



FEDNOW – **Real Time Payments** Now in the US

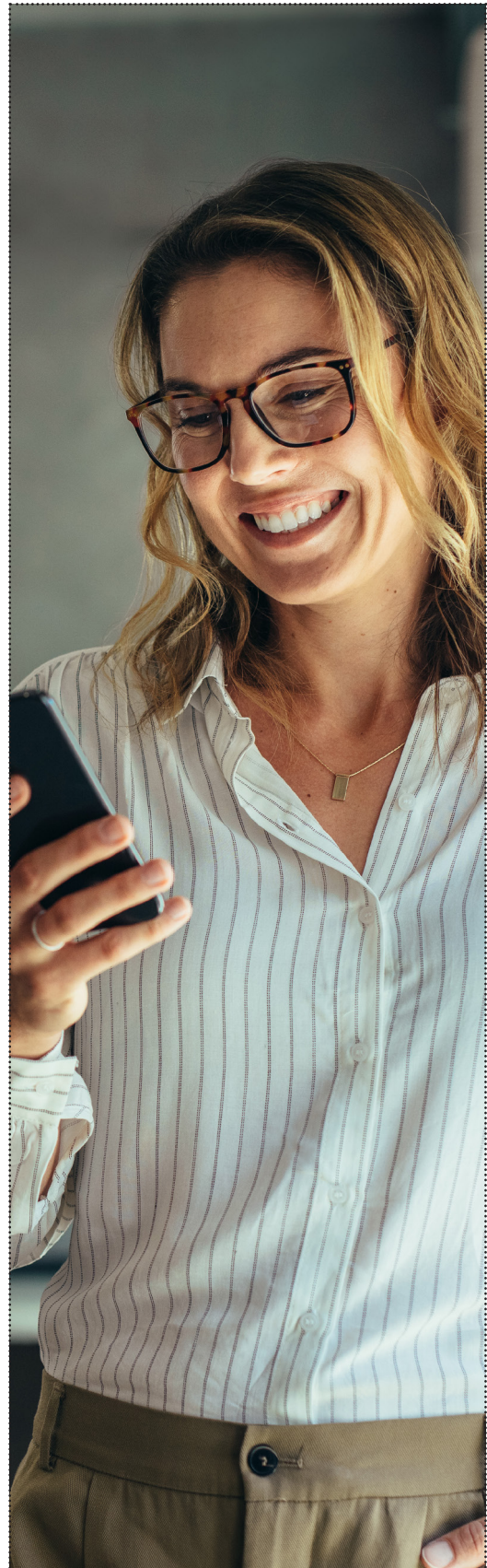




1. Introduction

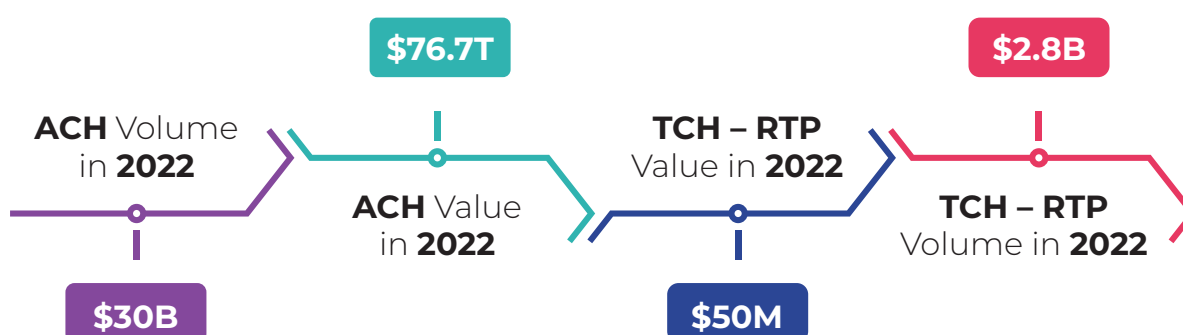
The world's first real time payments went live in Japan (Zengin) in 1973, followed by Switzerland in 1987. Just like the moon landing, real time payments appeared to be a one-of historic event - a more isolated technology demonstration than a mainstream payment method. Even with Zengin system in existence for more than 3 decades, it truly went 24/7 in 2018. And so, things started to move to the fast lane only recently, especially at the turn of the 21st century, driven by many other things, among them the primary being the smartphone revolution. Instant gratification and by its natural extension instant payments/real time payments was no more a privilege but rather became a customer right.

While the rest of the world was keeping pace with the fast lane, the largest economy in the world – USA was conspicuous of its absence up until recently. The gap in the regulatory push and clearing interface was filled up by FINTECHs and PayTechs, most notably P2P payment providers, like Zelle & Paypal who capitalized on the demand for faster payments. While P2P payments may seem like instant, they infact take the slower ACH rail, which is abstracted from the users.





A truly real time payments network was still elusive. Only in 2017 a consortium of private banks, went on to build their own real time network RTP (Real Time Payments) employing a clearing consortium TCH (The Clearing House). While RTP was complimenting Zelle and showed true potential to be a game changer for customer, its adoption has not been so widespread ^[1]. Among the plethora of reasons, the fact that TCH was not a federal network, dissuaded several smaller parties who decided to play the wait & watch game.



That wait & watch game came to end with the Fed rolling out FEDNOW in Jul 2023. And the USA is now part of the ever-growing Real Time networks across the world. With USA joining the instant payment scheme, the possibility of a truly real time cross border payments is not too distant. And the possibility of unique uses cases benefiting from this real time network is very real. The customer once again is the king in the payment's world.

2. FedNow Services

Customer Credit Transfers

Receive Only



FIs will only be able to receive customer credits and to send request for payment. They can return the payments using this service. However, they are eligible to send and receive FI transfers for liquidity management of payments.

Send & Receive



FI will be able to send and receive customer credits and return customer payments. They can also send and receive RFP through RTN setup. By default, FI credit transfers are enabled for managing liquidity requirements.



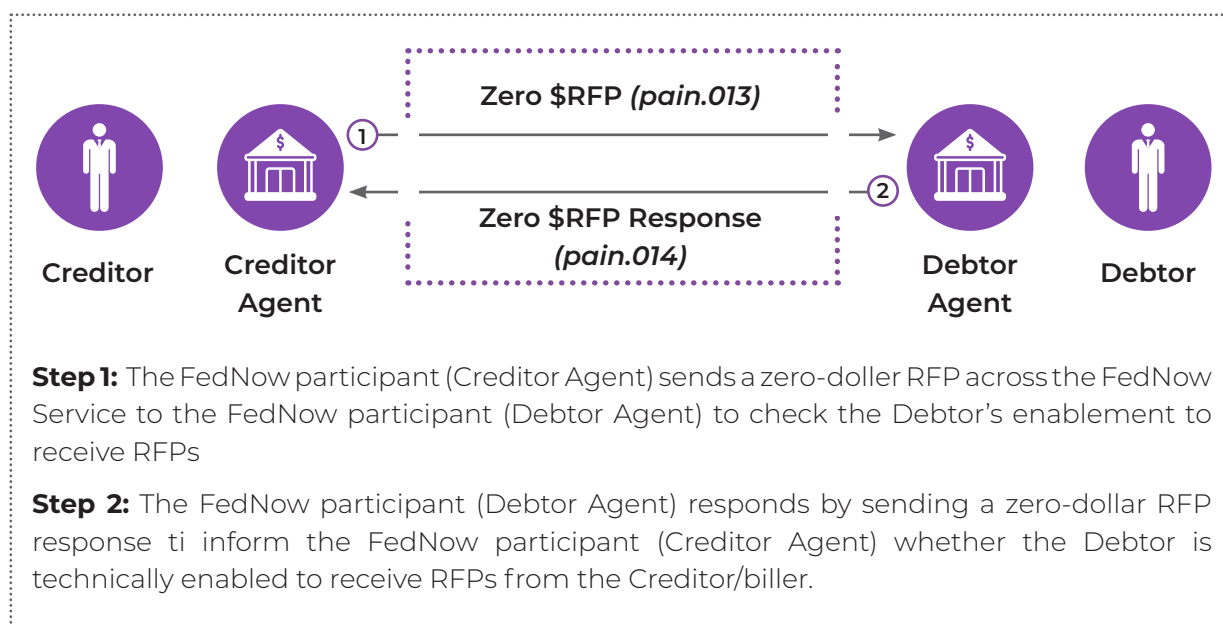
Request For Payment



FIs will be able to send customer credit transfers based on RFP (Request for Payments) received. FIs who are eligible to send the customer credits will be able to receive RFP.

One of the unique features available in FedNow Service is Request for payment (RFP). RFP enables the bill-pay space, providing billers with an additional capability to collect payment from customers for subscription payments and small business invoices.

A request for payment is sent to the debtor to verify his capability to receive and act upon RFP. Debtor agent will respond with either “accept” or “reject” to the RFP received from the creditor depending on the capability of debtor to receive or act on RFP.



FI Credit Transfers

- Liquidity Management Transfers

FI Settlement Services

- Respondent Bank can settle its transaction in the master account of Correspondent Bank. At the same time, Correspondent Bank who is not a participant in FedNow can settle transactions to their respondents against their master accounts. FedNow reports and real time transaction information will be accessible to the correspondent banks who have enabled FedNow profile.



3. FEDNOW Enabled Unique Use Cases

- **Real Time Cash Flow Management**

- Businesses can now know their available cash flow in real time. Real time dashboards will be able to provide precision cash flow information. The FedNow service provides a real-time balance inquiry service that enables businesses to plan their finances efficiently. Instant Debit and credit notifications from FedNow service helps the customers to update their balances internally. This allows them to make timely and wise investments and make payments to suppliers and vendors on time. Instant payments help avoid payment failures due to insufficient funds, ultimately saving the company from adverse credit ratings.

- **High Liquidity, Improved Working Capital, etc.**

- With immediately settled payments, businesses have high liquidity. Faster payments and immediate settlements provide a cushion for businesses on the liquidity side. There is no need to wait for funds from debtors, allowing companies to efficiently meet their working capital requirements. Excess funds can be deployed for business expansion, giving them a competitive edge in the market.

- **Automated Reconciliation**

- Interbank reconciliations become significantly easier with FedNow, as it provides intraday and end-of-day reports to financial institutions (FIs) with all the details of debits and credits. Correspondent banks can receive real-time transaction-level detail reports to facilitate settlement with their respondents. Reconciliation can be automated since the files are in a machine-readable format, allowing for quick identification of errors or mismatches in entries, expediting the settlement process.

- **Improved Remuneration Cycle**

- Daily wages employees can receive instant payments rather wait for ACH system to process their payments. It provides liquidity to meet day today expenses and hence creates employee satisfaction among the workers. This also has the potential to shakeup the biweekly salary payment cycle and convert it to OnDemand salary. On demand salary has the potential to break bad payday loans habit and help improve their financial wellness.

- **Develop Balance Check overlay service**

- Avoid failed payments, thereby avoiding overdraft fees, by ensuring prior availability of funds. When a subscription is due, the provider can utilize a balance inquiry service and if the balance is not meeting the required subscription amount, an alert could be sent to the customer to ensure balances or change the subscription due date. This can avoid hefty and avoidable overdraft fee.



4. FEDNOW Implementation Approach



Gather

- Environment & Marketplace Assessment – Evaluate existing faster payments offering and benchmark against offering from peers.
- Customer Base – Measure customer feedback and needs in supporting real time payments.
- Business Buy-In – Socialize, Align with organizational culture.



Evaluate

- Current Capability - Is your organization prepared to operate 24/7/365?
- Vendor Relationship - Look beyond your vendors' sales pitches, be prepared to develop new relationships.
- Develop Strategy – Early Pioneer Vs Fast Follower Vs Mass Adopter



Execute

- Assemble Internal Team
- Develop Process & Policy
- Develop & Implement Program

Some of the key considerations to make are - Does your organizations internal payment process support real time processing, i.e., are your AML, Fraud Prevention systems real time? Can your CORE banking system support the volume and velocity of real time payments? It may be worthwhile to consider moving payments out of CORE. You may want to refer to [Aspire's paper on this topic.](#)

And in choosing a product vendor, it is recommended to choose a ISO20022 native solution, as almost all payment rails in the world are moving to a ISO20022 messaging standard.

Following are the 6 phases of the FEDNOW service journey as provided by FEDNOW.



6 phases *of the FedNow Service journey*

Financial institutions go through several phases to prepare for and ultimately go live with the FedNowSM Service. While each organization's path to instant payments is unique, this document shows key activities and decisions many take along the way. At each step of your journey, Federal Reserve relationship managers are available to assist

	 Learn	 Engage	 Prepare
Overview	Learn about instant payments and the FedNow Service	Dig deeper into how instant payments can impact your organization and customers	Start preparing for instant payments and assess your organization's readiness
Activities and Decision Points	• FedNow Explorer.org • Instant Payments University • Welcome Plaza • Upcoming Conferences • FedNow News Sign Up	• Join the FedNow Community • Consider instant payment products and services you might offer that clear and settle through the FedNow Service • Mobilize a cross-functional internal team to prepare for instant payments, assess readiness and define roles	• Review readiness guides and information • Contact your Federal Reserve relationship manager to take an assessment • Get buy-in from internal team and determine lead times to get ready for instant payments • Talk to service providers and vendors • Attend FedNow events
Resources	FedNow Explorer.org • Instant Payments University • Welcome Plaza • Upcoming Conferences • FedNow News Sign Up	FedNowExplore.org • Use Case Arena • Preplanning Roadmap • Community Sign Up	FedNowExplorer.org • Service Readiness Guide • Planning Office • ISO Education • Service Provider Showcase



	 Commit	 Onboard	 Go Live
Overview	Decide to adopt the FedNow Service and get ready to onboard	Sign up for the FedNow Service and go through onboarding	Be ready to send and/or receive transactions
Activities and Decision Points	• Develop a project plan • Determine connectivity and participation type • Identify core payment systems that will connect to the service • Ensure your organization can handle real-time posting and make funds available immediately • Determine how you will settle transactions	• Discuss your project plan with your assigned onboarding manager • Review and sign OC 8 agreements • Answer onboarding questions about how you'll connect to the service and settle transactions • Gather information • Establish connectivity • Access and test	• Validate production profile • Schedule go-live date • Publicity announce you're now offering instant payments • Enjoy the benefits instant payments bring to you and your customers
Resources	FedNowExplorer.org • Connectivity at a Glance • Connectivity Guide FRBservices.org • Operating Procedures • Operating Circular 8 (OC 8) MyStandards • ISO Specifications and Guides on MyStandards	Onboarding Tool and Guided Onboarding • FedNow participants get access to the Onboarding Tool and work with an onboarding manager Early Adopter Hub • Onboarding and testing resources • Technical specifications • Recorded webinars	FRB Services Support Center • 1-833-FRS-SVCS (377-7827)

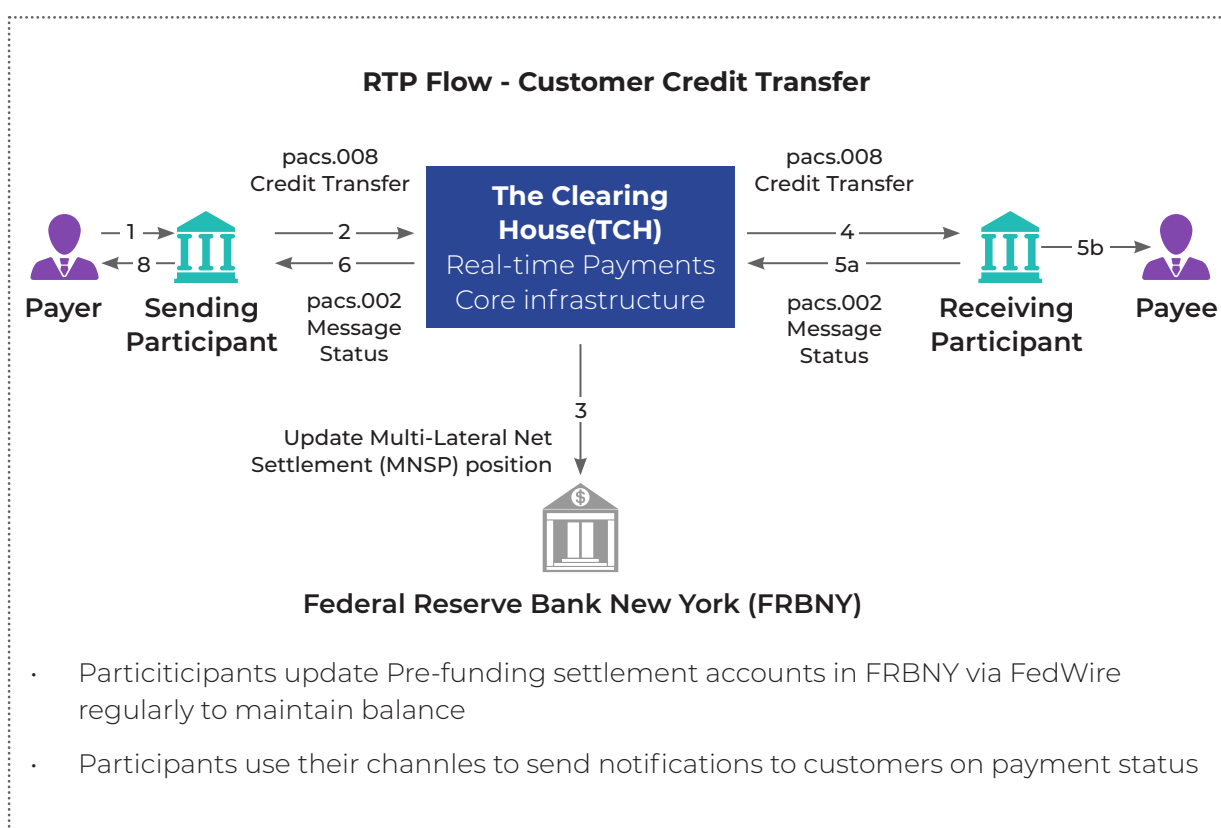
For even more resources and information, visit FedNowExplorer.org

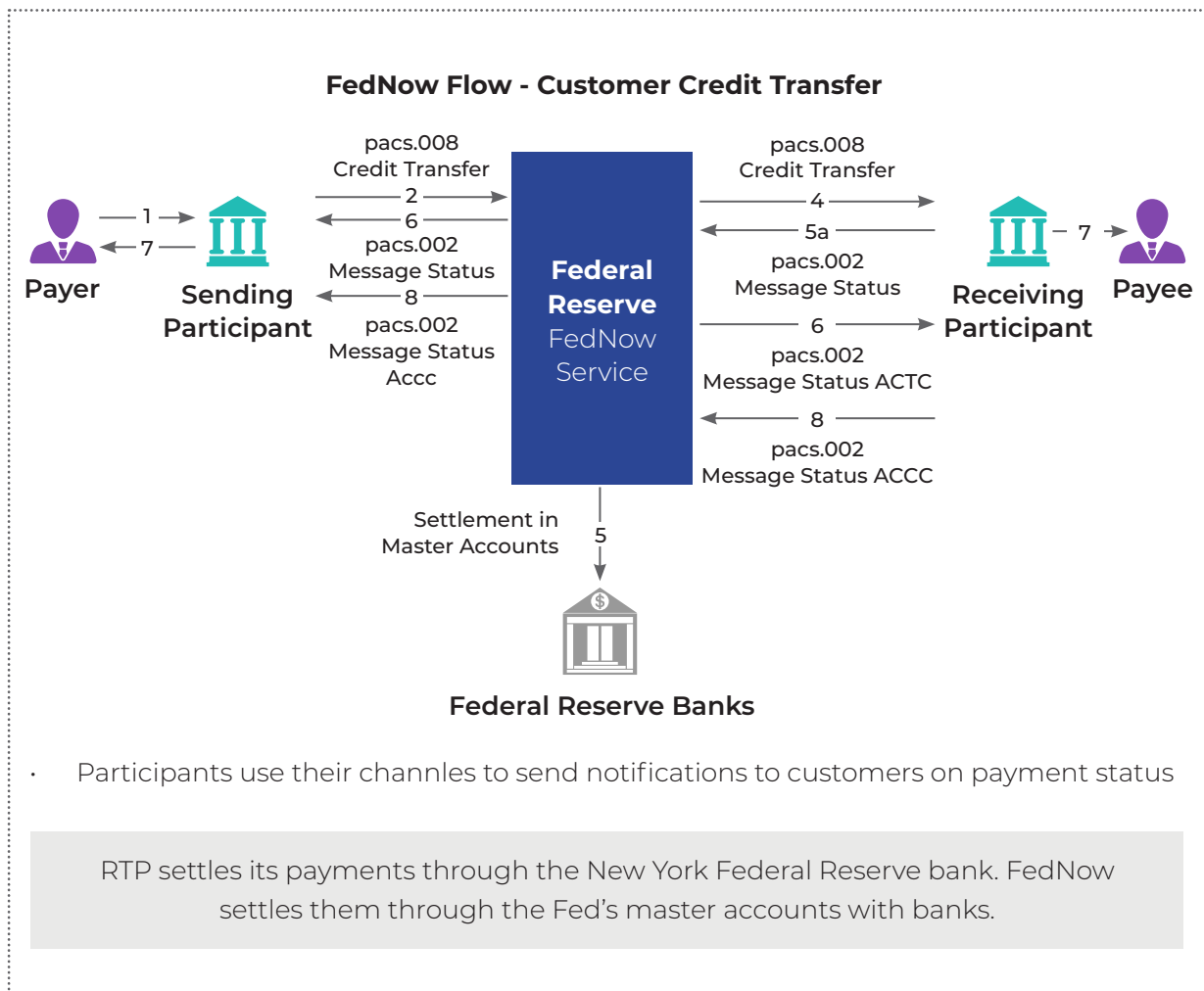


5. FEDNOW vs RTP

While both FEDNOW and RTP are real time payment networks, adopting the same ISO20022 messaging standard, pricing them almost similarly, there are inherent differences, and these differences offer tremendous opportunities for banks and financial institutions to provide a range of mix-n-match services to their customers.

The equation then changes from FEDNOW Vs RTP to FEDNOW & RTP. I.e., no longer can FIs offer to choose between FEDNOW and RTP, but rather offer the choice of the faster rail to their customers.







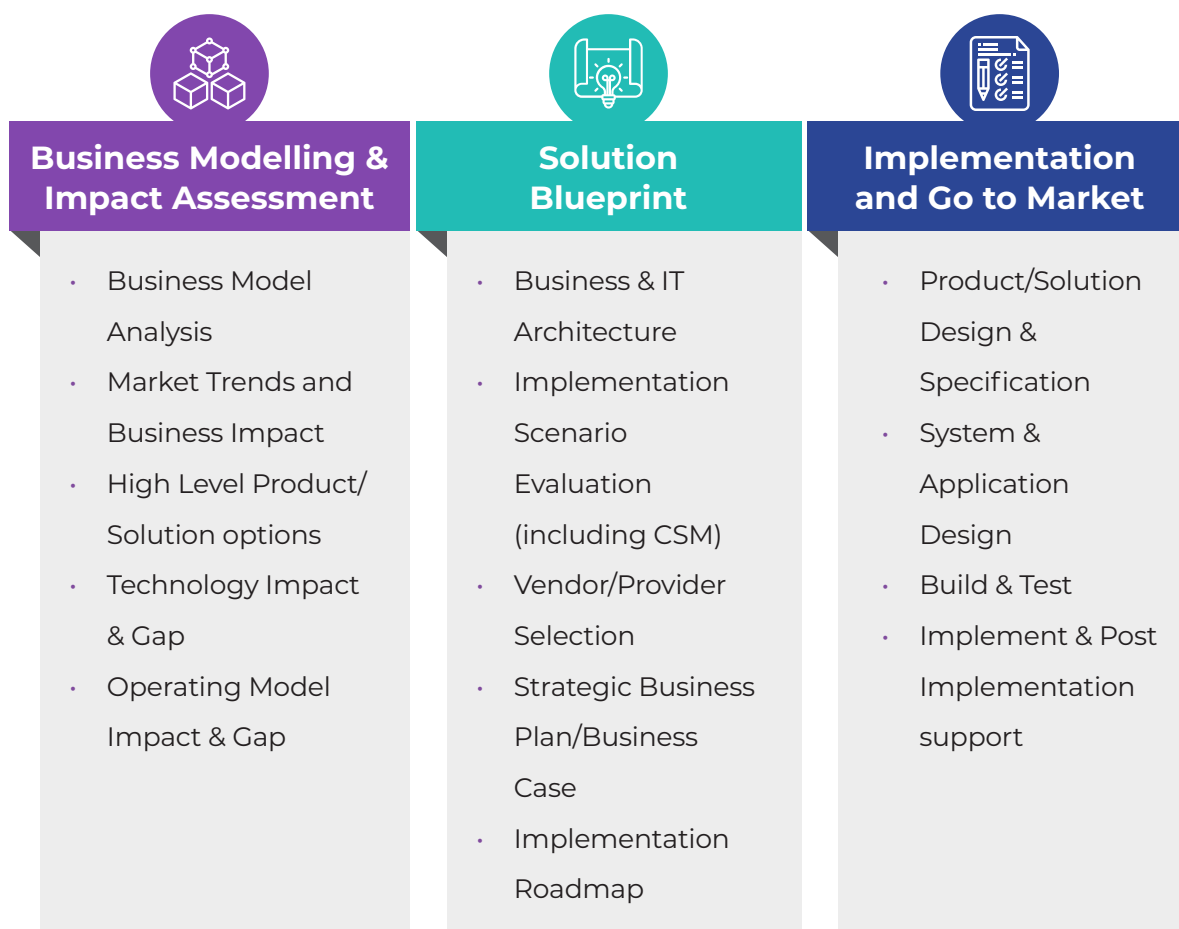
However, there are inherent challenges of choice. Following are the current available choices for US customers – ACH, Wire, RTP & FEDNOW. While the product difference between ACH and wire is obvious, it is not so much between RTP and FEDNOW and so passing on this choice to customers, is likely to disorient customers. On the other hand, if the payment hub/payment processor can intelligently decide on the rail based on payment parameters, bank networks etc. then a truly intelligent payment routing can achieve far greater economies of scale. For example, if a customer initiates a payment to a beneficiary who is serviced by the RTP network and not by FEDNOW, then the customer's bank then automatically decides the payment to RTP and vice versa, without burdening the customer to make the conscious choice.

6. How Aspire Can Help

The key to business success through instant and real-time payments is delivering unique service offerings over the payment rails, i.e., overlay services. While choosing a mature payment processing product is essential, choosing the right technology partner, who has a proven track record helping banks build their real-time businesses, is key to stay competitive in the Fast Lane.

Aspire has developed a FEDNOW Playbook that details the scenarios, strategies, and methodologies that help your organization implement your strategy. We have a unique set of Real Time Payment use cases geared to banking and financial services industry that could be extrapolated to other industries as well.





Aspire is the right sized technology partner that can offer systems integration services, overlay services to help you stay ahead of the competition and be future ready.

Aspire is the trusted partner for Temenos TPH and Finastra GPP & Finastra P2G product lines, that are FEDNOW certified. With a dedicated Payments Practice certified in Temenos TPH and Finastra P2G products, you receive support for all FedNow participation types. Aspire System can tailor the offering based on your approach – Phased or Big Bang, with over 40+ payment experts that shall ensure your success in the fast lane.



Authors



Prabhakar Samy,
Head of Payments
Practice, Aspire Systems



Maya Prabhu,
Payment Practice – Senior
Consultant, Aspire Systems



Aspire Systems is a global technology services firm serving as a trusted technology partner for our customers. We work with some of the world's most innovative enterprises and independent software vendors, helping them leverage technology and outsourcing in our specific areas of expertise. Our core philosophy of "Attention. Always." communicates our belief in lavishing care and attention on our customer and employees.

For more info contact: info@aspresys.com or visit www.aspiresys.com

USA

+ 1 630 368 0970

SINGAPORE

+65 3163 3050

INDIA

+91 44 6740 4000

BELGIUM

+ 32 3 204 1942

NETHERLANDS

+ 31 (0)30 800 92 16

POLAND

+48 58 732 77 71

MEXICO

+52 222 980 0115