



Instant Payments: FedNowSM Service Overview

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Instant Payments: Insights



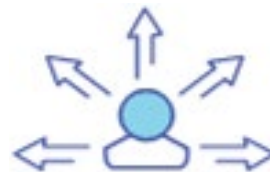
Changing Needs

- Mobile pick-up and in-store delivery
- Just-In-Time payments
- Large customer disbursements



Changing Behaviors

- 87% of businesses and 68% of consumers using some form of faster payment
- 83% of consumers using fintech apps or mobile wallets



Priority Use Cases

- Friends & family
- Last minute bill pay
- Account-to-account transfers
- Instant notifications



Provider Insights

- 70%-75% of businesses & consumers share it's **important their FI offer to faster/instant payments**
- Younger consumers and mid-size and larger businesses show even higher interest.

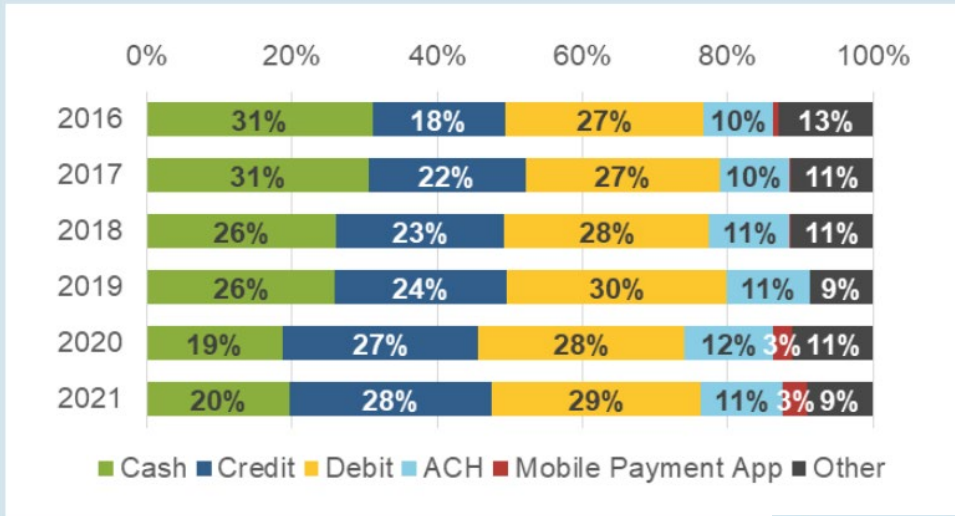
Sources:

<https://fedpaymentsimprovement.org/wp-content/uploads/federal-reserve-consumer-research.pdf> (Survey of 2,000 consumers)

<https://fedpaymentsimprovement.org/wp-content/uploads/corporate-research-brief.pdf> (Survey of 2,000 businesses)

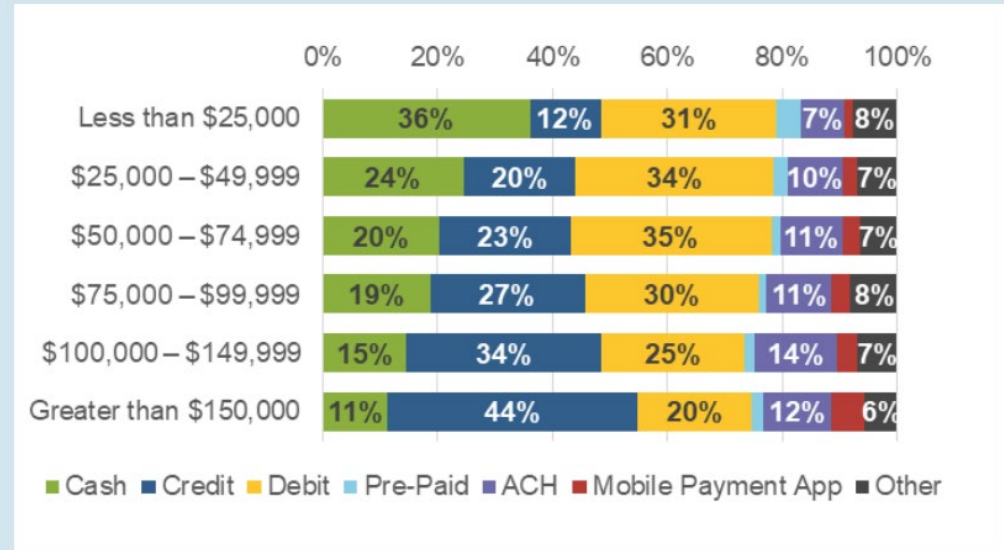
[Businesses see many possibilities for faster payments \(fednow.org\)](https://www.fednow.org)

Figure 1: Share of payments use (by number) over time



Source: Federal Reserve Bank of San Francisco

Figure 2: Share of payment instrument use by household income



Source: Federal Reserve Bank of San Francisco

What Is the FedNow Service?

The FedNow Service is a way for financial institutions of every size and in every U.S. community to provide safe and efficient instant payment services around the clock, 365 days a year.

Delivers real-time gross settlement of funds, with integrated clearing functionality, 24/7/365

Enables funds transfers, settlement and confirmation of good funds in near real time



Offered to all financial institutions to enable businesses and individuals to send and receive instant payments conveniently

Supports a range of use cases

FedNow Service in Action:

[FedNow Explorer – Instant Payments Learning & Resources](#)

The FedNow Service in action

Follow a payment over the FedNow Service from start to finish and see what financial institutions should know about their role in the process.



Fast vs. FedNow Service

Fast

Payments *appear* instant, however:

- Financial institutions provide funds to the user **before** funds settle between banks
- **Lag** in final settlement creates buildup of interbank obligations and short-term credit risk
- Users often face a **delay** in gaining access to their funds due to after-hour submissions, holidays, processing times, etc.

FedNow Service

Funds will settle between financial institutions **instantaneously**:

- Funds will settle between financial institutions instantaneously
- Users can access funds instantly, 24/7/365

Instant Payment Use Case Opportunities



Pay Family & Friends

Person to Person (P2P)



On-Demand Payment

Business to Business (B2B)



Immediate Payroll

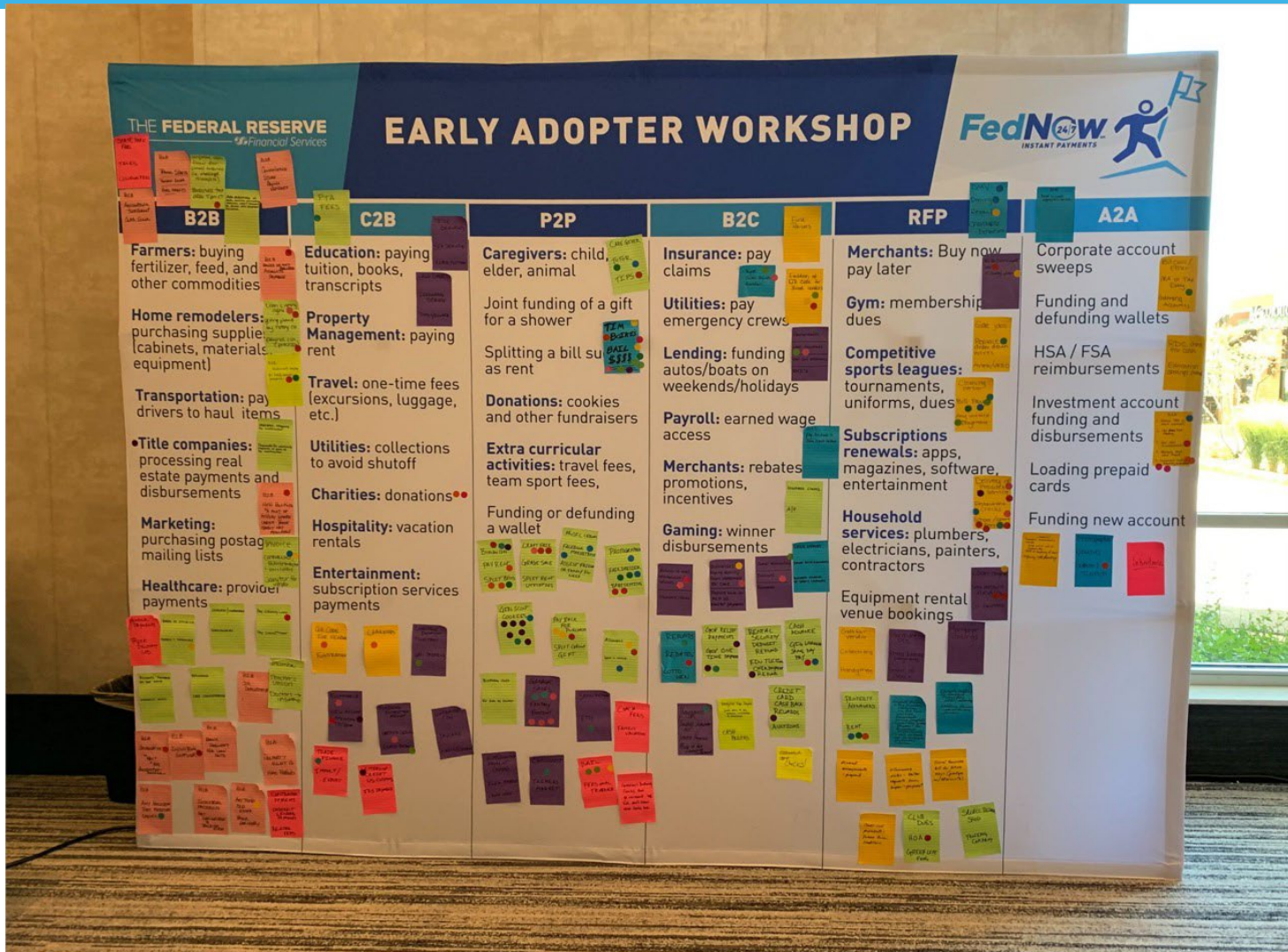
Business to Consumer (B2C)



Me-to-Me

Account to Account (A2A)

Possibilities are Endless ..



Flexible Options for Connection

Connect directly

- FedLine Direct®
- FedLine Command®
- FedLine Advantage®

Note: FedLine Web® users will need to switch to one of the other three solutions, at least for FedNow Service.

Through a service provider



Hosted Gateway



Core Processor

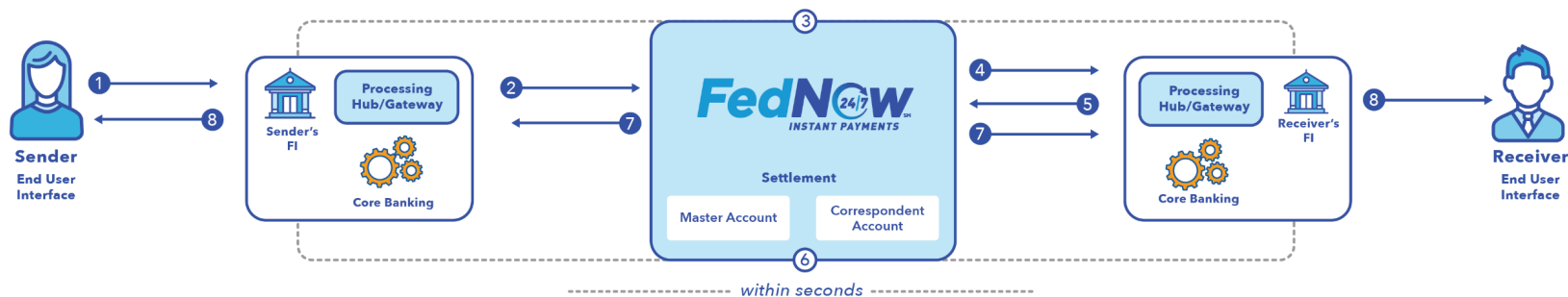


Bankers' Bank



Corporate
Credit Union

FedNow Service: Payment Flow



1. A sender (i.e., an individual or business) initiates a payment by sending a payment message to its FI through an end-user interface outside the FedNow Service. The sender's FI is responsible for screening the payment according to its internal processes and requirements.

2. The sender's FI submits a payment message to the FedNow Service.

The FedNow Service validates the payment message, for example, by verifying:

- The sending and receiving FIs are FedNow participants that are enabled to send and receive customer credit transfers;
- The sending and receiving FIs have valid settlement relationships
- The message's value is within the system and the sending FI's dollar value limit

3. The payment message will be rejected at step three if it is not successfully validated.

4. The FedNow Service sends the contents of the payment message to the receiver's FI to seek confirmation that the receiver's FI intends to accept the payment message. At this point, the receiver's FI will have the opportunity to, among other things, confirm that it maintains the specified account.

5. The receiver's FI sends a positive response to the FedNow Service, confirming that it intends to accept the payment message. Steps 4 and 5 are intended to reduce the number of misdirected payments and resulting exception cases that can occur in high-volume systems.

6. The FedNow Service debits and credits the designated master accounts of sending and receiving FIs.

7. The FedNow Service sends a payment message forward to the receiver's FI with an advice of credit and sends an acknowledgement to the sender's FI notifying that settlement is complete.

8. The receiver's FI credits the receiver's account. As a term of the FedNow Service, the Federal Reserve Bank anticipate the receiver's FI to make funds available to the recipient instantly after step 7, in accordance with Reg J.

Fraud prevention features at launch

Transaction Limits



Maximum value of funds participants may initiate for a single customer credit transfer or LMT transaction

Participant Negative List



Block funds transfers to/from accounts specified by the participant

Fraud Reporting



Participant reporting of fraudulent activity to FedNow

Additional capabilities to enhance the safety of FedNow



Profile Choices



Request for Information



Digital Signatures



Accept without Posting



Return Request



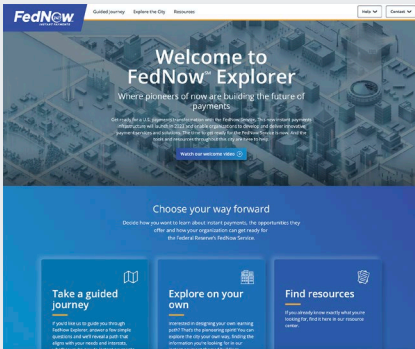
Data Protection

Revenue Opportunities for FIs

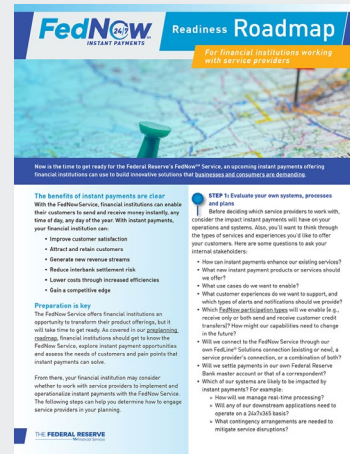
- Revenue from payments and other activities
- Value-added services:
 - Requests for payment
 - Data exchanges between business customer or their service provider
 - Final confirmation of posting message
 - Information request messages
- FIs may also save on costs (administrative costs related to customer inquiries, costs associated with check/wire fees, and more)



FedNow Service: Tools and resources



[FedNowExplorer.org](https://www.fednowexplorer.org)



[Readiness Roadmaps](#)



[Service Readiness Guide](#)



[Get ready for the FedNow Service video](#)



Questions?