



Start Preparing for the FedNow Service

payments faster payments

Summary: By 2H 2023, the Federal Reserve is expected to debut its instant payment service FedNow. The service is intended to work between financial institutions, in contrast to consumer-centric payment apps. We take a deep dive into the details.

Everywhere we look, technological advances are replacing older, less convenient, time-consuming alternatives. The cell phone took over from the landline. The internet has replaced commuting for many people. It's easy to leave the house without cash because there are so many other ways to make purchases.

In the first half of 2023, the Federal Reserve is expected to debut an instant payment service for financial institutions (FIs). Called the [FedNowSM Service](#), it is intended to work between FIs, in contrast to non-bank-centric payment apps. FIs and their customers will be able to use the FedNow Service to make and receive payments instantly, and it will work 24x7x365.

"In a matter of months, the launch of the FedNow Service will establish a foundation that enables U.S. financial institutions to deliver safe and efficient instant payments to their customers," said Connie Theien, head of industry relations for Federal Reserve Financial Services. *"This signifies a major milestone in our collaborative industry effort to improve the U.S. payment system."*

Types of Credit Transfer Available Through the FedNow Service

The FedNow Service works using a credit push only, though it also includes an optional request-for-payment function. It offers two kinds of credit transfers. The most common is the account credit transfer, which uses a simple credit push.

The second, less common credit transfer is a liquidity management transfer. Used to move money between FIs' master accounts at the Fed level, these kinds of credit transfers let banks support each other around their liquidity needs and abilities when the Fed's wire system is closed.

Sending and Receiving Options for FedNow Payments

FedNow participants can choose to only receive payments, which allows them to obtain payments from any FI that sends money over the FedNow network. Receive-only participants can send requests for payments, but aren't able to receive requests for payments from other institutions. FIs can also choose to participate using credit transfer send and receive, plus the ability to receive requests for payment. The Fed anticipates that many institutions may start with one kind of participation — receive only, for instance — and eventually move to another, similar to what happened when ACH payments were new.

Business Use Cases for Instant Payments

Although the FedNow Service will not officially launch until sometime this spring or early summer, some FIs have been participating in the FedNow Pilot Program. However, availability will be rolling out in a phased approach, with flexibility to adjust, augment, and add features in future releases.

Early instant payments may include the utility, telecom, insurance, higher education, and healthcare industries, as well as anyone handling payroll. That said, industry analysts expect a wide variety of use cases for the FedNow Service. Bill pay, transfers between accounts at different financial institutions or to brokerage accounts, and loading prepaid cards or mobile accounts are all anticipated uses. The new payments system will simplify account management and help users avoid late fees and manage cash flow — all desirable to a wide variety of individuals and businesses.

How CFIs Can Prepare for the FedNow Service

FIs can access the FedNow Service directly, through a core provider, via a payment processor, or by partnering with a banker's bank or correspondent bank (such as PCBB). The service itself charges for both overall participation and different types of funds transfers. Individual providers may adjust that pricing model.

CFIs will want to consider the interface that accountholders will use to process payments. This interface will need the ability to process payments on behalf of accountholders, including posting the credits and debits necessary for accounts to reflect the transaction and communicate with the FedNow Service, all in real time. The real-time requirement means that most CFIs will use infrastructure that's already in place in either their core or through a third-party provider that has this integration, such as a mobile or online banking provider.

They'll also need to decide how to settle transactions. Larger FIs will likely settle transactions through their master account at the Fed's regional bank. Most CFIs will partner with a correspondent, such as PCBB, to settle items through the correspondent's master account. We also recommend reading through the [Federal Reserve Bank's readiness guide](#). This resource outlines how the platform will work and the steps each type of institution should take to prepare to use the FedNow Service.

Understanding the shape of what's to come can help CFIs make the right decisions about participating in the FedNow Service. They can prepare by looking for a customer-facing solution and learning about the service's back-end process. As a participant in the FedNow Service's Pilot Program, PCBB can help answer any questions you have about implementing and using this upcoming payment service at your CFI.

QUESTIONS ABOUT FEDNOW? ASK PCBB!

FedNow Service is launching soon. As part of the pilot program, and a liquidity and settlement provider for the service, PCBB [can answer your questions](#) about how to implement and manage the service for your institution. Contact [PCBB](#) to find out more.

ECONOMY & RATES

Rates As Of: 02/08/2023 09:37AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	4.71	0.01	0.29
6M	4.89	0.09	0.13
1Y	4.84	0.18	0.14
2Y	4.45	0.25	0.02
5Y	3.82	0.20	-0.18
10Y	3.66	0.15	-0.22
30Y	3.71	0.08	-0.25
FF Market	FF Disc	IORR	

4.58	4.75	4.65
SOFR	Prime	QBER
4.55	7.75	4.57

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