

# Payments Executive Brief:

## Value of the FedNow<sup>SM</sup> Service for Community Banks

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To support faster payments in the U.S., the Federal Reserve announced that it will develop a new 24x7x365, real-time payment and settlement service called FedNow. This new Service will complement existing private-sector faster payments services to help establish a safe and efficient nationwide infrastructure supporting the faster payment demands and expectations of today's businesses and consumers.

### Key Features of the FedNow Service

The FedNow Service will process and settle payments within seconds, 24 hours a day, seven days a week, 365 days a year. It is expected to be available as early as 2023, with enhanced components and functionality becoming available incrementally once the Service is operational.

At initial launch, the Service will:

- be available to all financial institutions eligible to hold accounts at Reserve Banks,
- be designed to initiate credit transfers supporting a variety of use cases, such as person-to person payments and bill payments,
- leverage the ISO 20022 messaging standard, enabling inclusion of descriptive information related to a payment, such as remittance or invoice information, and,
- limit per-transaction values to \$25,000.

While details are being finalized, FedNow Service fees are expected to be based on a per-item and fixed participation fee structure. (The Federal Reserve Board will announce the specific fee structure closer to the launch of the FedNow Service.)

The Federal Reserve is currently soliciting feedback on the key features and functionality of the FedNow Service planned for launch as well as enhancements that could become available after launch.

### How the FedNow Service Works<sup>1</sup>



The Federal Reserve’s development of the FedNow Service provides the opportunity for all banks—both large and small—to capitalize on the value of faster payments and brings significant benefit to community banks and the businesses and consumers they serve.

1. FedNow will support universal access to faster payments, empowering community banks’ ability to compete for core deposits by providing faster and competitive payment services to their customers.
2. FedNow will spur the creation of innovative services designed to meet the needs of community bank customers—businesses and consumers.
3. FedNow will enable choice, giving community banks an option of settlement providers.

## Considerations for Community Banks

While the FedNow Service presents significant benefits to community banks, adoption of the Service could require changes or updates to current systems or processes. Some considerations for community banks include:

- Round-the-clock processing may require upgrades to current systems, such as telecommunications, security and software, and operational changes.
- After-hours, weekend and holiday processing may require additional staffing outside of normal business hours.
- New accounting procedures may be needed to support continuous processing and other requirements necessary for faster clearing and settlement.
- New and additional services may be required from core service processors to support, enable or gain access to FedNow.

Although not exhaustive, these considerations should be contemplated as community banks establish or advance their faster payments plans.

## What Community Banks Can Do Now

The launch of the FedNow Service is still potentially four years away, but community banks should begin preparing now to make sure they can take full advantage of the system once it is available. For example, community banks may want to:

- Respond to the Federal Reserve’s current [Request for Comment](#) on system functionality. ICBA is formulating a response on behalf of the community banking industry, but individual community banks may want to consider offering input.
- Start or continue conversations with their service providers and core processors about the impact of FedNow on the availability and timing of the faster payments services they provide.
- Evaluate customer demand and use cases for receiving payments from The Clearing House’s Real Time Payments settlement service.
- Consider the FedNow Service as part of their payments strategy.

## Next Steps

ICBA is here to help community banks navigate the evolving faster payments landscape. In the near term, ICBA will respond to the Federal Reserve’s Request for Comment on the FedNow Service and encourage community banks to leverage our response in crafting their own individual responses.

ICBA will also provide talking points to the Federal Reserve’s Request for Comment to help you submit comments directly to the Federal Reserve if you so desire.

Additionally, ICBA will continue to develop and share additional resources around faster payments and the FedNow Service to help community banks maximize the opportunity that faster payments through FedNow presents. And we will continue to be here to help ensure community banks can leverage faster payments to meet the needs of their customers.



<sup>1</sup> Functionality and components of the FedNow Service outlined in the document are per the official Federal Reserve announcement released on Aug. 5, 2019.