



FedNow Instant Payments Are Almost Here

payments faster payments FedNow

Summary: The long-promised Federal Reserve instant payment system, the FedNow® Service, officially debuts in July 2023. CFIs could see some important benefits from participation. We discuss use cases and benefits of FedNow instant payments as well as how to prepare for the service's launch.

Rock group The Doors were a sensation in their day and produced a string of hits. One song, "When the Music Stops," contained a line that seemed to resonate with their youthful audience: "We want the world and we want it now!"

The world has changed a lot since The Doors were hot in the late '60s, but demand for instant gratification is even stronger today than it was then. This sentiment is one of the most influential drivers behind instant payments platforms. The Federal Reserve is officially adding its own version of an instant payments service to the mix very soon.

The FedNow® Service, a new government-run instant payments system, officially launches later this month, entering a space already served by private systems like Venmo and Zelle. This new service promises a way for any financial institution to offer faster payments. Many community financial institutions (CFIs) have prepped for FedNow instant payments and are set to at least start accepting payments, even if they aren't ready to start sending them through the new system.

Why should you use the FedNow service?

Being fully operational with [FedNow instant payments opens a host of options](#). There are person-to-person payments, of course. But there are also numerous use cases for businesses. Mortgage companies can be paid through it, for example. Here are a few types of transactions consumers and businesses may find useful to conduct via FedNow services:

- **Person-to-business (P2B) or consumer-to-business (C2B) payments.** In fact, P2B payments were the top use case cited by respondents in a [consumer survey by the Fed last year](#). Using FedNow services for consumers to pay businesses can enable faster bill payments for loans, utilities, and more. Financial institutions can also allow customers to easily send payments to businesses that bill through request for payment (RFP) messages to customers. Customers at participating institutions can receive the message and respond by electronically sending payment. This can benefit businesses by helping them manage their cashflow more easily and can also help avoid late fees for businesses that act as intermediaries between a supplier and an end user.
- **Person-to-person payments (P2P).** P2P payments, also known as peer-to-peer payments, were the second-most-requested faster payments need, with 62% of respondents.
- **Account-to-account payments.** These payments include transfers between a consumer's accounts at different financial institutions. The ability to instantly have a consumer's transferred funds available means greater ease in funding new accounts and shorter waiting periods to use funds for urgent business needs.
- **Business-to-Business (B2B).** Allowing businesses to pay each other for goods and services instantly means easier operations for the supply chain and better cash management.

- **Government and Municipal Payments.** Payments such as taxes can be made much faster via FedNow, which can, in turn, enable faster tax refunds and other government payments to businesses and consumers.

FedNow instant payments could be a boon to small businesses, which currently may experience longer lag times between when a customer pays and when that payment is cleared at the receiver's institution. FedNow payments can all but eliminate the lag time, which can be a big plus for small business cash flow.

You can choose to only receive FedNow payments for now.

Going full bore by adopting send and receive takes more time and work. Some CFIs may decide to start down the FedNow road by adopting just the ability to receive payments. That in itself could be a big benefit to small business clients.

For the tech-challenged, receive-only participation may be a good way to get started. It is easier to implement receiving than sending FedNow payments, and CFIs that tried receive-only during the FedNow pilot program [reported to ICBA that the process was "much easier than they expected."](#)

One area of opportunity for CFIs in receive-only is the gig economy. Instant payments are becoming a must-have for banks that want to service gig workers, who increasingly expect to see their payments for completed jobs in [their accounts as soon as the end of the day](#). These workers — who may drive for Uber or for food delivery services — are in every community, and easing their cashflow could make a significant difference in their behavior as consumers.

How can you prepare to use FedNow payments?

As is clear, FedNow instant payments can be employed in a variety of different uses. To get a better understanding, [check out this PCBB overview](#).

The Federal Reserve has a wide variety of sources available to help CFIs like yours learn more about FedNow and what actions you'll need to take if you decide to send or receive payments through their service. Along with [a handy readiness guide](#), the organization has also built out [a tool that guides you through to the proper checklist items](#) by asking questions about your institution and how you plan to use the FedNow service.

The FedNow Service really is here now, and it's sure to make a major impact on how payments are sent between any entities — consumers, businesses, or governmental agencies. CFIs should consider at least adopting the ability to receive payments via the FedNow Service. Otherwise, they may find themselves falling behind the curve on instant payments innovation.

PCBB IS A CERTIFIED FEDNOW® SERVICE PROVIDER

The FedNow service, the Federal Reserve's instant payment service, is launching soon. The service will allow participating institutions to send and/or receive account-to-account transfers, requests for payment, bill payments, and many other transactions in real time. As a certified provider, PCBB offers [Settlement and Liquidity solutions](#) to participating community financial institutions. Contact us to get started.

ECONOMY & RATES

Rates As Of: 07/10/2023 05:40AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	5.46	0.03	1.04

6M	5.53	0.06	0.77
1Y	5.39	0.00	0.68
2Y	4.93	0.04	0.50
5Y	4.34	0.19	0.34
10Y	4.08	0.24	0.20
30Y	4.08	0.21	0.11
FF Market		FF Disc	IORR
5.08		5.25	5.15
SOFR		Prime	QBER
5.06		8.25	5.07

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