

**Definitions**

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.

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, same day ACH, push-to-card, and digital wallet.**

**Digital wallet apps** fund the payee's digital wallet within minutes of payment initiation, where funds are used within the app or transferred to a bank account.

**Embedded payments** refer to the payment tools on e-commerce websites, where consumers choose their payment method and pay directly through an embedded link, providing single, one-click payment experience on apps and websites.

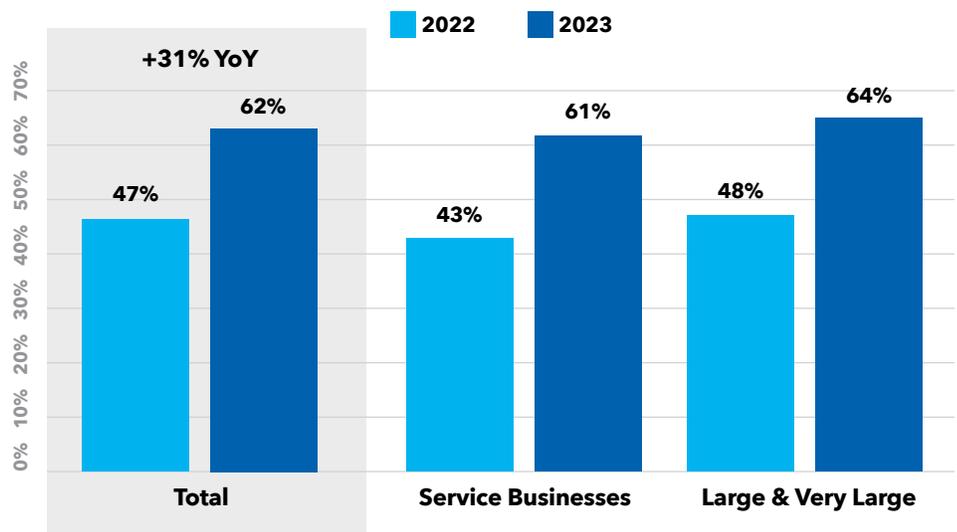
**Same-day ACH** credits the payee's deposit account by end of day if payment is initiated by the midday cutoff.

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

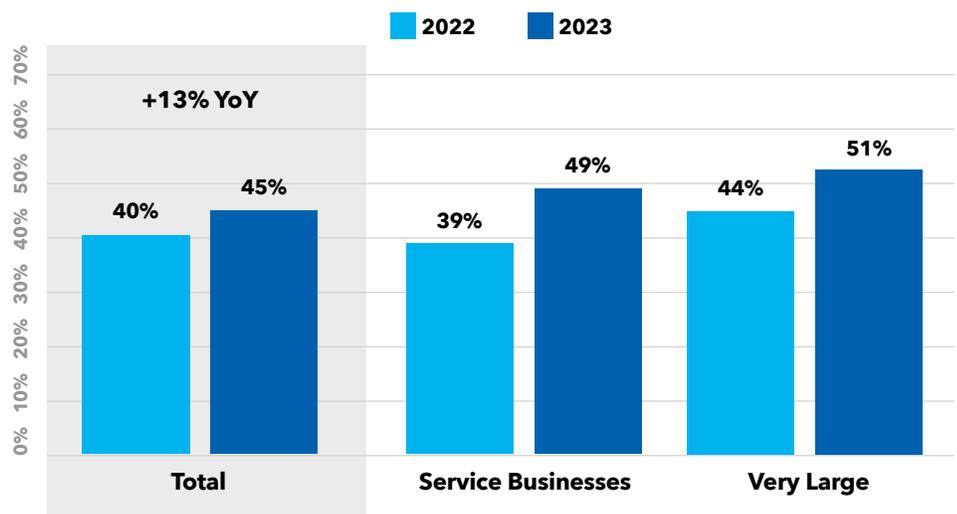
**Executive summary**

U.S. businesses are rapidly adopting digital, faster and instant payment services to improve customer experience and engagement, as well as their own efficiency, according to a recent survey by Federal Reserve Financial Services (FRFS). In 2023, use of digital wallets, many leveraging embedded payment platforms, grew 31% year over year to 62%, driven by large businesses and the service industry.

**PERCENT USED DIGITAL WALLET PAST 12 MONTHS**



**PERCENT USED SAME DAY ACH PAST 12 MONTHS**



*Please indicate all the ways your business has made or received payments using [payment method] in the past 12 months. (Select all that apply.)*

In addition to the rise in digital wallet usage, same-day ACH use grew 13% for businesses of all sizes, with very large businesses (over \$250 million in revenue) increasing their use by 17%. Other electronic payment methods such as next-day ACH and debit cards increased in usage, as well. Overall, 86% reported using one or more faster/instant payment services.

During the second half of 2023, Federal Reserve Financial Services commissioned a survey of businesses payment behaviors, pain points and use cases. The results suggest that embedded payment platforms will be instrumental in driving operational efficiency and adoption of new instant payment services.

Other key findings detailed in this report (percent of businesses using different payment methods):

### **Digital wallet use among businesses of all sizes rose, along with wire transfers, ACH and debit cards**

- Digital wallet use grew 31% (from 47% to 62%), driven by large (>\$100 million) businesses and service providers.
- Faster payment use grew 3% year over year (from 83% to 86%).
- Wire transfers, next-day ACH and debit card use grew 23%, 17% and 8%, respectively.
- Cash use decreased 6%.

### **Offering new payment options that customers expect while maintaining efficiency in payment operations is both a challenge and an opportunity**

- Managing cash flow continues to be a top strategic priority for success, indicated by 55% of businesses, just behind driving operational efficiency (59%).
- Key use cases that benefit from instant payments include business-to-business (92%), business-to-person (71%) and account-to-account (40%) transactions.
- Key pain points for business payments include high costs (44%), slow or untimely payments (35%) and lack of payment process automation (30%).
- Many businesses also believe instant payments will be useful for digital wallet funding (50%) and earned wage access (25%).

### **Digital wallet platforms and instant payments are changing the way businesses do commerce**

- Most businesses (74%) would prefer that faster payment services be provided by their primary financial institution, as opposed to a secondary financial institution or non-bank payment service provider.
- Businesses reported liking immediacy of account posting (81%), ability to access funds instantly (80%) and receiving notifications when funds are available (80%).
- Businesses are primarily using faster/instant payments because it helps them reduce cost (48%), provides flexibility to pay and be paid as customers prefer (39%) and the 24/7 aspect of instant payment services (35%).

## Continued trend toward “consumerization of business” transactions<sup>1</sup>

Use of electronic payment methods increased across the board in 2023. Digital wallets (and their underpinning payment rails) experienced significant growth, while use of cash and checks remained relatively flat. These overarching trends were concentrated among larger businesses (>\$100 million) and those identified as being part of the service industry sector (e.g., health care, real estate, hospitality). Accordingly, electronic payment rails that are relied upon to clear and settle digital wallets also experienced robust growth in 2023.

*“We need to accept more payments from digital vendors ... an increasing number of people are using these, and we need to be able to accept those to stay relevant and make it easier for our customers.”*

Digital wallets and mobile apps, used by 62% of all businesses in 2023 (up from 47% in 2022), grew at an even greater pace than ACH and debit cards, making the digital wallet category the second-most frequently used payment method overall in 2023, just behind paper checks. At the same time, given that most digital wallets and payment apps have enabled immediate fund availability to end users, there has been a concurrent increase in the use of faster and instant payments, with significant growth for same-day ACH, push to card and instant payment services.

Notably, next-day ACH use grew 17% year over year (from 41% to 48%) overall, while same-day ACH grew 12% (from 40% to 45%). These use patterns were, like digital wallets, heavily influenced by large businesses and those in the service sector. All business size segments increased their use of next-day ACH, but the increase was greatest among very large businesses (22%) and service sector businesses (31%). Same-day ACH growth was greatest among very small businesses (21%) and very large businesses (17%). Service businesses’ use of same-day ACH grew 26% (from 39% to 49%). These findings are supported by the latest industry statistics for full year 2023 released by Nacha in February 2024, stating that next-day ACH volume increased 5%, while same-day ACH volume grew 22%.<sup>2</sup>

Debit card use grew 8% year over year (from 43% to 47%) overall, but unlike ACH, debit card growth was strongest among small businesses, up 17% (from 42% to 49%), and especially those identified as being in the wholesale sector, up 37% (from 33% to 45%). These trends were similarly noted for credit cards, whose use also grew 8% (from 50% to 54%).

While check writing has become a last resort for many consumers, 68% of businesses still report using checks, at least occasionally, primarily because of their built-in reconciliation and invoice-matching features.<sup>3</sup> And while use of checks and cash has been flat or in decline (among retailers, in particular, check usage has declined from 60% in 2022 down to 56% in 2023, reflecting steep declines in check volume as noted in the Federal Reserve Payments Study<sup>4</sup>), digital wallets and mobile payment apps continue to grow by double digits.

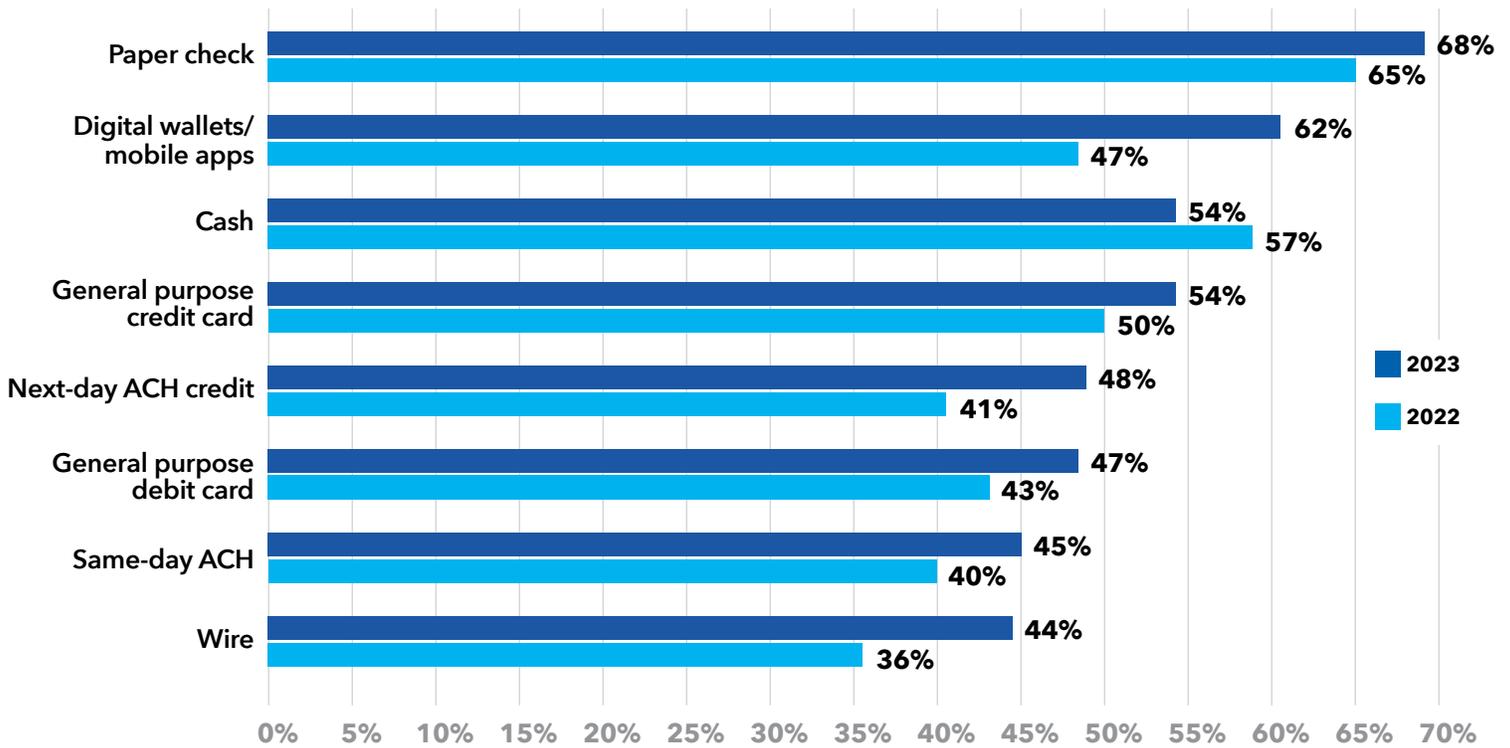
<sup>1</sup> ‘Rethinking B2B Finance: The Consumerization of Business Transactions’ – Finextra

<sup>2</sup> ‘ACH Network Records Strong Growth in 2023 as Same Day ACH Surpasses 3 Billion Payments Since Inception’ – Nacha

<sup>3</sup> 2023 AFP\* Payments Fraud and Control Survey Report – J.P. Morgan

<sup>4</sup> ‘Commercial Checks Collected through the Federal Reserve—Quarterly Data – Board of Governors of the Federal Reserve System

PERCENT USED PAYMENT METHOD PAST 12 MONTHS



Please indicate all the ways your business has made or received payments using [payment method] in the past 12 months. (Select all that apply.)

End-customer preferences drive need for more digital options and efficient solutions

Businesses continue to seek ways to lower their overall costs of doing business, which has been especially challenging over the past three years following the global supply chain disruptions in 2020-21 and subsequent inflationary environment that drove up prices for supplies (materials, inventory, commodities) and human capital (labor and wages).

*“We are dealing with supply chain issues – hopefully it improves. When we receive raw material on time, we can pass that along to our customers who will pay us for our finished product ... to manufacture their own products to sell to their customer base.”*

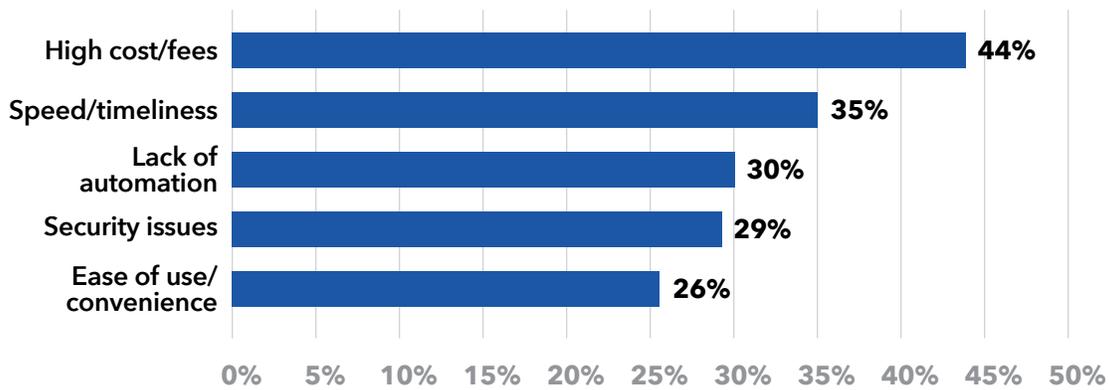
Accordingly, the most frequently mentioned payment pain point reported by businesses is the costs and fees associated with making and receiving payments – 44% mention this as one of their top payment pain points. The second-biggest pain point businesses reported is when payments are slow, untimely or delayed; 35% of businesses mention payment speed as one of their top challenges. Slow payments represent a dual threat for businesses: They put a drag on important financial metrics such as free cash flow and working capital, and negatively impact customer experience, with processing delays putting a strain on customer relations, especially when the delivery of goods or services is dependent on the transaction settling successfully.

Businesses are highly motivated to increase the speed of their payment processes to address both cost management and “slow and untimely” pain points. This aligns with businesses’ stated interest in improving cash flows, decreasing the cycle of time needed to process receivables, and providing flexible payment options (including more digital/online options) to both customers and suppliers.

*“We need to reduce days outstanding to recognize positive cash flow. We also need to get with the times and start accepting digital payments.”*

Nearly 1 in 3 (30%) businesses point out how a lack of automated processes causes challenges to their business’ success, and for many businesses, embedded payments are now a non-negotiable requirement.<sup>5</sup> Embedded payments are being used to ensure that customers’ payment experience is smooth and fast, while also automating payment clearing, settlement and reconciliation processes, making it easier for businesses to manage finances and reduce errors. A recent study indicates the market for embedded finance is projected to grow fivefold from \$54.3 billion in 2022 to \$248.4 billion by 2032.<sup>6</sup>

**TOP BUSINESS PAYMENT PAIN POINTS**



*Thinking about the different ways your business makes payments or receives payments, what are the top challenges you have with business payments that you would like to see improved? (Select all that apply.)*

**New use cases and digital-first consumers pushing businesses to adopt digital wallets and instant payments**

To help manage the balance between cost-cutting and revenue generation, many businesses offered faster and instant payment services in 2023, including digital wallets, same-day ACH and instant payments. While the enablement of commerce through an embedded payment platform using digital wallets along with faster/instant service may not be practical for all businesses today, large enterprises and high-volume service and retail businesses are moving in this direction.

*“We offer an improved online-to-offline shopping experience with integrated payments. An improved user interface and customer experience has a high level of attention and investment.”*

Many businesses are implementing faster and instant payment services because the benefits they offer align with the qualities sought by today’s digital-first consumers.

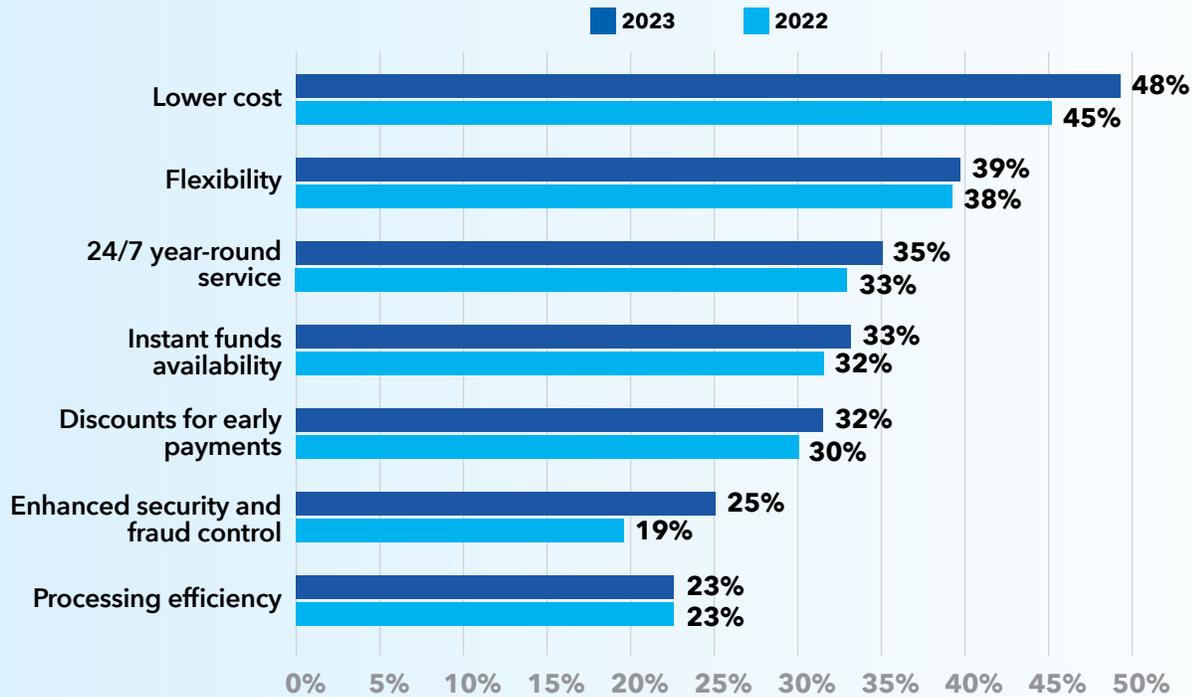
Nearly half (48%) of businesses expect to lower their overall costs by using and accepting faster/instant payments, consistent with findings from the Association for Financial Professionals (AFP) indicating that 50% of their members report that lower transaction cost is a benefit of using real-time payments.<sup>7</sup> The main reason businesses believe faster/instant payments will reduce their costs is that the included remittance data fields allow for more efficient processing, as well as decrease the need for staff follow-up, thereby reducing the burden of maintaining complex accounts and invoices.

<sup>5</sup> 2023 Digital Payments Consumer Survey – McKinsey

<sup>6</sup> ‘Uncovering value in embedded finance: Challenging assumptions to chart new growth’ – PwC

<sup>7</sup> 2023 AFP Real-Time Payments Survey Report – Association for Financial Professionals

### TOP MOTIVATIONS FOR USING FASTER PAYMENTS



Please select the top benefits that would motivate your business to consider using (or using more) faster payments for outgoing payments from your business bank account. (Select up to 5.)

Nearly 4 in 10 (39%) businesses have stated that they want to have the flexibility to send and receive payments in the way that works best for them as well as for their customers and suppliers. The trend toward expanding payment options gained momentum in 2023, as more businesses did integrate their payment capabilities in line with their mobile apps and online commerce platforms, meeting customers “where they want to be.”

Businesses see a variety of use cases as benefitting from faster and instant payments, but the strongest use cases include business-to-business (billing and invoice payments/receipts), person-to-business (including expedited bill payments), business-to-person (disbursements and payroll) and account-to-account transactions. Several new and emerging use cases were also included in the 2023 study, showing that businesses are also expecting instant payments to be useful in providing expedited payroll (earned wage access), digital wallet funding/defunding, and even small disbursements such as rebates and refunds.

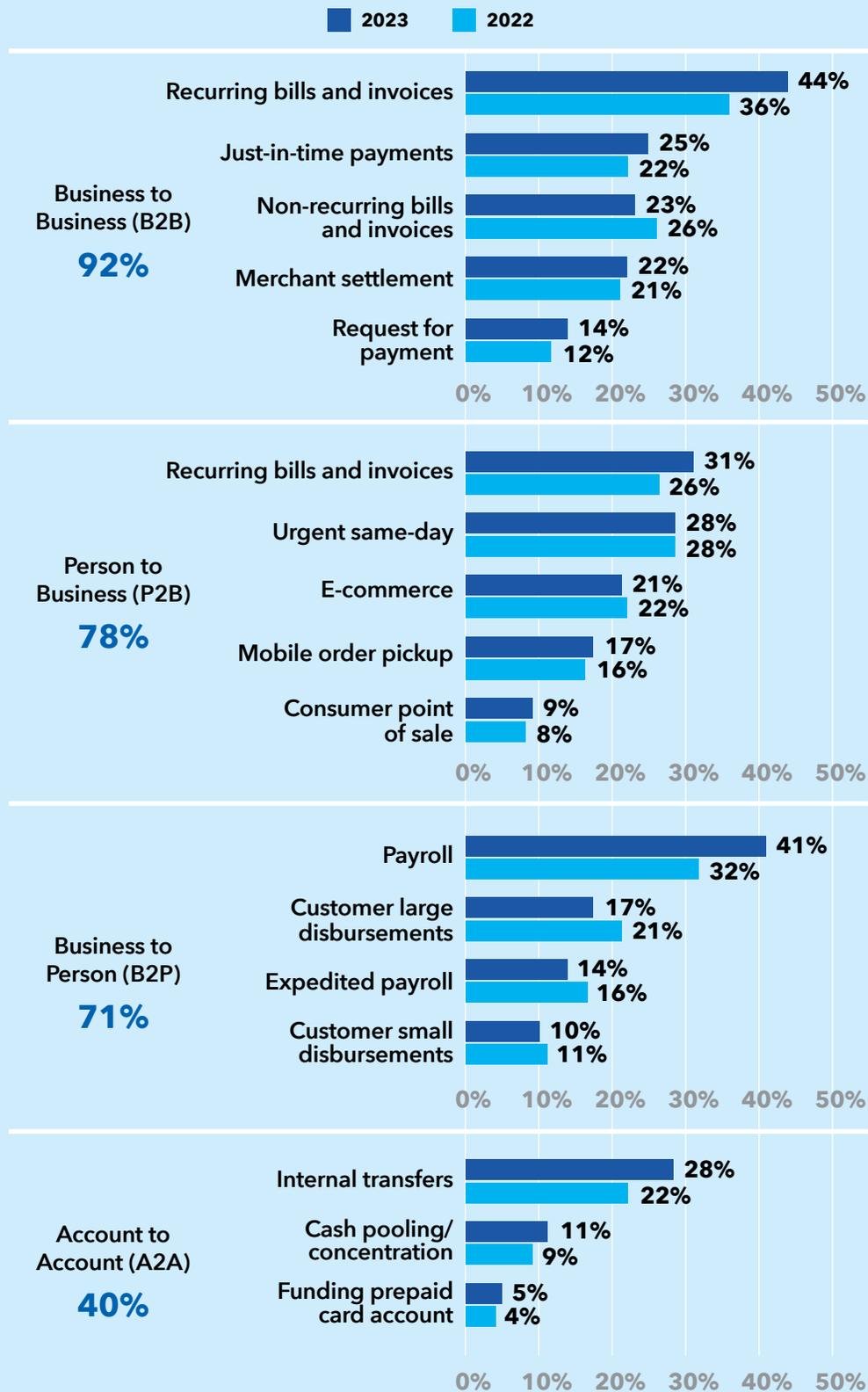
*“We pay our employees as quickly as possible – they put in the hard work so it’s important that we play our role and pay them what they are owed as efficiently and quickly as possible.”*

Service employees in the gig/contract workspace are especially interested in earned wage access, as employers are discovering that immediate pay at end of shift is driving greater employee engagement and lower overall turnover and attrition.<sup>8</sup> Furthermore, the growth of the digital economy has created a significant opportunity for funding and defunding digital wallets, as the digital economy now accounts for more than 10% of the U.S. gross domestic product, growing at an average annual rate of over 7% from 2017 to 2022.<sup>9</sup>

<sup>8</sup> “Bolstered by new tech, is on-demand pay now a “table-stakes benefit”?” – Human Resource Executive

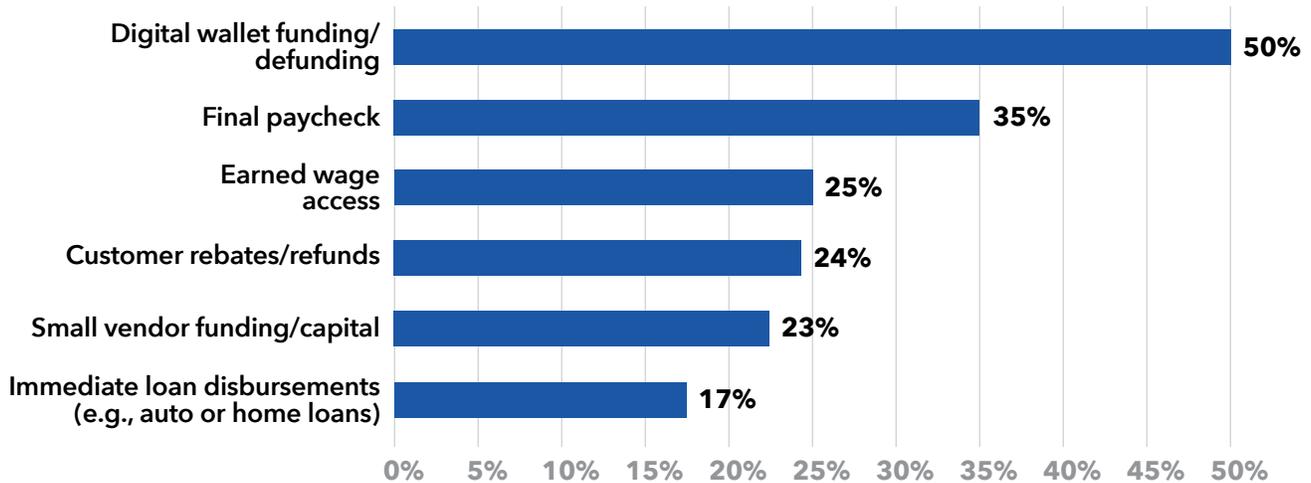
<sup>9</sup> Digital Economy Report – BEA

### TOP USE CASES TO BENEFIT FROM FASTER/INSTANT PAYMENTS



Please select the five most important business payment use cases that you think would benefit from faster or instant payments. (Select up to 5.)

### ADDITIONAL USE CASES TO BENEFIT FROM FASTER/ INSTANT PAYMENTS

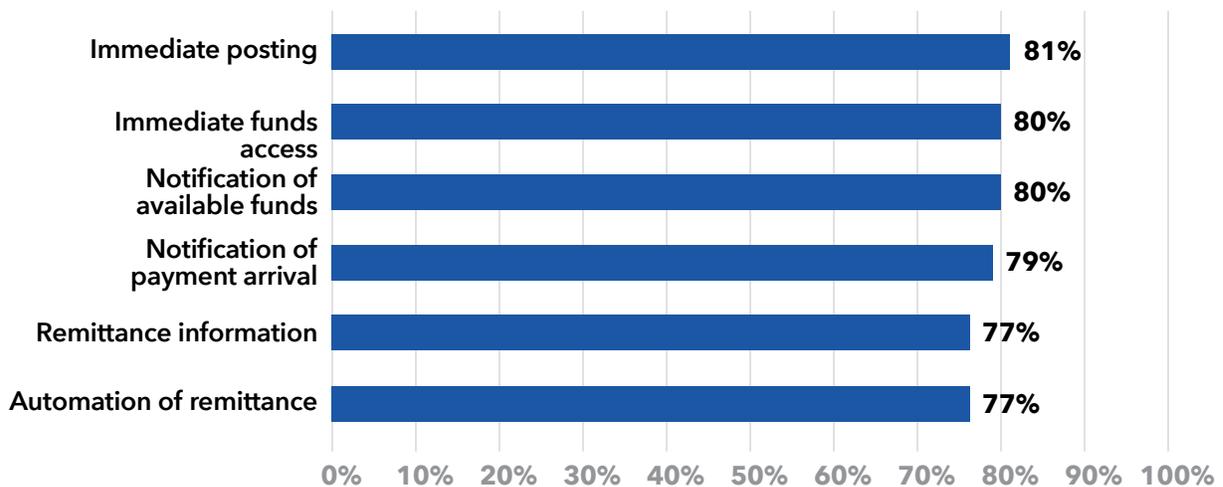


Please select from the provided list the three most important business payment uses that you think would benefit from faster or instant payments. (Select up to 3.)

## Businesses move to digital, mobile and instant payments to follow their customers

Businesses reported greater overall operational efficiency and customer satisfaction when they offer digital payment options that include faster/instant payment services. The main advantages to offering faster/instant payment service have consistently included immediate access to funds received, which is the key driver of improved cash flow and working capital management. In addition, businesses like the ability to receive instant notifications, have funds post to their bank account immediately, and the opportunity to leverage enhanced remittance information to facilitate payment processing.

### IMPORTANT FEATURES FOR FASTER/INSTANT PAYMENTS (TOP-3 BOX PERCENT)



When it comes to receiving payments for your business, how important are each of the following? (For each item, select the response that best describes its importance, with 1="not at all important" and 10="very important.")

## About the survey respondents

The objective of this survey was to assess businesses' current payment practices, pain points, benefits and changing behaviors across payment types. Through an online questionnaire, senior decision-makers involved in their organization's financial operations (e.g., chief financial officers, treasurers, accounts receivable/accounts payable administrators, etc.) provided information on their business priorities with respect to payments and their views on the benefits they expect from using enhanced payment options. The survey was conducted by Federal Reserve Financial Services (FRFS), a collaboration of the 12 Federal Reserve Banks. FRFS provides payment services to financial institutions, and thus the survey, and the statements and findings contained in this summary, are not independent academic research.

The survey sample included 2,005 businesses stratified by revenue size and industry.

### RESPONSE SUMMARY

<b>TABLE 1: Summary of Industry Sector</b>	<b>Sample Size</b>
Manufacturing	347
Retail	371
Wholesale	93
Services	865
Other	329
<b>Total</b>	<b>2,005</b>
<b>TABLE 2: Summary of Business Sizes</b>	<b>Sample Size</b>
Very large (>\$250 million)	395
Large (\$100 million - \$250 million)	210
Medium (\$10 million - \$100 million)	453
Small (\$1 million - \$10 million)	452
Very small (<\$1 million)	495
<b>Total</b>	<b>2,005</b>

## APPENDIX 1

### Select data by business size

	Group	Total	Very Small	Small	Medium	Large	Very Large
Payment Usage <sup>1</sup>	Cash	54%	64%	56%	51%	50%	46%
	Check	68%	79%	73%	61%	55%	62%
	Digital wallets	62%	60%	57%	65%	66%	63%
	Credit card	54%	65%	60%	45%	46%	47%
	Next-day ACH	48%	38%	50%	53%	44%	54%
	Debit card	47%	49%	46%	46%	40%	48%
	Same-day ACH	45%	37%	44%	50%	40%	51%
	Wire	44%	28%	46%	50%	43%	57%
	Instant payments	46%	9%	27%	37%	45%	43%
	Digital currency	14%	6%	13%	17%	13%	21%
Other Statistics	Use 1 financial institution primarily	47%	66%	50%	36%	40%	39%
	Use 2+ financial institutions	49%	31%	47%	60%	58%	56%
	Changed bank within past year	4%	7%	3%	3%	3%	4%
	Importance of faster/instant	76%	56%	78%	80%	90%	87%
	Ready within three years	92%	87%	95%	93%	93%	92%
	Prefer primary financial institution for instant service	74%	76%	76%	75%	72%	71%

<sup>1</sup> Percentage of businesses reporting payment method used (“How has your business made or received payments for collections and disbursements in the last 12 months?”)