THE FEDERAL RESERVE
FedPayments Improvement

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FEDERAL RESERVE MARKET READINESS BRIEF:
Today's On-Demand Lifestyle Is Spurring Greater Demand for Faster Payments

Executive Summary

In today's rapidly changing payments environment, having access to enhanced faster payment capabilities from their financial institutions is an important satisfaction driver for consumers. Most consumers already bank online and use faster payment services for personal transactions such as sending money to friends and family. As payments evolve, consumers are increasingly expecting to leverage faster options to pay businesses – from monthly utility bills and e-commerce to last-minute bill pay.

In the second half of 2021, the Federal Reserve Banks commissioned a survey of consumers' interest in and readiness for "faster payments." [1]

Key findings from the survey include:

- Nearly seven out of 10 consumers use mobile payment devices to send or receive payments.
- Nearly two-thirds of surveyed consumers manage their financial service relationships primarily or entirely online.
- In addition to using services from their primary bank or credit union, 83% of consumers are using a digital wallet or a fintech payment app at least occasionally to complete transactions, including 71% of those 55 and older.
- Looking ahead, 62% of surveyed consumers overall expect to be using faster payment options more extensively in the future, particularly options that offer robust fraud protections.
- Consumers do not view faster payments solely in terms of person-to-person; nearly 80% are interested in leveraging faster payments to pay businesses.
- More than 60% of consumers want a real-time view of their account balance and immediate posting of payments they initiate.
- Nearly 70% of consumers feel it is an important satisfaction driver to have access to enhanced faster payment capabilities from their current financial institution(s).
- The COVID-19 pandemic had a notable impact in changing consumers' attitudes and behaviors, prompting many to place greater importance on digital commerce, contactless payments, fraud monitoring, paying down debt and increasing savings.

What is a faster payment?

For this report, "faster payments" encompass electronic payment services that provide funds to the payee within seconds or up to a few hours of initiation by the payer, including:

Instant payment services credit the payee's deposit account within a matter of seconds of initiation; some instant payment services are designed to enable transmission of rich data, such as extended remittance details, with the payment

Same Day ACH credits the payee's deposit account by end of day if payment is initiated by the midday cutoff

Push-to-card credits the payee's debit card account within minutes of payment initiation

Digital wallet apps credit the payee's digital wallet within minutes of payment initiation, but funds must be transferred to a bank account for use outside the app's network

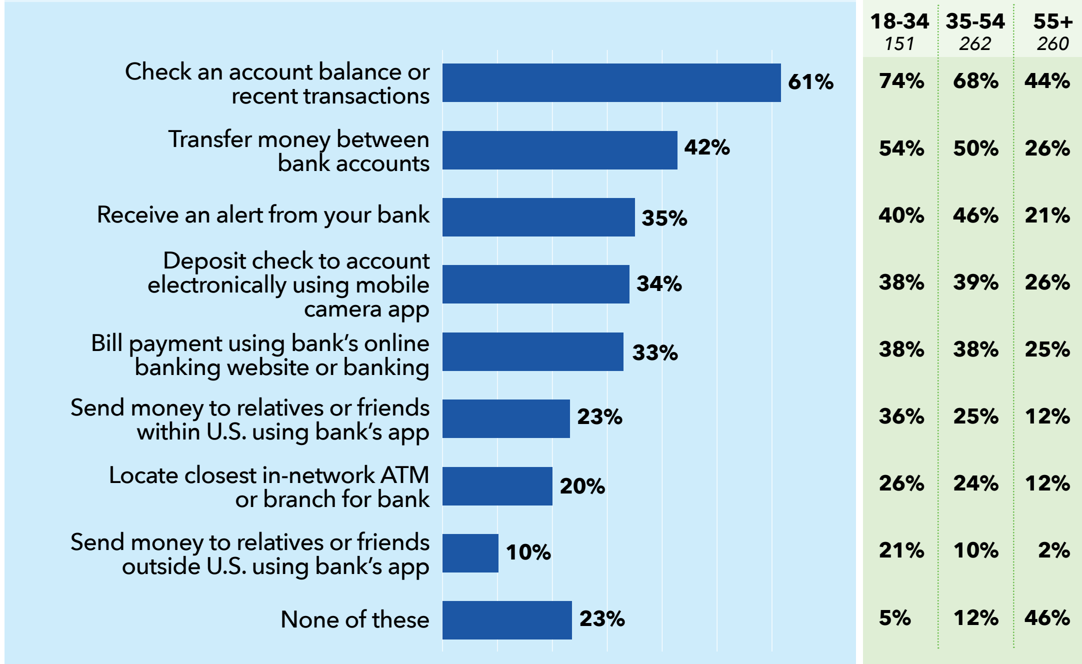
1 In this article, the term "faster payments" will be used inclusively to cover all the various services noted in the sidebar; the specific types listed, such as "instant payments," will be used to refer to that payment type specifically.

Online and Mobile Financial Services Are the New Normal

Nearly two-thirds of surveyed consumers indicated they manage their relationship with their primary financial institution(s) predominantly online or via their mobile devices. However, there are differences across age groups, with 70% of those aged 35-54 indicating they visit their financial institution branch only occasionally if at all, followed by 64% of 18-34 year-olds and 58% of those 55 and older.

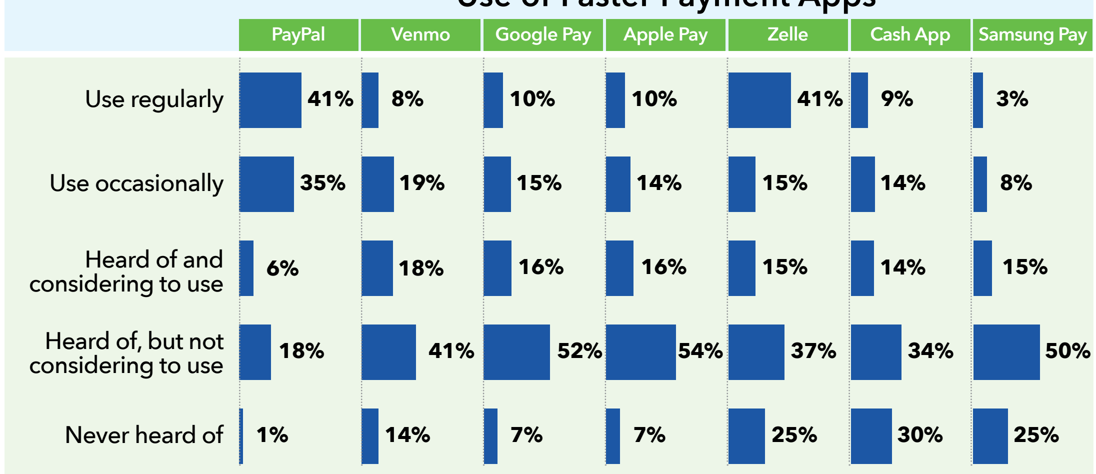
In terms of mode of access, younger consumers lead in the use of mobile apps to manage their accounts. Specifically, 95% of those aged 18-34 use their mobile phone for banking-related activities, including, for example, checking their balance or confirming a transaction, depositing a check, transferring funds between accounts, or making payments, as Chart 1 shows. Similarly, 88% of consumers in the 35-54 age group rely on their mobile device to conduct certain banking activities. In contrast, only 54% of those 55 and older conduct banking activities on their phones, and those who do tend to use them primarily for balance checking and much less for depositing checks or making payments.

Chart 1: Mobile Phone Activities



At the same time, younger (18-34) and middle-age (35-54) consumers are using digital wallets and/or mobile payment apps often. About 64% of 18-54 year-olds are regular users of digital payments and mobile payment apps, compared with only 31% of those 55 and older. As shown in Chart 2, occasional and regular users of mobile payment apps and digital wallets comprise up to 76% of surveyed consumers. Altogether, 83% of consumers indicate they are using at least one mobile payment app or digital wallet at least occasionally, including 71% of those 55 and older.

Chart 2: Level of Familiarity with and Use of Faster Payment Apps

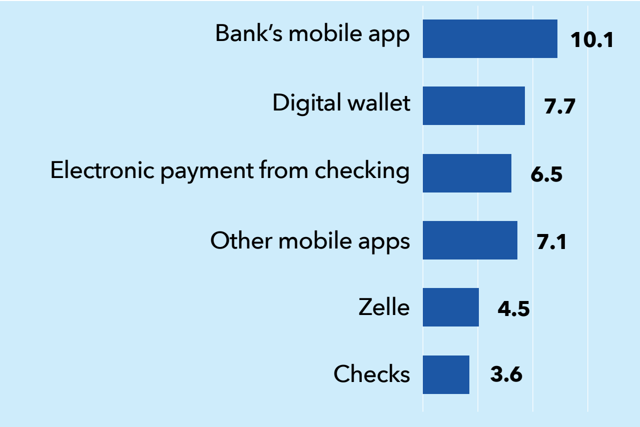


2 Throughout the remainder of this report, the terms "bank" and "banking" are used to refer to all traditional financial institutions, including commercial banks, savings banks and credit unions.

As shown in Chart 3, those who use their mobile devices for payments tend to do so frequently (about 10 times per month). Regardless of their age group, consumers use their primary financial institution's mobile app most often. Frequency of use tapers off a bit for digital wallet apps and other fintech payment apps – 7.7 and 7.1 times a month on average, respectively. However, younger consumers use these apps as frequently as they do bank mobile apps.

In general, consumers are highly satisfied with the mobile payment apps they use. On a scale of 1 to 10, with 10 indicating the highest level of satisfaction, mean ratings of bank mobile apps hover around 9, with ease, convenience and speed being the primary satisfaction drivers. For example, one survey respondent stated, *"My physical bank is 1,200 miles away so I rely solely on my mobile device for banking. Payments are sent and received timely, every time."*

Chart 3: Average Monthly Use of Mobile Apps vs Direct Debit



Payment Practices Still Lean Traditional, But Mobile Options Are Gaining Ground

When asked whether current economic conditions since the onset of the Covid-19 pandemic had changed their priorities, 60% of surveyed consumers indicated that shopping online versus in-person had become more important, and 48% indicated that contactless payments had also become more important. In addition, monitoring fraud and using mobile payments had become more important to surveyed consumers, 53% and 45%, respectively. Many consumers also suggested they are focusing on improving short- and long-term savings, as well as reducing debt.

Chart 4: Payment Methods Used in the Last 12 Months By Situation

	Household Bills	In-Person Purchases	Online Purchases	Person-to-Person	Taxes
Cash	27%	58%	–	58%	12%
Credit or charge card	39%	60%	62%	–	14%
Debit card	36%	52%	41%	–	23%
Electronic payment*	46%	–	9%	5%	27%
Other mobile payment apps	18%	11%	30%	33%	6%
Check	30%	6%	–	25%	34%
Banks' mobile app	27%	9%	10%	11%	13%
Digital wallet	10%	11%	13%	7%	5%
Zelle	9%	5%	6%	18%	–
General purpose prepaid card	4%	5%	1%	–	2%
Money service	3%	–	–	5%	1%
Wire transfer	3%	1%	1%	3%	2%
Digital currency	2%	2%	2%	2%	1%

Despite increased interest in mobile payments and higher usage of mobile payment apps, consumers are still using traditional payment options extensively, including cash. As shown in Chart 4, usage of the various payment options depends on the payment situation. For example, more than half of consumers have used cash in the last 12 months for in-person purchases and person-to-person (P2P) transactions, but considerably fewer have used cash to pay taxes or household bills. In contrast, 60% or more of consumers turn to credit cards when making at least some in-person and online purchases, and more than half use debit cards for some in-person purchases. Electronic payments (i.e., direct debits from checking accounts) are also popular, particularly for recurring and other household bills.

Although mobile payments are cited somewhat less frequently, it is important to note that use of mobile payment options has been on a strong growth trajectory. In 2013, only 10% of consumers had made a mobile payment, compared with more than 65% in 2021 who indicated they had used a mobile app for at least one of the payment situations shown in Chart 4. This represents a more than five-fold increase in mobile payment usage over an 8-year time period.[3] It also appears that consumers use different types of mobile apps selectively, depending on the payment situation. For example, 27% of consumers have used their bank mobile app to pay household bills, but only 9%, 10% and 18%, respectively, have used Zelle, digital wallets and other fintech mobile apps, to do so. In contrast, 30% have used other mobile apps for online purchases and 33% have used them for P2P transactions, but only 10% and 11% have used bank mobile apps for the same payment situations, respectively.

To a certain extent, this pattern is due to the reach of the various networks. With their original focus on P2P transactions and the relatively broad consumer adoption of at least some of the fintech mobile apps, it makes sense that a larger share of consumers would use these apps for P2P payments. In contrast, banks and other traditional financial institutions have focused on bill payment services for both their consumer and business customers, making their mobile apps a more logical choice for household bills. However, it is noteworthy that at least some fintech mobile apps also appear to have made significant inroads into online purchases, most likely because of their efforts to expand the types of financial and other services they offer their users, including many businesses.

Consumers See the Benefits of Faster Payments in an Always-On, On-Demand World

With the increasing emphasis on online, mobile and on-demand commerce, 62% of surveyed consumers overall expect to be using faster payment options more extensively in the future, particularly options that offer robust fraud protections. As with mobile payments generally, however, only 42% of older consumers (55+) are inclined to do so, compared with 80% and 70% of 18-34 year-olds and 35-54 year-olds, respectively. In addition, the shift to greater reliance on online and mobile commerce that occurred during the COVID-19 pandemic appears to have had an impact on consumers' interest in using faster payments for in-person transactions: 46% of consumers indicated they were at least "somewhat likely" to use faster payments for in-store (point-of-sale) as well as online retail purchases.

This suggests that consumers' interest in using faster payments goes well beyond P2P; they would like to use faster payments for a variety of situations and use cases. Specifically, compared with the 62% who listed P2P, 77% are interested in using faster payments to make certain types of payments to businesses, and 62% would like to use faster payments to transfer funds between personal accounts.

3 A similar study conducted by the Federal Reserve Banks in 2013 found that 10% of consumers had used a mobile device to make or receive a payment in the prior 12 months. https://fedpaymentsimprovement.org/wp-content/uploads/enduser_demand_summary.pdf

Chart 5 provides a breakdown of the payment scenarios, or "use cases," consumers are most interested in. In the person-to-business (P2B) category, last-minute bill payments, online shopping and recurring bill payments top the list. Having the ability to use faster payments for last-minute bill payments is important to consumers because, as one respondent stated, *"The top challenge I have for paying bills is the due dates for the payment. I sometimes have to be a little late with the payment; (it) depends on when I get paid."* And it is noteworthy that for the two bill-payment use cases, older consumers were slightly *more* likely than the two younger cohorts to express interest.

Chart 5: Popular Use Cases for Faster Payments

			AGE		
		OVERALL	18-34 *449*	35-54 *784*	55+ *782*
Person to Business	Last-minute bill payments	32%	27%	33%	34%
	Online shopping/e-commerce	30%	33%	31%	25%
	Recurring bills	29%	30%	28%	31%
	In-person retail purchases	23%	27%	20%	22%
	Unexpected bills	17%	19%	17%	15%
	Taxes and fee payments	14%	16%	15%	13%
Account to Account	Transfer at same FI	32%	37%	30%	30%
	Transfer at different FIs	31%	30%	32%	31%
	Draw/fund pre-paid debit	15%	22%	19%	8%
	Transfer bank and brokerage	19%	17%	19%	20%
Person to Person	Send to friends and family	53%	68%	59%	36%
	Household services	27%	36%	31%	17%
Business to Person	Direct Deposit	10%	11%	9%	9%
	Customer incentive payouts	9%	7%	8%	11%
	Independent contractor	7%	9%	9%	5%
	Other businesses	6%	6%	6%	7%
	One-time employer payments	4%	5%	5%	2%

With respect to account-to-account (A2A) transfers, the ability to use faster payments to transfer funds between accounts at the same institution and at different institutions drew similar levels of interest. In contrast, being able to instantly fund prepaid cards or make transfers to and from brokerage accounts appear to be relatively more attractive to certain consumers, depending on their age and stage of life.

To a considerable extent, the features consumers are looking for in a faster payment service reflect the needs of on-demand commerce and an always-on way of life. The two most frequently cited features, fraud protection and payee confirmation, are essential to consumer confidence in the safety and reliability of online and mobile commerce, so it is not surprising that 91% and 87% of consumers prioritized these features, respectively. Likewise, receiving immediate notification that the intended payee got the payment, or that the funds from an expected payment are available, is important to 78% of consumers. As one survey respondent put it, "*When I make the payment or send a payment, I like to see it come out of my bank sooner rather than days down the line.*"

And while just over 70% indicated earning rewards was important, they rated network reach (the ability to use a faster payments service to reach all the people and businesses with which they transact) somewhat higher. It is also worth noting that more than 70% of the two age groups that tend to be the heaviest users of mobile commerce, 18-34 year-olds and 35-54 year-olds, considered it important to be able to move and receive funds instantly, 24x7, while only 43% of those 55 and over felt that way.

Finally, nearly 70% of all consumers, including 82% of those aged 18-34 and 76% of those aged 35-54, want and expect the financial institution(s) they use to offer faster payment services with many of the above features, particularly real-time funds availability. One survey respondent put it this way: *"I would rather not have to use third-party apps in order to send money to others."*

Broad Adoption of Faster Payments Faces Some Hurdles

Chart 6: Potential Barriers to Faster Payments Adoption

		AGE		
		18-34 *105*	35-54 *275*	55+ *468*
Concern about fraud	49%	44%	45%	51%
Don't want to register with more apps	46%	44%	45%	47%
Don't want to share account info	38%	30%	34%	41%
Don't know enough about it	33%	26%	27%	37%
FI does not provide the ability to use faster/instant payments	21%	26%	20%	20%
No rewards/loyalty points	20%	29%	21%	18%
Friends/family cannot accept or receive faster/instant payments	15%	21%	19%	12%
Too long to transfer money at different FIs	8%	15%	9%	6%
Other	13%	7%	10%	16%
None of the above	8%	8%	9%	7%

For the roughly 40% of consumers who indicated limited or no interest in using faster payments, their reasons were varied, but as Chart 6 shows, the top reason was concern about the potential for fraud, with nearly half citing it. Accordingly, faster payment services that ensure users will not be responsible for fraudulent transactions may be able to attract some of these consumers.

Somewhat surprisingly, nearly as many consumers indicated that having to register with yet another app was a barrier to using faster payments, and this distaste was shared equally across age groups. One survey respondent captured the general sentiment this way: *"Everyone uses something different, so I'm constantly signing up for new things and getting new apps and new e-mails. It drives me crazy."* However, to the extent financial institutions incorporate faster payment capabilities into mobile apps these consumers are already using, it is possible they could become more willing to use faster payments.

Rounding out the top reasons, a third or more cited not wanting to share account information, a likely corollary to their fraud concerns, and about the same number suggested they simply don't know enough. This lack of knowledge about faster payments illustrates the need for strong public education programs and broad marketing efforts that tout the benefits of faster payments as well as the safeguards that are in place to keep consumers safe from payments fraud.

It is also important to highlight a concern that does not show up on the list, namely, the age-old desire to capture payment "float," which is the time funds stay in a payer's account after initiating a payment before the funds are taken from the payer's account. It may not be surprising in the current low interest rate environment that only 6% of consumers want to delay posting of their payments to keep money in their account longer. However, it is particularly noteworthy that 63% actively *want immediate posting.* It appears that having an accurate picture of their account balance at all times is a growing necessity for many consumers as they engage in on-demand commerce. In this regard, faster payments offer a way for consumers to manage their money more effectively.

Conclusions and Implications

The results of this survey of consumers suggest that a significant majority are already using some types of faster payments, including more than 65% who are using their mobile phone apps to do so. While P2P transactions have been and likely will continue to be a prominent use case for faster payments, consumers are eager to use faster payments for other use cases as well. This is especially true for those under the age of 55. For them, the benefits of doing so are clear:

- Convenient, 24x7x365 availability, anytime, anywhere – aligning with how consumers interact with people and businesses today.
- Improved money management capabilities with real-time notifications of payments received, coupled with real-time funds availability, as well as accurate, up-to-the-minute views of account balances that enable consumers to manage discretionary online and in-person purchases.
- Greater flexibility to make recurring and last-minute bill payments with the assurance that the payments are reaching the intended recipients in real time; and
- Easier and faster funds transfers between accounts.

The keys to broad adoption of faster payment services include providing robust fraud protection and enabling consumers to pay everyone they need to pay without having to sign up for a plethora of payment apps. Financial services providers that leverage faster payments to create a suite of instant financial services will be well positioned to meet consumer needs in an increasingly digital and on-demand economy.

About the Survey Respondents

The objective of this survey was to assess consumers' current payment practices, pain points, awareness of potential benefits of faster payments and interest in adding faster payments to their available options. Through an online questionnaire, household financial decision makers[4] provided information on their personal payment activities, their familiarity with and usage of different types of faster payments, and their views on the benefits they expect from using faster payments.[5] They also identified factors affecting their willingness to adopt faster payments.

The survey sample included 2,015 adults stratified by age and income in the United States. Table 1 shows the breakdown along key demographic lines:

TABLE 1: Summary Statistics for Demographics

Household Income:	
<$35k	27%
$35k-$99k	50%
$100k+	23%
Age:	
18-34	23%
35-44	48%
55+	30%

4 Household financial decision makers include those who are responsible for "some" or "all" of the payment decisions for their households

5 The online survey was conducted by Phoenix Marketing International with the panel-based sample provided by Dynata and Lucid. The sample pf 2,015 was stratified by age and income and allows for a sampling margin of error of +/- 3% at a 95% confidence level.