



The FedNowSM Service

Presentation to CEMLA

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Dr. Kirstin Wells

Federal Reserve Board of Governors

Presentation Overview

1. Decision to Offer the FedNowSM Service and the Instant Payments Journey
2. FedNow Service Features
3. Current Status

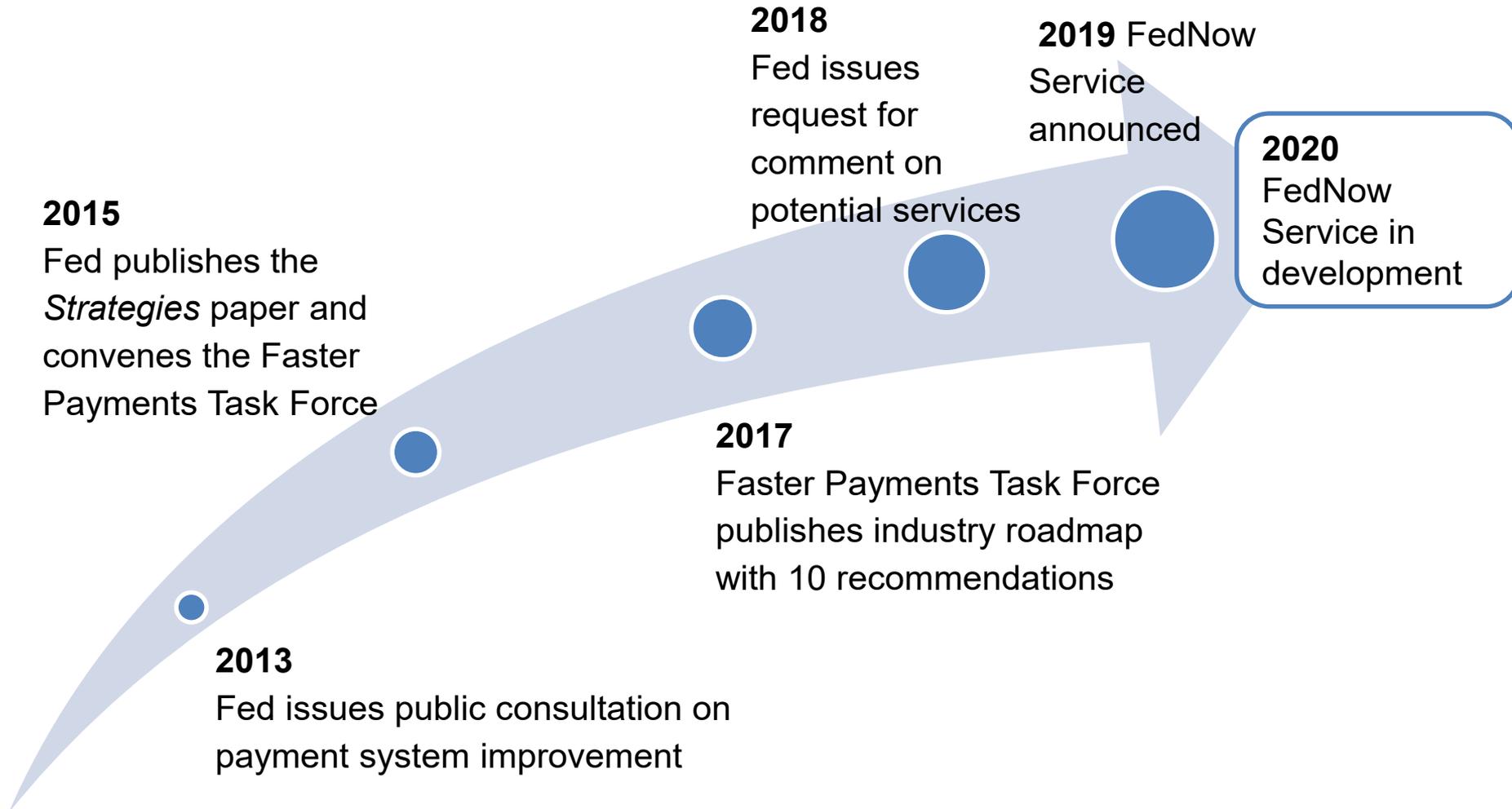
Retail Payment System Modernization

On August 5, 2019, the Federal Reserve Board announced:

- The Federal Reserve Banks will develop a new real-time clearing and settlement service that would operate continuously each day of the year called the FedNow Service, to support instant payments in the United States
- This announcement was the result of a multi-year collaborative process between the Federal Reserve System and the banking and payments industry to improve the speed, safety, and efficiency of the U.S. payment system

On August 6, 2020, the Board announced details on the features and functionality of the service

The Instant Payments Journey



Benefits of Instant Payments

Driven by advances in technology, instant payments provide economic benefits

Small Businesses

- Improved cash flow management
- Reduced payment processing costs (paper checks)

Individuals and Households

- Make time-sensitive payments whenever needed
- Potentially avoid late fees or other costs

The FedNow Service

- **The service will**
 - Enable financial institutions across the country to offer instant payments to their customers
 - Operate alongside private-sector services, consistent with Federal Reserve's role in the payment system
 - Provide a modern retail payment infrastructure for safe and efficient instant payments that allows innovation and competition to flourish
- **Determining factors**
 - Analysis of public comments received in response to the 2018 request for comment
 - 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

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 instant payments to communities they serve
- Broad accessibility will support the development of instant payments with nationwide reach



Safety

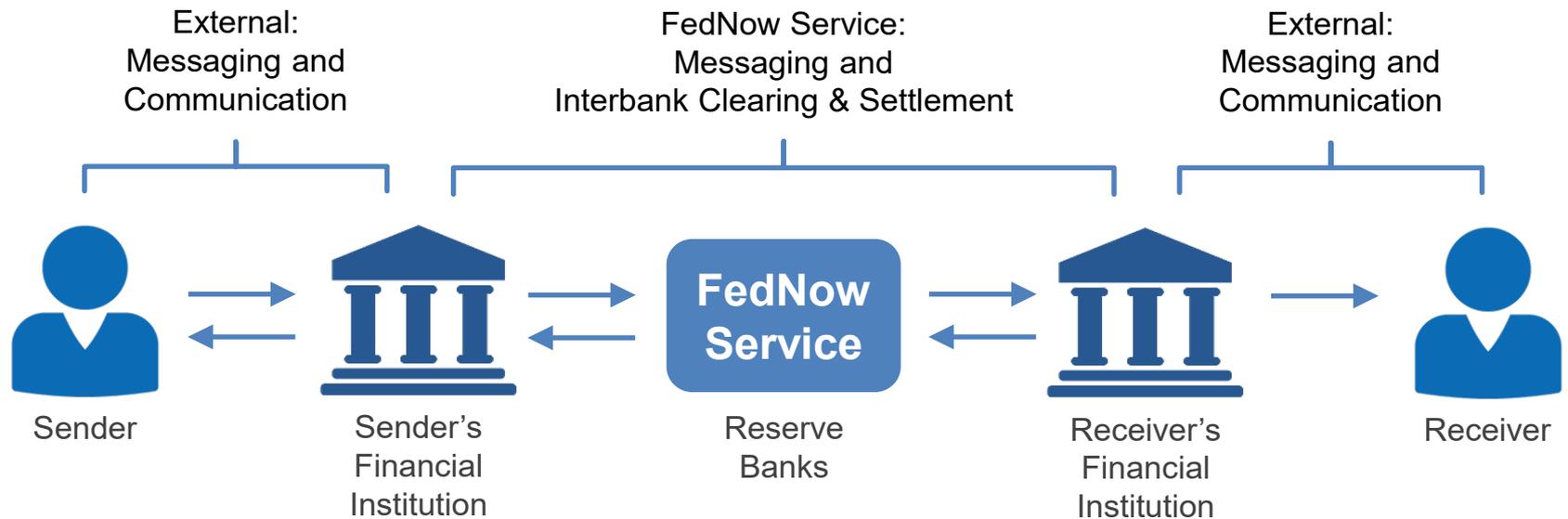
- Financial institutions will be able to achieve resiliency through redundancy
- The Federal Reserve will continue its vital role in providing liquidity and operational continuity to the retail payment system in times of crisis
- As an operator, the Federal Reserve will promote the development and implementation of fraud-related standards



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 instant payment services
- Increased competition in RTGS instant payment services can yield lower prices and higher service quality, ultimately benefitting end users

FedNow Service Payment Flow



FedNow Service Features



Real-time processing of individual credit transfers on a 24x7x365 basis



Final and irrevocable settlement of payments in financial institutions' accounts at the Reserve Banks



Integrated clearing functionality with messages based on the ISO[®] 20022 standard



Transaction value limit will conform to market practices at time of launch



Real-time confirmation of the payment by the receiver's financial institution



Access to intraday credit on a 24x7x365 basis consistent with the Federal Reserve's Policy on Payment System Risk

FedNow Service Features



Fraud prevention tools to assist participating financial institutions in mitigating fraud risk



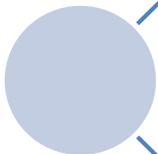
Payment messages containing additional descriptive information related to payments, such as remittances or invoices



Liquidity management tool to support the need to manage liquidity in a 24x7x365 environment



Support for access through agents and correspondent banks; ability to join as a receive-only participant



Request for payment messages included

Achieving Nationwide Reach

Nationwide reach – or ubiquity - is a key objective of the Federal Reserve for all types of payments

- The industry – banks, bank service providers, and service operators – working toward a common goal is necessary to move the industry forward
- To advance interoperability, the FedNow Service is being built to be compatible in message standards and operating procedures with the private-sector RTGS instant payments service

Current Status: FedNow Program

- **Ongoing work with the industry to finalize message specifications and other detailed feature requirements**
- **Broad industry outreach program to assist financial institutions and service providers to prepare for service adoption**
- **Technology strategy nearing finalization**
 - Anticipated launch timeline of 2023-2024
- **Developing the service continues remain a high priority for the Federal Reserve in the current environment**