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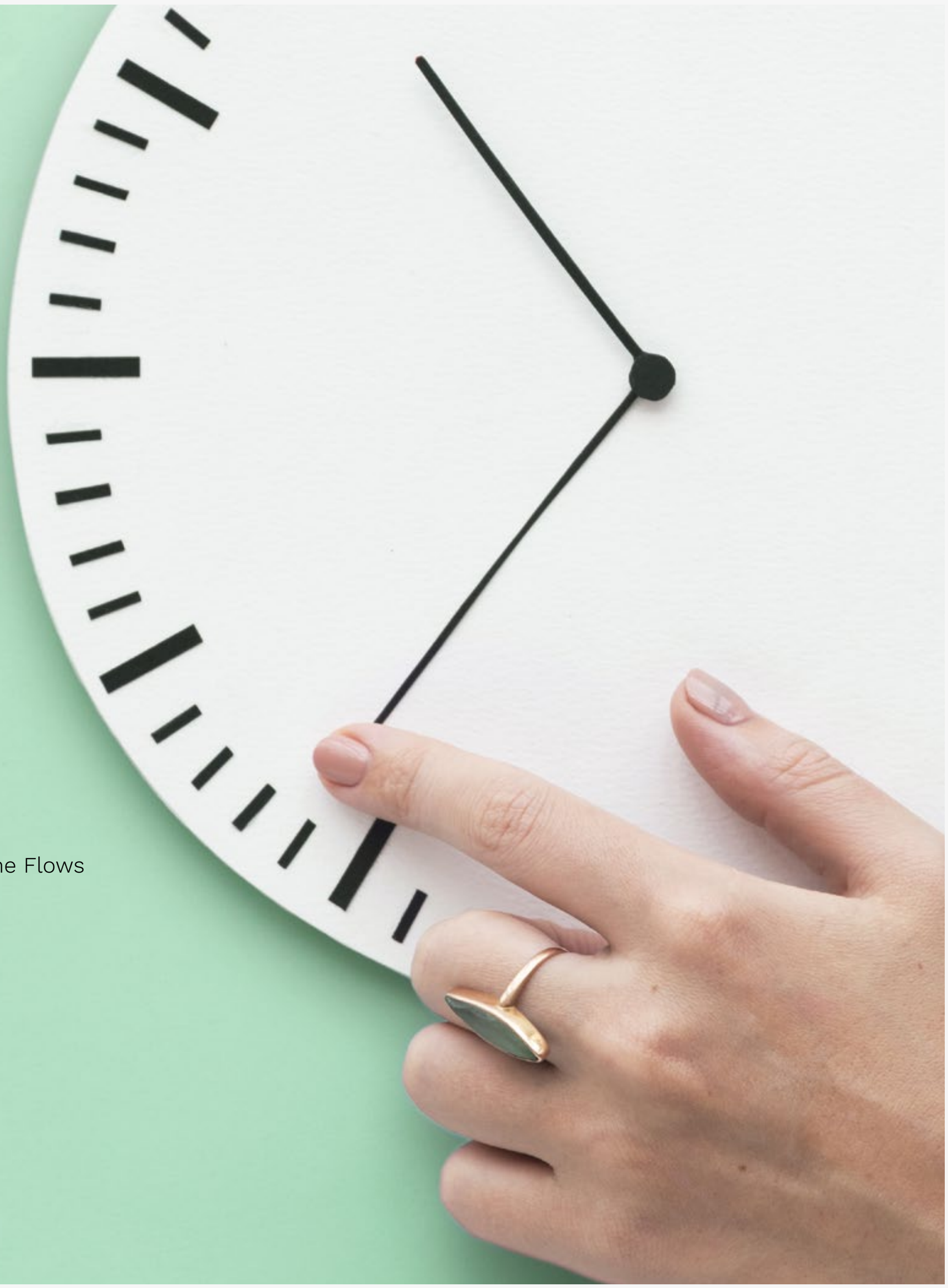

HOW TO INSTANT

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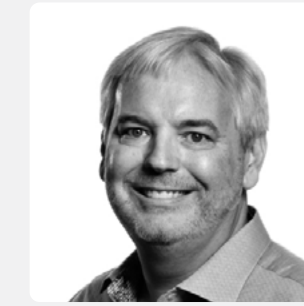


Drew Edwards
Chief Executive Officer

Drew Edwards is the chief executive officer of Ingo Money, Inc., a company he founded in 2001, which has become a leading provider of mobile-forward, instant deposit and payment services that fuel consumer adoption of digital payment platforms. Prior to his founding of Ingo Money, Drew founded and served as chief executive officer and chairman of the Board of Directors for Towne Services, Inc., a publicly traded e-commerce company providing solutions for over one thousand financial institutions. He previously held management positions with the Federal Reserve Bank and The Bankers Bank in Atlanta and served on the Board of Directors of Skylight Financial, one of the nation's first payroll card companies now owned by TSYS.

Lisa McFarland
EVP & Chief Product Officer

Lisa McFarland is executive vice president and chief product officer, responsible for payments and technology innovation and marketing for Ingo Money. Prior to joining the company in 2014, she served as head of consumer prepaid products at Visa and spent 14 years at American Express leading consumer card and corporate card product development initiatives. Lisa holds a Bachelor of Arts degree from the University of Florida.

INSTANT MONEY IS THE NEW MONEY

In just three years, one word, one idea, has rewritten the payments rulebook: "Instant." Driven by faster phones, ingenious apps and sheer market force, the move to instant is pushing the boundaries of what's possible with payments, opening up new worlds of risk and reward.

Rarely do consumers and businesses agree on anything as much as they have on instant. According to the most recent PYMNTS Disbursement Satisfaction Report, "Consumers' instant payments adoption has increased nearly fourfold over the past three years, with 42 percent reporting they received at least one such payment this year compared to the 11 percent who said the same in 2017." That number is even higher (nearly 62 percent) when you count people who received an instant disbursement, like ACH, from government and other sources in 2019.

FinTechs led this charge and fueled much of the innovation. Now, legacy FIs and a host of other players are scrambling to get a piece of the instant money action. Inspecting the "up-and-to-the-right" growth curve of instant payments, it's no shock how many players want in. And as promising as things are in the early stages, there's work to be done before instant becomes ubiquitous.

Making Money Fast

Want to make a CFO smile? Take a core business function – payments, for example – and then make it lightning-fast, less expensive and secure. The return on investment (ROI) of instant is obvious from the get-go: It requires no printing of watermarked paper checks, no envelope or postage and, most importantly, no more waiting for money to clear.

It doesn't take an accountant to understand that companies will initially make money with instant simply by saving money on the back-office functions associated with paper mail. But that's just the beginning. It's been definitively shown that businesses and individuals will pay reasonable fees or percentages to receive their funds instantly. Between operational savings and new fees on crowd-pleasing new services like instant, the path to instant profitability starts to emerge.

Perception Becomes Reality

As instant money organizes itself largely around consumer preferences, there are important distinctions to be made. In the first place, not all instant is created equal. Real-time availability and real-time settlements are not the same, of course. And as consumers continue to warmly embrace instant money, old definitions and practices are becoming obsolete almost overnight.

As Ingo Money CEO Drew Edwards told PYMNTS, "There are enough rails in place today to provide ubiquity, choice and instant access to good funds for consumers. We need to give payors more options to deliver choice, and more ways to build trust with the consumers and SMBs that the funds they get instantly will not be clawed back."

Risk vs. Reward

Instant money is shaking things up, which is to be expected. And the devils we know – garden-variety credit and bank fraud, phishing and bot attacks, online identity scams and the rest – may feel more comfortable than the devils we don't know. These include advanced data security and new state and federal regulations governing payout mechanisms – to say nothing of the irrevocable nature of instant payments. You can't pull them back.

It's important to understand that the seeming "weaknesses" of instant are, in most cases, strengths that haven't yet been fully deployed, like the many controls available with digital payments. Perhaps the best thing is the trackability of instant, a big departure from the paper past.

"Risk is always a concern when you are making a payment, when you aren't face-to-face," said Ingo Money EVP and CPO Lisa McFarland. "But companies need to keep their focus on the idea that risk and fraud are also associated with old, slow ways to pay. There isn't more risk, or inherently worse risk, with an instant payment – it is just different risk."

Simplicity Sells

The instant payments revolution was driven by the convergence of two factors: the proliferation of gig economy workers after the Great Recession and FinTech creativity.

With the instant genie out of the bottle, its forward trajectory will be predicated on giving people what they want. That will play out as optionality, and payers are starting to think about what those options will be. In the end, consumers will tell them, but it's up to the FIs to make it real.

"My bigger, long-term vision and goal is that with our marketplace, when the payee gets to choose, you have an environment where people will work to influence what the consumer chooses," Edwards said. "Every time I go buy something, the first thing that comes to my mind is which card will reward me the most for making this transaction. Why can't it work the same way when someone pays me?"

'Float' Drifts Away

FIs will have to say goodbye to some sacred cows of banking as instant becomes ubiquitous. One of those sacrosanct things is "float" – the misunderstood intervals between when money is sent by a payer and when it becomes available as cash in the payee's account.

Rumors have swirled around the magic properties of float for ages in banks and other FIs, including (but not limited to) rationale like "keeping the money longer is safer" and "we're making more in interest every day we hold the funds." Both of those things may have once been true, but float has been pushed out to sea on a tide of instant money. And it's not coming back.

Instant Is Here To Stay

Surprising no one, the Disbursement Satisfaction Report found that basically all people want instant access to cash. More importantly, many today live paycheck-to-paycheck and have little or no savings. PYMNTS research shows that over 75 percent of working Americans who struggle to pay their bills would opt for instant payments to debit cards if offered the choice.

"If offered the choice." That notion has become a "clarion call" for the financial services industry in general – and the payments sector specifically – as news of instant money smashes the old ideas surrounding paying and waiting for payment.

"We have a vision of the future coming really soon where our disbursements marketplace allows payment recipients to choose not only where they want to get paid in terms of what account, but also when exactly they want that payment to happen," said Edwards. "In this environment, we will see issuers/banks/wallets developing incentives to influence these choices similar to what happens today with purchase rewards."

Solving Instant Payments Ubiquity Problem

Consumers live in a real-time world. Their use of mobile devices fuels the expectation that what happens on the other side of a click or a swipe will be delivered in real time — or as close to it as possible. That expectation increasingly extends to how consumers want to access their money.

And for good reason, Ingo Money CEO Drew Edwards noted in a recent conversation with Karen Webster and Ingo Executive Vice President and Chief Product Officer Lisa McFarland — instant payments present a world of interesting possibilities for creating better consumer experiences across a wide range of uses. The concept is both incredibly simple and incredibly intuitive: Offer customers 24/7 access to good funds on demand, however and wherever they want them.

But delivering on that concept — and providing instant push payments on demand — is far from simple. It involves a lot more than just providing immediate access to those funds, as a variety of use cases — from peer-to-peer (P2P) to gig economy payments to insurance claims payouts and loan disbursements — are being challenged to "go instant."

"Of course, instant payments have to be secure, risk-managed and in line with regulatory requirements," Edwards told Webster. "What we see more and more, though, is that it has to work for many different types of businesses who want to push those funds instantly, and consumers who want to receive them in a variety of ways. Instant payments are a terrific customer experience, but delivering that choice is far from easy."

An Explosion of Rails

The recent announcement that the Federal Reserve has decided to throw its hat into the instant payments ring with the development of the FedNow system has only further heightened the importance of the speed at which consumers and businesses can access funds.

That said, Edwards said it would be a mistake to view the Fed's actions, or its forthcoming FedNow rails, as a major catalyst in driving instant disbursements in the U.S. "I don't think it hurts matters any — but they are a bit late to the party, and didn't start all of th[e] discussion around instant."

Ingo was one of the earliest to arrive at the instant payments party, so to speak, McFarland noted, releasing its first instant push payment product in 2013 as an upgrade to its check-cashing services. That perspective, along with the evolution of instant payments, shows that the catalyst for instant disbursements was P2P marketplaces, she said, as well as the upsurge of volume on platforms like Venmo and Zelle over the last three to five years. From there, instant as an enabler to payments access spread to the gig economy, where the ability to pay workers instantly emerged as a major competitive differentiator for marketplaces looking to attract workers.

"Those two things were really the catalyst that turned instant payments into a tidal wave here in the U.S.," Edwards said. "And now it is spreading to payroll companies, lenders, B2B businesses, treasury banks, insurance companies — everyone wants a piece of 'instant.'"

But use cases for instant push payments aren't the only thing rapidly proliferating, Edwards and McFarland noted. At the same time, options for how consumers and SMBs can receive those payments are expanding. As recently as three or four years ago, the only two games in town were push-to-card options via the card rails, Visa Direct and Mastercard Send.

Today, those two services have exponentially increased their range, but are now joined by other options. There are push-to-card services for challenger banks and payroll providers, as well as push-to-wallet options for PayPal, Square Cash, Apple Cash and others. And there are account-to-account services emerging, such as RTP from The Clearing House, Same-Day ACH and, slated to launch in five years, FedNow.

"From our perspective, as a disbursements marketplace, the more 'rails' the merrier," McFarland said, adding that more options mean more choice for consumers and SMBs in how to receive those instant payments.

"We want to enable all networks at scale for our clients," she said.

However, the proliferation of rails enabling instant payments, Edwards observed, raises a more fundamental question about “how to instant.” Picking the “right rails,” he said, is the wrong way for banks and corporates to think about instant, as it is short-sighted to think there will be a single winning rail. Certain payment methods in the U.S. may become less important over time, but will never truly die entirely as long as enough businesses and consumers are using them.

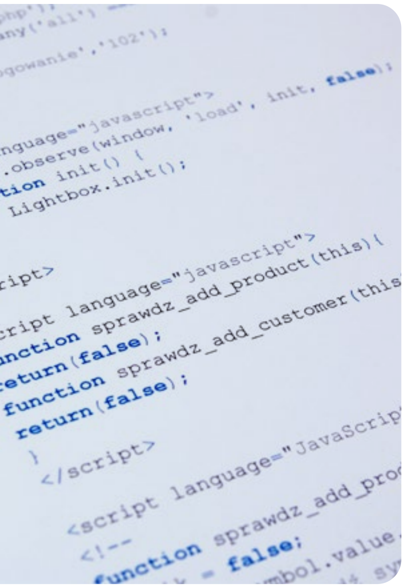
“Somewhere in this country, there are people paying each other with rocks and marbles, as they have always done,” Edwards joked. “The real sea change coming in instant payments will be the realization that there is not going to be a single winning rail at all, because that is not how payments have ever worked.”

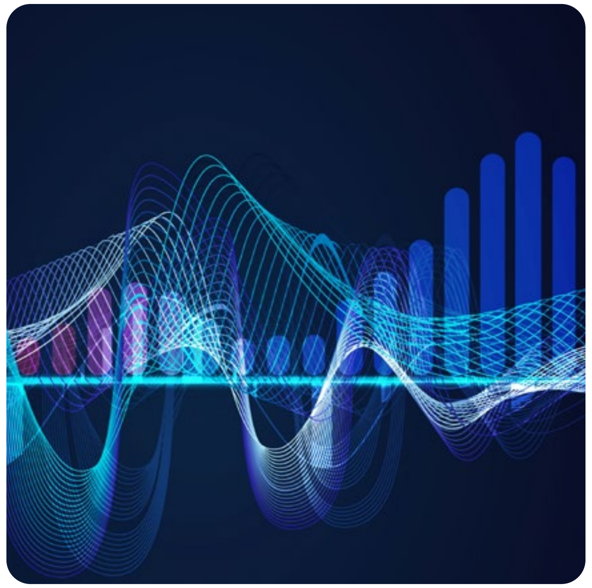
Navigating What’s Next

The opportunity and challenge going forward for instant, Edwards and McFarland noted, is to create ubiquity by offering consumers and SMBs a choice in how to be paid. That is similar to consumers deciding how they want to pay today: a mix of cash, debit, credit, digital wallets and even checks — all payment methods supported by the merchants they do business with. Forcing consumers or SMBs into a particular instant payment method won’t work, because that’s inconsistent with how they decide to pay today.

Both Edwards and McFarland agree that the future of “how to instant” for banks and corporates is putting as many options on the table as possible and letting the customers’ preference be their “North Star.” Ubiquity, then, becomes a function of choice.

“Banks and corporates today are too focused on how to connect to ‘the rail’ and how to pick the right one,” Edwards remarked. “The better question worth answering is about the experience they are trying to create for that consumer or SMB — and then what’s required to deliver the maximum number of levers to create that ubiquity across all of those endpoints and end-users.”





Instant Payments Are Here — How To Measure The ROI…

There are many ways a firm can measure the value of instant payments, and determine how much of a return on investment (ROI) it can expect to reap. A firm can look at it in terms of how much it will save by stepping away from the costly and inefficient world of paper checks, or it can evaluate in terms of the auxiliary services and features it will be able to offer to its customers, and potentially monetize in the future.

However, as Ingo Money CEO Drew Edwards told Karen Webster in a recent podcast, there could be a simpler way to frame the inherent value of instant payments. The real question firms need to ask themselves, he said, is what the ROI is of staying in business.

> The reality is **you're not going to be able to compete if you're mailing out checks** or reliant on anything but a modern disbursement system.

"I've been around for some shifts in the market, and this is one of those changes that if you miss it, then you're extinct," Edwards said. "The reality is you're not going to be able to compete if you're mailing out checks or reliant on anything but a modern disbursement system. The ROI, at its most basic level, … will depend on this, because the entire financial services world is changing around it."

A year ago, Edwards noted, about 10 percent of consumers experienced receiving an instant payment. Today, according to soon-to-be-released data from Ingo Money and PYMNTS, that figure is north of 40 percent. The word is getting out — more than 80 percent of customers have heard of instant disbursements, and even if they haven't yet had the pleasure of being paid on demand, they will desire it. That is just the natural response of a human being owed money, Edwards said: They want it as fast as possible.

The firms that survive and thrive in the rapidly approaching era of instant disbursements won't just be able to pay out quickly to someplace, he noted. They will need to pay out exactly where the customer wants to receive the funds, right when they need them.

"Every once in a while, you come across an idea like the drive-through window in the restaurant, where once you see it, you ask, 'why wasn't it always like this?'" Edwards said. "I think that is [what is] happening now with instant payments — it's such a naturally desirable thing that the question isn't if it's going to happen, but how it will evolve."

Instant As The New Sticky

The fact that customers want their money as quickly as possible is a rather unsurprising revelation — money in hand has the distinct benefit of being spendable. Whether the customer is spending from necessity or desire, Edwards noted, the appeal of instant payments is unaffected, though it is felt in slightly different ways.

For the two-thirds of Americans who report living paycheck to paycheck (or the 15 percent who report struggling to pay their bills as they wait on funds already earned), it is a particularly galling experience. It is also an expensive one. The paycheck-to-paycheck crowd faces what Edwards referred to as "the high cost of being poor," where any unexpected expense can lead to a cascade of late fees or the need to resort to a costly means of accessing funds.

"The appeal of instant here is obvious: It puts money in their pocket and food on the table," Edwards said.

On the other end of the economic spectrum, he noted, there are customers who have lots of money and choices about how to use it, and who are still encountering friction when looking to do something relatively simple, like move money between their accounts at various financial institutions. Those customers are more likely to be willing to pay a low marginal fee — or perhaps respond to incentives around specific payment types — in return for an easier path to move their money where they want it to go.

In either case, and at either end of the spectrum, two points of commonality exist, noted Edwards. The first is that the conversation isn't just about instant payments, but about the connected question of where to send those instant payments. An instant payment to a prepaid card is different from an instant payment to a mobile wallet, which is different still from an instant payment to a bank account. The right instant payment, Edwards said, is the one that goes to the account the consumer actually uses.

However, instant payments with choice are just starting to unlock the real potential of on-demand disbursements.

"That is what drives stickiness and competitive advantage, and spurs returning customers," Edwards said. "Consumers are drawn back to the experience that they know is going to be painless and fast."

The Bigger-Picture Future

While Edwards dreams of a future where there is no such thing as checks, he also believes that dream will likely go unrealized. Checks aren't ever going to disappear entirely, he said, and he even encourages some businesses to keep them as an option for certain payments. There will be consumers who make that choice, he noted, and even increasingly narrow cases where they might want to encourage that choice.

"Those choices from customers are generally going to tip toward instant, of course, but we still need to watch how this evolves," Edwards said.

That evolution will continue to be the interesting part of this story. That instant payments are coming — and quickly — is a foregone conclusion. The lightbulbs that still need to go off for most companies, according to Edwards, is what possibilities will open up once a modern disbursements experience is in place, and when consumers have the same level of choice and speed of transaction in receiving money as they do when spending it.

"One or two brands are really thinking it through, and just as soon as you get some of those live in the market and succeeding, I believe you will see the fast followers come along behind them in the market," Edwards predicted. "I think this is a peripheral conversation today, but in a year, it will be the center."

> Consumers are drawn back to the experience that they know is going to be **painless and fast.**

Bridging Instant Payments' Perception And Reality Gap

Payments people love to talk about rails — whose rails are the fastest, cheapest, most secure, most accepted, most compliant. Consumers, not so much. In fact, as Ingo Money CEO Drew Edwards pointed out to Karen Webster in the most recent edition of their "how to instant" conversations, consumers more or less don't know the payments rails exist — and are really only ever concerned with a single question: "How am I gonna get my money?"

"Nobody cares what rails are going to be used any more than I care when I call you up on the phone what wires and satellites carried the signal to you," Edwards said.

> We need more ways to give payors options to deliver choice, and more ways to build trust with the consumers and SMBs **that the funds they get instantly are not going to be clawed back.**

What the customer does care about is the experience — how fast the funds came, how quickly they were available for use, whether they ended up in an account where the consumer could make instant use of them and whether they could choose how to receive those funds.

For senders, delivering that experience means more than just moving money faster into bank accounts or digital wallets — it is also about offering the payment choices that create ubiquity for the consumers on the other end of the transactions.

That, Edwards told Webster, remains a work in process.

From the Appearance of Instant to the Reality of Instant

Although there are many flavors of "instant" payment offerings in the market today, Edwards noted, a lot of what looks instant to the consumer isn't. On the front end, funds are

pushed to the end consumer and are possibly even available for instant use. However, no money is moving in real time — at least not yet, depending on what rails are used. For example, push to debit card options might put money into a consumer's or SMB's bank account instantly, with settlement happening a day or two later.

"There is a difference between real-time availability of funds and real-time settlement of funds," Edwards explained. "In either case, the consumer is going to say, "oh, cool, I got my money right away." However, enablers of instant money assume the risk between the time when they make funds available and when settlement happens later."

That's particularly true when funds are truly instant — meaning they are irrevocable.

As Edwards noted, although having a real-time infrastructure would make the clearing and settlement process more efficient, payors and the channels that serve them don't have to wait to move funds in real time to a payee.

"There are enough rails in place today to provide ubiquity and choice and instant access to good funds for consumers," Edwards noted. "We don't need more rails; we need more ways to give payors options to deliver choice, and more ways to build trust with the consumers and SMBs that the funds they get instantly are not going to be clawed back."

FIs and Solving the "One too Many" Payments Puzzle

Edwards believes this is where FIs have the opportunity to change the instant payments game.

Every payment starts with a bank account and ends in one — something Edwards said puts FIs on the critical path of igniting instant payments by making it available to their corporate customers. Collectively, Edwards emphasized, if one is thinking about how to build a modern disbursement experience across the entire payments ecosystem, getting FIs behind instant payments is the critical first step.

There is just one small problem, Edwards remarked: In most cases, FIs are going about it all wrong.

"There's more to [instant] than bolting it onto a suite of other payment services they offer to corporate clients like checks, ACH and wire services," Edwards said. Even though instant payments is a transaction, it's not that simple — particularly for many of the use cases in which instant is now being applied.

Instant payments done right is about handing off a suite of services that gives the customer a chance not just to choose an instant payment — but to choose one that runs along the rails that meets their actual needs.

Using insurance companies as an example, pushing payments to thousands of consumers to settle claims is a critical and continuous part of doing business. It is also an extremely regulated process concerning how these carriers must interact with and pay those customers.

Whatever form factor they choose, Edwards explained, it will have to work nearly universally across that broad customer base. A simple, one-off instant payments integration from their FI isn't going to give them the highly universal method they need. Depending on the specific set of rails that is used, it could easily be incompatible with how many consumers can receive payments — and even for the compatible ones, the insurance company might not have all the data they need to route the payment correctly.

Edwards pointed out that corporates can, of course, attempt to push their customers toward a specific payments type and do much work to receive it, but that will be time-consuming and expensive – and likely an exercise in herding cats.

"At that point, the conversation turns to what's cheaper and easier — and that is to keep using checks," Edwards said, adding that the reason checks persist is that they are the only payment form that solves the one-to-many problem for businesses like insurance companies.

Banks in this regard have a choice: They can attempt to construct a marketplace of instant payments services for their corporate clients, or they can leverage the capabilities of third parties that can provide plug-ins to an instant engine and disbursements marketplace.

"First, there are perhaps one or two banks that are even large enough to make it work from a scale perspective — but even past that, they don't want to do this because they aren't experts and this isn't their core area of innovation," Edwards emphasized. "Plus, if they started right now and threw everything they had at it, it would still take three years to get off the ground — and by then, the game will be over."

The direction of the market is clear — and as more consumers experience instant payments, the demand will only increase. The next challenge will be to make those instant payments genuine on the front and back ends — and then make the option universally applicable for consumers.

Why Slow Payments Aren't Necessarily Safer Payments

As of late 2019, there are few people left who need to be talked into the "why" of instant payments — that case has already been well made. Ingo Money EVP and CPO Lisa McFarland told Karen Webster for the latest edition of the PYMNTS How To Instant Series that the conversation Ingo Money is having with potential partners, across all kinds of verticals, is not about pushing the merits of instant payments, and why organizations should be adopting them, because firms know that already.

Where the rubber hits the road — in terms of executing those ideas — is when the plans to switch to an instant payments paradigm are taken to those enforcing compliance and risk, she said, and when firms start taking a real look at how they can get instant payments up and running as an option safely and securely.

There is no shortage of risks to consider, she noted. There's financial risk, and making sure the payee who ends up in possession of the funds is the intended recipient. There is data security risk, and making sure fraudsters aren't harvesting all the information that must exchange hands for instant push payments to be possible. There is also regulatory risk, and ensuring that all the mechanisms and tools for payout are compliant with the relevant regulatory structures — both state and federal.

There is a lot going on there, and the relevant risk concerns vary across verticals. There is no one-size-fits-all solution, as merchant acquirers, insurance companies, banks, marketplaces and gig work platforms all have different needs and requirements in this area — and it is extremely important to get it all right, McFarland said. In that sense, she noted, the security and compliance team's concerns are not misplaced.

"Risk is always a concern when you are making a payment, when you aren't face to face," McFarland said. "But where companies need to keep their focus is on the idea that risk and fraud are also associated with old, slow ways to pay. There isn't more risk, or inherently worse risk, with an instant payment — it is just different risk."

While that risk is real, she noted, it does have an advantage over its older analog equivalent: There is a lot of technology that can be thrown at mitigating a digital instant payment, such that it is "no more risky than any other transaction, and, in fact, probably less risky."

Speed: The Biggest Benefit And Security Stumbling Block

The major risk with an instant payment, McFarland said, is unfortunately also its main benefit — the fact that it is fast. So fast that, once the funds are pushed, they are instantly usable to the payee who received them. When everything is good, and the funds have flowed to the right person, that is a terrific feature that means the receiver can pay a bill, make a purchase or head to an ATM and cash out. However, if something goes wrong, and the funds have been sent to a fraudster seeking to interlope, they can also instantly access those funds and be gone. The payment is irrevocable, and can't be clawed back.

That can seem rather intimidating, she said, but a few facts bear considering. One, she pointed out, is that being slow doesn't make a payment fraud-proof. Wherever and whenever money is changing hands, one can count on a fraudster to try to step in and steal from time to time. In the old world of analog check payments, a fraudster would steal checks, endorse them and have them cashed before the payee could call in

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“

… the speed of the payment is a negligible factor in terms of incremental risk. **It really isn’t that different from a standard settlement process.**

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and report that their payment hadn’t arrived.

Among the upsides of digital interactions with the consumer, McFarland noted, is the breadth of information that can be brought into authenticating a transaction — such as the type of account to which one is sending funds, whether it matches the name and address of the proposed payee, and how long it has been open. In short, does everything one is seeing match up with what one expects to see as a disburser? With those guideposts in place, payors can have a high level of confidence that they are paying out to the appropriate end receiver.

Customizing The Payment To The Context

Every vertical is different, McFarland told Webster, which is why, in some sense, every instant payment offering is a bespoke build. Merchant acquirers, for example, in creating settlements between payment processors and merchants, have a great deal of information about their merchant customers. In the case of merchant acquirers, then, she noted, much of what they are doing is looking at their onboarding processes, and making sure they have reason to trust those within the instant payments experience.

“If you have properly onboarded your merchant, and you understood their profile, if you have confidence in that process, then the speed of the payment is a negligible factor in terms of incremental risk. It really isn’t that different from a standard settlement process,” she said.

For insurance companies that operate under both federal and state jurisdictions, she added, the risk management elements quickly begin to center on regulatory risk, and making sure that — in each jurisdiction where they are pushing instant payments — they are operating in a method compliant with local regulations.

The fact that they have to build this capability, McFarland said, is really no longer up for debate — they know that; they’ve seen the data. The critical next step in getting there is showing them how they can use the technology to set the risk rules they want, and adjust them as circumstances require. Some acquirers will offer instant payments to some merchants, but not all, she noted, depending on profile or amount of time on the platform. Insurance firms will need to tailor their processes to the regulatory requirements of each locality in which they operate.

“The new conversation is about going through all of the kinds of controls that can be applied,” she said, “and helping clients work through building the risk management system[s] they need to get the result[s] they want, with more control over the entire end-to-end process than they have today.”

'Simple' Will Be Instant Payments Breakthrough Innovation

When the history of the paper check is written someday, scholars will not note it was the best payments form, nor the fastest, cheapest or most beloved. Paper checks in the closing days of the 2010s are not only less than beloved, they are also widely disliked. Consumers almost never write them and don't really enjoy getting them, and businesses don't particularly like cutting them since they're expensive, inefficient and present a host of security risks.

But what the paper check lacks in popularity it makes up for in sheer persistence — after a decade of proudly proclaimed plans to "kill the check," the check just keeps on living. And for a very simple reason, Ingo Money CEO Drew Edwards told Karen Webster in a recent PYMNTS interview: the check works consistently if not brilliantly. It works particularly well in what Edwards called the "ad hoc" payments market wherein large enterprises have to make a one-time payout or series of payouts to a consumer or another business.

"If you think about a large insurance company or AP department," Edwards said, "we have clients that are printing out a million checks a month because they have everything they need to use that form — a name, an address and amount. From that they can send an API call to a printer and from there the check is in the mail."

It doesn't matter who the recipient is or where they are — the check will work. The customer won't necessarily be happy, the business is on the hook for all the costs of a check, but the job will get done. Instant payments has its biggest opportunities for growth here, Edwards noted, because the process is the most obviously problematic when it comes to ad hoc one-to-many payments. Instant payments done right in this context, he said, offer up everything the check offers but faster, cheaper and safer.

Doing it right is a challenge, he said, but one that is increasingly being met. Which means instant payments is progressing to its next phase of development — which will be less about getting them done, and more about what new things can be done with them.

Giving the Customer All of What They Want

That customers want instant payments is not a fact that can be contested. Edwards noted that within a few weeks of launching with a large insurance industry partner and offering customers the choice between a check and a digital payment, 90 percent of customers chose to ditch the check. And of that 90 percent who preferred digital, 90 percent preferred getting digital instant payments.

The problem that businesses often fail to grasp, Edwards said, is that while nearly every customer prefers an instant digital payment, not everyone prefers to get that payment in the exact same way. The customer only wants the payment they have a mechanism to receive — an already existing mechanism.

"And this is where we as Ingo step in to engage the recipient of the payments and create an environment where they can tell us how they want to be paid and where we can authenticate dynamically based on the payment choice that this is the right person and the right account to be pushing funds to with a variety of questions and data points," he said.

"You've killed the check — but no one had to call in and sign up, it's a process very much like onboarding to use a P2P service," he said.

The same logic, he said, can be applied to any accounts payable (AP) department — a place where

> **You've killed the check** — but no one had to call in and sign up, it's a process very much like onboarding to use a P2P service.

> I think ACH is not a bad system for recurring payments — dividends, payroll and that kind of stuff. **It's not broken or inefficient after making that first payment happen.**

large firms have spent years upon years trying to stop sending checks, but have foundered on the rocks of trying to get all their recipients signed up for a single electronic payments mechanism. Even if they can capture a large share of potential payees, there is some segment that just isn't compatible with their system or feasible to manually engage with. They might very much prefer an instant payment in principle, but in practice they will favor whatever payment method is easiest for them to collect, and for principle and practice to align and an instant payment to displace the check, it has to be just as easy and offer the qualitative improvement of speed alongside.

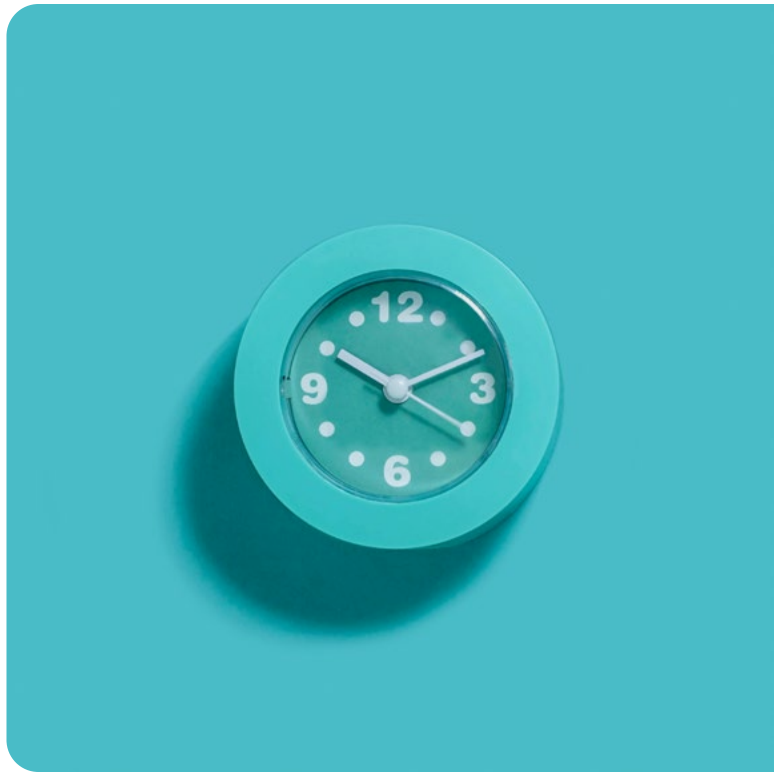
The good news for instant payments, from Ingo Money's perspective, is that enterprises are increasingly catching on to the idea that their task is to provide optionality around instant payments, not to pick a specific mechanism. The more interesting news, Edwards said, is that as that is catching on and the improvements are becoming tangible, the appeal of instant is spreading, and its potential is growing.

The Next Evolution

Instant payments have an edge in what Edwards called the "ad hoc payments" arena because there was an obvious problem to solve in the form of the persistence of the paper check. Replacing ACH payments, he said, is a slightly different situation.

"I think ACH is not a bad system for recurring payments — dividends, payroll and that kind of stuff. It's not broken or inefficient after making that first payment happen," Edwards said, adding that, lacking the same kind of widespread dissatisfaction that appears with one-to-many payments, the impetus pushing instant isn't as strong.

But pressure can appear on many fronts, he said. The gig economy,



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which now employs 15 million to 20 million people, was one of the major drivers in igniting consciousness around instant payments because of the push to move workers' pay immediately upon completing their gigs. That, Edwards said, "broke the paradigm of the old two-week payroll," because some 80 percent of workers prefer instant payments when it is an option.

That, he noted, left regular wage workers wondering why they were waiting two weeks to get paid.

Which means recurring ACH payments might "work" in the sense that they function — but they increasingly are not working for the people who collect wages and want to be paid faster or on demand.

And that, Edwards said, is the dynamic that is going to drive the instant payments market forward — the expanding field of what payees want and need and what services and monetization opportunities can be built out over the top of it. That might mean smarter payment arrangements, where payors can digitally offer small to medium-sized business (SMB) payees terms to either pay the full contract in 30 days or 98 percent of the contract in an instant payment when work is complete. It might mean better "me-to-me" money motion that makes it easier for a consumer to move funds instantly from one bank account to another. When the choice is shifted from the payor to the recipient of funds, Edwards said, the most important change to instant payments is that they stop being a single offering, and instead are the start of a lot of offerings.

"My bigger long-term vision and goal is that with our marketplace, when the payee gets to choose, you have an environment where people will work to influence what the consumer chooses," Edwards said. "Every time I go buy something, the first thing that comes to my mind is which card will reward me the most for making this transaction. Why can't it work the same way when someone pays me?"

Those rewards, when it comes time for a customer to pay, he said, vary. It might be cash back, or points or a discount — but whatever the method, the goal is the same: to be valuable enough to the customer that using it is worth their while.

He believes the same shift is coming to the world of consumers and SMBs getting paid. The competition will be to influence the payee's choice when they get paid, and the attempt to win that race, he said, will be what drives the future of the industry.

"How that will translate to instant payments remains to be seen," Edwards said, "but I think the opportunity will create a new monetization paradigm that doesn't exist today."

> Every time I go buy something, the first thing that comes to my mind **is which card will reward me the most for making this transaction.**

How Instant Busts The Myth Of Float

For the person on the receiving side of an instant payment, there isn't a lot of selling that has to happen because the concept of getting one's money faster more or less sells itself. That's a story the numbers more or less tell over and over, Ingo Money CEO Drew Edwards told Karen Webster in the latest edition of the PYMNTS "How to Instant" podcast. Offer a customer a choice between a check and a digital payment, and they'll pick the digital payment. And of the customers who choose digital, nine out of 10 will pick an instant payment if available.

But there is a semi-persistent idea that for payors to offer instant payments, they must be willing to give something up — namely "the float," that gap of time

This is a much better way to manage the flow of funds than trying to guess when a check will get there and be cashed.

between when a payment is paid out by the payor, but still technically in their possession until the funds are final in the payee's account. Payors that are simply paying out instantly and on time, the argument goes, are missing out on the opportunities the float provides.

The problem with that argument, according to Edwards, is that it is based on something that, for almost every player, is a fallacy. They aren't giving anything up because the float doesn't exist anymore.

"I think it may have once, but it is really a thing of the past," he said. "It's not just because we've lived in the era of zero percent interest rates for a decade, or that they are at historical lows now. The truth is, interest rates are hopefully never going to back to a place where the value of having money on the float can overcome the costs and complexity of batch-based and paper-based payment mechanisms."

Plus, Edwards noted, the float of the past wasn't ever really all it was cracked up to be. The instances where players have been able to derive notable revenue have almost always been in specific circumstances like payroll processing, where regulation specifies when funds need to be put up in advance in relation to the date by which they must be paid out.

For almost any other player, he said, float costs far more than it nets if checks are in the mix — and offers a much less compelling revenue opportunity than the conversion to instant payments.

Investing in Certainty

There are two perspectives from which one might have a fondness for float on the payor side of transactions, Edwards said, though neither is particularly compelling. The first is a security perspective that says a three-day liminal period where a transaction is undertaken but not completed is a benefit — because if a security issue is unearthed, there is theoretically time to claw back the funds.

"I would say there are real alterations needed to your risk management system if you are depending on reversibility for a few days to secure your transactions. Our experience is that with most of the crooks who really get you, the money is long gone by the time you get there to try and take it back anyway," Edwards told Webster.

The other perceived advantage is the one alluded to earlier — that there are cash flow and liquidity advantages to slow payments with float periods that merchants are somehow passing up. But the lived experience, Edwards said, is just much different. In many, if not most, business-to-consumer (B2C) payment contexts — insurance and payroll, for example — regulatory structures govern exactly when a payment has to arrive. In a paper-based system, that means putting a check in the email by a specific date on the assumption it will arrive on time.

Maybe the receiver will hold on to it for the longest amount of time possible and there will be a long float period, but more likely, the payee will look to cash their check as soon as possible. The slow payment, Edwards noted, isn't giving the payor any revenue-generating amount of extra time — they're just getting a lot of uncertainty about when their payments are going to hit.

"Remember reconciling your checkbook and trying to figure out what's cleared and what hasn't? No one wants that. Instant just means ultimately have more control of your cash flow because when something is due on the 15th, you can push it there on the 15th. This is a much better way to manage the flow of funds than trying to guess when a check will get there and be cashed," he said.

And beyond creating efficiencies for the payor, Edwards said, ultimately instant payments also present a previously unexplorable set of options around monetization and consumer retention.

Considering the Other Side of the Float

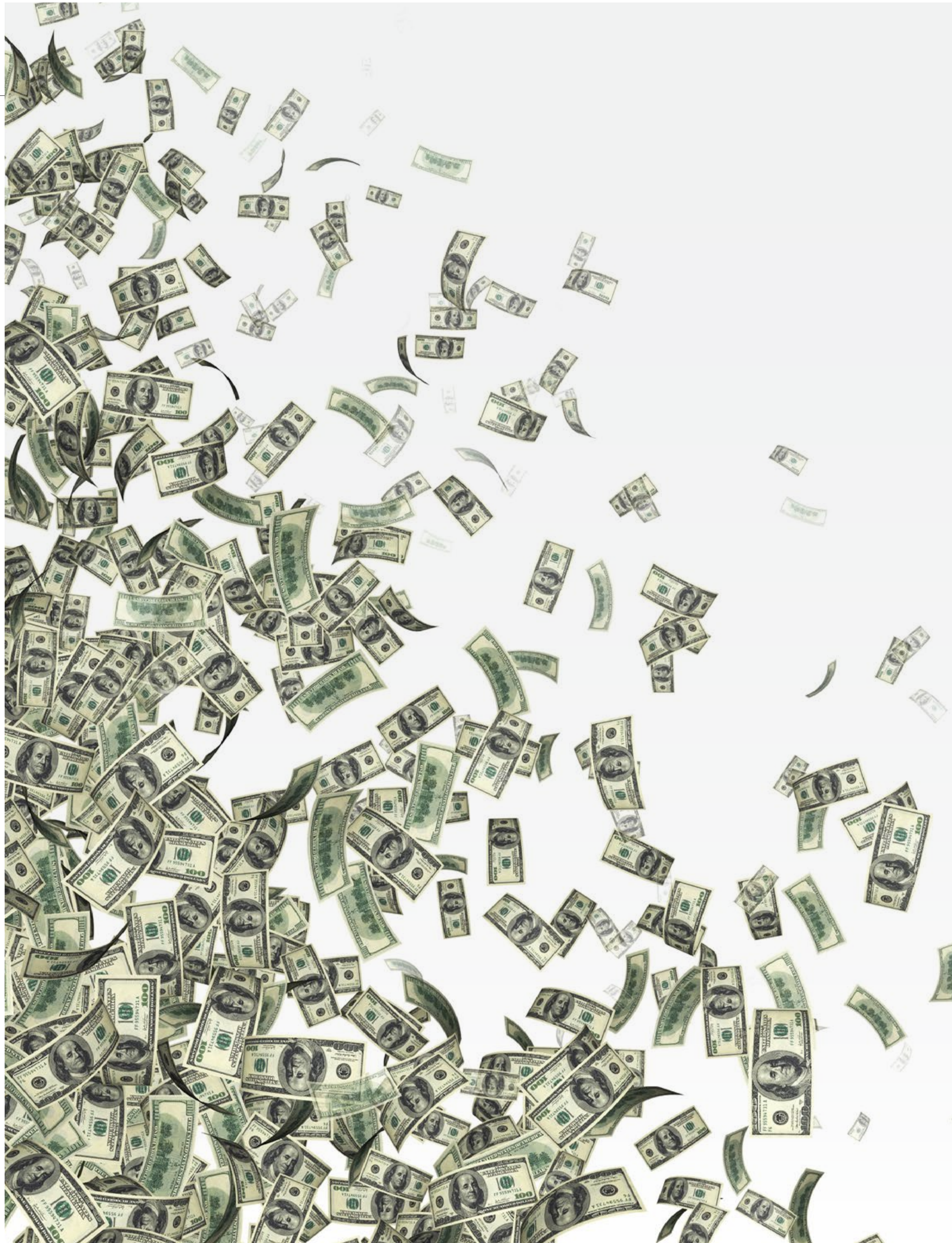
On the other side of every story about float as a possible liquidity advantage for a payor, there is a payee for whom it is a major cash flow liability. That payee might be a small business, a consumer waiting on an insurance check or a wage worker anxiously anticipating their next payday — but what they all have in common, Edwards said, is that they are all keenly interested in securing their funds as quickly as possible and are severely negatively affected by any uncertainty.

That, he said, is why the numbers in this area are so one-sided — there are almost no examples where a customer given a choice asks to be paid slower. The process change that is underway now, Edwards noted, is entirely on the payor side because the recipient side is already sold on why this is a better method.

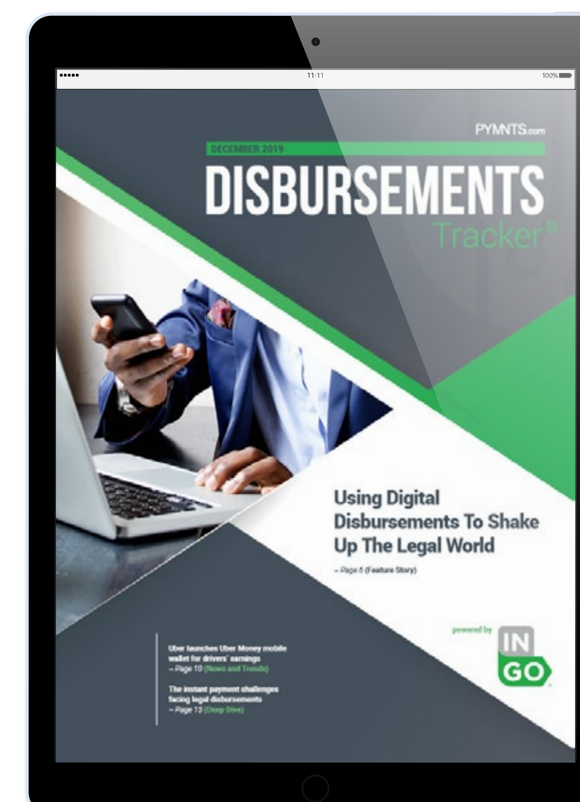
And, to their credit, Edwards said, the payors of the world are catching on to it; it has been a long time since Ingo Money has heard a potential partner bring up liquidity concerns vis-a-vis the float. The question now, he told Webster, is what those payors and institutions supporting instant disbursements are going to do with the instant as a customer-retention tool — or as a revenue engine. What's been demonstrated in use case after use case, Edwards said, is that consumers will pay for instant access to their funds, as will small-to medium-sized businesses (SMBs), provided the charge is reasonable.

That means scenarios where regular W-2 workers can look to their payroll companies for access to their pay as they earn it daily for a fee of a few dollars. Or where an SMB can choose on an invoice whether they want to be paid 100 percent in 30 days, or 98 percent right now. The ultimate potential, he said, is that instant payments offer something that a concept like float cannot — a situation where both sides of the transaction can come out ahead at the end, and with their financial management improved by the interaction instead of dented.

"We have a vision of the future coming really soon where our Disbursements Marketplace allows payment recipients to choose not only where they want to get paid in terms of what account — but also when exactly they want that payment to happen," Edwards said. "In this environment, we will see issuers/banks/wallets developing incentives to influence these choices similar to what happens today with purchase rewards."



Getting Payors On Board The Instant Payments Bandwagon



The word is out about instant payments — a fact made largely indisputable by the numbers. According to the latest edition of the PYMNTS Disbursement Tracker®, 64 percent of consumers have heard of instant payments and are interested in knowing more, a dramatic uptick over 2017 when only a little over a third of consumers had

There are a whole bunch of consumers out there who need instant because every day **they don't have access to funds is costing them money.**

even heard of this new way to be paid.

The numbers go beyond awareness. Instant disbursements are also picking up steam where it really counts — usage. When we asked in 2017 how many consumers have received an instant payment, the answer was a mere 11 percent. When we asked again this year, that number had skyrocketed to 42 percent.

That kind of rapid "up-and-to-the-right growth pattern," Ingo Money CEO Drew Edwards told Karen Webster in the final edition of the "How To Instant" podcast series, is as gratifying as it is unsurprising. The benefit of getting paid instantly is so obvious, he said, that consumers nearly universally adopt it when it's a choice. Of the 90 percent of consumers Ingo Money sees opting into digital payments instead of check disbursements, 90 percent further chose an instant disbursement to their bank account. The only mystery there, he and Webster concurred, is the 10 percent of customers who are intentionally opting into paper checks.

And for 60 percent of the American public, not to mention the vast majority of small- to medium-sized businesses (SMBs), getting paid funds one is owed immediately isn't merely a nice to have, Edwards said, it's a need to have.

"There are a whole bunch of consumers out there who need instant because every day they don't have access to funds is costing them money," he said. "For example, the majority of small businesses fail because they can't match accounts payable with accounts receivable. For a large swath of consumers and SMBs, instant access to funds will have a transformative effect on their financial lives."

But interest alone won't get instant payments to the next level, and in many ways, Edwards noted, the race is just now beginning in earnest. What has to happen now is for all the stakeholders who make up the instant disbursement ecosystem as it stands today — large corporates, financial institutions, FinTech platforms, SMBs and consumers — to work collaboratively to make truly seamless and secure instant payments experiences across verticals and use cases a reality in the next decade.

How do they do that? There is no single correct road map, Edwards said, but there are guidelines useful for any interested payer.

Choice: The Golden Rule of Instant

Really making instant payment ubiquitous, Edwards said, isn't about flipping a single set of rails on, offering it up as an option and calling it a day. A true modern payment architecture, he said, has choice baked in at the foundation — it gives the end receiver a way to instantly receive funds how they want, when they want. No new account to sign on for — just checking, authenticating

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and then choosing where the funds flow.

"There is no one choice that solves for everyone, so the entire ecosystem needs to be thinking about how they are going to bring all of those rails to the party," he said.

And there are a lot of rails out there at this point, Edwards noted. That, he said, is mostly to the good, as it means at base there is likely a mechanism out there by which the vast majority of Americans could, in theory, receive an instant disbursement.

But bridging the gap between "in theory" and "in practice" is going to be a collaborative effort. Payments are complicated, and instant payments are even more so because it is, well, instant. The rails all work slightly different from each other, and there is an awful lot of underlying regulatory, technical and practical complexity in solving for the real mechanics of moving trillions of dollars around in the background.

"This is a place where everyone in the ecosystem needs to think about partnering and collaborating, because they've got to be sophisticated enough to play with all of the different rails — and it is not so easy considering they all operate under different rules," Edwards said. "As a platform, it took Ingo eight years to tie all those rails together. It's a big game and a big task — it is definitely not work for two guys sitting in a garage."

So, who is it for? That's the piece every ecosystem player needs to focus on — though what those pieces are vary by player.

For corporations looking to push payments instantly, the problem is one-to-many payments, and how to set up payees such that they can choose which set of rails they can seamlessly have funds pushed to. Financial institutions (FIs), he noted, are in some sense ideally situated to provide that service, considering they issue card products, are in the ACH network and have dedicated treasury functions. That gives them the pieces they need to make instant disbursements happen in a compliant, secure way, he said. What they need is a way to "stand all of that up together as a suite of options" to corporate (and eventually SMB) partners.

And, he said, this must be done with an eye toward timing, so to speak, because the innovation history of the last decade or so is that when FIs fall behind, FinTechs jump in to make the offerings in their place.

The platform players, like Ingo Money, on the other hand, have a different set of challenges to meet — mainly in building that connective tissue between the financial services institutions in a way that is compliant with regulations and secure when it comes to all of that non-public consumer data. That's a big job in a

> **There is no one choice that solves for everyone,** so the entire ecosystem needs to be thinking about how they are going to bring all of those rails to the party.

world where payments are happening instantly and irreversibly — and one, Edwards noted, that has almost no margin for error.

"I was having dinner with one of our partners at a bank recently, and things have been rolling out smoothly and I jokingly asked him what we had to do to screw this up," Edwards said. "And what he told me without missing a beat is that all would be great as long as he doesn't read in a newspaper that I allowed all of their data to be hacked."

And finally, he said, the card networks' role is changing in the instant payments ecosystem. Thus far, he said, they have done a tremendous job in building push payment rails like Visa Direct or Mastercard Send and an even better job of evangelizing them and bringing the concept into the mainstream.

"Now I believe that the market is moving, and they've helped prime the pump. The obvious focus for them is how to improve authentication, acceptance rates, dollar sizes and the like. There are a lot of tools we need them to bring to market to further enhance and bolster this emerging ecosystem," he said.

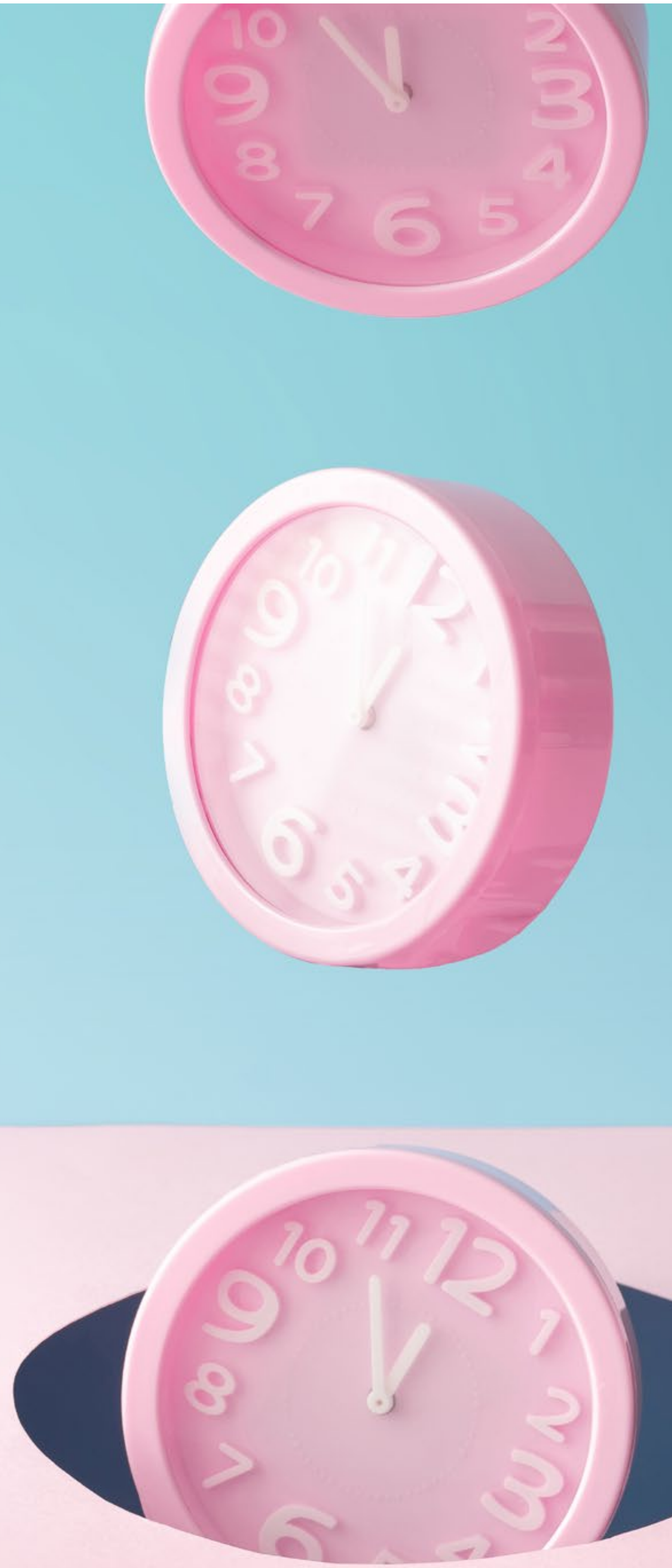
What Comes Next

For all the progress that instant payments have made over the last five years, there is an awful lot of heavy lifting left for the industry moving forward. Serving SMBs as payers — as opposed to mainly as receivers of payments — is one of the next big open frontiers to conquer, he said, once the world of smokestack industries and large corporate treasury departments are dealt with. He suspects there will also soon be changes emerging in the world of regular W2 payroll that will match the instant payments that are happening in the gig economy.

And these changes will come, Edwards said, first and foremost because it is what consumers want — and the biggest lesson of the digital commerce ecosystem is that what end-users want is usually what ends up driving innovation. Choice, collaboration and a willingness to evolve are the starting points on how to instant today, Edwards said.

What will be worth watching tomorrow is all the new things corporates, FIs and FinTechs will build once they've got it down and start using it to iterate the next generation of innovations.

ABOUT



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IN GO

Ingo Money is the instant money company. Founded in 2001 with a mission to digitize the paper check, our industry-first disbursements marketplace enables businesses and banks to disburse instant, safe-to-spend electronic funds from any source to an account that a consumer or business chooses, with network reach to more than 4 billion debit, prepaid, credit, private label credit and mobile wallet accounts. This transformation of traditional payments helps businesses reduce cost and delays while dramatically improving the consumer experience by shifting choice to the recipient of a payment.

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