Beyond the Rails: Three Ways Instant Payments Can Drive Business Value That Transcends Transaction Speed

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Despite their importance within banking operations, payment infrastructures have seen little modernization over the past several decades. In most cases, both domestic and cross-border transactions still take up to five days to settle in the receivers' account.

This is not because of a lack of new payment offerings. Even after the introduction of instant and same-day payment rails including FedNow and same-day ACH, traditional methods such as debit and credit cards still dominate the market for both B2B and consumer payments.

These gaps in modern payments infrastructure largely come down to two factors. First, faster payments are hard to integrate into banks' existing workflows. They require building new technical infrastructure to transact in real time, new risk management protocols that achieve anti-fraud compliance, and new training and governance structures to ensure teams know how to use instant payments. Second, businesses are used to the 3-5 day settlement time that comes with traditional payment rails. It has been the status quo for decades, and changing it requires a major cultural shift.

Overcoming both of these obstacles comes with significant investment — one of the biggest reasons that payment infrastructures have largely remained the same. Offsetting the cost will require banks to look beyond transaction speed alone and instead focus on the new business use cases they can create with instant payments.

Offering consumers a peer-to-peer experience that rivals real-time fintech options is just one of these use cases. Here are a few additional examples that will transform trade finance, private capital and consumer-to-business payments as we know them.

Modernizing manual, inefficient trade finance operations that stand in the way of success.

Banks play a critical role in trade financing — and international commerce as a whole — coordinating the exchange of funds for large-scale shipments across country borders as agreed to in contractual obligations. This ensures both that the agreed upon shipment is received, and the merchant will get paid — all before any goods enter international territory.

Still, the experience surrounding trade finance is riddled with manual processes. For example, in addition to coordinating transactions, trade finance includes sending physical documents across international borders, including letters of credit, bills of exchange, insurance documentation and more. This process, on top of running compliance checks in accordance with local jurisdictions for import and export, can result in weeks-long timelines before payments are even settled. The time spent by banks, legal teams and other in-house staff on these manual processes additionally leads to significant overhead costs that detract from revenue.

Introducing instant payment infrastructures for trade financing goes beyond transaction speed. The technology that banks use to support real-time payments for these processes can also be leveraged for exchanging of other collateral, such as invoices, in real-time, across country borders to drive new business efficiencies and cost-saving measures.

Spending less time on manual business operations, and ultimately settling transactions quicker, not only gives banks a faster path to profit, but creates opportunities to pass the time and cost they save onto their customers.

Making mortgage portfolios a more attractive offering for private capital firms — while offloading risk and administrative overhead from banks.

Private capital firms are increasingly looking to take on loan portfolios, such as mortgages, from banks in order to diversify their holdings and build reliable, asset-backed streams of revenue. This engagement is mutually beneficial for banks, who free up capital for new loans and lower the risk of their existing balance sheets.

But even among the banks that have introduced instant payments into their retail operations, streamlining the process around mortgage payments has been a much lower priority. For private capital firms, this means that there’s a waiting period of up to 20 days between when a customer makes a mortgage payment and when it is settled with the firm. Using real-time payment rails instead of traditional ACH or debit, private capital firms can gain access to these funds over two weeks earlier, giving them more time to leverage the capital in the market and generate a return on their investments in the loan portfolio.

Instant payments can additionally cut down on the administrative processes associated with processing mortgage payments, such as tracking transaction delays, making them an even more attractive offering for private capital firms that often have fewer resources to spare than banks who perform these functions daily.

Lowering excessive transaction fees that plague recurring payments.

For businesses such as utility companies and healthcare organizations that need to bill their customers on a recurring basis, payment processing fees can add up — especially for credit and debit systems that charge a fee per transaction.

Because these payment systems are tied to physical cards, they are also more prone to payment failure due to expired cards or insufficient balance, compared to account-to-account systems that pull directly from a payer's bank account.

Not to mention, traditional payment methods such as credit, debit, and ACH take days to settle in the businesses' bank accounts — even when they're set up with autopay.

Instant rails such as FedNow allow businesses to process recurring payments in real-time, while removing the inefficiencies associated with card payments. Banks can also work with their business customers to reduce the processing fees for instant payments by charging businesses a one-time infrastructural fee, rather than a per-transaction fee, since rails like FedNow aren't tied to a specific payment provider such as Visa or Mastercard.

There are also ways to incentivize consumers to use instant payment rails, making them worth the investment on the businesses' side. In Brazil, for example, businesses encourage consumers to use Pix, the country’s local real-time payments infrastructure, for recurring payments by providing them with a percentage discount for each transaction processed. Using Pix, is profitable for merchants and involves less risk since the transactions are processed from account to account.

Processing payments instantly is a benefit for both banks and their customers that should not be ignored. By looking at how this capability can be applied not just to individual transactions, but entire workflows, banks can create business value that goes far beyond payment speed alone.