

# Fasten your seat belts: Real-time, business-to-business payments are preparing for takeoff

Deloitte Center for Financial Services

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The practice of real-time payments (RTP) is almost 50 years old. In April 1973, Japan became the first country to pioneer a real-time gross settlement service with the Zengin system, which operated during business hours on working days.<sup>1</sup> Although progress was slow, RTP has now been adopted in more than 70 countries.<sup>2</sup> And more countries and services are expected to join.

In the United States, instant payments became a reality with The Clearing House's (TCH) RTP system, which processed 49 million real-time transactions worth US\$22.7 billion in 4Q 2022, growing 10% each quarter.<sup>3</sup> And the Federal Reserve-backed FedNow launched recently in July 2023.<sup>4</sup>

One of the significant factors behind the growth in RTP in the United States is payroll processing, which allows employers to offer instant payroll capabilities and employees immediate access to their earned income.<sup>5</sup> But real-time payments services could be utilized much more broadly.

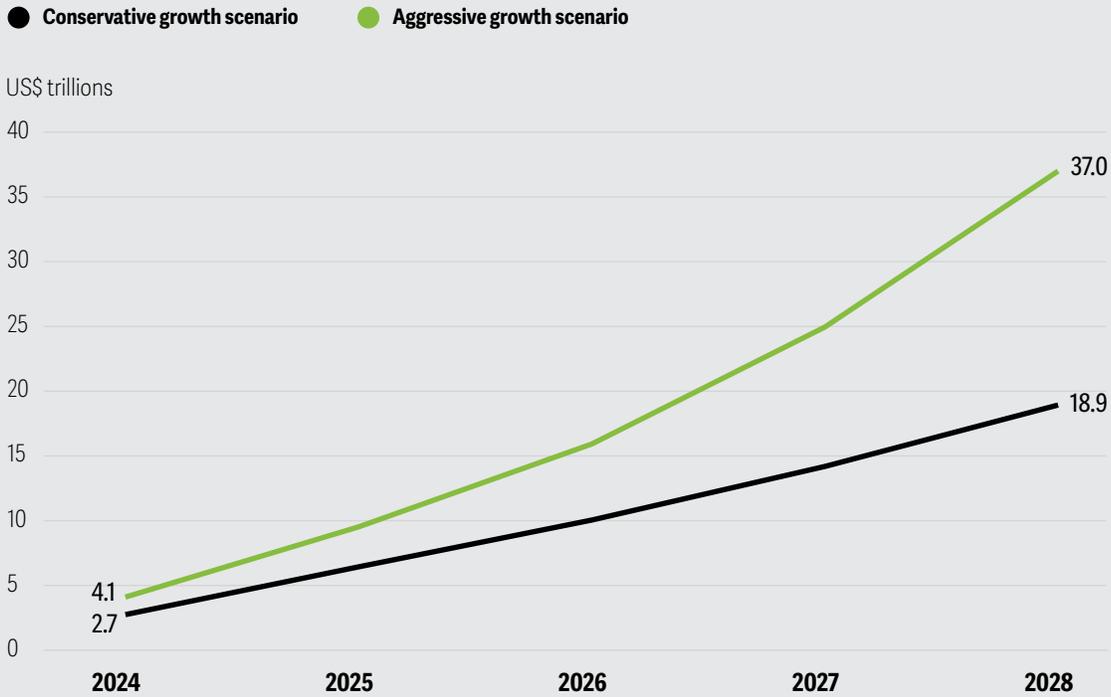
B2B payments should present one of the strongest growth opportunities in real-time payments for banks and payments firms. In a conservative growth scenario, Deloitte predicts that real-time payments could replace US\$18.9 trillion in automated clearinghouse (ACH) and check-based B2B payments in the United States by 2028 (figure 1). In an aggressive growth scenario, that number could jump to US\$37.0 trillion. And here's why.



Figure 1

## US businesses could transition a share of their regular ACH payments and checks with multiday settlement windows to real-time payment rails over the next five years

Expected shift in B2B payments from regular ACH and checks to real-time payment rails, 2024–2028



Source: Deloitte Center for Financial Services forecasts based on Nacha's B2B ACH transaction data and the Federal Reserve's commercial check transaction data.



## Most B2B payments are slow and vastly inefficient

**F**or decades, paper-based B2B payments have been fraught with inefficiencies. They are slow and often expensive.<sup>6</sup> Consider the US\$8.9 trillion in commercial-check-payments in the United States that companies still use for record-keeping purposes.<sup>7</sup> Meanwhile, many of the nonpaper-based B2B ACH payments are still handled through an end-of-day batch process and settled within two to three business days. Yet, it remains one of the most cost-effective payment methods, as US businesses made US\$52.5 trillion in ACH payments in 2022.<sup>8</sup> Same-day ACH can offset some of these inefficiencies for businesses at a domestic level.

And the US\$37 trillion cross-border B2B payments<sup>9</sup> can be even more complex, expensive, and time-consuming. The challenges businesses had with B2B payments in supply chain financing during the pandemic is one example.

In a survey of global business executives, about two-thirds of respondents said they typically pay US\$10–US\$50 in cross-border fees; a similar proportion paid

0.25%–3% in foreign exchange fees.<sup>10</sup> And about 70% reported delays of up to 10 days in receiving or sending cross-border payments, with businesses in Singapore and Germany reporting the longest delays.<sup>11</sup> When asked about their payment methods, more than one-half used wire transfers (one of the most expensive methods) and bank transfers; 28% used e-checks; and 17% used physical checks and cash.<sup>12</sup>

Some of these issues may not just be related to the payment, but to the nature of the transactions and the parties themselves. Transitioning to real-time payments, therefore, may not be a panacea for all challenges, but it should help address some. For instance, real-time payments can improve corporate treasurers' and finance teams' payments experience. In a 2022 survey of US finance executives, 47% of respondents said that creating a B2B payments customer experience similar to P2P payments is their most important payment-transformation initiative for the year ahead.<sup>13</sup> In another survey of US real estate executives, although only 1% used real-time payments, 84% of them believed that RTP will replace checks for making payments.<sup>14</sup>

# Benefits of B2B RTP could extend beyond payments



In addition to driving business growth across borders and giving access to new markets, real-time payments would also add more transparency to the otherwise fragmented and unpredictable B2B payments landscape. Many RTP systems use International Organization for Standardization (ISO) 20022 messaging standards that enable two-way communication, such as “request for payment,” “request for information,” and “confirmation of payment.” Based on the ISO 20022 standards, RTP would also allow banks to overlay richer insights and value-added services and help modernize B2B transactions end to end, such as automated matching of purchase orders to invoices, virtual account services, e-invoices for payment initiation, and account reconciliation for B2B clients. These value-added services could be even more important in an increasingly networked economy, where businesses are more intertwined, and faster flow of information and faster transfer money go hand-in-hand. They would become table stakes.

In particular, real-time payments could benefit many small and mid-sized businesses that are challenged by limited transaction visibility, high processing costs, manual invoicing and accounts payable processing, and payment delays in their B2B payments.<sup>15</sup> The speed of real-time settlement should free up businesses’ working capital, reduce the need to maintain high cash buffers, and increase the velocity of money in the economy.<sup>16</sup> It could also give these businesses flexibility to pay and receive payments closer to the due date. Complementing real-time payments with real-time balance and transaction reporting could improve cash visibility. In addition to faster money flows and richer data, RTP could help businesses mitigate check kiting (where fraudsters take advantage of the float time it takes to settle checks in order to transact against uncollected funds).<sup>17</sup>



## **Taking off the runway in the B2B RTP space domestically and across borders**

**M**any banks have started to launch RTP integrations for their corporate clients in the United States. In 2019, Wells Fargo and HSBC offered their US business customers application programming interfaces (APIs) to integrate to the TCH RTP system, allowing them the ability to send and receive faster payments.<sup>18</sup>

Aiming to be early movers in this space, payments network firms have launched their own cross-border real-time payment services for businesses.<sup>19</sup> Similarly, some technology organizations and fintechs are experimenting with digital currencies to facilitate decentralized cross-border value exchange over blockchain.<sup>20</sup>



## **Instant B2B payments across borders are in the pilot stage—for now**

**C**ross-border B2B payments is another untapped market with enough room for multiple solutions to coexist at a global level, including truly interoperable real-time payment rails in the next five years. In 2022, SWIFT, TCH in the US, and EBA Clearing in Europe launched a pilot platform

for cross-border payments in USD and Euro, called Immediate Cross-Border Payments (IXB).<sup>21</sup> This platform aims to expand to other currency corridors as well. In a bilateral exchange, Thailand and Singapore enabled cross-border payments between the two countries by linking their real-time payment networks.<sup>22</sup>

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## OVERCOMING FRICTION IN RTP

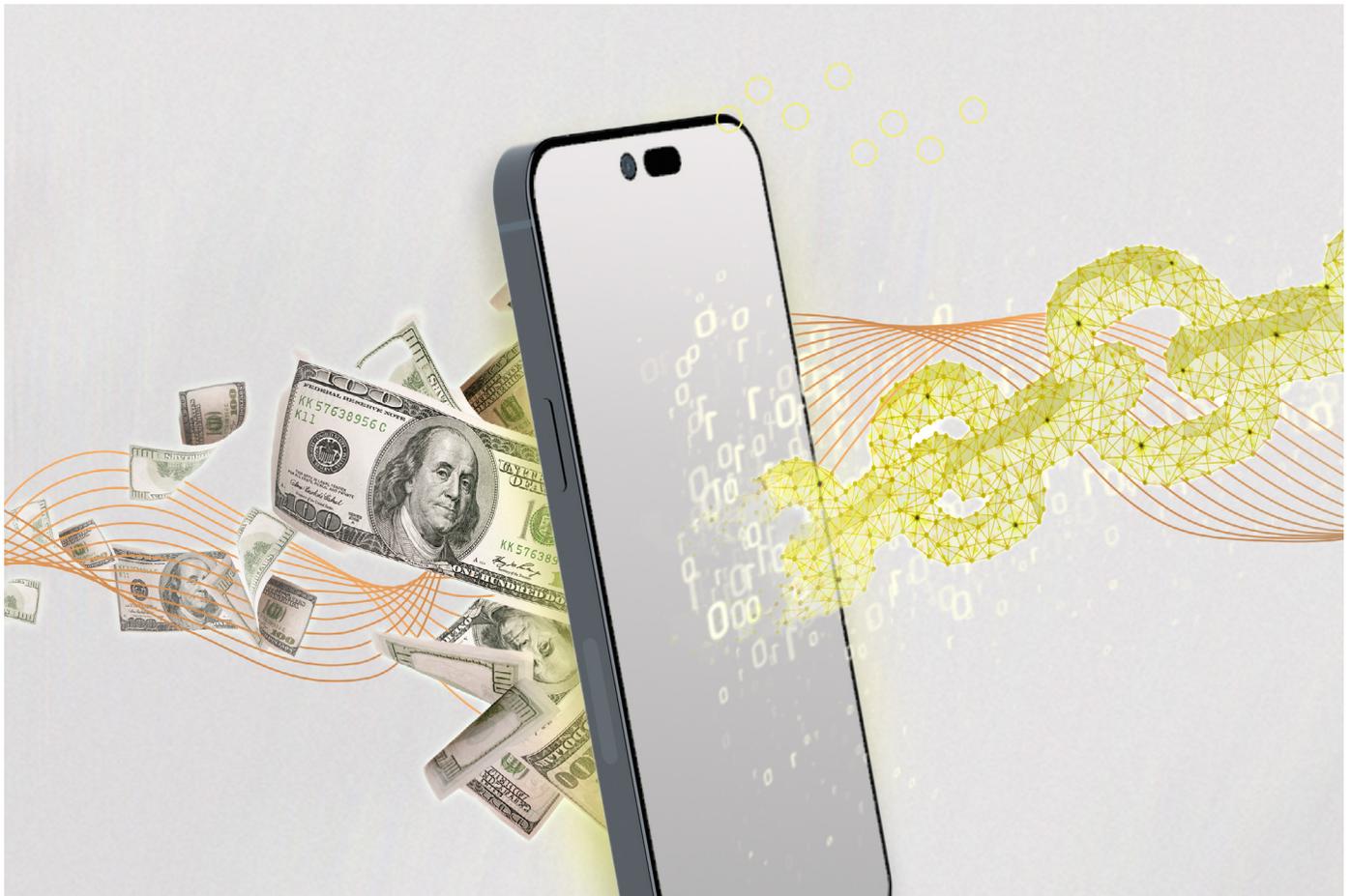
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Despite general enthusiasm, however, some banking institutions may be conflicted about promoting RTP, given the risks. While faster payments benefit clients, it would risk banks' float income in today's high-rate environment, pushing them to search for alternative revenue sources. Moreover, faster payments would mean banks and payment firms would have a shorter window to detect anomalies, decline unauthorized requests, and safeguard consumers and businesses against fraud.

And, with the irrevocable nature of most real-time payments, payers may not get the benefit of chargebacks as they get with payment cards. While authorized credit push payments in these RTP systems are safer than debit pull transactions, fraudsters could discover malicious and more sophisticated ways to deceive businesses and banks. For example, the United Kingdom witnessed a spike in authorized push payments (APP) fraud, where payers are manipulated into transferring

real-time payments to fraudsters impersonating as payees.<sup>23</sup>

Invoice-verification capabilities, therefore, will likely become even more important in the context of faster payments. Banks and payments firms should be creative in offsetting potential loss in float revenues and bolster their risk management and fraud defenses.





# For a smooth B2B RTP flight: Considerations and ideas

**B**anks should prepare to support direct integration of transaction data into clients' enterprise resource planning and other back-office systems to offer real-time or near-real-time insights on payments transactions and liquidity positions. But this can only become a reality when and if banks modernize their core systems for corporate payments. Cloud solutions can help accelerate banks' access to RTP systems.

Moreover, banks and payment firms can collaborate with fintechs to add digital overlay value streams for businesses on top of real-time payments.

Talent will likely be another key priority. Specialists who genuinely understand ISO 20022 appear to be in short supply in the industry. Training professionals across business lines and processes to create "skill at scale" should help enable a smoother transition in payments processing and support client education and engagement efforts.

Banks should also check and validate RTP instructions, given the irrevocable nature of payments. They should focus on using emerging technologies, such as artificial intelligence and data analytics, and bolstering controls, such as dual approval and multifactor authentication. More collaboration between banks, payment firms,

fintechs, and regulators will likely be required to hone defenses, promote awareness among businesses, and develop new leading practices.

Over the next few years, banks can do their part in helping clients adopt successful and safe real-time payments systems. Given the potential benefits, successful implementations may not only improve operational efficiency; they could also empower clients with insights to make better decisions to manage their money and business relationships.

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## ABOUT THIS PREDICTION

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Our B2B real-time payments prediction uses historical B2B ACH and commercial check transaction data from the National Automated Clearinghouse Association and the Federal Reserve, respectively (2013–2022), to forecast their dollar transaction volumes up to 2028. Our research and technical discussions with Deloitte payments specialists helped build two scenarios for the percentage shift from B2B ACH and check payments to RTP. Applying these percentages to the forecasted ACH and check volumes yielded us numbers that could shift from these traditional methods to real-time payments from 2024 to 2028.

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# About the authors

## **Zachary Aron**

zaron@deloitte.com

Zachary Aron is Deloitte Consulting's US Banking & Capital Markets Payments leader, a coleader of the Global Payments practice, and the go-to-market leader for ConvergePROSPERITY. He has more than 25 years of experience specializing in developing business strategy, operations, and technology solutions to payments clients. His focus areas include retail and consumer payments, credit and debit cards, digital payments and currencies, online lending, commercial payments, and treasury management with expertise in the development and rollout of new business lines, products, services, and associated operating models, both in the United States and internationally.

## **Val Srinivas, PhD**

vsrinivas@deloitte.com

Val Srinivas is the banking and capital markets research leader at the Deloitte Center for Financial Services. He leads the development of Deloitte's thought leadership initiatives in the industry, coordinating various research efforts and helping to differentiate Deloitte in the marketplace. He has more than 20 years of experience in research and marketing strategy.

## **Richa Wadhvani**

rwadhvani@deloitte.com

Richa Wadhvani is a research manager at the Deloitte Center for Financial Services focusing on banking and capital markets research. She has more than 13 years of experience in research and thought leadership and writes on a variety of topics, including consumer behavior, digital payments, banks' digital transformation, and Deloitte's annual banking and capital markets outlook.

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# Contact us

## Industry leadership

### **Monica O'Reilly**

US Financial Services Industry leader | Principal | Deloitte and Touche LLP  
+1 415 783 5780 | monoreilly@deloitte.com

Monica O'Reilly leads the US Financial Services Industry group focused on the banking, capital markets, insurance, investment management, and real estate sectors.

### **Mike Wade**

Banking & Capital Markets National Sector Leader | Managing Director | Deloitte and Touche LLP  
+1 804 607 1537 | mlwade@deloitte.com

Mike Wade is a Deloitte vice chair and leader of Deloitte's US banking and capital markets practice.

## The Deloitte Center for Financial Services

### **Jim Eckenrode**

Managing director | Deloitte Services LP  
+1 617 585 4877 | jeckenrode@deloitte.com

Jim Eckenrode is a managing director within Deloitte's Research & Insights team, responsible for defining and guiding the strategy, research agenda, and marketplace deployment for the Center for Financial Services and the Center for Regulatory Strategy.





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## Deloitte Insights contributors

**Editorial:** Karen Edelman, Rupesh Bhat, Arpan Kumar Saha, Aditi Gupta, and Hannah Bachman

**Creative:** Natalie Pfaff, Alexis Werbeck, Meena Sonar, Govindh Raj, and Pooja Lnu

**Deployment:** Atira Anderson

**Cover artwork:** Natalie Pfaff

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