

Faster Payments for Community Banks and Credit Unions: Priorities for Growth

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IMPACT POINTS

- This Impact Report is based on a Q2 2020 survey of 117 community bank and credit union executives who have responsibility for their financial institution's (FI's) faster payments strategy and who are knowledgeable of the payment volume for their FI's faster payments product offerings. It is intended for organizations seeking to understand community bank and credit union adoption of faster payments.
- Approximately two-thirds of community banks and credit unions offer connectivity to at least one faster payments rail today, indicating that community banks and credit unions are slowly beginning the migration to faster payments.
- Thirty-three percent of community banks and credit unions that do not currently offer any faster payments product and 49% of community banks and credit unions that offer connectivity to at least one faster payments rail report it is a priority to implement at least one additional faster payments rail.
- Nineteen percent of community banks and credit unions that do not currently offer FedNow report that implementing FedNow is a high priority, and 11% of institutions that do not currently offer RTP report implementing RTP is a high priority.
- Seventeen percent of community banks and credit unions that do not offer Zelle report that implementing Zelle is a high priority.
- Seventy-six percent of community banks and credit unions that report implementation of FedNow is not a priority and 81% of community banks and credit unions that report implementation of RTP is not a priority state the low priority is due to the fact customers are not asking for the product.
- Forty-five percent of community banks and credit unions for which Zelle implementation is not a priority report that Zelle is cost prohibitive to implement.
- Most community banks and credit unions are concerned about an increase in fraud due to planned faster payments initiatives. Eighty-nine percent of community banks and credit unions are concerned about an increase in fraud due to the implementation of Zelle, 93% are concerned about an increase in fraud due to the implementation of RTP, and 85% are concerned about an increase in fraud due to the implementation of FedNow.
- The announcement of FedNow has not significantly impacted community bank and credit union faster payments strategies. Just 10% of community banks and credit unions are planning to implement FedNow in lieu of another faster payments system, 24% will implement FedNow in addition to other faster payments systems, and 35% are moving ahead with their current faster payments strategy.
- For the most part, the COVID-19 pandemic has not changed community bank and credit union faster payments implementation plans. Twenty-five percent of community banks and credit unions report their RTP implementation plans have accelerated, and 17% report their Zelle implementation plans have accelerated.

INTRODUCTION

The U.S. move to faster payments began in 2015 with Mastercard and Visa's launch of push-to-card services, followed by the 2017 launches of same-day ACH, Early Warning Service's Zelle, and The Clearing House's Real-Time Payments (RTP) network. Today, the top U.S. national banks are connected to these networks, along with large regional banks and other smaller institutions that have launched or are close to launching. While faster payments adoption is still nascent across U.S. FIs, Zelle reaches more than 90% and RTP reaches more than 50% of all demand deposit accounts (DDAs) in the U.S.

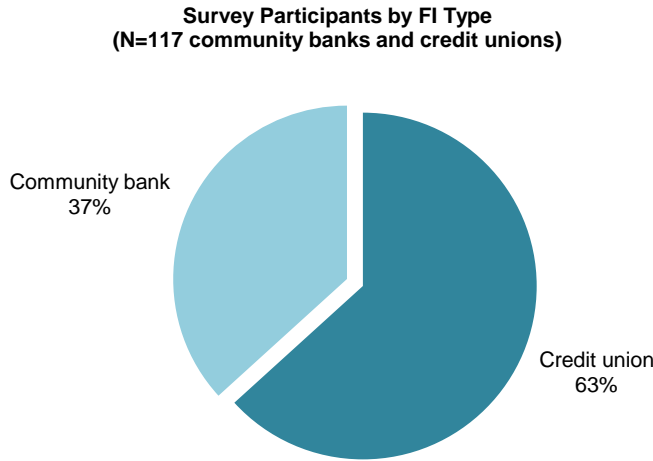
This Impact Report, part two of a two-part series, examines the faster payments roadmaps of community banks and credit unions in the U.S. While the various faster payments networks have substantial reach, faster payments capabilities are far from ubiquitous given the size and complexity of the U.S. banking system. For many smaller institutions, adoption hinges on the price competitiveness of the various faster payments networks. However, to remain viable businesses, the time is now for community banks and credit unions to get on board with faster payments. Those that have not embraced faster payments may be at risk of losing customers as consumer and business adoption accelerates.

METHODOLOGY

To gain a thorough understanding of the community bank and credit union priorities related to faster payments, Aite Group performed a quantitative study of 117 U.S. community banks and credit unions. The survey was conducted online among community bank and credit union executives who have responsibility for their FI's faster payments strategy and who are knowledgeable of the payment volume for their FI's payment product offerings. The data in this report have a margin of error of 8 points at the 90% level of confidence; statistical tests of significance among differences were conducted at the 90% level of confidence. The research methodology is also supported by Aite Group's existing body of syndicated research.

Survey participants include a mix of executives representing both community banks and credit unions of various asset sizes. Thirty-six percent of survey respondents were employed by community banks, and 64% of survey participants were employed by credit unions (Figure 1).

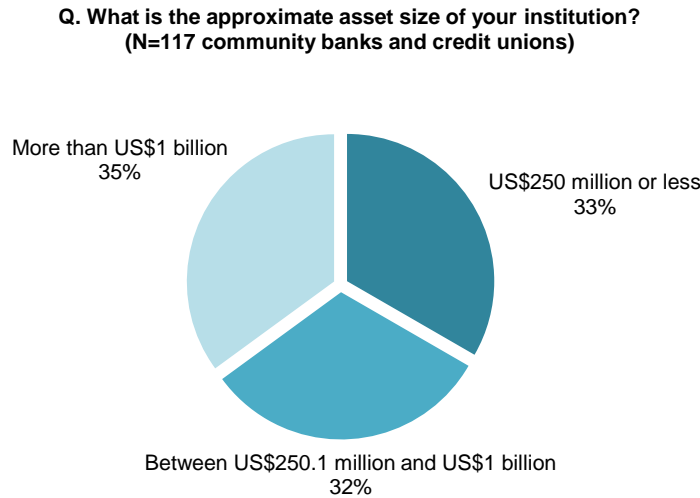
Figure 1: Percentage of Survey Participants by FI Type



Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

One-third of survey respondents were employed by FIs with US\$250 million or less in assets, one-third were employed by FIs with US\$250.1 million to US\$1 billion in assets, and another third were employed by FIs with more than US\$1 billion in assets (Figure 2).

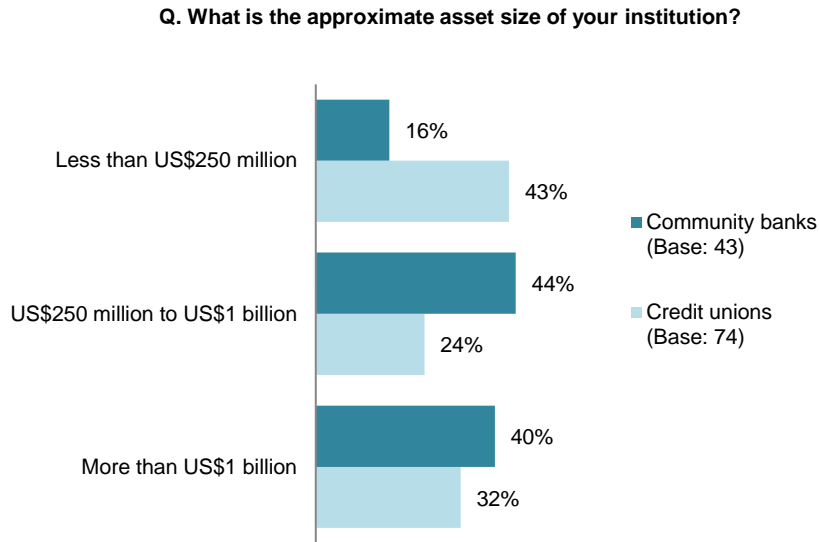
Figure 2: Percentage of Survey Participants by FI Asset Size



Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

Eighty four percent of survey participants are employed by community banks with assets of greater than US\$250 million, while 56% of survey participants are employed by credit unions with assets of greater than US\$250 million (Figure 3).

Figure 3: Percentage of Survey Participants by FI Type and FI Asset Size



Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

THE MARKET

It is no mystery as to why individuals and businesses want to be paid faster, and the reasons hold true in countries across the globe. In many of the soon-to-be 60 countries that live with faster payments, there is often a government mandate or regulatory framework in place that leaves FIs little choice on offering clients faster payments functionality. In the U.S., the move to faster payments is fully market driven. Waiting for market drivers to mature may create a slower rate of adoption, giving businesses a false sense of security in sticking with their current outdated payments strategy. However, this is not an advisable long-term strategy. Early adopter FIs are creating significant differentiation in the market for themselves and their clients. The accessibility of faster payments networks, coupled with market demand, including the unprecedented pressures of the COVID-19 pandemic, are creating a new urgency for FIs of all sizes to deploy faster payments capabilities. Table A outlines the predominant market trends driving faster payments today.

Table A: The Market

Market trends	Market implications
Globally, 54 countries are live on local real-time payments schemes. More countries will be going live, bringing the number closer to 60 by the end of 2021.	The pressure is on for leading market economies to take advantage of payment technologies that make payment transactions easier and more efficient for consumers and businesses.
In the wake of the COVID-19 pandemic, paper checks are not only inefficient but are also unhygienic and potentially dangerous. Cash, with similar characteristics to checks, may have been king historically but is now becoming less appealing.	The need to go contactless and move to electronic payments is increasingly urgent as consumers are demanding that interactions with businesses be contactless. Additionally, those consumers who have long been holdouts for traditional versus newer electronic payment methods and have made the move to digital as a result of the COVID-19 pandemic will drive increased demand for a digitized payments experience in the immediate future.
Traditional payment methods can be expensive, unpredictable, and slow, impacting the health of businesses in the longer term.	Businesses have realized that a slow and clunky payments experience impacts customer loyalty. Industry leaders are evolving their payments strategies to real-time payment methods to facilitate the ability to send and receive payments more efficiently and improve the overall customer experience.
Approximately 500 FIs are currently live on Zelle, and 300 FIs could be live on RTP by the end of 2020, with significantly more to follow throughout 2021 and beyond.	FIs that fail to deploy connectivity to faster payments networks will lose out as valuable customers/members, along with their deposits and fee revenue, migrate to the competition that offers these products. Not offering faster payments is not an option for any FI that wants to stay in business for the long haul.

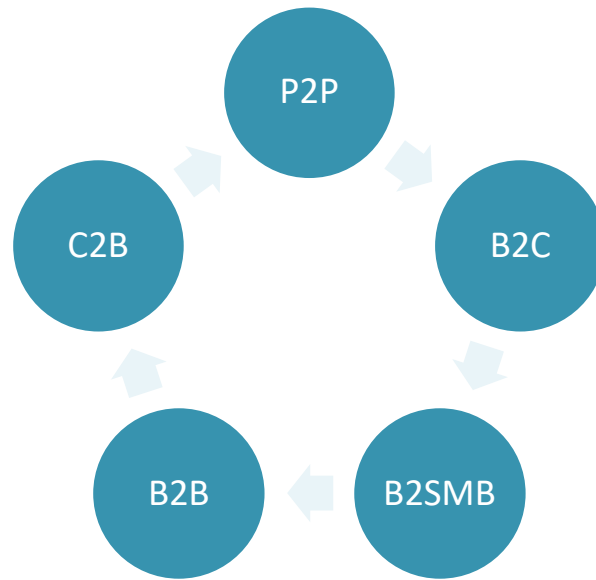
Market trends	Market implications
<p>Community banks and credit unions are finding it increasingly difficult to compete in the current business environment.</p>	<p>In addition to strong competition and increased regulation in the U.S., community banks and credit unions have expressed they are being priced out of the market when it comes to participation in the various U.S. faster payments schemes. Some of these institutions are seeking alternative right-sized solutions for their communities and customer/member bases, which could prevent the U.S. from achieving real-time payments ubiquity in the long run.</p>

Source: Aite Group

OVERVIEW OF FASTER PAYMENTS OPTIONS

As more and more consumers expect and demand faster payments experiences in their lives, the market drivers continue to mature and expand to payments outside person-to-person (P2P) payments and into the business world. P2P payments facilitated through mobile payment apps such as CashApp, Venmo, and PayPal have normalized quick and frictionless payments between individuals. Zelle launched in 2017 to keep these transactions native to FIs instead of third-party applications. With over 500 member banks, Zelle has helped to normalize expectations for instant P2P payments. Until the launch of same-day ACH, wire transfer was the only option for businesses that wanted or needed to execute an urgent, faster transaction that provided an experience similar to Zelle. For businesses that pay individuals, those are not practical in bulk. This maturity of expectations has caused faster payments option demands to cycle through payments use cases. After the normalization of instant P2P payments, consumers wanted to have that same experience with businesses, and business-to-consumer (B2C) followed by business-to-small-and-midsize business (B2SMB) use cases started to evolve. Finally, business-to-business (B2B) and consumer-to-business (C2B) use cases are increasing in demand (Figure 4).

Figure 4: The Maturity of Market Demands on Payments Use Cases



Source: Aite Group

As mentioned, wire transfers have been a popular, although many times expensive, near real-time payment method available to both businesses and consumers for decades in the U.S. More recently, same-day ACH was introduced as a way to speed up ACH transactions within the processing windows to shorten settlement time. While same-day ACH generally has a lower price point than wire transfers, settlement time is restricted, and remittance information is still traveling disparately from the payment itself. These familiar payments options are still needed as part of a comprehensive payments strategy. However, new technology is making faster payments true real-time payments and providing organizations with the ability to develop a payments strategy that works best for their business. Some of these options are payment rails, some are overlay services, and some are endpoint gateways. Table B outlines the faster payments options available in the U.S. today.

Table B: Faster Payments Rails in the U.S.

Category	Payment rail	Description
Real-time gross settlement (RTGS) systems	FedNow	FedNow is a new real-time payments system for low- and high-value payments being developed by the Federal Reserve that is anticipated to be live in 2024. FedNow is being developed to provide choice in the market for clearing and settling of real-time low- and high-value payments.

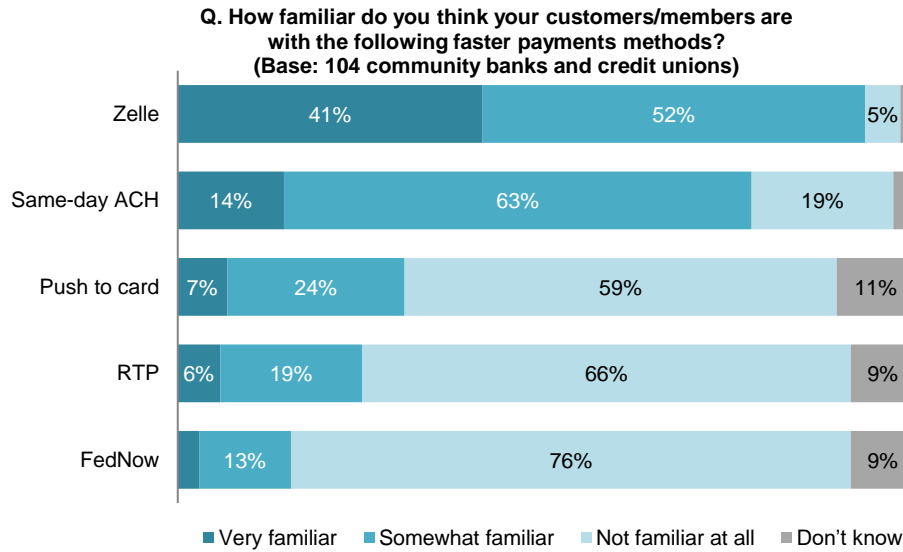
Category	Payment rail	Description
	RTP	RTP is a payment network owned by The Clearing House, a private financial services company owned by 24 of the largest commercial banks in the U.S. It currently reaches more than 50% of U.S. DDAs and facilitates real-time final interbank settlement for high-value payments and a variety of features, including enhanced speed, security, and payments messaging. While RTP is currently best suited for business-to-business (B2B) payments, the network can also be used for low-value retail payments.
P2P payments systems	Zelle	Zelle is a U.S.–based digital payments network owned by Early Warning Services, a private financial services company owned by several FIs, including Bank of America, Capital One, JPMorgan Chase, PNC Bank, Truist (formerly BB&T), U.S. Bank, and Wells Fargo. It facilitates real-time low-value P2P payments between U.S. DDAs and, through its partnership with Mastercard and Visa, can reach 97% of DDAs in the U.S. Zelle does not facilitate real-time settlement.
Other faster payments systems	Same-day ACH	Same-day ACH is an electronic payments network for processing, clearing, and settling domestic low-value payments between participating FIs on the same day payments are initiated.
	Push to card	Push to card is a real-time payments scheme facilitated by the card networks, including Mastercard Send and Visa Direct. Push to card enables real-time low-value payments to U.S. DDAs by using the 16-digit debit card number in place of bank account and routing information. Push to card is currently the only real-time payments scheme in the U.S. with real-time cross-border payments capability. Push to card does not provide real-time settlement.

Source: Aite Group

MARKET AWARENESS AND DEMAND FOR FASTER PAYMENTS

The always on, always connected, on-demand mindset prevalent today is also driving consumer expectations for faster payments. Companies such as Amazon, PayPal, and Uber that have revolutionized the payments experience at the point-of-sale are driving more demand for better payments experiences across other use cases, including B2C and B2B payments. Consumers are not only aware of faster payments but are also beginning to ask for faster payments when transacting. Ninety-three percent of community banks and credit unions report their customers/members are familiar with Zelle, and 77% report their customers/members are familiar with same-day ACH (Figure 5).

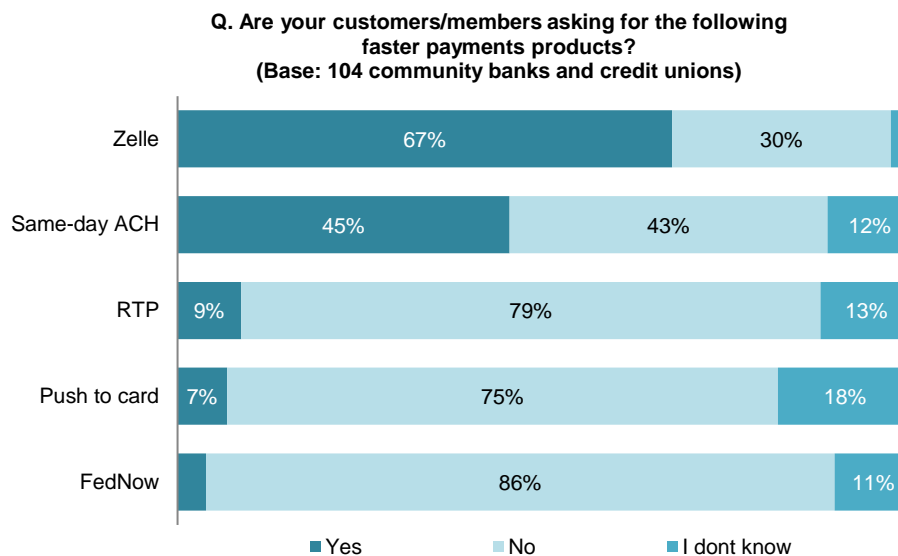
Figure 5: Awareness of Faster Payments Methods



Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

Sixty-seven percent of community banks and credit unions report their customers/members are asking for Zelle, and 45% report their customers/members are asking for same-day ACH (Figure 6). As consumers have positive experiences transacting with faster payments products that facilitate P2P payments and other retail use cases, demand for faster payments for B2C and B2B use cases will also increase. Community banks and credit unions must consider consumer awareness and demand for faster payments when defining and executing their faster payments strategies.

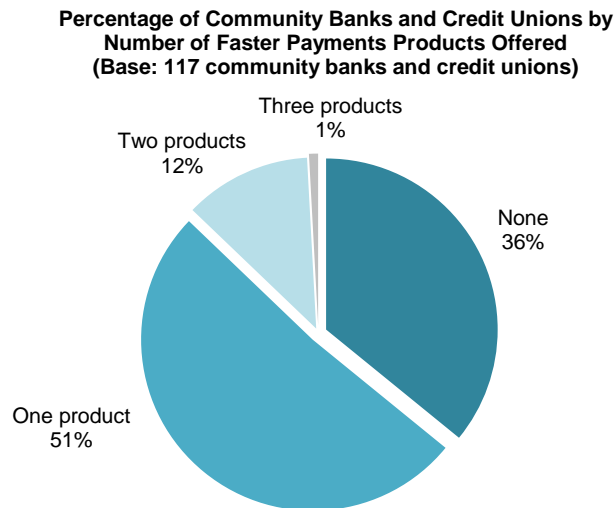
Figure 6: Demand for Faster Payments Methods



Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

Approximately two-thirds of community banks and credit unions offer connectivity to at least one faster payments rail today, indicating that community banks and credit unions are slowly beginning the migration to faster payments. Fifty-one percent of institutions offer connectivity to one faster payments rail, 12% offer connectivity to two faster payments rails, and 1% offer connectivity to three faster payments rails (Figure 7).

Figure 7: Percentage of Community Banks and Credit Unions With Faster Payments Capabilities



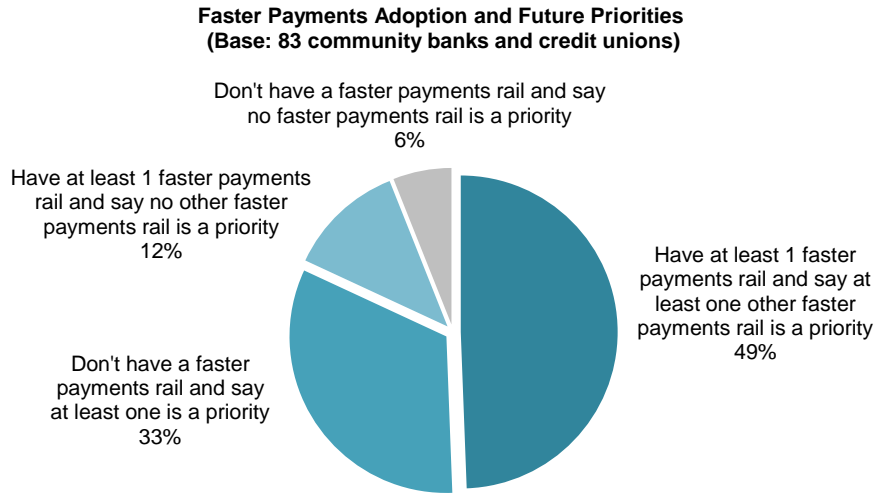
Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

MARKET PRIORITIES FOR FASTER PAYMENTS ADOPTION

While implementation and offering of faster payments is not mandated in the U.S. by any governing entity, the market is reaching a level of maturity that requires FIs of all sizes to take note of end-user demand. Adoption may appear to be sluggish, but expectations are shifting quickly. FIs that are not offering faster payment options are quickly experiencing the opportunity costs of not doing so but may not yet realize it. At the very least, businesses and consumers want a way to get payments faster. On the disbursement side, consumers are accustomed to the frictionless and instant nature of products like Venmo and PayPal. Implementing Zelle keeps those transactions, and more importantly the deposits associated with the transactions that would otherwise be sitting in a digital wallet, within FIs. For businesses, being able to pay recipients with a real-time payment creates differentiation in the market; however, that differentiation is becoming commoditized. The priority for FIs needs to focus on keeping and growing deposits and attracting and retaining valuable clients. This will be very difficult to achieve without faster payments.

Fortunately, most community banks and credit unions report it is a priority to implement faster payments. Just 6% of community banks and credit unions not currently offering any faster payments product report it is not a priority to implement any faster payments rail and just 12% of community banks and credit unions that offer connectivity to at least one faster payments rail report it is not a priority to implement any other faster payments rail. For most of these, same-day ACH is the biggest priority, followed by Zelle. RTP is still significantly behind in upcoming planned implementations; however, connection to the RTP network is getting easier through the core providers and will soon enjoy the higher implementation numbers as well. Thirty-three percent of community banks and credit unions that do not currently offer any faster payments product and 49% of community banks and credit unions that offer connectivity to at least one faster payments rail report it is a priority to implement at least one additional faster payments rail (Figure 8).

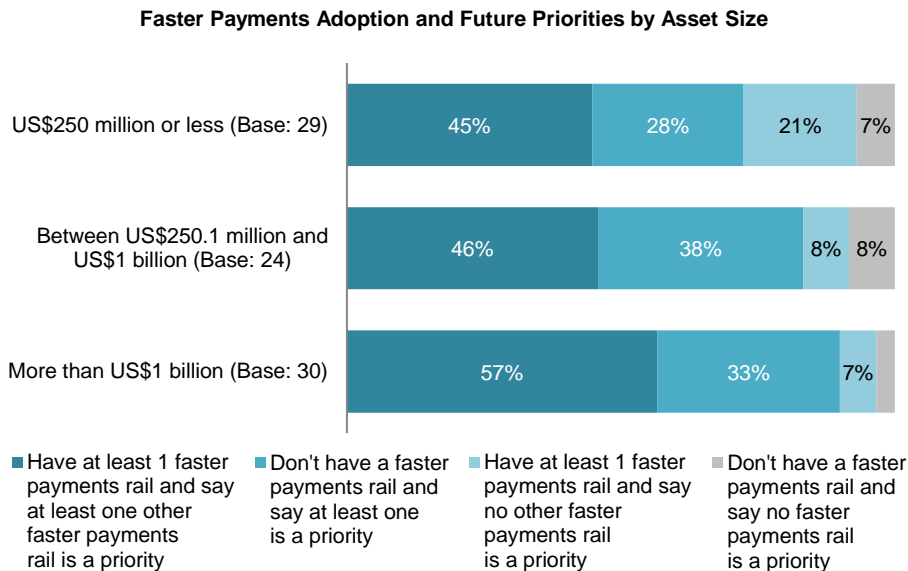
Figure 8: Percentage of Community Banks and Credit Unions With Future Plans for Implementing Faster Payments



Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

There are no significant differences in the priority for implementing faster payments based on the type of FI, with approximately half of institutions that offer at least one faster payments product and one-third of institutions that do not currently offer faster payments reporting it is a priority to implement connectivity to one faster payments rail (Figure 9).

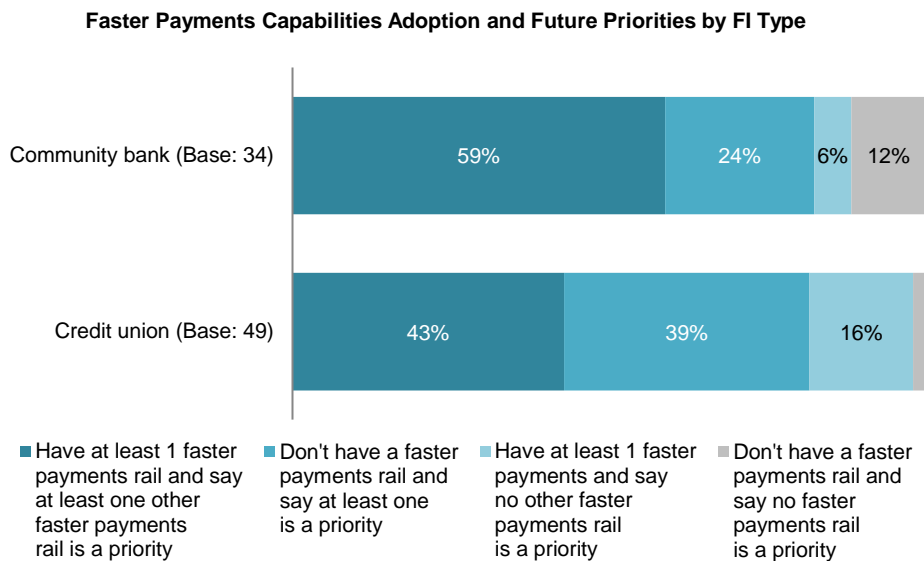
Figure 9: Percentage of Community Banks and Credit Unions With Future Plans for Implementing Faster Payments by FI Asset Size



Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

Fifty-nine percent of community banks and 43% of credit unions that offer connectivity to at least one faster payments rail report it is a priority to implement an additional faster payments rail. This is great news, as both payers and payees desire payment choice. A single payments method may not work for every situation. For recipients being paid by a business, the ability to choose a payment method provides a stellar customer experience. Twenty-four percent of community banks and 39% of credit unions that do not currently offer faster payments report it is a priority to implement at least one faster payments rail (Figure 10).

Figure 10: Percentage of Community Banks and Credit Unions With Future Plans for Implementing Faster Payments by FI Type

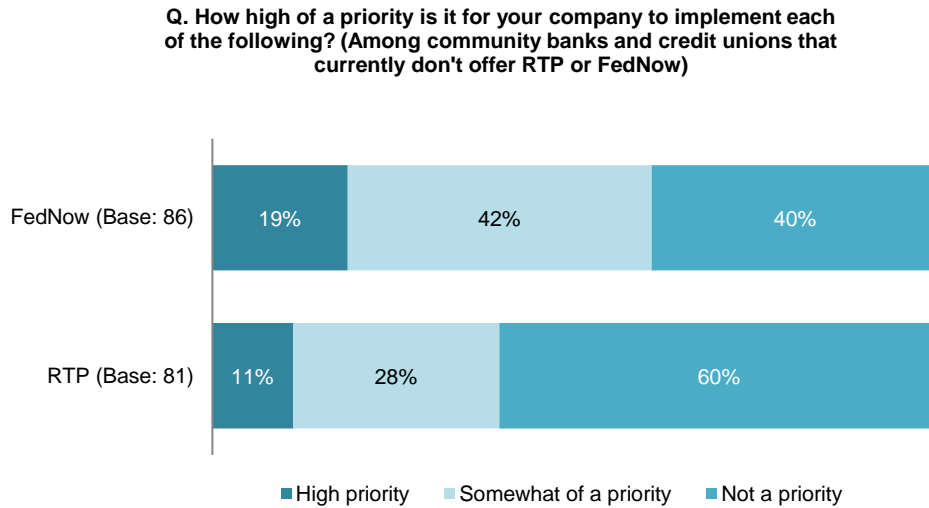


Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

REAL-TIME GROSS SETTLEMENT SYSTEMS

While RTP is live and experiencing record-high volume, FedNow still has at least three to four more years of development before it is live in the market. Nineteen percent of community banks and credit unions that do not currently offer FedNow report that implementing FedNow will be a high priority, and 11% of institutions that do not currently offer RTP report implementing RTP is a high priority. It is interesting that more institutions report it is not a priority to implement RTP compared to FedNow. Sixty percent of community banks and credit unions that don't currently offer RTP report it is not a priority to implement RTP compared to 40% of institutions that don't offer FedNow and report it is not a priority to implement FedNow (Figure 11).

Figure 11: Community Bank and Credit Union Priorities for Implementing RTGS Systems

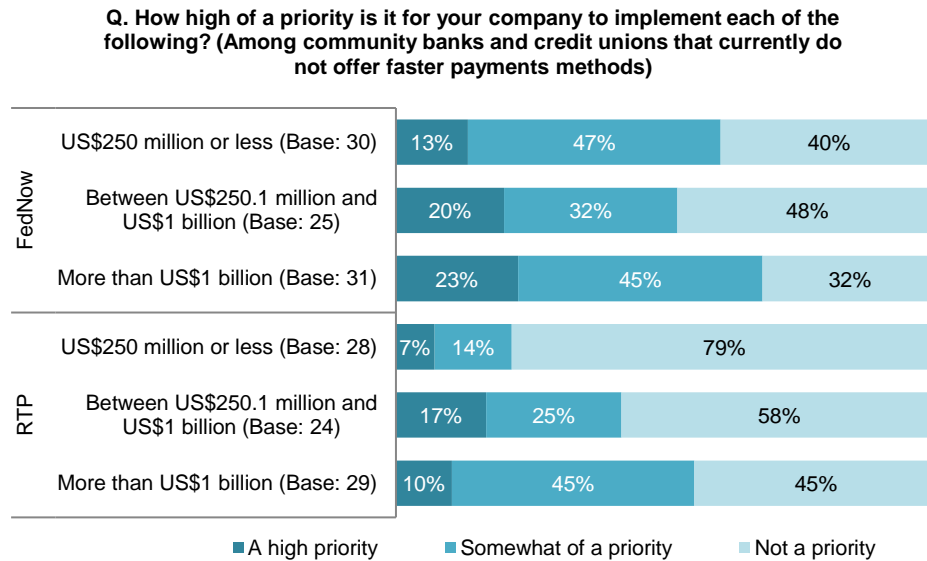


Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

As RTP continues to gain momentum in the market, this number is expected to shift. While FedNow will likely become an important part of the payments landscape, it will be difficult for many FIs to wait another three to four years before offering business customers and members the ability to receive payments in real time.

As expected, among the smallest institutions, it is more of a priority to implement FedNow than RTP. However, even these smaller institutions will struggle to remain relevant while waiting for FedNow to go live. Seventy-nine percent of FIs with assets of US\$250 million or less not currently offering RTP report it is not a priority to implement RTP compared to 40% of FIs with assets of US\$250 million and less not currently offering FedNow reporting it is not a priority (Figure 12).

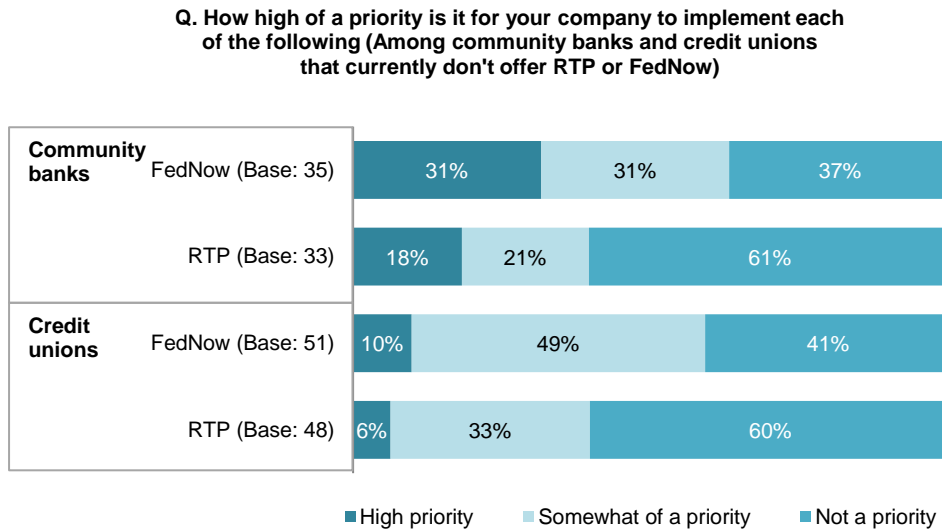
Figure 12: Community Bank and Credit Union Priorities for Implementing RTGS Systems by FI Asset Size



Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

More community banks than credit unions that do not currently offer an RTGS system report it is a high priority to implement an RTGS system. Thirty-one percent of community banks that do not offer FedNow report it will be a high priority to implement FedNow, and just 18% that do not currently offer RTP report it is a high priority to implement RTP. Only 10% of credit unions that do not offer FedNow report it will be a high priority to implement FedNow, and 6% that do not offer RTP report it is a high priority to implement RTP (Figure 13). The difference in priority between community banks and credit unions does not appear to be systemic in nature.

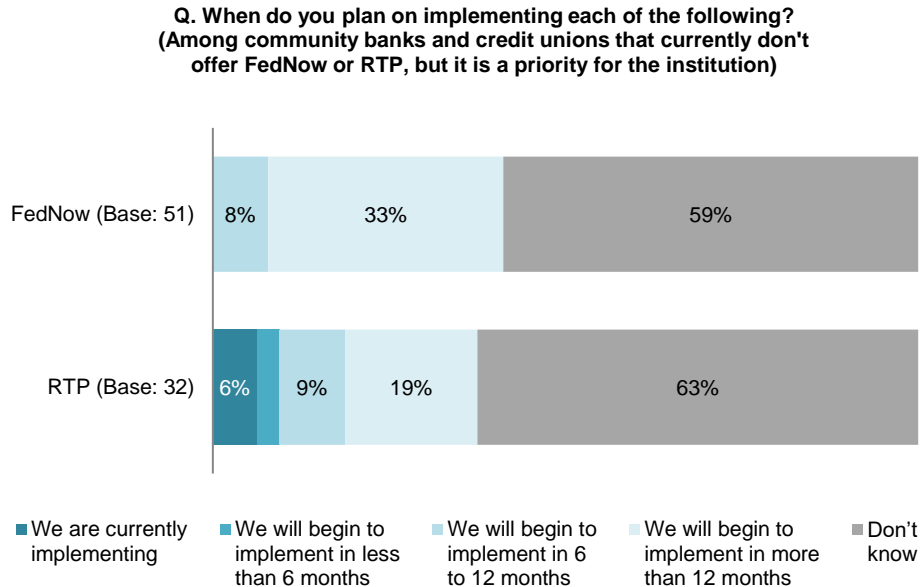
Figure 13: Community Bank and Credit Union Priorities for Implementing RTGS Systems by FI Type



Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

For the FIs that are planning to implement FedNow or RTP, the timelines are a bit uncertain. Most community banks and credit unions are uncertain about their implementation timelines for RTGS systems and given that FedNow won't be live until at least 2023 or 2024, it is difficult to make definitive plans for implementation. For those planning to implement RTP, there is some dependency on the core providers to make the connection available. Due to these circumstances, significantly more than half of the surveyed FIs do not know what the timeline will be. Thirty-three percent of community banks and credit unions for which FedNow implementation is a priority report they will begin implementation of FedNow in more than 12 months. Six percent of community banks and credit unions for which RTP implementation is a priority are currently implementing RTP, and nearly 30% report they will begin implementation in six months or more (Figure 14).

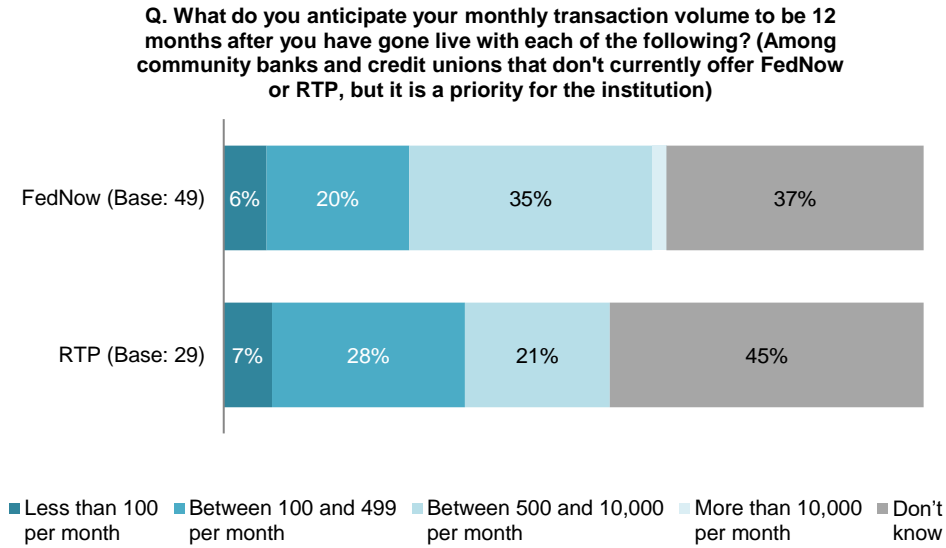
Figure 14: Community Bank and Credit Union Implementation Timelines for RTGS Systems



Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

There is a significant amount of uncertainty around expected payment volume for both FedNow and RTP 12 months post-implementation. This is not unique to community banks and credit unions, as even large global banks have had difficulty in projecting volume. RTP is the first new payments scheme introduced in over 40 years in the U.S., and predicating volume with no baseline can understandably be difficult. This uncertainty of volume and, in turn, return on investment, is a major factor in the lower priority and unknown timeline for implementations. With this, most community banks and credit unions for which FedNow and RTP implementations are a priority expect volume in both to be low. In fact, just 35% of community banks and credit unions expect FedNow volume to be between 500 and 10,000 transactions per month 12 months post-implementation, and 21% expect RTP volume to be the same 12 months post-implementation (Figure 15).

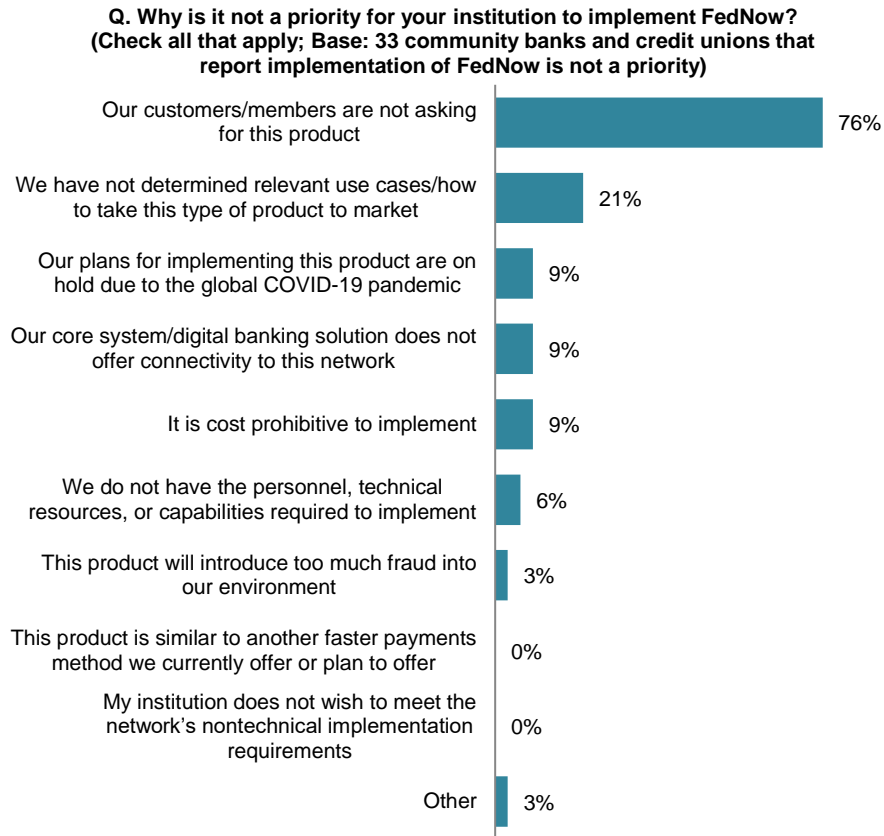
Figure 15: Anticipated Payments Volume for RTGS Systems 12 Months Post-Implementation



Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

Seventy-six percent of community banks and credit unions that report implementation of FedNow is not a priority state the low priority is due to the fact customers are not asking for the product. An additional 21% of community banks and credit unions that report implementation of FedNow is not a priority state they have not determined relevant use cases for taking the product to market (Figure 16). This is understandable given the timeline of implementation being so far out at this point.

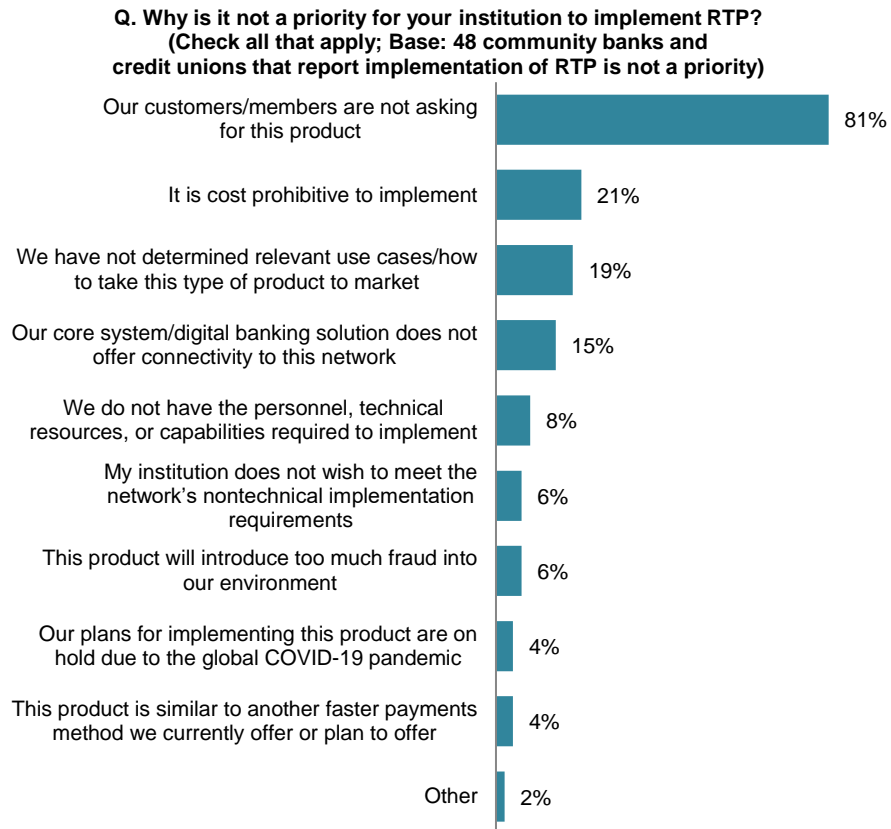
Figure 16: Reasons FedNow Implementation Is a Low Priority for Community Banks and Credit Unions



Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

Eighty-one percent of community banks and credit unions that report implementation of RTP is not a priority also state the low priority is due to the fact that customers are not asking for the product. An additional 21% of community banks and credit unions that report implementation of RTP is not a priority state RTP is cost prohibitive to implement, and another 19% state they have not determined relevant use cases for taking the product to market (Figure 17).

Figure 17: Reasons RTP Implementation Is a Low Priority for Community Banks and Credit Unions



Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

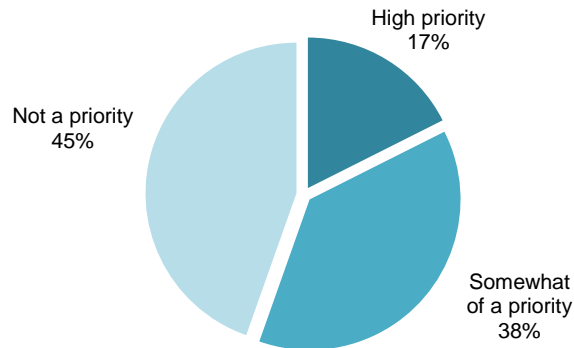
For RTP, much of the lack of customer/member requests comes from a lack of education in the market of the use cases and benefits of real-time payments. Without the education, there is a false sense of absence of interest in faster and real-time payment capabilities. With RTP being so new, especially compared to traditional payment methods, many end users are relying on their FIs to educate them on the benefits and use cases. These end users will eventually be educated and seek out or be courted by an FI that does provide real-time payment capabilities.

P2P PAYMENT SYSTEMS

Nearly half of community banks and credit unions that do not offer Zelle report that implementing Zelle is not a priority for their institutions, with just 17% reporting it is a high priority (Figure 18).

Figure 18: Community Bank and Credit Union Priorities for Implementing Zelle

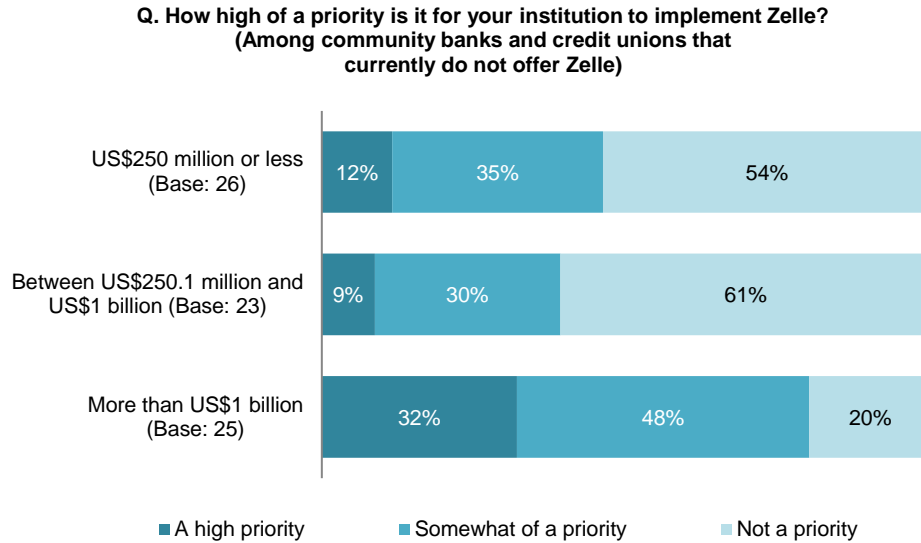
Q. How high of a priority is it for your institution to implement Zelle?
(Base: 74 community banks and credit unions that currently do not offer Zelle)



Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

Larger institutions report it is a higher priority to implement Zelle than smaller institutions. Just 20% of FIs with assets of more than US\$1 billion report that implementation of Zelle is not a priority, compared to 54% of FIs with assets of US\$250 million or less and 61% of FIs with assets between US\$250.1 million to US\$1 billion that report the same (Figure 19).

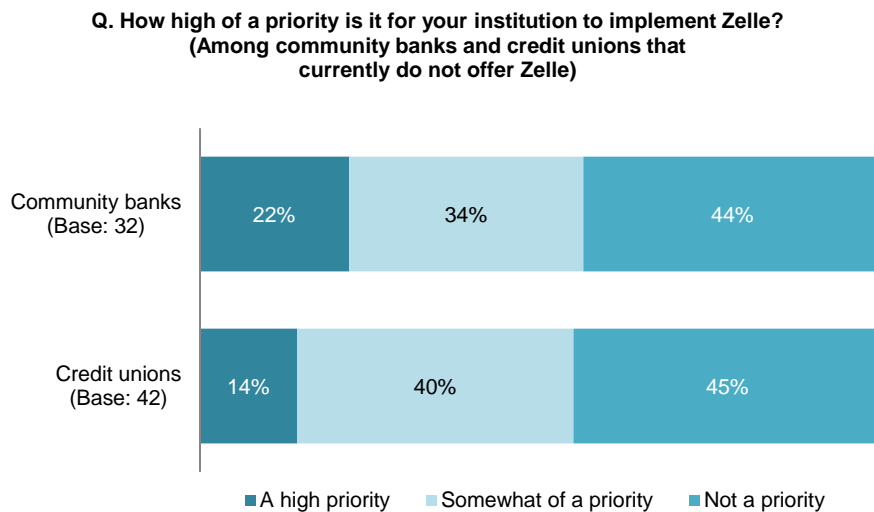
Figure 19: Community Bank and Credit Union Priorities for Implementing Zelle by FI Asset Size



Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

There are no significant differences between community banks and credit unions when it comes to prioritizing the implementation of Zelle. Twenty-two percent of community banks that do not offer Zelle report that implementing Zelle is a high priority, compared to just 14% of credit unions that do not offer Zelle reporting that implementing Zelle is a high priority (Figure 20).

Figure 20: Community Bank and Credit Union Priorities for Implementing Zelle by FI Type

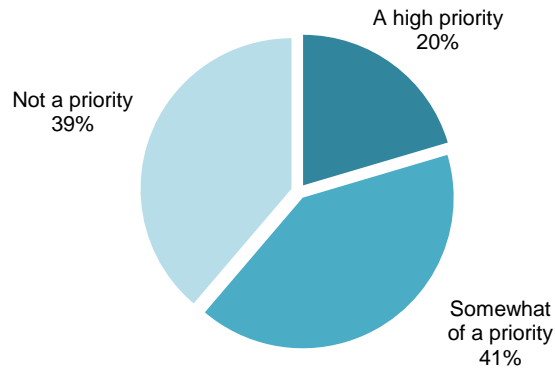


Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

Just 39% of community banks and credit unions that have a live P2P payment solution other than Zelle report it is not a priority to implement Zelle, with 20% of institutions reporting the implementation of Zelle is a high priority (Figure 21).

Figure 21: Community Bank and Credit Union Priorities for Implementing Zelle in Place of Another Live P2P System

Q. How high of a priority is it for your institution to implement Zelle?
 (Base: 49 community banks and credit unions that do not offer Zelle and that do offer a P2P payment solution other than Zelle)



Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

Just five community banks and credit unions surveyed that do not offer Zelle and for which the implementation of Zelle is not a priority report that implementing a P2P solution other than Zelle is somewhat of a priority, with eight institutions reporting it is not a priority (Table C).

Table C: Community Bank and Credit Union Priorities for Implementing a P2P Payment System Other Than Zelle by FI Type

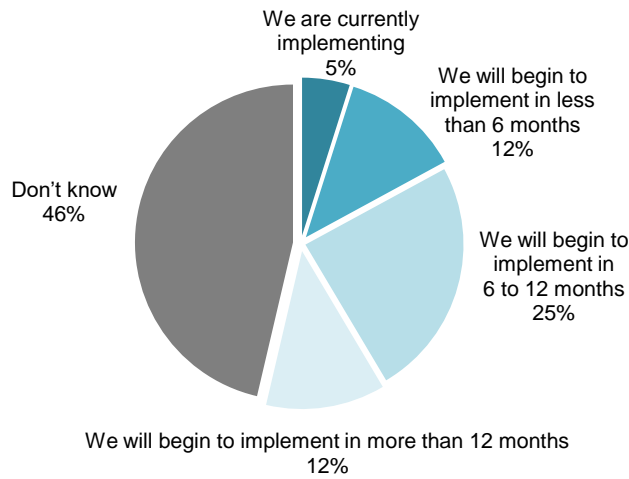
FI type	High priority	Somewhat of a priority	Not a priority
Community banks	0	2	3
Credit unions	0	3	5
Total	0	5	8

Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

Five percent of community banks and credit unions for which Zelle implementation is a priority are currently implementing Zelle, 12% will begin implementation in less than six months, and another 25% will begin implementation within six to 12 months (Figure 22).

Figure 22: Community Bank and Credit Union Implementation Timelines for Zelle

**Q. When do you plan on implementing each of the following?
(Base: 41 community banks and credit unions that currently don't offer Zelle, but it is a priority for the institution)**

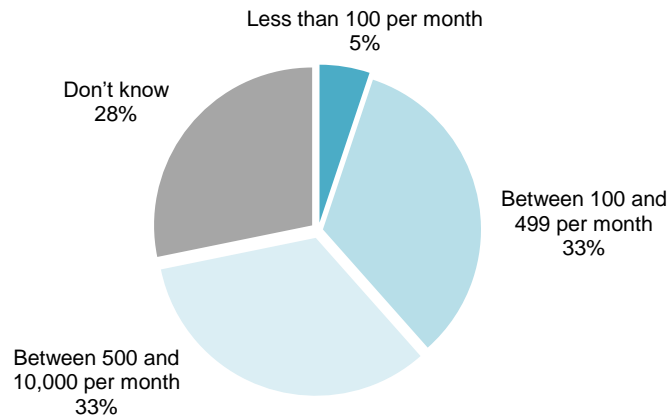


Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

Nearly one-third of community banks and credit unions for which Zelle implementation is a priority are uncertain about anticipated payment volume 12 months after the implementation of Zelle. One-third anticipate payment volume to be between 100 and 499 transactions per month, and another third anticipate between 500 to 10,000 transactions per month (Figure 23).

Figure 23: Anticipated Payment Volume for Zelle 12 Months Post-Implementation

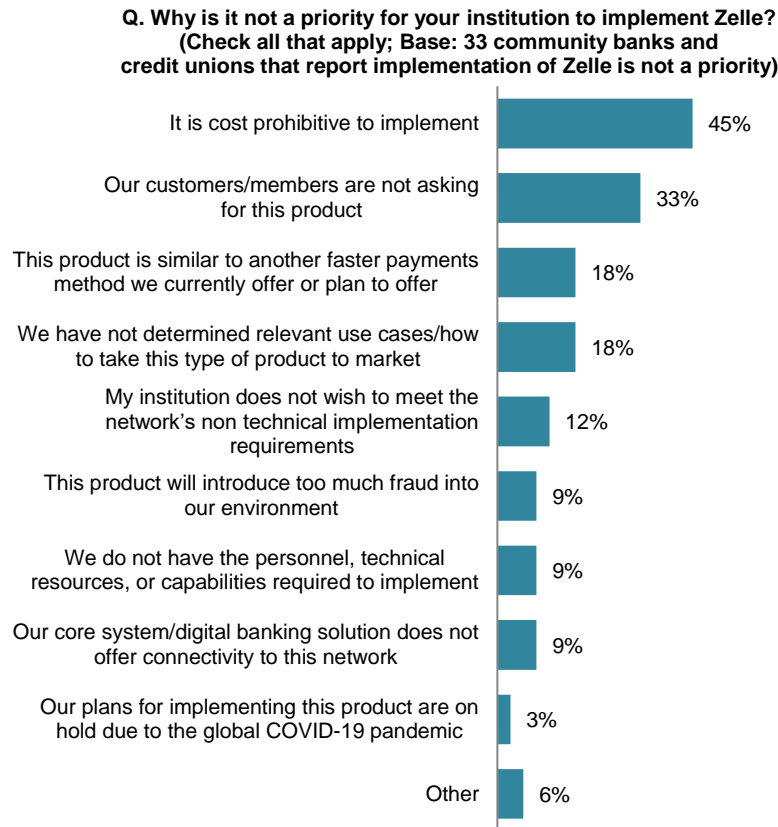
**Q. What do you anticipate your monthly transaction volume to be 12 months after you have gone live with each of the following?
(Base: 39 community banks and credit unions that don't currently offer Zelle, but it is a priority for the institution)**



Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

Forty-five percent of community banks and credit unions for which Zelle implementation is not a priority report that Zelle is cost prohibitive to implement, 33% report their customers/members are not asking for Zelle, and another 18% report Zelle is similar to another product offering and/or that they have not determined relevant use cases to take Zelle to market (Figure 24).

Figure 24: Reasons Zelle Implementation Is a Low Priority for Community Banks and Credit Unions

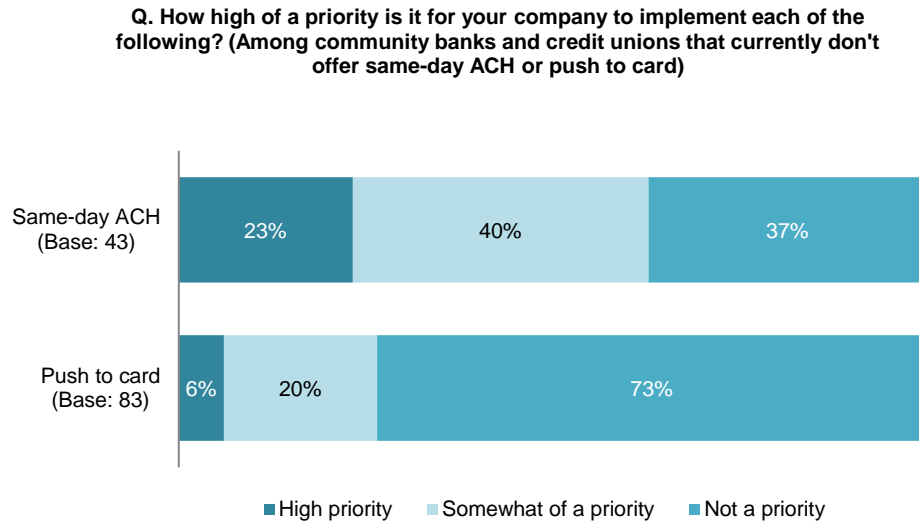


Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

OTHER FASTER PAYMENTS SYSTEMS

Twenty-three percent of community banks and credit unions that do not currently offer same-day ACH report that implementing same-day ACH is a high priority, with 37% reporting it is not a priority at all. Seventy-three percent of community banks and credit unions that do not offer push to card report that implementing push to card is not a priority at all (Figure 25).

Figure 25: Community Bank and Credit Union Priorities for Implementing Other Faster Payment Systems



Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

Larger institutions report that implementation of same-day ACH is a higher priority than smaller institutions, with seven FIs with assets of more than US\$1 billion reporting same-day ACH is a high priority compared to three FIs with assets between \$250.1 million to US\$1 billion and no FIs with assets of US\$250 million or less reporting the same (Table D).

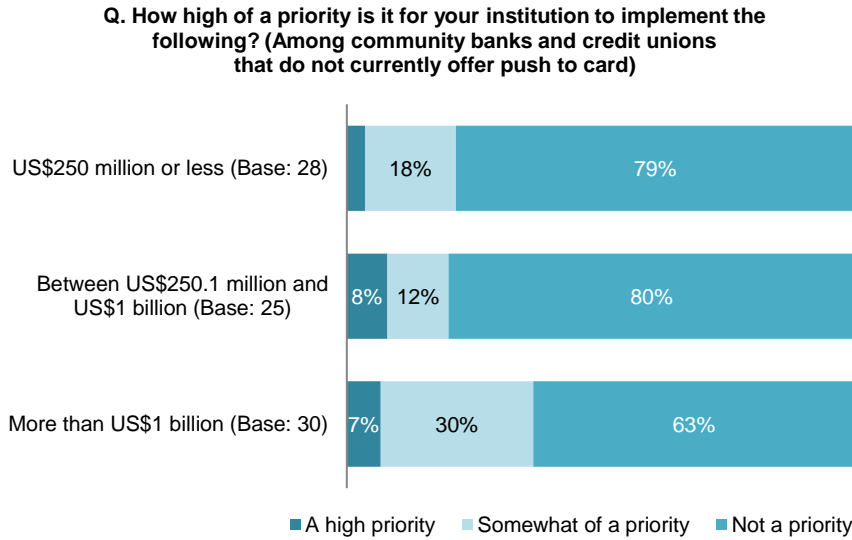
Table D: Community Bank and Credit Union Priorities for Implementing Same-Day ACH by FI Asset Size

FI asset size	High priority	Somewhat of a priority	Not a priority
	(Base: 43 FIs that do not currently offer same-day ACH)		
US\$250 million or less	0	6	8
US\$250.1 million to US\$1 billion	3	7	5
More than US\$ 1 billion	7	4	3

Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

It is more of a priority for larger institutions to implement push to card than it is for smaller institutions, with 37% of FIs with assets of US\$1 billion or more reporting it is a somewhat of a priority to a high priority to implement push to card, and approximately 20% of FIs with assets of less than US\$1 billion reporting the same (Figure 26).

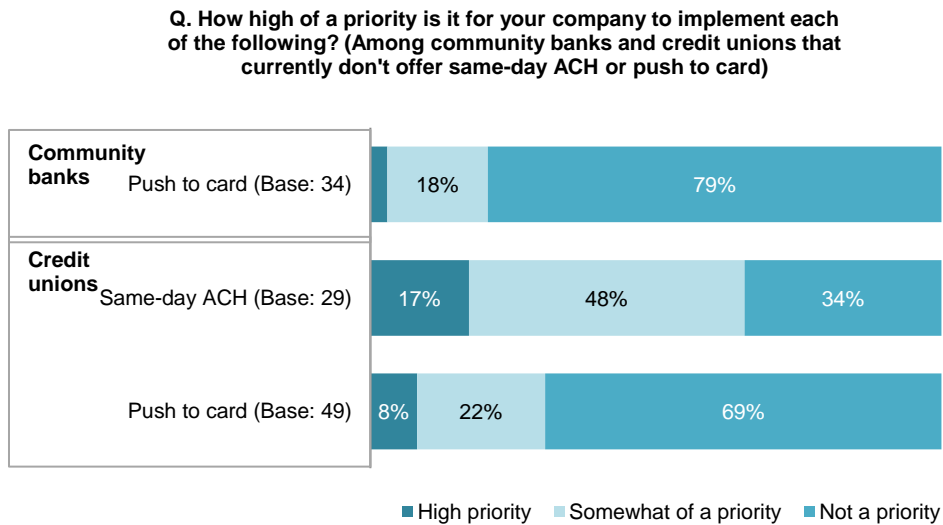
Figure 26: Community Bank and Credit Union Priorities for Implementing Push to Card by FI Asset Size



Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

Five of 14 community banks surveyed that do not currently offer same-day ACH report it is a high priority to implement same-day ACH (Table E), and 17% of credit unions that do not offer same-day ACH report it is a high priority to implement same-day ACH. Twenty-one percent of community banks that do not currently offer push to card report the implementation of push to card is a priority, and 30% of credit unions that do not currently offer push to card report the implementation of push to card is a priority (Figure 27).

Figure 27: Community Bank and Credit Union Priorities for Implementing Other Faster Payments Systems by FI Type



Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

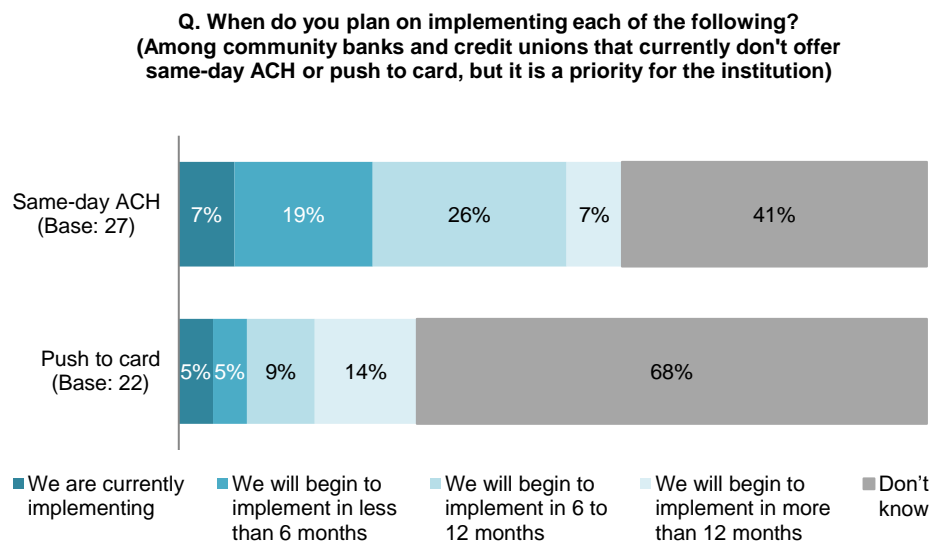
Table E: Community Bank Priorities for Implementing Same-Day ACH

FI type	High priority (Base: 14 community banks that don't currently offer same-day ACH)	Somewhat of a priority	Not a priority
Community banks	5	3	6

Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

Seven percent of community banks and credit unions that do not currently offer same-day ACH but report it is a priority are currently implementing same-day ACH, with another 19% planning to begin implementation in the next six months and another 26% planning to begin implementation in six to 12 months. Five percent of community banks and credit unions that do not currently offer push to card but report it is a priority are currently implementing push to card, and another 5% will begin implementation in the next six months (Figure 28).

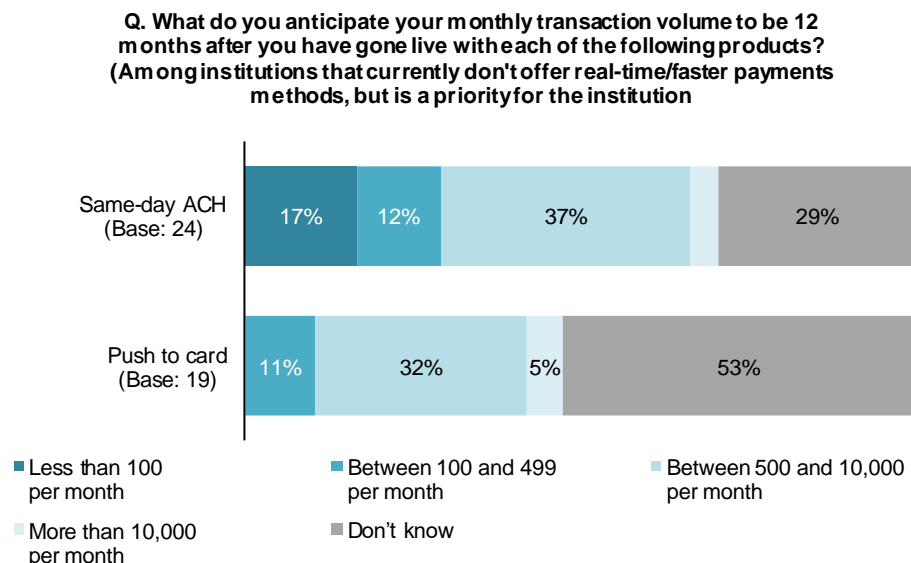
Figure 28: Community Bank and Credit Union Implementation Timelines for Other Faster Payments Systems



Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

Thirty-seven percent of community banks and credit unions that have prioritized same-day ACH implementation anticipate payment volume will be between 500 and 10,000 12 months post-implementation, and 32% that have prioritized push to card implementation report the same (Figure 29).

Figure 29: Anticipated Payment Volume for Other Faster Payments Systems 12 Months Post-Implementation



Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

Twelve community banks and credit unions surveyed for which the implementation of same-day ACH is not a priority report their customers/members are not asking for same-day ACH, and another four institutions surveyed report they have not determined relevant use cases for taking same-day ACH to market (Table F).

Table F: Reasons Same-Day ACH Implementation Is a Low Priority for Community Banks and Credit Unions

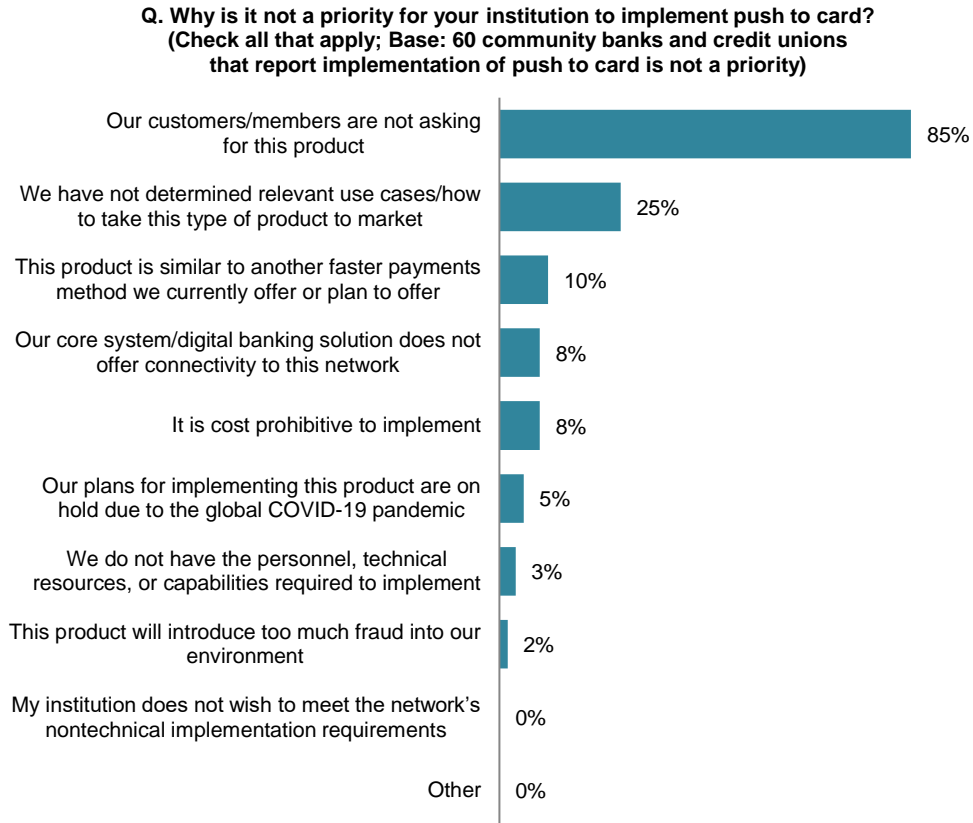
Q. Why is it not a priority for your institution to implement same-day ACH? (Check all that apply; base: 16 community banks and credit unions)	
Reason	Number of institutions
Our customers/members are not asking for this product	12
We have not determined relevant use cases/how to take this type of product to market	4
It is cost prohibitive to implement	3
This product will introduce too much fraud into our environment	3
Our core system/digital banking solution does not offer connectivity to this network	1
We do not have the personnel, technical resources, or capabilities required to implement	1

Q. Why is it not a priority for your institution to implement same-day ACH? (Check all that apply; base: 16 community banks and credit unions)	
Reason	Number of institutions
This product is similar to another faster payments method we currently offer or plan to offer	1
Our plans for implementing this product are on hold due to the global COVID-19 pandemic	1
My institution does not wish to meet the network's nontechnical implementation requirements	0
Other	0

Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

Eighty-five percent of community banks and credit unions for which the implementation of push to card is not a priority report their customers/members are not asking for push to card, and another 25% report they have not determined relevant use cases for taking push to card to market (Figure 30).

Figure 30: Reasons Push to Card Implementation Is a Low Priority for Community Banks and Credit Unions



Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

CONNECTING TO FASTER PAYMENTS NETWORKS

Connectivity to faster payments networks can be a challenge that some FIs feel ill-prepared to take on. Outside same-day ACH that utilizes the existing ACH network, connecting to a true real-time network requires the ability to provide 24/7/365 availability of funds received. Batch processing has been the norm for banking for decades, with ATM transactions being the only “always on” capability. In addition to the system requirements for availability, there are other hurdles, such as agreements, testing, and certification, that must be addressed and resolved. These can be demanding for internal resources that undoubtedly have competing priorities and, oftentimes, a lack of deep expertise in real-time connectivity.

The most important step in the faster payments journey is to enable receipt of real-time payments. While same-day ACH is faster, it is not a true real-time payments method. The windows are restrictive, and there is not 24/7/365 access to the system. Once connected to a real-time network, FIs are able to offer their clients best-in-class funds availability that helps their clients prosper financially. Once a connection has been established and clients can receive real-time transactions, the send capability is much more manageable, particularly if the FI’s cash management provider already has the needed front-end changes for initiation.

As would be expected, not all FIs can or should connect directly to a payment network. This is particularly true for RTP and Zelle, as The Clearing House and Early Warning Services have limited bandwidth when compared to the number of FIs in the U.S. that are in the process or will be in the process of implementing real-time capabilities. Many third-party vendors provide connection into the networks, but for most FIs with less than US\$10 billion in assets, it is most common and, arguably, easier to rely on their core banking provider. With the primary core providers in the U.S. currently live or in the process of going live with real-time capabilities, connectivity is becoming easier. However, there is still much work to be done for core providers to provide access to all of their FI clients. Table G outlines the current faster payments capabilities for the larger core providers serving community banks and credit unions.

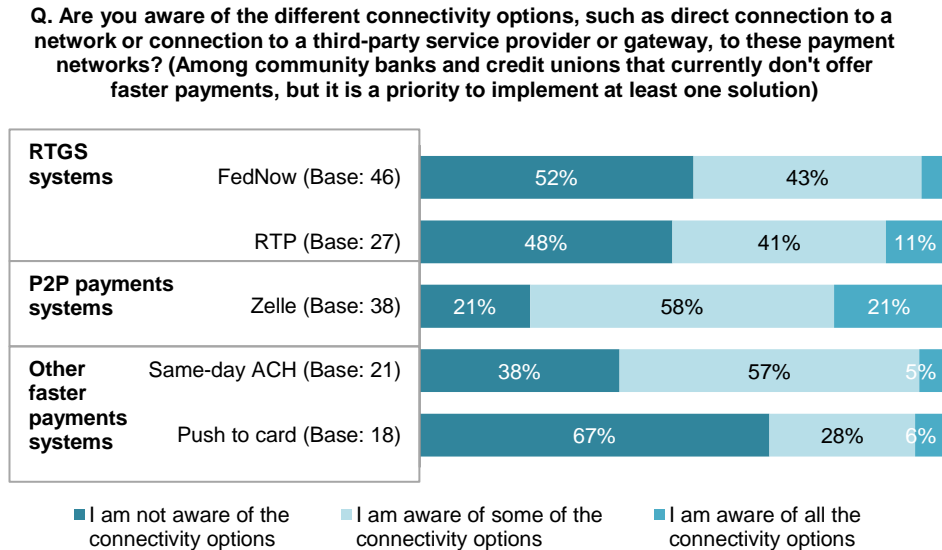
Table G: Core Provider Faster Payments Capabilities

Core provider	Status
FIS	Connected to RTP, Zelle, and push to card RTP available for IBS and Horizon clients
Fiserv	Connected to RTP, Zelle, and push to card
Jack Henry	Connected to RTP and Zelle Currently facilitates receive-only for RTP but will enable send for Silverlake clients in Q4 2020 Acquires push-to-card transactions through Zelle settlement

Source: Vendors and Aite Group

Education is still required for community banks and credit unions on faster payments connectivity options. Nearly half of community banks and credit unions not yet offering faster payments are unaware of the connectivity options for FedNow and RTP, with 67% of community banks and credit unions unaware of the connectivity options for push to card. As expected, awareness of connectivity options for Zelle and same-day ACH is slightly higher, with just 21% of community banks and credit unions unaware of the connectivity options for Zelle, and 38% of them unaware of the connectivity options for same-day ACH (Figure 31).

Figure 31: Market Awareness of Faster Payments Rails Connectivity Options

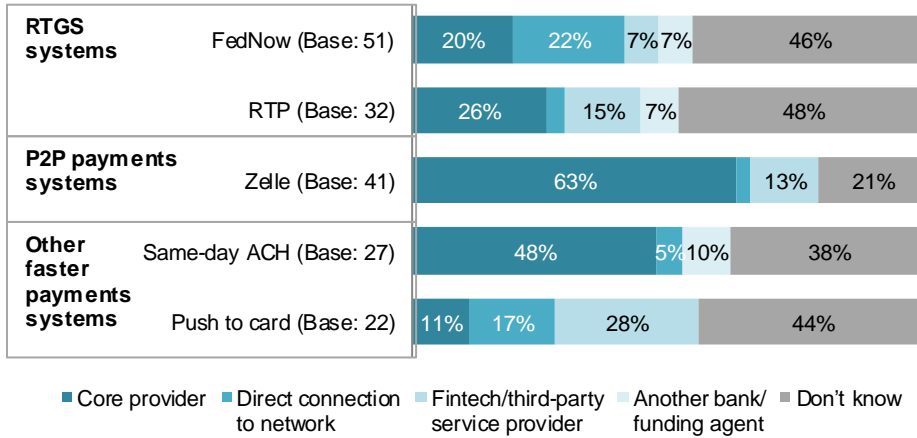


Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

Among community banks and credit unions for which it is a priority to implement faster payments, there is still uncertainty around the implementation approach for most faster payments rails, with nearly half of community banks and credit unions reporting they do not know how they will connect to the rails for FedNow, RTP, or push to card. By contrast, 63% of community banks and credit unions plan to connect to Zelle through a core provider, and 48% plan to connect to same-day ACH the same way (Figure 32).

Figure 32: How Community Banks and Credit Unions Plan to Connect to Faster Payments Rails

Q. How do you plan to connect with each of the following payment networks? (Among community banks and credit unions that currently don't offer faster payments method, but it is a priority for the institution)



Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

Overcoming this lack of education of connectivity options in the market is going to be critical moving forward. Much of the onus lies with core providers and technology providers to help their current and prospective FI clients understand not only the technical requirements for implementing faster payments but also the benefits, uses cases, and marketing strategies for the end users. The potential opportunity cost of not developing a faster payments implementation plan cannot be overstated. Although the market is still maturing, there will certainly come a time when faster payments offerings are table stakes to FIs of all sizes.

INCREASING MARKET AWARENESS FOR PLANNED FASTER PAYMENTS INITIATIVES

Without demands from a governing body, it is difficult to educate a very fragmented financial landscape about the technical aspects of payments. As mentioned previously, digital wallets such as Venmo, CashApp, and PayPal revolutionized frictionless P2P payments, even though they are not true real-time systems. The funds are instantly available in the digital wallet to move within the application, but moving them to an FI account is done through traditional ACH. As an aside, PayPal now has the option to move funds to a bank account using the RTP rails, but end users must bank at an RTP-enabled FI and pay a premium for this option. These digital wallets gained popularity primarily through word of mouth and trending activity. FI technology is not generally viewed as trendy, and with the very large number of FIs in the U.S., there is no unifying recognition, such as an app that everyone has access to on a mobile device.

Because of this disparity of ubiquity in the FI landscape, there is an incredible amount of education needed to create awareness of functionality across FIs. Zelle has helped with this, but it is still dependent on an end user's FI participating in the network. An effective go-to-market strategy is essential to increasing adoption within an FI. It is up to the FIs to move the industry along in understanding and adoption, which will benefit every FI's return on investment.

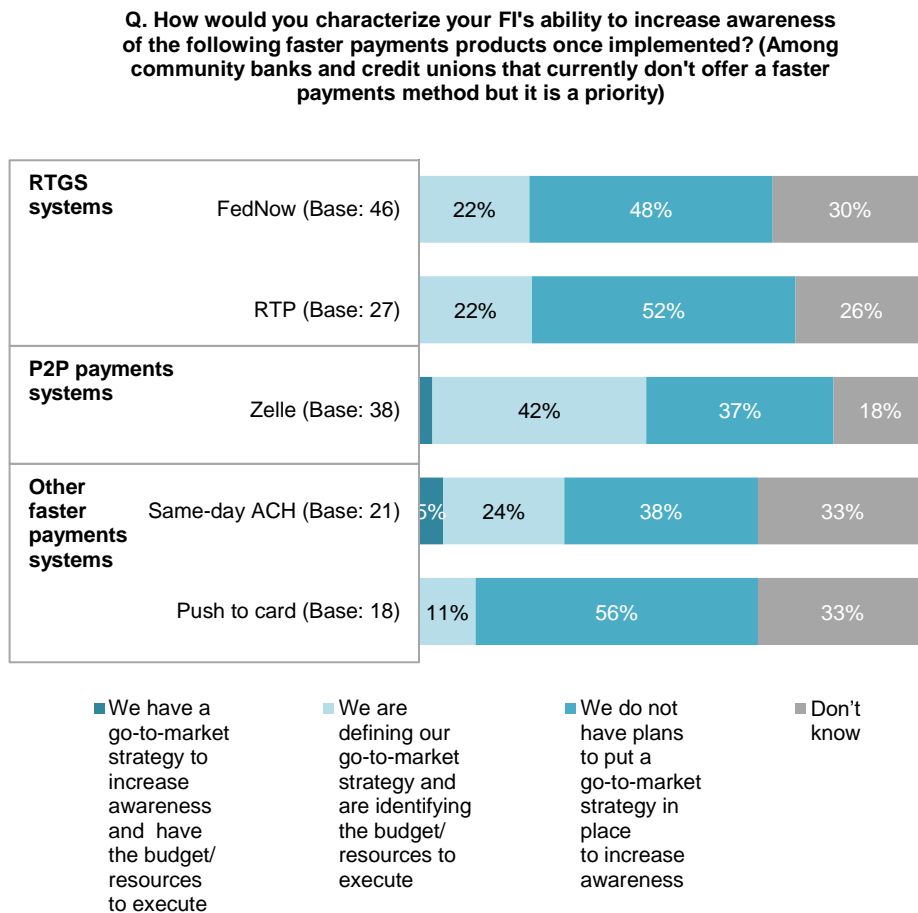
The most important factor in favor of increasing awareness and having a go-to-market strategy for faster payments is the knowledge that competitor FIs are actively talking to and courting clients across segments to take advantage of their early adoption. There is an opportunity cost that should not be ignored as more banks complement their existing payments functionalities with faster payments options to better serve the liquidity needs of their clients. Once individuals and businesses understand that there is functionality available that can help them get their money faster, it is a matter of time before they will seek out an FI that can meet this expectation. On the send side, businesses that are using the ability to pay recipients in real time are using this as a competitive advantage, and those that cannot compete will also seek out an FI that can meet this demand. For sure, receive is the most pressing need in the current market. Thinking about the impacts of the COVID-19 pandemic, getting money faster can be dire for many individuals and small businesses. As one example of potential opportunity cost, some payroll companies are accessing public information and actively advertising which banks are RTP-enabled to provide a differentiated payroll experience for their clients. This is significant and unprecedented in the market up until this point.

Even if an FI is not currently enabled for real-time payments, communication of future plans and awareness of market demand is a key component of interim client retention, as users are more easily persuaded to change FIs for access to faster payments functionality.

Currently, more than half of community banks and credit unions do not have plans to put a go-to-market strategy in place or are not aware of plans to put a go-to-market strategy in place to increase awareness for faster payments products that it is a priority to offer. Just 3% of community banks and credit unions have a go-to-market strategy in place for Zelle, and just 5% have a go-to-market strategy in place for same-day ACH. Forty-two percent of community banks and credit unions are defining their go-to-market strategy for Zelle, which is significantly higher

than the percentage of community banks and credit unions defining go-to-market strategies for other faster payments products (Figure 33).

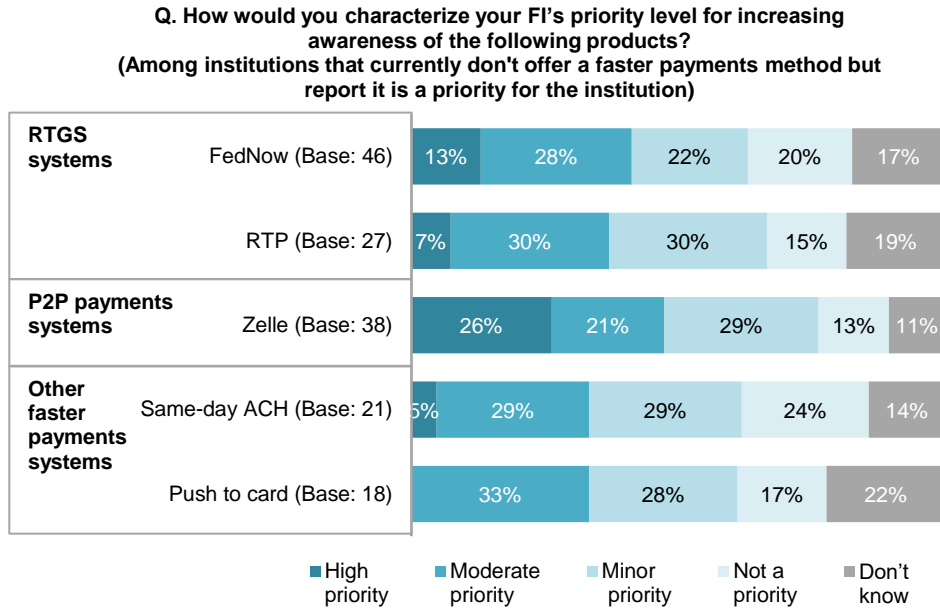
Figure 33: Community Bank and Credit Union Ability to Create Market Awareness for Planned Faster Payments Initiatives



Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

While many community banks and credit unions report not having plans to put a go-to-market strategy in place to increase awareness of planned faster payments initiatives, many report that it is a priority to increase market awareness for their planned faster payments initiatives. This is important due to the need for this market awareness to increase adoption at these FIs. Larger banks are helping to educate the market at large through advanced marketing, webinars, and case studies and are acquiring new clients in the process. Forty-seven percent of community banks and credit unions report it is a moderate to high priority to increase market awareness for planned Zelle initiatives, 41% report the same for planned FedNow initiatives, and 37% also report the same for planned RTP initiatives (Figure 34).

Figure 34: Community Bank and Credit Union Priority for Increasing Market Awareness for Planned Faster Payments Initiatives



Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

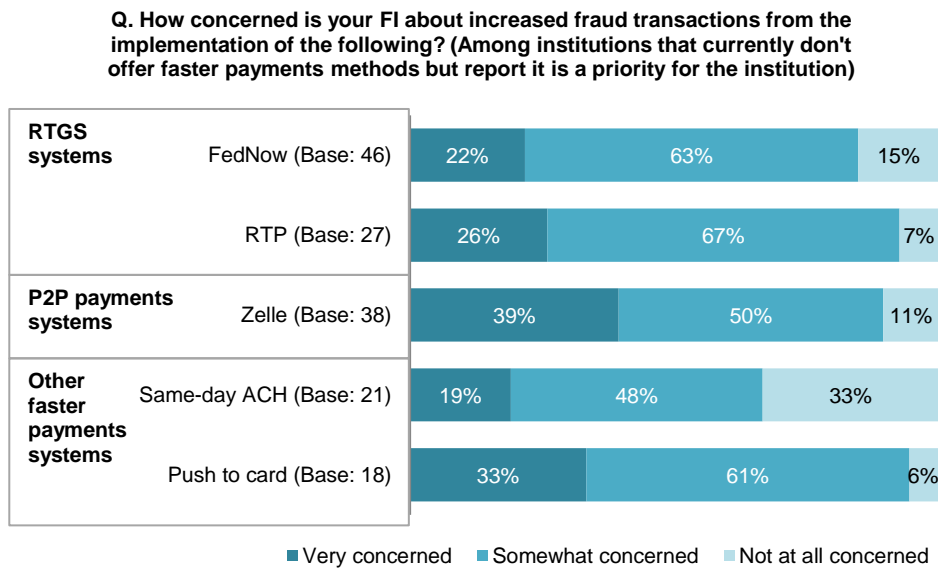
CONCERNS ABOUT FASTER FRAUD

Fraudsters scheming to gain access to funds illegally is a continued battle with which the financial industry continues to be challenged. Fraudsters are constantly evolving how they attack and are absolutely relentless. Fraud can and does happen across all payment types, but there is definite concern in the market about faster payments creating faster fraud. Overall, electronic payment fraud seems to be trending mostly flat due in part to the advancing fraud monitoring and technology that FIs have implemented. Now there is a shift away from attacking the FIs and going after the consumer and business end users. This is accomplished through scams such as business email compromise and social engineering. The downward fraud trends actually look much different when considering the losses of individuals and businesses outside their FI’s control.

The introduction of faster payments simply provides a new opportunity for fraudsters to attack and to reduce the traceability of funds much quicker than ever before. With real-time payments, the ability to move funds instantly and several times daily is a fraudster’s dream. However, none of the early adaptor banks have reported any increased fraud activity related to RTP as a true real-time network offering, which is a prime candidate for faster payments fraud.

As expected, most community banks and credit unions are concerned about an increase in fraud due to planned faster payments initiatives. Eighty-nine percent of community banks and credit unions are concerned about an increase in fraud due to the implementation of Zelle, 93% are concerned about an increase in fraud due to the implementation of RTP, and 85% are concerned about an increase in fraud due to the implementation of FedNow (Figure 35).

Figure 35: Community Bank and Credit Union Concerns About Increase in Fraud for Planned Faster Payments Initiatives



Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

It is important to note that there has been very little to no increase in fraud activity at institutions that have already implemented faster or real-time payments. The focus on penetrating victims directly rather than through FI channels makes the mitigation at the end-user level critical.

HOW TO MITIGATE FRAUD

Taking an active role in fraud trends and prevention is an obvious component in building a mitigation strategy. There are many resources available to assist FIs with staying on top of fraud information:

- Bank Policy Institute's BITS Fraud Working Group and Steering Committee
- The National Cyber-Forensics and Training Alliance (NCFTA)
- Financial Services Information Sharing and Analysis Center (FS-ISAC)
- American Bankers Association (ABA) Fraud Working Group
- AFP Fraud Survey
- Federal Reserve Bank (FRB)
- The Clearing House (TCH)

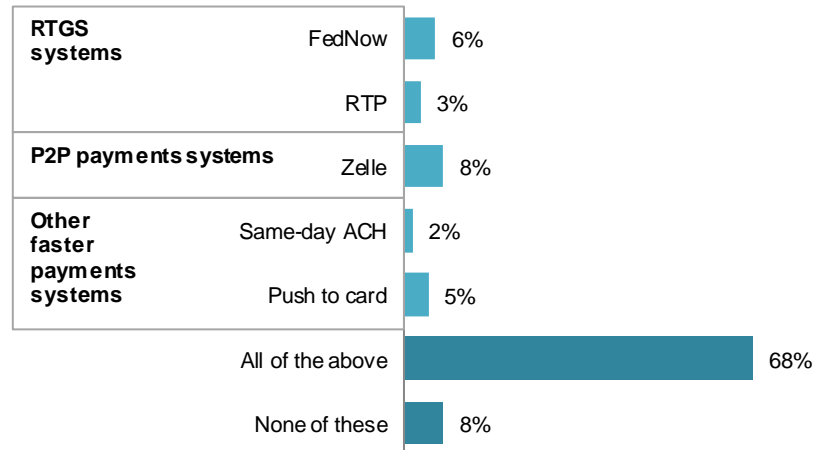
Many FIs recognize the need to accentuate fraud protections to keep clients as well as themselves secure through real-time transaction monitoring and interdiction and channel monitoring controls. All of these are extremely important, but where fraud continues to increase exponentially is outside the representative four walls of the bank. Educating individuals and businesses on how to protect themselves and take an active role in fraud prevention, particularly faster payments fraud, is critical.

THE IMPORTANCE OF COMMUNICATION

Communication is a key factor in fraud prevention. It is great news that 68% of community banks and credit unions plan to increase fraud prevention communications to their customers/members for all of their planned faster payments initiatives, with just 8% of institutions reporting they do not plan to increase fraud prevention communications (Figure 36).

Figure 36: Community Bank and Credit Union Planned Customer/Member Faster Payments Fraud Prevention Communications

Q. Once implemented, for which products do you plan to have enhanced or increased communications with your customers about their responsibilities or actions they can take to proactively prevent fraud? (Base: 66 institutions that currently don't offer faster payments methods, but is a priority for the institution)



Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

Educating end users on how to protect themselves takes repetition and easily accessible, digestible information. This not only helps to prevent fraud but also strengthens the relationship and reputation of the FI to its consumers or business clients or members. FIs should start by creating awareness of tactics that fraudsters commonly use, including the following:

- Emails that have spelling or grammar errors that do not seem typical for professional communication
- Email addresses or internet links that are close to a legitimate company name but are not exactly right
- Urgent request for the release or sending of funds from business leadership that is uncharacteristic of past practices
- Emails that appeal to their emotions asking for an end user to click a link or provide information in relation to a current event, such as a pandemic or traumatic new event
- Being asked for any credentials or sensitive information via phone or email that was not user-initiated and standard for confirmation of identity

For businesses in particular, consider what happens when there may have been a potential fraud incident or action that could lead to fraudulent activity:

- A culture that promotes security and is fully aware of the potential threats they may be targeted for

- Internal audit controls for dual approval of funds initiation, changes to payment instructions, updates to templates, addition of new users with transactional permissions, and access to sensitive account information
- A process for employees to report suspected payment fraud activity as well as what to do if individuals think they may have fallen victim to a fraudster
- Understanding of insurance policies related to fraud
- Regular process reviews to identify new risks or gaps in the current processes

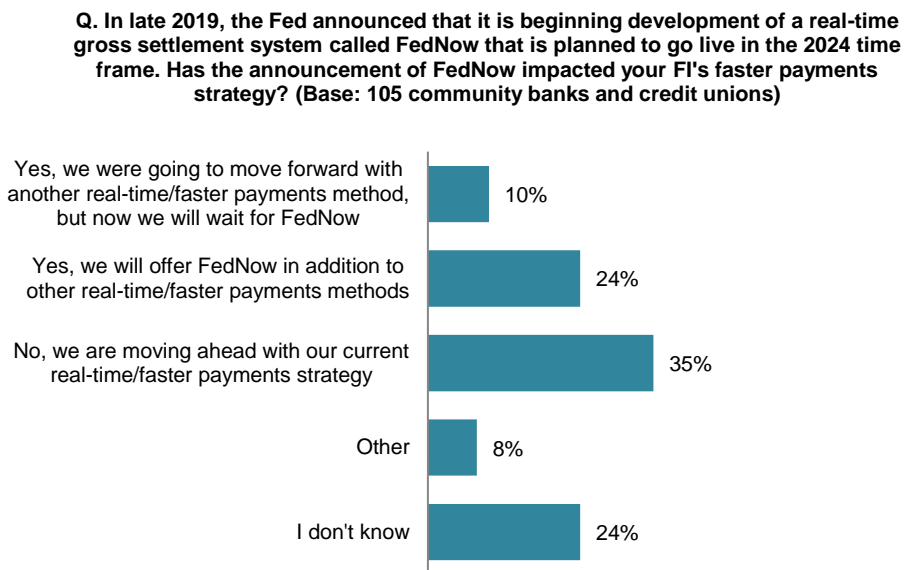
These are some simple examples of how FIs can help their clients and members protect themselves against fraud. Fraud attempts that target the end user directly are very hard for an FI to prevent, but being a steward and good partner is absolutely possible.

IMPACTS OF FEDNOW

When the Federal Reserve first announced the development of a new RTGS system in 2018, the market was buzzing with excitement about what the system capabilities would be and when it would be available. At this point, The Clearing House already had a solution in place, so this was very unexpected. In 2020, it is known that the system will not go live until at least the 2023 to 2024 timeline, but the technical requirements and interoperability of the system are still widely unknown.

At this point, the announcement of FedNow has not significantly impacted community bank and credit union faster payments strategies. Just 10% of community banks and credit unions are planning to implement FedNow in lieu of another faster payments system, 24% will implement FedNow in addition to other faster payments systems, and 35% are moving ahead with their current faster payments strategy (Figure 37).

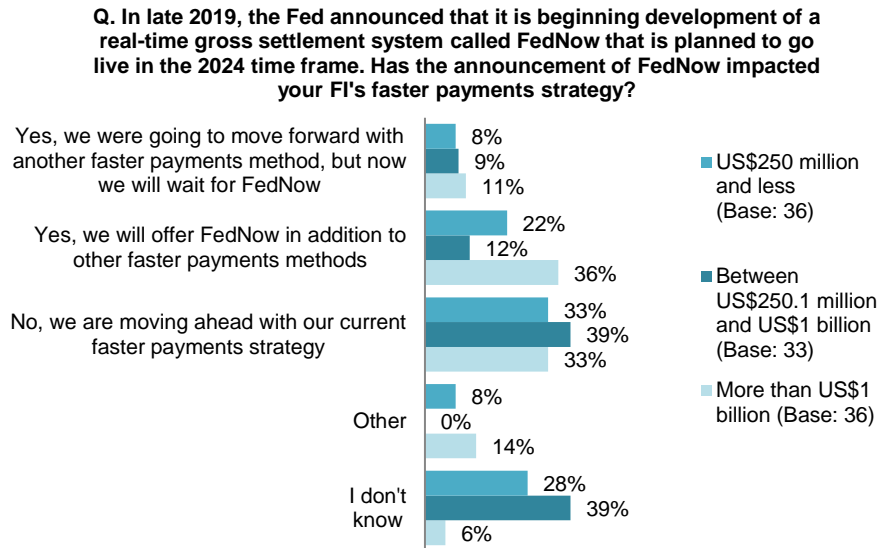
Figure 37: Impacts of FedNow on Community Bank and Credit Union Faster Payments Strategies



Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

The announcement of FedNow has added some confusion in the market, but many FIs are moving ahead with faster payment implementations. In fact, approximately one-third of all institutions report the announcement of FedNow has not impacted their faster payments strategy, and they are moving forward as planned (Figure 38).

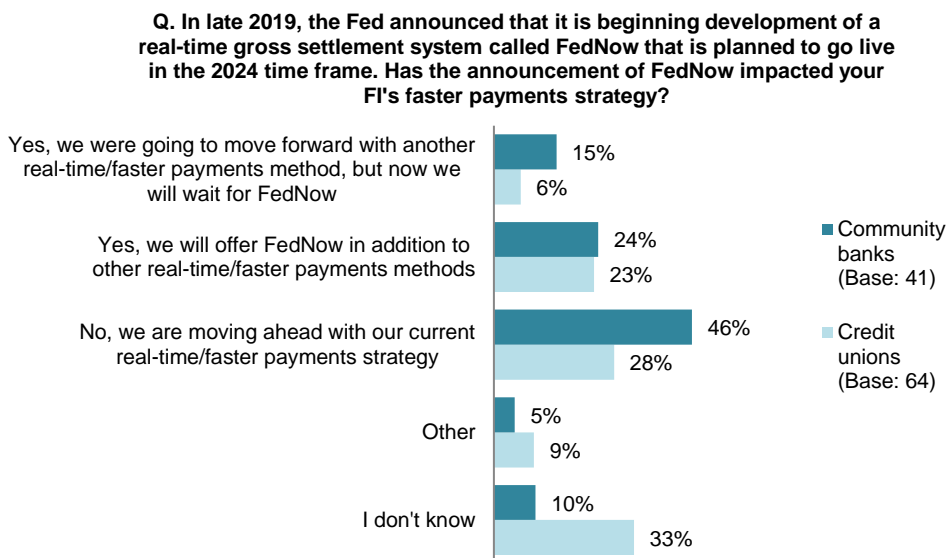
Figure 38: Impacts of FedNow on Community Bank and Credit Union Faster Payments Strategies by FI Asset Size



Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

Fifteen percent of community banks report they plan to implement FedNow in lieu of another faster payments system, and 6% of credit unions report the same. Forty-six percent of community banks report the announcement of FedNow has not impacted their faster payments strategy, and they are moving forward as planned, compared to 28% of credit unions that report the same (Figure 39).

Figure 39: Impacts of FedNow on Community Bank and Credit Union Faster Payments Strategies by FI Type



Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

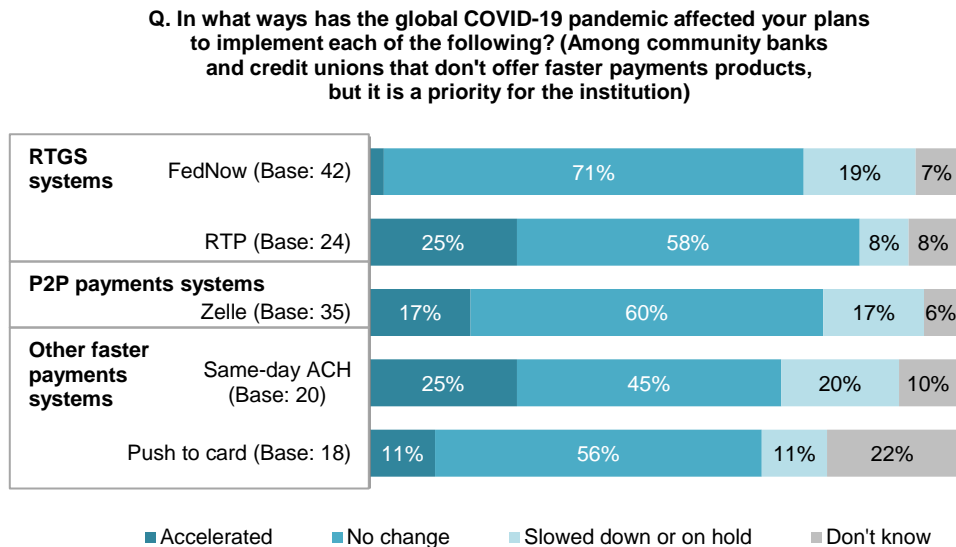
The biggest consideration for FIs that may be waiting for FedNow is that the market momentum is continuing to mature more quickly than FedNow will become available. There will for sure be an opportunity cost to waiting, and each FI will have to make the decision of just how impactful that will be to its future retention and growth in the market. Also, because interoperability is yet unknown, FIs need to consider who will be available to transact with at the time of go-live. Although the current number of banks on the RTP network is less than 100, RTP currently reaches well over half of all the DDA accounts in the U.S. Many of the FIs live today report that they will offer FedNow, but this will be an additional option, not an alternative to RTP.

FASTER PAYMENTS POST-COVID-19 PANDEMIC

Many FIs report increased demand for real-time payments due to the COVID-19 pandemic. Cash and checks are viewed as dirty by many people, which is one reason for the uptick in interest. Also, liquidity is the life blood for many individuals and small businesses right now. The quicker and easier funds can be collected, the better for obvious reasons, including making rent, paying suppliers, and paying employees. Some smaller FIs have not seen the increase as much due to the lack of education in the market on the possibilities of real time as well as the do-or-die priorities that may be competing within FIs themselves.

For the most part, the COVID-19 pandemic has not changed community bank and credit union faster payments implementation plans. Twenty-five percent of community banks and credit unions report their RTP implementation plans have accelerated, and 17% report their Zelle implementation plans have accelerated (Figure 40).

Figure 40: Effects of the COVID-19 Pandemic on Faster Payments Implementation Plans



Source: Aite Group survey of 117 community banks and credit unions, Q2 2020

CONCLUSION

When developing a faster payments strategy, community banks and credit unions should consider the following:

- Demand for faster and real-time payments is accelerating for business payments. This segment should not be overlooked when developing a faster payments strategy.
- Much of the lack of customer/member requests comes from a lack of education in the market of the use cases and benefits of real-time payments. End users are relying on their FIs to educate them on the benefits and use cases.
- Not all FIs will or should connect directly to a faster payments network. Core providers and third-party fintech providers can be leveraged to make the process easier and more accessible.
- Demonstrating market awareness and providing customers/members with information on faster payments, even if an FI is not currently enabled for faster payments, is a key component of interim client retention, as users are more easily persuaded to change FIs for ones that are able to educate them on faster payments and the benefits.
- Faster payments does not necessarily equal faster fraud. Faster payments networks have not experienced significant fraud, but fraudsters are focusing on the end user instead. Communicating with end users and educating them on how to identify and mitigate fraud is an important role of FIs.
- FIs should not blindly wait for the launch of FedNow as an alternative to RTP for servicing business clients and members. With a launch in the 2023 to 2024 time frame, it is important to consider the opportunity cost of not implementing sooner.

RELATED AITE GROUP RESEARCH

Faster Payments for Community Banks and Credit Unions: Market Overview, September 2020.

Time for Action! Making the Business Case for Real-Time Payments, July 2019.

Real-Time Payments: Linking Adoption and Connectivity, April 2019.

Business-to-Consumer Disbursements in the U.S.: The Frictionless Future, February 2019.

Person-to-Person Payments in the U.S.: The Case for Real Time, February 2019.

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