

The Future of Faster Payments

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FedNow Service

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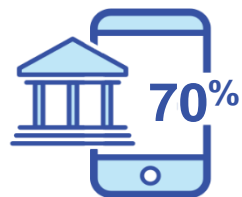
February 28, 2023

A photograph of two businesswomen in a meeting, overlaid with a semi-transparent blue filter. One woman is holding a tablet and pointing at it, while the other looks on. The background shows a modern office setting with large windows.

Preparing the industry for instant payments

Growing demand for speed

A significant majority of consumers are already using some types of faster payments.



Access to faster payments through their financial institution is a satisfaction driver for **70% of consumers**



Nearly **60%** of consumers manage their finances online



4 out of 5 consumers want to pay businesses with faster payments



83% of consumers are using a fintech payment app or digital wallet to complete transactions



62% of consumers expect to use faster payments even more in the future

Key findings are in: Businesses find value in faster payments



A majority of surveyed businesses consider it important to use faster payments. Nearly two-thirds indicated they would factor access to faster payments into **future decisions on whether to switch banks**.



Businesses want to use faster payments for **quicker access to funds and the ability to post immediately/automatically**. They want immediate notification of payment and remittance details with the payment.



Nine in 10 businesses expect to be able to **initiate and receive faster payments by 2023**; many are ready to do so now.



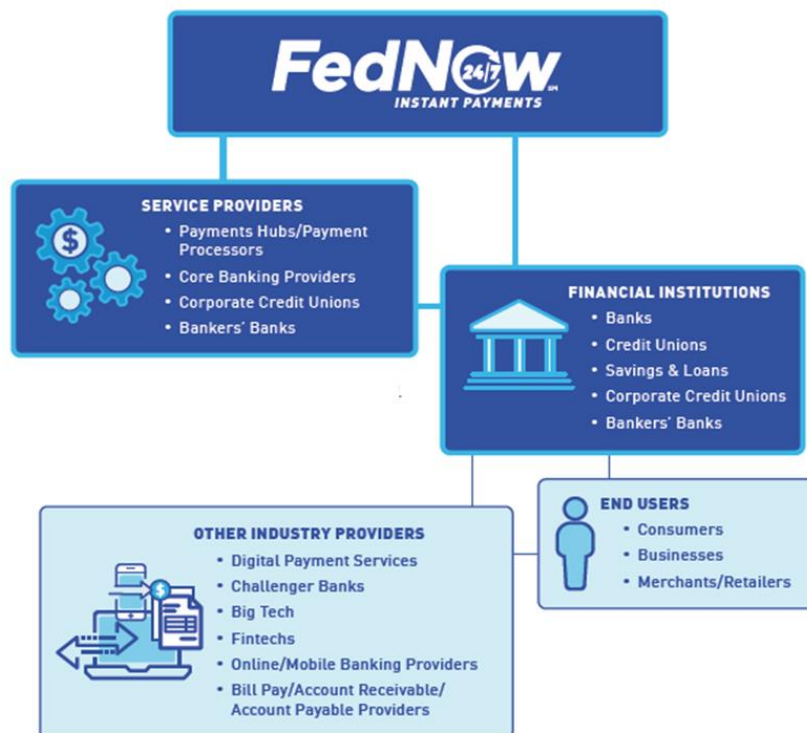
A majority of the businesses surveyed have **already sent and received some type of faster payment in the past 12 months**, using primarily digital wallets, Same Day ACH and push-to-card.



Use cases of greatest interest to businesses include **e-invoicing and bill pay with remittance details**. These require data and messaging capabilities that instant payment options are well positioned to support.

Collaboration across the entire ecosystem

The FedNow Service is being developed by the Federal Reserve to enable financial institutions of every size, in every community across America, to provide safe and efficient instant payment services, around the clock, 365 days a year.



A photograph showing a person in a white shirt pointing at a tablet held by another person in a dark suit. A woman is visible in the background. The image is overlaid with a blue gradient.

FedNow Service and benefits

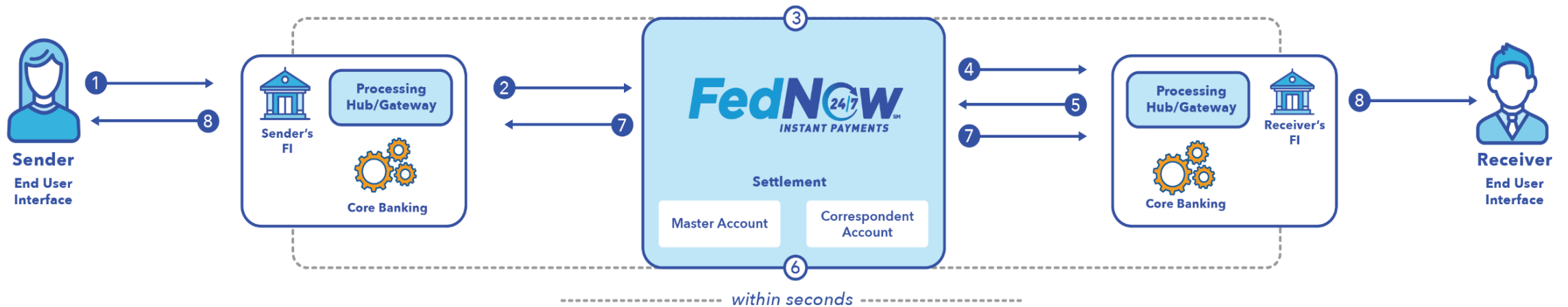
Creating a powerful solution for instant payments: the FedNow Service



Making funds more accessible

- As a provider of payments and settlement services, the Federal Reserve has established relationships with more than 10,000 diverse financial institutions across the country.
- The FedNow Service will bring safe, efficient instant payments to communities nationwide.
- Recipients will have access to funds immediately, giving them flexibility to manage their money and make time-sensitive payments.

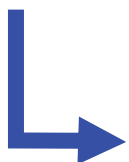
The FedNow Service payment flow for service providers



Release 1: Core clearing and settlement

The initial release prioritizes core clearing and settlement features that enable use cases, enhance safety/security and improve the customer experience.

Service level



24x7x365

● Basic reporting

● High availability

● Access via FedLine® Solutions

Core clearing and settlement features

Transfers



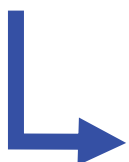
Credit push

● ISO® 20022
messaging

● Maximum
transaction limit

● Remittance information

Settlement



Master
account
settlement

● Correspondent/
respondent

● Seven-day
accounting

● Intraday credit

The FedNow Service messaging specifications



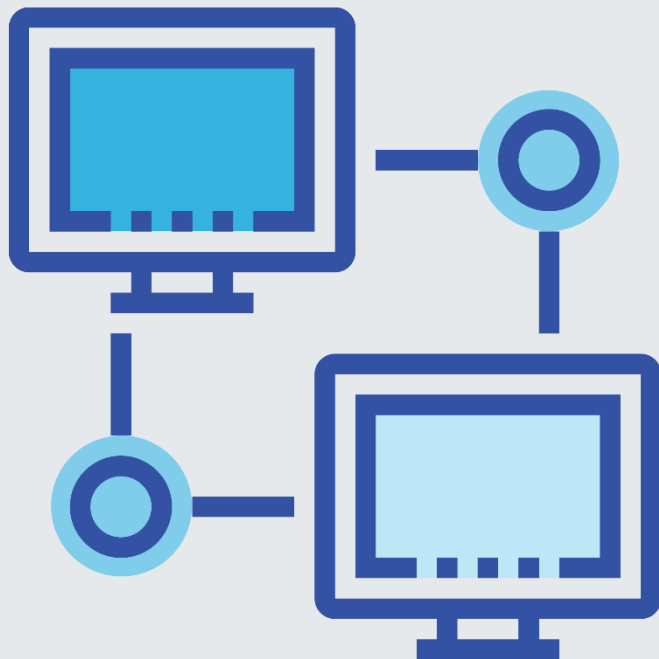
The Fed built the ISO 20022 message specifications for the FedNow Service by:

- Reviewing and refining the specifications with a broad range of industry stakeholders via the FedNow ISO 20022 Working Group and engagement with TCH
- Aligning with formats, lessons learned and best practices from established instant payment systems within and outside the US

Messages supported in the initial service launch include:

- Customer credit transfer
- Request for payment
- Request for return
- Interbank liquidity transfer
- Administrative and account reporting

Designing for industry interoperability



ISO 20022 is a standard that enables a common global “language” for payment messaging. As the widely accepted standard for instant payments, the framework:

- Provides a common foundation for exchanging payment messages
- Supports the exchange of data (e.g., remittance information)
- Offers greater end-to-end efficiency of payments
- Helps remove barriers to interoperability
- Provides a platform for continuing industry innovation

Liquidity management transfers

The FedNow Service will support the ability to transfer liquidity in support of instant payment needs. Liquidity management transfers will support liquidity management for the FedNow Service and other instant payment services.

Enables funds transfers between master accounts or between a master account and a joint account for other private sector instant payment services.

- FedNow participants can authorize service providers to initiate liquidity transfers on their behalf
- Correspondents may settle liquidity management transfers initiated by respondent FedNow participants

The Federal Reserve Banks will implement controls to help ensure that liquidity management transfers are used only for instant payment liquidity needs. Other risk management controls are also being considered.

FedNow launch set for mid-2023

- FedNow Service rollout targeted for May-July 2023 time frame
- Pilot program technical testing now underway
- More than 120 organizations now participating in pilot program
 - Recent additions include U.S. Department of the Treasury's Bureau of the Fiscal Service, and several banks, processors and service providers



FedNow Service benefits



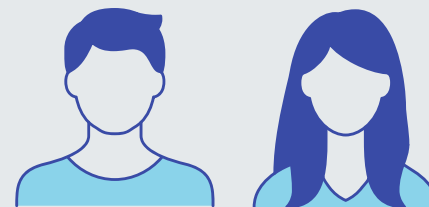
Service providers

- Create new sources of revenue by developing innovative and exciting products and services for customers.
- Deliver leading-edge services that customers truly want.



Financial institutions

- Stay competitive and meet customer expectations.
- One single solution for all instant payment needs due to a flexible, neutral platform that supports a variety of use cases.
- The ability to connect directly to the Federal Reserve or work with third-party processors allows for flexibility in implementation.



Individuals

- Greater flexibility and confidence to better manage money and make time-sensitive payments.
- Reduce the risk of account overdrafts, late fees or damaged credit scores.
- Gig economy workers can get paid immediately for work done the same day.



Businesses

- Avoid complicated cash flow management, overdraft fees and costly short-term loans.
- Reduce or eliminate manual, time-consuming payment processes.
- Determine the date and time of settlement and receive timelier access to funds.

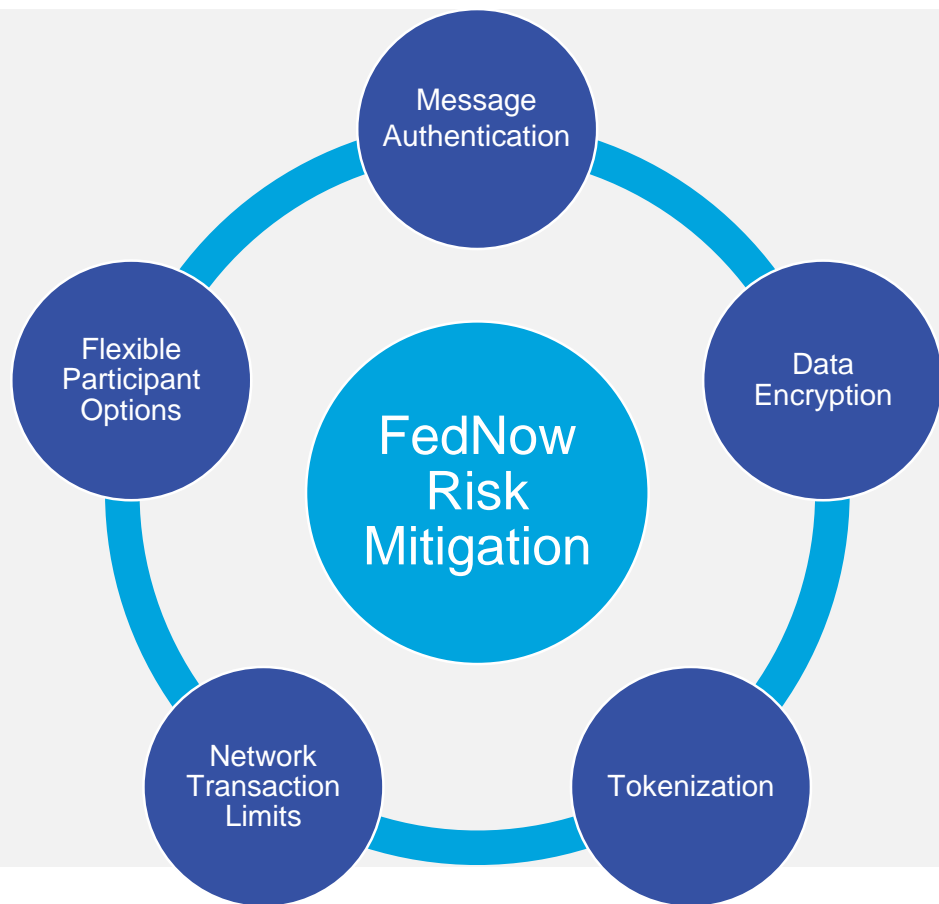
Future product releases

Additional features will continue to improve the FedNow Service's overall product capabilities, efficiency and safety.

- Enhanced remittance information to support B2B payments
- Improved reporting for more transparency
- Support for alias-based payments through directory capabilities
- Integration of contemporary interfaces, such as application programming interfaces (APIs) for reporting
- Support for additional use cases
- Additional tools to help detect and prevent fraud



FedNow Service risk mitigation capabilities at launch



- **Message authentication:** Ability for each party to verify authenticity and integrity of messages
- **Data encryption:** Data will be encrypted at rest and in transit to protect digital data confidentiality transmitted over FedNow Service network
- **Tokenization:** The FedNow Service will tokenize certain sensitive data within its data stores
- **Network transactions limits:** The FedNow Service will have limits on the maximum value that can be sent across the network
- **Flexible participation options:** Participants can choose to be enabled for sending and receive payments or start by receiving payments only

FedNow Service fraud tools at launch



Transaction limits

Transaction limits configurable by sender FI



Sender FI negative list

Sender FI negative list to reject transactions going to a specific account



Receiver FI negative list

Receiver FI negative list to reject transactions coming from a specific account



Fraud reporting

Ability for FIs to work with the network to reduce fraud exposure

Evolution of fraud mitigation features

The FedNow Service offers participants some fraud tools that are expected to expand over time as fraud threats change. These are some features under consideration.



Flexible controls

- Allow participants to configure different controls by customer segment
- Reject payments that exceed established velocity limits or cumulative value limits



Expanded fraud monitoring

- Real-time assessments and decisioning on request for payment and request for return of funds messages



Adaptive network risk assessments

- Identify higher-risk transactions across the network, including potential mule activity



Questions?

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