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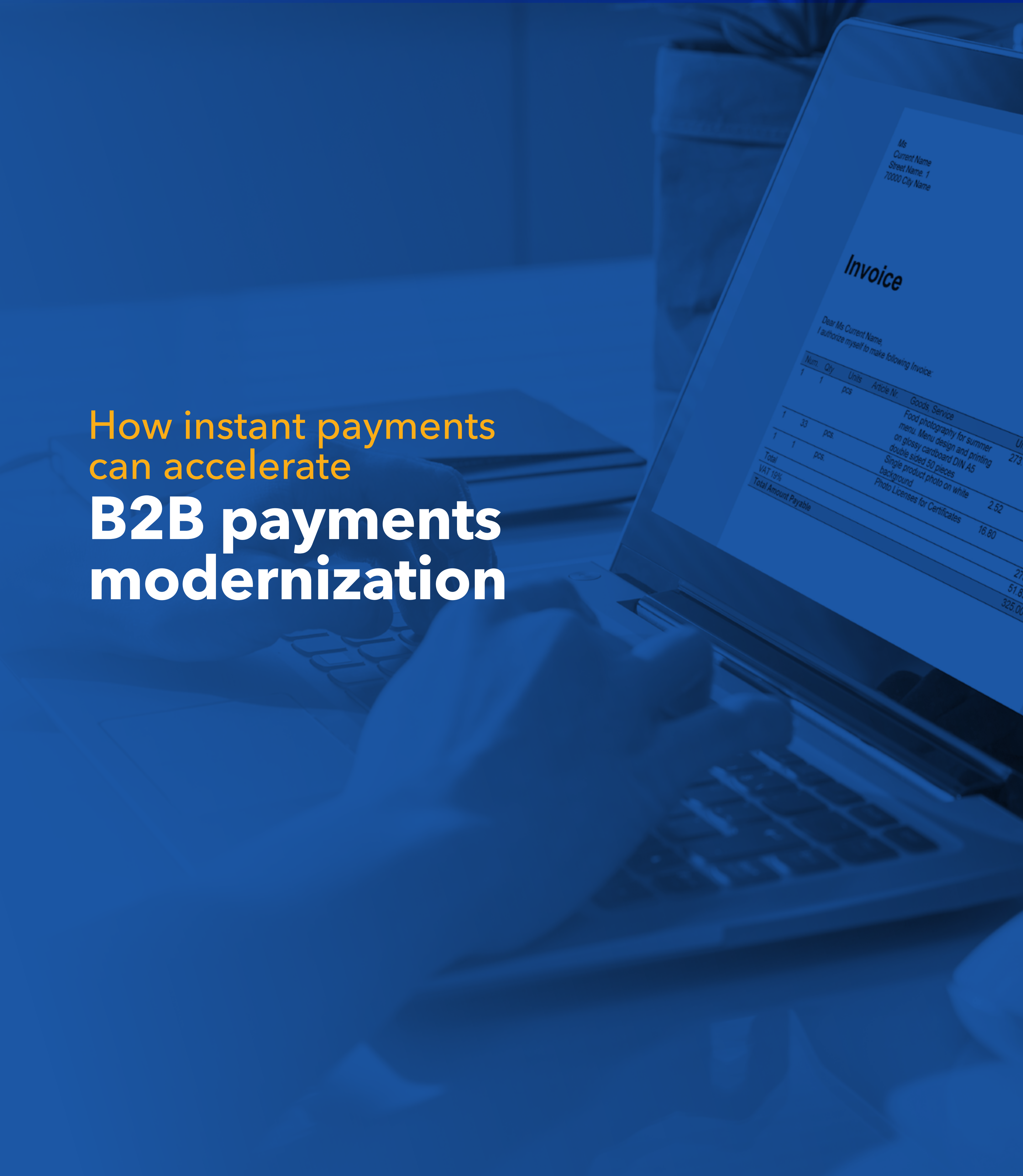


How instant payments can accelerate **B2B payments modernization**

Introduction

The business-to-business (B2B) payments market is a very large segment of the U.S. payments industry, with transactions reaching an estimated $35.8 trillion in 2024, according to eMarketer estimates. As the vast B2B payments market continues to expand, a pronounced shift toward electronic payments on the consumer side has begun to carry over. But digitization has not yet fully taken over: Nearly one-third (32%) of 2024 B2B transaction volume was transacted via cash and check, per eMarketer, creating considerable opportunity to find more efficiency and modernize the space.

The combination of rising B2B transaction volume, increasing digitization of business processes, and emerging payment technology opens the door to shifts in the B2B payment sector, with plausible efficiency enhancements. Banks and service providers have the opportunity to provide new payment offerings, including instant payment options, to help businesses of all sizes move to a more modern, automated payments experience.

Checks and the B2B payments market

Most businesses are using checks in some capacity. A Federal Reserve Financial Services (FRFS) survey found that in 2024, 73% of businesses sent or received checks from other businesses, employees, consumers or government agencies, though the share of total payments this usage comprises varies by industry. Check usage rates are highest among very small (78%) and small (73%) businesses, as well as wholesalers (80%), service industry companies (73%) and manufacturers (70%).

Past 12 Month Payment Usage Among U.S. Businesses

	Total Usage	Business size					Industry sector				
		Very Small	Small	Medium	Large	Very Large	Retail	Wholesale	MFG	Services	Other
Check	73%	78%	83%	66%	66%	65%	65%	80%	70%	73%	82%
ACH	71%	53%	78%	76%	76%	77%	64%	77%	79%	72%	64%
Digital wallets	67%	61%	62%	68%	75%	74%	76%	68%	68%	65%	59%
Credit card	63%	66%	71%	59%	54%	56%	77%	69%	54%	56%	68%
Cash	62%	66%	64%	57%	60%	60%	75%	58%	56%	57%	60%
Debit card	61%	56%	63%	65%	60%	59%	54%	62%	69%	62%	53%
Wire	51%	29%	52%	61%	62%	62%	44%	56%	62%	51%	46%
Push to card	41%	17%	32%	53%	60%	63%	44%	33%	54%	40%	29%
Prepaid debit	32%	22%	29%	36%	46%	39%	45%	22%	31%	30%	26%
Money service	29%	11%	20%	39%	46%	42%	32%	26%	42%	26%	21%
Instant payments	16%	5%	13%	23%	24%	24%	17%	16%	24%	14%	12%

Federal Reserve Payments Insights Brief: 2024 Business Payments Study

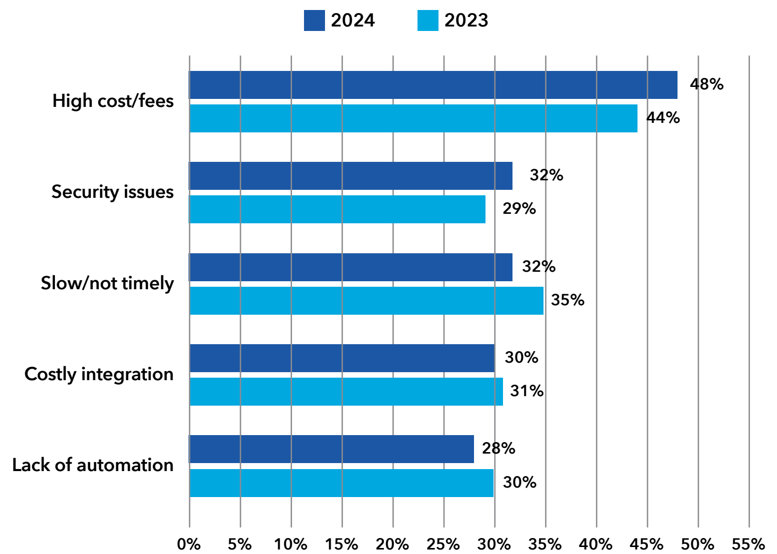
Which of the following ways has your business made payments to and received payments from other businesses, employees, consumers or government agencies in the past 12 months?

For businesses, checks have numerous upsides. They can be used to pay anyone with the ability to cash or deposit them into any financial institution, can be mailed with an invoice, and remain straightforward to document and reconcile manually, making them an easy and well-understood payment option.

However, checks are also imperfect. Businesses responding to the FRFS survey cited their top payment challenges as high costs (48%), speed (32%), security concerns (32%) and lack of automation (28%). Checks can be pricey to process, according to data from the Association for Financial Professionals (AFP), which estimates the cost of issuing a check between $2.01 and $4. They can take time to mail and clear. And they often have high rates of fraud, with the 2024 FRFS Financial Institution Risk Officer Survey finding they had the second-highest rate of fraud occurrence and fastest rate of annual fraud growth. Businesses must weigh these pain points against the advantage that checks can provide as they evaluate and invest in their payment offerings.

While check use remains common, electronic payment methods are not far behind. Seventy-one percent of businesses used ACH, and over 6 in 10 used credit or debit cards. These types of payments are relatively popular among businesses of all sizes, with usage rates prominent across sectors, though retailers lean more heavily on electronic payments than other segments. And businesses are encouraging of these payment methods, with around half encouraging the use of methods like credit card and ACH, per the FRFS survey.

Top Business Payment Pain Points



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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?

The B2B opportunity in instant payments

Instant payments – the newest form of electronic offerings widely available to businesses – can accelerate transaction times from days to seconds and resolve pain points for businesses. Improved transaction visibility and detailed payment information can help create operational efficiency:

- **Cost reduction.** Over half of businesses surveyed (56%) cited lower costs as a top benefit/motivator of instant payment adoption. Instant payments can decrease expenses by reducing working capital costs or improving liquidity inefficiencies. Combined, these changes can offset other fees or reduce the need for manual interventions, in turn letting businesses reallocate funds previously spent on payments to other areas of their business.
- **Timeliness and efficiency.** Businesses also listed the flexibility to pay and be paid the way partners and suppliers prefer (41%), 24/7 year-round service (37%), instant funds (36%) and process efficiency (19%) as top motivators for use. With over half of suppliers reporting that their average payment from customers arrives late (up 15 percentage points from 2021), per PYMNTS, it's no wonder that this is a priority. Increased efficiency can improve businesses' control over their cash flow, both by allowing them to hold onto funds for longer and by ensuring they receive money owed more quickly.
- **Fraud prevention.** More than a third (37%) of businesses cited enhanced security as a top motivator for adoption – a logical response, given that nearly 8 in 10 businesses were victims of attempted or actual payment fraud last year, per AFP. Instant payments offer some degree of loss prevention because they are irrevocable and guarantee "good funds." But there's also considerable innovation in the fraud tools space from instant payment providers, including features that can allow senders and recipients to control transaction volumes on a segment-specific basis.

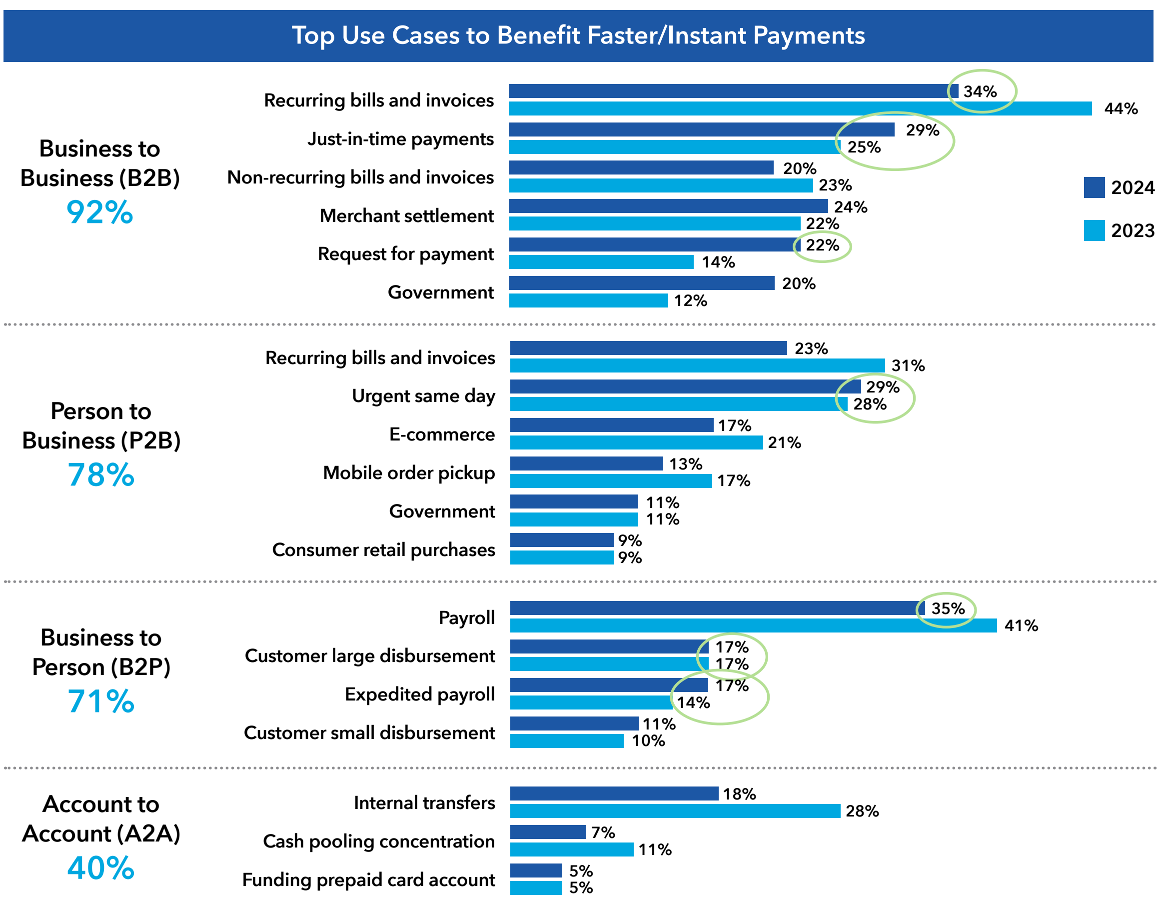
And businesses are taking note: 16% of businesses surveyed are already using instant payments, and about two-thirds (66%) are likely to do so if they are offered instant payments by their primary financial institution, according to the FRFS survey. With expanded access on the horizon – 89% of financial institutions plan to add new payment services over the next two years, according to Jack Henry – there's likely to be a large uptick in usage in the near term.

Notably, businesses' payment challenges differ based on their size. All businesses are concerned about cost, but larger corporations are more focused on challenges associated with automation, flexibility and security, whereas smaller businesses worry about cash flow, per the FRFS study. This difference is likely in part because smaller businesses may run on tighter operating budgets with limited access to liquid cash reserves, meaning their ability to manage accounts payable and receivable could determine how effectively they can manage daily operations, like payroll or supplier obligations, according to a PYMNTS report. As such, the approach to payments modernization taken by a large corporation, medium-sized business or small mom-and-pop shop – and by the accompanying financial institutions and service providers that work with them – will differ.

Emerging B2B use cases for instant payments

Despite historically slow growth in businesses using digital transactions, there's considerable demand for faster B2B payments across use cases. More than 9 in 10 businesses are interested in B2B use cases for faster and instant payments, according to the FRFS survey. Those they consider to be a priority include:

- **Bills and invoices.** Businesses of all sizes are interested in using instant methods for both recurring (34%) and non-recurring (20%) bills and invoices. Quicker receipt of these types of payments can streamline operations across the board.
- **Request for payment.** Over a fifth (22%) of businesses showed interest in request for payment (RFP), marking a significant increase over 2023. In an RFP, one party (the requestor) can provide information to its financial institution to send to another party (the recipient) via an instant payment network so that the recipient can authorize an instant payment in response. Growing interest is likely a reflection of the increased role of embedded finance tools and services.
- **Just-in-time payments.** Nearly one-third (29%) of businesses surveyed are prioritizing just-in-time payments. Holding onto funds until they're needed to cover a specific transaction can help improve cash flow and supply chain management – something that benefits smaller businesses as well as large corporations.



Please select the five most important business payment uses that you think would benefit from instant payments.

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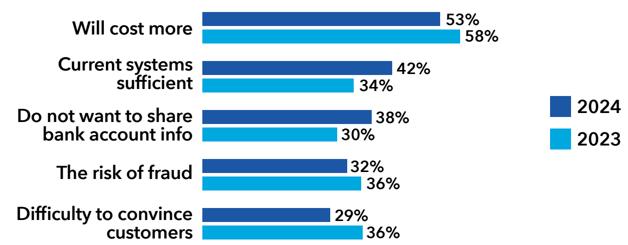
Interest in these use cases can open the door to a wider array of B2B-specific transaction types such as supplier payments, government tax payments, online marketplace seller payouts, real estate or insurance transactions, and more. However, to begin to deploy these use cases, businesses must get on board with adopting instant payments. Even though there's clear interest, obstacles remain: Many businesses are concerned about the costs of implementing and using instant payment systems (53%), sharing bank account information (38%) or experiencing fraud (36%), per the FRFS survey.

But there are ways to combat these barriers. Some growth will come organically as instant payments become more established broadly. Factors businesses cited as potential adoption enablers include growing demand from trading partners (76%), greater network reach (73%) and the offering becoming a competitive requirement (72%), according to the FRFS survey. Increased demand will create more opportunities for usage and ultimately generate wider reach, in turn bringing more businesses onto the network through their financial institutions and other partners, thus growing adoption. As businesses explore non-B2B use cases, like payroll, it's possible that B2B usage will follow as well.

Top Barriers to Using Instant Payments



Please select up to five of the main reasons that your business is not likely to use instant payments or not use them more broadly.

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Top Enablers to Using Instant Payments

Please rate each of the following in terms of their likelihood of increasing your business's interest in adopting an instant payment service.

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Financial institutions and service providers can also leverage this opportunity to improve their relationships with customers. Businesses noted that they'd feel more compelled to adopt if they viewed instant payments as a standard offering from their bank or service provider (75%). To get there, educational efforts by several organizations, including the Federal Reserve and the Faster Payments Council, are underway to identify and highlight specific use cases where instant payments could be useful and mitigate fraud.

Looking ahead

The industry is at a critical juncture for B2B payments modernization, thanks to the combination of end-user appetite and emerging technology to support it. And while instant payments are just one payment method among numerous options for businesses looking to digitize their processes, there is considerable opportunity for instant payments to be both a significant catalyst for change and efficiency in the B2B space.

As specific new use cases with the potential to resolve pain points take center stage and digitization grows exponentially, there's considerable opportunity in the space. The combination of instant payments, APIs and common implementation of ISO® 20022 standards has the potential to revolutionize business payments — and how business itself is done in the U.S. But seizing the moment will involve banks, businesses and others noted above collaborating to shape a digital future. Instant payments, standards and innovation are enabling global trade and commerce to be faster, more accessible and more transparent.

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