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One Step Closer to Instant Payments With the FedNowSM Pilot Program

By Jay Kenney, SVP & Southwest Regional Manager for PCBB

The Federal Reserve's development of its instant payment infrastructure, the FedNow Service, is making "good progress," according to FedNow Program Executive Kenneth Montgomery. The industry-wide launch timeline has moved up to 2023, and the pilot program has started with various financial industry players as participants, including PCBB. FedNow will increase the instant payment service options for financial institutions and their customers.

As one of 120 pilot program participants, PCBB has an opportunity to provide feedback on service implementation and how community banks would use this solution, as well as shape the direction to ensure the payment rails are cost-effective to implement. PCBB hopes to help other community bankers by being an intermediary, so they won't need to expend their own time and labor while getting the benefits of a new payment service.

"We are thrilled to be a participant in the FedNow Service pilot program. This gives us an opportunity to assist the Federal Reserve in developing an instant payments strategy, roadmap, and various approaches for adoption for the industry," states Sonia Portwood, EVP, Business Development and Strategic Execution of PCBB.

The FedNow Service will be developed in phases so that testing and learnings can be folded in during development and advanced customer experience features can leverage technology innovations.

Program phases

- Initial launch will provide core clearing and settlement functionality to facilitate the most popular uses, such as instant account-to-account transfers and bill pay.
- Subsequent phases will enable instant payment for additional types of uses, as well as extra features related to fraud prevention, error resolution and case management.
- Future phases will include other features as program testing provides more information about what the industry needs and additional technology modifications that may be required.

How it will work

This instant payment service will initially be open to those depository institutions that have accounts at the Federal Reserve's 12 Reserve Banks and 24 branches in the United States. The Federal Reserve's broad reach, based on connections and customer service relationships with more than 10,000 diverse financial institutions across the country, will support a nationwide infrastructure for these instant payments. Compared with other payment methods, FedNow will expedite



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the settlement time tremendously. Other faster payment options, such as same-day automated clearing house (ACH), are processed through the Federal Reserve's platform. The settlements happen in batches, being settled a few times per day. With the FedNow Service, the recipient would have access to the funds in less than 30 seconds.

Business use cases

The FedNow Service will give community banks the ability to provide instant payments to their customers, effectively leveling the playing field. This allows them to better compete with fintechs as well, which have been dominating in this space. Furthermore, it lets businesses more effectively manage their cash flows in that they can deposit and withdraw funds immediately, as needed. This instant payment system will save businesses time, too.

Allen Sztukowski, SVP of Operations at PCBB notes, "Business use cases involving real-time payments with FedNow have a tremendous potential, both in terms of volume and efficiency gained for all parties."

The FedNow Service instant payment system is on course and moving full steam ahead. As a pilot participant, we look forward to assisting with the developments needed to satisfy the payment needs of community banks and customers alike. ■



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