

## Executive summary

The business press is full of articles documenting how companies in the United States are experiencing enormous change in the way they operate, increasingly moving from brick-and-mortar transactions to e-commerce. Moreover, the pace of this transformation accelerated markedly over the last year. A McKinsey study, for example, suggests that roughly five years of digital technology adoption took place in less than a single year as businesses retooled to respond to the COVID-19 pandemic of 2020.<sup>1</sup> And with this transformation has come an evolution in payment services to help meet the challenges of fully digital and instantaneous commerce.

In the second half of 2020, the Federal Reserve Banks commissioned a survey of businesses' interest in and readiness for a class of new services called "faster payments."<sup>2</sup> The survey involved a stratified random sample of more than 2,000 businesses ranging in size from less than \$1 million in annual revenue to more than \$250 million. The results find that many businesses are already using some form of faster payment, and most expect to be able to use faster payment options for a variety of critical use cases within the next three years.

Key findings include:

- Driven in part by the impact of COVID-19 on commerce, a substantial majority of surveyed businesses consider it important to use faster payments. And despite being relatively satisfied with existing payment arrangements, nearly two-thirds indicated they would factor access to faster payments into future decisions on whether to switch banks.
- Businesses want to use faster payments for quicker access to funds and the ability to post immediately/automatically; they also want immediate notification of payment and remittance details with the payment.
- Nine in 10 businesses expect to be able to initiate and receive faster payments by 2023; many are ready to do so now.
- A majority of the businesses surveyed have already sent and received some type of faster payment in the past 12 months, using primarily digital wallets, Same Day ACH and push-to-card, a type of faster payment that credits the payee's debit card account as described in the sidebar.
- Use cases of greatest interest to businesses, including e-invoicing and bill pay with remittance details, require data and messaging capabilities that instant payment options, one form of faster payments described in the sidebar, are particularly well positioned to support.

### What is a faster payment?

For this report, "faster payments" encompass electronic payment services that provide funds to the payee within seconds or up to a few hours of initiation by the payer, including:

**Instant payment services** credit the payee's deposit account within a matter of seconds of initiation; some instant payment services are designed to enable transmission of rich data, such as extended remittance details, with the payment

**Same Day ACH** credits the payee's deposit account by end of day if payment is initiated by the midday cutoff

**Push-to-card** credits the payee's debit card account within minutes of payment initiation

**Digital wallet apps** credit the payee's digital wallet within minutes of payment initiation, but funds must be transferred to a bank account for use outside the app's network

<sup>1</sup> McKinsey, "How COVID-19 has pushed companies over the technology tipping point-and transformed business forever," October 2020. This survey of executives found that "... companies have accelerated the digitization of their customer and supply-chain interactions and of their internal operations by three to four years. And the share of digital or digitally enabled products in their portfolios has accelerated by a shocking seven years."

<sup>2</sup> In this article, the term "faster payments" will be used inclusively to cover all the various services noted in the sidebar; the specific types listed, such as "instant payments," will be used to refer to that payment type specifically.

## About the survey

The primary objectives of this survey were to assess businesses' current payment practices, pain points, awareness of the potential benefits of faster payments and readiness for integrating faster payments into their operations. Through an online questionnaire fielded in late 2020, senior decision makers involved in their organizations' financial operations (e.g., chief financial officers, treasurers, accounts receivable/accounts payable administrators) provided information on their business priorities (particularly with respect to payments), their familiarity with and usage of different types of faster payments, and their views on the benefits they expect from using faster payments. They also identified factors affecting their willingness to adopt faster payments and their anticipated timeline if they plan to adopt.

A total of 2,010 surveys were completed, covering a mix of segments stratified by revenue size and industry, as shown in tables 1 and 2.<sup>3</sup>

TABLE 1: Business size (annual revenue)	Count
Micro (<\$1M)	477
Small (\$1M-\$10M)	450
Medium (\$10M-\$100M)	453
Large (\$100M-\$250M)	192
Very large (>\$250M)	438

TABLE 2: Industry category	Count
Retail	367
Wholesale	96
Manufacturing	356
Services <sup>4</sup>	878
All other <sup>5</sup>	313

Manufacturers were concentrated in the large and very large segments while financial and business services were more prevalent in the medium and small segments. Construction/trades, real estate and nonprofits were more heavily concentrated in the micro and small segments. Retail stores and professional services were more evenly split across size categories, although retailers were less concentrated in the medium segment.

TABLE 3: Industry composition by size category	Micro	Small	Medium	Large	Very large	Total
Retail store/specialty retail	22%	19%	12%	23%	20%	19%
Wholesale	4%	5%	6%	4%	4%	5%
Manufacturing	5%	13%	21%	26%	31%	18%
Services	46%	45%	51%	42%	40%	
• Professional services	16%	16%	17%	15%	13%	15%
• Business services	6%	7%	11%	7%	8%	8%
• Financial services	2%	8%	12%	10%	11%	8%
• Health/social services	11%	6%	8%	6%	6%	8%
• Real estate services	11%	8%	3%	4%	2%	6%
Other	21%	17%	10%	5%	5%	
• Construction/special trade	16%	13%	9%	4%	5%	10%
• Nonprofit/religion/charity	5%	4%	1%	1%	0%	2%
Grand total	100%	100%	100%	100%	100%	100%

<sup>3</sup> The online survey was conducted by Escalent (an independent market research company) with the panel-based sample provided by Dynata and Schlesinger Group. The sample was stratified by revenue size and industry sector, covering a broad mix of businesses, including health care, real estate, professional services, construction, advertising, communications, nonprofit and government. The sample of 2,010 allows for a sampling margin of error of +/- 4% at a 95% confidence level.

<sup>4</sup> Includes health/social, real estate, business, professional and financial services.

<sup>5</sup> Includes construction/special trade, nonprofit/religion/charity, advertising/communications and government entities.

## Businesses want faster, better payment options

The COVID-19 pandemic had a significant impact on the financial operations of the businesses we surveyed. Nearly 75% of the micro businesses and 60% or more of all the other businesses cited managing cash flow and working capital as among their top concerns about the business climate they face. Coming out of the pandemic, many are focused on offering additional digital/online payment options, ensuring payment timeliness, and growing sales and revenue.

To help achieve these objectives, businesses are looking strategically at payments, with three in four considering it important that their banks offer them a faster payment service. As one large retailer put it, "It is becoming an instant world as far as payment systems are concerned and not having [access to faster payments] would put us at a competitive disadvantage."

Consistent with the importance they place on faster payments, more than half of medium-size and larger businesses and one in three micro and small businesses indicate they are accelerating plans to move forward with adoption. Given the desire that financial institutions stay current with businesses' changing needs, nearly two-thirds of all the businesses we surveyed – and upward of 75% of medium-size and larger businesses – indicated that availability of faster payments would be a consideration when deciding whether or not to change their banking relationships in the future. In practice, businesses do not change banking relationships often. Within the survey group, 40% had changed banks within the prior five years; of those, more than 80% said they would consider changing again for access to improved payment services, a clear indication of the importance of financial institutions' payment services continuing to evolve with changing customer needs.

Given these priorities, businesses consider certain features and capabilities to be particularly important when thinking about faster payment options, as chart 1 shows. These features can be categorized in terms of the business objectives they support, including cash flow management, payment operations efficiency, ease of access and security.

With respect to **cash flow management**, regardless of size, businesses want immediate access to funds. More than 90% consider this very important or somewhat important. For more than half, this means having access to funds within three hours of payment initiation. And 16% indicate they would be willing to pay a modest price premium for access to available funds within 10 seconds of initiation. In contrast, 37% consider same-day access sufficient and only 8% consider next-day acceptable, even with a discounted fee. In general, micro businesses are more likely to consider same-day and next-day payments acceptable.

Businesses also want **notifications**: as payers, when the payment has been received, and as payees, when the funds are available. Nearly 90% of all the businesses we surveyed consider notifications important, and more than half of the medium-size to very large businesses consider notifications very important. One survey participant emphasized the need for immediate status notifications this way: "We have an online B2B wholesale trade business and ship all over the USA and Canada. With the varying time zones, we want to be able to see confirmed payments ASAP so we can allocate the inventory for that given client."

### PROFILE: Typical large/very large durable goods manufacturer<sup>6</sup>

- \$2.2 billion annual revenue
- 2,400 employees
- 5,500 outgoing and incoming payments/month
- Important features: rich remittance details, e-invoicing and immediate funds availability
- Key use cases: major supplier payments and payroll
- Timeline for adoption: 2022-23
- Motivators: "We want to improve financial efficiency and accelerate liquidity."
- Key concerns:
  - "Trying to integrate multiple sources into our system."
  - "Ensuring companies take our preferred form of payment."

<sup>6</sup> The profiles provided in this report help illustrate how different types and sizes of firms might think about payments. For each profile, average values for the specific segment's quantifiable characteristics are used, and the more frequently cited features and use cases are presented, along with a few verbatim comments from members of the profiled group, where available.

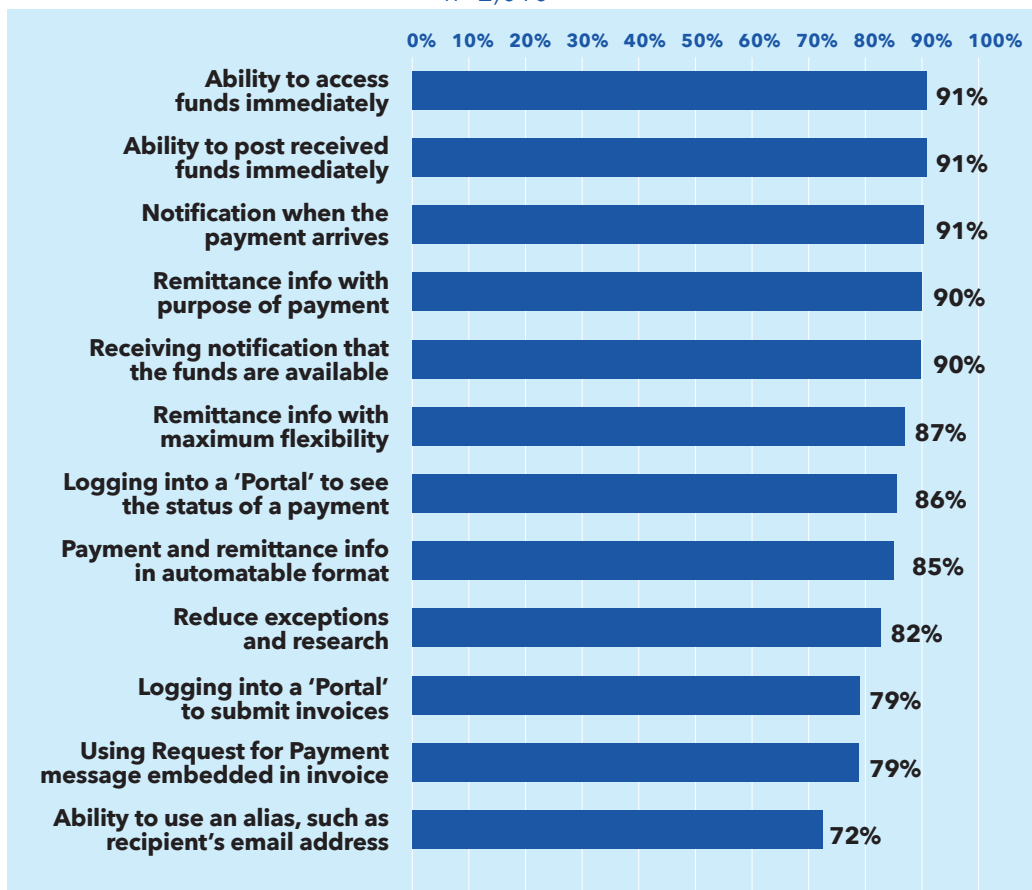
In terms of **payment operations efficiency**, businesses want to be able to leverage faster payments to improve automation of invoicing and remittance processing, which has the potential to greatly reduce payment errors and exceptions.<sup>7</sup> As such, a substantial majority of the survey participants rated the following data and messaging capabilities as important (see chart 1):

- Remittance information with the payment, including the purpose of payment, and maximum flexibility in terms of the additional information they can include
- Information to post and reconcile the incoming payments immediately
- Payment and remittance information in an automatable format
- Request for Payment (RFP) messages they can embed in an invoice
- Data and tools to reduce exceptions and simplify research

Not surprisingly, more than 90% of medium-size and larger firms rated these capabilities as important. In addition, at least 75% of small businesses and 60% of micro businesses rated each of the above capabilities as important. For some of these capabilities, smaller businesses were as nearly unanimous as their larger counterparts in rating them important. As an example of the importance businesses place on speedy posting and reconciliation, a participant from a small retail firm stated, “To have funds in real time allows for more accurate numbers and reporting in real time. In 2021, this should be normal. We shouldn’t be reporting outdated numbers while funds wait to clear.”

**CHART 1: Faster payment features businesses rate as important**  
(percentage of businesses)

n=2,010



<sup>7</sup> Automating invoicing, payments and remittance processing is a key objective of the [Business Payments Coalition](#), “a volunteer group of organizations and individuals working together ... to make B2B electronic payments more efficient across the end-to-end process, that is, to achieve straight-through-processing across both the procure-to-pay and order-to-cash cycles.” For more information on the role an instant payment service can play in this effort, see also [“ISO 20022: the standard at the heart of payment system modernization.”](#)

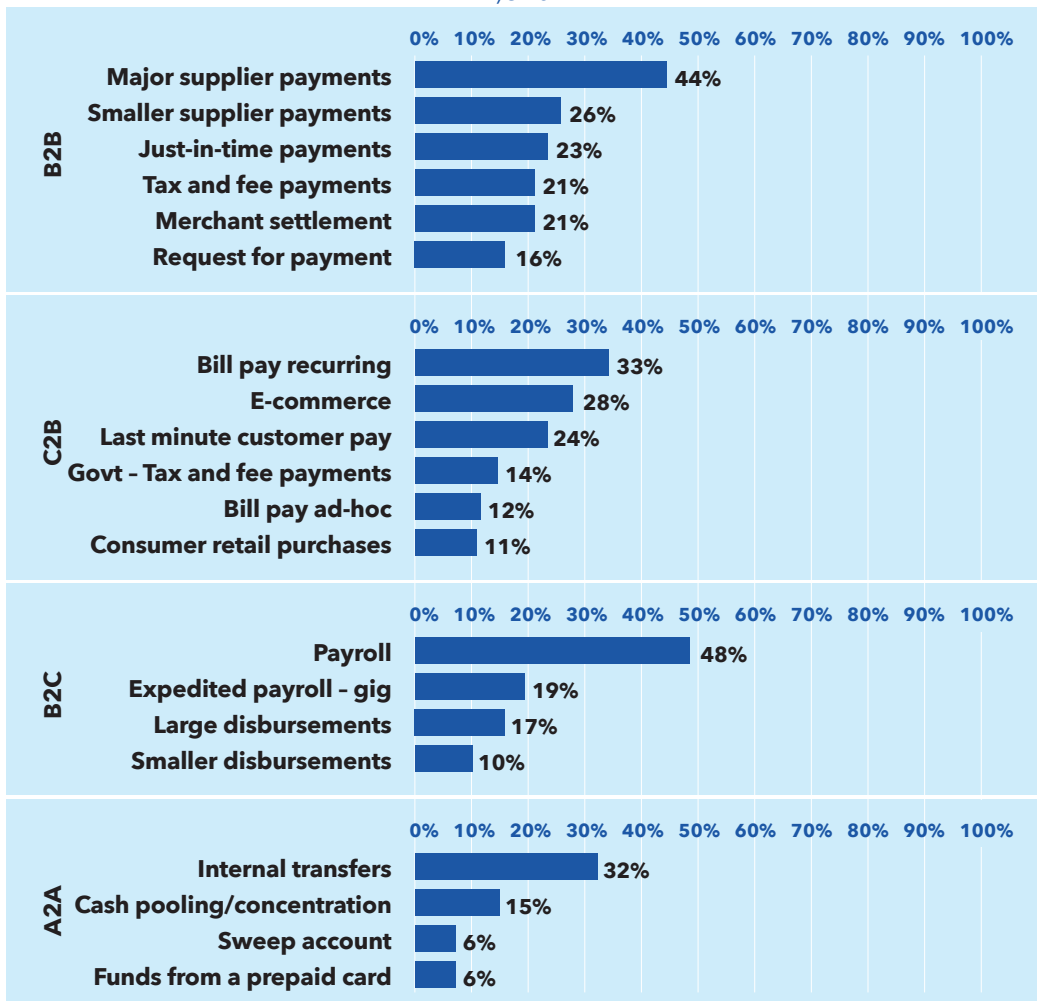
Businesses also want **ease of access**. More than 85% want a portal where they can log in to view the status of a payment, and nearly 80% want to be able to use the portal to submit invoices and request payments. In general, the larger the business, the more likely the survey participant was to rate these capabilities as important.

From a **security standpoint**, more than 90% of the surveyed businesses consider it important to have a built-in tool that enables users to validate the identity of payers and payees as a means of fraud prevention, with three-quarters of very large businesses and nearly two-thirds of other businesses rating it very important. They also want to be able to use an alias in lieu of bank account information, with nearly three-quarters rating this as important.

## Businesses expect faster payments to support key use cases

When asked to choose their top five payment scenarios, or use cases, for faster payments, the businesses we surveyed indicated a particular interest in use cases that could directly benefit from the desired capabilities noted in chart 1.<sup>8</sup> Indeed, the most frequently cited use cases appear to be closely aligned with the **cash flow management** benefits of speed and finality along with the **operational efficiency** benefits made possible by instant payments' data and messaging capabilities. It is also noteworthy that businesses of all size categories highlighted essentially the same use cases.

**CHART 2: Top uses for faster payments**  
(percentage of businesses)  
n=1,520



### PROFILE: Typical midsize regional health services provider

- \$40 million annual revenue
- 860 employees
- 3,575 outgoing and incoming payments per month
- Important features: ability to automate remittances and reconciliation
- Key use cases: major supplier payments, large disbursements and payroll
- Timeline for adoption: 2023-24
- Motivators: "Enhanced ability to track invalid payments and other potential efficiencies and cost savings"
- Key concerns:
  - "The potential for payment fraud"
  - "Faster payments don't help if they're difficult to use"

8 A total of 1,520 businesses provided responses regarding their use case preferences (chart 2).

As shown in chart 2, these use cases, categorized by type, are:

- **Business-to-business (B2B) supplier payments and just-in-time payments:** These use cases rose to the top in the B2B category at least in part because businesses want to automate accounting and reconciliation processes. While doing so is often a complicated endeavor, the back-and-forth flow of automatable RFP messages, invoice details, payments and remittance details that instant payments can provide will be a useful tool. In addition, just-in-time payments take advantage of faster payments' speed, while the ability to include extended remittance information helps reduce errors in posting.
- **Consumer-to-business (C2B) recurring bill pay, e-commerce and last-minute customer payments:** Clearly, the speed and finality of faster payments are attractive when businesses and their customers are concerned about payment timeliness and reducing the incidence of returned payments due to insufficient funds. In the case of bill pay, instant payments in particular may be attractive for the ability to send an RFP and enable customers to initiate a faster payment with remittance details included.
- **Business-to-consumer (B2C) payroll and expedited payroll:** In these use cases, faster payments' ability to help businesses manage cash flow and working capital is attractive, given that they enable businesses to wait until payday to release funds. There is also evidence to suggest that an increasing number of savvy employers are offering immediate payroll to help recruit and retain high-turnover staff.<sup>9</sup>
- **Account-to-account (A2A) internal transfers and cash concentration:** Here again faster payments offer cash flow advantages for near-immediate transfers among a firm's accounts, particularly in terms of helping reduce delays in third-party payment settlement.

## Current usage and satisfaction

When asked to list all the ways they had made and received payments in the prior 12 months, a large majority included at least some form of faster payment. Certain digital wallets/mobile pay apps and Same Day ACH were the most frequently cited types across a variety of B2B, C2B and B2C scenarios, followed by push-to-card and interbank A2A networks.

In general, medium-size and larger businesses are more likely than smaller businesses to have sent and received some form of faster payment over the last year. In most scenarios, however, checks were cited more frequently than any of the faster payment options, suggesting that actual usage of faster payments may not be particularly high or extensive at present.

Businesses are mixed in their level of satisfaction with the faster payment options they are using. Half or more are satisfied or very satisfied with the services they are using, citing similar reasons regardless of the specific service, including ease of use, convenience and quickness/efficiency. In contrast, dissatisfaction with current payment services is attributed to a greater variety of causes, including processing delays, difficulty of use, limited reach, security, unexpected/high costs and fees, and lack of certainty for out-of-network payments.

### PROFILE: Typical small specialty trades contractor

- \$4.3 million annual revenue
- 180 employees
- 650 outgoing and incoming payments per month
- Important features: invoice submission portal, request for payment and immediate access to funds
- Key use cases: payroll, supplier payments and internal transfers
- Timeline for adoption: 2022-23
- Motivators:
  - "Fast funds transfer is key to the tradesman business"
  - "We want to see confirmation of payments ASAP"
- Key concerns: "Cost and security"

<sup>9</sup> Forbes, "Fintech is the next frontier for HR Tech," April 22, 2021.

## Factors affecting willingness to adopt faster payments

While more than 75% of the businesses we surveyed consider it important that financial institutions offer faster payments, their size influences how they determine whether to adopt or increase use of a given option. The factors they weigh include cost, features/benefits, security and network reach (i.e., whether trading partners and customers are also using it).

For micro and small businesses, cost was the most frequently cited factor. Notably, 66% of micro businesses and nearly 60% of small businesses are unlikely to adopt if faster payments cost them more than what they currently pay in bank fees. They are also relatively satisfied with their existing payment services; 56% of micro businesses and 40% of small businesses cited this as a reason for being unlikely to consider faster payments. One participant captured these sentiments: "We would want to use it, but it would depend on the cost. If a cost is involved and there is a no-cost option that only takes one day longer ... we would choose the free version. A small transaction fee on every transaction adds up to real money over time."

Worries about convincing customers to use the service and having to share bank account information with customers and suppliers, as well as fraud risks and pandemic-related uncertainties, rounded out the list of the most frequently cited barriers to adoption.

At the same time, more than half of micro and small businesses indicated they are open to switching to faster payments if doing so will help lower costs. They also find features like instant funds availability, improved cash flow, payment finality, 24x7 service and enhanced security compelling to the extent that these benefits can be clearly demonstrated.

In contrast, while medium-size and larger businesses also cited the same factors as barriers and motivators, the emphasis they placed on them differed significantly in a number of cases. For example, lower cost was not the most frequently cited factor; fewer than 40% cited it as a motivator for adopting faster payments. And although higher cost was still the most frequently cited barrier, only 42% of larger businesses cited it. Instead, they were much more likely to cite limited network reach issues as barriers and efficiency benefits as motivators. For example, they are relatively more concerned than smaller businesses about being able to convince their suppliers to use faster payments, and they are also more concerned about the information technology resources needed to integrate faster payments into their back-office systems.

Larger businesses are likewise relatively more motivated to use faster payments for process efficiency gains, improved supplier relationships, payments flexibility, improved reconciliation processes and 24x7 service. A large wholesaler stressed the importance of supplier relationships this way: "We gross approximately \$325 million per year in ... revenue, and clearing payments as quickly as possible is imperative to our global business capability to, in turn, pay our suppliers."

Larger businesses also cite greater data access and being able to use a standardized flexible global format more frequently than their smaller counterparts. At the same time, they are like smaller businesses in that they view instant funds availability, improved cash flow, finality and enhanced security as important motivators for adoption.

### PROFILE: Average micro-size retail store

- \$250K annual revenue
- 200 employees
- 1,080 outgoing and incoming payments per month
- Important features: remittance information and immediate access to funds
- Key use cases: supplier payments, point of sale and expedited customer payments
- Timeline for adoption: 2022-23
- Motivator: "My top concern is how quick I get the money"
- Key concerns:
  - "It all depends on the cost of the service and the fees"
  - "I need an integrated solution"

## Businesses are primed to move forward on faster payments

Weighing the potential benefits and use cases for faster payments against the possible cost, security and network-reach concerns, on balance, nearly three-quarters of the surveyed businesses indicated they are likely to begin using faster payments or use them more extensively, with nearly 90% of very large businesses indicating they will do so. Fewer than 60% of micro businesses, in contrast, are likely to use faster payments in the near term.

Taking a somewhat longer view, however, nearly nine in 10 businesses, including even the smaller businesses, expect to be making and receiving faster payments by 2023. And half indicate they would need a year or less to be ready to support 24x7x365 payment operations once they decide to adopt faster payments or use them more extensively. It appears that this shift toward faster payments over the somewhat longer run may be due, at least in part, to the impact of COVID-19. In fact, nearly half of respondents indicated that the pandemic is causing them to accelerate their plans for adoption.

To get ready for adoption and more extensive use of faster payments, three-quarters of the businesses we surveyed indicated they were planning to engage in a variety of readiness activities within the next year, including:

- Engaging with providers and software vendors
- Preparing a project plan and assigning a project team
- Setting aside a dedicated budget
- Beginning customer awareness efforts and internal education and training
- Testing and implementation

While the plans and priorities of individual businesses can shift, it is significant that one-third of businesses indicated they were already engaging with vendors, preparing project plans and setting aside a project budget at the time of the survey. This suggests that the pace of adoption could accelerate in the coming years – particularly as financial institutions and other providers recognize the opportunity to leverage faster payment rails to offer their business customers value-added services.

## Conclusion and implications

Businesses are looking strategically at payments and expecting payments to do more to help them solve the challenges they face. They are particularly interested in digital payment capabilities that can modernize key use cases, including recurring bill pay, supplier payments and payroll. They want these capabilities to provide extended data with the payment so that they can automate invoicing, payments, account posting and reconciliation; reduce errors and exceptions; improve cash flow; and enhance supplier and customer relationships.

Businesses are trying out the many new faster payment options that have appeared on the scene in the last several years, focusing in particular on those they are already using in a more traditional context (e.g., Same Day ACH versus ACH and push-to-card versus traditional debit card networks). For many, these faster payment options meet their current needs. However, as businesses contemplate the use cases noted earlier, it is likely that they will find instant payment capabilities increasingly attractive.

Because the businesses we surveyed view faster payments as essential to moving to a more digitally oriented payment platform, nearly all expect to be using them within the next three years. As financial institutions and other providers turn their focus to delivering desired features, value-added services and expected benefits at an acceptable cost, the payments landscape is likely to look very different in the not-too-distant future.