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# Accelerating adoption of instant payments for US regional financial institutions

# Summary

- Most financial institutions have adopted or are considering adoption of instant payments, given the lack of instant payments offerings is expected to result in loss of customers and market share.
- While The Clearing House (TCH) RTP® reaches 65% of demand deposit accounts (DDAs)[1] and FedNow® aims to connect with more than 10,000 financial institutions[2] through FEDLINK, only 18%–20%[3] of the US regional financial institutions are either TCH RTP® network participants or part of the FedNow® pilot program.
- Despite the evident customer demand, US regional financial institutions are hesitant in adopting instant payments, due to challenges on three fronts: prioritization of relevant use cases, technology and operations modernization requirements, and effective mitigation of fraud risk.
- The challenges can be addressed with a phased approach for instant payments adoption instead of a systemwide transformation: The implementation can initially focus on table stakes use cases, technology enhancements can be gradual, and fraud strategy can evolve over time.
- Additionally, the adoption of instant payments will help with related initiatives, such as the wider adoption of ISO 20022 messaging standard.

*This article emphasizes the need for US regional financial institutions to accelerate their adoption of instant payments, outlines the major operational and technology considerations and evolving fraud management strategy, and provides a road map for implementation of instant payments.*

# When should US regional financial institutions adopt instant payments?

## There's no time like the present

Today's customers expect convenient and fast banking services. This includes the ability to make instant payments. Among the retail segment, approximately 70% of customers consider faster or instant payments as an important satisfaction driver.[4] On the commercial side, 69% of large businesses are currently adding or planning to add instant payment capabilities in the next 12 months.[5]

While major financial institutions have already embraced instant payments as a standard offering, US regional financial institutions must adapt to the changing financial landscape. We anticipate that instant payment offerings will be table stakes in the next 12–18 months, for which financial institutions need to adopt enabling technologies and optimize operations. Delays and failure to offer instant payments will likely result in losing customers to fintech platforms and competitor financial institutions that offer these services, which could lead to a decline in market share.

## Regional financial institutions are hesitating to adopt instant payments

At present, approximately 18%–20%[6] of US regional financial institutions are TCH RTP® network participants or part of the FedNow® pilot program. As instant payments become more prevalent, large US financial institutions are facing challenges as early adopters. These challenges include upgrading legacy systems, investing in new technologies, and combating fraud attacks. However, being pioneers in this space may yield advantages, allowing them to gain a competitive edge by offering instant payment capabilities to customers ahead of other financial institutions. This strategic move has the potential to attract more customers, drive increased transaction volumes, and open additional revenue opportunities.

Although customer demand is increasing, there are a few recurring themes around why US regional financial institutions have not been quick to adopt instant payments. First, there is a lack of clarity regarding which use cases to prioritize.

This ambiguity translates into a limited understanding of potential impacts and opportunity sizes associated with these use cases, making it challenging to develop a compelling business case. Second, many financial institutions believe that a substantial investment is required to modernize their legacy infrastructure to accommodate the necessary technological and operational enhancements for instant payments. Third, financial institutions face uncertainty in how to address the anticipated surge in fraud rates, such as account takeover frauds (ATO) and authorized push payment frauds (APP), arising from the immediate settlement and irrevocable nature of instant payments. These challenges can be addressed in a phased manner by initially focusing on table stakes use cases, starting with gradual technology enhancements, and evolving the fraud strategy over time.

## Three primary considerations to take

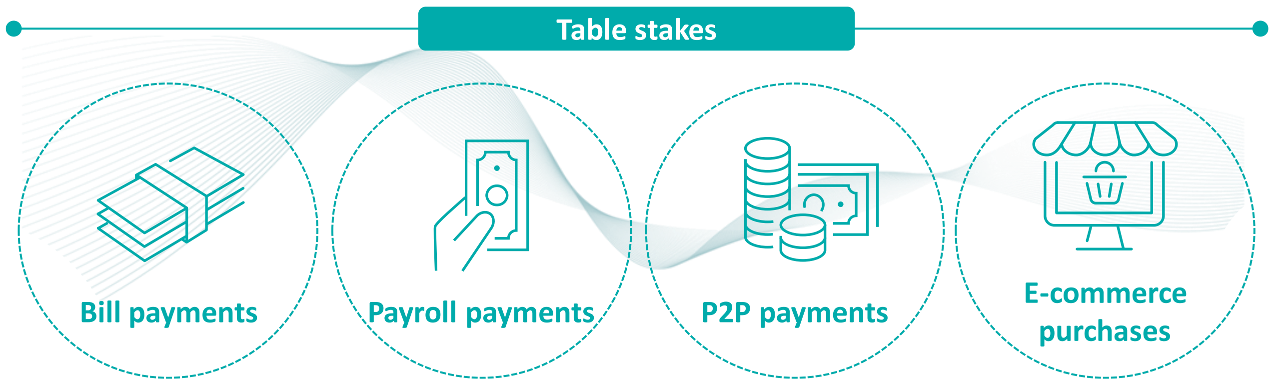
To get started on their journey, here are the primary aspects that regional financial institutions need to consider:

1. Identify business value: Which use cases should be rolled out in the short, medium, and long term? Why should they adopt both the networks (FedNow® and TCH RTP®)?
2. Determine operations and technology changes: How should they think about operations and technology requirements for instant payment adoption?
3. Address instant fraud associated with instant payments: How should they combat the expected rise in fraud rates due to instant payment adoption?

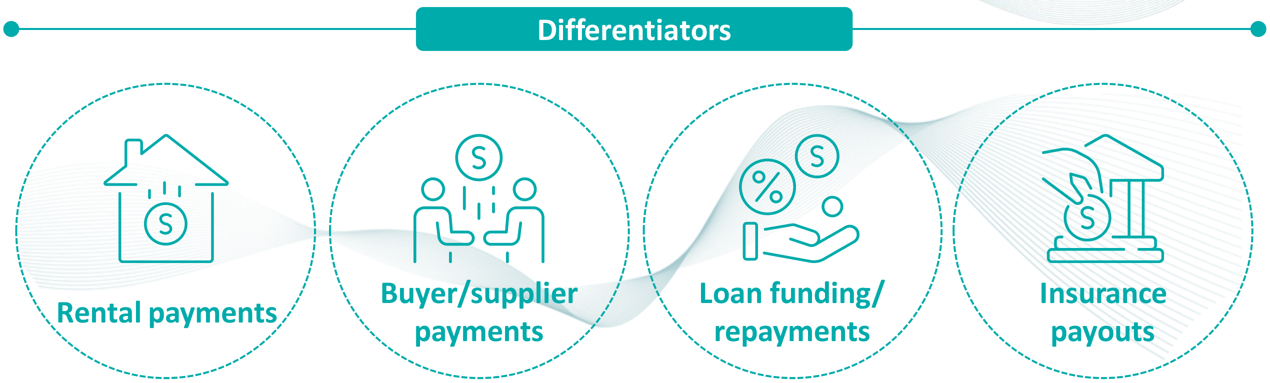
# Where is the highest value for business?

## There are use cases, and there are *useful cases*

By 2027, 12%–26% of total digital transaction volumes for regional financial institutions are expected to be on the instant payment rails.[7] This growth in instant payments will be driven primarily by financial institutions offering compelling use cases that will encourage adoption among customers of varying sizes. These foundational use cases are expected to be table stakes in the next couple of years. For example, instant bill payments not only save customers time but also minimize instances of late payment, thereby creating savings from associated fees. For instance, Comerica Bank[8] has introduced instant payment solutions for various use cases such as bill payments, person-to-person (P2P) payments, etc.




Certain use cases can offer a competitive advantage to financial institutions and the ability to attract new customers. As fewer financial institutions are expected to adopt these use cases in the next 12 months, potentially due to technology and/or operations requirements, they can be used to provide increased value to customers. For example, Wells Fargo[9] has launched use cases around insurance payouts to facilitate faster disbursement of funds for financial assistance during emergencies, such as car accidents, enabling prompt repairs and covering associated expenses.




In the short term, financial institutions can prioritize implementing use cases that are considered table stakes. Failure to do so may result in losing a competitive advantage to competitors who offer these features. Once these table stakes use cases have been successfully implemented, the focus can shift toward implementing the differentiator use cases to stay ahead in the market and attract new customers. These distinctive use cases can be rolled out in phases, and continuous analysis of customer demand and market adoption rates should inform the future implementation of additional use cases.

## Rails can help improve customer satisfaction

Customers seek a seamless, convenient, and comprehensive payments experience from their financial institutions. For example, 70% of businesses prioritize offering multiple payment systems for customers.[10] To meet these evolving expectations, financial institutions must develop intelligent routing systems[11] that can derive an optimal set of payment methods to be used based on one-time time and cost requirements for a given set of payment instructions from the customer.

Initially, financial institutions can implement TCH RTP® or FedNow® based on their existing infrastructure, capabilities, and network requirements. However, integrating with both rails will enable financial institutions to offer diverse payment options. This will likely result in increased customer satisfaction and faster growth for financial institutions.

# How should a regional financial institution think about the technology and operations requirements?

Financial institutions need to prioritize enhancements to areas with a significant impact due to instant payments adoption, including liquidity management, channel management, reconciliation, and exception resolution. When it comes to implementing these enhancements, financial institutions have two options:

- Option 1: Integrate through solutions provided by third-party service providers (TPSPs)
- Option 2: Modernize the existing payment stack

Due to cost and time considerations, many financial institutions may choose to opt for TPSPs to expedite the implementation process. However, opting to modernize the existing payment stack provides financial institutions with greater control and flexibility to customize payment processes according to their capabilities and business needs. In parallel, financial institutions should start working on upgrades to operational processes, such as educating customer support teams on potential issues related to instant payment transactions and redesigning exception handling workflows to accommodate instant payment timelines.

| | Option 1<br>**Integrate with TPSP** | Option 2<br>**Modernize existing payment stack** |
|---|---|---|
| **Considerations** | • Faster and less expensive in short term<br>• Limited in-house resource requirement for development and maintenance<br>• Out-of-the-box (OOTB) support for features such as compliance management and integrations for fraud management tools<br>• Limited customization options<br>• Increased dependence on third-party vendors for updates/enhancements | • Increased upfront investment requirement<br>• Resource requirement for development and maintenance scaled up based on scope<br>• Enhanced flexibility and fine control over technology and processes<br>• Customizable user experience based on customer demand<br>• Control over development of features, updates and security according to business priorities |
| **Suitable for** | ***Faster time-to-market and OOTB features*** | ***Granular control and customization*** |

The adoption of ISO 20022 has been gaining popularity in the financial industry due to benefits such as improved straight-through processing (STP) rates and potential to add transaction-related data (such as invoices) to payment messages. Hence, ISO 20022 adoption can be part of a wider initiative to modernize the financial institution's overall messaging infrastructure. According to a survey,[12] only 56% of financial institutions in the United States will be ready by November 2025 to adopt ISO 20022.

Some of the high-impact capabilities and associated changes that are typically required for instant payment adoption include the following:

1

**Liquidity management**
- Use existing Fedwire® systems to monitor balance of master account held with the Fed
- For TCH RTP®, maintain surplus prefunded balance or partner with FIs to meet after-hours liquidity needs with liquidity transfers
- Develop automated systems to trigger supplemental funding and disbursements

2

**Reconciliation**
- Upgrade existing tools and systems to support reconciliation that accommodates various cutovers and reconciliation windows
- Use enhancements to existing Fedwire® reports and any additional reports for FedNow® for reconciliation
- Add support for multiple reconciliation windows based on system notification messages

3

**Channel management**
- Update existing channels across customer segments to support instant payment capabilities as they are launched
- Enhance customer-facing interfaces to enable send/receive RfP capabilities
- Enhance platforms to support additional use cases

## Liquidity management

To facilitate the processing of transactions through TCH RTP®, financial institutions are required to ensure a consistently sufficient prefunded balance is maintained. This would involve automating the process of injecting additional liquidity using system notification messages (SNMs) from the network. The financial institutions can also enter agreements with other financial institutions to receive additional liquidity outside Fedwire operating hours if required. Once the basic processes are in place, it will enable the relatively larger regional financial institutions to play the role of a funding agent (providing and managing liquidity for smaller financial institutions and fintechs), thus creating an additional revenue stream. Conversely, FedNow® does not have a prefunded balance requirement. Transactions are settled in the participant's master account. However, the option of developing correspondent relationships provides a potential revenue stream.[13]

## Reconciliation

Financial institutions will need to develop the tools to reconcile the transactions on internal systems of record (SORs) with those in the network reports. These tools can leverage existing reconciliation solutions used by the financial institution for other payment methods, such as ACH or cards. It is crucial that these tools are automated and adaptable, allowing for continuous reconciliation processes that operate 24/7, including weekends and holidays, while accommodating various cutover times.

## Channel management

In addition to updating the customer-facing interfaces to include instant payments as an option, the financial institutions will also need to educate their customers on the new features. It is essential to communicate key aspects, such as the immediate settlement and irrevocable nature of instant payment transactions, and design channels and the overall customer experience in a manner that familiarizes first-time users with these intricacies. By doing so, financial institutions can promote proper adoption, enhance customer experiences, and minimize customer complaints.

# How should regional financial institutions go about implementing a fraud management strategy?

## Fraud management strategy

Instant payment transactions are witnessing an increasing rate of fraud, given the irrevocability and immediate settlement of such transactions.[14] Looking at the trends in other geographies such as the United Kingdom, regulators may propose to increase the responsibility of financial institutions in cases of fraud.[15] Hence, updating the fraud management strategy, tools, and processes should be a priority for financial institutions.

Both TCH RTP® and FedNow® recommend a set of baseline fraud management capabilities. However, the stakes are too high for financial institutions to sit still after implementing these baseline capabilities.[16] Fraud is continuously evolving, and so should the fraud management strategy. Regional financial institutions should take incremental steps toward developing increasingly aspirational capabilities, such as developing risk-based segmentation and a 360-degree customer view using fraud vectors (e.g., location, time stamps, transaction frequencies) consolidated across the customer life cycle with signals sourced across systems.

Along with this, leveraged third-party tools can provide risk indicators and scores based on customers' digital identity and personally identifiable information (PII) such as name, mobile number, Social Security number, and email. This helps in identifying new, frequently used, and previously flagged customer information to flag high-risk account openings and monitor customer profiles for transaction detection and customer servicing.

Increasing customer awareness to avoid social engineering frauds also remains a crucial step for financial institutions. As an example, in 2022, imposter scams have caused $2.9 billion in losses (witnessing 47% CAGR from 2019 to 2022).[17] Such fraud cases are a manifestation of receiver's identity validation, a problem that is not completely solved by the current directory services. Investing in customer education and providing timely notifications will help reduce both instances of and losses due to similar types of fraud.

## Risk-based customer segmentation

Risk-based segmentation allows financial institutions to identify high-risk customers and implement additional security measures to mitigate fraud risks effectively. In addition, risk-based segmentation also enables phased rollouts with relatively lesser fraud risk while ironing out the initial technology and operational issues.

Ideally, low-risk customers will include retail customers who have their primary account with the financial institution with a history of at least 12–18 months, have good credit scores, and are relatively younger (given their proclivity to use digital channels).[18] Similarly, for the commercial segment, low-risk customers can include businesses operating in industries or sectors with historically lower fraud rates witnessed by the financial institution (such as utilities)[19] and with 12–18 months of history with their financial institution.

# What would a good implementation plan look like?

While adopting instant payments, financial institutions can start with receive-only capabilities due to fewer technology and operational requirements. Pre-funded balance (for TCH RTP®) and user interface updates for instant payments are required when both send and receive capabilities are enabled. Relatively fewer regional financial institutions have enabled the send-credit-transfer capability till now. Similarly, Request-for-payment capabilities are enabled by only a few larger financial institutions at this point. However, these numbers are expected to grow as more TPSPs[20] start offering both send and receive capabilities.

Regional financial institutions should plan the instant payments rollout in multiple waves. Initially, a trial run can be opened to a small subset of low-risk customers, and subsequently, the instant payments capabilities can be launched for the complete set of low-risk customers. Similarly, financial institutions should focus on low-risk transactions (such as P2P payments or payroll payments) in the initial phases.

Once the initial issues are identified and addressed, subsequent rollouts can target increasingly higher-risk customers. This will also enable financial institutions to fine-tune their fraud prevention strategies, making sure that the new system is effective in preventing fraud and maintaining the integrity of the entire system.

# Ready, steady, go?

Regional financial institutions should start with table stakes use cases and monitor market trends to meet evolving customer demands in incremental rollouts. During the initial adoption, they can initially prioritize capabilities with lower technology requirements.

For faster time to market, regional financial institutions can choose to connect with TPSPs. In parallel, financial institutions should focus on upgrading high-impact capabilities such as liquidity management, channel management, and reconciliation. Developing intelligent routing systems to use the optimal payment method, including TCH RTP® and FedNow® as well as existing payment methods, will enable financial institutions to offer payments optimized to customer needs, thereby boosting satisfaction levels.

In addition, regional financial institutions can start rollouts of the instant payment offerings with low-risk customer segments and gradually expand to relatively higher-risk customers once the initial wrinkles are ironed out. To mitigate evolving fraud risks, financial institutions should start with bolstering baseline capabilities required by the networks and gradually move toward developing a comprehensive 360-degree customer view using fraud vectors sourced across the customer life cycle.

While implementing such a complex effort is challenging, regional financial institutions will have to undertake the instant payments adoption to stay relevant among the competition. The time is now!

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# Endnotes


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