

FIS

# FLAVORS OF ***FAST***

Country Reports  
**United States**





# Introduction

The fifth edition of global fintech leader FIS' faster payments<sup>1</sup> industry report, *Flavors of Fast*, demonstrates how quickly the global payments ecosystem is evolving. When *Flavors of Fast* was first published in 2014, there were 14 live faster payment schemes in the entire world. In 2018, that number has nearly tripled. There are now 40 live faster payment schemes, five real-time schemes actively preparing for launch, and 16 more "on the radar."

Adoption of faster payments remains strong, particularly in regions that have encouraged innovation and invited third parties to use the real-time rails (the network or central infrastructure that facilitates the movement of funds) to deliver a frictionless user experience. Despite that more than half of India's population remains offline, its real-time scheme now processes nearly three million faster payments transactions each day, up from two million a day in 2017.

China now processes more than 25 million faster payments transactions a day, more than double its 2017 transaction volume. Economically significant regions like the United States (US) and Australia recently launched their first real-time schemes, and since its November 2017 launch, banks in more than 15 European countries, including Germany and the United Kingdom (UK), have gone live with the SEPA Instant Credit Transfer (SCT Inst) scheme.

Meanwhile, Hong Kong prepares to launch its faster payment rail in fall 2018, as the UK reconsiders the future of its modernized payments system and explores new frontiers of open banking.

Despite that processing speed is an inherently critical component of a real-time scheme, it's not the end game. "The proliferation of the number of schemes and adoption points to the fact that global faster payments rails are no longer an outlier, but the faster payment rail on its own is not transformative. The real value we're seeing is in the overlay services that use the rail to bring additional value for end users, banks and other parties attached to the scheme," explains Andrew Hewitt, FIS Director Payment & Data Solutions.

As regions continue to invite and encourage innovation on their real-time rails (including from providers who aren't traditionally involved in financial services) we predict that 2018 marks the start of a pivotal shift in how, why and for whom real-time rails will deliver contextual relevance, frictionless experiences and value.

In this report, we examine what the future of fast may look like in the US, following the launch of the Real-Time Payments (RTP) scheme in November 2017, and as it works toward the goal of building a ubiquitous real-time network by 2020.

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<sup>1</sup> Flavors of Fast Definition of a Faster Payment: Inter-bank fully electronic payment systems in which irrevocable funds are transferred from one bank account to another, and where confirmation back to the originator and receiver of the payment is available in one minute or less.



# Scheme Overview

In November 2017, the US joined the growing global immediate payment ecosystem with the launch of RTP, operated by The Clearing House (TCH). Available to all US financial institutions, the service is built to support digital commerce and is intended to become a platform for innovation. Features include payment confirmation and the request for payment messaging that enables pull payments to deliver bills and invoices through digital channels. There are also plans to upgrade to the use of ISO 20022 messaging to ease interoperability and offer the possibility to add more useful reconciliation data to payments.

The Federal Reserve has not mandated the provision of immediate payments in the US and maintains its intention of acting only as a facilitator (not a network operator), to ensure the criteria outlined are maintained for the safety and security of the wider financial ecosystem. Consequently, the US payments landscape will change and evolve over the coming years as significant players join forces, but whether the different faster payment schemes under evaluation by the Federal Reserve are complementary or conflicting remains unclear.

\* The Faster Payment Innovation Index (FPPI) is FIS' five-point comparative rating system to compare and contrast diverse payment schemes. The higher the FPPI score, the stronger the possibilities for innovation.



FPII Rank

/5



## Fast Facts

- RTP launched in November 2017
- Achieved a “4” rating on FIS’ Faster Payment Innovation Index (FPPI)\*
- Operated by The Clearing House (TCH)
- Real-time, immediate and continuous settlement 24/7
- No data available on volumes and value transacted per day
- Supports consumer, retail, business and government payment capabilities



# Closer Perspective

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The Federal Reserve's Faster Payments Task Force has publicly stated its goal for the US to offer secure, ubiquitous faster payments by 2020. As of May 2018, eight major banks were live on the RTP system and TCH has announced that RTP is on track to reach more than 50 percent of banks and credit unions by the end of 2018. A quick adoption rate will accelerate the benefits of RTP to consumers and businesses and will help financial institutions and technology providers to start earning a return on their investments, bringing benefits to the economy as a whole.

The initial RTP services center around immediate funds transfer, but RTP's ability to deliver bills and invoices through its request for payment message and data-carrying capabilities can be leveraged by value-added networks to enhance their own services. Consequently, TCH is actively working with network operators to integrate RTP directly into their offerings.

**The move to real-time payments comes at the same time an increasing number of US banks are investing in digital and migrating toward more open platforms with access through application programming interfaces (API).**





## Access All Areas

New use cases and innovative value-added services are the driving force to expedited faster payments adoption around the globe. While the RTP system was designed to be fully functional without formal overlay services, it can serve as a solid foundation for them. Capabilities like Request for Payment (RFP) can deliver bills or invoices without requiring that the sender or receiver subscribe to the same overlay, and comprehensive services like person-to-person (P2P) or business-to-business (B2B) networks can use RTP's message set to support a distinct end-to-end value proposition.

If the US' adoption rates of Zelle – an in-app, P2P payments system created by US banks – are an indication of the future of fast, RTP could overcome some of the adoption hurdles that tend to hinder uptake of faster payments in regions where it is not mandated. Early Warning Services (EWS), the Zelle operator, reported that 29 banks are connected to the Zelle Network, with an additional 119 more financial institutions reportedly under contract, less than one year after its launch.

In Q2 2018 alone, EWS reported that 100 million Zelle transactions were processed. While an EWS survey of Zelle users indicate that younger consumers are heavier P2P users (49 percent of millennials and 42 percent of Generation X used the Zelle service at least once a week, compared to 32 percent of baby boomers), its affiliation with financial institutions – and the perception of added security that provides – appears to be a driver of adoption.

Non-bank payment service providers (PSP), often specializing in a single application or market segment, also play an important role in the US payments market. These include firmly established e-commerce giants as well as small fintech startups. For some (such as PayPal and Square), the core business is payments. For others (such as Apple, Google, Samsung, Amazon, and Facebook), payment services complement core product lines. Currently, many of these services rely on banks for access to established payment networks, like the ACH, Visa and MasterCard. As RTP becomes more established, we expect more apps and non-bank services will leverage RTP to initiate, clear and settle payments, instantly.

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## Real-time Corporate

RTP provides a platform for innovative customer propositions, especially for corporate payments where RTP solves many core corporate treasurer pain points, most notably in cash and liquidity management. In addition, the transition toward real-time payment systems (to match the real-time nature of many existing business and corporate non-financial systems) will be a key enabler in the development of new customer services and business opportunities.

**In the next five years, the most successful banks will be those that have recognized the strategic opportunities RTP presents, to get ahead of the competition and be equipped to offer services for all customer segments.**

## The Road Ahead

As consumers in the US become more comfortable with the idea of faster payments through P2P payment services that use a phone number or email address to transfer funds, these directories support a common user-friendly experience for underlying payment systems. At the same time, RTP payments that are initiated via APIs and provided to end users by their banks help drive usage, and may equip commercial users to integrate faster payments into their business processes.

The rapid adoption of RTP capabilities, coupled with the forward-looking product enhancement plans based on APIs, open banking, and artificial intelligence-based product development, demands that banks invest in the modernization that equips them to swiftly deliver on changing market demands. These capabilities will be essential once open banking becomes the dominant operating model for financial services.

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