

FedNowSM: Real Time Gross Settlement Service

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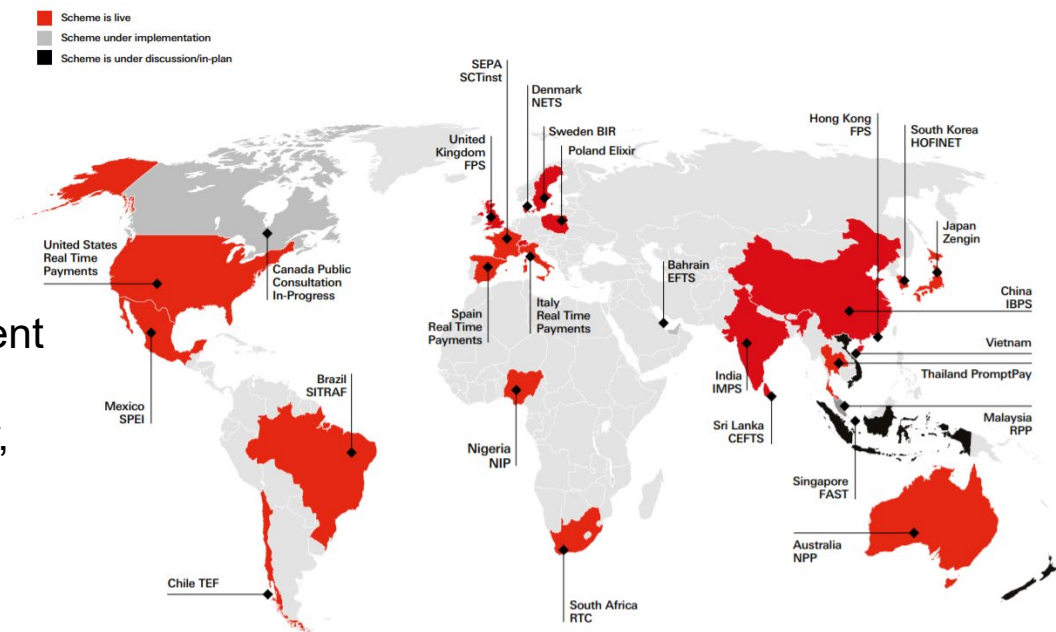
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Faster Payments

- ❑ **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.



Source: HSBC

Faster payments could allow you to instantly:

- ✓ Make just-in-time supplier payments
- ✓ Pay a friend
- ✓ Receive medical insurance claim payments
- ✓ Make emergency bill payments,

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

Real-Time

Credit Push

High Availability

\$25,000
Transaction
Limits

ISO 20022

Remittance
Information

Settles in Master
Account

Correspondent/
Respondent
Relationships

Intraday Credit

7 day Accounting

Basic Reporting

Access through
FedLine Channel

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

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

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?

