

# Community Banks and the Adoption of Real-Time Payments

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The Covid-19 pandemic dramatically reshaped how community banks approach digital transformation.

This is largely in response to the shift in fundamental consumer behaviors and new technology, as Americans adapted to the realities of the pandemic. According to a report from [Mojo \(https://www.mojo.vision/news/the-long-term-impact-of-covids-short-term-technology-adoption\)](https://www.mojo.vision/news/the-long-term-impact-of-covids-short-term-technology-adoption), 44% of consumers who wait to adopt new technology have shifted to an “early adopter” stance. Additionally, 41% of “later adopters” stated they were likely to adopt new technology at a faster pace, even after the pandemic subsides.

Digital innovation is no longer an option for banks. **Financial institutions must evaluate their digital products against consumer expectations.** Leading the list of customer demands is access to more convenient and immediate payments. The pandemic’s remoteness made receiving and making immediate payments a necessity, accelerating the movement to real-time payments (RTP).

RTP are not a new concept; many countries have transitioned from paper-based payments and directly to real time. The U.S. has successfully worked with electronic payments, but is now behind in the global shift to real time. The Clearing House launched RTP in 2017; it experienced slow but steady growth initially but has been propelled by the pandemic more recently.

Addressing the growing need for immediate payments, the Federal Reserve announced plans for [FedNow \(https://www.federalreserve.gov/paymentsystems/fednow\\_about.htm\)](https://www.federalreserve.gov/paymentsystems/fednow_about.htm) to streamline the clearing and settlement process. FedNow will enable customers to move funds instantly between accounts, pay bills and transfer between family and friends. Though FedNow garnered strong support from banks, it is not expected to launch until 2023 at the earliest.

## No Time to Wait

Financial institutions are finding it difficult to wait for FedNow. Although vaccinations have blunted most of the impacts from the pandemic, the changes in consumer habits engendered by the pandemic persist — including demand for innovation in real-time payments. Consumers looked to technology for shopping, entertainment, paying bills and banking in general. A recent [PYMNTS \(https://www.pymnts.com/news/payments-innovation/2020/real-time-revs-up-as-consumers-awareness-grows/\)](https://www.pymnts.com/news/payments-innovation/2020/real-time-revs-up-as-consumers-awareness-grows/) survey found that 24% of consumers would switch to financial institutions that offered RTP capabilities. It’s critical that banks recognize and react to this paradigm shift in payment by prioritizing RTP solutions.

**Popular P2P payments apps like Venmo, PayPal Holdings, and other solutions from big tech companies underline that consumers are willing to adopt new technologies to meet a need.** Now, these firms are offering credit cards, loans and even demand deposit accounts. (I even received an invitation to open a checking account from my cell phone company!) This should be a wake-up call to banks. In the same [PYMNTS \(https://www.pymnts.com/news/payments-innovation/2020/real-time-revs-up-as-consumers-awareness-grows/\)](https://www.pymnts.com/news/payments-innovation/2020/real-time-revs-up-as-consumers-awareness-grows/) survey, researchers found 35% of consumers consider access to real-time payments as “extremely” important. These survey results reflect a growing trend and reality that financial institutions must recognize and address.

The race is now on to compete with non-traditional providers and megabanks to attract and retain tech-interested customers. Real-time payments are where consumers and businesses are headed. Financial institutions need to be fully engaged to connect to RTP or FedNow.

This is not an easy path for financial institutions that are used to making project decisions based on calculating the return on investment of the project alone. Strategic technology initiatives should be evaluated broadly, including the cost of doing business in banking. Large financial institutions have already moved forward to deliver top-notch digital services and experiences. **To level the playing field, smaller institutions should look to technology savvy leaders and fintech partners to help deliver innovative solutions.** Unheralded sources for fintech solutions are the bankers' banks, which play a vital role for technology and as funding agents in RTP/FedNow and are offering innovative solutions to help community banks connect to real-time payments.

Changes in customer behavior and heightened demand for immediate payments driven by Covid-19 are here to stay; adoption of RTP will only continue to grow. In just the last year, real-time payments in the United States grew 69% year-over-year, according to [Deloitte](https://www2.deloitte.com/content/dam/Deloitte/us/Documents/financial-services/us-real-time-payments-and-implications-of-the-covid-19-pandemic.pdf) (<https://www2.deloitte.com/content/dam/Deloitte/us/Documents/financial-services/us-real-time-payments-and-implications-of-the-covid-19-pandemic.pdf>).

To act now, financial institutions should consider fintech partnerships to remain relevant in a dynamic financial and regulatory landscape. Financial institutions that tap into technology companies' speed to market and access to a broader audience can approach RTP as a competitive advantage that distinguishes them in their local markets and attract new customers. Those taking a "wait and see approach" are already behind.



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