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PYMNTS

The Clearing House

Corporate Changes in Payment Practices

THE CHALLENGE
FOR INSURANCE
COMPANIES

Corporate Changes in Payment Practices: The Challenge for Insurance Companies, a PYMNTS and The Clearing House collaboration, offers insights into the rapidly growing market for real-time payments. Our findings are based on a survey of 125 executives at insurance companies generating at least \$100 million in annual revenue that was conducted from April 5 to May 5.



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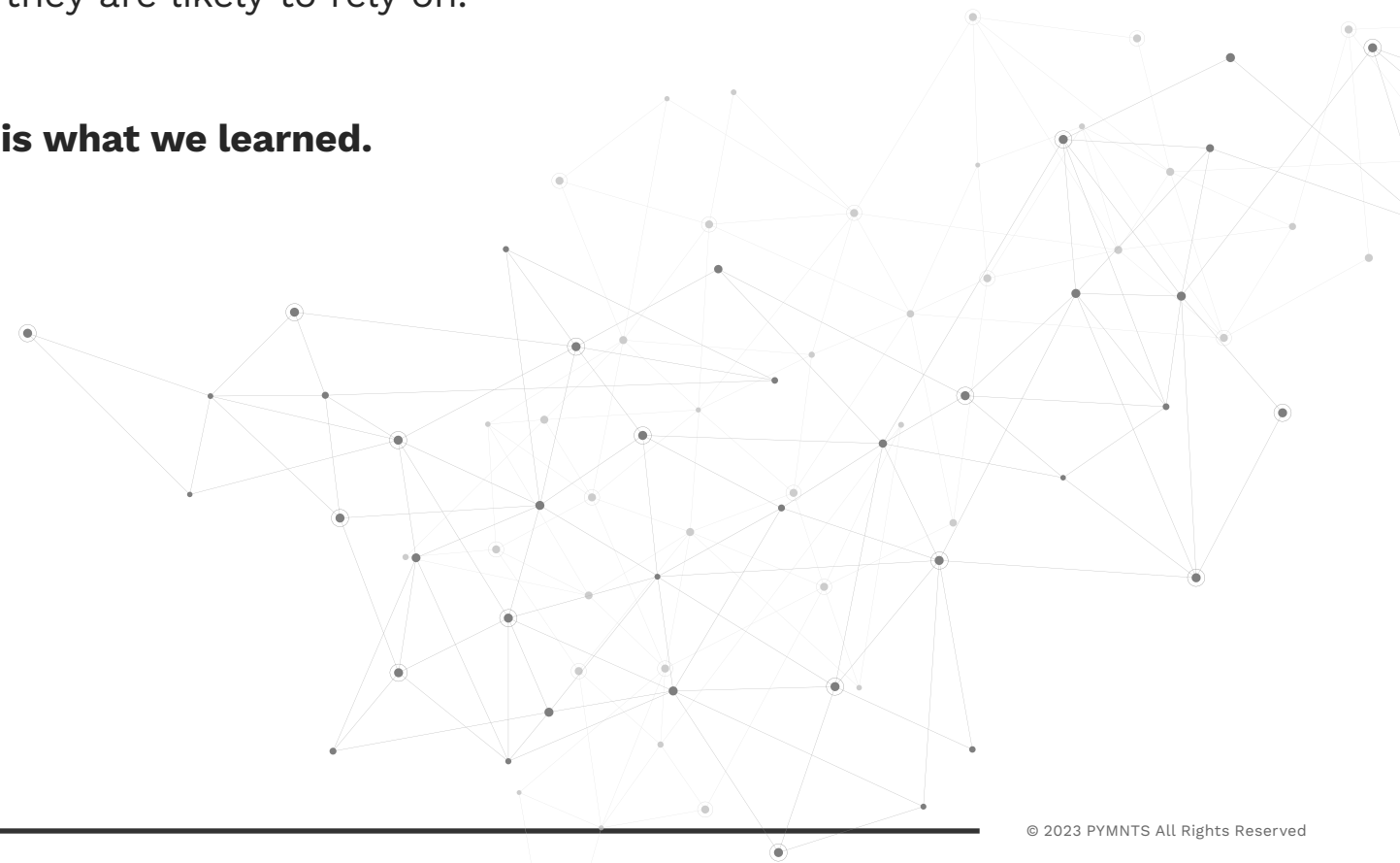
ACKNOWLEDGMENT
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Introduction

Insurance companies are embracing real-time payments when collecting customer premium payments or receiving payments from other businesses. Even though 80% of firms use real-time payments, they only account for 16% of transactions today, following automated clearing house (ACH) and wire. There are, however, notable differences in the degree to which insurance companies say real-time payments are essential. A key differentiator is firm size. Small insurance companies — those generating annual revenues between \$100 million and \$500 million — were behind the average, and large insurers, which generate annual revenues of over \$1 billion, were ahead. Two reasons give smaller firms pause: the irrevocability of real-time payments and concerns about fraud and higher costs associated with implementing real-time payments.

Corporate Changes in Payments Practices: The Challenge for Insurance Companies, a PYMNTS and The Clearing House collaboration, details how insurance companies view and use real-time payments. We surveyed 125 decision-makers at insurance firms across the United States to learn more about their interest in adopting, using and expanding their use of real-time payments. Their sentiments and interest provide important predictions for growth for FinTechs, digital giants, card networks, banks, credit unions and third-party processors — all partners they are likely to rely on.

This is what we learned.



Only one-third of small insurance companies say making real-time payments is essential for their business today, significantly trailing larger firms.

We identify major differences across firms already using real-time payments to make and receive payments: 69% of large insurance firms consider the ability to make real-time payments very or extremely important for their business; however, only 33% of small insurance companies say the same. This could be because other payment methods, such as ACH and wire, are established and work well, and check payments may provide a bit of “float” for those insurers — in essence, they can continue to have funds in their accounts until those checks are cleared. Consensus is greater when it comes to the ability to receive real-time payments: 75% of all insurance firms consider this very or extremely important for their business.



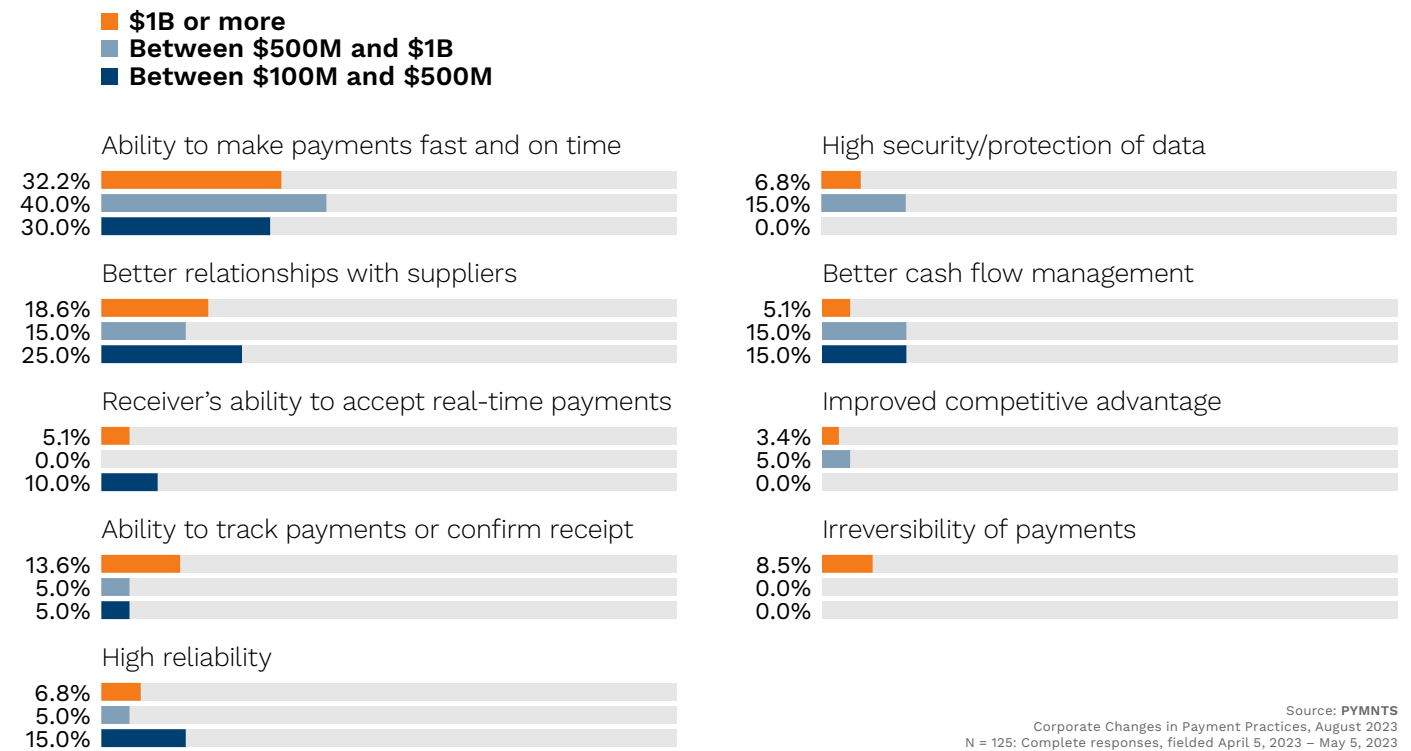
Speedy and timely payments are the most important reason to adopt real time payments.

PYMNTS found that 32% of large insurers, 40% of mid-sized insurers and 30% of small insurers put fast payments at the top of their priority list. Establishing and maintaining good relationships with suppliers was the second-most important factor. These relationships were more important for smaller insurance firms than they were for medium and large insurers. Twenty-five percent of small insurance firms prioritized good relationships with their suppliers, while medium and large insurers were less likely to cite supplier relationships as a priority, at 15% and 19%, respectively. This is possibly because their size gives them the ability to negotiate from a position of strength with those suppliers. Better cash flow management is a third priority for 15% of small and 15% of mid-sized insurers, though it carries less importance for large insurers.

FIGURE 1:

Reasons for using real-time payments

Share of insurance firms citing the most important reasons to use real-time payments, by annual revenue



Source: PYMNTS
Corporate Changes in Payment Practices, August 2023
N = 125: Complete responses, fielded April 5, 2023 – May 5, 2023

PYMNTS finds that 80% of those surveyed were already using real-time payments to make payments. Small insurance companies were behind the average, with 65% using real-time payments. Large insurers were ahead of average, with 88% using real-time payments. Across the whole sample, 84% were benefiting from real-time payments when receiving payments.

The forecast for growth in real-time payments is optimistic — with some caveats

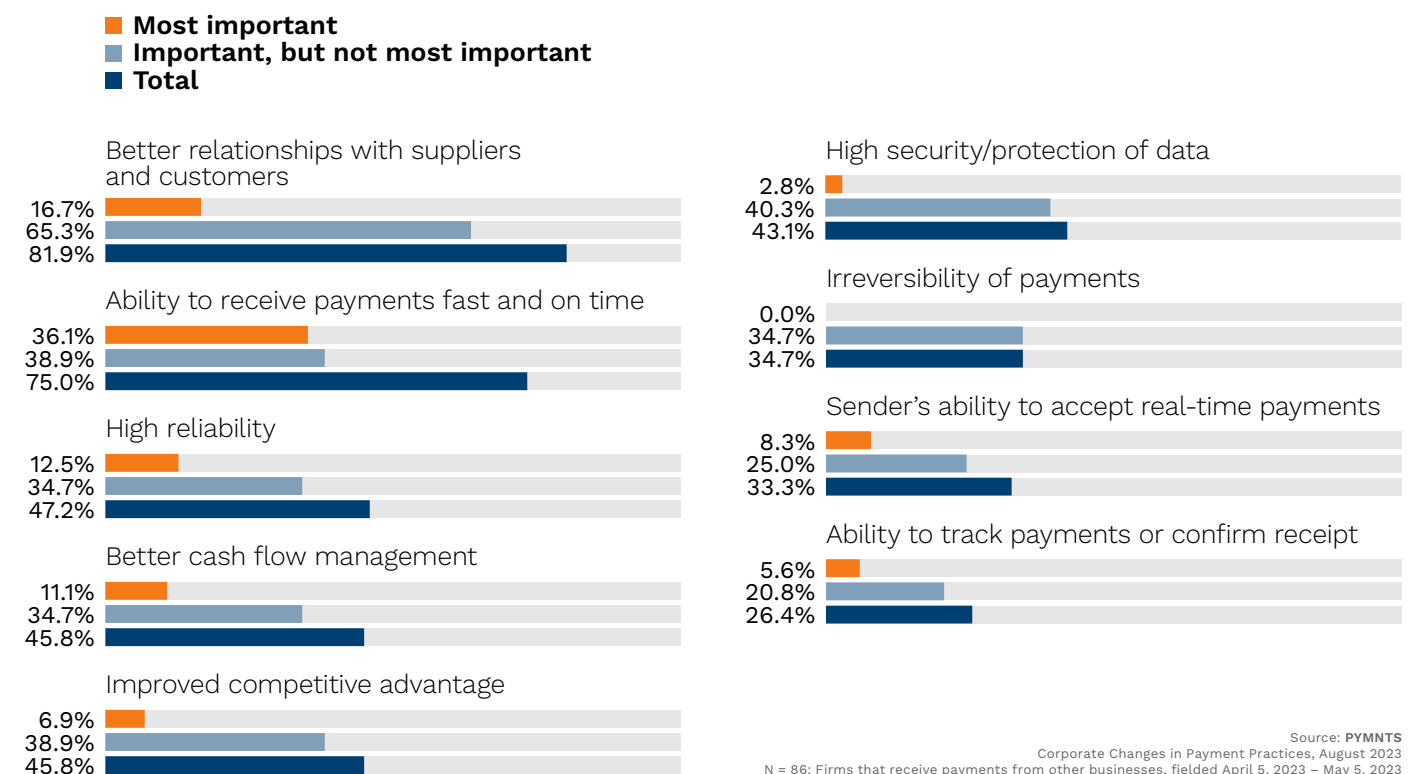
Thirty-eight percent of all surveyed firms are planning to increase their use of real-time payments, and 25% are anticipating increases in the real-time payments they receive. Forty-six percent of mid-sized insurers — which generate annual revenues between \$500 million and \$1 billion — are more eagerly planning to grow their real-time payments activity compared to large and small insurers. This may be because larger insurers have already started those initiatives, while smaller insurers’ priorities may be elsewhere, such as expanding their agent network, how they reach consumers to enroll in their insurance policies, automating the underwriting process, or they may not have the resources and know-how. The draw of real-time payments for mid-sized insurers is the ability to increase their operational efficiencies by speeding up accounts receivables and minimizing the administrative costs and time delays that come with processing checks.

Eighty-two percent of insurers that already receive real-time payments from other businesses most cited maintaining good relationships with partners as an important reason for doing so. Yet, for the most important reason, more firms chose the speed of transactions over partner relationships. High reliability and improved cash flow management are also more important when receiving real-time payments.

FIGURE 2:

Reasons to receive real-time payments

Share of insurance firms citing select reasons for receiving real-time payments, by level of importance



Source: PYMNTS Corporate Changes in Payment Practices, August 2023
N = 88: Firms that receive payments from other businesses, fielded April 5, 2023 – May 5, 2023

82%

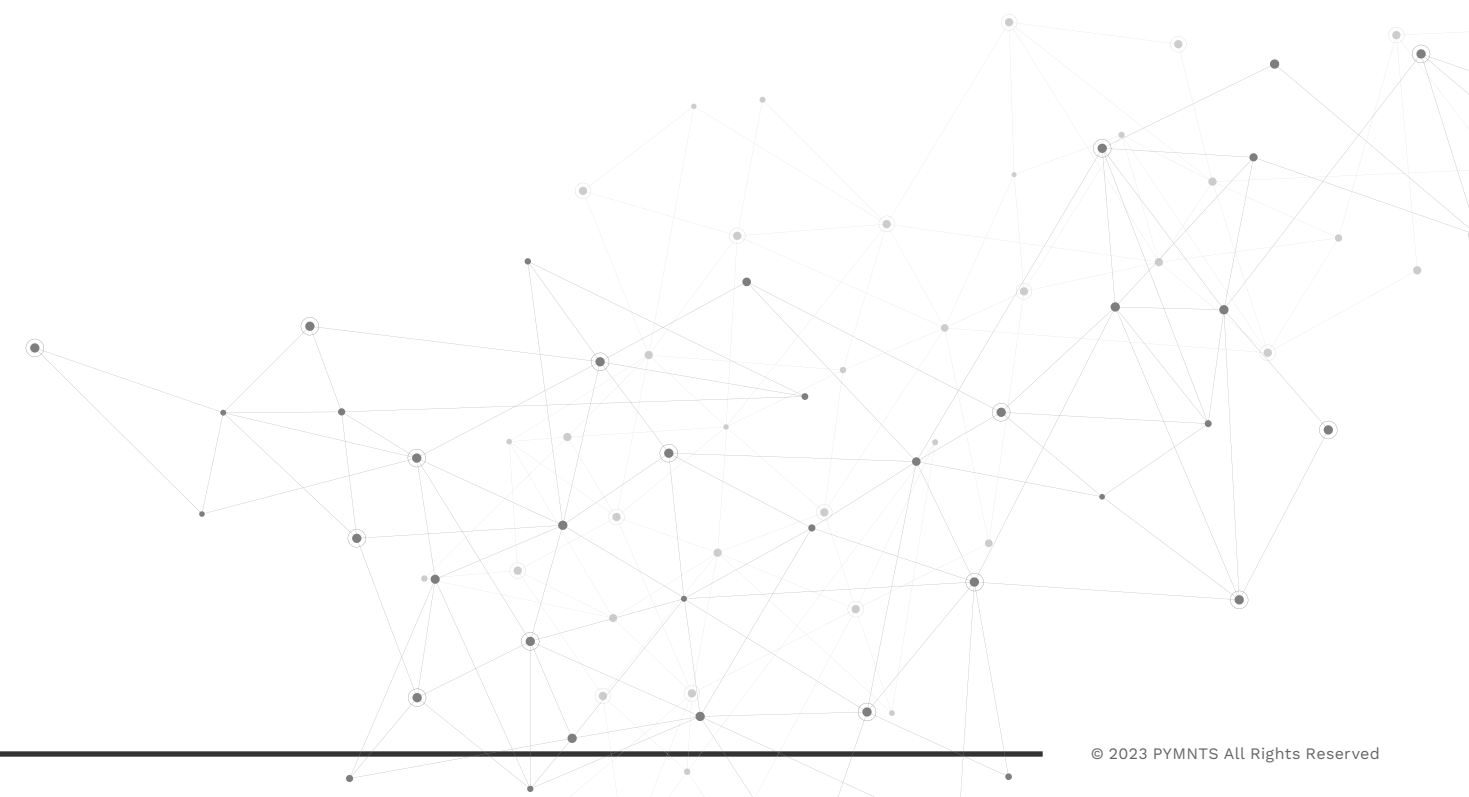
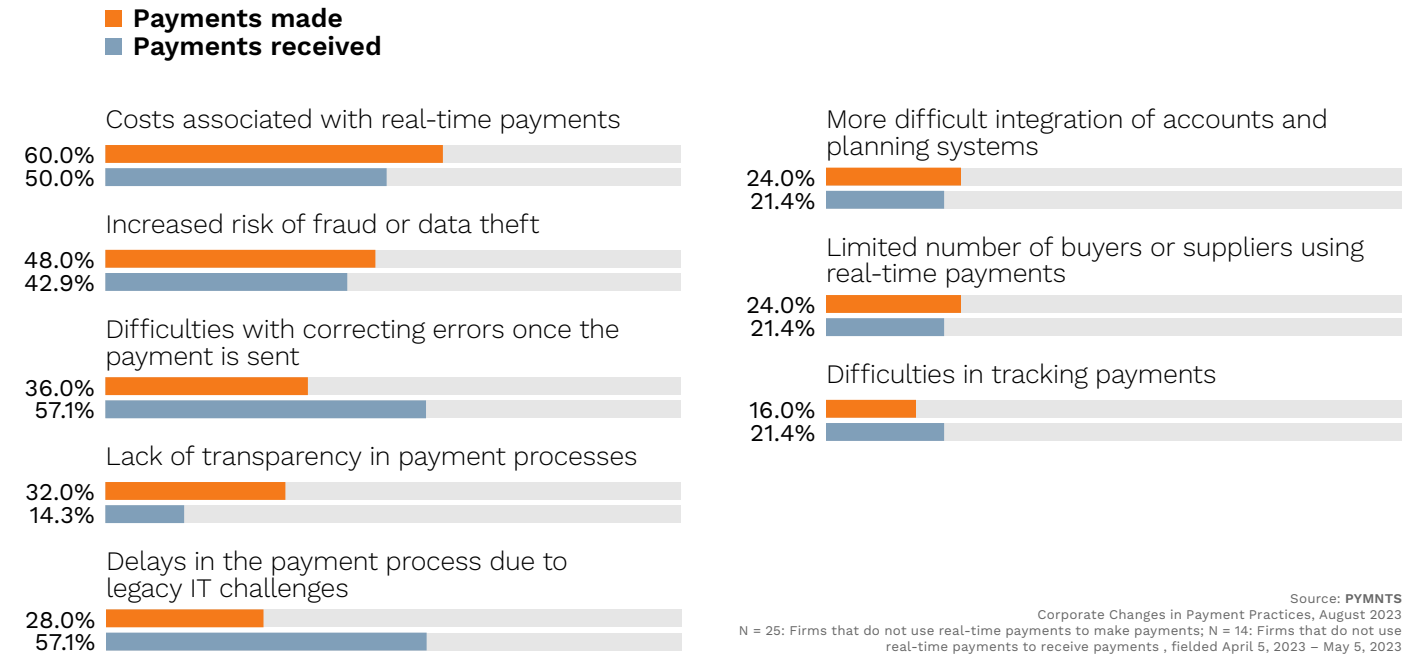
of smaller firms worry about the higher costs of implementing real-time payments.

Insurers cite several concerns that give them pause regarding adopting or expanding their use of real-time payments. PYMNTS found that 82% of smaller firms not currently using real-time payments cite higher costs associated with implementing real-time payments as a key factor holding them back. This was true for only 25% of larger firms not using real-time payments. Smaller firms cited other reasons for not using real-time payments: 48% worried about the increased risk of fraud or data theft, and 32% were concerned about the lack of transparency in payment processes. Concerns vary slightly when receiving real-time payments. Fifty-seven percent of insurers cite difficulties with correcting errors once the payment is sent, while only 36% mentioned this for making payments. The same percentage of insurers also worry about delays in the payment process due to legacy IT challenges.

FIGURE 3:

Reasons to not use real-time payments

Share of firms citing select reasons for not using real-time payments



Small insurance firms lag in the adoption of real-time payments, but 87% plan to catch up by adding more real-time payment features in the next year.

PYMNTS found that 39% of small insurance firms are currently in the process of enhancing their real-time payments capabilities. An additional 23% plan to add more real-time payments features within the next six to 12 months. Meanwhile, only 28% of large firms and 19% of mid-sized firms are currently adding more real-time payments features. This gap reflects the fact that larger firms have adopted real-time payments quicker than small firms.

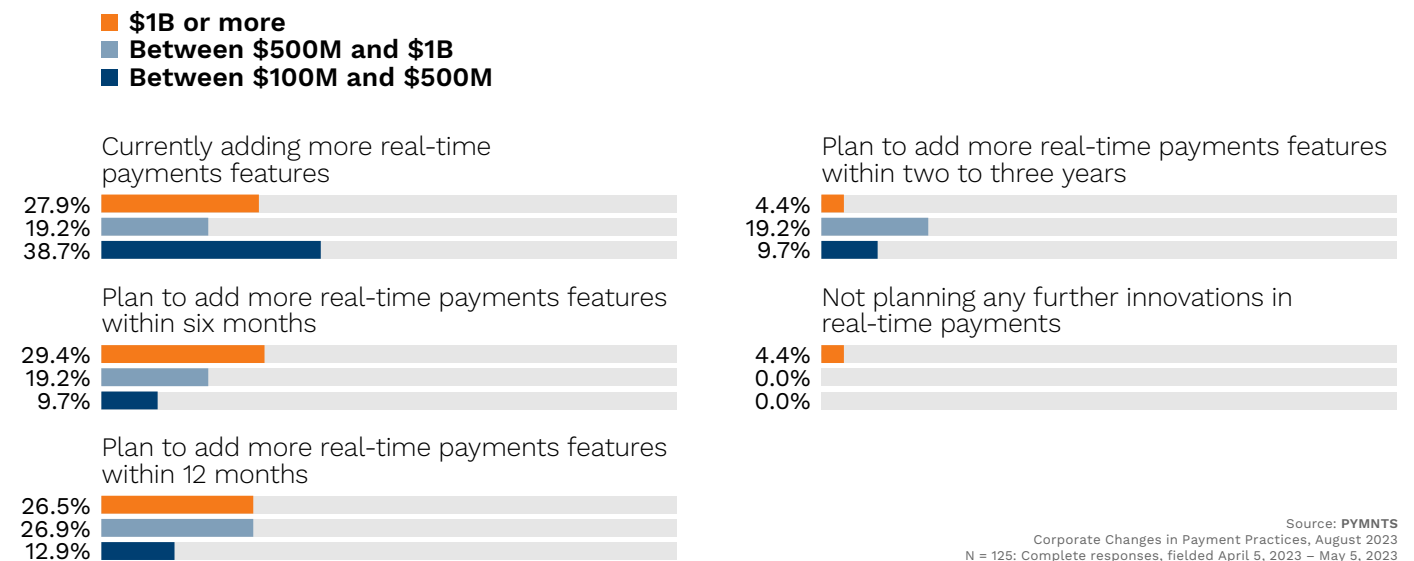
Thirty-six percent of small insurance companies also consider innovations in real-time payments as one of the most important innovations within their company. This is very close to the 37% of large insurance firms that said the same.

These sentiments signal a promising year ahead for third parties that provide real-time payments solutions, as insurance companies consider replacing in-house solutions or treasury management systems with those offered by FinTech partners, tech giants, card networks or banks.

FIGURE 4:

Enhancing real-time payments infrastructure

Share of insurance firms planning to enhance real-time payment solutions



Source: PYMNTS
Corporate Changes in Payment Practices, August 2023
N = 125: Complete responses, fielded April 5, 2023 – May 5, 2023

Small insurance companies expect to rely mostly on FinTechs and digital giants to add more real-time payments solutions.

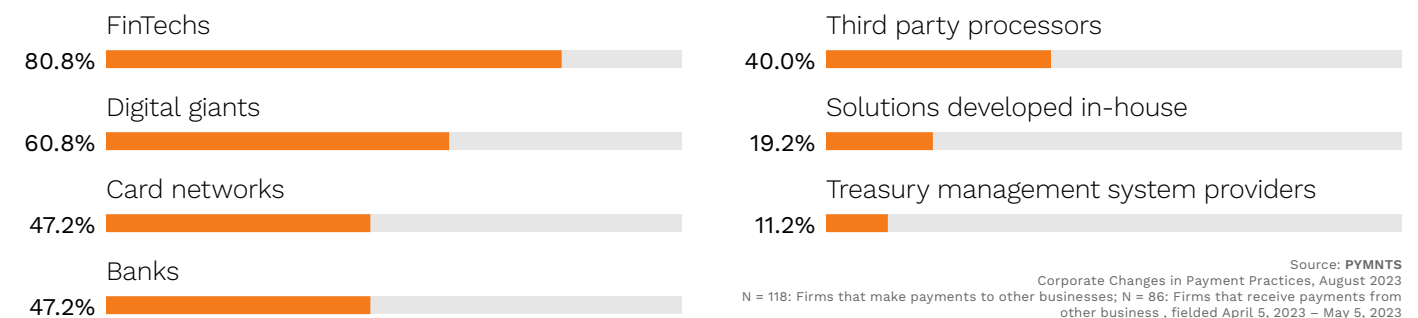
Firms of all sizes are most likely to rely on FinTechs for real-time payments solutions. The study found that 82% of large firms will likely turn to FinTechs for real-time payments solutions, compared to 77% of small insurance companies. Small firms show relatively stronger preference for digital giants, such as Stripe and PayPal, and third-party processors than mid-sized and large firms.

Forty-six percent of large insurance firms say they will likely partner with digital giants for future innovations in real-time payments, compared to 48% of small firms. Fifty-five percent of small insurance companies will likely partner with third-party processors for their innovations in real-time payments. This means insurers were less keen on continuing with their in-house solutions or treasury system management providers, compared to 36% of large firms.

FIGURE 5:

The appeal of FinTechs as payment partners

Share of firms citing select partners to work with to use real-time payments



Source: PYMNTS Corporate Changes in Payment Practices, August 2023
 N = 118: Firms that make payments to other businesses; N = 86: Firms that receive payments from other business, fielded April 5, 2023 – May 5, 2023



Conclusion

Real-time payments appeal to insurers of all sizes. Many already use real-time payments and have plans to expand their usage. Smaller insurers tend to be slower to move, and they cite preserving relationships with suppliers and partners as the main benefit of using real-time payments. Large insurers prioritize fast and on-time payments.

Insurance companies are most likely to turn to FinTechs, digital giants and card network companies as partners for their real-time payment systems, potentially at the expense of in-house solutions or treasury management system providers. The main challenge they may face is not to get more insurers to accept real-time payments but rather shift the mode of payment away from the leading incumbents like ACH and wire by ensuring that real-time payments offer all the conveniences of these two options and more.

Methodology

Corporate Changes in Payment Practices: The Challenge for Insurance Companies, a PYMNTS and The Clearing House collaboration, is based on 125 responses from insurance executives at firms generating annual revenues of at least \$100 million. The survey ran from April 5 to May 5 and gathered information about how these companies are thinking about their payment practices and sentiments around moving from traditional payment rails to faster ones such as real-time payments.

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Our interactive platform is reinventing the way companies in payments share relevant information about the initiatives that make news and shape the future of this dynamic sector. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovations at the cutting edge of this new world.



The Clearing House operates U.S.-based payments networks that clear and settle funds through ACH, check image, the RTP® network and wire transfers. The RTP network supports the immediate clearing and settlement of payments along with the ability to exchange related payment information across the same secure channel.

Learn more at theclearinghouse.org.