



USA LAUNCHED ITS IMMEDIATE PAYMENT SYSTEM: FEDNOW®

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In a world that is increasingly digital, the need for immediate, reliable financial transactions has never been higher. Consumers in the U.S. expect to pay for things in real time regardless of location or device. Yet, existing payments infrastructure often fails to meet these expectations.

The Problem:

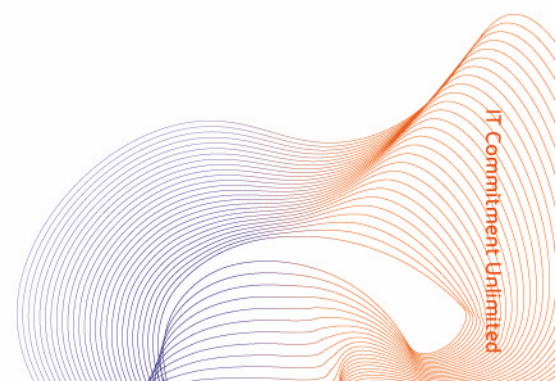
- Fragmented market: Too many payment networks with different standards and protocols.
- Slowness of transactions: Payments can take a few days to complete.
- Security risks: they are the vulnerabilities of existing systems.
- Interoperability issues: Challenges in linking disparate payment platforms.

The Solution:

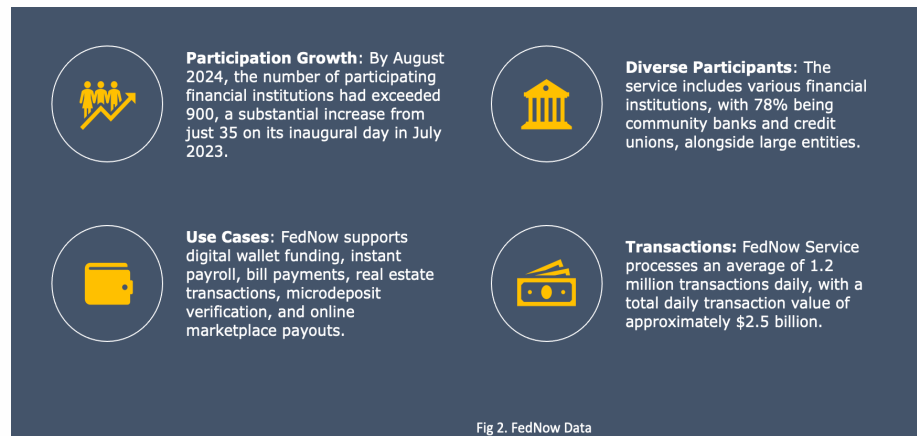
FedNow®, the Federal Reserve’s groundbreaking instant payment service, which is poised to redefine how transactions are conducted across the United States, was launched in July 2023. By enabling instant transfers 24/7, 365 days a year, FedNow® is not just a technological advancement: it’s a catalyst for economic growth and financial inclusion. From small community banks to large financial institutions, the adoption of FedNow® is reshaping the payment ecosystem, fostering innovation, and enhancing the overall customer experience.



Fig 1. Federal Reserve, June 2024



FedNow® was defined to have advanced security measures that allow transactions to be protected against fraud and ensure transaction integrity through real-time monitoring and compliance checks. In addition, it is scalable, capable of handling a wide range of transaction volumes, from small individual payments to large commercial transactions. It is also accessible to financial institutions of all sizes, enabling smaller banks and credit unions to offer instant payment services to their customers.



The Challenge:

Compared to the evolution of other payment systems, FedNow has been slow in its level of adoption and still has several challenges to overcome such as:

- **Competition.** FedNow® competes with The Clearing House's RTP platform, which has been operational longer and has established a significant user base.
- **Adoption Rates.** Adoption has been slower than anticipated. Several entities are still studying the expected benefits vs. the options that currently exist, and it seems that there is not yet a really strong difference that would move them to start adopting them.
- **Costs.** It appears that one of the factors impacting low adoption is the fees that must be paid to participate in FedNow. Participants must pay monthly fees and transaction fees, which can increase costs to the end user.
- **Liquidity management.** Banks must maintain sufficient liquidity at all times, including weekends and off-hours, to support instant payments. While the promise of instant cash will generate a higher cash inflow, in its infancy, it is a point that will need to be leveraged with existing business, impacting current operations.

- **Fraud and Security.** Instantaneity brings with it the challenge of having strong security measures in place to prevent any type of intrusion, and measures to detect fraud. This implies investment in technology and tools, sometimes from third parties, increasing investment and operating policies on the participants' side.

These challenges highlight the complexities involved in implementing and scaling instant payment systems like FedNow®. However, overcoming these hurdles could significantly enhance the efficiency and inclusivity of the U.S. financial system.



References:

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- **A Year on, FedNow Makes Gains Amid Rising Use And Awareness of Faster Payments**, July 2024, Web site: <https://www.digitaltransactions.net/a-year-on-fednow-makes-gains-amid-rising-use-and-awareness-of-faster-payments/>
- **Five Things to Know about FedNow, Right Now | St. Louis Fed**, <https://www.stlouisfed.org/open-vault/2023/october/five-things-about-fednow>
- **How Banks Can Overcome 10 Challenges with FedNow Payment Sending and Acceptance**, <https://finovate.com/how-banks-can-overcome-10-challenges-with-fednow-payment-sending-and-acceptance/>