

FedNow: Changing the Game for Real-Time Payments



When FedNow launched on July 20, 2023 the Federal Reserve announced that 35 financial institutions and 16 service providers would participate. That number has expanded to more than 100, but the volume of payments moving over FedNow is still small, according to Michael Barr, the Fed's vice chair for supervision. "We have provided the rails," he said. "Innovation by private depository institutions will determine whether these services reach a broad range of households and businesses."

The FedNow service holds great promise, delivering payments in 20 seconds or less via bank channels with the potential to speed up not only bill payments but also business-to-business transactions. Yet adoption continues to be anemic. Just 13% of banks and credit unions have joined or are planning to join. Core processors, such as FIS, Jack Henry, and Fiserv, state they are ready to assist from a technical standpoint. With the infrastructure now in place, there is no definitive answer to why the FedNow adoption is so slow, but some possible factors are:

- **Too Early to Adopt.** It's too early for financial institutions to fully understand its benefits and features. According to the Federal Reserve, FedNow is a "minimum viable product" that will evolve over time based on feedback and demand.
- **Competition.** The Clearing House's Real-Time Payment (RTP) network has been operating since 2017 and claims to reach over 60% of U.S. demand deposit accounts. Some credit unions prefer to use RTP or other existing platforms rather than switch to FedNow or use both simultaneously.
- **Startup Costs.** The investment in technology and infrastructure upgrades, as well as complying with regulatory and operational standards, pose challenges and costs for some institutions. According to a survey by Volante Technologies, 40% of financial institutions cited integration with existing systems as the biggest challenge for adopting real-time payments.
- **Risk Concerns.** There are significant hurdles in financial crime prevention and compliance efforts that are slowing the implementation of FedNow according to a survey from Fenergo of U.S. risk and compliance officers.

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- **Optional.** FedNow may not have a strong value proposition for some customers, especially if they are already satisfied with their current payment options. According to a report by Mastercard, 28% of U.S. consumers said they do not use real-time payments because they are happy with their current methods, while 24% said they do not know what real-time payments are.

The promise of FedNow will come in a number of forms. Some of the use cases for FedNow are:

- **Account-to-Account (A2A) transfers:** Individuals can instantly transfer money between accounts or even cards at different financial institutions, such as funding a newly opened account, reloading prepaid cards, funding or cashing out mobile wallets or moving funds from their financial institution to their brokerage account.
- **Consumer-to-Business (C2B) bill pay:** Individuals and businesses can pay bills such as loans, utilities, and more and feel confident their payment is posted to the biller's account immediately. This can help people and companies avoid late fees and better manage cash flow. Billers can also send a request for payment to their customers through the FedNow Service.
- **Business-to-business (B2B) payments:** Businesses can make instant payments to their suppliers, vendors, contractors, or employees, reducing the need for costly intermediaries or manual processes. Businesses can also benefit from improved liquidity management and cash flow forecasting.
- **Disbursements:** Businesses, governments, or other entities can instantly disburse funds to individuals or businesses, such as insurance claims, tax refunds, rebates, rewards, or payroll.

Visa offers FedNow as an additional network on the Debit Processing Service (DPS) platform. As a DPS-supported network, MAP can support daily settlement and select risk management tools for credit unions looking to adopt FedNow. For more information about FedNow offered by MAP/Visa, contact your Relationship Manager.



450 Alaskan Way S - STE 246
Seattle, WA 98104
866.598.0698
maprocessing.com