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# Unlocking opportunity: Treasury success in a real-time world

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# | The rise of real-time payments (RTP)

In the mid-1960s, Japan's rapid economic growth and financial reforms created an urgent need to modernize payment processing, as banks struggled with rising paper-based transactions.<sup>1</sup> In response, Japan's Zengin System—the country's primary, 24/7, real-time interbank electronic payment network for domestic transfers—pioneered the world's first nationwide data transmission network<sup>2</sup> and created a “real-time” experience that served as the global blueprint for decades.<sup>3</sup>

Over time, other countries followed with steady progress:



Through much of the 2010s, adoption followed a familiar pattern: steady growth, but no major shift. Then the world changed. COVID-19 accelerated the shift to digitalization almost overnight. Fintech start-ups challenged financial institutions to rethink their old ways. Suddenly, instant payments weren't just a convenience; they were a necessity. The smartphone established itself as the new wallet, with apps like India's UPI and Brazil's Pix making instant payments as easy as sending a text.<sup>6</sup>

~70

markets  
worldwide

~40%

YoY  
growth

260<sup>B</sup>

transactions  
in 2023

575<sup>B</sup>

transactions projected  
to reach in 2028

By 2026, real-time payments had become a global reality, shifting the industry's focus from speed at home to seamless cross-border transactions—a testament to how far this quiet revolution has come.

Expectations have shifted, too. People and businesses want everything instantly, and payments are leading the way. RTP networks now power instant, irrevocable transfers between bank accounts; whether it's B2B, B2C or C2B. These payments come with immediate confirmation, rich data and operate 24/7 every day of the year, both domestically and internationally.

RTP networks have grown to cover an estimated 70 markets worldwide, processing about 260 billion transactions in 2023, up approximately 40% year over year, and projected to reach about 575 billion in 2028.<sup>7</sup> This rapid expansion is making payments faster, more efficient and more transparent. New services like account validation and mandate management are making payments even more secure and customized.

The world of payments has truly transformed—and it's only getting faster.



# | The evolution of liquidity management

Early RTP networks had low transaction limits. Institutions did not need to keep sizeable balances in their settlement accounts, making cash management straightforward and inexpensive.

During COVID-19, the “four frictions” (high cost, low speed, limited access and insufficient transparency) became evident with the transition to digital payments. The G20 responded by establishing a strategic roadmap for cross-border real-time payments, setting ambitious goals for speed, cost and cross-border interoperability by 2027.<sup>8</sup>

The expansion had led to higher transaction limits and positioning instant payments as one of the core payments infrastructures.

This transformation also coincided with a period of excess liquidity and low interest rates. As rates climbed and transaction limits increased, the cost of funding RTP settlements have increased, making them more significant to a treasury’s funding activities. Many institutions recognized that their traditional, passive approach to managing cash in these networks would need to be revisited.

Institutions that provide RTP payments are now increasingly expected to shift from the traditional ways of managing available liquidity and opt for more agile, tech-savvy strategies and incorporate the costs of doing so.



# | The costs of liquidity

As RTP became core infrastructure, the demands on treasury practices intensified. What began as a straightforward operational task has evolved into a complex balancing act, requiring institutions to weigh the benefits of instant payments against the growing costs and risks of maintaining a sufficient liquidity buffer. Institutions are now confronted with a new set of challenges. Understanding and managing the full spectrum of costs associated with liquidity is now crucial for operational efficiency, profitability and regulatory compliance.

Let us break down the key components that make up the cost of liquidity in the context of real-time payments.

## Funding costs

A common consideration for institutions taking part in these networks is to maintain dedicated settlement accounts, often across multiple payment systems, such as one for real-time gross settlement (RTGS) and another one for instant payment. This requirement leads to cash being spread out in various accounts rather than held centrally, making it more difficult for treasurers to maintain clear visibility and efficiently manage overall resources. Fragmented funds can complicate forecasting, increase operational complexity and limit the ability to respond quickly to changing payment demands.

In addition, many networks outside the United States and the Eurozone do not pay interest or yield on settlement account balances. As a result, banks participating in RTP may experience an opportunity cost: Funds held in these accounts to meet settlement obligations could otherwise be invested for returns. The absence of yield means that maintaining surplus balances for settlement comes at a direct increasing cost, as transaction volumes grow and the need for larger buffers increases. Over time, these opportunity costs can have a negative impact on bank profitability.

This dynamic becomes even more relevant in a high-rate environment, where clients may increasingly expect interest to be paid on their balances.

A key challenge is the funding gap between traditional payment rails that do not operate on weekends and RTP systems that run 24/7. Historically, weekend funding from RTGS to RTP settlement accounts was not possible, leaving treasurers with little choice but to pre-fund ahead of weekends and holidays. As RTP volumes grow and settlement limits increase, the required prefunding rises.

This landscape is evolving, as some RTGS systems now operate on one weekend day, while those in the U.S. and UK, have formalized roadmaps to extend operations into weekends and holidays; but until then, the prefunded balances remain trapped.



## Capital and liquidity costs

Risk-weighted assets (RWA) drive the amount of regulatory capital a bank must hold against its exposures, based on the risk profile of the counterparty and/or asset. When settlement accounts for payment networks are held with a central bank, such as Singapore's PayNow, these exposures are typically low, resulting in zero or minimal RWA charges. In contrast, if an RTP settlement account is held with independently operated networks, such as The Clearing House's RTP network in the U.S., the associated exposures would likely carry higher RWA requirements compared to a central bank. This means institutions must allocate more regulatory capital to cover these positions, which can impact balance sheet efficiency and increase the overall cost of participation.

In order to prevent system gridlocks from settling RTP transactions, several networks (for example, Australia's New Payments Platform), offer intraday liquidity facilities (ILFs) as a strategic alternative for institutions to meet settlement obligations without maintaining excessive liquidity buffers. These facilities allow participants to access central bank money instantly by pledging high-quality liquid assets (HQLA), such as government bonds, as collateral. In return, institutions can borrow from the networks often at a 0% interest rate for intraday use. However, relying on pledged assets comes with additional considerations. Once HQLAs are pledged, they become restricted and can't be used for their main purpose of meeting the liquidity coverage ratio (LCR) requirements. This means the bank might need to set aside even more assets to stay within the rules, which will lead to extra costs. These costs may include reduced returns on assets or decreased flexibility in accessing these resources for other bank funding purposes. Additionally, there is a risk of incurring penalty fees from the central banking funding provider, if short-term loans are not repaid by the end of the day.

## Operational risks and costs

Managing RTP settlement accounts brings some unique operational considerations for treasury functions. Understanding settlement windows and system limitations is essential, as the ability to fund RTP settlement accounts is critical for effective liquidity management. Funding delays can result in settlement failures, exposing the bank to operational risk and financial losses associated with delayed or missed payments, as well as potential reputational issues brought on by service disruptions and client dissatisfaction.

The operating model also requires a step change in coverage. With weekend funding becoming available, treasurers may look to manage liquidity more actively over the weekends or public holidays. However, this requires institutions to expand weekend coverage and enhance technology for monitoring and settlements. Where weekend funding is not available, pre-funding settlement accounts before the weekend remains necessary. With this increased cost from pre-funding, accurate liquidity forecasting of RTP activity has become essential.



# | Addressing the costs of liquidity

## The aspirational model

The aspirational model for liquidity management is a “real-time treasury” model, where treasurers benefit from comprehensive, real-time visibility into cash positions throughout the day. This allows for automated funding decisions and actions, thus helping institutions meet payment obligations efficiently, while minimizing both surplus balances and shortfalls. By embracing advanced technology and automation, institutions can move beyond manual processes and limited visibility, thus enabling more proactive and seamless liquidity management.

However, there are still significant challenges in achieving this model:

- Lack of pre-advice for RTP payments
- Dependency on third parties’ (e.g., network operators) infrastructure
- Limited visibility into real-time balances and available cash alternatives in RTP settlement accounts
- Manual processes that delay timely fund transfers
- Restrictions to specific settlement windows
- Unexpected cash movements that drive up costs
- Alternative funding methods that may require sacrificing HQLA
- Incurring additional capital charges

While real-time liquidity management may remain as a goal at this moment, there are practical steps institutions can consider to address these challenges and move closer to the desired outcome.



# | Pathways to real-time treasury

At J.P. Morgan, we would like to help our institutional clients optimize funding across their entire nostro management ecosystem, while enhancing their overall cash management experience based on our suite of treasury and digital solutions. We have identified five key considerations:

## Optimizing nostro account management

### **Establish a nostro management framework**

Implementing a clear and documented framework for the opening, monitoring and closure of nostro accounts is key for effective liquidity management in a faster world. By formalizing these processes, treasurers can enhance visibility and better align account structures with broader objectives.

### **Account rationalization**

Once a robust management framework is established, treasurers can focus on rationalizing their nostro account architecture. It's important to consider whether each physical account is truly needed and to clarify its intended purpose. The original purpose may have included goals such as segregating transaction flows or establishing distinct controls for bank branches or entities. Treasurers should also carefully assess account locations, taking into consideration local regulatory restrictions on receiving or sending payments, as well as the potential impact on intercompany transactions and any limitations on the amounts that can be transferred between entities and borders.

### **Virtualization**

Banks should consider utilizing virtual account solutions, which provide subledger-level reporting capabilities and automated processes. These solutions help differentiate the cash transactions from various business activities, making it easier for operations teams to track transactions and speed up transaction processing.

By increasing visibility through reporting, it allows for easier optimization of liquidity usage. This approach connects clients to advanced payment solutions, cross-currency capabilities and banking partner products, all from a single platform supporting a truly modern treasury experience.

## Automating liquidity management

### **Move beyond traditional tools**

The existing cash sweep mechanisms, such as end-of-day or intraday sweeps, can facilitate management by automating fund movements at set times. Since these sweeps operate on fixed schedules, treasurers can benefit from new tools that offer greater flexibility to address fluctuating funding needs throughout the day.

### **Consider “smarter” funding options**

To further align the funding process with strategic decision-making, institutions may consider using balance-triggered sweeps, which automatically start fund transfers when account balances reach predefined thresholds. This approach helps enable more timely and efficient liquidity management, streamlining routine treasury actions with minimal manual intervention.

As real-time payment networks require institutions to operate on an “always-on” basis, including weekends, maintaining continuous liquidity coverage is essential. With our seven-day sweep capabilities, institutions can fund activities even on non-business days, thereby increasing flexibility and maintaining uninterrupted operations.

## Embracing intelligent decision-making

### **Leveraging Cash Flow Intelligence for better forecasting**

Advanced analytics can give treasurers greater insights into cash flow patterns and trends, supporting more accurate forecasting and informed decision-making. By understanding these patterns, treasury teams are better equipped to anticipate liquidity needs and respond to changing conditions. The Cash Flow Intelligence solution from J.P. Morgan offers an AI-powered cash forecasting and analytics tool that transforms data into actionable insights to help improve treasury effectiveness at less cost.

### **Utilizing intraday liquidity dashboards for real-time visibility**

Access to near-time and projected balance information, beyond traditional end-of-day reporting, enables treasurers to monitor and manage cash positions throughout the day. The J.P. Morgan intraday insight dashboard is a self-service tool delivered through J.P. Morgan Access® that allows for more granular oversight, helping teams understand and respond to their cash needs near-real time.

## Making the best out of new technology

Incorporating technologies such as artificial intelligence (AI) can significantly enhance cash forecasting and liquidity management by identifying patterns and trends within large data sets. For example, AI-driven tools can help predict settlement timing more accurately, allowing treasury teams to anticipate funding needs and optimize positions. Additionally, AI can automate routine

processes, enabling treasury professionals to focus on strategic planning and optimization. By leveraging these technologies, treasurers can make more informed decisions and improve overall efficiency in liquidity management.

## Phased adoption of near real-time payments

A phased approach to RTP adoption enables institutions to scale operations, while carefully assessing the impact of instant payments on your business and balance sheet. By initially offering RTP during limited windows, such as weekdays only, organizations can focus resources on monitoring, support and process refinement within standard business hours. Once stability and confidence are established, RTP services can be extended to weekends, with a focus on accurate prefunding, robust weekend monitoring and ensuring systems are equipped to handle weekend transactions. The final stage is full 24/7 availability, supporting continuous payment flows beyond business hours and throughout weekends. This gradual rollout mitigates risk, enhances operational readiness and provides valuable insights at each step, ultimately fostering a resilient, efficient and future-ready RTP environment.

# | Continuing the global journey

As institutions master domestic real-time liquidity management, the next challenge is on the horizon: preparing for real-time payments on a global scale. Stay tuned for our next article, where we'll explore the future of liquidity management in an era of cross-border connectedness.



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