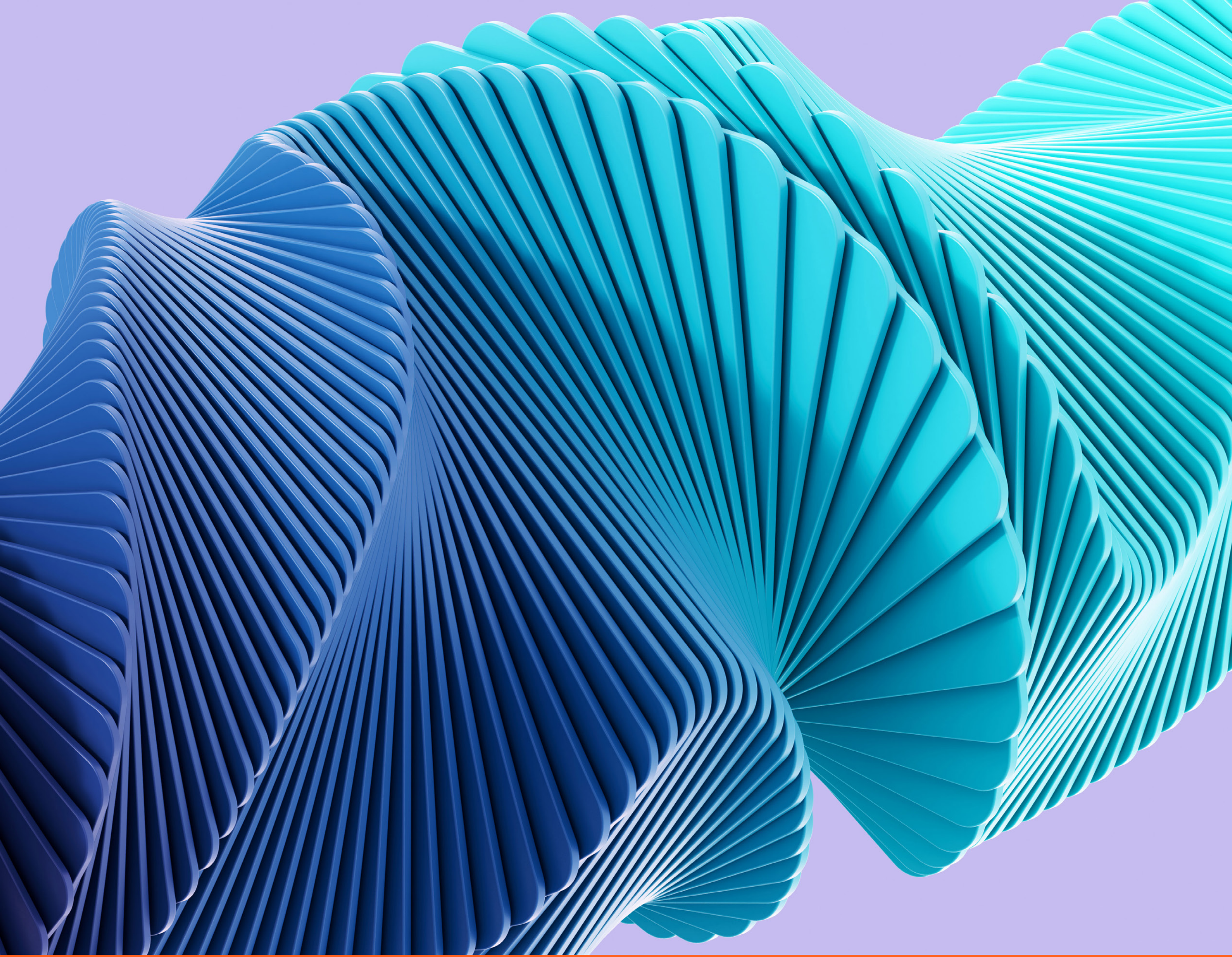


THE CURRENT STATE OF PLAY OF

EMERGING PAYMENTS

BNY MELLON

datos INSIGHTS

CONTENTS

EXECUTIVE SUMMARY

Real-time payments have become critical and are undeniably increasing in adoption around the globe. The data supports the growth and focus on improving financial services through faster payment rails and demonstrates the incredible market opportunity and landscape of innovation that is being created by real-time payments.

Businesses are investing in payments

Ninety-two percent of businesses expect payments improvement to be a significant area of investment in the next 24 to 36 months. This represents an incredible market opportunity for financial services providers and businesses to improve payments processes and automation.

1

Businesses are seeking providers with real-time capabilities

About half of businesses globally have changed or will change financial services providers to be able to access real-time payments.

2

Real-time payment volume is growing

Regardless of region, real-time transaction volume is growing rapidly. Real-time payments, alone in the United States, are growing in the double digits quarter over quarter. Businesses that are not taking advantage of real-time capabilities will find themselves at a competitive disadvantage.

3

Real-time payments are not just for emergency payments

The number one reason businesses utilize real-time payments is to improve the customer experience. Businesses are recognizing that faster payments can equal customer loyalty, strong business partnerships and attract top talent.

4

Some businesses do not understand the value

There is an opportunity to educate businesses on how real-time payments work. For example, 43% of businesses not utilizing real-time payments believe that faster payments require too much manual processing and 28% of those businesses believe that faster payments are too slow.

5

Cross-border payments are ripe for innovation

More businesses are transacting cross-border payments, and 80% of them believe they will have increased volume in the next 12 to 24 months. Removing points of friction is critical, as businesses need an experience closer to the efficiencies that are possible with domestic payments.

6

INTRODUCTION

The momentum of change and innovation in the payments market has accelerated the adoption of new technology and payment rails. Real-time payments have become ingrained in the fabric of the payment landscape and have spawned new expectations and demands from businesses to their financial services providers. Firms embrace innovative solutions that incorporate fast payments, more robust data and automation tools, and the providers offering those solutions are creating new market opportunities.

At this point, real-time payments are not going to decrease in significance. In fact, their significance will only increase exponentially as more businesses recognize the myriad use cases and benefits accompanying real-time payment capabilities. These include, but are not limited to, better cash positioning and reporting, improved working capital, operational efficiencies, greater customer loyalty, strong business partnerships and even more satisfied employees.

The benefits of real-time payments are truly universal. Countries around the globe share a common interest and desire for more efficient and faster payments. This white paper is written for banks and the clients they serve that seek to better understand the usage, value proposition, use cases and future growth of real-time payments around the globe.

Methodology

This paper is based on an online survey of 1,037 employees of midsize and large businesses in eleven North American, European, and Asia-Pacific (APAC) countries (Australia, Canada, France, Germany, Italy, Japan, India, Singapore, Spain, the UK and the U.S.) that Datos Insights undertook in Q3, 2023. Respondents are employed in operations, finance, accounting, payments strategy or treasury/control and are knowledgeable about their organizations' finance, treasury, payment operations, methods and processes.

Organizations represented in the pool of respondents generate annual revenue/turnover of at least US$20 million or the equivalent in local currency. Datos Insights estimates that the data for the total sample have a 3-point margin of error at the 95% level of confidence.

IMPORTANCE OF REAL-TIME PAYMENTS

Payments is a continued area of focus for businesses of all sizes. With new payment methods and technology available to facilitate faster, safer and more efficient payments, it is critical for businesses to engage with a financial services partner that enables them to take advantage of the best market options.

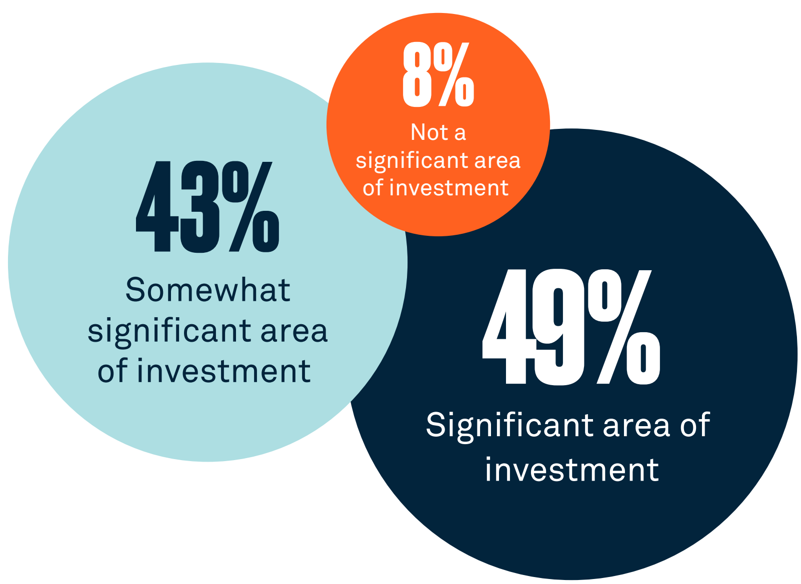
The growing adoption and acceptance of real-time payments have increased innovation and investment in the payments space. Faster payments also mean faster access to data that allows businesses to make key decisions in a timelier manner. Technology, such as automated payables and integrated receivables, helps businesses take advantage of the full value of real-time payments while also providing operational efficiencies to accommodate legacy payment streams and methods.

For many businesses, a robust, end-to-end payments process and strategy can be a material competitive advantage. Because of this, only a small minority of businesses globally do not expect their organization's investment in payments technology over the next 24 to 36 months to be at least somewhat significant (Figure 1).

Figure 1: Businesses Investing in Payments Technology

Q: How significant do you expect your organization's investment in improving payments technology to be in the next 24 to 36 months?

(Base: 1,037 employees of midsize and large businesses)



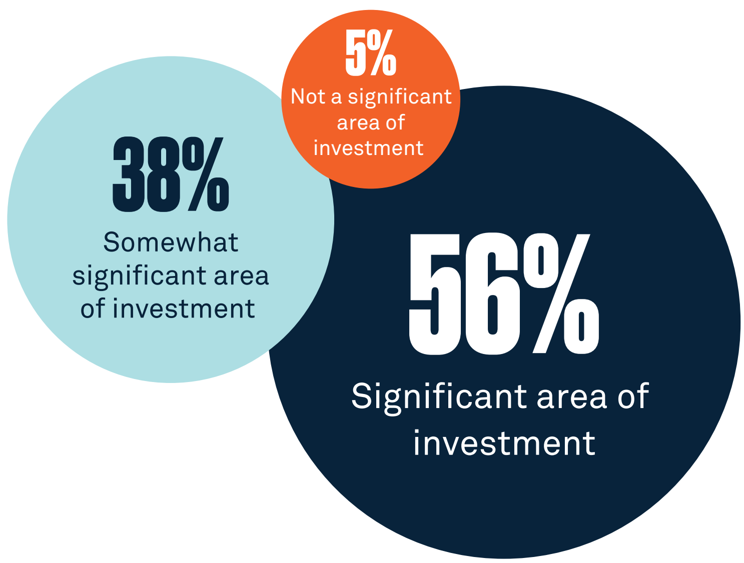
Source: Datos Insights

When comparing this investment across regions, businesses in APAC are investing even more aggressively (Figure 2). While there is significant volatility and opportunity to serve businesses around the globe, the market opportunity in APAC is even greater.

Figure 2: APAC Businesses Investing in Payments Technology

Q: How significant do you expect your organization's investment in improving payments technology to be in the next 24 to 36 months?

(Base: 245 employees of midsize and large businesses in the Asia Pacific region)



Source: Datos Insights

Regardless of region, real-time payments and the automation and data that come along with the innovations of faster payments are driving businesses to invest in more robust payment capabilities.

THE GROWTH OF REAL-TIME PAYMENTS USAGE

More businesses are using a greater number of payment methods to pay vendors, employees and consumers than was ever possible before the emergence of faster payments. Legacy payment types such as bank transfers, wires, checks and cash remain important and are not being completely replaced. However, some existing payments and net new payments are moving to more efficient payment rails.

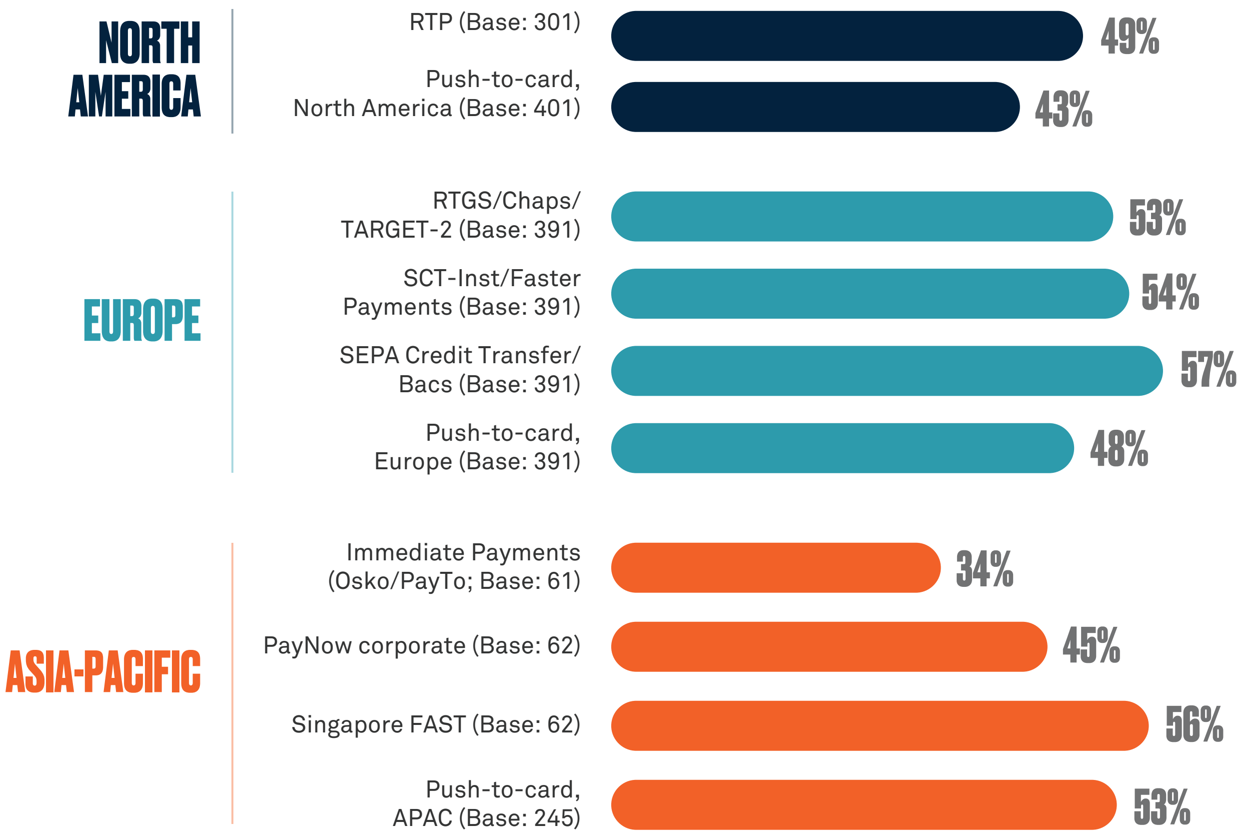
Globally, about half of all businesses are already utilizing faster payment rails to make payments. The following are not the only faster payment methods across the regions, but this sampling shows the high levels of penetration and usage (Figure 3).

It is important to recognize that the state of real-time payments has not yet even begun to peak. The number of businesses that utilize faster payments will keep increasing and the volume and value of the transactions will also grow. There is still a large market opportunity in adoption as well as use-case expansion.

Figure 3: Real-Time Payment Usage

Q. Has your organization made any payments using the following payment tools in the past 12 months?

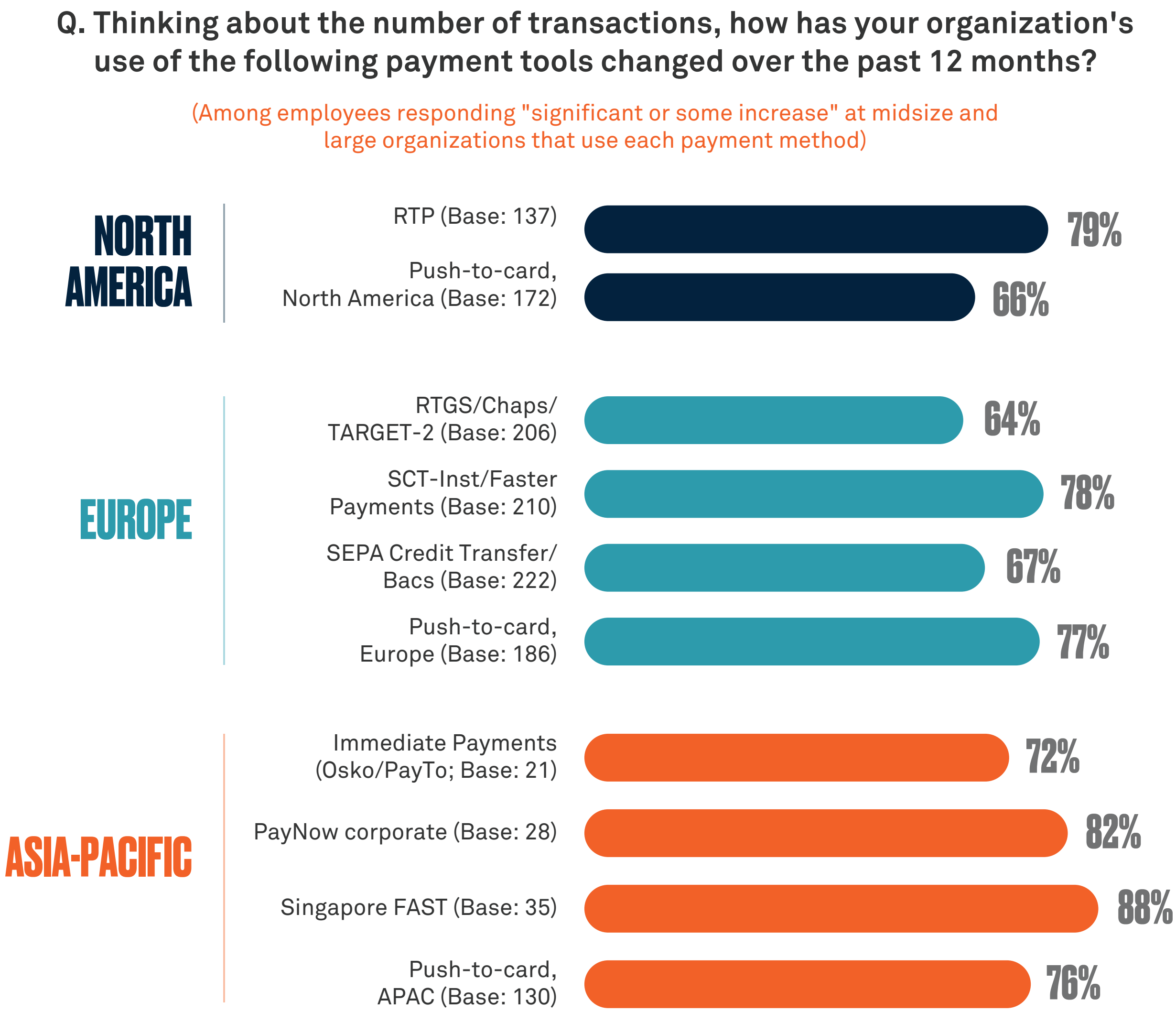
(Among employees at midsize and large organizations answering yes)



Source: Datos Insights

Even in the last 12 months, businesses are sending clear signals of expanded usage and a desire to incorporate real-time payments deeper into their payment strategy. All major real-time payment rails across North America, Europe, and APAC have experienced incredible growth in the last year. This momentum is not expected to slow down in the next 24 to 36 months (Figure 4).

Figure 4: Real-Time Payment Usage Growth



Source: Datos Insights

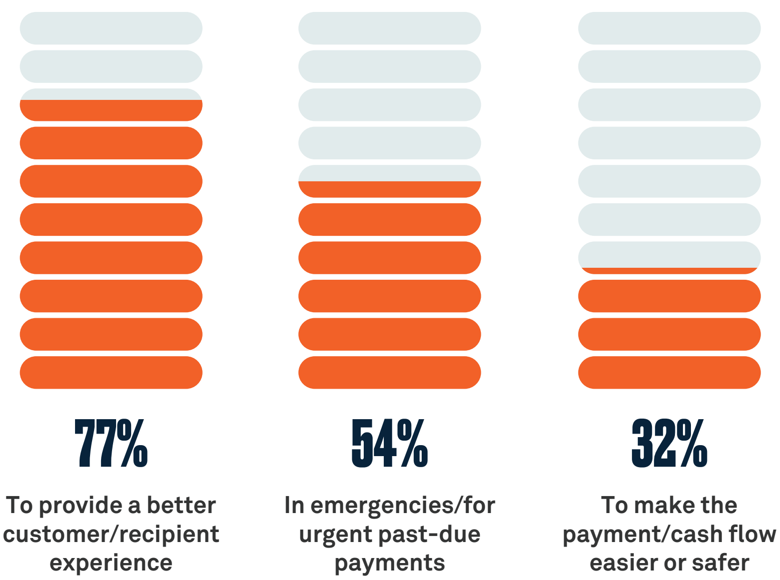
Why Businesses Are Using Real-Time Payments

Real-time payments are becoming more mainstream and normalized for organizations and their clients, inclusive of individual consumers and other businesses. When real-time payments were first emerging, many use cases revolved around late payments or urgent payments with time-sensitive circumstances. While this is a good use case for real-time payments, it is actually only one of the minor use cases. About half of businesses still view this as a primary use case for real-time payments, but other benefits are expanding the potential use cases (Figure 5).

Figure 5: Why Businesses Are Using Real-Time Payments

Q: In what situations is it best to use real-time payments?

(Base: 1,037 employees of midsize and large businesses)



Source: Datos Insights

In addition to starting to recognize and realize the operational efficiencies of real-time payments, over two-thirds of businesses are utilizing real-time payments to provide a superior experience for the recipients of those payments. For businesses that are not already utilizing real-time payments through their financial services provider, there is a real risk of competitive disadvantage. This is because the satisfaction of recipients has become critical to healthy business partnerships.

While all payment types can benefit from incorporating real-time payments, the most common use cases of real-time payments are when businesses are transacting with individual consumers. This is because the notion and acceptance of real-time payments started with person-to-person payments. Having instant access to funds became an expected outcome of payments. The evolution from business-to-consumer to consumer-to-business and, finally, business-to-business payments is well underway, with use cases spanning all of these scenarios. Table A outlines examples of use cases that are important for businesses to recognize and utilize.

Table A: Real-Time Payments Use Cases

TRANSACTION SCENARIO	IMPACT OF REAL-TIME PAYMENTS
Insurance claims	Waiting on a check or ACH payment during a critical and urgent scenario is not ideal for individuals or businesses. It is an industry expectation for these payments to have immediate availability regardless of day or time of need.
Payroll	Businesses that can offer nontraditional payroll cycles, such as getting paid the same day as work is performed and having the ability to do things like spot bonuses or earned wage access, can attract and retain the most desirable talent.
Tips for wait staff	Within the restaurant industry, there is a danger in carrying around cash at the end of a shift. Real-time payments eliminate the need for this with an instant deposit into a bank account for tips.
General contractor	The construction and skilled trade industry is just one more example of an industry impacted by labor shortages. A contractor that can pay subcontractors and tradesmen upon completion of work or instantly upon receipt of a customer payment instead of waiting for the end of a week will have the loyalty of the top talent.
Billing utility/ telecom clients	Bill pay is a large market opportunity for real-time payments. Through request-for-payment (RfP), businesses and their customers acquire efficiencies and ease of payment settlement. Businesses can more easily digitize all parts of the payments process with more robust data, and payees can settle their bills instantly when they are ready to release the funds.

Source: Datos Insights

Table A: Real-Time Payments Use Cases (cont.)

TRANSACTION SCENARIO	IMPACT OF REAL-TIME PAYMENTS
High volume of low-dollar checks	Generally, any business issuing a high volume of low-dollar checks (e.g., for breakage, refunds, rebates) can save significant money and time by shifting to real-time payments while creating a more pleasant recipient experience.
Real estate	One of the key moments when purchasing real estate is waiting on the final settlement transaction. Real-time payments can remove much of the anxiety and wait time associated with this process, making it more available on an everyday basis.
Small business with liquidity challenges	Unfortunately, many small businesses shut down each year—not because of a poor product or service but because of liquidity challenges. Having the ability to receive real-time payments can significantly impact a small business's financial health. Making just-in-time payments can have an equal impact and allow small businesses to have a positive cash flow.

While the above table outlines several important use cases of real-time payments for consideration, there really are no limits to the expansion of real-time payments across the globe. What all these use cases have in common is that there is disruption or disadvantage associated with not embracing real-time payments and clear positive impacts with them.

Source: Datos Insights

Why Businesses Are Not Using Real-Time Payments

Even with the growth in adoption and compelling use cases for real-time payments, there are still financial institutions that are not offering real-time payment capabilities and businesses that have not yet begun to incorporate faster payments into their overall business strategy. As the market gets closer to ubiquitous real-time payment acceptance, it is important to understand the objections, as many of them truly are from a lack of awareness of the benefits, capabilities and features of real-time payments.

One of the biggest objections of businesses that are not utilizing real-time payments is the notion that sending and receiving faster payments involves too much manual processing (Figure 6).

Figure 6: Why Businesses Are Not Using Real-Time Payments

Source: Datos Insights

Despite the fact that the data capabilities of real-time payments are often far superior to other payment methods, there are challenges in getting businesses to understand how to consume the data. There is also a need for businesses to have tools in place with their financial services provider to automate as much of the payments process as possible. This includes functionality such as integrated receivables and automated payables that help eliminate manual processing across payment methods. Faster payments themselves do not create more manual processing. Rather, a lack of tools for overall efficient payment processing can create this challenge.

The next most prominent objection is that suppliers/recipients are not able to accept a real-time payment. While it is accurate that some recipients cannot receive real-time payments, that is changing quickly. Instead, businesses should focus on the opportunity to use faster and more efficient payments as a catalyst to strengthen business partnerships through the positive touch point of offering faster payments. Oftentimes, the lack of acceptance is due to a lack of awareness of the wide reach of real-time payments.

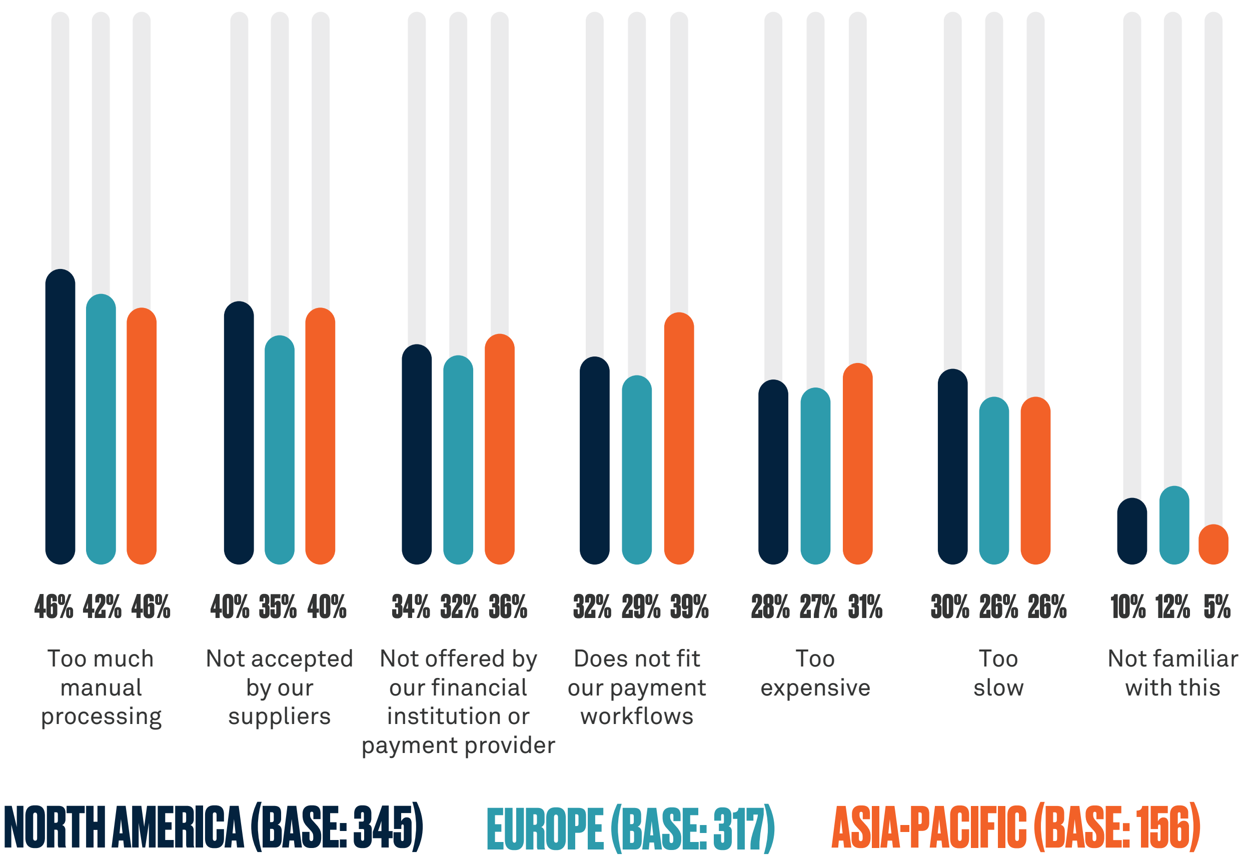
Other challenges that indicate a need for education in the market include the perception that real-time payments are too expensive and/or too slow. Businesses that believe that real-time payments are too expensive usually fall into one of two categories: either they believe that the process and operational changes will be costly or that the transactions themselves are too expensive. With proper guidance on how to incorporate real-time payments and a connection to a provider that offers robust automation tools, the perception of internal costs can be largely mitigated. Transactional costs are generally less than many alternatives like checks or wires and more comparable to ACH or other bank transfer payments.

Some differences are worth noting when looking at the challenges by global region. For example, North American businesses are more likely to be concerned about the perspective of manual processing, while businesses in the APAC region have a gap in understanding how real-time payments fit into existing payment workflows (Figure 7). As indicated by the increased investment in payments technology across regions, financial services providers have a large market opportunity but work upfront to overcome the challenges, both real and perceived.

Figure 7: Why Businesses Are Not Using Real-Time Payments (by Region)

Q. Please select the reasons your organization does not use faster payments methods.

(Among midsize and large organizations that don't use faster payment methods)



Source: Datos Insights

Regardless of region, understanding the nuances of why businesses have not made the move to real-time payment disbursements and acceptance is actually a key way to combat this in the industry.

The real cost to businesses can come from not using real-time payments, as the benefits of real-time payments outweigh the initial efforts. No business would want to intentionally put itself at a disadvantage, harm business partnerships, reduce customer loyalty and miss out on attracting qualified talent. However, all of these are possible realities for businesses that don't embrace real-time payments.

Moreover, financial institutions that are not providing these tools to business customers are already facing the reality of lost relationships and transactional volume.

Businesses Seek End-to-End Capabilities When Considering a Move

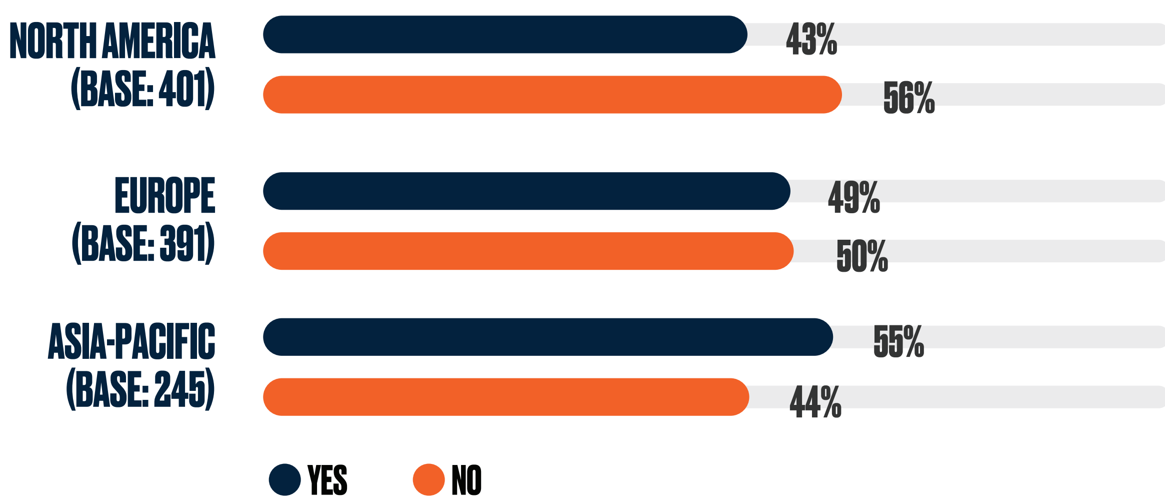
When a business cannot access real-time capabilities from its existing financial services provider, there is an active movement to other providers that can provide that access. For many years in the banking services landscape, businesses were more tied to their incumbent providers, but that is quickly shifting.

Businesses are more interested in creating efficient and effective payments strategies than staying with their providers. They are willing to make aggressive investments in payments and seek out best-in-class providers. In fact, about half of businesses globally have either changed providers to have access to real-time payments or say that they would. This sentiment is strongest in the APAC region, where 55% of businesses report they have already changed or would change financial services providers to access real-time payments (Figure 8).

Figure 8: Businesses That Have Moved Providers for Access to Real-Time Payments

Q: Has your organization changed or would it change providers to another financial institution or provider to access real-time payments?

(Among employees of midsize and large businesses)



Source: Datos Insights

One of the most interesting aspects of this data is that North America has the lowest penetration of real-time payments. Yet, businesses around the globe are changing financial services providers to have access to the services that they need. Often, this is not actually a question of availability. In Europe, for example, the accessibility of real-time payments is almost ubiquitous, but businesses report a need to seek out faster payment solutions from other providers. This means there is more of a go-to-market gap within many financial institutions. Financial services providers that are adept at positioning the value and capabilities of their end-to-end payment capabilities have much market share to capture in the current market conditions.

Some financial institutions will find that partnering with a third-party service provider – a fintech firm or another bank – can help them bring to market payment solutions more quickly and with added expertise. For businesses, selecting a partner that provides the needed functionality and offers accessibility and automation in file submission, reconciliation, reporting and payables routing is the best way to create operational efficiencies and market differentiation through an effective payment strategy.

SHIFTING FOCUS TO CROSS-BORDER PAYMENTS

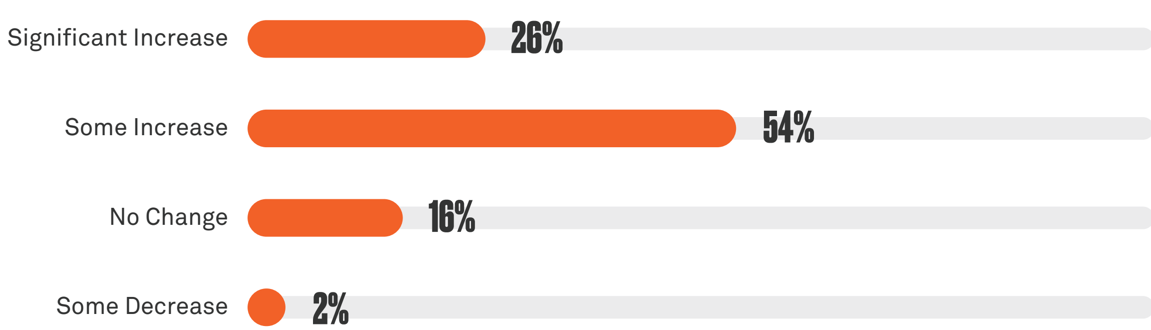
Until very recently, most of the innovation in payments and focus on real-time transactions has been for domestic payments rails and use cases, particularly in the U.S. The exception is the limited cross-border capabilities through regional schemes such as Single Euro Payments Area (SEPA) Instant in Europe and Buna in the Middle East. When considering the larger global landscape, cross-border payments still have a lot of friction that can be difficult for businesses to navigate effectively. Businesses need a provider that can also help create efficiencies in cross-border payments in concert with domestic payments.

One of the biggest reasons for the new emphasis on cross-border payments is that transaction volume is growing. Across all global regions, over one-quarter of businesses expect a significant increase, while a massive 80% of businesses expect at least some increase (Figure 9).

Figure 9: Anticipated Increase in Cross-Border Payments

Q: How do you anticipate the volume of cross-border payments to change in the next 12 to 24 months?

(Base: 982 employees at midsize and large organizations that have made or are likely to make cross-border payments in the next 12 to 24 months)



Source: Datos Insights

Cross-border transaction volume may not outnumber domestic payments, but they are often critical and high-value payments. As the volume of cross-border payments grows, there will be a greater need to accelerate innovation and capabilities for these payments. There is a large market opportunity for businesses and financial services providers that can create efficiencies in cross-border payments from a market share and competitive positioning perspective.

Expansion Into New Regions

Part of the growth in transactions in the cross-border space is due to business partnership expansion into new regions. While more businesses report growth in the same countries, the numbers are almost as significant due to a greater number of countries overall (Figure 10). Some businesses are expanding in current countries and new countries simultaneously, contributing to the need for more efficient cross-border payments.

Figure 10: Cross-Border Payment Expansion Into New Regions

Source: Datos Insights

Businesses need a financial services provider that can help them make domestic and cross-border payments more efficient, but there is also a push for the larger industry to innovate.

Real-time payments are becoming a reality in the cross-border space in part due to the more efficient correspondent banking capabilities of Swift global payments innovation (gpi), but also regional cooperation and partnerships like those mentioned previously and some emerging initiatives in other regions. For example, India and Indonesia have announced a planned partnership like the cross-border QR payment scheme between Indonesia and Singapore. In the U.S., there is currently a pilot program, Immediate Cross-Border Payments (IXB), a partnership between The Clearing House, Euro Banking Association (EBA) Clearing, and Swift, to enable instant payments between the U.S. and Europe that is anticipated to gain traction in 2024.

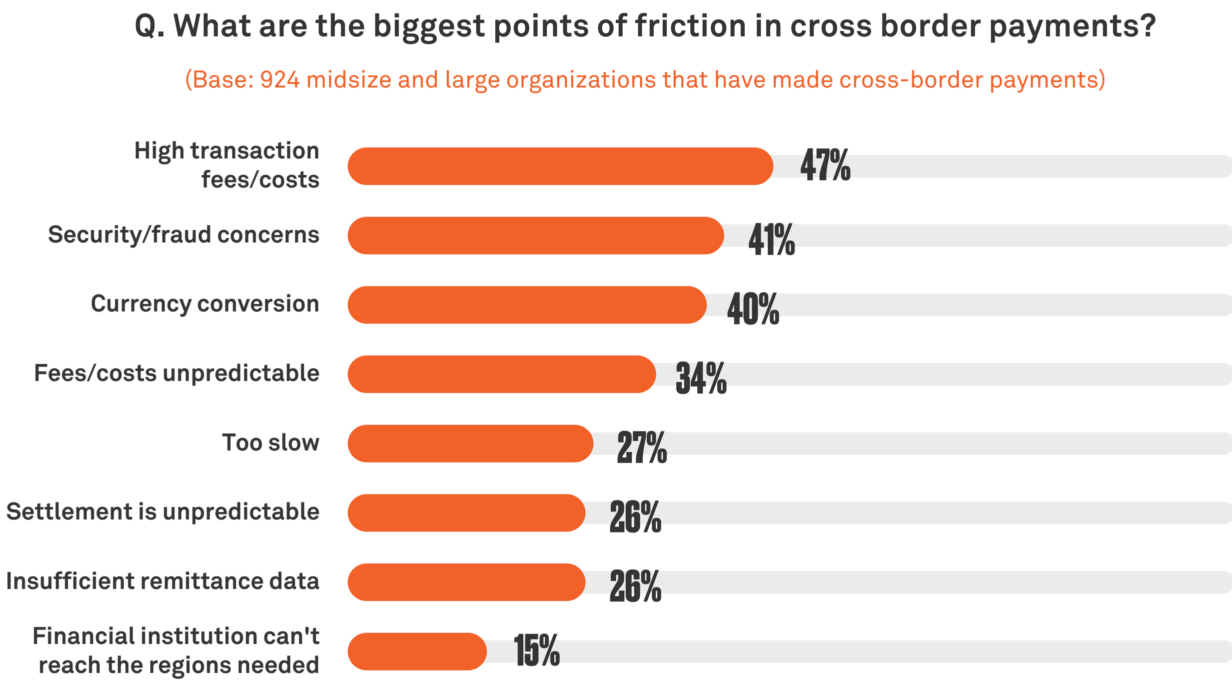
The future of real-time payments includes all transactions, not just domestic ones. As financial services providers continue to answer the demands of businesses around the globe, payments are becoming faster, more efficient and more accessible. Financial institutions that are not focusing on the future state will be at a competitive disadvantage, as will the businesses that they serve. Going forward, modernization efforts and partnerships are key for financial institutions and businesses as real-time payments (and the need for automation solutions incorporating those payments) dominate the payments landscape.

The Challenges of Cross-Border Payments

There is no denying that cross-border payments come with myriad inherent challenges. When a cross-border payment is sent through traditional correspondent banking channels, particularly to emerging regions, there can be a lack of clarity on what the cost will be, when the payment will be received and where the payment is in the process. Solutions like SWIFTgpi can help solve some of these challenges when transacting between two major markets with a direct correspondent banking model. However, the points of friction amplify when a transaction requires multiple correspondent relationships.

Businesses are clear that with the growth in this space, there is a demand to eliminate the most outstanding pain points. The biggest concern of almost half of businesses is the expense of cross-border payments, and this is coupled with over one-third of businesses concerned about the unpredictability of the cost and fees (Figure 11).

Figure 11: Challenges With Cross-Border Payments



Source: Datos Insights

Fraud is also top of mind, driving an acute focus on account validation and fraud mitigation solutions within the cross-border and broader payments space.

While the traditional correspondent banking model will likely dominate the landscape for some time, the market is ready and open to new solutions that complement the correspondent banking model where improvements can be created. Financial institutions are helping businesses overcome market challenges by presenting alternatives that eliminate the need for multiple correspondent banks, unclear fees and settlement times. When the correspondent banking model cannot meet the needs, direct account-to-account transactions and faster payments must be utilized.

CONCLUSION

1. Businesses of all sizes are focused on improving payments technology. For many businesses, a robust, end-to-end payments process and strategy can be a material competitive advantage. Businesses that are not investing in payments technology with a leading financial services partner can find themselves at a competitive disadvantage.

2. Businesses should be and are actively seeking a financial services provider that offers strong real-time capabilities, accessibility and automation in file submission, reconciliation, reporting and payables routing to create the greatest opportunity for efficiencies and market competitiveness.

3. Recipient satisfaction is an important motivator for the movement to real-time payments. All businesses should consider how payments impact business relationships and the opportunity cost of not meeting recipient needs, including the potential for lost customers, employee attrition and weakened business partnerships.

4. The use cases for real-time payments are expanding. Businesses and the providers that serve them should look at their clients and identify the most important needs and opportunities to shift to real time. This includes payments made to individual consumers, whose expectations are the greatest for real-time funds availability.

5. Understanding objections that are more perception than reality is important to overcome. Examples include the perception that faster payments require more manual processing or are too slow. These objections are hindering some businesses from effectively modernizing their payment strategies.

6. Financial institutions are helping businesses overcome these challenges by enabling direct account-to-account cross-border payment solutions that eliminate the need for multiple correspondent banks and unclear fees and settlement times.

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