

# North America insights on real-time payments

June 2018



# Foreword

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The landscape for real-time payments services in North America has evolved dramatically in the last few years. Industry forces and technology are creating the need for real-time payments and changing the way money moves across the globe between financial institutions, governments, businesses and consumers.

And it's not slowing down anytime soon. The demand is there. We believe that real-time payments infrastructure and solutions can have a profound impact on the global economy with positive benefits on people's lives.

In 2018, Visa commissioned research with Aite Group to understand the disbursement payment preferences of consumers and businesses recipients in North America. The research also explored Corporate Payer sentiment towards offering real-time payment solutions and choices on improving the customer experience and on providing a smooth, digital experience that meets fast-changing consumer preferences and rising global payments challenges. Based on the research, we are more confident than ever that we need to work together to enable a real-time payments infrastructure that will meet the needs of consumers and businesses. With Visa Direct, a global

real-time payments platform, Visa is well positioned to supply infrastructure to scale and quickly meet the emerging needs around the world.

Visa Direct provides a fast, secure and convenient solution for Visa's ecosystem of clients and partners. It enables their customers through their financial institutions to send and receive person-to-person payments, funds disbursements and business-to-business settlements directly to an eligible Visa card account in a fast, secure way.

Visa Direct is just one of the thousands of ways that Visa is continuing to innovate in the technology and

payments space. And as this concept of real-time payments continues to evolve, we will keep investing in technologies that make Visa the best way to pay and be paid.

**Cecilia Frew**

SVP, Head of Visa Direct, North America

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## Executive summary

This research report was commissioned by Visa and produced by Aite Group, examines the North American business-to-consumer (B2C) funds disbursement market. It also examines payer, consumer, and merchant behaviors and preferences for funds disbursements as well as the awareness and appetite for real-time funds disbursements.

Key takeaways from the study include the following:

- Aite Group estimates that the total available North American funds disbursement market exceeded 3.4 billion payments in 2017, for a dollar value of roughly US\$7.9 trillion. The U.S. accounted for 89% of the transaction volume and 87% of the dollar value of the total North American funds disbursement market, with Canada making up the remainder.
- Consistent with the growing economy in the U.S., more U.S. consumers are receiving disbursements since Aite Group last reported on this topic in 2015. Overall, the dollar value of U.S. funds disbursements for consumers between the ages of 18 and 65 has grown 48.1% in the past three years, ahead of gross domestic product (GDP) growth.
- In North America, most funds disbursements are issued using traditional payment methods, including direct deposit, checks, and cash. Sixty-six percent of the total transaction volume and 70% of the total dollar value of funds disbursements are issued using first-generation electronic payment methods or paper-based payment methods. Alias-based payment methods, such as PayPal, Interac e-Transfer, and Zelle, along with push-credit transactions, are emerging alternatives for funds disbursements.
- The North American economy could save between US\$1.2 billion and US\$2.4 billion by moving away from checks to electronic payments for funds disbursements. Most of the cost savings would be experienced by payers in the U.S., which accounts for 90% of the total check issuance costs incurred in North America.
- When given a choice, North American consumers prefer electronic payment methods to paper-based payment methods. In 2017, 74% of North American consumers receiving disbursements were paid via direct deposit; direct deposit is the most preferred payment method for funds disbursements, with 76% of North American consumers preferring this payment method for the types of disbursements they received.
- The demand for faster payments across all market sectors included in this study is clear—most payers believe recipients want to receive payments faster. North American consumers report that for 62% of funds disbursements received, they would be likely to opt in for a real-time payment method if it were available, and 96% of North American merchants report that they would be likely to opt in to real-time payments if the price remained constant.

## Introduction

The world is moving to a real-time payments ecosystem in which electronic payment transactions can move as quickly as the time it takes for two people to exchange cash. This is a revolutionary change that will impact the way consumers, merchants, corporations, financial institutions, and governments interact with one another. The growing ubiquity of smart devices and booming online retail commerce is driving the rapid adoption of real-time payments. Consumers are increasingly turning to their smartphones to instantly make payments to peers, merchants, billers, and others, and the appetite to receive instant payments from businesses and governments is growing.

This white paper examines the state of the North American B2C funds disbursement market. Over the last decade, there has been a push to reduce the use of checks for funds disbursements due to their inconvenience and cost, and consumers have certainly become accustomed to receiving electronic payments. But receiving funds via more convenient and secure payment methods is no longer enough for the 21st century organization. To maintain a competitive advantage in the new world, it is time for businesses, governments, and financial institutions to move to next-generation real-time payment methods.

## Methodology

Aite Group conducted a three-part study that was commissioned by Visa to examine the state of the North American B2C funds disbursement market. The study examined payer, consumer, and merchant behaviors and preferences for funds disbursements. It also explored the awareness and appetite for real-time funds disbursements. The research methodology includes a combination of qualitative interviews and quantitative surveys and is supported by Aite Group's existing body of syndicated research.

To gain a thorough understanding of the payers', consumers', and merchants' experiences with funds disbursements, Aite Group conducted the following studies:

- **Payer study:** Aite Group conducted a qualitative survey of 30 executives at companies in the U.S. and Canada making at least 10,000 disbursement transactions per month over the two-month period from September 2017 to October 2017. Executives are responsible for the funds disbursement processes at companies across a variety of market sectors, including alternative lending, contract staffing, healthcare, insurance, merchant settlement, online marketplaces, and the sharing economy. Given the size and the structure of the research sample, the results of the qualitative interviews provide a directional indication of the conditions in the market.
- **Consumer study:** In Q4 2017, Aite Group conducted a quantitative study of 2,379 U.S. and Canadian consumers between the ages of 18 and 65 who received funds disbursements in the 12-month period from October 2016 to September 2017. The survey was conducted online among U.S. and Canadian consumers who participated in a research panel. The consumers invited to participate in the study are in proportion to both the U.S. and Canadian populations for age, income, gender, race/origin, and

geographic region of residence. The study participants reflect the profile of consumers who receive funds disbursements in the U.S. and Canada. A survey of this size offers a margin of error of 2 points at the 95% level of confidence.

- **Merchant study:** In Q4 2017, Aite Group conducted an online survey of 154 small merchants in the U.S. and Canada with annual revenue between US\$100,000 and US\$10 million. For this study, merchants were defined as any company that sells goods and services online or in a physical store. A survey of this size offers a margin of error of 8 points at the 95% confidence level.

## Definitions

Table A includes general definitions of terms used throughout this white paper:

Table A: General Definitions

Term	Definition
Electronic payments	Electronic payments are a way of paying for goods or services electronically, using the internet or some other proprietary network, instead of using cash or check. For purposes of this research, all payment methods referenced are electronic except cash and check.
North America	For purposes of this study, North America includes Canada and the United States, while Mexico and Central America are considered part of Latin America.
Real-time payments	Real-time payments are funds received in a bank account and available for use within 30 minutes of the payer making the payment.
Small business	A small business is one that generates US\$10 million or less or CA\$10 million or less in revenue on an annual basis.

**Source: Aite Group**

This white paper includes an analysis of funds disbursements by generation as defined in Table B.

Table B: Generation Definitions

Generation	Definition
Millennials	Individuals born between 1981 and 1999 (ages 18 to 36)
Gen Xers	Individuals born between 1965 and 1980 (ages 37 to 52)
Baby boomers	Individuals born between 1952 and 1964 (ages 53 to 65)

**Source: Aite Group**

This white paper includes an analysis of funds disbursements by payer category as defined in Table C.

Table C: Payer Categories

Category	Definition
Alternative income	Disbursements that represent earnings received for nontraditional work or investments
Employer	Disbursements received from a consumer's employer above and beyond salary or wages
Financial services	Disbursements received from businesses that manage money or other assets, such as insurance companies and lenders
Government	Disbursements received from a country's, province's, or state's system of people, laws, and officials that control the country in which a consumer lives
Merchant	Disbursements received from operators of retail businesses
Small business	Disbursements received for a business that generates US\$10 million or less or CA\$10 million or less in revenue on an annual basis

**Source: Aite Group**

This white paper includes an analysis of various funds disbursement use cases, as defined in Table D.

Table D: Funds Disbursement Use Cases

Payer category	Use case	Definition
Alternative income	Affiliated marketing program	Marketing arrangements by which an online company pays commission to an external website for traffic or sales generated from its referrals
	Freelance/gig/independent contractor work	Providing goods or services to another person or company under a contract or within a verbal agreement
	Investment dividends	Payments issued to shareholders as a distribution of a portion of a company's earnings
	Lottery/gambling winnings	Cash winnings from lotteries, raffles, horse races, casinos, etc.
	Medical trials	Paid participation in research studies that explore whether a medical strategy, treatment, or device is safe and effective for humans
Alternative income continued	Multilevel marketing program	Direct sales companies that pay existing distributors a percentage of their recruit's sales; the recruits are known as a distributor's downline
	Online/digital content	Developing web content that is textual, visual, or aural and encountered as part of the user experience on websites such as YouTube,

Payer category	Use case	Definition
		About.com, Yahoo! Voices, Cosmopolitan.com, and Parents.com
	Personal goods sold via online marketplaces	Person-to-person sales of products or services conducted electronically on the internet
	Rent/sublet/vacation rental income	The renting out of a furnished apartment, house, or professionally managed resort-condominium complex on a temporary basis to tourists as an alternative to a hotel
Employer	Business expense reimbursements	Payments/reimbursements to employees who have spent their own money on business-related expenses
	Employer gifts/bonuses/prizes	Compensation given to an employee in addition to his/her normal wages
	Tuition reimbursements	An employee benefit in which the employer issues payments/reimbursements to employees for the tuition for coursework or training
Financial services	Insurance claims—healthcare disbursements	Payments/reimbursements for expenses incurred from illness or injury
	Insurance claims—life and annuity	Payment/reimbursements for the unexpected/premature death of a family member and/or periodic payouts received from the annuity portion of a life insurance policy
	Insurance claims—property and casualty	Payments/reimbursements for expenses incurred from losses or damages sustained to property
	Personal loan payouts	Payments received for unsecured loans advanced on the basis of the borrower's credit history and ability to repay the loan from personal income
Government	Federal tax refunds	Returns of excess amounts of income tax that a taxpayer has paid to the federal government throughout the past year
Government continued	Government aid/assistance	Payments made by the government to individuals for education, health, public safety, public welfare, and public works, among others
	Provincial tax refunds	In Canada, returns of excess amounts of income tax that a taxpayer has paid to the province throughout the past year
	State tax refunds	In the U.S., returns of excess amounts of income tax that a taxpayer has paid to the state throughout the past year
Merchant	Brand or store incentives	Loyalty programs that are designed to reward customers for engaging further with a product or

Payer category	Use case	Definition
		brand, e.g., money earned that can be spent only in a specific store, airline miles to be used for future travel, cash back on purchases with a specific credit card
	Product/service rebates	A refund of a portion of a payment for the purchase of a good or service
	Refunds from a store/company	A repayment of a sum of money by a retailer to a dissatisfied customer
	Store credits	Payments from a retailer for merchandise that is returned and not eligible for a cash refund
	Travel reimbursements	Repayments by a travel or hospitality company to dissatisfied consumers including items such as lost luggage claims and vouchers for a hotel
Small business	Payouts of card payment transactions	The payment of funds collected by an acquirer for the sale of goods or services to a merchant's bank account
	Small-business loan payouts	Payments received for loans advanced for starting or financing a small business

**Source: Aite Group**

This white paper includes an analysis of various payment methods used for funds disbursement as defined in Table E.

Table E: Payment Method Categories

Category	Definition	Payment methods
Alias based	Direct deposits to an individual payee bank account facilitated by the ACH/EFT networks or card payment networks, in which payees establish an alias with the service provider, typically using either a mobile phone number or an email address as a unique identifier	Facebook Messenger, Google Wallet, Interac e-Transfer, PayPal, Popmoney, Square Cash, TD Visa Direct, Venmo, Zelle
Alternative currency	Currencies used as an alternative to the dominant national or multinational currency systems (usually referred to as national or fiat money)	Loyalty points
First-generation electronic	Direct deposits to an individual payee bank account facilitated by the ACH/EFT network or refunds to debit and credit card accounts facilitated by the card payment networks	Direct deposit, refund to card
Paper based	The physical exchange of currency or written payment instructions on paper to pay another person	Cash, checks
Prepaid	Stored reloadable or nonreloadable value cards that function similarly to debit cards but that, usually, are not tied to a deposit account and that businesses use to pay consumers, including unbanked individuals	Gift card, electronic benefits transfer (EBT), prepaid card
Push-credit transaction	Credit transactions businesses can push to consumers' credit or debit card accounts via the card payment networks instead of having to obtain and securely maintain bank account information	Push to card
Other	Includes other payment methods identified by consumers that do not fall into one of the categories defined above	Money transfers and miscellaneous payment methods

Source: Aite Group

## Money moving at the speed of light

Real-time, immediate, instant, faster—no matter the term used, people who are owed money want to be paid now. Real-time payment systems are proliferating around the world and are contributing to an environment in which consumers, merchants, corporations, financial institutions, and governments expect to be able to pay friends and customers, settle bills, and transfer money at the speed of light—or at least as fast as everything else in the world is moving. While real-time payment systems are standard in other regions of the world, North America is making strides to catch up. The North American payments landscape is booming with a multitude of real-time payment capabilities, such as the card networks' push-to-card solutions (Visa Direct and Mastercard Send), the bank-to-bank P2P payment platforms (Zelle and Interac e-Transfer), and The Clearing House's real-time payments platform that is being built by FIS and VocaLink. There are key differences between each of these payment schemes, but one thing is clear: In North America, real-time payments are driving change in traditional payment instruments—cash, checks, credit, debit, prepaid, and others.

Although real-time payment capabilities exist, a significant portion of funds is still disbursed through traditional payment methods. In 2015, 17.3 billion checks were processed in the U.S.—a point of friction in non-cash payments that has existed since the 18th century.<sup>1</sup> It seems remarkable that businesses and consumers continue to provide each other with pieces of paper to pay one another. Not only are checks cumbersome, taking an agonizingly slow five to seven days to settle, but they are also costly. The median cost to issue a check ranges from US\$2.01 to US\$4.00 per check.<sup>2</sup> As the volume of checks has declined in recent years, there has been an uptick in the use of ACH as a payment alternative for businesses, and ACH volume has doubled between 2000 and 2015.<sup>3</sup> While ACH has been a low-cost alternative for businesses making a large volume of disbursements, businesses must maintain and protect the consumer's sensitive financial information. Additionally, ACH takes one to three days to settle in nearly every situation and does not meet the current appetite for real-time payments.

The impact of reducing the time between disbursement and funds availability is a potential game changer for companies that make a significant volume of disbursements. Faster payments increase recipient satisfaction by providing an increased ability to manage cash flow. Today, companies are already using faster payments to drive differentiation and to attract and retain customers. And consumers and merchants are demanding to be paid faster.

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2. "2015 AFP Payments Cost Benchmarking Survey," Association for Financial Professionals, October 2015, accessed November 29, 2017, <https://www.afponline.org/publications-data-tools/reports/survey-research-economic-data/Details/payments-cost-2015>.

3. "The Federal Reserve Payment Study 2016: Recent Developments in Consumer and Business Payment Choices," The Federal Reserve System, June 30, 2017, accessed November 7, 2017, <https://www.federalreserve.gov/newsevents/pressreleases/files/2016-payments-study-recent-developments-20170630.pdf>.

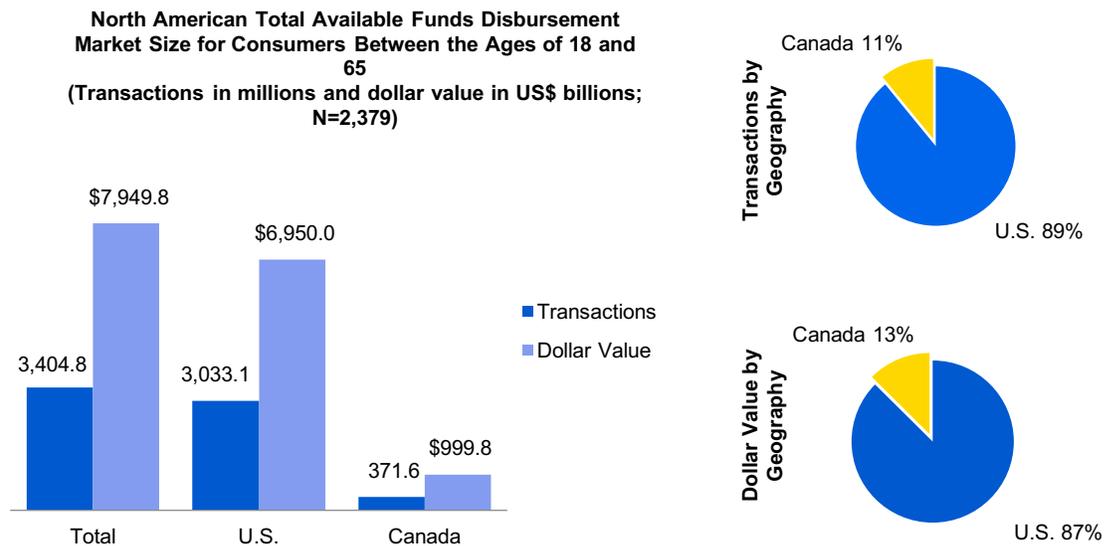
# North American funds disbursement landscape

Funds disbursements are made for a variety of reasons—businesses make payments to people participating in the booming gig economy, employers distribute bonuses and expense reimbursements to employees, government agencies issue tax refunds to citizens, and merchants issue overpayment refunds, product rebates, and brand incentives, just to name a few. Funds disbursements have implications for the various stakeholders involved, whether they be payers who issue disbursements or consumers or merchants who receive disbursements.

## Total available funds disbursement market

Across the 27 types of disbursements upon which North American consumers and small-business owners between the ages of 18 and 65 report, Aite Group estimates that the total available funds disbursement market exceeds 3.4 billion payments in 2017, for a dollar value of roughly US\$7.9 trillion. The U.S. accounts for 89% of the transaction volume and 87% of the dollar value of the total North American funds disbursement market, with Canada making up the remainder (Figure 1).

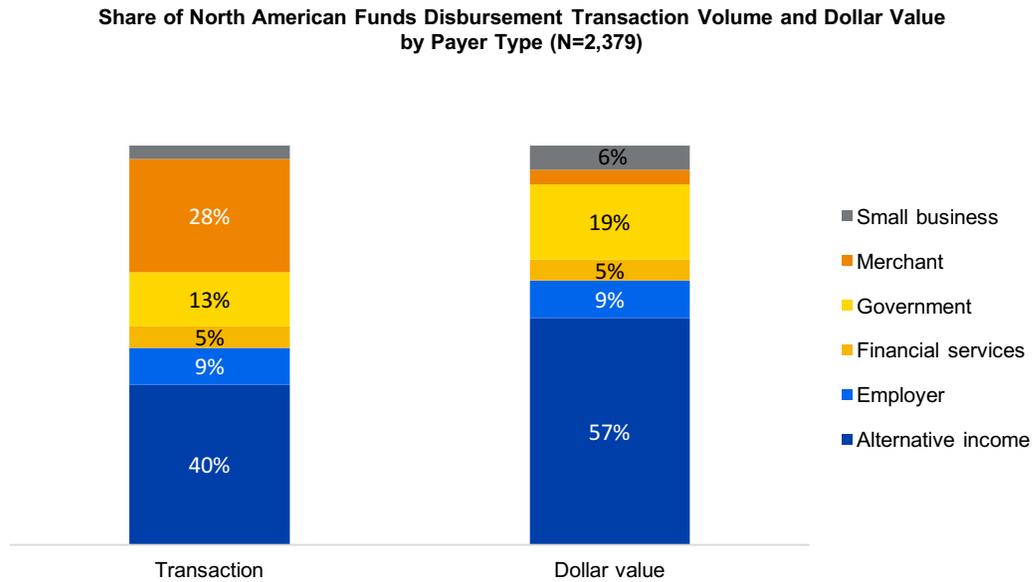
Figure 1: Total Available North American Funds Disbursement Market, 2017



Source: Aite Group and Visa Inc. survey of 2,379 North American consumers in Q4 2017 and Aite Group estimates

Alternative income is the largest payer category, accounting for 40% of the transaction volume and 57% of the dollar value of the total North American funds disbursement market in 2017. Government is the second-largest payer category, accounting for 13% of the transaction volume and 19% of the dollar value of the total North American funds disbursement market. While the merchant payer category accounts for 28% of the transaction volume, the dollar value is less than 5% of the total North American funds disbursement market (Figure 2).

Figure 2: North American Funds Disbursements by Payer Category, 2017



Source: Aite Group and Visa Inc. survey of 2,379 North American consumers in Q4 2017 and Aite Group estimates

In 2017, 79% of North American consumers received a government disbursement, and 54% received an alternative income disbursement. Alternative income payers issued 1.4 billion funds disbursement transactions, totaling US\$4.5 trillion, and government payers issued 459 million funds disbursements transactions, totaling US\$1.5 trillion (Table F).

Table F: North American Funds Disbursements by Payer Category, 2017

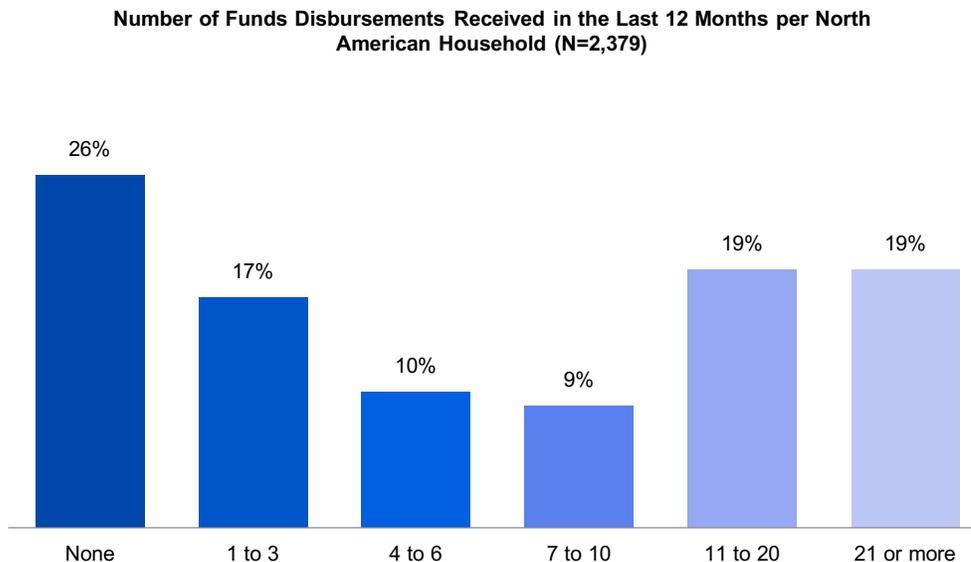
Payer category	Transactions (in millions)	Dollar value (in US\$ billions)	Percentage of North American consumers receiving disbursement	Average disbursement amount (in US\$)
Alternative income	1,363.6	\$4,510.3	54%	\$5,481
Employer	316.0	\$749.0	35%	\$3,190
Financial services	185.0	\$419.9	26%	\$3,777
Government	459.2	\$1,499.2	79%	\$3,803
Merchant	968.3	\$286.5	60%	\$706
Small business	112.7	\$485.0	6%	\$5,316

Source: Aite Group and Visa Inc. survey of 2,379 North American consumers in Q4 2017 and Aite Group estimates

## Funds disbursement penetration

North American households receive multiple funds disbursements annually. In 2017, an estimated 74% of households with consumers between the ages of 18 and 65 received some type of funds disbursement. Seventeen percent of North American households received one to three disbursements, and 38% of North American households received 11 or more disbursements, indicating that many households receive multiple disbursements per month (Figure 3).

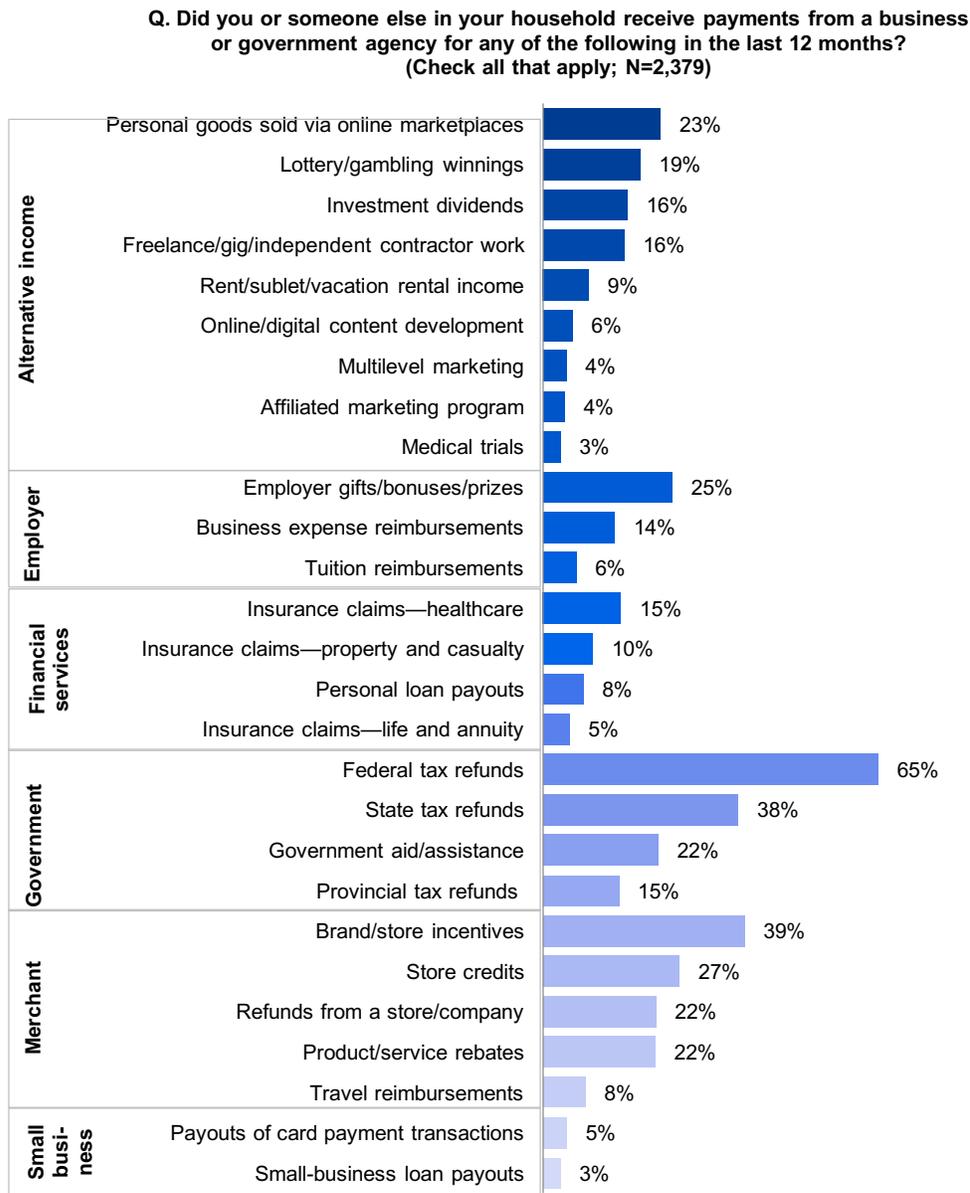
Figure 3: Funds Disbursements Received per North American Household, 2017



Source: Aite Group and Visa Inc. survey of 2,379 North American consumers in Q4 2017 and Aite Group estimates

In 2017, government payers made the most disbursements, paying federal tax refunds to 65% of North American consumers and paying state tax refunds to 38% of North American consumers—followed by merchant payers paying brand/store incentives to 39% of North American consumers and issuing store credits to 27% of North American consumers. Sixteen of the 27 disbursement types had a penetration rate of 10% or more, and just six disbursement types had a penetration rate of 5% or less (Figure 4).

Figure 4: North American Penetration Rate of Funds Disbursements, 2017



Source: Aite Group and Visa Inc. survey of 2,379 North American consumers in Q4 2017

Consistent with the growing economy in the U.S., more U.S. consumers are receiving disbursements since Aite Group last reported on this topic in 2015. Overall, the dollar value of U.S. funds disbursements for consumers between the ages of 18 and 65 has grown 48.1% in the past three years, ahead of GDP growth. The alternative income payer category is the dominant driver of funds disbursement transaction volume and dollar value from 2014 to 2017, but this category represents the lowest growth in both transaction volume and dollar value. Financial services payers have shown the strongest growth in both transaction volume and dollar value. The dollar value for government disbursements and transaction volume for merchant disbursements have both grown by more than 100% (Table G). As funds disbursements continue to grow, payers will be required to absorb additional operational costs to provide a superior payment experience for consumers and merchants.

Table G: 2014 to 2017 YOY Growth in U.S. Funds Disbursements by Payer Category

Payer category	2014		2017		YOY growth	
	Total transactions (In millions)	Total dollar value (In US\$ billions)	Total transactions (In millions)	Total dollar value (In US\$ billions)	Transactions	Dollar value
Alternative income	845.4	\$2,817.1	956.5	\$3,635.6	13.1%	29.1%
Employer	205.2	\$376.9	291.8	\$702.2	42.2%	86.3%
Financial services	29.5	\$81.7	109.1	\$239.1	269.2%	192.8%
Government	246.8	\$629.3	389.6	\$1,260.1	57.8%	100.2%
Merchant	363.6	\$186.3	835.3	\$221.0	129.7%	18.6%
Total	1,690.5	\$4,091.2	2,582.2	\$6,058.0	52.7%	48.1%

**Source: Aite Group survey of 1,663 U.S. consumers in Q2 2015, Aite Group and Visa Inc. survey of 2,379 North American consumers in Q4 2017, and Aite Group estimates**

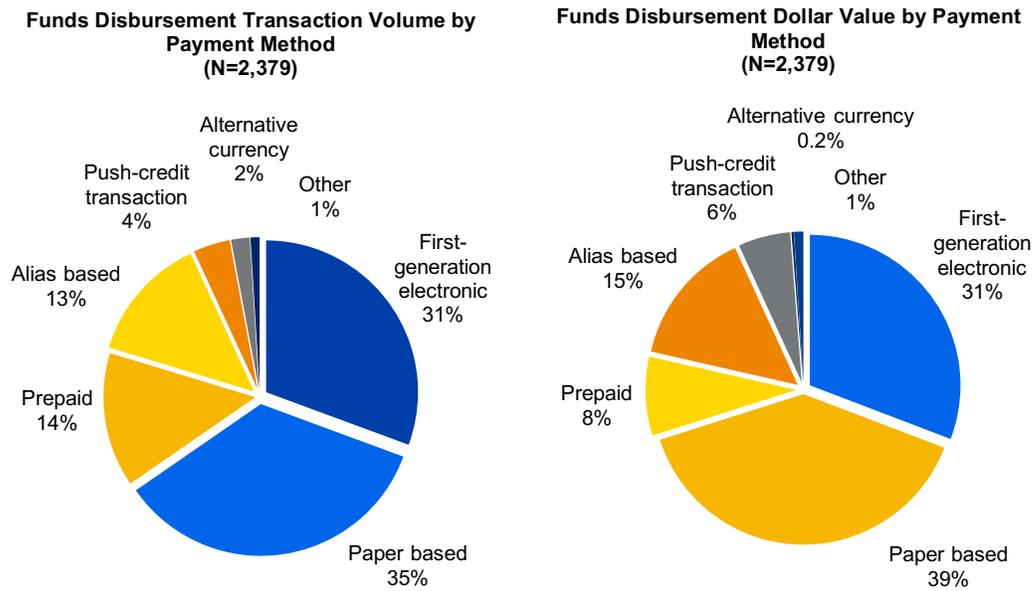
## Payment methods for funds disbursements

Historically, few options have existed for businesses to disburse funds to consumers electronically, but the payments industry has been evolving rapidly over the last several years with more options available to businesses and consumers than ever before. Technology has altered the role the payments industry plays in facilitating transactions, and there is a drive to remove friction, add value, and increase security. While new payment forms are emerging and beginning to gain momentum, traditional payment methods are still highly relevant for funds disbursements.

In North America, most funds disbursements are issued using traditional payment methods, including direct deposit, checks, and cash. Sixty-six percent of the total transaction volume and 70% of the total dollar value of funds disbursements are issued using first-generation electronic payment methods or paper-based payment methods. Prepaid payment methods have been around since the 1970s when gift cards made their first appearance, and prepaid payment methods have evolved over the decades, gaining more traction in the 1990s. It is interesting to note that despite their longevity, prepaid payment methods are used for just 14

% of total funds disbursement transaction volume and 8% of the total funds disbursement dollar volume. By comparison, alias-based payment methods, such as PayPal, Zelle, and Interac e-Transfer, hold nearly the same share of the market as prepaid payment methods, with PayPal accounting for most of the market share. Emerging push-to-credit transactions appear to be gaining traction at a faster pace than prepaid payment methods ever have (Figure 5).

Figure 5: North American Funds Disbursement Payment Mix, 2017



Source: Aite Group and Visa Inc. survey of 2,379 North American consumers in Q4 2017 and Aite Group estimates

In 2017, direct deposit accounted for 798.3 million funds disbursement transactions totaling roughly US\$2.4 trillion, and checks account for 611.3 million funds disbursement transactions, totaling approximately US\$1.8 trillion. Taken in total, direct deposit and checks account for 52% of the dollar volume of the total funds disbursement market. Payers interviewed for this study report that ACH is the predominant payment method used for funds disbursements and that checks represent a significant pain point for their organizations. In their quest to improve operational processes and reduce costs, payers are looking to use new payment methods, such as push-to-debit card and Zelle, as more secure alternatives to ACH and as a replacement for checks. In 2017, push-to-card accounted for 133.5 million funds disbursement transactions, totaling US\$445.0 billion and Zelle accounted for 26.4 million funds disbursement transactions, totaling US\$79.1 billion. While these payment methods are just beginning to emerge, they are expected to gain traction as consumers become more familiar with real-time digital payment methods (Table H).

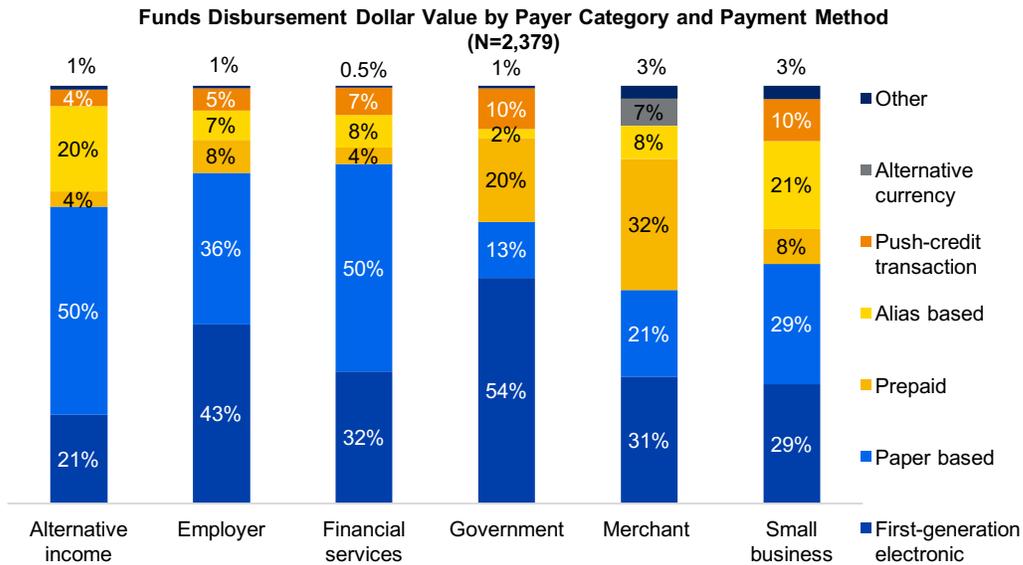
Table H: North American Funds Disbursements by Payment Method, 2017

Category	Payment method	Transactions (In millions)	Transactions (Percentage of total)	Dollar value (In US\$ billions)	Dollar value (Percentage of total)
First-generation electronic	Direct deposit	798.3	23%	\$2,368.5	30%
	Refund to card	244.3	7%	\$79.5	1%
Paper based	Check	611.3	18%	\$1,752.2	22%
	Cash	571.9	17%	\$1,372.1	17%
Prepaid	Prepaid card	136.1	4%	\$338.5	4%
	Gift card	328.3	10%	\$259.8	3%
	EBT	23.1	1%	\$74.2	1%
Alias based	PayPal	378.4	11%	\$885.2	11%
	Zelle	26.4	1%	\$79.1	1%
	Interac e-Transfer	52.7	2%	\$197.1	2%
Push-credit transaction	Push to card	133.5	4%	\$445.0	6%
Alternative currency	Loyalty points	67.4	2%	\$19.2	<1%
Other	Other	32.9	1%	\$79.2	1%

**Source: Aite Group and Visa Inc. survey of 2,379 North American consumers in Q4 2017 and Aite Group estimates**

Government and employer payers are the biggest users of first-generation electronic payment methods, using these methods for 54% and 43% of the total dollar value of disbursements made in those payer categories, respectively. Alternative income payers and financial services payers are the heaviest users of paper-based payment methods, using them for 50% of the dollar value of disbursements made in those payer categories. Alias-based payment methods have momentum with alternative income and small-business payers, with this payment method accounting for 20% and 21% of the total dollar value of disbursements made in those payer categories, respectively. Alias-based payments are starting to emerge with employer, financial services, and merchant payers. Push-credit transactions are most heavily used by government and small-business payers, accounting for 10% of the total dollar value of disbursements made in each of those payer categories. Push-credit transactions are emerging with alternative income, employer, and financial services payers (Figure 6).

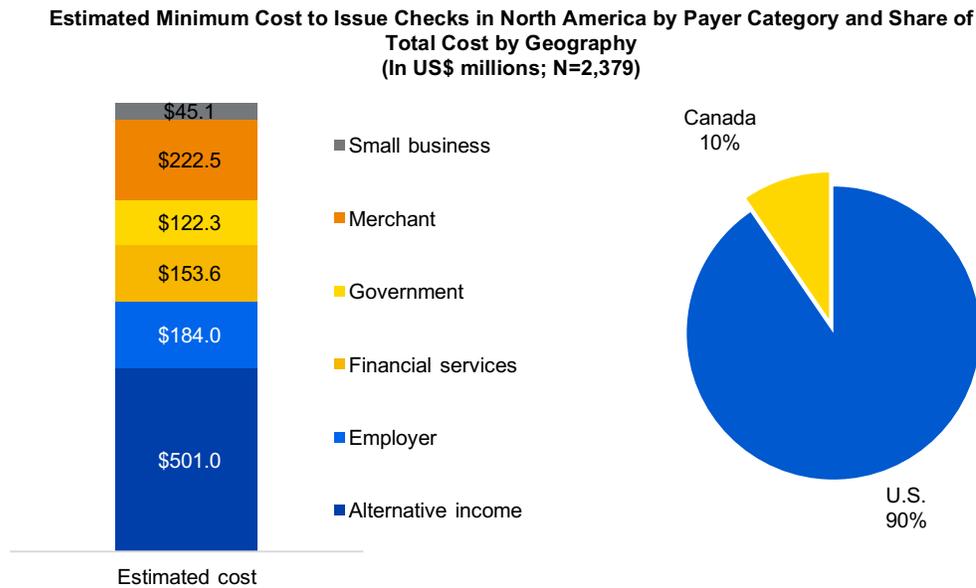
Figure 6: Payment Method Usage by Payer Category, 2017



Source: Aite Group and Visa Inc. survey of 2,379 North American consumers in Q4 2017 and Aite Group estimates

With the median cost to issue checks estimated to be US\$2.01 to US\$4.00 per check, the North American economy could save between US\$1.2 billion and US\$2.4 billion by moving away from checks to electronic payments for funds disbursements. Most of the cost savings would be experienced by payers in the U.S., which accounts for 90% of the total check issuance costs incurred in North America. Alternative income payers alone would save a minimum estimated amount of US\$501 million in check issuance costs, followed by merchant payers, which would save a minimum estimated amount of US\$222.5 million (Figure 7). Payers interviewed for the study that use checks are using a variety of methods to move consumers away from checks to electronic forms of payment. Payers report that most consumers prefer to receive payments electronically, but that there remains a small segment of consumers still tied to checks.

Figure 7: Check Issuance Costs in North America, 2017

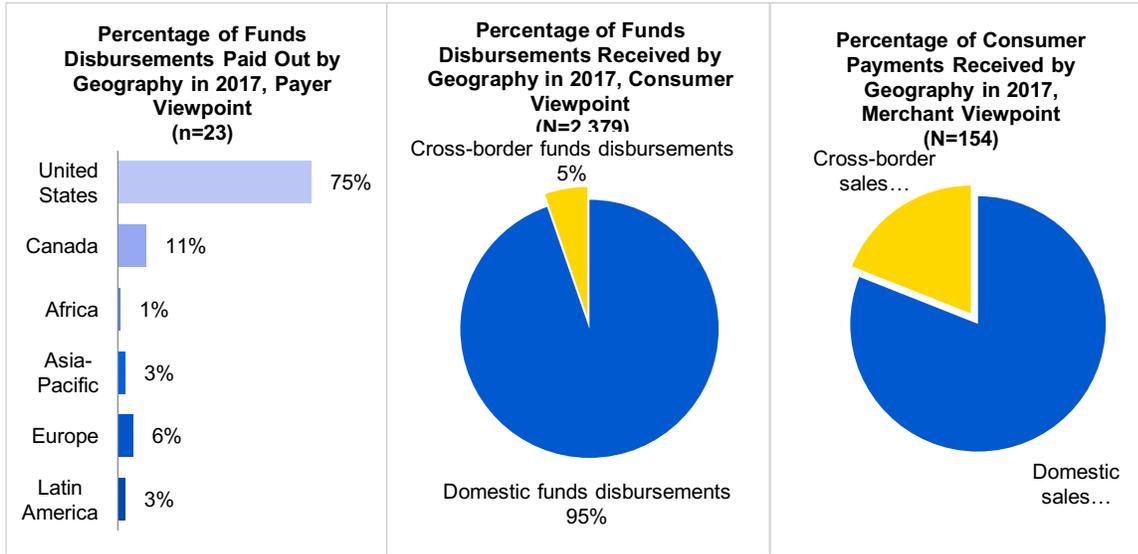


Source: Aite Group and Visa Inc. survey of 2,379 North American consumers in Q4 2017 and Aite Group estimates

### A note on cross-border disbursements

While most North American funds disbursements are domestic, North American payers are issuing cross-border funds disbursements, and North American consumers and merchants are receiving cross-border funds disbursements. As the world continues to globalize, cross-border disbursements will become more significant, adding complexity to disbursement processes. As consumers and merchants become accustomed to real-time domestic payments, real-time cross-border funds disbursements could represent an additional point of differentiation for payers. In 2017, North American payers surveyed issued 6% of funds disbursements to recipients in Europe, followed by 3% of funds disbursements issued to recipients in the Asia-Pacific and Latin America. In that same year, North American consumers received 5% of funds disbursements from a payer across domestic borders, and North American merchants generated 19% of their sales cross-border (Figure 8).

Figure 8: Cross-Border Funds Disbursements in North America, 2017



Source: Aite Group and Visa Inc. interviews with 30 North American executives in Q4 2017, Aite Group and Visa Inc. survey of 2,379 North American consumers in Q4 2017, and Aite Group and Visa Inc. survey of 154 North American merchants in Q4 2017

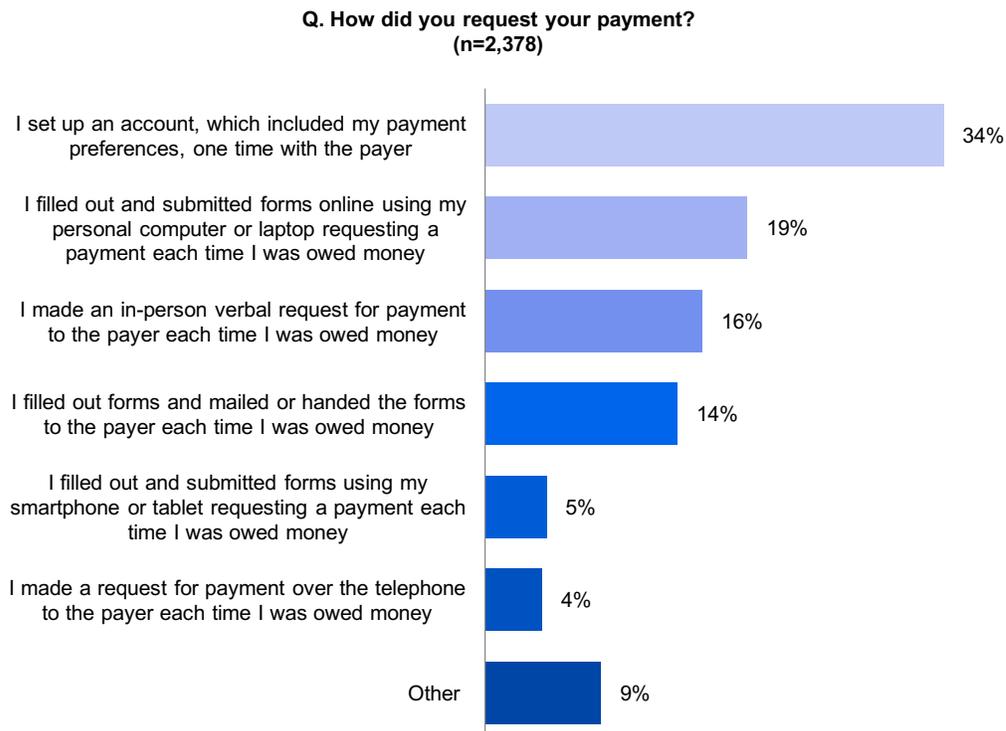
## User experience

Payers making a large volume of funds disbursements each month have well-established operational processes and systems in place to facilitate payments. Two-thirds of the payers interviewed for this study make disbursements daily, with 20% of payers interviewed reporting they make disbursements more than once per day. Most payers interviewed have in-house processes and systems in place to facilitate disbursements and do not outsource disbursement processes to other companies.

## Requesting payments

The process for requesting funds disbursements remains labor intensive for payers and consumers alike. In 2017, North American consumers had to submit payment requests each time they were owed money for 58% of funds disbursements received, with approximately one-third of funds disbursements being requested verbally—either in-person or over the telephone—or by filling out forms manually (Figure 9).

Figure 9: How North American Consumers Request Funds Disbursements, 2017

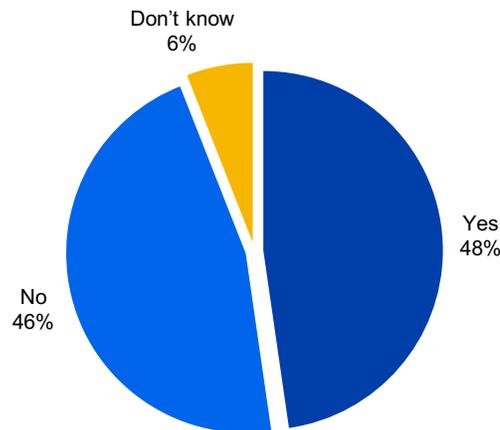


Source: Aite Group and Visa Inc. survey of 2,379 North American consumers in Q4 2017

Two-thirds of payers interviewed for this study offer recipients a choice in payment methods for funds disbursements. Most payers advise recipients to use electronic payment methods over checks and default to checks when other options are exhausted. Payers report that offering recipients a variety of payment methods is critical to their company's competitive advantage and that paying recipients more quickly helps create an emotional bond between the company and the consumer. In 2017, North American consumers reported they were given a choice in payment method for 48% of the funds disbursements received and that they had no choice in payment method for 46% of funds disbursements received (Figure 10).

Figure 10: Choice in Payment Methods for North American Funds Disbursements, 2017

**Q. Did the payer give you a choice of how it would pay you (check, direct deposit to your account, etc.)?**  
(n=2,378 respondents)



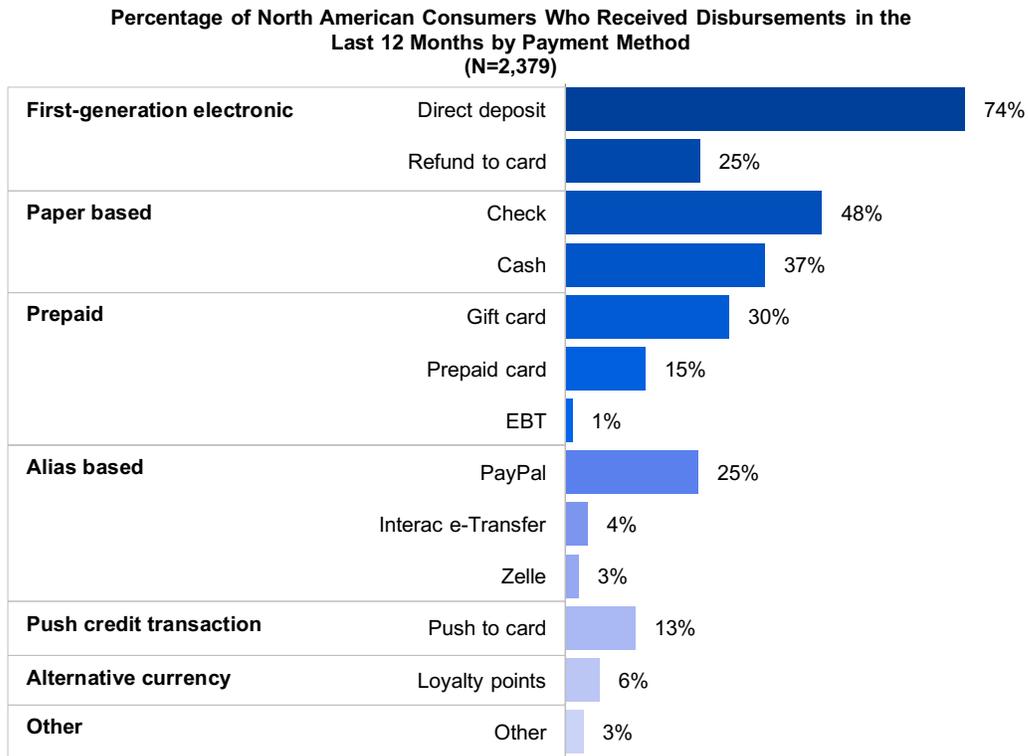
Source: Aite Group and Visa Inc. survey of 2,379 North American consumers in Q4 2017

## Payment preferences

When given a choice, North American consumers prefer electronic payment methods to paper-based payment methods. In 2017, 74% of North American consumers receiving disbursements were paid via direct deposit, and direct deposit is the most preferred payment method for funds disbursements, with 76% of North American consumers preferring this payment method for the types of disbursements they receive. Although 48% of North American consumers received checks for disbursements in 2017, only 26% prefer this payment method. Prepaid payment methods follow a similar pattern to checks, with 30% of North American consumers receiving disbursements via gift cards in 2017 but only 14% preferring this payment method. Preference for alias-based payments and push-credit transactions remains consistent with the actual percentage of consumers receiving payments via these methods in 2017, except in the case of Interac e-Transfer. Just 4% of North American consumers received disbursements via Interac e-Transfer in 2017, yet 16% indicate this is their preferred payment method for the types of disbursements they receive. The research suggests that North American consumers who have used alias-based

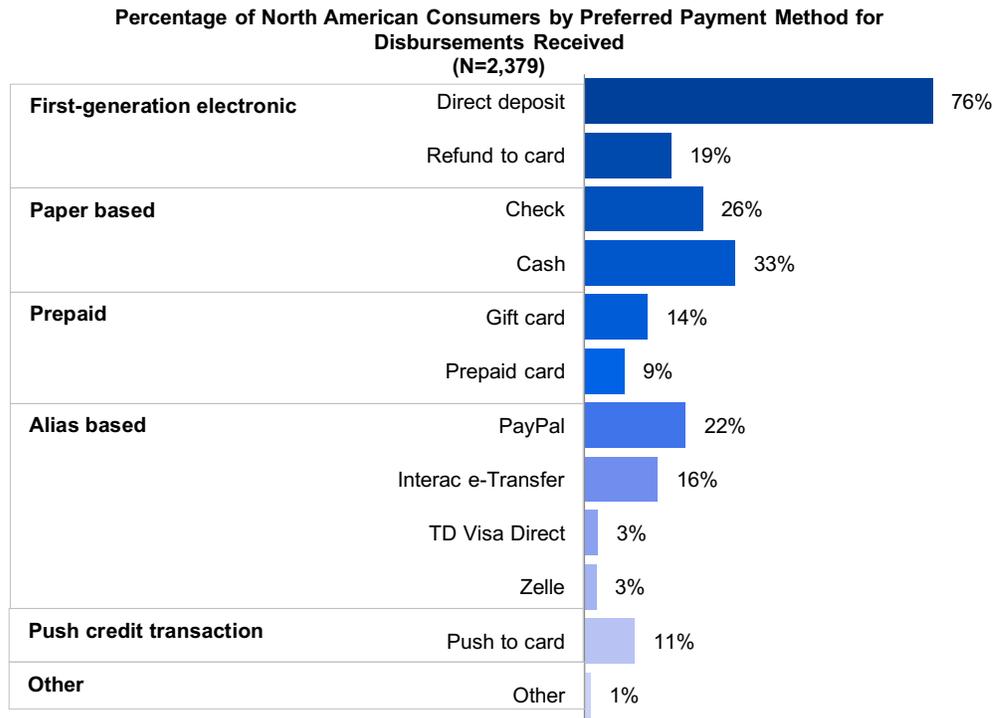
payments and push-credit transactions find these payment methods favorable and that as more consumers become aware and accustomed to these payment methods, they will be in demand for funds disbursements (Figure 11 and Figure 12).

Figure 11: Payment Methods Used for North American Funds Disbursements, 2017



Source: Aite Group and Visa Inc. survey of 2,379 North American consumers in Q4 2017

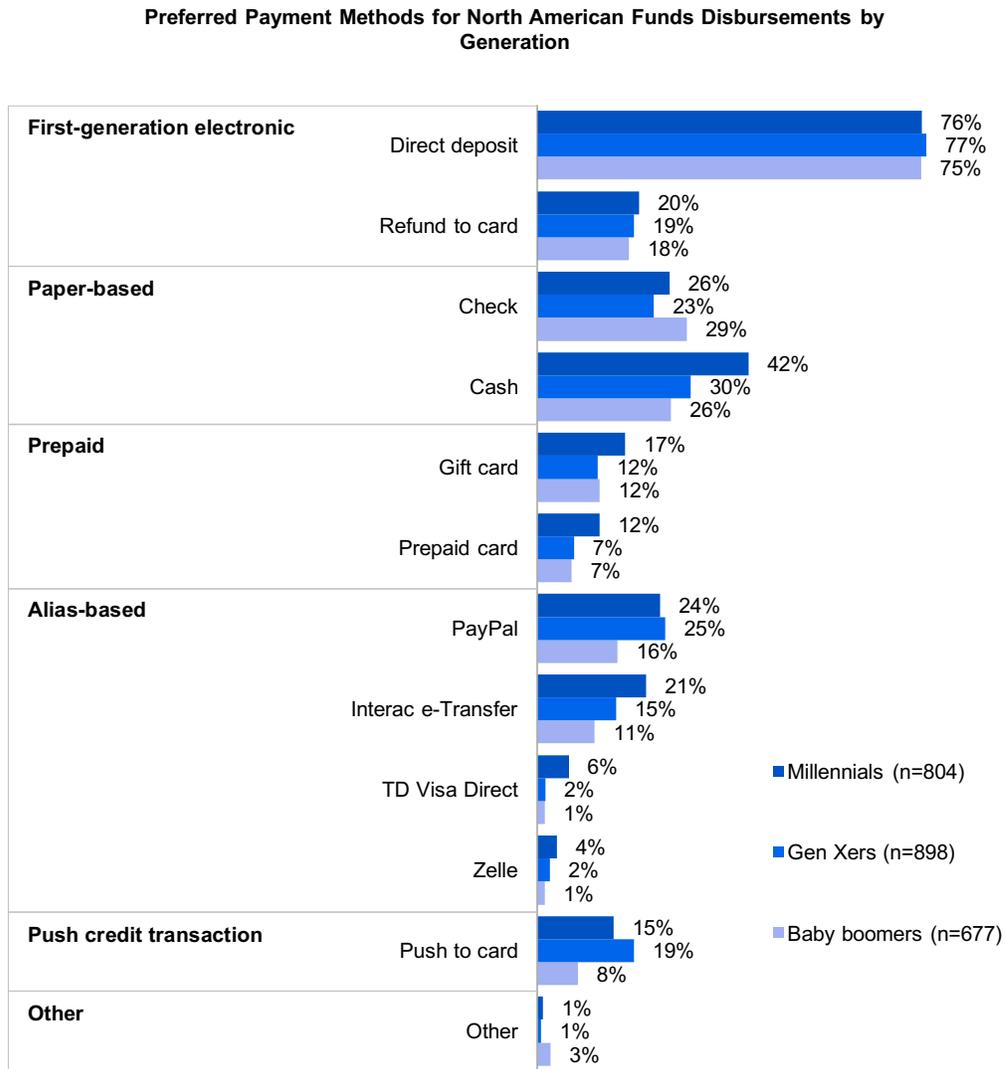
Figure 12: Preferred Payment Methods for North American Funds Disbursements, 2017



Source: Aite Group and Visa Inc. survey of 2,379 North American consumers in Q4 2017

The preference for direct deposit as a payment method for funds disbursements is consistent across all generations, with 75% or more of consumers in each generation preferring this payment method. Millennials are more likely to prefer other electronic payment methods in addition to direct deposit than are older generations. Millennials have a stronger preference for alias-based payment methods, such as PayPal and Interac e-Transfer, than do baby boomers. Millennials and Gen Xers have a stronger preference for push-to-card transactions than do baby boomers. When it comes to checks, baby boomers are more likely to prefer this payment method than are younger generations, but less than 30% of consumers across all generations prefer checks for funds disbursements (Figure 13).

Figure 13: Preferred Payment Methods for North American Funds Disbursements by Generation, 2017

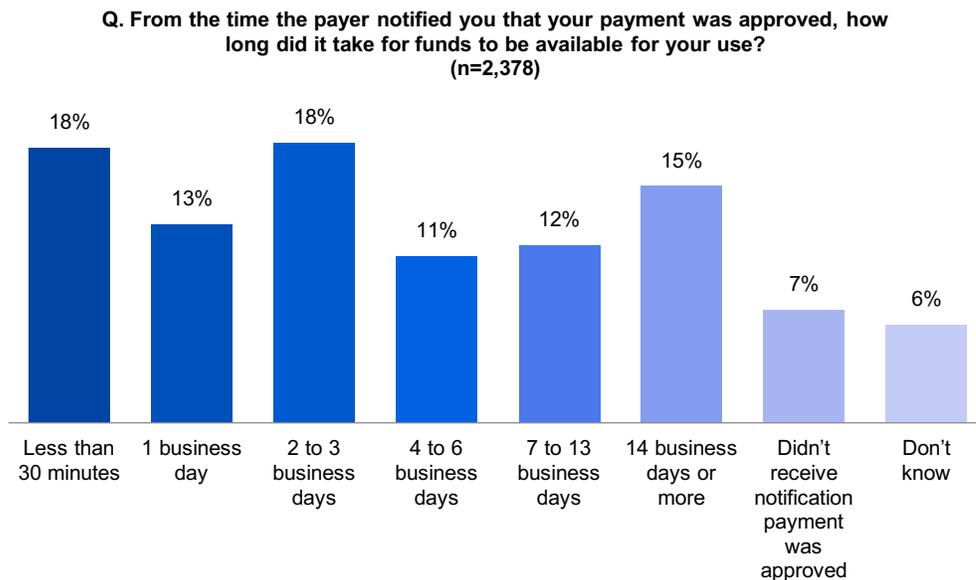


Source: Aite Group and Visa Inc. survey of 2,379 North American consumers in Q4 2017

## Receiving payments

In 2017, it took one to three business days for North American consumers to receive payments for 31% of funds disbursements, and it took more than three business days to receive payments for 38% of funds disbursements. As a matter of fact, it took seven or more business days for consumers to receive payments for more than a quarter of all funds disbursements received in 2017. While payers cite faster payments as important to their businesses, North American consumers received payments for just 18% of funds disbursements in real time (Figure 14).

Figure 14: Timeliness of North American Funds Disbursements, 2017

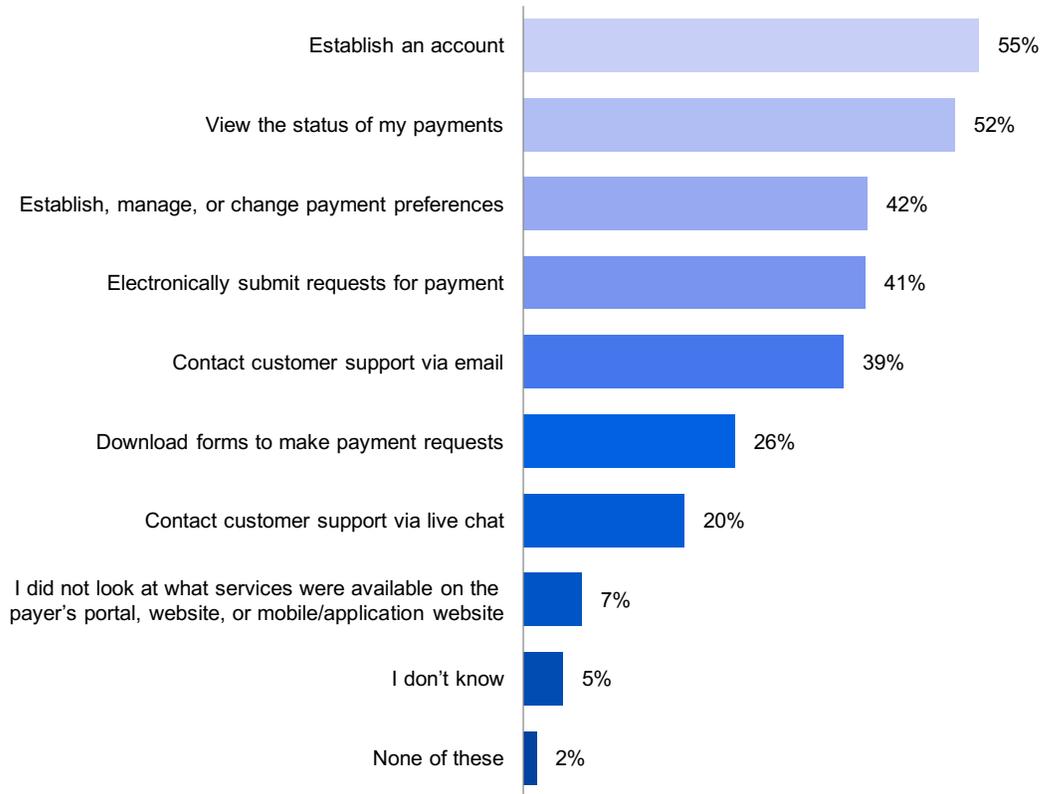


Source: Aite Group and Visa Inc. survey of 2,379 North American consumers in Q4 2017

Most payers interviewed for this study provide some type of self-service capability for the funds disbursement process. The self-service functionality offered varies widely between payers interviewed, and most payers are looking for ways to improve these capabilities. Payers offered self-service functionality related to the disbursements process for approximately 50% of all funds disbursements received by North American consumers in 2017. Some of the common capabilities offered include the ability to establish payment accounts and manage payment preferences, the ability to view payment statuses, and the ability to electronically submit requests for payment (Figure 15). When it comes to monitoring the status of payments, North American consumers use their smartphones to view the status of 61% of funds disbursements received and used their laptops to view the status of 58% of funds disbursements received (Figure 16). Payers with a desire to use payments as a competitive advantage in their businesses will find it increasingly important to offer mobile payment-management capabilities.

Figure 15: Payer Self-Service Functionality for Funds Disbursements, 2017

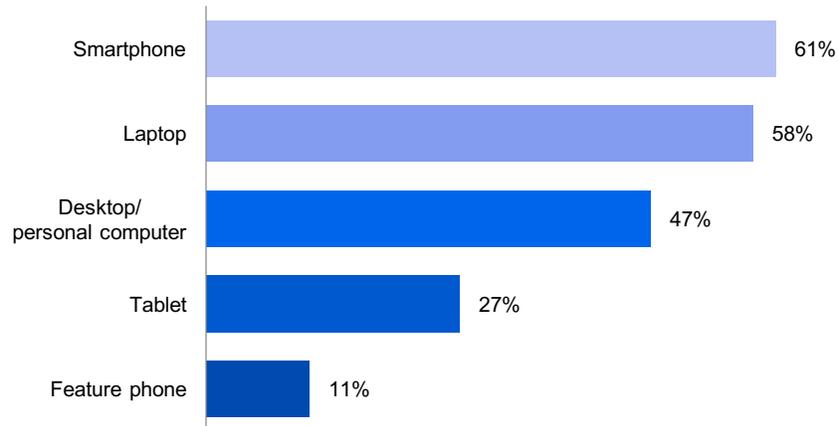
**Q. Which of the following activities could you perform on the portal, website, or mobile application/website of the payer that paid you?  
(Check all that apply; n=1,067 consumers who used a website, portal, or mobile application/website)**



Source: Aite Group and Visa Inc. survey of 2,379 North American consumers in Q4 2017

Figure 16: Devices North American Consumers Used to Monitor Payments, 2017

**Q. Which of the following devices did you use to monitor the status of the payments you expected to receive?**  
(Check all that apply; n=1,105 respondents who could monitor their payments)

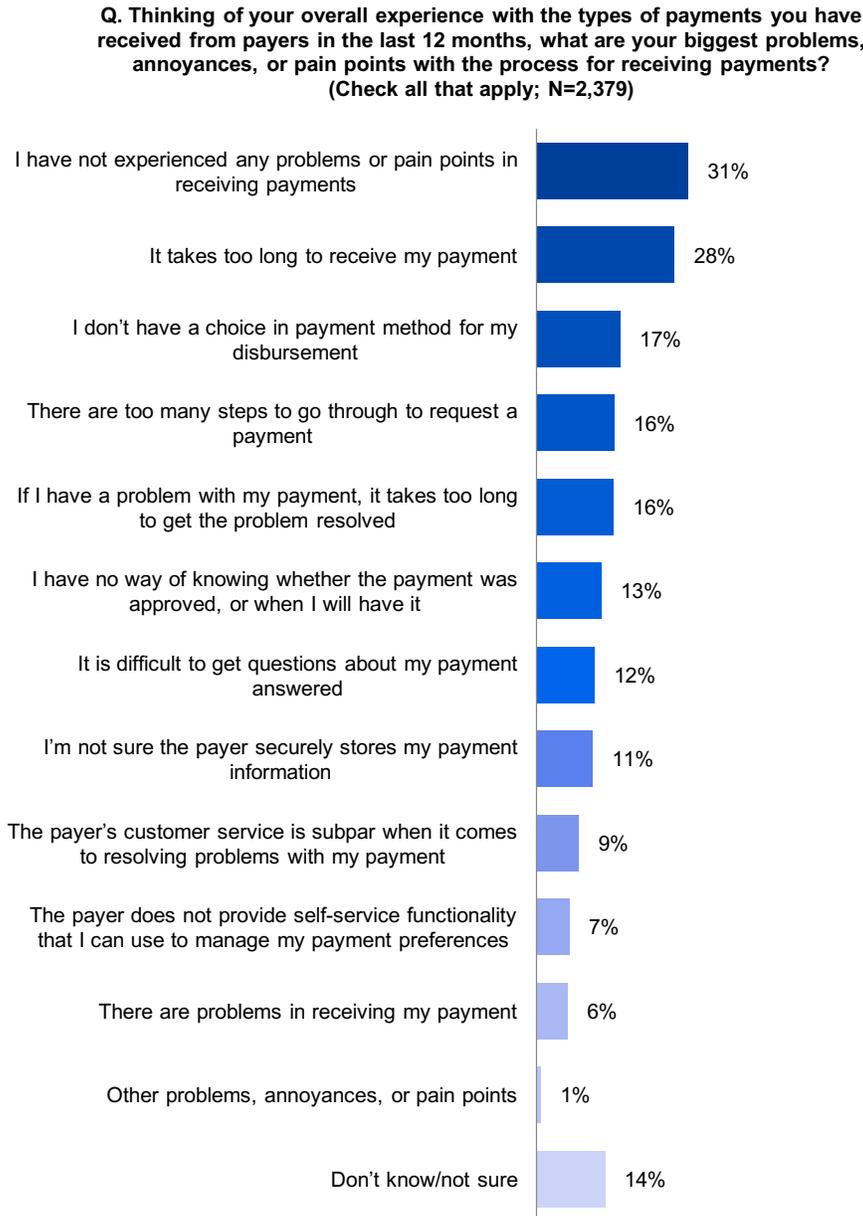


Source: Aite Group and Visa Inc. survey of 2,379 North American consumers in Q4 2017

## Pain points

Most payers interviewed for this study have a desire to improve their funds disbursement processes. In general, payers are focused on improving the customer experience end to end and on providing a smooth, modern experience that meets customer needs. Payers have a desire to provide faster payments for recipients, to eliminate checks from the processes, and to offer more choice in payment methods. In 2017, more than half of North American consumers reported pain points with funds disbursement processes. Twenty-eight percent of North American consumers report that it takes too long to receive payments, representing the biggest pain point for consumers. Seventeen percent of consumers express a desire for more choice in payment methods offered, and 16% report that the number of steps to request payments is cumbersome and that when there are issues with payments, the issues take too long to be resolved (Figure 17).

Figure 17: North American Consumer Pain Points With Funds Disbursements, 2017



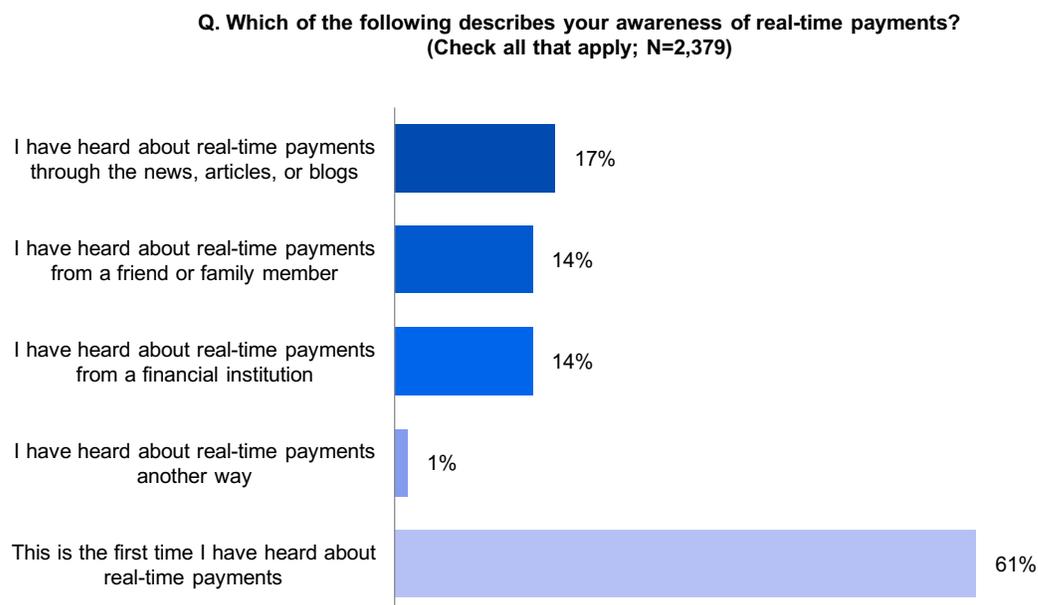
Source: Aite Group and Visa Inc. survey of 2,379 North American consumers in Q4 2017

## Real-time payments

The demand for faster payments across all market sectors included in this study is clear; most payers believe recipients want to receive payments faster, and most are exploring how to incorporate real-time payment methods into their operational environments. Approximately one-third of the payers interviewed for this study currently have a real-time payment solution in place, and payers report that consumer adoption of real-time payment methods they offer is just beginning to emerge. Nearly half of payers interviewed indicate they are evaluating push-credit transactions, and nearly one-third are evaluating same-day ACH. Payers are also evaluating other real-time payment methods, including alias-based payments, digital wallets, mobile money, and cryptocurrencies. Payers acknowledge that there are some challenges in adopting real-time payment methods, including increased operational costs, perceived risk, dollar limitations of some payment methods, and the implementation challenges of a new payments workflow. Payers acknowledge that the benefits of faster payments far outweigh the challenges, and the implementation of faster payment methods hinges on industry adoption and the standardization of these methods over the next couple of years.

North American consumer awareness of real-time payments is much lower than that of payers. In 2017, 61% of North American consumers heard about real-time payments for the first time as part of the survey (Figure 18). The industry has quite a way to go in educating consumers on real-time payments.

Figure 18: North American Consumer Awareness of Real-Time Payments, 2017

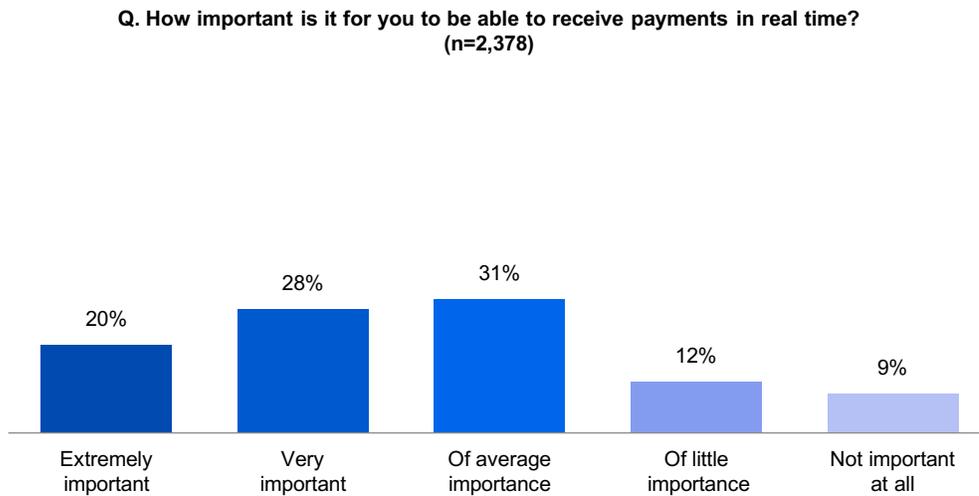


Source: Aite Group and Visa Inc. survey of 2,379 North American consumers in Q4 2017

North American consumers report that for 48% of funds disbursements received, it is extremely important or very important to receive payments in real time (Figure 19). North American

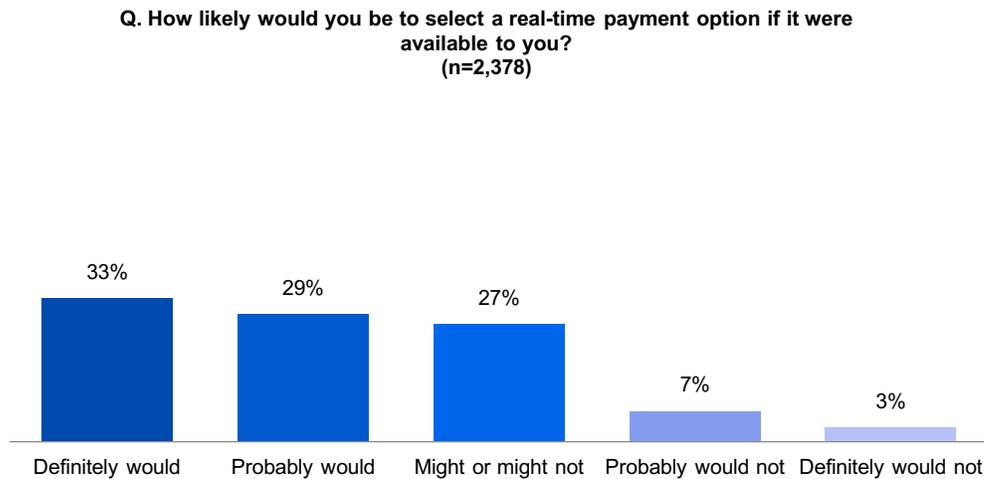
consumers report that for 62% of funds disbursements received, they would be likely to opt in for a real-time payment method if it were available (Figure 20).

Figure 19: Importance of Real-Time Payments for North American Consumers, 2017



Source: Aite Group and Visa Inc. survey of 2,379 North American consumers in Q4 2017

Figure 20: North American Consumer Likelihood of Selecting Real-Time Payments, 2017

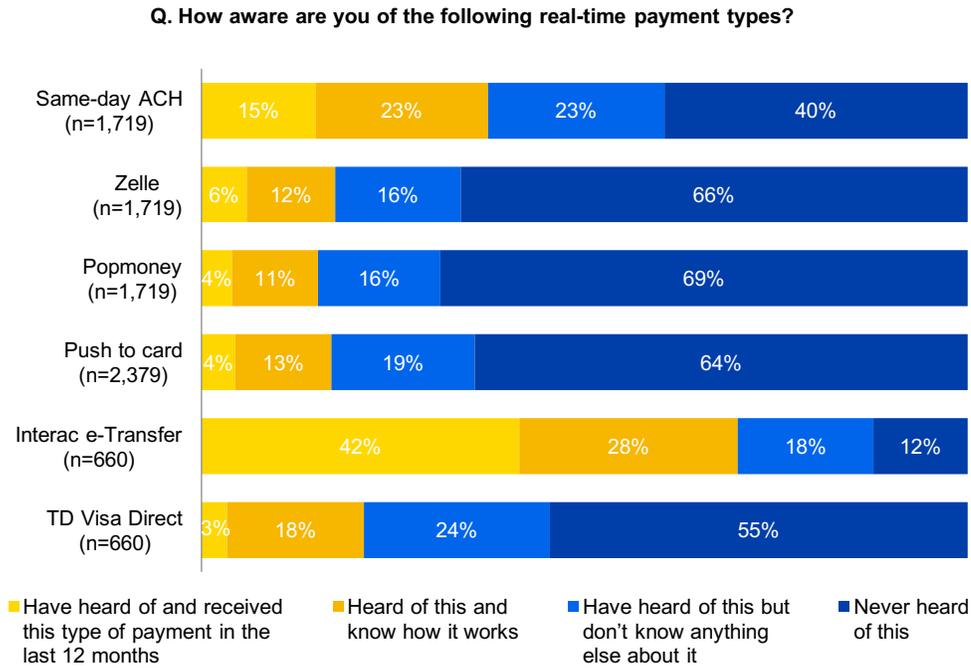


Source: Aite Group and Visa Inc. survey of 2,379 North American consumers in Q4 2017

U.S. consumers are most familiar with the real-time payment method same-day ACH, with 60% of U.S. consumers having knowledge of this payment method. Canadian consumers are most familiar with the real-time alias-based payment method Interac e-Transfer, with 88% of consumers having knowledge of this payment method. In the U.S., approximately two-thirds of consumers are

unfamiliar with the real-time alias-based payment methods Zelle and Popmoney. And 64% of North American consumers are unfamiliar with push to card (Figure 21). While North American consumers have a desire for faster payments, they are generally unfamiliar with the products and services that enable faster payments.

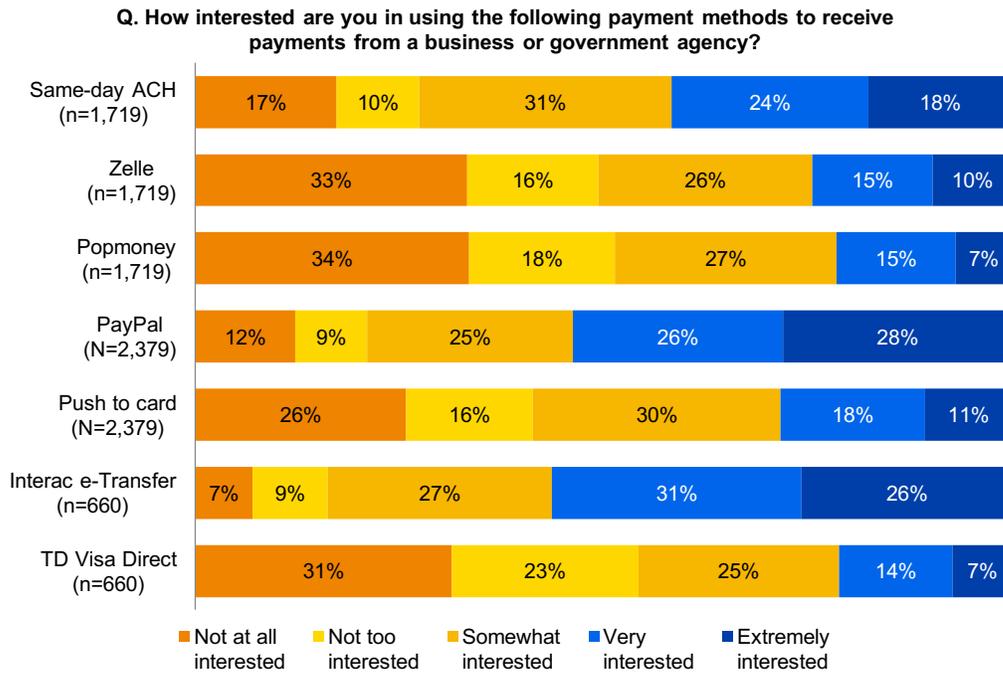
Figure 21: North American Consumer Awareness of Real-Time Payment Methods, 2017



Source: Aite Group and Visa Inc. survey of 2,379 North American consumers in Q4 2017

In 2017, 73% of U.S. consumers report interest in using same-day ACH to receive payments for funds disbursements, and approximately 50% of U.S. consumers report interest in using the alias-based payment methods Zelle or Popmoney for funds disbursements. Across North America, PayPal garners the most interest in funds disbursements, with almost 80% of North American consumers reporting interest in this payment method for funds disbursements. By contrast with alias-based payment methods, push to card garners interest with 59% of North American consumers for funds disbursements. Eighty-four percent of Canadian consumers report interest in Interac e-Transfer for funds disbursements, and just 46% of Canadian consumers report interest in TD Visa Direct for funds disbursements (Figure 22). Alias-based payment methods Zelle and TD Visa Direct, along with push-to-card payment methods, are relatively new product offerings. As consumers become more comfortable interacting with these services, demand will grow.

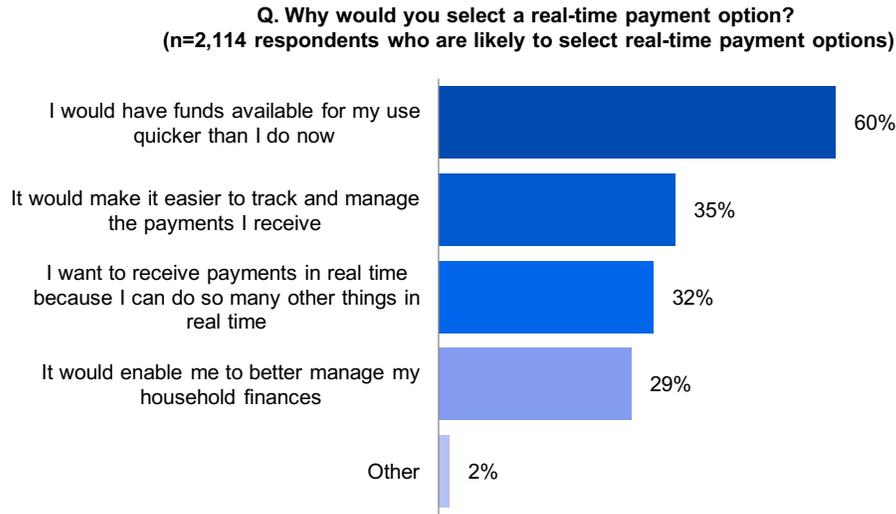
Figure 22: Preferred Real-Time Payment Methods for Funds Disbursements, 2017



Source: Aite Group and Visa Inc. survey of 2,379 North American consumers in Q4 2017

Payers see many benefits in offering real-time funds disbursements, including improving the customer experience and driving competitive advantage in their businesses. Sixty percent of North American consumers likely to select real-time payments report that having funds available more quickly for personal use is a benefit of real-time funds disbursements, making this reason the primary benefit of real-time funds disbursements (Figure 23).

Figure 23: Real-Time Funds Disbursement Impacts to the North American Consumer, 2017



Source: Aite Group and Visa Inc. survey of 2,379 North American consumers in Q4 2017

## Funds disbursements for merchants

The retail space is undergoing massive existential challenges driven by the disruption created by online and mobile competitors. E-commerce has changed the game in retail, with estimated North American sales exceeding US\$468 billion in 2017 and the volume growing at a compound annual growth rate of 15%.<sup>4</sup> While still only 8% of the total retail sales volume, e-commerce growth is steady, and both specialty and mass physical-world retailers are taking the brunt of the impact. The results are dramatic. In 2017, 20 major retailers experienced bankruptcy, including category leaders such as Toys R Us, Payless Shoe Source, and Gymboree.<sup>5</sup>

Retailers are dealing with the additional cost of supporting multiple channels and additional data processing requirements to support enhanced customer relationship management and inventory management, among other things. Every aspect of the retailer's business faces profit compression.

Payments have evolved from a functional component of purchasing to a strategic issue for merchants. Cart abandonment is a critical metric for online/mobile sales, and friction in the payment process at checkout can be a significant contributor to the problem. Many merchants have also made major investments in new in-store terminals to support EMV, which has increased payment security costs and has diverted spending that could have gone to other priorities. Merchants need to optimize their payment processes to increase cash flow, decrease payment latency, and steer customers to more profitable payment alternatives.

## The acquirer relationship

Merchants aren't in the business of managing the intricacies of payments; they are in the business of profitably selling goods and services to their customers. Anything that can enhance seamless commerce processes is going to be the priority, such as offering both online and physical-world purchase locations or providing products that customers want at the right price and in sufficient quantity to meet demand.

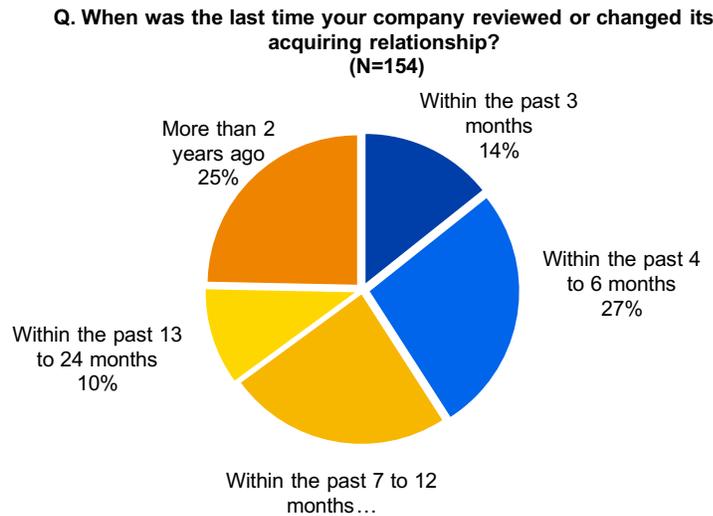
Once consumers make a purchase, merchants need a way to move consumer spend into their own accounts, and most use an acquirer/processor to manage this process. Merchants participating in this study have reviewed or changed their acquirer/processor relationship recently, with the average time being about 13 months since a review or change (Figure 24).

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4. See Aite Group's report *Digital Commerce in Northern America: Growth and Opportunities*, December 2016.

5. Corinne Ruff and Ben Unglesbee, "The Running List of 2017 Retail Apocalypse Victims," RetailDive, July 5, 2017, accessed November 14, 2017.

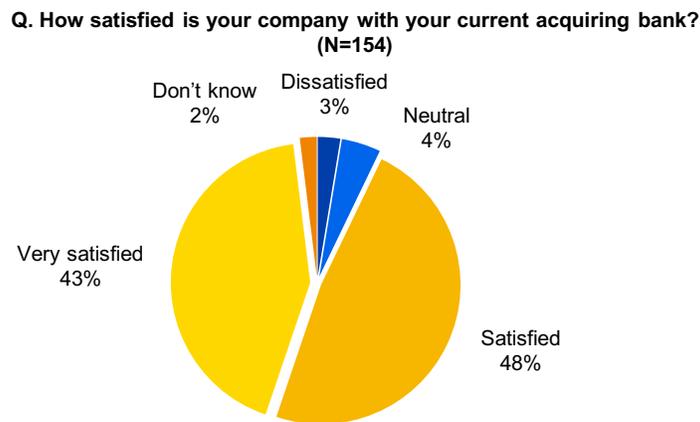
Figure 24: Recentness of Review/Change of Acquiring Relationship, 2017



Source: Aite Group and Visa Inc. survey of 154 North American merchants in Q4 2017

Despite the apparent transience, 91% of merchants are satisfied or very satisfied with their current acquirer/processor relationships. This adds to the challenge acquirers/processors have in disrupting competitors and acquiring market share; only 3% of merchants are dissatisfied (Figure 25). While merchants are clearly satisfied with their current provider, the reasonably short tenure of existing providers could imply that there may be opportunity for an acquirer/processor if it can deliver a differentiable offering at a competitive price, which is not so easy in a commodity environment.<sup>6</sup>

Figure 25: North American Merchant Satisfaction With Current Acquirer, 2017



Source: Aite Group and Visa Inc. survey of 154 North American merchants in Q4 2017

6. See Aite Group’s report *U.S. Acquirers/Processors: From Steady State to Permanent Disruption*, January 2018.

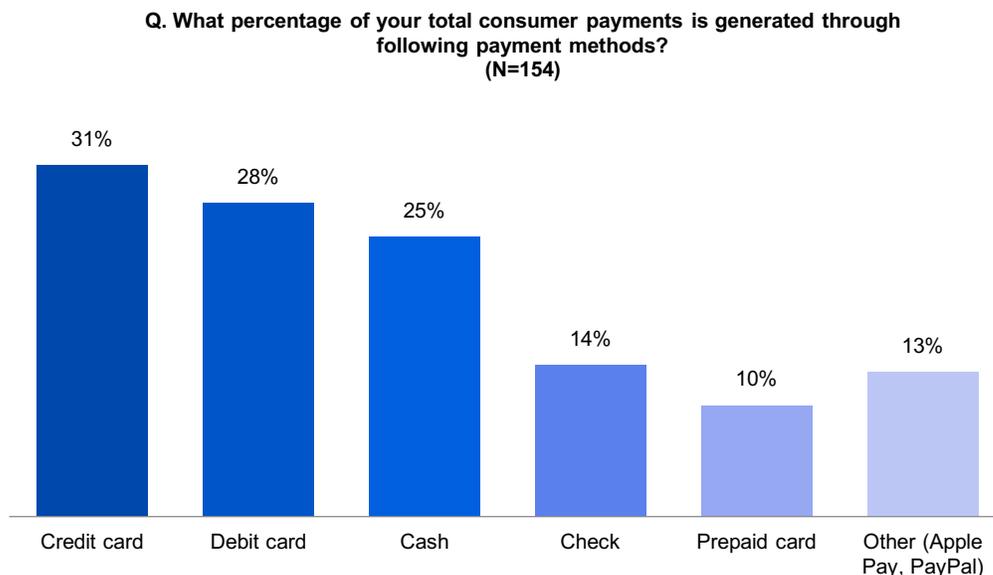
## Merchant payouts

Overall, merchants are forced by consumer demand to accept a variety of payment methods even though most volume comes from just a few tender types. And since every new payment type is additive, the complexity of payments increases without any potential increase in sales volume. Solutions that can simplify payments and reduce friction for both domestic and international transactions will be seen to have value by the merchant community.

Although merchants offer a variety of payment alternatives, 73% of their purchase volume is generated by debit card, credit card, and check, with 59% of sales being generated through cards. With more than one-half of sales being generated via card, cash flow becomes a critical pain point for merchants (Figure 26).

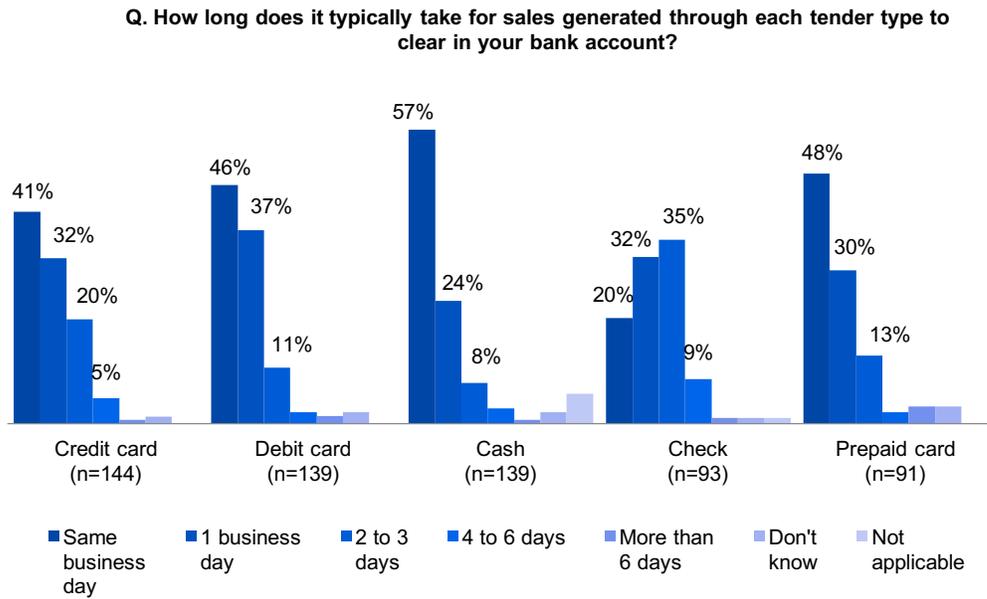
Upon the completion of a transaction, the merchant's experience with the acquirer becomes paramount, with transaction processing standing between the merchant and the bulk of its earnings from sales. In today's business environment, it takes between one and six days for merchants to receive payouts for more than 50% of debit card and credit card transactions. The slowest and most cumbersome transaction type is checks, for which documents still need to pass between banks to effect the transaction. Seventy-six percent of checking transactions did not clear until one to six days after the sales transaction took place (Figure 27).

Figure 26: Percentage of Sales Volume Generated via Different Payment Methods, 2017



Source: Aite Group and Visa Inc. survey of 154 North American merchants in Q4 2017

Figure 27: Tender Type Clearing/Settlement Times, 2017

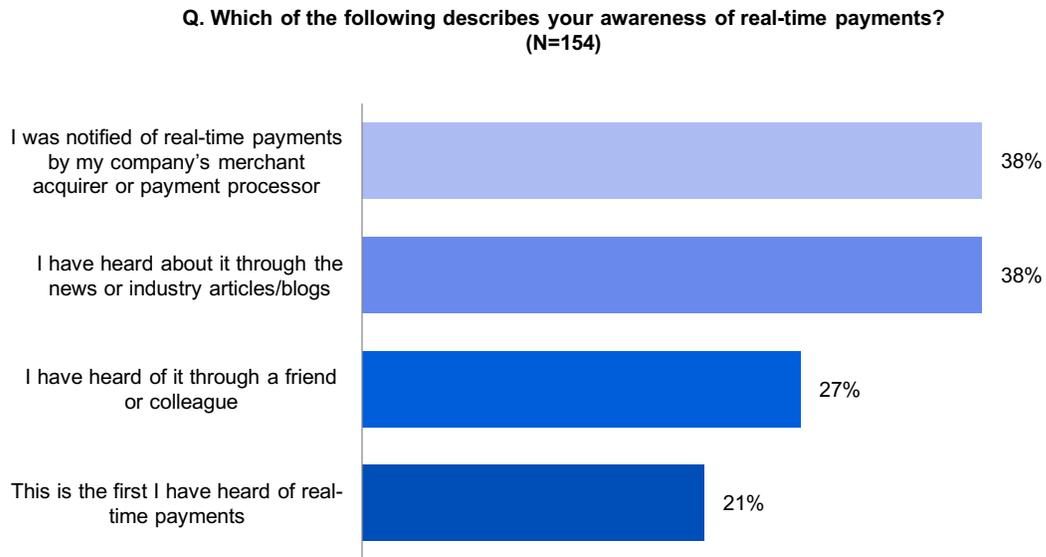


Source: Aite Group and Visa Inc. survey of 154 North American merchants in Q4 2017

## Real-time payments

Real-time payments are taking an increasing share of the global payments market, and while real-time payments are just emerging in the U.S., merchants are clearly aware of the opportunity that they might provide. In 2017, just one in five merchants had never heard of real-time payments (Figure 28).

Figure 28: North American Merchant Awareness of Real-Time Payments, 2017

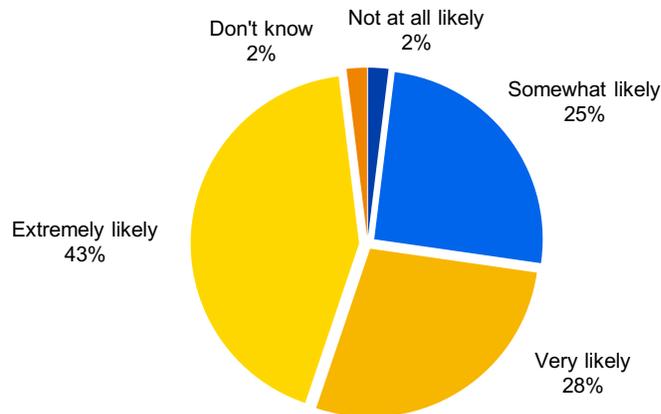


Source: Aite Group and Visa Inc. survey of 154 North American merchants in Q4 2017

Merchants also understand the value of accelerating the payment process, with 96% of merchants being likely to opt in to a real-time payment opportunity if price is constant. The demand for real-time payments is high, even before the capability is generally available (Figure 29).

Figure 29: Merchant Likelihood of Opting In to Real-Time Funds Disbursements, 2017

**Q. If a real-time payment option were made available to you at the same cost and fee structure, how likely would you be to opt in?  
(N=154)**

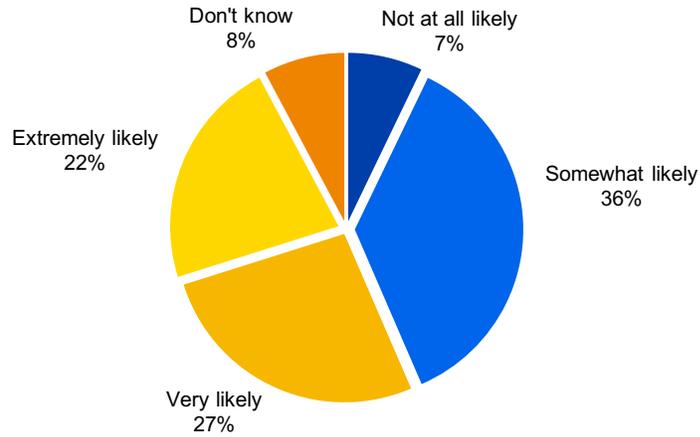


Source: Aite Group and Visa Inc. survey of 154 North American merchants in Q4 2017

While interest in real-time payments is high, its value is limited unless it can be reflected in action. Eighty-five percent of merchants indicate they would be likely to change acquirers if another offered real-time payments (Figure 30). This is a significant finding from the research, since nearly all merchants indicate that they are satisfied with their existing provider. Real-time payments appear to offer acquirers/processors with a short-term opportunity to differentiate their offering and increase sales opportunities that are otherwise very limited. Ultimately, the interest in real-time payments will force the capability to become table stakes in the processing ecosystem.

Figure 30: Likelihood of Switching Acquirers for Real-Time Funds Disbursements, 2017

**Q. If your current acquirer does not offer real-time payments, how likely would you be to consider changing your merchant acquirer for one that does offer real-time payments?**  
(N=154)

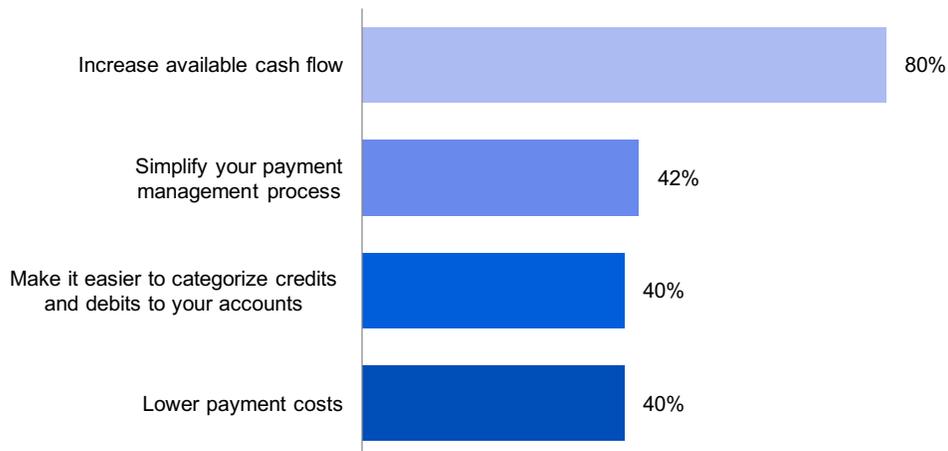


Source: Aite Group and Visa Inc. survey of 154 North American merchants in Q4 2017

Merchants readily understand the value of real-time payments for their business’s increased cash flow in addition to opportunities for lower payment costs, better streamlining processes, and better accounting (Figure 31).

Figure 31: Real-Time Funds Disbursement Impacts to the Merchant’s Business, 2017

**Q. In what ways do you think real-time payments would change how you do business?**  
(n=88)



Source: Aite Group and Visa Inc. survey of 154 North American merchants in Q4 2017

## Conclusion

### Payment networks:

- Payers disburse with a wide variety of payment instruments, but ACH dominates because of its low cost. As competition heats up in the real-time payments space, payment networks need to introduce solutions that create competitive advantage, increase user satisfaction, and improve safety and security, all at an accessible price point for payers.

### Payers:

- Overwhelmingly, people prefer funds to be deposited directly into their bank accounts. But this does not mean that ACH is the preferred mechanism behind direct deposit, and payers should consider offering additional payment methods such as push-credit transactions or alias-based payment methods as direct deposit alternatives.
- Millennials want easy, fast, and electronic disbursements. As Gen X and baby boomers are displaced by millennials in the North American economy, businesses will want to have next-generation electronic payment services up and running to meet the expectations of the millennial generation.
- Consumer awareness and understanding of the real-time payment value proposition is muddled. Payers and other industry leaders need to launch marketing initiatives targeted to provide consumers with education around real-time payments. Messaging should focus on the benefits of real-time payments and should emphasize the speed and security of real-time payment methods over traditional payment methods, such as ACH and check.
- The new economy of business is more competitive than the old. Successful competitors will look at ways to leverage real-time payments as a strategic tool to improve the customer experience and create an emotional bond with consumers.

### Acquirers/processors:

- Offer a real-time payments capability—soon. Merchants see the value, and the capability is increasingly available to offer. By moving quickly, there's an opportunity to differentiate and acquire market share. Even if the pre-emptive opportunity is missed, real-time payments will quickly become table stakes with merchants.

### Merchants:

- Opt in for real-time funds disbursements. Work with acquirer/processor partners to understand their capabilities to provide real-time payments. If the capability isn't offered by the incumbent, find an organization that can provide it.

# About Aite Group

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Aite Group is a global research and advisory firm delivering comprehensive, actionable advice on business, technology, and regulatory issues and their impact on the financial services industry. With expertise in banking, payments, insurance, wealth management, and the capital markets, we guide financial institutions, technology providers, and consulting firms worldwide. We partner with our clients, revealing their blind spots and delivering insights to make their businesses smarter and stronger. Visit us on the web and connect with us on Twitter and LinkedIn.

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# About Visa Inc.

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Visa Inc. (NYSE:V) is the world's leader in digital payments. Our mission is to connect the world through the most innovative, reliable and secure payment network - enabling individuals, businesses and economies to thrive. Our advanced global processing network, VisaNet, provides secure and reliable payments around the world, and is capable of handling more than 65,000 transaction messages a second. The company's relentless focus on innovation is a catalyst for the rapid growth of connected commerce on any device, and a driving force behind the dream of a cashless future for everyone, everywhere. As the world moves from analog to digital, Visa is applying our brand, products, people, network and scale to reshape the future of commerce.

*For more information, contact your Visa Account Executive, visit [visa.com/visadirect](https://visa.com/visadirect) or email us at [VisaDirectSupport@visa.com](mailto:VisaDirectSupport@visa.com)*