FedNow℠: Real Time Gross Settlement Service

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Faster Payments

- **What** – Payments in which the transmission of the payment message and the availability of final funds to the payee occur in real time or near-real time, and on as near to a 24-hour and 7-day basis as possible *(Source: The Committee on Payments and Market Infrastructures of the Bank of International Settlements)*

- **Who** – Many countries around the world have implemented faster payments solutions, or are in the development and early planning stages.

- **Why** – A fast, safe, ubiquitous payment system could benefit society by improving payment system efficiency, providing a safe framework for payments, and promoting global competitiveness and interoperability.

Faster payments could allow you to instantly:
- Make just-in-time supplier payments
- Receive medical insurance claim payments
- Pay a friend
- Make emergency bill payments

*Source: HSBC*
Faster Payments are the Future

Driven by advances in technology, faster payments provide economic benefits, including:

- Individuals and businesses can make time-sensitive payments whenever needed
- Better cash flow management for small businesses
- Final funds received real-time for immediate use
Role of the Federal Reserve in Payments

Operate services – check, ACH and funds transfer – alongside and in support of similar services provided by the private sector, that provide core infrastructure for financial transactions.

Collaborate and cooperate with the payment industry as a leader and catalyst of payment system modernization.

Promote accessibility, safety and efficiency of the U.S. payment system through an operational role.
Introducing the FedNow Service

The FedNow Service is a new interbank 24x7x365 real-time gross settlement (RTGS) service with integrated clearing functionality. The service will:

1. Permit financial institutions across the country to offer real-time payments to their customers
2. Operate alongside private-sector services
3. Provide a modern payment infrastructure that allows innovation and competition to flourish in a safe and efficient way

Determining factors:
- Analysis of public comments received from the 2018 Federal Register notice
- Board’s policy assessment that such a service would meet the requirements of the Monetary Control Act and the Board’s criteria for new or enhanced Reserve Bank payment services
FedNow Service Overview: Proposed Payment Flow
FedNow Service Overview: Proposed Features for Initial Launch

Features would be released during initial launch, pending industry validation

- 24x7
- ISO 20022
- Remittance Information
- Settles in Master Account
- Correspondent/Respondent Relationships
- 7 day Accounting
- Basic Reporting
- Access through FedLine Channel
- Real-Time
- Credit Push
- High Availability
- $25,000 Transaction Limits
- Intraday Credit
Public Benefits of the FedNow Service

Accessibility
• The FedNow Service will be accessible to financial institutions of all sizes, including smaller banks in rural and remote areas of the country, allowing participants to offer faster payment services to the communities they serve.

Safety
• Financial institutions can join multiple RTGS faster payment services for resiliency through redundancy.
• The Federal Reserve Banks will continue their vital role in providing liquidity and operational continuity to the retail payment system in times of crisis.
• As an operator, the Federal Reserve Banks will promote the development and implementation of fraud-mitigation standards for faster payments.

Efficiency
• The FedNow Service will be a key part of the foundation on which financial institutions across the country and the broader payments industry can build modern, innovative faster payment services.
• Increased competition in RTGS faster payment services can yield lower prices and higher service quality, ultimately benefitting end users.
# Potential Use Cases for Faster Payments

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<thead>
<tr>
<th>Use Case</th>
<th>Impact</th>
<th>Illustrative Example</th>
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<tbody>
<tr>
<td><strong>B2B</strong></td>
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<td>E-invoicing: small business invoicing</td>
<td>Standardized format at the line item level could simplify invoicing and reconciliation for small and medium sized enterprises</td>
<td>Plumbing business standardizes invoices, minimizing time on reconciliation and tax accounting</td>
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<td><strong>P2B</strong></td>
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<td>Expedited bill-pay</td>
<td>Emergency and ad-hoc payments sent in real-time to avoid delays &amp; associated fees</td>
<td>Tenant sends rent to landlord in real-time to avoid x% late fee</td>
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<tr>
<td><strong>B2P</strong></td>
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<tr>
<td>Expedited payroll</td>
<td>Payment during short-billing cycles (new employees) and billing corrections</td>
<td>Payroll team reverses payment after additional “0” was added in error</td>
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<tr>
<td><strong>P2P</strong></td>
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<td>Personal repayments or remittances</td>
<td>Real-time payments that are fast and simple to execute and may be initiated by the person requesting payment</td>
<td>Friend pays for dinner and requests $10 back from each guest using phone</td>
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Achieving Ubiquity in Faster Payments

- **Nationwide reach is a key objective of the Federal Reserve**
  - The long-run goal is for RTGS-based faster payments to have the same level of ubiquity that exists today for check, ACH and wire

- **The Federal Reserve will explore with the industry a variety of approaches to achieving ubiquity, including the potential for interoperability – direct exchange of payments – among RTGS providers**
  - Interoperability is a goal along with uniformity in standards, rules and reporting
Questions?