

Will Instant Payments replace ACH?

Many of our members have asked me this question. Let's examine some business cases, differences, and see what logic dictates.

Instant Payments, introduced by The Clearing House's RTP system in 2017, and was soon followed in 2023 by the Federal Reserve's FedNow, offers real-time settlement of transactions, marking a significant evolution in payment channels since the ACH network.

Difference between Instant Payments and ACH:

Instant Payments enable not only immediate funds availability, but also real-time settlement within seconds. This is unlike ACH, which, even with same-day ACH, does not offer immediate settlement between the FIs.

Impact on legacy payment networks:

Instant Payments will likely reduce ACH volumes in some cases, but are not expected to fully replace ACH by any means. This is similar to how checks and ACH displaced previous payment methods without total replacement. Remember how everyone thought checks would go away when ACH went live?

Global perspective on Instant Payments: The UK's Faster Payment Service (FPS), launched in 2008, shows that Instant Payments have minimal impact on wire transfer volumes, which continue to grow due to factors like transaction limits and the need for scrutiny on large transfers. Wires are still being used in the UK for some real estate and securities transactions.

Economic considerations:

ACH Entries have lower per-item base fees (under \$0.003), while Instant Payments' base cost is about \$0.045 per entry. This makes them more attractive for low-volume users but less so for high-volume originators like utilities, memberships/subscriptions, or charitable giving.

Credit-push transaction model:

Instant Payments operate only on credit-push transactions, which could reduce unauthorized debits and potentially lower Regulation E claims.

Strategic benefits for businesses:

Instant Payments support "just in time" payments, allowing businesses to avoid late fees and generate convenience fees, enhancing client relationships and noninterest income.

Integration with FinTech and mobile apps:

The flexibility and immediacy of Instant Payments are expected to drive volume growth through mobile app integrations, enabling real-time payments in diverse scenarios like towing, food orders, and traffic fines.

Rethinking payment strategies:

Organizations need to stop asking the old questions, like “How would you like to send that payment?” They need to start asking the right questions, focusing on payment features, such as amount, speed, volume, and cost.

When looking at your payment strategy, it's plain to see that the various rails have their benefits as well as their drawbacks. They all have a place in the funds transfer ecosystem. So, while they provide faster processing and new opportunities, the consensus is that Instant Payments are expected to augment rather than replace traditional payment methods like ACH.

Are you preparing to implement Instant Payments at your financial institution? Not sure where to start? Wespay Advisors can help. Our seasoned payments consultants bring over 300 years of combined experience and can assist you with strategy, implementation, operations & staffing, and risk management.

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