



REAL-TIME PAYMENTS: AN URGENT PRIORITY FOR FINANCIAL INSTITUTIONS

NOVEMBER 2021

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FOREWORD

This report, sponsored by Fiserv, examines consumer perceptions of real-time payments, their use cases, the platforms that enable them, and how they impact the ROI for FIs.

The report was independently produced by Javelin Strategy & Research. Javelin Strategy & Research maintains independence in data collection, findings, and analysis.

OVERVIEW

Real-time payments, which transfer funds almost instantaneously, are opening new opportunities for FIs to provide consumers with greater financial control and confidence. These are pivotal times, and FIs are squandering their advantages over nonbank competitors. Consumers — especially younger generations — understand the benefits of real-time payments but are developing loyalty to nonbank services. Some of that loyalty, however, is based on an inaccurate understanding of what real-time payments are, what they can do, and who offers them. This is limiting FIs' ability to take advantage of consumers' interest in real-time payments and necessitates an effort to spotlight the ability of FIs to offer instant money movement at critical moments in a consumer's life.

EXECUTIVE SUMMARY

A worrisome 60% of consumers think “real-time payments” are not truly instantaneous.

The majority of consumers say the delivery of payments is dictated not by the speed of digital technology but instead can take hours or days, based on factors such as bankers' hours, bank policies, industry limitations, and whether payments are initiated on weekends and holidays. In contrast, 44% of consumers who recently received funds via nonbank apps like PayPal's Venmo and Square's Cash App mistakenly believe the nonbank apps provide instant access to funds through their bank accounts. It's reasonable that consumers do not understand the technical differences of various payment rails, but these misperceptions are giving Venmo and Cash App credit for offering real-time payment capabilities they cannot deliver.

The confusion about real-time payments is harming FIs. Consumer misperceptions leave FIs unable to effectively leverage the advantages of Zelle and other real-time capabilities. The misperceptions are one reason Venmo and Cash App dominate Zelle with younger generations. Notably, 42% of Gen Z have adopted Cash App, 27% have adopted Venmo, and just 13% have adopted Zelle.

Consumer misperceptions undermine the FIs' actual advantages.

FIs can make payments like bill pay and peer-to-peer (P2P) more convenient for customers by using real-time payments. If FIs effectively integrate instant capabilities into their apps and websites — for example via Zelle — they can boost the appetite for real-time payments, increase payment volume, and expose customers to other features. Enabling real-time payments can also help FIs retain customers who might otherwise turn to platforms like Venmo and Cash App to complete person-to-person payments.

Consumers value real-time payments and generally consider payments to be urgent.

Three-quarters of consumers say that having access to funds instantly is always important or important some of the time, and its value is even clearer to young consumers, with 93% of Gen Y and 90% of Gen Z saying the same. In addition, more than half of consumers who recently received funds via Zelle said it was absolutely or somewhat critical that they have access to funds instantly. This means that:

- FIs do not need to focus resources on convincing consumers that real-time payments are worthwhile.
- Incorporating instant payments is table stakes for FIs, especially those courting younger consumers.

RECOMMENDATIONS

Accelerate investments in real-time money movement. FIs must quickly move to deepen Zelle's integration with their digital banking experiences to ensure consumers are aware of its availability, its ease of use, its speed, and its advantages over Venmo, Cash App, and other apps. These efforts include making Zelle a core capability of a view-and-do homepage in digital banking apps and websites, providing scheduled and recurring P2P payments, and integrating P2P payments in cash-flow forecasting and transaction ledgers. FIs must also work to fix shortcomings of Zelle integrations such as missing balance information and disjointed ledgers, as detailed in Javelin's 2021 online and mobile banking scorecards.

Build out real-time payments in bill pay and interbank transfers. Real-time payments not only enable consumers to avoid late fees, they also offer convenience, financial flexibility, and transparency. Highlight and improve the ability to transfer funds between external bank accounts instantly, as well as bill pay capabilities in digital banking that improve oversight and foresight as consumers monitor and manage bills through their banks and at biller sites.

Improve the consumer experience of using real-time payments. Venmo and Cash App have built their success in part on an appealing and easy-to-use customer

experiences for P2P payments, and they pose a growing threat as they encroach on other banking features like debit cards and bank accounts and build followings among younger consumers. FIs must counter these threats by bolstering their own customer experiences and emphasizing the advantage of real-time money movement when consumers pay bills and send money to friends, family, and trusted businesses. Begin laying the groundwork for enabling consumers to simply pick whom they want to pay, how much they want to pay, and when they want the money to move — rather than making them understand multiple payment types such as Zelle, bill pay, internal and external transfers, and wire transfers.

Use the speed of real-time payments to strengthen financial fitness tools. Financial fitness features remain a weak spot for many top banks, as detailed in Javelin's *2021 Mobile Banking Scorecard*. But real-time payments offer greater financial clarity, enabling FIs to improve and highlight cash-flow visibility, account insights, savings tools, notifications, gamification, and more.

Refocus marketing to build interest in Zelle and counter misperceptions about real-time payments. Consumers already consider real-time payments to be beneficial and critical, whether it's because they appreciate the speed or it's

essential because they live paycheck-to-paycheck. The problem is consumers do not fully understand what “real-time payments” means and where they can be used. This makes it imperative to emphasize that Zelle provides real-time payments, that Zelle is already available to most consumers through FIs, and that access to funds within seconds gives Zelle an advantage over Venmo, Cash App, and other P2P competitors.

Attract Gen Z to Zelle. Zelle has struggled to catch on with Gen Z, while Venmo and especially Cash App have had great success with the age group. One strategy is to aim the marketing spotlight on older generations who will initiate payments with Gen Z recipients. Build network effects by targeting parents of Gen Z consumers, encouraging landlords to accept rent payments, and positioning Zelle as a way to make on-the-spot payments to trusted small businesses such as plumbers, vendors at farmers markets, and child care providers.

REAL-TIME PAYMENTS HAVE A DOUBLE-BARRELED ROI IMPACT

The advent of real-time payments has armed FIs with a new tool to both expand and protect their businesses. By integrating with real-time networks like The Clearing House's RTP network or tapping into Zelle's ability to make speedy payments, FIs have the opportunity to bolster their appeal to consumers. They must take these steps to stave off threats from payments platforms like PayPal's Venmo and Square's Cash App.

By offering consumers instant payment capabilities, FIs can strengthen their relationships with their clients and build valuable engagement. For example, consumers say the most important benefits of real-time bill pay include the convenience of making electronic payments rather than paying by mail, phone, or in person (41%) and the convenience of using an FI's bill pay service rather than paying directly at a biller's site (26%). Such benefits lead consumers to interact with digital banking more regularly, create opportunities for engagement with other FI services, and boost overall revenue and customer loyalty.

At the same time, providing real-time payment options protects FIs from losing consumers and their transactions to payments platforms like Venmo and Cash App, which entice customers with the promise of speedy transactions, even though they fail to provide instant access to funds. One risk is that FIs will suffer from "silent churn" — which occurs when customers identify a primary FI based on where they hold their checking account but then turn to other FIs and nonbanks for loans and other financial services. Once consumers start using other platforms to make transfers, they'll be regularly exposed to competing offerings like debit cards, the ability to receive direct deposits, and more. This makes rolling out and promoting real-time payments an urgent defensive play for FIs to ensure they don't lose users, in addition to an offensive one that can boost engagement.

CONSUMERS ARE LOUD AND CLEAR: THEY WANT REAL-TIME PAYMENTS

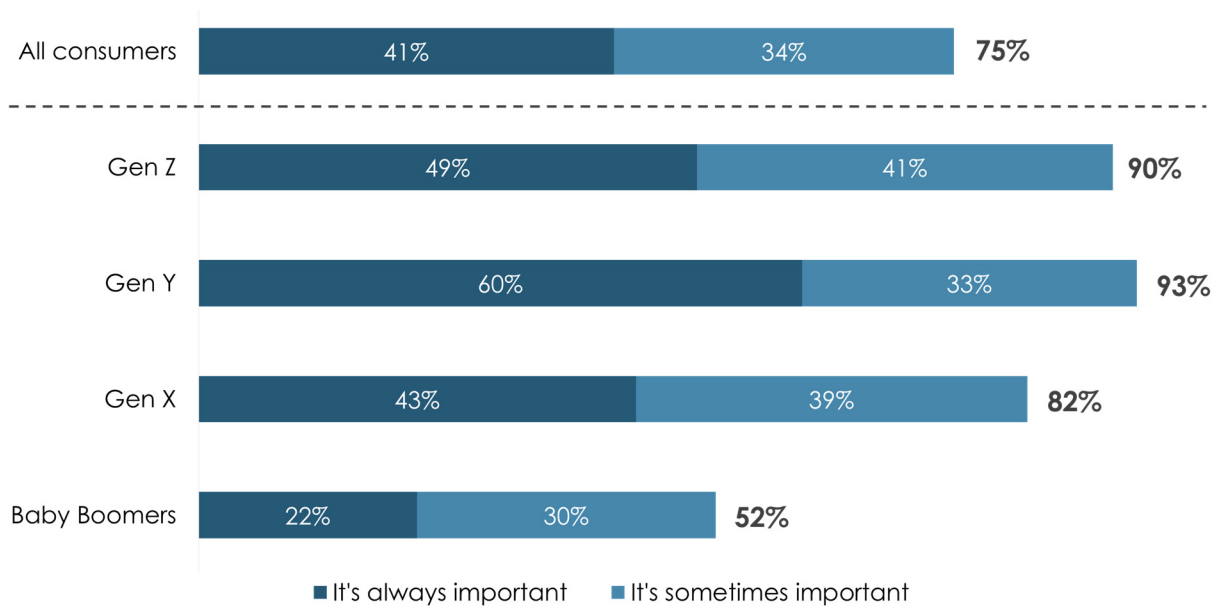
Fortunately for FIs, they don't need to spend time or money convincing consumers that real-time payments are appealing. Three-quarters of consumers said it's important to be able to receive payments and access funds instantly, likely because it's always preferable to have access to funds as opposed to waiting for them to become available. Knowing that funds are available eliminates doubt and uncertainty that erode financial confidence. Younger consumers feel even more strongly about instant access, with 93% of Gen Y and 90% of Gen Z saying it's

important. Those generations are more accustomed to the immediacy of the digital world, and they will go on to dominate the financial world in the years to come, making instant payments a crucial and timely battleground for all FIs.

Consumers' interest in real-time transactions is not just a passing interest; for many, it's essential. More than half of consumers said instant access to funds is critical or somewhat critical for a broad range of cases that spans day-to-day tasks like transfers, paying bills, and depositing

Consumers of All Ages Want Instant Access to Funds

Figure 1. Perception of the importance of instant access to funds



Source: Javelin Strategy & Research, 2021

checks, as well as occasional but pressing needs like accessing government payments or wiring money overseas or to businesses. For example, about 7 in 10 consumers said immediate access is important when receiving funds from a money service like Western Union (70%) or a wire transfer (68%). On a more day-to-day level, when waiting for a payment to settle could mean paying a bill late or delaying a trip to the grocery store, instant access is critical for receiving funds from nonbank P2P apps and Zelle (58% and 53%, respectively). The ability to be paid instantly will become increasingly appealing for

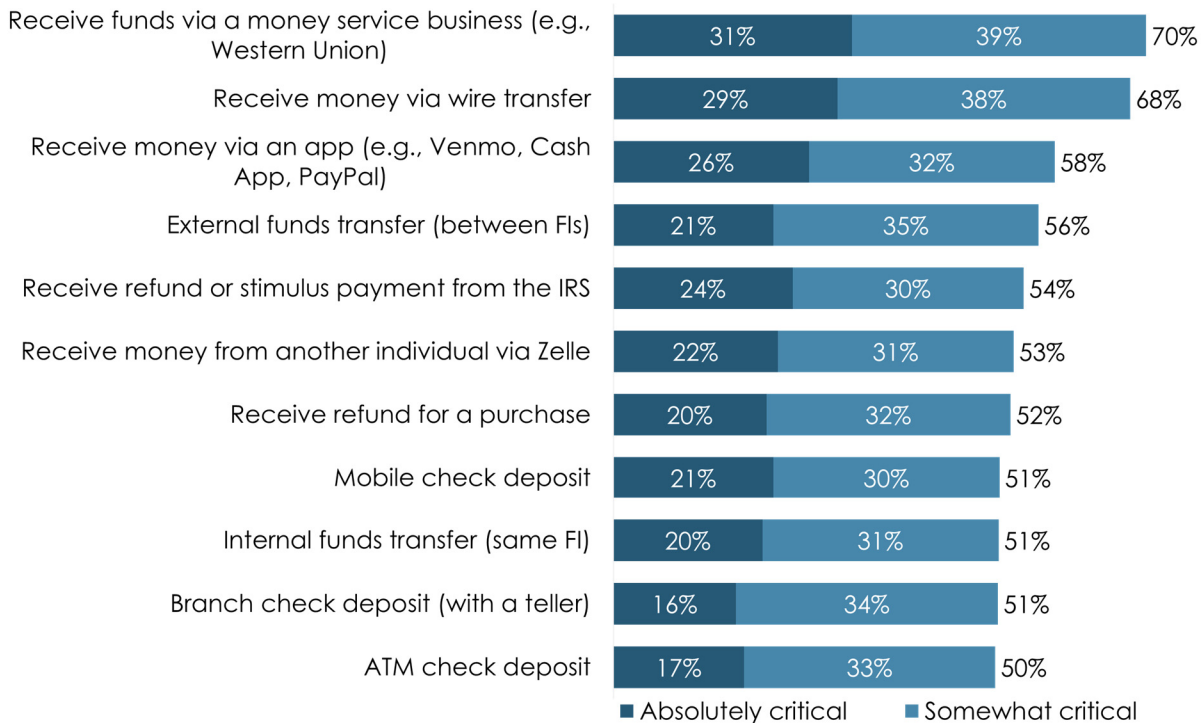
workers who are reliant on the gig economy to earn income.

Speed is not the only draw of real-time payments. Many consumers see additional nuanced benefits from instant payments. Notably, real-time payments can provide a much-needed boost to bill pay. Consumers perceive the benefits of instant payments to include:

- **Avoiding late fees:** More than half (54%) of consumers noted that real-time bill payments could help them avoid late fees, giving them greater peace of mind and ensuring they won't incur unwanted fees.

Consumers Need Instant Access to Funds for Special and Day-To-Day Transactions

Figure 2: Criticality of accessing funds instantly, by type of transaction, by users in the past 90 days

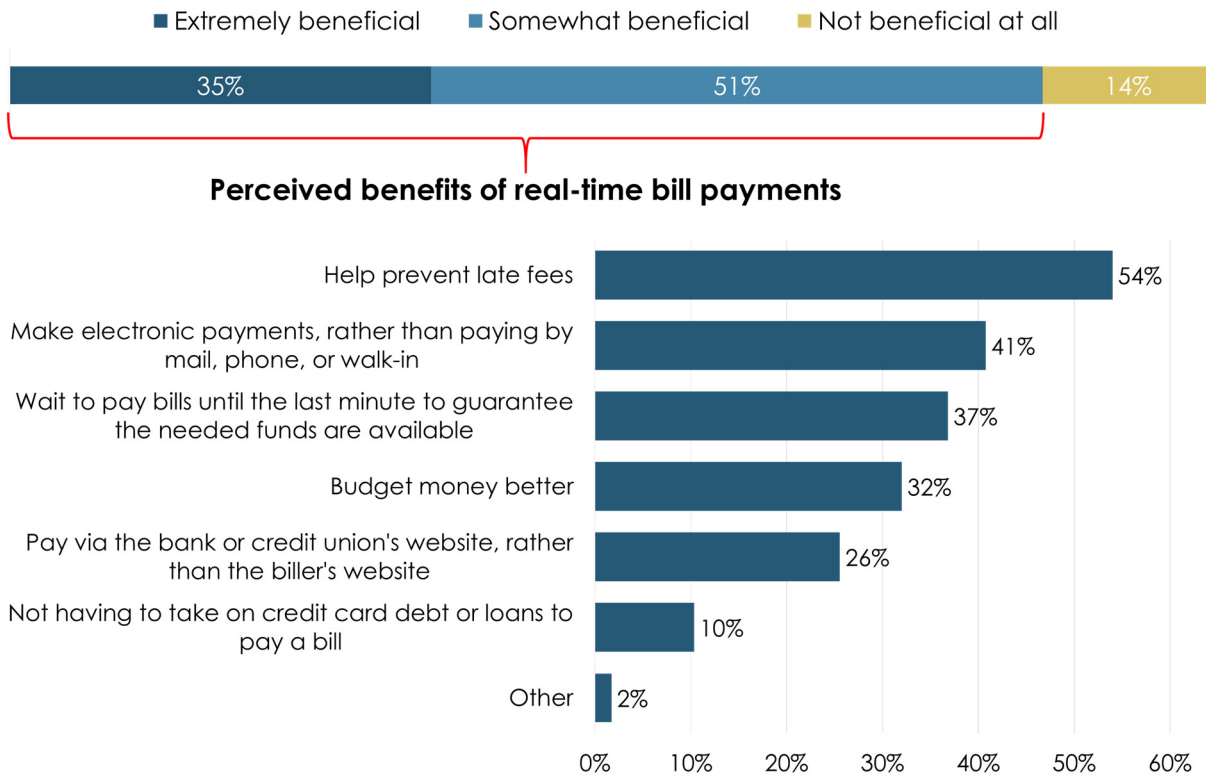


Source: Javelin Strategy & Research, 2021

- Convenience:** Consumers called out real-time bill pay's ability to let them pay online instead of via mail, phone, or walk-in. In addition, many find it simpler to manage payments through an FI's site instead of paying billers directly, giving them a centralized bill pay hub for all their needs.
- Financial flexibility:** More than one-third (37%) of consumers said real-time bill payments would let them wait to pay bills until the last minute to guarantee they have the needed funds. In addition, 10% said instant bill payments would enable them to manage their bills without taking on loans or credit card debt, suggesting real-time payments should be particularly attractive to those living paycheck-to-paycheck.
- Greater financial control:** Nearly 1 in 3 consumers noted that the immediacy and transparency of real-time payments would enable them to better budget their money, potentially increasing their reliance on their real-time payments provider.

Consumers Say Real-Time Bill Pay Offers a Bevy of Benefits

Figure 3: Perception of most important benefits of real-time bill payments



Source: Javelin Strategy & Research, 2021

MISPERCEPTIONS ABOUND ABOUT REAL-TIME PAYMENTS

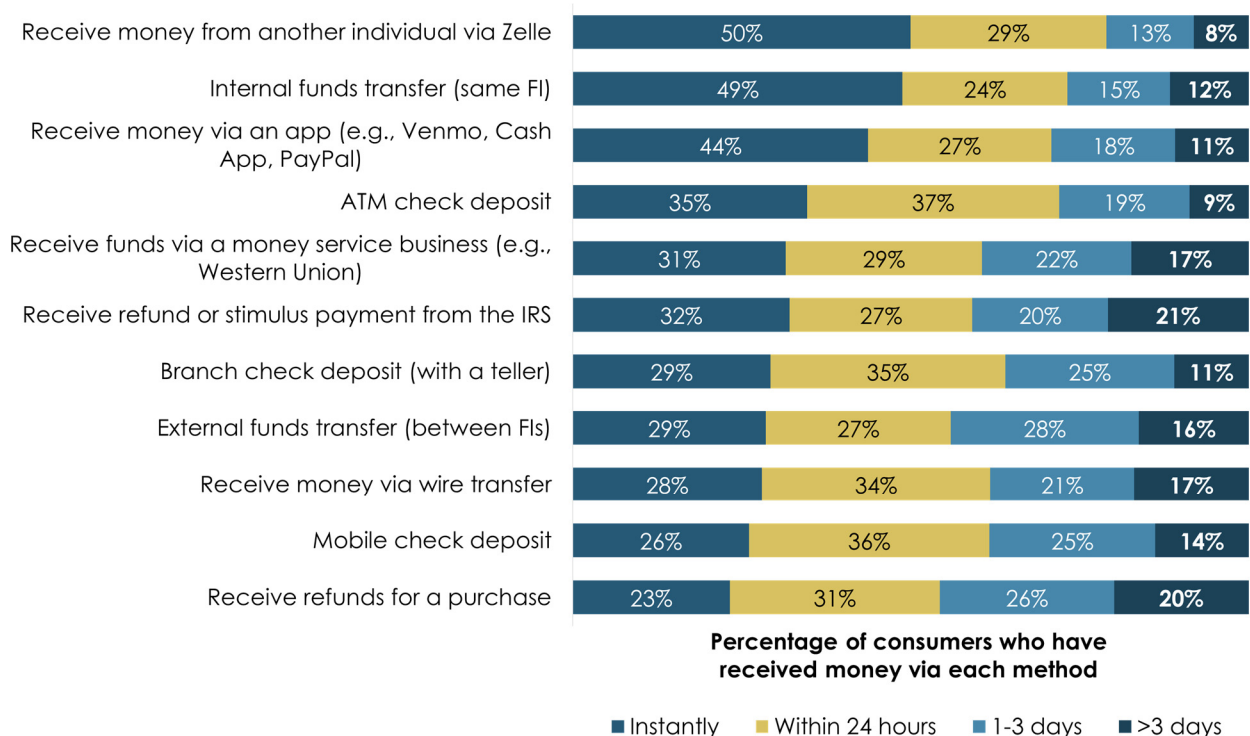
The challenge for FIs in taking advantage of real-time payments does not lie in convincing consumers of their value but rather in effectively explaining what real-time payments are, what they can do, and which FIs offer them. Without a deeper understanding of payment options and necessary behind-the-scenes mechanisms, many consumers might not recognize what FIs are offering them and instead favor other platforms that they believe are providing real-time transfers — even if that

is not actually the case. Combating consumer misperceptions therefore looms as a top priority for FIs.

Unfortunately, consumers' misperceptions about real-time payments begin with the very definition of real-time payments. One sign of the work that FIs must do: A concerning 60% of consumers interpret "real-time payments" to mean that money will not be accessible for hours or even days, influenced by factors such as

Many Consumers' Perceptions Don't Match Reality About the Speed of Payments

Figure 4: Perception of when funds would be available in their bank account, by transaction types used in the past 90 days



Source: Javelin Strategy & Research, 2021

bankers' hours, bank policies, industry limitations, and weekend and holiday delays.

Although that has been the case for standard bank payments over the years, real-time payments are meant to be the opposite, operating 24/7/365 and offering instant access to funds. FIs now face the challenge of cutting through the confusion by showcasing instant fund access. Much is at stake. FIs are at risk of losing the provision of real-time payments to nonbanks if they fail to highlight payment speed and the consumer benefits.

Even now, many consumers misidentify which platforms offer instant access to funds. Notably, just 50% of consumers correctly think that Zelle can provide instant access to funds in their bank accounts, with 44% mistakenly thinking that apps such as Venmo, Cash App, and PayPal can deliver on that promise. Building momentum for Zelle hinges on clearing up those misperceptions and showcasing why FIs are the first place

consumers should turn when instant payments and access to funds are critical. Consumer education will play a role in addressing misperceptions about Zelle, which can be attributed to factors such as a lack of general awareness and understanding of the platform, inconsistent Integrations across FIs, and confusion surrounding settlement timing. But consumer misperceptions about the speed of other apps are likely to be entrenched. For example, Venmo and Cash App users see their funds quickly transfer into the services' accounts and perceive that this means they have instant access to their funds. In truth, those accounts do not offer the same level of access as a bank account — the funds can't be withdrawn as cash, for example. But this is a case in which consumer beliefs can outweigh reality. If consumers think transactions through nonbank apps are instantaneous, they will discount an important advantage of using Zelle, opening the door for Venmo and Cash App to introduce more banking features that can erode the primary FI's status.

Payment Application	Instant access to funds from bank accounts?
Cash App	No
Paypal	No
Venmo	No
Zelle	Yes

CONSUMERS' MISPERCEPTIONS ARE COSTING FINANCIAL INSTITUTIONS

Zelle sits at the center of an FI's opportunity to take advantage of real-time payments — with access to real-time rails, Zelle completes true account-to-account transactions. But Zelle's success depends on countering consumer misperceptions, building awareness of its real-time capabilities, and showing that its integration in digital banking makes it superior to nonbank competitors.

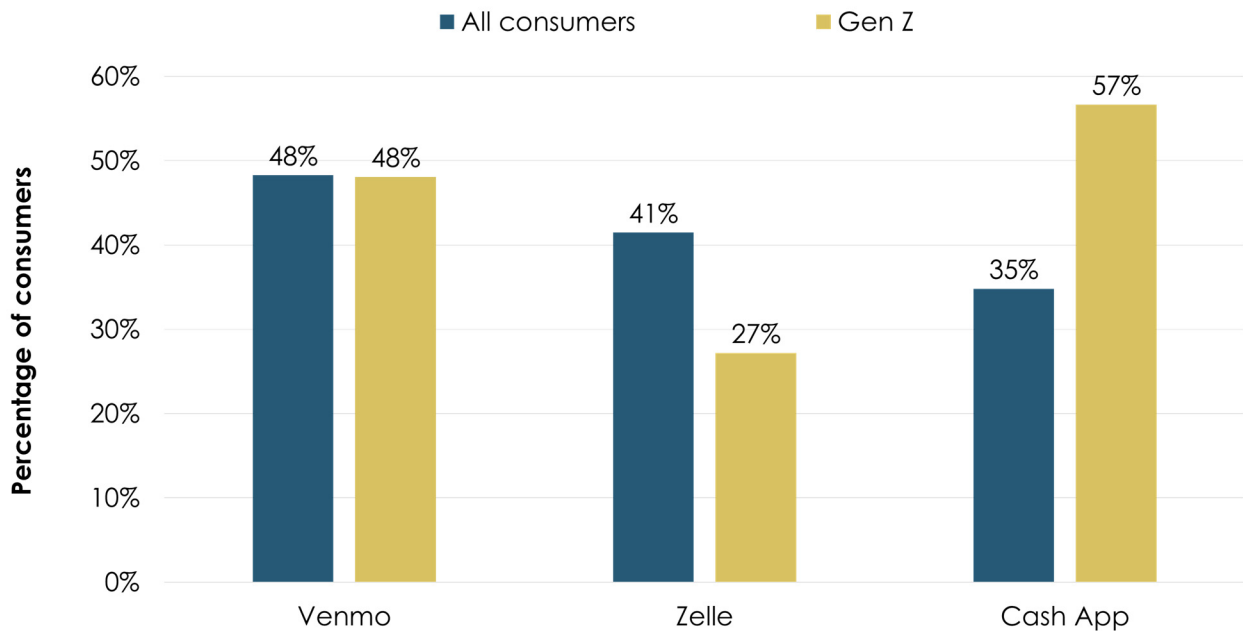
That starts with boosting consumer awareness. Awareness of Zelle (41%) is sandwiched between that of Venmo (48%)

and Cash App (35%). So even though Zelle has the backing of most major FIs, it has been unable to establish itself as the household name in the P2P space. Nonbank P2P apps have gained an advantage over Zelle with attractive products and a social media-like style.

The most serious concern is its dramatic underperformance with Gen Z, whose members will go on to become prime targets for banking services as their financial clout and financial needs build. Zelle's awareness with the age group

Gen Z Consumers Are Much More Familiar With Cash App and Venmo Than With Zelle

Figure 5: Awareness of P2P apps



Source: Javelin Strategy & Research, 2021

stands at just 27%, far short of Cash App's (57%) and Venmo's (48%).

The risk for FIs is that these young consumers, many of whom are new to or unfamiliar with traditional FIs, will grow to rely on nonbank alternatives not just for P2P transactions but also for broader financial services, relegating FIs to basic transactions. This will limit the opportunities

FIs have to build deeper, more lucrative customer relationships. FIs won't unseat these nonbank incumbents by trying to match their social appeal. FIs can win, however, by shifting the focus to real-time money movement capabilities that only FIs can provide and playing up the fundamental pocketbook benefits of financial control and convenience.

METHODOLOGY

Data in this report is based on information gathered in an online survey of 3,711 respondents in June 2021. Data was gathered and weighted to reflect a representative sample of the adult U.S. population in terms of various demographics such as age, gender, and household income. The margin of sampling error is $\pm 1.6\%$ at the 95% confidence level. The margin of sampling error is higher for questions answered by subsegments.

ABOUT FISERV

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