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Portfolio

[tag] Checks & Balances

[hed] Why you should adopt FedNow now

[dek] FedNow is here, providing community banks with the opportunity to better serve their customers and push the financial services industry forward.

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After years of ICBA advocacy and collaboration, the Federal Reserve launched its instant payment service, FedNow Service, in July.

This hard-fought development is a significant opportunity for community banks. As community banks strategize how to evolve their products and solutions to keep up with customer needs, access to a new payment system with instant clearing and settlement and requests for payment cannot be underestimated.

From a monetary policy perspective, safe, secure and efficient real-time payments negate the need for a U.S. central bank digital currency (CBDC). A CBDC is a digital representation of a national currency. Instead of printing money, the central bank issues electronic coins, which are cash equivalents backed up with reserves and deposits. ICBA has staunchly opposed the creation of a CBDC, concerned that the new currency would disintermediate community bank deposits and have a devastating impact on lending. Large-scale community bank adoption of the FedNow Service adds further heft to this argument.

**[subhed] Future-proofing community banks**

At the individual community bank level, FedNow Service will help future-proof community banks.

Thinking strategically about what customers need and want and connecting them to the capabilities of instant payments opens the door to countless possibilities that help customers while strengthening community banks. Examples include:

* **Earned-wage access.** Earned-wage access refers the ability of employers to pay employees on a real-time basis, whether that’s daily, weekly, biweekly or as money is earned. Many employees live paycheck to paycheck. Employers that can quickly and safely pay workers for a day of work are more attractive employers. This can be especially valuable for those in rural or agricultural areas.
* **Instant loan funding.** If a community bank can provide funding to a small business in the community right on approval, it has a competitive advantage on pricing and when competing with online lenders.
* **Bill payment for low-income customers.** It’s a fact of life that sometimes customers are in a time crunch to pay bills before utilities are shut off. Giving customers the ability to instantly pay their bills online instead of having to waste time traveling to pay a bill in person is life changing.

**[subhed] Instant payments adoption**

Community banks have the option to enroll in FedNow as “receive-only” participants, which can receive instant payments without being required to originate payments through the service, or they can act as both senders and receivers.

Adopting FedNow is a strategic play right now—one that community bankers should rally behind. While adoption involves working with core providers and other third parties, it’s an investment that will pay off in time. As more community bankers become both senders and receivers, transaction volume will increase.

One of the biggest concerns with the FedNow Service is the worry that faster payments means faster fraud—but we have not seen that bear out. FedNow transactions are credit push only, meaning that crooks can’t proactively break in and steal funds. There appears to be very limited amounts of authorized-party fraud when customers initiate legitimate transactions after being duped into sending a payment to a third-party. It’s a type of fraud common to other payment systems.

FedNow adoption can actually play a role in reducing check fraud. The mass mailing of relief and unemployment checks during the pandemic spurred a resurgence in check fraud that continues. The rate of check fraud nearly doubled between 2021 and 2022, according to the Financial Crimes Enforcement Network (FinCEN). The more community banks can move customers away from checks, the better it is for the payments ecosystem.

**[subhed] Continued ICBA advocacy**

ICBA is committed to making it easier to adopt the FedNow Service and eliminating barriers to entry.

ICBA remains very active in industry conversations on real-time payments, including as a member of the U.S. Faster Payments Council. Our staff is represented on its Board Advisory Group, its Operational Considerations for Instant & Immediate Payments Work Group, and its Fraud Work Group.

Among ICBA’s goals is promoting interoperability, especially between FedNow and The Clearing House. When a customer sends an automated clearing house (ACH) payment today, it doesn’t matter if the banks behind the transaction are using FedACH or The Clearing House Electronic Payments Network. That’s not yet the case with instant payments, and ICBA is using every opportunity to advocate for removal of that barrier.

ICBA is a resource for community banks considering FedNow adoption. Our involvement throughout the process—everything from initial conversations with the Fed and community bankers all the way up to membership on the Fed’s Faster Payment Task Force and working with ICBA members throughout the pilot process—gives us a unique vantage point to answer questions and helping members think through the possibilities.

As the volume of FedNow adopters grow, so will the opportunities. Now is the time to start strategizing how your community bank will adopt faster payments and seriously consider how the FedNow Service can help you achieve your goals.

**Scott Anchin** is vice president, senior operational risk and payments policy for ICBA.

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