## THE **FEDERAL RESERVE**

-FedPayments Improvement



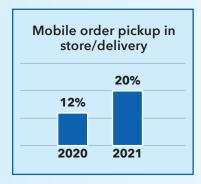
# FEDERAL RESERVE MARKET READINESS BRIEF:

Businesses increasingly interested in using faster payments for emerging use cases

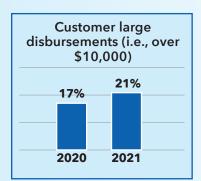
## **Executive Summary**

The Federal Reserve's second annual corporate study of financial decision makers' readiness for faster payments revealed that U.S. businesses are increasingly showing interest in using faster payments for day-to-day business operations.

The survey found that while interest in certain faster payment use cases, such as recurring bills and routine payments, remained consistent from the previous year, interest in several emerging use cases saw the greatest growth year over year, as shown below.



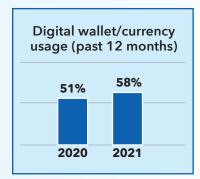
67% increase in the proportion of businesses interested in supporting faster/instant payment for mobile pickup of products and services



24% increase in total businesses interested in faster/instant payments for large disbursements related to ongoing operations and contingency scenarios



30% increase in number of businesses interested in faster/ instant payments to support just-intime supply chain payments



14% increase in businesses saying they are interested in using digital wallets to send and/or receive payments

## 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 outside the app's network.

### **Additional Key Survey Findings**

Other survey findings were consistent with <u>2020 results</u>, underscoring the importance businesses place on faster payments, including instant payments – a type of faster payment that settles between financial institutions in real time – that will allow businesses to keep pace with emerging e-commerce trends:

- Businesses are seeking faster/instant payment solutions because of the key features: quicker access to funds (60%), immediate notification when a payment arrives (58%), the ability to post immediately or automatically to customers' accounts (57%), and the inclusion of remittance details with payments which supports straight-through processing (55%). See chart 1 for details.
- Consistent with last year's survey, businesses indicated the faster/instant use cases they're most interested in include payroll, recurring bill payments, internal transfers, and regular or routine payments. See chart 2 for details.
- While many results were consistent across different business market segments such as an interest in immediate access to funds some segments placed a higher degree of importance on certain faster/instant payment features, use cases and benefits. See chart 3 for details.
- Nearly 40% of businesses signaled interest in faster/instant payment options that might reduce the overall costs of financial operations.
- Nearly nine in 10 businesses expect to be ready to make and support 24x7x365 operational faster payments within the next three years.

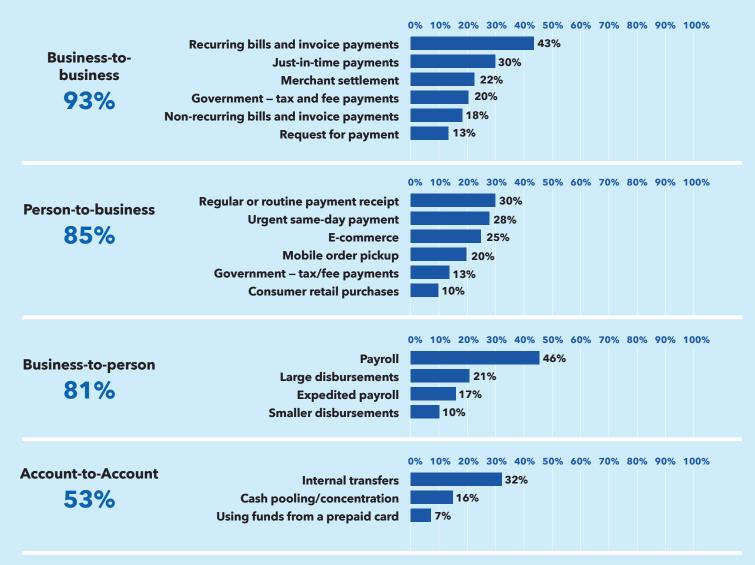
#### **CHART 1: MOST IMPORTANT FASTER/INSTANT PAYMENT FEATURES**

The following chart offers an in-depth look at the faster/instant payment features of most interest to survey respondents.



#### **CHART 2: INTEREST IN USE CASES FOR FASTER/INSTANT PAYMENTS**

The following chart tracks businesses' interest in faster/instant payments use cases across various transaction categories. n=1,506



2021





#### **CHART 3: MARKET SEGMENT INSIGHTS**

While many results were consistent across different business market segments, some segments placed a higher degree of importance on certain faster/instant payment features, use cases and benefits.

	Gig (<\$25M)	Small (\$1M to \$10M)	Medium (\$10M to \$100M)	Large/XL (\$100 to >\$250M)			
Current payment methods	<ul><li>Cash</li><li>Checks</li><li>Credit cards</li><li>Debit cards</li></ul>	<ul><li> Checks</li><li> ACH</li><li> Debit cards</li></ul>	<ul><li>Debit cards</li><li>Mobile payments</li></ul>	<ul><li>Digital wallets</li><li>Digital currency</li><li>Faster payments</li></ul>			
Faster/ instant payment use cases perceived to provide the most benefits	<ul> <li>Internal transfers</li> <li>Receiving bill payments</li> <li>E-commerce</li> </ul>	<ul> <li>Business to business ad-hoc payments</li> <li>Government payments</li> <li>Payroll</li> </ul>	<ul> <li>Recurring bills and invoice payments</li> <li>Urgent same- day immediate payment receipts</li> </ul>	<ul> <li>Standard payroll</li> <li>Internal transfers</li> <li>Just-in-time payments</li> </ul>			
Faster/ instant payment features of greatest interest	<ul> <li>Accessing funds immediately</li> <li>Receiving notification when a payment arrives</li> </ul>	Accessing funds immediately	Receiving     notification when     a payment arrives	<ul> <li>Being able to post received funds immediately</li> <li>Receiving remittance information along with the payment to explain the purpose of the payment (i.e., invoice numbers)</li> </ul>			
Expected benefits of using faster/instant payments	<ul> <li>Lower cost</li> <li>Instant funds availability</li> </ul>	Lower cost     Instant funds     availability	<ul> <li>Improved cash flow</li> <li>Increased confidence in payment</li> </ul>	<ul> <li>24/7 year-round service</li> <li>Improved processing efficiency</li> <li>Potential for straight through processing</li> </ul>			



#### **Learn More**

For a deeper dive on specific use cases, check out the News Center and Use Case Arena on explore.fednow.org.

## **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/instant payments and readiness for integrating faster/instant payments into their operations.

Through an online questionnaire fielded in late 2020 and again in 2021, 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/instant payments, and their views on the benefits they expect from using faster/instant payments. They also identified factors affecting their willingness to adopt faster/instant payments and their anticipated timeline if they plan to adopt. A total of 1,995 questionnaires were completed in 2021, covering a mix of segments stratified by revenue size and industry, as shown in Tables 1 and 2.

TABLE 1: Business Size (annual revenue)	2020 Count	2021 Count
Gig/Micro (<\$1M)	477	487
Small (\$1M-\$10M	450	451
Medium (\$10M-\$100M)	453	450
Large (\$100M-\$250M)	192	167
Very Large (>\$250M)	438	440

TABLE 2: Industry Category	2020 Count	2021 Count		
Retail	367	349		
Wholesale	96	99		
Manufacturing	356	360		
Services	878	868		
Other	313	319		

TABLE 3: Industry Composition by size category												
	Gig		Small		Medium		Large		Very Large		Total	
Year	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
Count	477	487	450	451	453	450	192	167	438	440	2010	1995
Retail store/Specialty retail	21%	23%	18%	17%	12%	13%	22%	20%	20%	16%	18%	18%
Wholesale	4%	3%	5%	6%	6%	6%	4%	5%	4%	5%	5%	5%
Manufacturing	5%	10%	12%	12%	21%	24%	26%	22%	31%	27%	18%	18%
Services	44%	41%	45%	52%	50%	42%	42%	44%	39%	43%	44%	44%
Professional services	15%	14%	16%	10%	17%	10%	15%	10%	13%	7%	15%	10%
Business services	6%	4%	6%	6%	11%	8%	7%	7%	8%	5%	8%	6%
Financial services	2%	5%	8%	12%	12%	12%	10%	14%	11%	19%	8%	12%
Health/Social services	11%	9%	6%	15%	8%	9%	6%	7%	6%	9%	8%	10%
Real estate services	11%	10%	8%	8%	3%	4%	4%	6%	2%	3%	6%	6%
Other	25%	23%	19%	14%	12%	15%	5%	10%	7%	9%	15%	15%
Construction/Special trade	16%	10%	13%	9%	9%	10%	4%	7%	5%	6%	10%	9%
Non-profit/Religion/Charity	5%	5%	4%	1%	1%	1%	1%	1%	0%	0%	2%	2%
Grand Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%